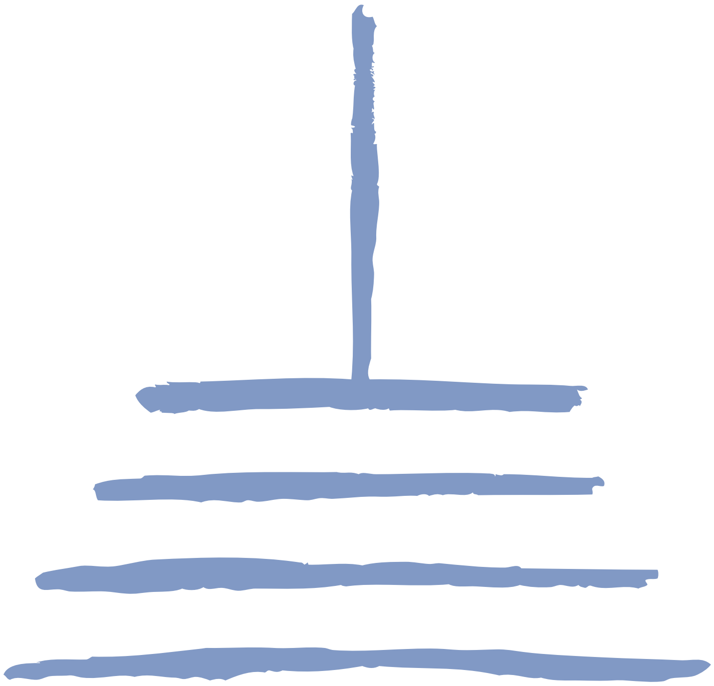
2007-2008



Economic Survey
of Latin America and the Caribbean

Macroeconomic policy and volatility

UNITED NATIONS

ECLAC

60 ECLAC

SIXTY YEARS WITH LATIN AMERICA AND THE CARIBBEAN

2007-2008

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SIXTY YEARS WITH LATIN AMERICA AND THE CARIBBEAN

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The *Economic Survey of Latin America and the Caribbean* is issued annually by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC). This 2007-2008 edition was prepared under the supervision of Osvaldo Kacef, Director of the Division; Jürgen Weller was responsible for its overall coordination.

In the preparation of this edition, the Economic Development Division was assisted by the Statistics and Economic Projections Division, the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), the Division of International Trade and Integration, the ECLAC subregional headquarters in Mexico City and Port of Spain and the country offices of the Commission in Bogota, Brasilia, Buenos Aires, Montevideo and Washington, D.C.

Chapter I, "Regional overview" was prepared by Osvaldo Kacef, with input from Omar Bello, Rodrigo Cárcamo, Filipa Correia, Rodrigo Heresi, Juan Pablo Jiménez, Sandra Manuelito, Alejandro Ramos and Jürgen Weller. The Economic Projections Centre provided data on economic growth prospects in 2008 and 2009. The chapters "Why does real volatility matter in Latin America and the Caribbean?", "Volatility and crisis in Latin America and the Caribbean: the empirical evidence" and "Volatility, the business cycle and policy responses" drew on material written by the consultant José María Fanelli, and on documents prepared by Manuel Toledo, which were presented and examined at the workshop on macroeconomic policy and cyclical fluctuations, cofinanced by the Spanish Agency for International Cooperation for Development (AECID); Daniel Heymann and Enrique Kawamura; Daniel Titelman, Esteban Pérez and Rudolf Minzer; Omar Bello and Juan Pablo Jiménez; and Omar Zambrano. The chapter "Sixty years of the *Economic Survey*" is based on a study conducted by the consultant Alejandro Ramos.

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Notes

The following symbols have been used in the tables shown in the Survey:

Three dots (…) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A full stop (.) is used to indicate decimals.

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

United Nations Publication
ISBN: 978-92-1-121677-6
ISSN printed version: 0257-2184 ISSN online version: 1681-0384 ISSN CD-ROM: 1811-6191
LC/G.2386-P
Sales No.: E.08.II.G.2

Printed in Santiago, Chile

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Foreword

This 2007-2008 edition of the *Economic Survey of Latin America and the Caribbean* comes 60 years after the first session of ECLAC, when the Executive Secretary of the Commission was mandated by the United Nations Economic and Social Council and the countries attending the session to undertake “the collection, evaluation and dissemination of […] economic, technological and statistical information” on the region with a view to preparing “an economic survey of Latin America”. The first report drawn up in fulfilment of that mandate was seen as a first step in what was already recognized as a long and arduous task: that of producing a comprehensive, well-documented analysis of the economic situation in the region.

That formidable task was to become an ongoing one. Indeed, throughout the past 60 years, the *Economic Survey* has embodied the Commission’s perspective on the main economic problems and trends observed in the countries in the region in order to strengthen the capacity of Governments to tackle these issues and, according to the situation in each economy, to draw up a development strategy and adopt policies designed to ensure a steady rise in living standards for the entire population. Thus, the *Economic Survey* has been a constant witness of economic development in general and, in particular, of the growth of a region as rich, complex and diverse as Latin America and the Caribbean with all its unique and distinctive features.

This flagship publication of ECLAC has thus become the principal source of information and analysis relating to the economic situation in the region and one of the documents most frequently consulted and cited by stakeholders, government authorities and experts. As such, it has helped to shape thinking on the challenges to development from the Latin American and Caribbean viewpoint.

The format of this publication has evolved in response to new ideas and problems, technological progress and the growing availability of figures and statistics. Starting with the previous edition (No. 59), the analysis of economic trends in the region has been supplemented with a series of thematic chapters which examine in depth certain issues of particular importance for short-term policies as well as factors affecting long-term growth.

Chapter I of the present edition, entitled “Regional overview”, which follows the executive summary, surveys the main determinants of the region’s economic development in 2007 and the first half of 2008, as well as the impact on the region of recent events in world markets. This chapter is supplemented with a statistical appendix, presented at the end of the document.

The next three chapters examine the nature of volatility in output growth and the countercyclical measures adopted by countries in the region. Chapter II, entitled “Why does real volatility matter in Latin America and the Caribbean”, considers the adverse effects of volatility on long-term growth and in other key areas such as financial development and investment, income distribution and poverty. Chapter III, entitled “Volatility and crisis in Latin America and the Caribbean: the empirical evidence”, describes the analytical framework used to identify periods of growth and decline in economic activity and to quantify trends in gross domestic product (GDP) and their causes. “Volatility, the business cycle and policy response”, the topic of chapter IV, is examined with an emphasis on fiscal policy, whose variability is yet another factor in the region’s sluggish growth. The conclusion to this chapter considers three points that shed light on the constraints faced by the countries of the region in implementing countercyclical policies: policy coordination problems, constraints arising from the political economy of public spending and taxation and, lastly, the income-distribution implications of economic shocks.

Chapter V, entitled “Sixty years of the *Economic Survey*”, has been specially prepared to mark the anniversary of this publication. It reviews the *Economic Survey*’s 60 years of existence and the main challenges to the region’s development it has analysed. The economic climate that prevailed in each of the periods examined is described in the light of the dominant historical trends of the time.

Lastly, the individual performance of each economy in 2007 and in the first half of 2008 is analysed in the country notes which, as in preceding editions, include tables setting out the main economic indicators. These notes, together with the statistical appendix prepared for each country, are contained in the CD-ROM that accompanies the printed publication and are also available on the ECLAC website (www.eclac.org). The tables presented in the statistical appendix provide ready access to data for recent years and allow the creation of spreadsheets. This CD-ROM also contains the electronic versions of the chapters appearing in the printed publication. The statistical information presented in this publication reflects the data available up to 7 August 2008.

A DVD containing the 59 previous editions of the *Economic Survey* covering the period from 1948 to 2007 has also been prepared (Spanish only), and is available upon request.

Executive summary

According to ECLAC forecasts, the region’s economic growth in 2008 is expected to stand at 4.7%. Although this is lower than the rate of 5.7% attained in 2007, it shows continuity insofar as this would be the sixth consecutive year in which growth would be exceed 3%, an unprecedented achievement, at least in the past 40 years of the region’s history. This steady growth has been reflected in a decline in unemployment and an increase in the share of waged jobs as a percentage of total employment, that is, the proportion enjoying social protection. This development, together with the economic growth itself and the rise in non-wage income, brought the poverty rate down by more than nine percentage points compared with 2002. In absolute terms, however, 190 million people, more than 35% of the population, still remain below the poverty line.

The factors in this growth include the favourable external context, reflected in the terms of trade, high remittances from migrant workers and the buoyant international liquidity situation. As a result, for the fifth consecutive year, the balance-of-payments current account showed a surplus, which stood at 0.5% of regional GDP in 2007. This balance, together with the large surplus in the overall balance thanks to substantial net inflows of foreign direct investment (FDI) (equivalent to 2.3% of GDP) and financial investment (0.7% of GDP), pushed up reserve assets by US$ 124.7 billion or 3.6% of GDP.

Notwithstanding this positive panorama, the current account was affected by two disturbing changes in 2007. First, growth in imports outstripped that of exports owing to a sharp expansion in the import of capital goods (due to heavy investment in machinery and equipment), escalating fuel prices, currency appreciation and, except in the Central American countries, flagging growth in export volumes. Second, current transfers from abroad, consisting mainly of remittances, were up by only 3.3% in 2007 compared with 20.1% in the previous year, a loss of momentum attributable to weaker growth and lower employment figures in the United States.

One of the outstanding points of the region’s internal macroeconomic performance in 2007 was strong growth (12.6%) in investment, which increased to 21.1% as a percentage of GDP, although it did not exceed record levels. Private consumption expanded by 6.9%, while public consumption was up by a more moderate 3.8%. Fuelled by this improvement in income and expenditure, national saving was more than sufficient to finance investment.

Notwithstanding the upturn in the labour market, real wages again improved only slightly in 2007, this time by a simple average of 1.1%. Inflation, which had been trending downward, started to rise. Owing to increases in fuel and food prices, most of the countries recorded significantly higher levels of inflation than in previous years, in many cases exceeding the targets set by the central banks.

Thanks to a higher increase in public revenues than in expenditure, the region's fiscal solvency has improved and its vulnerability to economic fluctuations has been reduced. With more resources available for allocation to public investment and social spending, governments are in a position to build up reserves and design instruments for countercyclical action to cushion their economies should a less favourable external scenario arise. Central government public debt continued to decline and stood at 30% of GDP in 2007, compared with 36% in the previous year.

This generally positive assessment of the region's economic performance, in terms of fiscal equilibrium, stable prices, external solvency and better-quality jobs, is marred by three problem areas. First, a number of countries, particularly in Central America and the Caribbean, have not benefited from the favourable external context and have seen their terms of trade actually worsen in the face of heightened competition on their export markets from countries outside the region. Second, the grave financial crisis that surfaced in mid-2007 in the subprime mortgage market in the United States could slash demand in that country, thus jeopardizing the future performance of exports from the countries of the region, a high proportion of which are shipped to that market. Manufactures would be the most seriously affected, since they cannot be rerouted to other markets as easily as commodities. Moreover, the repercussions of the crisis on the United States labour market could cause a decline in migrant workers' remittances.

Third, stronger demand from the major emerging economies for commodities, including food, metals and oil, coupled with the depreciation of the dollar, has pushed up prices. In response to this surge in inflation worldwide, monetary authorities in the European Union and Japan have raised interest rates, causing a slowdown in the world economy, signs of which were already evident in the first half of 2008.

The loss of momentum in the developed economies could lead to a fall in demand for commodities, so a decline in international prices cannot be ruled out. Should this occur, the South American countries would be particularly hard hit.

The increase in external inflation for the region has been passed on to domestic prices, triggering sharp rises in domestic inflation, which in many cases exceeded expectations. In 2007 weighted average inflation in the region increased to 6.4% (up from 5%), and continued to rise in 2008, to stand at an annualized rate of 8.4%. In simple average terms, the rate went up from 6.4% to 8.4% in 2007 and 11.3% in May 2008. Price increases have been steeper for food than for other goods, and are expected to have a negative effect on income distribution and consumption, since expenditure on food accounts for a very high percentage of the budget of lower-income households. This, in turn, may lead to a slowdown in domestic demand in 2009.

Consequently, a number of monetary and fiscal authorities in the region must tackle the difficult task of avoiding or curbing the spread of exogenous inflationary pressures on domestic markets, since they can adversely affect the real income levels of vulnerable population groups and growth as a whole. This task is all the more delicate since, while the available instruments may be powerless to act on the external causes of the problem, they may inhibit domestic demand and growth in the short term. Moreover, the projected rises in interest rates could lead to a further real appreciation of the currencies of several countries, diminishing the competitiveness of their export and import-substitution sectors.

Nevertheless, given the continuing progress in reducing external vulnerabilities, the stronger fiscal solvency position and, in several cases, the build-up of reserves which can be used to finance countercyclical policies without jeopardizing external equilibrium, this adverse change in the external context is not expected to have a significant impact on the region as a whole, at least, not initially. Consequently, GDP growth is projected to stand at 4.7% in 2008 and to slow to 4% in 2009.

The region's exposure to external fluctuations has been discussed at length in various editions of this *Survey*. On other occasions, this exposure, together with internal disequilibria, resulted in sharp fluctuations in GDP growth. Chapter II focuses on the volatility of GDP growth and countercyclical policy options adopted by countries in the region.

The first topics examined are the adverse effects of volatility on long-term growth and other key aspects such as financial development and investment, income distribution and poverty. Chapter III describes the analytical framework used to identify periods of growth and decline in activity levels and to quantify GDP trends and their determinants.

When per capita GDP growth in the region is compared with that of the developed countries, three points can be observed where these indicators cease to converge. The first occurred in the late 1950s, when most of the region's commodity exports suffered a persistent decline in prices as a result of weakening world demand. The second break corresponds to the external debt crisis in the early 1980s, which marked the start of a long period of drastic macroeconomic adjustments, sharp fluctuations in growth rates and structural reforms, which failed to live up to expectations in terms of their efficacy. The effect of these breaks in convergence was that while per capita GDP in the region in the 1950s was equal, on average, to 52% of that of the developed countries, in 2003, it stood at just 34%. The third break, this time a positive one, occurred in 2003 and is attributable, once again, to fluctuations in external prices for the region's exports and a favourable external financial environment.

Since the year 2000, the crises and slumps in growth appear to have occurred less frequently and to have been of shorter duration. This is a reflection of the region's greater capacity to weather external shocks and, in general, of its stronger macroeconomic fundamentals: greater stability, fiscal solvency and external surplus. This has reduced one of the distinctive features of volatility in the region. In fact, in Latin America and the Caribbean, unlike the rest of the world, consumption volatility is greater than output volatility, resulting in major losses in well-being for lower-income groups and in increases in poverty during periods of dislocation that have a negative impact on growth. This tendency has become much less pronounced since the beginning of the current decade.

Chapter IV focuses on the issue of volatility and policy responses, with emphasis on fiscal policy, whose variability is another factor in the region's sluggish growth. The first part considers the countercyclical role that fiscal policy can play, but of which there is little evidence in the region; only two countries (Brazil and Chile) adopt an acyclical approach to fiscal policy, while the rest continue to adhere to procyclical behaviour. Indeed, the countries that currently show a fiscal surplus thanks to buoyant export prices would be well advised to take note of the conclusion reached in this chapter: in many cases, their structural fiscal position (that is, evaluated on the basis of the trend values of its determinants) is weaker than their current fiscal position. If they fail to adopt the necessary safeguards, any worsening of the external environment would unleash procyclical fiscal policy mechanisms that would tend to exacerbate the outcome of any possible external shocks.

Three issues are identified that shed light on the constraints that countries in the region face in seeking to implement countercyclical policies: policy coordination problems, constraints arising from the political economy of public spending and taxation and, lastly, constraints due to the impact of shocks on income distribution.

As for issues of coordination, especially in relation to monetary and fiscal policies, some progress can be observed in the region; some central banks have adopted policies for containing inflation within given ranges and have resolved to resort less frequently to extreme exchange-rate regimes (fixed rate and free-floating rate). The effectiveness of this approach lies in the existence of a balanced public finance framework, which avoids recourse to monetary expansions and prevents unsustainable increases in spending which might fuel inflationary pressures. Arguments are put forward in favour of a fiscal policy regime that takes steps to ensure fiscal solvency, avoids procyclical bias and takes the cycle into account in estimating the maximum disequilibrium permitted. Such a regime would favour adoption of multi-year or structural approaches to fiscal equilibrium, an option that is feasible albeit not without political and institutional challenges when it comes to implementation.

Second, difficulties in establishing a countercyclical policy regime are, in part, political in nature and may be attributed to the ability of certain groups to impose costs on the rest of society: for example, decisions to bail out bankrupt financial institutions, resulting in expansion of the money supply and generating inflationary pressures, or cases where States have absorbed the cost of non-performing loans, shifting the priority away from social programmes and real investment.

Another more recent example is the case of governments that receive windfall public revenue thanks to high export prices but find it difficult to withstand pressure to raise wages or increase expenditure, or to award tax reductions to specific groups that would be difficult to withdraw once the favourable external environment changes.

Third, it should be borne in mind that, in a context where income is poorly distributed, poverty levels still high and inflation rampant, the distributive effects of commodity price variations can seriously obstruct countercyclical action.

The fifth and last thematic chapter provides a recapitulation of the editions of the *Economic Survey* published over the past 60 years, and the assessments they contain of the economic situation in the region and the challenges faced by countries in their efforts to achieve higher levels of development and well-being for the entire population.

In particular, this chapter presents a summary of an assessment of the first 50 years which was contained in the 1998-1999 edition of the *Economic Survey*. Until the start of the current growth cycle, the first two decades of the *Survey*, which coincided with post-war recovery worldwide, were considered to be the most dynamic period in the region's history. The factors blamed for restricting growth and for limiting the spread of the technological advances achieved in the industrialized countries were the low level of domestic saving, which hindered the accumulation of capital, and the scarcity of foreign exchange needed for importing machinery and equipment; this situation was linked to the region's specialization in the export of commodities and the fact that prices for these goods tended to deteriorate over the long term. In the second part of that period, the *Survey* underscored the fact that the existence of outdated institutions in the areas of taxation, finance, education, land ownership and income distribution had a negative effect on growth by restricting the capacity of the domestic market to act as a driver for import substitution. In addition, criticism was levelled at the way import substitution was being implemented.

The following two decades covered by the *Survey* were marked in the early 1970s by the breakdown in the international monetary order that had been in force up to that time, and the first oil crisis. This heralded a period of great instability in terms of the region's per capita GDP growth owing to greater fluctuations in the terms of trade and the availability of external financing, culminating in the external debt crisis in the 1980s. Following the crisis, various structural adjustment processes were launched, often with regressive and negative consequences for the poorer population. This was dubbed the "lost decade" as regards growth in the region. The focus of the analyses published in the *Economic Survey* was the pursuit of forms of adjustment which would be more efficient economically and socially and would lead to long term recovery and poverty reduction.

In the fifth decade of this publication, the emphasis shifted to macroeconomic policies and the importance of stability and structural reforms. Such reforms had been adopted by a number of countries in order to modify key aspects of the functioning of their economies, such as the role of the public sector in production and social protection. Another purpose of these reforms was to open up the economies to world markets in the interests of export promotion and diversification. As highlighted in the chapter, the 1990s witnessed more intense financial globalization, which resulted in increasingly frequent crises in the region, triggered in this instance by the instability of external financing, in particular of capital movements. A summary of critical assessments of the cycle of structural reforms underscores the limited impact of the latter on fundamental variables such as growth and employment.

The sixth decade of the *Survey* starts in 1998, when several countries reeled under the impact of the Asian crisis, which shook the region's external sectors through both trade and financial channels. This, coupled with the overinvestment crisis in the United States and slow growth in the world economy, translated into an absolute fall in per capita GDP in Latin America and the Caribbean between 1998 and 2002. The experience of this period clearly corroborates the forecasts set out in the *Survey* concerning the unsuitability of using foreign exchange anchors as anti-inflationary instruments in the long term.

Towards the middle of 2003, a new period of growth in the region was ushered in by soaring export prices, strong remittances from migrant workers and the ready availability of external credit. As the sixth decade comes to an end, however, the external environment is rife with uncertainty, and this reopens the debate on how countercyclical policies can be used to effectively administer expansions and contractions in the availability of external resources and, thus, to stabilize GDP growth and avoid the economic and social consequences of sharp fluctuations in growth and employment. This has been a constant concern in the *Survey* throughout the second phase of its sixth decade, as indicated in this issue.

Lastly, following the usual pattern in the *Survey*, the performance of each country is analysed, in this instance for the year 2007 and the first half of 2008. As in previous editions, the country notes are presented in the attached CD-ROM and include tables setting out the main economic indicators. A DVD containing the 59 previous editions of the *Economic Survey* covering the period from 1948 to 2007 has also been prepared (Spanish only), and is available upon request.

Chapter I

Regional overview

A. Introduction

According to ECLAC estimates, the economies of Latin America and the Caribbean as a whole will grow by around 4.7% in 2008. Although this rate is lower than the estimated growth of 5.7% for 2007, it nonetheless marks the region's sixth consecutive year of growth, and the fifth year in a row for per capita GDP growth of over 3%. The region's economy has not experienced a situation like this for 40 years, when similar rates of continuous expansion were recorded over a period of seven years at the end of the 1960s and were accompanied, as they are today, by favourable changes in the terms of trade.

The labour-market indicators have also improved significantly in recent years. Increased economic activity has boosted the capacity of the region's economies to create jobs and this has brought down the unemployment rate to an estimated 7.5% in 2008, which is over three percentage points lower than the rate observed at the beginning of the decade. Furthermore, the rise in employment is driven by the increase in wage labour, which is more usually associated with formal jobs and could therefore be a sign of improved employment quality.

The combined effect of economic growth, falling unemployment, improved job quality and the rise in non-wage income (from remittances and conditional transfer programmes) has brought down poverty levels, although they remain very high. The percentage of poor in the population dropped by over nine percentage points between 2002 and 2007, but poverty still affects more than 35% of the population, or 190 million people, which is higher than the figure recorded at the beginning of the 1980s (ECLAC, 2007c).

The fact that the region's economy is still growing despite a deteriorating external situation characterized by a slowdown of the economies of the developed world and a surge in inflation fuelled by rising commodities prices is certainly auspicious. Nonetheless, there are some signs of concern, owing to rising inflation throughout the region and the fact that the slowdown witnessed in 2008 will probably continue for some time.

This chapter begins with an analysis of the main events affecting the global economy up to 2007 and their impact on the variables associated with the external sector, the evolution of domestic macroeconomic variables and the role of economic policy. This is followed by an examination of the changes that have occurred in the external setting since mid-2007 and the implications for the economies of Latin America and the Caribbean, as well as the risks posed by the recent surge in inflation. The chapter closes with a summary and conclusions.

Table I.1
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH
(Rates of variation)

Country	2004	2005	2006	2007	2008 [a]	2009 [a]
Argentina	9.0	9.2	8.5	8.7	7.0	5.0
Bolivia	4.2	4.4	4.8	4.6	4.7	4.5
Brazil	5.7	2.9	3.7	5.4	4.8	4.0
Chile	6.0	5.6	4.3	5.1	4.2	5.0
Colombia	4.7	5.7	7.0	8.2	5.3	4.5
Costa Rica	4.3	5.9	8.8	7.3	4.3	4.0
Cuba	5.8	11.2	12.1	7.3	7.0	6.0
Ecuador	8.0	6.0	3.9	2.7	3.0	3.0
El Salvador	1.9	3.1	4.2	4.7	3.7	3.5
Guatemala	3.2	3.3	5.3	5.7	4.3	4.0
Haiti	-3.5	1.8	2.3	3.2	3.0	3.0
Honduras	6.2	6.1	6.3	6.3	4.5	4.0
Mexico	4.0	3.2	4.8	3.2	2.5	2.5
Nicaragua	5.3	4.3	3.9	3.8	3.0	2.5
Panama	7.5	7.2	8.7	11.2	8.0	7.0
Paraguay	4.1	2.9	4.3	6.8	5.0	4.0
Peru	5.1	6.7	7.6	8.9	8.3	7.0
Dominican Republic	1.3	9.3	10.7	8.5	5.5	5.0
Uruguay	11.8	6.6	7.0	7.4	7.5	6.0
Venezuela (Bol. Rep. of)	18.3	10.3	10.3	8.4	6.0	4.0
Latin America	6.1	4.9	5.7	5.7	4.7	4.0
Caribbean	4.3	4.8	7.0	3.7	4.0	4.2
South America	7.3	5.4	5.8	6.7	5.6	4.5
Central America	3.3	5.8	7.4	7.2	5.0	4.5
Central America plus Mexico	3.9	3.6	5.2	3.8	2.9	2.8
Latin America and the Caribbean	6.1	4.9	5.7	5.7	4.7	4.0

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

B. The international context and the behaviour of external variables

The region's growth, at least from 2003 until the first half of 2007, was based on an extremely favourable external situation resulting from the sustained expansion of the world economy and abundant liquidity in international capital markets. Another stimulus was furnished by the rapid industrialization process under way in the developing countries of Asia, particularly China and India, which has changed the structure of world demand. Latin America and the Caribbean's export volumes soared at the same time as the terms of trade improved, which led to the region's accumulation of large trade surpluses.

When the figures for 2008 are compared with the average for the 1990s, the terms of trade are estimated to have improved by around 45%. But this improvement in the regional average conceals different realities among and within the various subregions. In South America, for instance, the terms of trade strengthened by about 69%, while in Mexico the improvement was 25%, and Central America, by contrast, posted a deterioration of almost 17%.

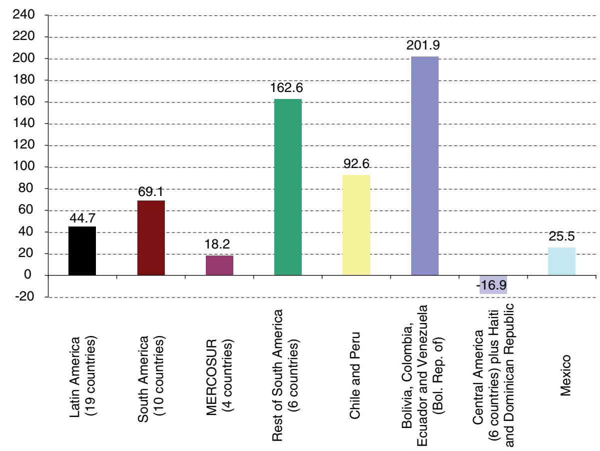
Trends in international goods markets have affected the terms of trade of the region's countries in different ways according to their patterns of integration into the world economy. South America exports raw materials and commodities, for which demand has soared in recent years thanks to the growing importance of China and other Asian countries in the world economy. South America also imports manufactures whose supply has increased for the same reason.[1] Central American countries, on the other hand, have suffered from Asian competition in the United States market (the main destination of their exports of manufactures) and are also net oil importers. Mexico is in an intermediate situation, as it also faces Asian competition in the North American market (like Central America) but at the same time is a net exporter of petroleum.

Another feature of the current international situation, which will be explored further below, has been the growing influx of remittances from emigrant workers, especially in Central America, Mexico, some Caribbean countries and Ecuador and Bolivia in South America, although these flows were less buoyant in 2007 and 2008 for reasons which will be described below.

Figure I.1

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE TERMS OF TRADE IN 2008 COMPARED WITH THE AVERAGE FOR THE 1990s [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The data provided for 1008 are projections.

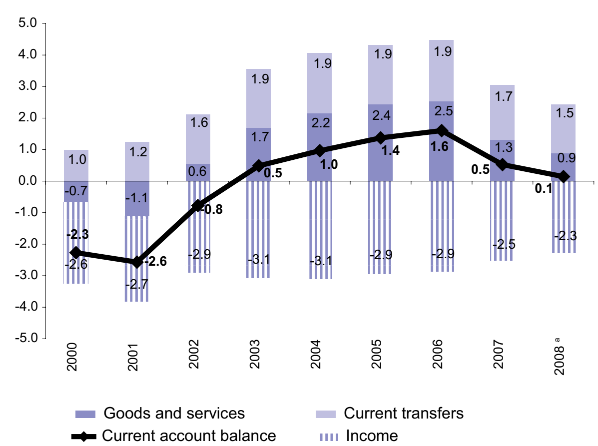
1. The current account

The favourable external context meant that, for the first time in the region's history, economic growth was accompanied by a surplus on the balance-of-payments current account. Having lasted five consecutive years, this current account surplus in 2007 stood at US$ 18.6 billion (well below the figure for 2006) and was equivalent to 0.5% of regional GDP. However, the other components of the balance of payments, the capital and financial accounts (including errors and omissions), ended the year with a staggering positive balance of US$ 104 billion, which brought the global surplus of the balance of payments to a historic high of US$ 122.7 billion. This was reflected in the US$ 124.7 billion increase posted in the region's international reserves, equivalent to 3.5% of regional GDP.

Figure I.2

BREAKDOWN OF THE CURRENT ACCOUNT

(Percentages of GDP)



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

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[1] In South America, huge differences have also arisen between the countries of MERCOSUR, which have witnessed a 18% increase in the terms of trade, and the rest of the subregion, mainly the Andean countries (including Chile), which are hydrocarbon and mineral exporters and have enjoyed an improvement in their terms of trade of almost 163%.

The two predominant trends in the region's balance of payments in 2007 were the decline of the current account surplus and the considerable surpluses recorded by the capital and financial accounts, as referred to in section 2. The waning of the current account surplus was associated primarily with the shrinking of the goods balance surplus, which fell from US$ 97.5 billion in 2006 to US$ 71.8 billion in 2007 owing to weaker export growth and the steady increase in imports. Also, the balance of current transfers (which had been extremely buoyant in previous years) posted only modest growth in 2007, barely 3.3% compared with 20.1% in 2006. Although the deterioration of current account balances was widespread in the region, Current account deficits worsened notably in the countries of Central America, averaging 6.3% of GDP in 2007 compared with 4.4% in 2006. This situation also obtains in the Caribbean countries, as can be seen in Box I.1.

Driven mainly by the extraordinary buoyancy of goods exports, the goods and services balance of Latin America and the Caribbean recorded a surplus for the sixth year in a row in 2007. This historic achievement was accompanied by sustained economic growth and consequently a steady rise in imports as well. The growth in goods exports took place in three stages. During the first stage, from 2004 to mid-2006, exports expanded at an average year-on-year rate of 22.2%. From mid-2006 to August 2007, this growth fell to 12.5%, but then picked up again in the third stage, between September 2007 and June 2008, at an annualized rate of 36%. This resurgence can be attributed to the stabilization of Mexico's and Central America's industrial exports (which had been falling) and to the price rises experienced by a large number of commodities.

Notably, price rises accounted for three quarters of the growth in the region's total goods exports in 2007, which reached 12.6%. Increased export volumes only generated a quarter of that growth. This was not the situation in the countries of Central America and the Caribbean, however. Larger sales volumes accounted for 60% of the improvement in their export results.

The year 2007 also proved to be a turning point for goods imports as, contrary to the pattern observed in the two preceding years, imports began to outpace exports in terms of growth. This trend lasted throughout the latter part of the year and into 2008 and contributed to the decline of the goods balance surplus. This fairly sharp and widespread decline has been fuelled by the rising prices of raw materials and by the appreciation of the exchange rate in several countries, which has pushed up import growth.

Box I.1

THE ENGLISH-SPEAKING CARIBBEAN AND THE CURRENT ACCOUNT BALANCE

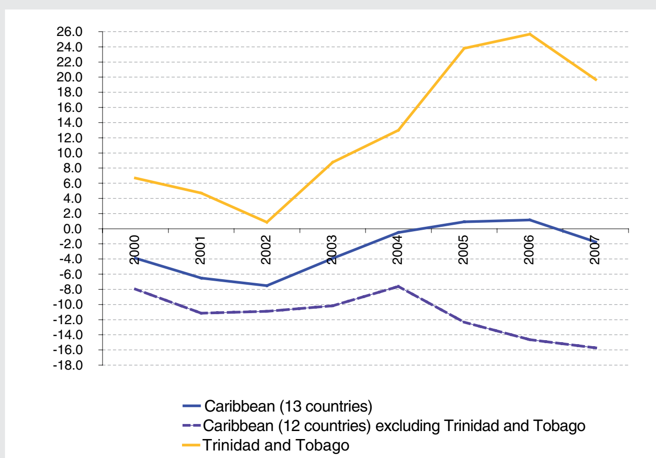
In 2007, the English-speaking Caribbean (13 countries)[a] suffered a sharp decline in its current account balance, which went from an average surplus of 1.2% of the GDP of the subregion in 2006 to a 1.7% deficit in 2007. This was essentially due to poor performances by Trinidad and Tobago (whose surplus decreased) and Jamaica (whose deficit grew), since those two economies are the most weighty in the subregion. If Trinidad and Tobago (whose surplus stood at 19.7% in 2007) is excluded, the Caribbean subregion (12 countries) shows a sizeable current account deficit for 2007, equivalent to 15.7% of GDP (see this box's figure 1).

The first figure in this box shows that the subregion's current account surplus in 2005-2006 was entirely due to Trinidad and Tobago which, as a net petroleum exporter, has benefited greatly from high world crude oil prices. The other countries, on the other hand, are highly dependent upon energy imports. This is the main reason for the worsening trend since 2004, which has worsened recently because of soaring international prices for foodstuffs.

Figure 1

THE CARIBBEAN (13 COUNTRIES): CURRENT ACCOUNT BALANCE, 2000-2007

(Percentages of GDP)



In the longer term, the English-speaking Caribbean has had a pattern of high deficits on its external accounts, with the exception of Trinidad and Tobago. The table in this box shows that this trend has deepened in recent years, revealing a high and growing dependency on external financing. The table reflects the link between high current account deficits and those countries' high levels of public external debt.

Box I.1 (concluded)

Table 1
THE CARIBBEAN (13 COUNTRIES): CURRENT ACCOUNT BALANCE AND EXTERNAL PUBLIC DEBT, 1990-2007
(Percentages of GDP)

	Current account			External public debt		
	1990-1998	1999-2003	2004-2007	1995-1998	1999-2003	2004-2007
Antigua and Barbuda	-4.7	-11.4	-24.4	58.0	60.4	40.4
Bahamas	-5.5	-6.6	-13.0	7.6	6.1	5.1
Barbados	2.1	-5.8	-10.0	18.6	24.6	27.5
Belize	-4.5	-17.2	-8.2	n.d.	59.3	82.7
Dominica	-17.3	-20.1	-22.8	41.3	67.9	72.2
Grenada	-17.6	-23.5	-28.2	32.1	43.1	72.4
Guyana	-22.3	-14.7	-19.2	240.5	165.5	116.0
Jamaica	-3.0	-7.8	-10.8	48.9	47.1	55.8
Saint Kitts and Nevis	-19.1	-29.2	-18.9	32.3	64.8	62.7
Saint Vicente and the Grenadines	-19.1	-14.4	-24.4	31.5	48.4	48.0
Saint Lucia	-11.0	-15.5	-24.6	21.4	30.9	41.8
Suriname	-1.2	-8.9	-1.0	n.d.	40.3	23.5
Trinidad and Tobago	0.5	4.3	20.5	30.0	18.8	8.2
The Caribbean (13 countries)	-3.2	-5.2	0.0	35.9	32.4	28.6
The Caribbean (12 countries) excluding Trinidad and Tobago	-4.5	-9.2	-12.6	37.9	38.2	40.8
The Caribbean (11 countries) excluding Jamaica and Trinidad and Tobago	-5.5	-10.0	-13.6	30.8	32.8	31.9

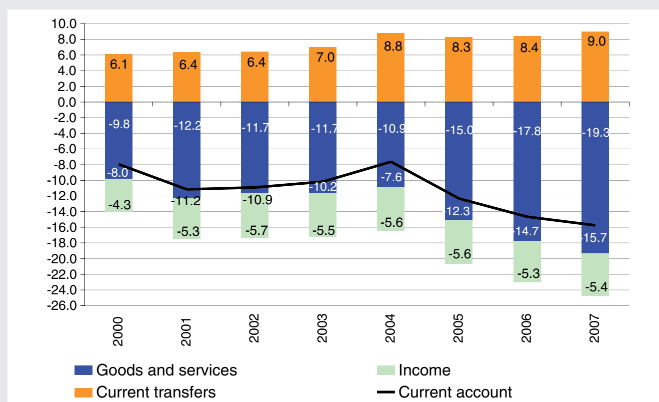
The second figure breaks down the external deficit by components for the Caribbean subregion (12 countries), excluding Trinidad and Tobago, for the period 2000-2007. There is a clear pattern of net inflows of current transfers (mainly migrant workers' remittances and official aid) being insufficient to compensate for persistent trade and income account deficits.[b] It is also seen that the worsening current account situation since 2005 is essentially due to the progressive worsening of the net balance of trade in goods and services. Between 2004 and 2007 the current account deficit in GDP terms doubled (from 7.6% to 15.7% of GDP), while the goods and services deficit rose from 10.9% to 19.3% of GDP.

These countries are clearly very dependent on migrant workers' remittances, and not only in terms of their external accounts; they have a considerable impact on the domestic economy and on social indicators. Figure 2 of this box shows how the average balance of current transfers has been improving progressively, reaching 9% of GDP in 2007. In Guyana and Jamaica, net inflows from remittances are as high as 27% and 17% of GDP, respectively, and the figures are also high in Belize (7%), Grenada (6%), Dominica (6%) and Saint Kitts and Nevis (%). Trinidad and Tobago is in a different category once again, since its net surplus of transfers stands at only 0.3% of GDP.

The subregion's two largest countries, Jamaica and Trinidad and Tobago, show contrasting situations in their external accounts. Jamaica's strong dependency on oil imports has led to a sharp current account deficit, which rose from 6% of GDP in 2004 to 16% of GDP in 2007. The 2007 trade deficit stood at 26% of GDP, cushioned only partly by a positive services account (mainly from tourism) and a growing net current transfers surplus resulting from considerable inflows of workers' remittances, which rose to 17% of GDP in 2007. These last two variables have, however, been depressed by the economic slowdown in the United States. In 2007, growing inflows of private and official capital were insufficient to finance Jamaica's swelling current account deficit. As a result, international reserves fell sharply and the country's vulnerability increased in relation to external financing.

Trinidad and Tobago, on the other hand, has enjoyed considerably increased natural gas and oil production in recent years. This, together with high world energy prices, has added up to a significant export boom. In 2007 export growth slowed, however, and with persistent growth in imports, the country's large current account surplus dipped from 26% of GDP in 2006 to 20% in 2007. The rise in imports is due to growing investment in energy-related sectors, rising fiscal spending, high world prices for raw materials and a real exchange-rate appreciation.

Figure 2
THE CARIBBEAN (12 COUNTRIES, EXCLUDING TRINIDAD AND TOBAGO): BREAKDOWN OF THE CURRENT ACCOUNT, 2000-2007
(Percentages of GDP)



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

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The English-speaking Caribbean includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.
[b] The Caribbean aggregate (13 countries) including Trinidad and Tobago shows a somewhat similar pattern for the period 1990-2007, but with bigger falls in external deficit.

Total trade in services (exports plus imports) expanded 17.7% in 2007. The region spent US$ 43 billion on transportation services, 18% more than in 2006. Disbursements for "other services", which include insurance, also rose significantly. Income from tourism activities meanwhile grew 11.8%, up from 9.9% in 2006, to total US$ 39.4 billion, almost twice the level recorded in 2002. The countries that traditionally register a surplus in tourism, such as Mexico, Peru and several Central America and Caribbean countries, saw their positive balances increase over the year, as did Argentina, whose tourism sector has become increasingly dynamic in recent years.[2]

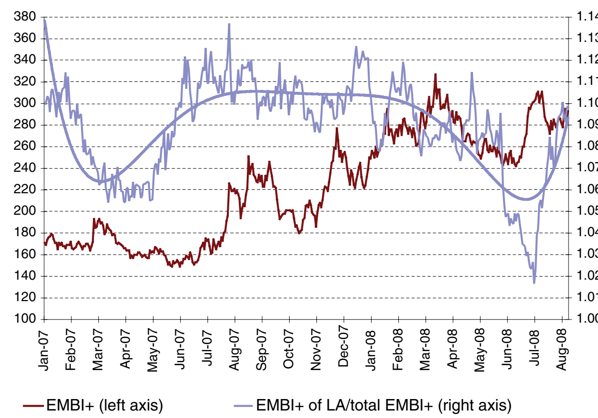
2. The capital and financial accounts

The capital and financial accounts of Latin America and the Caribbean posted a surplus equivalent to 3% of the region's GDP in 2007. This reflected a notable increase in net foreign direct investment (FDI), which represented 2.3% of GDP, and a significant net entry of financial capital, which accounted for a further 0.7% of GDP. This figure was obtained by combining the results for net portfolio inflows (1.7% of GDP, largely generated by events in Brazil) and net other-investment outflows (corresponding to 1% of GDP that reflect the mobilization of stabilization funds in certain countries, such as Chile and the Bolivarian Republic of Venezuela). The confluence of these movements and the surplus recorded by the current account (0.5% of GDP) meant that the region accumulated reserves equivalent to 3.6% of GDP in 2007.

The equity in Latin American stock markets increased 46.9% in 2007, compared with expansions of 38.3% and 27.8% in emerging Asian and European countries, respectively.[3] Latin America has not suffered as much as other emerging regions in 2008 from capital being diverted by the increased volatility of the international financial market. The region's equity market in fact expanded 8% in the first half of the year. The capitalization indices of the emerging Asian and European countries, in contrast, depreciated 22.8% and 8.2%, respectively.

The region's increased resilience was also reflected in the variations in the spreads of its sovereign bonds, as measured by the EMBI+. This indicator of country risk went up as soon as the situation became particularly turbulent, specifically in August and November 2007 and in the first quarter of 2008, when the subprime mortgage crisis in the United States worsened and concerns rose about the impact that the slowdown in the United States would have on the world economy. Since the end of March 2008, the EMBI+ has come down in all regions, and most steeply in Latin America, but seems to have started to rise again since July. It should be pointed out that two countries in the region achieved investment grade status in 2008, Peru in March and Brazil in May.[4]

Figure I.3
EMBI+ OF LATIN AMERICA AND ITS RELATION TO THE TOTAL EMBI+, 2007-2008
(Daily series in basic points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from J.P. Morgan.

The external debt dropped to the equivalent of 19.9% of GDP in 2007, compared with 21.8% in 2006, although in absolute terms it increased 9.6% to about US$ 720 billion. The considerable reduction of the external debt of the region's heavily indebted poor countries (HIPC) is commented on in another section of this chapter.

Latin America and the Caribbean attracted considerable amounts of net FDI in 2007, equivalent to 2.3% of GDP, a smaller proportion, however, than at

2 According to preliminary estimates by the World Tourism Organization (UNWTO) in 2007, international tourism arrivals rose 6.1%. Tourism arrivals in Central and South America increased at above average rates of 11.1% and 8.1%, respectively (UNWTO, 2008).

3 According to the Morgan Stanley Capital International Emerging Markets Global Index.

4 The risk-rating agency Fitch awarded Peru a BBB (investment grade) rating in April 2008, and Standard and Poor's did the same in July. Brazil was also awarded a BBB rating by these two agencies in May 2008. Chile and Mexico had already achieved investment-grade status in previous years.

the end of the 1990s. Direct investment in the region's countries increased 45.9% and reached a new historic high of approximately US$ 106 billion. The heavy influx of FDI, however, came at a time when the region's direct investment abroad plummeted almost 45.4% (after reaching a record high in 2006).

The combined result of these external operations raised the level of international reserves in Latin America and the Caribbean by an amount equivalent to 3.6% of regional GDP in 2007. The appreciation of the exchange rate in several countries and the increased use of monetary sterilization operations by central banks played a significant role in this process, which is examined in greater detail below. The region's international reserve assets neared US$ 460 billion in 2007, marking a 43.2% jump in reserves since the end of 2006.

C. Domestic macroeconomic performance

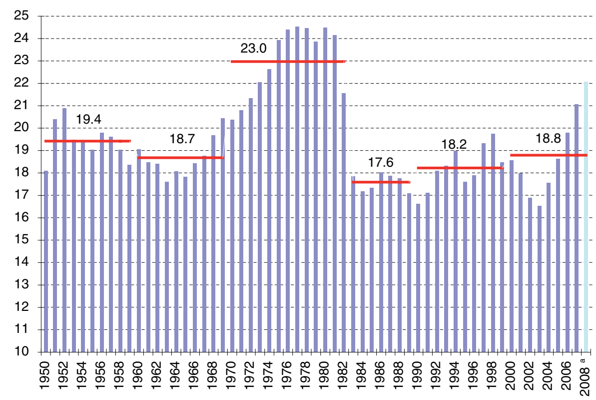
Domestic demand factors have become increasingly influential as the expansionary phase of the cycle has progressed. Investment has become the most dynamic element of demand, although it has not yet regained the level recorded prior to the crisis of the 1980s. Private consumption, meanwhile, is picking up momentum, on the back of strong credit growth and the upturn in employment.

Regional internal demand grew 7.1% in 2007, continuing the positive trend recorded in 2006 and 2005 (7.3% and 7.5%, respectively). This growth was driven by a 12.6% increase in gross fixed capital formation and a 6.9% rise in private consumption. Public consumption lagged far behind private consumption and expanded only 3.8% in 2007 (3.7% in 2006).

As noted earlier, gross fixed capital formation has been the most dynamic component of demand since 2004. This variable expanded 57.6% in 2004-2007 in relation to 2003, fuelled not only by the construction boom, but also by heavier investment in what is mostly imported machinery and equipment (42.1% and 86% over the same period, respectively). As a percentage of GDP, gross fixed capital formation reached 21.1% in 2007, the highest percentage ever since 1990, but lower than the levels of about 25% observed in the 1970s.

Regional investment, when expressed as a percentage of GDP and in current dollars, reached 21.7% compared with 21.3% in 2006. As in previous years, this investment was entirely financed by national savings because external savings in the region have been negative since 2003. In 2007, regional national savings reached 22.3% (less than the 22.9% posted in 2006). The region's external savings became less negative, however, moving from -1.6% of GDP in 2006 to -0.5% in 2007, approaching their 2003 level.

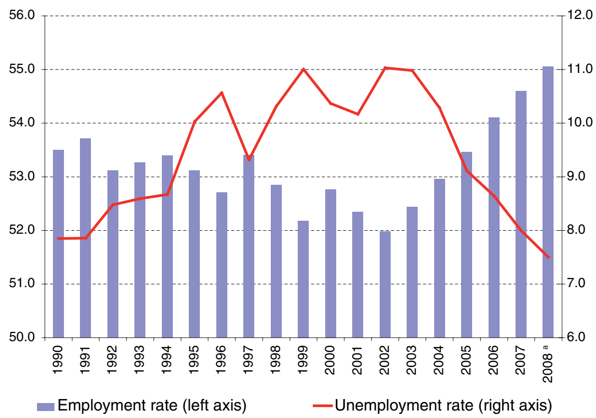
Figure I.4
FIXED INVESTMENT RATE
(Percentages of GDP)



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

The most striking features of the current growth phase, which began in 2003, are buoyant job creation and falling unemployment. The partial information available implies that there has also been an improvement in job quality in the region as many countries have reported significant increases in formal employment.

Figure I.5
LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT AND UNEMPLOYMENT
(Percentages)



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

In what turned out to be the fourth consecutive year of economic growth rates of over 4%, employment indicators continued to improve noticeably in 2007 although wage rises remained modest. Wage employment rose 3.3%. The overall employment rate increased by 0.5 percentage points, accumulating a 2.5 point increase since 2002. The labour force participation rate only increased 0.1 percentage point, which meant the region managed to significantly lower unemployment for the fourth year in a row. The 0.6 percentage-point decrease meant the accumulation of a 3.0-point drop in the unemployment rate since 2003 to 8.0% in 2007. Unemployment is estimated to fall to 7.5% in 2008. By contrast, salaries exhibited only modest gains in most of the region's countries. The median rise in average real wages in the formal sector was 1.1%, while the weighted average rose 1.7%.

Inflation reached 6.4% in Latin America and the Caribbean in 2007 compared with 5% in 2006, ending the downward trend this indicator had exhibited since 2002. This was largely the result of steep rises in food and transportation prices in the second half of 2007.

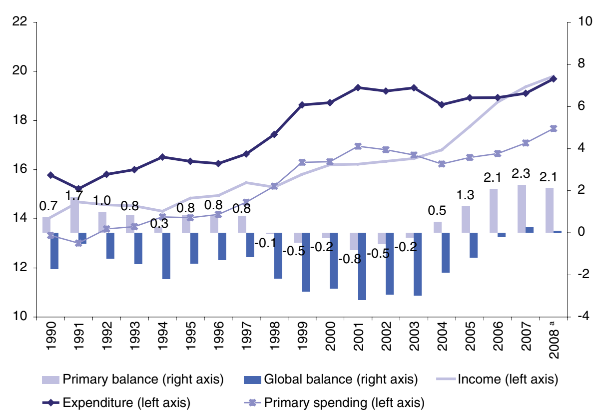
D. The role of economic policy

1. Fiscal policy

As indicated in this and other editions of the Economic Survey, the countries of the region have become less vulnerable to macroeconomic imbalances in recent years, owing largely to sounder public finances and the reduction of the public debt/GDP ratio. This improvement in fiscal terms stems largely from the surge in income that has been generated by more intense economic activity and improved terms of trade. The region's income in fact reached unprecedented high levels in 2007. Also, unlike in other periods of expansion, public spending did not outpace public revenue growth.

Continuing the trend observed in recent years, the fiscal accounts of central governments improved in 2007 in relation to 2006 and recorded a global surplus of 0.3% of GDP (compared with a deficit of 0.2% of GDP in 2006) and a primary surplus (i.e., including debt service payments) of 2.3% of GDP (compared with 2.1% of GDP in 2006). In 2008, public accounts continued to improve, although less quickly.

Figure I.6
INCOME, EXPENDITURES AND OVERALL BALANCE, 1990-2008
(Percentages of GDP)



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

Certain estimations of the impact of the economic cycle (changes in GDP and commodities prices) on public accounts, which are presented in chapters III and IV, suggest that the structural (or cyclically-adjusted) fiscal balance of the region's countries is not, on average, as positive as the observed fiscal balance. This applies to the region as a whole and particularly to the commodities-exporting countries. In these countries, the gap between their structural fiscal position and the observed fiscal balance has recently widened even further. Though difficult to project, the estimated cyclically-adjusted fiscal position shows that a portion of current fiscal income could be transitory in nature and is consequently likely to decline in the future.[5]

Primary surpluses together with economic growth have enabled countries to pay off substantial portions of their public debt. Greater liquidity in international financial markets allowed them to restructure and improve the terms, rates and currency composition of the remaining debt. The improvements in public accounts and the loosening of fiscal constraints has proved to be a double blessing for some of the region's countries: it has diminished their vulnerability and endowed them with more freedom to tackle not only the historical problems they face but also the challenges posed by the present situation. Some countries have improved their credit rating and, in the case of Brazil and Peru, achieved investment-grade status. This is a clear sign of the region's decreasing vulnerability. Under these circumstances, the countries of the region will not need to turn to the market for net financing in 2008.

Greater fiscal solvency has allowed governments to allocate more resources to capital- and social spending, and some countries, for the first time in the history of Latin America and the Caribbean, now have the fiscal tools they need to soften any blow that a further negative turn in the international situation could deal to the domestic economy. Governments have been quick, for example, to employ mechanisms to mitigate the impact that rising prices (basically for food and energy items) have had on consumption levels, as shown in box I.2.

Policy instruments that have a fiscal impact include: (i) tax reductions or eliminations (in VAT and excise taxes on foods or on services related to the food products market, such as food transport), as has been done in the Bolivarian Republic of Venezuela, El Salvador and Peru; (ii) liberalization schemes, including the reduction or elimination of tariffs on imports of grains, flours and foods, such as those implemented by Brazil, El Salvador, Guatemala, Honduras, Nicaragua and Peru; and (iii) subsidies on the consumer prices of foods and flours, such as those created in Bolivia, Costa Rica (where the fiscal cost has increased to more than 0.5% of GDP since 2006), Dominican Republic, Ecuador and Nicaragua (IMF, 2008a).

Other measures that have a fiscal impact are: (i) restrictions on exports though the imposition of duties on exports of foods and grains, as in the case of Argentina; (ii) government procurement of foods in the international market for domestic sale at controlled prices, as in Bolivia, Ecuador, Honduras and Mexico; and (iii) stimuli for the production of foods and grains through subsidies for buying fertilizers and other inputs, as in Guatemala, Haiti and Mexico.

Box I.2

FISCAL POLICY AND FOOD AND FUEL PRICE RISES: IMPACTS AND MODES OF INTERVENTION

In the first half of 2008, governments and multilateral agencies became increasingly concerned over the rising prices of raw materials, especially foods, in combination with the growing cost of energy products in the last few years. Their concern related to matters both macroeconomic, since these price rises affect the balance of payments, inflation and economic activity, and social, owing to the major redistributive effects they generate.

Although consensus has been reached about the need for public policies to address some of the consequences of rising prices for macroeconomic and social stability, there is some debate about the measures to be taken.

In macroeconomic terms, it is necessary to look, among other things, at each country's goods trade position. Whether they are net exporters or importers determines the type of policy challenges involved and greatly affects their capacity to take the necessary measures.

Countries that are net exporters of food and energy products and are therefore experiencing a terms-of-trade gain must establish how to make use of the fiscal revenues thus created. They must also decide whether or not to increase public spending and to what degree.

The debate in countries that are net importers revolves around the pass-through of these higher prices to consumers and the fiscal impact of avoiding full pass-through of that increase. Similar questions arise about the social impact of food and fuel price rises. Ultimately, the discussion is over the possibility of allowing market forces to operate and the fiscal cost of protecting the real income of the population, and which social group's interests to protect.

[5] According to Zambrano (2008) in a study of nine of the 19 countries in the region, conducted for this publication (Argentina, the Bolivarian Republic of Venezuela, Bolivia, Chile, Colombia, Ecuador, Mexico, Peru and Trinidad and Tobago), direct commodity revenues account for 2% or more of GDP and therefore have a decisive influence on the observed fiscal balance.

Box I.2 (concluded)

In relation to fuels, the possible policy instruments are taxes, subsidies, and specific funds. Taxes on fuel consumption include both excise taxes and general taxes such as VAT. In the current conditions, some of the region's countries have reduced excise taxes on consumption, as shown in figure A.

Fuel-related subsidies may be applied to fuel costs directly, as in Ecuador and the Bolivarian Republic of Venezuela, where they represent more than 3% of GDP, or indirectly, by subsidizing the use of transport, as many of the region's countries are doing.

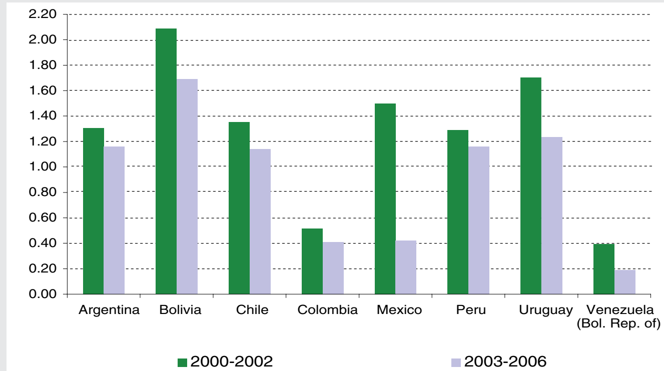
With respect to specific funds, one example is Chile's Petroleum Price Stabilization Fund, which incorporates a mechanism to determine the percentage of the rise in imported crude prices that may be passed through to final consumers of petroleum products (Jiménez and Tromben, 2006). In June 2008 U$S 1 billion was injected into that fund to offset recent rises in crude oil prices.

In the case of foods, as figure B shows, economic policy offers a broad range of alternatives for intervention, including administrative measures such as a the use of fiscal or trade policy tools.

Administrative measures include: (i) the creation of quotas or quantitative limits on exports, as has Brazil has done recently for rice and Argentina and Bolivia for beef and cereals; (ii) agreements and price controls in certain food markets, as in Argentina (where part of the cost rises are allowed to be passed on to the final prices of certain products), Bolivia, Honduras, Mexico and Paraguay; (iii) liberalization schemes that include the reduction or elimination of import restrictions and non-tariff barriers, like those implemented in Mexico in the framework of the North American Free Trade Agreement (NAFTA); and (iv) bilateral agreements for importing foods or grains, such as those arrived at recently between Bolivia and Argentina (World Bank, 2008b; FAO, 2008a and b).

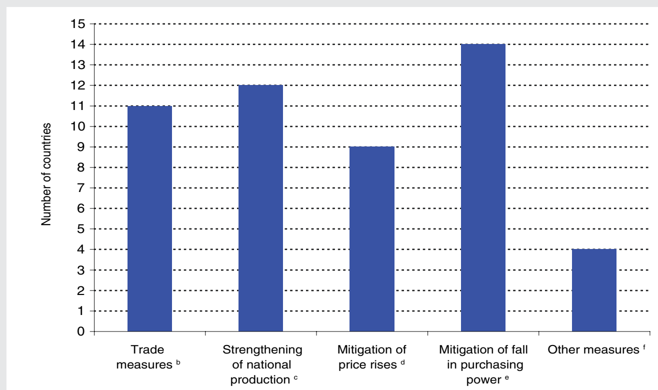
A. RECEIPTS FROM EXCISE TAXES ON FUELS

(Percentages of GDP)



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

B. LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES): [a] MEASURES ADOPTED TO ADDRESS FOOD PRICE RISES



Source: Food and Agriculture Organization of the United Nations (FAO), "Situación alimentaria en América Latina y el Caribe", *Hunger Observatory Bulletin*, Regional Office for Latin America and the Caribbean, May-June 2008.

[a] Includes Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Peru and Uruguay.

[b] Includes tariff reductions on imports, tariff rises on exports and trade between governments.

[c] Includes government procurement from small farmers, subsidies on inputs, distribution of inputs, financing for production, strengthening of the institutional framework (to increase production), technical assistance, public-private bargaining and inter-governmental cooperation agreements.

[d] Includes temporary price controls, subsidies on food or utilities, or both, and tax cuts on food consumption.

[e] Includes food distribution programmes, income transfers and tax cuts.

[f] Includes the creation and liberation of strategic food commodity reserves and expansion of agricultural insurance.

Among the measures considered, those most commonly used (measured by the number of countries implementing them) are those aimed at offsetting the impact of price rises on consumers, whether they benefit from transfer programmes or not. Such instruments include food distribution programmes, income transfers and tax cuts.

The surge in fiscal income over the past few years has driven up the region's average public resources to unprecedented levels. Fiscal revenue in the region averaged 15.2% of GDP in 1990-1995; 16.1% of GDP in 1996-2000; 17.4% of GDP in 2001-2005; and 19.5% of GDP in 2006-2007. Several factors underpinned this increase in fiscal income, most notably, buoyant economic growth, rising commodities prices and administrative improvements. The countries that most increased their fiscal revenue (by over 1% of GDP) in the past year were

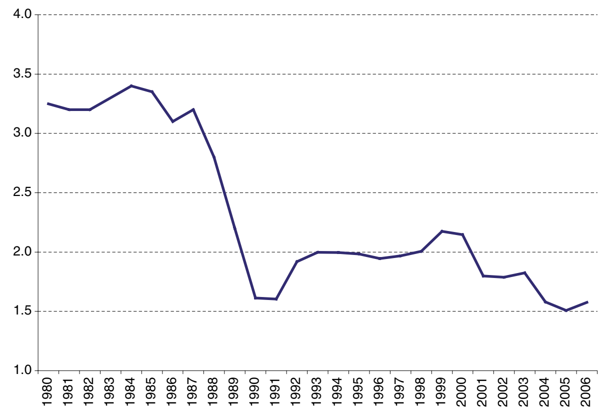
Argentina,[6] Chile, Costa Rica, the Dominican Republic[7] and Ecuador.[8]

Overall, public spending gained momentum again in 2007: as a percentage of GDP, it expanded 0.2% on average in relation to 2006, and this trend continued in 2008. The countries that stepped up public spending the most were: Argentina, which raised energy and transportation subsidies and increased government contributions to social security as holdings increased and the number of beneficiaries expanded; Ecuador, which made huge outlays in fuel subsidies in 2007; Haiti, where public investment expanded dramatically; and Honduras, owing to increases in the salary mass and transfers to State enterprises and outlays for electrical energy and fuel subsidies. On average, this growth has been the product of a drop in current expenditures equivalent to 0.2% of GDP and a 0.4% increase in capital outlays. As several ECLAC studies have highlighted in the past, public investment is one of the smallest spending items (see figure I.7). Several countries are taking steps to increase capital spending but some are running into difficulty owing to the poor spending-management and project-implementation capacity of their public institutions (at the central or the subnational level).

As noted earlier, the ratio between the central government's public debt and GDP, as a simple average, dropped again in 2007 to 33%, compared with 36% in 2006. In 2002-2007, central government public debt, as a proportion of GDP, fell by over 25 percentage points from 59% in 2002 to 30% in 2007. The rate of fall of the debt was maintained in 2007.[9]

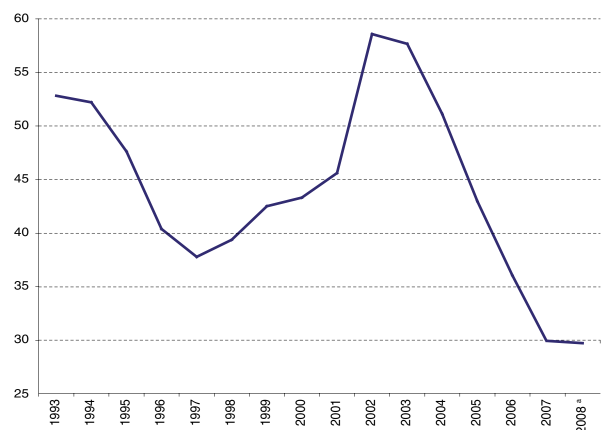
Fluctuations in the macroeconomic variables (exchange-rate variations and volatile economic activity) and debt-restructuring processes largely account for this drop. In 2007, the countries that recorded the sharpest decline (over 9% of GDP) in their public debt/GDP ratio were Bolivia, Honduras and Nicaragua. These countries participate in both the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI).

Figure I.7
PUBLIC INVESTMENT IN INFRASTRUCTURE
(Percentages of GDP)



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

Figure I.8
TREND IN PUBLIC DEBT
(Percentages of GDP)



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

6 In the case of Argentina, the transfer of the balances accumulated by those contributors who opted for the State pay-as-you-go pension system raised income from social security contributions by about 1% of GDP.

7 In the case of the Dominican Republic, several factors led to the increase in the central government's total income: the Tax Amnesty and Rectification Law, administrative improvements that made tax collection more efficient, high international nickel prices and the rise in the taxes on dividends and corporate sales.

8 In December 2007, the National Assembly of Ecuador passed the Reform Law for Tax Equity in Ecuador, which included the following measures: the elimination of existing preallocations of income tax and special consumer tax revenue, which as of 2008 began to form part of the central government's budget; the introduction of advance payment schemes for income tax; changes to the special consumption tax; and the implementation of a simplified tax regime for certain taxpayers. Subsequently, in April 2008, the Assembly passed the State Oil Resource Revenue Recuperation Law, which established that public resources obtained from petroleum activities earmarked for the Petroleum Stabilization Fund, the Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization, and the Ecuadorian Investment Fund for the Energy and Hydrocarbon Sectors will be recorded in the central government's budget as capital income. The existing preallocation schemes for those funds were thus annulled.

9 Furthermore, as mentioned in earlier editions of the *Economic Survey*, the debt structure of the region's countries has improved considerably in recent years, with lower foreign-currency balances and a trend towards longer-term debt in national currency.

2. Monetary and exchange-rate policy

As mentioned earlier, the surge in inflation that started in 2007 has continued into 2008, and inflation figures have surpassed the marks set both by the countries that pursue inflation target policies, such as Chile, Colombia, Mexico, Paraguay and Peru, and by nearly all those that target ranges for inflation, such as Costa Rica, Guatemala and Honduras. Brazil was the only country in which inflation remained within the targeted range, although it is rising and has already surpassed the range average. It should be noted that none of the central banks pursuing this kind of monetary policy changed their inflation targets for 2008 as these are usually fixed as medium-term goals that the economy is intended to trend towards.

The food segment of the consumer price index (CPI) has experienced larger price rises than the indicator as a whole, which suggests that the current inflation process has a supply component. Despite this, the steep climb in inflation led most central banks to raise their policy rates in the first half of 2008 with a view to preventing, or at least mitigating, a rise in inflation expectations (see box I.3).

Although the rise in observed inflation is largely attributable to supply shocks linked to food and energy prices, as the situation has continued, most of the central banks have raised their monetary policy interest rates. In Colombia, the reference rate rose from 9.5% to 9.75%. In Chile it rose from 6% to 6.25%, where it held steady for five months before rising to 6.75% in June. In Peru the monetary policy rate has risen from 5% to 5.5% and in Brazil, the SELIC (Special System of Clearance and Custody) rate has been increased twice, from 11.18% to 11.63%, after eight consecutive cuts in 2007. Notably, Brazil still keeps this rate high in real terms compared with other countries in the region. In Paraguay, the rate on monetary regulation instruments (IRMs) began to rise in March, although the largest hike was in April, when the weighted average was 6.8%, compared with 5.6% in December 2007. In May another slight adjustment raised the weighted average rate by 10 basis points.

While inflation is to a great degree linked to the rising prices of foodstuffs and energy products on world markets, the measures adopted by central banks relate to the need to restrain inflationary expectations. Hence, the measures are not limited to countries that have inflation targets. In Bolivia, for example, the central bank has stepped up its liquidity absorption operations; central bank security issues rose by 310% in 2007, and by a further 64% in the first four months of 2008 compared with the end of 2007. In Costa Rica the monetary policy rate has fluctuated, dropping from 6% to 3.25% in February then rising to 7.61% at the end of May. In Guatemala and Honduras, benchmark rates have risen twice, from 6.25% to 6.75% and from 7.5% to 8%, respectively.

The main source of the expansion of the monetary aggregates has been the upward trend in international reserves as a result of improved terms of trade in some of the region's economies, but also interest-rate differentials between the region and the international market, together with the significant upgrading of the risk rating of certain countries. This process also induced a significant appreciation of exchange rates in the region, which exacerbated the dilemma the region's central banks face between monetary stability and rising currencies.[10]

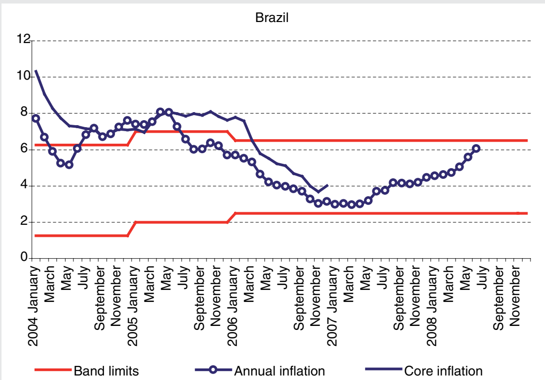
[10] The Central Bank of Chile's policy in this regard in April 2008 was to try to strengthen the economy's international liquidity position and curb the appreciation of the exchange rate by embarking on a series of foreign-exchange purchases that boosted international reserves by US$ 18 billion. At the same time it announced plans to issue short- and long-term debt instruments in national currency with a view to sterilizing the monetary impact of the foreign-exchange purchases. Other central banks have opted for capital controls. The Bank of the Republic of Colombia, for example, established a 40% legal reserve in May 2007 for foreign capital holdings that must be left in non-earning accounts at the Bank of the Republic for six months. Early withdrawals incur penalties of 1.63% and 9.40% according to how much time has transpired since the funds were deposited. This reserve requirement was raised by ten percentage points to 50% in May 2008, and a new provision was introduced stipulating that foreign investment-related capital inflows must remain in the country for at least two years. This measure was taken to prevent portfolio investments being registered as foreign direct investments in order to dodge the legal-reserve requirement. No restrictions were imposed on profit remittances. In Peru, the Central Bank halted its foreign-exchange purchase strategy at the beginning of the year, strongly increased legal reserve requirements and discouraged short-term financial inflows in an attempt to stem credit growth and curb the appreciation of the exchange rate.

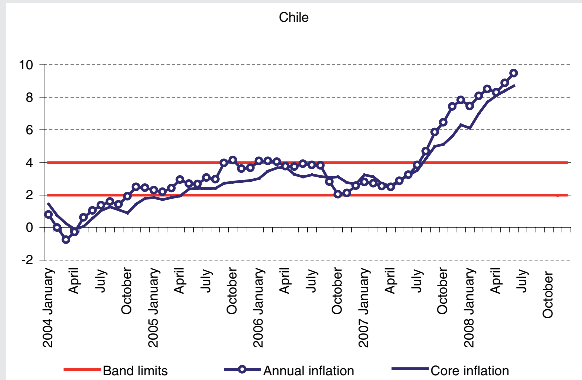
Box I.3

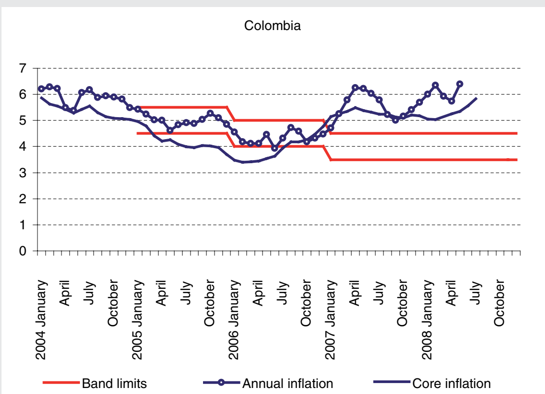
MONETARY POLICY IN A CONTEXT OF RISING INFLATION

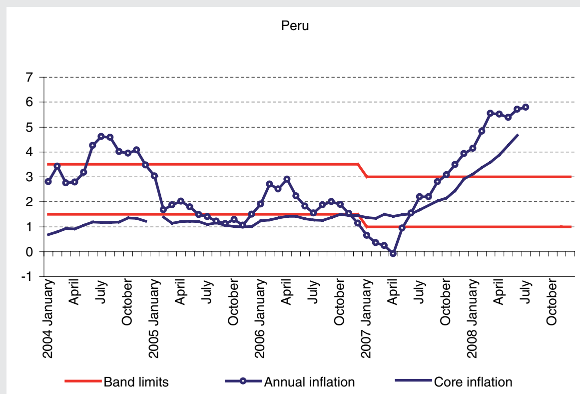
As shown in the figure, in 2007 and thus far in 2008, inflation has been over target in Chile, Colombia, Mexico, Paraguay and Peru. Brazil is the only country in which inflation has remained within the target range (which is wider than in the other countries), but even there inflation is accelerating and is already above the middle of the band.

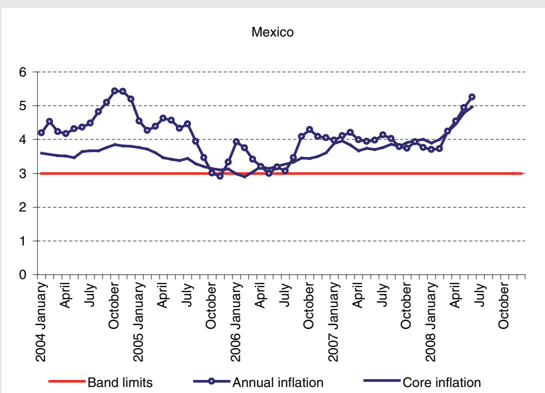
LATIN AMERICA (SELECTED COUNTRIES): INFLATION TARGETS AND INFLATION RATE

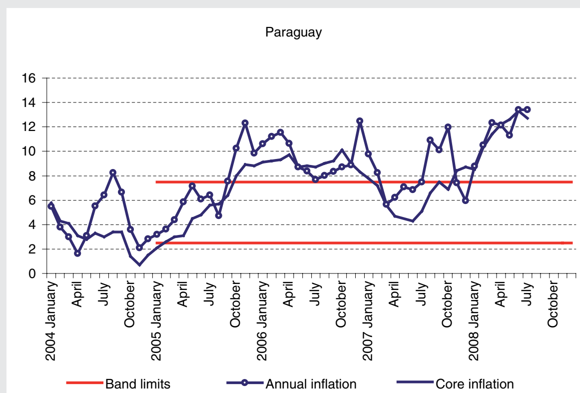












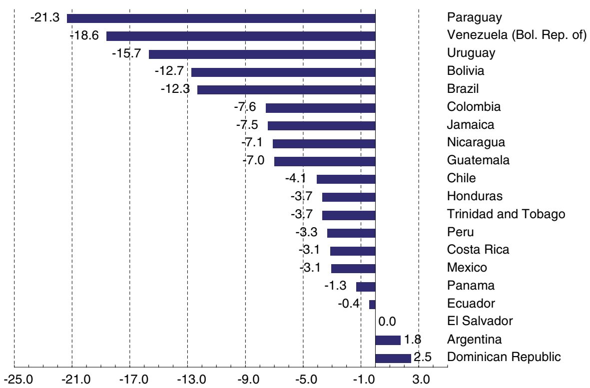
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure I.9, which presents the evolution of the monetary base/international reserves ratio in a select group of countries, shows how the intervention of central banks has operated in these countries. A downward slope in the time series indicates that the central bank was aiming to sterilize the accumulation of international reserves, while an upward slope indicates that the growth of the monetary base was outpacing the accumulation of reserves. In this regard, countries fall into two distinct groups. The first consists of Argentina and Brazil, whose monetary base/international reserves ratio trended downward up to the middle of 2007 because their central banks were making large dollar purchases. In the case of the countries of the second group, Colombia, Chile, Peru and Mexico, the central banks have allowed the exchange rate to appreciate more and their monetary base/international reserves ratio has risen slightly. It should be noted that in Peru this ratio has remained almost constant.

Figure I.10

REAL EFFECTIVE EXCHANGE RATE: JUNE 2008 COMPARED WITH JUNE 2007

(Percentage variation)

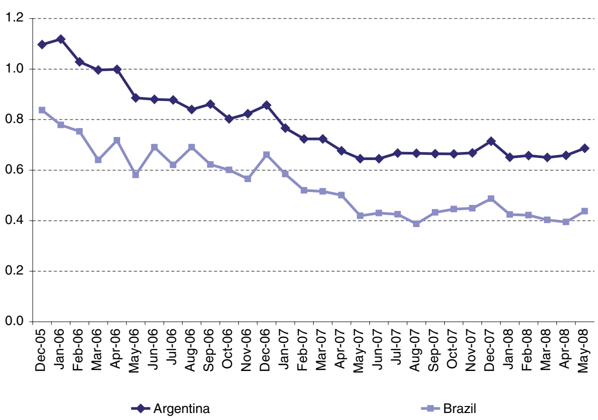


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

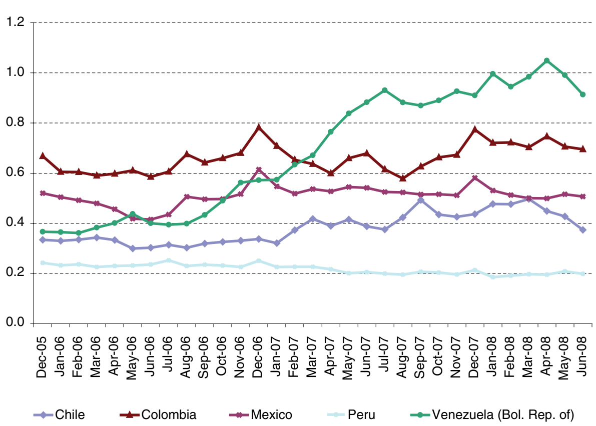
Figure I.9

LATIN AMERICA (SELECTED COUNTRIES): RATIO BETWEEN THE MONETARY BASE AND NET INTERNATIONAL RESERVES

(a) Argentina and Brazil



(b) Bolivarian Republic of Venezuela, Chile, Colombia, Mexico and Peru



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

The credit recovery under way since 2003 continued in the first quarter of 2008, which was not surprising given the strongly procyclical nature of credit in the region. Colombia, Ecuador and the Bolivarian Republic of Venezuela, however, recorded slower growth rates for all types of credit. Consumer credit was the most buoyant in the region, with the Bolivarian Republic of Venezuela registering, as it had in 2006 and 2007, the most notable increase in this type of credit (80.8%). Argentina recorded the second largest rise in total credit (57.2%) thanks in part to rising prices in the real-estate market, which fuelled a steady increase in mortgage loans. Total credit in Brazil and Peru grew by over 30%. In the case of Peru, commercial loans were up about 32% and consumer loans about 55%. Both rises reflect the booming activity of the country's services and manufacturing sectors. In Brazil, mortgage lending continued to expand at rates of over 20%.

On average, the real effective exchange rate in Latin America and the Caribbean in relation to the rest of the world appreciated 2.9% in 2007 (or 4.2% when the rate for December 2007 is compared with December 2006). This exchange-rate appreciation averaged 5.1% in 2007 for the countries of South America, with eight countries posting appreciations on average in 2007. The same indicator for the countries of Central America, Mexico and the Caribbean, meanwhile, was far lower (0.7%), with five countries recording effective appreciations in 2007. In both South America and Central America, Mexico and the Caribbean, the effective appreciation of the exchange rate in relation to the rest of the world was greatest between December 2006 and December 2007 (6.6% and 1.7%, respectively), which implies that the process gathered momentum over the year.

Although the surge in inflation contributed to the effective appreciation of the exchange rate in 2007 and mid-2008, it was not the only factor. Investors seeking to take advantage of interest rate differentials channelled enormous flows of capital into countries such as Brazil and Colombia, which fuelled the significant appreciations of the nominal exchange rate observed in those countries.

E. Changes in the international setting [11]

Starting in 2007, certain significant changes began to occur on the international economic scene. First, strong growth in world demand has been followed by a slowdown, especially in the developed countries, owing to the mortgage crisis in the United States. Second, the worldwide rise in inflation over recent months represents an additional factor of uncertainty that is hampering growth as well as having a negative impact on poverty levels.

1. Financial volatility and the slowdown in world growth

Unlike other episodes of financial instability that have affected emerging economies in recent decades, this crisis has been generated in the financial markets of the developed world (the United States in particular) and will have consequences for the growth rate of those economies.

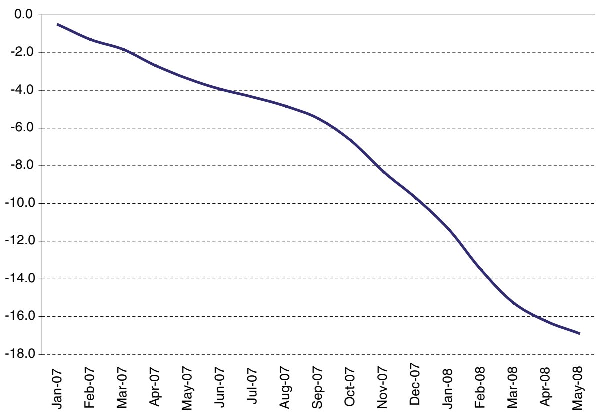
This financial instability originated in the subprime mortgage market in the United States and then rapidly spread through the entire real-estate market there and in other developed countries. The construction sector has therefore been affected and, more importantly, there is a serious threat to the value of the collateral behind many of the loans granted in those countries.

Uncertainty surrounding the solvency of financial institutions (and investment banks in particular) caused a run on their liabilities and serious liquidity problems. As tends to be the case, the liquidity problems began to give rise to additional solvency problems as banks attempted to liquidate assets in the face of deposit withdrawals. The timely intervention of central banks (especially the Federal Reserve) to inject liquidity into the markets, and the bailout of floundering institutions has brought the situation under control, but this does not mean that the problems of the financial system have disappeared. The scale of the losses involved is not yet clear, although estimates by the International Monetary Fund (IMF) suggest they may amount to between 4% and 5% of GDP in the United States, with global losses that could be double that amount in dollars (IMF, 2008a). The possibility that financial institutions will continue to report poor results and thus generate more episodes of turbulence cannot be ruled out, and this constitutes an additional factor of uncertainty.

In this context, one key indicator to watch (due to the implications for the solvency of financial institutions) is that of property prices, which have been falling continuously since mid-2006, but dropped even more sharply from mid-2007 (although the decline could be beginning to slow down). As shown in figure I.11, property prices in the United States dropped 17% between May 2007 and May 2008, although the situation differs significantly from state to state.

[11] This section and the next are based on Machinea and Kacef (2008).

Figure I.11
UNITED STATES: STANDARD & POOR'S/CASE-SCHILLER HOUSING PRICE INDEX
(Variations with respect to the same month the previous year)



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

In the first half of 2008, it became patently clear, especially in the developed economies, that the world economy was slowing down although, contrary to all expectation, it is not the United States economy whose performance is the weakest at the moment. Despite being the epicentre of the instability that has rocked credit markets and unsettled the real-estate sector, the United States economy has grown more than the European and the Japanese economies, especially in the second quarter of 2008, and all signs indicate that this trend will continue in the second half of the year. The combination of a weakening dollar, lower interest rates and a fiscal stimulus package has softened the blow of the crisis in the United States, which originated in the mortgage market. In Europe, on the other hand, where the main concern has been rising inflation (see below), the crisis has led to a contraction of credit, as well as a notable appreciation of local currencies. This also occurred in Japan.[12]

Although there is still no consensus on the scale of the slowdown in growth, it is unlikely that it will lead to a recession although there are signs that recovery will be slow and that economic growth will remain sluggish, especially in the developed countries, not just for the remainder of 2008 but in 2009 as well. In terms of the impact on the world economy, and on Latin America and the Caribbean in particular, everything points to a relatively prolonged weakening of demand for the region's exports.

2. The global surge in inflation

Over the past year, the deterioration in financial market conditions has gone hand in hand with faster rises in the price of some commodities (especially oil and food). In the case of oil, as previous editions of the *Economic Survey* have shown, contractions in supply in recent years, which were often motivated or exacerbated by geopolitical tensions, coincided with a rise in demand that was fuelled by the growth of the global economy and the rapid industrialization of several Asian economies, most notably China and India.

Various factors also lie behind the increase in food prices. First, there is the structural factor of increased world demand for food, due to the emergence of a large consumer market in developing Asian countries and Africa. These include China and India, which together represent a third of the world population. These countries have both witnessed not only an increase in the purchasing power of the poorest segments of the population in recent years, but also an expansion in the proportion of the urban population. Both factors have driven up demand for food.[13]

12 Recently, Martin Feldstein explained that the differences in the policies of the Federal Reserve and the European Central Bank (ECB) stem from: (a) the greater power of European trade unions; (b) the weight of the history of hyperinflation in Europe; and (c) the need for a relatively young institution like the ECB to prove itself. Unfettered by these constraints, the Federal Reserve's strategy has therefore been to focus on reducing the threat of recession in an economy that has no recent experience of hyperinflation, but possibly still remembers the depression of the first half of the last century (Feldstein, 2008).

13 An excellent analysis of the trends in international food markets as a framework for recent tensions between the agricultural sector and the government in Argentina is presented in Piñeiro (2008).

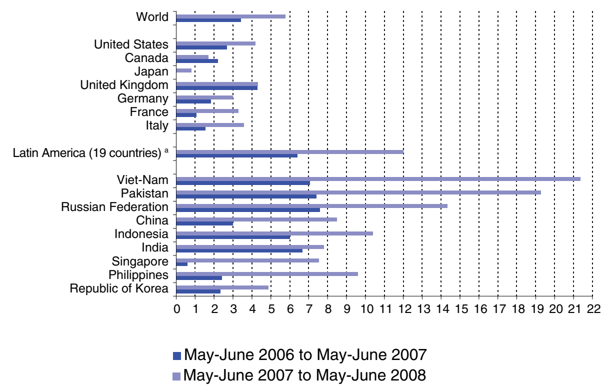
The expanding production of biofuels is confirming the increasingly widespread belief that long-term influences in the food market account for a significant part of the rise in food prices. Some estimates indicate that ethanol production will consume 30% of the United States corncrop by 2010 and that more than 40% of global maize consumption between 2000 and 2007 was due to biofuel use in the United States.[14]

The rising price of petroleum has raised the costs of production, in the case of fertilizers by over 100% in the last five years,[15] and of transport. The situation has taken a turn for the worse recently, as the prices of some products surged even higher when several countries stopped exporting.[16] To this must be added the fact that, since commodities have been treated for some time now as financial assets, much of the rapid increase observed in the first half of 2008 may be attributable to the crisis in the financial markets, which made commodities more attractive for their reserve value, although this effect may be short-lived.[17]

These increases are pushing up inflation virtually worldwide, although the impact appears to be greater in emerging economies than in developed nations. In emerging countries, the lower average income means that food makes up a higher proportion of the basket of consumption and therefore the consumer price index. In developed economies, a noted earlier, the slowdown is easing inflationary pressure.

The surge in inflation, especially the rise in food and energy prices, is having a direct and negative impact on world demand and has implications for income distribution and poverty (see box I.4). This direct impact is combined with the indirect effect of inflation on the interest rate and the real exchange rate.

Figure I.12
COMPARISON OF INFLATION IN DEVELOPED AND DEVELOPING COUNTRIES
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Monetary Fund (IMF).
[a] Simple average.

To date, central banks have reacted with caution (as dictated by the circumstances), given that in most cases accelerated inflation is due to a supply shock rather than an imbalance resulting from an excessive increase in the demand for goods. So far, the result has been a fall in the real interest rate, which has turned negative in many cases. However, the higher the likelihood of price increases spreading to the rest of the economy (depending on the stage of the cycle and/or wage bargaining procedures), the greater the pressure will be on central banks to change their stance. Thus, in a context where inflation is tending to rise, it will be no surprise if the monetary authorities begin to raise interest rates or implement other measures to tighten demand, as some of the region's central banks have already done.

From the point of view of economic activity projections, rising food prices will have a contractionary effect on consumption, since the segments whose consumer baskets are dominated by food are also those who spend most of their current disposable income, given their small or non-existent savings capacity. This adds another contractionary element whose effects may begin to be felt relatively soon.

14 See World Bank (2008a).
15 See Rodríguez (2008).
16 This has occurred mainly with products in which world trade represents a relatively small portion of production. Rice is the clearest example of this, since world trade accounts for only 6% of world production, whereas 13% and 18% of maize and wheat production, respectively, are traded in world markets. According to a recent report by the United Nations Food and Agriculture Organization (2008a), in a sample of 77 countries, over 25% had implemented export restrictions in order to secure supplies for domestic consumption.
17 See Frankel (2008).

Box I.4

THE DISTRIBUTIVE IMPACT OF FOOD PRICE RISES

As discussed earlier, several factors pushed up food prices sharply last year. This, together with the rise in oil prices, explains the widespread increase in inflation. Estimates by ECLAC show that since early 2006, and especially since 2007, consumer food prices have been rising faster in most of the region's economies, posting an annual rate of between 7% and 30% in the different countries, with an average of somewhere around 16%.

This combination of factors has a clearly regressive impact on income distribution. Those who spend the largest proportion of their income on food are the worst affected by rising food prices. The lower a family's income, the larger the share of that income is used to purchase basic foodstuffs to meet their nutritional requirements. This means that if basic food prices rise more than the prices of other goods, the poorest segments of the population suffer a worse deterioration relative to their real income.

As a result, the situation not only has a clearly inequitable bias, but it is also worsening the percentage of indigent (extremely poor) and poor in the region. According to a simulation exercise conducted by ECLAC for 2007, an increase of 15% in the price of food raises the indigence rate by almost three points, from 12.7% to 15.6%. In other words, 15.7 million more Latin Americans will be driven into extreme poverty. These estimates do not take into account possible changes in the income of individuals and households, however, nor changes in the prices of non-food goods and services.

EFFECTS OF A 15% INCREASE IN FOOD PRICES ON POVERTY AND INDIGENCE LEVELS, WITH RESPECT TO 2007

(Percentages)

	Projection to 2007		With a 15% increase in food prices			
			With no increase in income		With a 5% rise in income	
	%	millions of people	%	millions of people	%	millions of people
Indigence	12.7	68.5	15.6	84.2	14.6	78.7
			2.9	15.7	1.9	10.2
Poverty	35.1	189.5	37.9	204.5	35.9	193.5
			2.8	15.0	0.8	4.0

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

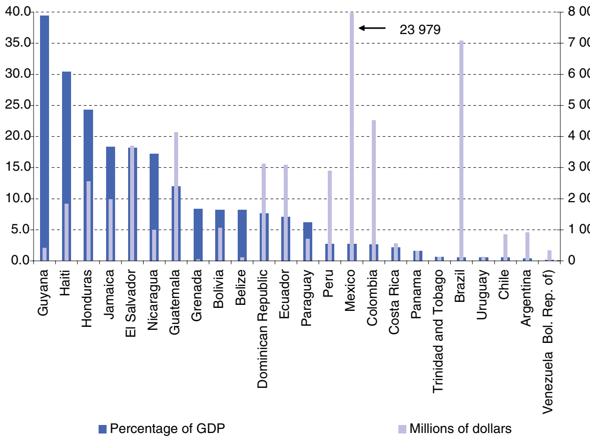
F. Latin America and the Caribbean and the slowdown in the global economy

In terms of how the new context of slower world growth and increased volatility and uncertainty in the financial markets will affect Latin America and the Caribbean, what can be said is that the region is better prepared than before to face a situation of this kind. However, this does not imply that there are no risks in the real or financial sectors.

Remittances from migrant workers. One of the possible impacts of the slowdown in the United States economy is that Latin American and Caribbean workers employed in that country will send fewer remittances, which are an important source of external finance for many Central American and Caribbean countries. In the five countries that receive the largest remittances (in relation to GDP) —El Salvador, Haiti, Honduras, Jamaica and Nicaragua— these inflows represented between 17.3% and 30.4% of GDP in 2007. These are not the only countries that depend heavily on remittances, however.[18] The largest recipient in absolute terms is Mexico, which received almost US$ 24 billion in 2007, or the equivalent of 2.4% of GDP. Although this percentage was small in comparison with other, smaller economies, these flows exceeded the amount Mexico received in FDI that year.

18 Belize, Grenada and Guyana in the Caribbean and Guatemala in Central America are also major recipients of remittances.

Figure I.13
LATIN AMERICA AND THE CARIBBEAN: REMITTANCES, 2007
(Millions of dollars and percentages of GDP)



Source: Inter-American Development Bank (IDB).

Remittances continued to climb in 2007, but at a markedly lower rate than in the recent past, as examined in box I.5. A recent study presented by the Inter-American Development Bank, however, warned that the percentage of Latin American and Caribbean workers remitting began to decline at the start of 2008, for the first time since the series began in 2001 (IDB, 2008). The study also suggested that this year remittances may begin to fall in real terms, partly because of the downturn in activity levels in sectors that employ large numbers of immigrants, such as construction.

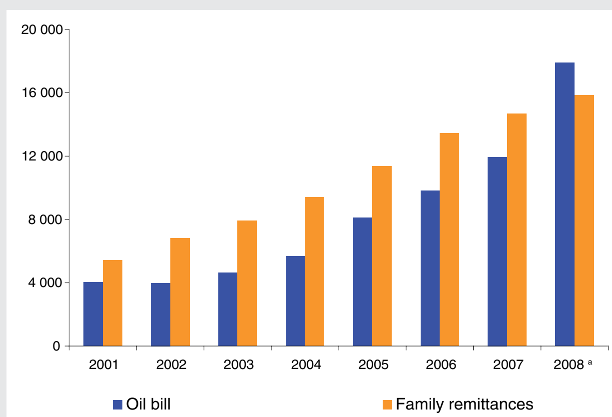
Volume exported. The drop in economic activity in the developed countries may be expected to lead to a contraction in demand for goods, which would hurt the region's exports. If growth slows in emerging economies less than in the developed world, as seems to be happening, the overall impact on Latin American and Caribbean exports will depend basically on how much is exported to developed country markets and the possibility of redirecting at least some of these exports to other markets whose demand holds steady, as may be the case of the developing economies. This will largely depend, in turn, on the types of goods being exported, since it is much easier to redirect a commodity with little differentiation than a manufacture produced to the specifications and technical requirements of the original destination market.

Box I.5
CENTRAL AMERICA AND THE DOMINICAN REPUBLIC: REMITTANCES AND THE TERMS OF TRADE

Inflows of family remittances to the Central American countries and the Dominican Republic increased by 9% in 2007, compared with 18% in 2006, and again by 9% in the period from January to April 2008 (compared with 13% during the same period in 2007). Thus, the growth rate of foreign-exchange inflows from remittances is continuing to decline, at a time when those countries are going to find it more difficult to finance their growing trade deficits, owing to a soaring oil and food bill.

The oil bill is expected to rise sharply in 2008. A conservative estimate puts it at the unprecedented level of US$ 18 billion, compared with US$ 12 billion in 2007. In this way, for the first time in a decade, the oil bill would exceed the total inflows of family remittances. In 2008, those inflows are expected to total about US$ 16 billion, but it is estimated that the oil bill for the Central American countries and the Dominican Republic will make up almost a quarter of goods imports.

CENTRAL AMERICA AND THE DOMINICAN REPUBLIC: THE OIL BILL AND FAMILY REMITTANCES
(Billions of dollars)



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

A first look at the structure of Latin American exports by destination market and type of good shows that manufactures represent around 45% of exports and that 70% of these go to developed country markets. Those percentages mask very different realities, however, which show up when the region's largest manufactures exporter, Mexico, is considered separately from the rest of Latin America. In fact, 74% of Mexico's exports are manufactures and over 90% of these are shipped to developed country markets, mainly the United States.[19] In the rest of Latin America, however, manufactures represent little more than 25% of total exports and just over 35% of these go to developed countries. These percentages are even lower for South America.

Table I.2

LATIN AMERICA AND THE CARIBBEAN: GEOGRAPHICAL DISTRIBUTION OF GOODS EXPORTS, 2006

(Percentage of total exports)

	Composition of exports	Geographical distribution	
		Developed countries	Emerging economies
Latin America (19 countries)			
Commodities	54.8	58.0	42.0
Manufactures [a]	45.2	71.5	28.5
Total	100.0	64.1	35.9
Latin America excl. Mexico (18 countries)			
Commodities	73.9	51.1	48.9
Manufactures	26.1	36.0	64.0
Total	100.0	47.2	52.8
South America (10 countries)			
Commodities	74.7	50.6	49.4
Manufactures	25.3	35.4	64.6
Total	100.0	46.7	53.3
Central America (8 countries)			
Commodities	55.6	68.6	31.4
Manufactures	44.4	44.1	55.9
Total	100.0	57.8	42.2
Mexico			
Commodities	25.9	87.6	12.4
Manufactures	74.1	90.5	9.5
Total	100.0	89.8	10.2
Caribbean (12 countries)			
Commodities	85.2	68.0	32.0
Manufactures	14.8	61.9	38.1
Total	100.0	67.1	32.9

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

[a] In this table, natural-resource based manufactures are classified as commodities owing to their low value added.

Slower growth in the developed countries may thus be expected to have a stronger impact on Mexico and Central America than on South America. This is because South America's exports are more biased towards commodities, are easier to redirect and have more diversified destination markets, with a larger proportion going to Asian markets, which are projected to continue growing strongly.

Commodity prices. As discussed in box I.6, although commodity markets are now in a boom phase, it must be recalled that prices for these goods typically show large cyclical variations. It is worth considering, therefore, that we might be witnessing a change in the patterns of some cyclical factors that could herald a reversal of the rise in commodity prices, which would affect mainly South America.

[19] Although Mexico has made great efforts to diversify its export destinations, its exports continue to be highly concentrated in the United States market. Up to the first quarter of 2008, however, United States imports had not shown any great slowdown.

Some analysts think that the drop in petroleum prices observed since July 2008 could indicate the presence of factors such as those mentioned above. On the supply side, such factors might include Saudi Arabia's recent announcement of an increase in production. On the demand side, they might include the slowdown in world growth and the probable decrease in subsidies in some emerging economies.

Metals prices are also fairly vulnerable to a slowdown in global growth, but if demand from emerging markets —especially China— holds, then this could compensate, at least partly, for the downturn in the developed economies.

Box I.6

THE CURRENT COMMODITY-PRICE BOOM AND PROSPECTS FOR THE FUTURE

The boom of the past five years is significantly different from others that have occurred since 1960, in terms of both duration and magnitude. Since 2000, the upward surges in various aggregate price series have resulted in cumulative real increases of over 100%; for example, the general commodity price index shows a real increase of 140% over a period of 25 consecutive quarters. Some of the sharpest upswings have been observed in the series for oil (312%), steel (302%), copper (273%), silver (247%) and gold (192%).

These percentage increases are not very far from those seen in the 1970s, but the great difference lies in the duration of the disturbance. The price booms seen in the previous four decades lasted less than seven quarters on average, but the periods of price rises since 2000 have averaged 14 consecutive quarters in duration (simple average for the 27 commodities analysed). In recent years, these periods of rising prices have lasted over 20 consecutive quarters in the case of aggregate indices, something that had never occurred during the period being studied.

Until the current price upswing began, abrupt price rises had been associated with temporary supply restrictions such as those which resulted from the oil crisis of 1973 and the frosts which affected the coffee supply in 1977. The general and sustained nature of the present boom, however, suggests that it is based on growing demand from emerging economies such as China and India, whose share of these markets has grown.

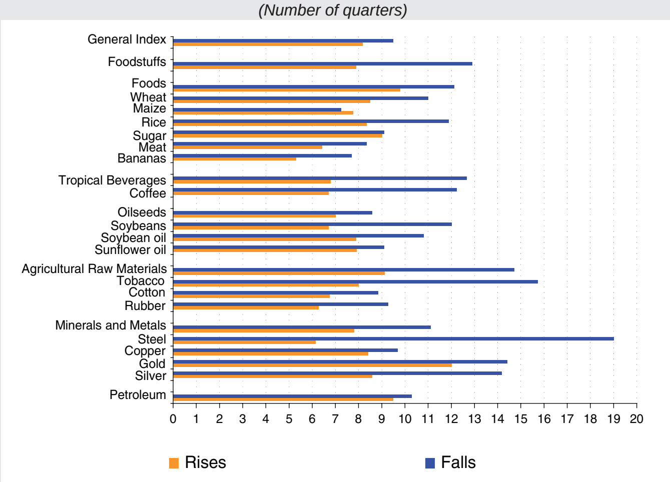
The first commodities whose prices reflected these demand increases were oil and minerals and metals. The steady rise of oil prices also spurred faster growth in demand for biofuels and this, together with growing preferences for clean energy sources, boosted demand for soybean, maize and sugar, pushing up their prices and those of their substitutes. Rising commodity prices have pushed up inflation worldwide, especially in developing countries whose price indices allocate higher weightings to foodstuffs.

Nonetheless, higher demand does not suffice to explain the upturn in commodity prices which occurred in the first half of 2008. Uncertainties in the world economy, together with the subprime lending crisis, encouraged investors' interest in new financial instruments. Historically, gold and silver have been considered as attractive investments, given their use as stores of value and means of diversifying risk. Fuels, metals and agricultural commodities are, however, increasingly used as a new type of global assets with good medium-term returns. Since 2006, there has been a surge in the creation and issue of commodity-indexed instruments, which are exposed to additional risks from possible commodity price trend reversals in future. The influence of financial factors could make these falls deeper and more sudden than expected.

Although the market is currently in a boom period, it should be borne in mind that variability is not so much a particular trend as the stylized fact of this type of series. Historical analysis of these price series shows that over time the trend is likely to be reversed to some extent. However, although there is no empirical evidence to back up this hypothesis, in the case of some commodities, including certain foods, the higher prices observed in international goods markets may in fact be here to stay. If this hypothesis were borne out, it would raise interesting political economy questions such as how to deal with the economic cycle, on the one hand, and distribution issues, on the other.

AVERAGE DURATION OF PERIODS OF COMMODITY PRICE RISES AND FALLS, FIRST QUARTER OF 1960 - FIRST QUARTER OF 2008

(Number of quarters)



Box I.6 (concluded)

NUMBER OF NET PRICE RISES AND FALLS, BY DECADE

	1960s	1970s	1980s	1990s	2000s	1960-2008
	Net rises					
General index	4	8	6	4	12	34
Foodstuffs	6	10	7	3	12	38
Foods	8	9	8	2	9	36
Wheat	6	9	4	5	9	33
Maize	5	8	3	4	7	27
Rice	9	9	6	2	9	35
Sugar	6	10	11	6	6	39
Beef	8	6	4	2	6	26
Bananas	4	5	4	2	3	18
Tropical beverages	3	11	3	4	9	30
Coffee	4	10	2	4	7	27
Oilseeds	2	11	7	9	10	39
Soybeans	4	9	5	3	11	32
Soybean oil	3	10	6	6	10	35
Sunflower oil	3	10	5	6	7	31
Agricultural raw materials	1	8	6	5	10	30
Tobacco	3	10	5	5	4	27
Cotton	2	9	4	6	5	26
Rubber	3	8	8	4	11	34
Minerals and metals	6	8	7	2	16	39
Steel	1	2	1	3	7	14
Copper	6	7	7	5	15	40
Gold	-	21	6	1	15	43
Silver	-	14	2	4	11	31
Petroleum	1	10	0	9	15	35
	Net falls					
General index	5	10	13	22	4	54
Foodstuffs	7	10	14	18	4	53
Foods	6	11	11	15	3	46
Wheat	10	7	17	12	0	46
Maize	5	7	11	12	3	38
Rice	6	10	13	11	5	45
Sugar	8	7	10	14	4	43
Beef	3	7	17	16	2	45
Bananas	5	8	5	6	3	27
Tropical beverages	7	6	17	12	7	49
Coffee	15	5	13	9	7	49
Oilseeds	11	5	15	8	8	47
Soybeans	5	4	15	16	5	45
Soybean oil	9	5	15	10	8	47
Sunflower oil	9	8	13	12	6	48
Agricultural raw materials	14	6	12	22	3	57
Tobacco	16	13	12	13	13	67
Cotton	14	3	12	16	5	50
Rubber	14	10	15	24	1	64
Minerals and metals	10	11	14	19	2	56
Steel	26	19	24	16	1	86
Copper	4	5	9	12	3	33
Gold	-	6	10	22	2	40
Silver	-	7	14	11	6	38
Petroleum	11	7	14	7	1	40

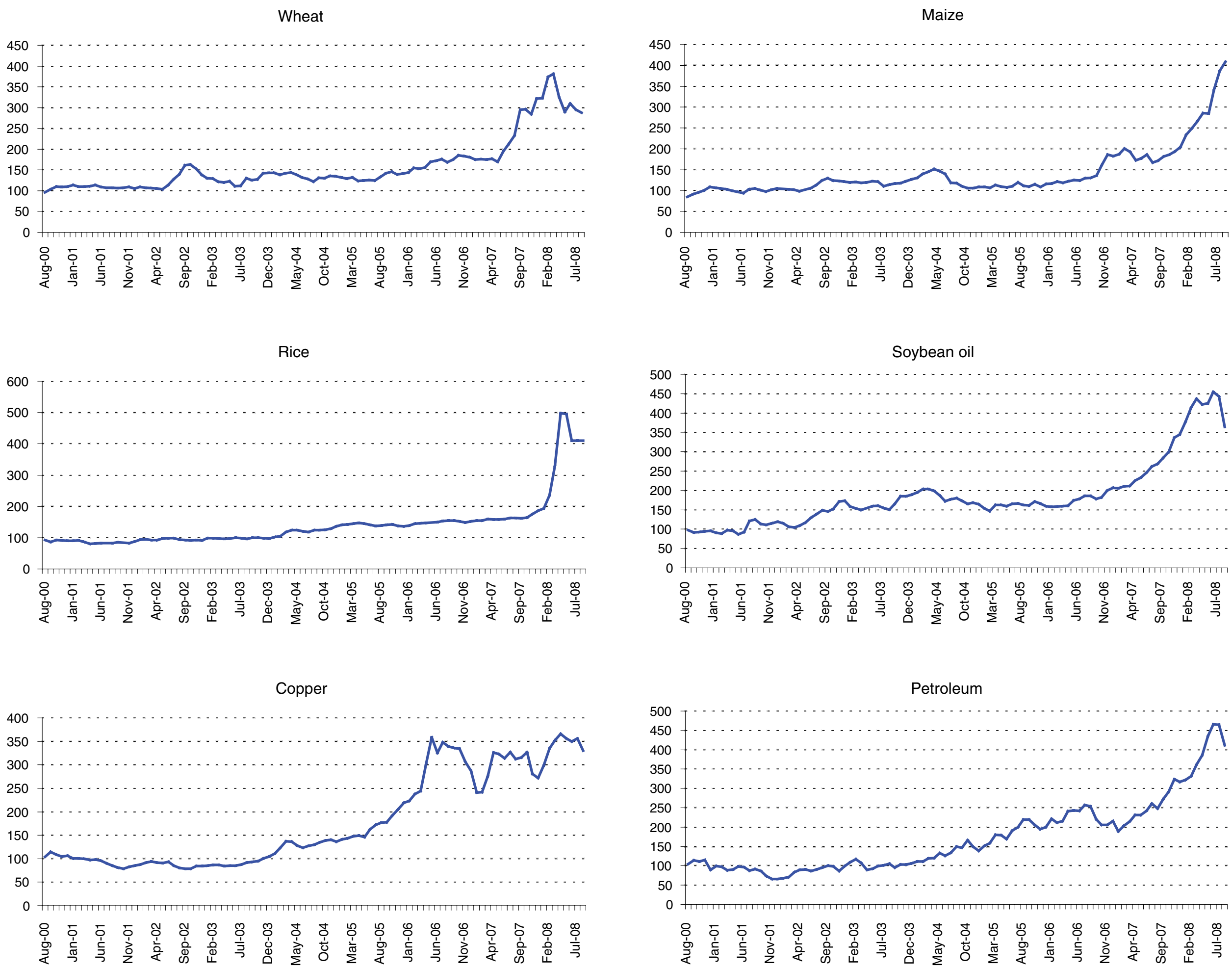
Source: O. Bello and R. Heresi, “El auge actual de precios básicos en perspectiva”, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), August 2008, unpublished.

Regarding the behaviour of the Chinese economy, it should be noted that around 50% of the country’s exports go to the United States, the European Union and Japan. A slackening of growth in those economies may thus be expected to impact on China’s export volumes and, hence, on its rate of growth.[20] The potential size of China’s domestic market (and other large Asian markets) could, however, at least soften the contractionary effect of a possible decline in exports. It may reasonably be supposed, therefore, that while a slowdown may occur, the growth rate of China’s economy is unlikely to drop below 10% in 2008.

The case of foods is more complex, since circumstantial factors combine with others which might have a more lasting effect. Poor weather conditions in a number of major wheat-producing countries, such as Australia, in combination with the effects of increased financial market instability and the implementation of measures to restrict trade, represent a set of factors that should ease off and eventually disappear altogether, and could therefore contribute to a decrease in prices. However, as noted earlier, other issues, such as the mounting demand for biofuels and the increased demand for food deriving from world growth, could continue to put pressure on demand and prices.

20 The appreciation of the euro may partially offset this effect.

Figure I.14
PRICE TRENDS FOR SELECTED COMMODITIES
(Index: 2000=100))



Source: United Nations Conference on Trade and Development (UNCTAD), Commodity Price Statistics [online database].

Briefly, then, it is difficult to predict prices for these goods in the international markets in the short term. On the one hand, some of the factors that drove the recent price rises may be expected to gradually decline in importance, which will ease upward pressure on the markets in the short term, as, indeed, has occurred in the last few months. In the medium term, price trends will depend on the volume and geographical composition of world growth and on the importance of cyclical factors, although prices for some items, especially foods, are likely to remain higher than they were three years ago.

Falling demand for higher-risk financial assets. Increased volatility in financial markets is usually accompanied by a process known as “flight to quality”, as international investors take refuge in lower-risk assets. This is already happening to some extent, as reflected in the evolution of the emerging markets bond index (EMBI+), which measures the risk attached to emerging country debt, between the last quarter of 2007 and the first quarter of 2008 (see figure I.3). In this case, however, it must be borne in mind that the situation has been generated in the markets of developed countries and the emerging country markets are better prepared than in the past to confront a downturn in the conditions in which international financial markets operate. This could explain why the increase in risk premiums came to a halt in the second quarter of 2008, although at higher levels than the lows recorded in the first half of 2007.

A higher risk premium could affect the region by making financing more expensive, although this does not appear to be a problem in the short term. International interest rates have decreased sharply over the last year, thus even though the yield curve has steepened, total financial cost has not increased proportionally with risk spread. Also, the Latin American and Caribbean countries have relatively small borrowing requirements in the short term, so the higher country risk should have no major immediate consequences as regards liquidity or solvency, although some of the countries may begin to feel these effects next year.

G. Steeper inflation also poses risks

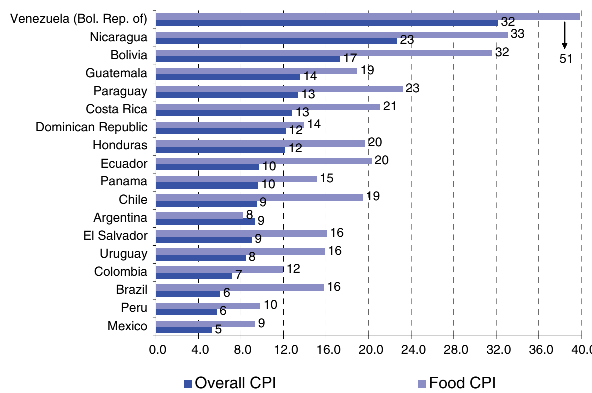
The regional rate of inflation, measured as a weighted average, rose from 5% in 2006 to 6.4% in 2007 in Latin America and the Caribbean. The simple average rate rose more sharply, from 6.4% to 8.4%. The higher inflation, which is caused largely by the increase in energy and food prices, reflecting developments in the international prices for these goods, has broken the gradual downward trend observed in this indicator since 2002.

Since food and energy are not usually included in core inflation indices, this indicator was showing a more moderate trend than the overall CPI. However, since October 2007, core inflation also began to rise at the regional level, since prices rises for these products (basically internationally tradable goods) were beginning to be passed through to other prices in the economy (mainly services), probably through adjustment mechanisms that reflect past rises in the overall CPI.

From an annualized rate of 5%,[21] the region's core inflation rose to 10.4% in 2008. As a result, as of May 2008 regional inflation, measured as a weighted average, stood at 8.4%, while the simple average was 11.3%. Bearing in mind that the higher inflation originated largely in rising food prices and given the behaviour of those prices since July 2008, inflation indices probably peaked in the first half of 2008 and should start to decline from then on.

Higher inflation worsens the dilemmas central banks already face in crafting monetary and exchange-rate policies in a context of free floating currency and free capital movement, as they have to use monetary policy to offset mounting inflationary pressure at a time when the United Status Federal Reserve has sharply cut interest rates.

Figure I.15
12-MONTH VARIATION IN OVERALL CPI AND FOOD CPI, JUNE 2008
(Percentages)



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

If central banks decide to raise interest rates to rein in demand, in a context of lower international rates, capital inflows may increase and put additional upward pressure on the currency. If they maintain a passive stance, however, expectations of inflation may end up being borne out.

In the context of the economic expansion in most of the countries in the region, the best way to deal with rising inflation seems to be through fiscal policy, in order to avoid undesired effects on the real exchange rate. Public spending has exhibited a procyclical bias recently, however, and this, in combination with its relative short-term inflexibility, makes it likely that monetary policy will negatively affect economic activity in the near future, as a result of both the direct effect of rising interest rates and the steeper exchange-rate rises that may occur in some cases.

[21] Three-month sliding average calculated on the basis of the simple average of core inflation in the countries of the region.

H. Summary and conclusions

The current international context is marked by extreme volatility in financial markets and greater uncertainty than the situation in mid-2007. Consequently, the developed country economies are expected to experience a sharp slowdown which, contrary to initial expectations, may be more severe in Europe and Japan than in the United States. The slowdown is also accompanied by higher inflation rates, associated in particular with the rise in prices for food commodities. The rise in inflation is fairly widespread, but is sharper in developing countries, where food products account for a large proportion of consumption baskets.

These changes in global conditions will have real and financial impacts on the emerging countries, in general, and Latin America and the Caribbean, in particular. Initially, the region may be less affected than in previous crises, because it has reduced its external vulnerability in recent years. Nevertheless, the situation clearly poses risks for the economies of the region.

First, exports of manufactures to the developed nations are expected to slacken, with Central America and Mexico being the most affected. Second, migrant workers may send fewer remittances, which may sharply reduce disposable income in several Central American and Caribbean countries. Lastly, future commodity prices, though difficult to predict, should tend to decrease as a result of the slowdown in demand and this, in turn, could affect exports, the current-account balance and growth in South America, although it is highly likely that prices will remain above the levels observed in the first half of this decade.

Similarly, the distributive impact of rising food prices will have a contractionary effect on consumption and on economic activity, since it affects the poorer sectors of the population most. It is also likely —though not always desirable— that central banks will raise monetary policy interest rates in order to contain the rising inflation, which will have further contractionary effects on regional GDP, although this will happen gradually.

Despite these possible impacts, ECLAC estimates that the region will grow at around 4.7% in 2008, one percentage point less than in 2007, but a high enough rate to mark up a fifth consecutive year of regional per capita GDP growth of over 3% per year. In a context of a marked downturn in external conditions, this is very good news. As has occurred in the last few years, South America will post higher growth rates than Mexico, Central America and the Caribbean.

There are also factors that give cause for increasing concern, however. Rising inflation in the region has clear regressive effects on income distribution that could impact negatively on consumption patterns. It may also lead to a tighter monetary policy which will have a direct contractionary impact —though its effect on investment and demand for durable goods— and an indirect one, since it will probably translate into upward pressure on regional exchange rates. This, combined with a decrease in demand from developed countries, could further slow growth in export volumes.

Although the effects of some of the contractionary factors described will not be fully felt this year, and hence the impact will not be that significant in 2008, the slowdown in the region's growth is very likely to continue for some time, so the region's growth rate may be expected to decline again in 2009, to under 4%.

Chapter II

Why does real volatility matter in Latin America and the Caribbean?

A. Introduction

"Anti-cyclical policies must be included in any programmes of economic development if there is to be an attempt, from a social point of view, to raise real income. The spread of the cyclical fluctuations of the large centres to the Latin-American periphery means a considerable loss of income to these countries. If this could be avoided, it would simplify the problem of capital formation. Attempts have been made to evolve an anti-cyclical policy, but it must be admitted that, as yet, but little light has been thrown on this subject" (Prebisch, 1950).

As this quotation reflects, the question of how macroeconomic volatility impacts on economic growth and the well-being of the Latin American peoples has been present in ECLAC thought since the Commission first embarked upon its analytical work. As may be appreciated in several of the Commission's publications,[1] the issue has returned even more strongly to the fore in recent decades, prompted by the situation in the region's economies.

Continuing this line of work, here with an emphasis on the political economy challenges involved, chapters II, III and IV explore the interrelations between real volatility[2] and economic performance in Latin America and the Caribbean. This chapter looks at the significance of real volatility[3] for the region, which lies in such as factors as recurring crises, the impossibility of attenuating fluctuations in consumption, and the negative effects of this volatility on income distribution and poverty.

1 See among others, ECLAC (2000), chapter 8; ECLAC (2002), chapter 5; and ECLAC (2001a).

2 Here, the concept of real volatility revolves around the analysis of variability in economic activity levels against nominal stability, the exchange rate and inflation. This reflects what ECLAC was already affirming at the start of the 2000s: "For some analysts, the very essence of stability has changed, with instruments now being stressed more than outcomes, and "stability" in particular being identified with small fiscal deficits and stable exchange rates" (ECLAC, 2000, p. 197).

3 The definition of this variable, as used in this work, may be found in the glossary contained in box II.1.

Chapter III looks at the empirical evidence on real volatility in Latin America and the Caribbean, and the policymaking constraints and opportunities involved in reducing it. Level of macroeconomic volatility is associated with different kinds of factors, which vary according to specific features in each country, such as international position, production structure, political economy, vulnerability to natural disasters and the institutional framework, among others. In order to mitigate volatility, then, a strategy is needed to articulate an array of policies targeting each of the areas mentioned. Obviously, it is no easy task to design and implement anti-volatility policies in keeping with this approach and that is probably why the region continues to be one of the most volatile in the world. Chapter III emphasizes the role played by fiscal, monetary and exchange-rate policies in reducing volatility, not forgetting that the success of these also depends on the institutional and structural aspects mentioned. Chapter IV complements the analysis of the relationship between volatility and performance with a study of five economies that are representative of the region, looking at the different policy responses and their distributive impact.

After the debt crisis of 1982, Latin America faced serious challenges born of macroeconomic instability, even as growth slowed. This came about in a framework of major structural changes that were occurring as both the Bretton Woods system and the post-war development model were becoming exhausted, and authoritarian political regimes were coming to an end in many countries of the region. In the 1980s and, especially, in the 1990s, far-reaching reforms were made in an effort to regain a higher growth path. In macroeconomic terms, the reforms were based on a shared and increasingly firm premise that growth could not be reinstated without stabilizing the economy. Stabilizing the economy meant, first, reducing inflation, for which it was necessary to place the fiscal accounts, monetary policy and relative prices on an orderly footing. The outcomes of the reforms, however, fell far short of expectations as regards both growth and real volatility.

As has been noted in several publications by ECLAC, such as Stallings and Peres (2000) and Ffrench-Davis (2005), the reduction in nominal variables did not necessarily bring about a reduction in real volatility. Although some progress has been made in this regard in the last 20 years, there have been errors of both diagnosis and implementation and much remains to be done to create an institutional and policy regime that can prevent excessive volatility from undermining growth.

It is difficult to understand why the reforms in the region have not produced more satisfactory macroeconomic results. Not only because of the problem’s intrinsic complexity, but also because of major changes that occurred simultaneously and that changed the domestic and international context for policy implementation. These changes included the following:

- Structural reform programmes themselves become a source of turbulence and thus fuelled nominal and real volatility in the economies. It became clear that it was not only the design of policies that mattered in achieving macroeconomic stability, but also the conditions in which they were implemented (Fanelli, 2007).
- Substantial changes took place in international conditions and in the way the Latin American economies were integrated into the world economy, and this also changed the sources of volatility. The increase in capital flows and trade liberalization were particularly important in this regard. Although it is far from clear how these affect volatility, the region began to be strongly influenced by extraregional crises (such as those triggered in the Russian Federation and Asia) and by phenomena such as the increasing industrialization of poor Asian countries, which poses stiff competition for Central America and the Caribbean but also brings substantial gains in terms of trade, owing to strong demand for agricultural and mining raw materials from China and other countries (ECLAC, 2007a, pp. 30-35).

The difficulties this new context posed to the authorities in relation to volatility led to renewed discussion on countercyclical policies. In the process, the idea that the struggle against volatility could be won in a single battle gradually lost currency. The reforms that were to have achieved stability came to be construed as processes of building markets, institutions and political consensus (ECLAC, 1998). The literature produced in those years clearly signalled that the problem of volatility is linked to profound structural traits of the economies of the region, such as international trade specialization patterns, dualism, institutions and the under-development of markets, in general, and financial markets, in particular (ECLAC, 2004). It also showed that these traits are difficult to change not only because they are associated with structural factors but also because little is known about how they interact, especially in a process of growth with structural change (Temple, 2005; Durlauf, Johnson and Temple, 2006). In fact, the effects that the reforms have had on volatility clearly show that the separate treatment of short-term macroeconomic policies and measures of structural change can be detrimental to both (Stallings and Peres, 2000; Fanelli, 2007).

Macroeconomic dynamics have changed profoundly in the region in the last few years compared with the 1990s, when many of the economies were running unsustainable fiscal or current account deficits and experienced balance-of-payments crises after capital flows suddenly dried up.[4] Now, thanks to better terms of trade (in particular, for the South American countries), remittances (in the case of Mexico and several South American countries) and progress in macroeconomic management, the region is growing at rates that are high compared with those recorded from the early 1970s onwards.[5] The region is also achieving sustained surpluses on the balance-of-payments current account, building up reserves, reducing debt and returning public sector primary surpluses (ECLAC, 2007b).

This situation is not free of risk, however. A recession or even a sharp slowdown in the developed world could have serious repercussions on two of the key determinants of the recent positive performance: the upturn in the terms of trade and remittances. A context of increased financial uncertainty and higher world inflation would certainly not help either. As noted in chapter I, a number of changes have taken place in the region in the last year: an acceleration of public spending, lower export growth, higher inflation and a rise in country risk, in a context of shocks in the international financial markets.

In this new environment, the authorities face policy challenges involving both traditional and new elements. The traditional concerns include how to manage the macroeconomy in the short term to minimize volatility. One of the new challenges is how to take advantage of the opportunities offered by the new external and macroeconomic conditions to quicken growth and ensure the process is sustainable.[6] Although the crux of this second concern rests on policy measures to strengthen the structural determinants of growth, experience in the region suggests that low growth is closely linked to aggregate volatility. Volatility and crises affect other dimensions of economic performance too, such as the stability of consumption or the well-being of the most vulnerable sectors of the population. From this perspective, policies aimed at reducing volatility or the probability of crises form part of development policies in their own right.

B. The impact of real volatility in the region

“The cycle is the typical form of economic growth under our present system, and, although it is a general phenomenon which must be explained by a single theory, it manifests itself in a different way at the cyclical centres and at the periphery.

Notwithstanding these differences, much has been written about the cycle at the centres, but very little regarding the periphery. The brief comments which follow are not an attempt to fill the gap, but an outline of some ideas on anti-cyclical policy which, if accepted in principle, could constitute a suitable basis for the discussion of the problem” (Prebisch, 1950).

Much progress has been made on analysis of volatility and its implications since Prebisch wrote these paragraphs. Starting with the pioneering work of Ramey and Ramey (1995), a number of studies have found evidence that volatility has lasting negative effects on growth (see, for example, Wolf, 2005; Easterly, Islam and Stiglitz, 2000). According to Aguiar and Gopinath (2007) in the period 1980-2005 average GDP volatility in Latin America was greater than in the developed countries.

Although it is not easy to identify the channels through which volatility affects growth, a number of studies have concluded that investment channels are crucial. Toledo

4 For a detailed analysis of that decade, see ECLAC (2001b).

5 In fact, “The last period of sustained per capita GDP growth of over 3% per year was 40 years ago, during the regional growth phase that occurred between the late 1960s and the first oil price shock in the early 1970s, when the region’s economy expanded at comparable rates for seven years in a row” (ECLAC, 2007b).

6 See ECLAC (2008), on the challenges of a strategy of structural change.

(2008) found that gross capital formation is four times more volatile than output.[7] This great volatility has affected the steady accumulation of capital.[8] Volatility can also affect expansion through other growth determinants, such as financial development, quality of institutions, human capital accumulation and income distribution (Levine, 2007; Fanelli, 2008a).

First, it is clear that GDP growth and volatility have been influenced by the crises that all the Latin American and Caribbean countries have faced at least once in the last 30 years. Edwards (2007) estimated the costs of those crises and, on that basis, underlined their importance in explaining the region's low growth pattern (ECLAC, 2004). A key point put forward by Catão (2007) and Loayza and others (2007) is that while aggregate volatility decreased in the 1980s and 1990s, extreme events, such as growth collapses, reversal of capital flows, banking crises and exchange-rate crises, became more frequent.

Second, consumption is more volatile than GDP in Latin America and the Caribbean.[9] Highly volatile consumption implies a highly volatile poverty rate, especially when per capita income borders the poverty line in large numbers of households. In these circumstances, a relatively sharp drop in consumption can leave many people below the minimum level necessary to satisfy their needs. Three examples illustrates this relationship: Bolivarian Republic of Venezuela, where the percentage of poor rose from 42.5% in 1988 to 57.7% in 1990 after large price adjustments in 1989; Mexico, where the 1995 crisis drove up the percentage of poor from 45.1% in 1994 to 52.7% in 1996; and Argentina where poverty rose from 23.7% in 1999 to 45.4% in 2002 as a result of the crisis of 2002 (ECLAC, 2007c).

The fact the State's capacity to provide welfare benefits in Latin America and the Caribbean decreases during periods of recession, as shown by the procyclical bias of social public spending in the region, makes consumption by the poor even more volatile and exposes them to additional policy risk (Perry, 2002). What is more, the effects of this type of volatility can become permanent, insofar as they affect human capital accumulation and, hence, growth (ECLAC, 2007d). Conversely, in households that have some capacity for saving, consumption volatility can prompt suboptimal increases in precautionary savings and reductions in investment (see Loayza and others, 2007).

Third, volatility can also affect income distribution. Studies conducted in a number of countries have found a direct correlation between volatility and inequality (Wolf, 2005). Latin America and the Caribbean is not only the most volatile region in terms of output, but also the most unequal in terms of income distribution. This is particularly significant in a region in which the instruments employed to make distribution more equitable have proven to be of little efficacy (see Goñi, López and Servén, 2008 and IDB, 1999).

Based on this evidence, it may be inferred that a policy aimed at reducing volatility would produce a double pay-off by boosting growth directly through its effect on investment and indirectly by reducing the probability of crises, which would, in turn, facilitate capital market growth, poverty reduction efforts and the stability of economic institutions. Designing such a policy has not proven easy, however, even for countries of the region that have made significant progress, such as Chile. For now it may be concluded that volatility affects ultimate policy objectives, such as growth, consumption and poverty. These motivations are notable broader than the typical rationale given for counter-cyclical policies in developed countries, which tends to be limited to evening out temporary fluctuations. These stylized facts tend to suggest that the volatility targeted by policy measures in Latin America and the Caribbean differs from that in developed countries. The effort to reduce GDP volatility in Latin America and the Caribbean necessarily spans an array of policies aimed at reducing the frequency of crises.

In view of the effects of volatility on key aspects of economic performance, there is naturally a very lively debate on policies to manage fiscal, monetary and exchange-rate volatility in the region. The following chapters aim to contribute to this debate by analysing approaches and policy options that may be useful both to manage the consequences of a certain level of volatility and to reduce that level when it impacts on well-being, poverty or growth. As the interest is on policies to deal with volatility in all these aspects, this report uses the expression "anti-volatility policy" to refer to a large battery that includes not only traditional policies dealing with temporary deviations from the growth trend, but also management of the fallout from growth-trend shocks and structural breaks, as well as institutional reform initiatives aimed at permanently reducing volatility. In this approach, managing volatility is, first and foremost, about filtering shocks without reducing willingness to take risks, which is an essential factor in innovation and increasing profitability. Volatility management is a difficult task with an inevitable quotient of discretionality, and its effectiveness depends on the coordination of policies handled by different public agencies.

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7 The same author found volatility of exports to be similar to that of GDP.

8 Owing to imperfect credit markets, investment can fall more during recession than it increases during boom periods, thus creating a net negative effect. Greater caution on the part of investors during turbulent periods can also lead to the interruption of long-term investment projects, making investment less efficient.

9 See Toledo (2008).

Box II.1

GLOSSARY

Acceleration: Episodes of acceleration are characterized by a favourable structural break in the pattern of growth. For practical purposes, Hausmann, Pritchett and Rodrik (2004) define such a period as a stretch of at least eight years in which per capita GDP growth is at least 3.5% per year and in which the average rate of growth is at least two percentage points higher than that of the immediately preceding period of equal length.

Boom: Boom periods are those with exceptionally high rates of growth. For practical purposes, the definition used is analogous to that used for crisis periods, i.e., a period with growth rates higher than the standard deviation from the mean.

Collapse: This refers to situations in which growth rates are negative and whose scope exceeds the recessions linked to the economic cycle. For operational purposes, Hausmann, Rodríguez and Wagner (2006) define a collapse of growth as a period of decline in the absolute level of per capita GDP, lasting from the first year of decline until the point at which output regains the highest level before the decline.

Crisis: Crisis episodes are those in which particularly sharp disequilibria occur. In practical terms, Loayza and others (2007) define crisis as a situation in which growth rates are below the standard deviation from the mean in the country in question.

Permanent and temporary shocks: A shock is a random impulse that affects economic performance positively or negatively and may be classified as permanent or temporary depending on how long it lasts. Permanent shocks imply a structural change, whereas temporary shocks do not. Technically, temporary shocks involve a process of regression to the mean, whereas permanent shocks occur through non-stationary processes. Thus, temporary shocks do not affect long-term trends, while permanent ones do.

Turbulence and stability: Episodes of turbulence and stability are defined using the concept of crisis and are detected at the regional level. An episode of turbulence in the region begins when at least two countries are in crisis and it ends in the first period after the onset in which only one country is. Episodes of stability are defined as those in which there is no turbulence.

Volatility: Aggregate volatility refers to the oscillation of macroeconomic variables. In this study it refers only to real volatility, which is defined in operational terms as the standard deviation from the per capita GDP growth rate, unless otherwise specified. Another possible measurement is the variation of output in relation to a long-term trend. In this case, it is necessary to identify the trend, which is a source of controversy since there are many methods for doing so. In any case, studies on the topic show that for the type of issues discussed in this work, the use of one definition or the other makes virtually no difference.

Excessive volatility: This concept is used to identify the component of overall variability in the per capita GDP growth rate that does not reflect fundamental factors. The problem is that excessive volatility cannot be observed empirically, so in this work it has been detected using standard complete markets model, according to which it is inefficient for consumption to be more volatile than income. So when consumption is more unstable than output, this is attributed in principle to undesirable volatility on the part of agents and the existence of failures in financial markets. Based on this simple rule, excessive volatility is considered to exist when the ratio between the standard deviation from the growth rate of private consumption and the GDP growth rate is higher than one.

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

Chapter III

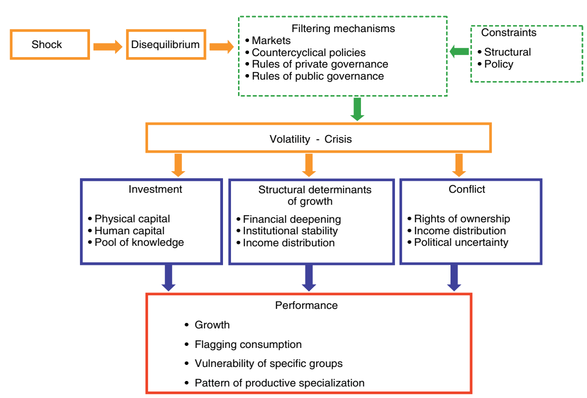
Volatility and crisis in Latin America and the Caribbean: the empirical evidence

A. Introduction

This chapter analyses the available empirical evidence on real macroeconomic volatility in Latin America and the Caribbean in order to provide an updated picture of the related phenomena and of the constraints and opportunities for the design and application of effective policies to reduce that volatility. To that end, the chapter begins by setting out a conceptual framework in order to construct and interpret the stylized facts to be described and analysed later.

The design of policies to reduce volatility which, without ignoring short-term stability, take into account long-term economic trends raises analytical problems which are difficult to solve. One of the major obstacles is that the way in which instability and crises affect the various aspects of the functioning of the economy is far from simple; indeed, it often responds to indirect factors. Given the complex relationship between volatility and economic performance, the following diagram is designed to clarify the logic to be followed in analysing the empirical evidence and presenting the analytical tools needed to interpret cyclical fluctuations in Latin America and the Caribbean. Diagram III.1 provides a schematic view of the relationship between shocks, volatility and economic performance.

Diagram III.1
VOLATILITY AND ECONOMIC PERFORMANCE



Source: José María Fanelli, "Volatilidad y crisis en América Latina: evidencia empírica y políticas", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), June 2008, unpublished.

The top right-hand rectangle of diagram III.1 indicates that the processes which generate fluctuations —and sometimes crises— begin with shocks which lead to disequilibria. Fluctuations and crises result from shocks such as an unexpected change in the evolution of key variables such as the terms of trade or fiscal policy which, after creating impacts on specific segments, tend to spread to the rest of the economy. Their repercussions may be short-lived or permanent. The reason for making a distinction between volatility and crisis is to emphasize that phenomena of aggregate volatility which are important for the region's economies refer both to normal volatility —defined as the cyclical fluctuations of the GDP growth rate in relation to a long-term trend— and to crisis episodes, in which economic activity falls very sharply, and which are usually accompanied by financial shocks and major changes in distribution, which are often irreversible.

The rectangle corresponding to filtering mechanisms states that markets, countercyclical policies and structures of governance, both public and private, are the most important mechanisms used by the economy in dealing with the disequilibria resulting from shocks. The quality and functionality of these mechanisms are central factors in the level of volatility and the probability of crises, since they can either limit or exaggerate the disequilibria resulting from a shock.

Thus, it is unsurprising that there is growing interest in understanding both the nature and the characteristics of the shocks which affect the region, as well as the dissemination mechanisms which result in a set of basic macroeconomic variables tending to move in harmony. An improved understanding of these matters would certainly be helpful in assessing the validity of the filtering mechanisms by means of which the effects of a given shock are attenuated or amplified, in order to design policies and reforms to increase their effectiveness.

The purpose of the rectangle to the right of the filtering mechanisms is to show that a government's ability to improve their functioning is faced with constraints resulting both from the structural characteristics of the economy (such as the level of financial openness) and from issues of policy (such as the degree to which fiscal policy can be coordinated with monetary policy) and of political economy (such as the authorities' ability to mediate distributive conflicts within the existing institutional framework).

In terms of economic performance, the costs and duration of the adjustment process resulting from a shock vary widely. This does not mean, however, that policies should aim to mitigate those impacts as quickly as possible. Since shocks generally have both positive and negative effects, the mechanisms operating during the adjustment period should ideally help to attenuate the latter without weakening the former. It must be remembered that not all volatility is harmful to the economy. Although crises are always somewhat traumatic, they are also sources of appreciable benefits such as accelerating disinvestment in inefficient sectors. If the policy goal were merely to discourage risk-taking in order to reduce volatility, this could harm growth capacity.[1] In order to emphasize that the best policy strategy is to filter the effects of a shock in order to lessen the negative effects and maximize the positive ones, this chapter will consider the adjustment mechanisms used after a shock more as filtering than as shock mitigation instruments.

Another reason for considering adjustment mechanisms as filters is that shocks tend to affect income distribution and possibly property rights, so that economic constraints will be encountered during the process of adjustment towards equilibrium. This is why the quality of rules and instruments available for "filtering" the distributive impact of a shock play an important part in preventing conflicts among the parties from delaying the correction of disequilibria and increasing its cost. There is a great variety of shock filtering mechanisms, which generally have distinctive characteristics and include markets, private arrangements and policies.

Given the characteristics of shock filtering mechanisms, policies adopted to mitigate volatility need to be sufficiently broad and include not only short-term countercyclical measures at the monetary and fiscal levels, but also more structural initiatives designed to reduce the economy's vulnerability to shocks and strengthen institutions responsible for settling distribution- or property-related disputes. Thus, anti-volatility policies may include anything from new regulations to improve the flexibility of market prices to normative changes intended to achieve more effective private arrangements to deal with the consequences of a specific shock, changes in the regulatory framework of the financial system to reduce the probability of balance-of-payments crises, reserve fund agreements designed to diversify risks related to external shock, or initiatives to create futures markets to improve private-sector risk management.

Concern about volatility and crises should not, however, obscure the fact that such phenomena are important from the economic viewpoint only to the extent that they directly or indirectly affect the level, distribution and future evolution

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[1] "Innovation includes the 'creation' of businesses, productive activities and sectors, but also the 'destruction' of others. The way in which 'creation' and 'destruction' combine […] plays a vital role. "The term 'creative destruction' coined by Schumpeter suggests that creation tends to dominate (Schumpeter, 1962). Creation is of course essential so that there can be buoyant growth, but this is only one of the possible outcomes at a particular time and place. "There may be cases in which there is, in fact, little destruction, or, on the other hand, large-scale destruction of previous economic activities, or a mixed negative case of 'destructive creation'" (Ocampo, 2005).

of the well-being of society. Hence the need to define the performance indicators to be used in measuring the impact of cyclical fluctuations and designing related policies. In practice, the main indicators for that purpose are GDP growth and its behaviour in relation to shocks of different types. This is confirmed by academic studies on the subject, although they also emphasize the influence of volatility on fixed capital investment and on the volatility of consumption.

The use of aggregate income and consumption to measure the impact of volatility sometimes tends to obscure its effects on other central aspects of well-being and its distribution in a developing region such as Latin America and the Caribbean. These factors have been underlined in case studies on macroeconomic adjustment and on the repercussions of volatility and crises in distribution, social and political terms. Three factors are particularly important in that regard. The first is the impact of instability and of episodes of crisis on vulnerable segments of the population, such as those which are below or close to the poverty or extreme-poverty line, or whose vulnerability is linked to ethnic, gender, cultural or geographical identity.

The second is the fact that, as mentioned above, shocks can lead to conflicts and produce a climate of political instability and increased uncertainty, with harmful effects on investment and other determinants of growth. They can also increase the probability of crisis. As will be seen below, the problems of property rights which arise from different kinds of shocks —especially depending on whether they are short-lived or long-lasting— are different. Thus, it should not simply be assumed that shock filtering mechanisms will function in the same way when faced with disequilibria caused by conflicts of various types and magnitudes. This relationship between shocks, disequilibria and distributive conflicts creates a link between the study of anti-volatility policies and the analysis of political economy.

The third factor is the fact that volatility and crises have negative repercussions on physical investment and other facets of growth, such as the accumulation of human capital and knowledge, the stability of economic institutions, financial soundness and income distribution. This means that volatility affects growth not only via investment but also, indirectly, owing to its influence on structural factors of development. Thus, the most abundant proofs of its negative effects come from the case studies.[2]

There are three particularly striking facts in this conceptual framework. The first of these is that, although fluctuations are caused by shocks, the degree of volatility ultimately observed also depends on the effectiveness of the filters in place. The quality and functionality of these mechanisms are central factors in the level of volatility and the probability that periods of crisis will occur, since they can either limit or exaggerate the disequilibria resulting from a specific shock. Consequently, the better the quality of the filters, the lesser the cost to be borne by the economy in terms of worsening of performance in order to strike a new balance and deal with distributive conflicts.

The second fact demonstrated by diagram III.1 is that the functioning of those mechanisms and a government's ability to improve it depend on the structural characteristics of the economy (such as the level of financial openness) and from issues of policy (such as the degree to which fiscal policy can be coordinated with monetary policy) and of political economy (such as the authorities' ability to mediate distributive conflicts within the existing institutional framework).

Lastly, diagram III.1 underlines the fact that the relationship between volatility and performance is not direct, but depends on other factors such as investment, structural characteristics and conflicts. Of course, the effects of instability in each of them differ according to the context, take place over differing periods of time and are known only approximately. This is why figure III.1 emphasizes the need to deepen understanding of the channels through which volatility ultimately affects results. It also underlines the various dimensions of volatility: growth, volatility of consumption and evolution of vulnerable groups.

Diagram III.2 complements diagram III.1. Its purpose is to show in a nutshell the relationship between the conceptual elements discussed above in order to guide the exposition of stylized facts on volatility and related policies. As in the earlier case, it sketches the process which takes place from the occurrence of a shock until the results are seen in relation to the various aspects of an economy's performance: growth, volatility of consumption and the impact on vulnerable groups. Its added value is that, on the one hand, it describes in greater detail the elements which affect the shock

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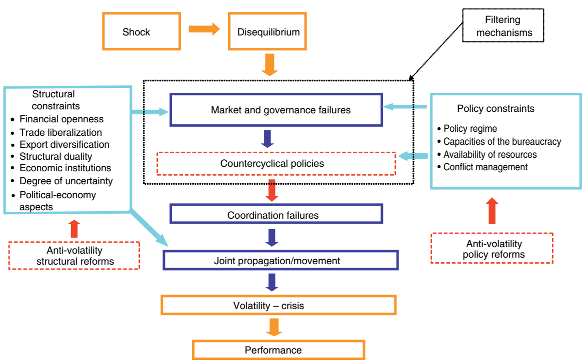
2 One of the problems described by econometric studies which analyse the effects of interaction between volatility and structural issues is that "too many" factors determining growth have been identified and there are few comparable data on international experiences. Among other things, this makes it necessary to use a single set of parameters for all countries, and this does not permit examination of the specific interactions between volatility and the structural facets of growth. In particular, case studies show that a volatile context endangers institutional stability and institution-building capacity (Fanelli y McMahon, 2006), as well as the ability to claim ownership of the fruits of investment (Hausmann, Rodríguez and Wagner, 2006). Fanelli (2008a), for example, describes a series of case studies which show that volatility affects financial development, significantly reducing the economy's ability to absorb shocks and fuelling instability by preventing efficient risk allocation. Since it affects the quality of institutions, volatility tends to worsen policy effectiveness; this is emphasized in recent studies on growth (Fatás, 2002).

filtering and absorption process and, on the other, it shows what structural and policy constraints govern it. The latter is useful in specifying the role that could be played by structural reforms designed to improve anti-volatility policies, which is essential for the analysis of the empirical evidence presented in the sections below and in the discussion of policy implications.

Diagram III.2
FILTERING MECHANISMS AND CONSTRAINTS



Source: José María Fanelli, "Volatilidad y crisis en América Latina: evidencia empírica y políticas", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), June 2008, unpublished.

Diagram III.2 shows that shocks which are significant from the volatility viewpoint are those which place agents in situations of disequilibrium; in other words, those which create difficulties with decision-making in relation to their business. On the one hand, uncertainty generated by shocks cause agents to make significant mistakes in terms of expectations, and on the other, the deficiencies of markets and institutions intensify their effects. The rectangle corresponding to market and governance failures emphasizes this point. These weaknesses in the filtering mechanism mean that the process whereby the economy regains its equilibrium following a shock is more costly and likely to cause major distribution-related conflicts. These deficiencies go from simple friction which decreases the flexibility of the response of wages to excess supply or demand up to the absence of key markets for risk management or segmentation of labour markets between formal and informal sectors. Although market failures can theoretically be made up for by means of other institutional arrangements, in the case of Latin America and the Caribbean, most of the obstacles to expansion, such as the lack of an efficient judicial power, also obstruct the development of appropriate structures of governance. When market and governance mechanisms are insufficient to filter shocks, countercyclical policies are needed. They are therefore part of the filtering mechanisms.

Since filtering mechanisms are imperfect, lapses in coordination are usually seen and can cause the initial disequilibrium to spread through the markets, leading to a collective movement in a number of aggregate variables; for example, unemployment and increased financial fragility lead to a contraction in aggregate spending and lead to a recession. The same occurs when, owing to the underdeveloped state of insurance markets and related activities, many agents are not properly covered for certain contingencies. Lastly, the poor are usually in a situation of vulnerability to events which can cause considerable falls in levels of well-being and in the construction of human capital. One example is this is the natural disasters which repeatedly strike the Central American countries.

During the period of propagation of the shock, collective impacts on variables go hand in hand with changes in the trends of certain indicators such as inflation and the nominal exchange rate and, sometimes, with reforms to regulatory systems such as the monetary or exchange-rate regime. Consequently, studies on macroeconomic stability in the 1980s emphasized the importance of a nominal anchor to keep the playing field level, particularly in respect of monetary and exchange-rate policy. It is currently considered, however, that the causes of nominal phenomena and of instability are deeper, relating both to the essential nature of the economy and to institutional structure (see Acemoglu, Johnson and Robinson, 2001; Chang, 2007, and Heymann, 2007).

Following the latest studies on volatility, diagram III.2 shows the constraints affecting the mechanisms of the filtering process, classified into two major categories: structural and political. Since they influence the effectiveness of the filtering process, both are determining factors in what is usually known as an economy's level of vulnerability to shocks.

Structural constraints include economic liberalization at both the trade and financial levels, export diversification, structural duality, levels of uncertainty and institutional quality. Constraints related to political economy are also included, relating to the characteristics of policy and of interest groups. These constraints help to determine the nature both of economic institutions and of countercyclical policies.

The arrows in the diagram show that structural constraints can generate market and governance failures, as well as generalized movement of variables in the aggregate fluctuations. Constraints of this type can be lessened thanks to anti-volatility reform initiatives.

Policy constraints comprise the set of initiatives intended to manage the effects of a shock. Such initiatives define the type of measures which may be implemented in order, on the one hand, to limit failures of coordination and, on the other, to adopt countercyclical policies. The most significant policy constraints include the quality of the regulatory system, the availability of fiscal resources and the authorities' capacity to design, apply and monitor the policies and deal with the conflicts of interest. The arrows in the diagram show that the effects of the constraints are reflected mostly in the quality of the measures adopted and the interventions of the public sector to alleviate market and governance failures. In the latter case, anti-volatility reforms could also be implemented in order to weaken the constraints. When the filtering process is seen from this perspective, it is clear that a programme to reduce volatility should not be limited to applying countercyclical policies.

Of course, policy constraints are not unconnected with structural ones, since the former are to a great extent rooted in the institutions. There are also factors which affect policy and which do not depend on the institutional "playing field", such as the existence of an efficient bureaucracy and of resources to finance policy initiatives. To deal with the impact of volatility on poverty, for example, it is not enough to have transparent institutions; financial resources are also needed.

The adoption of appropriate policies requires good design, implementation ability and resources. As has been suggested in studies on the Asian experience, effective policies can be implemented in institutional contexts that are less than optimal. Studies on institutions and policies have been justly criticized for treating the relationship between institutions and growth as a black box (Fatás and Mihov, 2005). The problem with many of the reforms applied in Latin America and the Caribbean was the assumption that changes in the "rules of the game" would automatically lead to quality policies. One of the lessons of the process is that the black box must be opened in order to design the reforms. The proposed approach involves an attempt to do just that in respect of anti-volatility policies.

To sum up, the filtering of shocks and, in general, the characteristics of volatility ultimately depend on the structural properties of the economy. This is not a new idea in the region, because of the historical influence of Latin American structuralism on the macroeconomic level (Rodríguez, 2006). The major contribution of recent studies on volatility in relation to that traditional view has been the use of more sophisticated techniques for modelling structural constraints. Nonetheless, despite those advances, separate econometric calculation of the effects of each structural and policy factor is far from possible as yet. Thus, the contribution of detailed case studies cannot be dispensed with in facing one of the major challenges currently existing in the area of anti-volatility policies: relationships between structural factors, emerging phenomena of instability and insufficient policies still to a great extent add up to a black box concerning whose contents the information available is of uncertain reliability. Thus, following a period of somewhat excessive enthusiasm in the post-war period and during the 1990s, more cautious attitudes are currently being adopted regarding the authorities' policy application capacity.

B. The characteristics of volatility and cycles in Latin America and the Caribbean

This section presents and discusses the stylized facts of volatility and crises in Latin America and the Caribbean, in order to detect changes which may be occurring in the current decade in the dynamics of aggregate fluctuations and the relationship between volatility and economic performance. It will also analyse a number of performance indicators relating to consumption growth and volatility. For that purpose, a database has been used which comprises 19 of the countries of the region for which comparable data are available in the long term (since 1950), processed by the Statistics and Economic Projections Division of the Economic Commission for Latin America and the Caribbean (ECLAC).[3]

[3] The 19 countries studied were Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

1. Economic performance, volatility and crisis

In a classic study on this subject, Ramey and Ramey (1995) concluded that the relationship between the growth rate of per capita GDP and its standard deviation is negative. The authors used a database containing information on low-, medium- and high-income countries. The result depended on the first two groups because, as Fatás (2002) argues, the ratio between those variables in the developed countries is not statistically different from zero.

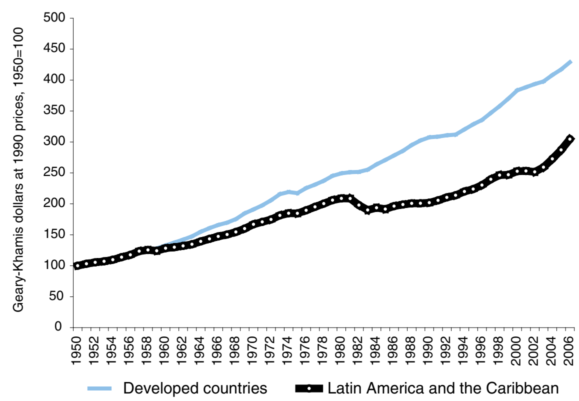
In considering the evolution of Latin America and the Caribbean in terms of convergence or divergence with the levels of development of the industrialized countries, there are three periods which stand out as possible breaking points in relation to the region's macroeconomic growth: the late 1950s, the early 1980s —with the debt crisis— and the early 2000s.

As shown in figure III.1, between 1950 and 1957 the growth rate of Latin America and the Caribbean was similar to that of the developed countries, so that its per capita GDP —expressed in purchasing power parity (PPP) units— consistently stood at about 52% of that corresponding to those countries.

Beginning in 1958, however, the ratio deteriorated gradually over a period of more than two decades, so that in 1981 the region's income was only 43% of the average income of the developed countries.[4] This uneven development began in 1958-1960, when the prices of most of the region's export commodities fell steadily owing to weak growth in worldwide demand for primary products and to abnormally high accumulation of stocks both within and outside the region. Some of the region's major exports which were hit by this phenomenon were coffee, cocoa, sugar, cotton and wools. The incidental growth in the volumes exported by some countries did not suffice to make up for the falling prices.[5] These trends continued until the mid-1960s, while the prices of the region's imports rose steadily, as shown in figure III.2.

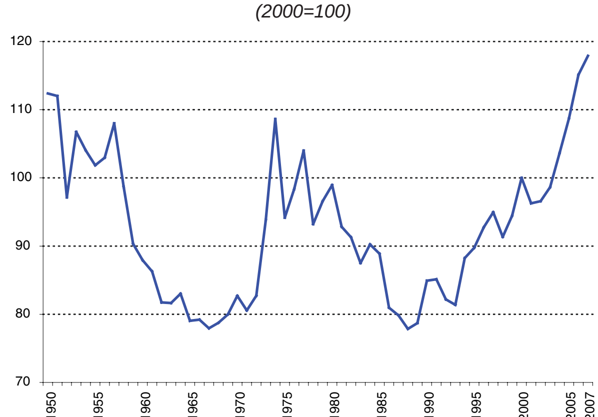
The debt crisis of 1982 considerably deepened the process of divergence. Following that shock, the income gap with the industrialized world initially underwent a distinct jump and, subsequently, a steady deterioration. In 1991, the average income of the Latin American countries in the sample stood at only 34% of that of the more advanced countries. That disparity neither grew nor lessened in the 1990s; it improved slightly before the Russian crisis of 1998 and then began to worsen until it stood at 34%, the same level as in 1991. The situation remained unchanged until the early 2000s. Beginning in 2003, the region's growth rate improved in relation to the rest of the world, as a result of which it gradually began to gain ground. In 2006, the ratio between the incomes of the two groups reached 37%.

Figure III.1
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): PER CAPITA GDP COMPARED WITH THAT OF DEVELOPED COUNTRIES [a]
(1950=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from The Conference Board.
[a] The developed countries comprise 25 countries in North America, Europe and Oceania.

Figure III.2
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): TERMS OF TRADE
(2000=100)



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

4 This matches the study by Restuccia (2007) on GDP trends in a number of Latin American countries in comparison with the United States (ECLAC, 2007a, p. 104).

5 See ECLAC (1960).

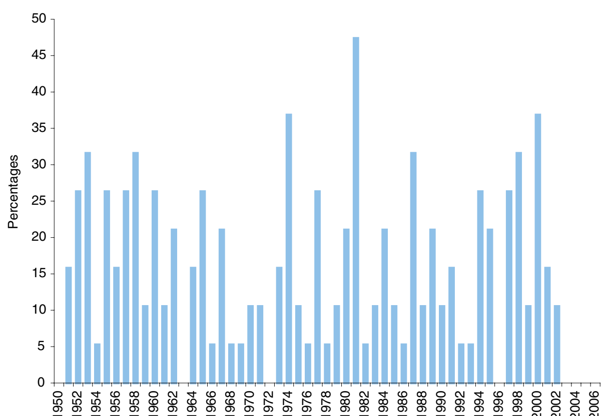
The ratio of the GDP of Latin America and the Caribbean to that of the world as a whole has a simpler history. The only time when a visible break occurred was during the debt crisis. In previous years, the region's per capita GDP was 20% above the worldwide figure, but following the crisis that figure fell to 8%.

It is possible that situations of macroeconomic volatility occurred at the time of the aforementioned breaks in the trend. The evidence shows that this was indeed the case. On the basis of the definition given by Hausmann, Rodríguez y Wagner (2006), used in the glossary which appears in box II.1, some episodes of economic collapse and their duration have been identified. Figures III.3a and III.3b show the proportion of countries in which a collapse began in each year of the series analysed and the duration of the collapse, respectively.

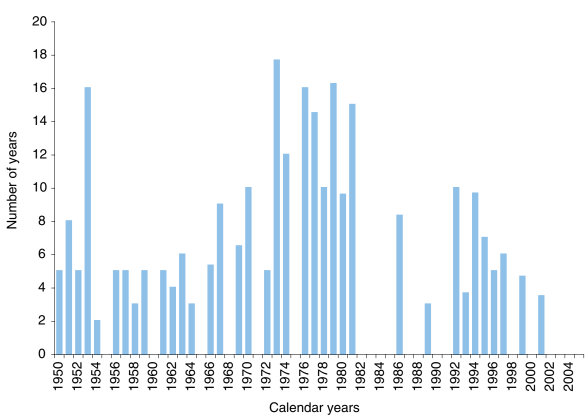
Figure III.3

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): EPISODES OF ECONOMIC COLLAPSE

(a) Percentage of countries where an episode of economic collapse began, by year



(b) Average duration of the collapses begun in each year



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

Analysis of the situations of economic collapse produces the following three stylized facts:

- The frequent occurrence of such episodes is a structural characteristic of the region;
- As expected, in the vicinity of the aforementioned breaks in the convergence process, episodes of economic collapse can be observed in a large number of countries. A record was set in 1981 as to their frequency, affecting almost half the countries in the region;
- The duration of the collapses which began between the mid-1970s and the early 1980s is significantly higher, but they diminish as the data approach the current period. Furthermore, from 2002 onwards no country has experienced a collapse episode.

These stylized facts show that the most significant breaks in the growth of Latin America and the Caribbean have to a great extent been due to external forces. This does not suggest, however, that those are more important in terms of explaining volatility than internal factors, such as the filtering process and the structural and regulatory constraints affecting it. In fact, internal circumstances are vitally important, since they determine the level of each economy's vulnerability to shocks as well as the cost and duration of the adjustment process. Until the early 1970s, the region's economies in general may have been highly vulnerable to the type of shocks which occurred at that time and prepared the way for the sharp increase in volatility which took place in the 1980s.

The duration of collapse episodes —although not necessarily their intensity— tended to diminish after 1992, and this trend has continued to date. While a high proportion of countries have suffered from a collapse in the 2000s, the duration has tended to be closer to those observed up to the early 1970s. The factors underlying this change probably include improved macroeconomic policies in a large number of countries. The most successful of those policies are thought to be those which provided a better institutional and policy response to the challenge of improving the macroeconomic system and, at the same time, achieving a minimum level of consensus on income distribution. In assessing the validity of these conjectures it would help to inquire as to whether, in addition to situations of collapse, the dynamics of volatility could be analysed by identifying and comparing episodes of "turbulence" and "stability". Such an analysis would also need to determine the relationship between those periods and the acceleration of growth rates as defined by Hausmann, Pritchett and Rodrik (2004).

2. Episodes of turbulence and periods of stability

Based on the definition of crisis used in the glossary contained in box II.1, the years that have passed since 1950 can be classified into periods of "turbulence" —during which at least two of the 19 countries analysed were suffering crises— and "stability", during which none, or at most one, was in crisis. As shown in table III.1, from 1978 to 1990 there was a long stage of almost permanent turbulence during which the region's economies were practically stagnant, with very low or negative rates of per capital GDP growth.[6] Furthermore, from 1978 to 1983 the proportion of countries in crisis was the highest in the series, especially in 1982, when the external debt crisis broke out. Also, 1978 saw the beginning of a long period of turbulence which may have been caused by the deepening of fluctuations in connection with the oil shocks of the 1970s and their repercussions on the stability of relative prices and international inflation. These probably contributed to increasing the frequency and magnitude of the external shocks which afflicted the region, boosting the distributive conflicts which constrained the freedom to manoeuvre of policies.

Table III.1
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): EPISODES OF TURBULENCE

No. of episode	Period	Local maximum	Scope	Persistence	Regional growth
1	1953/1954	1953	11%	2	2.45
2	1959	1959	11%	1	-0.5
3	1961	1961	11%	1	3.06
4	1978/1983	1982	31%	6	0.07
5	1985/1986	1985	11%	2	1.02
6	1988/1990	1988/1989/1990	16%	3	-1.32
7	1995	1995	11%	1	-1.29
8	1999	1999	16%	1	-1.32
9	2002	2002	16%	1	-1.77

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

The events of 1978-1990 differ significantly from the periods of turbulence of the 1950s and 1960s, when the growth rate was higher, and which were of lesser duration. Before the 1980s, crises were more isolated and do not seem to have had a great impact on growth. There were also periods of turbulence in 1995, 1999 and 2002. This shows the significance for the region of the Mexican crisis of 1994 and the Russian one of 1998, as well as their effects of financial contagion and seems to suggest that, beginning from the Mexican debt moratorium of 1982, the scale of financial shocks rose in proportion with shocks of other types. The turbulent episode of 2002 is connected to the Argentine and Brazilian crisis, which affected other countries such as Chile, Paraguay and Uruguay. Two further observations concerning 1995-2002 are warranted: first, unlike the turbulence of the 1980s, it was a period during which crises did not prevent growth accelerating in some countries; and second, once the turbulent stages had passed, an economic boom began (see table III.2).

Table III.2
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): EPISODES OF STABILITY

No. of episode	Duration	Persistence	Regional growth
1	1950-1952	3	1.36
2	1955-1958	4	2.54
3	1960	1	3.57
4	1962-1977	16	2.75
5	1984	1	1.24
6	1987	1	1.2
7	1991-1994	4	2.29
8	1996-1998	3	2.18
9	2000-2001	2	0.66
10	2003-2007	5	3.46

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

Table III.3
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): BOOM EPISODES

No. of episode	Beginning	Local maximum	Scope	Persistence	Regional growth
1	1950-1956	1952/1953/1956	16%	7	2.06
2	1962	1962	16%	1	0.95
3	1964-1966	1964	21%	3	2.52
4	1971-1974	1972/1973	31%	4	4.09
5	1978-1981	1978/1980	26%	4	1.98
6	1992-1995	1992	13%	4	1.38
7	2004-2007	2004	11%	4	4.13

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

[6] Only in 1984 and 1987 were there no shocks.

As for periods of stability, as shown in table III.2, the longest was from 1950 to 1977 and there were only three years in which more than one country was in crisis. Noteworthy within that period were 16 years of continuous stability —that is, without episodes of extreme generalized volatility— from 1962 to 1977. The period also saw several countries enjoying accelerating growth (see figure III.4a). Paradoxically, it also coincided with the beginning of the widening gap between the developed and developing worlds. In other words, it was a period when a combination of infrequent extreme episodes and swelling growth was combined with positive momentum from worldwide growth. In any case, from the viewpoint of volatility and growth, the gap in the 1960s and 1970s was clearly different from that which followed the debt crisis, when growth episodes were nonexistent. During all stages of stability, excepting 2000-2001, the annual growth rate of the region's per capita GDP exceeded 1.2%. The period from 2003 to 2007 was quite unusual. First, it was the first time since 1977 that five consecutive years without turbulence were enjoyed; and second, the growth rate was the highest of all the periods of stability except for 1960. Lastly, that five-year period saw boom episodes[7] when growth rates were the highest since 1950.

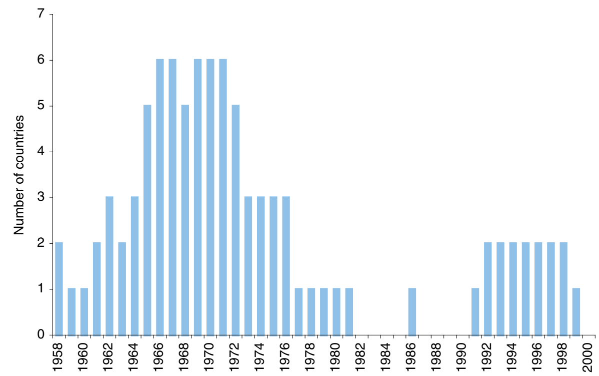
It should be noted that the second most positive period in terms of less turbulent episodes is the current one, although the frequency of the growth episodes is not comparable with that seen in the 1960s. Figure III.4b shows the year and the proportion of countries where growth recovered, in addition to "candidates" —those which appeared likely to achieve such a recovery, whether or not it did take place subsequently. As can be seen, there was never a period with as many candidates" as in 2003. This leads to the same hypothesis as that which resulted from analysis of episodes of turbulence and stability: that the current period shows differentiated characteristics.

These two figures also reflect the devastating impact of major crises on their growth potential. None of the countries of the region analysed here could resist the marked increase in macroeconomic volatility which was observed from the late 1970s to the late 1980s. There was an almost complete absence of episodes of incipient acceleration during that period, with the exception of Chile in 1986. Furthermore, all the "candidates" for beginning the process ultimately failed to do so. This contrasts with the type of movements which characterized the crises of the 1950s, when the region experienced a mixture of episodes of collapse and recovery. This suggests that the fluctuations were mostly caused by idiosyncratic factors. Among the "candidates", however, there were some effective growth episodes. The 1990s were similar to the 1950s inasmuch as there were both collapse and recovery episodes, but also similar to the 1980s because many "candidates" were unable to sustain their initial impetus. Following the crisis of 2001, no further collapse episodes took place and a number of countries have entered into a period of growth which, as mentioned above, may evolve into an economic recovery.[8]

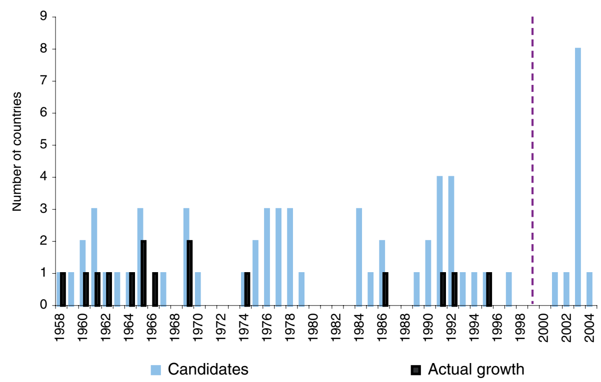
Figure III.4

LATIN AMERICA AND THE CARIBBEAN: RISING GROWTH RATES

(a) Latin America and the Caribbean: number of countries in the sample which showed rising growth rates, 1958-2000



(b) Latin America and the Caribbean: number of countries in the sample where growth rates were beginning to rise (1958-2000) and "candidates" for increasing growth (1958-2007)



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

This evidence shows that, beyond the quantitative criteria which have been used to classify crises, extreme episodes may have widely varying qualitative characteristics. Careful analysis is needed in this regard, since it constitutes a guide to what anti-volatility policies should focus on. If excessive volatility were due to the numerous external shocks, for example, since those impulses are exogenous, the strategic goal should be to reduce vulnerability. If the filters were the source of the problem, then action would probably be needed at the level of market organization, governance structures and countercyclical policies.

[7] See the glossary contained in box II.1.

[8] The eight years necessary for applying the formula proposed by Hausmann, Pritchett and Rodrik (2004) have not yet passed.

This issue is also important from the growth viewpoint, since the shock filtering process should function in such a way as to attenuate the negative impacts of crises while retaining those which promote productivity. It has been observed that the consequences of shocks in the 1980s were very different from those of the 1950s. One hypothesis which arises naturally in that regard is that the crises of the 1950s not only did not prevent the growth episodes of the 1960s but probably contributed to some extent to that growth, by bringing about structural changes in relation to creative destruction. On the other hand, the shocks and disequilibria of the 1980s were caused by failures of coordination brought about by the marked financial disequilibria which were reflected in the debt crisis. This was not a shock which could ultimately have promoted productivity, but one which primarily acted through financial channels, causing much damage to the balance sheets of businesses, banks and governments and, by leading to bankruptcies and public-debt renegotiations, generated impacts in the area of property and the need to redefine related rights. As will be seen below, redefining property rights is never free from conflicts which can make it hard for the economy to move quickly towards a new equilibrium of growth. It is likely that the shock caused by the upswing in interest rates in the 1980s had such a heavy impact on the economy because the latter was already in a vulnerable condition: the current account deficit had swelled considerably in a number of countries following the shocks resulting from the oil price hikes of the 1970s and also because of exchange-rate appreciations in some of them.

The succession of crises and reforms in the 1990s, aside from their cost, may to some extent have activated positive Schumpeterian mechanisms[9] whose effects are currently being observed, since the region grew without experiencing episodes of collapse. In relation to volatility, it was mentioned above that the negative statistical relationship between growth and its standard deviation appears to be diminishing. This suggests that, with the passage of time, there may be a return to a period of lesser instability and greater growth, as seen before the 1960s. In evaluating that period, this of course detracts from the fact that a number of countries' growth has been helped by positive shocks resulting from improvements in the terms of trade.

The region has made efforts to improve its institutions and policies. It may be that some countries are better placed to filter the shock from the terms of trade in order to enjoy its benefits and minimize negative spin-off effects. There must be a regulatory system which is consistent across time in order to cancel incentives for excessive increases in public spending which might result from favourable terms of trade, or to avert the threat of a significant rise in foreign-exchange supply for the tradable goods sector. In that regard, the region's current situation is mixed. There have been advances in the management of macroeconomic equilibria, but there are also growing difficulties in preventing excessive appreciation of currencies, which would damage competitiveness. There may also be conflicts in relation to the ownership of wealth generated by positive shocks, leading to problems with inflation and instability in the rules of the game.

3. Volatility of consumption and excessive volatility

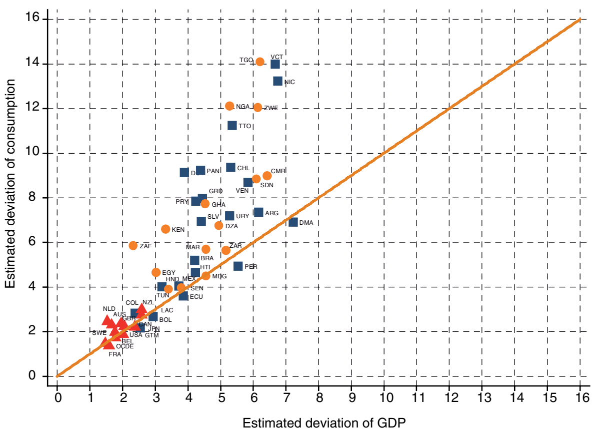
Excessive volatility is hard to measure, and identifying it poses problems which are very difficult to resolve. A reasonable indicator of its existence, however, is when consumption is more volatile than income (see Fanelli, 2008a). It is therefore useful to consider what relationship exists between consumption trends and excessive volatility in Latin America and the Caribbean. According to Pallage and Robe (2001), volatility has a high cost for developing countries: to bring the volatility of consumption to the same level as in the developed countries would be equivalent to increasing the rate of per capita GDP growth to 0.34% in perpetuity.

Figure III.5 shows the ratio of the volatility of GDP growth to that of consumption at the worldwide level; it is above the 45-degree line for a considerable number of countries. This implies that consumption is more volatile than income and, according to studies conducted on this subject, indicates the presence of excessive volatility. Figures for the Organisation for Economic Co-operation and Development (OECD) countries are grouped around the 45-degree line (see red triangles). This means that in those economies there is less excessive volatility, probably owing to the application of better countercyclical policies and the existence of broader markets which contribute to averting crises. The figures for the Latin American and Caribbean countries, however, are above the 45-degree line (see blue squares). This temporal average conceals the fact that the capacity to stabilize consumption trends seems to have

9 See the glossary contained in box II.1.

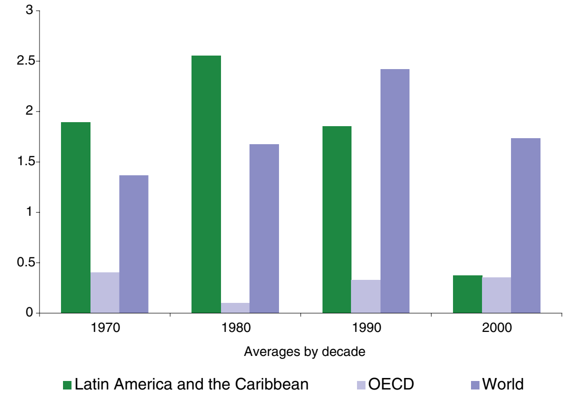
improved significantly in recent years and also that GDP volatility has fallen. The progress made by Latin America and the Caribbean in reducing the volatility of consumption can be seen clearly in figure III.6; it can be observed that since the 1990s this volatility has been lower than the worldwide average, and that in the 2000s it has even been comparable to that of the developed countries.

Figure III.5
AVERAGE VOLATILITY OF GROWTH RATES OF CONSUMPTION AND GDP, 1970-2005



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] http://devdata.worldbank.org/dataonline/.

Figure III.6
RATIO OF VOLATILITY OF CONSUMPTION TO THAT OF GDP
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators [online database] http://devdata.worldbank.org/dataonline/.

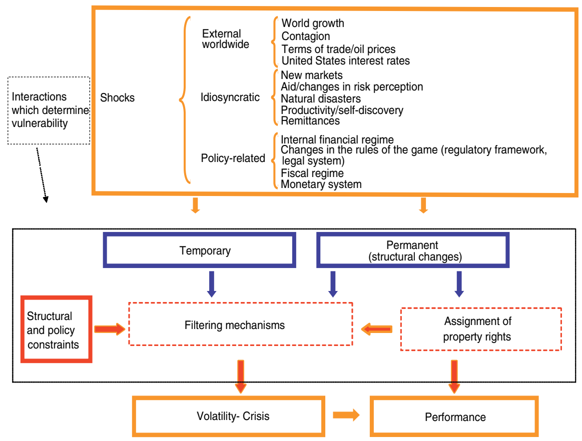
The evidence on the relationship between volatility and performance —relating to both consumption and growth— suggest that recent years have seen a certain moderation in the harmful effects of volatility. Referring back to diagram III.2, there are a number of factors which may explain this development: good luck, that is, smaller or more benign shocks; improved filtering capacity arising from more effective functioning of markets and improved governance; fewer structural constraints; improved policies; or a combination of all these causes.

C. Nature and effects of shocks in Latin America and the Caribbean

The previous section, which identified periods of greater turbulence and of relative stability, also described certain changes which distinguish the 2000s from both the 1990s and the 1980s. Two factors which were detected through the analysis of fluctuations were shocks and structural constraints, which will be analysed in this part of the chapter. Diagram III.3, which complements diagram III.2, is designed to show the relationship between the elements which will be play a prominent part in this section.

The upper part of the diagram represents shocks. In order to design anti-volatility policies it is vital to know the substantive characteristics of the impulses which affect the economy because they will determine the type of disequilibrium, the factors which will serve as the main filtering mechanisms and the nature of any conflicts of interest. For example, if the shock is a fall in world interest rates which is seen as a permanent one, the initial effects are likely to be observed in financial markets. The evidence relating to Latin America and the Caribbean shows that, while a permanent change in world interest rates can be expected to affect investment and consumption in real terms, the ultimate impact will depend on the functioning of financial markets and on regulatory capacities. In particular, financial regulations will partially filter the negative effects of volatility relating to overinvestment in the real-estate sector, to loans to interrelated financial or corporate bodies or to excessive public debt. The positive repercussions may be stronger if they help to channel funds towards innovative activities, avoiding the risks connected with the concentration of exports on a single product.

Diagram III.3
NATURE AND EFFECTS OF SHOCKS



Source: José María Fanelli, "Volatilidad y crisis en América Latina: evidencia empírica y políticas", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), June 2008, unpublished.

An anti-volatility policy also requires awareness of policy and structural constraints. Similar instruments and events can have varying effects in contexts which differ in terms of policy coordination capacity, trade openness, the proportion of credit in the economy, the quality of regulations or the structure of property rights. For example, rising oil prices will affect volatility differently if the oilfields are State- or privately owned; the repercussions of a sudden halt in capital inflows to an economy depend on levels of trade openness (Calvo and Reinhart, 2000); if financial regulations are permissive, they may bring about increased vulnerability in an economy which has achieved good long-term results (Mishkin, 2001), as was seen in the case of the financial crisis in the Dominican Republic in the early 2000s, the cost of which was close to 21% of the country's GDP (World Bank, 2006).

On the basis of the aforementioned aspects, this chapter will identify the shocks which have been important for Latin America and the Caribbean on an empirical level, and will then assess structural constraints and their relationship with economic vulnerability. Policy constraints will be discussed in the next chapter.

1. Shocks in Latin America and the Caribbean

Diagram III.3 classifies shocks according to their substantive characteristics and their duration. Firstly, a list is provided showing those shocks which appear the most often in economic studies, and then they are divided into three subcategories: external global shocks, shocks specific to one country, and policy-based shocks.

The origin of external global shocks of importance for the region may be real or financial. The previous section mentioned that changes in key real variables —worldwide growth, the terms of trade and oil prices— were influenced by breaks between periods of turbulence and stability, and by variations in aggregate volatility. Catão (2007) provides long-term evidence on shocks common to the whole region. He argues that financial impulses of global origin are of essential importance in assessing aggregate disequilibria and periods of crisis; particularly important in the region's experience have been shocks linked to United States interest rates and to phenomena of contagion, as in the case of the Russian crisis of 1998.

Idiosyncratic impulses comprise a broad range which, as in the previous case, includes real phenomena —productivity impulses, discovery of new activities and new markets, natural disasters— and financial phenomena such as foreign aid, remittances, changes in country risk perception or investment of capital flows. Recent real events in the region have included innovative activities connected with the maquila and services sectors and foreign direct investment (Central America and the Caribbean), the opening up of new markets thanks to free trade agreements or demand for natural resources in Asia, biofuels, and natural disasters in the Caribbean subregion. On the financial side there have been changes in risk perception resulting from assessments of the capacity to pay public debt, as in Argentina and Uruguay, and beneficial improvements in fiscal policies, as in the case of Brazil.

There can also be a variety of policy shocks. There are many examples of disequilibria linked to changes in macroeconomic policy —fiscal, monetary or exchange-rate— or in financial policy, as well as structural reforms.

To continue the proposed classification, substantive shocks can be long- or short-term; in other words, they may or may not bring about structural change in economic trends. Shocks can also lead to redefinition of property rights.

The aforementioned examples show that each of these types of shock has been of differing significance depending on its magnitude and the frequency with which they have taken place in time. Taking account of the most recent studies and literature, the analysis will focus on the shocks which were considered to be the most important, to respond to questions on current trends in volatility and the related policy challenges.

2. The role of external shocks

On the subject of external shocks, Catão (2007) argues that the influence of the external environment is a common element throughout the region. According to his study, the correlation grew after the shocks of the 1970s and 1980s and diminished again in the period 1988-2004. Seeking the causes of this common factor, he concluded that interest rates and production trends in the advanced economies were very important in explaining the phenomenon and that their impact grew from the 1970s onwards.

Goyal and Sahay (2007) provided further evidence, concluding that in Latin America and the Caribbean, the volatility of economic performance and of policies is greater during low-growth periods. Real and financial shocks, whether occurring during periods of strong or weak growth, have a similar impact in terms of the instability and turmoil they cause. The exception to this rule is the trend of interest rates in the United States, which play a very important part. The same authors also state that extreme episodes such as debt defaults and the "twin crises" (financial and exchange-rate) are related to low growth.

Titelman, Pérez and Minzer (2008) argue that trends in the region's economic cycle have historically responded to variations in the terms of trade and financial flows. The relative importance of these has varied across time: the correlation coefficient between the cycle of the region's GDP and financial fluctuations increased significantly in the 1990s. Variations in the terms of trade had greater relative importance in 1960-1980 and 2002-2006 (see box III.1).

Box III.1

COMPARING TRENDS IN THE IMPACTS OF FINANCIAL AND TERMS-OF-TRADE SHOCKS IN LATIN AMERICA AND THE CARIBBEAN, 1980-2006

In the period from 1980 to 2006, economic cycles in the countries of Latin America and the Caribbean increased in frequency and amplitude. Between 1960 and 1995 the region averaged one boom or slowdown every four years, but from 1995 this frequency began to diminish. The average amplitude of GDP cycles practically doubled from that same year onwards.

Given the significance of variations in the terms of trade and financial flows for economic cycles, the most extreme fluctuations of these two variables in Latin America and the Caribbean in 1980-2006 have been identified and described and impacts on economic growth have been assessed.

Shocks were identified using a statistical method which consists of decomposing the trend and cycle components of the series. Then, by constructing empirical probability distributions and the corresponding confidence intervals, the years of financial and terms-of-trade shocks were determined.

This method made it possible to define each country's history and particularities in Latin America and the Caribbean. The financial and real (positive and negative) shocks were determined and characterized, analysing their significance and their geographical and temporal distribution within the three periods under consideration (1980-1990, 1991-2001 and 2002-2006).

The analysis revealed, initially, that terms-of-trade shocks have become less frequent with the passage of time, falling from an average of six per year in 1980-1990 to two per year in the last period considered (2002-2006).

The amplitude of such shocks also diminished, especially in the case of the negative ones. The range of variation of terms-of-trade shocks fell by 6% to 22% in 1980-1990 and by 2% to 8.5% en 2002-2006. In the case of positive shocks, the amplitude of 8%-28% in the first of those two periods fell to 7%-21% in the second.

Second, the results show that the frequency of financial shocks has increased with time. The number of shocks experienced in Latin America and the Caribbean increased from one per year in 1980-1990 to two per year in 1991-2001. In addition, their magnitude increased significantly in the 1990s, rising from an average of 0.7% of GDP in 1980-1990 to 3.5% of GDP in 1991-2001.

To compare the effects of financial and terms-of-trade related shocks, their repercussions in terms of absorption were measured. The results, which agree with the analysis of the observed statistical trends, indicate that financial shocks are a greater danger for the region than negative terms-of-trade shocks. In 1980-2006, financial shocks led to internal expenditure cuts of 6.99% of GDP (weighted average) whereas the figure for terms-of-trade shocks was 2.6% of GDP.

The effects on absorption of negative terms-of-trade shocks have varied over time: they fell from 2.25% of GDP in 1980-1990 to 0.4% of GDP in 1991-2001, before becoming insignificant (0% of GDP) in the last period considered, 2002-2006.

Contrasting with the trends described above, the average contraction of absorption which resulted from negative financial shocks rose from 1.16% of GDP in 1980-1990 to 5.7% of GDP in 1991-2001.

These results have considerable economic-policy implications. First, the fact that economic cycles are of lesser duration, have become more frequent and show more pronounced variations underscores the importance of countercyclical policies.

Second, the fact that the cost in terms of falling absorption which results from financial shocks is greater than that from terms-of-trade shocks, and the fact that the latter have become fewer over time, suggests that the design of policies to mitigate the impacts of external shocks should focus more on the financial sector than on the terms of trade.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Daniel Titelman, Esteban Pérez Caldentey and Rodolfo Minzer, "Comparación de la dinámica de los efectos de los choques financieros y los choques de términos del intercambio en América Latina en el período 1980-2006", document presented at the Workshop on Macroeconomic Policy and Cyclical Fluctuations, Santiago, Chile, April 2008, unpublished.

3. Temporary and permanent shocks

Generally, an economic cycle is defined as a variation which occurs with a certain regularity, in relation to a long-term trend. Thus, the study of fluctuations was traditionally allotted to economic-cycle theory, and analysis of trend behaviour was assigned to economic-growth theory. As was seen in the *Economic Survey of Latin America and the Caribbean, 2006-2007*, both phenomena, far from belonging to an abstract field, are representative of the collapse and boom periods proper to the economies of the region, and are not unrelated to the phenomena of volatility and crises.

Aguiar y Gopinath (2007) concluded that emerging economies, unlike developed ones, are relatively more exposed to permanent shocks than to transitory ones. In other words, the real-income trend is more unstable in the developing countries. Their conclusions were based on a comparison of the Mexican and United States economies. According to the results of the observations made by Catão (2007) on four major economies in Latin America and the Caribbean, Argentina, Brazil, Chile and Mexico, when they experienced shocks such as rising world interest rates the effects on production persist for a long time.

Toledo (2008) studied the persistence of shocks in the region in order to assess the extent to which the stylized fact detected by Aguiar and Gopinath is representative of macroeconomic trends in the region's seven largest economies. Although the evidence is mixed, he concluded that aggregate fluctuations in the Latin American and Caribbean countries are generally due to highly persistent or permanent shocks (see box III.2).

Heymann and Kawamura (2008)[10] reached the following conclusions: (i) Discriminating between cyclical and trend-driven movements is not a trivial matter, either for governments or for the private sector; (ii) Policy design over periods of time needs to consider government actions in accordance with the decision-making criteria and the constraints facing the private sector; (iii) Beyond the practical convenience of applying policies which are simple and whose content and consequences are clear, it is also important that they should be adapted to the concrete issues of the macroeconomic situation, and this adds to the difficulty of designing rules; (iv) Macroeconomic policies bring about distributive effects and can have varying repercussions in different segments of society.

Box III.2

ECONOMIC CYCLES IN LATIN AMERICA AND THE CARIBBEAN

Before considering policies to be applied in order to mitigate macroeconomic fluctuations, it is important to understand the nature and properties of economic cycles in the countries of Latin America and the Caribbean and, above all, to know what type of shocks are likely to affect those countries. Otherwise, it would be difficult to design appropriate stabilization policies or to know whether these can in fact counter the impacts of shocks, especially macroeconomic shocks.

In a recent article, Aguiar and Gopinath (2007) analysed, from the perspective of real cycle models, the nature of shocks in the developing and developed economies. They concluded that aggregate fluctuations in the emerging economies mainly respond to shocks of the permanent type —impacts on trends—, while in the developed economies they are due to transitory shocks. On that basis, an important question for the Latin American economies is whether permanent shocks are more significant than transitory ones in explaining cyclical fluctuations in the countries of the region.

Following the methodology of Aguiar and Gopinath (2007), Toledo (2008) concluded that yearly data for 1950-2006 for the region's largest economies —Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico and Peru— show that the aggregate productivity shocks which affect them may be permanent or temporary, but very persistent. While in the Bolivarian Republic of Venezuela and Colombia permanent income shocks account for 898% of the total, in Brazil and Peru they make up between 40% and 45%. Argentina, Chile and Mexico mostly showed highly persistent transitory shocks.

This explains two particular characteristics of the region's economies: the relatively high volatility of consumption and the countercyclical behaviour of net exports. Any exogenous shock which has occurred in the economies analysed leads to impacts on productivity in the Toledo (2008) model. It should be recalled that the concept of shock includes both positive and negative events. During the period analysed, a number of shocks occurred in those economies, whether in relation to the terms of trade or the debt crisis, to name the most significant. Since 2002 some of those economies —especially the Bolivarian Republic of Venezuela, Chile and Peru— have been experiencing a positive terms-of-trade shock. In some cases, such as the Bolivarian Republic of Venezuela and Colombia, and to a lesser extent Brazil and Peru, this was reflected in trend shocks, whereas in Argentina, Chile and Mexico the shocks were transitory but highly persistent.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Manuel Toledo, "Understanding business cycles in Latin America", document presented at the Workshop on Macroeconomic Policy and Cyclical Fluctuations, Santiago, Chile, April 2008, unpublished.

[10] See box IV.3.

4. The relationship between shocks and structural constraints

As already mentioned, structural constraints can strengthen or attenuate the impact of a shock, and thus can affect vulnerability. This interaction has been analysed in a number of empirical studies. Fatás (2002) stated that the repercussions of volatility on growth become greater when the economy is financially underdeveloped. Loayza and Hnatkovska (2004) came to a similar conclusion, but for countries which are at a medium level of financial development. Two other structural constraints which magnify the growth impact of volatility are the lack of institutional development and low levels of per capita income. Fatás (2002) considers that the latter is because, in the less advanced economies, there is greater uncertainty, which may lead to poverty traps: the country is poor, so the level of uncertainty is high; as a result, growth rates are low, and as a result the country stays in poverty and cannot escape from the uncertainty.[11]

Loayza and Raddatz (2007) argue that trade liberalization tends to magnify the effects of terms-of-trade shocks, while labour-market flexibility and financial openness reduce them. Catão (2007), however, found no clear positive relationship between the volatility of the economic cycle and liberalization.

5. Shocks, property rights and appropriability

Post-shock adjustment processes are riddled with distributive conflicts which are due to changes in relative prices and complicated rehiring situations. Inasmuch as the processes are affected by ownership rights disputes, the quality of institutional arrangements designed to deal with such conflicts will have an impact on the effectiveness of shock absorption and therefore on levels of macroeconomic volatility.

The “usual” kind of shocks are assumed to be the least conflictual, because institutions would be better prepared for dealing with them. Situations linked to episodic or “unusual” shocks, on the other hand, can be more complex because it is much more likely that property rights will not be well defined for this type of contingency. It could therefore be presumed that in this case, unexpected transfers of income and wealth would be more significant.

It seems obvious that the more efficient the solution to the distributive problem, the better condition a particular country will be in to deal with the impacts of shocks. For example, improving the country’s net financial position through any means —stabilization funds, sovereign funds, increased reserves— will be reflected in pressure on the exchange rate which, combined with capital inflows, could produce symptoms of Dutch disease.[12]

[11] For the specific case of Latin America and poverty traps, see Rodríguez (2007).

[12] Machinea and Kacef (2007) and Machinea, Kacef and Weller (2007) analyse the current phenomena of disequilibrium in Latin America, their repercussions in terms of distribution and the labour market and the possible policy responses.

Chapter IV

Volatility, the business cycle and policy responses

A. Introduction

“If the discussion is not to take place on an abstract plane, the particular case of each country must be examined in order to determine whether its economic structure and existing conditions make those ideas practicable or whether other ways of dealing with the cycle must be found.

Let us briefly examine the various possibilities: in one of them, perhaps the most wide-spread, an attempt is made to lessen or counteract the effects of export fluctuations on internal activity by means of a compensatory policy in which investments, chiefly in public works, are made to vary in adverse ratio to the fluctuation in exports. This policy demands certain conditions. During the cyclical upswing, tax revenue increases and the market is favourable to the sale of public bonds. Nevertheless, the State should not only abstain from using these additional resources to increase public investments, but should restrict them in proportion to the increase in private employment. Thus during the upswing resources would be accumulated in anticipation of bad times or used to repay bank credit extended during the preceding contraction. At the mere mention of these requirements the difficulty of fulfilling them is apparent. For the very reason that the Latin American countries are in full process of development, their investment projects are always larger than can be carried out with the limited means available. To maintain that, when those means increase and the opportunity of carrying out such projects presents itself, the authorities instead of seizing it should accumulate resources for the future, which may be enjoyed by their successors, would mean making the success of anti-cyclical action depend on attitudes not always compatible with sound political interest.

All this, if it does not lead to the exclusion of the possibility of anti-cyclical action, at least suggests the exploration of other means more suited to Latin America’s individual characteristics” (Prebisch, 1950).

Consistently with Raúl Prebisch's arguments in the document quoted above, figures III.1 and III.3 show the great importance of policy constraints as factors that affect volatility. The fact is that such constraints help to determine how much room for manoeuvre or "space" authorities have to make use of countercyclical policies and thus the effectiveness of their efforts to compensate for market and governance failures.

It must therefore be asked how suitable anti-volatility policies may be created at the same time as circumventing constraints in order to generate a space for autonomous implementation of policies. Studies on reform and growth have found that good policies arise from competent institutions (see, for example, Acemoglu, Johnson and Robinson, 2001 and 2004). Accordingly, in the 1990s the great majority of the countries in the region undertook institutional reforms in the expectation that these would bring about better quality policies (Lora, Panizza and Quispe-Agnoli, 2003; Fanelli, 2007). At the macroeconomic level, however, despite some positive outcomes, the equation between good institutions and effective policies proved far from automatic. At the same time, the reforms implemented under the rules of play of institutional structure gave way to exchange-rate, monetary and fiscal regimes and policies of a different sort.

One of the lessons arising from the reform process is that, although institutions are important, there is room for autonomous action that does not stem directly from institutions, but depends on a series of policy-related aspects. For example, a generation of exceptionally politically capable leaders can make a difference, as can progress in knowledge of fluctuations or of the political technologies that serve to handle them. Random factors can also influence the process, since they can favour or impede policy implementation; contingencies can damage a good policy or, conversely, generate windfall resources to finance specific initiatives. So, although competent institutions help to avoid poor policy implementation, they cannot guarantee that sound ground rules will automatically lead to greater availability of fiscal and financial resources to support initiatives, skilled leaders, economic knowledge or protection against policy errors if the economic situation should change unexpectedly. It is certainly easier to correct errors in a good-quality institutional environment, but the process through which institutions discard poor policies or make good use of windfall resources depends on uncertain circumstances that can fuel macroeconomic volatility. Without detracting from the importance of institutional aspects, the role that constraints play in determining the space for policy autonomy should also be considered.

Elements that impact on autonomy are shown in the space allocated to policy constraints in diagram III.2. They include quality of the State apparatus and bureaucracy, the normative system's provision of instruments to achieve the desired ends, the availability of fiscal and financial resources to finance public policies and the capacity of the authorities to manage any distributive conflicts resulting from anti-volatility initiatives. When the authorities have new mechanisms to act on those elements or when constraints are eased by a positive shock, there is more room for manoeuvre to improve policies aimed at mitigating volatility, even in a deficient institutional framework. So, a government concerned about external vulnerability could use the resources from a positive external shock to reduce that vulnerability by, for example, paying down public debt early. If its concern is to relieve the vulnerability of the country's poorest citizens, it could capitalize on good political conditions for seeking distributive consensus to adopt policies which, intertemporally, would guarantee those citizens a minimum standard of living.

In fact, if it were not for policy autonomy, it would not be possible to reform institutions. Societies with inadequate institutions would be trapped in a vicious circle in which institutions could not improve without the right reforms and the reforms could not be implemented without adequate institutions.

This section examines the links between the stylized facts identified and countercyclical policies, in order to show the importance of crafting a space for those policies by acting on the constraints that affect them. The problem of volatility will be assessed in two stages. The first is to analyse fiscal policy's countercyclical role, since this is closely related to volatility, be it in a context of fiscal and financial tightness or in a terms-of-trade boom with the distributive conflicts that arise from food and energy price rises. The question of which policy is allowed to prevail over the others is crucial, since the margin of autonomy for policy implementation depends on the interaction between objectives, instruments and distributive conflicts. The second stage is to study the relationship between volatility and policies in specific cases which have been selected as paradigmatic. In these countries, the study looks at appreciable variations in the links between volatility and outcomes over time and changes in policy constraints that have led to different degrees of policy autonomy.

1. Economic cycles and fiscal policy

Historically, the two greatest challenges that fiscal authorities have faced in Latin America and the Caribbean are government over-indebtedness and the procyclicality of fiscal policy. ECLAC has emphasized on numerous occasions that excessive fiscal deficits and emergency measures to return public debt to a sustainable level increase the probability of fiscal policy predominating over monetary and exchange-rate policy, prompting unanticipated changes in the respective rules of play. Since, as Titelman, Pérez and Minzer (2008) have pointed out, in recent decades strong negative external shocks on the financial front have severely tested the countries' capacity to meet their obligations, it is no surprise that governments have repeatedly changed their monetary regimes during the episodes of turbulence that began with the debt crisis.

As shown in diagram III.2, studies which have attempted to explain the difficulties involved in fiscal solvency, economic cycles and the predominance of one policy over another have certainly not disregarded the role played by structural and policy constraints. It has been extensively argued that the procyclicality of fiscal policy in developing economies reflects the weakness of policy instruments and the bias has been attributed to the insolvency of the fiscal accounts and a perverse interaction of external volatility with the particular features of the economic structure and elements of the political economy (Braun and Raddatz, 2008). In these circumstances, it has been sustained that the proper fiscal policy tool for avoiding those problems is the adoption of structural deficit or cyclically adjusted measures and targets. As will be seen later and in the respective box, however, the design and implementation of such a rule represents a challenge both technical and institutional.

It is important to consider not only the level of taxation and procyclicality of fiscal policies, but also their volatility. According to Fatás and Mihov (2001), an increase of one standard deviation in the volatility of fiscal policy reduces growth by 0.75 percentage points. Goyal and Sahay (2007) used an approach based on the identification of low- and high-growth episodes, analysing the behaviour of fiscal policy in each. They concluded that variations in level of volatility by type of growth episode are more important than the procyclicality or otherwise of fiscal policy.

It has not proven easy, however, to evaluate the fiscal policy response to economic cycles. This is because, first, it is difficult to choose the fiscal policy indicator to use for the purpose. Since the early work of Gavin and Perotti (1997), it has been acknowledged as a stylized fact that fiscal policy is procyclical in emerging economies. This is not a desirable trait, because it implies that during recession government consumption decreases and the tax burden rises, all of which deepens the contraction in economic activity. The studies that followed that of Gavin and Perotti typically analyse the average cyclical properties of fiscal policy in Latin America overall and compare these with policies in other regions or groups of countries. Thus, they disregard from the outset the possibility that Latin American experiences may be heterogeneous.

In a recent study, Bello and Jiménez (2008) concluded that in the period 1990-2006 fiscal policy in the countries they analysed behaved in a differentiated manner. On the one hand, policy in Argentina, Bolivarian Republic of Venezuela, Bolivia, Colombia, Mexico, Peru and Uruguay could be classified as procyclical (see box IV.1). In "good times", i.e., when GDP growth is above trend, the cyclical components of their spending definitions are positive, while in "bad times" the opposite occurs. By contrast, fiscal policy in Chile and Brazil is acyclical. In short, none of the countries studied reflected the pattern observed in industrialized countries, since none ran a countercyclical fiscal policy in the period examined.

The question of how fiscal policy behaves in economic cycles is particularly important in the current conditions. In the last few years, many of the region's countries have experienced a macroeconomic boom driven by positive external shocks from upturns in the terms of trade and the financial situation (see ECLAC, 2007a and 2006b), greatly improving fiscal balances. In the biennium 2006-2007, over 80% of the Latin American and Caribbean countries returned a primary surplus, something unprecedented in the last few decades.

Box IV.1

FISCAL POLICY AND ECONOMIC CYCLES IN LATIN AMERICA

A number of studies in the last 10 years, including those of Gavin and Perotti (1997), Gavin (1997), Catão and Sutton (2002), Alesina and Tabellini (2005), Kaminski, Reinhart and Vegh (2004) and Talvi and Vegh (2005), have sustained that fiscal policy is procyclical in Latin America and thus differs from that applied in Organisation for Economic Co-operation and Development (OECD) countries. These studies have in common the use of a database of annual data encompassing from the 1960s up to the 1990s.

In order to assess the stabilizing properties of fiscal policy, it is necessary to properly identify the relations between this policy and macroeconomic cycles. It is often argued that a procyclical fiscal policy can widen the fluctuations of important macro variables such as output, consumption, investment and net exports, whereas a countercyclical policy helps to stabilize them in a context of macroeconomic volatility. This is particularly important in underdeveloped countries, where a higher proportion of business cycle volatility translates into well-being costs (Pallage and Robe, 2003).

The research of Bello and Jiménez (2008) was based on the cyclical properties of fiscal policy in nine Latin American countries taken individually, unlike other studies which have been based on average cyclical characteristics. The countries analysed were Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

Since the cyclical characteristics of fiscal policy could have been altered by the economic reform processes that took place in many of the Latin American countries in past decades and, particularly, macro performance in the last few years, the analysis focused on the last 15 years and thus used quarterly data (whereas other studies used annual data). The information available was used to analyse the performance of central government. The economic conditions generated after the reform processes were very different from those before the reforms; for example, the climate of economic openness. A number of fiscal developments also occurred in this period, such as the shift in the concentration of tax income from foreign trade to value added tax, the privatization of public enterprises, and the decentralization and modification of the pension system with the introduction of individual capitalization components. These economic and fiscal reforms shaped a different kind of public sector and could thus have affected the cyclical characteristics of fiscal policy.

Bello and Jiménez (2008) used public spending as the fiscal variable to assess the cyclical characteristics of fiscal policy. As noted by Kaminsky, Reinhart and Vegh (2004), this variable is an instrument, rather than an outcome like the fiscal balance, so the relations between its cyclical components and output can be used to establish the type of cyclicity of fiscal policy unambiguously. Specifically, Bello and Jiménez looked at primary spending and current spending, excluding interest payments. Having defined the cyclical stances of fiscal policy, they also examined the cyclical implications of other spending variables, such as income. In effect, they used disaggregated fiscal components, unlike studies based on major aggregates such as income, spending or balances, and were thus able to identify the fiscal components most sensitive to macroeconomic fluctuations and offer some guidelines as to possible policy measures.

The main research finding was that in the period 1990-2005 fiscal policy showed differentiated trends in the countries analysed. Fiscal policy in Argentina, Bolivarian Republic of Venezuela, Bolivia, Colombia, Mexico, Peru and Uruguay could be described as procyclical. In “good times”, when GDP performs above the historical trend, the cyclical component of the spending definition used is positive, whereas in “bad times” the opposite occurs. Conversely, fiscal policy in Chile and Brazil is acyclical. None of the cases studied reflected the same pattern observed in the industrialized countries. Thus, none of the countries examined ran countercyclical fiscal policies in the period examined.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of O. Bello and J.P. Jiménez, “Fiscal policy y ciclo en América Latina”, document presented at the Workshop on Macroeconomic Policy and Cyclical Fluctuations, Santiago, Chile, April 2008, unpublished.

Zambrano (2008) studied the structural and cyclical components of the fiscal “bonanza” in the region, assessing the extent to which it reflected temporary or cyclical factors (see box IV.2). He concluded that in most of the Latin American and Caribbean countries structural balances —as a measure of the related financial conditions— are weaker than observed balances. This has occurred for two main reasons. First, because the countries have benefited from high prices for their main export commodities in the international markets, so that fiscal developments will depend on the evolution of the global market for such goods in the future. Second, many countries are now in the expansionary phase of the cycle, which has endowed them with an increasing flow of fiscal income that will tend to diminish in the medium term.

In short, the evidence and research available indicates that fiscal policy plays a fundamental role in controlling the effects of shocks in the current conditions. In order to prevent fiscal policy from opaquing other macro policies, however, it must be remembered that fiscal measures cannot be designed without considering, for example, their links with other objectives such as growth and poverty reduction. It would be worthwhile, therefore, to examine specific cases in order to identify key aspects to bear in mind in implementing anti-volatility measures and coordinating them with the rest of the battery of policies.

Box IV.2

MEASURING CYCLICALLY ADJUSTED FISCAL BALANCES IN LATIN AMERICA AND THE CARIBBEAN

Fiscal performance in any given economy is partly a function of discretional political economy decisions and the particular point of the cycle. In order to examine fiscal performance, therefore, structural or "cyclically adjusted" measures or estimates are created. These are considered an important tool for designing solid fiscal policies.

Unlike the conventional system for measuring fiscal balances, the objective of this type of estimate is to filter out the effects on public revenue and spending of economic cycles —temporary fluctuations in economic activity that occur automatically during recession or economic expansion.

In general, such indicators are used to ascertain what the fiscal balances would have been if the economy were in its usual medium-term cycle. This is based on the notion that economies move around a trajectory that reflects the potential or trend growth rate and that is affected by permanent and temporary shocks, the second of which generate cyclical variations in output, hence the divergences between real and potential or trend output. Such measurements, then, are used to quantify cyclical deviations and the sensitivity of fiscal balances and their components to those fluctuations.

For a better understanding of the subject, it will be recalled that in traditional Keynesian economics, high public-sector surpluses generate a contraction in economic activity. If the larger public surplus results from a process of economic expansion that has also generated higher public revenue, however, then it would be misleading to consider fiscal policy to be contractionary simply because the fiscal surplus is higher than envisaged.

Calculation of the structural fiscal balance thus improves understanding of the variations in the fiscal balance that are temporary by their own cyclical nature, trends in public-sector balances, the vulnerability of fiscal balances to external shocks and the short-term effects of fiscal policy on economic activity.

There are several methods for arriving at "cyclically adjusted" estimates, such as those developed by the International Monetary Fund (IMF) and OECD. These organizations use different techniques to "break down the series" of output to separate trend and cycle: these consist of filtering statistical series or making an approximate calculation of the economy's potential GDP using aggregate production functions. Then the effects of the economic cycle of the budget can be estimated. At this point it is necessary to decide if the different revenues and expenditures are to be classified as discretional —related to economic policy decisions— or "automatic" —able to be affected by variations in economic activity— on the basis of suppositions about causality relationships. Once that choice has been made, only the automatic components are cyclically adjusted, by estimating their output elasticity. Lastly, cyclical components of income and expenditure are discounted from the observed or executed level in the budget, to arrive at the structural or cyclically adjusted fiscal balance. There is no consensus in the specialized research about how to identify temporary and permanent shocks and, thus, how to separate cycle from trend.

Although it is extensively used in OECD countries, Chile is the only country in the region to have explicitly used the structural fiscal balance in formulating economic policy; in the rest of Latin America and the Caribbean, the availability of data and approximate calculations on the countries' structural fiscal position is scarce and not systematic.

Zambrano (2008) constructed comparable structural fiscal balance indicators for 19 Latin American and Caribbean countries. He began by calculating structural tax revenues in order to separate fiscal income from direct and indirect taxes from that percentage of permanent or medium-term income that could be attributed solely to the economy's particular position in relation to the economic cycle. A further adjustment was made to the fiscal income accounts to distinguish between inflows received by the public sector from the production of primary goods and other revenues such as direct taxation or export taxes, transfers, dividends or royalties of public enterprises.

The preliminary finding was that, after almost five years of solid economic growth in a context of rising international prices for the region's main export commodities, on average the structural fiscal balance is less favourable than the fiscal results observed.

This is particularly noticeable in the cases of countries that produce raw materials for export. There, the gap between structural and observed fiscal balances has been widening in the last few years. The structural fiscal position shows that part of these countries' income is transitory and will tend to decline once the economies and commodity prices regain their medium-term trend.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Ruiz del Castillo, "Política fiscal, ciclo macroeconómico y la construcción de indicadores de resultado fiscal cíclicamente ajustados", Santiago, Chile, 2008, unpublished; and O. Zambrano, "Cyclically adjusted budget measures in Latin America: calculus and determinants", document presented at the Workshop on Macroeconomic Policy and Cyclical Fluctuations, Santiago, Chile, April 2008, unpublished.

2. Differences in policies and trajectories

The work of Bello and Jiménez identified Chile and Brazil as two countries whose fiscal approach to economic cycles could be described as acyclical, which suggests that they have adopted more consistent macroeconomic policies. The development of these countries' monetary regimes also reveals a constant concern for stability, since both have significantly reduced inflation, worked on the institutional level to establish inflation targets and moved ahead on fiscal institutionality. The two countries have had very different results in the last few decades in terms of growth, however.

The countries that run a procyclical fiscal policy include some that have been highly volatile and had unstable economic institutions in the past, such as Argentina. But they also include Mexico, which significantly improved the macroeconomic rules of play, implemented a system of inflation targets and achieved substantial progress in fiscal affairs, despite which its rate of growth is relatively low. Lastly, there are cases such as the Dominican Republic which, along with Chile and Panama, registered the region's highest growth rate in the period 1961-2006, but which has much greater macroeconomic volatility and much less stable rules of play than Chile. Given the variability of relations between volatility, economic performance, rules of play and policies, these experiences warrant a closer look.

Table IV.1 shows the 19 countries analysed, ordered by degree of volatility, measured according to the frequency of crises in the period 1961-2006. The last three columns report indicators whose behaviour is closely related to monetary, fiscal and exchange-rate policies. The countries with the most frequent crises are Argentina, Bolivarian Republic of Venezuela, Honduras, Guatemala and Brazil, although 11 of the 19 countries were in a particularly low-growth pattern —more than one standard deviation lower than average— more than 10% of the time. The relationship between frequency of crises and the average rate of growth for the period was negative. The countries at the top of the ranking also typically raised large amounts in inflationary tax and, with few exceptions, their financial markets were shallow, as measured by credit to the private sector.

Table IV.1

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): FREQUENCY OF CRISES, LEVEL OF VOLATILITY AND ECONOMIC GROWTH, 1961-2006

(Dollars at 2000 prices)

	Frequency of crises (percentages) [a]	Economic growth [b]	Macro volatility [c]	Excessive volatility of consumption [d]	Inflationary tax [e]	Volatility of real exchange rate [f]	Credit to the private sector /GDP (percentages)
Argentina	20.00	1.30	5.26	1.25	3.35	1.29	16.51
Venezuela (Bol. Rep. of)	15.56	-0.07	5.27	1.59	4.68	0.30	17.11
Honduras	15.56	1.28	2.94	1.19	1.36	0.20	8.89
Guatemala	13.33	1.19	2.51	1.46	0.43	0.33	27.44
Brazil	13.33	2.30	3.95	1.10	2.00	0.43	26.92
Haiti	11.11	-0.67	4.19	1.37	1.12	0.18	13.18
Peru	11.11	0.97	4.83	1.30	2.48	0.38	12.39
Bolivia	11.11	1.04	2.77	1.87	0.35	0.26	31.36
Paraguay	11.11	1.63	3.28	1.12	1.71	0.23	48.32
Costa Rica	11.11	1.96	3.32	1.53	1.99	0.24	18.60
Dominican Republic	11.11	2.77	4.87	1.12	0.49	1.05	16.07
Nicaragua	8.89	-0.06	6.35	1.57	1.04	0.22	20.83
El Salvador	8.89	0.79	3.71	1.25	1.43	1.09	19.96
Mexico	8.89	2.00	3.13	1.47	1.60	0.22	20.40
Uruguay	6.67	1.44	4.53	1.61	1.02	0.65	32.99
Colombia	6.67	2.13	2.07	1.18	3.22	0.23	13.92
Ecuador	6.67	2.36	5.66	1.25	1.76	0.26	14.62
Chile	6.67	2.39	4.84	1.52	2.29	0.49	42.18
Panama	6.67	2.41	4.39	1.28	n.d.	1.11	19.81

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

[a] Proportion of years in which per capita GDP decreased by more than than the average growth rate minus one standard deviation.

[b] Average per capita GDP growth rate.

[c] Standard deviation of the average per capita GDP growth rate.

[d] Coefficient between the standard deviation of the average per capita GDP growth rate and the standard deviation of the rate of growth in private consumption.

[e] Defined as $(\pi/(1+\pi))$*(M1/PIB), where π represents the rate of variation of the CPI.

[f] Coefficient of variation in the real bilateral exchange rate against the United States dollar, calculated using the CPI.

The period used to construct this classification, however, is long enough to suggest that more differentiated patterns may exist over time. It would therefore be interesting to break it down into shorter periods based on stylized facts identified in the analysis of episodes of turbulence and breaking points in chapter III. Tables IV.2a, IV.2b and IV.2c show the performance of the countries classified in the periods 1961-1980, 1981-1990 and 1991-2006, respectively. The figures are highly representative of the situation in each country, both as regards policies and in terms of their economy's ability to deal with shocks and the consequences of volatility. To illustrate this point, five countries that are considered to be paradigmatic cases will be examined in detail.

Table IV.2

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): FREQUENCY OF CRISES, LEVEL OF VOLATILITY AND ECONOMIC GROWTH IN SELECTED PERIODS

(Dollars at 2000 prices)

(a) 1961-1980

	Frequency of crises (percentages) [a]	Economic growth [b]	Macro volatility [c]	Excessive volatility of consumption [d]	Inflationary tax [e]	Volatility of real exchange rate [f]	Credit to the private sector /GDP (percentages)
Dominican Republic	15.79	3.20	5.95	1.12	1.22	n.d.	n.d.
Nicaragua	10.53	0.59	8.39	1.29	0.88	0.11	25.55
Haiti	10.53	0.93	4.15	1.65	1.51	0.10	10.79
El Salvador	10.53	1.23	4.03	1.66	0.99	0.21	16.49
Chile	10.53	1.48	5.11	1.47	5.61	0.97	13.22
Honduras	10.53	2.06	3.14	1.38	0.95	0.11	4.57
Costa Rica	10.53	2.54	2.67	1.68	2.06	0.03	20.09
Venezuela (Bol. Rep. of)	5.26	0.07	3.31	2.71	3.93	0.23	18.37
Peru	5.26	1.49	2.33	1.22	1.11	0.16	8.87
Argentina	5.26	1.91	3.87	1.33	5.91	0.44	n.d.
Bolivia	5.26	2.30	2.41	2.81	0.80	0.22	n.d.
Brazil	5.26	4.54	3.75	1.16	2.35	0.07	n.d.
Uruguay	0.00	1.46	2.85	2.02	1.14	0.69	24.33
Guatemala	0.00	2.59	1.98	0.96	0.96	0.11	20.73
Colombia	0.00	2.73	1.56	1.42	7.93	0.12	11.61
Mexico	0.00	3.46	1.93	1.06	0.92	0.01	14.33
Panama	0.00	3.71	3.58	1.39	n.d.	3.32	n.d.
Paraguay	0.00	3.75	2.64	1.91	1.42	0.08	32.66
Ecuador	0.00	4.61	7.12	1.32	1.98	0.10	11.45

(b) 1981-1990

	Frequency of crises (percentages) [a]	Economic growth [b]	Macro volatility [c]	Excessive volatility of consumption [d]	Inflationary tax [e]	Volatility of real exchange rate [f]	Credit to the private sector /GDP (percentages)
Guatemala	66.67	-1.95	2.56	2.92	-0.37	0.14	29.86
Peru	44.44	-3.07	7.66	1.34	5.22	0.36	9.88
Argentina	44.44	-2.25	4.72	1.31	4.93	1.05	12.47
Bolivia	44.44	-1.85	3.09	1.41	0.20	0.22	9.71
Brazil	44.44	-0.38	4.50	1.09	4.06	0.21	n.d.
Venezuela (Bol. Rep. of)	33.33	-2.02	4.85	1.56	10.41	0.36	24.58
Panama	33.33	-1.26	6.10	1.55	n.d.	3.02	8.80
Honduras	33.33	-0.83	2.35	1.41	2.03	0.07	10.14
Costa Rica	33.33	-0.51	4.30	1.83	2.61	0.07	15.83
Mexico	33.33	-0.37	3.78	2.26	2.87	0.20	21.31
Paraguay	33.33	-0.02	3.55	1.12	2.84	0.09	44.59
Nicaragua	22.22	-3.89	4.63	1.77	0.48	0.18	11.86
El Salvador	22.22	-1.77	4.38	1.22	2.68	0.68	21.66
Ecuador	22.22	-0.62	3.69	1.40	2.87	0.34	13.21
Uruguay	22.22	-0.01	5.48	1.77	1.50	0.33	35.18
Dominican Republic	22.22	0.28	3.93	1.77	0.19	2.14	2.61
Chile	11.11	1.36	6.23	1.71	1.24	0.25	48.43
Colombia	11.11	1.68	1.80	0.74	2.05	0.26	13.61
Haiti	0.00	-2.27	1.44	1.49	0.99	0.25	15.24

(c) 1991-2006

	Frequency of crises (percentages) [a]	Economic growth [b]	Macro volatility [c]	Excessive volatility of consumption [d]	Inflationary tax [e]	Volatility of real exchange rate [f]	Credit to the private sector /GDP (percentages)
Argentina	26.67	2.74	6.29	1.25	0.61	0.45	17.32
Haiti	20.00	-1.68	4.84	1.37	0.94	0.10	15.01
Venezuela (Bol. Rep. of)	20.00	0.97	7.18	1.59	1.61	0.18	10.46
Paraguay	13.33	0.02	2.31	1.12	1.20	0.06	71.67
Honduras	13.33	1.61	2.48	1.19	1.22	0.27	13.81
Colombia	13.33	1.68	2.64	1.18	0.72	0.15	17.12
Brazil	6.67	1.17	2.02	1.10	0.48	0.33	26.92
Ecuador	6.67	1.40	3.15	1.25	0.92	0.11	19.78
Mexico	6.67	1.65	3.05	1.47	1.28	0.11	27.87
Uruguay	6.67	2.32	5.58	1.61	0.63	0.25	34.43
Bolivia	0.00	1.28	1.47	1.87	0.14	0.16	41.46
Guatemala	0.00	1.42	0.90	1.46	0.56	0.14	34.76
Nicaragua	0.00	1.52	2.44	1.57	1.50	0.12	20.50
El Salvador	0.00	1.84	1.86	1.25	0.96	1.15	23.46
Costa Rica	0.00	2.78	2.77	1.53	1.55	0.04	18.46
Peru	0.00	2.83	3.59	1.30	1.70	0.25	18.77
Panama	0.00	3.07	2.75	1.28	n.d.	0.11	20.54
Dominican Republic	0.00	3.80	3.38	1.12	0.18	0.09	17.87
Chile	0.00	4.17	2.93	1.52	0.65	0.14	51.52

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

[a] Proportion of years in which per capita GDP decreased by more than than the average growth rate minus one standard deviation.

[b] Average per capita GDP growth rate.

[c] Standard deviation of the average per capita GDP growth rate.

[d] Coefficient between the standard deviation of the average per capita GDP growth rate and the standard deviation of the rate of growth in private consumption.

[e] Defined as $(\pi/(1+\pi))*(M1/PIB)$, where π represents the rate of variation of the CPI.

[f] Coefficient of variation in the real bilateral exchange rate against the United States dollar, calculated using the CPI.

(a) Chile

In the period 1961-1980, the volatility of the Chilean economy, measured by the frequency of crises, was very high; in fact, it was the most volatile economy in Latin America and the Caribbean after the Dominican Republic. Interestingly enough, these two countries were to become the fastest-growing in the region in the following decades. Since Chile had a low rate of growth as well as significant volatility, it could reasonably be supposed to be one of the worst affect by the debt crisis. However, although the Chilean economy experienced several episodes of turbulence in the 1980s, it did not reduce levels of volatility or its propensity to crisis, but nor did it show a net contraction. In fact, Chile registered the second highest growth rate in the region and, most importantly, saw this rate quicken from 1986 on. It was one of the first countries in which this phenomenon occurred after the chaos of the early 1980s. Naturally, the structural transformation associated with this carried a cost. The extremely high volatility of consumption has translated into a considerable loss in well-being, especially in the sectors closest to the poverty line. Inflationary tax was very high in this period too, although the real exchange rate was less volatile than the average and, despite a financial crisis of considerable magnitude, the level of monetization increased sharply.

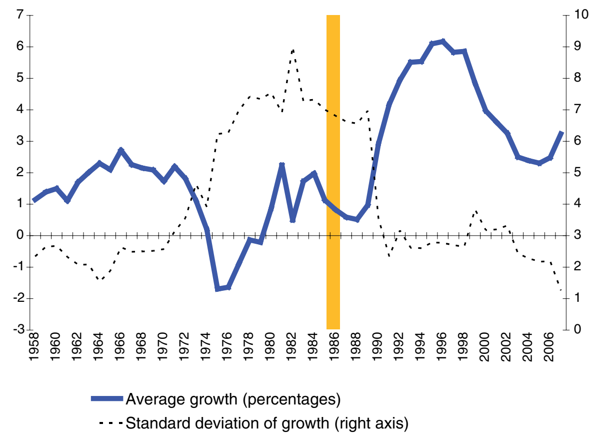
After 1991, Chile was the region's fastest-growing country and remained free of crises. Output volatility and excessive volatility of consumption both decreased. This was consistent with the increase in the coefficient of financial depth, which rose from 13% of GDP in the highly unstable period in the 1960s and 1970s to 51% in 1991-2006. The spectacular development of credit generated very positive externalities in terms of policy autonomy, by making more mechanisms available to the central bank authorities. It also suggests that the structures governing financial intermediation were increasingly solid. Inflationary tax decreased as a proportion of output and real exchange rate volatility decreased. This virtuous growth and volatility trajectory is clearly apparent in figures IV.1a and IV.1b: the growth rate rose strongly and volatility measured by the standard deviation of growth dropped considerably. The shaded column shows the first year of the faster growth period.

It may also be observed (see figure IV.1b) that the reduced volatility reflected a notable increase in the investment ratio. In principle, this supports the specialists' arguments on the importance of reducing uncertainty and developing the financial sector from the point of view of investment. Chile has also illustrated the principle that an orderly budget trajectory reduces the probabilities of phenomena typical of a fiscal predominance regime, thereby providing policy space to develop a more solid monetary regime based on inflation targets.

Figure IV.1a

CHILE: MEDIUM-TERM GROWTH AND VOLATILITY

(Eight-year windows, in percentages)

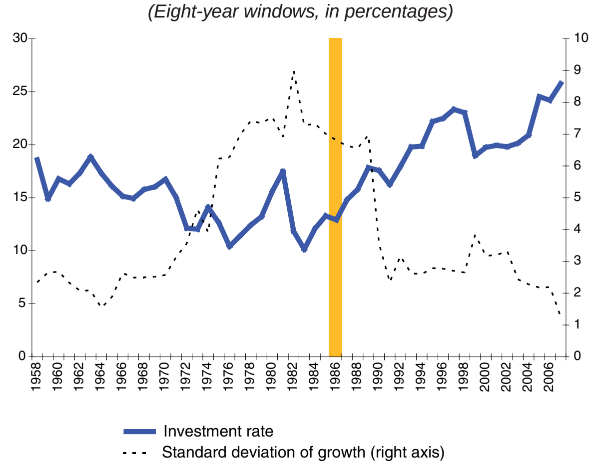


Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Figure IV.1b

CHILE: INVESTMENT RATE AND VOLATILITY

(Eight-year windows, in percentages)



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

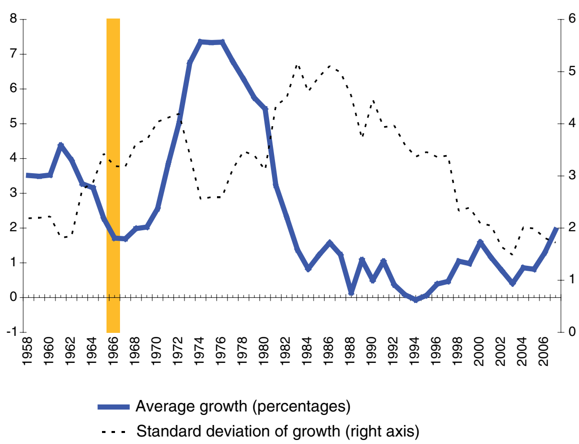
The Chilean economy, then, has developed harmoniously as regards volatility reduction, improvement of performance indicators and creation of space for autonomous policymaking to soften the impact of shocks and cycles. All the indicators associated with this last point, such as the collection of inflationary tax, real exchange rate volatility and financial depth, have improved solidly. Chile is also representative in terms of the autonomy of its policies and institutions. Having started at a disadvantage in terms of institutional stability and excessive economic volatility, the country was able to overcome major episodes of turbulence and regain a growth track.

Although substantial reforms began in the mid-1970s in Chile, the development of the country's macroeconomy would be difficult to explain without reference to its policy initiatives, which were highly autonomous in the sense that they were not an “automatic” result of the existing rules of play. In fact, the leeway for policy implementation was essential in order to take measures to correct errors arising from the reform process. This suggests that a virtuous circle can be created from the interaction between reforms, such as economic opening and pension-system reform, and autonomous policy initiatives, such as the devaluation of the mid-1980s, the changes made to the tax regime with the advent of democracy and the implementation of the structural surplus rule, which help to quicken growth and manage distributive conflicts, creating a climate conducive to investment and institution-building.

(b) Brazil

Since 2000, Brazil’s economy has shown a greater capacity to generate primary surpluses and reflected a positive trend in monetary policy management which speaks, in principle, of growing policy space. The country’s performance indicators are quite modest compared with the rest of the region, however, and its trajectory in the period analysed was patchy. In fact, Brazil went from being the country with the region’s highest growth rate between 1961 and 1980 to being one of the those with lowest growth in the period 1991-2006. Figure IV.2a shows the pattern of growth and volatility in the Brazilian economy.

Figure IV.2a
BRAZIL: MEDIUM-TERM GROWTH AND VOLATILITY
(Eight-year windows, in percentages)



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

After decreasing in the early 1970s in the context of a an extraordinary growth spurt that began in 1966, volatility increased systematically after the first oil shock. Later it surged again, driven by the debt crisis and, in these circumstances, Brazilian growth practically collapsed.

In the 1980s, the frequency with which the Brazilian economy recorded very low growth rates increased from 5% to 44%. Together with the heightened volatility, the collection of inflationary tax increased and the real exchange rate was very unstable. These two facts indicate inefficient and highly volatile monetary and exchange-rate policies. In fact, the surge in volatility would ease only gradually over several years. As for anti-volatility policy initiatives, the debt crisis imposed constraints so severe that it was not until the mid-1990s that the authorities could be said to have regained enough autonomy to implement a stabilization programme in the form of the Real Plan, which achieved great advances in terms of controlling volatility and inflation.

As shown in figure IV.2a, volatility fell sharply from the mid-1990s on. As well as the Real Plan, this was undoubtedly a result of the increasing solidity of fiscal and monetary policies thanks to the modification of the exchange-rate and monetary regimes in l999 and the implementation of the Fiscal Responsibility Act in 2000. Table IV.2c shows that the frequency of crises decreased significantly, as did the collection of inflationary tax and real exchange-rate volatility.

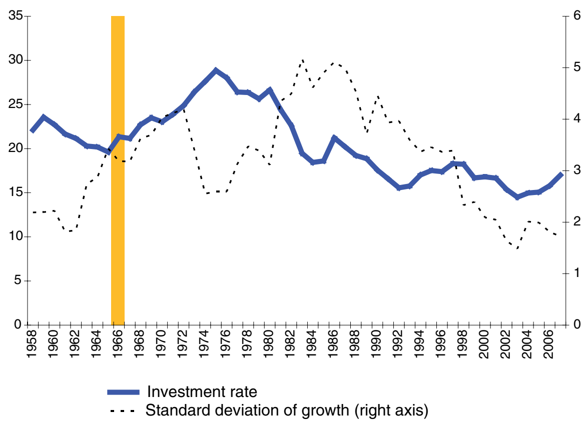
This evidence suggests that the explosion of volatility in the 1980s reflected both a permanent break in the growth trend and a weakening of the Brazilian economy’s capacity to boost growth; the last phase of acceleration occurred in the 1970s. This weakness is a matter for concern, given that it has arisen despite structural reforms and successful efforts to improve macroeconomic policy.

Closer observation of the performance of investment and Brazil’s fiscal accounts suggests that the poor growth may not be entirely divorced from the policies implemented. More specifically, as shown in diagram III.2, the authorities need some degree of autonomy in order to create anti-volatility policies. In Brazil, this was necessary after the debt crisis, first, to generate a primary fiscal surplus capable of servicing the public debt and, second, for the central bank to be able to implement a credible monetary policy consistent with the objective of reducing excessive inflation.

Today inflation is much lower and the burden of the public debt has gradually eased. The profile of the debt has improved as well, in terms of maturities, currency composition and indexation (Luporini and Licha, 2008). This suggests that the authorities were able not only to generate degrees of autonomy for their policies, but also to implement them successfully, preventing fiscal urgencies and the management of the public debt from predominating over monetary policy.

Why, then, has the Brazilian economy grown so modestly? One hypothesis that cannot be ruled out is that initiatives designed to open up spaces —that is, reduce constraints— for implementing anti-volatility policies had undesired effects on incentives, in general, and investment, in particular, thus damaging the capacity to accelerate growth. Figure IV.2b shows the pattern in the investment rate in relation to GDP.

Figure IV.2b
BRAZIL: INVESTMENT RATE AND VOLATILITY
(Eight-year windows, in percentages)



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

Unlike in Chile, where the decline in volatility coincided with an upturn in investment, in Brazil investment has not reacted or has done so only slowly and belatedly. It may be that the creation of a suitable climate for anti-volatility fiscal policy reduced the fiscal openings for growth. In a recent work, Luporini and Licha (2008) hypothesized that the decrease in volatility brought about by more solid fiscal and monetary policies may have had the undesired effect of weakening growth fundamentals. These authors find three factors constraining fiscal openings for growth: (i) the increase in the tax burden, which is now nearing 38% of GDP, too high a figure for a middle-income country; (ii) the decrease in public investment (which represents around 1% of GDP), especially in infrastructure, together with an increase in primary spending; and (iii) the high rates of interest linked to the effort to reduce inflation, which have affected the fiscal accounts by raising interest on the public debt, which now stands at over 6% of GDP. As Castelar Pinheiro and Bonelli (2007) underlined in their assessment of growth in Brazil, the scenario of high real interest rates combined with the sharp rise in the tax burden and the low level of public investment could have discouraged private investment and the process of self-discovery.

For the future, a more stable and less volatile macroeconomy is obviously an asset insofar as it generates a more propitious investment environment and offers the possibility to implement more aggressive growth policies. In fact, Brazil is now achieving higher growth rates, has secured a positive rating in terms of investment risk and has undertaken a number of initiatives aimed at increasing public investment and improving the tax structure (see Luporini and Licha, 2008).

In short, a number of lessons on anti-volatility policies may be drawn from the Brazilian experience. One of them is that growth is far from being an automatic consequence of lower levels of instability. Suitable measures to mitigate volatility do not obviate specific policies aimed at increasing growth. A second lesson is that major crises such as that of the 1980s result from structural breaks that can push a growing economy —like post-war Brazil— onto a low-growth, low-investment trajectory that can last for a significant length of time. At the risk of stating the obvious, it is more difficult to craft credible fiscal and monetary policies after a lengthy period of high volatility and crisis.

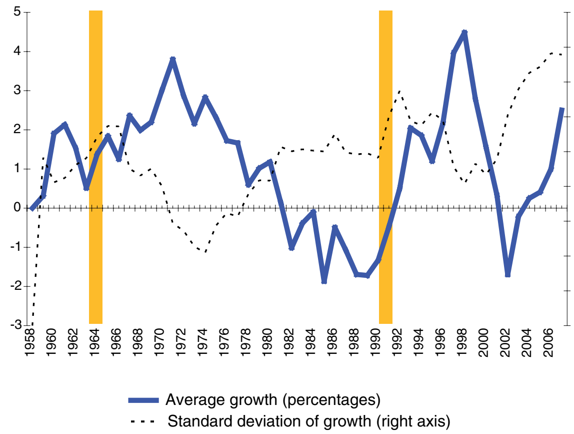
(c) Argentina

In the period 1961-1980 (see table IV.2a), Argentina was a fairly average representative of the region in terms of the frequency of crises, volatility of income and stability of consumption. But the Argentine economy became more unstable in the years that followed and actually become the region's most unstable country during the debt crisis and in the 1990s. Like in the case of Brazil, the financial turmoil seriously affected the country's rate of growth, which turned negative. The economy had already started to become more volatile before the debt crisis, largely because of the shocks that led to problems of political instability and would ultimately crumple the growth that had been accelerating since 1964. This combination of low growth and high volatility left Argentina in a very vulnerable situation when the Mexican moratorium occurred in 1982.

As shown in figure IV.3a, a distinctive feature of the Argentine economy is the number of years of absolute and prolonged decline in per capita GDP. This fall was due, in part, to the substantial variation in relative prices and, in part, to the destruction of wealth —especially financial wealth— and the structural changes that forced the reallocation of property rights (Fanelli, 2008a). As a consequence, the distribution not only of income, but also of assets, was significantly altered. Table IV.2b, which offers an overview of the scope of this type of phenomenon, shows the indicators corresponding to the period of the debt crisis. It was time of highly volatile real exchange rates, in which inflationary tax represented 5 GDP points, with scant credit to the private sector. It is not surprising that the financial shocks and policy instabilities had very negative effects on the investment rate, which plunged in the early 1980s.

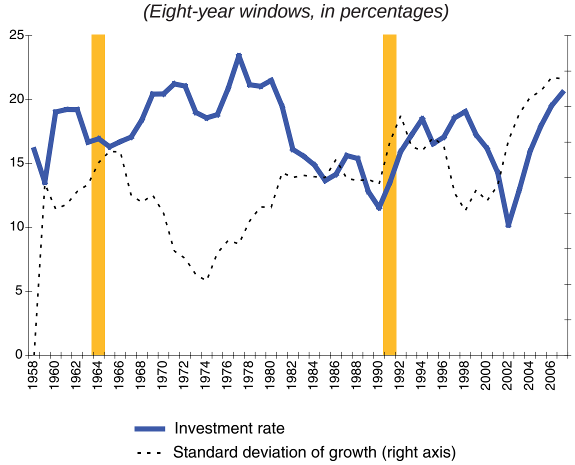
Despite the heightened volatility, the investment rate was quite high in the second half of the 1970s. This was mainly a reflection of the high level of public investment and the inordinate expansion of credit, which incubated the debt crisis. This suggests that, when the effects of the economic cycle were disregarded, the public sector's greater freedom for policy implementation —together with cheaper external credit and favourable terms of trade in the 1970s— contributed to increasing external vulnerability.

Figure IV.3a
ARGENTINA: MEDIUM-TERM GROWTH AND VOLATILITY
(Eight-year windows, in percentages)



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

Figure IV.3b
ARGENTINA: INVESTMENT RATE AND VOLATILITY
(Eight-year windows, in percentages)



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

After the 1980s, when freedom for policy implementation was limited, in the 1990s there was more room for policymaking. This opening was used mainly to implement structural reforms to reactivate growth. The authorities attempted to avoid the need for countercyclical policies by creating a currency board, with the Convertibility Act. This offered the advantage of requiring very little in the way of discretionality but was very demanding in terms of the efforts needed to avoid the occurrence of a phenomenon of fiscal and financial predominance. The system proved very effective in reducing inflation —table IV.2c shows the sharp reduction in takings of inflationary tax— but ultimately caved in precisely because the fiscal policy acquired predominance over the convertibility regime. According to Cetrángolo and Jiménez (2003), the dilemma between strengthening competitiveness through fiscal incentives and the need to show a surplus on the fiscal accounts translated into an unresolved conflict between fiscal and external equilibrium, and this worked against the sustainability of the fiscal policy of convertibility. Flaws in the design of financial system regulations had a similar effect, since they exposed borrowers to excessive exchange-rate risk and allowed banks to take disproportionate risks with government liabilities. The experiences culminated with a financial crisis and default on part of the public debt (see Chisari and others, 2007). In the light of these developments, it is unsurprising that Argentina should not have become more financially solid, despite having reduced inflation.

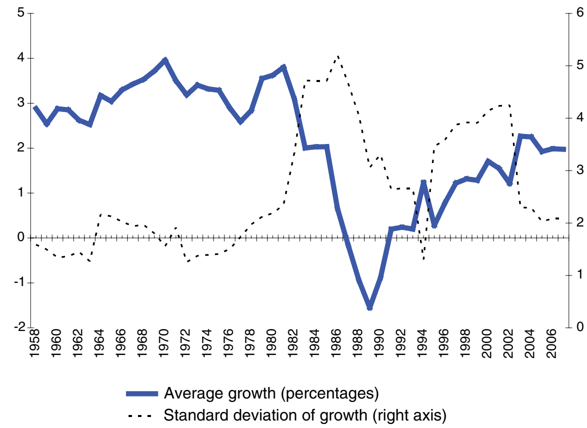
The Argentine case, however, has a number of traits that should not be disregarded. First, despite the effects of the crises from 1999 to 2002, the average rate of growth for the period 1991-2006 was higher than that recorded in the two preceding historical periods (see tables IV.2a, b and c). At that time, moreover, the country experienced the first upturn in economic activity since l964. So, from 2003 onwards, Argentina enjoyed an extremely high rate of growth, to the extent that the country now meets the conditions to be considered a candidate for beginning a process of acceleration. Second, figure IV.3a shows how the episodes of acceleration of 1964 and 1991 both coincided with a marked drop in the level of volatility, but this did not continue and rising volatility ultimately caused a collapse in economic activity. This has implications for the current growth process, which has occurred in a context in which volatility remains high.[1] Although the investment rate has recovered significantly despite the volatility, the experience of high volatility and high investment at the end of the 1970s and the findings of research on growth mentioned earlier indicate that the increase in investment is unlikely to continue in a framework of uncertainty.

Putting these facts in perspective, it would appear that the main obstacle facing the Argentine economy is having failed to reduce volatility despite having regained the capacity to grow. It may be that distributive conflicts play a particularly important role (Chisari and others, 2007). As noted, the countries experienced a number of crises in which property rights had to be redefined and income distribution took a markedly regressive track.

[1] The windows-based methodology also produces a drag effect, however.

The resulting problems translated into recurrent episodes of predominance which prevented the coordination of fiscal and monetary policies. The most striking of those events was the implosion of convertibility in 2001-2002, prompted by fiscal and financial preeminence over the currency board regime. It would therefore seem that one of the main challenges of the Argentine economy is to regain policy autonomy in order to seek distributive consensuses that can reduce the probabilities of predominance and thus allow better coordination of policies designed to exploit the opportunities for growth that appear to exist. The positive shock provided by the terms-of-trade upturn of the last few years has helped in this direction by generating twin surpluses —on the current and fiscal accounts— and increasing the space for policy autonomy, although the debate on income distribution continues.

Figure IV.4a
MEXICO: MEDIUM-TERM GROWTH AND VOLATILITY
(Eight-year windows, in percentages)



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

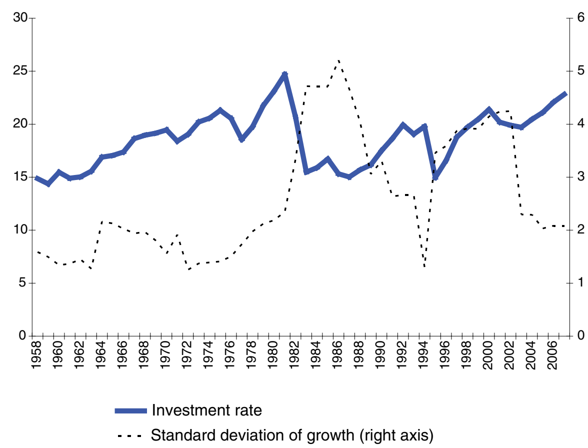
(d) Mexico

In terms of volatility and growth, the Mexican economy enjoyed a highly favourable combination in the period 1961-1980. Although there were no periods of acceleration, the growth rate was relatively high (3.5% per capita), exceeding the average for the region. It was also a very stable economy, with no major variations in the real exchange rate and low inflation. In a context in which the frequency of crises was equal to zero, consumption and output volatility were very similar, despite the lack of financial solidity. As figure IV.4a shows, this favourable combination was turned upside down in the 1980s. Although significant progress has been made as regards volatility and growth in the present decade, thanks to the implementation of more suitable policies, the fact remains that Mexico's economy —like Brazil's— has been hard put to regain the stable growth path characteristic of its post-war period. The lack of capacity to accelerate growth is no small matter: Mexico is the only one of the five countries examined that has experienced no accelerated growth period at all since the 1950s.

Just as occurred in Brazil and Argentina, volatility began to increase in the mid-1970s, before the debt crisis, and then surged after it broke out. Interestingly, like in Argentina, in the late 1970s the increased volatility coincided with an upturn in the investment rate. This situation was unsustainable and ended with a sharp drop in that rate during the "lost decade", partly owing to the strong adjustment in public investment (see figure IV.4b). As occurred in much of the region, the adjustment policies significantly reduced the fiscal space for growth.[2]

[2] For a more detailed analysis of fiscal adjustment and public investment, see Lucioni (2008).

Figure IV.4b
MEXICO: INVESTMENT RATE AND VOLATILITY
(Eight-year windows, in percentages)



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

In the 1990s, the Mexican economy was unable to steady volatility at a low level. It was particularly affected by the 1994-1995 crisis, which was triggered by flaws in financial sector oversight and excessive exposure of the short-term public debt to exchange-rate risk. These predominated over the exchange-rate regime, forcing the authorities to implement a traumatic devaluation in December 1994.

As Ramos-Francia and Torres García (2005) underlined, it proved impossible to make significant progress in terms of improving the monetary regime and instituting a system of inflation targets until after the fiscal accounts had been put in order, that is, once sufficient control had been gained over policy instruments in order to avoid fiscal predominance. It was also important to improve financial arrangements to prevent problems in managing public debt or financial disequilibria from allowing the respective policies to become preeminent. Mexico has made considerable progress: the inflation rate fell from over 50% to around 4% and excessive consumption volatility decreased along with real exchange-rate variability. Despite the favourable trends of these stability indicators, however, the financial market remains shallow.

Apparently, room for autonomous policy implementation is still significantly limited in Mexico. One main constraint is the lack of resources, since the tax burden is relatively low in relation to per capita GDP, making public resources highly dependent on revenues from energy products. It is thus more difficult to achieve a trade-off between fiscal leverage for growth and space for anti-volatility policies, while the resources to finance policy initiatives ultimately depend largely on the behaviour of petroleum prices.

(e) Dominican Republic

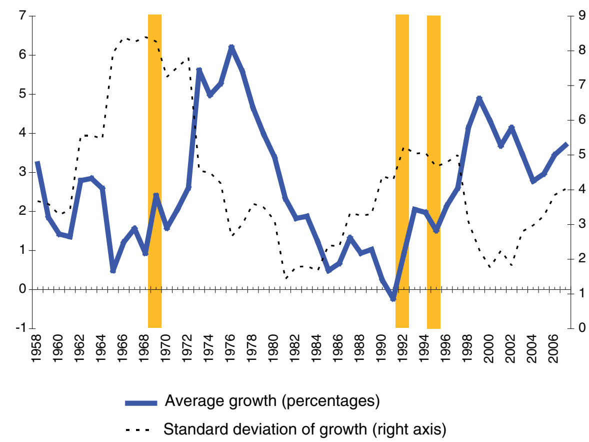
As may be appreciated from an analysis of tables IV.2a, b and c, the Dominican Republic shows a similar trajectory to Chile in the years examined: it was one of the most volatile countries in the period 1961-1980, but saw substantial improvements thereafter. One very significant fact that distinguishes the Dominican Republic's economy from Argentina's, Mexico's and Brazil's and brings it closer to Chile's is that it was, proportionally, less affected by the debt crisis; although volatility increased and the growth rate was low, it did not turn negative as it did in the region's three largest countries.

The trait that most clearly marks relative performance during the crisis is, however, the investment rate (see figure IV.5b). After a heavy fall, investment picked up towards the end of the 1980s and grew strongly in the 1990s, alongside reforms implemented to boost tourism and industrial production in the free zones.

Although figure IV.5a shows good results in terms of growth and volatility in the 1990s, it should be borne in mind that these aggregate figures mask a substantial process of structural change. At that time, the Dominican Republic was seeking to change its international trade specialization profile and diversify exports, developing new comparative advantages that had little to do with its traditional strengths. Foreign capital played a key role in this process, with investments in both tourism and free zones. This would not have been possible, however, without the reform and policy initiatives which showed great flexibility to lock into opportunities.

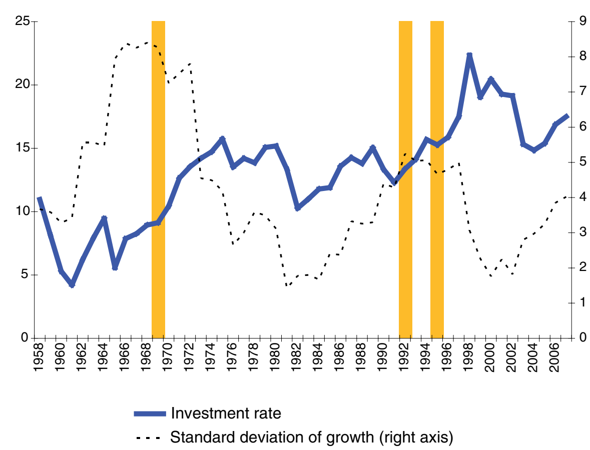
Having avoided the collapse in the 1980s, the strategy of investment incentives enabled the Dominican Republic to achieve two growth spurts in the 1990s. Notably, it was the economy to record most such episodes (the shaded lines in figure IV.5 a and b). This virtuous growth cycle, however, was interrupted at the start of the 2000s by a financial crisis that stemmed from oversight and regulation problems. The immediate consequence of this was that financial predominance in the public accounts ate into the space for policy autonomy. The central bank provided assistance to the system, which generated a significant quasi-fiscal deficit and threw the public accounts into disequilibrium. In addition, the loss of policymaking space occurred at a particularly bad time, since the country had been hit by two major shocks: the oil price rises and pressure from China in the United States market weakening free zones' competitiveness.

Figure IV.5a
DOMINICAN REPUBLIC: MEDIUM-TERM GROWTH AND VOLATILITY
(Eight-year windows, in percentages)



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

Figure IV.5b
DOMINICAN REPUBLIC: INVESTMENT RATE AND VOLATILITY
(Eight-year windows, in percentages)



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

Despite these difficulties, in the most recent period the Dominican economy regained a growth path, but volatility remains high and policy constraints are still significant. The growth of the economy shows a high standard deviation, although it has been able to stabilize consumption fairly well, perhaps thanks to the moderating effect of remittances. Chinese competition for the country's free zone exports in the United States market and higher oil prices have affected those results, but one of the root causes, as noted earlier, has been the financial crisis caused by the lack of regulation and oversight in the sector.

In short, the experience of the Dominican Republic suggests that sound policies can translate into good results, but institutional weakness —in this case, problems related to oversight and regulation shortfalls in the financial system— always represent a threat of volatility. The country is also an example of structural constraints generating a vulnerability which, in the final analysis, can leave the government without enough room for manoeuvre to deploy policies to reduce the effects of negative external shocks such as oil price rises and competition in the United States market.

3. A comparative analysis

The examination of growth and volatility trends in the five countries throws up some important similarities in the behaviour of three of the region's largest economies: Argentina, Brazil and Mexico. First, the debt crisis marked out a before and after. In all three cases, inability to handle the fallout from the shocks of the early 1980s had far-reaching consequences. In turn, the intensity of the crisis seemed to have to do with the fact that these economies were vulnerable, that macroeconomic volatility had been increasing since the mid-1970s and that, aside from the role played by oil shocks, erroneous use of spaces for policy autonomy also had an influence.

A second similarity between the three countries is that, unlike in Chile, the reform process of the 1990s was not enough to restore growth and reduce volatility. The evidence suggests, however, that the tasks pending for achieving those objectives are different for the three countries. A common feature of Mexico and Brazil, but not of Argentina, is that despite the reduction in volatility in both economies, growth remains low and well below the rates seen prior to the 1980s. Argentina, conversely, shows a greater capacity for accelerating growth, even though its economy is slightly more volatile. Whereas Brazil experienced its last rapid growth spurt in the mid-1960s and Mexico has had none at all, Argentina recorded one in the mid-1990s. In addition, Argentina is now in its sixth consecutive year of high growth, and is thus a candidate for growth acceleration. Between 1991 and 2007 the average growth rate of per capita GDP in the Argentine economy outstripped that of the other two countries by more than a percentage point.

Lastly, both Brazil and Mexico have shown a much higher capacity to improve the quality of their anti-volatility policies than Argentina has. This is reflected in inflation indicators and, especially, in access to international capital markets. The two countries have also achieved an investment grade risk rating. The challenges faced by the three economies would thus seem to be different: for Mexico and Brazil, the most important task is to find a way of boosting growth and thus capitalizing on the progress made in volatility reduction, whereas for Argentina the priority is to consolidate a policy framework that, by reducing aggregate volatility, can help turn the current growth phrase into a genuine episode of acceleration.

B. Macroeconomic policy challenges in Latin America and the Caribbean

1. Macroeconomic policy and economic cycles

Volatility is often exacerbated by macroeconomic policy design failings, attributable to political factors, conflicts of interest or errors in identifying shocks. Such failings may also heighten distributive conflicts and disputes relating to ownership rights, which, in turn, may result in wealth destruction or in the loss of unique opportunities for accelerating growth. Problems of this type have arisen on more than one occasion in Latin America and the Caribbean, when countercyclical policies have not only proved futile in reducing volatility but have often actually been the cause of it.

This section looks at three factors that are key to understanding the nature of the difficulties inherent in the countercyclical policies adopted in the region. First, lack of coordination of the different policies that affect volatility is a fundamental problem (though this is not to deny the importance of technical errors or erroneous expectations). This failing is often due to political economy constraints linked to problems of ownership, previously analysed, and to the uneven income distribution that is typical of the region (ECLAC, 2006b).

While public policy can affect volatility through a number of channels, studies on the macroeconomic problems in the region usually attribute such volatility, on the one hand, to the effects of the monetary or exchange-rate policy or both and, on the other, to fiscal policy.

In the context of monetary and exchange-rate regimes, the corner solutions (hard peg or managed float) favoured in the 1990s (see Frankel, 1999) have been losing ground to inflation-target and free-float systems (Mishkin, 2000). The convertibility crisis in Argentina and the competitiveness problems experienced by some dollarized countries played a significant role, although the overall decline in inflation indices may well have had an impact.

In recent years, several Latin American and Caribbean countries have adopted inflation-target regimes, although with certain peculiarities that differentiate them from the traditional paradigm.[3] Contrary to orthodox practice, central banks in the region have intervened in the foreign-exchange market on the grounds that a build-up in reserves is necessary to insure the economy against international shocks or to avoid excessive currency appreciation such as might erode the country's export competitiveness. There has been no shortage of reflections on the need to preserve the stability of financial markets and on the distributive effects of what are seen as excessive variations in the exchange rate. Other central banks (including those of Argentina and the Dominican Republic) took a similar approach, opting for a monetary-target system as a means of containing inflation.

In analysing the issue of real exchange-rate competitiveness, Eichengreen (2007) maintains that countries whose level of development is equivalent to the regional average should be concerned with the exchange rate since, as he points out, acceleration of economic growth is practically unheard of without a competitive exchange rate. It is justifiable to make the real exchange rate a policy objective, first because of political economy distortions, which usually hurt the export sector, and, second, because of the need to take advantage of externalities linked to export activities, for example, backward and forward linkages, and accumulation of know-how. In the light of the Asian experience, however, Eichengreen notes that the exchange rate is endogenous and that this policy has a limit. As exports and growth take off, it is natural that the currency should appreciate. If policymakers wish to avoid too sharp an appreciation, they should use fiscal, rather than monetary, policy, and thus generate a larger surplus.

In short, although the regional experience points collectively towards the advisability of making the inflation target the pivot of monetary policy, this target is often opaqued by the importance attached to other

[3] See Chang (2007).

objectives such as self-insurance, financial stability, competitiveness and equitable income distribution. Problems of implementation also mean that uncertainty becomes a major constraint in decision-making. Lastly, it should be recognized that monetary policy is, to some extent, dependent on fiscal policy, since if the latter does not contribute effectively to economic equilibrium, there is very little chance of achieving correction and stabilization through monetary policy.

Fiscal policy is generally recognized to be crucial for reducing excessive volatility. In this regard, fiscal authorities are recommended to pursue two basic objectives: ensuring fiscal solvency and avoiding a procyclical bias.

One of the fundamental problems in managing volatility is the trade-off that generally exists between stabilization and solvency, since a single instrument usually has to achieve both objectives. Thus, a discretionary fiscal policy may be effective for attenuating the effects of the business cycle, but it is also highly susceptible to pressures and liable to compromise solvency. Moreover, although rules help to reduce the bias towards deficit, they limit the possibilities of using the budget to absorb cyclical fluctuations, thus reducing flexibility and fuelling volatility.

Clearly, just as the impact of the discretionary approach on solvency will depend on the quality of the institutions involved, so the repercussions of a given rule on volatility will be determined by the design of that rule. Indications are that a structural rule which takes into account variations in the business cycle in calculating the permitted budget deficit, as in the case of Chile, or which makes provision for a stabilization fund will be more effective than one that merely sets a maximum deficit. The main disadvantage of a stabilization fund is that it creates an incentive to spend when public revenues are rising, for example under the influence of a temporary positive shock or a growth spike of uncertain duration. This may translate into a procyclical fiscal movement and increase pressure on policymakers to ignore the rule when the positive impetus disappears, as occurred in some countries of the European Union.

The type of macrofiscal rules that exist in several countries of the region, based on a maximum deficit or public borrowing limit, were designed to resolve solvency issues within fiscal policy that were not related to the economic cycle. Moreover, they are considered more appropriate for coordinating policies applied by the different levels of government of decentralized economies.

Although a structural balance rule may be more appropriate because it includes information on the current phase of the cycle, one problem it presents is how to determine the likely duration of the current situation. Cetrángolo and Gómez Sabaini (2007) show that the far-reaching structural changes introduced in fiscal policy in the region may make it difficult to estimate expenditure and taxation elasticities, since they affect the stability of the parameters.

Even a rule that factors in cyclical variations may be unable to adapt to uncommonly powerful shocks. Chile, for example, has recently faced this problem. The authorities there had to make some alterations to their use of funds and modify the structural deficit target owing to an unusually sustained rise in terms of trade. According to Jiménez and Tromben (2006), the difficulties could be even greater in the case of rules establishing a stabilization fund. The incentive to keep fiscal policy tight at the top of the cycle is that resources will then be available during the downturn. But when a positive shock continues over a long period, the incentive to spend the “excess” surplus increases. Furthermore, countries with a federal or highly decentralized structure will find it difficult to implement rules of this kind, since the greater the number of subnational entities involved, the more the information required for implementing structural rules, and the more difficult it will be to identify the specific effects of shocks in the different regions and governments.

Jiménez and Tromben (2006) also point out that policymakers generally face two dilemmas when commodity prices are strong: how to make the most of the related increase in fiscal revenues and how to use the fiscal surpluses generated to avoid the macroeconomic problems often triggered by such windfalls. As regards the first problem, the tools used will depend on whether the resources are in public or private hands. The most direct way of converting commodities into fiscal revenues has been for governments to participate in mining and drilling operations through State-owned firms. Conversely, when commodities are extracted by privately-owned enterprises, the government uses fiscal instruments ranging from royalties and income and profit taxes to withholding taxes on exports.

The problem does not end with securing the profits, however, since it is necessary to ensure that these are effectively allocated to maximize growth. If the private sector has control over the resources in the context of an underdeveloped financial system, there is little to prevent windfall gains from positive shocks from pouring into overinvestment in the natural resource sector, a real-estate boom or consumption of luxury goods. This problem of allocation also arises in the case of remittances to the countries of Central America and the Caribbean.

If the positive shock feeds into a fiscal surplus owing to State ownership of resources, the authorities have only to resolve the problem of what to do with the windfall surplus. On the other hand, if resources are privately owned, two additional questions arise: what is the right fiscal —and above all tax— policy; and how should the influx of foreign currency on the foreign-exchange market be managed? Would it be better to float the currency or to build up reserves and neutralize the appreciation? In the second case, clearly, the problem of coordinating the fiscal and monetary policies must be addressed. But it is also clear that in order to allocate resources effectively, these policies must be combined with policies for financial development, investment in infrastructure and human capital, and for promotion of innovation.

To sum up, beyond the correct definition of the rules of the fiscal game, a number of questions must be borne in mind when evaluating the relationship between fiscal policy and volatility, including the need to identify the nature of the shock, the uncertainty facing decision-makers and the need for coordination. Institutional transparency must be enhanced as this could be extremely valuable in avoiding solvency problems and would have positive effects on volatility by reducing the risk of crisis, which, as already seen, is one of the most damaging forms of volatility.

2. Anti-volatility policies and distributive conflicts

Two important conclusions that emerge from this study concern the changes in the volatility dynamic and the type of shocks confronted by Latin America and the Caribbean. As regards volatility patterns, there is reasonably convincing evidence to suggest that the region is now in a more favourable phase than in the 1990s. Although volatility is still significant, it has abated somewhat, while the growth rate is high —comparable only with that of the period between the late 1960s and the early 1970s; moreover, the capacity to stabilize consumption seems to have improved, which is a further sign that volatility is no longer at excessive levels.

Analysis confirms that shocks of financial and global origin continue to be very significant, even though their profile has changed in the course of the decade, with greater fluctuations in relative international prices affecting the various countries in different ways. Those countries that enjoy comparative advantages in natural resources have benefited from better terms of trade thanks to rising prices for minerals, energy and food products. Conversely, this trend has been prejudicial to the countries of Central America and the Caribbean, which depend more on exports from free zones and are oil-importing economies, although remittances from migrant workers have helped to cushion external shocks.

Unlike financial shocks, which damage primarily monetary and financial stability and aggregate demand, energy and food price shocks put pressure on the inflation rate by pushing up costs and influence income distribution through changes in relative prices. This suggests that vulnerability is now being generated by a new type of interaction between shocks and structural limitations, different from that seen in the past. While in the 1990s, the structural features exacerbating vulnerability were poor financial regulation and excessive public borrowing, these are now being eclipsed by distributive conflicts. The inability of institutions to manage these conflicts is therefore undoubtedly a risk factor.

The challenge for countries with a large raw-material endowment is to prevent the “natural resource curse” from fuelling volatility and increasing the probability of a crisis occurring. Variations in relative food and energy prices have implications for vulnerable groups, an aspect that has not been studied in this document. The structural duality typical of Latin American economies and the proportion of the population living in poverty and indigence are key constraints in any evaluation of social vulnerability to food and energy price shocks. Anti-volatility policies should be geared towards protecting those groups and reducing their vulnerability. As stated earlier, measures to reduce the vulnerability of at-risk population groups should be viewed as anti-volatility policies in their own right.

Another important aspect of the shocks generated by variations in the terms of trade —and in the remittances received in Central American and Caribbean countries— is that they trigger currency appreciation in the countries. The risk here is not so much of a macroeconomic nature (although this is always implicit if the appreciation is disproportionate) as one that discourages innovation and incorporation of knowledge, which are of paramount importance for accelerating sustainable growth.

C. Concluding remarks

The foregoing chapters have explored the links between real volatility and performance in the Latin American and Caribbean economies and have highlighted some aspects that will be mentioned in this section in order to recapitulate and bring the analysis to a conclusion.

First, volatility is an important consideration in the region's economy because it affects growth and consumption stability. It also influences the income distribution and property rights and can therefore lead to distributive conflicts. These factors can, in turn, affect the quality of public policies and generate episodes of fiscal predominance, threatening the stability of the rules of play. The objective is not merely to manage volatility, but to reduce it: hence, as Prebisch noted in the document quoted, it must be considered in growth and poverty reduction strategies.

Reforms are needed, therefore, to attack the structural sources of volatility, such as failures in financial markets and in internal checks and balances, the lack of instruments to diversify risk at the international level, the pattern of international specialization and the competence of dispute settlement institutions.

The examples of Chile and the Dominican Republic suggest that policies are also important, since policymaking efforts helped these countries to move from the top of the ranking of most volatile economies to the list of the fastest-growing. Conversely, the region's three largest economies —Argentina, Brazil and Mexico— experienced recurrent episodes of fiscal and external predominance, although the latter two subsequently made substantial progress in macroeconomic management. The three largest economies therefore face different challenges in relation to volatility and growth, since while Brazil and Mexico need to lock into a higher growth trajectory, Argentina's economy is growing but has major difficulties in managing distributive conflicts and reducing volatility.

The fact that Chile has been more successful than the Dominican Republic in crafting a macroeconomic policy regime based on transparent rules seems to have greatly helped the country to improve its ability to filter shocks and reduce its vulnerability to financial crises. In conditions like today's, with surging food and energy prices, institutions responsible for managing distributive and ownership conflicts play a key role, since shocks of this type create and destroy wealth and, hence, property rights.

The foregoing chapters have identified factors that need to be taken into account in designing both countercyclical and volatility reduction policies. In relation to countercyclical policy, the main lesson is that a suitable fiscal policy is essential to avoid Dutch disease, distribute over time the additional resources generated by a positive terms of trade shocks and ensure solvency and countercyclicity. But since these represent many simultaneous objectives, it is necessary to create independent instruments to tackle them, which is not possible without acting at the same time on the structural constraints that limit space for policy autonomy: institutions, availability of tax resources and the quality of the State apparatus.

As well as helping to broaden the range of instruments available, anti-volatility reforms should act on structural constraints. Some constraints are naturally "more" structural than others; geography, for example, is more difficult to change than institutions. This implies that a strategy of anti-volatility structural reform should consider the trade-off between expected benefits and difficulties in changing particular characteristics, and it should be crafted bearing in mind that policy volatility can be as relevant as the policies themselves. For example, from the point of view of volatility it is important to increase trade diversification to reduce dependence on a small number of products, insofar as the international financial markets are not an efficient means of diversifying risk. But forcing diversification in opposition to real fundamentals carries costs.

The creation of the markets needed to manage risk would generate a double pay-off, since it would both heighten the private sector's capacity to absorb shocks and increase the range of instruments available to the central bank, by expanding the frontier for open-market operations and neutralization. From the point of view of growth and development, the importance of creating policy tools cannot be overstated. Lastly, greater efforts are needed to improve coordination among policies and identify implicit interactions, since excessive emphasis on monetary or fiscal policy in isolation can end up worsening the problem of predominance.

The right conditions have to be created to make use of policy autonomy, whether by solving problems in order to free resources for other purposes or by acting on constraints. An example of the first would be to promote the deepening of contingency markets so that the public sector can concentrate on attending to vulnerable groups which, give the income distribution in the region, have little possibilities of protecting themselves from shocks, especially during lengthy periods of low economic growth.

The development process implies the creation of institutions, markets, governance structures and policy instruments, but it also implies inclusion. From the perspective of the analysis conducted in these chapters, this makes it all the more important to reduce volatility in order to enhance growth, create more employment and lessen the vulnerability of the worst exposed segments of the population.

Box IV.3

THE ROLE OF FISCAL AND FINANCIAL POLICIES IN CYCLICAL FLUCTUATIONS

An issue which comes up repeatedly in the Latin American and Caribbean countries has been the difficulty in distinguishing between temporary and permanent changes in economic conditions. Decisions, in the public and private sectors alike, depend on expectations, which are subject to error and not necessarily the same for all the agents. Although there is no way of ensuring that the government's forecasts are accurate, policymaking is explicitly or implicitly associated with consideration of future scenarios and, one way or another, it implies a judgment about the sustainability of macroeconomic performance as determined by the conduct of the agents. Countercyclical policy (which, by its very nature, requires a perception to be formed about the components of the cycle and the trend observed) needs to have an element of compensation for possible biases in the behaviour of private agents, especially developments in financial asset markets and trends in aggregate spending. The measures to be taken in each case will depend on the problem to be corrected; if excess spending is perceived to be having repercussions on the foreign trade balance and the real exchange rate, the use of traditional fiscal policy instruments or measures to tighten the supply of external credit may depend on whether the bias is thought to be coming from consumption patterns or in expectations of return on investments.

Movements in aggregate demand linked to variations in credit largely reflect the behaviour of agents participating directly in the financial markets. In economies like those of Latin America and the Caribbean, large groups of the population have limited access to these markets and little or no possibility of easing the consequences of temporary reductions in income. Macroeconomic policies can have a significant impact on the well-being of those groups, which belong to the poorest segments of the population. Governments that are able to generate or reallocate resources at times of cyclically low income would be in a position to use fiscal instruments to broaden the spending opportunities of those consumers and thus, operate as implicit suppliers of credit in the stead of the absent markets. This role for fiscal policy would seem to be particularly important during deep recessions. There may also be opportunities to implement countercyclical policies of the sort mentioned when the economic outlook is expected to improve and the government wishes to engage agents subject to liquidity constraints in the anticipated upturn right away.

The existence of sets of agents with different behaviours and situations may cause policy dilemmas. Although directed towards the economic in general, macroeconomic instruments tend to have distributive repercussions. In some cases, countercyclical policy would have different elements and directions is attention were focused on the behaviour or circumstances of particular groups. For example, if favourable signals from economic trends prompt an overreaction in the form of increased spending by groups with access to credit, but are not fully reflected in the current income of segments with liquidity constraints, tensions may arise between the need for a tighter fiscal stance to offset the bias of the former and a looser stance to meet the needs of the latter. Analogous dilemmas can arise in times of contraction, making policies a function of distributive weighting.

The possibility of implementing countercyclical policies depends heavily on access to financial resources, especially in times of recession, which requires the government to have a threshold of perceived solvency. This emphasizes the importance of generating surpluses in times of relative prosperity and providing room for financial manoeuvre to take up at low points of the cycle. Financial fragile governments face particularly acute problems when the economy enters severe recession at the same time as credit supply dries up: the pressure to make fiscal adjustments to loosen the constraints and decompress asset markets stands in opposition to the urgent needs of population groups with falling income and facing illiquidity.

Source: D. Heymann and E. Kawamura, “Notas sobre políticas macroeconómicas en las fluctuaciones cíclicas. Política fiscal y ciclo económico en América Latina”, document presented at the workshop of macroeconomic policy and cyclical fluctuations, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April 2008, unpublished.

Chapter V

Sixty years of the *Economic Survey*[1]

A. Introduction

Ever since its creation at the end of the 1940s, the work of the Economic Commission for Latin America and the Caribbean has been directed towards formulating a line of thought that is both academically rigorous and responsive to the specific socio-economic problems the region faces.

Early on in the Commission's history, Prebisch pointed out that in the pursuit of the goals of "obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses", the countries of the region are "faced with an immense general problem, embracing a series of minor ones which must be defined before embarking on the long task of research and practical measures which will be necessary if there is a firm intention to solve the problems".[2] "It would be premature, in this initial report," he stated in 1949, "to draw conclusions that would have only the doubtful value of an improvization. Admittedly much remains to be done in the Latin-American countries, both in learning the facts and in their proper theoretical interpretation. Though many of the problems of these countries are similar, no common effort has ever been made even to examine and elucidate them. It is not surprising, therefore, that the studies published on the economy of Latin-American countries often reflect the points of view or the experience of the great centres of the world economy. Those studies cannot be expected to solve problems of direct concern to Latin America. The case of the Latin-American countries must therefore be presented clearly, so that their interests, aspirations and opportunities, bearing in mind, of course, the individual differences and characteristics, may be adequately integrated within the general framework of international economic co-operation."

These words clearly express the primary concern that since the very beginning has shaped the Commission's activities and infused successive editions of the *Economic Survey*. The core-periphery system, the impact of external restrictions on the macroeconomic stability of less developed countries, long-term import and export trends, the need for the State to foster the growth of certain so-called 'strategic' activities or production sectors, the key

[1] The title of the *Survey*, which since the first issue of 1948 had been *Economic Survey of Latin America*, was changed in 1982 to *Economic Survey of Latin America and the Caribbean*, although even before that date it had contained references to certain Caribbean countries. In the present chapter, it is referred to as the *Economic Survey* or simply as the *Survey*.

[2] Raúl Prebisch, *The economic development of Latin America and its principal problems* (E/CN.12/89/Rev.l), New York, 1950. United Nations publication, Sales No. 50.II.G. 2.

role of technological progress and its dissemination, the importance of designing macroeconomic policy to coincide with the different phases of the economic cycle, the importance of formulating and implementing mechanisms for production development and social inclusion that take socio-economic heterogeneity into account, and the dynamic between inflationary and distributive forces, are some of the ideas and issues addressed by ECLAC that have fuelled intellectual debate in the region and inspired policymakers in different governments and at different times.

One element of the intellectual inspiration behind the creation of ECLAC remains as valid today as it was then: the task in 1948 was set out as the formulation of what could be considered a "reasoned history" of the economic and social trends under way in the region or, on another level, the construction of an "approach" that would make it possible to understand the causes and consequences of those processes. Hence the emphasis on the observation and qualitative and quantitative description of the situation in the region, which is an inescapable necessity in any attempt to abstract historical patterns, as well as a field in which ECLAC has made notable scientific contributions. This exercise, which follows on from the *Economic Survey*, generates a healthy creative tension because "…the discrepancy between the theoretic argument (…) and the realities of economic experience is so significant for the theory of economic development in Latin America (…) that we shall have to overhaul our theories thoroughly (…)." Moreover, "the theory must not be applied only in part, [but] as an aid to understanding the differences between the facts and its assumptions in order to acquire wider knowledge of actual conditions".[3]

Throughout the last 60 years, the thinking that the *Economic Survey* has helped to construct has proved to be universally applicable in its revelation of the singularities of the region's situation, as well as justified in its efforts to contribute to the formation of social agents and to the study of national realities that are often neglected. The arguments expounded by ECLAC have not been underpinned by rigid doctrines or specific programmes, but rather by its vision of development as an economic, social and political process that will allow the people of Latin America and the Caribbean to live in societies that are not only more efficient and productive, but also more just and democratic.

B. The 1940s and 1950s: The internal and external factors affecting development in Latin America [4]

The world in which ECLAC began its observation of the development process in Latin America was shaped by the aftermath of the Second World War, a conflict that had notably affected all the economies of the region. It was also a time in which economic theory was still struggling to process the impact of the Great Depression of the 1930s, one of the events that had in fact created the conditions for war. All over the world, a spate of historic incidents of momentous proportions had completely shattered confidence in the ability of automatic market mechanisms to guarantee economic and social progress. The reigning consensus was that tight State control of the economy, and even of foreign trade, international capital flows and the exchange rate, had become a must. History had shown that the intervention of public policy was essential for staving off the dangers that only a few years previously had plunged the world into a vortex of death and destruction.

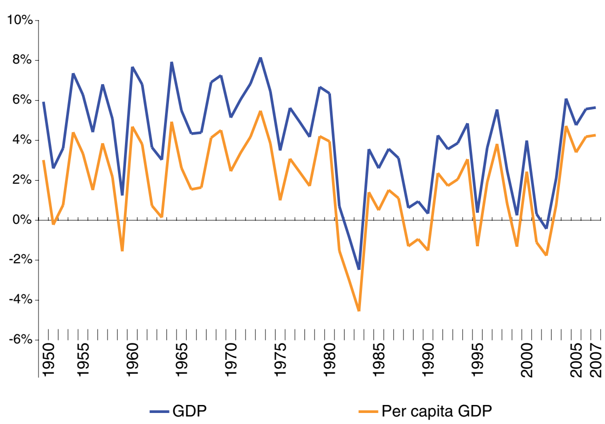
The first *Economic Survey* revealed that supply problems were the main feature of the period encompassing the Great Depression, the Second World War and its aftermath in Latin America, especially as regards industrial goods, which had historically been provided by the core nations. This led the region's countries to adopt import-substitution policies that would alter the periphery's role as a raw-materials supplier in the international division of labour. More intense industrial growth in fact reverted the outward stance of the region's economies during the post-war years, many of which were enjoying a keen improvement in their terms of trade, i.e., in the ratio between the average prices of their exports and the average prices of their imports. Assisted by the copious foreign exchange reserves that had accumulated as a result of this

[3] Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America, 1949* (E/CN.12/164/Rev.1), New York, 1951, pp. 57 and 56.

[4] Sections B through E mainly summarize the contents of the chapter "Fifty years of the Economic Survey", included in the 1997-1998 edition.

improvement, governments launched major development programmes, including investment projects and measures to promote industrialisation. The growth of the primary export sector had been shrinking since the days of the Great Depression but new manufacturing jobs were absorbing the workers that sector could no longer employ in a process similar to the one witnessed previously in the core countries. The Commission's initial view of the situation was that the industrialization under way seemed to be the natural route by which the benefits of technical progress would spread among the periphery nations. These countries would thus be able to overcome the constraints of being basically primary goods exporters in which the vast majority of the population eked out a living on miserably low incomes and productivity improvements were limited to activities with ties to the global market.

Figure V.1
LATIN AMERICA AND THE CARIBBEAN: GDP AT CONSTANT 2000 PRICES, 1951-2007 [a]
(Variation rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

The drive for industrialization lost momentum, however, in the middle of the 1950s. Import substitution ran into two types of obstacles that were clearly identified by ECLAC and subsequently referred to as the two "gaps". As had happened in the core economies, the accumulation of capital was largely dependent on the mass of savings that a country could generate. In Latin America, the formation of domestic savings was hobbled by the low income levels of the masses and an exaggerated propensity of the population segment with the highest purchasing power to consume in general, and mainly imported goods in particular. Insufficient savings immediately translated into low investment rates which dampened the possibilities of successfully pursuing technical progress and improved productivity. ECLAC was aware that external savings, through foreign investments, could play a role in the process, but foreign investment flows were minimal in the 1940s and 1950s. Also, it was not just the paucity of national savings that was blocking the industrialization process. There was another obstacle, specifically linked to the external sector, that ECLAC began to analyse in greater depth. It was clear during the first stages of growth in these economies that importing capital goods was practically the only way to incorporate innovation into local production. Acquiring such goods required a solid flow of exports, however, and when the improvement in the terms of trade of the immediate post-war era turned out to be only transitory, it became increasingly difficult, yet increasingly critical, to meet this particular condition for growth. On the technical front, ECLAC focused on export purchasing power, a key indicator of the trade balance's behaviour. The equation for export purchasing power is $EPP= (P_x Q_x)/P_{m,}$ in which Q_x is the physical volume exported at a given moment, and P_x and P_m are the unit prices of exports and imports, respectively. This "import capacity" depends, therefore, on export performance, as expressed in terms of a mass of products (Q_x), and on the terms of trade (P_x/P_m). ECLAC argued in the *Economic Survey* of 1949 that factors linked to the relative impact of productivity increases and the asymmetry in labour market structures between the core and periphery countries had already started to worsen the terms of trade for the periphery countries between the end of the nineteenth century and the First World War.[5] But more than any other factor, the Great Depression had had an impressive "adverse effect … upon exports" and "the terms of trade, so far from offsetting this movement, tended to sharpen its effects".[6] Moreover, the United States had replaced the United Kingdom as the "cycle centre", and as it had a far smaller import ratio was less capable of transmitting dynamic (boom and bust) waves to the periphery.[7] This created an unstable situation because, "When the principal cycle centre reacts weakly to any external impetus and delays considerably in returning it, whether the productive factors are fully employed in the centre or not, the disequilibrium caused by economic evolution conspires against monetary

5 "Nor should we forget that, in the case of some primary goods at least, the increase of productivity indirectly attained when the new countries were opened to world trade by technical progress in transport, may possibly have been greater than that attained by certain industrial sectors" In any case, "…if a part of the benefits of technical progress of primary production in the periphery is transferred to the industrial centres, both when the increase of productivity is greater than in industry and when the increase is less, the reason is probably that the real or potential surplus of gainfully employed population engaged in primary production exerts a persistent pressure on wages and prices" (*Economic Survey of Latin America, 1949*, pp. 51-52).

6 Ibid., pp. 15 and 18.

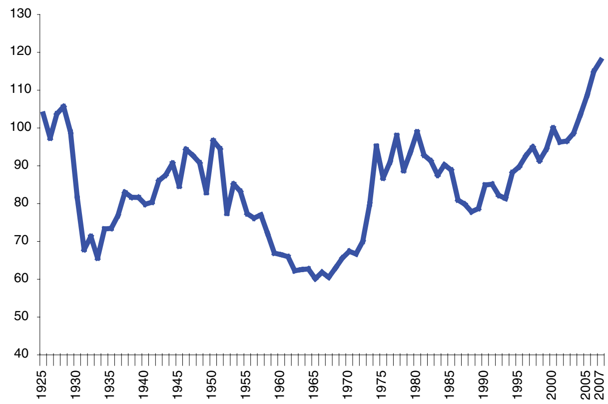
7 Ibid., p. 35.

stability in countries which are beginning to develop owing to the persistent tendency of the cyclical centre to attract the gold reserves of such countries."[8] In concrete terms, the disequilibrium generated by expansion on the periphery meant an increase in manufactures imports (capital goods, inputs, fuels) as a consequence of the high income-elasticity of demand. This generated an "external gap" which proved almost impossible to close in a world suffering from a severe shortage of international capital flows, and the countries of Latin America, which were basically dependent on the relative evolution of the prices they obtained for their exports, were therefore prone to periodic balance-of-payments crises.

Although ECLAC focused its analysis on the "external sector", it also noted that economic growth in the post-war years was being accompanied by inflation. Prices were being driven up by monetary expansion (in turn fuelled by the accumulation of international reserves in some countries), the fiscal deficit and the currency devaluations that were induced by weak external accounts. Inflation further discouraged savings, the shortage of which was the underlying cause of the specific problems hindering the region's development. Under the conditions of the day, inflation was as much a problem of demand as of supply. The scarcity of imports (due to devaluation or to direct restrictions) at a time when demand was being stimulated tended to provoke sharp increases in domestic prices. The situation was exacerbated by certain "structural factors" that affected some economic sectors. The food farming segment in particular was incapable of increasing output to meet rising demand.

These were the major issues addressed in the first editions of the *Economic Survey* and they served as a basis for the Commission's ongoing analysis of economic development and its observation of trends in the region.

Figure V.2
LATIN AMERICA: TERMS OF TRADE, 1925-2007 [a b]
(Indexes, 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC):
[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.
[b] The figures for 1930-2007 were obtained by splicing three series of trade deflators. The first covers 1980-2007 (base 2000), the second covers 1950-1980 (base 1970) and the third covers 1930-1950 (base 1963). The series of each country were spliced and the respective regional aggregates then obtained. For the period prior to 1930, variations of the regional total were taken from the *Economic Survey of Latina America, 1949*, page 19 (base 1937). The year 2000 was used as a reference period for the spliced series. The aggregate does not include Uruguay in 1930-1934; Bolivia, Costa Rica, Guatemala, Honduras, Nicaragua and Panama in 1930-1936; Paraguay in 1930-1957 or Haiti in 1930-1950.

C. The 1960s: development becomes a more complex process

In the 1960s, the subject of development, which ECLAC had helped to place on the international agenda, assumed even greater significance when a large number of peripheral countries on other continents shed their status as colonies and obtained independence. This was also the time when the debate on the social and institutional aspects shaping economic processes, which ECLAC had already begun to analyse in depth, moved to centre stage. Political instability, inadequate income distribution, the traits of the land ownership system, weak educational

8 Ibid., p. 41. These arguments highlight the temporary and dynamic nature of these processes: "Every country […] tends to pass on any impulses received from abroad. However, the time and the intensity with which it does so are of the greatest practical importance. The time factor has not yet been ascribed all the importance it merits in dynamic economics" (Ibid., p. 36) "The classical theory regarding the balance of payments and the international movement of gold had the merit of perceiving the forces actually at work. But [….] the theory has always tended to limit itself to the static, merely registering the fact that each disturbance represents transition from one period of equilibrium to another, without attributing any significance to the duration of such a transitional period." (Ibid., p. 38). See Prebisch (1949), pp. 410-489.

institutions and ineffective tax systems were some of the problems holding back the region's development. ECLAC recommended reforms in all these areas and promoted the adoption of "development plans" and the use of certain types of planning instruments. Regional economic integration was advocated as a means of expanding internal markets and boosting exports. Special attention was paid to the problems that negative turns in the international commodities market posed to productive sectors, and ECLAC participated actively in the creation, in 1964, of the United Nations Conference on Trade and Development (UNCTAD).

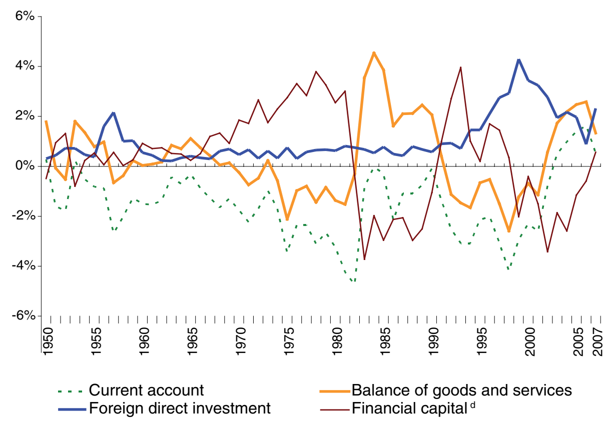
The considerable increase in international trade, financial capital flows and foreign direct investment had wrought major changes in the world economy. Latin America fell behind in this process as the growth in world trade became increasingly driven by manufacturing rather than primary products, which continued to be the region's main link with the world market. "Import capacity" began to increase thanks to expanding external credit, especially towards the end of the decade. The increase in international loans and direct investment added a new dimension to the "external constraints" the region faced, however, because it signalled a significant rise in interest payments and remittances abroad of returns on capital inflows. In most countries, these payments accounted for half the balance-of-payments current account deficit in the 1960s. Although the benefits of technical progress were more accessible than in previous decades, the mechanism for tapping into those benefits seemed to be propelling the region into a vicious circle of indebtedness and current account deficit.

The appraisal of the situation presented in the 1969 and 1970 editions of the *Economic Survey* was by no means complaisant despite the fact that growth in the 1960s had been similar to the growth recorded in the previous decade, industrialization had expanded and inflation had been kept by and large under control. The region had fallen far behind in terms of productivity and in job creation, especially in the manufacturing sector. Moreover, the "structural heterogeneity" afflicting Latin America was becoming even more pronounced as moves to modernize continued to clash with outdated economic and social structures. Uneven income distribution was one of the lingering traits of this backwardness that hampered economic progress despite the changes that had been introduced in the region. Although ECLAC judged State action to be necessary to speed up development in several areas, State intervention in practice was seen to be ineffective in many countries. Key reforms in agriculture, taxation, banking and finance were not implemented with the necessary alacrity. Public spending was inefficient and national planning ineffective. There were no national policies to maximise the benefits of foreign investment, and the economic integration of the region seemed to have come to a standstill. On the macroeconomic front, counter-inflationary measures were not introduced hand in hand with investment policies that would have been able to ease the bottlenecks in supply. During this period, ECLAC started paying increasing attention to the phenomena associated with short-term fluctuations, in addition to traditional development issues.

Figure V.3

LATIN AMERICA: SELECTED BALANCES OF THE BALANCE OF PAYMENTS, 1950-2007 [a b c]

(Percentages of GDP)



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

[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

[b] Up to 1979, the series were obtained using the definitions set out in the fourth edition of the IMF *Balance of Payments Manual*. From 1980 onwards, the definitions contained in the fifth edition were used.

[c] GDP was estimated in current dollars for Argentina in 1950-1960; Haiti in 1950-1960; Nicaragua in 1950-1958; and Uruguay in 1950-1954.

[d] Balance of the capital and financial accounts (including errors and omissions) less foreign direct investment, or the equivalent in 1950-1979.

One of the most interesting aspects of several editions of the *Economic Survey* in the 1960s was the critical appraisal they made of the import substitution strategy that continued to frame development policy in the region. From early on it became clear that the strategy could exacerbate pressures on the balance of payments and create extremely rigid and economically inefficient situations. ECLAC already understood that an indiscriminate import-substitution policy would require the prolonged application of protectionist measures and was therefore inadvisable.[9] Such policies focused exclusively on defending domestic

[9] "Indiscriminate import substitution under the shelter of much too high tariff walls has led to an extensive industrialization which, at its present stage, is characterized by a distorted structure of production that is both costly and inefficient in some vital aspects" (*Economic Survey of Latin America, 1969* (E/CN.12/8251/Rev.1), New York, 1970, p. 10). See also the edition of 1961, p. 365.

markets and had created high-cost industries and distorted production structures. Regional integration (and the market expansion and competition it entailed) was supposed to be a palliative to this shortcoming but continued to exist more on paper than in reality. The goal was for industry to overcome what continued to be a key problem in the economies of Latin America: the sluggish performance of the region's exports, which stemmed from its specialization in primary products. The dynamics of the world economy at the time did not favour commodities exports, whose prices were highly volatile. Development strategy therefore had to focus not only on strengthening domestic markets, but also on boosting manufacturing exports. This would force industry to lower its exaggerated costs and increase its productivity.

Nonetheless, the region's economy underwent a solid expansion during the 1960s. Between 1961 and 1970, GDP grew at an accumulated annual rate of 5.5% (slightly more than in the previous decade), and per capita GDP increased 2.6%. Despite an average annual 9.9% decline in the terms of trade, the region as a whole returned a positive goods balance because the sustained increase in export volumes ended up outpacing import growth. In 1969, Latin America's exports at constant prices were 53% higher than ten years earlier, while imports were up 40%.

D. The 1970s: a first attempt at modern financial integration

Two crises marked the 1970s: the collapse of the monetary system instituted at the Bretton Woods Conference (1944) and the oil crisis that emerged when the conflict in the Middle East drove up the price of crude in 1973. Monetary upsets and inflationary pressures interacted with recessive trends in the developed countries. As the structure of the international financial market began to change, large flows of capital between countries heightened the instability of exchange rates. From that moment on, the external sector of Latin America began to suffer from two types of cyclical fluctuations. In addition to those that had historically affected commodities prices and external trade terms in general, new factors associated with the prevailing conditions and interest rates in the main world financial centres now came into play.

The editions of the *Economic Survey* at the time highlighted the region's buoyant growth (6.6%) between 1968 and 1974 and its investment ratio, which reached nearly 25% of GDP in 1978. This period was referred to as the "internationalization" of the Latin American economy because it received its impetus from a heavy demand for primary products and improved terms of trade that arose at a time when foreign direct investment and financial capital flows were on the rise. The terms of trade had been improving since the end of the 1960s and made a qualitative leap in 1974 with the onset of the oil crisis. This took place at a time when the United States dollar had been losing value against several currencies since 1971, which also pushed up the prices of other primary products.[10] The average level of the terms of trade in 1973-1974 was 27.5% higher than in 1960-1972 and remained relatively high until 1982. This situation favoured some Latin American countries more than others and began to change in 1975 when inflation shocks in the global economy induced a contraction of the developed countries' economies. This crisis, which was both recessive and inflationary, affected the external sector of Latin America by lowering demand for exports and raising the price of imports. Despite this negative turn of events, the economies of the region did not immediately have to deal with an insurmountable "external gap" because abundant financing was available. This led to what could be considered the first attempt at profound financial integration of the post-war period.[11] The huge surpluses

[10] The apparent relationship between fluctuations in the exchange rate of the dollar and commodity prices that emerged during these years was recently described by Robert Mundell: "A casual reading of the statistics suggests that this relationship is quite close…, the index of non-oil dollar commodities tripled in the 1970s when the dollar was depreciating sharply relative to the SDR… There is … a very pronounced association of the cycle of the dollar against other major currencies (as measured by the SDR) with the cycle of dollar commodity prices. This is of course not unexpected. It is natural that there would be a correlation of the prices of commodities in dollars with the price of currencies in dollars." (Mundell, 2003).

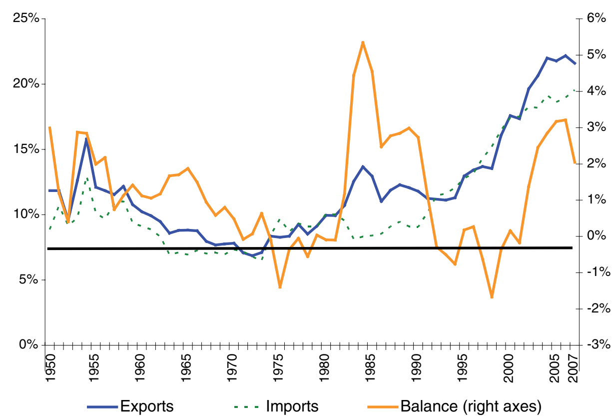
[11] Several economies in Latin America had made significant attempts at financial integration in the nineteenth century given that on several occasions lending operations had precipitated serious financial crises. One notable example is the crisis triggered by the collapse of Baring Brothers in 1890 following a default on debt repayments by Argentina.

accumulated by the petroleum-producing countries when the price of crude oil shot up were channelled into the international banking system, which used them to extend loans to the periphery countries. The availability of financial resources prevented the effects of stagnation in the core economies from having a profound impact on the countries of the region. By borrowing, they were able to uphold their “import capacity”, and consequently, economic activity remained buoyant: between 1975 and 1980, the region’s GDP grew at an average annual rate of 5.2%. The other side of the coin, however, was the astronomical increase of the current account deficit in the balance of payments. In 1975, ECLAC warned the region of the problems that would arise in the future from taking out loans on commercial terms. In fact, debt servicing as a percentage of exports of goods and services rose steadily, from 10% in the middle of the decade to 20% at the end of the 1970s. From then on, the availability of capital to “close the external gap” became subject to the conditions on the international financial market, which made the economies of Latin America painfully vulnerable to any sudden changes in the market situation.

The *Economic Survey* during these years began to call attention to the way in which world inflation was being passed on through tradable goods prices and was thus acting as an external trigger of domestic inflation. This “imported” inflation found fertile ground in Latin America and fuelled the galloping inflation that, in the next decade, unhinged the monetary systems of several of the region’s countries. In 1976, inflation in Latin America averaged 60%, compared with 12% at the beginning of the decade.

ECLAC contended that the internationalization of the economies of Latin America along these lines was unsustainable owing to the ongoing asymmetry between the growing demand for imports and the capacity of the countries’ exports to generate sufficient foreign exchange. The Commission therefore advocated awarding priority to exports, which were to become the new engine for growth as part of an “opening-up” to the outside world. Under this approach, the import-substitution era was considered as no more than an initial stage (similar to that undergone by other economies such as Japan) that paved the way for the development of export flows (mainly of manufactured goods). This would consolidate the industrialisation process and permit a stronger form of linkage to the global economy than the fragile one achieved through the export of raw materials.

Figure V.4
LATIN AMERICA AND THE CARIBBEAN: GOODS IMPORTS AND EXPORTS AT CURRENT PRICES, 1950-2007 [a b c]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC)
[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.
[b] Up to 1979, the series were obtained using the definitions set out in the fourth edition of the IMF *Balance of Payments Manual*. From 1980 onwards, the definitions contained in the fifth edition were used.
[c] GDP was estimated in current dollars for Argentina in 1950-1961; Haiti in 1950-1954; Nicaragua in 1950-1958; and Uruguay in 1950-1954.

E. The 1980s: the debt crisis and the “lost decade”

Between 1981 and 1990, the average annual growth rate in Latin America and the Caribbean was barely 1.2%, and at the end of the decade, per capita GDP was 8.2% lower than in 1980. In the words of ECLAC, “Latin America suffered an economic crisis that was the most serious of the entire post-war period and probably the most serious since the Great Depression of the 1930s”.[12] In 1982-1983, regional GDP shrank at a rate of 1.7% per year, and nearly all the countries recorded negative growth in at least one of those

[12] *Economic Survey of Latin America and the Caribbean, 1983* (LC/G.1343), Santiago, Chile, 1985, p. 3.

years. It was, as ECLAC aptly put it, a "lost decade" in the development process, although it was also a time when many countries in the region witnessed a return to democracy. The root cause of this disastrous economic performance was the situation that had arisen in the external sector during the second half of the 1970s and, in particular, the high level of indebtedness the countries incurred during those years. In 1976-1981, financial flows (not including foreign direct investment) represented 33% of exports, compared with 9% in the 1960s when flows consisted mainly of official credit. It had been possible to narrow the "external gap" during those years by incurring debts at mostly floating interest rates, but this arrangement came to an abrupt halt. In 1981, net "capital inflows"[13] totalled US$ 30.25 billion. Just one year later, however, US$ 3.1 billion was transferred abroad in a process unleashed by Mexico's suspension of its debt servicing payments, shortly after Bolivia and Costa Rica began to default on their external debt as well.[14] Voluntary external financing suddenly dried up, and between 1982 and 1990, an average of US$ 18.35 billion of capital left the region each year, equivalent to 18% of goods exports. The restrictive monetary policy that the United States implemented to curb inflation (which had been rising again since the second oil crisis of 1979) triggered a sudden shift in voluntary external financing away from the region and made it more expensive.[15] The reversion of capital flows was coupled with another blow associated with the evolution of the terms of trade. The slowdown witnessed at the outset of the decade brought down the trade index to such an extent that in 1989, the average trade ratio was 20.5% lower than in 1980. The crisis in the external sector thus widened the current account deficits and swelled the outflow of capital in the financial accounts. This ushered in a period of extraordinary macroeconomic instability in which many countries had to cease their debt payments and found themselves forced to implement successive adjustment programmes under agreements with the International Monetary Fund or other international agencies that provided exceptional financing.

The heavy reliance on international financial flows during the second half of the 1970s led to high levels of indebtedness throughout the region, and countries were forced to allocate a staggering proportion of their external income to debt servicing. In 1982-1989, the region was allocating the equivalent of 36% of its exports to the net payment of interest and profits, compared with 16% in 1950-1969.

In its previous analyses of the external sector, ECLAC had focused on the purchasing power of exports, which is an indicator of the trade balance. The adjustment process triggered by the debt crisis, however, began to be measured by another variable: the net transfer of resources abroad. This refers to the net balance between all the financial flows the region receives and all the interest and profit payments it makes.[16] The figure obtained thus indicates the net amount of resources that the region receives from abroad or transfers abroad in a given year. In the crisis years, this flow became extremely negative. "The sharp drop in the net inflow of loans and investment and the sharp rise in payments for profits and interests also meant that in 1982, instead of receiving a net transfer of real resources *from* abroad, Latin America was forced to transfer to the exterior real resources amounting to over US$ 14.3 billion".[17] During the 1980s, these flows reached astounding levels: "between 1982 and 1986, this transfer was equivalent to 4% of the region's GDP, which was even higher than the transfers that Germany had to make in the form of reparations to the allies following the First World War".[18]

The transfer of resources abroad had a direct impact on the two "gaps" that ECLAC had identified as hobbling development in Latin America: the foreign-exchange gap and the savings gap. Domestic saving reached high levels during the crisis owing to the restriction that the adjustment programmes imposed on consumption. In the "lost decade", domestic saving represented 24% of GDP but was largely absorbed by the transfer of resources abroad or used to offset the decline in the terms of trade, which was equivalent to 3% of GDP between 1982 and 1989. This depleted the resources available for financing investment projects, and investment levels were seven percentage points lower than the 24% recorded between 1974 and 1981. This affected public investment in particular, and important components of systemic competitiveness suffered as a result.

The adjustments also brought about an unprecedented contraction of imports. Real import volumes in 1983 were 35.5% lower than in 1981. From a longer-term perspective,

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[13] The total of the capital and financial accounts, including errors and omissions, less foreign direct investment.

[14] *Economic Survey of Latin America and the Caribbean, 1982* (LC/G.1320), Santiago, Chile, 1984, p. 80.

[15] The real yield of 10-year treasury bonds rose from -2.1% in 1980 to 6.8% in 1982. Average growth in the United States between 1980 and 1982 was only 0.1%; annual average wholesale inflation in the United States meanwhile dropped from 11.2% in 1980 to 1.2% in 1983.

[16] Specifically: Net external resource transfer = (capital account + financial account + errors and omissions + exceptional financing + International Monetary Fund loans) + (income). When the region receives financial flows from non-residents to cover a current account deficit, the components inside the first set of brackets are positive. The income balance includes payments of dividends and interest on foreign direct investment and financial investments, respectively, and usually has a negative net balance in the region. See *Economic Survey of Latin America and the Caribbean, 2001-2002* (LC/G.2179-P/I), Santiago, Chile, 2002, p. 93.

[17] *Economic Survey of Latin America and the Caribbean, 1982* (LC/G.1320), Santiago, Chile, 1984, p. 17.

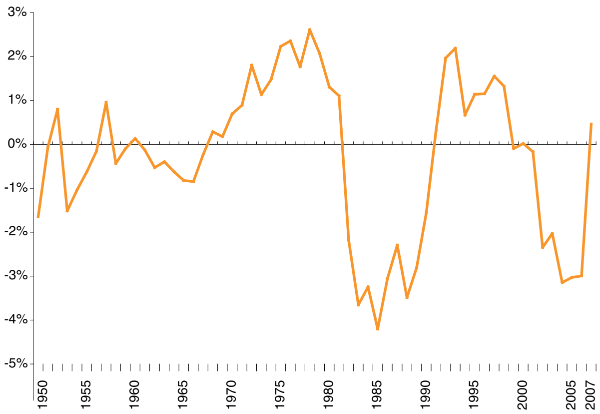
[18] *Economic Survey of Latin America and the Caribbean, 1992* (LC/G.1774-P), Santiago, Chile, 1993, vol. 1, p. 258.

import volumes during the crisis of 1982-1989 were 1.6% lower than in 1974-1981.

Figure V.5

LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES, 1950-2007 [a b c]

(Percentages of GDP)



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

[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

[b] The 1950-1979 series were obtained using the definitions set out in the fourth edition of the IMF *Balance of Payments Manual*. From 1980 onwards, the definitions contained in the fifth edition were used. Net resource transfer = (capital account + financial account + errors and omissions + other exceptional financing + IMF loans) + (income balance), or their equivalent in the fourth edition of the IMF *Balance of Payments Manual*.

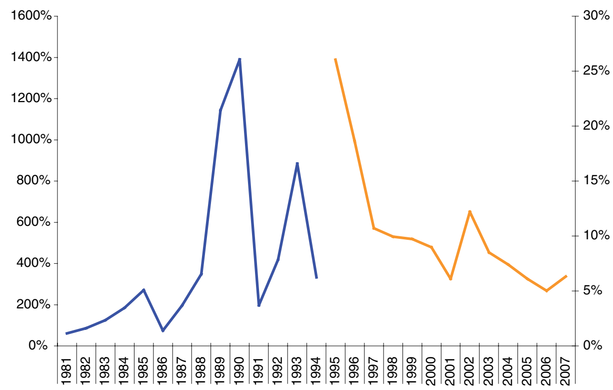
[c] GDP was estimated in current dollars for Argentina in 1950-1961; Haiti in 1950-1954; Nicaragua in 1950-1958; and Uruguay in 1950-1954.

Runaway inflation constituted another trauma in different parts of the region during the crisis years. Inflationary pressure had been building up since the 1970s and several countries suffered from hyperinflation. The difficulties in the external sector affected the availability of foreign exchange, and the constant pressure on the exchange market tended to push down the value of local currencies. The most direct cause of inflation, however, was the inability of States to carry out their basic functions and at the same time transfer sufficient resources abroad to meet the country's debt obligations, 80% of which came to be underwritten by the State after successive rounds of renegotiation.[19] Public spending had to be limited procyclically for the sake of obtaining resources to service the debt, which inhibited the State's capacity to manage the crisis. The impact of the recession and low commodity prices meant that governments were incapable of collecting sufficient revenue through taxation at a time when their internal and external sources of financing were drying up, and inflationary financing in some cases became the only remaining course of action. In 1990, the weighted regional inflation rate stood at 1,400%, the culmination of various runaway and hyperinflation processes. At first, countries implemented various heterodox policies focussing on wage and price controls to tackle the crisis. Later a combination of orthodox adjustment measures and heterodox policies such as social pacts and deindexation schemes were introduced.

Figure V.6

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX, WEIGHTED AVERAGE, 1981-2007 [a]

(December-to-December variation)



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

[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Given the scale of the ongoing debt crisis, the resolution of structural problems that ECLAC had lobbied for since its creation seemed to be a very distant prospect. It was becoming increasingly difficult, according to the *Economic Survey* of 1988, "to tackle long-standing structural obstacles to development such as outmoded systems of education, inefficient agrarian structures, very limited application of new technology in production, and outdated financial and taxation systems."[20] The crisis drastically curtailed the States' room for manoeuvre, and the countries of the region were forced into tough negotiations to reschedule their debts because most of them had fallen in arrears. This problem was only resolved towards the end of the decade through the Brady Plan, an international instrument that reduced the amount of the debt and converted bank assets into bonds that could be traded in the international financial market. For a substantial part of the decade,

[19] The fact that the public sector took over the external debt when it was generally the private sector in the region's countries that generated the foreign exchange needed to pay off that debt led to what was subsequently termed the "third gap". See Edmar Bacha, "Un modelo de tres brechas de las transferencias externas y la tasa de crecimiento del PIB en países en desarrollo", *El trimestre económico*, vol. 57, special issue, Mexico City, December 1990.

[20] *Economic Survey of Latin America and the Caribbean, 1988* (LC/G.1577-P), Santiago, Chile, 1989, p. 9 and 12.

States had to carry out major macroeconomic adjustment programmes and undertake profound structural reforms aimed at limiting the scope of State action and assigning the market the function of allocating resources. These programmes were backed, or inspired, by the International Monetary Fund and other international institutions. They varied in emphasis, orientation and sequence, but they all contemplated ambitious privatization campaigns, the liberalization of trade and financial flows and the implementation of fiscal and financial reforms. In 1990, ECLAC noted that, "In the midst of great difficulties, Latin America and the Caribbean are still trying to overcome, once and for all, the crisis that has burdened them for almost a decade now. They base their hopes on the results of the sweeping and irreversible structural changes taking place in the countries of the region."[21]

F. The 1990s: macroeconomic crises and structural reforms

Given the vicissitudes of the economic cycle, for the purposes of this chapter, the 1990s covers the period from the beginning of that decade, when most countries in the region had managed to achieve a certain degree of macroeconomic stability, to 2002, which is when the region stopped absorbing the negative effects of the recession that hit the United States the year before. The two most striking features of this period are: the use of macroeconomic policy to preserve price stability, combined with the implementation of a set of structural reforms aimed at strengthening the role of the market in the allocation of resources; and the repeated macroeconomic crises that struck in rapid succession and in one way or another affected most of the countries in the region. This new scenario led ECLAC to re-examine its theses on the factors and determinants of development on the periphery.

It must be stressed that these processes occurred at a time when profound changes were underway in global geopolitical arrangements and, as ECLAC had been commenting since the 1970s, the world economy was becoming increasingly internationalized. International relations were gaining importance and, as a result, the role played by trade, financial flows, foreign direct investment and even migration as factors of economic success was expanding. The introduction of certain institutional changes (greater openness to trade and integration schemes) and technological changes (improved communications and transportation) helped generate a new dynamic in the world economy and 'globalization' became the catchword for referring to this dynamic. The assessments and observations made of the processes under way, which are reflected in the successive editions of the *Survey*, generated a new, updated theoretical matrix for the analytical work that ECLAC performed in this period.

On the geopolitical front, the weakening and subsequent demise of most of the centrally planned economies removed the main axis of conflict that had dominated international politics since the end of the Second World War. The major political upheavals taking place in Europe, such as the dissolution of the Union of Soviet Socialist Republics and German reunification, occurred at the same time as the People's Republic of China began to shore up its reforms and gradually engage more with the global economy. All these events undoubtedly fomented the new preponderant viewpoint in economic analysis according to which the level considered acceptable for State intervention in the economy was at its lowest since the Great Depression. Mindful of the changes underway, ECLAC subjected the new approach being adopted across the region to careful scrutiny and devoted a substantial portion of several editions of the *Economic Survey* to the examination of the regional version of this reform process. Frequent reference was made to the tensions that were being generated and to the impact the process was having in terms of the macroeconomic situation (which was marked by huge fluctuations and one crisis after another) and the increase in social inequality in the region. The marked inconsistency between some of the objectives that the reforms pursued (such as the improvement of the integration of the countries' production sectors in the international economy) and the stabilization policies being employed was, in particular, analysed in great depth.

[21] *Economic Survey of Latin America and the Caribbean, 1990* (LC/G.1676-P), Santiago, Chile, 1990, p. 9.

1. Macroeconomic performance and the crises: the volatility of financial flows and lessons for the region

In the 1980s, the economies of Latin America and the Caribbean were beset by grave macroeconomic problems arising from adverse changes in the external situation. Surges in international interest rates created excessively high levels of indebtedness in many countries, and falling prices for their exports reduced their external income. This combination of events dampened economic activity, unleashed bouts of galloping inflation and forced governments to carry out strict procyclical adjustments. At the beginning of the 1990s, economic policy in many countries of the region focused on debt restructuring and macroeconomic stabilization, coupled with the implementation of market reforms and the deepening of commercial and financial opening. In 1991 and 1994, two ambitious trade integration schemes came into effect, MERCOSUR and the North American Free Trade Agreement (NAFTA). In addition to the usual monetary and fiscal policies, a number of counter-inflationary measures were employed during this period that anchored prices in one way or another to the exchange rate (sliding parities, bands and exchange boards).[22] Thanks to these tools and a certain improvement in the external situation, the countries whose currencies had been most affected by the debt crisis managed to establish solid new monetary systems at the beginning of the 1990s and were able over the course of the decade to gradually rein in inflation.[23] In many cases, however, the so-called exchange-rate anchors ended up creating a rigid framework that limited the room for manoeuvre often needed by economic policy.

Although regional growth was slight in the 1990s, the situation was a major improvement on the catastrophe of the previous decade. Between 1991 and 2002, GDP expanded at an average annual rate of 2.7% and per capita GDP at an average annual rate of 1.0%, well below the 5.3% and 2.4% growth witnessed between the 1950s and 1970s. Economic activity was exhibiting such a strongly cyclical nature that ECLAC, in noting that "The present crisis in Latin America and the Caribbean is the third time in less than a decade"[24] warned that "the succession of stop-go cycles experienced over the past decade have resulted in a long-term growth rate that is far lower than what the region needs in order to reduce its high level of unemployment and improve the substandard conditions under which a large percentage of its population lives".[25] As regards foreign trade, nominal goods exports grew at an annual rate of 8.1% but imports, stimulated by the economic opening process, grew faster at 9.9%. Export prices fell 0.1% per year and import prices 1.2%. This meant that the terms of trade improved at an annual rate of 1.1%, but on the back of declining import prices rather than thanks to improvements in export markets. The huge effort to boost exports therefore proved insufficient to close the external gap. The goods and services balance remained negative between 1992 and 2001, posting a maximum deficit of 2.6% of GDP in 1998. Interest and profit payments tipped the scales even further, and the current account deficit gradually widened to 4.2% of GDP in the same year. The deficits were covered by foreign direct investment and financial capital flows, but the latter fluctuated violently: accounting for 4.0% of regional GDP in 1993, but reaching barely 0.2% of GDP in 1995; then representing an average inflow corresponding to 1.2% of GDP between 1996 and 1998, before recording an outflow equivalent to 2.0% of GDP in 1999.[26] The volatility of these flows affected economic activity, and the reform packages and the privatization of State companies proved incapable of generating the high volumes of more stable direct investment needed to offset this problem. The confluence of counter-inflationary policies based on exchange-rate anchors and the massive influx of foreign capital induced a gradual appreciation of local currencies, which largely explains the widening of the current account deficit. The factors behind the vicious circle of debt and deficit that many of the economies in the region were falling into at this time became the focus of analysis in the *Economic Survey*: "The exchange rate is an area of special concern (….) the events of this decade (…) are evidence that great caution is needed when an

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22 *Economic Survey of Latin America and the Caribbean, 1998-1999* (LC/G.2056-P), Santiago, Chile, 1999, p. 22. The gradual replacement of these regimes by more flexible schemes (that still allow State intervention, however,) over the course of the decade is examined in *Economic Survey of Latin America and the Caribbean, 1999-2000* (LC/G.2102-P), 2000, p. 41.

23 In 1991, Argentina introduced the convertible peso after two currency changes in the 1980s: the Argentine peso in 1983 and the austral in 1985; the real was introduced in Brazil in 1994 after the adoption of the cruzado in 1986, the cruzado novo in 1989, the cruzeiro in 1990 and the cruzeiro real in 1993; Mexico established a new peso in 1993; Peru issued the nuevo sol in 1991 to replace the inti introduced in 1985; and Bolivia managed to stabilize the Bolivian peso in 1987.

24 *Preliminary Overview of the Economies of Latin America and the Caribbean, 2001* (LC/G.2153-P), Santiago, Chile, 2001, p. 12.

25 Ibid., p. 7.

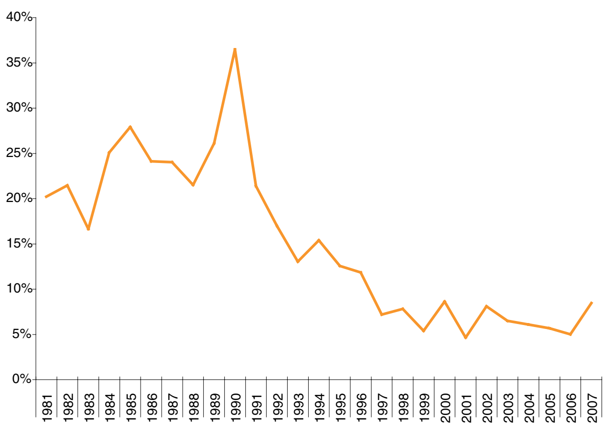
26 Financial capital includes net balances on the capital account, the investment portfolio, other investments and errors and omissions.

overvalued currency is used to control inflation. As events have shown, prolonged use of such a policy nearly always leads to higher current account deficits. An overvalued currency discourages exports, especially of non-traditional products, thereby perpetuating a country's dependence on primary products, which are especially vulnerable to price fluctuations. At the same time, with more open economies, imports are encouraged and the trade gap widens. In the financial sphere, a policy of exchange-rate appreciation encourages a preference for borrowing in hard currency, and this puts constraints on future policy-making. Apart from this, overvaluation at some point is bound to generate expectations of devaluation, thereby promoting speculation against the currency."[27]

Figure V.7

LATIN AMERICA AND THE CARIBBEAN: MEDIAN CONSUMER PRICE INDEX, 1981-2007 [a]

(December-on-December variation)



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

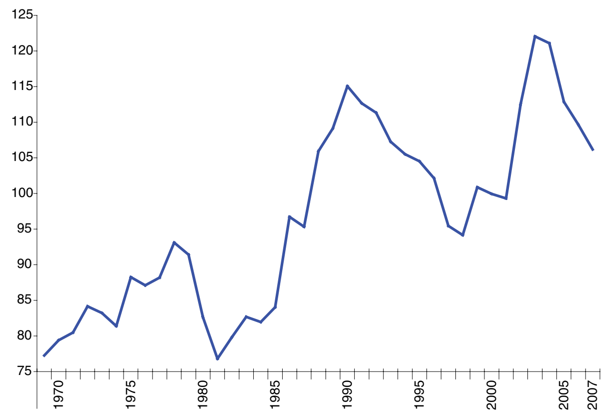
[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

One of the most striking features of the 1990s was the huge vulnerability of the external sector. Greater interaction with international financial markets ensured the availability of external resources but set economic activity in the region swaying. The volatility of financing flows, influenced by the multiple causes that drive away investors, became a powerful exogenous force that undermined macroeconomic stability. On the one hand, "the real appreciation of the countries' currencies was primarily caused by financial factors that bore no apparent connection with the fundamentals of the real economy, i.e., growth, productivity and the terms of trade." On the other, "The risk involved in a delinkage of financial factors from the fundamentals became glaringly evident (…) when international markets began to reassess the external sustainability of the growth and stabilization patterns".[28] Risk levels fluctuated constantly throughout the 1990s, triggering the Mexican crisis in December 1994 that foreshadowed the series of crises that subsequently rocked the region one after another between the second semester of 1997 and 2001.

Figure V.8

LATIN AMERICA AND THE CARIBBEAN: EXTRA-REGIONAL REAL EFFECTIVE EXCHANGE RATE, 1969-2007 [a b]

(Indices, 2000=100)



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

[a] Includes: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

[b] Geometric average of national indices. The real effective exchange rate index for each country is calculated by weighting the real bilateral exchange rate indices of each trading partner according to that partner's participation in the country's total trade (imports + exports). The extra-regional real effective exchange rate excludes trade with other Latin American countries. An increase in the index (an upward slope on the figure) reflects a real effective currency depreciation, and a decline in the index (a downward slope in the figure) reflects a currency appreciation.

In the case of the Mexican crisis in the middle of the decade, the collapse had a strong internal element and few external repercussions. "The 1995 crisis was not a global crisis. It originated in a single country (Mexico) and was therefore transmitted through financial rather than trade channels. The devaluation of the Mexican peso in December 1994 triggered capital outflows from various countries and the virtual suspension of voluntary external financing but, ultimately, the only country other than Mexico to be seriously affected was Argentina, which then pulled Uruguay down with it. Trade did, however, provide an adjustment mechanism for this crisis within an international environment marked by significant growth and massive financial assistance for Mexico and Argentina. As a result, the crisis only lasted for three quarters."[29]

[27] *Economic Survey of Latin America and the Caribbean, 1998-1999*, op. cit., p. 15.

[28] *Economic Survey of Latin America and the Caribbean, 1997-1998* (LC/G.2036), Santiago, Chile, 1998, p. 10.

[29] *Preliminary Overview of the Economies of Latin America and the Caribbean*, op. cit, p. 12.

The Mexican crisis may have proved to be only slightly contagious, but this was not the case of the successive crises that shook the region as of mid-1997 when several Asian countries suffered sudden currency depreciations and severe capital flight as a result of their external vulnerability.[30] First these episodes triggered financial crises in the region, then they weakened the commodities markets, which in turn produced yet more financial instability. The abrupt change in risk levels in the wake of the Asian crisis "undermined their [investors'] previous interest in emerging markets, including Latin America. The average of the major Latin American stock indexes fell by 44% between October 1997 and March 1999. The plunge in stock market prices was closely associated with capital outflows from the region. At the same time, capital inflows of other types also waned, especially on the bond market. This financial contagion affected Latin America despite the strong fundamentals the region exhibited in mid-1997: budget deficits had been sharply curtailed; inflation was declining and had already subsided to single-digit levels in more than half the countries; the domestic banking sector had been strengthened following the sectoral crisis of 1994-1995; international reserves were high; and the debt profile had been lengthened so that short-term obligations no longer posed an imminent threat."[31]. All the progress made in macroeconomic stabilization, however, proved unable to offset the external vulnerability created by the combination of rigid exchange schemes and massive inflows of capital, and the fragility of these achievements became patently clear in the financial systems that had been liberalized without adequate regulation and supervision.[32]

Unlike in the Mexican crisis, the situation in 1997 was such that the problems spread beyond the financial arena. "The second way in which the crisis affected Latin America was via trade links. The central aspect of this phenomenon was a decline in commodity prices which was partially but not totally related to events in Asia. The price outcome was exacerbated by a quantity effect as demand in Asia —both in Japan and in the developing Asian economies— weakened"[33]. A second wave of instability thus hit the region after the Russian Federation was forced to declare a partial moratorium on its debt and to loosen its exchange policy in August 1998 as a result of the drop in oil prices.[34] The impact of this crisis was particularly severe in some of the region's countries. In 1999, the year in which GDP shrank noticeably in Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Honduras, Paraguay and Uruguay, regional growth was only 0.2%. Brazil, whose growth between 1998 and 1999 was practically zero, then became the focus of the crisis. In October 1997, there was a speculative run against the real which was successfully fended off by the Brazilian authorities, but in January 1999, just two months after signing an agreement with the IMF, Brazil had to abandon the band scheme and allow the currency to depreciate, a step that was swiftly echoed in other countries throughout the region.

ECLAC viewed this loosening of exchange controls as a positive development: "Exchange-rate policy has been moving in a new direction during the past 18 months. At a time when the countries that were most seriously affected by the international crisis were finding it increasingly costly to defend their currency bands, the flotation of the Mexican peso following that country's 1994-1995 financial crisis set an example for others, since it proved to be a relatively successful alternative; Brazil, Chile, Colombia and Ecuador thus followed suit in 1999. Except in the case of Ecuador, the resulting devaluations were generally successful in encouraging exports and restraining imports, thereby stimulating economic growth in those countries. The decline in the value of local currencies —together with the upturn in growth rates— does not appear to be having a significant impact on inflation."[35]. The financial crises brought about a real depreciation of local currencies, making it possible to begin narrowing the deficit on the current account. In the case of Ecuador, the currency depreciation was so dramatic that the authorities opted for the formal dollarization of the monetary system in January 2000.[36]

It should be pointed out that the abandonment of exchange-rate anchors was preceded by a clear policy bias towards reducing demand rather than adjusting relative prices, especially the exchange rate. This choice has negative implications for growth rates in the region, at least in the short run, although it also has a positive impact on inflation.[37] The series of financial crises generally meant that governments were "in the midst of

30 The Philippines, Indonesia, the Republic of Korea and Thailand, among others.

31 *Economic Survey of Latin America and the Caribbean, 1998-1999*, op. cit., p. 118.

32 See an analysis of the vulnerbaility of the region's financial system in *Economic Survey of Latin America and the Caribbean, 1995-1996* (LC/G.1929-), Santiago, Chile.

33 *Economic Survey of Latin America and the Caribbean, 1998-1999*, op. cit, p. 118.

34 One notable victim of this situation was Long Term Capital Management, an important hedge fund that ended up going bankrupt.

35 *Economic Survey of Latin America and the Caribbean, 1999-2000* (LC/G.2102-P), Santiago, Chile, 2000, p. 14.

36 Ibid., pp. 26 and 47.

37 *Economic Survey of Latin America and the Caribbean, 1997-1998*, op. cit., p. 8. See also the edition of 1998-1999, p. 15.

stabilization programmes involving the use of exchange rate anchors– [which] took away much of the economic authorities' manoeuvring room. As external financing tightened, it became necessary to cool down demand by means of what amounted to a procyclical economic policy response."[38]

The situation of the world economy continued to worsen when, after the boom of the 1990s, the United States economy was hit by a stock-market crisis and a slight recession in 2001 that weakened the regional economy even further, especially the countries with the closest ties to the United States, such as Central America, the Caribbean and Mexico. Until then, the South American economies had been the ones most affected by the Asian and Russian crises, the repercussions of which were still making themselves felt in the financial sector. In 2001, regional GDP grew only 0.3% and actually shrank, for the first time since 1983, by 0.4% in 2002. The worst crisis occurred in Argentina, where a recession had been under way since 1999 and GDP contracted by 4.4% in 2001 and 10.9% in 2002. The currency conversion scheme in place since 1991 collapsed, the real value of the peso plummeted, and the government was forced to declare a partial moratorium on the copious external debt that had accumulated. The upheaval in Argentina had repercussions regionwide, affecting growth, trade flows and financial flows. According to the Economic Survey, "Events in Argentina and the other MERCOSUR countries have rekindled the debate as to what types of exchange-rate regimes are most suitable for emerging economies. They have also, in particular, laid bare the practical limitations of the two "corner solutions" of dollarization or a pure float in a context of macroeconomic and institutional fragility combined with commercial and financial interdependence. The need to align and coordinate macroeconomic policies within the region has also become evident."[39]

ECLAC was quick to draw lessons for the region from the series of financial crises unleashed in the 1990s: "As a result of the liberalization of trade and financial flows in a context of uncompleted fiscal reforms, national economic policies became strongly procyclical. During periods of expansion, and with the encouragement of creditors, external flows were channelled into a rapid upswing in both public and private spending. These external flows also led many economic agents into lower saving rates and over-indebtedness. Later on, mounting debts and deteriorating current accounts eventually prompted foreign banks to withdraw their loans as country risk indicators worsened. At that point tight fiscal and monetary policies became necessary in order to boost the confidence of international investors and mitigate the downturn in capital inflows. An additional objective of these policies was to keep domestic inflation under control. To avoid this boom-and-bust cycle, it would therefore seem desirable to adopt fiscal and monetary policies designed to even out spending over time. During periods of expansion, it is possible to exercise greater selectivity with regard to kinds and amounts of capital flows and to levy temporary taxes to discourage private spending. Such measures can act as a brake on private spending booms in periods when there is a surge in external inflows, and vice versa. Moreover, instead of setting fiscal goals on the basis of the current deficit, policy makers might use a structural deficit indicator, as OECD countries do."[40]

2. The outcome of the structural reform process

ECLAC followed the structural reform process that reached its peak in the 1990s closely. The assessment presented in the *Economic Survey* of 1999-2000 of the changes under way opens as follows: "Over the last 15 years, countries in the region have made increasing use of structural reforms to turn their economies away from the closed, state-led economic model of the import-substitution industrialization period, toward greater market-orientation and openness to the rest of the world. Complementary aspects of this process have involved a higher priority for macroeconomic stability —especially in terms of lower inflation (…). Policymakers expected these changes to

[38] *Preliminary Overview of the Economies of Latin America and the Caribbean, 2001*, op.cit., p. 12.

[39] *Economic Survey of Latin America and the Caribbean, 2001-2002* (LC/G.2179-P), Santiago, Chile, 2002, p. 35.

[40] *Economic Survey of Latin America and the Caribbean, 1998-1999*, op. cit., p. 127; see also *Economic Survey of Latin America and the Caribbean, 1997-1998*, op. cit., pp. 21-22.

enhance productivity and boost economic growth, leading to job creation and greater equality. To what extent have those expectations been fulfilled?”[41]

The Commission’s response to this question was based on the findings of several special research projects that had been carried out to weigh the successes and shortcomings of the structural reform process: “Overall, the reforms seem to have had a surprisingly small impact on average regional aggregates. It is true that the reforms have solved some longstanding problems, such as excessive protection and inefficient public utilities. They have also opened up unexpected possibilities, of which the most dramatic are the export potential demonstrated by the region and the dynamism of modern sectors —some of which, like telecommunications, have been radically transformed by technological progress. But the reforms have also exacerbated some old problems and created new ones: low rates of investment and productivity growth in many countries and sectors, sluggish job creation and poor quality of new jobs, failure to reduce the high levels of inequality that have traditionally characterized the region, weak integration of the leading sectors and firms with domestic economies, widening trade deficits and increased dependence on volatile external capital”.[42]

The research findings were also used to examine how consistent economic policy had been with the objectives of the reform. ECLAC noted that, “the most successful mix of reforms and macroeconomic policy occurred in the area of inflation. (…) trade liberalization supported these efforts by lowering the cost of inputs and restricting the ability of local businesses to raise prices, while privatization helped lower inflation through its positive impact on fiscal deficits”.[43] However, three “inconsistency syndromes” were also identified: “The first arose from capital account liberalization, which provoked a substantial short-term capital inflow and caused local currencies to appreciate; this had its counterpart in trade deficits”[44]. This resulted in an “inherent contradiction between the reforms on the one hand (which sought to move toward an export-led growth model) and macroeconomic policies (which led to overvalued exchange rates), sent producers ambiguous signals that hindered investment in tradable goods production”.[45] A second inconsistency “arose between financial liberalization and monetary policy, which became more difficult to manage under conditions of capital-account opening. Financial liberalization resulted in higher interest rates. (…) counter-inflationary monetary policies further increased (…) local interest rates (…) this was especially problematic for small firms (…). Even more important were the problems that financial liberalization caused for the banking sector”.[46] The third inconsistency syndrome involved fiscal policy: “Governments sought to reduce or eliminate their fiscal deficits, but several of the reforms actually made this more difficult, such as tax reform which lowered rates on individuals and corporations. Another reform that interfered with the reduction of fiscal deficits was import liberalization; this was particularly serious for the smaller and less-developed countries that relied heavily on tariffs as a source of government revenue. A third reform, decentralization, exacerbated central government fiscal deficits by shifting revenues to provinces and municipalities without always transferring the counterpart obligations. Privatization, in turn, acted to support fiscal policy in the short run, but created its own trap later on.”[47]

The results of the structural reform process were thus highly ambiguous which rekindled concerns in many countries about how to ensure that their economies remained open and competitive. Since then, economic policy in the region has generally focused on price stability, sound fiscal management and reducing the external vulnerability of the economy. The emergence from the crisis at the end of the 1990s coincided with certain changes in the international setting that made it necessary to revise some of the basic premises underpinning the analytical work of ECLAC up to that point in time.

41 *Economic Survey of Latin America and the Caribbean, 1999-2000*, op. cit., p. 118.
42 Ibid., p. 118. This research led to the publication of four books on specific sub-topics (innovation and productivity, investment, income distribution and employment) and one summarizing the findings in general.
43 Ibid., p. 122.
44 Ibid., p. 118.
45 Ibid., p. 131.
46 Ibid., p. 122.
47 Ibid., p. 123.

G. Latin America and the Caribbean and the external boom of 2003-2007

The period of global financial instability, which had started in mid-1997, culminated between 2001 and 2002 when the world economy grew only 1.7% and trade expanded by only 2.3%. Latin America and the Caribbean were directly affected by the series of financial crises that erupted during the period, and in the biennium in question the region suffered a 0.1% contraction of its GDP. Regional per capita GDP actually shrank in 1998-2002 at an average annual rate of 0.2%. This five-year period was therefore no less frustrating (though certainly less devastating) than the lost decade of the 1980s (per capita GDP decreased 0.9% per year between 1981 and 1990). After all these years of crisis, economic activity started to pick up in the second half of 2003, signalling the start of another five-year period of growth that ECLAC has since classified as extraordinary, but not without its perils and dilemmas, and that has affected the various countries of the region in different ways.[48] The period 2003-2007 is unusual not only in terms of the intensity of the growth recorded, but also in the persistence of various unprecedented qualitative elements in the region's macroeconomic situation that arose from the extraordinary prosperity reigning at that time on the external front. Within a broad range of variation, economic policy capitalized on the positive aspects of the situation and pursued a certain level of fiscal sustainability, at least in comparison with previous boom periods. In 2007, per capita GDP was 18.5% higher than in 2002, which represents an annual growth rate of 3.5%, unmatched since the 1970s (3.3%). Robust economic growth had a notable effect on labour markets in the region: between 2002 and 2007, the employed proportion of the working-age population rose from 52.0% to 54.6%, while unemployment fell from 11.0% to 8.0% over the same period. Moreover, unlike in the 1990s, the improvement in employment figures as of 2003 was generated increasingly by wage work and by jobs in the formal sector.[49]

The fact that this expansion coincided with a steady surplus on the balance-of-payments current account is highly significant. This unprecedented situation meant that, for the first time, regional economic growth was not accompanied by the external gap that had been a focus of ECLAC analysis over the years. Gross fixed capital formation increased at an annual rate of 9.5%, and the investment ratio (in constant prices) thus averaged 18.7% of GDP over the period.[50] National savings were therefore covered, and the internal deficits, which in the beginning were thought by ECLAC to act as a brake on regional development, never emerged.

This historic anomaly was generated by the behaviour of exports and the terms of trade during this period. In 2007, the value of goods exports was 116.4% higher than in 2002, the worst year of the crisis, and the terms of trade were 22.1% higher. This meant that in several countries excellent export performances generated sufficient foreign exchange over those five years to finance imports as well as to stabilize the exchange rate and the monetary situation. Between 2002 and 2007, exports increased 110.8% in nominal terms and 62.1% at constant prices. The region as a whole posted a solid surplus on the goods balance from 2002 onwards, largely thanks to raw-materials-producing economies of South America, while Mexico, Central America and most of the countries of the Caribbean managed to offset their goods deficit and the deterioration of their terms of trade with the remarkable levels of income they obtained from remittances from their emigrant workers.

The region also scored some historic fiscal achievements. Buoyant economic growth generally translated into higher revenue levels, especially in the countries that were obtaining good prices for their exports. More significant, however, was the authorities' management of public spending during this situation. "The fiscal outturn in 2003-2005 has differed from the situation in other boom periods in the past 15 years because the region's governments took advantage of the favourable economic conditions to strengthen their fiscal positions. (…) the countries' governments avoided expansionary fiscal policies and instead opted to use the present growth phase to build up their primary surpluses and pay down their debt."

48 *Economic Survey of Latin America and the Caribbean, 2006-2007* (LC/G.2338-P), Santiago, Chile, 2007, p. 15.

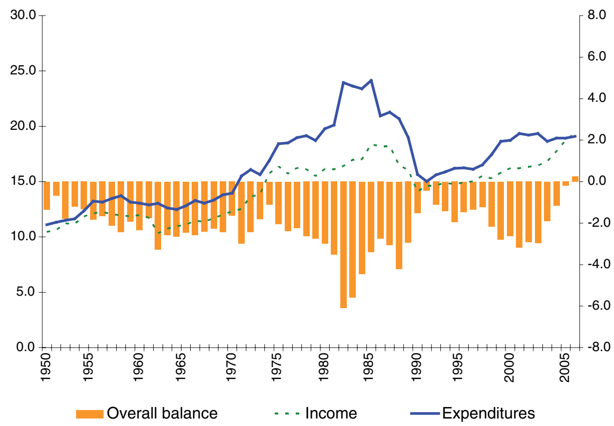
49 *Economic Survey of Latin America and the Caribbean, 2005-2006* (LC/G.2314-P), Santiago, Chile, 2006, pp. 82-86; and *Economic Survey of Latin America and the Caribbean, 2006-2007*, op. cit., pp. 21-23.

50 This is less than the 23.4% ratio reached in the 1970s, but the starting point was much lower in 2003-2007 because the region was just emerging from a series of crises.

The countries of the region began to take advantage of favourable macroeconomic conditions to implement active debt management policies which have helped to reduce their financial vulnerability. In addition to also lowering their external vulnerability, this gave fiscal policymakers, in some respects, more room to manoeuvre.[51] In other words, "Unlike what has customarily occurred during past periods of economic growth, public expenditure has not followed the widespread upturn in fiscal revenues (...). The way in which public accounts have been managed in recent years has resulted in an increase in the primary surplus and the virtual elimination of the global deficit. This, in turn, has paved the way for a significant reduction in public debt levels"[52].

The net transfer of resources abroad was negative for most of the five-year period but for different reasons than in the 1980s. The negative transfer in 2003-2007 is largely explained by assets formation or the cancellation of liabilities towards non-residents, which generated a deficit on the capital and financial accounts but contributed to the current account surplus. In the 1980s on the other hand, there was also a strong transfer of net resources abroad, but the deficit on the capital and financial accounts was generated by capital flight and was associated with the increased deficit on the current account. At that time, both of these deficits had to be covered through the use of exceptional financing (increases in default or debt-service payments to international lending institutions) or by reducing net international assets (loss of reserves). In 2003-2007, however, the region's international reserve levels soared to 13.1% of GDP by the end of the period. Countries also shed much of the debt they owed international lending agencies, and there was a general reduction in net external financing. The governments of Argentina, Brazil and Uruguay, which at the time were the International Monetary Fund's three largest debtors, paid off their IMF loans in advance, which slashed the Fund's outstanding loan portfolio by almost 50%. This meant that "for the first time in many years, Latin America was no longer one of the main recipients of IMF funds. The region now accounts for 8.6% of the Fund's total loan portfolio, which is far below the average —35%— for 1984-2006".[53] The policy of accumulating reserves mirrors the approach adopted by countries in other regions, especially Asia, and reflects the preference (since the traumatic experiences undergone at the end of the 1990s) for being in a strong position to handle any contingencies that may arise on the external front.

Figure V.9
LATIN AMERICA: INCOME, EXPENDITURES AND FISCAL BALANCE
(Percentages)



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

The positive development of the economies of Latin America and the Caribbean between 2003 and 2007 was closely linked to the international situation at the time. Robust world growth was driven by two engines. One was the United States economy, which recovered after the recession of 2001 thanks to a set of monetary and fiscal policies that stimulated investment in real estate and activity in the rest of the world by expanding the country's external deficit. The other was the extraordinary burst of investments embarked upon by certain Asian economies, especially India and China, which fuelled demand and steadily drove up prices in international raw-materials markets throughout the period. China thus came to play a key role in the global economy, not only as a seller (and consequently a competitor of the region's countries that specialized in similar industrial manufactures, such as Mexico and some Central American countries), but also as a commodities buyer, which favoured regional suppliers (especially the economies of South America).[54] China was also a significant contributor to the abundant liquidity in the international financial market as its huge trade surplus was largely channelled into the formation of dollar-denominated government assets. This use of savings by China and the other countries that were recording surpluses kept down international interest rates. Through trade and finance, the positive repercussions of growth in Asia were passed on to the countries of Latin America and the Caribbean.

51 *Economic Survey of Latin America and the Caribbean, 2005-2006*, op. cit., pp. 41, 14, 45 and 48.

52 *Economic Survey of Latin America and the Caribbean, 2006-2007*, op. cit., p. 15.

53 *Economic Survey of Latin America and the Caribbean, 2005-2006*, op. cit., p. 45.

54 *Economic Survey of Latin America and the Caribbean, 2003-2004*, op. cit., Santiago, Chile, 2004, pp. 43-44. China's entry to the World Trade Organization in 2001 was a key factor in these new phenomena.

This new international situation met with favourable conditions at the national level, most notably the strong competitiveness of exchange-rates in the region that stemmed from the real depreciation of local currencies left over from the crisis period that started in 1998. As "the region's unsatisfactory export performance has long been a central theme of ECLAC documents," this new macroeconomic situation was appraised in the *Survey* as an opportunity for diversifying export supply.[55] One of the distinctive features of the situation in 2003 was that the lowering of the high real exchange rates reached was a very gradual process. The region has historically been reluctant to consider real devaluation as a means of expanding tradable production for two reasons: (a) the high inflation that prevailed in most of the region's countries provided limited and fleeting opportunities for a real devaluation; and (b) during the import-substitution industrialization phase, real devaluations had ambivalent effects on the profitability of firms that sold a large proportion of their goods on the domestic market and whose cost structures were strongly influenced by the cost of imported inputs and of servicing foreign-currency debts. In short, the pessimistic view of how the supply of exportables would react to real devaluations was associated with two phenomena that were common in the region up until the 1990s: high inflation and a lower profit ratio for many manufacturing companies.[56] However, unlike in other post-devaluation periods and despite positive current account balances in some countries and high capital inflows in others, real exchange rates remained relatively high in 2003-2007. This occurred for several reasons. First, the combination of monetary policy and the deflationary pressure of the international market (in which China played a decisive role) kept domestic inflation rates down. Second, more and more countries adopted the policy of actively intervening to keep the nominal exchange rate high by purchasing foreign exchange on the international market, which in turn enabled them to accumulate international reserves.

After five years of relative stability, the international situation suddenly took a turn for the worse in mid-2007 when a crisis erupted in the international financial market as a result of the serious problems troubling the United States real-estate market and the inflationary pressure being generated by rising commodity prices (especially oil and food prices) and the measures adopted to mitigate the crisis. In addition to recognizing the threat that this downturn on the external front represents, ECLAC has pointed out that the crisis poses several policy dilemmas for the region. First of all, "Excess supply in the exchange market has pushed down real exchange rates to varying degrees depending on the country. This gave rise to widespread concern that prompted the monetary authorities to intervene in exchange markets to prop up the exchange rate. (…) Unlike what happened in the 1990s, the pressure on the region's exchange markets is not the result of hefty capital inflows, but rather is mainly attributable to higher prices for some commodities exported by the region or to increased emigrant remittances. This means that economic policy has less room for manoeuvre in terms of controlling the situation by imposing restrictions on capital inflows, for instance. In theory, concern over currency appreciation could force the economic authorities to choose between the level of monetary independence they are willing to sacrifice, and the level of currency appreciation they are willing to tolerate. Depending on the sterilization capacity of central banks, the problem could be alleviated through open-market operations, with monetary expansion resulting from the decision to maintain a given real exchange rate. This does not remove the problem, but simply delays it by generating a quasi-fiscal deficit that will have to be tackled in the years to come. In practice, the problem is very difficult to resolve".[57] Second, although fiscal consolidation has, by lowering public debt, reduced countries' vulnerability to external shocks, there are "questions about its sustainability in the medium and long term".[58]

These macroeconomic dilemmas also need to be approached, however, from a broader perspective. The period 2003-2007 was shaped by a huge boom in the external sector. Improvements in the terms of trade, the increase in demand for some of the region's exports, the larger inflows of remittances from emigrant workers and greater external liquidity turned out to be a set of positive factors for a region that has had serious difficulties in consolidating sustained economic growth in the past, largely owing to a constant shortage of foreign exchange. The dilemmas posed by this situation may not only affect economic performance in the short term, however, but also determine the production profile of individual countries.[59] This has led ECLAC to stress one of the main tenets of its analytical work: "A longer-term view highlights the need to diversify both the region's productive structure and the destination markets for its exports. This diversification strategy must aim at incorporating knowledge into the productive structure, which means that innovation in the broad sense and the training of human resources are key factors. This prospect also underlines the need to lay the foundations for increased investment in physical and human capital and higher total factor productivity, with a view to successfully positioning the region on the international stage and consolidating a sustainable process of growth."[60]

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55 *Economic Survey of Latin America and the Caribbean, 2005-2006*, op. cit., p. 103.

56 *Economic Survey of Latin America and the Caribbean, 2005-2006*, op. cit., pp. 105-106

57 *Economic Survey of Latin America and the Caribbean, 2006-2007*, op. cit., p. 35.

58 Ibid., p. 36.

59 Ibid., p. 34.

60 Ibid., p. 36.

South America

Argentina

1. General trends

The remarkable expansionary phase that followed the crisis of the early 2000s continued in 2007, and this was reflected in falling unemployment. The surge in activity was once again accompanied by a balance-of-payments current account surplus, while the primary surplus remained at almost 3% of GDP. International financial shocks had repercussions for the country's economy, although its buoyancy was not noticeably affected. In addition, average export prices and the terms of trade continued to rise. Amidst debate on the methodology and measurement accuracy of the consumer price index, public attitudes seemed to reflect growing concerns over inflation. Following the presidential elections held in October 2007, which were easily won by the ruling coalition, the general direction of economic management remained the same.

The distribution effects of higher external prices became a source of debate that intensified in the first few months of 2008, following an amendment to the tax regime applied to exports. The resulting dispute, which disrupted activities in agriculture, transport and goods distribution, generated considerable uncertainty and affected the financial and foreign-exchange markets. There was also a slowdown in economic activity, although it was unclear what the extent and duration of the deceleration would be. At the same time, there was a general impression that inflation was rising rapidly. Lastly, the Senate refused to approve a law on the tax regime proposed by the executive branch, and this had serious political ramifications. In this context, questions were raised on the possible future trends of the economy.

GDP growth of 8.7% in 2007 resulted in a level of activity that was around 25% higher than the previous cyclical maximum recorded nine years ago. The rate of capital formation also began to increase again (reaching an annual average of almost 23%), while the volume of investment in durable goods as a proportion of GDP stood at 9.4%. The ratio between private consumption and GDP remained fairly constant at 65.5%, which is several percentage points below the levels observed in the expansionary periods of the 1990s (68.6% in 1998).

In 2007, the nominal value of the major components of demand rose by between 23% and 30%. Primary government expenditure expanded by a higher proportion than the rest (that is by around 50% excluding transfers to the provinces under revenue-sharing arrangements), with an increase above the total rise in social security benefits and subsidy transfers to the private sector. At the same time, there was a considerable rise in public revenue, owing to higher social security contributions, VAT, profit tax and tax on foreign trade.

Despite the surge in the value of imports (31%), the merchandise trade surplus remained at around US$ 13.0 billion. Exports of services were buoyant, and the growth of merchandise exports reflected a favourable variation in price (12%) and volume (8%), despite the sharp decline in fuel sales. The continued improvement in the terms of trade helped to sustain spending capacity and facilitated the management of public finances. However, external factors put pressure on food prices, amidst an escalating dispute on the fiscal and regulatory treatment of activities linked to agricultural exports (in terms of their effects on income distribution and production incentives). The authorities gave priority to the domestic supply of goods such as meat and dairy products by imposing restrictions on exports.

In 2007, the variation in the consumer price index recorded in the metropolitan area was less than 9%. Nonetheless, similar measurements in other parts of the country showed a noticeably higher increase, which seemed to coincide with the attitudes and expectations seen in large segments of public opinion. Instead of measures aimed at curbing demand to affect prices, economic policy instead consisted of implementing regulations governing foreign trade and subsidies (for energy, transport and food), and reaching agreements with corporate groups. The authorities also sought to lead wage negotiations: throughout 2007, the average wage increase was almost 23%.

The central bank oversaw a massive accumulation of reserves in 2007, except for a time during the second half of the year when concern over the international financial situation resulted in significant outflows of private capital. In the second half of 2008, to offset the combination of greater demand and reduced liquidity in terms of export currencies at a time of uncertainty linked to the agricultural dispute, the monetary authorities took an active role in the foreign exchange market, which in turn brought down the nominal exchange rate. In the background, the period as a whole was typical of the pattern seen in previous years of major currency-purchase operations that are then partially sterilized with bond issues. Trends in prices and in the yield on financial assets pushed up the risk premiums implicit in the rates of return on public bonds. Up to early 2008, this had only had a slight effect on the performance of domestic financial markets. In the second quarter of the year, portfolio decisions reflected a greater degree of uncertainty that, at times, affected the withdrawal of funds from banks. Interest rates also shot up, although the return on deposits remained below average predictions for inflation.

2. Economic policy

(a) Fiscal policy

Growth of the current resources of the national public sector outstripped the increase in GDP. In 2007, the management of public finances was influenced by the transference to the public sector of the account balances of pension system contributors who opted into the State pay-as-you-go segment. This exceptional operation contributed to the increase of almost 1% of GDP in revenues from social security contributions. Not including these funds, national tax receipts were up 33.2% for 2007 as a whole, which pushed up the tax burden by around two percentage points to a record high of 25% of GDP. In the first six months of 2008, the growing expansion of public revenues continued (38%), although there have been some signs of a slowdown.

Receipts were noticeably higher in all tax categories in 2007. Social security contributions rose by almost 50% (to represent 18.1% of the total, almost two percentage points more than in the previous year), owing to the payment facilities granted to own-account workers, a rise in the taxable salary and a higher number of contributors. Buoyant private consumption boosted VAT receipts (up 31%), while greater economic activity and higher prices resulted in increased receipts from the tax on profits (28%) and the tax on current account credits and debits (29%). In the light of increased external trade flows, and to a lesser extent the nominal exchange rate, there was a rise in receipts from import tax (37%) and export tax (39%). The rate of the export levy on hydrocarbons and certain agricultural products was also raised in 2007.

In the non-financial public sector, expenditure showed a higher-percentage increase than resources during 2007. Primary expenditure climbed by 46%, not including transfers to the provinces under revenue-sharing arrangements. The growth rate of expenditure slowed down in late 2007 and early 2008. The primary-expenditure-to-GDP ratio increased by almost three percentage points (to 18.2%), and this was mainly the result of outgoing transfers to the private sector (especially in the form of energy and transport sector subsidies), for which the nominal value rose by 60%. There was also a considerable rise (57%) in social security benefits, owing to an increase in benefits and the number of beneficiaries. Growth in the other main items of primary expenditure was slower but nonetheless significant: 33% in the case of capital expenditure and 30% for personnel expenditure, while transfers to the provinces under revenue-sharing arrangements also rose by almost 30%.

The primary surplus in the national public sector stood at nearly 26.0 billion pesos in 2007 (11% more than in the previous year), which is equivalent to 3.2% of GDP. Not counting the portfolio transfer of social security contributors, the surplus would be 2.2%. The financial result posted a positive balance of 9.3 billion pesos (20% less than in the previous year), which is about 1.1% of GDP. Provincial accounts showed a shrinking primary surplus, which was the result of a sharp climb in expenditure. In the first half of 2008, the primary result was considerably higher than in the year-earlier period (41%), as the contribution of resources from the central bank in the form of profit advances played a part in 2008.

In 2007, the government issued bonds to cover capital payments, as well as the borrowing requirements for the following year. Direct issues to the government of the Bolivarian Republic of Venezuela represented almost 30% of the bonds issued. As of December 2007, public debt stood at US$ 145 billion, which is just under 56% of GDP (around eight percentage points less than in 2006).

(b) Monetary policy

In the first few months of 2007, the central bank continued to accumulate large quantities of reserves, and also made substantial bond issues in an effort to sterilize in part the monetary effects of that intervention. By the middle of the year, the international financial shocks were having an effect on the supply of foreign exchange. This interrupted the expansion of reserves, while domestic credit operations became expansionary in nature. The level of international reserves nonetheless rose by just over US$ 14.0 billion for the year as a whole, and stood in excess of US$ 45.0 billion as of December 2007. Excess supply of foreign exchange continued into the first few months of 2008. However, in a more uncertain macroeconomic context, demand for foreign currency then picked up and supply was reduced, which prompted the central bank to intervene and make sales amidst rising interest rates. In June, international reserves amounted to almost US$ 47.0 billion.

In 2007, the monetary base expanded by 25%, at a rate comparable to the rise in nominal GDP. The monetary aggregate M3 (means of payment plus interest-bearing deposits in pesos and United States dollars) grew by 22%. In terms of private-sector deposits, particular increases were recorded in time deposits with a fixed nominal interest rate (28%), whereas there was a sharp decline of almost 50% in price-indexed deposits.

Loans in pesos to the private sector soared (40%), although they remained low in terms of GDP (just under 12%), as an after-effect of the deep crisis that had occurred at the beginning of the decade. Although the credit expansion was spread throughout various types of operation, there were striking increases in consumer loans and secured loans (especially those based on collateral). The number of loans to the public sector, on the other hand, dropped by more than 20%.

Throughout 2007 and the first few months of 2008, interest rates displayed an upward trend but remained at moderate levels. In the market of interbank loans, rates rose by almost two percentage points in 2007 and the seven-day rate was just over 8% at the end of the period. In late 2007, the nominal return on 30-day deposits was around 10% (almost three points more than one year previously), while average lending rates on advances and discounted bills stood at approximately 18%.

There was a dramatic drop in the price of public bonds in 2007. By year’s end, the yield differential between a representative bond and an equivalent United States bond was more than 650 points (which constituted an increase of 370 points over the period), and this continued to rise into the first few months of 2008. Share prices, for their part, showed no significant variation on 2007.

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	-3.4	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7
Per capita gross domestic product	-4.4	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4	7.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.5	-1.7	1.1	-2.3	6.9	-1.5	11.1	2.6	9.8
Mining	-3.3	6.7	4.7	-3.7	3.7	-0.4	-0.2	3.0	-0.5
Manufacturing	-7.9	-3.8	-7.4	-11.0	16.0	12.0	7.5	8.9	7.7
Electricity, gas and water	3.6	6.6	1.1	-3.0	6.9	6.5	5.0	5.0	5.7
Construction	-7.9	-9.3	-11.6	-33.4	34.4	29.4	20.4	17.9	9.9
Wholesale and retail commerce, restaurants and hotels	-6.9	-2.4	-7.8	-16.8	11.7	12.4	9.5	7.9	10.8
Transport, storage and communications	-1.3	1.7	-4.6	-7.9	8.2	13.4	14.8	13.4	13.8
Financial institutions, insurance, real estate and business services	-0.5	1.3	-4.4	-9.6	-1.1	2.2	7.1	8.2	8.1
Community, social and personal services	1.9	1.7	-0.1	-3.3	2.8	4.4	5.6	5.4	4.8
Gross domestic product, by type of expenditure									
Consumption	-1.3	-0.5	-5.2	-12.8	7.0	8.3	8.5	7.4	8.7
General government	2.6	0.6	-2.1	-5.1	1.5	2.7	6.1	5.2	7.4
Private	-2.0	-0.7	-5.7	-14.4	8.2	9.5	8.9	7.8	9.0
Gross domestic investment	-12.6	-6.8	-15.7	-36.4	38.2	34.4	22.7	18.2	14.4
Exports (goods and services)	-1.3	2.7	2.7	3.1	6.0	8.1	13.5	7.3	8.9
Imports (goods and services)	-11.3	-0.2	-13.9	-50.1	37.6	40.1	20.1	15.4	20.7
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	17.9	17.5	15.6	11.0	14.6	19.0	20.9	23.0	24.2
National saving	13.7	14.4	14.2	19.6	20.9	21.1	23.7	26.6	27.0
External saving	4.2	3.1	1.4	-8.6	-6.3	-2.1	-2.8	-3.6	-2.7
					Millions of dollars				
Balance of payments									
Current account balance	-11 943	-8 955	-3 780	8 767	8 140	3 213	5 236	8 011	7 466
Goods balance	-795	2 452	7 385	17 178	16 805	13 265	13 087	13 958	13 255
Exports, f.o.b.	23 309	26 341	26 543	25 651	29 939	34 576	40 387	46 546	55 780
Imports, f.o.b.	24 103	23 889	19 158	8 473	13 134	21 311	27 300	32 588	42 525
Services trade balance	-4 111	-4 284	-3 863	-1 460	-1 193	-1 331	-1 036	-536	-499
Income balance	-7 490	-7 522	-7 727	-7 491	-7 975	-9 282	-7 304	-5 858	-5 600
Net current transfers	453	399	424	540	504	561	489	446	310
Capital and financial balance [d]	13 955	7 737	-17 679	-22 158	-17 177	-10 165	2 158	6 102	4 024
Net foreign direct investment	22 257	9 517	2 005	2 776	878	3 449	3 954	2 919	4 571
Financial capital [e]	-8 302	-1 781	-19 684	-24 934	-18 056	-13 613	-1 796	3 183	-546
Overall balance	2 013	-1 218	-21 459	-13 391	-9 037	-6 952	7 394	14 113	11 490
Variation in reserve assets [f]	-1 186	439	12 083	4 516	-3 581	-5 319	-8 857	-3 530	-13 098
Other financing [g]	-826	778	9 376	8 876	12 618	12 271	1 463	-10 582	1 608
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	99.8	100.0	95.9	225.8	205.1	212.8	213.3	218.1	222.8
Terms of trade for goods (index: 2000=100)	90.9	100.0	99.3	98.7	107.2	109.2	106.9	113.0	117.1
Net resource transfer (millions of dollars)	5 639	993	-16 030	-20 773	-12 535	-7 175	-3 683	-10 338	33
Total gross external debt (millions of dollars)	152 563	155 014	166 272	156 748	164 645	171 205	113 799	108 762	123 197
					Average annual rates				
Employment									
Labour force participation rate [i]	...	56.6	56.0	55.8	60.1	60.3	59.9	60.3	59.5
Open unemployment rate [j]	14.3	15.1	17.4	19.7	17.3	13.6	11.6	10.2	8.5
Visible underemployment rate [j]	16.7	17.1	18.9	24.0	20.7	17.5	14.2	12.5	10.4
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	-1.8	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.5
Variation in wholesale prices (December-December)	1.2	2.4	-3.4	113.7	2.0	7.9	10.6	7.2	14.6
Variation in nominal exchange rate (annual average)	0.0	0.0	0.0	206.5	-5.3	0.8	-0.0	5.2	1.3
Variation in average real wage	2.9	2.3	-0.8	-13.9	-1.9	9.9	6.0	8.6	12.0
Nominal deposit rate [k]	8.3	8.5	16.3	39.3	10.5	2.7	3.9	6.5	7.9
Nominal lending rate [l]	11.0	11.1	26.5	53.0	19.1	6.8	6.2	8.6	11.1

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Central national administration [m]									
Total income	14.1	15.2	14.3	14.2	16.1	16.3	16.7	17.2	18.4
Current income	14.0	15.0	14.2	14.1	16.1	16.2	16.5	17.0	18.3
Tax income	12.5	12.9	12.9	12.1	14.5	15.4	15.8	16.0	17.5
Capital income	0.1	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.1
Total expenditure	17.1	17.3	18.3	14.8	15.9	14.4	16.3	16.2	17.8
Current expenditure	15.8	16.3	17.4	14.1	15.1	12.9	14.3	13.6	15.6
Interest	2.9	3.4	4.0	2.1	1.9	1.3	1.9	1.7	2.1
Capital expenditure	1.3	1.1	0.9	0.7	0.8	1.5	2.0	2.6	2.2
Primary balance	-0.2	1.3	0.0	1.5	2.1	3.2	2.3	2.7	2.8
Overall balance	-3.1	-2.1	-4.0	-0.6	0.2	2.0	0.4	1.0	0.6
National administration debt [n]	43.0	45.0	53.7	145.9	138.2	126.4	72.8	63.6	55.8
Domestic	13.9	16.4	22.3	52.8	59.4	52.7	38.3	37.4	31.8
External	29.1	28.6	31.5	93.0	78.8	73.8	34.5	26.1	23.9
Money and credit [o]									
Domestic credit	30.8	31.7	32.6	43.2	37.9	32.7	24.9	20.7	17.1
To the public sector	12.2	12.8	18.8	48.8	42.2	38.0	29.5	22.0	17.5
To the private sector	24.9	23.9	20.8	15.3	10.8	10.5	11.7	13.0	14.5
Others	-6.3	-5.0	-7.1	-20.9	-15.1	-15.8	-16.2	-14.3	-14.8
Liquidity (M3)	28.8	29.6	24.9	21.9	24.9	24.7	25.8	25.8	26.2
Currency outside banks and local-currency deposits (M2)	13.5	12.9	8.5	21.2	23.5	23.0	23.8	23.5	23.5
Foreign-currency deposits	15.2	16.8	16.5	0.7	1.4	1.7	2.0	2.3	2.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Based on figures in local currency expressed in dollars at current prices. Gross domestic investment does not include changes in stocks.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, urban areas.
[j] Percentage of the economically active population, urban areas.
[k] Fixed-term deposits, all maturities.
[l] 30-day loans to leading firms.
[m] Accrual basis.
[n] As from 2005, this does not include unswapped debt.
[o] The monetary figures are end-of-year stocks.

3. The main variables

(a) Economic activity

GDP grew steadily throughout 2007. The indicator of economic activity showed a considerable year-on-year increase in the first quarter of 2008, although the emergence of the agricultural dispute in March went hand in hand with a net slowdown in industrial activity. In 2007, domestic demand rose by 10%, which was a faster growth rate than that of GDP. This was accompanied by a fall in the physical volume of the goods and services trade balance from 2% of GDP to 0.7%.

In 2007, investment growth was modest but once more comfortably above (14.4%) total expenditure. The slowdown was mainly concentrated in construction, which had been expanding quickly, although the 8.1% increase observed in 2007 was nonetheless significant. Investment in durable production equipment was up by almost 25%, which was higher growth than in the previous year. In the fourth quarter, the investment rate as a proportion of GDP stood at 24.6%, while the rate associated with durable equipment was 10.4% (both figures were historically high). In terms of sectoral performance, noteworthy

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.8	7.7	8.7	8.6	8.0	8.6	8.8	9.1	8.4	...
Goods exports, f.o.b. (millions of dollars)	9 906	11 943	12 088	12 519	11 144	13 666	14 347	16 622	15 789	17 448
Goods imports, c.i.f. (millions of dollars)	7 373	8 232	9 307	9 246	9 164	10 182	12 694	12 666	12 842	15 271
International reserve assets (millions of dollars) [c]	21 549	25 490	28 048	32 037	36 849	43 157	42 891	46 176	50 464	47 516
Real effective exchange rate (index: 2000=100) [d]	219.5	219.1	218.5	215.4	215.2	219.1	225.2	231.8	235.9	238.4
Unemployment rate	11.4	10.4	10.2	8.7	9.8	8.5	8.1	7.5	8.4	...
Consumer prices (12-month percentage variation)	11.1	11.0	10.4	9.8	9.1	8.8	8.6	8.5	8.8	9.3
Average nominal exchange rate (pesos per dollar)	3.06	3.07	3.09	3.08	3.10	3.08	3.14	3.14	3.15	3.12
Average real wage (variation from same quarter of preceding year)	7.8	8.6	11.0	7.3	8.4	12.4	13.2	13.4	15.4	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.7	6.6	6.9	6.9	7.2	7.0	7.9	9.5	8.4	10.2
Lending rate [f]	7.5	8.3	9.3	9.5	9.2	8.7	10.9	15.5	13.0	17.1
Interbank rate [g]	6.7	6.7	7.3	7.5	7.0	7.4	10.2	9.2	8.1	8.9
Sovereign bond spread (basis points)	344	385	342	216	209	325	398	410	581	614
Stock price index (national index to end of period, 31 December 2000 = 100)	432	411	393	502	505	526	525	516	505	506
Domestic credit (variation from same quarter of preceding year)	-9.5	-5.7	-4.0	2.3	1.3	-2.4	4.9	2.7	12.9	26.3 [h]
Non-performing loans as a percentage of total credit	5.4	4.0	3.5	3.3	2.9	2.7	2.3	2.2	2.1	1.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Fixed-term deposits, all maturities.
[f] 30-day loans to leading firms.
[g] Buenos Aires interbank offered rate (BAIBOR).
[h] Data to May.

growth was recorded in some service branches such as financial intermediation, transport and communications, and commerce and related activities. The agricultural sector also expanded (around 10%), while manufacturing output climbed by 7.7%.

Grain production in the 2006-2007 growing season reached a record of around 94 million tons, which was 23% higher than in the previous season. This was the result of a considerable expansion in crop area (7%) and a recovery in yields in the absence of the adverse weather conditions that had affected the previous harvest. Although the increase in soybean production (17.5%) was proportionally smaller than the total rise in production, soya once again represented over half of all tonnage produced. The maize harvest also expanded significantly by more than 50% to reach 22 million tons, and this accounted for much of the 33% growth in cereals as a whole. Within this aggregate, wheat production posted a significant if smaller increase (16%). As international prices shoot up, the area planted with main crops expanded once more (by nearly 5%) in the 2007-2008 season, which points to an increased harvest.

Ongoing restrictions on beef shipments led to a fall in export volumes, while domestic demand climbed. In 2007, the number of animals slaughtered increased to almost 15 million (11% more than in the previous year), and there was also a rise in the volume of meat produced. During the period, the average weight of beef cattle arriving at market dropped, and the proportion of female animals increased.

Mining output dipped slightly. Petroleum extraction continued its downward trend (falling by 2.5% this time), while gas production dropped by 1.3%. This supply pattern was the result of the sharp drop in fuel export volumes and increased imports.

The volume of industrial production continued to climb well in 2007 (at an annual rate of almost 10%). The automotive industry once again expanded considerably (by nearly 30% for the year as a whole), thanks to strong demand on the domestic and export markets. Metal production (steel and aluminium) also posted impressive growth, while construction materials and metallurgical engineering products also expanded, but to a lesser degree. In contrast, there was a decline in the production of dairy products, processed petroleum and chemicals derived from hydrocarbons. In the first six months of 2008, the expansion of manufacturing output came to a halt. It remains unclear whether this was a cyclical reversal or a sporadic effect related to the agricultural dispute.

The public services sector grew considerably in 2007. True to form, mobile telephony displayed strong growth. Noteworthy increases were also recorded in air transport (especially international activity) and in rail freight services. Electricity demand was up 9% for the year as whole.

(b) Prices, wages and employment

In 2007, average inflation as measured by variation in the consumer price index in Greater Buenos Aires fell to 8.5%. Price patterns recorded using this statistic, whose methodology and data-compilation system were the subject of public debate, varied widely from increases of over 20% for items such as oil, rentals and recreational services to nominal deflations that the index observed in clothing and (especially) tourism – sectors where prices were reported to have fallen by 10%. In some cases, consumer price variation measured in other parts of the country was considerably higher than the rate reported for Greater Buenos Aires, and included 18% in Mendoza and 21% in San Luis. The wholesale price index, for its part, posted an annual increase of 16.6%, with growth of 20% in primary goods and 15.7% in national manufactures. During 2007, the exchange rate in relation to the United States dollar rose by just under 3%; the rate of depreciation was higher in relation to the currencies of other major trading partners, such as the euro (around 14%) and the Brazilian real (23.5%).

The accuracy of indicators such as those related to real wages was affected by the uncertainty surrounding the measurement of prices. Throughout 2007, nominal wages varied more quickly in the public sector (28% in nominal terms) than in the private sector. In the private sector, the growth rate of the wages of non-registered workers (24%) was higher than that of formal workers (20%). Information on income distribution in the first quarter of 2007 (compared with the year-earlier period) showed reductions in the gap between the two ends of the scale (with the difference between the average income of the tenth and first decile going from 26 to 23 times), and in the Gini coefficient (0.49).

For 2007 as a whole, the employment rate of the population in the main urban conglomerates again increased to stand at 42.2% (0.6 points more than in 2006). The annual unemployment rate dropped to 7.5% in the fourth quarter (7.8% if people employed on official programmes and actively seeking work are included). That figure is the lowest level since the beginning of the 1990s.

(c) The external sector

Although the current account surplus in 2007 was narrower than in the previous year, it remained in excess of US$ 7.0 billion (around 2.7% of GDP). The goods trade balance stood at just over US$ 13.0 billion, owing to the climbing value of exports and imports, which in both cases surpassed the figures recorded in 2006 by almost US$ 10.0 billion. There was also a surge in service trade flows, with a similar magnitude (around US$ 2.0 billion) in both exports and imports, thereby ensuring that the services deficit remained below US$ 1 billion. As far as service sales are concerned, impressive performances were turned in by tourism and business and computer services. The income account deficit (US$ 5.6 billion) was similar to the level observed in 2006, with a slight reduction in the negative interest balance being partially offset by a rise in outlays in the form of profits and dividends.

Unlike in 2006, when the payment of debt to the International Monetary Fund (IMF) played a decisive role, the financial account posted a positive balance of approximately US$ 5.5 billion. The first half of 2007 saw huge capital inflows driven by the private sector, which added to the excess supply of foreign exchange generated by the current account and pushed up reserves dramatically (US$ 11.0 billion in that period). In the second half of the year, private capital flows displayed a negative net balance of around US$ 4.3 billion, which made for net inflows of about US$ 1.5 billion for the year. In the third quarter, this was associated with a fall in reserves, although these did pick up again in the final months of 2007. For the year as a whole, the result of operations in the non-financial public sector amounted to net capital inflows of US$ 2.5 billion (compared with US$ 3.0 billion in 2006).

Goods exports grew by 20% in 2007 to stand at almost US$ 56.0 billion. This export growth was due to an 8% rise in volume and a 12% increase in unit values. Prices also climbed considerably in the first few months of 2008.

The rise in exports was spread across various categories of goods, except fuels and energy, where higher prices failed to offset the continuing downward trend in volumes (down 20% in 2007). Exports of primary products showed a strong increase (45%), in which prices and volumes played an equal role. There was a rise in sales of oilseeds (89%), especially soya and cereals (58%). Exports of oils and milling by-products performed well. Fruit and vegetables also expanded considerably, while the value of copper exports rose moderately (11%) and fish product exports declined. Restrictions of meat exports limited shipment volumes, although export values increased (13%), while sales of dairy products fell by 17%. The value of industrial manufacturing exports climbed by 17%, on the strength of motor vehicles (33%) and machinery (26%). A smaller but nonetheless significant increase was observed in the sectors of machinery and chemical products (except plastics). As for the geographical distribution of exports, there as a rise in the proportion of exports to China (48%), which now represent 10% of the total. Above-average increases were also seen in exports to MERCOSUR and the European Union, with a standstill in exports to countries of the North American Free Trade Agreement (NAFTA) and a drop in exports to Chile (due to lower gas sales).

In 2007, imports expanded dramatically (31%) on the back of the surge in fuel purchases (64%). Other headings, including capital, intermediate and consumer goods and vehicles, rose by around 30%. In the first few months of 2008, imports posted a hefty increase: up by 46% in the first six months compared with the year-earlier period.

Bolivarian Republic of Venezuela

1. General trends

In 2007, the Bolivarian Republic of Venezuela's GDP grew 8.4%. Given that the oil sector's output shrank 4.2% that year, this growth was driven by the buoyancy of the non-oil sector, whose output expanded 9.5%. Domestic demand continued to rise at a rate of 20%, the same pace as the previous year. High oil prices on the international market meant that the terms of trade remained favourable and, as in 2006, the country's economic growth was sustained by the continued expansion of gross national income.[1] In the first quarter of 2008, GDP increased 4.9% in relation to the same period in 2007, reflecting the onset of a slowdown in economic activity.

Despite the introduction of a series of measures at the beginning of 2007 aimed at curbing inflation, which had been rising since mid-2006, the national consumer price index in December 2007 posted an accumulated increase of 22.4%. According to the country's economic authorities, growth will reach about 6% in 2008, and the exchange rate will remain at 2,150 bolivars per dollar. The target for inflation, which had originally been set at an average annual rate of 11%, has been raised to 19%.

2. Economic policy

In February 2007, the National Assembly passed an enabling law granting the President special powers to issue decrees on various subject matters over the next 18 months. The government used these powers to introduce several measures in the first months of 2007 that would change the country's institutional structure. In January, it announced the nationalization of two public-service companies: Electricidad de Caracas S.A. and Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV). As of 1 May, control of four strategic partnerships operating in the Orinoco oil belt was taken over by the State and the State-owned company Petróleos de Venezuela, S.A (PDVSA). Also in May, the government decided not to renew the operating license of a long-established television channel. Later on in the year, the President of the Republic proposed a constitutional reform that was adopted by the National Assembly but not approved by the electorate when submitted to a referendum on 2 December. Among the most controversial measures were the decision to strip

[1] In 2007, the average price of the Venezuelan oil basket rose 14.9% compared with 2006. In the first semester of 2008, the average price of oil had shot up 81% in relation to the same period the previous year and 54% compared with 2007 as a whole.

the central bank (BCV) of its autonomy, modifications to the country's territorial structure, the indefinite re-election of the President of the Republic, the creation of the legal concept of popular power, and changes in provisions relating to private property.

In April 2008, the government announced the nationalization of all the cement companies operating in the country and of an important metallurgical firm. As in the case of the strategic partnerships that used to operate in the oil sector, the authorities have stated their intention to created mixed-capital companies in which the State would hold a 60% stake through its enterprises.

Both in 2007 and 2008 the Venezuelan government has continued to supply oil to a number of countries at below-market prices in the framework of the Bolivarian Alternative for Latin America and the Caribbean (ALBA), the PETROCARIBE Energy Cooperation Agreement and individual agreements signed with several countries. It has also promoted the creation of Banco del Sur, a multilateral lending institution for the region which is to be financed with resources from Latin American countries.

(a) Fiscal policy

Some changes to tax policy were introduced in 2007. As part of the programme to counter inflation, in February 2007 the government decreed a cut in the VAT rate, from 14% to 9%, to take place in two stages: a first reduction from 14% to 11% effective as of 1 March 2007 and a second from 11% to 9% to take effect on 1 July. In addition, on 15 March, VAT was eliminated for a number of foods, and its rate was reduced for food transport services. In October, the government announced higher taxes on alcoholic beverages and cigarettes and, as of 1 November, the entry into force for November and December 2007 of a tax on banking transactions, which levied 1.5% on corporate withdrawals and transfers.

In April 2008, the National Assembly passed the law on the special contribution derived from extraordinary prices in the international hydrocarbon market. This law stipulates that oil companies must pay a special tax to the State when oil prices rise above 70 United States dollars per barrel of Brent crude. This tax operates at two rates: companies must pay 50% of the price difference per barrel of crude when the Brent crude oil price rises above U$ 70/barrel and 60% when it surpasses US$ 100/barrel. The tax is to be paid in foreign exchange, not in bolivars, and the proceeds are deposited in the National Development Fund (FONDEN). In June 2008, the government announced the elimination of the tax on banking transactions.

Public spending slowed down considerably in 2007 in comparison with previous years. Central government spending increased at an annual rate of 9.2%, which, considering the high levels of inflation, represents a decrease in real terms. This was the result of fewer goods and services acquisitions and a significant reduction in the level of transfers to State agencies. Despite the slowdown in economic growth, public income swelled 20.5% thanks to tax income from the oil sector. The budgetary central government therefore posted a financial surplus equivalent to 3% of GDP. Stagnant non-tax income levels, affected by the sharp drop in revenue generated by non-financial State companies, and the absence of any improvement in earnings from profits, dividends and commissions meant that the core public sector, however, posted a deficit of 2.6%, which was slightly higher than in 2006 (1.5%).[2] This occurred despite core-public-sector spending having been curbed by the significant reduction in transfers to the public sector.

(b) Monetary policy

On 1 January 2008, a redenomination of the bolivar took place. Bascially three zeros were cut from the currency unit. The currency's new name is "bolívar fuerte" and it is represented by the symbol "Bs.F." Both currencies will be in circulation for a period of six months, during which the prices of goods and services are to be displayed in both denominations.

As in the previous two years, the government invested dollars in purchases of foreign bonds, continued to build up foreign-exchange funds outside the country and pursued its external debt renegotiation programme. A number of bonds were issued in the course of the year: in early 2007, the Southern Bond II (US$ 1.5 billion) and the bonds issued by Petróleos de Venezuela, S.A. (US$ 7.5 billion); and in August, the Southern Bond III (US$ 1.2 billion). The government also continued to issue structured notes (US$ 1 billion) in 2007, and, in March 2008, announced a further issue of US$ 1.5 billion in structured notes for 2008.[3] In April, the authorities announced the sale, mainly to companies in the local production sector, of US$ 3 billion in combined international sovereign bonds, split between papers maturing in 2023 and 2028. In the end, US$ 4 billion of these bonds were issued.

2 The core public sector comprises the budgetary central government, Petróleos de Venezuela S.A. (PDVSA), non-financial public enterprises, the Venezuelan Social Insurance Institute (IVSS) and the Deposit Guarantee Fund (FOGADE).

3 These notes consist of dollar-denominated instruments, a high proportion of which are backed by Argentine, Ecuadorian and Brazilian public debt, that are sold to local financial institutions. They were created as a placement mechanism for some of the resources deposited in FONDEN.

As part of its efforts to stem inflation, the authorities implemented measures in 2007 to contain the expansion of the monetary aggregates. In the first few months of the year, it was decided that the tax payments made by PDVSA to the Treasury could be made in United States dollars via its overseas accounts. The government also announced a US$ 6.77 billion transfer from the international reserves of BCV to FONDEN. In July, BCV decided to raise the annual borrowing rate from 6.5% to 8% in the case of savings accounts and from 10% to 11% in the case of time-deposits. It also raised the legal reserve ratio from 15% to 16%, and subsequently to 17% as of 1 October.

Also in July, BCV announced that it would revise the financial conditions of open market transactions as regards both rates and terms. Fifty-six-day notes were reintroduced at a rate of 11%, and 14-day notes were eliminated, whilst the 10% rate for 28-day notes remained unchanged. In November, BCV raised both rates by 1%. At the same time it announced a change in the legal reserve requirement for foreign-exchange operations commencing in January 2008, whereby financial institutions are obliged to set up a reserve in bolivars for these kinds of transactions. In December 2007, the effective legal-reserve rate therefore reached 21.9% compared with about 17% in the same month the previous year.

In July 2007, BCV raised the minimum interest rates on savings and time-deposits from 6.5% and 10% to 8% and 11%, respectively. In December, the minimum interest rate for savings was raised to 10%. The maximum authorised lending rate was kept at 28%. The average annual lending rate of the six main commercial and universal banks therefore hovered around 16.8% in 2007, while the rates on time-deposits and savings reached 10.5% and 7.4%, respectively. In the first semester of 2008, the average lending rate was 23.3%, while borrowing rates averaged 14.2% in the case of time-deposits and 12.7% in the case of savings. The minimum rates for savings and time-deposits were raised as of 1 May 2008 to 15% and 17%, respectively, and a maximum lending rate of 33% was imposed on credit-card loans.

These measures curbed the expansion of the money supply notably. In December 2007, liquidity (M2) was up 27.8% compared with December 2006 owing to the decline in savings and time-deposits. The growth of the monetary aggregates has continued to be more subdued in 2008: in May, M1 and M2 had varied -4% and 0.9%, respectively, in relation to December 2007, and had increased by 21.8% and 31.2% in comparison with May 2007.

Driven by the notable 92% rise in consumer loans and mortgages between December 2006 and December 2007, bank credit mushroomed during the year, expanding 69% over the same period. Like the expansion of the monetary aggregates, however, bank credit growth has been significantly less buoyant in 2008. In May 2008, bank credit was up 7.7% and personal credit 16.5% compared with December 2007, having risen 46.8% and 72.4%, respectively, over the previous twelve months.[4]

Within the framework of the transfers agreed to together with the Executive Branch, BCV transferred US$ 6.77 billion of its international reserves to FONDEN between February and April 2007 and an additional US$ 1.5 billion between February and March 2008. These transfers and the foreign exchange disbursements made by the Foreign Exchange Administration Commission (CADIVI) meant that the international reserves of BCV as of the end of June 2008 stood at US$ 33.56 billion (compared with US$ 34.286 billion in December 2007).[5]

(c) Exchange-rate policy

Throughout 2007 and in 2008, the exchange rate was kept at 2,150 bolivars per United States dollar. No changes were made to the currency regime that has been in place since 2003 or to the restrictions on capital outflows. Despite the greater volumes of foreign exchange made available by CADIVI and the higher limits set for foreign-currency credit-card transactions in the last months of 2007, the rate on the parallel market was 200% higher than the official exchange rate. At the end of December 2007, a new law on foreign exchange offences was passed. This law, which came into force on 28 January 2008, broadened the concept of foreign exchange, made changes to the sanctioning authority, established the obligation of companies to justify the origin of the foreign currency they use to pay for imports and prohibited the spread of information on exchange rates other than the official one. The restrictions on access to the foreign exchange supplied by CADIVI were loosened on 23 June 2008 for companies that had registered with the agency prior to 12 June.

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4 May 2008 in relation to May 2007.

5 Including the resources of the macroeconomic stabilization fund.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Annual growth rates [b]								
Gross domestic product	-6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3	8.4
Per capita gross domestic product	-7.7	1.8	1.5	-10.5	-9.4	16.2	8.4	8.5	6.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.9	6.5	2.0	-0.8	-1.3	4.4	9.8	...	...
Mining	-6.4	2.4	2.6	-12.9	-0.3	9.6	2.8	...	...
Manufacturing	-7.3	4.8	0.3	-13.7	-7.4	23.9	6.0	8.3	5.9
Electricity, gas and water	-2.2	4.7	4.8	2.1	-0.5	8.5	11.2	5.8	2.4
Construction	-17.4	4.0	13.5	-8.4	-39.5	25.1	20.0	35.6	13.3
Wholesale and retail commerce, restaurants and hotels	-5.3	4.8	4.2	-12.4	-9.8	28.1	21.5	19.1	15.7[c]
Transport, storage and communications	-7.5	7.6	2.8	-4.4	-6.5	18.7	18.4	16.5	16.9
Financial institutions, insurance, real estate and business services	-6.7	0.5	3.4	-3.1	-3.3	15.9	13.9	17.2	9.8
Community, social and personal services	-3.9	2.2	2.4	-0.2	3.4	10.6	8.1	7.5	6.9
Gross domestic product, by type of expenditure									
Consumption	-2.9	4.6	6.2	-6.2	-2.3	15.2	14.6	15.6	16.1
General government	-7.5	4.2	6.9	-2.5	5.7	14.2	10.7	6.7	5.1
Private	-1.7	4.7	6.0	-7.1	-4.3	15.4	15.7	17.9	18.7
Gross domestic investment	-10.6	6.7	13.6	-34.0	-35.5	91.3	30.5	31.6	26.6
Exports (goods and services)	-11.0	5.8	-3.5	-4.0	-10.4	13.7	3.8	-4.5	-5.6
Imports (goods and services)	-9.3	12.4	14.1	-25.2	-20.9	57.7	35.2	31.1	33.6
	Percentages of GDP								
Investment and saving [d]									
Gross domestic investment	26.5	24.2	27.5	21.2	15.2	21.8	23.0	25.3	28.0
National saving	28.7	34.3	29.1	29.3	29.3	35.6	40.5	40.0	36.7
External saving	-2.2	-10.1	-1.6	-8.2	-14.1	-13.8	-17.5	-14.7	-8.8
	Millions of dollars								
Balance of payments									
Current account balance	2 112	11 853	1 983	7 599	11 796	15 519	25 447	27 149	20 001
Goods balance	6 471	16 664	7 456	13 421	16 747	22 647	31 708	32 712	23 702
Exports, f.o.b.	20 963	33 529	26 667	26 781	27 230	39 668	55 716	65 210	69 165
Imports, f.o.b.	14 492	16 865	19 211	13 360	10 483	17 021	24 008	32 498	45 463
Services trade balance	-2 839	-3 253	-3 305	-2 909	-2 634	-3 383	-3 997	-4 433	-5 851
Income balance	-1 453	-1 388	-2 020	-2 756	-2 337	-3 673	-2 202	-1 092	2 565
Net current transfers	-67	-170	-148	-157	20	-72	-62	-38	-415
Capital and financial balance [e]	-1 054	-5 895	-3 812	-12 027	-6 342	-13 619	-19 993	-22 011	-25 743
Net foreign direct investment	2 018	4 180	3 479	-244	722	864	1 422	-2 666	-1 591
Financial capital [f]	-3 072	-10 075	-7 291	-11 783	-7 064	-14 483	-21 415	-19 345	-24 152
Overall balance	1 058	5 958	-1 829	-4 428	5 454	1 900	5 454	5 138	-5 742
Variation in reserve assets [g]	-608	-5 449	2 027	4 428	-5 454	-1 900	-5 454	-5 138	5 742
Other financing [h]	-450	-508	-198	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [i]	102.6	100.0	95.3	125.1	141.1	139.5	141.0	132.3	117.8
Terms of trade for goods (index: 2000=100)	66.1	100.0	82.2	87.6	98.7	118.1	154.4	184.4	202.1
Net resource transfer (millions of dollars)	-2 957	-7 792	-6 030	-14 783	-8 679	-17 292	-22 195	-23 103	-23 178
Total gross external debt (millions of dollars)	37 016	36 437	35 398	35 460	40 456	43 679	46 427	44 952	52 949
	Average annual rates								
Employment									
Labour force participation rate [j]	66.3	64.6	66.5	68.7	69.2	68.5	66.3	65.4	64.9
Open unemployment rate [k]	15.0	13.9	13.3	15.8	18.0	15.3	12.4	10.0	8.4
Informal sector [l]	52.4	53.0	50.3	51.0	52.6	49.8	47.3	…	...
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	20.0	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5
Variation in wholesale prices (December-December)	13.6	15.8	10.2	49.4	48.4	23.1	14.2	15.9	17.2
Variation in nominal exchange rate (annual average)	10.6	12.3	6.4	60.4	38.4	17.7	10.5	2.7	0.0
Variation in average real wage	-4.6	4.0	6.9	-11.0	-17.6	0.2	2.6	5.1	1.2
Nominal deposit rate [m]	20.6	14.9	14.7	28.8	17.2	12.6	11.7	10.1	10.6
Nominal lending rate [n]	31.3	24.5	24.8	38.4	25.7	17.3	15.6	14.6	16.7

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Central government									
Total income	18.0	20.2	20.8	22.2	23.4	24.0	27.5	29.6	28.9
Tax income	13.0	12.9	11.4	10.6	11.3	12.7	15.3	15.6	16.1
Total expenditure [o]	19.8	21.8	25.1	26.1	27.8	25.9	25.9	29.6	25.8
Current expenditure	16.7	18.1	20.3	20.3	22.1	20.4	19.6	22.5	19.9
Interest	2.8	2.5	2.9	4.6	4.7	3.7	2.9	2.1	1.5
Capital expenditure	3.0	3.3	4.4	5.1	5.5	5.0	5.8	6.7	5.8
Primary balance	1.0	0.9	-1.5	0.6	0.3	1.8	4.6	2.1	4.5
Overall balance	-1.7	-1.7	-4.4	-4.0	-4.4	-1.9	1.6	0.0	3.0
Non-financial public-sector debt	29.3	26.8	30.4	42.4	46.3	38.1	32.8	23.9	23.9
Domestic									
External	6.4	9.0	12.4	15.1	17.8	14.0	11.0	9.1	9.1
Money and credit [p]	22.9	17.8	18.0	27.3	28.4	24.2	21.7	14.8	14.8
Domestic credit	15.4	15.6	15.9	15.0	18.9	19.1	20.8	...	...
To the public sector	2.2	3.3	3.3	4.1	4.0	4.5	3.3	...	...
To the private sector	11.2	10.5	11.6	9.6	8.6	10.7	12.7	...	...
Others	2.0	1.8	1.0	1.3	6.3	3.9	4.7	...	...
Liquidity (M3)	21.5	20.4	19.1	18.2	23.0	21.8	23.3	30.3	31.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1997 prices.
[c] As of 2005 does not include restaurant and hotel activities, which are included in total GDP.
[d] Based on figures in local currency expressed in dollars at current prices.
[e] Includes errors and omissions.
[f] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[g] A minus sign (-) denotes an increase in reserves.
[h] Includes the use of IMF credit and loans and exceptional financing.
[i] Annual average, weighted by the value of goods exports and imports.
[j] Economically active population as a percentage of the working-age population, nationwide total.
[k] Percentage of the economically active population, nationwide total.
[l] Population employed in the informal sector as a percentage of the employed population.
[m] 90-day deposits.
[n] Average lending rate of the country's six major commercial and universal banks.
[o] Includes extraordinary expenditure and net lending.
[p] The monetary figures are end-of-year stocks.

3. The main variables

(a) Economic activity

Robust economic growth, which reached 8.4% in 2007, was driven by rising domestic demand. Increases in private consumption (18.7%) and investment (26.6%) were reflected in the steep rise in the volume of goods and services imports (33.6%). Exports fell once more, however, at a rate of 5.6% a year. Figures for the first quarter of 2008 reveal a slowdown in economic activity, with GDP growing 4.8% in relation to the same period the previous year. The sectors showing the most marked decline in activity compared with the first quarter of 2007 were construction (2.6%), trade (5.7%), manufacturing (1.4%) and financial institutions (6.4%). Spending figures reveal a drop in gross capital formation (1.8%) and more moderate growth in private consumption (11.1%).[6]

[6] The first of these aggregates had been expanding at rates of over 20% since the first quarter of 2004.

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	10.3	10.3	10.3	11.4	8.8	7.6	8.6	8.5	4.9	...
Goods exports, f.o.b. (millions of dollars)	15 534	18 332	16 945	14 399	13 927	16 820	18 810	19 608	22 097	...
Goods imports, f.o.b. (millions of dollars)	6 205	7 854	8 509	9 930	9 242	9 959	12 528	13 734	11 510	...
International reserve assets (millions of dollars) [c]	31 358	31 169	34 330	36 672	31 520	24 424	29 154	33 477	31 130	33 514
Real effective exchange rate (index: 2000=100) [d]	138.3	136.8	129.6	124.6	121.0	120.7	117.8	111.6	104.1	100.4
Unemployment rate	11.1	10.0	10.1	8.9	10.3	8.4	8.5	6.7	8.5	7.5
Consumer prices (12-month percentage variation)	12.1	11.8	15.3	17.0	18.5	19.4	15.3	22.5	29.1	29.2
Average nominal exchange rate (bolívares per dollar)	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147
Average real wage (variation from same quarter of preceding year)	7.1	5.5	5.4	2.4	-3.6	2.1	1.8	4.6	-2.9	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	10.3	10.1	10.1	10.0	10.1	10.1	11.0	11.3	13.2	16.5
Lending rate [f]	14.8	14.1	14.6	15.1	15.4	15.6	16.4	19.5	23.0	23.0
Interbank rate [g]	4.0	4.8	5.9	5.8	3.7	7.4	9.8	14.0	9.2	10.7
Sovereign bond spread (basis points) [h]	190	228	233	182	212	341	398	506	638	591
Stock price index (national index to end of period, 31 December 2000 = 100)	452	450	519	765	717	582	546	555	514	546
Domestic credit (variation from same quarter of preceding year)	48.7	51.4	106.3	...	...	...	...	...	...	...
Non-performing loans as a percentage of total credit	1.3	1.1	1.3	1.1	1.1	1.1	1.3	1.2	1.6	1.7

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

(b) Prices, wages and employment

Accumulated inflation, as measured by the consumer price index (CPI), was 22.5% in 2007. The steepest price rises were posted by food and beverages, health, restaurants and hotels despite the price controls imposed on a significant number of products and services included in the basket of items used to calculate the CPI. Towards the end of 2007 and in the first few months of 2008, there were certain food shortages. In January 2008, BCV, together with the National Statistics Institute, began to publish a new national consumer price index (NCPI). Unlike the CPI used up to December 2007, which only covered the city of Caracas, the new indicator has nationwide scope and incorporates methodological changes, including a modification of the base year (2007). In the period January-June 2008, in relation to December 2007, the NCPI rose 15.1% and core inflation rose 15.8%. For the same period, the wholesale price index recorded an accumulated increase of 11.8% (12.5% for national products and 9.3% for imported products).

According to the general wage index, salaries on average were up 20.7% in 2007 in relation to 2006 (19.4%

in the private sector and 23.4% in the public sector). Despite these sharp rises, in comparison with the fourth quarter of 2003, in accumulated terms, real private-sector wages have continued to fall.[7] In the first three months of 2008, the general wage index rose 1.6% compared with the fourth quarter of 2007, reflecting a 2.2% increase in the private sector and a 0.5% increase in the public sector. This represents a 10.1% increase on the average for 2007, however, (7.8% and 14.9% in the private and public sectors, respectively).

On 30 April, 2008, the authorities announced that as of 1 May, the minimum wage in the public sector would be raised 30%. Unemployment continued to fall throughout 2007 and stood at 7.8% in January-March 2008 compared with the annual average of 8.5% registered in 2007.

7 The fourth quarter of 2003 corresponds to the period as of which the economy began to experience rapid growth after the crisis that rocked the country between the end of 2002 and the beginning of 2003.

(c) The external sector

In 2007, the balance-of-payments current account posted a surplus of US$ 20.001 billion, which was below the US$ 27.149 billion recorded the previous year owing to the 2.4% drop in non-oil exports and the sharp rise in goods imports (39.9%) that was mainly driven by the steep climb in oil-industry imports (54.7%). The country's external debt rose to US$ 52.949 billion on account of the increase in commercial credits, loans and other debt instruments in the public sector, while private-sector debt grew 4.3%. Total external debt, as a percentage of GDP, fell from 33% in 2005 to 23.1% in 2007. In the first quarter of 2008, the current account surplus soared, thanks to the rise in international prices for oil (goods exports grew 59.4% in this period), to US$ 10.003 billion, compared with US$ 3.259 billion in the first quarter of 2007, despite the 20% increase in goods imports recorded during the same period.

Bolivia

1. General trends

In recent years, the Bolivian economy has been boosted by the rising prices of some its export commodities. The terms of trade soared by 42.6% between 2002 and 2007. Beginning in 2004, the balance of trade in goods began to show positive results, and it swelled considerably in the last two years, climbing by 177% over the previous biennium. In addition to the substantial improvement in the trade balance, the external debt fell by 55% between 2005 and 2007 thanks to debt forgiveness in the framework of the enhanced Highly Indebted Poor Countries Debt Initiative (HIPC II) and an increase in private current transfers, mostly remittances from migrant workers; in 2006-2007, these shot up by 422% compared with the average for the previous five years. All the above was reflected in sizeable balance-of-payments surpluses, and these in turn generated an unprecedented rise in net international reserves in the hands of the central bank, which increased by 521% from 2002 to 2007. In 2007 Bolivia posted positive results in terms of economic growth (4.56%), non-financial public sector surplus (1.8% of GDP),[1] balance-of-payments surplus (US$ 1.952 billion) and a growing accumulation of international reserves, whose growth was US$ 437 million higher in 2007 than in 2006.

Bolivia has been affected by two climate phenomena, El Niño in 2007 and La Niña in 2008, which have depressed particular sectors, especially agriculture, most of all in the departments of Beni and Santa Cruz.[2]

The political scene has been dominated by a series of elections which began in the department of Santa Cruz in May 2008, when a referendum not approved by the National Electoral Court confirmed the autonomous status of that department. Similar referendums were held subsequently in a number of departments. The National Electoral Court approved the holding of a popular-initiative recall referendum on 10 August 2008, which may result in revocation of the mandates of the country's President and of the prefects of departments. Lastly, the new Constitution drafted by the Constituent Assembly in 2006 and early 2007 has yet to be approved by referendum.

[1] This fiscal balance does not include the adjustments resulting from nationalizations. If the latter were taken into account, the global balances for 2006 and 2007 would be 4.9% and 2.4% of GDP, respectively.

[2] Concerning the former, see Ricardo Zapata, *Alteraciones climáticas en Bolivia: impactos observados en el primer trimestre de 2007* (LC/MEX/L.792), Mexico City, ECLAC subregional headquarters in Mexico. As for the impact of the La Niña phenomenon, the ECLAC disaster assessment mission presented its report on 28 April 2008.

2. Economic policy

(a) Fiscal policy

The non-financial public sector (NFPS) posted a surplus equivalent to 1.8% of GDP. This was the second consecutive surplus, following 16 years of deficit. In the first half of 2008, the NFPS posted a surplus of 2.5% of GDP.

In November 2007, in order to tax the extra profits resulting from rising international prices for metals and minerals, an amendment was made to title VIII of Act No. 1777, which controls the system of royalties and taxes for the mining sector. Under this measure, the corresponding tax rate is applied to each commodity if its international price exceeds a set value.[3]

Taking advantage of the room for manoeuvre in the fiscal accounts, the national treasury cut its internal debt by 8.9 million bolivianos (1.1%) and used debt rollovers to extend the average maturity period by 31 weeks, from 189 to 220 weeks. On 15 April 2008, the average maturity period rose to 265 weeks. The treasury is currently selling six-, eight- and ten-year debt instruments, and 89% of the debt has been issued in bolivianos. In August 2007, pension fund managers were exempted from the obligation to buy treasury bonds.[4] If the pension funds wish to do so, they must buy them by auction rather than by direct purchase.

The external public debt fell by US$ 1.048 billion in 2007, thanks to US$ 1.171 billion in concessional debt forgiveness by IDB and debt prepayments to the Andean Development Corporation and the International Monetary Fund, of US$ 30 million and US$ 14.6 million, respectively. At the end of the year, the balance of external debt stood at US$ 2.228 billion, including US$ 43.3 million in short-term debt resulting from a bilateral loan from the Bolivarian Republic of Venezuela to finance a purchase of diesel fuel. Of the rest, 93.6% has terms of more than 10 year, consisting of bilateral credit or loans from international bodies such as the Andean Development Corporation, IDB or the World Bank.

(b) Monetary and exchange-rate policy

The central bank's objective is to maintain a low, stable inflation rate. It therefore continued to apply a monetary policy based on a system of intermediate quantitative targets, establishing a ceiling on net domestic credit to ensure that the money supply is consistent with public demand for money.

As for institutional matters, in April 2008 the coordination agreement between the central bank and the Ministry of Finance was renewed. Established in 2006, the agreement took the place of the financial programme with the IMF which had been in force until 2005. Under the new instrument, the monetary programme and therefore the net internal credit target are kept in line with goals set in the national development plan and the annual fiscal programme.

Thanks to the favourable external economic environment in 2007, the monetary-programme targets were met easily. The goal for the growth of international reserves had been US$ 500 million, but in fact they expanded by US$ 1.952 billion. As a result, efforts to contain net internal credit were unsuccessful, and it rose by 862 million bolivianos to 10.162 billion bolivianos. The main instrument of monetary control was open-market operations. The central bank began actively issuing bonds, and the total amount of bonds in circulation rose by 772.8 million bolivianos (310%), from 248.9 million to 1,021,700,000 bolivianos. This trend accelerated the following year, and as of 15 April 2008 the total had increased by 652.6 million bolivianos (63.8%) over the figure recorded at the end of 2007. The total of central-bank bonds rose from 31.1% of national treasury bonds in 2006 to 129.3% in late 2007 and 209.6% on 15 April 2008.

In 2007 and early 2008, the authorities maintained legal reserve rates of 14% and 12% for foreign currency and national currency (bolivianos and Housing Development Units (UFV)), respectively, and also retained the additional reserve requirement of 7.5%. Beginning in February 2008, the percentage used in calculating it was gradually reduced, finally reaching 0% in June. Following the modifications to the regulations controlling reserve requirements, the exemption for fixed-term deposits in national currency was abolished.

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3 In the case of gold, the price has to exceed US$ 400 per troy ounce; the corresponding price for silver is US$ 5.55. As for zinc, lead, tin, copper and bismuth, the prices have to exceed US$ 0.53, US$ 0.30, US$ 2.90, US$ 1.04 and US$ 3.50 per fine pound, respectively. In the case of iron, the price must exceed US$ 340 per ton, and for wolfram, US$ 80 per long unit.

4 An obligation contained in article 4 of supreme decree No. 25,722 of 31 March 2000.

(c) Exchange-rate policy

The goal of the country's exchange-rate policy is to sustain an appropriate rate in light of external and internal inflationary pressures. Together with monetary policy, the exchange-rate policy aims to achieve stability in the purchasing power of the national currency. The central bank is maintaining the crawling-peg exchange-rate regime it has applied for the past 20 years, based on small unannounced depreciations or appreciations of the boliviano against the dollar.

The boliviano posted a nominal appreciation of 4.3% in 2007, an increase in its value well above the 2006 figure of 0.8%. From 1 October 2007, in order to reduce speculative capital, the central bank created a 1% charge applicable to transfers to foreign countries made at the request of the financial sector, except in the case of transactions relating to exports and imports of goods and services. The impact of this measure was indicated by the fact that average daily transfers fell from US$ 7.7 million to US$ 1.7 million, a fall of US$ 6 million. In the first half of 2008, the boliviano appreciated by 6.2% in nominal terms; the figure from June 2007 to June 2008 was 9.6%.

(d) Other policies

A new law passed in November 2007 introduced a universal income for older persons ("dignity income"), guaranteeing an annual income of 2,400 bolivianos to all Bolivian nationals resident in the country who are not receiving income from the long-term social-security system, or 1,800 if they are being paid a pension by that system. The fiscal cost of this measure is expected to be 200 million bolivianos, to be funded using 30% of all receipts from the direct hydrocarbons tax collected by prefectures, municipalities, the Indigenous Fund and the national treasury, as well as dividends from capitalized public companies according to the proportion of the shares owned by Bolivians.

In November 2007, owing to rising food prices, the tariff on imports of the following products was set at 0%: rice, sugar, maize, soybean oil and fractions, other edible oils, wheat and wheat products, livestock, meat and meat cuts. State bodies were given a greater role in the marketing of food. The Empresa de Apoyo a la Producción de Alimentos (EMAPA – a public enterprise to boost food production) and the Special Projects Unit (UPRE) were authorized to engage in the controlled direct import, warehousing and sale of food, as appropriate.

A fund for reconstruction, food security and production support was created in 2008 and was initially provided with funding of US$ 600 million using a loan from the central bank to the Ministry of Finance.[5] The funds will be used to deal with emergencies caused by natural disasters and to undertake an integrated rural development policy. The fund's resources will be used for transfers, loans and operating capital.

3. The main variables

(a) Economic activity

The country's GDP expanded by 4.6% in 2007, a decline in the growth rate of 0.2 percentage points.[6] The four most buoyant sectors were construction (14.3%), production of metallic and non-metallic minerals (10.0%), financial establishments, insurance, real estate and business services (6.3%) and manufacturing (6.1%); their shares in GDP growth were 0.4, 0.4, 0.7 and 1.0 percentage points, respectively. The growth of construction was boosted by increased public investment and by housing repair and construction in connection with inflows of remittances. The expansion of mining was due to the opening of the San Cristóbal mine in the second half of 2007. The only sector experiencing a contraction in 2007 was crop farming, livestock production, forestry, hunting and fishing (down 0.5%). This resulted from losses in cattle breeding and crop farming, mainly in the departments of Beni and Santa Cruz, caused by floods resulting from the El Niño phenomenon in the first half of 2007.

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5 Financing will also be sought from other sources, such as the national treasury, external credit and grants.

6 In April 2008, the National Statistical Institute (INE) revised the quarterly series for 2006 and for the first three quarters of 2007; as a result, the figure for GDP growth in 2006 increased from 4.6% to 4.8%. INE has not yet announced the revised series.

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
					Annual growth rates [b]				
Gross domestic product	0.4	2.5	1.7	2.5	2.7	4.2	4.4	4.8	4.6
Per capita gross domestic product	-1.9	0.1	-0.6	0.2	0.4	1.9	2.2	2.6	2.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.6	3.4	3.5	0.4	8.7	0.2	5.0	4.3	-0.5
Mining	-4.6	6.4	-1.5	2.5	5.0	9.4	13.1	5.4	7.0
Manufacturing	2.9	1.8	2.7	0.3	3.8	5.6	3.0	8.1	6.1
Electricity, gas and water	4.6	1.9	0.7	2.2	2.9	3.1	2.7	4.0	4.3
Construction	-16.9	-4.1	-7.0	16.2	-23.7	2.2	6.4	8.2	14.3
Wholesale and retail commerce, restaurants and hotels	0.8	3.6	1.1	2.0	1.8	3.5	2.4	3.4	4.8
Transport, storage and communications	-0.8	2.4	3.0	4.3	3.9	4.0	2.9	3.9	3.5
Financial institutions, insurance, real estate and business services	13.3	-0.6	0.2	-3.1	-3.3	-1.5	0.4	5.4	6.3
Community, social and personal services	2.9	2.4	2.6	3.0	2.9	3.3	3.0	3.3	3.7
Gross domestic product, by type of expenditure									
Consumption	2.8	2.3	1.5	2.2	2.1	2.9	3.3	4.0	4.1
General government	3.2	2.1	2.9	3.5	3.6	3.1	3.4	3.3	3.8
Private	2.8	2.3	1.3	2.0	1.9	2.9	3.3	4.1	4.2
Gross domestic investment	-18.8	-7.4	-17.5	17.9	-12.8	-11.8	26.9	-5.1	11.1
Exports (goods and services)	-12.8	15.0	8.4	5.7	12.2	16.6	8.3	11.3	3.1
Imports (goods and services)	-17.1	4.7	-5.0	13.1	0.9	5.5	14.8	5.2	4.4
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	18.8	18.1	14.3	16.3	13.2	11.0	14.3	13.9	14.4
National saving	12.9	12.8	10.9	11.8	14.2	14.9	20.8	25.0	28.1
External saving	5.9	5.3	3.4	4.5	-0.9	-3.8	-6.5	-11.2	-13.8
					Millions of dollars				
Balance of payments									
Current account balance	-488	-446	-274	-352	76	337	622	1 277	1 806
Goods balance	-488	-364	-295	-340	100	421	457	1 060	1 046
Exports, f.o.b.	1 051	1 246	1 285	1 299	1 598	2 146	2 791	3 875	4 490
Imports, f.o.b.	1 539	1 610	1 580	1 639	1 497	1 725	2 334	2 814	3 444
Services trade balance	-190	-244	-164	-177	-187	-190	-42	-187	-159
Income balance	-196	-225	-211	-205	-303	-385	-376	-418	-173
Net current transfers	386	387	396	369	465	491	584	822	1 091
Capital and financial balance [d]	515	407	238	9	-137	-265	-145	390	147
Net foreign direct investment	1 008	734	703	674	195	63	-294	275	200
Financial capital [e]	-493	-327	-465	-665	-332	-328	149	116	-53
Overall balance	27	-39	-36	-343	-62	73	478	1 668	1 952
Variation in reserve assets [f]	-32	39	33	303	-152	-157	-504	-1 516	-1 952
Other financing [g]	5	1	3	40	214	85	26	-152	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	98.6	100.0	101.1	95.5	104.2	109.3	116.7	119.2	118.0
Terms of trade for goods (index: 2000=100)	97.1	100.0	95.8	96.2	98.5	104.1	111.8	134.6	139.5
Net resource transfer (millions of dollars)	323.9	182.3	30.1	-155.8	-226.2	-565.0	-495.2	-179.9	-26.1
Gross external public debt (millions of dollars)	6 983	6 740	6 861	6 945	7 709	7 562	7 666	6 274	5 361
					Average annual rates				
Employment									
Labour force participation rate [i]	55.9	56.1	60.6	58.0	60.4	58.6	55.7	58.7	57.1
Open unemployment rate [j]	7.2	7.5	8.5	8.7	9.2	6.2	8.1	8.0	7.7
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.1	3.4	0.9	2.5	3.9	4.6	4.9	4.9	11.7
Variation in nominal exchange rate (annual average)	5.5	6.4	6.8	8.5	6.8	3.6	1.6	-0.8	-1.9
Variation in real minimum wage	7.6	2.9	10.8	4.7	0.8	-4.2	-5.1	4.5	-1.3
Nominal deposit rate [k]	...	...	...	2.7	1.8	2.0	1.7	2.4	2.4
Nominal lending rate [k]	...	...	13.7	10.9	9.1	8.2	8.2	7.8	8.2

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Non-financial public sector									
Total income	32.5	33.6	30.4	27.5	28.8	27.4	31.7	39.1	43.6
Current income	30.7	31.4	28.0	25.3	25.9	24.9	29.5	37.3	42.0
Tax income	15.6	16.1	15.2	15.4	14.8	17.0	18.4	17.9	18.1
Capital income	1.8	2.2	2.4	2.3	2.9	2.5	2.1	1.8	1.6
Total expenditure	36.0	37.3	37.2	36.3	36.7	33.0	33.9	34.6	41.9
Current expenditure	28.9	30.3	28.9	28.0	28.6	23.9	23.9	24.4	29.1
Interest	1.6	1.8	2.1	2.1	2.6	2.6	2.7	1.8	1.3
Capital expenditure	7.1	7.1	8.4	8.4	8.1	9.1	10.0	10.2	12.7
Primary balance	-1.9	-1.9	-4.7	-6.7	-5.3	-2.9	0.4	6.3	3.0
Overall balance	-3.5	-3.7	-6.8	-8.8	-7.9	-5.5	-2.2	4.5	1.7
Public debt [l]	64.3	65.8	76.7	80.2	89.5	83.9	78.3	52.6	39.7
Domestic [m]	16.9	19.4	26.1	28.7	30.7	31.6	31.1	27.1	24.2
External	47.5	46.4	50.7	51.5	58.8	52.3	47.2	25.5	15.5
Money and credit [n]									
Domestic credit	74.7	70.0	67.4	66.6	63.7	58.0	53.4	44.1	42.0
To the public sector	10.7	11.5	14.2	15.5	15.9	15.9	14.1	9.2	8.0
To the private sector	64.0	58.5	53.2	51.1	47.8	42.1	39.3	34.8	34.0
Liquidity (M3)	52.2	51.5	52.9	49.4	47.7	42.3	43.0	42.4	47.8
Currency outside banks and local-currency deposits (M2)	7.5	7.2	7.9	7.7	8.3	9.3	12.2	15.6	23.9
Foreign-currency deposits [o]	44.7	44.3	45.0	41.7	39.4	33.1	30.9	26.7	23.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, urban total; 1998, departmental capital cities.
[j] Percentage of the economically active population, urban total; 1998, departmental capital cities.
[k] Bank operations (61-90 days), in dollars.
[l] Public and publicly guaranteed private debt is not included.
[m] Domestic debt refers to central government debt.
[n] The monetary figures are end-of-year stocks.
[o] Refers to demand and time deposits, savings banks and other obligations of the banking sector to the private sector.

On the demand side, households' final consumption expenditure was up by 4.1% of GDP and government final expenditure by 3.8%. The former was the demand component that had the greatest incidence on GDP growth (3.0%). Household consumption in 2007 was equivalent to 71% of GDP. Gross capital formation increased by 11.1%, higher than the rate in 2006, owing to rising public investment and an increase in mining investment in connection with the El Mutún project. In international terms, however, the ratio of gross capital formation to GDP is low. The country's budget for 2008 anticipates economic growth of 5.7%. Nonetheless, given the impact of the La Niña phenomenon during the first four months of the year, mostly in the crop-farming subsector in the departments of Beni and Santa Cruz, ECLAC expects Bolivia's GDP growth to be about 4.7%.

Economic activity continued to trend upwards in the first half of 2008. According to preliminary figures from the National Statistical Institute (INE), GDP was up 6.07% in comparison with the same period in 2007. The three sectors which showed the strongest growth were metallic and non-metallic minerals (53.8%), crude oil and natural gas (11.3%) and construction (8.3%). The crop farming, livestock production, forestry, hunting and fishing sector grew by 2.1%. The expansion of mining was due to rising production from the El Mutún project and small-scale mining, which was stimulated by high prices for metals. Crop-farming was affected by the La Niña phenomenon. From the demand viewpoint, the two components of spending that recorded the highest increases were gross fixed capital formation (19.3%) and exports (11.5%).

Table 2
BOLIVIA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4.4	3.9	5.7	5.2	2.5	4.1	5.3	6.1	6.1	...
Goods exports, f.o.b. (millions of dollars)	864	1 002	1 140	1 074	963	1 112	1 272	1 467	1 576	1 678
Goods imports, c.i.f. (millions of dollars)	661	744	663	756	748	797	901	1 008	1 037	1 220
International reserve assets (millions of dollars) [c]	2 029	2 489	2 898	3 193	3 547	3 888	4 742	5 319	6 232	7 121
Real effective exchange rate (index: 2000=100) [d]	118.7	119.9	119.1	119.2	118.0	121.2	116.3	116.6	115.7	112.7
Consumer prices (12-month percentage variation)	3.7	3.5	4.3	4.9	7.2	6.6	10.5	11.7	14.1	17.3
Average nominal exchange rate (bolivianos per dollar)	8.0	8.0	8.0	8.0	8.0	8.0	7.8	7.6	7.6	7.3
Nominal interest rates (annualized percentages)										
Deposit rate [e]	2.2	2.2	2.8	2.5	2.5	2.3	2.5	2.5	2.8	3.5
Lending rate [e]	7.5	7.7	7.7	8.5	8.3	8.0	8.2	8.3	8.1	8.2
Interbank rate [f]	4.1	4.7	4.9	4.9	3.8	3.9	4.6	5.6	5.9	6.6
Domestic credit (variation from same quarter of preceding year)	-4.0	-4.2	-2.4	-1.7	5.3	7.6	7.1	6.9	6.4	...
Non-performing loans as a percentage of total credit	13.3	13.0	11.2	9.6	9.9	7.9	7.8	5.6	5.7	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Bank operations (61-90 days); three-month average, in dollars.
[f] Repurchase rate, in dollars.

(b) Prices, wages and employment

In 2007, price rises in Bolivia soared to 11.7%, 6.8 points higher than the 2006 level, so the inflation target for 2007 was not achieved. The component of the consumer price index (CPI) which showed the highest increase was food and beverages (19.3%),[7] 13.1 percentage points above the 2006 figure.[8] The incidence of that component of the CPI on the rate of inflation was 9.35 points, or 79.7% of overall inflation. The next three components in terms of rate of increase were household equipment and operation (8.5%), health care (6.8%) and clothing and footwear (6.5%).

Cumulative inflation to May 2008 stood at 8.9%, 5.7 points higher than the figure for the same period in 2007, and the 12-month inflation figure was 17.3%. The CPI component with the fastest-rising prices continued to be food and beverages. The budget for 2008 projects a 7% inflation rate, a figure which is unlikely to be realized, given the price rises accumulated in the first four months of the year.

7 According to information from INE, the weightings of the different components of the national base-1991 CPI are as follows: food and beverages, 49.10%; clothing and footwear, 8.17%; housing, 9.77%; household equipment and operation, 6.69%; health care, 3.83%; transport and communications, 10.80%; education, 4.57%; recreation and culture, 3.31%; and other goods and services, 3.77%. On 2 April 2008, the INE announced that the base for the CPI was changing to 2007; 12 categories were established, with their own weightings, as follows: food and beverages, 27.37%; alcoholic drinks and tobacco, 0.89%; clothing and footwear, 6.28%, housing and electric power, 11.1%; furniture and current housing maintenance, 6.71%; health care, 2.51%; transport, 12.51%; communications, 3.47%; recreation and culture, 6.32%; education, 4.72%; hotels and restaurants, 11.07%; and various goods and services, 7.06%.

8 The rate of increase of this item moved into double digits as of July 2007.

This trend in the price index between December 2006 and June 2008 was due to a number of factors including exogenous shocks and pressure from internal demand. Among the exogenous factors were the El Niño and La Niña phenomena which affected the economy in 2007 and 2008, respectively, limiting the supply of several agricultural products and therefore driving their prices higher. International markets have seen increases in the prices of crops, such as wheat, whose price soared by 77.8% in 2007. Bolivia imports most of the wheat it consumes, so the price increase was passed on to two major elements in the Bolivian people's diet, *pan de batalla* (typical Bolivian bread) and pasta, two of the products having the highest weightings in the 1991-base CPI.[9] Demand factors included expansion in monetary aggregates because of the increase in international reserves, and the rise in consumption resulting from growth in per capita GDP.

According to INE, the open unemployment rate was down by 0.3 percentage points, from 8.0% in 2006 to 7.7% in 2007. This may have resulted from increased activity in labour-intensive sectors such as construction and manufacturing.

9 In 2007, the incidence of these two items on the rate of price increases for food and beverages was 1.7 percentage points.

(c) The external sector

The balance of payments posted a surplus of US$ 1.952 billion, US$ 284 million more than in 2006. The current account surplus rose by US$ 488 million to US$ 1.806 The capital account balance dipped by US$ 35.3 million.The strengthening of the current account surplus was due to improvements in net current transfers, owing to a rise of US$ 350 million in private transfers and a smaller income account deficit in response to growth of US$ 115.1 million in interest receipts. The goods and services balances were close to their 2006 levels. In terms of trade in goods, export growth was balanced by rising imports.

The central bank's net international reserves swelled by US$ 2.141 billion, US$ 437 million (46.3%) above the 2006 figure. At the close of 2007, net reserves stood at US$ 5.319 billion.

The positive trend in external accounts has continued in 2008. The trade balance posted a US$ 803 million surplus for the first five months, 93.7% more than the figure for the same period in 2007. The central bank's net international reserves rose by US$ 1.802 billion in the first half of the year, ending the period 33.9% higher than at the end of 2007, representing an increase of US$ 3.231 billion compared to 12 months earlier (83%).

Brazil

1. General trends

In 2007, the Brazilian economy continued its growth, with GDP rising by 5.4% annually and by 5.8% in the 12 months up to 2008. However, the country may face some obstacles in 2008, given that changes in the external situation may affect the balance of payments, as well as the considerable increase in internal demand and higher international commodity prices pushing up inflation and altering the economic policy implemented by the authorities. Within this new scenario, in 2008 GDP is expected to grow by 4.7% and cumulative inflation should be above 5% (4.5% in 2007).

GDP growth has been accompanied by a significant rise in employment, as 1.6 million formal jobs were created in 2007 and 1.4 million in the first half of 2008. In May 2008 the real wage bill was 7.1% higher than one year previously. The average unemployment rate between January and May 2008 fell to 8.3%, compared with 9.9% recorded in the year-earlier period. These results show that the pace of economic activity has raised the level of consumption and boosted investment: in 2007 family consumption expanded by 6.5% and gross fixed capital formation by 13.4%. The production of consumer durables grew by 8.7%, while capital goods production climbed by more than 19.1%. Increased internal demand was reflected in the volume of imports, which increased by over 20% in 2007.

As a result of the positive performance on the external and fiscal accounts, increased employment and higher revenues, in April 2008 Brazil was awarded investment-grade rating, which may improve the country’s access to external resources. However, the management of internal demand calls for increased coordination of fiscal and monetary policy, so that demand can be matched to the internal supply of goods and services, thereby ensuring sustainable financing for imports. While the monetary authorities have entered a new period of raising the interest rate, the fiscal authorities are assessing how to adapt public finances to the movements of the business cycle, especially when it comes to carrying out investments scheduled as part of the growth acceleration plan.

2. Economic policy

In 2008, economic policy will continue to include inflation targets, the fiscal responsibility act and the floating exchange rate that have characterized the Brazilian economy since 1999. The public sector posted a significant primary surplus: a nominal surplus of 0.34% of GDP for the first five months of 2008, and a primary surplus of 4.34% of GDP for the 12 months between May 2007 and 2008.

In April 2008, the central bank began the process of raising the interest rate, having reduced the rate almost continually since September 2005. As for the exchange rate, the nominal appreciation of the real continued, with its value in relation to the United States dollar increasing by 10.1% in the first half of 2008 compared with December 2007.

(a) Fiscal policy

In December 2007, the Congress in Brazil did not approve the renewal of the provisional contribution on financial movements that collected 0.38% on all debits from current bank accounts and that represented 9% of total federal government revenues (around 1.3% of GDP). The resources thus raised had been used for social spending, mainly on health. In order to offset some of the lost revenue, the federal government increased the tax rate and the tax base for financial operations, as well as the tax rate on net profits of the financial system. The federal government also reviewed the expenditure planned in the 2008 budget and reduced it by around 20 billion reais.

Nonetheless, in the first five months of 2008, tax receipts and federal government contributions were up 16.5% on the year-earlier period. This represents an increase of 23.4%, not including the provisional contribution on financial movements for 2007 (which is the equivalent of a 17.9% rise in real terms).

The significant improvement in receipts from the main taxes and contributions was due to a much higher pace of economic growth. Revenue from income tax climbed by 25.8%, owing to higher wage income and company profits. Increased sales of motor vehicles (30% in the first five months of 2008) and other manufactures led to a 25.6% rise in receipts from the tax on manufactured products. Higher sales and wages contributed to a 24.3% increase in revenue from social security contributions, social contribution on liquid profit and the social integration programme (public services assistance plan), which together represent almost 29% of total receipts. The continued expansion of public revenue will depend on the growth rate of domestic economic activity. Within individual states, receipts from the tax on the circulation of merchandise and services also climbed significantly (16.4%) in the first five months of 2008 compared with the year-earlier period.

Federal government expenditure posted a cumulative increase of 9.1% between January and May 2008 compared with the previous year. The fact that this rise was below the 12.6% recorded in the year-earlier period was due to the delay in approving the budget, which was eventually adopted in March once it had been amended to eliminate the provisional contribution on financial movements. Spending on social welfare programmes was up by 18.2%, thanks to a higher number of participants and an increase in the minimum wage. Capital expenditure swelled by 23.9%, owing to the implementation of projects as part of the growth acceleration programme. Both types of expenditure represent only 7.6% of the total primary expenditure of the federal government.

One of the largest categories of expenditure was unemployment benefit, the payment of which has doubled since 2004 and increased by 22.1% in the first five months of 2008 compared with the year-earlier period. The contrast between rising expenditure on benefits and the improved labour-market conditions is due to the increasing level of formal employment among the workforce, which enables workers to access social protection mechanisms.

Up to May 2008, the strong rise in revenue made it possible to curb the expansion of expenditure and significantly improve public finances to yield a nominal public-sector deficit of 0.34% of GDP (-0.77% in the same period of 2007) and a primary surplus of 6.55% of GDP. Other contributing factors to this result included the lower expenditure on interest payments (6.7% of GDP in the first five months of 2007 and then 6.2% in the first five months of 2008). The higher level of resources has made it possible to adjust to the need for higher incomes (resulting from wage agreements with civil servants, for instance) and the need to support pre-planned investment programmes without affecting the target of achieving a primary surplus of 3.8% of GDP in 2008. At the end of May, the Government announced the creation of an anti-cyclical fund to finance expenditure in times of slower growth, using additional income from any increase in the primary surplus beyond the official target.

In May 2008, net public debt was the equivalent of 40.8% of GDP, compared with 42.7% in December 2007 and 44.7% in December 2006. The continuation of the downward trend was attributable to the series of primary surpluses and the reduction in the cost of debt.

(b) Monetary policy

In April 2008, the central bank raised the basic interest rate in the Special System of Clearance and Custody (SELIC) to an annual 11.75%, thereby reversing the gradual reduction that had begun in September 2005. Since September 2007, this rate had remained at 11.25%, the lowest level since inflation targets were introduced in 1999. The central bank has given signs of having started a new cycle of increases for the SELIC rate, as it raised the rate again in June to an annual 12.25%, with a view to reining in inflation. The annual inflation target is 4.5% for 2008 and 2009, with a margin of two points either side of that figure.

The higher basic interest rate should affect the considerable credit expansion observed in recent years in Brazil. The ratio between credit and GDP rose from 30.7% in December 2006 to 34.7% in December 2007, and reached 36.5% in May 2008 (the highest level since January 1995). Personal loans grew by 33.3% in 2007 and by 30.6% in the 12 months up to 2008. In the first five months of 2008, the financial system channelled more resources into industry and services. Credit to these two sectors increased by 12.9% and 14.8%, respectively, compared with the year-earlier period (while total credit grew by 11.6%).

The monetary base and means of payment expanded by 19.2% and 18.4%, respectively, in the 12 months up to May 2008, and by 21.4% and 25.9% in the 12 months leading up to December 2007.

The main factor behind currency expansion has been the purchase of foreign exchange by the central bank (155.4 billion reais in 2007), mainly neutralized by the central bank's sales of 74 billion reais worth of bonds and higher deposits in the Treasury (55.6 billion reais). Although foreign-exchange purchases dropped by 77% between January and May 2008, they remain the main driver of growth of the monetary base.

(c) Exchange-rate policy

The central bank's purchases of foreign exchange in the first half of 2008 amounted to US$ 20.5 billion. Although the aim of this policy is to influence the exchange rate, considerable inflows of resources have pushed the exchange rate to its lowest level since 1999. In real terms, in June 2008 parity between the real and the United States dollar was only 55% of the value recorded at the end of 2003. In real terms, the Brazilian currency appreciated by 18% in relation to the dollar in the 12 months up to June 2008, and by 15.0% in relation to a basket of 13 currencies.

Given the constant inflows of loans or investment capital, the wider current account deficit observed in 2008 has not had any effect on the appreciation of the real. The announced policy of raising the domestic interest rate (despite the fact that the opposite is happening in the main international financial centres), as well as improved expectations for the return on investment in the Brazilian economy (including, in the stock market, returns on dollar assets of 73% in 2007 and over 21% between January and June 2008) have maintained capital inflows at almost US$ 31 billion.

3. The main variables

(a) Economic activity

Projections for GDP growth in 2008 range between 4.2% and the 5.4% recorded in 2007, depending on which scenario is considered for the main variables such as interest rates, the exchange rate and inflation. The arguments in favour of higher rates include the significant carry-over from 2007 following the acceleration of economic activity in the second half of the year, and the buoyancy of internal demand and production in the first quarter of 2008 (when GDP was 5.8% higher than in the same period of 2007).

As for the performance of various production activities, in 2008 agriculture is expected to grow by around 4% (5.3% in 2007), while services are predicted to grow expand at a slower rate than the 4.7% recorded in 2007. The largest growth will be seen in the manufacturing sector, which will expand at a rate similar to the 4.9% posted in 2007.

The positive results of the manufacturing industry in 2007 were mainly due to the rapid rise in the production of capital goods and consumer durables. The intensity of the expansion in investment and consumption in the first quarter of 2008 suggests that both headings will once again be spearheading industrial growth, although more slowly in the sector of capital goods than that of consumer durables. Growth in the production of intermediate goods, for its part, will be lower than the 4.8% recorded in 2007.

The supply of manufactures produced in Brazil has been outstripped by internal demand, which is increasingly met by imports. In the first quarter of 2008, the export volume of goods and services was down 2.1% on the year-earlier period, while import volumes of goods and services were up by 18.9%.

In 2008, there is expected to be a continuation of the excellent performance in terms of gross fixed capital formation, which rose by 10% in 2006, 13.4% in 2007 and 14.9% in the 12 months up to March 2008. In 2008,

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Annual growth rates [b]								
Gross domestic product	0.3	4.3	1.3	2.7	1.1	5.7	2.9	3.7	5.4
Per capita gross domestic product	-1.2	2.8	-0.2	1.2	-0.3	4.2	1.5	2.3	4.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.5	2.7	6.1	6.6	5.8	2.3	1.0	4.1	5.3
Mining	-4.4	9.1	2.2	11.6	4.7	4.3	9.8	6.0	3.0
Manufacturing	-1.9	5.7	0.7	2.4	1.9	8.5	1.1	1.6	5.1
Electricity, gas and water	0.5	4.2	-6.2	2.9	4.0	8.4	5.0	3.6	5.0
Construction	-2.9	2.0	-2.1	-2.2	3.3	6.6	1.2	4.6	5.0
Wholesale and retail commerce, restaurants and hotels	-2.2	4.5	0.0	0.0	-0.5	7.5	3.5	4.8	7.6
Transport, storage and communications	2.8	10.1	3.6	6.7	3.6	5.7	4.3	2.8	6.1
Financial institutions, insurance, real estate and business services	1.6	3.4	3.3	3.7	0.5	3.8	5.5	5.4	9.2
Community, social and personal services	2.6	2.3	0.7	4.2	1.5	5.0	1.8	2.9	1.8
Gross domestic product, by type of expenditure									
Consumption	0.7	3.0	1.2	2.6	-0.3	3.9	4.0	4.2	5.7
General government	1.7	-0.2	2.7	4.7	1.2	4.1	4.5	2.8	3.1
Private	0.3	4.0	0.7	1.9	-0.8	3.8	2.3	4.6	6.5
Gross fixed capital formation	-8.2	5.0	0.4	-5.2	-4.6	9.1	3.6	10.0	13.4
Exports (goods and services)	5.7	12.9	10.0	7.4	10.4	15.3	9.3	4.7	6.6
Imports (goods and services)	-15.1	10.8	1.5	-11.9	-1.6	14.4	8.5	18.3	20.7
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	16.4	18.3	18.0	16.2	15.8	17.1	16.0	16.8	17.2
National saving	12.1	14.5	13.8	14.7	16.5	18.9	17.6	18.0	17.3
External saving	4.3	3.8	4.2	1.5	-0.8	-1.8	-1.6	-1.3	-0.1
	Millions of dollars								
Balance of payments									
Current account balance	-25 335	-24 225	-23 215	-7 637	4 177	11 679	13 985	13 643	1 461
Goods balance	-1 199	-698	2 650	13 121	24 794	33 641	44 703	46 457	40 028
Exports, f.o.b.	48 011	55 086	58 223	60 362	73 084	96 475	118 308	137 807	160 649
Imports, f.o.b.	49 210	55 783	55 572	47 240	48 290	62 835	73 606	91 351	120 621
Services trade balance	-6 977	-7 162	-7 759	-4 957	-4 931	-4 678	-8 309	-9 640	-13 355
Income balance	-18 848	-17 886	-19 743	-18 191	-18 552	-20 520	-25 967	-27 480	-29 242
Net current transfers	1 689	1 521	1 638	2 390	2 867	3 236	3 558	4 306	4 029
Capital and financial balance [d]	8 530	32 286	19 764	-3 542	-451	-5 073	13 606	16 927	86 024
Net foreign direct investment	26 888	30 498	24 715	14 108	9 894	8 339	12 550	-9 380	27 518
Financial capital [e]	-18 358	1 788	-4 951	-17 650	-10 345	-13 412	1 056	26 307	58 505
Overall balance	-16 805	8 061	-3 450	-11 178	3 726	6 607	27 590	30 569	87 484
Variation in reserve assets [f]	7 822	2 262	-3 307	-302	-8 496	-2 244	-4 319	-30 569	-87 484
Other financing [g]	8 983	-10 323	6 757	11 480	4 769	-4 363	-23 271	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	108.4	100.0	120.4	132.6	131.2	123.8	100.4	88.9	82.1
Terms of trade for goods (index: 2000=100)	97.0	100.0	99.6	98.4	97.0	97.9	99.2	103.8	106.7
Net resource transfer (millions of dollars)	-1 336	4 077	6 778	-10 252	-14 234	-29 955	-35 633	-10 553	56 782
Total gross external debt (millions of dollars)	225 610	216 921	209 935	210 711	214 929	201 373	169 451	172 589	193 219
	Average annual rates								
Employment									
Labour force participation rate [i]	57.1	58.0	56.4	55.1	57.1	57.2	56.6	56.9	56.9
Open unemployment rate [j]	7.6	7.1	6.2	11.7	12.3	11.5	9.8	10.0	9.3
Visible underemployment rate [j]	…	…	…	4.1	5.0	4.6	3.7	4.1	3.6
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	8.9	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.5
Variation in wholesale prices (IPA-DI) (December-December) [k]	28.9	12.1	11.9	35.4	6.3	14.7	-1.0	4.3	9.4
Variation in nominal exchange rate (annual average)	56.4	0.8	28.8	23.9	5.3	-4.9	-16.8	-10.7	-10.4
Variation in average real wage	-4.5	-1.1	-4.9	-2.1	-8.8	0.7	-0.3	3.5	1.5
Nominal deposit rate [l]	12.3	8.4	8.6	9.2	11.1	8.1	9.2	8.3	7.7
Nominal lending rate [m]	64.8	41.9	41.1	44.4	49.8	41.1	43.7	40.0	34.5

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Federal government									
Total income	19.6	19.9	20.7	21.6	20.9	21.5	22.7	23.3	24.4
Total expenditure	22.2	21.7	22.8	22.8	25.2	23.4	26.3	26.3	26.3
Interest [n]	4.5	3.7	3.8	3.4	6.6	4.4	6.1	5.0	4.3
Primary balance [n]	2.0	1.8	1.7	2.2	2.3	2.6	2.5	2.1	2.3
Overall balance	-2.5	-1.8	-2.1	-1.2	-4.3	-1.9	-3.6	-2.9	-2.0
Federa-government and central bank public debt	29.7	29.9	31.6	37.9	34.0	31.0	30.9	31.7	32.2
Domestic	21.9	22.7	23.7	24.6	24.6	24.5	28.7	33.7	40.7
External [o]	7.8	7.2	7.9	13.4	9.4	6.4	2.2	-2.0	-8.5
Money and credit [p]									
Domestic credit	68.2	69.3	72.5	74.6	75.5	73.7	78.2	87.9	95.6
To the public sector	35.8	35.3	39.6	41.8	43.6	41.7	41.3	43.3	41.9
To the private sector	32.1	33.8	32.5	32.5	31.8	32.0	37.0	44.6	53.6
Others	0.3	0.3	0.4	0.2	0.1	0.0	0.0	0.0	0.1
Liquidity (M3)									
Currency outside banks and local-currency deposits (M2)	25.8	24.1	24.7	26.9	24.3	25.4	27.1	28.5	30.8

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

an increase of over 10% in investment as a percentage of GDP would exceed the 18.3% rise recorded in the first quarter of 2008 (the highest level since the beginning of the 1990s). Investment was mainly channelled into construction, which grew by 8.8% between the first quarter of 2007 and the same period in 2008, thanks to a greater availability of credit that facilitated a rise in housing construction and self-builds.

Consumption is also expected to remain buoyant, although the growth rate will be somewhat lower than the 5.7% recorded in 2007. The rise in real wages will depend on the increase in inflation due to higher food prices. Given the high level of family borrowing, supply of this type of credit is also expected to be reduced.

(b) Prices, wages and employment

The rate of inflation, measured by the extended national consumer price index (IPCA) was 4.46% in 2007, rising to 6.1% in the 12 months up to June 2008. Cumulative inflation in the first six months of 2008 was 3.6%, compared with 2.1% in the year-earlier period. According to market projections for 2008, variation in consumer prices will be 6.0%.

The prospect of more rapid growth in the wholesale price index was already a real one in 2007, particularly for agricultural products, which showed an annual increase of 24.5%. Wholesale prices for manufactures began to rise at the end of 2007: in December, prices grew by 1.1%, compared with 4.43% for the year as a whole and 8.5% in the first six months of 2008. The increase in wholesale prices will push up the general price index (used as a reference for setting various administered prices such as electricity and rent), which will in turn affect consumer prices throughout the year. In 2007, the general price index posted a variation of 7.9%, while this figure was 14.0% in the 12 months up to June 2008.

The price hikes have been accompanied by a general increase in income. The real wage bill in the main metropolitan regions grew by 4.2% in 2007, with growth quickening in April 2008 to stand at 7.1% compared with the same month of 2007. In April 2008, employment and average real incomes rose by 4.6% and 2.0%, respectively, compared with May 2007.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4.1	1.5	4.5	4.8	4.4	5.4	5.6	6.2	5.8	...
Goods exports, f.o.b. (millions of dollars)	29 458	31 599	39 900	36 851	34 002	39 211	43 385	44 050	38 690	51 955
Goods imports, c.i.f. (millions of dollars)	20 111	21 401	25 221	24 610	25 283	27 354	33 028	34 957	35 875	43 421
International reserve assets (millions of dollars) [c]	59 824	62 670	73 393	85 839	109 531	147 101	162 962	180 334	195 232	200 827
Real effective exchange rate (index: 2000=100) [d]	88.0	89.3	89.5	88.7	86.9	83.3	80.9	77.1	76.0	73.6
Urban unemployment rate	9.9	10.3	10.4	9.2	9.8	10.0	9.3	8.1	8.4	8.1
Consumer prices (12-month percentage variation)	5.3	4.0	3.7	3.1	3.0	3.7	4.1	4.5	4.7	6.1
Average nominal exchange rate (reais per dollar)	2.19	2.18	2.17	2.15	2.11	1.98	1.92	1.78	1.74	1.65
Average real wage (variation from same quarter of preceding year)	1.9	5.1	2.9	4.3	3.4	-0.3	-0.6	2.9	-0.8	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	8.3	8.2	8.6	8.2	8.2	7.9	7.6	7.1	6.8	7.2
Lending rate [f]	42.6	41.0	39.1	37.4	36.8	35.0	33.5	32.8	35.2	36.6
Interbank interest rate [g]	17.2	15.7	14.6	13.5	12.9	12.3	11.4	11.1	11.1	11.6
Sovereign bond spread (basis points) [h]	235	254	233	192	170	160	173	221	284	228
Stock price index (national index to end of period, 31 December 2000 = 100)	249	240	239	291	300	356	396	419	400	426
Domestic credit (variation from same quarter of preceding year)	17.5	18.7	20.2	21.5	19.8	19.7	20.2	18.6	17.9	18.3 [i]
Non-performing loans as a percentage of total credit	4.6	4.7	5.1	5.0	4.9	4.7	4.6	4.3	4.1	4.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Index based on the previous year’s prices in local currency.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Interest rate on savings.
[f] Pre-set corporate rate.
[g] SELIC (Special System for Settlement and Custody) rate.
[h] Measured by J.P. Morgan’s EMBI+ index.
[i] Data to May.

(c) The external sector

The main new development in the Brazilian economy during the first few months of 2008 has been the result on the external accounts. Following the surpluses observed in 2007 in the most important headings of the balance of payments (US$ 40.028 billion on the trade balance, US$ 1.461 billion in current transactions and US$ 87.484 billion in the overall balance), in 2008 the trade surplus is expected to halve and the current account is predicted to show a deficit of US$ 20.0 billion.

According to cumulative figures for January to May 2008, exports amounted to US$ 72.055 billion and imports stood at US$ 63.398 billion. The trade surplus of US$ 8.656 billion was only half the level recorded in the year-earlier period. The growth rate of exports, which were up 19.9% between January and May 2008 compared with the year-earlier period, was considerably slower than that of imports (46.3%).

Export growth up to May 2008 was mainly attributable to the 23.3% increase in prices, as volumes fell by 3.0%. Commodity exports expanded by 32.8% (which reflected a 36.0% rise in prices and a 3.1% fall in volumes), while semi-manufactured products grew by 19.9% (reflecting a 19.3% rise in prices and a slight increase of 0.5% in volume). For imports, on the other hand, prices rose by 21.4% and volume by 20.4%. Such import growth is due to buoyant internal demand and currency appreciation. The value of consumer durable imports rose (with 65.6% growth in volumes and 4.1% growth in prices), as did the value of imports of capital goods (volume up by 34.0% and prices by 9.4%). At the same time, increased domestic purchasing power funded the increase in imports of consumer non-durables (volume up by 7.3% and prices by 12.1%) and intermediate goods (19.7% rise in volume and 18.1% in prices). The surge in fuel prices (54.7) and volume (8.2%) also contributed to the import expansion.

The current transfers deficit stood at US$ 14.717 billion (2.6% of GDP) up to May 2008, compared with a surplus of US$ 1.897 billion (0.4% of GDP) recorded in the first five months of 2007.

The income balance worsened in the first five months of 2008: the US$ 18.061 billion deficit was wider than the US$ 11.790 billion deficit observed between January and May 2007. Net interest payments posted a deficit of US$ 2.669 billion, which was less than the US$ 3.928 billion deficit observed in the year-earlier period. Net dividends and profit payments significantly increased to reach a deficit of US$ 15.996 billion (US$ 8.061 billion between January and May 2007).

Between January and May 2008, the capital and financial account surplus (US$ 32.979 billion) was narrower than in the year-earlier period 2007 (US$ 50.203 billion). This was because net foreign direct investment fell from US$ 14.041 billion to US$ 6.409 billion, while portfolio investment dropped from US$ 19.273 billion to US$ 12.890 billion. Foreign direct investment as a percentage of GDP rose from 2.0% in the period January-May 2007 to 2.4% in the same period of 2008. The investment-grade rating awarded by risk agencies is expected to have a positive effect on inflows of foreign exchange into the economy, in the form of either direct or indirect investment. Outgoing foreign direct investment was channelled into new projects and, between January and May, revenue amounting to US$ 3.507 billion for inter-company loans changed to outgoings of US$ 7.575 billion (which was more than the US$ 7.067 billion in Brazilian investment recorded in 2007).

The overall balance-of-payments surplus narrowed considerably from US$ 50.865 billion between January and May 2007 to US$ 16.620 billion in the first five months of 2008.

At the end of May 2008, international reserves stood at US$ 197.956 billion (the equivalent of 17 months import cover).

Total external debt swelled from US$ 193.219 billion in December 2007 to US$ 202.979 billion in May 2008, due to the higher level of medium-term debt of the private sector and the financial public sector (which stood at US$ 96.565 billion in May). Nevertheless, the country’s external indicators continue to improve. In May 2008, the ratio between debt servicing and exports fell from 41.8% to 23.4% (compared with March 2007), while the ratio between debt invest and exports dropped from 10.6% to 9.1%, the ratio between total debt and GDP decreased from 16.2% to 14.9%, and the ratio between international reserves and short-term debt rose from 204% to 320%.

Chile

1. General trends

At 5.1%, GDP growth in 2007 in Chile was higher than the 4.3% recorded the previous year. Against all expectations, however, it came in at the lower end of the projected range. This slowdown, which became apparent towards the middle of the year and has continued into 2008, was caused by the emergence of certain risks in both the internal and the external situation. The effects included, most notably: a rise in inflation, a decline in consumption, a drop in energy production, less activity in the natural resources sector, a real appreciation of the Chilean peso, and a loss of competitiveness of the sectors involved in import substitution. These developments have seriously complicated macroeconomic policy management.

Despite the turbulence in these areas, the foundations of the Chilean economy remained solid: significant fiscal surpluses, low levels of domestic and foreign public debt, prudent macroeconomic management and constantly buoyant export markets, which are, moreover, highly diversified. Chile is thus well positioned for handling fluctuations in the external setting. The main risks it faces are posed by the behaviour of international oil and food prices and the impact of a possible slowdown in the United States on other developed economies, which could affect Chilean exports.

In the first quarter of 2008, GDP expanded 3.0%. Projections for 2008 situate GDP growth at the lower end of the 4%-4.5% range at the end of the year. The medium-term growth prospects are somewhat better, if still modest, owing mainly to the ongoing complexity of the international situation. Investment in the mining and energy sectors in particular have soared, reaching a historic high in the first quarter of 2008. The lifting of restrictions in the energy sector in 2009 (which have been constraining growth) when the projects that were started a couple of years ago reach completion, and the end of a phase of low-grade ore in the copper mining industry will pave the way for significant expansion in two sectors that have so far experienced meagre growth.

2. Economic policy

(a) Fiscal policy

Fiscal policy continued to pursue a structural surplus. The target was set at 1% of GDP for 2007 and lowered to 0.5% of GDP for 2008. The increase in copper revenues in 2007 and 2008 has enabled the central government to step up spending and has remained a key element of support for economic growth.

Higher levels of activity, which helped raise indirect tax revenues, and an increase in income tax receipts meant that the central government's revenues grew 12.3% in real terms in 2007. Despite higher international copper prices, tax revenue from copper sales fell 10.2% in real terms with respect to the previous year because the state company Corporación Nacional del Cobre de Chile (CODELCO), which generates most of this revenue, was affected by rising costs, the lower grade of the copper ore and labour disputes.

Public spending expanded 8.4% in real terms. The 12.3% real increase in capital expenditures was fuelled mainly by the 23.7% increase in public investment. The central government's surplus for 2007 was therefore equivalent to 8.8% of GDP, the highest level ever reached during the 20 years for which comparable fiscal accounting records are available. This surplus was used to reduce the central government's debt, which in gross terms fell from 5.3% of GDP in 2006 to 4.1% in 2007, and to increase the accumulation of financial assets abroad. These rose from representing 7.1% of GDP in 2006 to representing 12.3% of GDP in 2007.[1] The accumulation of foreign assets and the debt reduction meant that the central government's net credit position improved from 7% of GDP in 2006 to 13.7% in 2007.

In 2008, real spending is projected to increase 8.9%, and the central government is expected to post an effective surplus of about 4.8% of GDP.

(b) Monetary policy

Monetary policy continued to focus on maintaining annual inflation within a range of 2%-4% over the medium term (18-24 months). An unexpected surge in inflation in April 2007 led the central bank to raise the monetary-policy rate by 25 basic points in July, August and September that year. These adjustments were temporarily suspended in October because indicators revealed a slight slowdown in economic activity and there was little evidence of price rises spreading to other domestic prices or to wages. Moreover, the medium-term expectations for annual inflation continued to be around the 3% mark. In December, however, when inflation rose again, the decision was taken to reapply the adjustments to the monetary policy rate as of January 2008 in order to keep expectations in line with the government's monetary policy objectives and to prevent the rise in external prices for fuel and certain non-perishable food items spreading to other sectors. From February onwards, despite rising uncertainty about inflation projections, the monetary policy rate was kept at 6.25% as there were signs that inflation had peaked. Higher annual inflation rates in May and June (8.9% and 9.5%, respectively), however, led to successive 50 basic-point increases being made to the monetary policy rate, which reached 7.25% in July. More upward adjustments may be made in the future as well if expectations diverge considerably from the inflation target set for 2008 or if there are more surprise surges in inflation.

The impact of these decisions, the perception that Chile was increasingly vulnerable to the repercussions of an extension of the financial crisis in the United States, and the uncertainty that rising inflation has generated about people's future real income levels reined in credit in the Chilean market and, as of mid-2007, credit conditions, for consumer loans in particular, became increasingly restrictive.

(c) Exchange-rate policy

Given the country's deeper integration with international markets and its low-risk status, the central bank has implemented a free-floating exchange rate and generally refrained from intervening in the exchange market. According to the central bank, considering the multiple factors involved and the value of the Chilean peso with respect to the numerous other currencies in which commercial and financial transactions are carried out, the exchange rate has maintained its equilibrium value for a long time, and intervention has therefore been unnecessary. This diagnosis was modified and the central bank's approach altered, however, in April 2008, when it initiated an eight-month foreign-exchange purchasing process aimed at boosting international reserves by US$ 8 billion (approximately 50%). At the same time, short- and long-term debt instruments were issued in national currency with a view to neutralizing the impact of the planned foreign-exchange purchases on the money supply.

This move was mainly triggered by the rising risk of the crisis in the United States financial market spreading to other countries and worsening external credit conditions. Such a scenario would affect all emerging countries, including Chile, regardless of its strong position, and the ensuing costs would be high. The central bank therefore decided to acquire foreign currency holdings as a preventive measure that would enable the country to handle any eventual foreign exchange liquidity difficulties.

The domestic situation also made it possible to take this step inasmuch as the exchange rate had fallen to below its equilibrium level as a result of the huge spread between the monetary policy rate and the rate applied by the United States Federal Reserve (in April the gap reached 425 basic points). Also, the United States dollar had been

[1] These resources are accumulated in three funds: the Economic and Social Stabilization Fund (FEES), which is used to finance counter-cyclical fiscal policies, the Pension Reserve Fund (FRP) and the Oil Price Stabilization Fund (FEPP).

losing value against most currencies in the world. It was thought that an increase in the nominal exchange rate would not undermine the fight against inflation as there were signs that inflation was already being reined in by the deceleration of the components of demand.

Although the central bank stated that its objective was not to push the exchange rate to a certain level, it was probable that the exchange rate would increase as a result of the intervention, as in fact happened during the first few weeks after the implementation of the foreign exchange purchasing programme. The planned increase in reserves was enormous and, given the risks and uncertainty affecting international markets at the time, it seemed unfeasible that speculators would derail the central bank's policy by taking short positions in pesos in such a large amount (US$ 8 billion). In any case, the central bank reserved the right to suspend the programme if circumstances changed and such a course of action became justifiable.

3. The main variables

(a) Economic activity

After sluggish growth in 2006, domestic demand recovered in 2007 and expanded 7.8%, spearheaded by an 11.9% increase in gross fixed capital investment. Export growth picked up thanks to steady international demand for the country's main exports, and imports rose as well, owing to the real appreciation of the peso and a significant investment-driven increase in machinery and equipment imports (15.5%).

Despite efforts to soften the impact of high external prices for fuel through cuts in fuel taxes, the rising prices of other key products, such as food, meant that low-income consumers, who spend a larger proportion of their income on such items, suffered a drop in their real disposable income. Moreover, credit conditions became increasingly restrictive. Consumption therefore fell as of mid-2007, and this affected the growth of related sectors as well.

At the same time, changes in demand composition slowed the growth of sectors engaged in import-substitution activities in 2007, and this trend continued into 2008. The response of the United States monetary authorities to the mortgage crisis, which included the lowering of interest rates, increased the margin by which interest rates in Chile exceeded those in other countries. The gap was widened further by the reaction of Chile's monetary authorities to the unexpected rise in inflation in April 2007, which consisted of raising the monetary policy rate. The Chilean peso therefore gained value against the United States dollar, which has harmed the competitiveness of import-substitution activities and certain non-traditional exports. This has been partially reflected in a marked shift in consumption patterns. The lower real exchange rate brought down the relative price of imported products, and these began to make up a larger proportion of regular consumption.

As far as supply was concerned, natural gas deliveries from Argentina suffered the worst restrictions ever in mid-2007. At first, no significant reductions in electrical energy generation were foreseen as many of the natural-gas-powered generators could switch to diesel. Electricity generation trended downward from then on, however, and this, together with high prices for the fuel used by thermoelectric plants, lowered the value added of the electricity, gas and water sector, which shrank at an annual rate of 10.7% in 2007. This situation has not altered significantly in the first semester of 2008. On the contrary, rising international fuel prices during the first half of the year mean that it will probably not improve.

Labour disputes disrupted production in 2007 at both State-owned and private mines and in some agro-industrial and forestry industries. Labour problems arose again at CODELCO during the first quarter of 2008, and the sector's growth is therefore expected to weaken during the first semester of the year.

Activity in the construction sector remained buoyant, however, particularly engineering works which were fuelled by the marked increase in investment. Construction growth in the housing segment was more subdued, though, as tougher credit conditions limited the sales of new homes.

All these factors led to GDP growth falling short of original projections and coming in at 5.1% in 2007.

(b) Prices, wages and employment

Although the rise in international prices for commodities benefited exports, it also raised the price of certain inputs that have a large influence on domestic prices, namely: fuels, wheat, milk and other non-perishables. Also, the winter of 2007, which was one of the harshest in years and had a significant negative impact on fruit and vegetable production, was followed by a drought. These two phenomena together drove up food prices in the country. Rising fuel costs and energy shortages led to prices for regulated items being

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	-0.8	4.5	3.4	2.2	3.9	6.0	5.6	4.3	5.1
Per capita gross domestic product	-2.0	3.2	2.2	1.0	2.8	4.9	4.5	3.3	4.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.8	6.6	7.5	6.8	2.6	11.0	7.0	1.9	3.0
Mining	10.6	3.2	5.7	-4.2	5.5	6.1	-3.9	0.0	3.7
Manufacturing	-0.5	4.9	0.6	1.9	3.3	7.0	6.0	3.6	2.5
Electricity, gas and water	-4.7	9.5	1.5	3.3	4.3	2.8	3.0	7.7	-10.7
Construction	-9.9	-0.7	4.1	2.5	4.3	3.2	10.1	3.8	8.3
Wholesale and retail commerce, restaurants and hotels	-4.4	4.4	2.6	0.9	4.9	7.3	8.5	6.9	6.5
Transport, storage and communications	0.8	8.6	7.4	5.3	5.8	5.5	6.9	6.5	7.8
Financial institutions, insurance, real estate and business services	0.5	4.0	3.0	2.8	2.8	6.4	7.0	5.0	6.7
Community, social and personal services	3.0	2.3	2.1	2.2	2.1	2.6	3.3	3.2	3.7
Gross domestic product, by type of expenditure									
Consumption	-0.4	3.6	2.9	2.5	4.0	7.0	7.1	6.4	7.4
General government	2.7	3.0	2.9	3.1	2.4	6.1	5.9	5.8	5.8
Private	-1.0	3.7	2.9	2.4	4.2	7.2	7.4	6.5	7.7
Gross domestic investment	-20.1	14.0	0.8	2.2	7.8	9.0	21.7	6.3	9.1
Exports (goods and services)	7.3	5.1	7.2	1.6	6.5	13.3	4.3	5.5	7.8
Imports (goods and services)	-9.5	10.1	4.1	2.3	9.7	18.4	17.2	10.5	14.3
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	19.9	21.1	21.1	20.7	21.1	20.0	22.2	20.5	21.1
National saving	20.1	19.9	19.5	19.9	20.1	22.2	23.4	25.2	25.5
External saving	-0.1	1.2	1.6	0.9	1.1	-2.2	-1.2	-4.7	-4.4
					Millions of dollars				
Balance of payments									
Current account balance	99	-898	-1 100	-580	-779	2 074	1 449	6 838	7 200
Goods balance	2 427	2 119	1 844	2 386	3 723	9 585	10 775	22 587	23 653
Exports, f.o.b.	17 162	19 210	18 272	18 180	21 664	32 520	41 267	58 485	67 644
Imports, f.o.b.	14 735	17 091	16 428	15 794	17 941	22 935	30 492	35 899	43 991
Services trade balance	-737	-719	-844	-701	-618	-746	-621	-628	-1 162
Income balance	-2 233	-2 856	-2 526	-2 847	-4 489	-7 837	-10 487	-18 418	-18 265
Net current transfers	643	558	427	583	605	1 072	1 783	3 297	2 974
Capital and financial balance [d]	-846	1 234	504	862	413	-2 260	267	-4 841	-10 414
Net foreign direct investment	6 203	873	2 590	2 207	2 701	5 610	4 801	4 482	10 627
Financial capital [e]	-7 049	361	-2 086	-1 345	-2 288	-7 870	-4 534	-9 323	-21 041
Overall balance	-747	337	-596	282	-366	-186	1 716	1 997	-3 214
Variation in reserve assets [f]	747	-337	596	-282	366	186	-1 716	-1 997	3 214
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	98.4	100.0	111.7	109.4	114.7	108.5	103.1	100.8	102.2
Terms of trade for goods (index: 2000=100)	94.2	100.0	93.3	97.2	102.8	124.9	139.8	183.7	190.7
Net resource transfer (millions of dollars)	-3 079	-1 621	-2 022	-1 985	-4 076	-10 097	-10 220	-23 259	-28 679
Total gross external debt (millions of dollars)	34 758	37 177	38 527	40 504	43 067	43 517	44 934	47 590	54 146
					Average annual rates				
Employment									
Labour force participation rate [h]	54.8	54.4	53.9	53.7	54.4	55.0	55.6	54.8	54.9
Open unemployment rate [i]	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.7	7.1
Visible underemployment rate [i]	5.5	6.1	7.1	6.2	6.5	8.4	8.5	8.5	8.0
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	2.3	4.5	2.6	2.8	1.1	2.4	3.7	2.6	7.8
Variation in wholesale prices (December-December)	13.5	7.9	3.1	10.4	-1.0	7.8	3.2	7.9	14.0
Variation in nominal exchange rate (annual average)	10.5	6.1	17.7	8.5	0.4	-11.9	-8.2	-5.2	-1.5
Variation in average real wage	2.4	1.4	1.7	2.0	0.9	1.8	1.9	1.9	2.8
Nominal deposit rate [j]	8.9	8.7	6.5	4.1	3.2	2.4	4.5	5.5	5.9
Nominal lending rate [j]	17.6	18.7	16.7	14.4	13.0	11.0	13.5	14.4	13.6

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Total central government [k]									
Income	20.3	21.6	21.7	21.0	20.7	22.0	23.8	25.9	27.4
Tax income	17.1	17.9	18.0	18.1	17.3	17.0	18.3	18.4	20.2
Expenditure	22.4	22.2	22.2	22.3	21.2	19.9	19.3	18.2	18.6
Currente expenditure	18.8	19.0	18.9	18.8	17.9	16.8	16.1	15.1	15.4
Interests	1.3	1.2	1.2	1.2	1.1	1.0	0.8	0.7	0.6
Capital expenditure	3.6	3.2	3.4	3.4	3.3	3.1	3.1	3.0	3.2
Primary balance	-0.9	0.6	0.7	-0.1	0.7	3.1	5.4	8.4	9.4
Overall balance	-2.1	-0.7	-0.5	-1.2	-0.5	2.1	4.6	7.7	8.8
Central-government public debt [l]	13.7	13.6	14.9	15.7	13.0	10.7	7.3	5.8	5.6
Domestic	9.7	10.0	10.4	9.9	7.5	5.9	4.0	2.9	2.6
External	4.0	3.6	4.5	5.7	5.5	4.8	3.3	2.9	3.0
Money and credit [m]									
Domestic credit	62.7	64.4	65.8	61.9	61.5	60.1	59.8	55.3	60.8
To the public sector	-2.4	-1.5	0.2	-3.9	-1.1	-2.2	-4.5	-8.6	-9.0
To the private sector	65.0	66.0	65.6	65.9	62.7	62.3	64.3	63.8	69.8
Liquidity (M3)	53.0	53.1	54.2	54.6	48.8	50.3	53.3	53.4	58.2
Currency outside banks and local-currency deposits (M2)	48.3	47.9	47.8	48.6	43.4	45.5	48.6	48.7	53.4
Foreign-currency deposits	4.7	5.1	6.3	5.9	5.4	4.9	4.7	4.7	4.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2002, based on figures in local currency at constant 1996 prices. From 2003 onward, based on figures in local currency at constant 2003 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of merchandise exports and imports.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentage of the economically active population; nationwide total.
[j] Non-adjustable 90-360 day operations.
[k] Reflects the new accounting methodology set out in the 2001 IMF manual.
[l] Does not include publicly guaranteed debt.
[m] The monetary figures are annual averages.

raised as well. Consequently, both spot and trend inflation indices rose significantly and unexpectedly from April 2007 onwards and, by December, 12-month inflation stood at 7.8%, well outside the target range established by the central bank and three times as high as the previous year. This trend has continued into the first six months of 2008, with annual inflation reaching 9.5% in June. According to the central bank's projections, inflation will gradually trend downwards over the next eighteen months towards the targeted 2%-4% range.

The indexation of salaries meant that the average annual increase in wages in 2007 was 7.3% in nominal terms and 2.8% in real terms. The year-on-year increase in December was only 0.5%, however, owing to the rise in inflation. This rise, combined with the delayed effect of the indexation clauses, resulted in wages posting a year-on-year increase of 8.6% in nominal terms in March 2008 and of 0.1% in real terms.

The unit cost of labour according to central bank calculations steadily increased over 2007 and into 2008 owing to the fall in productivity growth, which could raise costs in the future.

National unemployment figures reflect the slowdown of economic activity as of the second semester of 2007 but also reveal improvements in labour conditions. From July onwards, unemployment rates began to rise, having fallen prior to then, owing to an expansion of the labour force —which had been stagnant— and to a slowdown in the pace of job creation. Nevertheless, the average annual unemployment rate fell from 7.7% in 2006 to 7.1% in 2007. Also, the seasonally-adjusted unemployment rate during the first quarter of 2008 was lower than for the same period the previous year because job creation picked up again. Job creation in the salaried-jobs segment has been more buoyant than in the own-account jobs segment, which has tended to shrink, revealing an important improvement in terms of job quality.

(c) The external sector

In 2007, exports rose 15.7% and reached an FOB value of US$ 67.644 billion, thanks to a 7.1% increase in volume and an 8.0% increase in prices, which in turn reflected ongoing high levels of external demand. Imports

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008[a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.0	4.4	3.2	4.8	6.2	6.2	3.9	4.0	3.0	...
Goods exports, f.o.b. (millions of dollars)	13 767	15 294	15 504	13 922	16 619	18 293	16 272	16 460	19 232	19 075
Goods imports, c.i.f. (millions of dollars)	9 012	9 378	10 003	10 012	10 084	11 228	12 306	13 506	13 959	16 057
International reserve assets (millions of dollars) [c]	15 971	17 570	17 547	19 429	15 390	17 897	16 320	16 910	17 898	20 251
Real effective exchange rate (index: 2000=100) [d]	99.2	100.4	102.3	101.5	104.8	103.6	100.9	99.3	93.3	96.2
Unemployment rate	8.4	8.9	7.9	6.0	6.7	6.9	7.7	7.2	7.6	...
Consumer prices (12-month percentage variation)	4.0	3.9	2.8	2.6	2.6	3.2	5.8	7.8	8.5	9.5
Average nominal exchange rate (pesos per dollar)	527	527	539	529	541	527	520	502	463	472
Average real wage (variation from same quarter of preceding year)	1.5	1.6	1.7	3.0	3.4	3.7	3.2	1.1	0.6	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.3	5.5	5.5	5.6	5.4	5.5	6.1	6.6	6.7	7.1
Lending rate [e]	15.0	14.6	14.2	14.0	14.0	13.1	13.3	13.9	14.0	14.2
Interbank rate [f]	4.6	5.0	5.2	5.3	5.1	5.1	5.5	5.8	6.2	6.4
Stock price index (national index to end of period, 31 December 2000 = 100)	201	196	210	248	270	320	300	281	268	277
Domestic credit (variation from same quarter of preceding year)	12.8	8.5	8.7	8.4	12.5	15.8	18.6	21.4	24.1	21.7
Non-performing loans as a percentage of total credit	0.9	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8

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

meanwhile rose 22.5% to reach US$ 43.991 billion, driven by an 11.6% increase in volume and a 4.4% increase in value. The steepest climb was recorded by capital goods imports, which were fuelled by rising investment. The balance-of-payments current account turned in a surplus of US$ 7.2 billion, equivalent to 4.4% of GDP. As regards the balance-of-payments financial account, two aspects are particularly noteworthy: first, there was a notable increase in project-related foreign direct investment (FDI) in 2007, which more than doubled from US$ 1.95 billion in 2006 to US$ 4.69 in 2007.[2] Second, the financial account reveals that the central government accumulated significant resources abroad. These were equivalent to about 6.5% of GDP in 2007.

In December 2007, the central bank's international reserves reached US$ 16.9 billion.

The external sector will continue to be a major source of uncertainty in 2008. The principal unknowns will be: the oil price; the possibility of world growth being significantly hampered by the adoption of anti-inflationary policies in some developed countries; the magnitude and duration of the crisis in the United States financial market; and the possible repercussion on demand for Chilean exports if the crisis spreads to other regions.

2 According to the balance of payments, FDI reached US$ 7.35 billion in 2006 and US$ 14.45 billion in 2007. This included profit reinvestments in the amounts of US$ 7.22 billion and US$ 9.78 billion, respectively. These operations may not represent real investments, however. They may reflect a decision to keep resources under favourable financial conditions in Chile before transferring them abroad in the future.

Colombia

1. General trends

The Colombian economy grew 7.5% in 2007, surpassing even the most optimistic projections. Driven mainly by investment and private consumption, this fourth year of expansion marked a period of sustained growth unseen in Colombia since the 1970s. Economic policy shifted away from the fiscal issues that had caused concern in previous years to focus on curbing rising prices and the appreciation of the peso. Inflationary pressure led to the more active employment of monetary policy. Inflation was off target for the first time in years in 2007. The consumer price index rose 5.7%, well above the upper limit of the 3.5%-4.5% range set by authorities. The export sector continued to perform well. The central government also continued to exercise tight fiscal discipline, which compensated the deterioration of local-government balances.

The pace of economic growth showed signs of slackening in the first months of 2008, especially in the manufacturing, construction and trade sectors. Growth figures for the first quarter came in at 4.1% compared with 9.1% for the same period the previous year.[1] Activity in the construction sector was down 5.8%, and the growth recorded by the manufacturing sector was weak (2.1%) compared with previous quarters. Exports were unexpectedly buoyant, however, rising 39.5% in January-April compared with the same period in 2007. This was achieved thanks to the high prices fetched by the country's traditional exports, including petroleum, and by the performance of its non-traditional exports, such as clothing and apparel and chemicals, which grew by over 25% and account for about half of total exports. Buoyant exports and high levels of foreign direct investment (FDI) are signs of a thriving economy and contrast strongly with those pointing towards a slowdown of economic activity. Inflation remained high during the first semester of 2008 and threatens to surpass once more the target of 4.9% set by the central bank. Several concerns are also looming on the external front, including the prolongation of the period of more moderate economic growth in the United States and the impact of possible trade restrictions in the Bolivarian Republic of Venezuela. According to ECLAC projections, economic growth will be about 6.0% in 2008.

1 As of the first quarter of 2008, DANE will publish quarterly accounts using the base year 2000 and will incorporate certain methodological changes, as recommended by international experts, into the country's annual accounts. Growth during the first quarter of 2007, according to the new bases, was 9.1% and during the whole year 8.2% (on the basis of provisional figures).

2. Economic policy

In economic policy, the particularly favourable international context made investment one of the main engines of the country's recent economic growth. High levels of investment, constantly buoyant exports, the expansion of private consumption and the control of fiscal imbalances have become the most influential variables in the economic expansion process. The main challenge facing Colombia today is how to protect this new growth path in an increasingly less favourable international context that is largely shaped by its close trade links with the United States and the Bolivarian Republic of Venezuela. The slowdown of the United States economy and the fragile balance of the Venezuelan economy (not to mention troubled diplomatic relations between the Bolivarian Republic of Venezuela and Colombia) now pose a serious threat. Moreover, the country's monetary authorities need to tackle the dilemma of how to combat inflation without hampering economic growth. This is a particularly complex task inasmuch as inflation responds not only to internal changes, but also to external factors beyond the reach of monetary policy, such as international food and fuel prices.

(a) Fiscal policy

Thanks to a solid economic performance in 2007, which boosted tax receipts, Colombia's fiscal situation continued to improve in 2007. The public-sector deficit represented 0.8% of GDP, as it had in 2006. This was below the 1.3% target established in the government's financial plan at the beginning of the year, but slightly above the 0.7% projected in the mid-term fiscal guidelines that are intended to direct the course of fiscal and macroeconomic policy over the next 10 years.

The good performance of the public sector as a whole reflected the improvement in the fiscal balance of the central government, which offset the worsening of the balances posted by regional and municipal governments. The deficits racked up by decentralized entities around the country, especially those engaged in activities in the health sector, lotteries, liquor companies and regional universities, are becoming a new source of concern because their spending has been outstripping their income, which depends basically on transfers from the central government. The central government's deficit was lowered from 4.1% in 2006 to 3.2% in 2007 by the rise in income generated by sturdy economic growth and import/export activity. Total income grew 14.8%, while total spending grew 9.8%. The primary surplus was equivalent to 1.2% of GDP, the highest recorded in over 10 years. The combined balance of the regional and municipal governments and the decentralized entities, on the other hand, went from posting a surplus of 0.4% of GDP to returning a deficit of 0.2% of GDP. This is a warning sign that the spending limit established in the law on fiscal responsibility is possibly being overreached.

At the outset of 2008, the deficit for the public sector as a whole was projected at 1.4% of GDP. This figure took into account the negative impact that the implementation of the tax reform approved in 2006 (which introduced tax cuts and exemptions) and projected increases in spending would have on the central government's balance. In June 2008, however, concerns stemming from the interplay of a number of negative factors, such as rising inflation, a sharp appreciation of the peso and the first signs of an economic slowdown, led authorities to take steps in all areas. In fiscal matters, it was decided to slash spending by 1.5 billion Colombian pesos to 1.0% of GDP. This cut will affect both public investment and expenditures.

(b) Monetary policy

In April 2006, the central bank embarked on an effort to curb rising aggregate demand and inflationary pressures by raising its intervention rate. Between then and the end of 2007, the rate was raised from 6% to 9.5%. This hike was passed on slowly to the various market rates with an estimated time lag of between four and eight quarters. External pressure, such as the high price of food and fuel and buoyant demand in China, India, the Bolivarian Republic of Venezuela and other countries, however, meant that the government failed to achieve the inflation target of 3.5%-4.5% established for 2007. Inflationary pressures continued at the beginning of 2008, and the central bank therefore decided to raise the intervention rate once more in February to 9.75%. In addition to the frequent hikes in the interest rate, the central bank introduced a marginal non-earning legal reserve requirement for deposits in the first semester of 2007 with a view to reining in the expansion of the credit portfolio.

These measures helped raise both the market lending and borrowing rates by almost two percentage points in 2007. The average nominal borrowing rate rose from 6.2% in 2006 to 8.0% in 2007, and the annual average nominal lending rate from 12.9% to 15.4% in the same period.

As hoped, credit growth slowed, especially consumer lending, which had been expanding at an unsustainable rate. Consumer loans increased 28.1% in 2007 (compared with 42.6% in 2006), while commercial and mortgage loans expanded 12.8% and 13.9%, respectively (compared with 28.8% and 6.1% in 2006).

The cost of credit climbed in the first part of 2008, and in the May, the borrowing rate reached 9.6% and the lending rate 16.9%. The growth rates of both the monetary aggregates and credit were lower during the first months of 2008 than during the same period the previous year. At its meeting in June 2008, the central bank eliminated the marginal legal reserve and imposed an ordinary legal reserve requirement of 10% on average (11.5% for savings and current accounts and 6% for fixed-term certificates of deposit).

Given the high level of uncertainty reigning in the present situation, the monetary authorities' decisions have stirred up a heated debate in Colombia. This uncertainty stems largely from the inability to predict with any accuracy what the fallout will be of a downturn in the economies of the country's main trading partners. It is also unclear how far-reaching and long-lasting the pressure of international prices will be, how long monetary policy measures will take to act on interest rates and what their final repercussions will be in terms of credit volumes.

(c) Exchange-rate policy

The rising value of the Colombian peso became a major source of concern in 2007. In order to contain its appreciation, the central bank used the discretional intervention mechanism at the beginning of the year to purchase foreign exchange (US$ 7.725 billion in the first four months of 2007). As the progressive increase of the intervention rate counteracted efforts to halt the appreciation of the peso, the central bank ended its discretional intervention and in an attempt to deter short-term capital inflows, introduced the obligation to deposit the equivalent of 40% of the value of foreign loans and portfolio investments as a non-earning reserve. These measures did not manage to prevent the appreciation of the peso, however, and, the average annual exchange rate was 2,078 pesos per dollar in 2007. This represented an accumulated 12% nominal appreciation and an average annual appreciation of 11.2%.

The peso continued to gain strength during the first few months of 2008. The exchange rate remained below 2,000 pesos per United States dollar and appreciated 14% on average in nominal terms between January and June. This was largely owing to buoyant FDI in the petroleum and mining sectors. Fearing that speculative capital could drive down the exchange rate even further, the government passed a decree in May 2008 to raise the deposit requirement for portfolio investments from abroad from 40% to 50% and establish a minimum two-year stay on FDI. The central bank also decided to step up the accumulation of international reserves by starting to buy twenty million United States dollars a day though competitive auctions.

(d) Trade policy

The central government continued to further trade negotiations and seek out new trading partners. The trade agreement with El Salvador, Guatemala and Honduras was completed and is now awaiting approval by Congress. The final stages of the negotiations with Canada and the European Free Trade Association (EFTA) have been reached, and the next round, which will be held in June, is expected to be the last one. It is uncertain how negotiations with the European Union will proceed. Owing to the lack of coordination among the countries of the Andean Community and the fact that Bolivia and Ecuador oppose the agreement, Colombia has asked the European Commission to hold bilateral talks rather than block ones (with the Andean countries). This problem should be resolved during the next round of talks scheduled for July. The approval of the free trade agreement with the United States has been held up by opposition in the United States Congress.

3. The main variables

(a) Economic activity

In spending terms, the growth of the Colombian economy in 2007 was, as in previous years, sustained by buoyant investment, exports and private-sector consumption. Consumption expanded 6.3%, while investments climbed 21.2%. The increase in disposable household income, generated by favourable terms of trade, falling unemployment and high remittance levels, spurred private consumption. Fiscal adjustments and the reduction of government

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
	Annual growth rates [b]								
Gross domestic product	-4.2	2.9	2.2	2.5	4.6	4.7	5.7	7.0	8.2
Per capita gross domestic product	-5.8	1.3	0.6	0.9	3.0	3.1	4.2	5.5	6.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.0	3.8	0.5	5.3	3.2	1.8	2.4	3.6	4.5
Mining	18.5	-10.3	-7.2	-2.4	0.9	-0.9	1.7	2.2	2.3
Manufacturing	-8.4	11.7	1.6	1.0	7.3	5.3	5.4	8.4	10.2
Electricity, gas and water	-4.2	0.9	5.0	1.0	3.3	2.9	3.0	2.6	3.1
Construction	-27.0	-3.9	1.6	3.2	14.7	13.4	12.8	9.9	20.0
Wholesale and retail commerce, restaurants and hotels	-15.7	7.5	3.4	2.9	5.8	6.0	7.3	9.2	10.3
Transport, storage and communications	-1.9	1.5	4.7	2.5	5.2	5.0	8.7	9.8	9.0
Financial institutions, insurance, real estate and business services	-4.9	-1.0	5.1	6.1	5.7	3.9	5.5	5.9	6.6
Community, social and personal services	3.3	0.6	1.8	-0.6	0.2	3.6	4.6	4.3	3.8
Gross domestic product, by type of expenditure									
Consumption	-3.2	1.4	2.9	3.3	3.5	3.9	5.1	6.8	6.3
General government	3.6	-0.3	3.7	3.9	3.4	4.6	6.4	3.5	4.7
Private	-5.4	2.0	2.7	3.2	3.5	3.7	4.7	7.8	6.7
Gross capital formation	-38.6	12.3	7.9	2.2	1.4	27.5	19.9	16.8	23.1
Exports (goods and services)	5.9	6.1	0.4	-2.6	2.2	10.0	7.2	9.4	12.2
Imports (goods and services)	-24.7	6.0	8.5	1.7	5.8	13.0	17.0	17.3	18.4
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	12.9	15.7	16.7	17.2	18.9	20.1	21.6	23.4	23.2
National saving	13.5	16.5	15.5	15.8	17.8	19.3	20.3	21.5	20.3
External saving	-0.7	-0.8	1.1	1.4	1.1	0.8	1.3	1.9	2.9
	Millions of dollars								
Balance of payments									
Current account balance	671	764	-1 067	-1 290	-973	-908	-1 882	-3 056	-5 851
Goods balance	1 775	2 633	600	306	556	1 346	1 595	322	-594
Exports, f.o.b.	12 037	13 722	12 869	12 384	13 813	17 224	21 729	25 181	30 579
Imports, f.o.b.	10 262	11 090	12 269	12 077	13 258	15 878	20 134	24 859	31 173
Services trade balance	-1 204	-1 259	-1 412	-1 435	-1 439	-1 682	-2 102	-2 119	-2 605
Income balance	-1 355	-2 283	-2 609	-2 867	-3 398	-4 297	-5 456	-6 003	-7 888
Net current transfers	1 455	1 673	2 354	2 706	3 309	3 724	4 082	4 743	5 236
Capital and financial balance [d]	-983	106	2 285	1 428	789	3 449	3 608	3 089	10 557
Net foreign direct investment	1 392	2 069	2 526	1 277	783	2 873	5 578	5 365	8 658
Financial capital [e]	-2 375	-1 963	-240	151	6	576	-1 971	-2 276	1 899
Overall balance	-312	870	1 218	138	-184	2 541	1 726	33	4 706
Variation in reserve assets [f]	312	-870	-1 218	-138	184	-2 541	-1 726	-33	-4 706
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	91.6	100.0	104.2	105.7	119.6	107.1	96.7	95.5	85.3
Terms of trade for goods (index: 2000=100)	87.2	100.0	94.2	92.5	95.2	102.3	111.0	115.2	124.4
Net resource transfer (millions of dollars)	-2 338	-2 177	-324	-1 439	-2 609	-848	-1 849	-2 914	2 669
Total gross external debt (millions of dollars)	36 733	36 130	39 097	37 325	38 008	39 442	38 450	40 107	44 746
	Average annual rates								
Employment									
Labour force participation rate [h]	63.1	63.5	64.4	64.8	65.0	63.6	63.3	62.0	61.8
Open unemployment rate [i] [j]	19.4	17.3	18.2	17.6	16.7	15.4	13.9	13.0	11.4
Visible underemployment rate [i]	…	14.2	16.3	16.8	15.3	15.2	13.8	11.9	10.0
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	9.2	8.8	7.6	7.0	6.5	5.5	4.9	4.5	5.7
Variation in producer prices (December-December)	7.1	14.9	9.0	3.8	10.2	5.2	3.0	5.3	1.3
Variation in nominal exchange rate (annual average)	23.2	18.9	10.1	8.9	14.9	-8.7	-11.7	1.6	-12.0
Variation in average real wage	4.4	3.9	-0.3	3.1	-0.6	1.7	1.4	3.7	-0.5
Nominal deposit rate [k]	21.3	12.1	12.4	8.9	7.8	7.8	7.0	6.2	8.0
Nominal lending rate [l]	29.4	18.8	20.7	16.3	15.2	15.1	14.6	12.9	15.4

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Non-financial public sector [m]									
Total income	30.2	30.0	31.0	30.3	30.6	31.9	29.9	30.4	31.4
Current income	29.3	29.6	31.0	30.3	30.6	31.9	29.9	30.4	31.4
Tax income	14.5	14.2	15.4	15.2	15.3	15.9	16.7	17.6	17.8
Capital income	0.8	0.4	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	33.8	33.5	34.6	33.3	32.9	32.7	30.2	31.3	32.4
Current expenditure	26.4	26.1	27.0	26.2	26.0	26.2	25.3	25.7	25.9
Interest	3.3	3.9	4.2	3.9	4.1	3.8	3.4	3.9	3.9
Capital expenditure	7.4	7.3	7.5	7.1	6.9	6.6	4.9	5.6	6.5
Primary balance	-0.3	0.3	0.6	0.9	1.9	3.0	3.1	3.1	2.9
Overall balance	-3.6	-3.5	-3.6	-3.1	-2.2	-0.8	-0.3	-0.8	-1.0
Non-financial public sector debt	34.5	39.5	42.9	49.5	46.7	42.4	38.9	36.5	36.9
Domestic	15.2	18.1	19.1	22.9	21.7	22.4	23.0	21.2	22.0
External	19.3	21.0	23.9	26.6	25.0	20.2	15.9	15.2	14.7
Money and credit [n]									
Domestic credit	37.4	32.2	31.4	31.0	30.5	30.2	30.7	29.8	32.8
To the public sector	7.7	8.4	9.0	10.4	10.7	10.6	10.5	6.6	6.1
To the private sector	29.7	23.8	22.3	20.6	19.8	19.6	20.2	23.2	26.6
Currency outside banks and local-currency deposits (M2)	31.5	28.9	29.1	28.6	28.3	29.5	31.0	32.3	34.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population, thirteen cities; 1999, seven cities.
[i] Percentage of the economically active population, thirteen cities; 1999, seven cities.
[j] Includes hidden unemployment.
[k] 90-day fixed-term certificates of deposit for banks and corporations.
[l] Actual total system-wide rate.
[m] Total expenditures and balances include net lending.
[n] The monetary figures are end-of-year stocks.

spending, on the other hand, slowed the growth of public consumption. The rise in investment responded basically to the increase in public works projects and the purchase of machinery and equipment, including transportation equipment. Exports and imports both expanded thanks to favourable changes in the terms of trade in the case of the former, and to the brisk pace of economic growth in the case of the latter. The construction, industry, commerce and transportation sectors spearheaded the rise in imports, posting increases of over 10%.

Alarm bells began to ring when signs of an economic slowdown appeared in the first few months of 2008, mainly in the industry and trade sectors. The most significant business opinion polls in the country revealed a cool-down of economic activity, negative confidence levels and a drop in sales and jobs. The downturn was confirmed by the growth figures for the first quarter of 2008 and the most recent sample results on monthly manufacturing activity that were published by the National Administrative Department of Statistics (DANE) in May. According to the sample, real production, real sales and employment posted negative annual variations (decreases of 4.3%, 4.5% and 0.3%, respectively). Growth was 4.1% compared with 9.1% during the same quarter the previous year. On the other hand, and despite the appreciation of the peso, exports soared in the first months of the year thanks to the high prices fetched by petroleum sales and an over 30% increase in the prices of the country’s other exports. FDI flows are expected to reach the same level as in 2007. According to ECLAC projections, the Colombian economy will expand 5.3% in 2008. The Colombian government and private-sector analysts expect growth of about 5.0% or between 5.0% and 5.5%, respectively.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2006 [a]				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.4	5.8	8.1	7.4	8.8	8.2	6.9	8.8	4.4	...
Goods exports, f.o.b. (millions of dollars)	5 454	6 083	6 349	6 504	6 116	7 272	7 714	8 889	8 657	...
Goods imports, c.i.f. (millions of dollars)	5 653	6 376	6 849	7 284	7 390	7 903	8 445	9 159	8 882	...
International reserve assets (millions of dollars) [c]	15 157	14 465	15 017	15 440	18 997	19 999	20 554	20 955	22 138	22 855
Real effective exchange rate (index: 2000=100) [d]	91.3	98.6	98.3	93.7	89.6	81.9	84.0	85.6	81.1	75.8
Unemployment rate	14.1	12.8	12.8	12.3	13.3	11.6	11.0	9.9	12.3	...
Consumer prices (12-month percentage variation)	4.1	3.9	4.6	4.5	5.8	6.0	5.0	5.7	5.9	7.2
Average nominal exchange rate (pesos per dollar)	2 264	2 439	2 429	2 302	2 220	2 023	2 043	2 020	1 907	1 767
Average real wage (variation from same quarter of preceding year)	3.3	3.6	4.3	3.8	0.9	-0.7	-1.0	-1.2	-0.6	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	6.1	6.0	6.3	6.5	7.0	7.7	8.6	8.7	9.3	9.7
Lending rate [f]	13.5	12.5	12.8	12.9	13.4	14.9	16.5	16.7	16.7	17.2
Interbank rate [g]	5.9	6.2	6.6	7.2	7.8	8.5	9.2	9.3	9.5	9.7
Sovereign bond spread (basis points) [h]	174	239	200	161	159	119	166	195	258	221
Stock price index (national index to end of period, 31 December 2000 = 100) [i]	1 385	956	1 155	1 393	1 334	1 328	1 302	1 335	1 120	1 146
Domestic credit (variation from same quarter of preceding year)	11.9	17.8	13.8	9.4	16.3	10.6	20.1	22.8	16.5	17.6 [j]
Non-performing loans as a percentage of total credit	3.0	2.8	2.7	2.6	2.8	3.0	3.2	4.3	4.5	3.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] 90-day fixed-term certificates of deposit for banks and corporations.
[f] Actual total system-wide rate.
[g] Repo rate.
[h] Measured by J.P. Morgan's EMBI+ index.
[i] The figures up to 2000 are based on the Bogota Stock Exchange Index (IBB).
[j] Data to May.

(b) Prices, wages and employment

After three consecutive years of meeting the inflation targets set by the central bank, the 4% target set for 2007 proved impossible to reach. At the end of the year, inflation stood at 5.7%, well above the 4.5% upper limit that had been established. Inflationary pressure came from both in and outside the country. The most important external factors were the steep climb in food and fuel prices on international markets and adverse weather conditions, which affected the local supply of certain agricultural products. The most influential internal factor was the swelling of domestic demand.

The central bank set a similar target for inflation in 2008 as it had for 2007. The country's monetary authorities are aware, however, of risks posed by, among other things, the considerable rise in inflationary expectations and the slim probabilities of inflationary pressure easing, especially external pressure. Projected at 4.9% for the whole year, accumulated inflation had already reached 6.0% by June.

Employment patterns up to the first semester of 2008 reflect more closely the pace of economic growth. Unemployment nationwide fell from 12.0% in 2006 to 11.1% in 2007. Real wages in industry posted a year-on-year negative growth of 0.5% in 2007, compared with a drop of 3.7% in 2006.

Unemployment continued to fall in the first months of 2008 in relation to the same period the previous year. If an economic slowdown takes hold, however, unemployment could worsen in 2008. The first mass dismissals at automobile assembly plants, which have been hurt by the restrictions imposed by the Bolivarian Republic of Venezuela on vehicle purchases, point to this possibility. Also, the latest figures show that industrial growth seems to have come to a standstill.

(c) The external sector

In 2007, the current account deficit reached 3.4% of GDP. This was largely owing to buoyant import activity, which increased almost 26% thanks to high levels of investment and the execution of certain infrastructure projects in the country. Intermediate and capital goods purchases accounted for 77.5% of total imports. Exports, meanwhile, rose 21.4%: traditional exports 20.3%, and non-traditional exports 25.5%.[2] This notable growth was spurred by favourable terms of trade and high Venezuelan demand, which offset the drop in sales to the United States. The country's main export destinations continue to be the United States, the Bolivarian Republic of Venezuela and Ecuador.

The current account deficit is projected to reach about 3.9% of GDP and be financed by FDI in 2008. FDI is expected to continue flowing into the country during the year as long as the external situation remains favourable. The deficit is projected to be higher than in 2007 as the pace of exports growth will probably subside, and imports will probably pick up thanks to military equipment purchases.

Difficult relations with the Bolivarian Republic of Venezuela and the measures adopted by the Venezuelan authorities have been harming trade flows. Several sectors have been affected by the most recent restrictions, but the worst hit has been the automobile industry, which suffered considerably when the Ministries of Finance, Light Industry and Trade, and Energy and Petroleum of the Bolivarian Republic of Venezuela issued a joint resolution limiting vehicle imports. The quota for imports from Colombia was slashed from 60,000 to 24,000 units, which has had negative effects on employment. One scenario analysis shows that a complete shutdown of exports to the Bolivarian Republic of Venezuela would result in a 1.3% drop in Colombia's GDP.

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2 In non-traditional exports, this growth was generated mainly by higher clothing and apparel and vehicle and vehicle parts sales.

Ecuador

1. General trends

The economic growth rate in Ecuador was 1.7% for the first three quarters of 2007, and preliminary estimates from the central bank suggest that the figure for the full year will be 2.7%.[1] This reflects a slowing of economic growth, which had stood at 6% in 2005 and 3.9% in 2006. This figure, among the lowest growth rates in Latin America for 2007, was mainly due to falls in oil production and the investment rate, despite the favourable world situation in terms of the prices of the country's exports and the depreciation of the dollar against the currencies of its trade partners. The economy is expected to grow by 3% in 2008.

The fiscal situation remained steady in 2007, although there was a deterioration in comparison with 2006 owing to growth in public spending. A large part of that growth, however, was due to a large increase in public investment, which exceeded the levels seen in recent years. The debt-to-GDP ratio continued to fall.

Lastly, inflation picked up in the second half of 2007, reflecting the rising world prices of raw materials and the depreciation of the dollar.

2. Economic policy

(a) Fiscal policy

The primary surplus of the non-financial public sector (NFPS) in 2007 was equivalent to 4.1% of GDP, while the overall NFPS surplus was 2.2%; this was a deterioration in comparison with the 2006 levels of 5.5% and 3.3%, respectively. The falls were due to an upturn in spending, which increased faster than revenue: the latter rose by 19.4%, but spending was up 26.5%

NFPS income rose by 3% of GDP, with two thirds of the increase due to the improved operating surplus of State-owned corporations. The growth of revenue from VAT and income tax receipts and social security contributions also exceeded GDP growth.

NFPS spending rose by 4.2% of GDP, mostly because of a major upswing in gross fixed capital formation, which rose by 67%, equivalent to 2.5% of GDP, compared with 2006. The gross fixed capital formation of the NFPS stood at 7.1% of GDP, the highest level in 10 years. This rise in public investment reflects the economic role allotted to the State by the current government. Expenditure on wages was up by 16.8% equivalent to 0.7% of GDP; the corresponding outlays rose to 8.3% of GDP, the highest level of the decade. Interest payments, however, fell by 0.2% of GDP. Lastly,

1 As of late July 2008 these figures were being verified. The calculation of variables in relation to GDP (such as the debt-to-GDP ratio) are therefore preliminary estimates.

there was considerable spending on fuel subsidies: in 2007, the differential between revenue and costs on domestic sales of imported petroleum products such as diesel fuel, liquefied petroleum gas and high-octane petrol led to a loss of US$ 1,426,400,000, or 3.2% of GDP.[2]

Since 30 November 2007, when the Constituent Assembly assumed the authority of the legislative power, a series of highly significant economic reforms have been adopted. First, the tax reform applied as from December following the adoption by the Assembly of the law on tax equity; the measures introduced under that law include abolition of the existing pre-allocations of revenue from income tax and the special consumption tax (ICE), which as of 2008 became part of the central government budget; the introduction of income-tax advance payments; changes in (ICE);[3] the introduction of a simplified tax regime for some taxpayers; the introduction of reference prices for the collection of (ICE); increased rates of estate, inheritance and gift taxes; the withholding of interest at source and payments from external providers. In April 2008, the Assembly approved the law for the recovery of the use of the petroleum resources of the State and administrative rationalization of borrowing processes, under which public resources from the oil industry allocated to the Petroleum Stabilization Fund, to the Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization and the Ecuadorian Investment Fund for the Energy and Hydrocarbon Sectors will be added to the central government budget as capital revenue. The existing pre-allocations of those funds were therefore cancelled.

High oil prices during the first quarter of 2008 led to a sharp upswing in NFPS revenue from oil exports, compared with the first quarter of 2007 (261.8%). Non-oil revenue was up 36.6%, led by income tax receipts and social security contributions. The surplus of the State-owned corporations also swelled strongly. Current spending rose by 55.3% in comparison with the first quarter of 2007, while accrued capital expenditure expanded by 111.2%. In 2008, as in 2007, the government pushed hard to raise the rate of public investment; as a result, the funds allocated to public-investment budgetary items climbed steeply. Just as in 2007, when the budgetary allocation for that area was underspent, the figures on the execution of public investment in the first half of 2008, measured by sector, show that only 26.8% of the budgeted spending was implemented. Among the main targets of planned public investment, the ones which lagged behind most in terms of execution were health care and communications.

As in the previous year, 2007 saw a continuing fall in the country's external public debt-to-GDP ratio, including the central bank. In December 2006 the debt stood at 24.7% of GDP, but by December 2007 it had fallen to 23.9%. In nominal terms, the amount of the debt rose by US$ 417.7 million to US$ 10.633 billion, of which 37.4% was in bonds and 44.6% was owed to international bodies such as the Inter-American Development Bank (IDB) and the Andean Development Corporation.[4] The domestic debt totalled US$ 3.24 billion, equivalent to 7.3% of GDP, a small nominal decrease compared with the 2006 figure of US$ 3,277,600,000 (7.9% of GDP). By the end of 2007, the domestic debt no longer included Treasury Certificates, which had been very short-term debt instruments, but the total amount of longer-term State bonds had increased. In the early months of 2008, external debt continued to fall; the country's debt to the Latin American Reserve Fund (FLAR) was paid off in full, an outlay of US$ 166.7 million. As of April 2008, external debt stood at 20.9% of GDP.

(b) Monetary policy

In July 2007 the country's Congress passed a law for the regulation of the maximum cost of credit, and beginning in August of that year the central bank published effective lending and borrowing rates. Lending rates these were broken down according to different types of credit. By April 2008 figures were available for benchmark and maximum rates corresponding to the following segments: corporate commerce, commerce by small and medium-sized enterprises, consumption, retail consumption, housing, and microcredit for broad-accumulation, simple-accumulation and subsistence microenterprises. Since these lending rates include the banking commissions which were charged separately until July 2007, it is not possible to make a comparison between 2007 and 2008. In July 2008, for example, the maximum rate for the corporate commerce sector was 9.8%, while that for the small and medium-sized business sector stood at 13.1%.[5]

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2 The real subsidy is much greater if it is based on the cost of fuels sold domestically by the Empresa Estatal de Comercialización y Transporte de Petróleos del Ecuador (PETROCOMERCIAL) than if it is calculated on the international opportunity cost of petroleum products produced by the Empresa Estatal de Industrialización de Petróleos del Ecuador (PETROINDUSTRIAL). In 2007, for example, the import and domestic sale of 11.8 million barrels of diesel fuel showed a loss of US$ 607.3 million, while PETROINDUSTRIAL produced 11.2 million barrels of number 2 diesel fuel, a similar quantity to the diesel fuel imported.

3 The rate charged on the most expensive vehicles was raised, taxation was widened to include more goods and services (social clubs), but the levying of ICE in the telecommunications sector was abolished.

4 Of this amount, 93% corresponds to global bonds due in 2030, 2015 and 2012.

5 The first period during which the maximum effective rates corresponding to the two segments were published was September 2007, when the maximum effective rate was 14% for the corporate business sector and 20,1% for the small- and medium-sized enterprise business sector.

Banking-sector assets rose by 14.7%, from 31.1% of GDP in December 2006 to 33.2% of GDP in December 2007. There were two significant changes in the sector's structure. First, as from mid-2007, preference for liquid assets increased, and the proportion of liquid assets swelled from 15.8% of total banking-sector assets in June 2007 to 22.6% in April 2008. At the same time, the upward trend in loans to non-company resident sectors, observed since the first quarter of 2003, ended: in March 2003 such loans represented 15% of the total assets of open banks, but in July 2007 they amounted to 26.1%. Subsequently, a slowdown in the growth of that category of loans and of lending to non-financial corporations was reflected in a fall in the share of such loans in total assets. At the same time, the banks continued to show little interest in purchasing State bonds, which made up only 0.8% of total banking-sector assets as of March 2008.

The sector's behaviour can be attributed to a number of factors, but the banks may have considered that they needed to boost their liquidity at least in part because of the volatility of world markets beginning in the second half of 2007, and also owing to the slowing of internal growth and the structural changes taking place in the country's economy. In May 2008, the open private banks held 25.6% of their total assets outside the country, a figure made up of 16.3% of deposit assets and 9.3% of foreign bonds.

(c) Other policies

The country's overall real effective exchange rate depreciated by an average of 5.1% in the course of 2007 owing to the depreciation of the United States dollar against the currencies of Ecuador's trade partners, while several of the latter experienced rising inflation. Of particular note was the real depreciation against the Colombian peso and the euro, which reached 17.4% and 9%, respectively. From December 2007 to May 2008, the real effective exchange rate experienced a further depreciation of 0.6%, despite the upswing in inflation during that period.

3. The main variables

(a) Economic activity

In late July 2008, official figures were not yet available for the country's GDP in 2007. The central bank announced its preliminary conclusion that the growth rate had been 2.7%, but this is still being reviewed. GDP was up 1.7% in the first three quarters of 2007, compared with the figure of 2.6% forecast by the government. This slowing of GDP growth was mainly due to a 4.6% fall in petroleum output compared with 2006. The most active sectors during the period were services and manufacturing, while activity in the construction sector decreased. Official projections for 2007 had forecast strong growth in construction, but this did not materialize, partly owing to poor levels of execution of public-works projects, which were below the originally planned figures. On the demand side, the strongest boost in the first three quarters of 2007 came from household consumption, which was up 2.4%, while exports grew by 1.7% and gross fixed capital formation fell by 1.1% against the 2006 figure. Thus, the ineffective behaviour of domestic investment became a limiting factor on Ecuador's economic growth.

In April 2007, oil extraction by the State-owned Petroleum Corporation of Ecuador (PETROECUADOR) stood at 250,900 barrels per day.[6] Since that date, apart from minor fluctuations, it has averaged 261,500 barrels per day. In May 2008 the figure was 259,300 barrels, 93,400 of which were from the Block 15 oilfield which is managed independently although it comes under the State-owned company. This shows that PETROECUADOR's other extraction activities stand at historically low levels, owing to administrative problems which were reflected in low levels of investment over many years, as well as natural productivity losses in the company's main oilfields. The situation of private oil extraction has changed little since the termination of the contract with Occidental Petroleum in May 2006. Production averaged 247,700 barrels per day in the first five months of 2008.

Agricultural growth failed to come up to expectations in 2007, partly owing to weather phenomena which affected production.

[6] Since May 2006 the output of PETROECUADOR includes the Block 15 oilfield, formerly managed by Occidental Petroleum.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	-6.3	2.8	5.3	4.2	3.6	8.0	6.0	3.9	...
Per capita gross domestic product	-7.6	1.3	3.8	2.8	2.1	6.5	4.5	2.4	...
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.1	-0.1	3.6	5.4	5.6	1.9	7.8	4.1	...
Mining	1.4	8.0	1.1	-2.5	6.0	25.3	1.1	1.0	...
Manufacturing	-23.5	-32.4	11.6	6.3	3.7	-10.3	20.0	6.0	...
Electricity, gas and water	23.0	2.6	0.6	8.2	1.2	-8.7	1.3	3.2	...
Construction	-24.9	18.3	19.7	20.0	-0.7	4.0	7.3	2.0	...
Wholesale and retail commerce, restaurants and hotels	-11.3	3.8	4.8	2.2	3.5	3.9	5.3	4.8	...
Transport, storage and communications	-0.3	7.7	1.9	1.2	4.3	4.8	8.9	6.4	...
Financial institutions, insurance, real estate and business services	-20.6	2.3	3.6	7.9	2.7	6.2	9.0	7.6	...
Community, social and personal services	-1.3	5.8	0.4	-0.4	2.3	2.7	2.5	3.8	...
Gross domestic product, by type of expenditure									
Consumption	-6.8	3.9	5.8	6.3	4.7	4.5	6.9	5.2	...
General government	-5.5	4.7	-0.6	4.3	1.4	3.6	3.5	3.0	...
Private	-7.0	3.8	6.8	6.6	5.2	4.7	7.3	5.5	...
Gross domestic investment	-49.4	29.0	45.0	21.6	-14.8	12.0	10.6	1.9	...
Exports (goods and services)	7.8	-1.0	-0.8	-0.8	9.6	15.9	9.0	8.6	...
Imports (goods and services)	-29.5	15.8	24.8	16.7	-3.9	11.1	13.7	9.2	...
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	14.7	20.1	24.3	26.5	21.5	23.4	23.8	23.1	...
National saving	20.2	25.9	21.3	21.3	20.0	21.7	24.7	26.9	...
External saving	-5.5	-5.8	2.9	5.1	1.5	1.7	-0.9	-3.9	...
					Millions of dollars				
Balance of payments									
Current account balance	918	921	-624	-1 271	-422	-542	348	1 614	1 598
Goods balance	1 588	1 395	-356	-902	80	284	758	1 765	1 797
Exports, f.o.b.	4 615	5 137	4 821	5 258	6 446	7 968	10 468	13 188	14 863
Imports, f.o.b.	3 028	3 743	5 178	6 160	6 366	7 684	9 709	11 423	13 067
Services trade balance	-451	-420	-572	-716	-744	-954	-1 130	-1 305	-1 397
Income balance	-1 308	-1 405	-1 335	-1 305	-1 528	-1 902	-1 942	-1 950	-2 048
Net current transfers	1 090	1 352	1 639	1 652	1 769	2 030	2 661	3 104	3 246
Capital and financial balance [d]	-1 862	-6 618	394	1 144	558	823	318	-1 745	-211
Net foreign direct investment	648	720	1 330	1 275	872	837	493	271	183
Financial capital [e]	-2 511	-7 338	-936	-132	-313	-14	-175	-2 016	-394
Overall balance	-944	-5 697	-230	-127	136	281	666	-131	1 387
Variation in reserve assets [f]	489	-307	106	66	-152	-277	-710	124	-1 497
Other financing [g]	455	6 004	124	62	17	-4	43	7	111
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	89.0	100.0	70.7	61.8	60.3	61.6	64.5	65.3	68.6
Terms of trade for goods (index: 2000=100)	89.1	100.0	84.6	86.8	89.8	91.5	102.4	109.9	113.0
Net resource transfer (millions of dollars)	-2 715	-2 020	-817	-100	-953	-1 084	-1 580	-3 688	-2 148
Total gross external debt (millions of dollars)	15 902	13 216	14 376	16 236	16 756	17 211	17 237	17 099	17 538
					Average annual rates				
Employment									
Labour force participation rate [i]	60.0	56.8	55.6	54.1	53.8	55.8	56.1	56.8	...
Unemployment rate [j]	14.4	9.0	10.9	9.2	11.6	9.7	8.5	8.1	7.4
Visible underemployment rate [k]	17.9	16.1	12.6	10.2	9.8	8.1	7.3	6.3	5.5
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	60.7	91.0	22.4	9.3	6.1	1.9	3.1	2.9	3.3
Variation in producer prices (December-December)	186.9	64.9	-5.6	17.7	4.5	4.3	21.6	7.2	18.2
Variation in nominal exchange rate (annual average) [l]	116.4	112.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variation in minimum urban wage	-10.7	-3.6	11.5	0.9	6.1	2.4	3.0	3.3	3.9
Nominal deposit rate [m]	...	8.2	6.6	5.1	5.3	4.0	3.8	4.4	...
Nominal lending rate [m]	...	15.2	15.5	14.1	12.6	10.2	8.7	8.9	...

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Non-financial public sector									
Total income	21.1	25.9	23.3	25.5	24.1	25.0	24.6	27.2	30.2
Tax income	14.0	15.8	16.5	19.2	18.0	17.8	18.5	20.1	21.5
Total expenditure [n]	26.0	24.4	23.3	24.7	22.5	23.0	23.9	23.9	28.1
Current expenditure	20.0	19.4	16.7	18.4	17.4	18.0	19.0	19.2	20.4
Interest	7.1	6.6	4.7	3.4	2.9	2.4	2.2	2.2	1.9
Capital expenditure	6.0	5.0	6.6	6.4	5.1	4.9	4.9	4.7	7.7
Primary balance	2.2	8.1	4.7	4.2	4.4	4.5	2.9	5.5	4.1
Overall balance	-4.9	1.5	0.0	0.8	1.6	2.1	0.7	3.3	2.2
Public-sector debt	100.7	88.3	66.7	56.8	50.7	44.6	39.1	32.6	31.1
Domestic [o]	18.1	17.8	13.2	11.1	10.5	10.7	9.9	7.9	7.3
External	82.5	70.5	53.5	45.7	40.1	33.9	29.2	24.7	23.8
Money and credit [p]									
Domestic credit	39.2	34.7	26.5	20.4	17.3	16.6	16.8	17.3	18.5
To the public sector	9.7	3.6	-0.1	-0.3	-2.5	-4.5	-6.1	-6.8	-7.1
To the private sector	29.6	31.1	26.6	20.7	19.8	21.1	22.8	24.1	25.6
Liquidity (M2)	22.6	25.6	24.2	23.4	20.3	21.7	23.0	24.2	26.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, three cities.
[j] Percentage of the economically active population, urban total. Includes hidden unemployment.
[k] Percentage of the economically active population, three cities.
[l] In January 2000, the country adopted the United States dollar as its official currency.
[m] Reference rate in dollars, monthly average.
[n] Accrual basis.
[o] Refers to the central government.
[p] The monetary figures are end-of-year stocks.

The economy is expected to grow by about 3% in 2008, mostly driven by public investment and consumption. The government has produced an ambitious investment plan for the oil sector, and its implementation will determine the growth of oil extraction activities in the course of the year. In the early months of 2008, the government took steps to renegotiate existing oil-industry contracts with private firms to convert partnership contracts into oil servicing contracts. In April the Constituent Assembly adopted Constituent Mandate No. 6, cancelling a large number of mining concessions without any financial compensation and placing a moratorium on the award of new concessions until a new legal framework for mining is adopted.

(b) Prices, wages and employment

The inflation rate measured by the variation of the consumer price index (CPI) was 3.3% from December 2006 to December 2007. Beginning in the second half of 2007, stronger inflationary pressures were felt, and this trend intensified in the early months of 2008. In June 2008 the 12-month inflation rate was up to 9.7% and cumulative inflation for the first half of the year stood at 7.1%. This was mostly due to factors such as rising world foodstuffs prices and the depreciation of the dollar against the currencies of Ecuador's trade partners. The prices of food products and soft drinks, which make up 25.1 of the CPI, rose by 20.3% from June 2007 and June 2008, with a cumulative increase of 15.3% in the first six months of 2008.

Since 2003 Ecuador has frozen the prices of petroleum products such as petrol, diesel fuel and liquefied natural gas, by means of heavy subsidies. Given the importance of these fuels in the cost structure of the productive sector, the absence of subsidies might have brought about even greater price rises during this period.

In urban areas the labour force participation rate rose significantly (from 59.1% to 61.2%), outstripping the increase in the employment rate (from 54.3% to 56.8%), so there was a moderate decline in the unemployment rate

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.9	4.0	4.2	1.5	1.4	1.5	2.0	...	...	...
Goods exports, f.o.b. (millions of dollars)	3 030	3 323	3 267	3 109	2 845	3 250	3 752	4 005	4 623	5 460
Goods imports, c.i.f. (millions of dollars)	2 717	2 938	3 232	3 227	3 145	3 211	3 217	3 992	3 747	4 508
International reserve assets (millions of dollars) [c]	2 351	2 264	2 854	2 023	2 182	3 204	3 611	3 521	4 144	6 103
Real effective exchange rate (index: 2000=100) [d]	64.6	65.2	65.7	65.7	66.6	68.7	69.0	70.3	70.8	70.9
Unemployment rate	10.4	10.4	10.2	9.6	10.0	9.7	8.7	6.7	7.0	7.3
Consumer prices (12-month percentage variation)	4.2	2.8	3.2	2.9	1.5	2.2	2.6	3.3	6.6	9.7
Average nominal exchange rate (sucres per dollar) [e]	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Nominal interest rates (annualized percentages)										
Deposit rate [f]	4.3	4.3	4.4	4.7	5.1	5.1	5.4	5.6	...	…
Lending rate [f]	8.7	8.7	8.9	9.2	9.4	9.8	10.5	10.7	...	…
Interbank interest rate [g]	2.2	2.3	2.8	2.7	2.4	2.5	2.5	...	...	…
Sovereign bond spread (basis points) [h]	524	519	608	920	659	711	616	614	662	596
Stock price index (national index to end of period, 31 December 2000=100)	293	336	320	353	369	354	342	329	353	347
Domestic credit (variation from same quarter of preceding year)	10.5	6.1	10.3	14.7	26.6	16.2	12.5	15.1	2.1	-5.4
Non-performing loans as a percentage of total credit	12.8	11.8	11.1	10.4	10.5	10.0	10.1	9.2	9.2	8.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] In January 2000, the country adopted the United States dollar as its official currency.
[f] Reference rate in dollars, monthly average.
[g] Interbank market, weighted average.
[h] Measured by J.P. Morgan's EMBI+ index.

(from 8.1% to 7.4%). Most of the job creation was in the informal sector, whose share in urban non-agricultural employment rise by 0.8 percentage points. The real minimum wage rose by an annual figure of 3.9%.

On 1 May 2008 the Constituent Assembly adopted Constituent Mandate No. 8, abolishing labour outsourcing and hourly employment.

(c) The external sector

In 2007, Ecuador posted a current account surplus equivalent to 3.6% of GDP, somewhat lower than the 2006 figure of 3.9% of GDP. There was a downturn in the growth rate of migrant workers' remittances, which stood at 6.9% of GDP by the end of 2007. This decline continued into the first quarter of 2008 in comparison with the previous two quarters, apparently owing to the sluggishness of the construction sector in Spain and the United States.

Net foreign direct investment (FDI) contracted in nominal terms for the second consecutive year, standing at US$ 182.7 million, or 0.4% of GDP, in 2007. This was the third lowest figure in Latin America (only in Bolivia and Paraguay was FDI lower in nominal terms) and the second lowest when expressed as a percentage of GDP (only the Bolivarian Republic of Venezuela registered lower net FDI as a percentage of GDP in 2007). The financial account of the balance of payments recorded inflows equivalent to 0.6% of GDP.

The value of the country's exports expanded by 8.8% in 2007, compared with the 26% growth recorded in 2006. Two thirds of the expansion was due to the increased value of exports of crude oil and petroleum products, especially fuel oil. A closer look at petroleum-related exports shows that the volume of crude oil exports fell by 9.2%, but the 18% price rise compensated for it easily. This reflects the aforementioned fall in petroleum production in the course of 2007. Exports of petroleum products (fuel oil) were up 11.3% in volume terms and 26.7% in value terms. A third of the rise in exports in 2007 related to non-petroleum exports, particularly bananas and plantains (7.9%), vegetable extracts and oils (6.1%) and cocoa beans and cocoa products (5.2%). During the first five months of 2008, exports rose by 64.4% over the same period in 2007, thanks to rising prices for crude oil (85.1% on average) and an expansion in export volume (15.5%).

The growth rate of imports stood at 11.8%, well below the 18% recorded in 2006, and was mainly due to higher prices for commodity imports (16.2%) as a result of price increases on intermediate goods at the worldwide level. The growth of capital goods imports was also above average, particularly in the case of those destined for industry. In the first five months of 2008, as a result of higher prices, the value of commodity imports rose by 30%, led by industrial raw materials. Despite the emphasis on infrastructure projects, imports of construction materials fell by 15.7% during that same period.

Lastly, in February 2008 the United States Congress approved the extension to the end of 2008 of the preferential tariffs provided for in the Andean Trade Promotion and Drug Eradication Act (ATPDEA), under which Ecuadorian exporters can bring many types of goods into the United States market without paying tariffs.

Paraguay

1. General trends

Paraguay's economy grew by 6.8% in 2007, driven by the output of an excellent year in crop farming and, in particular, by the soybean harvest, which was over 50% up on the previous year. Livestock farming suffered from some adverse conditions and meat exports decreased, whereas exports of soybeans and related oils increased. The balance-of-payments current account recorded a surplus equivalent to 1.1% of GDP which, combined with the capital and financial accounts surplus (5.0% of GDP, including errors and omissions), translated into a large inflow of foreign exchange. The guaraní continued to appreciate strongly against the dollar, but depreciated against the Brazilian real. Inflation came in at 6%, down from the 12.5% rate recorded in 2006. The central government turned in a surplus of 1% of GDP, as income rose 13%, reflecting increased economic activity and offsetting an increase of almost 10% in spending.

The risk-rating agencies Standard & Poor's and Moody's improved Paraguay's rating in June 2007 and May 2008, to B and B3, respectively.

Economic growth is forecast at 5% for 2008. The inflation rate is expected to remain high owing to rises in international prices and the fiscal accounts are expected to be in balance.

The presidential elections held in April 2008 were won by Fernando Lugo, the candidate of the party "Alianza Patriótica para el Cambio". This meant a change in the political party in power after 61 years of government by the Colorado party.

2. Economic policy

(a) Fiscal policy

The central government recorded an overall surplus equivalent to 1% of GDP, thus marking up four consecutive years of positive balances in the fiscal accounts, the longest such period in Paraguay's history. The standby agreement signed with the International Monetary Fund (IMF) in 2003 marked a turning point with respect to fiscal performance hitherto, enabling the implementation of a set of reforms that greatly contributed to improving the public accounts.

Some previous traits of the country's fiscal balance remain, however, such as a small tax burden and an inflexible current spending regime, particularly as regards wages, retirement benefits and pensions. The tax burden, which represented 11.7% of GDP in 2007, has been offset to some extent by the contribution of royalties and compensations from the binational entities shared with Brazil (Itaipú) and Argentina (Yacyretá), which amounted to 3.4% of GDP in 2007.

Tax receipts benefited strongly from the increase in economic activity. Of these receipts, 50% corresponded to income from value added tax (VAT), which rose almost 25% with respect to 2006. VAT has gradually come to represent a larger proportion of tax income, reflecting the enlargement of the tax base. Receipts from tax on net income and profits also rose sharply (28%), as did those from the excise tax on fuel (20.6%), owing to the rise in prices for these goods and the expansion of their tax base. By contrast, income from foreign trade tax was down by 8.8%, partly because of the tourism-for-imports regime in force.

The tax on personal income, which was originally due to come into effect in 2006, was again postponed in 2007, this time until 1 January 2009.

In March 2008, the government established a tax regime to promote the production and development of high-technology goods. This provides incentives for the production or assembly of such products incorporating value added in the country.

Spending on personal services represented 56% of current spending in 2007 (7.4% of GDP) and transfers to retirees and pensioners, 15.9% (2.1% of GDP). General services spending rose by 13.7% over 2006 and transfers to retirees and pensioners increased by 4.7%. In September the government established a voluntary retirement programme for civil servants, authorizing the creation of one position for every three vacated in the streamlining process. The 2008 national budget prevents the filling of positions that become vacant and continues the voluntary retirement programme, although civil servants in the central government were granted wage rises in the first few months of the year.

Capital spending has historically tended to be unstable and has often been used as a factor of adjustment, despite efforts to increase it. In 2007, this item rose by 4.8%, with a decline of 3.6% in physical investment and an increase of 36% in financial investment, which reflected a transfer of almost US$ 30 million to the Development Finance Agency (AFD).

The fiscal budget does not include the accounting of grants from the binational entities for social spending, which are in addition to royalty transfers, and this makes it difficult to record and monitor the application of such resources in social programmes. In 2007, inflows of foreign exchange from the administrative expenditure of the binational entities (including the social programmes they fund) decreased by almost 2%, as against an increase of 125% in 2006.

As a result, in 2007 the primary balance was 1.8% of GDP, slightly more than in 2006, thanks to a slight drop in interest payments on the external debt, since the cost of servicing domestic debt rose. The government issued treasury bonds in March 2007 (for around US$ 25 million), November 2007 (for some US$ 43 million) and March 2008 (for close to US$ 26 million). At the end of 2007, the domestic public debt amounted to 2.9% of GDP, which represented an increase of 10% in comparison to 2006. Conversely, external financial public debt recorded in the Debt Management and Financial Analysis System (DMFAS) of the United Nations Conference on Trade and Development was equivalent to 18.7% of GDP, having decreased by 1.1% in relation to 2006. In October, a debt-for-education swap in the amount of US$ 10 million was agreed with the Government of Spain.

(b) Monetary policy

As for the past three years, in 2007 monetary policy was based on a system of inflation targets. The medium- and long-term benchmark for year-on-year variation in the consumer price index (CPI) remained at 5% with a margin of 2.5 percentage points on either side. The central bank's new board, appointed in March 2007, made some changes in monetary policy and in November approved a new instrument, a facility for short-term liquidity through the repurchase of monetary regulation instruments (FLIR).

The central bank began to auction instruments of monetary regulation (IMRs) in March 2007, then issued them again at referential rates starting in mid-April. These rates decreased considerably, from an average of 11% in February 2007 to 8% in March and 4.1% in April. The central bank began to raise them again in June, in view of price inflation, and the interest rate curve for IMRs rose and flattened, since the longer-term rate remained steady until March 2008. The average rate for IMRs was 5.6% at the end of 2007 and 6.9% in May 2008.

Generally speaking, nominal interest rates rose in the banking system, particularly for certificates of deposit.[1] On average, lending rates did not begin to rise until early 2008. Thus savings certificates corresponding to the private sector again surged, this time by 45.3%, as did current account deposits (47.9%). Returns on deposits were, however, negative or close to zero in real terms.

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1 The analysis refers to nominal interest rates on deposits and loans in national currency, except where otherwise indicated.

Credit to the private sector rose by a nominal 41.1% and continued to increase strongly in the first semester of 2008. Most bank lending went to the agricultural sector (26%), while retail commerce absorbed much of the credit granted by financial companies (32%).

Despite the guaraní's appreciation against the dollar, private sector foreign currency deposits rose by 26.9% in dollar terms. However, given the strong increase in local-currency deposits, the percentage of dollarization of private sector deposits fell from 50.3% in December 2006 to 45.2% in December 2007. Foreign-currency loans rose by 54.4% in nominal terms, given the lower cost of dollar-denominated funds due to the effect of the exchange rate.

In 2007 the central bank continued to intervene in the exchange market and international reserves increased by 44.6% to reach 20.9% of GDP. Net external assets were the main factor behind expansion of M0, which rose by 28.3% in nominal terms (21.1% in real terms). Issues of IMRs, whose balance increased by 20.4%, were the main contractionary force acting on M0. The monetary base expanded by 35.2% year-on-year, in nominal terms (27.6% in real terms), including a rise of 51.6% in reserves in the banking system, reflecting the increase in deposits. M1 was up by a nominal year-on-year 38.5% (30.7% in real terms), M2 by 39.4% (31.5% in real terms) and M3 by 31.4% (24% in real terms). All the monetary aggregates expanded in the first semester of 2008, leading to the rise in the rates on IMRs in March and April.

(c) Exchange-rate policy

The central bank intervened strongly in the exchange market in 2007 and the first semester of 2008, in view of the upward pressure on the guaraní caused by sharply rising inflows of foreign exchange due, in turn, to the large balance-of-payments surplus.

Net purchases of foreign currency were up 76% in 2007 and 48% between January and May of 2008, compared to the year-earlier period. As well as intervening in the exchange market, the central bank raised the daily limit on sales and purchases of foreign currency by banks.

(d) Other policies

Credit granted by the Development Finance Agency (AFD), a second-tier public bank, rose by 265% in 2007. Most of it was extended to the livestock sector, followed by the crop farming and real estate sectors. The resources were raised through bond issues (US$ 6 million in October 2007); loans extended by IDB, such as US$ 10 million approved in November 2007 and devoted to export credits; credit lines from the same institution, such as one for US$ 150 million for investment projects approved in March 2008; and through the firms Petróleos Paraguayos (PETROPAR) and Petróleos de Venezuela S.A. (PDVSA) in the framework of the Caracas Agreement on Energy Cooperation (credit line for US$ 30 million approved in April 2008).

3. The main variables

(a) Economic activity

In 2007, economic activity expanded by 6.8%, compared with 4.3% in 2006 and 2.9% in 2005. The performance of the production sectors closely reflect the upswing in crop farming, which recorded extraordinary growth of 24.1% in 2007.

This performance was due, in particular, to the excellent harvest of soybeans, whose production in tons increased by 58%, with yield up by 44.7%. Cotton production was down again, this time by 41.7%. Seed supply problems, less favourable market conditions and climate vulnerability have led to a decrease in the surface area sown with cotton, from 245,000 hectares in 2006 to 110,000 in 2007. The areas freed up have been sown with other crops, such as soybean and sesame.

Sugar cane sowing was greatly expanded, particularly by small farmers, in step with increased manufacture of biofuels, and production of this crop was up by 28% in 2007. The wheat harvest also climbed by a substantial 29%.The crop farming sector is expected to post another favourable performance in 2008.

By contrast, livestock farming suffered from the loss of certain markets, some poor natural conditions and the excessive slaughter of the previous year, which affected the stock of animals. The result was an output contraction of 6.8% which affected the meat segment (-9.2%) and related industries, such as dairy (-4.2%). Like in the two

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	-1.5	-3.3	2.1	-0.0	3.8	4.1	2.9	4.3	6.8
Per capita gross domestic product	-3.6	-5.3	0.0	-2.0	1.8	2.1	0.9	2.4	4.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.3	-7.0	11.6	4.2	8.0	3.9	-0.1	3.6	14.2
Mining	-0.4	-5.2	-8.3	-9.1	15.6	2.7	7.8	-2.2	3.5
Manufacturing	-0.5	-2.2	-0.7	-1.4	0.7	3.3	2.7	2.5	-1.2
Electricity, gas and water	1.7	1.9	1.9	1.1	4.6	3.6	2.8	8.5	5.9
Construction	-5.8	-7.8	-1.4	-8.9	14.4	2.1	4.5	-3.5	7.2
Wholesale and retail commerce, restaurants and hotels	-6.0	-3.7	0.0	-1.6	5.5	5.1	2.4	5.5	5.1
Transport, storage and communications	1.3	1.4	2.1	2.0	0.7	9.6	7.2	10.7	10.7
Financial institutions, insurance, real estate and business services	0.6	-0.7	1.2	0.8	-4.9	2.1	4.0	4.0	3.8
Community, social and personal services	0.8	-0.4	-5.1	-1.1	0.5	2.7	5.9	4.3	4.1
Gross domestic product, by type of expenditure									
Consumption	-1.1	-4.7	1.4	-6.7	2.4	4.6	4.7	5.0	6.0
General government	-0.8	-2.6	-8.6	-3.2	-2.0	6.0	11.5	4.0	6.0
Private	-1.1	-5.0	2.6	-7.1	2.9	4.5	3.9	5.1	6.0
Gross domestic investment	-14.1	-9.1	11.0	-13.7	2.5	-1.9	7.3	4.3	13.6
Exports (goods and services)	-25.5	8.0	-9.6	15.9	4.4	1.8	12.1	14.6	9.6
Imports (goods and services)	-26.2	0.9	-6.1	-6.2	3.6	6.2	9.0	16.5	10.8
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	20.8	18.8	18.7	18.7	19.9	19.2	19.8	19.6	18.4
National saving	18.5	16.5	14.6	20.5	22.3	21.3	20.5	22.0	20.0
External saving	2.3	2.3	4.1	-1.8	-2.3	-2.1	-0.7	-2.4	-1.6
					Millions of dollars				
Balance of payments									
Current account balance	-165	-163	-266	93	129	143	53	219	126
Goods balance	-441	-537	-614	-280	-276	-244	-462	-613	-545
Exports, f.o.b.	2 312	2 329	1 890	1 858	2 170	2 861	3 352	4 409	5 463
Imports, f.o.b.	2 753	2 866	2 504	2 138	2 446	3 105	3 814	5 022	6 008
Services trade balance	82	175	165	214	245	327	350	425	391
Income balance	18	22	16	43	-4	-134	-58	-19	-93
Net current transfers	175	177	167	116	165	194	224	426	373
Capital and financial balance [d]	-148	-181	217	-217	105	128	107	164	601
Net foreign direct investment	89	98	78	5	22	32	47	166	189
Financial capital [e]	-237	-280	138	-229	83	97	60	-2	413
Overall balance	-313	-344	-50	-124	234	271	160	383	727
Variation in reserve assets [f]	-104	215	45	84	-301	-179	-146	-387	-727
Other financing [g]	418	129	5	40	67	-92	-14	4	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	97.0	100.0	102.8	106.5	112.6	106.4	118.7	106.4	95.3
Terms of trade for goods (index: 2000=100)	101.7	100.0	100.2	96.7	101.4	104.3	97.4	95.5	100.1
Net resource transfer (millions of dollars)	300	-25	237	-135	170	-96	35	149	509
Total gross external debt (millions of dollars)	2 996	3 275	3 074	3 336	3 371	3 330	3 056	3 031	3 087
					Average annual rates				
Employment									
Labour force participation rate [i]	57.3	63.7	59.2	61.2	59.8	63.4	61.8	59.4	60.8
Open unemployment rate [j]	9.4	10.0	10.8	14.7	11.2	10.0	7.6	8.9	7.2
Visible underemployment rate [j]	5.8	9.1	8.3	9.5	8.8	8.3	7.5	5.6	5.8
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	5.4	8.6	8.4	14.6	9.3	2.8	9.9	12.5	6.0
Variation in nominal exchange rate (annual average)	14.4	11.8	17.8	39.2	12.4	-7.0	3.4	-8.8	-10.8
Variation in average real wage	-2.1	1.3	1.4	-5.0	-0.8	1.7	1.1	0.6	2.4
Nominal deposit rate [k]	20.3	15.4	16.0	21.7	15.5	5.7	6.1	9.8	5.9
Nominal lending rate [l]	30.2	26.8	28.3	34.3	30.5	21.2	15.3	16.6	14.6

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Non-financial public sector									
Total income	33.0	34.4	35.7	32.7	31.9	33.9	34.8	34.6	31.1
Current income	32.2	33.1	35.0	32.6	31.8	33.9	34.7	34.5	31.1
Capital income	0.8	1.2	0.8	0.1	0.0	0.1	0.1	0.1	0.1
Total expenditure [m]	36.1	38.4	35.9	34.6	30.8	31.6	33.3	32.3	29.1
Current expenditure	23.6	30.5	29.3	28.9	26.2	26.6	28.3	27.4	24.5
Capital expenditure	12.5	7.9	6.5	5.8	4.9	5.2	4.9	4.9	4.6
Overall balance	-3.1	-4.0	-0.1	-1.9	1.1	2.3	1.5	2.3	2.0
Non-financial public sector debt	33.5	35.3	44.0	63.0	46.9	41.7	32.8	24.8	23.4
Domestic	3.3	4.1	6.4	8.2	5.0	4.1	3.0	2.7	2.9
External	30.2	31.2	37.6	54.8	42.0	37.6	29.8	22.1	20.5
Money and credit [n]									
Domestic credit [o]	4.7	6.2	7.3	9.9	6.7	6.2	5.7	3.7	2.0
To the public sector	0.2	2.0	3.3	5.7	3.1	3.3	3.1	1.5	0.1
To the banking sector	4.5	4.2	4.0	4.2	3.6	2.9	2.6	2.2	1.9
Liquidity (M3)	33.1	31.7	35.3	31.9	29.1	28.3	27.5	26.8	30.6
Currency outside banks and local-currency deposits (M2)	16.3	15.5	15.4	13.4	14.2	15.2	15.9	16.2	19.7
Foreign-currency deposits	16.8	16.2	19.9	18.4	14.8	13.1	11.7	10.6	11.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the balance of the capital and financial accounts (including errors and omissions) minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; urban total.
[k] Weighted average of effective interest rates on time deposits.
[l] Weighted average of effective interest rates on loans in national currency, excluding overdrafts and credit cards.
[m] Includes net lending.
[n] The monetary figures are end-of-year stocks.
[o] Credit to the banking sector by the central bank.

previous years, the manufacture of machinery and equipment was the most dynamic segment of manufacturing, with growth of 18%. This performance, together with a large increase in imports of capital goods, has contributed to the exceptional rise in gross capital formation (13.6%).

The output of the sugar industry also expanded, by 6.5%, thanks to increased production of sugar cane. Nevertheless, the manufacturing sector overall posted negative growth of 1.2%. In 2008 the livestock sector should not face the same obstacles as it did in 2007 and should thus be able to recoup and return a positive growth rate, as should the industrial sector.

Services performed very well again, with a growth rate of 5.6%, led by communications (12%) and transport (9.5%), reflecting increased investment and, in the latter case, the buoyant crop farming sector. The hotels and restaurants segment recorded the highest rate of expansion for a decade, 3.5%, thanks to an upturn in domestic tourism. Commerce was up 5.2%, similarly to the previous year's figure, on the strength of production activities.

Rising fiscal spending translated into a 6% increase in public consumption and private consumption posted a similar rate. Gross capital formation rose strongly and exports were up by 9.6%, led by the upswing in soybean exports. Imports increased by 10.8%, a smaller variation than in 2007, which helped to narrow the deficit in goods trade.

In 2008 Paraguay's economy will continue to grow rapidly (5.0%), driven by crop-farming, an upturn in livestock farming and the maintenance of a good performance in services.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.6	4.1	6.5	0.7	6.7	5.0	7.0	8.5	7.6	...
Goods exports, f.o.b. (millions of dollars) [c]	451	475	538	442	495	732	744	814	945	1 333
Goods imports, f.o.b. (millions of dollars) [c]	1 008	1 043	1 147	1 290	1 189	1 265	1 472	1 650	1 711	2 091
International reserve assets (millions of dollars) [d]	1 354	1 462	1 546	1 703	1 903	2 153	2 182	2 462	2 638	3 193
Real effective exchange rate (index: 2000=100) [e]	114.4	108.2	104.3	98.7	96.0	96.6	97.0	91.7	90.4	81.7
Consumer prices (12-month percentage variation)	11.6	8.4	8.3	12.5	5.6	6.8	10.1	6.0	12.3	13.4
Average nominal exchange rate (guaraníes per dollar)	6 044	5 689	5 449	5 360	5 171	5 060	5 081	4 793	4 637	4 096
Nominal interest rates (annualized percentages)										
Deposit rate [f]	8.5	9.3	11.1	10.4	10.3	4.2	4.4	4.8	5.6	6.4
Lending rate [g]	15.5	16.9	16.8	17.0	17.6	14.0	13.7	13.0	13.7	13.6
Domestic credit (variation from same quarter of preceding year)	10.6	17.5	17.5	9.4	12.9	24.3	35.3	42.7	55.9	50.1
Non-performing loans as a percentage of total credit	5.5	5.7	5.5	3.3	2.9	2.5	2.0	1.3	1.3	1.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Refers to registered trade only.
[d] Including gold.
[e] Quarterly average, weighted by the value of goods exports and imports.
[f] Weighted average of effective interest rates on time deposits.
[g] Weighted average of effective interest rates on loans, excluding overdrafts and credit cards.

(b) Prices, wages and employment

In January 2008 the central bank began to publish a new consumer price index (CPI) for the metropolitan area of Asunción, based on December 2007, in order to better reflect the current basket of consumer goods.

In 2007 the CPI registered a year-on-year variation of 6%, which was lower than the previous year's figure (12.5%) and within the upper margin of 7.5%. Core inflation (not including fruit and vegetables) came in at 7.7%, while core inflation X1 (not including fruit and vegetables, regulated services or fuels) stood at 8.7%. These last two measures did not factor in the year-on-year variation in the prices of fruit and vegetables, which was negative by 8.4% despite some large increases during the year, and exceeded total price index variation. In addition, the prices of regulated services and fuels, which are State-regulated, were adjusted only slightly. This prevented the petroleum price rise in the international markets from being fully reflected in gasoline prices and transportation fares. The 2007 inflation rate was also influenced by price rises in communications (34.1%), dairy products (31.9%), cereals and cereal products (15.5%), meat (14.8%) and health expenditure (7.3%). Food and fuel prices began to put increasing pressure on the inflation rate in the first quarter of 2008 and in June the year-on-year rate reached 13.4%, driven mainly by food prices.

Further pressure was placed on the inflation rate by the depreciation of the guaraní against the Brazilian real (Brazil is Paraguay's largest trading partner), amounting to 7.1% year-on-year in nominal terms in 2007. The currency depreciation reflected the fact that the real appreciated more than the guaraní against the dollar, by 11% year-on-year. Against the Argentine peso, the guaraní recorded year-on-year appreciation of 13.4%. In real terms, the Paraguayan currency depreciated by 8.9% against the real and appreciated by 13% against the dollar and 7.5% against the Argentine peso. Overall, the guaraní recorded a slight year-on-year real depreciation of 0.1% with respect to its trading partners.

In October, the minimum wage rose by 10% in nominal terms to reach the equivalent of US$ 296 (at the March 2008 exchange rate), representing a real variation of -0.3%.

The urban open unemployment rate dropped considerably, from 8.9% in 2006 to 7.2% in 2007 nationwide, reflecting the upswing in economic activity. The labour force participation rate rose from 59.4% to 60.8% and the employment rate from 55.4% to 57.4%, reflecting an increase in both supply and demand for labour. Underemployment, however, was up from 24% to 26.5% in the same period.

(c) The external sector

In 2007 the balance of payments current account posted a surplus equivalent to around 1.1% of GDP, reflecting the surplus on the services account (3.3% of GDP) and on current transfers (3.1% of GDP).

The goods trade balance was in deficit by 4.5% of GDP, less than the 6.6% figure seen in 2006, thanks to a slowdown in the growth rate of imports (to 19.6%). Imports of capital goods continued to climb strongly (46.9%), particularly machinery and equipment (46.3%). Imports of consumer durables rose by 25%, mainly as a result of increased imports of automobiles (33.7%).

Exports expanded by 23.9%, driven by soybean seeds (103%), especially in the second semester. All the main export products, except for meat (which was down by 13.3%), recorded an increase in sales abroad: vegetable oils (79.6%), cereals (73.7%), flours (53.6%) and even cotton fibre (37.2%) despite a drop in output. Exports of meat rebounded in the first semester of 2008 and should perform well during the year, in view of expectations of access to new markets.

The balance on the capital and financial accounts, including errors and omissions, reflected a surplus of 5% of GDP, driven by an increase of 13.8% in foreign direct investment (FDI), which was equivalent to 1.6% of GDP, and by movements of financial capital representing 3.4% of GDP. FDI went mainly to commerce, finance and transport and communications, while financial capital largely reflected the repatriation of assets held abroad.

The inflows of foreign exchange resulting from the overall surplus of 6% of GDP placed considerable pressure on the exchange rate and led to a substantial build-up of international reserves, in a trend that continued into the first semester of 2008.

Peru

1. General trends

Favourable external conditions and a strong increase in domestic demand in 2007 boosted economic growth in Peru, bringing it to 8.9%, up from 7.6% in 2006. With fiscal accounts reflecting this more robust growth, the financial public sector closed the year with a surplus equivalent to 3.1% of GDP. This healthy out-turn, together with the strategy of debt interchange and prepayment adopted by the Peruvian authorities, resulted in a contraction in the external public debt and its restructuring under more favourable conditions.

The economic expansion continued to stimulate job creation, but the major challenge that persists is the need to channel growth towards broader sectors of the population at a time when close to 40% of the people are living in poverty. Fuelled mainly by rising international prices for food and fuel, inflation breached the target ceiling and ended the year at 3.9%. The value of the currency trended upwards, bolstered by the balance-of-payments current account surplus, which stood at 1.4% of GDP, and the substantial financial inflows, as well as by the promising economic outlook for the country and the growing gap between interest rates in Peru and those in the United States.

The economic growth dynamic was maintained at the start of 2008, although the cooling of the global economy and the stricter monetary policy are expected to result in a somewhat slower expansion, approximately 8.3%, for the whole year. Inflation continued to rise in the first few months of the year, and, although 12-month inflation is expected to moderate in the second half, it will probably end the year above the upper limit of the inflation target range, which was set at 3%.

2. Economic policy

The economic policy adopted by the authorities was part of a development strategy based on “sustained economic growth with social inclusion”. With this in view, they hoped to maintain a favourable climate for investment and price stability and to tackle structural obstacles to growth in the long term such as the narrow tax base, poor infrastructure and the high level of dollarization.

From the end of 2007, the surge in inflation, triggered mainly by external factors but combined with high domestic demand, threatened to affect the overall price system. At the same time, the balance-of-payments surplus, the widening gap in interest rates compared with those of the United States and favourable expectations for the country’s economic performance combined to push up the value of the currency. While this appreciation has helped to curb inflation, it has undermined prospects for non-traditional exports and generated a growing uncertainty, so that authorities have sought to bring its causes, in particular speculation, under control.

(a) Fiscal policy

The fiscal policy targets set by the authorities were to continue to reduce the vulnerability of the economy and, in accordance with its development strategy, to increase tax revenue, capital expenditure and social investment. To this end, fiscal regulations were modified. As from 2007, the 3.0% maximum increase in real fiscal expenditure (with the ceiling of the band set by the central bank for the inflation target as the deflator) relates exclusively to consumption expenditure; capital expenditure and transfers are not subject to this restriction but to another regulation which sets the maximum deficit of the non-financial public-sector (NFPS) at 1.0% of GDP.

Some modifications to the tax policy were designed to foster long-term investment and investment in small and medium-sized enterprises. The temporary tax on net assets was lowered from 0.6% to 0.5%, while, at the same time, the tax base for this charge was expanded and a timetable was established for reducing the tax on financial transactions from 0.08% to 0.07% in 2008.

Fiscal revenue benefited from the robust economic growth and especially from rising mineral prices, which contributed to a 24.1% increase in income tax, while the general sales tax went up by 17.4%. Tariff reductions led, however, to lower collections under this heading. Overall general government revenue grew by 15.6% in nominal terms to stand at 20.9% of GDP, up from 20.0% in the previous year.

A substantial increase in public investment had been considered, but met with serious management problems, especially at the decentralized level. The easing of requirements for small projects and technical assistance granted by the Ministry of Economic Affairs and Finance helped to overcome some of these obstacles and, throughout the year, public investment was stepped up, resulting by the end of the year in a 20.7% increase in general government capital expenditure. Current expenditure registered a smaller increase, so that total general government spending rose by 8.5% and accounted for a lower percentage of GDP: 17.5% compared with 18.0%, while the primary surplus went up from 3.6% to 4.7% of GDP. The overall NFPS registered a significant improvement in savings on its current account, resulting in a simultaneous rise in capital expenditure, from 3.0% to 3.2%, and in the NFPS balance, from 2.1% to 3.1% of GDP.

Thanks to the fiscal surplus, public debt showed a further relative reduction: from 31.2% of GDP at the end of 2006 to 30.2% twelve months later and to 27.2% in March 2008. Furthermore, public finances are less vulnerable; the debt repayment period has been extended, a higher proportion of debt is now in local currency and fixed-rate debt has been increased. In March 2007, a substantial amount of 2012 global bonds and Brady Bonds were redeemed and, above all, traded to the tune of US$ 2.296 billion; in this connection 2016 and 2033 global bonds were reopened and 2037 global bonds were issued. In October, a prepayment of US$ 1.754 billion was made to the Paris Club; this operation was financed mainly with 30-year local-currency sovereign bonds. At the beginning of 2008, the authorities made a prepayment of US$ 166.6 million to the Andean Development Corporation and a similar payment of US$ 816 million, corresponding to Brady bonds.

In the first five months of 2008, central government income continued to increase (by 6.1% in real terms). Public investment expanded strongly (49%), while current expenditure was reined back. For the year as a whole, the NFPS surplus is expected to decline to approximately 2.0% of GDP, owing, mainly, to the increase in public investment. As a percentage of GDP, public debt is expected to continue to decline.

(b) Monetary and exchange-rate policies

In early 2007, the inflation target was lowered by half a percentage point to 2.0%, with the range being maintained between one point above and one point below that rate. In the second half of the year, following the escalation in international food and fuel costs, inflation started to shoot up and the authorities, faced with the prospect of a widespread increase in inflationary expectations, in a context of vigorous domestic demand and a strong credit expansion, raised the benchmark interest rate in July and September and again in April and June 2008 by a total of one and a quarter percentage points. This widened the gap in comparison with interest rates in the United States, which had been slashed in response to the financial crisis. This gap stimulated short-term capital flows which reinforced the trend towards an appreciation of the new sol against the United States dollar.

In an effort to counter this impact, the central bank bought massive amounts of dollars; thus net international reserves swelled from US$ 17.329 billion in December 2006 to US$ 27.720 billion at the end of 2007 and 35.625 billion in April 2008; meanwhile, the sterilization policy resulted in a sharp increase in the balance of the Central Reserve Bank of Peru's certificates of deposit, which in 2007 expanded from 8.066 billion to 21.458 billion new soles. Nevertheless, the currency continued to trend upwards and the real bilateral exchange rate against the dollar, which had declined by 5.5% between December 2006 and December 2007, fell by a further 6.7% during the first quarter of 2008. As a reflection of the widespread appreciation of other currencies against the dollar, the real effective exchange rate declined by only 1.7% between December 2006 and December 2007, and the annual average even registered a rise. However, the rapid appreciation at the beginning of 2008 also influenced the real effective exchange rate, which fell by 4.6% between December 2007 and April 2008.

In order to face simultaneously the surge in inflation and short-term capital flows, the authorities increased the legal reserve requirement from 6.0% in January 2008 to 8.5% in April 2008 and the marginal reserve requirement to 25% for local currency and 45% for foreign currency; the fee for transactions by non-residents was also raised. These measures are estimated by the authorities to be equivalent to a 143 basis-point increase in the benchmark interest rate. Consequently, up to the middle of the year, short-term capital inflows slowed and the currency appreciation was partially reversed.

Fixed interest rates continued to slide and lending rates for local currency loans were lowered from 17.1% in 2006 to 16.5% in 2007, while average deposit rates edged up from 3.4% to 3.5%. The favourable economic outlook, together with the gradual drop in interest rates and demand from new groups of clients, boosted credit substantially towards the end of 2007 (by 25.5%). Local currency credit swelled by as much as 39.4%. Consumer and commercial credit recorded the highest rates of expansion. In turn, the process of dedollarization continued, and the proportion of dollar credit diminished from 60.5% at the end of 2006 to 52.7% in May 2008, while the dollarization of the liquidity in the financial system diminished from 34.4% to 26.4%.

(c) Other policies

At the end of 2007, the United States Congress approved the free trade agreement with Peru, which will enter into force at the beginning of 2009, and extended the Andean Trade Promotion and Drug Eradication Act(ATPDEA) for the entire year 2008. At the beginning of 2008, negotiations for a free trade agreement with Canada were concluded, while trade negotiations continued with China, Mexico, the European Free Trade Association and, within the framework of the Andean Community of Nations, with the European Union.

At the beginning of 2007, tariff reductions for machinery and equipment came into effect and in October were supplemented by another reduction applicable to industrial inputs. The tariff structure was simplified and now consists of just three levels: 0%, 9% and 17%. Temporary surcharges were eliminated. Consequently, the average tariff was reduced from 8.0% to 5.8%. While these measures were geared mainly towards strengthening the competitiveness of the Peruvian economy, at the beginning of 2008, tariffs on 571 food items were eliminated or reduced in order to cushion the inflationary impact of the rise in international prices.

In order to enhance competitiveness, the government reduced the cost of setting up legal corporations and established the national strategy CRECER in order to improve the impact of social policies on the high levels of poverty. This programme replaces a number of earlier programmes, serves as a link with others and increases the resource allocations for the conditional transfer programme “Juntos”, which targets extremely poor households.

3. The main variables

(a) Economic activity

The Peruvian economy grew by 8.9%, its strongest expansion since 1994. Per capita GDP increased by 7.6%, and, in relation to 2003, the increase is 25.4%. This expansion exceeded expectations, thanks to a more buoyant domestic demand. Gross fixed investment increased by as much as 23.3% and gross domestic investment soared to 23.0% of GDP, the highest rate since 1998. Private consumption also picked up significantly (by 8.3%), fuelled by rising employment and better credit facilities; on the other hand, the thrust of fiscal policy referred to above was to restrain public consumption (3.9%). The improvement in the terms of trade throughout most of the year, albeit at a more gradual rate than in previous years (3.6% on average per year), boosted domestic demand, leading to a 10.0% rise in available national income. This strong domestic demand triggered a significant increase in imports (21.3%), which again outstripped growth in exports in volume terms (6.2%), although that growth was nevertheless higher than in the previous year.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
					Annual growth rates [b]				
Gross domestic product	0.9	3.0	0.2	5.0	4.0	5.1	6.7	7.6	8.9
Per capita gross domestic product	-0.5	1.6	-1.1	3.7	2.8	3.9	5.5	6.3	7.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.0	6.8	-0.1	6.1	2.3	1.7	4.7	7.0	3.4
Mining	13.1	2.4	9.9	12.0	5.5	5.3	8.4	1.4	2.3
Manufacturing	-0.7	5.8	0.7	5.7	3.6	7.7	7.2	7.4	10.7
Electricity, gas and water	3.0	3.2	1.6	5.5	3.7	4.5	5.6	6.9	8.5
Construction	-10.5	-6.5	-6.5	7.7	4.5	4.7	8.4	14.8	16.5
Wholesale and retail commerce, restaurants and hotels	-0.6	3.4	0.7	3.2	2.9	5.5	6.1	9.9	10.2
Transport, storage and communications	2.1	2.6	-0.4	3.7	4.9	6.4	8.5	9.2	18.6
Financial institutions, insurance, real estate and business services	-0.9	2.3	-1.2	4.9	4.1	3.9	6.5	...	...
Community, social and personal services	3.9	1.7	-0.0	3.7	5.0	3.8	5.3	5.8	4.5
Gross domestic product, by type of expenditure									
Consumption	0.0	3.6	1.2	4.4	3.4	3.7	5.1	6.4	7.8
General government	3.5	3.1	-0.8	-0.0	3.9	4.1	9.1	7.6	3.9
Private	-0.4	3.7	1.5	4.9	3.4	3.6	4.6	6.2	8.3
Gross domestic investment	-13.6	-2.7	-7.1	3.0	4.7	5.3	8.4	26.1	26.4
Exports (goods and services)	7.6	8.0	6.8	7.5	6.2	15.2	15.2	0.8	6.2
Imports (goods and services)	-15.2	3.8	2.9	2.3	4.2	9.6	10.9	13.1	21.3
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	21.1	20.2	18.8	18.4	18.4	18.1	17.9	20.0	22.9
National saving	18.4	17.2	16.5	16.4	16.9	18.1	19.4	23.0	24.3
External saving	2.7	2.9	2.3	2.0	1.6	-0.0	-1.4	-3.0	-1.4
					Millions of dollars				
Balance of payments									
Current account balance	-1 390	-1 556	-1 217	-1 117	-958	19	1 148	2 757	1 505
Goods balance	-655	-411	-195	292	853	3 004	5 286	8 934	8 356
Exports, f.o.b.	6 088	6 955	7 026	7 714	9 091	12 809	17 368	23 800	27 956
Imports, f.o.b.	6 743	7 366	7 221	7 422	8 238	9 805	12 082	14 866	19 599
Services trade balance	-588	-735	-963	-994	-900	-732	-834	-781	-928
Income balance	-1 112	-1 410	-1 101	-1 457	-2 144	-3 686	-5 076	-7 581	-8 418
Net current transfers	966	999	1 042	1 041	1 233	1 433	1 772	2 185	2 495
Capital and financial balance [d]	553	1 415	1 640	2 085	1 482	2 397	380	-30	8 082
Net foreign direct investment	1 812	810	1 070	2 156	1 275	1 599	2 579	3 467	5 343
Financial capital [e]	-1 259	605	571	-71	207	798	-2 199	-3 497	2 740
Overall balance	-836	-142	423	968	525	2 417	1 528	2 726	9 588
Variation in reserve assets [f]	979	440	-275	-852	-516	-2 443	-1 628	-2 753	-9 654
Other financing [g]	-143	-298	-148	-116	-9	26	100	27	67
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	101.6	100.0	98.1	95.8	99.8	99.9	101.1	103.9	104.9
Terms of trade for goods (index: 2000=100)	100.8	100.0	95.6	98.4	102.2	111.3	119.4	151.1	156.6
Net resource transfer (millions of dollars)	-701	-293	391	512	-670	-1 262	-4 596	-7 584	-269
Total gross external debt (millions of dollars)	28 586	27 981	27 195	27 872	29 587	31 244	28 657	28 300	31 361
Employment									
Labour force participation rate [i]	66.9	64.4	66.7	68.4	67.4	68.1	67.1	67.4	68.9
Open unemployment rate [j]	9.2	8.5	9.3	9.4	9.4	9.4	9.6	8.5	8.4
Visible underemployment rate [j]	12.5	12.3	12.8	11.8	9.8	9.6	9.5	9.4	9.6
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.7	3.7	-0.1	1.5	2.5	3.5	1.5	1.1	3.9
Variation in wholesale prices (December-December)	5.5	3.8	-2.2	1.7	2.0	4.9	3.6	1.3	5.2
Variation in nominal exchange rate (Annual average)	15.5	3.2	0.5	0.3	-1.1	-1.9	-3.4	-0.7	-4.4
Variation in average real wage	-2.0	0.8	-0.9	4.6	1.6	1.1	-1.9	1.2	-1.8
Nominal deposit rate [k]	...	...	...	3.5	2.9	2.4	2.7	3.4	3.5
Nominal lending rate [k]	...	...	...	22.3	20.2	18.7	17.9	17.1	16.5

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
General government									
Total Income	14.9	15.2	14.5	14.5	15.0	14.9	15.8	17.5	18.4
Current income	14.6	14.9	14.3	14.3	14.8	14.9	15.7	17.4	18.2
Tax income	12.7	12.2	12.4	12.1	12.8	13.1	13.6	15.0	15.7
Capital income	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Total expenditure	18.1	18.0	17.3	16.6	16.7	16.2	16.5	16.1	16.6
Current expenditure	14.7	15.1	15.0	14.6	14.8	14.4	14.7	14.1	14.4
Interest	2.1	2.2	2.1	2.0	2.0	1.8	1.8	1.8	1.6
Capital expenditure	3.4	2.8	2.2	2.0	1.9	1.8	1.9	2.0	2.2
Primary balance	-1.0	-0.6	-0.6	-0.2	0.2	0.6	1.1	3.2	3.4
Overall balance	-3.1	-2.8	-2.8	-2.1	-1.7	-1.3	-0.7	1.5	1.8
Central-government public debt	48.1	45.2	44.2	45.7	47.4	41.7	38.2	31.2	30.2
Domestic	8.9	8.8	9.6	9.3	10.4	8.0	9.0	8.0	10.3
External	39.2	36.4	34.5	36.5	36.9	33.7	29.2	23.2	19.9
Money and credit [l]									
Domestic credit	16.5	15.2	14.8	13.4	13.2	12.9	13.9	14.6	17.9
To the public sector	-7.5	-6.2	-4.4	-4.8	-4.1	-4.3	-3.4	-3.6	-5.3
To the private sector	34.3	31.9	30.4	30.1	28.7	27.0	28.6	28.6	33.2
Others	-10.3	-10.5	-11.2	-11.8	-11.4	-9.9	-11.3	-10.5	-10.0
Liquidity (M3)	26.5	25.4	26.1	26.1	24.7	24.0	25.8	24.3	27.0
Currency outside banks and local-currency deposits (M2)	8.1	7.7	8.7	9.1	9.4	10.8	11.7	11.9	14.5
Foreign-currency deposits	18.5	17.7	17.4	17.1	15.3	13.2	14.1	12.4	12.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, Lima metropolitan area; 1999 and 2000, urban total.
[j] Percentage of the economically active population, Lima metropolitan area.
[k] Fix-weighted average interest rate.
[l] The monetary figures are end-of-year stocks.

The structure of aggregate demand was also reflected in production by sectors; indeed, sectors linked to domestic demand (construction; non-primary manufacture; commerce, among others) expanded by rates of over 9%. The agricultural sector recorded slower growth than in the previous year, however (mainly as a result of less favourable weather conditions), while mining continued to expand at modest rates.

The trends observed in 2007 continued into the first few months of 2008, with significant increases in categories relating to domestic demand. Growth in the mining sector was also more robust thanks to the coming on stream of new deposits. The first five months of 2008 saw a 9.8% rise in GDP. Slower growth in the global economy and the monetary policy measures adopted by the government point to less buoyant growth in the second half of the year and 8.3% economic growth is projected for the year as a whole.

(b) Prices, wages and employment

Soaring food and fuel prices on international markets had an impact on the price structure throughout 2007. Locally produced food items also went up in price owing to weather-related disruptions in supply. Consequently, the consumer price index (CPI) started to move up more sharply, exceeding the target range in October and closing the year at 3.9%, the steepest increase since 1998. This trend continued into early 2008 and in June, the year-on-year inflation stood at 5.7%. The fuel price stabilization fund was used to cushion the impact of international fuel prices. These price trends suggest that inflation will remain above the target range during the year. Even if the inflation rate in Peru is low in comparison with other countries, the increase in food prices has hit the lowest-income households particularly hard.

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2006 [a]				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	7.7	5.8	8.7	8.9	8.5	8.1	9.0	9.8	9.5	...
Goods exports, f.o.b. (millions of dollars)	4 640	5 824	6 559	6 777	5 747	6 741	7 594	7 874	7 735	...
Goods imports, c.i.f. (millions of dollars)	3 383	3 635	3 673	4 175	4 208	4 497	5 294	5 601	6 261	...
International reserve assets (millions of dollars) [c]	14 494	14 452	15 198	17 329	18 456	21 555	22 855	27 720	33 608	35 550
Real effective exchange rate (index: 2000=100) [d]	104.0	104.0	103.5	104.0	104.0	105.9	106.0	103.8	102.2	101.5
Unemployment rate	9.0	8.9	8.5	7.4	9.8	8.3	8.2	7.5	9.3	7.9
Consumer prices (12-month percentage variation)	2.5	1.8	2.0	1.1	0.2	1.5	2.8	3.9	5.5	5.7
Average nominal exchange rate (new soles per dollar)	3.34	3.29	3.24	3.22	3.19	3.17	3.15	3.00	2.89	2.81
Average real wage (variation from same quarter of preceding year)	...	0.8	...	1.6	...	-3.6	...	0.1	...	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	3.0	3.5	3.5	3.5	3.5	3.5	3.5	3.6	3.5	3.2
Lending rate [e]	17.1	17.3	17.2	17.0	16.8	16.6	16.3	16.3	16.5	16.5
Interbank interest rate	3.8	4.5	4.5	4.5	4.5	4.5	4.8	5.0	4.9	5.5
Sovereign bond spread (basis points) [f]	187	169	171	118	121	117	137	178	223	199
Stock price index (national index to end of period, 31 December 2000 = 100)	490	675	860	1 066	1 420	1 851	1 806	1 450	1 439	1 348
Domestic credit (variation from same quarter of preceding year)	27.7	20.3	15.8	20.9	35.0	42.6	31.5	35.7	27.3	11.2
Non-performing loans as a percentage of total credit	2.1	2.0	1.9	1.6	1.6	1.6	1.5	1.3	1.4	1.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Fix-weighted average interest rate.
[f] Measured by J.P. Morgan's EMBI+ index. Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The vibrant economic growth has continued to be reflected in robust job creation, but not in any significant increase in real wages. Specifically, employment in businesses with 10 or more workers increased by 8.2% on average in 2007, with this dynamism continuing into the first few months of 2008. Consequently, the employment rate for metropolitan Lima increased from 61.8% to 63.0%. Since employment opportunities were matched by a similar increase in the labour supply, the unemployment rate remained practically the same. In any event, for a large proportion of the labour force, labour market conditions continue to be harsh, leading to high migrant outflows. Formal employment continued to grow vigorously at the beginning of 2008. With the labour supply increasing more slowly, the unemployment rate fell by half a percentage point in the first half-year.

Real labour income in the formal sector did not reflect the stronger demand for labour and remained more or less stable. In order to strengthen the purchasing power of low-income households, the minimum wage was raised in two stages (October 2007 and January 2008) by a total of 10%.

(c) The external sector

Peruvian exports continued to benefit from the high prices of many natural resources on global markets. Specifically, fishmeal, coffee and a number of minerals (gold, copper, tin, silver, lead, molybdenum, zinc, among others) attracted higher prices. Supply constraints meant that exporters were unable to take full advantage of this situation and export volumes of all the products mentioned above (except copper, lead and zinc) actually contracted. Nevertheless, exports of traditional products increased by 17.0% in value terms. Non-traditional exports grew by 19.3%, with agricultural products and textile showing the strongest gains. Non-traditional exports expanded in terms of both volume (13.1%) and value.

In response to a vibrant domestic demand, imports of goods swelled by 31.8%, the highest growth coming from capital goods, inputs for industry and fuels. As a result, the merchandise trade surplus diminished and, as the deficit of non-factor services had widened slightly owing to higher transport costs, the surplus on the trade balance contracted from 8.8% to 6.9% of GDP. In GDP terms, only minor changes were noted in the factor income balance (which showed a deficit of close to 8% of GDP) and in current transfers (which registered a surplus of just over 2.0% of GDP). Thus, for the fourth year in a row, the balance-of-payments current account reflected a surplus, albeit a smaller one at 1.4% of GDP, down from 3.0% in the previous year.

In comparison with the modest surpluses posted in both 2005 and 2006, the financial account recorded an inflow equivalent to 7.6% of GDP, reflecting mainly an increase in net foreign direct investment, which amounted to US$ 5.343 billion (almost 5.0% of GDP) and long-term loans to the private sector. By contrast, the policy of reducing public-sector debt resulted in an outflow of US$ 2.473 billion. Hence, public-sector external liabilities diminished from 23.7% to 18.4% of GDP, while private-sector liabilities went up from 6.8% to 10.2%.

For 2008, the trade surplus is expected to decline further following a surge in imports, which could wipe out the current account surplus. Financial flows are expected to continue to be buoyant and, if so, would contribute to a fresh build-up of international reserves.

Uruguay

1. General trends

The Uruguayan economy continued to expand rapidly in 2007, with a growth rate of 7.4% of GDP. This performance was led by transport, storage and communications, commerce, restaurants and hotels and manufacturing industry. Both domestic and external demand were robust and investment and private consumption both increased. Inflation exceeded the range forecast in the monetary programme, coming in at an annual rate of 8.5%, which led the authorities to take fiscal measures to mitigate the rise in domestic prices. Even with those measures, the fiscal balance improved again, with the non-financial public sector (NFPS) deficit at 0.3% of GDP. The current account deficit narrowed considerably owing to an increased surplus on the services balance. Foreign direct investment (FDI) and financial capital continued to flow in, which substantially increased the level of reserve assets.

In 2008, GDP is projected to grow at a rate similar to the 2007 figure owing, among other things, to increased production of agricultural commodities, the full operation of major foreign direct investments in the area of food production, wood pulp and related activities and sustained growth in the transport, storage and communications sector. The inflation rate is expected to reach or slightly exceed the ceiling of the authorities' target range of 3%-7%. The primary fiscal surplus is forecast at around 4.0% of GDP, while the overall deficit should represent under 0.3% of GDP.

2. Economic policy

Generally speaking, in 2007 economic policy was directed towards maintaining macroeconomic stability in a context of rapid growth. The growth rate was higher than the Latin American average and its effects passed through to the labour market, which recorded the lowest rate of unemployment in over a decade. Thanks to the agreements reached in the framework of the wage councils, pay recorded a real increase.

Economic policy objectives for 2008 include the maintenance of a high rate of economic growth, while keeping inflation under control in a context of upward pressure exerted by the strong rise in the prices of exportable goods. The authorities will also face the challenge of supplying electric power when the hydroelectric generating stations are unable to produce much power, which has made it necessary to import electricity from neighbouring countries or produce it from fossil fuels, with the extra cost that this implies.

(a) Fiscal policy

In 2007 the NFPS posted a primary surplus equivalent to 3.5% of GDP and an overall deficit of 0.3% after servicing of the public debt, which represented 3.7% of GDP. The overall deficit was smaller than the target for the year, which had been 0.7% of GDP. Although the primary surplus was smaller than in 2006 (3.8%), the overall balance represented an improvement, since the 2006 figure was 0.6% of GDP, owing to a large decrease in interest payments, which had amounted to 4.4% of GDP in 2006.

During the year, central government revenues increased by 4.6% in real terms with respect to the year before, while spending was up by 8.5%. Tax receipts reflected the expansionary trend in economic activity, with the income of the Tax Administration Department rising by 6% in real terms and that of the Social Security Bank by 4.7%. State-owned corporations recorded a substantial rise in their primary balance, which amounted to 1.1% of GDP at the end of 2007. On the spending side, investments by the NFPS rose by a real 23.4%, and extraordinary payments raised central government transfers by 10%. Wages rose 7.6%, in line with GDP growth.

NFPS gross external debt increased again in relation to output, standing at 50.7% of GDP at the end of 2007 compared with 48.6% the year before. The percentage of debt issued in local currency increased from 15% in December 2006 to 25% a year later. Towards the end of the year, the government repurchased US$ 240 million in debt, representing 20% of all bonds eligible for this operation.

In mid-2007 a tax reform came into effect, whose main features were the implementation of a dual system of income tax for physical persons, the homogenization of employers' social security contributions in all branches of activity, the elimination of some national taxes and the application of VAT economy-wide, and the modification and reduction of VAT rates. As a result of the implementation of the new system and the tax cut implemented to contain inflation, the tax burden of the Tax Administration Department remained at close to 18.7% of GDP in 2007.

(b) Monetary policy

In 2007 the authorities maintained a tight monetary stance in order to keep inflation, measured by the variation in the consumer price index, within a widened target range of 3%-7% per year, with an 18-month horizon. Another monetary policy instrument used was the interbank overnight rate (call rate), which regulates interbank loans in local currency. The call rate was set at 5% per year in early September 2007, then raised to 7% in October and to 7.25% in November, where it remained in the first half of 2008.

Monetary expansion (M1) stood at 23% in real terms at the end of 2007, while base money increased by 16.5% as an annual average, reaching 5.8% of GDP. This increase reflected a change in the definition of base money, to include central government funds obligatorily deposited in public-sector banks.[1]

In the year to December 2007, lending to the resident private sector in national currency rose by 33%, and that in foreign currency by 27%; the two add up to an increase of 29% measured in dollars. Thanks to a policy of credit expansion on the part of financial agents, lending to the agricultural sector measured in dollars soared by 66%, followed by lending to wholesale commerce (64%) and to households (47%).

Non-financial private sector deposits in national currency were up 36%, while those in foreign currency rose by 6.4%, so for the year as a whole the deposits rose by 10.7% (dollar equivalent). In December 2007, interest rates paid on 30-180 day dollar deposits stood at 2.25%, while those on fixed-term deposits in pesos were about 4.2%. At the same date, the agreed interest rate for lending in dollars stood at 7% for businesses and 13% for household consumption, while the agreed rates for lending in national currency averaged 11.3% and 32.8%, respectively. These figures reflected increases of close to 0.9 percentage points in the case of foreign-currency lending rates and 1.1 points in the case of loans in national currency, in comparison with the rates recorded in December of the previous year. The growth of lending in both currencies, however, continued.

(c) Exchange-rate policy

The floating exchange-rate regime was maintained throughout the year. The public-sector banks conducted open-market operations to purchase foreign exchange in order to cover the public sector's requirements and to sustain the nominal exchange rate. Foreign-exchange purchases by the Uruguay Central Bank totalled US$ 1.77 billion in 2007, 36% more than in 2006, and in the first four months of 2008 they stood at US$ 1.1 billion. The

[1] This change came into effect on 1 September 2007 and meant that, in current terms, the average monetary base was 47% higher than in September 2006, whereas in August 2007 the same variation had stood 22 points higher than the 2006 value. On this basis, a real growth of the monetary base of about 12% can be forecast when the calculation is based on a common definition.

nominal exchange rate fell sharply in the course of the year, pushed down by inflows of foreign capital, rising income from exports and the worldwide fall of the dollar. The Uruguayan peso appreciated by 12% against the dollar in 2007, and the real effective exchange rate showed an annual fall of 6.8%.

(d) Other policies

Measures were implemented in 2007 to contain rising internal prices using fiscal and financial instruments as well as agreements with members of the production and marketing chains of certain essential goods. Those instruments include a reduction of the profits transferred to the central government by State-owned corporations, enabling them to lower their prices; the establishment of trust funds to finance part of the cost of fuel used in public transport; reduction of fuel taxes and cuts in certain controlled prices in the health sector in exchange for improved income for service providers expected to result from the changes brought about by the introduction of the integrated national health system. Mechanisms were also set up to stabilize the prices of certain staple foodstuffs such as liquid milk. Additional measures were put in place in the first months of 2008, including higher reserve requirements for banks, new agreements on the prices of mass consumer goods for export, and the renewal of tax exemptions for a number of foodstuffs, intended to hold back not only price rises but also the downward trend in the real exchange rate.

In the area of social policy, the family allowance system was expanded, continuing the trend begun years earlier to remove the link between benefits and parents' participation in the formal labour market. This new expansion meant that in April 2008, 245,000 minors in disadvantaged situations received an allowance averaging US$ 25 per month, double the amount provided for previously. Projections suggest that the number of beneficiaries will double under the new system, whose coverage is expected to exceed 600,000 people in 2009.

3. The main variables

(a) Economic activity

The output of goods and services rose to a record high in 2007, surpassing by 15% the previous maximum recorded in 1998. This result was related to growth in all sectors of the economy, although 60% of the expansion was due to the performance of three sectors: transport, storage and communications, commerce, restaurants and hotels, and manufacturing, which achieved annual growth of 12%, 11% and 8%, respectively. The share of the industrial sector stood at 19% of GDP for 2007 as a whole, while the transport, storage and communications sector took third place, representing 14% of GDP. It was exceeded only by the financial sector, which was equivalent to 18% of GDP, and left behind others such as personal services (13% of GDP), and commerce, restaurants and hotels (13%) and the agricultural sector (12%).

Activity expanded in almost all segments of industry in 2007; the exception was the production of fuels and petroleum products, affected by the temporary closure of the refinery for maintenance. The subsectors which had the largest shares in industrial output growth were food and beverages (with growth of 7% and a share in overall growth of 2.6 percentage points), chemicals (10.3% growth and a share of 0.8 points) and wood pulp, paper and paper products (41% and 0.8 percentage points). The subsectors of wood and wood products and electrical products posted strong annual growth of about 25% each, but their share in the total was not very great. The fall in fuel refinery output was about 13%, with a negative impact similar to that of the food industry.

The rise in output was stimulated by growing external demand, which was up 9.7%, while domestic consumption was 7.2% higher than in 2006. The investment-to-GDP ratio stood at 15.1%. Investment remained very strong, with a year-on-year expansion of 11.2%, but the growth of fixed-asset investment was weaker, at 5.8%. This relatively small increase reflected the considerable amount invested in 2006 for the installation of a wood-pulp plant. If that investment is excluded, the 2007 figure for investment in machinery and production goods is 12% higher than the 2006 figure.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	-2.8	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.0	7.4
Per capita gross domestic product	-3.4	-1.8	-3.6	-11.0	2.2	11.9	6.6	6.8	7.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.5	-3.0	-7.1	5.1	10.6	10.6	4.6	8.3	2.5
Mining	-5.8	-8.8	-5.2	-37.6	14.1	7.2	4.4	15.0	1.1
Manufacturing	-8.4	-2.1	-7.6	-13.9	4.7	20.8	10.1	8.4	8.0
Electricity, gas and water	-0.1	5.0	1.7	-0.6	-7.4	1.8	5.8	-1.5	11.4
Construction	8.9	-11.1	-8.7	-22.0	-7.1	7.5	4.2	14.0	2.5
Wholesale and retail commerce, restaurants and hotels	-3.4	-5.3	-3.2	-24.5	-1.0	21.3	10.1	8.5	10.9
Transport, storage and communications	3.7	1.5	0.3	-9.1	3.1	11.5	11.1	12.0	12.3
Financial institutions, insurance, real estate and business services	6.4	2.2	1.7	-0.9	-5.3	-1.7	-3.5	1.9	-0.1
Community, social and personal services	-0.5	-0.6	-2.3	-3.3	0.7	3.2	1.4	1.5	3.5
Gross domestic product, by type of expenditure									
Consumption	-1.3	-1.4	-2.1	-15.9	1.1	9.5	4.0	9.9	7.2
General government	0.6	-0.3	-2.9	-9.3	-4.8	2.5	0.0	3.5	3.0
Private	-1.5	-1.6	-2.0	-16.9	2.0	10.6	4.5	10.8	7.8
Gross domestic investment	-9.8	-13.0	-9.1	-34.5	18.0	22.0	7.6	20.7	11.2
Exports (goods and services)	-7.4	6.4	-9.1	-10.3	4.2	30.4	16.3	8.0	9.7
Imports (goods and services)	-5.8	0.1	-7.1	-27.9	5.8	26.8	10.8	17.6	10.3
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	15.1	14.0	13.8	11.5	12.6	13.1	12.5	15.0	18.2
National saving	12.7	11.1	11.1	14.6	11.8	13.1	12.8	13.1	17.4
External saving	2.4	2.8	2.7	-3.1	0.8	-0.0	-0.3	1.9	0.8
					Millions of dollars				
Balance of payments									
Current account balance	-502	-566	-498	382	-87	3	42	-369	-186
Goods balance	-896	-927	-775	48	183	153	21	-460	-491
Exports, f.o.b.	2 291	2 384	2 139	1 922	2 281	3 145	3 774	4 407	5 063
Imports, f.o.b.	3 186	3 311	2 915	1 874	2 098	2 992	3 753	4 867	5 554
Services trade balance	377	394	316	153	135	325	372	406	513
Income balance	-34	-60	-68	108	-488	-588	-494	-441	-342
Net current transfers	50	28	30	72	83	113	144	126	134
Capital and financial balance [d]	675	733	775	-4 314	1 048	302	753	2 791	1 191
Net foreign direct investment	238	274	291	180	401	315	811	1 400	876
Financial capital [e]	437	459	484	-4 494	647	-12	-58	1 391	315
Overall balance	173	166	277	-3 932	961	306	796	2 421	1 005
Variation in reserve assets [f]	-11	-166	-278	2 328	-1 380	-454	-620	15	-1 005
Other financing [g]	-162	0	0	1 604	420	149	-175	-2 437	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	98.4	100.0	101.4	118.4	150.5	152.5	134.1	128.2	126.9
Terms of trade for goods (index: 2000=100)	95.9	100.0	104.0	102.6	103.5	99.9	90.7	88.7	90.4
Net resource transfer (millions of dollars)	480	672	707	-2602	979	-137	84	-87	850
Total gross external debt (millions of dollars) [i]	8 261	8 895	8 937	10 548	11 013	11 593	11 418	10 560	12 218
					Average annual rates				
Employment									
Labour force participation rate [j]	59.3	59.6	60.6	59.1	58.1	58.5	58.5	60.9	62.7
Open unemployment rate [k]	11.3	13.6	15.3	17.0	16.9	13.1	12.2	11.4	9.6
Visible underemployment rate [k]	…	11.9	15.3	18.4	19.3	15.8	17.1	13.6	12.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	4.2	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.5
Variation in producer prices, local products (December-December)	-0.3	9.5	3.8	64.6	20.5	5.1	-2.2	8.2	16.1
Variation in nominal exchange rate (annual average)	8.3	6.7	10.1	59.6	32.7	1.8	-14.7	-1.9	-2.4
Variation in average real wage	1.6	-1.3	-0.3	-10.7	-12.5	0.0	4.6	4.3	4.7
Nominal deposit rate [l]	17.1	14.7	18.6	61.7	28.4	5.5	2.3	1.7	2.3
Nominal lending rate [m]	39.0	32.1	38.1	116.4	56.6	26.0	15.3	10.7	10.0

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income	20.9	20.3	20.8	21.2	21.4	21.6	21.8	21.9	21.3
Tax income	17.2	16.9	17.4	17.6	18.6	18.5	18.7	19.3	18.7
Total expenditure	24.8	23.9	25.3	26.1	26.0	24.1	23.5	22.9	22.9
Current expenditure	22.2	22.0	23.4	24.7	24.7	22.6	22.1	21.5	21.4
Interest	1.8	2.1	2.5	4.1	5.6	4.9	4.4	4.3	3.8
Capital expenditure	2.6	1.9	1.8	1.4	1.3	1.5	1.4	1.4	1.6
Primary balance	-2.1	-1.5	-2.0	-0.8	1.0	2.4	2.8	3.3	2.2
Overall balance	-3.9	-3.5	-4.5	-4.9	-4.6	-2.5	-1.6	-1.0	-1.7
Non-financial public sector debt	30.9	35.9	46.7	106.0	100.4	78.9	70.4	62.7	63.0
Domestic	7.7	8.6	15.6	25.4	18.8	15.2	15.1	14.1	12.3
External	23.2	27.3	31.1	80.6	81.6	63.7	55.3	48.6	50.7
Money and credit [n]									
Domestic credit	...	...	45.2	54.1	30.5	17.9	14.3	19.4	15.3
To the public sector	4.0	4.2	6.8	23.3	14.8	12.4	6.2	7.7	1.3
To the private sector	56.3	57.3	67.9	75.3	46.5	31.0	27.3	26.5	25.4
Others	...	...	-29.5	-44.4	-30.8	-25.5	-19.2	-14.8	-11.4
Liquidity (M3)	66.5	74.3	94.0	89.9	83.1	67.7	60.6	58.6	51.3
Currency outside banks and local-currency deposits (M2)	11.3	11.5	10.4	9.1	9.7	9.1	10.9	11.6	13.0
Foreign-currency deposits	55.2	62.9	83.6	80.8	73.5	58.5	49.7	47.0	38.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1983 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Figures include the private sector and do not include memorandum items on external liabilities and assets.
[j] Economically active population as a percentage of the working-age population,urban total.
[k] Percentage of the economically active population, urban total.
[l] Average rate for fixed-term deposits for six months or less.
[m] Business credit, 30-367 days.
[n] The monetary figures are end-of-year stocks.

(b) Prices, wages and employment

The consumer price index rose by 8.5% in 2007, two points more than the 2006 increase. The area where prices climbed the most was food and beverages, which climbed by 18% and made up about 5.5% of total inflation. It was followed, in order of magnitude, by education (8.8%), housing costs (8.7%) and other consumer spending (8.5%). At the same time, the national producer price index rose by 16.1%, pushed up by agricultural goods, whose prices soared by 24.4%.

Labour market trends remained favourable, with the employment rate in urban areas rising by 2.8 percentage points and attaining a yearly average of 56.7% in 2007, the highest level in 20 years. The labour-force participation rate increased to 62.7%. These two processes combined to bring about a fall in the average unemployment rate, which was 1.8 percentage points down from the 2006 figure, at 9.6%. Real wages rose by an average of 4.8% in 2007, an increase similar to that of 2006; public-sector wages increased by 5.2%, somewhat more than those of the private sector. The trend towards greater formalization of the economy continued, and the numbers of contributors to social security have risen by an annual average of 8% over the past three years.

(c) The external sector

The overall balance of payments surplus in 2007 was US$ 1.005 billion. The current account posted a deficit of US$ 186 million (equivalent to 0.8% of GDP), which was more than covered by a US$ 1.191 billion surplus on the capital and financial account. The latter was because financial investment stood at US$ 1.221 billion, including US$ 876 million in foreign direct investment.

At the close of 2007, the external assets of the central bank exceeded US$ 4.1 billion, 33.3% more than in 2006. This accumulation continued rapidly in the early months

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.8	8.0	7.2	6.3	6.5	3.8	10.0	9.2	10.9	...
Goods exports, f.o.b. (millions of dollars)	840	1 049	1 058	1 038	930	1 131	1 210	1 226	1 292	...
Goods imports, c.i.f. (millions of dollars)	1 127	1 140	1 235	1 272	1 157	1 196	1 655	1 604	1 794	...
International reserve assets (millions of dollars) [c]	3 116	3 506	3 211	3 091	3 458	3 686	3 540	4 121	4 993	6 101
Real effective exchange rate (index: 2000=100) [d]	128.2	128.0	127.0	129.4	129.7	129.1	126.3	122.5	118.8	114.6
Urban unemployment rate	13.1	11.3	11.2	10.0	10.4	10.1	9.4	8.6	8.9	...
Consumer prices (12-month percentage variation)	6.5	6.7	6.6	6.4	7.4	8.1	8.9	8.5	8.0	7.1
Average nominal exchange rate (pesos per dollar)	24.18	23.93	23.89	24.08	24.30	23.95	23.53	21.95	20.90	19.77
Average real wage (variation from same quarter of preceding year)	5.4	5.3	3.3	3.6	5.1	3.9	5.7	4.3	4.3	...
Nominal interest rates (annualized percentages)										
Deposit rate	1.6	1.7	1.7	1.7	1.7	2.0	2.3	3.0	2.9	2.8
Lending rate [e]	11.6	10.5	10.7	10.0	9.5	10.3	9.3	10.8	11.2	11.2
Interbank rate	0.7	2.1	2.2	1.4	1.3	3.0	4.6	7.1	7.0	7.2
Sovereign bond spread (basis points) [f]	221	302	241	176	172	147	202	223	310	265
Domestic credit (variation from same quarter of preceding year)	-17.8	-5.8	9.6	55.1	22.9	23.1	9.9	-7.9	-7.1	-2.8 [g]
Non-performing loans as a percentage of total credit	20.4	19.2	18.6	19.1	19.7	18.3	18.4	13.7	14.5	14.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1983 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Business credit, 30-367 days.
[f] Measured by J.P. Morgan's EMBI+ index.
[g] Data to May.

of 2008, passing the US$ 6.2 billion mark by mid-year, although US$ 700 million of that amount was due to changes in the reserve requirement system introduced on 1 June 2008.

The merchandise trade balance for 2007 showed a US$ 491 million deficit, offset by a positive balance in services of some US$ 513 million. In f.o.b. terms and in dollars, external sales of goods were up 15.4% in 2007, exceeding US$ 5 billion in value. Particularly strong in this area were agricultural exports —the dollar value of which rose by 36.2% over 2006— as well as dairy products (32.6%), wood and wood products (50%) and plastics (27%). The diversity of export destinations continued to increase, but Brazil (16.7%), the United States (9.7%) and Argentina (8.4%) remained the biggest markets. Service exports passed the US$ 1.75 billion mark in the course of 2007.

Lastly, the dollar value of goods imports increased by 14.2% in 2007. External purchases of intermediate inputs rose by a yearly 11.7% and made up two thirds of total goods imports. Particularly significant in this area were oil, petroleum distillates and electric power, which exceeded US 1.1% billion for the year and made up 21% of the total. The remainder of the country's imports was made up of consumer and capital goods, which were up 24.5% and 36.5%, respectively.

Mexico and Central America

Costa Rica

1. General trends

The real rate of increase in the country's GDP stood at 7.3% in 2007, compared with 8.8% in 2006. While this was a significant decrease, growth was still strong and above the average for the current decade. GDP growth was mostly due to the expansion of gross fixed investment and of exports. Per capita GDP was up by 5.5%, growing for the sixth consecutive year. Inflation picked up in 2007, closing the year at 10.8% (9.4% in 2006). The public-sector balance posted a positive result for the first time in 30 years and unemployment fell to the lowest level seen in the 2000s. The balance-of-payments current account deficit was equivalent to 5.7% of GDP, one point above the previous year's figure.

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) was approved in a referendum held in October, so Costa Rica joined the other countries which had ratified it. Another event that characterized 2007 was the gradual advance towards a monetary policy based on inflation targets which provides, in particular, for adjustments to interest rates and the exchange-rate band.

Activity in the productive sectors experienced a widespread upswing, with especially strong expansion in construction. Economic growth, rising real wages and lower unemployment contributed to lowering the percentages of the population living in poverty and extreme poverty.

In 2008, according to ECLAC estimates, GDP growth will slaken to 4.3%, mostly owing to the slowdown in the United States economy, which will have negative impacts on exports, foreign direct investment (FDI) and tourism. In 2008, the central bank will be faced with the challenge of holding down inflation without causing a substantial loss of momentum in the economy. The inflation target for 2008 was set at 8%, with a tolerance of one percentage point on either side. The current account deficit may widen, owing to rising expenditure on the oil bill and reduced growth of exports. The official fiscal-balance target, a deficit of less than 1%, will be affected by rising social and infrastructure spending, especially on the road network.

2. Economic policy

Monetary policy in 2007 focused on gradually improving the conditions for transition to a system based on inflation targets. To that end, adjustments were made throughout the year to the exchange rate —using the exchange-rate band system— and to interest rates, with priority being given to controlling inflows of short-term capital. Fiscal policy was characterized by rising revenue and reduced spending, which resulted in a fiscal surplus.

(a) Fiscal policy

The narrowly-defined global public sector posted a positive balance for the first time in 30 years, with a surplus equivalent to 0.8% of GDP (versus a deficit of 0.4% in 2006), continuing an upward fiscal-balance trend which began in 2003. This result was due to higher revenue (8.9% in real terms) generated by a better tax take, and to reduced expenditure (down by 5.5%) thanks to improved streamlining and targeting of resource use.

Tax revenue swelled by a real annual rate of 15.8% (13.6% in 2006), boosted by a growing take from income taxes (21.7%) and foreign trade (15.6%). The tax burden consequently rose to 15.2% of GDP in 2007, 1.2 points higher than the 2006 figure. Overall central government spending rose by 4% in real terms, compared with 5.7% in 2006. This reduced growth was mainly caused by a 13.3% drop in interest payments and a decreased level of wage rises (5%).

The rest of the narrowly defined non-financial public sector maintained a surplus in 2007 (1.0% of GDP), although this was less than the 2006 figure (1.8% of GDP). The fall in the surplus was caused by higher spending and investments by State-owned corporations and decentralized institutions. The central bank deficit was lower in 2007 than in 2006 (0.7% of GDP, as against 1.1%), owing to lower interest rates and the transfer of government funds for recapitalization purposes, totalling 85 billion colones.

The growth of the economy and of the fiscal surplus led to falls in the ratios of external and internal public debt to GDP. External public debt stood at US$ 3.634 billion, 0.7% higher than in 2006 and equivalent to 13.9% of GDP (16.0% in 2006), while internal public debt fell from 34.3% of GDP in 2006 to 32.7% in 2007.

(b) Monetary and exchange-rate policy

Monetary policy focused on gradually creating the conditions for transition from a system based on the exchange rate as the anchor against inflation to one based on inflation targets; exchange-rate policy aimed to consolidate the system of bands introduced in 2006. The band was adjusted on two occasions (January and November 2007), expanding its width in both instances because the exchange-rate depreciation was expected to lessen. Monetary policy interest rates were lowered significantly in order to discourage capital inflows and thereby to prevent a greater appreciation of the currency. The cuts were made in the context of growing inflation, worsening the dilemmas facing the central bank.

Despite these measures, demand for colones remained high throughout 2007 owing to capital inflows, and this helped to hold the exchange rate down at the lower edge of the band. Foreign-exchange inflows led to an rise of US$ 999 million in net international reserves in the hands of the central bank, an increase of almost one third, as a result of which the end-of-year balance stood at US$ 4.11 billion.

The nominal exchange rate averaged 516.6 colones to the dollar in 2007, 1% higher than in 2006. Nonetheless, the colón experienced a strong appreciation following the second adjustment to the lower limit of the band, and in December the average exchange rate stood at 498.7 colones to the dollar. On average, the real bilateral exchange rate against the dollar appreciated by 5%, while the real effective rate (with all the country's trading partners) appreciated by 2.2%.

The central bank's monetary policy rate was cut by 325 basis points in January 2007, when the lower limit of the exchange-rate band was modified in order to discourage interest rate arbitrage. Similar goals led it to implement a further cut of 50 basis points in the second half of the year, against a background of rising inflation, and the year closed on a rate of 6%. These measures by the central bank affected deposit rates in the private banking sector. In late 2007 the one-month rate in national currency stood at 5.42%, compared with 9.56% in 2006. Lending rates in national currency also fell sharply: the average rate of the national financial system ended the year at 16.26% compared with 20.7% in 2006. The falling rates and rising inflation resulted in negative real deposit rates. The average real lending rate stood at 4.9% in late 2007 (10.3% in 2006).

Currency in circulation and current-account deposits, the components of M1, grew by 26.4% in 2007 (23.8% in 2006). This expansion was largely due to the monetization which resulted from open-market transactions by the central bank. Term deposits in national currency increased less quickly (19.5%) than in 2006 (27.6%), discouraged by falling interest rates. The rate of growth of foreign-currency deposits continued to decline for the third consecutive year, standing at only 2.4% (15.6% in 2006). This de-dollarization resulted from improved yields on national-currency instruments and the prospect of greater exchange-rate stability.

Lastly, credit to the private sector rose significantly owing to lower interest rates and strong economic growth. Total credit rose by 38.7% in nominal terms, compared with 27.7% in 2006. The increase was particularly high in the construction and services sectors (61.9% and 57.3%, respectively), while consumer credit was up by 35.1% (20.7% in 2006).

In 2008, the central bank is facing a growing dilemma between controlling inflation and the appreciation of the colón, against a background of rising prices. A hike in the monetary policy rate would contribute to widening the differential with the Federal Reserve rate and thereby cause increased appreciation of the colón, and this, combined with the slowdown of the United States economy, would have a negative impact on economic activity. It has been announced that monetary policy will continue to focus on creating the conditions for establishing an inflation target scheme. The first months of 2008 saw an upswing in inflation, in the context of faster growth in broad monetary aggregates and lending than during the same period in 2007, as well as rising international prices for food and fuels. In January, the annual monetary policy rate was once again reduced, to 3.25%, a cut equivalent to 275 basis points. In late May, however, owing to pressure on the exchange rate and with a view to containing inflation, this benchmark interest rate was raised to 7.61%.

(c) Trade policy

CAFTA-DR became law in Costa Rica on 22 November 2007, the first step in preparing for its effective implementation. The government of President Arias continued to apply measures designed to strengthen and improve market access conditions through new trade agreements and better use of the existing accords. In 2007, negotiations began for an association agreement between Central America and the European Union. Costa Rica also signed cooperation agreements on trade and investment with China, following the establishment of diplomatic relations in July. It also continued to participate in the process of creating a Central American Customs Union and, in June, Costa Rica and Panama concluded negotiations on a bilateral protocol for the free trade agreement between Central America and Panama.

3. The main variables

(a) Economic activity

The Costa Rican economy grew by 7.3% in 2007, continuing the upward trend begun in 2003. While that figure shows a slowdown in comparison with 2006 (8.8%), it is still higher than the average figure for the current decade (4.7%). The real GDP growth rate was mostly influenced by the expansion of gross fixed investment and of exports. Per capita GDP rose for the sixth consecutive year, with an annual growth of 5% (6.9% in 2006).

Total demand was up 6.0% in 2007 (8.5% in 2006), with growth in all its components. Private consumption rose by 6.1%, sustained by expanded real household incomes and improved access to bank lending, while external demand was up 9.1%, boosted by exports of manufactures and business services. Gross fixed investment was up 15%, thanks to expansion in the construction sector and purchases of machinery and equipment. Gross domestic investment, however, rose by only 0.7% owing to a smaller increase in inventory.

In 2007, as in 2006, productive sectors in general showed high levels of activity. Manufacturing grew by 5.7%, the agricultural sector by 6.8% and the growth of the construction industry exceeded 18% for the second consecutive year. The commerce, restaurants and hotels sector grew by 5.5%, and financing, insurance, real estate and business services expanded by over 10%, also for the second consecutive year.

Although the average rise in the monthly index of economic activity for the first four months of 2008 (5.9%) was lower than for the same period in 2007 (7.3%), it still reflected a solid performance by the productive sectors. Those showing the strongest average growth included construction (20.3%), financial services and insurance (14.8%) and other business services (13.1%). Manufacturing expanded by 4.6%, compared with 8.7% in the same period in 2007. The agriculture sector, on the other hand, was down by 2.8%.

(b) Prices, wages and employment

The rate of increase of the consumer price index picked up in 2007, closing the year at 10.8% (9.4% in 2006), 2.8 points higher than that called for by the central bank's macroeconomic programme. The main component of that inflation was the foodstuffs and soft drinks group (37.7%), followed by transport (17%). The core inflation index, which measures price variations without taking into account the most volatile elements of the consumer price index (mainly foodstuffs and fuels) stood at 8.7%.

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	8.2	1.8	1.1	2.9	6.4	4.3	5.9	8.8	7.3
Per capita gross domestic product	5.7	-0.5	-1.0	0.9	4.4	2.4	4.0	6.9	5.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.5	0.7	1.4	-3.3	7.4	0.7	4.3	12.5	7.1
Mining	-6.1	6.3	6.4	-3.1	4.2	7.7	7.6	25.6	-2.5
Manufacturing	24.7	-2.9	-9.1	3.4	8.4	4.0	10.8	10.4	6.5
Electricity, gas and water	6.2	6.4	4.1	5.3	5.8	4.0	5.9	6.1	1.2
Construction	-1.6	4.4	14.4	-1.5	4.8	6.3	-0.2	18.2	22.4
Wholesale and retail commerce, restaurants and hotels	2.4	1.5	1.9	1.6	3.4	3.9	4.1	5.1	6.7
Transport, storage and communications	6.9	10.2	9.2	12.0	13.7	12.0	9.6	10.5	8.1
Financial institutions, insurance, real estate and business services	7.6	8.1	6.8	4.8	7.1	6.6	5.4	10.1	10.6
Community, social and personal services	3.0	2.6	2.0	3.0	3.0	1.4	3.3	2.8	-14.6
Gross domestic product, by type of expenditure									
Consumption	2.1	1.1	1.5	3.0	2.8	2.9	3.9	5.5	5.6
General government	1.8	1.4	3.6	2.3	-0.3	1.3	0.2	3.1	1.9
Private	2.2	1.0	1.2	3.1	3.2	3.1	4.4	5.8	6.1
Gross domestic investment	-4.1	-0.9	2.6	6.6	7.2	-0.5	4.3	11.1	15.0
Exports (goods and services)	21.3	-0.1	-9.6	3.6	12.1	8.2	12.6	9.6	9.1
Imports (goods and services)	0.4	-2.6	1.3	6.9	0.9	9.1	12.5	7.9	4.6
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	17.1	16.9	20.3	22.6	20.6	23.1	24.8	26.4	26.3
National saving	13.0	12.6	16.6	17.5	15.6	18.9	19.8	21.7	20.6
External saving	4.1	4.3	3.7	5.1	5.0	4.3	4.9	4.7	5.7
					Millions of dollars				
Balance of payments									
Current account balance	-650	-691	-603	-857	-880	-796	-985	-1 061	-1 499
Goods balance	580	-210	-820	-1 278	-1 089	-1 421	-2 153	-2 767	-2 988
Exports, f.o.b.	6 576	5 813	4 923	5 270	6 163	6 370	7 100	8 068	9 268
Imports, f.o.b.	5 996	6 024	5 743	6 548	7 252	7 791	9 252	10 836	12 255
Services trade balance	487	679	746	685	776	857	1 116	1 360	1 720
Income balance	-1 822	-1 252	-679	-440	-776	-444	-219	-3	-712
Net current transfers	104	93	151	175	209	212	270	349	480
Capital and financial balance [d]	879	539	616	1 020	1 219	876	1 378	2 092	2 647
Net foreign direct investment	614	400	451	625	548	733	904	1 371	1 661
Financial capital [e]	265	138	165	395	671	143	474	721	986
Overall balance	229	-152	13	163	339	80	393	1 031	1 148
Variation in reserve assets [f]	-480	152	-13	-163	-339	-80	-393	-1 031	-1 148
Other financing [g]	251	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	101.7	100.0	97.5	98.7	104.5	106.1	107.2	106.1	103.8
Terms of trade for goods (index: 2000=100)	106.9	100.0	98.4	96.9	95.5	91.9	88.3	85.8	84.9
Net resource transfer (millones de dólares)	-691	-714	-63	580	443	432	1 160	2 089	1 934
Gross external public debt (millions of dollars)	3 641	5 307	5 265	5 310	5 575	5 710	6 485	6 992	8 349
					Average annual rates				
Employment									
Labour force participation rate [i]	54.8	53.6	55.8	55.4	55.5	54.4	56.8	56.6	57.0
Open unemployment rate [j]	6.0	5.2	6.1	6.4	6.7	6.5	6.6	6.0	4.6
Visible underemployment rate [j]	14.0	10.5	11.3	12.3	15.2	14.4	14.6	13.5	11.5
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	10.1	10.2	11.0	9.7	9.9	13.1	14.1	9.4	10.8
Variation in industrial producer prices (December-December)	11.3	10.2	8.6	8.4	11.0	17.7	12.1	13.7	14.6
Variation in nominal exchange rate (annual average)	11.1	7.9	6.7	9.4	10.8	9.8	9.2	7.0	1.0
Variation in average real wage	4.7	0.8	1.0	4.1	0.4	-2.6	-1.9	1.6	1.4
Nominal deposit rate [k]	17.8	15.3	13.4	14.0	12.6	11.5	12.1	11.4	7.1
Nominal lending rate [l]	29.8	28.1	26.7	26.8	26.2	23.4	24.0	22.7	17.3

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Non-financial public sector									
Total income	23.0	23.5	25.5	24.7	25.0	24.4	25.3	25.8	26.7
Current income	22.6	24.0	24.8	24.8	24.7	24.4	25.3	25.8	26.7
Tax income	18.0	18.5	19.6	19.8	19.9	19.7	20.3	20.7	22.2
Capital income	0.4	-0.5	0.7	-0.1	0.4	-0.0	-0.0	-0.0	-0.0
Total expenditure [m]	24.7	25.0	27.1	28.6	27.4	26.4	25.7	24.5	24.9
Current expenditure	19.8	20.6	22.2	23.3	22.8	22.2	21.8	21.0	20.8
Interest	3.7	3.6	4.0	4.3	4.3	4.1	4.2	3.8	3.1
Capital expenditure	4.9	4.4	4.8	5.2	4.5	4.1	3.8	3.5	4.1
Primary balance	2.0	2.0	2.4	0.4	1.9	2.1	3.8	5.2	4.9
Overall balance	-1.7	-1.6	-1.6	-3.9	-2.4	-2.0	-0.4	1.3	1.8
Non-financial public-sector debt	...	41.8	43.2	45.1	45.6	46.9	43.0	38.9	37.7
Domestic	...	26.9	28.1	28.7	27.0	27.6	25.6	23.0	23.2
External	...	14.9	15.2	16.4	18.6	19.3	17.4	15.8	14.4
Money and credit [n]									
Domestic credit	25.9	28.6	27.5	31.2	33.3	36.1	36.9	36.3	39.7
To the public sector	8.3	7.5	3.8	5.6	6.5	9.0	6.7	4.4	2.2
To the private sector	17.6	21.0	23.5	25.4	26.5	26.7	29.5	31.1	36.6
Other	0.0	0.1	0.1	0.1	0.3	0.4	0.7	0.8	0.9
Liquidity (M3)	30.4	33.4	33.8	36.3	37.1	42.6	44.1	44.3	43.9
Currency outside banks and local-currency deposits (M2)	18.4	20.0	19.1	20.4	20.9	21.0	22.4	23.5	25.7
Foreign-currency deposits	12.0	13.3	14.7	16.0	16.2	21.6	21.8	20.8	18.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; nationwide total.
[k] 90-day deposits at State-owned banks.
[l] Rate on loans to industry from State-owned banks.
[m] Includes net lending.
[n] The monetary figures are end-of-year stocks.

Two exogenous factors are essential in explaining the inflationary surge in Costa Rica: on the one hand, rising world prices for petroleum and foodstuffs, and on the other, adverse weather phenomena in the last months of the year, which were partly responsible for the fall in supply of agricultural products. On the domestic front, monetary policy was more expansionary, characterized by steep cuts in interest rates, and growth in the money supply owing to participation by the central bank in the currency market.

The growth of the productive sectors led to a fall in the open unemployment rate, which stood at 4.6% in 2007 (6.0% in 2006), the lowest level seen in the current decade. The economic growth of recent years has also had a significant impact on poverty reduction. Adjustments to the minimum wage resulted in a 1.3% increase in real terms.

The inflation target for 2008, measured by the consumer price index, was set at 8% with a tolerance of one percentage point on either side. In June 2008, year-on-year inflation rose to 12.8%, four points above the June 2007 level (8.8%). Cumulative inflation to June 2008 was 6.6% (4.7% in 2007). In the first six months of 2008, the categories of foodstuffs and soft drinks, transport and housing rentals and services posted considerable price rises, mostly owing to the rising prices of fuels and land transport, electric power, milk products, edible oils and cereals.

(c) The external sector

The balance-of-payments current account deficit in 2007 was equivalent to 5.7% of GDP, one point above the 2006 figure (4.7%). This worsening was due to an increased deficit on the balance of trade in goods and the income balance, despite solid growth in exports.

Goods exports totalled US$ 9.268 billion in 2007, representing a yearly growth of 14.9% (13.6% in 2006). This resulted from expansion in non-traditional exports (14.6%), particularly those from free trade zones (17.6%). Goods imports rose by 13.1% (17.1% in 2006), influenced by the rising world prices of foodstuffs and fuels, but also by rising demand for imported goods. The terms of trade continued

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	9.8	9.6	7.8	8.1	6.7	8.2	6.7	7.7	5.7	...
Goods exports, f.o.b. (millions of dollars)	1 988	2 076	2 061	2 134	2 286	2 415	2 410	2 257	2 409	2 559
Goods imports, c.i.f. (millions of dollars)	2 711	2 843	2 965	3 027	3 002	3 012	3 303	3 639	3 610	4 105
International reserve assets (millions of dollars) [c]	2 766	2 614	2 765	3 115	3 492	3 734	3 886	4 114	4 891	4 334
Real effective exchange rate (index: 2000=100) [d]	105.3	106.8	106.7	105.7	104.7	104.8	103.6	102.1	98.9	101.3
Consumer prices (12-month percentage variation)	12.2	12.4	11.2	9.4	9.2	8.7	9.4	10.8	11.0	12.8
Average nominal exchange rate (colones per dollar)	501	509	517	518	519	519	519	511	496	508
Average real wage (variation from same quarter of preceding year)	1.3	1.0	0.7	3.4	0.9	1.5	2.5	0.4	-6.1	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	12.4	11.6	11.2	10.4	8.7	6.8	6.6	6.5	5.0	3.7
Lending rate [f]	23.7	23.0	22.5	21.5	19.8	17.1	16.2	16.1	15.3	14.6
Interbank interest rate [g]	7.4	9.1	9.7	9.2	7.2	5.6	5.4	5.7	2.8	2.7
Stock price index (national index to end of period, 31 December 2000 = 100)	100	111	123	169	178	187	186	193	235	232
Domestic credit (variation from same quarter of preceding year)	20.0	21.0	21.4	19.3	20.2	21.2	23.1	28.7	28.6	31.4
Non-performing loans as a percentage of total credit	1.4	1.5	1.6	1.4	1.4	1.4	1.2	1.2	1.3	1.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] 90-day deposits at State-owned banks.
[f] Rate on loans to industry from State-owned banks.
[g] Average reference rate, calculated by the Central Bank of Costa Rica.

to deteriorate (-1%) despite rising world prices for some traditional exports such as coffee and cocoa, owing to rising world prices for fuels and industrial raw materials.

Services exports continued to contribute to mitigate the deficit on the balance of trade in goods. They totalled US$ 3.532 billion in 2007, 18.7% more than in 2006, while imports stood at US$ 1.811 billion, 12.1% up on the previous year. Exports of other services performed very strongly (28.8%), including business support and data processing services and software.

The income balance posted a deficit of US$ 712 million in 2007, which contributed to the worsening of the current account. That was due to repatriation of profits, mostly by companies operating in the high-technology sector.

The financial account posted a positive balance of US$ 2.548 billion, well above the current account deficit (US$ 1.499 billion), so international reserves grew by US$ 1.148 billion. In late 2007 those reserves stood at US$ 4.11 billion, equivalent to four months of goods imports. FDI, the main component of the financial account, totalled US$1.889 billion, equivalent to 7.2% of GDP (6.5% in 2006). FDI flows were mainly into the industrial, real estate and tourism sectors.

The current account deficit may widen in 2008, owing to rising expenditure on the oil bill and slower export growth. Central bank forecasts suggest a deficit equivalent to 6.3% of GDP in 2008. As in previous years, this deficit will be financed mostly by FDI inflows; these are expected to total slightly less in 2008 than in 2007. In the first five months of 2008 there were some signs of a slowdown in goods exports, especially those which come under special regimes. Goods imports, on the other hand, grew by 28.2% (9% in 2007), with a particularly strong expansion in external purchases of raw materials and intermediate products for industry, and of fuels and lubricants. As a result, the deficit on the balance of trade in goods for January-May 2008 rose to US$ 2.256 billion, compared with US$ 1.164 billion for the same period in 2007.

El Salvador

1. General trends

In 2007, GDP in El Salvador grew by 4.7% while per capita GDP increased by 2.9%, the largest rise since 1995. The main components of demand that were behind this buoyancy were investment and private consumption, which were both factors in the slight drop in unemployment.

Despite a slowdown, family remittances (18.1% of GDP) nonetheless helped to boost private consumption and mitigate the negative effects of higher oil prices on the balance-of-payments current account (which posted a deficit equivalent to 5.5% of GDP). The deficit of the non-financial public sector stood at 0.2% of GDP, and inflation came in at 4.9%. In December 2007, net international reserves chalked up annual growth of 20.9%.

According to ECLAC estimates, in 2008 economic activity is expected to grow by around 4%. In a context of ongoing fiscal discipline, the government forecasts a slight narrowing of the public deficit and higher growth in agriculture, services and construction, thanks to resources from the Millennium Challenge Account (US$ 80 million in 2008) and a higher level of public investment (3.4% of GDP) that has not been seen since reconstruction in the wake of the earthquakes in 2001.

However, the slowdown in the United States economy is expected to have a negative impact on three key areas of the Salvadoran economy: volume of exports, remittances and inflows of foreign direct investment. The growth rate of GDP in El Salvador is therefore likely to be around half a percentage point below the initial target, although the negative result would be spread out through 2008 and 2009. This scenario might change if the economic authorities introduce measures to mitigate the slowdown in growth.

2. Economic policy

Given the absence of a monetary and exchange-rate policy since dollarization was adopted in 2001, and following the implementation of tax reforms approved in 2005, the main feature of economic policy in 2007 was a fiscal policy geared to increasing receipts.

(a) Fiscal policy

For the third year in a row, central government receipts rose in 2007. As a result of increased economic activity, improved management of domestic tax and customs, data sharing and the implementation of an enforcement plan, the tax burden weighed in at 13.4% (after tax refunds of 0.8% of GDP), which was slightly more than in the previous year. The target for 2008 is a tax burden equivalent to 14% of GDP.

Tax revenues swelled by 4.6% in real terms. The real growth rate of income-tax receipts was 13.6%, followed by an 8% increase in wealth tax receipts and a 1.4% rise in VAT revenue. There was a turnaround in the previous year’s positive performance of non-tax revenues, which were down 1.6%, whereas current transfers climbed by 13%. Current revenue thus expanded by 5.3%. In real terms, current expenditure rose by 4.3%, mainly due to the increase in purchases of goods and services and debt interest payments. However, real investment spending declined by 14%.

To ease the negative effects of price hikes in food, oil and petroleum products, US$ 166.4 million in subsidies (0.8% of GDP) were again allocated for public transport, electricity and liquefied gas. As a result, total expenditure was up by 4.2%, to a level equivalent to 14.8% of GDP. Overall, the central government deficit narrowed from 0.4% of GDP in 2006 to 0.2% in 2007, while the deficit of the non-financial public sector shrank from 1.1% of GDP in 2006 to 0.2% in 2007.

In 2007, external public debt (US$ 5.444 billion) fell by 4.4% thanks to the government decision not to take out any new external loans. Nevertheless, given the low interest rates available, internal public borrowing was 19.8% higher than in 2006, at US$ 3.194 billion. Public debt as a proportion of GDP fared well, dropping from 44.8% in 2006 to 42.4% in 2007. The debt of the non-financial public sector fell to 38.7% of GDP, one percentage point lower than in the previous year.

On the strength of the favourable economic performance and higher tax receipts in 2007, a spending plan of US$ 3,342,700,000 was approved in the national budget for 2008. This constituted a 13.5% nominal increase on the budget for 2007, and will be used mainly for health, education and public security.

Although variations according to the time of year are inevitable, in the first quarter of 2008 public finances posted a fiscal surplus equivalent to 0.1% of 2007 GDP. No major changes are forecast in the implementation of economic policy during 2008, as attention will be focused on the elections to be held in 2009.

(b) Financial policy

Real interest rates dipped slightly. Allowing for inflation, the average yield for 180-day deposits was 0.1%. The average real interest rate for one-year loans fell from 3.4% in 2006 to 3.1% in 2007. Despite this reduction and the improved economic performance, net internal credit to the private sector (mainly used to cover housing and consumer loans) rose by just 2.1% in real terms, five percentage points less than in 2006. Credit to the public sector picked up somewhat following a year of negative performance, although its share in total credit is low (4.2%). Nominal interest rates are expected to edge up slightly in 2008.

As of December 2007, most banking-system indicators had improved. Higher quality assets were reflected in increases in total deposits and in the loss provisions associated with non-performing loans. As a result of the sale of considerable bank assets, between 2006 and 2007 the international integration of the country’s financial system and the presence of foreign banks were both further strengthened.

Up to December 2007, there had been no change in the evaluation of the country’s sovereign debt instruments by international rating services, while the investment grade was confirmed by Moody’s Investors Service.

(c) Other policies

In May 2007 the energy policy was presented, in October the International Services Act was adopted and December saw the announcement of the 19 measures of the Family Alliance programme, which aims to reduce the negative effects of price rises on middle-income families. In addition, between October 2005 and December 2007, the Solidarity Network programme distributed more than US$ 10 million in education and health vouchers to 48,659 families in 47 extremely poor municipalities. The Government plans to extend the coverage of this initiative in 2008.

In November, the Central American Four (CA-4) countries (El Salvador, Guatemala, Honduras and Nicaragua) and Panama held their third coordination meeting, with a view to joining the free trade agreement concluded by Costa Rica with the Caribbean Community (CARICOM). El Salvador, Guatemala and Honduras also signed a free trade agreement with Colombia. The World Trade Organization (WTO) decided to extend the deadline for granting tax exemptions for exports from free zones to December 2015.

In April 2008, the third round of negotiations for the comprehensive Association Agreement between the European Union and Central America was held in El Salvador.

3. The main variables

(a) Economic activity

In 2007 the economic growth rate was 4.7%, driven by increases in investment (6.4%) and consumption (6.1%), especially in the private sector, where they rose by 7.7% and 6.5%, respectively. Investment in machinery (9.6%) continued to climb rapidly, while construction was less buoyant owing to a lower level of remittances and the slowdown in the United States economy. Exports and imports of goods and services expanded by 4.5% and 7.3%, respectively.

The agricultural sector performed positively for the fourth consecutive year in 2007, with a growth rate of 8.6%: the highest level in 30 years thanks partly to higher international prices for basic seeds, milk and meat. In terms of products for domestic consumption, beans and maize were up by almost 10%, while there was a turnaround in the previous year's negative trend in coffee and sugar-cane production (which grew by 9.3% and 4.9%, respectively). Overall, crop production grew by 9.8%, while livestock production (including forestry, hunting and fishing) was up by 6.8%.

Manufacturing GDP (representing 22.7% of total production activity) expanded by 3.7%, which was half a percentage point more than in the previous year. Value added rose considerably in food, beverages and tobacco (5%), chemicals, petroleum products and rubber (5.4%) and wood and paper products (6.3%). Industrial maquila services, on the other hand, were stagnant following several years of decline.

Basic service activities grew by 4.9%, which was similar to the rate recorded in 2006. The growth rate for transport, storage and communications was 5.1%, while electricity, gas and water expanded by 2.4%. Other services (including finance, commerce, restaurants and hotels) increased by 4.2% (almost one percentage point more than in 2006).

Mining continued the expansion of the previous year to rise by 6.5%. Construction grew by 1.2%, nearly four percentage points less than in the previous year.

In the first quarter of 2008, the country's economic activity (measured on the basis of the volume of cycle-trend activity) posted an annual increase of 3.9%, which was half a percentage point lower than in the same period of 2007. The most buoyant sectors were transport (7.7%), agriculture (7.6%), mining and quarrying (7.5%) and finance (7.4%).

(b) Prices, wages and employment

Annual inflation stood at 4.9%, which was similar to the previous year's figure but higher than the target of 4%. This was due to high food and oil prices, which pushed up the prices of intermediate inputs for production and transport. By December 2007, annual variation in the industrial price index stood at 13.9%.

Owing to constant hikes in oil prices, in June 2008 annual inflation rose to 9%, which exceeded the 3.7% recorded in the same month of 2007. Despite subsidies for public transport and electricity, water and liquefied gas to ease price rises, it will be difficult to reach the inflation target. In May, annual variation in the industrial price index was 23%.

In mid-November 2007, minimum wages rose by 3% in the maquila sector and 5% in other economic activities, resulting in a 2.5% average increase in the real minimum wage. Consequently, the government and employers agreed to bring forward the 5% pay rise from November to March.

Between March 2007 and March 2008, the cost of the monthly basket of staple goods rose from US$ 100 to US$ 123 in rural areas and from US$ 142 to US$ 160 in urban areas. It is therefore likely that a significant number of the country's families will be living below the extreme poverty line in 2008.

Following the incorporation of around 30,000 contributors into the Salvadoran Social Security Institute (ISSS) in 2007, open unemployment dropped to 6.5%. However, creating enough quality jobs remains an ongoing challenge.

(c) The external sector

Merchandise exports expanded by 7.4%, one percentage point less than in the previous year. Although non-traditional exports grew by less than in 2006, they nonetheless posted a growth rate of 15.2% as plastic tags, sheets, strips, films and other products, sugar-cane molasses and domestic paper all expanded by over 30%. Exports of traditional products, on the other hand, declined by 1.1% as volumes (unlike prices) fell, especially in the cases of coffee and sugar (4.8% and 14%, respectively).

Maquila exports, which represent 45.3% of total exports, halted their decline of previous years to display positive growth of 1.3%. This was due to the increasing adoption of the "full-package" approach (integrating

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
	Annual growth rates [b]								
Gross domestic product	3.4	2.2	1.7	2.3	2.3	1.9	3.1	4.2	4.7
Per capita gross domestic product	1.4	0.2	-0.2	0.4	0.5	0.1	1.3	2.4	2.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.7	-3.1	-2.6	0.4	0.9	2.8	4.9	7.5	8.6
Mining	0.4	-4.7	11.7	5.5	3.5	-16.0	2.6	4.9	6.5
Manufacturing	3.7	4.1	4.0	2.9	2.2	1.0	1.5	3.2	3.7
Electricity, gas and water	2.7	-2.3	4.7	7.3	4.4	3.4	4.4	4.6	2.4
Construction	-1.8	-3.4	9.6	6.7	3.2	-9.8	3.4	5.5	1.2
Wholesale and retail commerce, restaurants and hotels	2.0	3.6	1.9	1.5	2.7	2.4	4.4	4.4	5.3
Transport, storage and communications	9.5	6.1	4.3	5.0	3.4	5.4	5.4	5.1	5.1
Financial institutions, insurance, real estate and business services	3.0	3.0	-0.8	2.7	2.6	2.5	2.7	3.0	3.6
Community, social and personal services	1.0	1.1	-0.3	-0.6	0.5	1.3	0.3	2.4	2.9
Gross domestic product, by type of expenditure									
Consumption	3.4	3.7	3.2	1.5	1.9	2.9	4.1	4.6	6.9
General government	0.4	0.9	4.6	0.1	-0.3	1.1	1.8	2.8	1.1
Private	3.7	3.9	3.1	1.6	2.1	3.0	4.3	4.8	7.3
Gross domestic investment	-4.0	2.7	5.1	-2.7	7.8	-3.9	2.4	7.3	6.0
Exports (goods and services)	7.1	16.8	-0.2	6.0	4.7	5.7	3.8	8.1	3.9
Imports (goods and services)	2.7	14.5	4.2	1.5	4.8	4.1	5.0	8.4	8.1
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	16.4	16.9	16.7	16.4	17.0	16.2	15.7	16.1	16.8
National saving	14.5	13.6	15.6	13.6	12.3	12.2	12.4	12.5	11.3
External saving	1.9	3.3	1.1	2.8	4.7	4.0	3.3	3.6	5.5
	Millions of dollars								
Balance of payments									
Current account balance	-239	-431	-150	-405	-702	-628	-569	-675	-1 119
Goods balance	-1 356	-1 740	-1 933	-1 865	-2 287	-2 660	-2 938	-3 540	-4 073
Exports, f.o.b.	2 534	2 963	2 892	3 020	3 153	3 339	3 447	3 760	4 035
Imports, f.o.b.	3 890	4 703	4 824	4 885	5 439	6 000	6 385	7 300	8 108
Services trade balance	-183	-235	-250	-240	-107	-64	-87	-79	-242
Income balance	-282	-253	-266	-323	-423	-458	-579	-528	-579
Net current transfers	1 582	1 797	2 298	2 023	2 114	2 555	3 035	3 472	3 776
Capital and financial balance [d]	447	385	-27	282	1 019	575	510	747	1 399
Net foreign direct investment	162	178	289	496	123	366	398	151	1 390
Financial capital [e]	285	207	-316	-214	895	209	112	596	9
Overall balance	208	-46	-178	-124	316	-52	-59	72	280
Variation in reserve assets [f]	-208	46	178	124	-316	53	59	-72	-280
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	100.7	100.0	99.8	99.7	100.2	98.9	100.9	101.3	102.6
Terms of trade for goods (index: 2000=100)	99.6	100.0	102.5	101.6	97.7	96.8	96.8	95.5	94.6
Net resource transfer (millions of dollars)	165	132	-293	-42	595	117	-69	219	819
Gross external debt (millions of dollars) [h]	2 789	2 831	3 148	3 987	7 917	8 211	8 761	9 584	9 060
	Average annual rates								
Employment									
Labour force participation rate [i]	52.6	52.2	53.3	51.2	53.4	51.7	52.4	52.6	...
Open unemployment rate [j]	7.0	6.7	7.0	6.2	6.9	6.8	7.8	6.6	...
Visible underemployment rate [k]	3.9	3.7	3.8	4.3	4.8	4.5	6.2	4.9	...
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	-1.0	4.3	1.4	2.8	2.5	5.4	4.3	4.9	4.9
Variation in wholesale prices (December-December)	10.8	4.9	-4.8	4.9	-0.6	13.0	6.9	0.4	14.2
Variation in real minimum wage	2.4	-2.2	-3.6	-1.8	2.1	-1.4	-4.5	-0.7	2.5
Nominal deposit rate [l]	...	6.5	5.5	3.4	3.4	3.3	3.4	4.4	4.7
Nominal lending rate [m]	...	10.7	9.6	7.1	6.6	6.3	6.9	7.5	7.8

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Non-financial public sector									
Total income [n]	15.0	15.8	14.9	15.5	16.2	16.3	16.3	17.4	18.0
Current income	14.7	14.9	14.4	14.7	15.7	16.0	16.0	17.1	17.7
Tax income	12.1	12.4	12.3	13.0	13.3	13.3	14.1	15.0	15.0
Capital income	0.0	0.1	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Total expenditure [o]	17.8	18.8	18.5	18.8	18.3	16.9	17.4	18.4	18.2
Current expenditure	14.6	15.5	14.0	13.9	14.6	14.6	14.6	15.3	15.4
Interest	1.4	1.5	1.4	1.7	2.0	2.1	2.2	2.4	2.5
Capital expenditure	3.2	3.3	4.5	4.9	3.7	2.3	2.8	3.1	2.8
Primary balance	-1.4	-1.5	-2.2	-1.6	-0.0	1.5	1.1	1.4	2.2
Overall balance	-2.8	-3.0	-3.6	-3.3	-2.1	-0.6	-1.1	-1.1	-0.2
Non-financial public sector debt	28.3	30.0	33.6	38.3	40.6	40.8	40.6	39.6	39.9
Domestic	7.2	9.6	11.7	11.1	11.0	11.8	12.6	10.7	11.6
External	21.1	20.4	21.9	27.2	29.6	29.0	28.0	28.9	28.3
Money and credit [p]									
Domestic credit	...	...	41.7	41.1	42.5	42.2	43.6	43.1	43.5
To the public sector	...	...	1.5	-0.6	0.9	1.0	1.3	0.6	1.4
To the private sector	...	...	40.2	41.7	41.6	41.2	42.3	42.5	42.1
Currency outside banks and local-currency deposits (M2)	47.8	46.3	44.9	42.0	40.2	39.2	37.2	38.0	40.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Figures up to 2002 refer to public external debt. From 2003 onward, figures refer to total external debt
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Unemployed as a percentage of the economically active population; nationwide total.
[k] Underemployed as a percentage of the economically active population; urban total.
[l] Reference rate for deposits of up to 180 days in the financial system.
[m] Reference rate for 1-year loans in the financial system.
[n] Includes grants.
[o] Includes net lending.
[p] The monetary figures are end-of-year stocks.

various stages of production) and the manufacture of products with greater value added (such as electrical components and motor vehicle cables). Export services (including travel and transport) se expanded by just 4.6%, compared with 26.5% in the previous year.

Merchandise imports were more buoyant (13.1%) than exports. Imports of intermediate, consumer and capital goods were up 14.9%, 14.2% and 12.7%, respectively, compared with 2006. Service imports climbed by 15.2%. The oil bill came in at US$ 1.359 billion, which represented 6.7% of GDP and 13.8% of total imports of goods and services. The consequences included a deterioration in the terms of trade for goods and services for the sixth consecutive year (-0.4%). In 2007, the real bilateral exchange rate continued to rise (6.2% in relation to 2000), which caused a slight loss of competitiveness on the United States market, but also an improvement in the terms of exchange and trade with Europe. The real effective exchange rate, which measures variation in relation to all trading partners, therefore depreciated by 1.4%.[1]

By May 2008, exports had increased by 19.4%, mainly due to higher non-traditional and maquila exports. The growth rate of merchandise imports was 18.9%, with a particularly strong performance by intermediate goods. By the end of the year, the oil bill is expected to be in excess of US$ 1.5 billion, which may lead to a widening of the trade gap.

The proportion of the country's merchandise exports sold in the Central American market has increased by

[1] The real exchange rate refers to the nominal exchange rate deflated by the ratio between the price index of El Salvador and that of the United States.

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4.4	4.3	4.1	3.9	4.2	4.6	4.8	4.9	4.2	...
Goods exports, f.o.b. (millions of dollars)	921	931	960	893	971	970	1 038	1 001	1 054	1 247
Goods imports, c.i.f. (millions of dollars)	1 770	1 940	1 904	2 057	2 012	2 091	2 121	2 453	2 307	2 636
International reserve assets (millions of dollars) [c]	1 768	2 015	2 020	1 908	1 911	2 144	2 420	2 198	2 275	2 305
Real effective exchange rate (index: 2000=100) [d]	101.4	101.5	101.0	101.4	100.7	102.8	102.9	104.1	105.0	106.0
Consumer prices (12-month percentage variation)	4.0	4.4	4.2	4.9	5.1	3.7	4.3	4.9	6.0	9.0
Average nominal exchange rate (colones per dollar)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Nominal interest rates (annualized percentages)										
Deposit rate [e]	4.1	4.2	4.6	4.7	4.9	5.0	4.6	4.4	3.8	3.8
Lending rate [f]	7.6	7.4	7.5	7.6	7.8	7.8	7.8	7.9	7.6	7.3
Interbank rate	...	6.0	...	...	...	...	...	5.3	...	3.6
Domestic credit (variation from same quarter of preceding year)	11.2	13.8	12.2	8.1	7.6	10.7	10.6	10.4	11.1	12.9 [g]
Non-performing loans as a percentage of total credit	1.9	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.4	2.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Reference rate for deposits of up to 180 days in the financial system.
[f] Reference rate for 1-year loans in the financial system.
[g] Data to May.

almost 10 percentage points since 2000 to represent 33.7% of the total. In 2007, exports to Central America rose by 13.1%, while exports to the rest of the world (66.3% of the total) climbed by just 4.7%. Merchandise imports from Central America grew by 13.6%, while imports from the rest of the world expanded by 13%.

Exports from El Salvador to the United States (50.8% of the total) increased by 2.2% in 2007 (including maquila). Given that imports were up 14%, the overall result was a continued trade deficit of 5.2% of GDP with that country (one percentage point higher than in the previous year).

In May 2007, El Salvador was granted a fifth extension of Temporary Protected Status, which will allow nearly 220,000 Salvadorans to work legally in the United States until March 2009.

The economy was considerably boosted by inflows of family remittances (US$ 3.695 billion), despite the fact that their growth rate dropped from 15% in 2006 to 6.5% owing to the economic slowdown in the United States and a tightening of the latter's migration policy. In 2007, remittances covered 86% of the trade deficit (21% of GDP). These trends were reflected in a balance-of-payments current account deficit equivalent to 5.5% of GDP, two points more than in 2006. For 2008, remittances are expected to rise by less, and the current account deficit is forecast to be over 6% of GDP.

In 2007, tourism revenues amounted to US$ 840.5 million (4.1% of GDP), thanks to the presence of just under 1.6 million tourists. The government predicts that tourism revenues will rise to US$ 1.0 billion and that visitor numbers will exceed 1.7 million in 2008.

The financial account recorded a positive balance of US$ 789 million. This was because foreign direct investment (FDI) was 9.2 times higher than in the previous year, standing at US$ 1.390 billion (6.8% of GDP) as a result of the sale of banking assets (77% of total FDI) and investment in telecommunications, commerce and services, maquila and mining. On the other hand, unlike in 2006, assets and liabilities associated with portfolio and other investments posted a negative balance of US$ 674 million.

Guatemala

1. General trends

The Guatemalan economy grew by 5.7% in 2007, the best performance in the current decade. This was mainly thanks to the buoyancy of private consumption, boosted by large inflows of family remittances (12% of GDP). Those inflows went some way towards financing the country's large trade deficit (about 17% of GDP). The current account deficit (5.1% of GDP) was more than covered by foreign direct investment and other capital inflows. The yearly inflation figure was 8.7%, which to some extent was due to external supply factors; thus, the 2007 inflation target of 4%-6% was not met. The central government deficit was 1.5% of GDP (1.9% in 2006).

The new government which took office in January 2008 is committed to maintaining macroeconomic stability and give greater priority to social and rural-development policies.[1] It will have to deal with the country's public-security problems and the weakness of the justice system, and establish legal standards to ensure access to stable and sufficient revenue. The tax burden stood at 12.5% of GDP, well below the average for Latin America and the Caribbean.

According to ECLAC estimates, the economy will grow by 4.3% in 2008. The central bank has projected an inflation rate of between 4% and 7%. In the external sector, Guatemala has been affected by rising international fuel and food prices and the slowdown of the United States economy.[2] The main consequences will be slower growth of income from exports and remittances and pressure from external supply.

Owing to a lag in the transmission of negative impacts, these will be felt more in the second half of 2008 and the first half of 2009. A sharp drop in the growth of construction (12% in the biennium 2006-2007) and slower expansion in agriculture are expected in 2008.

2. Economic policy

(a) Fiscal policy

The central government deficit was down to 1.5% of GDP from the 1.9% posted in 2006, thanks to cuts in spending, particularly capital spending. Interest payments stood at 1.5% of GDP, so the central government primary balance was virtually in equilibrium.

Total government revenue rose by 5.7% in real terms in 2007, boosted by economic growth and the 2006 tax-evasion law. Tax revenue increased by 6.5% thanks to a

1 Initially, the government will focus these measures on 44 high-priority communities. A conditional transfer programme will also be implemented and the poverty map will be updated.

2 Some 45% of external sales go to the United States, where 1.3 million Guatemalan nationals are living.

strong performance by indirect taxes, particularly VAT, which was up 13.2%. Customs revenue fell by 6%, mostly because of the tariff cuts provided for in the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). Direct tax revenue was up 4.2%. Although income tax receipts exceeded that average, there was a drop in revenue from other direct taxation.

In 2007 the extraordinary tax imposed temporarily to support the peace agreements was extended until December 2008, generating extra revenue equivalent to 0.8% of GDP for the 2008 budget. In order to have stable and sufficient revenue to support increased social spending, the new government is preparing a tax reform initiative which, among other goals, aims to strengthen income tax and eliminate exemptions and exclusions. If the reform is approved, the tax burden will rise from 12.5% of GDP in 2007 to 13.2% in 2009. Nonetheless, efforts to improve tax administration must continue in order to reduce evasion.

Total spending increased by only 2% in real terms. Current expenditure was up 5%, led by goods and services, while spending on education, health care and social welfare diminished as a proportion of GDP. Capital expenditure was also down. The growth of physical investment was notable in this area (16%), owing to infrastructure works, but there was a sizeable fall in other capital spending.

The new government reported that significant amounts of public spending had been executed in 2007 without proper oversight, mostly through trusts or transfers to international organizations and non-profit bodies. It also stated that, while the budget of the Ministry of Communications, Infrastructure and Housing had expanded considerably in 2007 (mostly through reduced allocations to other entities and expenditure items), it had issued bonds which were not recorded in the Integrated Government Accounting System (SICOIN), producing a floating debt equivalent to 0.8% of GDP. The authorities are considering a set of measures to solve administrative and financial problems originated under the previous government.[3]

(b) Monetary and exchange-rate policy

The monetary authorities continued to move forward with the adoption of an explicit inflation targeting regime. A target of 5% was set in 2007, with a one-point margin on either side.

In 2007, in order to hold down inflationary pressures, the monetary authorities raised the monetary-policy interest rate —applicable to seven-day deposit certificates— by 0.25 percentage points on six occasions, so the overall increase was from 5% to 6.5%. In February 2008 it was raised again, to 6.75%. Annual inflation stayed within the target range (4%-6%) until August 2007, but from September onwards it exceeded the upper limit owing to a marked upswing in the prices of fuel and food, especially maize and wheat. One third of the total variation in the consumer price index (8.7%) is estimated to have been caused by external factors.

International reserves grew, mostly because of inflows of money borrowed externally by the government, resulting in an increase of US$ 268 million (0.8% of GDP) in the external public debt. Since some of these funds were retained as central-bank deposits, fiscal policy contributed to restraining liquidity growth. Open-market operations were continued, but more cautiously than in 2006. From late 2007 to April 2008, international reserves remained practically unchanged at 3.8 months' worth of goods imports.

In 2007, the year-on-year increase in M1 money was 14.1%. On the other hand, M2 money expanded by 9.5%, less than the nominal increase in GDP. Broad money (M3) rose by 11.4% owing to a strong upturn in foreign-currency deposits (25.9%). These percentages show that preferences are moving towards deposits in foreign exchange, as a result of interventions in two banks and increasing inflationary expectations.

The year-on-year growth of credit to the private sector stood at 17%, and credit in local and foreign currency grew by 12% and 31%, respectively. The latter figure exceeded the range set in the monetary programme, owing to lower financial cost and the relative stability of the nominal exchange rate. In 2008, the size of the real growth of credit is a cause for concern given the slowing of the economy. In the case of credit in foreign currency, there is also an underlying exchange-rate risk.

Exchange-rate volatility in 2007 was only moderate, so the central bank did not intervene in the foreign-exchange market. The real effective depreciation of the quetzal was slight compared with 2006 (0.1%). Against the dollar, the real bilateral exchange rate appreciated by 2.6%. In April 2008, the monetary authorities purchased US$ 132 million in order to contain the appreciation of the quetzal.

Despite the suspension of two banks, one in October 2006 and the other in January 2007, the national banking system benefited from stable interest rates. Nominal lending rates remained steady at 12.8%, while on average, deposit rates rose from 4.7% in 2006 to 4.9% in 2007. In both cases, the deposit rates were negative in real terms. There have been a number of bank mergers since October 2006, partly owing to the national banks' strategy of strengthening their position in the banking system

[3] See Ministry of Public Finance, *Primer informe sobre política fiscal en Guatemala. Diagnóstico de 2007 y perspectivas para el 2008*, Guatemala, February 2008 [online] http://www.minfin.gob.gt/archivos/nuevo/sit_fiscal07_08.pdf.

by improving their solvency. The system has seen an appreciable consolidation: the number of banking entities fell from 28 in 2002 to 18 in 2007. In the first quarter of 2008, three major international banks which were already operating in the region joined the national financial system. Non-performing loans and arrears as a percentage of total loans fell from 5.9% in 2006 to 5.3% in 2007.

Despite the progress achieved, the Guatemalan population still has limited access to financial services, compared with other countries of the region.[4] In recent years, "bancarization" —the channelling of remittances through financial institutions— has increased somewhat in Guatemala. The depth of the financial system is still low; measured as the proportion of total deposits to GDP, it climbed from 12% in 2004 to 15% in 2007. As for the provision of financial services, the 2007 survey conducted by the Latin American Banking Association (FELABAN) showed that Guatemala has 10.8 bank branches and 9.9 cash dispensers per 100,000 inhabitants.

(c) Trade policy

In August 2007, jointly with El Salvador and Honduras, Guatemala signed a free trade agreement with Colombia; and together with El Salvador, Honduras and Nicaragua, it began the first round of talks for a free trade agreement with the countries of the Caribbean Community (CARICOM). In October 2007, negotiations began for an association agreement between the European Union and Central America. A free trade agreement with Panama was signed in February 2008, and trade negotiations are also under way with Canada and Chile.

3. The main variables

(a) Economic activity

Per capita GDP increased by 3.1% in 2007, giving a cumulative growth of 7.3% since 2004. Strong expansion of external demand (11%) and gross fixed investment (9%) contributed to this result. The growth rate of public consumption, which represents 8.5% of GDP, was higher than that of private consumption. The latter continued to be sustained by inflows of remittances.

All productive sectors posted positive results. Construction, transport and communications and banking and insurance all achieved two-digit growth, at 12%, 19% and 16%, respectively, continuing their expansion of recent years. In the communications sector, in particular, the number of mobile telephone lines soared from two million to 10 million. Activity in construction was also vigorous, boosted by private projects and public works. Commerce was up 4%, partly owing to consumption of imported goods stimulated by inflows of remittances. Agriculture expanded by 3.4%, recovering from its slowdown in 2006. The strongest output growth was in sugar and bananas. The expansion of industry remained modest (3%), relying on growth in the foodstuffs industry and the demand for products needed in construction.

The monthly index of economic activity has reflected a gradual but steady slowing, declining from a maximum of 7.2% in July 2007 to 6.0% in December of that year and 5.1% in February 2008.

(b) Prices, wages and employment

Inflation began to pick up beginning in mid-2007. The year-on-year variation in the consumer price index stood at 8.7% in December 2007, compared with 5.8% in late 2006.This was due to supply factors such as rising prices for oil and petroleum products and for foodstuffs. The latter posted a year-on-year price increase of 14.0%, partly because of crop losses caused by the heavy rainfall which struck the country. As of June 2008, year-on-year inflation had risen to 13.6%, the highest level since 1992.

In December 2007, the cost of the basic basket of foods was 55.49 quetzals a day, and the minimum daily wage was 44.58 quetzals for agricultural activities and 45.82 quetzals for non-agricultural activities. The annual average real minimum wage was down 1.7%.

In March 2008, the Ministry of Labour and Social Security estimated the national unemployment rate at 5.5%. The government intends to create a national employment network in place of the job fairs organized with little success by the previous administration, and also plans to establish regional minimum wages.

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4 See Latin American Banking Association, "Memorias congresos Federación Latinoamericana de Bancos" [online] http://www.felaban.com/memoria_anual_2007.php.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Annual growth rates [b]								
Gross domestic product	3.8	3.6	2.3	3.9	2.5	3.2	3.3	5.3	5.7
Per capita gross domestic product	1.5	1.2	-0.1	1.3	0.0	0.6	0.7	2.7	3.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.1	2.6	1.2	5.4	2.5	4.2	2.1	1.3	3.3
Mining	-1.9	-8.5	0.8	16.0	-6.0	-11.9	-3.2	17.6	9.1
Manufacturing	2.5	1.9	1.1	1.1	2.5	4.9	2.6	3.3	3.1
Electricity, gas and water	11.0	17.4	-3.0	5.1	4.9	3.6	2.7	3.0	5.1
Construction	7.8	-18.3	12.2	15.4	-3.7	-8.9	4.5	13.1	12.1
Wholesale and retail commerce, restaurants and hotels	3.2	4.1	2.7	2.0	1.5	3.1	3.2	3.8	4.0
Transport, storage and communications	6.8	7.6	6.8	7.8	10.0	15.4	11.3	18.9	18.5
Financial institutions, insurance, real estate and business services	4.6	3.1	0.3	5.0	5.9	5.5	5.3	6.0	7.4
Community, social and personal services	4.7	4.6	3.5	3.1	1.4	0.5	2.3	5.4	5.0
Gross domestic product, by type of expenditure									
Consumption	3.7	4.2	4.0	3.0	3.3	2.8	4.0	4.7	5.4
General government	5.2	10.4	5.4	-0.1	-1.5	-6.6	1.7	5.7	7.6
Private	3.6	3.5	3.8	3.4	3.9	3.9	4.3	4.6	5.2
Gross domestic investment	5.8	-8.8	1.8	9.3	-3.1	-0.5	3.5	15.7	9.9
Exports (goods and services)	4.6	3.8	-4.0	0.7	-0.5	8.2	-2.1	4.8	10.5
Imports (goods and services)	0.7	6.0	6.9	2.0	0.5	5.7	-0.6	6.5	7.8
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	20.9	20.1	19.7	20.6	20.3	20.8	19.7	20.8	20.4
National saving	14.6	14.0	12.6	14.5	15.6	16.0	15.2	15.8	15.4
External saving	6.3	6.1	7.0	6.1	4.7	4.9	4.6	5.0	5.1
	Millions of dollars								
Balance of payments									
Current account balance	-1 026	-1 049	-1 313	-1 262	-1 020	-1 165	-1 241	-1 512	-1 697
Goods balance	-1 445	-1 599	-2 212	-2 837	-2 960	-3 632	-4 191	-4 852	-5 470
Exports, f.o.b.	2 781	3 961	4 111	4 224	4 526	5 105	5 460	6 082	7 012
Imports, f.o.b.	4 226	5 560	6 322	7 061	7 486	8 737	9 650	10 934	12 482
Services trade balance	-91	-109	-146	-251	-263	-244	-142	-266	-320
Income balance	-205	-209	-170	-275	-303	-410	-485	-662	-770
Net current transfers	715	868	1 215	2 102	2 506	3 122	3 577	4 268	4 863
Capital and financial balance [d]	901	1 703	1 788	1 269	1 554	1 769	1 479	1 765	1 913
Net foreign direct investment	155	230	138	183	218	255	470	531	658
Financial capital [e]	746	1 474	1 650	1 085	1 337	1 514	1 009	1 233	1 255
Overall balance	-125	654	475	7	535	604	239	252	216
Variation in reserve assets [f]	125	-654	-475	-7	-535	-604	-239	-252	-216
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	98.7	100.0	95.9	88.4	88.7	85.7	79.8	77.5	77.5
Terms of trade for goods (index: 2000=100)	101.9	100.0	96.7	95.8	93.0	92.1	91.3	89.6	87.9
Net resource transfer (millions of dollars)	696	1 494	1 618	993	1 251	1 359	995	1 102	1 144
Gross external public debt (millions of dollars)	2 631	2 644	2 925	3 119	3 467	3 844	3 723	3 958	4 226
	Average annual rates								
Employment									
Labour force participation rate [h]	...	...	...	61.5	61.4	56.1	...	...	...
Open unemployment rate [i]	...	...	...	5.4	5.2	4.4	...	...	...
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	4.9	5.1	8.9	6.3	5.9	9.2	8.6	5.8	8.7
Variation in nominal exchange rate (annual average)	15.5	5.1	1.2	-0.5	1.5	0.1	-3.8	-0.5	0.9
Variation in average real wage	5.8	3.8	0.5	-0.9	0.4	-2.2	-4.0	-1.1	-4.6
Nominal deposit rate [j]	7.9	10.2	8.8	7.1	5.2	4.5	4.6	4.7	4.9
Nominal lending rate [k]	19.4	20.9	19.0	16.9	15.0	13.8	13.0	12.8	12.8

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Central administration									
Total income	12.4	12.3	12.4	12.8	12.5	12.3	12.0	12.7	13.1
Tax income	11.3	11.5	11.1	12.2	11.9	11.8	11.5	12.1	12.6
Total expenditure	15.5	14.3	14.5	13.9	15.1	13.4	13.7	14.7	14.6
Current expenditure	9.7	10.2	10.3	9.7	10.1	9.2	9.1	9.4	9.7
Interest	1.5	1.4	1.6	1.4	1.3	1.4	1.4	1.4	1.5
Capital expenditure	5.8	4.1	4.2	4.2	5.1	4.3	4.6	5.3	4.9
Primary balance	-1.7	-0.6	-0.6	0.3	-1.3	0.3	-0.3	-0.6	0.0
Overall balance	-3.2	-2.0	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9	-1.5
Central-government public debt	19.7	19.0	20.2	18.4	20.9	21.4	20.8	21.7	24.3
Domestic	6.5	6.5	6.3	5.0	6.3	6.7	7.9	8.8	10.5
External	13.2	12.5	13.9	13.3	14.6	14.7	12.8	12.9	13.8
Money and credit [l]									
Domestic credit	...	19.1	18.3	18.1	18.4	17.7	21.0	25.5	28.2
To the public sector	...	-2.5	-3.8	-3.1	-2.9	-3.9	-2.9	-2.3	-2.7
To the private sector	...	19.8	20.6	20.0	20.4	20.9	23.2	27.1	30.5
Others	...	1.7	1.5	1.1	0.9	0.7	0.6	0.7	0.4
Liquidity (M3)	27.1	30.3	32.1	31.7	33.5	34.0	35.7	37.9	37.8
Currency outside banks and local-currency deposits (M2)	27.0	30.3	30.7	29.6	30.7	30.3	31.8	33.7	33.0
Foreign-currency deposits	0.1	0.1	1.4	2.0	2.8	3.7	3.9	4.2	4.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2000, based on figures in local currency at constant 1958 prices. From 2001 onward, based on figures in local currency at constant 2001 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentage of the economically active population; nationwide total.
[j] Average rate for deposits in the banking system.
[k] Average rate for loans in the banking system.
[l] The monetary figures are end-of-year stocks.

(c) The external sector

The goods and services deficit continued to grow in absolute terms, but as a proportion of GDP it remained unchanged (17.3%), as did net payments of profits and interest (2.3%). Once again, the current transfers surplus (14.5% of GDP) helped to mitigate the trade deficit. As a result, the balance-of-payments current account deficit stood at 5.1% of GDP, a proportion close to the 2004-2006 levels. The terms of trade declined again (1%), as had been occurring since 2003.

Goods exports and imports grew at similar rates (15%). Goods exports were boosted by an appreciable rise in sales of certain traditional products (banana sales were up 35%, coffee by 15%) and significant hikes in the prices of sugar and a series of non-traditional products.

Non-traditional exports grew by 19%, the best performance since 2004. The export products which commanded particularly high prices included shrimp (up by 300%), other foodstuffs (45%) and vegetables and legumes (35%). The prices of other non-traditional products declined, however, as in the case of clothing; this was mostly due to the restructuring of international markets following the termination in 2005 of the Multifibre Arrangement. Exports to Central America continued to grow (19%), particularly foodstuffs and chemicals.

The rapid growth of imports was mainly boosted by intermediate goods. Under this heading, fuel prices were particularly significant; the oil bill made up 21% of total purchases in 2007. Acquisitions for the construction sector grew by 28%, and those for agriculture and industry also posted high growth rates.

The deficit in non-factor services fell to US$ 300 million, influenced by increased income from other services and tourism. Tourism income increased to US$ 1.055 billion, continuing the trend of the past ten years. The number of tourists (1.63 million) was 8% higher than the 2006 figure, with the largest proportions of visitors coming from Central

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars)	1 385	1 422	1 693	1 513	1 712	1 829	1 697	1 664	1 917	...
Goods imports, c.i.f. (millions of dollars)	2 735	2 955	3 098	3 127	3 164	3 236	3 527	3 650	3 487	...
International reserve assets (millions of dollars) [b]	4 116	4 062	4 031	4 061	4 250	4 392	4 275	4 320	4 338	4 771
Real effective exchange rate (index: 2000=100) [c]	78.0	77.4	77.2	77.3	77.0	77.9	77.6	77.3	77.1	74.4
Consumer prices (12-month percentage variation)	7.3	7.6	5.7	5.8	7.0	5.3	7.3	8.7	9.1	13.6
Average nominal exchange rate (quetzals per dollar)	7.62	7.60	7.59	7.61	7.69	7.66	7.68	7.67	7.69	7.50
Nominal interest rates (annualized percentages)										
Deposit rate [d]	4.6	4.7	4.7	4.8	4.9	4.9	4.9	4.9	5.0	5.1
Lending rate [e]	12.7	12.7	12.7	12.9	12.9	12.8	12.7	12.9	12.9	13.3
Domestic credit (variation from same quarter of preceding year)	25.9	37.7	38.6	34.4	31.6	22.3	24.5	23.8	19.5	...
Non-performing loans as a percentage of total credit	6.1	5.9	6.3	5.6	5.3	5.1	4.7	4.0	2.9	2.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Including gold.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Average rate for deposits in the banking system.
[e] Average rate for loans by the banking system.

America (54%) and North America (31%), followed by Europe (9%) and other regions (6%). Tourist arrivals from Europe have been tending to stagnate to some extent owing to problems with public security. This highlights the need for active promotion of tourism in the region.

The deficit on the income account rose by 16% owing to increasing outward profit remittances, which had doubled in the space of two years. Net payments of profits stood at US$ 670 million and net interest payments at US$ 17 million.

Current transfers, mostly of family remittances, continued to mitigate the deficit in factor and non-factor services. Remittances totalled US$ 4.128 billion in 2007, although at 14%, their growth rate was lower than the 21% figure for 2006. Inflows from remittances rose by 10% in the first quarter of 2008. Given the slowing of the United States economy, the growth of remittances is likely to have declined further from April 2008 onwards.

The financial and capital accounts posted a positive balance of US$ 1.913 billion. FDI inflows continued to increase, rising to US$ 724 million, but they remained only modest as a proportion of GDP (2.2%) and were mostly oriented towards communications, banking and commerce. With net capital inflows exceeding the current account deficit, the balance of payments posted a surplus of US$ 216 million.

Honduras

1. General trends

In 2007 the Honduran economy grew by 6.3% and per capita GDP by 4.2%, which means that the past four years have seen average growth rates of 6.2% for GDP and 4.1% for per capita GDP. This performance is mainly due to the effects of family remittances (22% of GDP) on private consumption, as well as the boom in private construction driven by the expansion of bank credit. Inflation edged up and annual price variation stood at 8.9% (5.3% in 2006), partly due to supply factors. The inflation target of between 4% and 6% was therefore not met. The central government deficit widened from 1.1% of GDP in 2006 to 2.3% in 2007, while the trade deficit grew to an unprecedented 26.5% of GDP. This trade gap, along with the factor payments deficit, was only partially covered by family remittances and grants. As a result, the balance-of-payments current account posted a deficit of 10% of GDP (the highest level since 1994).

The external economic context was generally favourable in 2007. The reduction in external debt servicing was completed thanks to the debt forgiven by the Inter-American Development Bank (IDB) as part of the Multilateral Debt Relief Initiative (MDRI). Inflows of foreign direct investment (FDI) (equivalent to 6.7% of GDP) have been at their highest level this decade. The main problem in the external sector has been the increases in food and fuel prices.

In February 2007 the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF) was concluded, and in April 2008 a stand-by agreement was approved.[1] This funding is a precautionary arrangement for the authorities. According to government projections for 2008 announced in April, the GDP growth rate will be between 4.5% and 5.5%, the inflation target between 8% and 10%, the central government deficit will stand at 1.5% of GDP and international reserves are expected to increase to four months of merchandise imports coverage (not including goods for processing). The external context in 2008 will not be favourable, owing to the slowdown in the United States economy and increases in the food and oil bill.[2] According to ECLAC, growth figures should be towards the lower end of the official projections.

The Honduran economy will be affected by a lower growth rate in export revenues, family remittances and, to a lesser extent, tourism. At the same time, the country will be faced with greater financial challenges in the form of rising fuel and food prices. The effects of the economic problems of the United States will be more keenly felt in the second half of 2008 and the first few months of 2009, as they take some time to trickle through.

1 The agreement covers 12 months and provides for SDR 38.8 million (special drawing rights equivalent to US$ 63.5 million). The main objectives are to consolidate and reorient the fiscal stance and strengthen the energy sector. See International Monetary Fund, “IMF Executive Board Approves a Stand-By Arrangement for Honduras”, Press Release No. 08/76, April 8, 2008 [online] http://www.imf.org/external/np/ sec/pr/2008/pr0876.htm.

2 Almost a million Hondurans live in the United States, and 36% of exports are to that country.

2. Economic policy

(a) Fiscal policy

The fiscal deficit widened from 1.1% of GDP in 2006 to 2.3% in 2007. This was mostly the result of a considerable rise in total expenditure, mainly owing to a higher wage bill and transfers from central government to public enterprises. Revenues rose significantly (although less than expenditure), due to higher economic activity and an increase in tax receipts thanks to improved tax management.

Total central government revenues expanded by 9% in real terms. Current revenues rose by 9.5% and tax revenues by 11%, while non-tax revenues fell once more (this time by 5%). As for direct tax receipts, the positive performance seen in recent years continued, with income tax receipts growing by 17% (although this was less than in 2006), and net asset and property tax receipts recovering some of the decline recorded in the previous year. Indirect tax receipts increased by 8%, one percentage point more than in 2006, due to the rise in general sales tax (12%) and the tax on carbonated beverages (20%), whereas revenue from cigarette tax stood still. Revenues from imports posted a recovery (12%), following a drop in 2006.

Total real expenditure increased by 15%, with current expenditure up by 14% and capital expenditure rising by 21%. This represented an almost complete recovery from the loss in 2006 (24%). The rise in current expenditure was due to the increase in the wage bill, which went from 8.3% of GDP in 2006 to 9.2% in 2007, and to transfers to public enterprises (especially State electricity companies) and fuel and electricity subsidies. The recovery of real capital expenditure was mainly due to higher capital transfers, particularly to municipalities. In terms of GDP, however, capital expenditure did not reach levels recorded prior to the decreases seen in 2005 and 2006.

The fiscal performance in 2008 will be largely dependent on the reduction in transfers from central government to State electricity enterprises, hence the need to make significant progress in administrative and financial management, target subsidies to the poorest groups and readjust electricity tariffs. In terms of wage policy, commitments undertaken for the period 2008-2009 may give rise to an increase in public wages that may be unsustainable in the medium term.

External public debt shrank from US$ 3.031 billion in 2006 to US$ 2.044 million in 2007, largely due to the debt forgiven by the Inter-American Development Bank (IDB) as part of the Multilateral Debt Relief Initiative (MDRI). Liabilities also decreased thanks to debt forgiveness by the Paris Club. In 2007, debt service relief for external public debt amounted to US$ 233 million, of which US$ 119 million had been earmarked to fund spending associated with the poverty-reduction strategy. However, following the 2004 reform of the law covering the poverty-reduction fund, by 2007 70% of the resources originally committed to fighting poverty had been used mainly to cover current expenditure.

(b) Monetary and exchange-rate policy

In the first six months of 2007, the monetary-policy rate remained stable at 6%, while the band of interest rates (permanent credit and investment facilities) narrowed by 300 basis points to bring the interbank rate closer to the monetary policy rate. In the second half of the year, monetary policy became more restrictive, as the authorities increased the monetary policy rate four times, taking it from 6% to 7.5% by the end of the year. To ease inflationary pressure, in June a temporary yield-bearing reserve of 4% was added to the legal reserve requirement of 12%, which resulted in a 60% increase in commercial banks' deposits held in the central bank. The entry into force of this compulsory investment and the redemption of bills by social welfare institutions resulted in a 30% reduction in the amount of bills issued by the central bank. In the first half of 2008, the monetary policy rate rose four times to stand at 9%.

This consequently mitigated the rise in broad liquidity, which swelled by 16.5% compared with 22.5% in 2006. Credit to the private sector expanded significantly (33%), which was the result of local-currency operations, given that foreign-currency credit showed little variation (despite the stable lempira).

In 2007, the nominal exchange rate remained stable, although there was a real appreciation of the lempira in terms of both the bilateral real exchange rate in relation to the dollar (3.5%) and the real effective exchange rate (1.6%). Indicators of solvency, asset quality and banking-system profitability all improved during 2007. Non-performing loans and loans in arrears as a percentage of total credit fell from 7% in 2006 to 6% in 2007.

(c) Trade policy

In August 2007, along with El Salvador and Guatemala, Honduras signed a free trade agreement with Colombia. In addition, with Guatemala, Nicaragua and El Salvador, the country began the first round of negotiations for a free trade agreement with the countries of the Caribbean Community (CARICOM). In September 2007, Honduras and Finland approved an agreement for the promotion and reciprocal protection of investments (to be signed in 2008). In October 2007 negotiations were opened for a comprehensive agreement of association between the European Union and Central America.

3. The main variables

(a) Economic activity [3]

The Honduran economy grew by 6.3%, in what was the fourth consecutive year of solid growth (6.2%). Per capita GDP rose by 4.2%, with a cumulative variation of more than 17% since 2004. This result is unprecedented (at least since 1980) and has helped to reduce poverty. Nevertheless, if food prices continue to rise more quickly than wages, this achievement could be partially reversed in 2008.

In a context that continued to be marked by abundant liquidity and low interest rates, growth was spearheaded by internal demand (9%). Consumption grew by 8.5%, with both private and public consumption posting the largest increases in five years (8% and 11%, respectively). Private investment was up 19%, which was similar to the level seen in 2006, whereas public investment appears to have stagnated. External demand expanded by 3.6%, following a decline in 2006.

In 2007, the most buoyant sectors were construction and telecommunications. Construction grew by 9%, thanks to the boom in private activities (especially in residential and agroindustiral construction). Transport was also highly buoyant, while the crops sector expanded by 5.0%. In terms of exports, coffee sales climbed by 9% after recovering in 2006, and sugar sales were up by 7%. In terms of products for domestic consumption, positive performances were turned in by maize and beans, whose share of the total rose by 16% and 9%, respectively. However, some crops were affected by climatic conditions, especially the tropical storm Felix that battered the north west of the country in September. Growth in manufacturing (3.5%) was driven by non-metal production and cement production. However, there was a drop in the level of activity of the basic metal industry.

The monthly index of economic activity has slowed from 8.9% in January-May 2007 to 6.0% in the same period of 2008.

(b) Prices, wages and employment

Inflation increased at a faster rate to yield a 12-month annual variation of 8.9% (5.3% in late 2006). This was mainly due to price rises for fuel, maize and wheat, which were partly offset by the real appreciation of the lempira. The price of food and non-alcoholic beverages posted an annual increase of 13.7% (the highest variation for 10 years), with the corresponding effects on the basket of staple goods. The price of transport, on the other hand, climbed by just 6.7% thanks to subsidies. As of June 2008, cumulative inflation stood at 6.8% (4.3% in 2007).

Although nationwide open unemployment dropped from 3.3% in 2006 to 3.0% in 2007, there is still a high proportion of informal employment in the form of temporary and low-productivity jobs. The total underemployment rate is estimated at 26% in Tegucigalpa and 23% in San Pedro Sula. At the beginning of 2007, the average daily minimum wage rose to 101 lempiras, with nominal variation of 9.6% and real variation of 2.5%. Since January 2008, there has been an 11% adjustment in the minimum wage.

(c) The external sector

The balance-of-payments current account deficit widened from 5% of GDP in 2006 to 10% of GDP in 2007 (the highest level since 1997). This was the result of an unprecedented trade deficit (26.5% of GDP) and a factor income deficit (5% of GDP), which were only partially offset by a surplus of current transfers (21.5% of

[3] The data correspond to new national accounts statistics published in December 2007 with a new base year (2000).

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
					Annual growth rates [b]				
Gross domestic product	-1.9	5.7	2.7	3.8	4.5	6.2	6.1	6.3	6.3
Per capita gross domestic product	-3.9	3.6	0.6	1.7	2.5	4.1	3.9	4.2	4.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-8.5	11.7	2.1	4.5	2.3	7.2	-2.3	9.4	5.0
Mining	5.4	1.7	34.5	-5.8	8.5	-5.6	-0.6	3.0	3.7
Manufacturing	2.6	5.5	3.8	7.8	6.4	4.0	7.0	5.4	3.5
Electricity, gas and water	2.1	10.6	-14.0	-13.6	-20.6	6.2	52.4	6.3	5.2
Construction	10.5	1.5	-7.8	-11.5	3.8	1.2	-2.3	6.7	8.9
Wholesale and retail commerce, restaurants and hotels	0.7	3.7	1.2	3.3	2.1	4.2	5.4	6.0	5.0
Transport, storage and communications	1.7	5.0	2.9	2.4	11.5	13.5	16.6	12.3	10.7
Financial institutions, insurance, real estate and business services	0.8	2.6	9.7	9.7	8.6	12.4	12.3	13.2	10.5
Community, social and personal services	-0.9	10.5	5.4	5.4	4.0	5.8	5.4	5.7	7.5
Gross domestic product, by type of expenditure									
Consumption	0.4	7.9	4.8	4.0	4.3	5.0	6.8	6.0	8.5
General government	9.8	15.7	6.4	3.1	3.7	5.4	7.2	6.5	11.5
Private	-0.9	6.8	4.5	4.2	4.4	5.0	6.7	6.0	7.9
Gross domestic investment	8.1	-2.8	-3.9	-4.6	4.9	21.9	-1.2	16.3	9.9
Exports (goods and services)	-11.2	7.3	4.0	10.0	8.7	13.2	5.3	-0.4	3.6
Imports (goods and services)	4.3	3.8	3.6	5.9	7.9	16.2	3.6	3.8	8.0
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	32.1	28.3	26.0	24.3	25.3	29.7	27.6	31.3	33.5
National saving	28.4	21.2	19.7	20.7	18.6	22.0	24.6	26.6	23.5
External saving	3.7	7.1	6.3	3.6	6.7	7.6	3.0	4.7	9.9
					Millions of dollars				
Balance of payments									
Current account balance	-241	-508	-479	-282	-553	-678	-290	-509	-1 225
Goods balance	-753	-644	-729	-637	-1 020	-1 293	-1 497	-2 122	-2 962
Exports, f.o.b.	1 756	3 343	3 423	3 745	3 754	4 534	5 048	5 195	5 594
Imports, f.o.b.	2 510	3 988	4 152	4 382	4 774	5 827	6 545	7 317	8 556
Services trade balance	-28	-187	-207	-190	-162	-204	-229	-298	-287
Income balance	-155	-215	-258	-301	-362	-446	-460	-539	-598
Net current transfers	696	538	715	846	991	1 265	1 895	2 450	2 622
Capital and financial balance [d]	53	380	419	272	358	1 040	477	820	1 063
Net foreign direct investment	237	375	301	269	391	553	599	674	815
Financial capital [e]	-185	5	117	3	-32	487	-122	146	249
Overall balance	-188	-128	-60	-10	-194	362	187	311	-162
Variation in reserve assets [f]	-442	-55	-101	-106	97	-510	-346	-310	109
Other financing [g]	630	183	161	115	98	149	159	-1	53
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	104.5	100.0	97.2	96.9	98.5	100.9	100.5	98.0	96.3
Terms of trade for goods (index: 2000=100)	107.5	100.0	94.8	92.0	88.0	87.2	87.2	83.2	81.6
Net resource transfer (millions of dollars)	528	348	322	86	94	743	177	280	519
Gross external debt (millions of dollars)	4 691	4 711	4 757	4 922	5 242	5 912	5 093	3 879	3 036
					Average annual rates				
Employment									
Labour force participation rate [i]	55.7	...	52.5	51.7	50.0	50.6	50.9	50.7	50.8
Open unemployment rate [j]	3.5	...	4.1	3.9	5.3	5.9	4.5	3.3	3.0
Visible underemployment rate [j]	2.6	…	4.0	4.9	6.3	7.1	7.4	5.6	4.4
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	10.9	10.1	8.8	8.1	6.8	9.2	7.7	5.3	8.9
Variation in nominal exchange rate (annual average)	6.2	4.4	4.3	6.2	5.5	5.0	3.4	0.4	0.0
Variation in real minimum wage	-3.0	3.1	2.5	2.1	8.6	0.8	5.8	5.1	2.8
Nominal deposit rate [k]	19.4	15.9	14.5	13.7	11.5	11.1	10.9	9.3	7.8
Nominal lending rate [l]	30.2	26.8	23.8	22.7	20.8	19.9	18.8	17.4	16.6

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Central government									
Total income [m]	18.0	15.7	16.7	16.4	16.5	17.2	17.6	18.2	19.0
Current income	16.2	14.9	15.2	15.3	15.6	16.4	16.4	16.7	17.5
Tax income	15.1	13.7	13.6	13.3	13.7	14.5	14.5	15.4	16.3
Capital income	0.4	0.0	0.0	0.0	...	0.1	0.1	0.0	...
Total expenditure [n]	19.8	20.4	21.1	20.3	21.3	19.8	19.8	19.3	21.4
Current expenditure	13.2	14.6	14.7	15.2	16.2	14.8	15.3	16.1	17.6
Interest [o]	1.9	2.2	1.0	1.0	1.0	1.1	1.1	1.0	0.7
Capital expenditure [n]	4.9	5.5	5.7	4.2	4.6	5.0	4.5	3.4	3.8
Primary balance	0.1	-2.5	-3.4	-2.9	-3.7	-1.5	-1.1	-0.1	-1.6
Overall balance	-1.8	-4.7	-4.4	-3.9	-4.7	-2.6	-2.2	-1.1	-2.3
Central-government debt	…	55.6	53.9	55.5	60.7	59.6	44.7	28.9	19.8
Domestic	…	3.6	3.8	3.9	6.3	4.6	3.8	3.3	3.2
External	…	52.0	50.1	51.6	54.4	55.0	40.9	25.6	16.6
Money and credit [p]									
Domestic credit q/	18.8	20.0	26.4	25.0	27.2	25.1	24.8	29.4	35.3
To the public sector	-12.7	-10.6	-2.2	-2.3	0.4	-1.0	-0.4	-2.0	-1.4
To the private sector	34.8	34.1	36.7	36.0	37.6	38.4	39.3	45.3	52.5
Others	14.7	13.8	4.0	3.4	2.3	2.4	1.3	2.0	0.5
Liquidity (M3)	...	...	...	46.5	47.2	49.2	50.8	55.5	57.0
Currency outside banks and local-currency deposits (M2)	...	...	...	34.0	34.5	35.4	37.3	41.6	41.9
Foreign-currency deposits	...	...	...	12.6	12.7	13.8	13.5	13.9	15.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2000, based on figures in local currency at constant 1978 prices. From 2001 onward, based on figures in local currency at constant 2000 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; nationwide total.
[k] Weighted average rate on time deposits.
[l] Weighted average rate on loans.
[m] Includes grants and recovery of interest.
[n] Includes net lending.
[o] Central bank data include accrued interest on the public debt.
[p] The monetary figures are end-of-year stocks.
[q] Includes securities issued for monetary regulation and external loans.

GDP).[4] The terms of trade also worsened (2.8%), to give a deterioration of 15% between 2000 and 2007.

Merchandise exports increased by 7,7%, which was double the growth rate recorded in 2006, thanks to a higher volume of sales of traditional products. In contrast, growth in non-traditional export products was more moderate. Merchandise imports expanded by 23%, with the most active component being capital goods.

For the fourth year in a row, growth in merchandise exports was led by buoyant sales of traditional products, which increased by 17% in 2007. Coffee and banana, with rises in both volume and unit value, made the greatest contribution to the total value of exports. Export products for which external sales picked up in the wake of higher prices included silver, lead and zinc (although the latter posted a significant decrease in terms of quantity exported).

Non-traditional exports rose by 6%, which was more than in 2006. Sales of pineapple climbed by 9%, while shrimp and melon sales stagnated and lobster sales dropped for the second consecutive year due to lower export volumes. Exports of tilapia fish were up 30%, owing to an increase in prices and volumes, while palm oil exports rose by 67% thanks to high prices. The value of exports of goods for processing (maquila) was US$ 3.3 billion. Despite competition from Asian countries, in 2007 this category grew by 6% following a standstill in 2006. According to the Honduran Manufacturers Association, in 2007 the country exported 150 million dozen garments to the United States market, which is almost 10% more than in 2006. Sales of electrical harnesses for motor vehicles in the United States rose by 12%. Honduras is the world's

4 The data correspond to new statistics from the International Monetary Fund (IMF) *Balance of Payments Manual*, fifth edition, 1993.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars) [b]	544	562	481	467	549	606	601	511	696	...
Goods imports, c.i.f. (millions of dollars)	1 240	1 410	1 457	1 587	1 531	1 674	1 847	1 931	1 993	...
International reserve assets (millions of dollars) [c]	2 569	2 704	2 572	2 633	2 827	2 900	2 742	2 733	2 737	2 505
Real effective exchange rate (index: 2000=100) [d]	98.1	98.4	98.1	97.4	96.4	96.9	96.2	95.6	95.7	95.3
Consumer prices (12-month percentage variation)	6.2	5.7	4.5	5.3	6.3	6.2	7.1	8.9	9.2	12.2
Average nominal exchange rate (lempiras per dollar)	18.89	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90	18.90
Nominal interest rates (annualized percentages)										
Deposit rate [e]	10.6	9.8	8.8	8.1	7.8	7.6	7.7	8.0	8.3	8.8 [f]
Lending rate [g]	18.3	17.8	17.1	16.6	17.0	16.7	16.3	16.4	16.6	16.9 [f]
Interbank interest rate	6.9	5.5	5.2	5.6	5.3	5.5	6.4	7.3	8.0	8.4
Domestic credit (variation from same quarter of preceding year)	22.9	26.4	30.9	32.7	37.7	41.7	49.1	41.9	30.2	33.0 [f]
Non-performing loans as a percentage of total credit	7.4	7.3	6.8	5.4	4.1	4.1	4.0	3.2	3.6	4.1 [f]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Does not include maquila activities.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Weighted average rate on time deposits.
[f] Data to April.
[g] Weighted average rate on loans.

second largest exporter of harnesses, which generated US$ 400 million in foreign exchange during 2007.

Merchandise imports continued their upward trend observed since 2004, to represent 70% of GDP in 2007 (56% in 2002). Factors in increased imports included buoyant purchases of machinery and equipment for agriculture and transport (up by 37%) and the significant import volumes of consumer goods. As for raw materials and intermediate goods, a noteworthy performance was turned in by fuel imports, with an 11.5% increase in prices and a 7.5% increase in volume. In 2007, spending on petroleum and its derivatives accounted for 23% of total imports. Imports of other raw materials were also highly buoyant, including construction materials in demand because of the private construction boom.

The non-factor services deficit (almost US$ 300 million) was similar to the balance recorded in 2006. Tourism revenues, which have doubled in five years, were 14% higher than in 2006. Although the number of visitors climbed by 15%, spending per international visitor remained at US$ 750. It should be pointed out that the outlook for the tourism sector is extremely bright, thanks to tourism development and promotion measures adopted at the end of 2006 to boost tourism in the country's Bay Islands in the Caribbean.

External transfers of factor payments stood at US$ 600 million. This amount included a net outlay of profit remittances of US$ 740 million, net interest revenues of US$ 110 million, and revenues from employee wages. While interest payments decreased by US$ 30 million thanks to the forgiveness of external debt, interest received by the country increased by a similar degree.

Family remittances and grants significantly helped to ease the deficit of factor and non-factor services. In 2007, remittances amounted to US$ 2.561 billion, which represented an annual growth rate of 10%, compared with 31% in 2006. The economic problems in the United States have resulted in a fall in the remittances sent home by Hondurans, who have seen their employment and income levels fall. Despite the slower growth of family remittances, they will nonetheless represent almost 20% of GDP in 2008.

In 2007, net income on the capital and financial account was US$ 1.063 billion, compared with US$ 820 million in 2006. Foreign direct investment stood at US$ 816 million, which is 21% more than the total received in 2006. The investment capital was channelled into communications, transport, tourism and maquila enterprises. For the first time since 2003, there was a fall in the level of international reserves (US$ 109 million). Given that extraordinary financing represented US$ 53 million, the global balance posted a deficit of US$ 162 million.

Mexico

1. General trends

The growth of the Mexican economy fell from 4.8% in 2006 to 3.2% in 2007 owing, in part, to the drop in external demand generated by the slowdown of the United States economy, which receives slightly over 80% of Mexico's exports. The economic situation was characterised by a general decline in the buoyancy of private consumption, gross fixed capital formation, job creation, household income and private-sector credit, which resulted in slower growth as the exchange rate appreciated.

A rise in imports widened the trade deficit (1.2% of GDP) and pushed up the balance-of-payments current account deficit to 0.6% of GDP from 0.3% in 2006. Though less buoyant, remittances still accounted for 2.5% of GDP in 2007, and this prevented the current account deficit from widening further. The public sector as a whole managed to almost achieve a fiscal balance (as it did in 2006) thanks to the country's oil income, which accounted for 9% of GDP.

Economic growth in Mexico in 2008 will depend on how heavily the country is hit by the cooling of the United States economy, which will lower demand for Mexican goods and reduce remittances. Sustained by domestic demand, GDP growth is expected to slow down to 2.7%. The Government launched an infrastructure investment programme to prevent further deceleration, but the impact of this programme in terms of economic reactivation has yet to make itself felt. High international food prices will continue to influence local price levels, and inflation is therefore expected to reach about 5%, compared with 3.8% in 2007.

2. Economic policy

Economic policy in 2007 generally aimed to maintain macroeconomic stability, keep inflation at about 3% and attain a zero fiscal deficit. The implementation of fiscal reforms, which had halted during the previous administration, resumed.

(a) Fiscal policy

The law on budget and fiscal responsibility, which obliges the Treasury to maintain a zero deficit, resulted in public finances recording a virtual balance in 2007. Public-sector income rose 5.6% in real terms and represented 25.5% of GDP, while non-oil revenue was up 10.1% on 2006 levels. Total oil income fell 1.7% in real terms, owing to lower oil extraction volumes and export levels and the drop in the domestic price of natural gas, but still represented 35.4% of public revenue. The income of the State oil company Petróleos Mexicanos (PEMEX) increased 13.4%. In 2007, the average price of Mexico's oil mix fetched US$ 61.6 per barrel, or US$ 18.8 more than the figure projected in the general economic policy guidelines for 2007.

The federal government deficit, however, rose slightly from 2% of GDP in 2006 to 2.2% the following year. Revenue increased 5.8% in real terms, while spending swelled at a rate of 6.8%. Both variations were lower than in 2006. The 8.4% expansion of tax income was sustained by income tax revenue, which accounts for half of tax income and increased 13.2% in 2007. Revenue from value added tax grew more moderately (3.6%), in line with the level of economic growth.

Current expenditures in real terms were 6.6% higher than in 2006 owing to an 8.2% increase in salary payments. Social spending also rose, while debt service and interest payments were lower than the previous year. Capital expenditures grew 8% as more resources were channelled into investment projects. Gradual but constant increases meant that capital expenditures, as a proportion of GDP, were two percentage points higher in 2007 than extremely low level recorded in 2000 (1.5% of GDP).

The fiscal reforms undertaken in 2007 included the amendment of the law governing the Social Security and Social Service Institute for State Workers (ISSSTE), which will enable the State to increase spending to cover personnel expenses, and new fiscal reforms approved in September that year. These came into effect in 2008 and provide for an increase in tax revenue equivalent to 1.1% of GDP in 2008 that rises to 2.1% by 2012. The three pillars of these reforms are the introduction of a single-rate business tax, the reform of the tax regime applicable to PEMEX and the introduction of a 2% charge on cash deposits in the banking system when these exceed 25,000 pesos a month.

In addition to the fiscal reforms undertaken in 2007, in 2008, several measures aimed at increasing the tax burden were implemented, and provisions governing the distribution of tax income between the federal government and federative entities were modified with a view to increasing the resources available to the latter without eroding the income of the former. Steps were also taken to increase the shared responsibility of local governments for tax collection and to boost transparency and accountability in the tax system. In order to shore up local budgets, a compensation fund was created for the 10 federal entities with the lowest per capita GDP. Additional resources are to be obtained through the sales tax on diesel and gasoline.

Public income levels are expected to continue benefiting from record high oil prices in 2008 (the general economic policy guidelines contemplated a price of US$ 46.6 per barrel; the average for the period January-May was US$ 89.4), which will create plenty of room for meeting the zero fiscal deficit target, and public spending may be able to exceed the levels established in the budget.

In the face of the economic slowdown in the United States and rising oil and food prices, the federal government decided to take several courses of action: in February 2008, it announced the creation of a national infrastructure fund; in March, it implemented the economic support programme; and in May, it began to introduce a series of measures to lower the pressure on food prices, including tariff reductions for grain imports. These three measures, together with the federation's spending budget for fiscal 2008, which was approved at the beginning of the year and contemplates a real increase of 9.8% in public spending, form the backbone of the Government's policy for tackling the negative effects of the current international situation.

The resources of the national infrastructure fund represent 1.6% of total government spending and about 0.3% of GDP, while the resources of the economic support programme represent 0.6% of GDP. This programme includes measures such as tax discounts, tax incentives, tariff simplification measures, discounts on the contributions employers make to the Mexican Social Security Institute (IMSS), reduced credit costs and improved access to credit for marginalised communities, lower electricity rates during peak and working hours, and the allocation of additional resources to guarantee funds and financing initiatives for small enterprise.

(b) Monetary policy

The goal of monetary policy continued to be to keep inflation down to about 3%. Given the pressure generated by rising international prices for grains and certain raw materials and the high price of hydrocarbons, Banco de México raised the one-day interbank rate (the anchor rate) in April and October 2007 by 25 basic points on both occasions in order to lower inflationary expectations. Monetary policy remained unchanged during the first five months of 2008, but became more restrictive as of June that year. The interbank interest rate went up 25 points to 7.75%.

In 2007, the money supply expanded 6.0% in real terms (half as much as in 2006) owing to slower economic growth and the disappearance of some temporary factors that had emerged in 2006, such as the more widespread use of cash, which was linked to federal electoral campaign processes (cash outside banks swelled 6.8%, evidence of the effects of the remonetization process).

Reflecting more sluggish GDP growth, the money supply rose 4.8% in real terms in the first quarter of 2008. The monetary aggregate M1 increased 6.8%, while M2 rose 4.7%. M3 growth was slightly more buoyant (8.3%) and was channelled mainly into government securities.

Credit continued to be widely available to the private sector, although it expanded less than in 2006. In December 2007, total financing to the non-financial private sector represented 32.6% of GDP, which reflected a real annual variation of 9.6% on the previous year. Total lending by commercial banks to the private sector rose 25% in 2007, although the growth of household loans (consumer loans and mortgages) declined. The default rate at the end of 2007 was 2.54%, in other words, 0.55 percentage points higher than at the end of 2006. Non-performing loans accounted for 5.48% of consumer loans, which is 1.40 percentage points higher than in 2006.

Banco de México announced the formal elimination as of 21 January 2008 of the so-called "corto" instrument (whereby commercial banks had to keep a certain level of their balances in the central bank) and the adoption of the one-day interbank rate. The Governor of the bank stressed that the elimination of the "corto" was a mere formality as the interbank rate had been in use since April 2005. The move therefore in no way affected monetary policy.

(c) Exchange-rate policy

Exchange policy continued to be based on the floating exchange-rate regime implemented at the end of 1994. The international financial market experienced some periods of volatility in 2007 as a result of uncertainty regarding the depth of the subprime mortgage crisis in the United States. In 2006-2007, the value of the Mexican peso remained relatively stable in relation to the United States dollar, at about 10.9 pesos per dollar. In the first semester of 2008, however, the exchange rate fell to 10.6 pesos per dollar as a result of the capital inflows generated by the difference between interest rates in the United States and Mexico. This, together with the relative abundance of foreign exchange generated by remittances, foreign direct investment and hydrocarbon exports, brought about a 3.0% real appreciation of the Mexico peso against the United States dollar in addition to the 0.8% appreciation already recorded in 2007.

Banco de México continued to take measures to reduce the build-up of international reserves. This made the country's exports less competitive but helped lower inflationary pressure. In 2007, US$ 3.348 billion, in other words, 4% of reserves were auctioned off. Despite this, international reserves swelled by over US$ 10 billion in 2007 and continued to increase into 2008. At the end of June 2008, they had reached US$ 85.671 billion.

(d) Other policies

In April 2008, the Executive Branch submitted an energy reform bill for the consideration of the Senate. The bill contemplated changes that would grant PEMEX more autonomy in the management of its budget and its debts. Given its significance and the debate it stirred up nationwide, the country's three main political parties agreed to hold discussions on the proposal between May and July 2008.

3. The main variables

(a) Economic activity

Economic activity was less buoyant in 2007 mainly due to the fall in external demand and, to a lesser extent, to the deceleration of domestic spending. A sluggish job creation rate, less dynamic credit activity and slower remittance growth meant that total consumption growth fell from 4.8% in 2006 to 3.8% in 2007, public-sector consumption growth increased from 0.3% to 1.0%, and private consumption growth fell from 5.6% to 4.2% over the same period.

Internal demand is expected to continue to drive the economy in 2008 but at a more moderate pace than in 2007. The effects of the slowdown in the United States economy have already made themselves felt in the first months of 2008, and GDP grew just 2.6% in the first quarter. This also occurred because the volume of remittances was down by slightly over 3% in relation to the same period in 2007.

Between January and March 2008, gross fixed investment was 11% higher than in the same quarter the previous year, which compares favourably with the 5.6% expansion recorded for the whole of 2007 (22% of GDP). A 35% increase in capital goods imports, driven by increased foreign purchases by the mining industry, and the weight and dynamism of transportation equipment purchases were two of the factors behind this growth.

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
	Annual growth rates [b]								
Gross domestic product	3.8	6.6	-0.0	0.8	1.4	4.0	3.2	4.8	3.2
Per capita gross domestic product	2.1	5.1	-1.1	-0.1	0.6	3.2	2.3	3.7	2.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.5	0.4	5.9	-0.9	3.8	2.9	-0.7	3.9	2.0
Mining	-2.1	3.8	1.5	0.4	3.7	1.3	-0.3	1.4	-3.4
Manufacturing	4.2	6.9	-3.8	-0.7	-1.3	3.8	3.4	5.1	2.7
Electricity, gas and water	15.8	3.0	2.3	1.0	1.5	4.0	2.0	12.2	7.2
Construction	5.0	4.2	-5.7	2.1	3.3	5.3	2.5	7.9	3.0
Wholesale and retail commerce, restaurants and hotels	3.1	12.2	-1.2	0.0	1.5	6.4	3.9	5.5	3.7
Transport, storage and communications	7.8	9.1	3.8	1.8	5.0	7.7	5.5	7.5	6.1
Financial institutions, insurance, real estate and business services	3.6	5.5	4.5	4.2	3.9	4.6	5.3	7.1	6.1
Community, social and personal services	2.1	2.9	-0.3	0.9	-0.6	0.5	2.4	0.9	2.4
Gross domestic product, by type of expenditure									
Consumption	4.4	7.4	1.9	1.4	2.1	4.4	4.6	4.8	3.8
General government	4.7	2.4	-2.0	-0.3	0.8	-2.8	3.5	0.3	1.0
Private	4.3	8.2	2.5	1.6	2.2	5.6	4.8	5.6	4.2
Gross fixed capital formation	7.7	11.4	-5.6	-0.6	0.4	8.0	6.5	9.6	5.6
Exports (goods and services)	12.4	16.3	-3.6	1.4	2.7	11.5	6.8	10.8	6.2
Imports (goods and services)	14.1	21.5	-1.6	1.5	0.7	10.7	8.5	12.8	7.0
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	27.0	27.5	22.1	22.7	22.9	24.7	23.9	25.7	25.7
National saving	24.3	24.5	19.5	20.7	21.7	23.8	23.2	25.5	25.2
External saving	2.7	2.9	2.6	2.0	1.2	0.9	0.6	0.2	0.5
	Millions of dollars								
Balance of payments									
Current account balance	-13 976	-18 683	-17 683	-14 137	-8 573	-6 595	-5 206	-2 229	-5 516
Goods balance	-5 613	-8 337	-9 617	-7 633	-5 779	-8 811	-7 587	-6 133	-10 074
Exports, f.o.b.	136 362	166 121	158 780	161 046	164 766	187 999	214 233	249 925	271 875
Imports, f.o.b.	141 975	174 458	168 396	168 679	170 546	196 810	221 820	256 058	281 949
Services trade balance	-1 757	-2 323	-3 558	-4 048	-4 601	-4 607	-4 713	-5 736	-5 940
Income balance	-11 912	-15 017	-13 847	-12 725	-12 305	-10 338	-13 639	-14 485	-13 834
Net current transfers	6 286	6 994	9 338	10 269	14 112	17 161	20 733	24 124	24 332
Capital and financial balance [d]	18 226	25 793	25 008	21 227	18 011	10 653	12 371	1 226	15 802
Net foreign direct investment	13 734	17 789	23 045	22 158	15 341	18 451	14 471	13 532	16 430
Financial capital [e]	4 492	8 004	1 963	-931	2 670	-7 799	-2 101	-12 306	-629
Overall balance	4 250	7 110	7 325	7 090	9 438	4 058	7 164	-1 003	10 286
Variation in reserve assets [f]	-596	-2 824	-7 325	-7 090	-9 438	-4 058	-7 164	1 003	-10 286
Other financing [g]	-3 654	-4 286	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	108.3	100.0	94.4	94.0	104.5	108.3	104.6	104.6	105.3
Terms of trade for goods (index: 2000=100)	99.3	100.0	97.4	97.9	98.8	101.6	103.6	104.1	105.1
Net resource transfer (millions of dollars)	2 660	6 491	11 161	8 502	5 706	315	-1 269	-13 258	1 967
Total gross external debt (millions of dollars)	166 381	148 652	144 526	134 980	132 273	130 925	128 248	116 669	124 581
	Average annual rates								
Employment									
Labour force participation rate [i]	58.3	58.7	58.1	57.8	58.3	58.9	59.5	60.7	60.7
Open unemployment rate [j]	3.7	3.4	3.6	3.9	4.6	5.3	4.7	4.6	4.8
Visible underemployment rate [j]	…	…	…	…	…	…	7.5	6.9	7.2
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.8
Variation in the national producer price index (December-December)	12.5	6.4	1.3	9.2	6.8	8.0	3.4	7.3	5.4
Variation in nominal exchange rate (annual average)	4.6	-1.1	-1.2	3.4	11.7	4.6	-3.5	0.1	0.2
Variation in average real wage	1.5	6.0	6.7	1.9	1.4	0.3	-0.3	0.4	1.0
Nominal deposit rate [k]	20.9	14.6	11.0	6.2	5.1	5.4	7.6	6.1	6.0
Nominal lending rate [l]	23.7	16.9	12.8	8.2	6.9	7.2	9.9	7.5	7.6

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Non-financial public sector									
Total income	19.0	19.7	20.0	20.2	21.2	20.7	21.2	22.0	22.3
Tax income	10.4	9.7	10.3	10.6	10.1	9.0	8.8	8.6	9.0
Total expenditure	20.0	20.7	20.6	21.3	21.8	20.9	21.3	21.9	22.2
Current expenditure	17.5	18.3	18.2	18.4	19.0	17.8	18.2	18.6	18.6
Interest	2.8	2.3	2.3	2.0	2.1	1.9	2.0	2.1	1.9
Capital expenditure	2.6	2.4	2.4	2.9	2.8	3.2	3.1	3.3	3.6
Primary balance [m]	1.8	1.3	1.7	0.9	1.6	1.7	1.9	2.1	1.9
Overall balance [m]	-1.0	-1.0	-0.7	-1.1	-0.6	-0.2	-0.1	0.1	0.0
Public-sector debt	28.3	25.3	24.1	25.7	26.1	24.2	23.0	22.7	24.8
Domestic [n]	10.9	11.8	12.6	13.8	14.4	13.8	14.6	16.9	19.0
External	17.4	13.5	11.5	11.8	11.8	10.4	8.4	5.8	5.8
Money and credit [o]									
Domestic credit	44.0	38.4	38.1	38.9	36.8	33.3	32.1	33.2	34.0
To the public sector	11.7	10.9	11.1	11.4	10.9	10.4	8.7	8.5	8.3
To the private sector	17.5	15.7	12.9	14.3	14.0	13.2	14.4	16.9	18.4
Others	14.7	11.8	14.1	13.2	12.0	9.7	9.0	7.8	7.4
Liquidity (M3)	40.5	39.1	43.3	44.4	45.6	45.1	48.6	49.5	50.2
Currency outside banks and local-currency deposits (M2)	39.1	37.8	41.6	42.9	44.4	43.7	47.1	48.1	49.0
Foreign-currency deposits	1.4	1.3	1.7	1.5	1.2	1.4	1.5	1.4	1.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2003, based on figures in local currency at constant 1993 prices. From 2004 onward, based on figures in local currency at constant 2003 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, urban areas.
[j] Percentage of the economically active population, urban areas.
[k] Cost of term deposits in local currency in the multibanking system.
[l] Lending rate published by IMF.
[m] Does not Include non-budgeted expenditure.
[n] Federal-government domestic debt.
[o] The monetary figures are end-of-year stocks.

Activity in the agricultural, mining, manufacturing and construction sectors slowed in 2007. Construction is expected to pick up in 2008 with the implementation of the 2007-2012 national infrastructure programme and the expansion of the housing construction programme.

In contrast, the services sector remained buoyant in 2007. The growth of the transportation, storage and communications segments increased by 6.1%, and the growth of the financial services, insurance, real-estate and rental segments also increased 6.1%. This trend continued into 2008. The manufacturing sector as a whole posted only moderate growth in 2007 owing, in part, to the slowdown in the textiles, clothing and leather items segments (4.5%), which have been affected by waning demand in the United States and stiff competition from Asian manufacturers.

Automobile production dropped in 2007 as a result of shrinking domestic demand and the increased importation of used vehicles. The volume of vehicle exports rose 5% in 2006. This figure reflected the contraction of demand in the important United States market because sales to Europe and South America soared 58.5% and 72.5%, respectively. Total production in 2007 was just over 2 million vehicles, 2.2% more than in 2006. Between January and June 2008, however, the automobile industry's output was 8.4% (81,590 vehicles) higher than during the same period in 2007, and vehicle exports had risen 12.5%. Exports to the United States grew 3.5%, while exports to the European Union increased 58% and those to Asia rose from 512 to 16,748 vehicles.

(b) Prices, wages and employment

Inflation in 2007 was slightly lower than in the previous year, but this situation started to change at the beginning of 2008. In 2007, inflation stood at 3.8% for three main reasons: the price of processed food items, which was affected by international prices; high non-core

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.0	5.1	4.9	3.7	2.5	2.6	3.4	4.2	2.6	...
Goods exports, f.o.b. (millions of dollars)	58 852	63 780	63 140	64 153	60 269	67 656	70 269	73 681	70 128	79 388
Goods imports, f.o.b. (millions of dollars)	58 119	63 932	65 763	68 245	62 723	69 964	72 664	76 599	71 758	80 281
International reserve assets (millions of dollars) [c]	76 024	84 945	83 454	76 330	75 851	77 934	82 168	87 211	91 134	94 045
Real effective exchange rate (index: 2000=100) [d]	100.8	108.5	105.9	103.2	104.2	105.4	106.2	105.3	105.4	103.3
Unemployment rate	4.5	4.3	5.1	4.7	5.1	4.5	5.1	4.7	4.9	4.3
Consumer prices (12-month percentage variation)	3.4	3.2	4.1	4.1	4.2	4.0	3.8	3.8	4.2	5.3
Average nominal exchange rate (pesos per dollar)	10.60	11.18	10.95	10.89	11.02	10.88	10.96	10.85	10.80	10.42
Average real wage (variation from same quarter of preceding year)	1.1	0.8	0.9	-1.2	0.5	1.7	1.3	0.8	1.3	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	6.6	6.1	5.8	5.8	5.8	5.9	6.0	6.2	6.4	6.5
Lending rate [f]	7.9	7.3	7.3	7.4	7.4	7.5	7.6	7.8	7.9	8.0 [g]
Interbank rate	8.0	7.4	7.3	7.3	7.4	7.6	7.7	7.9	7.9	8.0
Sovereign bond spread (basis points) [h]	127	138	121	98	99	95	112	149	168	172
Stock price index (national index to end of period, 31 December 2000 = 100)	341	339	388	468	509	551	536	523	547	520
Domestic credit (variation from same quarter of preceding year)	8.6	7.7	8.6	15.6	11.1	11.8	14.5	11.3	4.2	8.1 [i]
Non-performing loans as a percentage of total credit	1.7	1.8	2.0	2.0	2.2	2.3	2.5	2.5	2.5	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Cost of term deposits in local currency in the multibanking system.
[f] Lending rate published by IMF.
[g] Data to April.
[h] Measured by J.P.Morgan's EMBI+ index.
[i] Data to May.

inflation during the first eight months of the year, which fell during the remaining four months when the internal price of agricultural goods dropped; and the price freeze imposed on some items subject to price administration. The relative drop in inflation in 2007 (in the housing sector, for example) was helped by the mitigation of some supply problems observed in 2006.

In January-June 2008, annual inflation reached 5.3%, spurred by rises in international food and fuel prices. Non-core inflation during this period was 5.9%.

The slight deceleration of the economy meant that the nationwide rate of unemployment rose from 3.6% in 2006 to 3.7% in 2007 of the economically active population. Almost 12 million people, or the equivalent of 27.4% of the employed population, now work in the informal sector.

In 2007, 524,981 workers registered with the Mexican Social Security Institute (IMSS). This represented a 3.9% increase on the previous year. Another 265,202 registered between December 2007 and June 2008. The number of workers holding permanent jobs has grown more slowly than the number of workers holding temporary ones, who now account for 11% of IMSS affiliates. Commerce, mineral and hydrocarbon extraction activities and business support services have generated the largest number of jobs. In January-June 2008, the construction industry, business, personal and household services, and social and community services recorded the largest increase in permanent employees.[1]

Manufacturing employment was up 0.4% in 2007, while labour productivity rose 0.7% (compared with 3.3% in 2006). Productivity recovered notably, however, in the first two months of 2008 (4.9%). Real average wages rose 1.1%, more than twice as much as in 2006, and the combination of the two factors translated into a slight increase (0.3%) in unit labour costs which, nonetheless, fell sharply in January and February 2008.

(c) The external sector

Export growth was less buoyant in 2007, down to 8.8% compared with 16.7% in 2006. Exports volumes increased only 5.6%, far less than in 2006, and the unit value of exports fell to 3.2%. Petroleum exports rose 10.2%, and non-oil exports 8.5%. Of the latter, the products obtained from extraction activities recorded the highest growth (31.9%), while agricultural and manufactured goods exports increased 8.4%. In 8 of the 11 branches of the manufacturing sector, exports increased between 2006 and 2007, most notably in the mining-metallurgy, chemicals, iron and steel, metallic products, machinery and equipment segments, as well as in other manufacturing activities. Wood, textiles and apparel, and non-metallic mineral exports meanwhile fell. The automotive industry's exports increased 5.8%.

The growth in goods imports (10.1%) outpaced the growth in exports, which contributed to the widening of the trade deficit. Import volumes increased more slowly (8.2%) than in 2006, however, while the unit value of imports only rose 2.4%. As this increase was less than the increase in the unit value of exports, the terms of trade improved slightly (0.9%).

A 53% rise in the value of gasoline imports, which was spurred by growing demand, high prices and a reduction in domestic refining activities, widened the trade deficit. Gasoline imports grew from 204,700 to 307,700 barrels per day. Imports of consumer goods, intermediate goods and capital goods increased 16.5%, 8.8% and 10.1%, respectively. The increase in consumer goods imports consisted, in addition to gasoline, of increases in concentrated milk imports (62%) and petroleum gas and other gas hydrocarbon imports (24.3%).

Because the trade deficit almost doubled, the balance-of-payments current account deficit doubled compared with 2006 although it remained small in terms of GDP (0.6%). Exports were remarkably buoyant in the first five months of 2008 and increased 17.1%, largely thanks to high oil prices. Imports grew 15.4% during this period. The trade deficit for January-May 2008 was therefore US$ 2.797 billion, 28.9% lower than for the same period in 2007.

The transfers account, which consists mainly of remittances sent by Mexicans residing abroad, continued to perform well in 2007, posting a balance of US$ 24.433 billion dollars. This represented a slight increase on the previous year (0.9%) and surpassed the volume of foreign direct investment (FDI) received during the year. Remittances fell during the first five months of 2008, however (US$ 9.512 billion, compared with US$ 9.772 billion during the same period in 2007).

The financial account registered a surplus of US$ 18.307 billion, owing mainly to the record volume of portfolio investment (US$ 14.773 billion) and FDI flows, which were the highest seen since 2002. The Government paid down US$ 336 million of its debt, while the banking sector and other sectors took out loans for US$ 1.766 billion and US$ 7.451 billion, respectively.

Foreign direct investment was US$ 24.686 billion in 2007, 28% higher than in 2006. Direct investment by Mexicans abroad reached US$ 8.256 billion, 43% higher than the previous year. FDI in Mexico mainly targeted the manufacturing industry (49.7%) and financial services (24.3%), and came mostly from the United States (47.3%), the Netherlands (15.1%) and Spain (9.6%). FDI is expected to reach approximately US$ 20 billion in 2008.

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1 In May 2008, the IMSS announced that it had revised the methodology used to calculate the number of workers insured by the institute. The new figures show that number of temporary jobs created had been overestimated in the past two years and that the percentage of workers holding permanent jobs was actually higher than the figures obtained through the previous methodology implied (89% instead of 80%).

Nicaragua

1. General trends

Driven by buoyant exports, domestic investment and consumption, Nicaragua's real GDP grew 3.8% in 2007, compared with 3.9% the previous year. Rising internal demand led to a significant increase in imports. Nominal inflation climbed sharply and reached 16.2% towards the end of the year. The central government fiscal deficit trended downwards (3.1% of GDP, not including grants), as did unemployment (4.9%).

Having won the national elections held in November 2006, Daniel Ortega assumed the presidency in January 2007. During the first year of his five-year term in office, the economy was affected by cuts in the electrical energy supply, setbacks in the completion of public investment projects and, in the second semester, the considerable damage and losses wrought by hurricane Felix and heavy rains in the north-western part of the country.

The increase in inflation in 2007 was triggered by rising international prices for fuel and food, as well as by domestic factors (underlying year-on-year inflation was 11.7%), such as the contraction of agricultural output, which was affected by adverse weather conditions, the expansion of the monetary base and inflation expectations. The rise in inflation had a direct impact on average real wages (which fell 7.4%), on real interest rates (the lending rate turned negative during the last few months of the year) and on the real exchange rate (which appreciated 2.4% on average).

According to ECLAC projections, GDP growth in 2008 will be 3.0% owing to a less favourable national and international context. The slowdown of the United States economy will have a negative impact on exports and remittances, and consumption will be affected by the decline of real wages. On the other hand, public investment in infrastructure and transportation projects and public spending are expected to increase. In June 2008, the year-on-year inflation rate reached 23.1%, and accumulated inflation reached 11.8%, which is already higher than the single-digit inflation target set for 2008.

2. Economic policy

In 2007, the new Government continued to pursue an economic policy aimed at guaranteeing macroeconomic stability, within the framework of the three-year agreement recently signed with the International Monetary Fund (IMF) in the amount of US$ 111.3 billion, by using the exchange rate as a nominal anchor for prices. The fiscal deficit fell in 2007 owing to the increase in income and the under-implementation of the budget. Monetary policy became more expansive as legal reserve levels fell and the monetary aggregates increased.

(a) Fiscal policy

The central government's fiscal deficit, excluding grants, fell, as a proportion of GDP, for the fourth year in a row, from 3.9% in 2006 to 3.1% in 2007. Tax revenue rose 5.1% in real terms thanks to economic growth and the measures taken to improve tax administration. The tax burden thus increased from 17.5% in 2006 to 18% in 2007. Grants continued to be a major source of income for the central government (16% of total income), although they fell in real terms (by 4.6%) in comparison with the significant increase (24.3%) they experienced in 2006.

Total government spending grew 1.6% in real terms, while accounting for a slightly smaller proportion of GDP (22.6% in 2007 compared with 22.7% in 2006). Two thirds of government outlays consisted of current expenditures and the other third of capital expenditures. Salary adjustments and the transfer of the payroll of staff employed by autonomous entities to the payroll of the national treasury meant that wages increased more than any other expenditure item (24.7%). External interest payments recorded the sharpest decline (27.8%) thanks to the debt cancellation programmes that Nicaragua has benefited from in the last few years. Capital expenditures declined slightly in real terms (0.1%), with 85.9% of the annual amount allocated in the budget being actually implemented.

Public external debt continued to fall dramatically and reached US$ 3.385 billion (59.1% of GDP) in 2007 compared with US$ 4.527 billion (85.5% of GDP) in 2006. The outstanding balance of the external debt was reduced by US$ 1.164 billion in the first semester of 2007 when the country's debt to the Inter-American Development Bank was cancelled.

In the country's economic and financial programme, the consolidated public deficit, without grants, is projected to reach 1.8% of GDP in 2008, 0.8 percentage points above the level recorded in 2007. Public expenditure is also projected to expand in 2008 as the Government undertakes reconstruction work to repair the damage caused by hurricane Felix and the intense rains that affected parts of the country and implements its plans to increase spending on health and education and to carry out the investments needed in the energy, potable water and transportation sectors.

(b) Monetary and exchange-rate policies

The goal of monetary policy continued to be to guarantee the stability of the national currency and the normal functioning of the means of payment. In 2007, the central bank of Nicaragua carried out a series of previously-announced mini-devaluations at a rate of 5% per year as a means of anchoring inflation expectations. Towards the end of the year, the average nominal exchange rate therefore reached 15.35 gold córdobas per United States dollar. As a result of the sharp increase in inflation, the average real exchange rate of the córdoba to the United States dollar appreciated 2.4%. The real effective exchange rate, however, which measures the variation of a country's currency against the currencies of its main trading partners, depreciated 2.1%. These opposing movements reflect the general decline of the United States dollar vis-à-vis other currencies.

M1, which includes cash in circulation and current account deposits, posted a nominal increase of 23.6% with respect to the close of the previous year, compared with a 17.5% rise in 2006. This increase coincided with the rise in inflation. Time deposits in national currency expanded 9.5% in nominal terms (compared with 10.5% in 2006) as preference for foreign currency holdings and instruments offering more immediate liquidity grew. Despite inflationary pressure, on 15 October 2007, the legal reserve rate was lowered from 19.25% to 16.25% in keeping with the commitments previously assumed with the banking sector. This reduction made it possible for credit operations to expand considerably during the last quarter of the year.

In the financial system, deposits grew 17% in nominal terms in 2007. Rising inflation led depositors to invest mainly in foreign-currency instruments and in instruments that offered more immediate liquidity. The loan portfolio grew 31.6% in nominal terms, which is similar to the expansion observed in 2006 (30.8%). Lending operations to the livestock sector and the credit cards sector recorded the largest growth.

At the end of 2007, the nominal borrowing rate for national-currency deposits was 6.6%, 140 basic points higher than at the end of 2006. The nominal lending rate for national currency operations rose to 12.9%, 130 basic points above the December 2006 level. This increase occurred just as international interest rates were falling and can therefore be attributed to domestic circumstances, such as inflationary pressure. The real lending rate remained negative throughout 2007, while the real borrowing rate turned negative in October when inflation began to pick up speed.

Larger net purchases on the foreign exchange market pushed up net international reserves to US$ 970.7 million by the end of 2007, which represents an annual increase of 20.6%. This figure surpasses the US$ 843,8 million projected as one of the country's monetary policy objectives in the economic and financial programme.

Having rejected the possibility of reducing the pace of currency depreciation (which will continue at the rate of 5%

a year) and of increasing the legal reserve rate, the central bank of Nicaragua announced that open market operations will be the main tool used to fight inflation in 2008.

(c) Trade policy

Trade policy in 2007 focused on creating favourable conditions for expanding product diversification and markets for Nicaraguan goods. The new Government awarded priority to the negotiation and signing of free trade agreements, including investment and cooperation agreements. In March 2007, the National Assembly of Nicaragua approved the country's adhesion to the Bolivarian Alternative for Latin America and the Caribbean, which aims to further regional integration and trade cooperation. A series of agreements were signed covering a number of subjects, including energy, oil supplies, product sales, housing construction, scholarships and technical assistance.

In 2007, Nicaragua continued to participate in the multilateral talks of the Doha Development Round at the World Trade Organization (WTO) and in the process to establish a Central American customs union. Negotiations for a European Union Association Agreement with Central America were also launched. An additional protocol to modify the free trade agreement between Nicaragua and Mexico regarding textile accumulation was signed within the framework of the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR) to allow the incorporation of Mexican textiles in exports to the United States.

3. The main variables

(a) Economic activity

Sustained by increases in domestic gross investment (14.5%), exports (9.6%) and, to a lesser extent, total consumption (4.5%), GDP grew at 3.8% in 2007, slightly less than in 2006 (3.9%), continuing the slowdown that started three years earlier. Buoyant domestic demand meanwhile fuelled imports, which rose 14.2%, and per capita GDP expanded for the fourth consecutive year, at a rate of 2.4%.

The expansion of the manufacturing industry (7.6%), transportation and communications services (6.7%) and financial establishments (7.8%) drove GDP growth, while the mining and construction sectors posted negative results (-8.8% and -3%, respectively). The construction sector in particular was affected by the incomplete execution of the public investment programme and falling demand for housing.

ECLAC has projected a growth rate of 3.5% for 2008, which is slightly below the rate observed in 2007. One of the key factors in this slowdown is the deceleration of the United States economy and its impact on Nicaraguan exports, which have been a fundamental factor of growth in recent years. Moreover, remittances will be affected by the crisis in the United States housing market, which employs large numbers of immigrants, and by the increasing difficulties immigrants have in entering the United States.

On the domestic front, the fall of real wages in the face of soaring inflation will have an adverse effect on consumption. Public spending on reconstruction work to repair the damage caused by hurricane Felix and torrential rains, together with increased investment in electricity generation and the upgrading of the urban transport system, should, however, boost economic activity.

The first figures available for 2008 in effect point to a slowdown and the continuation of the downward trend witnessed in the monthly index of economic activity during the last months of 2007. Average year-on-year growth in the first four months of 2008 was 3.8% compared with 5.1% for the same period the previous year.

(b) Prices, wages and employment

Year-on-year inflation rose much higher in 2007 than in the previous year (16.2% compared with 9.4% in 2006) and far exceeded the projections contemplated in the economic and financial programme (8.2%). This is the highest inflation Nicaragua has seen this decade and the highest in Central America in 2007. Food, beverages and tobacco products suffered the largest year-on-year price rises (24.9%), followed by transport and communications (17.6%). The heavy weight of food in the country's consumer price index (CPI) exacerbated the impact of the increase of food

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
					Annual growth rates [b]				
Gross domestic product	7.0	4.1	3.0	0.8	2.5	5.3	4.3	3.9	3.8
Per capita gross domestic product	5.2	2.4	1.5	-0.6	1.2	4.0	2.9	2.5	2.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.0	12.1	2.7	-0.3	1.9	5.7	4.6	3.4	1.4
Mining	18.4	-15.5	13.6	5.6	-10.6	20.0	-10.4	-3.4	-8.8
Manufacturing	7.0	4.3	5.9	2.1	2.4	9.0	5.6	6.5	7.6
Electricity, gas and water	0.1	8.9	8.3	1.4	5.1	4.4	3.6	2.7	2.3
Construction	36.4	-1.0	2.1	-13.3	2.7	12.1	7.3	-3.2	-3.0
Wholesale and retail commerce, restaurants and hotels	9.4	1.7	1.6	3.3	1.4	4.6	2.3	3.9	4.7
Transport, storage and communications	8.3	0.9	3.7	2.7	9.7	4.8	6.7	4.4	6.7
Financial institutions, insurance, real estate and business services	7.6	5.1	3.9	2.3	6.8	7.2	4.0	5.6	7.8
Community, social and personal services	4.5	2.3	5.1	2.0	2.4	2.2	4.0	4.4	3.3
Gross domestic product, by type of expenditure									
Consumption	6.1	5.2	4.1	3.6	2.1	2.1	3.6	4.0	4.5
General government	2.2	-29.9	-2.9	-4.6	5.6	3.2	6.9	8.0	4.6
Private	6.8	11.4	4.9	4.5	1.8	2.0	3.3	3.6	4.5
Gross domestic investment	27.1	-16.8	-8.4	-7.1	-1.0	10.7	11.3	-3.7	14.5
Exports (goods and services)	12.4	12.5	7.3	-3.5	9.2	17.1	7.7	12.5	9.6
Imports (goods and services)	21.1	-4.7	0.7	-0.1	3.5	8.2	8.6	5.5	14.2
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	38.4	31.0	28.2	26.1	25.9	28.0	30.1	29.7	31.8
National saving	13.5	9.6	8.7	7.6	9.7	13.3	15.5	16.1	14.3
External saving	24.8	21.4	19.5	18.5	16.2	14.7	14.6	13.5	17.5
					Millions of dollars				
Balance of payments									
Current account balance	-928	-842	-805	-744	-663	-657	-710	-717	-1 001
Goods balance	-1 071	-921	-910	-939	-971	-1 088	-1 302	-1 417	-1 765
Exports, f.o.b.	749	881	895	914	1 056	1 369	1 654	2 034	2 313
Imports, f.o.b.	1 820	1 802	1 805	1 853	2 027	2 457	2 956	3 451	4 078
Services trade balance	-120	-129	-141	-130	-119	-123	-140	-137	-180
Income balance	-197	-202	-240	-206	-198	-201	-127	-124	-131
Net current transfers	460	410	486	530	625	755	859	961	1 075
Capital and financial balance [d]	533	644	542	531	454	546	646	779	1 094
Net foreign direct investment	337	267	150	204	201	250	241	287	335
Financial capital [e]	196	377	392	328	252	296	405	492	758
Overall balance	-395	-198	-263	-213	-210	-111	-63	62	92
Variation in reserve assets [f]	-157	16	110	-69	-55	-160	-6	-186	-173
Other financing [g]	552	182	153	282	265	271	69	124	80
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	102.0	100.0	101.1	103.2	106.9	107.8	108.5	107.2	109.4
Terms of trade for goods (index: 2000=100)	95.3	100.0	88.4	87.0	84.1	82.5	81.4	79.4	78.6
Net resource transfer (millions of dollars)	888	624	455	607	520	616	589	779	1 043
Gross external public debt (millions of dollars)	6 549	6 660	6 374	6 363	6 596	5 391	5 348	4 527	3 385
					Average annual rates				
Employment									
Labour force participation rate [i]	...	...	...	...	53.7	53.1	53.8	52.4	...
Open unemployment rate [j]	10.7	7.8	11.3	11.6	10.2	9.3	7.0	7.0	6.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December) [k]	7.2	9.9	4.7	4.0	6.6	8.9	9.6	10.2	16.2
Variation in nominal exchange rate (annual average)	11.6	7.4	5.4	6.6	6.0	5.5	2.6	6.1	6.3
Variation in average real wage	4.0	0.0	1.0	3.5	1.9	-2.2	0.2	1.4	-1.8
Nominal deposit rate [l]	11.8	10.8	11.6	7.8	5.6	4.7	4.0	4.9	6.1
Nominal lending rate [m]	17.6	18.1	18.6	18.3	15.5	13.5	12.1	11.6	13.0

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Non-financial public sector									
Total income [n]	25.9	24.0	23.0	24.3	26.6	28.9	29.6	31.7	32.6
Current income	20.6	19.4	20.1	21.2	22.8	25.3	26.2	27.4	28.6
Tax income	17.9	18.1	17.2	18.0	19.9	20.6	21.7	22.8	23.6
Total expenditure	28.1	28.5	29.6	26.3	28.9	30.3	30.5	31.0	31.0
Current expenditure	15.5	16.7	23.7	20.7	22.2	22.9	24.1	26.0	25.9
Interest	2.0	2.2	2.2	2.2	3.1	2.1	1.9	1.8	1.5
Capital expenditure	12.2	11.7	6.0	5.6	6.6	7.4	6.5	5.0	5.1
Primary balance	-0.3	-2.3	-4.4	0.3	0.8	0.8	1.0	2.5	3.1
Overall balance	-2.2	-4.5	-6.6	-1.9	-2.3	-1.4	-0.9	0.7	1.6
Non-financial public sector debt	120.2	114.7	111.3	134.1	138.0	100.7	92.8	69.1	47.7
Domestic	...	...	...	21.5	22.5	21.5	21.1	18.9	18.5
External	120.2	114.7	111.3	112.6	115.5	79.3	71.7	50.2	29.1
Money and credit [o]									
Domestic credit	...	...	78.0	79.7	80.7	71.4	67.3	62.8	60.5
To the public sector	...	...	74.7	72.7	68.2	56.4	48.1	39.8	31.1
To the private sector	...	...	17.7	19.6	22.9	25.4	29.3	33.7	39.0
Others	...	...	-14.4	-12.5	-10.4	-10.4	-10.1	-10.7	-9.7
Liquidity (M3)	39.5	37.5	37.4	40.0	41.8	43.0	41.3	39.4	41.0
Currency outside banks and local-currency deposits (M2)	14.5	12.9	12.4	12.1	13.4	14.4	13.5	13.6	14.2
Foreign-currency deposits	24.9	24.6	25.0	27.9	28.4	28.6	27.8	25.8	26.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population, urban total. For 1999 the figures refer to the nationwide total.
[k] Relate to the Managua Consumer Price Index.
[l] Weighted average rate on 30-day deposits.
[m] Weighted average rate on short-term loans.
[n] Includes grants.
[o] The monetary figures are end-of-year stocks.

prices at the international level. The CPI rose sharply from September 2007 onwards.

Core year-on-year inflation, which exclude perishables and energy, also reached double digits in 2007 (11.7%), fuelled by domestic factors: the decline in agricultural output (caused by adverse natural phenomena), the expansion of the monetary base and greater inflation expectations.

One of the core challenges facing the Government in 2008 is to bring down inflation without harming economic growth. During the first semester, the national CPI recorded an accumulated increase of 11.8%, 5.7 percentage points higher than during the same period in 2007. Approximately 80% of the increase in the CPI was generated by rising prices in the food and beverages and transport sectors, especially by the rise in international prices. In June, year-on-year inflation reached 23.1% compared with 9.5% for the same month the previous year. The loss of capacity to produce sufficient volumes of food to cover domestic demand and rising food prices have aroused concerns about a possible food crisis.

The nominal open unemployment rate fell for the fourth year in a row in 2007 (to 4.9% from 5.1% in 2006) thanks to the continued expansion of economic activity. Household surveys revealed that informal employment had also come down from 64.4% to 62.7% of the working population. The rise in inflation meant that the average real wages of workers covered by social security fell at an average annual rate of 1.7% after increasing 1.4% in 2006.

(c) The external sector

Goods exports, including those exported from the free zones, reached US$ 2.313 billion in 2007, which represented an annual increase of 13.7% with respect to 2006. This growth continues, driven by the concessions that Nicaragua enjoys under CAFTA-DR. Export growth in 2007 was slower, however, than in the three preceding years when exports increased at over 20% per year. This

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars)	251	282	247	269	310	310	292	291	397	...
Goods imports, c.i. f. (millions of dollars)	695	751	751	794	744	811	911	1 065	993	...
International reserve assets (millions of dollars) [b]	789	837	868	924	896	1 009	1 036	1 103	1 073	1 123
Real effective exchange rate (index: 2000=100) [c]	107.3	105.3	106.7	109.6	109.3	109.6	110.2	108.5	106.9	105.4
Consumer prices (12-month percentage variation)	10.9	10.8	8.3	10.2	9.0	9.0	10.9	16.2	18.9	22.7
Average nominal exchange rate (córdobas per dollar)	17.08	17.16	17.35	17.85	18.11	18.33	18.56	18.79	19.02	19.25
Average real wage (variation from same quarter of preceding year)	3.4	0.7	1.4	0.1	-1.9	-0.7	-0.3	-4.2	-5.0	...
Nominal interest rates (annualized percentages)										
Deposit rate [d]	4.6	4.8	4.9	5.2	5.7	5.9	6.4	6.3	6.7	6.5
Lending rate [e]	12.6	9.4	12.3	12.1	12.7	13.2	13.2	13.0	13.6	12.6
Interbank rate	43.5	39.4	36.7	40.3	44.0	42.5	27.0	8.3	9.6	10.1
Domestic credit (variation from same quarter of preceding year)	2.5	1.3	6.8	6.5	14.1	11.8	7.7	9.3	...	...
Non-performing loans as a percentage of total credit	2.0	2.1	2.1	2.0	2.1	2.3	2.5	2.4	2.8	2.9 [f]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Including gold.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Weighted average rate on 30-day deposits.
[e] Weighted average rate on short-term loans.
[f] Data to May.

slowdown was observed in both traditional exports (4.4% growth compared with 23.4% in 2006) and in the free zone exports (12.6% compared with 24.9% in 2006) and can be attributed to the slower growth of the United States economy in the second half of 2007 and the electricity cuts in Nicaragua that affected local production.

For the first time since 2003, import growth (18.2%) outpaced export growth, most noticeably in the cases of capital good imports (18.4%) and raw materials and intermediate goods imports (21.2%). The merchandise trade balance posted a deficit of US$ 1.765 billion. This deficit was 24.6% greater than the deficit recorded in 2006 and reflected the worsening, for the seventh consecutive year, of the terms of trade index (1.4% with respect to the previous year).

Income from family remittances, which reached US$ 739.6 million in 2007, continued to help mitigate the current account deficit. The annual growth rate of these transfers (6%), however, was significantly lower than in 2006 (13.3%) because of the economic slowdown in the United States (about 65% of the remittances received by Nicaragua come from the United States), and, from being equivalent to 13.2% of GDP in 2006, remittances fell to levels equivalent to 13% of GDP in 2007.

The behaviour of these variables meant that the current account deficit in 2007 increased to US$ 1.001 billion (compared with US$ 717 million in 2006) and represented 17.5% of GDP (compared with 13.5% in 2006). The financial account returned a positive balance of US$ 356.3 million, of which US$ 335.3 million were accounted for by foreign direct investment flows. This represented a 16.9% increase in the financial account with respect to 2006.

The current account deficit is projected to continue increasing in 2008 as a result of slower export and remittance growth and an increase in the consumption of imported goods. In the first quarter of 2008, merchandise exports expanded 26.3% with respect to the same period the previous year (23.2%), and imports soared 40.4% (compared with 6.9%). The current account therefore posted a deficit of US$ 311.4 million, compared with a deficit of US$ 137 million in 2007.

Panama

1. General trends

In 2007, the economy of Panama expanded by 11.2%, in what was the fourth year of intense growth in a context of consolidation of the fiscal and employment situation. The non-financial public sector posted a surplus equivalent to 3.5% of GDP, and the unemployment rate stood at 6.3% in August (compared with 8.7% a year earlier). The favourable macroeconomic performance facilitated compliance with several of the central targets set for 2009 within the current government's programme. However, inflation rose substantially (6.4%) and the balance-of-payments current account deficit widened to 8% of GDP.

The driving forces in the economy were gross fixed investment (32%) and exports (12%), although consumption also expanded considerably (8%). Gross fixed investment was given a great boost by both the public and private sectors. The programme of public works has been particularly relevant in this regard, as work began to widen the Panama Canal in the middle of the year, with the project expected to be completed in 2012 following an estimated investment of US$ 5.2 billion (25% of GDP in 2007). The local and foreign private sector made investment efforts, especially in residential construction, as well as in other activities within and outside the Colón Free Zone.

Besides the business-friendly climate, the availability of bank financing at low interest rates promoted a rapid expansion of investment and private consumption. Bank credit rose by 19.6% over the year, and was geared towards a wide range of activities. This credit growth and the increase in foreign and domestic deposits reflect Panama's position as a regional centre for financial intermediation. Owing to the nature and orientation of its operations, by mid-2008 the banking sector was showing no signs of suffering in the wake of the financial crisis in the United States.

Nevertheless, the growth rate of the Panamanian economy is expected to drop slightly in 2008 due to the negative effects of the slowdown in the United States and rising domestic inflation. Buoyant implementation of public works projects and a stepping-up of work to widen the Panama Canal point to an expansion of around 8% in real GDP. Inflation should be at least two percentage points higher than in 2007, owing to high international prices for oil and food.

Sustaining high economic growth in the medium term will require eliminating potential or current bottlenecks in the availability of electricity, skilled workers and infrastructure. It will also be essential to halt rising inflation, otherwise the purchasing power of the population will be eroded (especially among low-income groups), and the viability and funding of various investment projects would be under threat.

According to indicators available for the first two months of 2008, Panama's economy has continued to grow strongly, with the most buoyant sectors posting growth of over 10% (construction, sales of cars and trucks, banking and tourism). This year saw the concession to use US$ 600 million of investment to build a new container port in Farfán granted to one Chinese corporation and one United States enterprise. The feasibility and cost of building an oil refinery in Puerto Armuelles with funding from Qatar Petroleum are also under discussion. In June 2008, the consumer price index climbed by 9.6% in 12 months, while the food price index rose by 15.1%. Price hikes were also recorded in transport and, to a lesser extent, in housing, water, electricity and gas.

2. Economic policy

In 2007, economic policy concentrated on implementing the ambitious programme of public works, in a context of consolidated public finances and efforts to protect low-income groups. Measures introduced in this regard include efforts to reduce the cost of the basket of staple foods by importing rice and other products and selling them directly to poorer consumers.

(a) Fiscal policy

The non-financial public sector posted a surplus of 3.5% of GDP (compared with the original projection of a 2.9% deficit), thanks to a wider primary surplus, lower interest payments and non-recurring receipts from the concession of duty-free shops in Tocumen international airport. Other contributing factors included the positive operating balance of public institutions and enterprises and the current savings of the central government. The latter was due to a 12.2% increase in total revenues in real terms and a 4.2% reduction in current expenditure, following a cut in domestic interest payments (56%). Such savings made it possible to fund the massive surge in capital expenditure (72%).

Furthermore, in real terms tax revenues increased (by 11.6%) and so did non-tax revenues (11.3%), on the strength of the buoyant economy and employment situation. Indirect taxes (up 18.3%) rose by much more than direct taxes (6%).

Consolidated public debt climbed by just 0.2% to stand at US$ 10.471 billion (61% of GDP). This was due to a deliberate policy of replacing consolidated internal debt with external debt, which brought the two categories to 12.8% and 48.3% of GDP, respectively. This form of debt management was aimed at reducing interest payments, encouraging risk agencies to classify the country as investment grade and providing more leeway for obtaining further external resources to fund public works as and when necessary. In May 2007, Standard & Poor's raised the classification of Panamanian debt from BB/stable to BB+/positive.

(b) The international banking centre and credit policy

In 2007, the assets of the international banking centre continued to increase (20% compared with 18.4% in 2006), within both the national banking system and internationally licensed banks. This was then reflected in more buoyant credit operations. Credit for the domestic market was up by 16% (13% the previous year) and followed the usual pattern of being mostly concentred (96%) in the private sector. The private activities that absorbed the most finance were trade, construction (including mortgages), personal consumption and financial entities. In 2007, those aforementioned activities received 88% of all loans granted to the private sector, with loans to trade and construction (not including mortgages) posting the largest increase (of over 30%). Personal loans were up by 17.7%, which was three percentage points more than in the previous year. Following several years of strong growth, mortgage loans increased by just 2.5%, which may be a reflection of the cautious stance taken by national banks. Banking reserves swelled by 29% to reach the equivalent of 2.6% of total loans to the domestic private sector. Loans to industry, micro enterprises, fishing and mining all grew by over 30%, although they remained less significant overall.

Generally speaking, the country's banking system continued to present a low level of risk. Following a slight increase in the proportion of non-performing loans, the percentage then began to trend downwards in the final quarter of 2007 to stand at around 1.2% of the total by the end of March 2008. In 2007, the share corresponding to the official banking system dropped sharply to over two percentage points lower than the 5.5% recorded in December 2006 (with the trend continuing into March 2008). Capital adequacy remained at almost 14%, and the position of private banks with national capital was particularly strong. In the context of this positive performance, however, it is vital for the Superintendency of Banks to avoid any unwise expansion of consumer loans.

Deposit-taking was up for the year in terms of demand deposits (29%) and time and savings deposits (23%), and particularly in respect of foreign deposits. Such buoyancy continued into the first quarter of 2008. In 2007, nominal interest rates edged up slightly, except for a fall in the local mortgage rate. The three-month borrowing rate rose to 4.12%, compared with 3.35% in 2006, while the lending rate for commercial loans increased to 8.3% (from the 8.1% recorded 12 months previously). These changes were cancelled out by inflation, which caused a decline in real terms. The real commercial and consumer interest rates dropped by one and a half percentage points to 3.96% and 6.09%, respectively. For its part, the real benchmark mortgage rate fell from 4.43% to 2.66%, while the real three-month borrowing rate went into negative figures (-0.05%).

(c) Trade policy

By mid-2008, the United States had yet to ratify the free trade agreement with Panama, for which bilateral negotiations had concluded in early 2007. It is difficult to see how this situation could be resolved during 2008, given the upcoming Presidential elections in the United States. The preferences granted under the Caribbean Basin Initiative will expire in 2008, and the implementation of the Dominican Republic —Central America— United States Free Trade Agreement (CAFTA-DR) could either undermine some of the competitive advantages of Panama within the United States market, affect foreign direct investment, or both. The conclusion of trade negotiations with other Central American countries and the signing of a trade agreement with Guatemala therefore became particularly important for reducing such risks.

(d) Other policies

In the first few months of 2008, discussions began on the Social and Fiscal Responsibility Act, which includes a series of rules for ensuring fiscal discipline and transparency by establishing a maximum of 1% of GDP for the non-financial public-sector deficit. The Act also establishes the public-debt target of less or equal to 40% of nominal GDP in January 2015. Also pending approval is the Consumer Support Programme (PAC), which aims to increase the purchasing power of middle-class waged workers by reducing income tax for 85% of taxpayers and granting preferential interest rates to home-buyers for properties priced up to US$ 80,000.

3. The main variables

(a) Economic activity

The real increases in gross fixed investment (32.2%) and exports (12.1%) provided a major boost to GDP in 2007. Private consumption climbed considerably (8.3%) (by two percentage points more than public consumption), due to higher personal income, employment and credit facilities. The sharp rise in demand (12.3%) fuelled a 13.9% increase in imports, almost double the rate of increase recorded in 2006.

The fastest growing production sectors were transport, storage and communications, construction and mining —with increases of almost 20%. Panama Canal activities lost some buoyancy and their real GDP rose by only 3% (14% in 2006), as the Canal nears its maximum capacity. In addition to widening the Canal, an attempt is also being made to increase the value added of services provided to vessels in transit. Although the number of transits climbed by just 3.7% and net tons by 5.6%, Canal revenues were up 15% due to a rise in toll prices. In 2007, transfers from the Panama Canal Authority to the public budget grew by US$ 218.5 million.

Transport-sector GDP was up by 26.7%, thanks to the country's role as a hub of interoceanic trade and a regional centre of air travel (with flights growing in number and frequency). In terms of telecommunications, rapid expansion (17.4%) continued, as part of the mobile telephone and Internet boom.

The hotels and restaurants sector grew by 14.6%, driven by tourism. Given that hotel occupancy is considerably higher than the regional average, major investments are planned to cater for the growing number of tourists. Retail trade (13.6%) and wholesale trade (10.6%) expanded at similar rates to the economy as a whole, and grew more quickly than trade in the Free Zone (5.1%).

In 2007, construction was even more buoyant than in the previous year, thanks to the rapid transformation of the urban landscape of Panama City, including tall towers and ambitious public works projects to clean and enhance the bay. The boom in the construction of low-cost housing continued, due to credit facilities and higher incomes. The renovation of estates and properties by foreign residents intensified, including those in rural areas. All of the above increased the area of built-on sites by 46% and pushed up housing construction by 59%, in a context marked by increasing real-estate prices.

Agricultural GDP rose by 2.1%, although the performance was highly uneven. Fishing declined by 2.2% due to high fuel prices, while the GDP of all other agricultural activities increased by 4.4% (with particularly strong performances by sorghum, melon, watermelon, pineapple and other fruits). Growth in the sugarcane and floriculture sectors was more moderate. In terms of livestock, pig farming and poultry breeding picked up, while beef-cattle rearing declined.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
	Annual growth rates [b]								
Gross domestic product	3.9	2.7	0.6	2.2	4.2	7.5	7.2	8.7	11.2
Per capita gross domestic product	1.9	0.8	-1.3	0.4	2.3	5.6	5.4	6.8	9.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.8	9.6	6.5	3.3	9.3	1.4	2.6	3.6	2.1
Mining	23.9	-10.6	-4.1	18.1	35.4	12.5	0.1	18.3	19.6
Manufacturing	1.1	-7.2	-6.3	-2.6	-3.4	2.1	4.2	3.9	5.7
Electricity, gas and water	12.0	9.3	-4.7	6.9	1.4	6.1	5.6	5.6	5.1
Construction	36.0	1.3	-21.8	-7.1	32.5	13.9	1.0	18.4	19.6
Wholesale and retail commerce, restaurants and hotels	-3.9	3.8	3.7	-0.9	2.4	11.9	9.2	11.4	9.4
Transport, storage and communications	6.7	12.5	2.5	2.0	10.9	14.9	11.8	13.8	17.6
Financial institutions, insurance, real estate and business services	5.8	5.9	-0.5	-0.2	0.5	3.3	10.0	8.8	11.1
Community, social and personal services	3.7	-0.4	3.9	4.5	1.8	3.3	0.9	3.1	4.7
Gross domestic product, by type of expenditure									
Consumption	0.6	0.2	3.9	7.3	7.3	3.9	8.1	4.6	8.0
General government	1.5	1.8	8.1	9.1	0.4	1.9	4.1	2.7	...
Private	0.4	-0.1	3.1	6.9	8.7	4.3	8.8	4.9	8.3
Gross domestic investment	3.5	-9.2	-24.2	-5.4	19.0	9.9	2.8	13.5	...
Exports (goods and services)	-12.4	18.5	0.3	-2.5	-10.1	18.5	11.3	11.1	12.0
Imports (goods and services)	-14.7	10.3	-4.3	0.7	-3.5	14.4	11.2	7.7	13.9
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	25.8	24.1	17.6	15.7	19.0	18.7	18.4	19.5	22.1
National saving	15.7	18.4	16.2	15.0	14.5	11.6	13.4	16.2	14.1
External saving	10.1	5.8	1.4	0.8	4.5	7.1	4.9	3.2	8.0
	Millions of dollars								
Balance of payments									
Current account balance	-1 159	-673	-170	-96	-580	-1 012	-759	-552	-1 577
Goods balance	-1 340	-1 143	-696	-1 035	-1 202	-1 538	-1 316	-1 726	-3 313
Exports, f.o.b.	5 288	5 839	5 992	5 315	5 072	6 078	7 591	8 476	9 312
Imports, f.o.b.	6 628	6 981	6 689	6 350	6 274	7 617	8 907	10 201	12 625
Services trade balance	701	854	890	968	1 198	1 331	1 436	2 213	2 832
Income balance	-691	-560	-590	-272	-821	-1 024	-1 125	-1 298	-1 355
Net current transfers	171	177	226	244	246	220	245	258	259
Capital and financial balance [d]	1 350	595	803	242	312	617	1 434	728	2 198
Net foreign direct investment	864	624	467	99	818	1 019	962	2 574	1 825
Financial capital [e]	485	-29	336	143	-505	-403	472	-1 847	373
Overall balance	191	-77	633	146	-267	-395	675	176	622
Variation in reserve assets [f]	-185	109	-622	-138	267	396	-521	-166	-611
Other financing [g]	-7	-32	-11	-8	1	-1	-154	-10	-10
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	100.8	100.0	103.1	101.2	103.2	108.4	110.9	112.4	114.1
Terms of trade for goods (index: 2000=100)	104.6	100.0	102.7	101.6	97.2	95.3	93.5	90.8	90.0
Net resource transfer (millions of dollars)	652	3	202	-39	-508	-409	156	-580	834
Gross external public debt (millions of dollars)	5 568	5 604	6 263	6 349	6 504	7 219	7 580	7 788	8 276
	Average annual rates								
Employment									
Labour force participation rate [i]	61.2	59.9	60.5	62.6	62.8	63.5	63.5	62.6	62.7
Unemployment rate [j k]	11.8	13.5	14.0	13.5	13.1	11.8	9.8	8.7	6.3
Visible underemployment rate [j]	…	…	…	…	…	4.4	4.6	3.4	2.7
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	1.5	0.7	0.0	1.9	1.5	1.5	3.4	2.2	6.4
Variation in real minimum wage	3.4	3.8	7.0	-1.2	0.7	0.9	-2.8	3.4	-1.7
Nominal deposit rate [l]	6.9	7.1	6.8	5.0	4.0	2.2	2.7	3.8	4.8
Nominal lending rate [m]	10.1	10.3	10.6	9.2	8.9	8.2	8.2	8.1	8.3

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income [n]	17.0	18.2	17.7	16.8	15.4	14.4	15.2	18.6	19.4
Current income	16.9	18.1	17.2	16.1	15.2	14.3	15.1	18.5	19.1
Tax income	10.6	9.6	8.8	8.6	8.7	8.5	8.7	10.3	10.6
Capital income	0.0	0.0	0.5	0.7	0.3	0.1	0.0	0.1	0.1
Total expenditure	19.0	19.3	19.4	18.8	19.2	19.8	19.1	18.4	18.1
Current expenditure	15.6	16.9	16.7	16.1	16.1	16.6	16.6	15.9	14.1
Interest	3.5	4.2	4.2	4.1	4.3	4.2	4.4	4.2	3.4
Capital expenditure	3.4	2.4	2.7	2.7	3.1	3.2	2.5	2.5	4.1
Primary balance	1.6	3.1	2.6	2.2	0.5	-1.2	0.5	4.4	4.7
Overall balance [o]	-2.0	-1.1	-1.7	-1.9	-3.8	-5.4	-3.9	0.2	1.2
Central government debt	66.0	65.5	70.1	69.0	66.6	69.6	65.1	60.3	60.5
Domestic	18.4	18.0	17.7	17.7	16.7	18.9	16.8	15.0	12.3
External	47.6	47.5	52.4	51.3	49.9	50.6	48.4	45.3	48.2
Money and credit [p]									
Domestic credit	88.9	94.3	99.0	91.1	88.8	90.3	90.3	90.6	88.6
To the public sector	-7.9	-7.6	-9.6	-6.4	-3.9	-0.0	-3.7	-3.2	-7.7
To the private sector	96.8	101.9	108.6	90.4	87.1	85.1	87.1	88.4	91.2
Others	0.0	0.0	0.0	7.1	5.6	5.2	6.9	5.5	5.1
Liquidity (M3)	74.8	80.6	85.6	80.9	79.5	78.3	78.0	86.1	88.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; nationwide total.
[k] Includes hidden unemployment.
[l] Six-month deposits in the local banking system.
[m] One- to five-year loans for commercial activities in the local banking system.
[n] Includes grants.
[o] The overall balance for 2005 includes an adjustment for compensation to bondholders amounting to 111.6 million balboas.
[p] The monetary figures are end-of-year stocks.

Manufacturing grew by 5.7%, driven by non-metallic minerals, electrical machinery, furniture and construction materials. Food and beverage production expanded by 3.8%, while textile and footwear production dropped by more than 3%. Electricity generation climbed by 7.4%, with a strong emphasis on thermal energy sources. The electricity sector has already experienced problems relating to a lack of installed capacity. At the beginning of 2008, businesses and hotels were ordered to turn off neon signs between 11 p.m. and 6 a.m., and air conditioning was rationed in government offices.

(b) Prices, wages and employment

The hike in the international prices of oil, food and raw materials, combined with the pressure of rapidly rising domestic demand in some oligopolistic markets, pushed inflation up. Consumer prices rose by 6.4% (2.2% in 2006), and wholesale prices increased by 11.2%. The sectors to post the highest annual increases in consumer prices were transport (11.7%), food and beverages (10.4%) and housing (5.1%). The average cost of the basket of staple goods was 8.3% higher than in 2006, despite government intervention to supply rice and other goods more cheaply.

The results of the household survey conducted in August 2007 confirmed the steady improvement in the labour market. Indeed, between 2004 and 2007 the working population expanded by an average 3.8%, the waged population by 5.6% and the number of people contributing to the social security system grew by 8.8%. Total unemployment stood at 6.3%, with open unemployment of 4.7% (compared with 11.8% and 9.2%, respectively, in 2004). In the same period, the unemployment rate among young people aged 20 to 24 dropped from 23.9% to 14.7%.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.8	8.3	8.8	8.6	10.5	11.6	11.4	11.3	8.4	...
International reserve assets (millions of dollars) [c]	1 193	1 272	975	1 335	1 029	1 613	1 573	1 935	1 801	1 757 [d]
Real effective exchange rate (index: 2000=100) [e]	111.5	111.9	113.0	113.1	113.4	114.3	114.1	114.8	114.3	115.1
Consumer prices (12-month percentage variation)	2.0	3.2	1.6	2.2	3.2	3.7	5.2	6.4	8.8	9.6
Nominal interest rates (annualized percentages)										
Deposit rate [f]	3.1	3.5	4.0	4.7	4.9	4.8	4.7	4.6	4.0	3.5
Lending rate [g]	8.2	8.1	8.0	8.1	8.3	8.3	8.3	8.3	8.2	8.3
Sovereign bond spread (basis points) [h]	186	223	193	148	156	130	160	184	245	218
Domestic credit (variation from same quarter of preceding year)	13.6	13.4	14.3	11.2	13.6	10.4	8.6	12.1	13.6	...
Non-performing loans as a percentage of total credit [i]	2.6	2.5	2.5	2.4	2.3	2.4	2.5	2.3	2.3	2.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Including gold.
[d] Data to April.
[e] Quarterly average, weighted by the value of goods exports and imports.
[f] Six-month deposits in the local banking system.
[g] One-year loans for commercial activities in the local banking system.
[h] Measured by J.P. Morgan's EMBI+ index.
[i] Includes loans in arrears.

Measurements carried out in March 2008 showed that employment has continued to rise, while nationwide unemployment fell from 7.3% to 6.3% in 12 months. There are some signs of shortages of skilled workers, executives and other employees in the hotels, restaurants and tourism sector. According to certain indicators, in some sectors such as construction wages are beginning to soar beyond levels originally agreed in collective negotiations. The minimum public-sector wage was adjusted in 2008 and exceeded US$ 300 per month for the first time.

(c) The external sector

In 2007, faster economic growth produced a turnaround in the trade balance. This combined with the deficit in the factor income account to give a current account deficit of US$ 1.577 billion (8% of GDP), which is more than three times wider than in 2006. The US$ 488 million trade surplus recorded in 2006 became a deficit of US$ 481 million, as merchandise imports shot up by 23.8% (compared to growth of only 9.9% for exports).

In terms of exports, there was a decline in sales to Central America (6.6%), but increases in reexports from the Colón Free Zone (9.7%) and national exports to the rest of the world (11.9%). Within the latter, the most buoyant exports were non-traditional products (11.8%), including fresh tropical fruit (21%). Sectors that have struggled more in their exports are fishing and traditional exports, with a striking drop in sales of fresh beef (-20%) and sugar (-17%). Fresh banana exports were more or less at a standstill (2%).

The import boom was particularly intense in the capital-goods sector (53%). Purchases of construction machinery doubled, while imports of intermediate and consumer goods also climbed considerably (by 35% and 42%, respectively). Particularly strong performances were turned in by imports of fuels and lubricants (46%).

Rapid import growth (30%) continued into the first quarter of 2008, especially with regard to consumer goods (50%). Merchandise exports, on the other hand, expanded by 1%, compared with 26% in the year-earlier period.

High repatriation of profits associated with stronger sales and increased efficiency in various foreign enterprises generated a deficit in the factor services account. The considerable upturn in flows of liabilities to the banking sector, combined with more moderate income from foreign direct investment (lower than in 2006 when the Primer Banco del Istmo was sold), led to a wide surplus on the financial account that comfortably covered the current account deficit.

The Caribbean

Bahamas

1. General trends

Economic growth remained solid but slowed in 2007 despite sound macroeconomic management in recent years. Real output grew by 2.8%, compared with a 4.6% increase in 2006.[1] A decline in construction activity and reduced credit expansion partly offset the impetus from improvements in the tourism sector. December-on-December inflation rose to 2.8%, which, though still moderate, surpassed the 2.3% registered in 2006, reflecting higher costs of furniture and household goods and the steep rise in, and pass-through of, international fuel and food prices.

Government finances weakened during fiscal year 2006-2007 as the overall fiscal deficit increased to 2.6% of GDP. Fiscal performance was undermined by the slowdown in economic activity, which led to sluggish revenue growth that was outpaced by the rise in spending.

Meanwhile, the net external position improved as resurgence in tourism receipts, higher local expenses for offshore companies and lower outflows for construction services more than offset wider deficits on the merchandise and income accounts. However, foreign direct investment (FDI) inflows, a major driver of activity, slowed with the completion of certain large-scale tourism projects.

The prospects for the economy in 2008 are mainly affected by the downside risks of a stronger-than-anticipated slowdown in the United States economy. Growth is expected to decline in the first half of the year and is projected between 2.0% and 2.5% for 2008. Reduced FDI inflows could further dampen construction and tourism activity and weaken credit conditions. However, the close proximity of the Bahamas to the United States market and the pegged exchange rate arrangement make it a choice destination for United States travellers. This, combined with more intensive marketing efforts in Europe and Canada, whose relatively strong currencies should favour tourism demand and lower price sensitivity in high-end segments, might lead to a more favourable outcome. The fiscal position might deteriorate somewhat, however, owing to the tax relief, subsidies and salary increases provided for in the 2008-2009 budget.

2. Economic policy

Broad policy was focused on maintaining macroeconomic stability, especially a sustainable medium-term fiscal position, a positive investment climate based on premium credit ratings, and the pegged exchange rate. Structural policies centred on improving the dynamism and competitiveness of the mainstay tourism sector by enhancing products, marketing the Bahamas as a tourism destination, especially in Europe and Canada (a supplementary allocation of B$ 12 million was earmarked for this in the budget), and boosting domestic investment in the sector.

[1] In 2007, GDP was rebased with 2006 as the base year.

Table 1
THE BAHAMAS: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
					Annual growth rates [b]				
Gross domestic product	3.3	4.3	-0.3	2.0	-2.4	-0.2	3.3	4.6	2.8
Per capita gross domestic product	1.8	2.8	-1.6	0.7	-3.6	-1.4	2.1	3.4	1.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.6	5.5	-2.0	19.0	-3.8	-7.9	-15.3	3.2	-18.2
Mining	-21.8	10.6	2.7	2.8	14.6	4.3	-4.7	-4.0	-50.4
Manufacturing	24.3	9.8	-20.6	-5.7	22.2	7.5	26.3	-2.0	1.2
Electricity, gas and water	-13.3	26.9	6.3	5.7	6.6	0.7	14.7	15.6	4.0
Construction	-16.6	30.6	-22.2	18.0	6.6	-13.6	13.6	20.4	0.1
Wholesale and retail commerce, restaurants and hotels	7.8	-3.1	5.1	-6.4	2.7	3.8	3.0	3.1	8.4
Transport, storage and communications	1.9	3.1	-6.5	3.7	0.9	2.4	2.0	0.7	-2.2
Financial institutions, insurance, real estate and business services	10.0	6.6	7.8	5.8	-9.5	3.9	2.0	2.5	2.4
Community, social and personal services	1.1	-2.0	-1.9	-2.2	-3.0	-1.2	3.2	-0.0	3.2
Gross domestic product, by type of expenditure									
Consumption	4.5	3.3	4.0	-3.6	-1.1	-1.9	6.4	13.2	2.0
General government	-0.1	3.6	2.8	-1.3	-10.4	-3.3	3.9	2.4	1.5
Private	5.7	3.2	4.3	-4.2	1.4	-1.5	7.0	15.6	2.1
Gross domestic investment	-3.3	14.1	-9.1	-2.7	1.4	-6.7	27.5	19.3	4.1
Exports (goods and services)	7.2	5.1	-5.9	10.0	-1.3	14.3	1.2	-0.0	2.4
Imports (goods and services)	3.8	9.6	-4.1	-4.3	3.2	5.4	19.5	21.2	2.4
					Millions of dollars				
Balance of payments									
Current account balance	-198	-442	-594	-298	-321	-171	-651	-1 439	-1 314
Goods balance	-1 151	-1 334	-1 340	-1 213	-1 231	-1 348	-1 763	-2 098	-2 154
Exports, f.o.b.	462	576	423	422	427	477	549	665	802
Imports, f.o.b.	1 613	1 910	1 764	1 635	1 657	1 826	2 312	2 763	2 956
Services trade balance	874	955	835	1 057	1 014	1 068	1 230	826	1 020
Income balance	-127	-141	-199	-184	-152	-141	-203	-218	-232
Net current transfers	206	78	110	42	49	251	85	52	52
Capital and financial balance [c]	263	381	564	359	432	354	562	1 360	1 269
Net foreign direct investment	149	250	192	209	247	443	563	706	713
Financial capital [d]	114	130	372	150	185	-89	-1	653	555
Overall balance	65	-61	-30	61	111	184	-89	-79	-46
Variation in reserve assets [e]	-65	62	30	-61	-111	-184	89	79	46
Other external-sector indicators									
Net resource transfer	136	240	366	174	279	213	358	1 142	1 037
Gross external public debt	355	350	328	309	363	345	338	334	326
					Average annual rates				
Employment									
Unemployment rate [f]	7.8	…	6.9	9.1	10.8	10.2	10.2	7.6	7.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	1.4	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.8
Nominal deposit rate [g]	...	...	...	...	3.9	3.8	3.2	3.4	3.7
Nominal lending rate [h]	...	...	...	...	12.0	11.2	10.3	10.0	10.6
					Percentages of GDP				
Money and credit [i]									
Domestic credit	72.5	75.2	80.5	81.1	81.2	84.3	88.3	95.8	102.3
To the public sector	12.9	11.7	13.6	14.7	14.7	14.6	14.5	15.5	16.8
To the private sector	59.6	63.5	66.8	66.4	66.4	69.6	73.9	80.3	85.5
Liquidity (M3)	63.1	64.2	65.7	64.9	67.2	73.3	74.2	74.8	76.9
Currency outside banks and local-currency deposits (M2)	62.0	62.7	64.1	63.3	65.5	71.7	72.0	72.5	74.1
Foreign-currency deposits	1.0	1.6	1.6	1.5	1.7	1.6	2.2	2.3	2.8

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government [j]									
Total income	18.1	17.3	15.1	15.3	15.9	15.9	17.2	18.9	18.3
Current income	18.1	17.3	15.1	15.3	15.6	15.7	17.0	19.0	18.3
Tax income	16.5	15.5	13.6	13.8	14.0	14.2	15.1	16.8	16.6
Capital income [k]	0.0	0.0	0.0	0.0	0.3	0.3	0.2	-0.0	0.0
Total expenditure [l]	18.1	16.9	17.7	18.4	18.7	19.2	19.7	20.2	21.5
Current expenditure	15.9	15.3	15.8	16.3	16.7	16.9	17.1	17.2	18.3
Interest	1.8	1.7	1.8	1.7	1.9	1.9	1.9	1.7	1.9
Capital expenditure	2.2	1.5	1.8	1.4	1.4	1.4	1.7	2.0	2.3
Primary balance	1.8	2.1	-0.7	-1.5	-0.9	-1.4	-0.6	0.5	-1.3
Overall balance	-0.0	0.4	-2.5	-3.2	-2.8	-3.3	-2.5	-1.2	-3.2
Public external debt	6.9	6.3	5.8	5.2	6.1	5.7	5.2	4.9	4.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2006 prices.
[c] Includes errors and omissions.
[d] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[e] A minus sign (-) denotes an increase in reserves.
[f] Percentage of the economically active population; nationwide total. Includes hidden unemployment.
[g] Deposit rate, weighted average.
[h] Lending and overdraft rate, weighted average.
[i] The monetary figures are end-of-year stocks.
[j] From 1999 to 2003, figures refers to fiscal years.
[k] Includes grants.
[l] Includes net lending.

(a) Fiscal policy

Even though the overall fiscal position and debt dynamics of the Bahamas remain relatively stable, particularly by the standards of most of its Caribbean counterparts, they have worsened slightly in recent years. The authorities are nevertheless committed to making a medium-term fiscal adjustment to balance the budget and to reducing central government debt to 30%-35% of GDP in five years. It will be a challenge to attain this target, however, given the recent growth in primary spending.

During fiscal year 2006-2007,[2] fiscal policy was expansionary, and the overall deficit increased to 2.6% of GDP, partly driven by economic stimuli and partly by the higher costs of operations, which were generated by increased fuel and materials prices and election spending. The slippage reflected an accelerated growth in spending of 14.6% relative to 9.3% in 2005-2006, especially on transfers, goods and services and debt servicing, alongside smaller growth in revenue. Allocations for education also increased to galvanize the repair and rehabilitation of schools. Current spending captured 85% of total expenditure. Debt interest payments also increased, in line with the accumulation of Bahamian dollar debt. Meanwhile, growth in total revenue slowed to 9.7% (compared with 17.5% in 2006) and this item represented 18.9% of GDP. Capital spending maintained its strong growth trend from the previous year, rising by 35%.

For the 2007-2008 budget, the government is set to limit the fiscal deficit to 1.8% of GDP. Efforts target revenue-enhancing measures, including improved tax administration and efficiency. There is no immediate change in the tax structure, although the introduction of VAT may be considered, especially under the Economic Partnership Agreement (EPA) with the European Union. Border taxes may also begin to be eliminated, following an

2 The fiscal year runs from 1 July to 30 June.

analysis of whether the benefits would outweigh revenue losses from trade taxes and the costs of administration and compliance.

The government has announced a number of tax and subsidy measures to ease the burden of the high costs of living on citizens. There will also be a B$ 750 salary increase for public officials and a B$ 1,250 raise for teachers. Moreover, the 2% stamp tax will be removed from 160 food items, and the customs duty and stamp duty on the fuel imports of the Bahamas Electricity Corporation will be suspended for two years to the benefit of consumers. The government also intends to privatize the telecommunications and electricity companies.

There was some fiscal slippage during the first eight months of the current fiscal year. The fiscal deficit increased by 24% to B$ 92.7 million, which will make it difficult to meet the full-year target of 1.8% of GDP. Expenditures grew more in both absolute and relative terms than revenue receipts. Higher wage and salary bills and increased outlays for transfers and subsidies drove current spending, while capital expenditure decreased as a result of lower spending on infrastructure projects. Tax receipts rose on account of higher proceeds from taxes on international trade, hotel services and business and professional fees, but these were still outweighed by the growth in spending. A timing-related decrease in other miscellaneous income, meanwhile, was the main factor in the significant decline in non-tax revenue.

The debt situation remains manageable, although there is a risk of a recession in the United States economy lowering public-sector tax receipts. Public-sector foreign-currency debt grew marginally in 2007 to B$ 638.8 million, largely reflecting debt acquisition by public corporations. The average maturity of the debt was just below 11.5 years. Meanwhile, the ratio between debt service and total revenue doubled to 3.8% during 2007.

(b) Monetary and exchange-rate policy

Despite an increase in the inflation rate from 2.3% in 2006 to 2.8% in 2007, the monetary authorities maintained a relatively neutral policy stance. Money supply (M3) grew by 10.6% in 2007 compared with 7.4% in 2006. This did not lead to an expansion in credit to the public, however, because demand was low and banks were rebuilding their liquidity positions following a surge in credit in 2005 and 2006. The Central Bank’s benchmark discount rate therefore remained stable at 5.25%.

Broad money posted its strongest growth in three years as a result of a build-up of private-sector deposits that reached 77.5% of GDP, compared with 73.6% of GDP in 2006. The largest component of total deposits continued to be domestic–currency-denominated fixed deposits (55.9%), followed by demand deposits (18.8%) and savings deposits (17.7%). Resident foreign-currency deposits rose sharply (25.8%) buttressed by the improved balances of public corporations.

Domestic credit growth slowed marginally to 12.3 %, reflecting a slowdown in credit to the private sector and a decline in lending to public corporations. Private credit decelerated in line with the decline in activity and probably reflected some caution on the part of investors regarding a possible recession in the United States. The bulk of the credit granted continued to consist of housing loans (50.5% of total credit) and consumer loans (31.5%) and dwarfed the proportion of credit extended to smaller-scale boutique tourism projects, fisheries and other services.

With the demand for credit outstripping supply, the spread on commercial bank loans and deposit rates widened by 33 basis points to 6.94% during the year. Nevertheless, the benchmark prime lending rate remained unchanged at 5.5%.

In a measure to improve the exchange control regime, the Monetary Policy Committee allowed residents to transfer monetary gifts and other overseas payments up to a value of B$ 500 per transaction, which seems to have caused a modest deterioration in asset quality in the banking system during the year.

The government remains committed to the pegged exchange rate as it provides certainty in transactions and thus stabilizes the investment climate. It also acts as an anchor to contain inflation. Moreover, given the Bahamas’ high dependence on the United States market both for exports and imports, the peg to the dollar has proven beneficial over time. The authorities plan to gradually remove exchange controls. This process will need to be supported by appropriate macroeconomic policies, an adequate level of international reserves and a strong and prudential regulatory framework.

3. The main variables

(a) Economic activity

Economic activity slowed to 2.8% in 2007 from 4.6% in 2006 despite the pick-up in the dominant tourism sector. In the Bahamian economy, the predominant sectors continue to be tourism (roughly one third of GDP) and the financial sector (20% of GDP), which includes a dynamic offshore centre.

Notwithstanding the Western Hemisphere Travel Initiative, which requires United States citizens returning from the Caribbean to hold passports, and the slowdown in the United States economy, tourism value added increased on the heels of higher aggregate visitor expenditure and longer lengths of stay. Total visitor arrivals actually decreased, however, by 2.9% to 4.6 million, of which 1.52 million were stay-over visitors. Developments in the sector saw the launch of an additional high-end property and appreciated room rates. About B$ 10 billion of investment is earmarked for the tourism sector in the medium and long terms. A number of major projects are planned or have started, including the B$ 2.6 billion Baha Mar project, the Kerzner Phase IV Atlantis resort and the Royal Oasis project.

Activity in the off-shore financial services sector was buoyant as indicated by higher receipts from international business companies. Regulatory quality in the sector has also been improved to cope with competition from other jurisdictions.

By contrast, construction activity slowed rapidly, recording a meagre growth of 0.1%. This stemmed from the completion of a large-scale tourism project and from the fall in demand in the residential construction and commercial sectors, brought about, in turn, by negative expectations of the United States economy.

Similarly, value added in the fisheries subsector also decreased, with fish landings falling by 27% in weight and 11.7% in value.

On the expenditure side, growth in consumption expenditures slowed sharply (to 2% in 2007 compared with 13.2% in 2006), partly reflecting reduced economic activity. Similarly, as a number of large hotel projects were completed in the course of the year and residential construction picked up only marginally, gross capital formation grew by only 4.1% relative to 19.3% in 2006. At the same time, exports increased slightly (2.4%), while growth in imports of goods and services slowed markedly to 2.4%.

(b) Prices, wages and employment

The inflation rate, as measured by the retail price index, shifted upwards to 2.8% from 2.3% in 2006, propelled by the impact of higher international goods and fuel prices. Leading the rise in prices were furniture and household items (6.8%), transport and communication (4.6%), recreation and entertainment (4.4%) and food and beverages (4.0%). Local automotive fuel and electricity prices also contributed to the increase in costs, with the costs of gasoline spiking by 17.8%. Notably, all subindices registered price increases.

Preliminary data indicate that the rate of unemployment increased marginally by 0.3 percentage points to 7.9% as the growth of the labour force (5,850 workers) outpaced the number of jobs created (4,985).

(c) The external sector

The balance-of-payments current account deficit narrowed to 18.2% of GDP in 2007, from 20.9% of GDP in 2006. This account was bolstered by higher tourism receipts, which swelled the services account surplus by 23.5% to B$ 1.020, contrasting with the 33% decrease in 2006. The services account benefited from an almost 6.4% rise in travel receipts and the recovery in the offshore financial sector. At the same time, net outflows for construction services dipped with the deceleration in activity in the sector. The merchandise deficit posted a moderate increase as slower growth in non-oil imports, in line with reduced economic activity, helped to offset the effect of higher oil prices.

The income account deficit continued to widen (6.2%), underpinned by higher dividend and interest payments, while net current transfers remained at the same level.

Similarly, the capital and financial account surplus narrowed by 21.8% to B$ 951.4 million (13.2% of GDP) mainly due to the significant reversal in commercial banks' transactions to a net outflow and a very moderate increase in foreign direct investment. With all these developments, the overall balance-of-payments deficit narrowed from 1.1% of GDP in 2006 to 0.6% in 2007. Gross international reserves fell by 9.2% to B$ 454 million, which represented a fall in the import cover from 3.5 months in 2006 to 2.9 months in 2007.

Barbados

1. General trends

In 2007, Barbados recorded overall GDP growth of 3.2%, driven once more by a solid performance in the services sector (namely tourism and financial services). The unemployment rate has fallen to its lowest recorded level (7.4%) since 1991. Inflation was at a three-year low (4%), despite a context of high food and oil prices.

The external sector posted an impressive result on the capital and financial account, thanks to strong net capital flows that generated a balance-of-payments surplus of 7.9% of GDP, and an increase in net international reserves of more than 30%. There remain ongoing concerns, however, with respect to a persistent deficit in the current account (7% of GDP in 2007) and how to contain the overall fiscal deficit. The latter is set to exceed the 2.5% target to stand at 3.5% of GDP in fiscal year 2007-2008. The maintenance of government debt at around 70% of GDP and the ongoing poor performance of other foreign-exchange-earning sectors outside tourism and financial services could pose a challenge in terms of a future liberalization on the capital account with a fixed exchange rate. Maintaining the sustainability of the peg will be a key objective in the future.

Following lower public sector demand and a likely decrease in tourism demand from the United States, the economy is expected to grow by 2.7% in 2008. The new government of the Democratic Labour Party, elected in January 2008, is committed to ensuring economic-policy continuity, with a focus on the rising cost of living in Barbados.

2. Economic policy

(a) Fiscal policy

Preliminary information indicates that, as of September 2007,[1] the current central government surplus was 40% lower than in the year-earlier period and stood at US$ 62.1 million (8.9% of GDP). This result is mainly attributable to slower growth in tax revenue and a faster increase in current expenditure. Capital expenditure was US$ 102.9 million and the overall deficit amounted to US$ 76.9 million at the end of September 2007, compared with US$ 41.7 million one year earlier. In 2007 the deficit was financed primarily from domestic sources, thanks to a surge in domestic bank liquidity last year. Domestic financing amounted to US$ 105 million, with the non-bank private sector contributing US$ 56 million, commercial banks US$ 50 million, the central bank US$ 22 million and the National Insurance Scheme US$ 12 million. About US$ 39 million was paid abroad in amortization payments on debt, while foreign inflows of project funds amounted to US$ 21 million.

1 Figures in this paragraph are for the calendar year January 2007 to September 2007.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	0.5	2.3	-4.6	0.7	1.9	4.8	4.3	3.3	3.2
Per capita gross domestic product	0.1	1.8	-5.0	0.3	1.6	4.4	3.9	3.0	2.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.5	3.7	-9.5	-4.2	-4.0	-7.3	8.0	-5.7	2.3
Mining	9.2	-8.4	8.0	6.4	-16.0	9.5	8.7	-3.0	-6.2
Manufacturing	-2.4	-0.5	-30.9	1.0	-1.6	2.1	2.1	1.1	-3.0
Electricity, gas and water	5.0	0.0	-4.5	3.6	2.9	1.8	-0.5	9.8	0.7
Construction	10.0	1.1	6.8	7.7	0.6	2.8	16.2	1.3	-1.5
Wholesale and retail commerce, restaurants and hotels	-4.6	4.8	-4.4	-0.6	5.3	7.5	1.9	3.7	4.7
Transport, storage and communications	4.3	0.9	0.1	-3.0	3.0	5.3	4.9	5.3	5.5
Community, social and personal services [c]	1.9	1.3	-0.6	1.5	0.7	4.9	4.1	4.3	4.2
					Millions of dollars				
Balance of payments									
Current account balance	-148	-145	-111	-168	-169	-337	-361	-277	-245
Goods balance	-714	-744	-681	-702	-801	-971	-1 069	-1 003	-1 052
Exports, f.o.b.	275	286	271	253	264	293	378	465	484
Imports, f.o.b.	989	1 030	952	955	1 066	1 264	1 447	1 468	1 536
Services trade balance	571	603	570	550	647	668	762	811	891
Income balance	-71	-82	-93	-102	-107	-122	-151	-171	-191
Net current transfers	66	78	93	86	92	88	97	86	107
Capital and financial balance [d]	184	324	326	145	237	180	135	320	523
Net foreign direct investment	16	18	17	17	58	-16	53	...	...
Financial capital [e]	168	306	309	128	179	196	82	...	...
Overall balance	36	179	215	-23	67	-157	-226	43	278
Variation in reserve assets [f]	-37	-179	-216	23	-68	157	228	-41	-278
Other financing [g]	1	1	1	1	1	1	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	101.0	100.0	98.5	100.2	104.6	107.7	106.2	104.2	106.3
Net resource transfer (millones de dólares)	114	243	234	44	130	58	-16	149	332
Gross external debt (millions of dollars)	651	928	1 117	1 130	1 188	1 207	1 334	1 473	1 415
					Millions of dollars				
Employment									
Labour force participation rate [i]	67.8	68.6	69.5	68.4	69.2	69.5	69.6	...	...
Unemployment rate [j]	10.4	9.2	9.9	10.3	11	9.8	9.1	8.7	7.4
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	2.9	3.8	-0.3	0.9	0.3	4.3	7.4	5.6	4.7
(annual average)	1.6	2.4	2.8	-4.6	4.6	1.6	6.1	7.3	4.0
Nominal deposit rate [k]	...	...	...	...	2.8	3.0	3.8	5.0	5.5
Nominal lending rate [l]	...	...	...	...	7.6	7.4	8.5	10.0	10.5
					Percentages of GDP				
Central Government									
Total income	31.5	33.4	34.2	34.6	34.5	33.6	33.6	35.7	35.0
Tax income	29.7	31.1	32.0	32.0	32.3	32.2	31.4	34.1	33.5
Total expenditure [m]	33.9	34.9	37.7	40.9	37.2	35.8	37.9	37.7	37.8
Current expenditure	28.5	29.4	31.6	33.7	32.2	32.0	32.6	31.9	34.2
Interest	4.6	4.6	5.4	5.4	5.0	4.8	4.8	5.1	5.0
Capital expenditure	5.4	5.4	5.8	7.2	5.0	3.8	3.9	4.2	3.6
Primary balance	2.2	3.1	1.9	-1.0	2.3	2.6	0.5	3.1	2.2
Overall balance	-2.4	-1.5	-3.5	-6.4	-2.7	-2.2	-4.3	-2.0	-2.8
Public external debt	17.3	22.4	28.8	28.6	25.9	27.9	29.2	28.3	24.7

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Money and credit [n]									
Domestic credit	64.7	62.5	58.7	72.8	70.5	79.1	86.4	89.2	89.9
To the public sector	13.5	11.3	7.8	17.1	19.2	20.7	18.2	16.7	17.3
To the private sector	51.3	51.2	51.0	55.7	51.4	58.4	68.1	72.5	72.6
Liquidity (M3)	94.2	91.5	99.8	121.7	116.5	126.5	141.0	133.3	159.0
Currency outside banks and local-currency deposits (M2)	84.0	85.2	91.5	109.3	105.8	115.8	124.6	122.0	139.1
Foreign-currency deposits	10.1	6.3	8.3	12.5	10.7	10.7	16.4	11.3	19.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1974 prices.
[c] Includes financial institutions, insurance, real estate and business services.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population.
[j] Percentage of the economically active population. Includes hidden unemployment.
[k] Prime lending rate.
[l] Interest rate for savings.
[m] Includes net lending.
[n] The monetary figures are end-of-year stocks.

For the fiscal year 2007-2008,[2] original projections pointed to a central government deficit (excluding amortization) of 2.2% of nominal GDP at market prices on a cash IFI basis, and a net operating surplus of 1.5% of GDP on an accrual basis. The deficit projection was later revised to 3.5% of GDP at market prices on a cash basis, which will exceed the normal target range of 2.5% of GDP. Interest payments on debt are expected to amount to US$ 182.8 million, which is higher than in the previous fiscal year owing to new debt issued in 2007 and a repayment for new prisons. Amortization payments for total public debt are estimated at US$ 243 million, including US$ 52 million for external debt. Over 90% of the total deficit (including amortization) is expected to be financed by domestic sources and the rest by foreign inflows from externally funded projects.

Total debt outstanding at the end of 2007 was US$ 3.7 billion, or 108% of GDP at current market prices. Domestic debt stood at 67.2% of GDP and external debt at 41.2% of GDP. Central government debt amounted to 70% of GDP (of which 24.7% was external debt). The central government debt-service-to-revenue ratio was at its lowest in 12 years (17.3%). In the 2007 budget, the Government of Barbados announced its intention to reduce the public-debt-to-GDP to 60% by 2012. However, this will require fiscal surpluses at a time when fiscal policy is the only expansionary tool available to the government in a fixed exchange rate environment where exchange rate and monetary policy are ineffective.

(b) Monetary and exchange-rate policy

The removal of exchange controls, originally planned for December 2007, was postponed until 2009. However, with the advent of the Caribbean Single Market Economy (CSME) and thus a liberalized capital account environment, monetary policy will need to remain focused on mitigating future vulnerability of the 32-year-old exchange-rate peg regime. This objective is particularly important for a small island without a fully developed financial surveillance and regulatory system. There will be a need to focus on fiscal prudence and debt sustainability and on financial-sector regulation and supervision to mitigate the risks

[2] The fiscal year runs from 1 April to 31 March.

of speculative attacks on the peg. The central bank may consider introducing indirect monetary-based instruments to manage excess domestic liquidity and international reserves in a less controlled environment. The central bank is also currently in the process of enhancing its information system to improve the surveillance of capital flows, among others.

In 2007, there was a significant increase in bank liquidity owing to a surge in capital inflows. This was reflected in a 23.4% rise in domestic deposits at commercial banks, compared with 4.7% in the previous year. Loans by commercial banks, however, grew by only 8.1%, compared with 15.5% in the previous year. This indicates that most of the additional deposits were invested by banks rather than loaned to the non-bank private sector. Investment by commercial banks[3] grew by 9.8%, compared with a decrease of 17.7% in 2006. Excess bank liquidity was accompanied by a substantial fall in the Treasury bill rate (from 6.56% in December 2006 to 4.90% in December 2007) and the bank rate (from 18% at the end of 2006 to 12% at the end of 2007).

Another monetary policy measure was the lowering of the reserve requirement ratio to 21% in 2007, with 5% on domestic cash reserves, 6% on foreign cash reserves and 10% on government securities (down from its original 12%). The reduction in the securities component of the reserve requirement is part of a move towards indirect monetary control. Driven by an expansion in demand deposits, money supply expanded by 20% in 2007, following a contraction in the previous year. M3 jumped by 28.4%, the highest rise on record since 1990, and this was attributable to a 46% increase in time deposits. M3 as a share of GDP stood at 159% in 2007, compared with 133.3% in 2006. Non-residents' foreign-currency holdings rose by a record 90% in 2007, as a counterpart to the surge in net capital flows. The minimum deposit rate set by the central bank was adjusted downwards from 5.25% to 4.75%, in line with the fall in the United States federal funds rate. The weighted average lending rates by commercial banks on total loans also fell accordingly but to a limited degree, from 10.87% to 10.68%, reflecting a reluctance on the part of commercial banks to erode their profit margins.

3. The main variables

(a) Economic activity

Real GDP growth in 2007 was a healthy 4.2% in the first nine months of 2007. For the year as a whole, however, the central bank projected a slowdown in the overall growth rate to 3.2%, suggesting a tapering-off of the impact of the Cricket World Cup, which ended in April. As in previous years, imbalances between the tradable and non-tradable sectors continue, thereby maintaining concerns over the need to generate foreign-exchange reserves. Growth in the non-tradable sector, which constitutes 75% of total economic activity, was 3.8% compared to 4.5% in 2006. On the other hand, growth in the tradable sector was 1.6% in 2007.

Such output growth in the non-tradable sector, especially in construction, was linked to preparations for and staging of the Cricket World Cup (including public refurbishment projects), as well as private residential developments and tourism-related construction. Mining and quarrying continued to decline in the non-tradable sector, contracting by 6.2% due to a depletion of onshore oil production associated with dwindling reserves.

The tradable sector grew by 1.6% in 2007, compared with 0.1% in 2006 and 0.5% in 2005, reflecting the boost to tourism provided by the Cricket World Cup. Following a contraction of 2.2% in 2005 and modest growth of 1.6% in 2006, last year saw the tourism industry grow by 3.1%. Total stay-over arrivals amounted to 572,937 at the end of 2007 (representing a 1.8% increase on 2006), while total arrivals (stay-over and cruise) reached 1,190,887 (an 8.1% increase on 2006).

The impact of rising oil prices on cruise tourism in Barbados was partly cushioned by the island being a "home port" destination. In October 2007, an agreement was signed between the Barbados Tourism Authority and Carnival Cruise Lines that will guarantee a minimum of 1.2 million cruise passengers and US$ 78 million for Barbados over the next three years.

Outside of tourism, the tradable sector continued to be marked by feeble performances in the sugar, agriculture and manufacturing sectors, in the face of structural and competitiveness challenges and amidst waning preferential treatments.

The international business sector, the second foreign-exchange earner behind tourism, expanded further in 2007 and a new strategic plan for 2007-2012 was also

[3] Holdings of Treasury bills and so forth.

launched. The number of licensed International Business Companies (IBCs) jumped from 391 in 2006 to 506 in 2007. The number of societies with restricted liability (SRLs) increased from 133 in 2006 to 151 in 2007.

(b) Prices, wages and employment

The annual average inflation rate fell to 4% in 2007, compared with 7.3% in 2006.[4] The lower rate of inflation could be ascribed to a slowdown in the rate of increase in oil prices in 2007 compared with 2006. This was due to the presence of petrol subsidies, various price controls on basic items, the removal of a cess tax on imports and a slowdown in credit expansion by commercial banks (8.1% in 2007 compared with 15.5% in 2006). The highest increases were in the fuel and light category (9.9%), followed by food (8.9%).

Payments for wages and salaries by the government in fiscal year 2007-2008 have grown by 15% (in nominal terms), compared with 6.3% in the previous fiscal year, mainly reflecting the payment in April 2007 of the agreed 7.5% wage increase for public workers that was due in 2006.

The female labour force participation rate fell from 62.8% in 2006 to 61.9% in 2007, its lowest level in eight years, while the male labour force participation rate increased from 73.6% to 74.3%. Unemployment (7.4%) was at its lowest rate since 1991, with female unemployment standing at 8.5% and male unemployment at 6.4% (the lowest figures on record for both categories).

(c) The external sector

In 2007, the current account deficit shrank to 7% of GDP at market prices (from 8.6% of GDP in 2006) or US$ 245 million (the lowest since 2003). This is attributable to robust growth on the services balance, where net receipts grew by 9.8% owing mainly to: growth in net travel receipts, associated with a strong performance by the tourism sector; the 11.7% growth rate in net income receipts that include compensation of employees and investment income; growth of 24.4% in net current transfers reflecting tax receipts and inter-governmental grants; and moderate growth of only 4.9% in the merchandise trade deficit. Both domestic exports and retained imports, which exclude re-exports, grew modestly by approximately 4%. However, in 2007 imports of capital goods contracted by 8% after experiencing double-digit growth in 2006 in the wake of the Cricket World Cup. Imports of consumer goods rose by 8% in 2007, after contracting in the previous year. The latter may have benefited from the removal of the cess tax on imports in 2007.

The capital and financial account registered its highest surplus since at least 1992, with an estimated US$ 475 million (6.7% of GDP). Net long-term capital flows to the public sector amounted to US$ 19 million, reflecting the proceeds of bond issues on behalf of the Barbados Investment and Development Corporation and the Barbados Agricultural Management Company Ltd. Net long-term private capital flows were estimated at US$ 331 million, and this was associated with tourism-related projects, real-estate transactions and loan proceeds for the construction of a new prison. Short-term net inflows, estimated at US$ 33 million, were linked to loan inflows for the airport project and pre-shipment financing for the sugar harvest. Other net inflows of US$ 92 million were recorded, and these were largely responsible for the exceptional performance on the financial account relative to other years and stemmed from deposits made by non-residents and other foreign entities.

The strong performance on the financial account accounted for the increase in net international reserves from US$ 930 million in 2006 to US$ 1.2 billion in 2007, the equivalent of 29.9 weeks of import cover. Overall, the balance-of-payments surplus stood at 7.9% of GDP at market prices, up from 1.3% the previous year.

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4 Inflation (December-December) fell to 4.7% in 2007 compared with 5.6% in 2006.

Belize

1. General trends

Growth slowed in 2007, following more dynamic activity in previous years. Real output increased by 1.2%, compared with growth of 4.7% in 2006. The economy's expansion was held back by lower output and exports in the critical agriculture sector, which was buffeted by Hurricane Dean. The damage caused by that disaster, together with insect infestation in sugar and bananas and a decrease in marine and other exports, led to lower commodity trade volumes. As a result external accounts weakened in 2007.

Despite the slowdown in activity and reflecting the strong impact of import prices, inflation rose to 4.1%, relative to 3.0% in 2006. Reflecting the hike in international oil prices and poorer harvests in various countries, inflation was largely driven by higher fuel and food prices. Unemployment posted a decline for the fourth consecutive year.

On the policy front, the fiscal deficit narrowed in 2007 thanks to dynamic growth in bilateral grants, significant returns from the general sales tax (GST), petroleum taxes and the sale of crown land. The debt problem eased, as the government secured a debt restructuring agreement in February 2007, which provided liquidity relief and potential means to restore fiscal and external stability.

The economy is expected to recover somewhat in 2008 with growth projected at around 2.3%, propelled by an upturn in agriculture built largely on increased banana production, sustained oil production and services. Fiscal consolidation should continue with constrained growth in spending and efforts to improve revenue efficiency. Meanwhile, with the continued pass-through from international fuel and food prices, inflation is expected to increase by around 2.5 percentage points to 6.6% in 2008.

The United Democratic Party (UDP) was elected to office in February 2008 after 10 years in opposition. Its election mandate focused on improving living standards, tackling crime, re-establishing proper and transparent management and reducing taxes. However, with the tight fiscal position tax reductions are likely to be reconsidered as fiscal prudence takes priority.

2. Economic policy

(a) Fiscal policy

The fiscal out-turn in 2007 benefited from a fortuitous inflow of grant receipts, complemented by an upsurge in proceeds from the GST, petroleum taxes and land sales, which more than compensated for substantial growth in spending. As a result, the overall deficit fell from 1.9% of GDP in 2006 to 1.1% in 2007, while the primary surplus rose to 4.1% of GDP from 3.9% of GDP in the previous year.

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
					Annual growth rates [b]				
Gross domestic product	8.4	12.3	5.0	5.1	9.3	4.6	3.0	4.7	1.2
Per capita gross domestic product	5.6	9.5	2.4	2.6	6.8	2.2	0.7	2.4	-0.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.3	9.5	-0.4	0.5	38.9	9.5	3.0	-6.4	-20.7
Mining	7.4	23.3	3.3	-5.4	0.0	5.7	-6.5	3.4	15.6
Manufacturing	6.3	23.4	-0.4	1.5	-0.6	12.2	0.9	30.5	3.8
Electricity, gas and water	8.2	13.2	0.3	2.7	8.5	-1.5	-0.5	41.3	2.4
Construction	16.6	38.9	1.3	3.7	-17.8	4.5	-3.6	-1.9	-3.0
Commerce, restaurants and hotels	9.2	11.8	8.4	3.6	3.8	1.7	5.2	0.8	2.3
Transport and communications	11.9	13.1	11.9	11.3	8.6	5.0	8.8	3.5	13.1
Financial institutions and insurance	13.0	11.7	6.2	17.8	16.9	5.5	3.5	8.2	5.1
Other services	1.1	4.5	4.2	4.0	5.7	2.1	2.5	-2.0	4.2
Gross domestic product, by type of expenditure									
Consumption	6.7	6.2	9.1	7.6	3.5	-0.3	-0.8	-2.3	4.9
General government	-2.4	7.0	6.1	13.1	5.3	-0.9	4.1	-0.9	11.1
Private	8.5	6.0	9.7	6.7	3.2	-0.1	-1.7	-2.6	3.7
Gross domestic investment	36.9	30.9	-6.2	-5.3	-14.0	-5.4	8.0	1.8	5.0
Exports (goods and services)	13.0	8.7	4.9	9.6	13.2	5.7	11.8	11.0	-6.2
Imports (goods and services)	24.6	20.1	-0.8	2.6	2.1	-7.5	6.7	0.5	-0.3
					Millions of dollars				
Balance of payments									
Current account balance	-73	-162	-184	-166	-176	-156	-151	-16	-43
Goods balance	-114	-197	-209	-187	-207	-173	-231	-185	-214
Exports, f.o.b.	262	282	269	310	316	307	325	427	429
Imports, f.o.b.	376	478	478	497	522	481	556	612	642
Services trade balance	44	30	43	44	70	88	143	224	232
Income balance	-40	-53	-67	-69	-85	-117	-114	-129	-154
Net current transfers	38	58	48	47	46	46	51	74	93
Capital and financial balance [c]	98	213	181	160	146	125	139	66	66
Net foreign direct investment	54	23	61	25	-11	111	126	103	110
Financial capital [d]	44	190	120	135	158	13	13	-37	-45
Overall balance	25	52	-3	-5	-30	-31	-12	50	23
Variation in reserve assets [e]	-27	-52	3	5	30	31	12	-50	-23
Other financing [f]	3	0	0	0	0	0	0	0	0
Other external-sector indicators									
Net resource transfer	60	161	115	91	61	8	25	-63	-89
Gross external public debt	255	431	495	652	822	913	970	985	972
					Average annual rates				
Employment									
Unemployment rate [g]	12.8	11.1	9.1	10.0	12.9	11.6	11.0	9.4	8.5
					Annual percentages				
Prices									
Variation in consumer prices (November-November)	-1.2	0.6	1.1	2.3	2.6	3.1	4.2	3.0	4.1
Nominal deposit rate [h]	5.8	5.4	4.4	4.3	4.8	5.2	5.4	5.8	5.8
Nominal lending rate [i]	16.3	16.0	15.5	14.8	14.4	13.9	14.2	14.2	14.3
					Percentages of GDP				
Money and credit [j]									
Domestic credit	52.9	49.4	56.6	51.0	57.2	64.1	63.3	64.5	70.1
To the public sector	8.5	8.2	11.9	3.2	5.7	10.6	9.3	8.7	8.9
To the private sector	44.3	41.2	44.6	47.8	51.5	53.5	54.0	55.8	61.2
Liquidity (M3)	57.4	58.0	59.7	57.0	55.7	59.1	59.6	62.0	68.0

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income [k]	...	...	27.7	30.4	22.8	24.3	23.9	24.8	30.0
Current income	...	...	26.2	28.9	21.6	21.4	22.9	23.3	25.5
Tax income	...	...	23.9	26.5	19.0	19.3	20.5	21.2	22.5
Capital income	...	...	0.7	0.2	0.9	1.3	0.3	0.4	1.1
Total expenditure	...	...	39.2	34.0	31.8	30.6	30.9	26.7	31.1
Current expenditure	...	...	30.6	26.8	20.0	22.4	25.2	22.7	24.9
Interest	...	...	10.1	6.3	4.0	5.8	6.7	5.8	5.3
Capital expenditure	...	...	8.7	7.1	11.9	8.2	5.7	4.0	6.2
Primary balance	...	...	-1.5	2.8	-5.0	-0.5	-0.3	3.9	4.1
Overall balance	...	...	-11.6	-3.6	-9.0	-6.3	-7.0	-1.9	-1.1
Total public debt	…	…	68.7	79.3	96.3	99.7	99.5	93.5	89.4
Domestic	…	…	12.0	9.2	13.0	13.2	12.5	12.4	12.7
External	…	…	56.8	70.1	83.3	86.5	87.0	81.2	76.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Includes errors and omissions.
[d] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[e] A minus sign (-) denotes an increase in reserves.
[f] Includes the use of IMF credit and loans and exceptional financing.
[g] Percentage of the economically active population. Nationwide total.
[h] Rate for savings.
[i] Weighted average rate for loans.
[j] The monetary figures are end-of-year stocks.
[k] Includes grants.

Total central government revenue expanded to 30.0% of GDP. Current receipts registered dynamic growth to reach 25.5% of GDP, reflecting improved returns in both tax and non-tax revenue. Tax proceeds were bolstered by a change in the tax structure, as the newly introduced GST turned in a good yield, accounting for substantial growth in receipts. Tax yield from income and profits shot up by 19.4%, mainly associated with receipts from petroleum income taxes. Meanwhile revenue from taxes on international trade and transactions rose by 5.4% almost in line with growth in imports. Capital revenues received a boost from land sales, while the government garnered substantial grants from bilateral and multilateral sources, including Taiwan Province of China, the Bolivarian Republic of Venezuela and the Basic Needs Trust Fund.

There was some slippage on the expenditure side, consequent on higher outlays on goods and services, the usual increases in wages to adjust for inflation, spending on relief and rehabilitation in the wake of Hurricane Dean and election spending. Outlays on goods and services catapulted 52.3% to 6.3% of GDP, reflecting reclassification of some capital spending and procurement of supplies in the aftermath of the hurricane. The 5.1% wage increase was moderate given the level of inflation. Meanwhile, capital expenditure expanded by almost 62.3% to reach 6.3% of GDP, up from 4% in 2006.

Mindful of the need for sustainable management of petroleum resources, Parliament established a petroleum revenue management fund in 2007. From fiscal year 2008-2009 all government revenues from the exploitation of petroleum will be paid into the fund. A portion of the funds will be invested to generate a revenue stream for the benefit of the population, while part could be used for government projects and budget support, but not for current outlays or debt repayments.

The debt situation remains the critical macroeconomic challenge to growth and stability. Debt restructuring during the year extended the maturity profile of the debt, which provided fiscal space for a structured programme to regain debt sustainability, and improved the country's sovereign-credit rating, thus opening up potential access to credit at favourable terms on the market. Under the mechanism, US$ 1.134 billion of government debt was restructured by paying down an initial portion and converting the remaining $ 1.082 billion into a 'super-bond'. Importantly, this new debt will be subject to step-up interest rates over time, and this underscores the need for a 'front-loaded' fiscal consolidation programme to guarantee medium- to long-term debt sustainability. To achieve this goal, the authorities are targeting a primary surplus of over 3% of GDP in the medium term and attempting to increase external reserves.

(b) Monetary and exchange rate policy

Despite the slowdown in economic activity and rising but moderate inflation, there was significant monetary expansion during the year fuelled by a surge in credit and foreign-exchange inflows. Money and credit expansion was facilitated by the fact that the central bank's cash reserve requirement remained stable at 10%. Despite the expansion in the money supply, monetary policy was relatively neutral in 2007, following the tightening in 2006.

Major monetary aggregates expanded in 2007, as evidenced by a 17% rise in broad money to 68.5% of GDP. Both the foreign and domestic components of the money supply expanded, as net foreign assets were boosted substantially by tourism receipts, remittances and foreign direct investment (FDI), while domestic credit increased by over 14% to 70% of GDP. Notably, the net foreign assets of the commercial banks more than doubled in spite of the spike in credit growth. The M3 money supply (up to 68% of GDP from 62% of GDP in 2006) was driven by a rapid accumulation of time deposits held by individuals and the Belize Social Security Board (BSSB).

Credit growth was boosted in part by demand for loans to households, which tend to feed through into imports, worsening the balance-of-payments position. However, in a welcomed development, credit to tourism, banana production and marine products also increased, providing a boost to productive activity.

After easing as a result of tourism receipts and other inflows in the first quarter of the year, banking system liquidity tightened during the rest of the year. Weighted average interest rates on deposits rose during the year, associated with more intense competition in the banking system, as banks sought to attract large depositors. The weighted average interest rate spreads narrowed by 20 basis points to 8.3%, the lowest margin in 16 years.

A favourable outcome during the year was the pick-up of activity in the nascent interbank market, marking the year as the most active since the start of the market in 1995. An incentive for activity on the market was provided by a cut in rates from 17% to 11% in 2006. The development of the market suggests that monetary policy will make more use of market-oriented instruments in the future and will also be an important pillar for the development of money and capital markets.

Meanwhile, the external assets coverage ratio, which provides protective cover for a fixed peg exchange rate and has a stipulated benchmark of 40% of currency notes and coins issued, stood at 47.3% at the end of the year. The central bank made net foreign exchange purchases of US$ 6.7 million during the year. Inflows were bolstered by loans and grant receipts, but were offset by a large payment on the restructured external debt.

Belize's exchange-rate peg continues to provide an important anchor for macroeconomic policies and expectations. The real exchange rate depreciated in line with its nominal anchor, the United States dollar.

3. The main variables

(a) Economic activity

Economic growth slowed to 1.2%, compared with 4.7% in 2006. Despite a pickup in services and increasing oil production, the steep decline in agriculture and fisheries dampened overall activity. The critical agricultural sector was buffeted by Hurricane Dean and its real output fell by 20.7%. Particularly affected were the papaya and banana crops. Sugar production also fell because of poor crop quality, owing to heavy rainfall and froghopper infestation. Fisheries were badly affected following a bankruptcy in the aquaculture industry, resulting in lower output particularly in shrimp farming. On the other hand, citrus output expanded slightly and oil production increased by 250,757 barrels or 31.5% thanks to more intense exploitation; however, it did not boost the economy as much as in 2006.

The nascent manufacturing sector was dealt a further blow in 2007 with the imminent closure of Williamson Industries Ltd., a producer of clothing for the United States market. With the end of the Caribbean Basin Initiative on the horizon, the company complained that without preferential access and with higher costs in Belize, its operations would not be profitable.

Tourism has the potential to provide an important additional pillar for a diversified economy. The authorities have recognized the potential of the sector, serving a high-end niche market, and have embarked on a programme to strengthen the sector, including the upgrade of the main airport, more intense marketing and the creation of a tourism development fund.

In 2007, stay-over arrivals increased by a modest 1.6%, while cruise passenger arrivals posted a decline for the third consecutive year, partly reflecting the active hurricane season that led to home-porting and deployment of ships to the Mediterranean. The subprime mortgage crisis in the United States and higher fuel costs also affected this sector.

(b) Prices, wages and employment

The rate of inflation (November-to-November) increased to 4.1% in 2007 (3.0% in 2006). All sub-indices registered higher prices, but the major drivers of inflation were fuel and power, transport and communications and food and beverages. Rent, water, fuel and power rose sharply by 5.9%, reflecting the hike in butane costs, although rent and water rose only marginally. Transport and communications costs rose by 3.4%, mainly on account of a surge in costs in the last quarter, as price increases were contained in the first three quarters. Food and beverage costs increased by 5.8% propelled by a significant increase in the price of maize, wheat and other staples, partly associated with the use of grain for biofuels. Meanwhile, more modest price increases were recorded for household goods (1.7%), personal care (0.8%) and recreation and education (0.3%).

Unemployment fell from 9.4% in 2006 to 8.5% in 2007, contributing to improved social welfare. Agriculture remained the largest employer with 19.8% of the employed labour force, however, job growth was most dynamic in the distribution sector (up by 39%). Nevertheless, the seasonal nature of many jobs in some primary activities is a cause for concern and measures are needed to provide more stable jobs for workers in that area.

(c) The external sector

The balance-of-payments current account deficit widened from 1.4% of GDP in 2006 to 3.3% of GDP in 2007. Growth in imports slowed in line with reduced economic activity and merchandise exports were up by a mere 0.3%, compared with a 31% rise in 2006. All the major domestic exports contracted, with the exception of petroleum, reflecting hurricane damage in the agricultural sector.

Pinned back by the slowdown in domestic accumulation, import growth slowed in 2007. Imports of the Corozal Free Zone (CFZ) were up by 18%, while those of the export processing zone (EZP) companies declined sharply on account of slacker demand and lower capital investments.

The services account improved thanks to a 7.2% rise in tourism receipts, caused by an increase in stay-over visitors and higher average daily spending. In contrast, net payments on the income account expanded by 19% due to higher profit repatriation, private-sector interest payments and reinvested earnings. However, current transfers were bolstered by substantial receipts from donor governments. There is a clear need to use these funds more productively so that a sizeable portion goes to improving the capital stock in the country's production sectors.

The capital account surplus contracted to US$ 4.1 million or 0.3% of GDP (from US$ 9.2 million or 0.8% of GDP in 2006) as there was no repeat of debt forgiveness by the United Kingdom government as in 2006. The surplus on the financial account increased, however, reflecting inflows of FDI into tourism, real estate, electric power and aquaculture projects and higher reinvested earnings by the banking sector, which suggested a vote of confidence in the economy, especially in view of the debt restructuring. Meanwhile, the overall balance-of-payments surplus more than halved to US$ 22.9 million. Gross international reserves increased to US$ 108.5 million, covering 2.3 months of imports of goods and non-factor services.

Cuba

1. General trends

In 2007, the Cuban economy posted GDP growth of 7.3%, with a similar growth rate in per capita GDP, since population growth was almost nil. The overall fiscal deficit increased slightly, from the equivalent of 3.0% of GDP in 2006 to 3.1% in 2007. The rate of inflation rose by 2.8%, which was half the previous year's rate (5.7%). The balance-of-payments current account showed a surplus equivalent to 0.8% of GDP.

Having contracted sharply in the two preceding years because of drought, the agricultural sector was the fastest-growing in 2007 (18%). Community, social and personal services expanded at a lower rate (14.5%) than agriculture, but contributed more to overall growth since they account for a high proportion of output. Conversely, construction and commerce, which had led GDP growth in 2006, lost momentum, shrinking by 8.6% and 0.5%, respectively.

External conditions were less favourable than in previous years owing to the tightening of the United States embargo and rising food prices. The authorities estimate that, since it began, the economic blockade has had a direct cost of over US$ 90 billion. The rise in international food prices pushed up the value of food imports by almost 24%.

A wide-ranging debate was held in 2007 to identify the population's main problems and compile their recommendations. In response to some of these, a number of measures were taken in the first semester of 2008, such as the lifting of the prohibition on buying cellular telephones, computers, digital video/versatile disks (DVDs) or videos and other electronic articles. Citizens were also allowed to stay in international tourist hotels and hire cars.

The most significant event thus far in 2008 has been Fidel Castro's resignation as President of the Council of State of Cuba; the National People's Assembly elected Raúl Castro in his place for a five-year term. The new President's first measures have been aimed at phasing in changes aimed at improving the Cuban model. The basic purpose is to increase economic efficiency by forging a closer link between income and performance.

For 2008, the government authorities project GDP growth of close to 8%, driven mainly by exports of goods and services. Agriculture is also expected to continue to perform well, thanks to production incentives and the policy of substituting food imports, which has been given a high priority this year.

The excellent performance of the tourism sector, which posted an expansion of around 15% in the first four months of the year (high season) bodes well for the rest of the year. GDP growth in 2008 could be lower than forecast, however, given slacker economic activity in the world economy and in Cuba's two main training partners, the Bolivarian Republic of Venezuela and the People's Republic of China.

2. Economic policy

The main objective of economic policy in 2007 was to continue with efforts to reduce the imbalances built up during what is known as the "special period". Specifically, the authorities maintained the medium-term objective of de-dollarizing the Cuban economy and creating the economic conditions for monetary unification.

(a) Fiscal policy

The budget deficit widened slightly, from 3% of GDP in 2006 to 3.1% in 2007.[1] The central government's primary balance, which excludes interest payments, improved and the deficit narrowed from 2.0% of GDP in 2006 to 1.8% a year later.

The central government's total revenues were up by 11.1% in real terms; they rose from 40.6% of GDP in 2006 to 43.7% in 2007, reflecting non-tax income and capital revenues. Non-tax income was up by 42.8% thanks to the price differential on external trade, the item "other business contributions" and net external revenues. This last item is significant, since it was equivalent to 11.7% of GDP in 2007. Capital revenues were less substantial (2.2% of GDP), although they expanded by over 50%.

By contrast, tax revenues were flat. Indirect tax receipts were down by 10% in real terms, owing to a sharp 12.3% drop in their main component, circulation and sales taxes. Receipts under this heading had increased by 52.6% in real terms in 2006 because of mass sales of household appliances as part of the energy restructuring programme, but once this process was finished, in 2007 the extraordinary results of the previous year were not repeated.

Income from direct taxes rose at a similar rate to total income. Receipts from profits tax, which represents almost half of direct income, expanded by 51.9% in real terms, as against a reduction of over 10% the year before. Generally speaking, these receipts are volatile because they depend on enterprise results. Conversely, income from social security contributions, which represent the other half of direct income, usually increases at much more stable rates not exceeding single digits in real terms. Last year was no exception, with income in that category rising by 2.6%.

Total spending was up by 10.1% in real terms. Current spending expanded 14.6% owing to a significant rise in outlays on education, health, culture and art, and science and technology. Transfers to the enterprise and cooperative sector also rose (16.6%). For the second year running, there was a decrease in subsidies for losses (-26.4% in 2007). By contrast, subsidies for price differences and on particular products rose (13.8%), breaking the downward trend of the previous four years. Capital spending was flat.

Spending also included outlays to repair losses caused by flooding in the country's eastern provinces in the last quarter of 2007, which the authorities estimate at some US$ 500 million. Efforts were made to increase spending efficiency and sanctions were introduced for misuse of budgetary funds. As well as the flooding, another factor pushing up expenditures was the rise in storage prices for some of the major food products.

One important step has been the adoption of measures to improve investment efficiency and links between labour productivity and wages, and this remained one of the government's priorities in 2008. Strenuous efforts have also been made to solve some of the basic problems in the agricultural sector, in order to increase production and improve supply. For example, the price of storage for such products as milk and beef doubled. Lastly, in the second half of 2007, a nationwide consultation was carried out on mechanisms to improve the operation of the economy and solve the worst problems faced by the population, some of which were identified as wages, housing, transport and monetary duality. The Communist Party is examining the proposals that arose from this process.

In April 2008 it was decided to increase social security benefits. This involved an unbudgeted expenditure of 837 million pesos, which represented around 1.3% of the GDP forecast for the year.

(b) Monetary and exchange-rate policies

Monetary policy continued to be directed towards de-dollarizing the economy and reducing the imbalances built up during the previous period. No new measures were taken, so the rules of play remained stable in 2007.

The Central Bank of Cuba continued to use legal deposit and credit controls, as well as interest rates, to administer liquidity. Lending rates in Cuban pesos remained the same as in previous years, while the annual average rate in convertible pesos decreased from 9.8% in 2006 to 9.4% in 2007.

[1] The concept of budget deficit is much broader in Cuba than in other countries. It refers to the totality of State income and expenditure, which amounted to 61.7% and 64.8% of GDP, respectively, in 2007. Although these data are not comparable to those of other countries, since their coverage is wider, they are included in this report as crucial macroeconomic indicators in the Cuban economy.

Monetary aggregates registered no significant variation in nominal terms. M1 increased by a mere 1.2%, basically because cash in circulation increased by 9.9%. M2 also posted a small variation (4.5%). Both monetary aggregates continued to decrease in GDP terms, however, which reflects efforts to contain surplus liquidity in the economy. This process has been quite considerable, since M1 decreased from the equivalent of 40.5% of GDP in 2005 to 30.6% in 2007. In the same period, M2 declined from 50.3% of GDP to 40.8%.

Conversely, lending to the private sector, which includes credits to loans and services cooperatives, agricultural cooperatives, basic units of cooperative production, private farmers and households, expanded by a significant 56.3%. Even so, this was a smaller increase than that seen in 2006, when lending doubled in comparison with 2005.

The sharp reduction in liquidity put some pressure on the exchange rate. The rate of exchange between the convertible and non-convertible pesos (at 24 to 1) and between the convertible peso and the United States dollar (at 1 to 1, plus a surcharge of 8% for the use of dollars) both remained stable, but expectations of a revaluation of the non-convertible peso translated into occasional liquidity problems in the early months of 2008. The monetary authorities therefore increased the rate of liquidity expansion, which reached 20% in this period.

(c) Trade policy

Trade policy was directed towards promoting ties with the countries of the Bolivarian Alternative for Latin America and the Caribbean (ALBA) and the People's Republic of China. Relations between Cuba and the Bolivarian Republic of Venezuela have developed in an extraordinary fashion, both as regards trade —making the latter country Cuba's largest trading partner— and in relation to culture, sport and other areas. In 2007, 352 projects representing a value of some US$ 1.5 billion were carried out in the framework of the integrated convention on cooperation between Cuba and the Bolivarian Republic of Venezuela.

The most significant project was the refurbishment of the Cienfuegos refinery. Once the first phase was completed in December 2007, the refinery began to process 65,000 barrels of petroleum per day and this quantity is expected to increase to 150,000 barrels per day in the second phase. In 2008 other projects were begun around refining activity, in an effort to increase the value added of Cuba's petrochemical output and make it the development hub for that part of the country.

Although the Bolivarian Republic of Venezuela is Cuba's largest trading partner, trade between the two countries is concentrated in just a few goods. Cuba trades a much larger range of goods with the People's Republic of China, its second-largest trading partner. In addition, the Government of Cuba considers China a strategic partner.

3. The main variables

(a) Economic activity

The economic growth rate (7.3%) was lower than the figure for 2006 (12.1%) and trends in external and domestic demand switched with respect to the previous year. The strong momentum in domestic demand slackened in 2007 (4.1%) owing to smaller expansion in consumption (4.4%) and investment (2.4%). Exports, on the other hand, left behind the standstill of 2006 and posted a strong 13.8% gain. Imports decreased slightly (-1.1%), as against the sharp rise of the previous year (20.4%).

The measures adopted to reduce delays in paying producers, together with the rise in storage prices and very favourable weather conditions after a drought of several years, translated into strong growth in agricultural output (18%), breaking the strong downtrend of the previous two years. The upswing was seen in a range of products including beans, maize, bananas and sugar cane, while the harvest of potatoes, tobacco, vegetables and some fruits was smaller. In the livestock sector, production of pork was up 77% and cow's milk, 16.8%.

After extraordinary growth of 37.7% in 2006, construction slipped by 8.6% in 2007. The 2006 performance had reflected the conclusion of housing projects begun in earlier years and thus represented an exceptional situation that was not repeated in 2007, bringing about a drop in activity levels in the sector. A number of organizational problems and lack of skilled labour also affected the sector's performance.

The manufacturing industry (except the sugar segment) saw a significant upturn of 9.9%, compared with 2.7% in 2006. Six of the seven largest branches posted a positive

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	6.2	5.9	3.2	1.4	3.8	5.8	11.2	12.1	7.3
Per capita gross domestic product	5.9	5.6	2.9	1.2	3.6	5.6	11.1	12.0	7.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.6	9.1	0.9	-2.5	2.4	0.2	-11.6	-6.0	18.0
Mining	2.7	33.2	-3.5	12.4	1.8	-4.7	0.1	1.9	3.4
Manufacturing	7.2	5.1	-0.6	0.2	-2.0	2.5	1.2	2.7	9.9
Electricity, gas and water	8.1	12.8	1.1	2.4	3.1	-2.5	-1.6	3.4	7.9
Construction	7.5	8.4	-5.3	-2.4	4.4	10.0	18.9	37.7	-8.6
Wholesale and retail commerce, restaurants and hotels	0.7	7.6	4.4	2.0	5.0	0.7	4.8	22.7	0.5
Transport, storage and communications	17.6	5.0	8.4	0.0	2.7	4.8	8.2	9.2	6.7
Financial institutions, insurance, real estate and business services	12.7	0.9	5.4	1.2	0.2	4.9	1.0	2.8	8.1
Community, social and personal services	4.7	3.5	5.6	3.4	7.7	14.2	29.6	8.9	14.5
Gross domestic product, by type of expenditure									
Consumption	5.1	2.4	3.7	2.7	6.5	3.7	3.6	15.0	4.4
General government	5.1	3.0	3.3	4.1	7.3	8.6	10.4	7.9	10.5
Private	5.1	2.1	3.8	2.1	6.2	1.5	0.4	18.7	1.5
Gross domestic investment	0.5	11.3	0.8	-10.8	-9.6	13.5	33.0	26.0	2.4
Exports (goods and services)	12.8	14.1	-3.6	-3.8	5.8	19.0	47.5	1.3	13.8
Imports (goods and services)	2.4	-0.2	-3.8	-7.3	12.1	13.0	25.8	20.4	-1.1
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	11.9	12.5	11.5	9.2	8.5	8.8	10.8	11.7	10.2
National saving	10.2	10.2	9.6	8.2	8.6	9.1	11.1	11.3	11.0
External saving	1.6	2.3	1.9	1.0	-0.1	-0.3	-0.3	0.4	-0.8
					Millions of dollars				
Balance of payments									
Current account balance	-462	-696	-605	-343	20	116	140	-215	488
Goods balance	-2 909	-3 120	-2 847	-2 388	-2 574	-2 918	-5 235	-6 331	-6 253
Exports, f.o.b.	1 456	1 675	1 622	1 422	1 671	2 180	2 369	3 167	3 830
Imports, f.o.b.	4 365	4 796	4 469	3 810	4 245	5 098	7 604	9 498	10 083
Services trade balance	2 163	2 306	1 931	1 825	2 329	2 710	6 375	6 456	7 900
Income balance	-514	-622	-502	-600	-650	-650	-633	-618	-960
Net current transfers	799	740	813	820	915	974	-367	278	-199
Capital and financial balance [d]	485	805	595	300	200	800	...	...	...
Overall balance	23	109	-11	-43	220	916	...	...	...
Variation in reserve assets [e]	-23	-109	0	0	0	0	...	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	102.7	100.0	90.6	94.2	99.8	106.1	105.3	106.2	110.8
Terms of trade (index:2000=100)	104.2	100.0	114.0	105.1	121.0	133.3	129.8	164.0	172.6
Official exchange rate (pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Average unofficial exchange rate (pesos per dollar)	20.00	21.00	26.00	26.00	26.00	26.00	24.00	24.00	24.00
Gross external public debt (millions of dollars) [g]	11 078	10 961	10 893	10 900	11 300	5 806	5 898	7 794	8 908
					Average annual rates				
Employment									
Labour force participation rate [h]	70.6	70.1	70.9	71.0	70.9	71.0	72.1	72.1	73.7
Unemployment rate [i]	6.3	5.4	4.1	3.3	2.3	1.9	1.9	1.9	1.8
					Annual percentages				
Prices									
Variation in consumer prices [j] (December-December)	-2.9	-3.0	-1.4	7.3	-3.8	3.0	3.7	5.7	2.8
Variation in average real wage	10.4	8.7	-3.8	9.3	2.5	6.3	13.0	11.6	-0.9
Nominal lending rate [k]	...	...	...	...	9.6	9.7	9.8	9.4	9.1

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income	35.6	36.2	34.4	35.0	35.7	33.8	44.0	43.2	46.0
Current income	34.0	35.1	33.5	33.9	34.4	32.8	42.5	41.7	43.7
Tax income	28.6	27.5	25.9	26.6	26.9	23.3	28.7	30.0	27.7
Capital income	1.6	1.1	0.8	1.2	1.3	1.1	1.5	1.5	2.3
Total expenditure	37.7	38.4	36.7	38.0	38.7	37.6	48.6	46.4	49.2
Current expenditure	27.0	28.0	28.2	30.7	31.7	30.2	38.9	33.6	38.3
Interest	0.9	0.9	0.9	0.7	0.7	0.7	1.2	1.2	1.4
Capital expenditure	7.3	5.7	6.3	5.8	5.8	6.0	7.2	9.1	8.3
Primary balance	-1.3	-1.3	-1.5	-2.3	-2.2	-3.0	-3.3	-2.0	-1.8
Overall balance	-2.2	-2.2	-2.3	-3.0	-3.0	-3.7	-4.6	-3.2	-3.2
Liquidity [l]									
Currency outside banks and local-currency deposits (M2)	...	36.8	39.0	40.6	37.7	38.1	46.2	38.2	37.3
Domestic credit to the private sector	...	...	...	...	...	...	9.2	15.0	21.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] On the basis of figures in national currency at constant 1997 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Provisional figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.
[g] From 2004, refers only to active external debt; excludes long-term debt, 60.2% of which is official external debt with the Paris Club.
[h] Percentage of the economically active population, nationalwide total.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Local-currency markets.
[k] Average of loans to enterprises by the country's main banks.
[l] The monetary figures are end-of-year stocks.

performance, with tobacco the only segment to return a negative variation. The value added of the transport, storage and communications sector rose by 6.7%, owing to advances made in road transport, urban transport in Havana and maritime transport. The rationalization of transport, through substantial reductions in the number of buses produced in local factories, contributed to the positive result in this sector.

The production of electricity, gas and water increased by 7.9%, thanks to the modernization of the energy system, as a result of which the power blackouts that used to occur on a daily basis were almost completely eliminated. Commerce, however, recorded a slight downturn (-1.8%) in 2007 after the exceptional results of 2006, when the sector expanded by over 20% thanks to the massive sale of household appliances as part of what was dubbed the "energy revolution".

Once again, tourism results were slightly down on the previous year. The number of visitors decreased by 3.1% and average income per visitor stagnated (0.1%). This largely reflected a drop of 60% in the number of visitors from the Bolivarian Republic of Venezuela owing to the decline in "health tourism", since new clinics with Cuban doctors were opened in that country. Lastly, community, social and personal services again expanded strongly (14.5%). The fastest-growing were social services and entertainment, leisure and cultural services.

(b) Prices, wages and employment

The variation in the consumer price index, measured from December to December, was 5.7% in 2006, but a year later had returned to levels more usual for the Cuban economy (2.8%). The average annual rate, however, rose by 6.4%. One of the factors driving the rise in 2006 and early 2007 was the sharp increase in wages and pensions. This effect was absent during the rest of the year, however, so inflation is forecast to remain low in 2008, despite the strong rise in international prices for petroleum and foods. This is borne out by the 12-month variation of 1.6% recorded in May 2008.

Real average wages remained unchanged. These represent the sum of income in non-convertible and convertible pesos received by around 19% of the employed as a stimulus. The real average wage of employees paid only in non-convertible pesos decreased by 1% in 2007. Employment rose by 2.4%, with the result that the unemployment rate decreased slightly from 1.9% in 2006 to 1.8% in 2007.

(c) External sector

There was a turnaround in the external position in 2007, since the recorded surplus of US$ 488.5 million contrasted with a deficit of US$ 214.6 million in 2006. This reflected faster growth in exports and a notable reduction in the growth rate of imports.

After the excellent results of the previous year (35.4%), merchandise exports posted growth of 26.6% in 2007. This was due to a rise in prices (which surged in the case of nickel), since the volume exported increased at a lower rate (6.2%). The total value of sugar exports decreased by 10%, even though there was a slight increase in the volume exported. The value of nickel exports was 27.8% higher than the figure for 2006. The largest increases in export values were recorded in alcoholic beverages (96.5%), iron and steel (34.4%) and medicines (28.9%). This last category became the second largest in merchandise exports, after minerals.

Goods imports were up only 6.2%, after rates of over 20% in the three previous years. Contrasting with this general picture of slower import growth, the food bill rose 24%. Imports of consumer goods (-0.3%) and capital goods (-1.8%) were down, reflecting the impossibility of repeating the extraordinary leap of the year before, when millions of household appliances and hundreds of diesel generators were imported. Imports of intermediate goods, conversely, rose by 11.5% owing to the higher prices for oil and foods.

Exports of services climbed by 22.9%, reflecting an increase in professional and technical services. The deficit on the income balance widened from US$ 618 million in 2006 to US$ 960 million in 2007. Current transfers moved from a surplus of US$ 278 million in 2006 to a deficit of US$ 199 million in 2007.

In 2007 Cuba conducted two bond issues on the London Stock Exchange, both with a two-year maturity: one for 150 million euros (€), with an interest rate of 9%, and another for € 50 million, with a rate of 8.5%.

Dominican Republic

1. General trends

In 2007, the Dominican Republic recorded a real 8.5% increase in its GDP, continuing the sharp upward trend observed in the previous biennium (10% per year on average). Inflation stood at an annual rate of 8.9%, and a fiscal surplus equivalent to 0.1% of GDP was achieved, while the balance-of-payments current account deficit increased significantly to reach 5.4% of GDP.

These positive results were achieved in a context marked by high international oil and commodity prices and by the ravages caused in the agricultural sector by tropical storms Noel and Olga, which struck the island in quick succession towards the end of the year.

During the second half of 2007 and the first months of 2008, the electoral process played an increasingly influential role in the economic situation, the former culminated with the re-election of President Fernández to a second term in office on 16 May 2008. Having obtained a majority in both houses in Congress, the Government is expected to press ahead with the implementation of the 2004-2008 structural reform programme.

Given the slowdown of the international economy, the Dominican economy is expected to grow by 5.5% in 2008, the slowest growth rate the country has seen since 2005. Annual inflation is projected to reach 15% or more if the pressure on the prices of certain strategic import items continues to rise. In the first quarter of 2008, accumulated inflation with respect to December 2007 was 4.7%, compared with 2.9% in the same period the previous year. A small fiscal deficit is expected to be recorded at the close of 2008.

2. Economic policy

Economic policy continued to be pursued in accordance with the guidelines set out in the agreement concluded with the International Monetary Fund, which was in force until January 2008. Rising international prices and contingency outlays to mitigate the effects of natural disasters created some fiscal pressure, but this was absorbed without undermining the country's macroeconomic stability objectives.

(a) Fiscal policy

The non-financial public sector recorded a surplus equivalent to 0.1% of GDP in 2007. The quasi-fiscal deficit fell to 1.8% of GDP, which brought the consolidated public-sector deficit down much further than the previous year (1.7% of GDP compared with 3.7%). The increase in tax revenue was key to this achievement.

The central Government's total income increased 15.6% in real terms and expanded its share in GDP from 16.1% to 17.7% in 2007. Various factors contributed to this outcome, including the fiscal amnesty law and the tax amendment law (whereby the issue of tax receipts became obligatory for all operations concerning transfers of goods and provision of services), administrative improvements (which resulted in more effective tax collection), the rise in the international price of nickel and the larger revenue obtained from taxes on company dividends and sales transactions.

Direct taxes increased by one third in real terms. Income tax, which accounts for a quarter of tax revenue, recorded a real increase of 28.1% thanks to economic growth, the modernization of procedures for submitting tax returns and the greater effectiveness of the campaign against tax evasion. Revenue from indirect taxes rose 6.7% in line with the increase in economic activity, and revenue from sales taxes on goods and services, which represent three quarters of tax income, increased 13.7% in real terms.

After suffering a 32.4% drop in real terms in 2006, tax revenue from foreign trade operations fell again in 2007, this time by 20.3%. This type of revenue went from representing 32.8% of indirect taxes in 2005 to 15.4% in 2007. The 2% tariff hike was insufficient to offset the loss of income generated by the elimination of foreign exchange commission charges two years ago. Also, the economy was beginning to feel the first effects of the tariff reductions introduced with the implementation of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).

Public spending rose again in 2007 (12.3% in real terms). Generally, as a proportion of GDP, it remained within the level contemplated in the Government's programme, rising from 17.1% to 17.2%.

Public spending picked up towards the end of 2007 in response to the need to mitigate the devastating social and economic effects of the tropical storms Noel and Olga which, according to the assessment performed by ECLAC, caused damages equivalent to 1.04% of GDP. Current expenditure remained constant as a proportion of GDP, but recorded a shift in spending to the acquisition of goods and services from allocations to personal services. Current transfers recorded a real increase of 2.5% due to the rise in liquefied petroleum gas subsidies, although subsidies to the electricity sector, which still receives the most significant amounts, actually fell. Capital expenditure was the most buoyant budget item, growing 38.3% in real terms and increasing its share in GDP from 3.2% to 4.3%. The two main components of capital expenditure both recorded substantial annual growth: fixed investment rose 48.6%, and capital transfers rose 36.6%, both in real terms. The increase in fixed investment reflects the high volume of public works undertaken, such as the construction of the metro of Santo Domingo, which was concluded in the first quarter of 2008. The increase in capital transfers reflects the increased number of transfers made to decentralized institutions and State-owned enterprises.

(b) Monetary policy

Monetary policy aimed to ensure that inflation remained below the 6% target set in the monetary programme. The strong pressure generated by the rise in international prices for oil and commodities, however, meant that inflation in fact exceeded this limit by almost three percentage points.

Open market operations were the main monetary policy tool used throughout the year to manage liquidity in response to demand for money and the increase in economic activity. As monetary stance was less restrictive than in 2006, the central bank placed fewer bonds on the market in 2007 than in 2006. The volume of securities issued increased 11.9% compared with 18.1% the previous year. The M1 aggregate increased 26.9% and grew from 7.7% to 8.5% as a proportion of GDP. Sight deposits held by individuals were the main factor behind this increase. Currency issue increased 14.7% in line with nominal GDP growth. Net international reserves rose 25%.

For most of the year, inflation remained within the expected limits, and the central bank therefore lowered the interest rates on short-term deposit earnings from 8% to 7%. The drop in the central bank's rates affected interest rates in the banking system. At the end of the year, the lending and borrowing rates of multi-purpose banks had fallen 1.1% and 1.05% in nominal terms, respectively, compared with the previous year, although the intermediation margin had remained practically unchanged (8.7%).

Towards the end of 2007, the rates of the central bank's securities fell significantly, especially its zero-coupon bonds, whose weighted average rate fell to 11.09% (3.8 percentage points less than the previous year), while the one for fixed-term investment certificates dropped to 17.02% (2.84 percentage points less than the previous year). This made it possible to lower the quasi-fiscal deficit by four tenths of a percentage point of GDP (from 2.2% to 1.8%).

The total assets and liabilities of the financial sector rose 4.7% and 6% in real terms, respectively, thanks to the expansion of the loan portfolio and the increase in savings and sight deposits. The real growth of loans from multi-purpose banks to the private sector rose notably (16.8%). Just over half of these loans were destined for productive sectors. The remainder consisted of personal loans, which posted the highest level of growth in 2007

(29.5% in real terms), as a result of the sharp increase in mortgages (143% in real terms) and the slightly gentler increase in consumer loans (21.5%).

(c) Exchange-rate policy

The exchange market remained relatively stable in 2007. The central bank intervened to prevent an excessive real appreciation of the Dominican peso. The nominal exchange rate appreciated 0.38%, while the real bilateral appreciation of the peso to the United States dollar was 3.5%, owing to the general weakness of the latter. The effective real exchange rate of the peso, on the other hand, which measures variation with regard to the currencies of all the country's trading partners, depreciated 3.5%.

3. The main variables

(a) Economic activity

Slower GDP growth (8.5%) meant that production grew at a more moderate pace in 2007 than in the previous biennium, converging towards historical levels. The Dominican economy has thus recorded three consecutive years of per capita GDP growth averaging 7.5% per year, one of the highest rates in the region.

The most important factors driving economic growth were private consumption and gross capital formation, which increased 12.0% and 12.5% in real terms, respectively. Consumer spending also increased 10.0%. Domestic demand therefore rose 12.0%, which was partially reflected in the 11.7% increase in imports, while exports grew only 2.4%.

With the exception of the free zones and the mining sector, all production sectors posted positive growth in 2007. Performance varied considerably across the sectors, however. Agricultural output recorded a slight annual increase of 1.2%, compared with 8.6% in 2006. Rice and traditional export crops, livestock production, forestry and fishing activities accounted for this increase, while the production of other crops (which had recorded a real growth of 16.2% in 2006) shrank 4.6%. This was almost entirely due to the havoc wrought by the tropical storms Noel and Olga in October and December, which affected the planting of several crops and destroyed rural infrastructure in many parts of the country.

Mining activity declined 1.4% because flooding (caused by tropical storm Noel) hampered ferronickel extraction operations during the last quarter of the year. Ferronickel output therefore fell 2.1%.

Manufacturing output rose 2.4%, driven by activities directly linked with products for household consumption (milled items, dairy goods and meat products, animal and vegetable oils and fats) or for use in the construction industry (paints and cement). The output levels for some traditional products, such as sugar, coffee, beverages and tobacco products, fell compared with those attained in 2006.

Production in the free zones declined for the second year in a row (8% in 2006 and 10% in 2007), and the contribution of the free zones to GDP shrank from 65% in 2003 to 45% in 2007. This drop was largely caused by the steep decline (23.8%) in textiles and apparel manufacturing in 2007. This sector had already reported production falls of 14.9% in 2006 and of 4.7% in 2005. Its competitiveness problems were worsened by the dismantling of the Multifibre Arrangement in 2005, and the decline of the textiles and apparel industry has been having serious effects on employment and exports.

After recording rapid growth in 2006 (24.6%), construction activity expanded 3.2% in 2007, largely owing to the central Government's investments in the sector, which rose 52% in real terms. Much of this investment corresponded to reconstruction projects undertaken by the Government to repair the damage caused by the tropical storms Noel and Olga to the country's basic infrastructure. Loans granted by the financial sector to private construction firms recorded a real increase of 5%.

In the services sector, the output of the hotel, bars and restaurants segment rose at an annual rate of 3.7%, 1.2 percentage points less than the previous year. This relatively moderate growth was sustained by tourism. The hotel room supply continued to increase as did the income obtained from the arrival of foreign visitors.

The high level of economic activity in 2007 meant that the performance of the basic services segment, which accounts for 20.4% of GDP, was relatively dynamic (12.3%) though less buoyant than during the previous biennium when its output growth averaged 17%. The output of the transport and storage segment increased 6.8% compared with 4% in 2006, while in the energy and water segment

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	6.7	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5
Per capita gross domestic product	4.9	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	6.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.2	4.2	9.5	2.5	1.8	-2.5	5.9	8.6	1.2
Mining	11.5	16.1	-13.5	7.7	8.8	5.8	-0.1	11.0	-1.4
Manufacturing	8.6	3.7	-1.9	4.9	0.9	2.4	6.3	3.2	2.4
Electricity, gas and water	7.2	6.6	15.1	9.7	-6.9	-23.8	4.8	6.3	9.7
Construction	12.9	-4.0	-3.9	4.6	-17.1	-2.3	9.2	24.6	3.2
Wholesale and retail commerce, restaurants and hotels	7.2	4.4	-1.0	4.5	-2.3	-1.2	12.5	8.3	9.3
Transport, storage and communications	14.4	9.6	19.8	15.1	5.7	6.5	18.9	17.8	12.5
Financial institutions, insurance, real estate and business services	6.2	2.4	7.4	7.7	3.9	-1.6	2.0	9.0	11.0
Community, social and personal services	1.2	6.3	2.1	4.1	3.5	2.7	-1.2	5.8	4.5
Gross domestic product, by type of expenditure									
Consumption	6.2	4.7	3.5	5.7	-4.9	3.1	15.4	12.0	11.9
General government	3.7	3.7	9.2	8.0	-12.6	3.8	10.2	11.0	10.0
Private	6.3	4.7	3.3	5.6	-4.6	3.1	15.7	12.0	12.0
Gross domestic investment	-9.0	13.5	-4.0	5.0	-20.2	-1.8	13.3	21.3	12.5
Exports (goods and services)	5.4	8.7	-6.1	2.0	10.6	3.6	-1.2	0.7	2.4
Imports (goods and services)	1.1	8.5	-4.7	1.5	-12.9	5.3	11.3	8.2	11.7
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	22.4	23.3	21.1	21.2	15.0	14.9	16.5	18.4	18.9
National saving	20.4	18.9	18.0	18.0	20.1	19.7	15.1	14.9	13.5
External saving	2.0	4.3	3.0	3.2	-5.2	-4.8	1.4	3.5	5.4
					Millions of dollars				
Balance of payments									
Current account balance	-429	-1 026	-741	-798	1 036	1 041	-473	-1 262	-2 231
Goods balance	-2 904	-3 742	-3 503	-3 673	-2 156	-1 952	-3 725	-5 564	-6 580
Exports, f.o.b.	5 137	5 737	5 276	5 165	5 471	5 936	6 145	6 610	7 237
Imports, f.o.b.	8 041	9 479	8 779	8 838	7 627	7 888	9 869	12 174	13 817
Services trade balance	1 602	1 854	1 826	1 757	2 249	2 291	2 457	2 985	2 968
Income balance	-975	-1 041	-1 092	-1 152	-1 393	-1 825	-1 902	-1 827	-2 028
Net current transfers	1 848	1 902	2 028	2 269	2 336	2 528	2 697	3 144	3 410
Capital and financial balance [d]	581	978	1 256	243	-1 583	-862	1 178	1 452	2 888
Net foreign direct investment	1 338	953	1 079	917	613	909	1 123	1 459	1 698
Financial capital [e]	-757	25	177	-674	-2 196	-1 771	55	-7	1 190
Overall balance	151	-48	515	-555	-546	179	705	190	657
Variation in reserve assets [f]	-194	70	-519	527	358	-542	-1 109	-314	-692
Other financing [g]	42	-22	4	28	189	363	404	124	35
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	103.4	100.0	96.5	98.5	131.3	125.5	87.4	95.7	95.8
Terms of trade for goods (index: 2000=100)	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9	98.0
Net resource transfer (millions of dollars)	-352	-85	168	-881	-2 787	-2 324	-321	-251	894
Total gross external debt (millions of dollars) [i]	3 661	3 679	4 176	4 536	5 987	6 380	6 813	7 266	7 566
					Average annual rates				
Employment									
Labour force participation rate [j]	53.5	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.2
Open unemployment rate [k]	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.0	8.9
Variation in nominal exchange rate (annual average)	5.0	2.4	3.3	9.8	65.7	36.6	-30.2	12.8	-0.3
Variation in real minimum wage	-1.1	-0.4	5.7	-0.5	-9.2	-15.0	18.7	-7.1	4.8
Nominal deposit rate [l]	15.4	18.6	16.1	16.4	20.6	21.1	12.7	9.8	7.0
Nominal lending rate [m]	22.2	23.6	20.0	21.3	27.8	30.3	21.4	15.7	11.7

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Central government									
Total income [n]	12.8	13.3	14.5	14.6	13.1	14.0	15.6	16.1	17.7
Current income	12.6	13.2	14.4	14.3	13.0	13.9	15.4	15.9	17.3
Tax income	12.2	12.5	14.0	13.8	12.1	12.9	14.6	14.9	16.0
Capital income	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Total expenditure	14.4	13.2	15.6	16.1	16.0	16.7	16.7	17.1	17.2
Current expenditure	10.2	10.0	10.5	10.5	10.1	12.5	12.6	13.0	12.9
Interest	0.6	0.7	0.7	1.1	1.6	1.8	1.3	1.4	1.2
Capital expenditure	4.2	3.2	5.1	5.6	5.8	4.2	4.1	4.1	4.3
Primary balance	-0.9	-1.0	-1.4	-1.3	-2.7	-1.6	0.7	0.3	1.8
Overall balance [o]	-1.5	-1.7	-2.1	-2.3	-4.2	-3.4	-0.6	-1.1	0.6
Public-sector debt	17.1	17.8	19.7	23.1	39.7	25.2	26.6	23.8	24.7
Domestic	0.0	2.0	2.5	2.3	3.6	3.4	3.3	3.2	2.9
External	17.1	15.8	17.2	20.7	36.1	21.8	23.3	20.6	21.8
Money and credit [p]									
Domestic credit [q]	22.7	23.8	24.7	28.7	36.4	23.1	19.4	17.0	16.6
To the public sector	2.7	2.9	1.6	10.4	1.1	6.4	10.2	17.7	17.2
To the private sector	19.5	21.1	24.5	26.5	26.8	18.0	17.5	17.2	19.0
Others	0.6	-0.2	-1.4	-8.2	8.6	9.2	3.9	-4.8	-6.8
Liquidity (M3)	24.6	24.3	27.9	28.5	36.8	27.8	27.7	25.2	25.7
Currency outside banks and local-currency deposits (M2)	24.2	24.2	27.9	28.5	36.8	27.8	27.7	25.2	25.7
Foreign-currency deposits	0.5	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports. Owing to lack of data, the period 2002-2008 has been weighted using trade figures for 2001.
[i] Public and guaranteed private external debt.
[j] Economically active population as a percentage of the working-age population; nationwide total.
[k] Percentage of the economically active population; nationwide total.
[l] 90-day certificates of deposit.
[m] Average of the benchmark rate.
[n] Includes grants.
[o] Includes residuals and other payments (transfers).
[p] Monetary figures correspond to end-of-year balances.
[q] Includes monetary regulation instruments and medium- and long-term external loans.

output increased 9.7% (compared with 6.3% in 2006) and in communications it increased 14.9% (compared with 24.8% in 2006).

The financial sector recorded extraordinary growth for the second year in a row (25.6% compared with 23.6% in 2006). Consequently, the sector's share in GDP (3.4%), which had fallen in the wake of the financial crisis of 2003-2004, not only recovered, but actually exceeded the level reached at the beginning of the decade. This occurred parallel to improvements in the regulatory framework and prudential supervision of the financial system.

The trade sector recorded its third year of double-digit growth (13.9%) in 2007, This growth was generated by a soar in imports and larger private-sector spending in general, which was, in turn, fuelled by the increase in employment and income levels accumulated during the last three years.

(b) Prices, wages and employment

According to the variation in the consumer price index, year-on-year inflation was 8.9%. This figure, which is higher than the 6% target established in the monetary programme, reflected the rise in international prices for oil and imported commodities and the impact that natural phenomena had on the supply of staple agricultural products in the country. The core inflation rate, which excludes more volatile elements, was close to 4%. This shows that inflation in the Dominican Republic has a strong imported component. Moreover, inflation mainly rose during the last quarter of 2007, which was when the country was hit by two tropical storms.

Conditions in the labour market continued to improve on the whole. The open unemployment rate fell again to 4.5%, the lowest level recorded in the past nine years.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	12.8	12.5	12.0	10.7	9.2	7.7	8.2	8.5	6.2	...
Goods exports, f.o.b. (millions of dollars)	1,517	1,660	1,755	1,679	1,695	1,876	1,799	1,866	1,684	...
Goods imports, f.o.b. (millions of dollars)	2,069	2,337	2,580	2,573	2,473	2,642	2,948	3,226	3,249	...
International reserve assets (millions of dollars) [c]	1,927	2,099	2,076	2,251	2,547	2,705	2,922	2,946	2,892	2,584
Real effective exchange rate (index: 2000=100) [d]	96.8	93.8	95.1	97.1	96.1	93.3	96.3	97.6	98.6	99.1
Consumer prices (12-month percentage variation)	8.3	10.3	4.7	5.0	5.5	5.9	6.8	8.9	9.7	12.2
Average nominal exchange rate (pesos per dollar)	33.77	32.51	32.87	33.41	33.30	32.24	33.11	33.49	33.81	34.15
Nominal interest rates (annualized percentages)										
Deposit rate [e]	12.1	11.3	8.4	7.5	7.7	7.2	6.4	6.6	6.7	8.5
Lending rate [f]	17.7	16.9	15.4	12.8	13.1	11.8	11.3	10.6	11.2	12.5
Interbank rate	11.9	11.5	9.8	9.2	9.1	8.2	7.8	7.9	9.0	10.4
Domestic credit (variation from same quarter of preceding year)	31.6	23.1	22.2	38.9	34.2	36.7	34.1	18.7	20.9	28.8 [g]
Non-performing loans as a percentage of total credit	6.5	6.4	5.9	4.8	5.5	5.4	5.0	4.3	4.3	3.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] 90-day certificates of deposit.
[f] Average of the benchmark rate.
[g] Data to May.

The broad unemployment rate (15.6%) fell to its lowest level in the past six years. In 2007, 113,218 new jobs were created in the Dominican Republic, 3.3% more than the previous year.

The nominal minimum wage remained at the 2006 level in the public sector and in the free zones, which represented an 8.2% decline in purchasing power for workers. In the rest of the economy, the minium wage rose at a rate of 11.3% per year, which was equivalent to a real increase of 2.2%.

(c) The external sector

The balance-of-payments current account deficit increased in 2007 to the equivalent of 5.4% of GDP. The widening of the external imbalance was mainly brought about by the increase in the trade deficit, which was, in turn, generated by the notable increase in imports. The financial and capital account returned a surplus of US$ 2.554 million, reflecting a large inflow of foreign direct investment.

The value of goods imports (including imports to the free zones) was 13.5% higher than the previous year. Both consumer goods imports and imports of raw materials and intermediate goods posted increases of 18.4%. The country's oil bill rose US$ 479 million, equivalent to almost 28% of the increase in the non-maquila sectors' imports. The increase in capital goods imports in 2007 was 16.5%, far less than the 30% increase observed in the two preceding years. Imports to the free zones, on the other hand, dropped 3.3%, reflecting the low level of output of this sector in 2007.

Goods exports meanwhile rose 9.5%. The free zones' share in the economy fell again (by 2.5%) although they still constitute the main source of external sales in the country's trade balance: 63% of total exports in 2007, compared with

70.8% in 2006. Among traditional exports, tobacco and coffee recorded the steepest declines in export value (52% and 28%, respectively), while ferronickel exports were 60% higher than in 2006, and cacao exports were up 36%. In the case of sugar and tobacco, exports declined both in terms of volume and price, while the fall in value of coffee exports was caused by the drop in export volumes. Increases in international prices boosted foreign ferronickel sales despite the lower volume actually exported, while increases in both prices and volumes pushed up the value of cacao exports.

Net current transfers in the balance of payments increased 8.4% in 2007. Family remittances rose 10.8% to reach US$ 3.033 billion, which is equivalent to 7.5% of GDP. These remittances accounted for 89% of total balance-of-payments transfers.

The capital and financial account (including errors and omissions) posted a positive balance equivalent to about 7% of GDP. Foreign direct investment rose to US$ 1.698 billion, a 16.4% increase on the previous year. Financial capital inflows amounted to US$ 1.19 billion.

Guyana

1. General trends

During 2007, the economy of Guyana continued on a path of recovery and expansion, recording growth of 5.4%. This was a record high for the last decade and followed a period of stagnation between 2000 and 2005, when growth averaged less than 0.2%. New investments and projects in several productive sectors (sugar processing, hydroelectric generation, gold and bauxite mining, oil extraction, etc.) are intended to boost and sustain economic growth over the next few years.

A major financial event for Guyana in 2007 was the drastic reduction in the level of external debt, thanks to a broad multilateral debt-forgiveness programme. The current primary fiscal surplus widened to 10% of GDP, while the overall deficit narrowed to 7.4% of GDP. Efforts to keep the Guyanese dollar's nominal exchange rate stable were fairly successful, with an accumulated annual nominal depreciation against the United States dollar of just 1.2%.

However, there are concerns about the stability of the Guyanese economy, in terms of the impact of external negative factors such as the sustained rise in food and oil prices or the sub-prime crisis currently affecting the United States. Particularly worrisome are the large current account deficit (which amounted to US$ 232 million (21.5% of GDP)), fuelled by the increase of expenses on imports, and the steep rise in the inflation rate to 14.1% (which is a major concern for the Government because of its direct influence on economic and social welfare and development).

The expectation for 2008 is that the positive trend of economic growth will continue, and that inflationary pressures will also be kept under control. GDP growth for 2008 has been projected at 4.7%, which is lower than the figures for 2007, while the inflation-rate target is 6.8%, less than half the level recorded in 2007. In order to be able to achieve those objectives, Guyana's economy needs to be strengthened against external shocks, and efforts should be made towards fiscal consolidation and diversification of the economy.

2. Economic policy

The main objectives of economic policy during 2007 were to ensure sustained GDP growth, keep inflationary pressure at bay and improve the public accounts balance by increasing revenue and narrowing the fiscal deficit. The efforts of the monetary and fiscal authorities achieved mixed results. Real GDP growth (5.4%) was above the initial projection made by the authorities (4.9%). Likewise, public revenues benefited from a considerable expansion, while the fiscal deficit narrowed. However, the 5.2% inflation target set for 2007 was dramatically exceeded

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates[b]				
Gross domestic product	3.8	-1.4	2.3	1.1	-0.7	1.6	-2.0	5.1	5.4
Per capita gross domestic product	4.0	-1.3	2.2	1.0	-0.9	1.4	-2.0	5.2	5.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	15.9	-9.0	3.4	3.4	-2.3	2.8	-10.5	7.3	0.7
Mining	-8.4	5.9	4.2	-6.9	-8.7	-6.5	-17.8	-21.6	22.5
Manufacturing[c]	15.5	-13.9	2.5	10.9	-0.5	2.5	-9.5	3.9	1.0
Construction	-10.0	6.6	2.0	-3.9	5.6	4.1	9.4	12.0	5.7
Wholesale and retail commerce, restaurants and hotels	-8.0	5.2	0.5	-0.9	-2.6	1.9	15.0	10.1	8.8
Transport, storage and communications	2.1	7.1	5.4	4.5	4.9	3.6	9.4	10.0	13.0
Financial institutions, insurance, real estate and business services	0.0	3.6	-3.5	-0.8	1.6	1.0	6.3	8.4	6.2
Community, social and personal services	1.2	4.6	0.7	-0.8	1.1	1.2	3.2	3.4	2.0
					Millions of dollars				
Balance of payments									
Current account balance	-78	-115	-134	-111	-91	-70	-158	-250	-232
Goods balance	-25	-80	-94	-68	-59	-58	-233	-300	-382
Exports, f.o.b.	525	505	490	495	513	589	551	585	681
Imports, f.o.b.	550	585	584	563	572	647	784	885	1 063
Services trade balance	-31	-24	-20	-24	-20	-47	-53	-98	-100
Income balance	-61	-58	-64	-59	-52	-39	-39	-69	-37
Net current transfers	39	47	44	40	40	74	167	216	287
Capital and financial balance[d]	100	156	160	125	100	27	166	293	231
Net foreign direct investment	46	67	56	44	26	30	77	102	152
Financial capital[e]	54	88	104	82	74	-3	89	191	78
Overall balance	22	40	26	15	10	-43	8	43	-1
Variation in reserve assets[f]	-11	-24	-10	-6	-0	32	-24	-61	-37
Other financing[g]	-10	-16	-16	-9	-9	12	16	18	39
Other external-sector indicators									
Net resource transfer	29	81	81	58	39	-1	143	242	232
Gross external public debt	1 210	1 193	1 197	1 247	1 085	1 071	1 215	1 043	718
					Average annual rates				
Prices									
Variation in consumer prices (December-December)	8.7	5.8	1.5	6.0	5.0	5.5	8.2	4.2	14.1
Variation in nominal exchange rate (annual average)	18.3	2.5	2.7	1.8	1.7	2.3	0.8	0.2	1.1
Nominal deposit rate[h]	8.1	7.3	6.7	4.3	3.8	3.4	3.4	3.3	3.2
Nominal lending rate[i]	17.1	17.2	17.3	17.3	16.6	16.6	15.1	14.9	14.1
					Percentages of GDP				
Central government									
Total income[j]	33.8	37.0	37.0	40.5	37.3	39.6	42.2	43.7	42.0
Current income	29.8	31.8	31.1	32.2	31.5	33.1	34.1	34.1	36.9
Tax income	26.9	29.1	28.3	29.5	28.8	30.9	32.1	32.0	35.5
Capital income[k]	4.0	5.2	6.0	-	-	-	-	-	-
Total expenditure	35.7	44.4	47.6	46.1	46.5	46.5	55.7	56.8	49.5
Current expenditure	25.7	31.3	35.3	34.8	34.5	32.1	34.4	34.0	29.7
Interest	...	...	8.8	7.7	6.2	4.9	4.4	3.9	2.8
Capital expenditure	10.0	13.2	12.4	11.4	12.0	14.3	21.3	22.8	19.7
Net capital expenditure	...	...	-1.8	2.0	-3.0	-2.0	-9.1	-9.3	-4.6
Overall balance	-2.0	-7.4	-10.6	-5.7	-9.1	-6.9	-13.5	-13.1	-7.4
Public-sector external debt	174	167	168	172	146	136	147	114	67

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Money and credit [l]									
Domestic credit	21.4	19.2	19.5	21.0	17.5	23.9	24.1	23.7	19.0
To the public sector	-24.0	-19.9	-18.1	-15.9	-9.2	-0.6	-2.0	-5.7	-10.4
To the private sector	50.1	44.9	43.3	42.4	33.7	30.9	31.8	33.7	33.7
Others	-4.7	-5.8	-5.7	-5.4	-7.0	-6.4	-5.7	-4.4	-4.3
Liquidity (M3)	69.1	65.7	69.7	70.9	73.8	73.2	75.2	78.5	75.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1988 prices.
[c] Includes electricity, gas and water.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Small savings rate.
[i] Weighted average prime rate.
[j] From 2002 on, includes grants.
[k] Up to 2001, includes grants.
[l] The monetary figures are end-of-year stocks.

by the actual inflation rate (14.1%), and the trade deficit widened significantly to reach US$ 382 million (35.6% of GDP) . This reflected a worrying situation in terms of future economic stability and sustainability.

In 2008, the Government is widely expected to continue applying policies aimed at ensuring long-term growth and poverty reduction, while improving the fiscal accounts and maintaining macroeconomic stability. In that sense, the Government's commitment to the objectives established in the Poverty Reduction Strategy Paper (PRSP), agreed with several multilateral organizations, will be fundamental in undertaking structural reforms and addressing infrastructure shortcomings, regulatory weaknesses and fiscal limitations, among others key issues. Ties with China, India and Brazil are also expected to be further strengthened as a result of planned cooperation on trade and infrastructure projects.

(a) Fiscal policy

The introduction in January 2007 of a Value Added Tax (VAT), which netted 21.329 billion Guyanese dollars (G$), swelled current public revenue to G$ 80.293 billion (a 28.6% increase on the previous year). The income generated by the newly introduced VAT contributed to a positive central government current balance of G$ 15.572 billion. In addition, capital revenue and grants amounted to an accumulated G$ 11.136 billion, which was considerably less than the G$ 17.525 billion recorded in 2006. This resulted from a review of the process of extending non-project grants by specific donors leading to lower disbursements, a significant reduction in grants under the Multilateral Debt Relief Initiative (MDRI) and a decline in flows from the Heavily Indebted Poor Countries (HIPC) Initiative. Consequently, accumulated current and capital revenue reached G$ 91.430 billion (42% of GDP).

On the other hand, current and capital expenditure[1] increased by 4.1% and 2.6% to represent a total of G$ 107.614 billion. The moderate increase in public expenditure, which rose at a slower pace than public revenue, served to improve the overall balance, with the fiscal deficit narrowing from G$ -24.016 billion in 2006 to G$ -16.185 billion. The current primary balance therefore widened to 10% of GDP, while the overall fiscal deficit narrowed from 13.1% to 7.4% of GDP.

[1] Capital expenditure was linked to the implementation of various social and public infrastructure projects, including ones to improve electricity coverage, upgrade generation equipment and build a modern sugar factory and a cogeneration plant as part of the Skeldon modernization programme.

The fiscal gap between revenue and expenditure was financed mainly through external borrowing, which amounted to G$ 16.588 billion net and was primarily allocated to project loans. However, as a result of the debt-forgiveness process undertaken as part of MDRI, outstanding external debt decreased by 31.2% between December 2006 and December 2007 to stand at US$ 718 million or 66.8% of GDP.

(b) Monetary and exchange-rate policy

Interest rates applied by the Bank of Guyana were subjected to slight reductions throughout the year, with the bank rate falling from 6.75% in December 2006 to 6.5% in December 2007, while the Treasury bill discount rates sustained similar reductions. However, whereas the borrowing rate of commercial banks was lowered slightly, lending rates edged up, with the prime lending rate of commercial banks increasing from 14.54% to 14.71%, thereby widening the spread between lending and borrowing rates.

In 2007, there was a marginal expansion in domestic credit, which reached an annual average equivalent to 20.5% of GDP, and this was mainly driven by private loans to households. Liquidity, as measured by money plus quasi money, also increased gradually, reaching a level equivalent to 75.1% of GDP by December 2007, when the total level of money and quasi money in the economy amounted to G$ 163.399 billion, a 13.6% increase on the G$ 143.776 billion available at the end of 2006.

During 2007, the Bank of Guyana continued its efforts to improve the monetary framework and encourage market competition and transparency. Thus, bank supervision was restructured and a more flexible and focused risk-based approach adopted to replace the old transaction-based system. Other central objectives of monetary policy included the improvement of liquidity management, the development of inter-bank money and Treasury bill markets and the promotion of a secondary market for Government securities.

Guyana's monetary authorities continued with their policy to stabilize the local currency in 2007, allowing for only minor variations in the nominal exchange rate against the United States dollar. Therefore, the Guyanese dollar gradually moved to an exchange rate of G$ 203.5 to US$ 1 at the end of the year, with accumulated nominal depreciation of 1.24%. However, if the inflation rates recorded in Guyana (14.1%) and the United States (4.1%)[2] during 2007 are taken into account, the net outcome is equivalent to a real appreciation of the local currency. In relation with this policy of keeping the Guyanese dollar loosely pegged to the United States dollar, it should be pointed out that the persistent depreciation of the dollar against other world currencies meant that the Guyanese dollar also depreciated against those same currencies, thereby increasing the comparative cost of imports while raising the competitiveness of the country's exports.

3. The main variables

(a) Economic activity

The economy of Guyana continued to expand in 2007, recording real GDP growth of 5.4%, a positive outcome that was slightly above the 5.1% posted in 2006. Despite rising production costs, most sectors managed to achieve positive results. The sectors leading this favourable development were those related to the exploitation of mineral resources: mining and quarrying grew by 22.5% in 2007, reversing the negative results from the previous year, when the sector's output had fallen by 21.6%. Strong increases in bauxite and gold production were the factors fuelling this performance. Transport and communication (13.0%), engineering and construction (5.7%) and financial services (7.1%) were other sectors with favourable results. The development of several major public projects and increased activity in the private sector are behind the positive performance of the engineering and construction sector, while expansion and diversification of services offered by commercial banks and new investments in telecommunications explain the growth in transport and communication and financial services.

Forestry was the sector with the most negative results in 2007, with a decline of 11.0%. A considerable fall in output was the main factor behind this outcome. Furthermore, the impending adoption of stricter environmental parameters and rules could dampen the sector's recovery over the

2 Accumulated variation in the United States Consumer Price Index (CPI) (December 2006-December 2007).

next few years. The agricultural sector grew by just 0.7% and displayed mixed results, mainly due to poor weather conditions. Rice production fell by 3.2%. On the other hand, sugar and other crops increased their output, as did livestock and fishing. Manufacturing activities grew slightly (1.0%) in 2007.

(b) Prices, wages and employment

According to the variation in the Georgetown Consumer Price Index, accumulated inflation for 2007 (December-to-December) was 14.1%, which is much higher than the 4.2% posted in 2006 and considerably higher than the official target of 5.2%. This reflects the higher costs of essential supplies like oil and food. Consequently, the sub-group indices of foods, beverages and tobacco recorded a 20.6% price rise during 2007, the highest annual increase in the last decade. Other categories to record major increases included medical services (18.8%), educational services (16.1%) and clothing (14.9%), all of which have a significant social impact.

An additional key factor influencing the consumer price index was the introduction of the 16% VAT in January 2007, which had an overall impact on costs and prices. Consequently, inflation in that month was 6.6%, while for the rest of the year cumulative inflation was only 7.0%. Similarly, continuous increases in international oil prices considerably affected production and transportation costs, generating a chain reaction of price rises.

According to official estimates, the overall labour force stood at 280,200 workers in 2007, compared with 279,100 in 2006 (an increase of 0.4%), with economic growth driving some moderate improvements in private employment. However, employment in the public sector experienced an overall decline of 3.4% during 2007, with central government employment falling by 17.7%.

(c) The external sector

The growing trade gap continued to be a major matter of concern, rising by 27.3% in 2007 to reach an accumulated level of US$ 382 million. In fact, although exports increased by 16.4% to US$ 681 million during this period, imports increased by an even higher margin (20.1%), to stand at US$ 1.062 billion, mainly as a result of the rising cost of key imports such as fuel, food and manufactured goods. It is worrying that import expenditure for consumer goods in particular rose by 30.5%, while expenditure rose by 19.4% on fuel imports and by 16.2% on capital goods.

Bauxite, gold, sugar and rice were the leading domestic exports in 2007, and accounted for 72.2% of the total value of exports. Bauxite and gold exports in particular recorded impressive increases in value of 54.8% and 33.7%, respectively, reflecting the positive impact of increased investment in those sectors and high international prices, while rice exports also registered a significant increase in value (38.2%) and volume (31.7%).

The negative result on the trade balance was partially offset by a narrowing of the deficit on the income balance, as well as a significant increase in net current transfers, which rose by 32.9% to reach US$ 287 million in 2007 (26.6% of GDP) (due to a significant rise of US$ 279 million in inflows of worker remittances). The overall result was a current account deficit of US$ 232 million (21.5% of GDP), which was a moderate improvement on the US$ 250 million deficit recorded in 2006 (27.3% of GDP).

During 2007, the capital account surplus shrank to US$ 239 million, which was 11.1% less than the US$ 269 million recorded in 2006. This was the result of substantial increases in short-, medium- and long-term capital outflows, and was in spite of net private investment rising to US$ 152.4 million. Capital transfers to the public sector expanded to US$ 414.1 million, reflecting the considerable financial support received by the Guyanese Government through MDRI.

Overall, the outcome for the balance of payments in 2007 was a deficit of US$ 1.4 million, down from the US$ 42.9 million surplus in the previous year. However, exceptional financing in the form of debt relief, debt restructuring and debt forgiveness operations generated an accumulated US$ 38.7 million, offsetting the deficit in the balance of payments. Consequently, the Bank of Guyana's net foreign assets increased by 20.5% between December 2006 and December 2007, the month in which net international reserves topped US$ 254 million, an amount equivalent to 2.9 months of import cover.

Haiti

1. General trends[1]

Haiti's economy posted a GDP growth rate of 3.2% in 2007, with a fiscal deficit equivalent to 1.6% of GDP. However, the institutional crisis that engulfed the country as a result of the disturbances in April 2008, whose immediate political outcome was the removal of the prime minister and his cabinet, compromised some of the economic expectations for fiscal year 2008 (October 2007 to September 2008).

Indeed, the Haitian economy will be affected as much by domestic circumstances as by international economic factors such as surging fuel and food prices and the slowdown in the United States economy. Political instability in the country and social demands for employment and better wages, manifested in the recent mass demonstrations, call for a series of adjustments in both economic policy and the stabilization parameters used to steer macroeconomic achievements thus far.

High food prices, which have spread throughout the world, have been particularly deleterious in Haiti because of the meagre purchasing power of the population, which is mired in structural poverty. Year-on-year price rises (as of April) for some products such as rice (42.2%), oils (55.3%), bread (50.6%), gasoline (31%), kerosene (38.3%) and milk (45%), among others, were substantial and brought about a grave decline in living standards. They also triggered a rise in the inflation rate, which had decreased up to August 2007, but in December reached a level similar to that recorded 12 months earlier (9.9%), before rising to 15.8% in June 2008.

It will probably be necessary to reduce the official GDP growth projection (3.7%) and raise the inflation target (9%) for 2008, since these are expected to come in at 2.5% and 16%, respectively, even though some negative factors, such as the food and fuel prices rises, had already been factored into the original projections. Other real-sector and monetary and financial variables will have to be modified too.

Even under these conditions, however, some indicators should make a positive contribution: net resource transfers —income balance, financial accounts, errors and omissions, loans from the International Monetary Fund (IMF) and exceptional financing— and remittances, which amounted to US$ 284 million and US$ 1.125 billion, respectively, in 2007. In both cases, disbursements under way and trends for the first half of 2008 suggest a slight upturn. Cumulative levels of remittances (US$ 594 million in the period October-April) were 12.4% up on the previous year, despite recessionary signals coming from the United States economy.

The international donors' conference for Haiti, which was to be held in the country at the end of April to integrate medium-term resource needs with the National Growth and Poverty Reduction Strategy, was postponed and efforts will be made to consolidate new options given the existing challenges, established programmes and new urgencies.

[1] In general, the analysis refers to fiscal years 2007 (October 2006 to September 2007) and 2008 (October 2007 to September 2008); however, to facilitate comparison with regional data, some of the statistical data are presented by calendar year.

2. Economic policy

Given that macroeconomic variables have been reasonably stable in the last few years, in fiscal year 2008 the authorities had intended to continue to apply the main policy lines established in 2007, as stated in the letter of intent submitted in January 2008 to IMF, which emphasized the increase in income and the level of spending. The objective for this second year of the Poverty Reduction and Growth Facility, after decision point was reached in 2006, was to reach completion point of the Heavily Indebted Poor Countries (HIPC) Initiative in 2009.

In the last three years, however, the country has been unable to make the shift from stabilization to economic reactivation and the discontent expressed in April in the so-called "hunger riots" reflected that situation. Although much of this may be attributed to a whole range of factors, from structural rigidity to circumstantial or political factors, the economic policy stance has also been repeatedly cited as a cause.

Some adjustments are likely to be made in remaining months of the fiscal year in response to the demands expressed in the April demonstrations. The focus of the budget may be shifted and spending increased; hence, some of the criteria set forth in the agreement with IMF are likely to be revised. The authorities' immediate response was to put in place an "assisted" cut of 16% in the cost of rice, by means of a mechanism that combined a State subsidy with a commitment from importers to reduce their profit margin. Haiti imports around 26,000 tons of rice per month, generating an annual bill of some US$ 110 million.

Under these new conditions, the authorities are also likely to revise the economic policy associated with the National Growth and Poverty Reduction Strategy, particularly given the absence of job-creation measures and the need to boost agricultural production. The April crisis underscored the importance of this latter aspect, not only for ensuring greater food sovereignty, but also for increasing the income of the most disadvantaged groups of the population.

As far as structural reform is concerned, in May 2008 a number of adjustments were made to the State-owned National Port Authority, with a programme of voluntary early retirement for almost 1,400 workers of a total of 1,860, which will involve outlays of some 500 million gourdes. This is the second enterprise to implement this process, following the telephone company Télécommunications d'Haïti S.A.M. (TELECO) in July 2007, which reduced staff by two thirds. The two cases are likely to herald more privatizations of this type of institution in the future.

(a) Fiscal policy

The main aim of fiscal policy was to continue the process of fiscal rationalization and avoid monetary financing of the public deficit. To this end, efforts were made to strengthen the treasury's collection programmes —to broaden the tax base and control tax evasion and fraud and so forth— and to implement very strict spending management.

The late approval of the rectified budget (August 2007) was one of the factors that contributed to the under-implementation of planned spending, with some items even being moved to fiscal year 2008. For example, 35% of operating expenditure and 53% of investment were disbursed in the last quarter (July-September) of the fiscal year.

The central government's fiscal accounts showed real surplus in 2007, as regards both total income (5.2%) and current and total spending (6.3% and 23%, respectively), but the most significant contribution undoubtedly came from capital spending, which tripled under the public investment programme. As a result, the fiscal balance shifted from a small surplus in 2006 to a deficit of 1.6% of GDP in 2007. The structure of the fiscal system is still based on indirect taxation, which contributed 36%.

Trends in the first half of fiscal year 2008 (October-March) reflected real growth in income (5.5%), with a significant increase in grants, both in amount (64%) and as a proportion of overall income (11% compared with 7% in 2007). On the spending side, most notable was the variation in capital spending (78%) and wages (36%), the latter linked to the wage rise (between 20% and 35%) awarded to public servants.

In the current conditions, following the crisis caused by the April disturbances, the bulk of the adjustments are likely to be made on the spending side, although income from grants will possibly rise in view of the commitments announced by the international community. In effect, the subsidies the government offered to reduce the price of rice will be covered by special contributions or early disbursements of grants from multilateral and bilateral sources and should not, therefore, affect the fiscal balance.

(b) Monetary policy

Generally speaking, the authorities have adopted a cautious monetary policy stance, both in 2007 and in the present fiscal year, seeking to avoid even greater surges of inflationary pressure. In the last few years, this criterion has steered the administration of the Banque de la République d'Haiti (BRH) and the Ministry of Finance and the Economy and has prevailed in the debate about mechanisms for facilitating greater reactivation of the domestic economy.

Starting in July 2007, however, there were some signs that monetary controls were being loosened, particularly the strong downtrend in the nominal benchmark rate of interest (91-day BRH bonds), which fell from 16.7% to 4%. Credit to the private sector, which had contracted in real terms the year before, stood still (0.1%). Credit to the public sector was down by 17.3%, thus net domestic credit in the economy shrank in real terms (-6.9%). As a percentage of GDP, credit was down by four percentage points to stand at 21.3%. In nominal terms, the expansion of the monetary base (11.1%) remained below GDP (14.8%).

Liquidity (M1) showed moderate real growth of 2.5%, or a decline of 1.5% in the case of M3, but the main profitability ratios in the financial system remained high, although trending downwards with respect to 2006. Around 22% of net revenues in the banking system overall come from interest on central bank bonds.

In the first quarter of 2008 the monetary base expanded slightly in nominal terms (1.2%) and M1 liquidity increased by 1.6%. Meanwhile, the downward trend of the benchmark interest rate was reversed, and it rose from a nominal 4% in December 2007 to 8% in June 2008.

(c) Exchange-rate policy

In a context of slack demand for imports (-0.2%), the relative abundance of foreign exchange in the economy —owing to remittances, grants and other types of disbursement from the international community— led to the appreciation of the currency in both nominal (8.8%) and real (13.5%) terms in 2007, with the bilateral exchange rate standing at 37.06 gourdes to the dollar in December. The central bank took the opportunity to increase its net reserves to US$ 308 million, through net purchases of US$ 45 million.

Although the gourde tended to depreciate slightly in nominal terms from mid-2007 onwards and has continued to do so in 2008, the central bank acted to limit currency speculation by modifying the legal reserve ratio for dollar deposits in February and auctioning dollars on several occasions in April.

Despite nominal currency depreciation of 5.5% in the first semester of 2008 (from 37.19 gourdes to the dollar in January to 39.24 in June), the real exchange rate showed an appreciation of 4.2%. Net interventions by the central bank consisted of sales of foreign currency for US$ 5.1 million, but nevertheless reserve assets rose to US$ 268 million, in conformity with the criteria of the programme agreed upon with the International Monetary Fund (IMF).

The trend towards real currency appreciation will continue to be dampened by the rise in the import bill, which increased by 19% in the first semester, largely due to the surge in food and oil prices. This bill is also one of the factors on which the authorities have relied to contain inflationary pressure.

3. The main variables

The economic upswing in 2007 was modest, with GDP growth of 2.5%, which translated into a rise of 1.5% in per capita GDP. The lethargic output was due, among other factors, to delays in disbursement of public investment funds, which prevented the multiplier effects from being felt during the fiscal year.

Expectations of GDP growth (3.7%) for the current fiscal year continue to be modest and were revised down owing to poor first-quarter results in the agricultural sector (which was hit by natural disasters) and possible repercussions of the world agrifood crisis.

(a) Economic activity

The upturn seen in 2007 in agriculture (2.9%), construction (3.8%), transport and communications (4.4%) and commerce (5.8%) sustained a small recovery in output. Structural constraints remain, however, associated with the bottlenecks caused by lags in power generation (-1.9%). Growth in manufactures (1.3%) fell short of expectations that the maquila segment would rebound more strongly thanks to the United States Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE Act).

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
	Annual growth rates [b]								
Gross domestic product	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.2
Per capita gross domestic product	0.9	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.8	-3.6	0.9	-3.7	0.2	-4.8	2.6	1.7	2.9
Mining	6.8	6.1	-4.9	2.2	0.7	-5.0	4.5	7.1	0.0
Manufacturing	-3.0	-0.5	0.1	1.6	0.4	-2.5	1.6	2.3	1.3
Electricity, gas and water	-3.6	-9.2	-27.1	2.0	3.3	11.1	7.1	-22.7	-1.7
Construction	10.4	8.3	0.7	1.0	1.9	-2.7	3.0	2.9	3.8
Wholesale and retail commerce, restaurants and hotels	4.0	4.5	0.4	2.9	0.6	-6.4	1.4	3.0	5.5
Transport, storage and communications	17.0	12.5	2.2	-0.2	1.6	0.8	3.2	4.5	4.4
Financial institutions, insurance, real estate and business services	3.2	4.4	-0.7	-1.5	0.2	-0.8	1.3	2.0	1.8
Community, social and personal services	-0.1	-1.6	-2.6	1.1	-1.4	-3.2	1.6	1.5	4.6
Gross domestic product, by type of expenditure									
Consumption	8.4	14.8	-1.6	-1.2	0.9	-3.2	5.3	1.2	1.7
General government	0.2	1.3	...	...	...	...	...	...	...
Private	9.4	16.3	8.1	-1.2	0.9	-3.2	5.3	1.2	1.7
Gross domestic investment	24.0	18.3	-1.2	2.6	3.1	-3.2	1.4	2.2	3.1
Exports (goods and services)	16.5	6.3	-2.2	-2.1	7.1	3.0	6.6	7.2	-2.9
Imports (goods and services)	22.7	29.3	-2.1	-1.2	3.2	-1.7	7.3	1.9	-0.2
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	27.7	27.3	25.9	25.1	30.7	27.3	27.4	28.9	27.7
National saving	26.3	24.3	22.0	22.3	29.1	25.8	27.5	27.4	26.4
External saving	1.4	3.0	3.8	2.8	1.6	1.5	-0.1	1.5	1.3
	Millions of dollars								
Balance of payments									
Current account balance	-59	-111	-134	-89	-44	-56	3	-73	-80
Goods balance	-677	-755	-750	-706	-782	-833	-853	-1 056	-1 096
Exports, f.o.b.	341	332	305	274	334	377	455	492	522
Imports, f.o.b.	1 018	1 087	1 055	980	1 116	1 210	1 309	1 548	1 618
Services trade balance	-43	-108	-124	-123	-164	-204	-397	-384	-497
Income balance	-13	-9	-9	-14	-14	-12	-37	7	7
Net current transfers	674	761	750	754	917	993	1 290	1 361	1 505
Capital and financial balance [d]	80	64	131	8	36	91	47	166	240
Net foreign direct investment	30	13	4	6	14	6	26	160	75
Financial capital [e]	50	51	127	3	22	85	21	6	165
Overall balance	21	-47	-2	-81	-8	35	50	93	159
Variation in reserve assets [f]	-34	57	-5	49	25	-50	-22	-109	-208
Other financing [g]	12	-10	7	32	-17	15	-29	15	52
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	104.2	100.0	101.2	100.2	98.7	96.0	92.4	88.9	86.4
Net resource transfer (millions of dollars)	80	45	129	26	5	94	-18	188	299
Gross external public debt (millions of dollars)	1 162	1 170	1 189	1 229	1 316	1 376	1 335	1 484	1 628
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	9.7	19.0	8.1	14.8	40.4	20.2	14.8	10.2	9.9
Variation in nominal exchange rate (annual average)	1.0	25.0	15.4	19.7	44.8	-10.2	3.9	0.3	-7.2
Variation in average real wage	-7.9	-11.9	-11.6	-8.9	33.5	-14.7	-13.2	-12.0	-7.6
Nominal deposit rate [h]	7.4	11.8	13.6	8.2	14.0	10.9	3.5	6.0	5.2
Nominal lending rate [i]	22.9	25.1	28.6	25.5	30.7	34.1	27.1	29.5	31.2

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
	Percentages of GDP								
Central government									
Total income [j]	9.2	8.2	7.8	8.3	8.9	8.9	10.8	10.8	10.8
Current income	9.1	8.0	7.4	8.2	8.8	8.9	9.7	10.2	10.3
Tax income	8.8	7.9	7.4	8.2	8.8	8.9	9.7	10.2	10.3
Total expenditure	11.4	10.5	10.0	11.0	12.0	12.0	11.5	10.6	12.4
Current expenditure	9.3	8.1	8.2	9.0	8.7	9.2	10.2	9.7	9.7
Interest	0.8	0.5	0.3	0.1	0.4	0.7	1.0	0.8	0.3
Capital expenditure	2.1	2.4	1.8	2.0	3.3	2.8	1.2	0.9	2.6
Primary balance	-1.4	-1.8	-1.9	-2.6	-2.7	-2.4	0.4	1.1	-1.2
Overall balance	-2.2	-2.3	-2.2	-2.7	-3.1	-3.1	-0.6	0.3	-1.6
Central-government debt	38.6	43.8	46.2	60.2	57.5	46.7	44.1	35.6	34.7
Domestic	12.1	13.6	14.8	17.4	17.2	14.8	13.5	10.5	10.1
External	26.5	30.2	31.5	42.7	40.4	31.8	30.6	25.1	24.6
Money and credit [k]									
Domestic credit	26.7	29.3	30.1	35.6	34.5	29.8	28.6	23.9	21.3
To the public sector	11.6	13.3	14.6	17.3	16.8	14.3	12.8	9.7	7.7
To the private sector	15.0	16.0	15.6	18.4	17.7	15.4	15.7	14.2	13.6
Liquidity (M3)	34.9	37.6	38.7	43.5	47.8	42.5	42.1	37.9	35.7
Currency outside banks and local-currency deposits (M2)	25.5	25.9	25.6	27.9	27.7	26.0	24.1	22.3	20.5
Foreign-currency deposits	9.4	11.7	13.1	17.6	20.0	16.6	18.0	15.6	15.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1986-1987 prices, fiscal years, October to September.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Average of highest and lowest rates on time deposits, commercial banks.
[i] Average of highest and lowest lending rates, commercial banks.
[j] Includes grants.
[k] The monetary figures are end-of-year stocks.

Expectations for the construction sector, associated with public works, were not borne out in 2007, but the momentum seen in the sector towards the end of the fiscal year could continue during 2008 and thus underpin a more sustained rise in investment. Consumption, the largest component of demand, could drive a stronger upturn. The positive expectations for this indicator are based on trends in remittances, since it is unlikely that domestic creation of jobs and income will be sufficient to support a rise in household purchasing power. Despite the slowdown in the United States economy, up to April remittances were showing no signs of decreasing.

(b) Prices, wages and employment

The annual average rate of inflation in 2007 was 8.5%, which was within the target the monetary authorities had agreed upon with IMF. Towards the end of the year, however, there was an uptick in inflation largely reflecting the combined effect of price rises for food products and petroleum in the international market. This took the inflation rate to 9.9%, only just below the figure for December 2006.

Year-on-year percentage variations steepened further in the early months of 2008 (16.5% in April) and have

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars)	106	132	137	136	123	136	128	130	90	...
Goods imports, c.i. f. (millions of dollars)	364	420	384	329	382	373	456	503	472	...
International reserve assets (millions of dollars) [b]	144	169	178	253	281	318	364	443	482	473 [c]
Consumer prices (12-month percentage variation)	16.6	13.0	12.3	10.2	8.0	9.0	7.9	9.9	16.3	15.8
Average nominal exchange rate (gourdes per dollar)	42.20	39.45	38.59	38.29	38.08	36.64	35.79	36.55	37.71	38.81
Nominal interest rates (annualized percentages)										
Deposit rate [d]	6.0	5.3	6.6	6.1	5.8	6.3	5.2	3.4	2.1	2.3
Lending rate [e]	24.8	31.0	29.0	33.1	34.1	34.1	32.5	24.2	23.1	24.1
Domestic credit (variation from same quarter of preceding year)	10.4	5.4	1.0	-0.4	-2.1	-3.8	2.9	2.7	10.8	...
Non-performing loans as a percentage of total credit	13.5	13.7	11.1	10.5	11.1	11.6	10.0	9.6	10.2	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Including gold.
[c] Data to April.
[d] Average of highest and lowest rates on time deposits, commercial banks.
[e] Average of highest and lowest lending rates, commercial banks.

come in consistently higher than programmed. Haiti is a net food and fuel importer and the high prices and widespread shortages of these goods caused disturbances in April.

The purchasing power of the minimum wage, already at a critical level, having dropped by 7.9% in 2007, showed a further 12.7% deterioration in June 2008. Although debates on a desirable level for the minimum wage predate the onset of the current conditions, authorities, employers and trade unions have yet to reach a consensus on raising it from 70 gourdes per day, its level since 2003.

(c) The external sector

During fiscal year 2007, the balance-of-payments current account deficit was relatively stable at US$ 80 million (1.3% of GDP), since net inflows of remittances (US$ 1.125 billion) and grants (US$ 380 million) offset the increase in the trade deficit (US$ 1.593 billion) caused by the 2.5% downturn in the country's terms of trade. On the capital account, foreign direct investment (FDI) amounted to US$ 75 million and the balance of external debt (US$ 1.541 billion) increased by 8.5%, owing to substantially larger disbursements (US$ 151.5 million) than in previous years.

In 2007 the nominal value of exports overall increased by 6.1%; the gross value of maquila goods was US$ 452 million, up by a mere 0.8%, with a reduction in volume (1.8%). This was a modest result, bearing in mind the expectations for the sector following the approval of the HOPE Act. This trend has continued in 2008 and in the first semester the value and volume of exports were down by 10.6% and 15.7%, respectively.

The best-performing traditional export products were cacao (38%) and essential oils (23.5%), which both benefited from international prices, while exports of coffee decreased by 66% and of mangos, by 10%.

Imports recorded a nominal increase of 4.5% in 2007, to which foods and hydrocarbons contributed strongly (22.5% and 19.8%, respectively), in an international context that was showing a steady rise in prices.

In the current international conditions, 2008 is expected to bring an even greater downturn in the external sector, given Haiti's marked vulnerability to external shocks.

Jamaica

1. General trends

Jamaica posted a moderate GDP growth rate of 1.2% in 2007, which was well below the level expected by the government (3%).. The current account deficit widened significantly and annual price inflation rose to 16.8%, three times the 2006 level. The slowdown in the economy was mainly due to a combination of negative externalities, such as Hurricane Dean and the continually rising international prices of Jamaica's main imports.

A general election held in September 2007 resulted in a change of government, with the Jamaica Labour Party taking office after 18 years of uninterrupted rule by the People's National Party. The new government set as the main objectives of its economic and financial policies an increase in GDP growth, reduction of the public debt burden and controlling price inflation. However, with just over 50% of the budget already dedicated to servicing the external and domestic public debt, there is little room for fiscal and economic manoeuvre, so priority must be given to implementing structural measures such as comprehensive tax reform, controlling spending and reducing debt-service obligations.

The challenging international environment, especially important because Jamaica's economy is so vulnerable to external shocks, complicates the outlook for 2008. That exposure to external shocks requires caution in the setting of economic goals, and this has been reflected in the government's official forecast for real GDP growth for 2008 in a range of 2.5% to 3.5%, and the expectation of a recurring current account deficit and a negative central government balance.

The government's success in combating criminal activities will be another key factor in bringing the country economic, political and social stability. Jamaica currently has one of the highest homicide rates in the world and the economic impact of criminal activities is not to be dismissed: according to the United Nations Office on Drugs and Crime (UNODC), the overall cost of crime in Jamaica is equivalent to 3.7% of its GDP, and the rise in criminal activities is particularly affecting the tourism sector, which is highly sensitive to safety and security issues.

2. Economic policy

It is expected that economic policies will continue to follow the parameters set by the Memorandum of Understanding (MOU) agreed between the government and the Jamaica Confederation of Trade Unions regarding macroeconomic management, wage adjustments and employment, productivity enhancement and expenditure restraint, among other leading economic concerns.[1]

[1] The third Memorandum of Understanding (MOU III) was signed on 18 April 2008.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	1.0	0.7	1.5	1.1	2.3	1.0	1.4	2.5	1.2
Per capita gross domestic product	0.2	-0.1	0.8	0.4	1.5	0.3	0.8	1.9	0.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.1	-12.5	6.3	-7.0	4.8	-8.7	-7.2	11.9	-4.8
Mining	0.1	-1.0	2.6	3.3	4.9	2.6	3.4	1.5	-3.3
Manufacturing	-1.7	0.4	0.9	-0.9	-0.8	2.7	-1.3	-2.4	0.9
Electricity, gas and water	4.6	2.2	0.7	4.6	4.7	-0.1	4.1	3.3	0.6
Construction	-1.5	0.7	2.3	2.6	1.5	5.4	7.3	-1.3	5.2
Wholesale and retail commerce, restaurants and hotels [c]	0.2	2.1	-0.3	0.1	2.0	2.1	1.6	4.0	2.0
Transport, storage and communications	6.8	6.5	5.1	6.2	3.6	0.9	1.2	4.8	1.5
Financial institutions, insurance, real estate and business services	3.6	1.9	-4.8	4.0	3.3	0.3	1.0	1.9	3.5
Community, social and personal services [c]	-0.1	-0.3	0.5	0.7	0.7	0.7	0.8	0.6	0.8
					Millions of dollars				
Balance of payments									
Current account balance	-216	-367	-759	-1 074	-773	-509	-1 009	-1 183	-1 800
Goods balance	-1 187	-1 442	-1 618	-1 871	-1 943	-1 945	-2 581	-2 943	-3 426
Exports, f.o.b.	1 499	1 563	1 454	1 309	1 386	1 602	1 664	2 134	2 344
Imports, f.o.b.	2 686	3 004	3 073	3 180	3 328	3 546	4 246	5 077	5 771
Services trade balance	655	603	383	315	552	572	670	628	463
Income balance	-333	-350	-438	-605	-571	-583	-676	-616	-806
Net current transfers	647	821	914	1 087	1 189	1 446	1 578	1 749	1 969
Capital and financial balance [d]	80	886	1 624	832	342	1 203	1 238	1 413	1 390
Net foreign direct investment	429	394	525	407	604	542	582	797	...
Financial capital [e]	-349	492	1 099	425	-263	661	656	616	...
Overall balance	-136	518	865	-242	-432	694	229	230	-410
Variation in reserve assets [f]	155	-499	-847	261	448	-686	-228	-230	410
Other financing [g]	-19	-19	-18	-19	-16	-8	-1	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	97.7	100.0	101.7	101.2	116.9	113.6	104.4	104.6	107.8
Net resource transfer (millions of dollars)	-271	517	1 168	208	-246	612	561	797	584
Gross external public debt (millions of dollars)	3 024	3 375	4 146	4 348	4 192	5 120	5 376	5 796	6 123
					Average annual rates				
Employment									
Labour force participation rate [i]	64.5	63.3	63.0	63.6	64.4	64.3	63.9	64.7	64.8
Unemployment rate [j]	15.7	15.5	15.0	14.2	11.4	11.7	11.3	10.3	9.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	6.8	5.9	8.6	7.3	13.8	13.6	12.6	5.6	16.8
Variation in nominal exchange rate (annual average)	6.8	9.4	7.7	5.3	19.3	6.0	1.7	5.5	5.0
Nominal deposit rate [k]	11.8	10.5	9.4	9.1	8.3	6.7	5.9	5.3	5.0
Nominal lending rate [k]	36.8	32.9	29.4	26.1	25.1	25.1	23.2	22.0	22.0
					Percentages of GDP				
Moneda y crédito [l]									
Domestic credit	42.4	39.2	39.9	40.5	46.5	41.0	39.9	34.9	35.1
To the public sector	35.7	32.7	32.9	30.6	34.0	26.9	24.4	17.2	14.8
To the private sector	8.8	8.6	9.3	11.4	14.4	15.3	16.2	18.2	21.0
Others	-2.0	-2.1	-2.3	-1.5	-1.9	-1.2	-0.7	-0.5	-0.7
Liquidity (M3)	39.8	39.2	39.1	40.2	38.8	39.2	38.1	37.6	38.9
Currency outside banks and local-currency deposits (M2)	31.0	29.7	29.3	29.1	26.0	26.2	26.1	26.6	26.2
Foreign-currency deposits	8.8	9.5	9.8	11.1	12.8	12.9	12.1	11.0	12.7

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income [m]	30.1	29.8	27.5	28.6	31.7	32.0	30.9	31.0	33.3
Current income	27.8	28.8	26.2	26.7	30.1	30.1	29.3	30.3	31.5
Tax income	25.1	25.7	24.3	25.1	27.7	27.9	26.9	27.6	28.5
Capital income	2.0	0.5	0.8	1.6	1.5	1.1	1.4	0.5	1.2
Total expenditure [n]	34.2	30.7	33.2	36.3	37.8	36.9	34.3	36.4	38.2
Current expenditure	30.8	28.2	30.5	34.4	36.6	34.9	31.8	32.9	32.8
Interest	13.8	12.7	13.7	15.1	18.6	17.2	14.6	14.3	13.2
Capital expenditure	3.0	2.8	2.7	1.9	1.2	2.1	2.6	3.4	5.4
Primary balance	9.7	11.7	7.9	7.4	12.5	12.2	11.1	9.0	8.3
Overall balance	-4.2	-0.9	-5.7	-7.8	-6.1	-4.9	-3.5	-5.4	-4.9
Public-sector external debt	39.1	42.8	51.1	51.3	51.2	58.0	55.3	55.9	53.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Restaurants and hotels are included in community, social and personal services.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population.
[j] Percentage of the economically active population. Includes hidden unemployment. Nationwide total.
[k] Average rates.
[l] The monetary figures are end-of-year stocks.
[m] Includes grants.
[n] Includes statistical discrepancy.

(a) Fiscal policy

The fiscal targets set for 2007[2] aimed primarily to maintain a controlled current account deficit of 2.2% of GDP, a positive primary balance of 4.5% of GDP, an interest-payments-to-GDP ratio of 10.3% and non-interest expenditure of 18% of GDP. Although better-than-expected results were achieved in the primary balance (a cumulative 4.8% primary surplus to December 2007) the current account deficit was 2.5% for the same period, reflecting increased recurrent expenditure.

Reflecting the difficulties in achieving a fiscal balance in previous years, the central government aimed for an overall deficit of 4.5% of GDP as the target for the fiscal year 2007-2008 as a whole.[3] However, up to December 2007 the accumulated deficit amounted to 5.2%, a better result than that expected for the period (5.8%), reflecting an improvement in revenues and conservative capital expenditure. Between April and December 2007 the proceeds of the bauxite levy (26.8% higher than the target) and capital revenue (36.4% over the target) led the increase in budget income against a serious drop in revenue from grants (-34.5%), while on the spending side, the programmes account increased the most (21.27% over the target).

The fiscal deficit was mainly financed through the issue of domestic debt instruments, which increased by 44.496 billion Jamaican dollars (J$) (or 6.1% of GDP) between March and December 2007, but also by means of external instruments such as the reopening of Jamaica's 2039 Eurobond, which contributed US$ 150 million to the central government budget.[4] Similar government-guaranteed debt operations also increased the level of external debt,[5] and as a result, the external debt stock rose to US$ 6.123 billion at the end of 2007 (53.8% of GDP). Given Jamaica's considerable domestic debt, however, the overall debt stock to GDP ratio (including both domestic and external debt) as of December 2007

2 Corresponding to the first three quarters of fiscal year 2007-2008.
3 Jamaica's fiscal year runs from 1 April to 31 March.

4 In December 2007 the outstanding amount on this bond was US$ 500 million.
5 For example, in June 2007 Air Jamaica issued a US$ 125 million bond guaranteed by the government.

was 127.4%, a slight improvement on the 132.4% recorded in March 2007. In fiscal year 2007-2008 the servicing of the external and domestic public debt rose to over US$ 3 billion or 28.8% of GDP. A successful renegotiation and reduction of the debt burden would make it possible to free public resources, redirect them to social and infrastructure investment, stimulate economic growth and social development and make the economy less vulnerable to negative external shocks.

(b) Monetary and exchange-rate policy

Monetary management in 2007 faced growing challenges from adverse international and domestic conditions. The global rise in prices of vital commodities and the unrest in the international financial markets fuelled by the subprime mortgage crisis in the United States were the main external causes of instability in the money and foreign-exchange markets and of rising inflationary pressures. On the domestic front, the impact of Hurricane Dean and the political uncertainty surrounding the change of government were the key factors in the monetary and financial instability during 2007.

The monetary authorities' response to this challenging environment focused on the stabilization of the foreign exchange and money markets, while keeping inflation at bay. The Bank of Jamaica intervened regularly using a number of tools such as sales of foreign currency, offerings of its regular open-market instruments, and the issue of special variable-rate instruments in order to support the exchange rate and control inflationary pressures, which intensified in the second half of 2007. This monetary policy, based on stabilizing the Jamaican dollar, caused a significant reduction in the level of international reserves. These diminished by US$ 493 million in 2007, as a result of continuous interventions in the foreign-exchange market to support exchange-rate stability.

The nominal depreciation (December to December) of the Jamaican dollar against the United States dollar rose to 6.2% in 2007, compared with 3.6% in 2006. The average annual exchange rate[6] was J$ 69.06 per United States dollar for 2007, while the real effective exchange rate (multilateral) depreciated until November 2007 and then started to appreciate.

In these circumstances, the expansion of the monetary base slowed. During 2007 the monetary base rose by 7.4%, compared with a 17.3% increase in 2006, while the target expansion for 2007 was set at 11%. The growth of the monetary base was caused by a net increase of 11.6% in currency in circulation and 16.5% in the local-currency cash reserves of the banking system. Domestic credit continued to grow, with a 13.7% rise between December 2006 and December 2007, while commercial bank liquidity declined. At the same time, the Bank of Jamaica kept the rates on its regular open-market instruments unchanged in order to prevent a widening in the interest rate differential in the case of interest cuts by the United States Federal Reserve.[7] However, interest rates on the Bank of Jamaica's special instruments were progressively increased during 2007.

3. The main variables

(a) Economic activity

Real growth slowed in 2007, largely as a result of several adverse internal and external events such as Hurricane Dean, which hit the country in August and was followed by heavy rainfall and flooding, heavily affecting the agriculture and mining sectors. Other negative factors were the continued increases in the prices of several key imports such as oil and grains, and the political tension and uncertainty surrounding the general elections held in September. As a result, Jamaica's real GDP grew 1.2% in 2007, less than half the rate achieved in 2006 (2.5%).

The sectors which led economic growth in 2007 were construction, financial and insurance services, real estate and business services. With 5.2% growth, the construction sector was able to recover from its decline in 2006 thanks to sustained expansion in the country's tourism and telecommunications infrastructure and residential construction. Financial and insurance services, real estate

[6] The average annual exchange rate is calculated as a simple average of all daily exchange rates for the respective year.

[7] Between January and December 2007 the United States Federal Fund Rate decreased from 5.25% to 4.25%.

and business services grew by 3.5% in 2007, reflecting the dynamic performance of financial institutions, especially the commercial banks.

The sector with the most negative performance was agriculture, suffering from the impact of Hurricane Dean, which destroyed and extensively damaged domestic and export crops.[8] Prolonged rains and floods during the following months worsened the damage, resulting in a 4.8% contraction in the sector. Mining and quarrying was another sector considerably affected by the hurricane, which forced the temporary halt of activities in the bauxite and alumina industry and damaged production facilities. The mining sector recorded a contraction of 3.3% in 2007.

The manufacturing sector achieved growth of 0.9% for 2007, a partial rebound from the 2.4% fall recorded in 2006. The productive recovery was led by food and beverage processing activities, with increased production of poultry meat, condensed milk, sugar, beer and stout, as the result of improvements in production process and product innovation. Similarly, the cement industry increased its output during 2007 in response to rising demand from the construction sector. On the other hand, the petroleum industry suffered a decline because of higher production costs and the temporary closure of the country's sole processing plant for maintenance at the end of the year.

The weak performance of the tourism industry during 2007 is a major concern for the Jamaican economy. Disappointing levels of tourist arrivals during the Cricket World Cup in the first quarter of the year were further exacerbated by the revitalization of competing tourism destinations, and a marginal reduction in the number of visitors from the United States. As a result, the output of hotels, restaurants and clubs increased by just 0.2%.

(b) Prices, wages and employment

The annual December-to-December inflation rate for 2007 was 16.8%, a steep increase from the level recorded in the previous year (5.7%) and the highest rate recorded in 12 years. This negative development can be largely explained by the global rise of oil and food prices, which directly affected domestic production costs and consumer prices. The damage to agricultural production caused by Hurricane Dean also lowered the food supply and fed inflationary pressures. Other inflationary factors were the depreciation of the exchange rate and the adjustments made to the national minimum wage (raised by 14.7% in 2007) and administered prices.

The largest price increases during 2007 were in the categories of food (25.2%), housing (19.8%) and electricity, gas and other fuels (25.3%). There were steep increases in the prices of some essential food items such as bread and cereals (30.9%), vegetables (35.5%) and starchy foods such as rice, pasta and potatoes (40.4%).

A new and revised Consumer Price Index (CPI) was introduced in 2007. The new index base period is December 2006 and incorporates information and parameters from household surveys conducted between 2004 and 2005. As a result, the revised CPI uses an expanded and improved consumer goods basket with 480 items, while the previous basket comprised only 280 products.

The labour force increased by 1.6%, totalling 1,268,800 workers in October 2007, of whom 55% were men and 45% were women. The unemployment rate averaged 9.9%, a marginal reduction over the previous year. This reflected a net increase of 19,700 in the number of persons employed from October 2006 to October 2007. The male unemployment rate averaged 6.2% in 2007, a slight drop from the 2006 level (7.0%), while the female unemployment rate averaged 14.5%, a value similar to that of the previous year. The informal sector remained a major employer in Jamaica.

(c) The external sector

The overall result for the balance of payments was a deficit of US$ 410 million, making 2007 the first year since 2003 with an overall deficit, a sharp deterioration from the positive result yielded in 2006 (a US$ 230 million surplus). The current account deficit increased dramatically to US$ 1.803 billion (17% of GDP); a significant rise from the previous year's deficit of US$ 1.182 billion (11.4% of GDP). This drastic worsening was mostly due to the increased deficit in the merchandise trade balance, as a consequence of the growing cost of imported goods. Spending on imported goods rose to US$ 5.77 billion, a 13.7% increase on the previous year, while the cumulative value of exports increased by 9.9% to US$ 2.344 billion.

The income account recorded a deficit of US$ 806 million (7.6% of GDP), an increase of 30.9% over the 2006 figure, explained by growing outflows of investment earnings. These adverse developments could not be totally compensated for by other sources of income since the service balance suffered a serious decline during 2007 as a result of strong expansion in transportation costs and a marginal slowdown in revenues from tourist services. Adverse weather conditions during the second half of 2007 and the recovery of competing destinations were the main forces explaining this fall in tourism earnings. Consequently, the net travel income amounted

8 It has been reported that 85% of the banana crop and 45% of the coffee crop, two key export products, were destroyed during August 2007.

to US$ 1.542 billion in 2007, down from the US$ 1.596 billion recorded in 2006.

The current transfer balance performed positively during 2007 with a net surplus of US$ 1.969 billion (18.6% of GDP), driven by growing remittances from Jamaicans living and working abroad. However, unlike past years, the surpluses on the services and current transfers accounts were insufficient to offset the deficits on the merchandise trade and income accounts. The current account deficit was financed with a capital and financial account surplus of US$ 1.39 billion (13.1% of GDP). The result was a contraction in Jamaica's international reserves from US$ 2.399 billion in December 2006 to US$ 1.906 billion in December 2007, corresponding to an import cover ratio of approximately four months as at December 2007.

Suriname

1. General trends

The economy of Suriname grew by 5.3% in 2007, led once again by increasing mineral production, with expansion of 10.5% in the mining and quarrying sector coupled with increasing international commodity prices. An overall fiscal surplus of approximately 3.1% of GDP was recorded, making 2007 the second consecutive year with a surplus. In response to perceived macroeconomic stability, the Central Bank lowered its reserve requirement from 27% to 25% and cut its deposit rates; as a result, the M1 money supply increased by 22%. Expanding credit coupled with externally-driven increases in food and fuel prices pushed the year-end inflation rate up to 8.3% (4.7% in 2006). The current account posted another year of surplus, with the merchandise trade surplus expanding by 8.1% in 2007. The government continues to focus on prudent fiscal policies in order to maintain a stable exchange rate and control inflationary pressures. In 2008, GDP is expected to grow by 5.3%.

2. Economic policy

The overarching economic policy aim is to maintain economic growth, export growth and sustainable debt levels. At the end of fiscal 2007 there was a slackening of some of the monetary and fiscal variables in response to the worsening international situation.

(a) Fiscal policy

The fiscal accounts were very favourable in 2007. Current revenue increased for the fourth year running, mostly because international prices for minerals and metals remained favourable. Total revenue was up 14.7% over 2006, at 38.9% of GDP. Total expenditure increased by 10.3% to the equivalent of 35.8% of GDP, and current expenditure increased by 16.9% to 31.0% of GDP, marking the fourth consecutive year of increases. Direct taxation revenue increased 29.7% over the 2006 figure, to 15% of GDP, mostly as a result of the increased tax take from the alumina, gold and oil companies. The gold mining company Rosebel alone paid US$ 13 million in income taxes in 2007 and US$ 12 million in tax will come from the bauxite industry, although this is less than the expected amount. The primary surplus improved by 42.5% over 2006 to 5.0% GDP and the overall surplus more than doubled over the 2006 figure, rising by 106.5% to 3.1% of GDP.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	-2.4	4.0	5.9	1.9	6.1	7.7	5.6	5.8	5.3
Per capita gross domestic product	-3.4	3.0	5.0	1.1	5.3	7.0	4.9	5.1	4.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.4	5.9	11.4	-3.9	4.3	1.5	-0.4	-0.1	4.1
Mining	5.5	-8.8	25.0	-8.6	0.0	31.2	15.4	18.0	10.5
Manufacturing	-9.0	58.8	13.3	-3.6	5.6	9.5	4.8	0.8	2.9
Electricity, gas and water	-5.6	-7.7	2.1	10.3	-1.7	9.2	7.9	7.3	7.3
Construction	-14.8	-11.8	4.5	0.6	17.0	10.1	10.3	10.5	10.2
Wholesale and retail commerce, restaurants and hotels	-5.6	-15.7	-14.5	8.4	32.2	6.0	6.4	6.3	6.3
Transport, storage and communications	1.8	25.0	28.7	12.6	-0.4	14.0	10.6	10.8	10.4
Financial institutions, insurance, real estate and business services	-1.7	2.9	0.2	5.4	3.5	1.6	2.5	2.5	2.8
Community, social and personal services	0.0	2.0	2.0	1.1	0.2	1.3	1.9	1.8	1.8
					Millions of dollars				
Balance of payments									
Current account balance	-29	-34	-116	-60	-141	-137	-144	115	185
Goods balance	44	13	16	52	-30	42	22	161	174
Exports, f.o.b.	342	514	449	529	639	782	1 212	1 174	1 359
Imports, f.o.b.	298	501	434	477	669	740	1 189	1 013	1 185
Services trade balance	-72	-115	-115	-128	-133	-130	-148	-31	-72
Income balance	0	-2	-80	-44	-49	-63	-40	-52	8
Net current transfers	-2	69	63	59	71	14	22	36	76
Capital and financial balance [c]	25	33	203	62	140	175	168	-21	-7
Net foreign direct investment	-62	-148	-27	-74	-76	-37	28	-163	-247
Financial capital [d]	86	181	230	136	216	212	140	143	240
Overall balance	-4	-1	87	2	-1	38	24	94	178
Variation in reserve assets [e]	4	1	-87	-2	1	-38	-24	-94	-177
Other external-sector indicators									
Net resource transfer	25	31	123	18	91	112	127	-72	1
Total gross external public debt	…	291	350	371	382	382	388	389	296
					Average annual rates				
Employment									
Unemployment rate [f]	14.0	14.0	14.0	10.0	7.0	8.4	11.2	12.1	12.0
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	112.9	76.1	4.9	28.4	14.0	9.3	15.8	4.7	8.3
Variation in nominal exchange rate (annual average)	114.3	53.9	64.7	7.7	10.8	5.1	-0.0	0.2	0.0
Nominal deposit rate [g]	15.6	15.5	11.9	9.0	8.3	8.3	8.0	6.7	6.4
Nominal lending rate [g]	27.4	29.0	25.7	22.2	21.0	20.4	18.1	15.7	13.8
					Percentages of GDP				
Central government									
Total income	…	…	42.6	30.7	31.6	32.4	34.6	36.5	38.9
Current income	…	…	39.2	29.4	30.0	30.7	32.5	33.2	37.9
Tax income	…	…	34.1	24.2	25.2	25.2	25.9	26.1	30.3
Grants	…	…	3.4	1.3	1.6	1.7	2.1	3.4	1.0
Total expenditure [h]	…	…	42.2	35.7	30.7	33.3	35.4	34.9	35.8
Current expenditure	…	…	35.6	32.2	27.3	28.8	29.5	28.5	31.0
Interest	…	…	2.3	2.7	2.3	1.9	2.3	2.1	1.9
Capital expenditure	…	…	5.7	3.3	3.1	4.4	5.9	6.4	4.8
Primary balance	…	…	2.7	-2.4	3.1	1.0	1.6	3.8	5.0
Overall balance	…	…	0.4	-5.0	0.8	-0.9	-0.8	1.6	3.1
Public-sector debt	…	…	65.1	54.8	48.1	45.7	43.5	36.2	27.3
Domestic	…	…	12.6	16.0	14.1	16.0	17.3	13.8	11.5
External	…	…	52.6	38.8	34.0	29.7	26.2	22.4	15.9

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Money and credit [i]									
Domestic credit	…	…	24.6	30.4	24.9	27.8	27.9	26.8	26.6
To the public sector	…	…	7.7	12.0	7.3	11.8	11.0	8.5	5.2
To the private sector	…	…	16.9	18.3	19.7	21.8	23.7	25.7	32.4
Others	…	…	0.0	0.0	-2.2	-5.8	-6.8	-7.4	-10.9
Liquidity (M3)	…	68.2	65.0	55.8	51.0	56.0	53.9	56.6	67.7
Currency outside banks and local-currency deposits (M2)	…	43.4	39.6	34.1	27.1	28.5	28.3	29.6	35.2
Foreign-currency deposits	…	24.9	25.4	21.7	23.9	27.5	25.7	27.1	32.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Includes errors and omissions.
[d] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[e] A minus sign (-) denotes an increase in reserves.
[f] Percentage of the economically-active population, nationwide total.
[g] Deposit and loan rates published by IMF.
[h] Includes net lending.
[i] The monetary figures are end-of-year stocks.

In light of the current fuel and food price concerns, some fiscal and other intrinsic regulatory measures have been taken to shield the most vulnerable groups in the country. Civil servants have been given a 10% salary increase; the personal income tax threshold has been increased from SRD 1,890 to SRD 2,946, duties on Caribbean Community (CARICOM) goods were cut to zero and rice exports are being regulated as a precaution against internal shortages, with only surplus amounts being exported.

The prudent debt management policy embarked upon by the Suriname Debt Management Office continued in 2007, with emphasis on keeping overall debt levels sustainable. Government domestic debt to the Central Bank decreased by approximately 7.2% over the 2006 figure. The government's total general outstanding debt fell by almost 16% during 2007. External debt levels dropped by nearly 24%, reaching low levels (16% of GDP) not seen since the beginning of the decade, and well within the constitutionally mandated range. There was a significant reduction of medium- and long-term debt because of the early repayment in full of a loan from the Netherlands Investment Bank for Developing Countries (NIO Bank) and also because of the settling of arrears to Spain and the start of payments of loan arrears to the United States.

The main goal for debt management is sustainability. Debt should be used not for recurrent expenditure, but only for productive or infrastructure projects. Specific limits have been placed on the amount of domestic and external debt that can legally be incurred. Payment of historic debt has been started or resumed in light of a favourable fiscal position, and in cases where payment may not be suitable, restructuring schemes may be pursued, as in the case of the Debt for Investment Programme currently under discussion with Brazil. The Chinese-funded infrastructure project mentioned above is an example of the type of debt Suriname is willing to incur. Debt was also incurred with India in the form of a credit line for technical services, agricultural pumps, military equipment and traffic control equipment. So far, debt management has yielded positive results, with the policy of joint ventures for profit bringing new investment into Suriname and arrears on old debts falling.

Discussions are in progress to create a stabilization and heritage fund for Suriname, to be financed by windfall tax revenue from increased mineral production. This fund would serve to supplement current expenditure in the event that the government could not meet fiscal goals, and would be a source of capital as well as a heritage fund for future generations.

In some sectors bureaucracy still appears to be a crippling problem, though some procedures have recently been relaxed. Simpler taxation and regulatory systems need to be put in place, which would minimize the cost of doing business and reduce opportunities for corruption.

(b) Monetary and exchange-rate policy

Liquidity (M2) expanded by more than 28% from 2006 to reach 35.2% of GDP. Net domestic credit expanded by 7.1% to 26.6% of GDP, fuelled mainly by a 35.7% expansion in domestic credit to the private sector, which reached 32.4% of GDP in 2007. This expansion of private-sector credit seems to reflect the population's growing demand for durable goods, especially for housing, which has been earmarked as a high growth sector. The Central Bank offers a special housing facility where funds from the reserve requirement are used to finance housing loans at an interest rate of 7%, well below the market lending rate.

The Central Bank's monetary policies remained largely unchanged over 2007, with the main focus being inflation control. Market interest rates, however, did not necessarily reflect this policy, as the mid-year lending rate was down to 13.9% from a 2006 average of 15.4% and deposit rates had similarly fallen from 6.6% to 6.4%. However, the Central bank does not consider interest rates to be as important a policy measure as the reserve requirement. The reserve requirement settled at 25% for all banks except two small specialized banks in agriculture and small private credit, respectively, as they are still in the process of trying to meet the central bank standards.

The official exchange rate against the United States dollar remained virtually unchanged at approximately SRD 2.75. In May 2008, the open-market exchange rate came under some pressure owing to speculation and the SRD was traded at SRD 2.84 per United States dollar. The supervision and control exercised by the Central Bank produced the intended result and the exchange rate has been almost back to the old level of SRD 2.80. The central bank has no plans to officially devalue the currency, however.

The financial system is considered strong enough to be able to weather the storm of externally driven inflation. The recent bout of inflationary pressure, with rates reaching 11.5% at the end of January 2008, has been attributed to rising food and fuel costs; it is considered that these are uncontrollable and that policy must be altered to deal with the situation as well as possible.

3. The main variables

(a) Economic activity

Total GDP increased by 5.3% over 2007, driven mainly by growth in the mining and quarrying sector, the construction sector and the transport and communications sector. Although slightly lower than the 2006 figure of 5.8%, this increase shows that the country's sound economic performance of recent years is continuing.

The mining and quarrying sector posted the biggest increase, at 10.5%, and accounted for 8.5% of total GDP. Production of the major minerals increased across the board. Bauxite was up 7.2%, while alumina production crept up by 2.1%. Crude oil production rose by 12.5% over 2007, and is expected to increase in 2008 and 2009 with the expected exploitation of new offshore reserves.

The construction sector was up 10.2% over 2007, accounting for 5.7% of GDP, and this was the sector's fifth consecutive year of growth of 10% or more. The sector was boosted by large numbers of government construction programmes, as well as a new emphasis on private housing construction. The government also intends to look at a number of infrastructure development programmes in the coming years, which suggests that the sector will continue to grow. Nonetheless, major infrastructure projects backed by foreign donors can have the effect of crowding out local contractors, since a key feature is that foreign contractors are tied to the financing scheme. However, few local contractors would have similar capabilities.

The transport and communications sector grew by 10.4% over 2007, and accounted for 15.7% of GDP. Increasing economic activity, especially in the construction sector, boosted demand for this sector's services, as did the lead-up in 2007 to the liberalization of the country's mobile-phone market, in which newly introduced player Digicel alone invested US$ 60 million.

Notably, after many years of stagnation, production of agricultural goods has picked up as a result of the new focus it has received from the government and achieved good results over 2007. The sector grew by 4.1% in relation to the previous year, the largest increase since 2002, and accounted for 7.3% of GDP in 2007. The banana and rice industries have performed well under the Economic Partnership Agreement (EPA) negotiated between the Caribbean countries and the European Union. With increasing amounts of technical and infrastructure development occurring in the sector, output is expected to significantly increase over the medium to long term.

(b) Prices, wages and employment

The CPI almost doubled in 2007, increasing by 8.3% over the December 2006 figure, representing a December-on-December rise of 4.7%. The projected rate of increase in the CPI is 12.7% for 2008. The annualized CPI for April 2008 is posted at 16.1%, with food and transportation being the main drivers, reflecting the high prices prevailing on international markets for fuel and agricultural products. Some private businesses feel, however, that increasing international prices are not necessarily a bad development and that the country should find ways of increasing production of goods like rice, oil or gold, to benefit from high prices while prevailing conditions allow. In light of the high price increases, Parliament has approved a 10% salary increase for civil servants.

The unemployment rate is unchanged in relation to the previous year's figure of 12%. With the new focus on large infrastructure projects, opportunities for employment are set to increase. Additional efforts have been undertaken to diversify and expand the country's production base, in the agriculture and manufacturing sectors especially, and this could increase employment.

(c) The external sector

The current account surplus improved by 61.4% over 2006, at 10.4% of GDP. Exports of goods increased by 15.7% to 76.1% of GDP, while goods imports were up by a slightly higher rate (16.9%) and represented 66.3% of GDP. The services deficit worsened by 236%, swelling from US$ 30.7 million to US$ 72.0 million, or 4% of GDP. The main drivers of the favourable current account situation for 2007 were mineral and metal exports. Suriname also generates foreign exchange from exports of bananas and rice, although rice exports have been regulated. The Ministry of Trade is endeavouring to increase the country's export base. The income balance recorded a surplus for the first time since 1999, at 0.4% of GDP, compared with a deficit of 3.1% of GDP in 2006. The transfers balance increased by 111.7% to 4.3% of GDP in 2007, from 2.1% of GDP in 2006. This may seem like a large amount but historical rates of increase and decrease for the variable are comparable. The capital account balance decreased by 58.5% to 0.5% of GDP. The financial account deficit decreased by 2.2%, to 9.9% of GDP.

Trinidad and Tobago

1. General trends

Despite the continuous upward trend driving energy prices to a record high, Trinidad and Tobago's economy recorded a marked slowdown in 2007, with growth of 5.5% that was well below the impressive 12.0% posted in 2006. This was mainly due to the sharp decline in the dynamism of the energy sector, which accounts for more than 40% of GDP. On the economic policy side, rapid growth in capital spending associated with public infrastructure projects resulted in a rather expansionary fiscal policy that narrowed the fiscal surplus to 2.6% of GDP for the fiscal year 2006-2007 (6.9% in fiscal year 2005-2006). In order to offset the impact of fiscal policy on prices, monetary policy followed a conservative course, with a year-end inflation rate of 7.6%, which was 1.5 percentage points less than in 2006. The nominal exchange rate remained stable, but the tendency towards real appreciation continued. Meanwhile, the current account surplus declined by almost seven percentage points of GDP to 18.6%. General elections held in November resulted in the re-election of the People's National Movement (PNM), and therefore no major policy changes are expected.

Looking ahead, the main economic policy challenge in the coming years is how to use the current energy windfall to support long-term economic growth, while at the same time expanding proven gas reserves. The government is expected to continue to follow the basic elements of the "Vision 2020" development plan, which includes continued expansion of public investment financed by energy revenue to fund infrastructure projects and social spending. As regards economic growth, the information available indicates a GDP growth rate of between 5.5% and 6.0% in 2008, as the energy sector is expected to recover momentum and the non-energy sector continues to be supported by government and private spending. High and rising energy prices are expected to continue feeding fiscal and current account surpluses. On the downside, inflationary pressures associated with food prices and the expansionary fiscal policy will continue to challenge the capacity of the central bank to keep inflation under control.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	8.0	6.9	4.2	7.9	14.4	8.8	8.0	12.0	5.5
Per capita gross domestic product	7.6	6.5	3.8	7.6	14.0	8.4	7.6	11.6	5.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.3	-2.4	8.7	8.7	-15.3	-25.3	9.7	-0.6	-5.9
Mining [c]	21.6	12.5	5.6	13.5	31.4	8.2	8.4	20.6	4.4
Manufacturing	-7.2	6.0	9.8	3.8	12.2	8.6	11.6	11.8	8.0
Electricity, gas and water	0.3	5.5	4.1	8.7	5.3	3.2	6.2	2.1	3.5
Construction [d]	6.0	7.6	10.3	-5.1	23.4	12.6	15.6	14.5	5.2
Wholesale and retail commerce, restaurants and hotels	8.7	5.4	-2.5	1.4	1.8	3.6	6.3	3.1	3.5
Transport, storage and communications	0.8	8.9	7.7	9.6	5.4	1.9	9.4	4.0	5.0
Financial institutions, insurance, real estate and business services	11.7	12.4	0.8	11.5	7.3	21.7	9.9	7.5	10.6
Community, social and personal services	-3.3	-4.3	-0.4	4.3	2.8	0.5	1.6	1.3	3.5
					Millions of dollars				
Balance of payments									
Current account balance	31	544	416	76	985	1 647	3 594	4 655	3 897
Goods balance	64	969	718	238	1 293	1 509	3 948	5 258	4 517
Exports, f.o.b.	2 816	4 290	4 304	3 920	5 205	6 403	9 672	12 100	11 822
Imports, f.o.b.	2 752	3 322	3 586	3 682	3 912	4 894	5 725	6 843	7 305
Services trade balance	329	166	204	264	314	480	...	...	...
Income balance	-400	-629	-539	-480	-681	-397	-760	-936	-964
Net current transfers	38	38	33	55	59	56	50	47	58
Capital and financial balance [e]	131	-103	86	39	-576	-912	-1 701	-3 010	-1 977
Net foreign direct investment	379	654	685	684	1 034	972	599	513	830
Financial capital [f]	-248	-757	-599	-645	-1 609	-1 884	-2 300	-3 523	-2 807
Overall balance	162	441	502	116	409	735	1 893	1 645	1 920
Variation in reserve assets [g]	-162	-441	-502	-116	-409	-735	-1 893	-1 645	-1 920
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	102.3	100.0	94.5	91.1	91.9	93.6	91.0	89.0	87.3
Net resource transfer (millions of dollars)	-268	-732	-453	-440	-1 257	-1 309	-2 461	-3 945	-2 941
Gross external public debt (millions of dollars)	1 585	1 680	1 666	1 549	1 553	1 364	1 329	1 261	1 278
					Average annual rates				
Employment									
Labour force participation rate [i]	60.8	61.2	60.7	60.9	61.6	63.0	63.7	63.9	63.5
Unemployment rate [j]	13.2	12.2	10.8	10.4	10.5	8.4	8.0	6.2	5.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.4	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.6
Variation in nominal exchange rate (annual average)	0.0	0.0	-1.1	0.2	0.7	0.0	-0.4	0.3	0.1
Nominal deposit rate [k]	5.3	5.3	5.3	3.5	2.9	2.4	2.4	2.4	2.4
Nominal lending rate [k]	17.1	16.5	15.6	13.4	11.0	9.4	9.1	10.2	10.5
Money and credit [l]									
Domestic credit	...	...	...	28.3	21.8	17.9	14.6	8.8	16.4
To the public sector	...	...	...	-1.7	-4.2	-10.0	-13.7	-18.6	-12.2
To the private sector	...	...	...	30.0	26.0	27.9	28.4	27.5	28.6
Liquidity (M3)	40.1	37.4	40.3	40.9	32.4	34.9	37.2	37.9	37.3
Currency outside banks and local-currency deposits (M2)	30.4	27.2	31.3	31.1	26.3	26.1	29.5	28.7	28.2
Foreign-currency deposits	9.7	10.2	9.1	9.8	6.1	8.8	7.7	9.2	9.0

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income	22.6	25.4	24.4	24.6	23.7	25.8	31.2	34.0	30.0
Current income	22.4	25.3	24.3	24.6	23.7	25.8	31.2	34.0	30.0
Tax income [m]	15.7	14.9	15.5	15.8	13.5	14.7	14.6	13.5	13.0
Capital income	0.2	0.1	0.1	0.1	-	-	-	-	-
Total expenditure	25.8	23.8	24.5	25.3	22.3	24.0	25.9	27.3	26.1
Current expenditure	24.6	21.4	22.9	24.1	21.2	21.9	23.0	23.2	20.6
Interest	5.5	4.7	4.0	4.3	3.5	3.0	2.7	2.1	2.0
Capital expenditure [n]	1.2	2.4	1.6	1.2	1.1	2.0	2.9	4.0	5.5
Primary balance	2.3	6.3	4.0	3.7	4.9	4.9	7.9	8.9	5.9
Overall balance	-3.2	1.6	-0.1	-0.6	1.4	1.9	5.3	6.7	3.9
Public-sector external debt	23.3	20.6	18.9	17.2	13.8	10.8	8.8	6.9	6.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Refers only to the oil industry.
[d] Includes quarrying.
[e] Includes errors and omissions.
[f] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[g] A minus sign (-) denotes an increase in reserves.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population. Includes hidden unemployment; nationwide total.
[k] Weighted average.
[l] The monetary figures are end-of-year stocks.
[m] Refers to tax revenues from the non-petroleum sector.
[n] Includes net lending.

2. Economic policy

(a) Fiscal policy

Not including transfers to the Heritage and Stabilization Fund (HSF)[1] (an oil stabilization and savings fund), the overall fiscal balance in fiscal year 2006-2007 posted a surplus of 2.6% of GDP, which was well below the 6.9% recorded in fiscal year 2005-2006.[2] Revenue grew by around 1.8% in nominal terms, spearheaded by tax collection. Nevertheless, growth in outlays outpaced revenue expansion, with the former increasing by 10.5% on the back of capital spending associated with ongoing infrastructure projects.

However, in countries rich in natural resources such as Trinidad and Tobago, the non-energy fiscal balance provides a better picture of the fiscal stance. In fiscal year 2006-2007, the non-energy fiscal balance posted a deficit of 15.4% of GDP, which was similar to that recorded in 2005-2006 and the one forecast in the budget for fiscal year 2007-2008. Despite these figures, however, the expansionary nature of fiscal policy can be better demonstrated by the fact that, in fiscal year 2002-2003, the non-energy fiscal deficit was less than half its recent levels (7.6% of GDP). Moreover, even though non-energy tax revenue rose between 2003 and 2007 (by 85% in nominal terms), public capital spending has increased by a factor of eight.

Unlike most Caribbean countries, public debt is not a major concern in Trinidad and Tobago. At the end of 2007, the public debt-to-GDP ratio stood at 17.1%, of which approximately two thirds were domestic debt.

1 Including interest receipts, the HSF currently holds resources equivalent to between 8.5% and 9% of GDP.
2 The fiscal year runs from 1 October to 30 September.

(b) Monetary and exchange-rate policy

The combination of high imported food prices and expansionary fiscal policy put upward pressure on domestic prices. To keep inflation under control, the central bank took a conservative position that helped to reduce the inflation rate to 7.6% in 2007 (9.1% in 2006). Indeed, when annual inflation hit 10% in October 2006, the central bank changed tack and began using liquidity absorption rather than higher interest rates to curb inflation. The rationale was that changes in the benchmark interest rate have little effect on market rates in the presence of excess liquidity. This took place in the context of a monetary policy aimed at maintaining the benchmark (“repo”) interest rate constant at 8% —which meant a real interest rate close to zero— while at the same time issuing a significant amount of long-term securities. Thus, from November 2006 to the end of 2007, special government sterilization bonds were issued for US$ 3.103 billion, with maturities of between 5.5 years and 10 years, and coupon rates ranging from 6% to 8%.

This helped to moderate the expansion of monetary aggregates to 12% in the case of M1 (9.7% in 2006) and 13.5% in the case of M2 (17.3% in 2006). Nevertheless, domestic credit to the private sector increased by 22% in 2007, which was around three percentage points more than in 2006. Growth in consumer credit continued to outpace business credit (21.5% and 13.9%, respectively). It is worth noting that credit for the purchase of motor vehicles increased by nearly 50% in 2007.

The strong foreign-exchange position supported by a booming energy sector, with international reserves that totalled some US$ 7.6 billion at the end of 2007 (US$ 1 billion more than at the end of 2006), allowed the central bank to maintain its quasi-fixed exchange rate regime —or “dirty peg”— keeping the nominal exchange rate at around TT$ 6.3 per United States dollar. Given the inflation rate differential, this meant a real appreciation of around 5% vis-à-vis the United States dollar in 2007. In trade-weighted terms, the real appreciation recorded between 2004 and 2007 was 9%.

The resurgence of core inflation in early 2008 —with an annualized rate of 5.7% in January— reinforced the need to absorb excess liquidity. This time, however, there was little room for further issuance of government securities due to the need for congressional approval of an increase in government debt ceilings. At the end of February 2008, the central bank opted to increase the reserve requirement for commercial banks from 11% to 13% and to raise the repo rate from 8% to 8.25%. In March, commercial banks responded by increasing their lending rates by 50 basis points to 12.25%.

(c) Other policies

In the face of escalating food-price increases, at the end of 2007 value added taxes were removed on more than 50 commodities, while the CARICOM common external tariff was eliminated on almost 30 commodities. Currently, the government provides direct cash transfers to the poor through the Conditional Cash Transfer Programme or the TT Card, which involves the use of a debit card to buy selected food products. Some 18,000 people participating in the Social Help and Rehabilitative Effort (SHARE) program are eligible to receive cards.

3. The main variables

(a) Economic activity

The main reason for the cooling of economic activity in 2007 was the substantive decline in the growth of the energy sector, whose output amounts to 43.0% of GDP. Indeed, while the oil industry expanded by an impressive 20.6% in 2006, it increased by only 4.4% in 2007. This outcome is attributable to the absence of any new large-scale energy projects that fuelled the sector in 2006, coupled with technical difficulties at one of the major energy plants. As a result, crude oil production, exports and refining dropped year-on-year by 15.9%, 42.4% and 23.3%, respectively. In addition, exploration remained stagnant after having increased by 16.4% in 2006, while natural gas production grew by 4.1%, less than one fifth of the expansion recorded in 2006.

A matter of concern regarding the energy sector was revealed by a report published by the consultancy firm Ryder Scott in August 2007. The document highlights a reduction in proven gas reserves, estimating that these would be exhausted within 11 years, with probable gas reserves exhausted in a further nine years. This is because no major gas reserves have been discovered in the country since 2004. The government reacted by providing fiscal incentives for new oil and gas exploration, and amendments to oil and natural-gas production-sharing contracts (PSCs) were approved in September. These now allow for the consolidation of profits and losses from different areas of operation, thereby reducing the overall tax burden in the energy sector.

Non-energy sector growth, for its part, remained robust at 6.7%, which was marginally higher than in 2006. The construction sector expanded by 5.2% (14.5% in 2006), but large increases in input prices and labour costs suggest that the sector may be overheating. For instance, the prices of concrete and structural steel have increased threefold since 2003, while the price of aggregate has risen by 280%. On average, the price of construction materials climbed by 10% in 2007. On the down side, agricultural output declined by 5.9% in 2007 because of a combination of low investment in infrastructure, workers being attracted to other sectors and the temporary disruption in the activities of CARONI Limited (a wholly State-owned enterprise).

On the demand side, growth was led by gross fixed investment, in the form of several public and private construction projects. Government consumption slowed but remained strong and outpaced that of the private sector. The drop in oil exports resulted in a lower growth rate of exports, while imports posted a similar performance to the one recorded in 2006.

As regards private-sector activities, in October it was announced that Canada's largest bank, the Royal Bank of Canada (RBC), would buy RBTT Financial Holding Ltd.[3] for TT$ 13.8 billion (US$ 2.2 billion). The resulting entity will serve some 1.6 million customers in the Bahamas, Cayman Islands, Barbados, Trinidad and Tobago, Jamaica and Suriname. It will have assets of over US$ 13 billion. This operation was approved by RBTT shareholders in March 2008.

(b) Prices, wages and employment

After hitting two digits in annualized terms in October 2006, inflation gradually eased to stand at 7.6% in December 2007, mainly thanks to successful liquidity-absorption measures implemented by the central bank. This process was accompanied by a reduction in core inflation, which dipped from an annualized 4.6% to 3.9% in the same period. However, food prices have always been the main driver of inflation in Trinidad and Tobago. Indeed, the annual decline in the latter was much more pronounced: from 26.5% in October 2006 to 16.8% in December 2007. This means that the reduction in food inflation explains almost two thirds of the drop in total inflation during the period analysed.[4] However, this downward trend was reversed in early 2008, and inflation has recorded annualized rates of between 9.3% and 10% during the first four months of 2008. Again, this rise in inflation has been driven by food inflation, which rose from an annualized rate of 16.8% in December 2007 to 20.8% one month later.

It is interesting to consider the impact of imported inflation on domestic inflation. In Trinidad and Tobago, this effect has been increasing since mid-2007. According to the central bank, rough estimates indicate that imports represent around one quarter of the basket used to measure the Index of Retail Prices.[5] During 2007, import prices increased by 14%, nearly doubling overall inflation. The dynamism in import prices is explained by the depreciation of the United States dollar, higher oil and transportation charges, and worldwide developments in terms of food products.

As regards wages, 2007 saw the return of a wage-indexation regime that had been virtually abandoned several years ago in an effort to curb inflationary inertia. Thus, last year most negotiated contracts began to include catch-up clauses and cost-of-living clauses based on past inflation. This was coupled with an increase in the level of wage settlements, with the basic-wage increase for three-year contracts signed in 2007 doubling to 6%. On the other hand, the labour market experienced a marginal decline in the participation rate from 63.9% in 2006 to 63.2% in 2007, while the employment rate (the employed as a percentage of people aged above 15) remained above 59%. The unemployment rate —including hidden unemployment— averaged 5.9% in 2007 (6.2% in 2006).

(c) The external sector

As high and increasing energy prices failed to offset the reduction in the volume of oil exports, for the first time since the beginning of the current surge in oil prices in 2003, the value of merchandise exports declined (-2.3%) to around US$ 12 billion. Nonetheless, the value of goods imports kept growing at a rapid pace (almost 7%), partly encouraged by increasing food prices, to reach almost US$ 7.3 billion. This caused the trade surplus to shrink

[3] RBTT is the second largest bank in Trinidad and Tobago.

[4] The weight of food products in the basket of consumption is 18% (180 products out of 1,000 items).

[5] This is the name of the Consumer Price Index in Trinidad and Tobago.

by some US$ 700 million to around US$ 4.5 billion or 21.8% of GDP (29% in 2006). Another negative development was the deterioration of the income balance resulting in a deficit of US$ 965 million (-4.6% of GDP), due to increased repatriation of profits by multinational corporations in the energy sector. The services and the transfer surpluses remained fairly stable and represented a minimal share of the balance of payments. Overall, the current account surplus decreased by more than US$ 750 million, to almost US$ 3.9 billion or 18.6% of GDP (25.5% in 2006). The capital and financial account recorded a deficit of just under US$ 1.6 billion (-7.6% of GDP), mainly due to outflows of short-term private foreign capital in excess of US$ 1.8 billion. The balance of payments posted a surplus of US$ 1.92 billion, which was some US$ 275 million more than in 2006. International reserves further increased to an equivalent of 9.4 months of import coverage.

Eastern Caribbean Currency Union

1. General trends

The economies of the Eastern Caribbean Currency Union (ECCU) continued to show positive growth for the sixth consecutive year. In 2007, growth slowed to 5.2% from 6.3% in 2006 as many public and private construction projects relating to the Cricket World Cup were completed. In addition, there was a significant deceleration in the tourism sector, which declined by 0.6% in 2007 compared with 6% growth in 2006. Fuelled by hikes in oil and food prices, especially in the last quarter of 2007, inflation stood at 6.1%, up from 1.3% in 2006, and is expected to continue to trend upwards in 2008. While remaining positive, economic growth is projected to slow in 2008 to 3.8%, mainly as a result of the slowdown in the United States economy and soaring international oil, food and other commodity prices.

In 2007, growth was strongest in Anguilla (21%), Saint Vincent and the Grenadines (6.9%) and Antigua and Barbuda (6.9%), while Hurricane Dean, which struck in August 2007, negatively impacted on the growth rates of Saint Lucia (1.7%) and Dominica (1.8%). Despite the challenge of continuous volcanic activity, the economy of Montserrat grew by 2.8%. Intermediate growth of 3% was recorded in Saint Kitts and Nevis, while growth in Grenada was 4.4%. The main impetus continued to come from the construction sector with spillover effects into mining and quarrying, transport and communications, electricity, water and banks and insurance. Driven by the private sector and the Public Sector Investment Programme, construction activity will remain robust in 2008.

Consumer prices increased in all member countries by between 3 percentage points in Dominica and Montserrat and as many as 8.3 percentage points in Saint Vincent and the Grenadines. The aggregate central government overall fiscal deficit improved from 4.9% of GDP in 2006 to 3.9% of GDP in 2007 but is still above the target of 3% of GDP set by the Monetary Council. This out-turn followed strong growth in current revenue and a decrease in current and capital expenditure as many infrastructure projects related to the Cricket World Cup were completed. The region reaped the benefits of the implementation of the value added tax (VAT) in Dominica and Saint Vincent and the Grenadines and of the sales tax in Antigua and Barbuda. However, the high level of public-sector debt remains a main challenge for the authorities: the debt-to-GDP ratio of the currency union was as high as 92%.

Liquidity in the banking sector contracted somewhat as the increase in domestic credit, which was driven by the private sector was double the increase in deposits. Net foreign assets declined by 6.2% reflecting a drawdown on international reserves by commercial banks to meet the higher demand for credit. The overall balance-of-payments surplus deteriorated from 2.3% of GDP to 1.0% of GDP, as the current account balance worsened, owing mainly to rising import prices. The current account deficit is expected to increase even further in 2008 because all these economies are highly dependent on oil imports.

Table 1
EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	5.8	3.5	-1.2	0.7	3.3	3.9	5.6	6.3	5.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-5.4	1.1	-8.4	6.8	-4.4	-0.9	-12.0	4.8	2.8
Mining	21.1	6.9	-6.3	-1.5	6.7	-6.2	16.3	36.9	22.1
Manufacturing	-2.1	3.2	-0.4	-0.8	1.7	-2.6	9.0	1.2	2.5
Electricity, gas and water	19.2	4.5	5.6	1.9	2.9	2.8	1.4	3.0	7.8
Construction	9.0	4.2	-1.5	-2.5	3.8	4.9	19.6	12.4	6.0
Wholesale and retail commerce, restaurants and hotels	5.9	-0.1	-5.3	-0.4	8.4	4.1	4.7	5.9	2.6
Transport, storage and communications	8.1	3.7	-1.2	-0.6	2.9	8.0	6.2	5.6	6.8
Financial institutions, insurance, real estate and business services	16.1	4.8	0.8	3.3	2.6	6.0	6.2	7.5	8.4
Community, social and personal services	75.1	7.8	2.3	3.0	2.1	3.0	3.4	4.8	6.0
					Millions of dollars				
Balance of payments									
Current account balance	-500	-460	-516	-595	-681	-518	-817	-1 246	-1 579
Goods balance	-1 116	-1 076	-1 004	-1 004	-1 176	-1 233	-1 481	-1 832	-2 112
Exports, f.o.b.	329	349	260	271	259	342	370	359	395
Imports, f.o.b.	1 445	1 426	1 264	1 275	1 435	1 576	1 851	2 191	2 507
Services trade balance	674	668	573	524	604	763	710	638	586
Income balance	-167	-217	-194	-215	-238	-267	-234	-216	-213
Net current transfers	109	165	110	100	129	220	188	164	159
Capital and financial balance [c]	541	480	581	659	722	627	801	1 338	1 626
Net foreign direct investment	365	312	370	343	553	449	632	1 106	1 291
Financial capital [d]	176	168	210	317	169	178	169	232	335
Overall balance	41	21	65	64	41	110	-16	92	47
Variation in reserve assets [e]	-41	-21	-65	-63	-41	-110	16	-92	-46
Other financing [f]	-0	0	0	-1	0	0	0	0	0
Other external-sector indicators									
Net resource transfer	374	264	386	443	484	360	567	1 122	1 413
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	...	...	2.4	-0.1	1.0	2.7	4.1	1.3	6.1
Nominal deposit rate [g]	4.2	4.4	4.3	3.7	4.8	3.2	3.2	3.3	3.3
Nominal lending rate [g]	11.8	11.6	11.4	11.0	13.2	10.4	10.2	9.9	9.5
					Percentages of GDP				
Central government									
Total income [h]	28.2	27.9	27.2	28.5	29.1	30.1	35.6	30.9	29.9
Current income	25.5	24.9	24.5	25.4	25.6	26.2	26.4	27.5	27.5
Tax income	21.4	21.3	21.1	21.8	22.3	23.1	23.7	24.7	24.8
Capital income	0.3	0.2	0.1	0.5	0.4	0.4	0.4	0.2	0.4
Total expenditure	31.1	32.3	34.4	37.0	34.0	33.7	33.4	35.8	33.7
Current expenditure	23.9	25.3	26.5	27.2	26.5	26.9	25.7	26.2	25.0
Interest	2.1	3.6	3.4	4.1	4.0	4.4	3.5	3.7	3.5
Capital expenditure [i]	7.2	7.1	7.9	9.7	7.5	6.8	7.8	9.7	8.7
Primary balance	-0.8	-0.9	-3.8	-4.4	-0.9	0.8	5.7	-1.2	-0.4
Overall balance	-2.9	-4.4	-7.1	-8.5	-5.0	-3.6	2.2	-4.9	-3.9
Public-sector debt	…	83.9	92.0	101.7	105.8	115.5	104.4	98.9	92.0
External	46.1	46.5	53.1	63.7	67.6	59.9	57.2	54.5	51.7

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Money and credit [j]									
Domestic credit	64.0	71.0	73.5	73.4	69.1	69.6	73.3	77.4	84.3
To the public sector	-3.4	-1.3	-0.9	-1.1	-2.7	-2.2	-0.3	-1.5	-0.9
To the private sector	70.8	75.1	76.3	76.4	73.5	72.6	74.3	79.5	86.4
Other	-3.5	-2.9	-1.8	-1.9	-1.8	-0.7	-0.7	-0.6	-1.2
Liquidity (M3)	72.2	76.8	80.6	83.9	87.0	91.7	91.3	92.4	89.6
Currency outside banks and local-currency deposits (M2)	64.8	67.0	70.4	72.4	75.5	78.8	77.1	76.3	75.8
Foreign-currency deposits	7.4	9.8	10.2	11.4	11.5	12.9	14.2	16.1	16.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in Eastern Caribbean dollars at constant 1990 prices.
[c] Includes errors and omissions.
[d] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[e] A minus sign (-) denotes an increase in reserves.
[f] Includes the use of IMF credit and loans and exceptional financing.
[g] Weighted averages.
[h] Includes grants.
[i] Includes net lending.
[j] The monetary figures are end-of-year stocks.

2. Economic policy

In 2007, ECCU policy continued to focus on the unsustainable level of public debt and the current account deficit. These are critical issues that must be resolved in order to maintain the stability of the Eastern Caribbean dollar (EC$) and improve international competitiveness. High on the agenda is also rising inflation, fuelled by the soaring international prices of oil, food and other commodities. Many member countries have implemented a number of policy responses to the rising cost of oil and food, even though this is placing greater pressure on fiscal accounts.

(a) Fiscal policy

The fiscal policy of the currency union was less expansionary than in 2006 and hence resulted in a reduction in the overall deficit from US$ 200 million or 4.9% of GDP to US$ 173 million or 3.9% of GDP. The current surplus more than doubled in absolute terms to US$ 108 million (1.3% in 2006 to 2.5% in 2007), mainly reflecting the fact that current revenue expanded twice as much as current expenditure.

Current revenue increased by 11%, representing 28% of GDP, which indicates successful results from the implementation of VAT in Dominica and Saint Vincent and the Grenadines and of the sales tax in Antigua and Barbuda. The revenue collected from VAT has the potential to offset the losses in revenue from international trade in the countries where international trade taxes have already been removed in fulfilment of one of the major WTO requirements.

Current expenditure grew by 6% to 25% of GDP, which represents a marginal decline of 1.2 of a percentage point of GDP. Higher personal emoluments and transfers and subsidies accounted for the increase in salaries and incomes observed in some member countries. The rise in expenditure on goods and services was the result of the escalating cost of oil-related imports. Interest payments meanwhile climbed slightly, by US$ 8.9 million or 6%, more than half the increase recorded in 2006, reflecting some caution in incurring more debt.

Capital expenditure declined by 0.5% to reach an equivalent of 8.7% of GDP, which mirrors the completion of construction projects related to the Cricket World Cup. Public-sector activity focused on road development, airport improvement and low-cost housing. Antigua and Barbuda, Saint Kitts and Nevis and Saint Lucia reported lower overall deficits, while larger deficits were reported in Grenada, Montserrat and Saint Vincent and the Grenadines. Dominica reported a lower surplus, and the situation in Anguilla deteriorated from a surplus to a deficit.

At the end of 2007, the debt-to-GDP ratio for the currency union was 92%, down from 98.9% in 2006. This ratio was particularly high in Saint Kitts and Nevis (170%), Grenada (108%), Antigua and Barbuda (105%) and Dominica (102%). In nominal terms, the debt stock of the public sector increased from US$ 4.0 billion in 2006 to US$ 4.1 billion in 2007. Central government debt increased by 6% to 80.4% of GDP. This high level of debt constrains fiscal policy and the absorption of economic shocks and raises doubts about the feasibility of the target set by the Monetary Council in 2006 of achieving a 60% debt-to-GDP ratio by 2020. Moreover, some of the measures implemented by six member countries to combat the high food and oil prices —suspension of the common external tariff on selected items, safety net programmes, agricultural support and changes in fuel pricing— will burden fiscal accounts in 2008. The PetroCaribe agreement —an oil agreement between some Caribbean countries and Bolivarian Republic of Venezuela that partially defers the cost of oil imports— could have a positive economic impact, depending on the fiscal policy stance adopted and how the agreement's concessional debt component is used.

(b) Monetary and exchange rate policy

In 2007, there was no change in monetary policy by the ECCU monetary authorities. Both the discount rate and the Interbank rate remained at 6.5% and 4.5%, respectively. The currency union maintains a fixed peg to the United States dollar at EC$ 2.70 to US$ 1 with a view to stabilizing the Eastern Caribbean dollar. However, the depreciation of the United States dollar over recent months has led to a decline in the real effective exchange rate of the Eastern Caribbean dollar, which has improved export competitiveness but at a cost of higher external payments.

The monetary assets of ECCU increased by 9.8% to US$ 4.1 billion spurred by a 20.2% increase in domestic credit (mainly in the private sector), stronger growth than the increase of 16.5% recorded last year. Commercial bank credit expanded in all member countries except Dominica and Montserrat. The distribution of these credits by economic activity shows significant increases in lending to key drivers of economic growth. Commercial bank liquidity declined but remained high (excess reserves increased by 25% to US$ 92 million) as the increase in domestic credit was double the increase in domestic deposits. Net foreign assets of the banking system declined by 6.2% to US$ 1.1 billion as commercial banks drew down on international reserves to support the expansion in credit. Owing to the drastic increase in its domestic credit, the banking system of Saint Lucia recorded a net foreign liabilities position for the first time.

Broad money (M3) grew by 7.2% reflecting a 9.5% increase in foreign currency deposits, a 7.1% increase in savings deposits and a 15.7% increase in time deposits. The weighted average lending rate declined by 0.4 of a percentage point to 9.5% on account of intense competition for loans within the banking system, while the weighted-average deposit rate remained unchanged at 3%.

In 2007, the number of auctions on the Regional Government Securities Market (RGSM) increased to 33 (28 Treasury bills and 5 bonds) compared to 30 auctions in 2006. This reflected the additional securities issued by the governments of Saint Lucia and Grenada. Saint Lucia issued its first instruments in United States dollars in the form of a 10-year bond and a 180-day Treasury bill. However, the value of the securities traded declined by 10% from US$ 246.4 million in 2006 to US$ 224.1 in 2007.

(c) Other policies

The Eastern Caribbean Central Bank is in the process of establishing the Eastern Caribbean Enterprise Fund, which will provide venture capital and debt facilities, as well as technical assistance for existing and start-up enterprises. Furthermore, the Bank has also acknowledged that there is a need for new and different sets of skills, work practices, infrastructure and incentives, as tourism and services have become the leading foreign-exchange earners.

3. The main variables

(a) Economic activity

Economic growth slowed in 2007 to 5.2% compared with 6.3% in 2006. The expansion in the construction sector compensated for the decline in the tourism sector and had spillover effects in the wholesale and retail, transport, electricity and water, and banking and insurance sectors. All member countries recorded positive growth rates ranging from 1.7% in Saint Lucia to 21% in Anguilla. Output in the construction sector increased by 6.0% in 2007 compared with the exceptional 12.4% expansion in 2006. This was the result of the completion of many projects associated with the Cricket World Cup.

Tourism activity declined by 0.6% in 2007, a dramatic slowdown compared with the 6% increase recorded in 2006. This contraction was due to a 3% decline in stay-over visitors from the United States, deterred by the requirement that they must present a passport when travelling to the Caribbean, and to increased competition from other holiday destinations. Moreover, there was a 14,9% decrease in visitors from the Caribbean stemming from higher intraregional air fares and fewer scheduled flights in the region. The Cricket World Cup did not yield the desired results on the tourism sector as the expected surge in visitor arrivals did not materialize. Despite the 2% aggregate decline in stay-over visitors, total visitor expenditure expanded by 4%, largely reflecting the 25% increase in cruise ship passengers. The number of stay-over visitors increased in Grenada (10.9%), Anguilla (4.5%) and Antigua and Barbuda (3.2%), and the number of cruise-ship passengers was up in all countries except Dominica. For 2008, additional flights to certain member countries and a return of cruise lines to ECCU countries are expected, thus allowing for projected growth of 7,5%.

Agriculture grew by 2.8% in 2007, compared with 4.8% in 2006. Hurricane Dean, which struck in August 2007, led to a contraction in banana production of 40% in Dominica and of 10% in Saint Lucia. Consequently, total revenue from the banana industry declined by 14.6% to US$ 27 million. Uncertainty over the banana industry remains because the WTO recently upheld a complaint brought by Ecuador regarding the European Union banana tariff system. The potential erosion of trade preferences would have serious implications for the future of the industry. Production of cocoa and mace increased by 195% and 57%, respectively, thanks to the steady recovery made since Hurricane Ivan, which hit Grenada in 2004. Nutmeg production fell by 11.6%.

The manufacturing sector expanded by 2.5% in 2007 compared with 1.2% in 2006. Marginal declines were reported in the production of soap, dental cream and rice, while increases were recorded in the output of toilet paper, paint, soft drinks and beers, paper boards and plastic.

(b) Prices, wages and employment

Generated mainly by global increases in the prices of fuel and food, inflation in the currency union rose sharply, from 1.3% in 2006 to 6.1% in 2007. The food, fuel, and electricity, and transportation and communication sub-indices showed significant increases in all member countries. The pass-through mechanism implemented by a few member States will continue to push the consumer price index upwards as the international price of oil rises.

Public-sector wages and salaries increased, in nominal terms, in Anguilla (20%), Saint Kitts and Nevis (5%) and Saint Vincent and the Grenadines (5%). In Antigua and Barbuda, the minimum wage increased from US$ 2.20 per hour to US$ 2.80 per hour. Data on private-sector wages are not available; however, given the strong demand and the lack of local skilled labour in construction, it is assumed that wages in that sector increased.

(c) The external sector

Based on preliminary estimates, the overall balance-of-payments surplus for ECCU receded from 2.3% of GDP in 2006 to 1% of GDP in 2007, attributable to a worsening of the current account deficit from 30.8% of GDP in 2006 to 35.3% of GDP in 2007. As a result, international reserves declined to US$ 46 million in December 2007, the equivalent of 3.7 months of import cover. The maintenance of the balance-of-payments surplus was due to the substantial increase in the capital and financial accounts, which outweighed the deterioration in the merchandise trade deficit. Capital inflows increased by 53% on account of debt relief in Saint Vincent and the Grenadines. Foreign direct investment increased by 17% or US$ 193 million, reflecting investment in tourism-related construction projects. The increase in demand for domestic credit resulted in commercial banks increasing liabilities by US$ 144 million compared with outflows of US$ 111 million in 2006.

The merchandise trade deficit widened by 15% to reach US$ 2.1 billion, reflecting the increase in import prices and sustained economic activity. Exports increased by 10% in 2007 (after falling by 3% in 2006) owing to increases in re-exports in Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines. The surplus on the services account declined by 8.2% because net outflows for transportation and insurance, government and other business services outweighed the 3.2% increase in net travel receipts stemming from the rise in cruise ship arrivals. Meanwhile, the income account deficit improved from 5.3% of GDP to 4.8% of GDP as investment income increased, while the surplus in current transfers decreased from 4% of GDP to 3.6% of GDP.

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Statistical annex

Table A-1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates				
Gross domestic product [b]	0.4	4.0	0.4	-0.3	2.2	6.1	4.9	5.7	5.7
Per capita gross domestic product [b]	-1.2	2.5	-1.0	-1.7	0.9	4.7	3.5	4.3	4.3
Consumer prices [c]	9.7	9.0	6.1	12.2	8.5	7.4	6.1	5.0	6.5
					Percentages				
Urban open unemployment [d]	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.6	8.0
Total gross external debt/GDP [e]	39.9	35.2	36.4	40.0	40.0	34.5	25.1	21.1	20.1
Total gross external debt/ exports of goods and services	214.7	174.5	183.3	179.4	170.9	139.3	102.2	85.1	83.1
					Millions of dollars				
Balance of payments									
Current account balance	-56 302	-49 111	-54 705	-16 775	7 820	20 928	36 729	49 816	18 798
Merchandise trade balance	-13 744	-3 678	-10 449	17 561	38 675	53 894	73 877	88 499	61 275
Exports of goods f.o.b.	307 324	370 966	355 916	359 338	392 331	483 460	583 365	694 614	780 950
Imports of goods f.o.b.	321 068	374 644	366 364	341 777	353 655	429 566	509 489	606 115	719 675
Services trade balance	-10 923	-12 043	-14 986	-10 148	-8 101	-7 859	-8 399	-9 707	-14 080
Income balance	-51 970	-55 918	-56 646	-55 024	-60 395	-69 842	-80 790	-91 748	-93 060
Net current transfers	21 315	22 528	27 375	30 836	37 641	44 732	51 684	62 485	64 378
Capital and financial balance [f]	44 198	65 426	39 136	-9 003	3 347	-6 464	22 006	12 174	106 343
Net foreign direct investment	81 326	72 148	66 564	50 988	38 414	48 926	53 692	30 036	84 091
Financial capital [g]	-37 128	-6 722	-27 428	-59 992	-35 067	-55 390	-31 685	-17 863	22 252
Overall balance	-12 104	16 315	-15 570	-25 778	11 167	14 464	58 735	61 989	125 140
Variation in reserve assets [h]	6 022	-8 090	-647	3 324	-29 564	-22 423	-37 230	-49 339	-126 682
Other financing [i]	6 082	-8 225	16 207	22 411	18 617	8 875	-21 363	-12 863	2 034
Net transfer of resources	-1 673	1 095	-1 396	-41 315	-37 983	-67 583	-79 513	-91 819	16 276
International reserve assets [j]	164 447	170 084	163 274	165 372	200 969	227 514	263 354	321 116	459 774
					Percentage of GDP				
Fiscal sector [k]									
Overall balance	-2.8	-2.6	-3.2	-2.9	-3.0	-1.9	-1.2	-0.2	0.3
Primary balance	-0.5	-0.2	-0.8	-0.5	-0.2	0.5	1.3	2.1	2.3
Total revenue	15.8	16.2	16.2	16.3	16.5	16.8	17.8	18.8	19.4
Tax revenue	12.4	12.4	12.4	12.4	12.6	13.0	13.8	14.5	15.0
Current expenditure	18.6	18.7	19.3	19.2	19.3	18.6	18.9	18.9	19.1
Capital expenditure	3.6	3.3	3.3	3.3	3.4	3.2	3.1	3.0	3.3
Central-government public debt	43.6	43.3	45.6	58.6	57.7	51.1	43.0	36.0	30.2
Public debt of the non-financial public-sector (NFPS)	48.6	47.4	49.6	64.5	62.2	55.3	47.6	39.9	33.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on official figures expressed in 2000 dollars.
[c] December-December variation.
[d] The data for Argentina and Brazil have been adjusted to allow for changes in methodology in 2003 and 2002, respectively.
[e] Estimates based on figures denominated in dollars at current prices.
[f] Includes errors and omissions.
[g] Refers to the capital and financial balance (including errors and omissions) minus net foreign direct investment.
[h] A minus sign (-) indicates an increase in reserve assets.
[i] Includes the use of IMF credit and loans and exceptional financing.
[j] Including gold.
[k] Central government. Simple averages.

Table A-2
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Millions of current dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**1 917 460**	**2 113 191**	**2 058 230**	**1 848 600**	**1 918 832**	**2 214 284**	**2 684 050**	**3 136 818**	**3 619 748**
Antigua and Barbuda	652	665	697	715	754	819	873	1 006	1 133
Argentina	283 665	284 346	268 831	102 042	129 596	153 129	183 196	214 267	262 327
Bahamas	5 150	5 528	5 659	5 912	5 942	6 032	6 509	6 876	7 234
Barbados	2 478	2 559	2 554	2 476	2 695	2 817	3 006	3 191	3 433
Belize	732	832	872	933	988	1 056	1 115	1 213	1 277
Bolivia	8 285	8 398	8 142	7 905	8 082	8 773	9 549	11 452	13 120
Brazil	586 864	644 476	552 288	505 960	552 453	663 733	882 330	1 067 802	1 268 460
Chile	73 285	75 495	68 840	67 532	73 986	95 678	118 182	146 434	163 915
Colombia	96 899	94 053	92 877	93 016	91 703	113 774	144 581	160 086	202 925
Costa Rica	15 796	15 946	16 404	16 844	17 518	18 596	19 908	22 522	26 230
Cuba	28 365	30 565	31 682	33 591	35 901	38 203	42 644	52 743	58 604
Dominica	268	271	266	255	263	285	299	317	332
Ecuador	16 674	15 934	21 250	24 899	28 636	32 642	37 187	41 402	43 085
El Salvador	12 465	13 134	13 813	14 307	15 047	15 798	17 070	18 654	20 373
Grenada	398	430	422	437	480	469	554	561	595
Guatemala	16 330	17 196	18 703	20 777	21 918	23 965	27 211	30 193	33 432
Guyana	695	713	712	726	743	788	825	915	1 075
Haiti	4 089	3 665	3 508	3 215	2 827	3 660	4 154	4 961	6 244
Honduras	6 471	7 187	7 653	7 860	8 234	8 871	9 757	10 833	12 322
Jamaica	7 738	7 889	8 116	8 471	8 190	8 825	9 715	10 372	11 386
Mexico	526 889	636 731	681 762	711 103	700 325	758 222	844 137	945 651	1 022 063
Nicaragua	3 743	3 938	4 125	4 026	4 102	4 465	4 872	5 294	5 726
Panama	11 456	11 621	11 807	12 272	12 933	14 179	15 465	17 134	19 654
Paraguay	7 301	7 095	6 446	5 092	5 552	6 950	7 473	9 275	11 954
Peru	51 553	53 336	53 955	56 775	61 356	69 734	79 466	92 409	107 054
Dominican Republic	21 440	23 655	24 512	24 913	20 045	21 582	33 542	35 660	41 013
Saint Kitts and Nevis	305	329	343	351	362	399	438	495	528
Saint Vincent and the Grenadines	330	335	345	365	382	414	445	501	562
Saint Lucia	692	707	685	701	743	798	850	913	872
Suriname	757	775	665	955	1 122	1 285	1 481	1 736	1 867
Trinidad and Tobago	6 809	8 154	8 825	9 008	11 236	12 673	15 089	18 135	19 793
Uruguay	20 913	20 086	18 561	12 277	11 191	13 216	16 615	19 308	23 087
Venezuela (Bolivarian Republic of)	97 974	117 148	122 910	92 890	83 529	112 452	145 513	184 509	228 071

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

Table A-3
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**0.4**	**4.0**	**0.4**	**-0.3**	**2.2**	**6.1**	**4.9**	**5.7**	**5.7**
Antigua and Barbuda	4.1	1.5	2.2	2.5	5.2	7.2	4.7	12.5	6.3
Argentina	-3.4	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7
Bahamas	3.3	4.3	-0.3	2.0	-2.4	-0.2	3.3	4.6	2.8
Barbados	0.5	2.3	-4.6	0.7	2.0	4.8	4.3	3.3	3.2
Belize	8.4	12.3	5.0	5.1	9.3	4.6	3.0	4.7	1.2
Bolivia	0.4	2.5	1.7	2.5	2.7	4.2	4.4	4.8	4.6
Brazil	0.3	4.3	1.3	2.7	1.1	5.7	2.9	3.7	5.4
Chile	-0.8	4.5	3.4	2.2	3.9	6.0	5.6	4.3	5.1
Colombia	-4.2	2.9	2.2	2.5	4.6	4.7	5.7	7.0	8.2
Costa Rica	8.2	1.8	1.1	2.9	6.4	4.3	5.9	8.8	7.3
Cuba	6.2	5.9	3.2	1.4	3.8	5.8	11.2	12.1	7.3
Dominica	0.6	0.6	-3.6	-4.2	2.2	6.3	3.4	5.3	1.5
Ecuador	-6.3	2.8	5.3	4.2	3.6	8.0	6.0	3.9	2.7
El Salvador	3.4	2.2	1.7	2.3	2.3	1.9	3.1	4.2	4.7
Grenada	7.0	7.3	-4.8	1.8	8.1	-7.2	14.0	0.8	3.6
Guatemala	3.8	3.6	2.3	3.9	2.5	3.2	3.3	5.3	5.7
Guyana	3.8	-1.4	2.3	1.1	-0.7	1.6	-2.0	5.1	5.4
Haiti	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.2
Honduras	-1.9	5.7	2.7	3.8	4.5	6.2	6.1	6.3	6.3
Jamaica	1.0	0.7	1.5	1.1	2.3	1.0	1.4	2.5	1.2
Mexico	3.8	6.6	-0.0	0.8	1.4	4.0	3.2	4.8	3.2
Nicaragua	7.0	4.1	3.0	0.8	2.5	5.3	4.3	3.9	3.8
Panama	3.9	2.7	0.6	2.2	4.2	7.5	7.2	8.7	11.2
Paraguay	-1.5	-3.3	2.1	-0.0	3.8	4.1	2.9	4.3	6.8
Peru	0.9	3.0	0.2	5.0	4.0	5.1	6.7	7.6	8.9
Dominican Republic	6.7	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5
Saint Kitts and Nevis	3.6	4.3	2.0	1.1	0.5	7.6	4.8	6.4	4.0
Saint Vincent and the Grenadines	4.4	1.8	1.0	3.7	3.2	6.2	3.6	8.7	7.7
Saint Lucia	2.4	-0.2	-5.1	3.1	4.1	5.4	6.0	4.0	3.5
Suriname	-2.4	4.0	5.9	1.9	6.1	7.7	5.6	5.8	5.3
Trinidad and Tobago	8.0	6.9	4.2	7.9	14.4	8.8	8.0	12.0	5.5
Uruguay	-2.8	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.0	7.4
Venezuela (Bolivarian Republic of)	-6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3	8.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.
[a] Preliminary figures.

Table A-4
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**-1.2**	**2.5**	**-1.0**	**-1.7**	**0.9**	**4.7**	**3.5**	**4.3**	**4.3**
Antigua and Barbuda	1.7	-0.7	0.3	0.8	3.7	5.7	3.3	11.1	5.0
Argentina	-4.4	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4	7.6
Bahamas	1.8	2.8	-1.6	0.7	-3.6	-1.4	2.1	3.4	1.5
Barbados	0.1	1.8	-5.0	0.3	1.6	4.4	3.9	3.0	2.9
Belize	5.6	9.5	2.4	2.6	6.8	2.2	0.7	2.4	-0.9
Bolivia	-1.9	0.1	-0.6	0.2	0.4	1.9	2.2	2.6	2.4
Brazil	-1.2	2.8	-0.2	1.2	-0.3	4.2	1.5	2.3	4.0
Chile	-2.0	3.2	2.2	1.0	2.8	4.9	4.5	3.3	4.0
Colombia	-5.8	1.3	0.6	0.9	3.0	3.1	4.2	5.5	6.8
Costa Rica	5.7	-0.5	-1.0	0.9	4.4	2.4	4.0	6.9	5.5
Cuba	5.9	5.6	2.9	1.2	3.6	5.6	11.1	12.0	7.3
Dominica	0.8	0.8	-3.5	-4.0	2.4	6.5	3.6	5.6	1.8
Ecuador	-7.6	1.3	3.8	2.8	2.1	6.5	4.5	2.4	1.2
El Salvador	1.4	0.2	-0.2	0.4	0.5	0.1	1.3	2.4	2.9
Grenada	6.5	6.6	-5.6	0.7	6.9	-8.0	13.3	0.4	3.5
Guatemala	1.5	1.2	-0.1	1.3	0.0	0.6	0.7	2.7	3.1
Guyana	4.0	-1.3	2.2	1.0	-0.9	1.4	-2.0	5.2	5.5
Haiti	0.9	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.5
Honduras	-3.9	3.6	0.6	1.7	2.5	4.1	3.9	4.2	4.2
Jamaica	0.2	-0.1	0.8	0.4	1.5	0.3	0.8	1.9	0.6
Mexico	2.1	5.1	-1.1	-0.1	0.6	3.2	2.3	3.7	2.0
Nicaragua	5.2	2.4	1.5	-0.6	1.2	4.0	2.9	2.5	2.4
Panama	1.9	0.8	-1.3	0.4	2.3	5.6	5.4	6.8	9.4
Paraguay	-3.6	-5.3	0.0	-2.0	1.8	2.1	0.9	2.4	4.9
Peru	-0.5	1.6	-1.1	3.7	2.8	3.9	5.5	6.3	7.6
Dominican Republic	4.9	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	6.9
Saint Kitts and Nevis	2.3	3.0	0.7	-0.2	-0.8	6.3	3.4	5.0	2.7
Saint Vincent and the Grenadines	3.9	1.3	0.4	3.2	2.6	5.6	3.1	8.1	7.1
Saint Lucia	1.5	-1.1	-6.1	2.0	3.0	4.2	4.8	2.9	2.3
Suriname	-3.4	3.0	5.0	1.1	5.3	7.0	4.9	5.1	4.7
Trinidad and Tobago	7.6	6.5	3.8	7.6	14.0	8.4	7.6	11.6	5.1
Uruguay	-3.4	-1.8	-3.6	-11.0	2.2	11.9	6.6	6.8	7.2
Venezuela (Bolivarian Republic of)	-7.7	1.8	1.5	-10.5	-9.4	16.2	8.4	8.5	6.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.
[a] Preliminary figures.

Table A-5
LATIN AMERICA AND THE CARIBBEAN: COMPONENTS OF TOTAL DEMAND [a]
(Indices 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[b]
Total supply	**94.7**	**100.0**	**100.3**	**99.1**	**100.7**	**108.2**	**114.9**	**123.3**	**132.1**
Gross domestic product	96.1	100.0	100.4	99.9	102.1	108.3	113.6	120.0	126.9
Imports of goods and services	88.4	100.0	99.9	94.3	95.6	109.5	122.4	139.9	158.5
Total demand	**94.7**	**100.0**	**100.3**	**99.1**	**100.7**	**108.2**	**114.9**	**123.3**	**132.1**
Total consumption	96.4	100.0	101.0	100.7	102.5	107.9	114.0	120.8	128.5
Household consumption	95.9	100.0	100.9	100.2	102.1	107.9	114.3	121.8	130.1
Government consumption	98.9	100.0	101.3	102.9	104.6	107.8	112.3	116.5	121.1
Gross capital formation	93.0	100.0	98.0	90.6	88.9	99.4	105.3	118.7	132.0
Gross fixed capital formation	95.7	100.0	97.3	90.6	90.5	101.9	113.3	127.3	143.0
Domestic demand	95.7	100.0	100.4	98.5	99.7	106.1	112.1	120.4	129.2
Exports of goods and services	89.9	100.0	100.0	102.1	106.1	119.2	129.0	138.2	147.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.
[a] Includes information from 20 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.
[b] Preliminary figures.

Table A-6
LATIN AMERICA: GROSS DOMESTIC PRODUCT BY ECONOMIC SECTOR [a]
(Index 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[b]
Total gross domestic product at market prices	**96.1**	**100.0**	**100.4**	**99.9**	**102.1**	**108.3**	**113.6**	**120.0**	**126.9**
Agriculture, forestry, hunting and fishing	98.0	100.0	104.1	106.8	111.6	114.2	117.3	121.7	127.4
Mining and quarrying	96.8	100.0	101.9	100.0	103.1	107.5	109.4	110.9	109.2
Manufacturing	95.8	100.0	97.8	96.4	98.4	105.8	109.9	115.4	121.2
Construction	99.3	100.0	97.2	93.6	95.4	104.0	110.8	123.0	131.2
Electricity, gas, water and sanitation services	95.6	100.0	98.8	100.5	103.8	109.7	114.9	121.1	126.7
Transport, storage and communications	93.0	100.0	102.8	104.8	109.7	118.5	127.6	137.7	149.5
Wholesale and retail trade, restaurants and hotels	94.1	100.0	98.9	96.4	98.6	106.3	112.5	120.5	128.8
Financial establishments, insurance, real estate and business services	96.7	100.0	102.4	104.0	105.9	110.6	117.2	125.4	134.9
Community, social and personal services	97.7	100.0	100.7	102.5	104.1	108.4	112.4	116.3	120.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.
[a] Includes information from 20 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.
[b] Preliminary figures.

Table A-7

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION

(Percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**18.4**	**18.5**	**18.0**	**16.8**	**16.4**	**17.4**	**18.5**	**19.6**	**20.9**
Argentina	17.2	16.2	14.3	10.2	12.9	15.9	17.9	19.5	20.5
Bahamas	31.7	33.8	31.2	29.8	31.1	29.0	36.0	41.2	41.8
Belize	24.6	28.7	25.6	23.1	18.1	16.4	17.2	16.7	17.4
Bolivia	20.1	17.9	13.8	16.0	13.9	13.2	13.4	14.0	15.1
Brazil	16.7	16.8	16.7	15.4	14.5	15.0	15.1	15.8	17.0
Chile	19.0	19.8	19.9	19.8	20.2	20.9	24.5	24.2	25.8
Colombia	13.6	13.0	14.0	14.7	16.0	17.4	19.9	21.8	24.8
Costa Rica	18.3	17.8	18.0	18.7	18.8	18.0	17.7	18.1	19.6
Cuba	11.9	11.9	12.6	6.8	6.1	6.2	6.7	8.6	8.2
Ecuador	18.8	20.5	24.0	27.4	26.4	25.7	26.8	26.6	25.8
El Salvador	16.4	16.9	16.9	17.1	17.1	15.9	15.8	16.9	17.1
Guatemala	21.7	19.1	19.0	20.0	18.9	18.2	18.3	20.1	20.9
Haiti	23.3	27.3	27.3	28.0	28.8	28.9	28.8	28.8	28.7
Honduras	29.5	25.8	24.3	21.7	22.1	25.7	23.8	25.3	27.4
Mexico	20.5	21.4	20.2	19.9	19.7	20.5	21.1	22.1	22.6
Nicaragua	35.0	29.9	27.4	25.5	25.0	25.4	26.8	26.6	27.1
Panama	23.5	21.2	15.7	14.4	17.1	17.4	17.3	18.5	19.8
Paraguay	17.1	17.5	16.1	15.0	15.5	15.6	17.3	17.2	18.3
Peru	21.9	20.2	18.5	17.5	17.8	18.3	19.2	21.2	24.0
Dominican Republic	19.0	20.5	19.3	19.1	15.3	14.8	15.4	16.9	17.5
Uruguay	14.9	13.2	12.4	9.4	8.1	9.5	10.4	12.3	12.1
Venezuela (Bolivarian Republic of)	21.2	21.0	23.1	20.7	14.1	17.9	22.4	25.7	29.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

[a] Preliminary figures.

Table A-8

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT [a]

(Percentages of GDP)

	Gross domestic investment				National saving				External saving			
	2004	2005	2006	2007[b]	2004	2005	2006	2007[b]	2003	2004	2005	2007[b]
Latin America and the Caribbean	**20.5**	**20.1**	**21.3**	**21.7**	**21.5**	**21.5**	**22.9**	**22.3**	**-1.0**	**-1.4**	**-1.6**	**-0.5**
Argentina	19.0	20.9	23.0	24.2	21.1	23.7	26.6	27.0	-2.1	-2.8	-3.6	-2.7
Bolivia	11.0	14.3	13.9	14.4	14.9	20.8	25.0	28.1	-3.8	-6.5	-11.2	-13.8
Brazil	17.1	16.0	16.8	17.2	18.9	17.6	18.0	17.3	-1.8	-1.6	-1.3	-0.1
Chile	20.0	22.2	20.5	21.1	22.2	23.4	25.2	25.5	-2.2	-1.2	-4.7	-4.4
Colombia	20.1	21.6	23.4	23.2	19.3	20.3	21.5	20.3	0.8	1.3	1.9	2.9
Costa Rica	23.1	24.8	26.4	26.3	18.9	19.8	21.7	20.6	4.3	4.9	4.7	5.7
Cuba	8.8	10.8	11.7	10.2	9.1	11.1	11.3	11.0	-0.3	-0.3	0.4	-0.8
Ecuador	23.4	23.8	23.1	23.4	21.7	24.7	26.9	25.9	1.7	-0.9	-3.9	-2.5
El Salvador	16.2	15.7	16.1	16.8	12.2	12.4	12.5	11.3	4.0	3.3	3.6	5.5
Guatemala	20.8	19.7	20.8	20.4	16.0	15.2	15.8	15.4	4.9	4.6	5.0	5.1
Haiti	27.3	27.4	28.9	27.7	25.8	27.5	27.4	26.4	1.5	-0.1	1.5	1.3
Honduras	29.7	27.6	31.3	33.5	22.0	24.6	26.6	23.5	7.6	3.0	4.7	9.9
Mexico	24.7	23.9	25.7	25.7	23.8	23.2	25.5	25.2	0.9	0.6	0.2	0.5
Nicaragua	28.0	30.1	29.7	31.8	13.3	15.5	16.1	14.3	14.7	14.6	13.5	17.5
Panama	18.7	18.4	19.5	22.1	11.6	13.4	16.2	14.1	7.1	4.9	3.2	8.0
Paraguay	19.2	19.8	19.6	18.4	21.3	20.5	22.0	20.0	-2.1	-0.7	-2.4	-1.6
Peru	18.1	17.9	20.0	22.9	18.1	19.4	23.0	24.3	-0.0	-1.4	-3.0	-1.4
Dominican Republic	14.9	16.5	18.4	18.9	19.7	15.1	14.9	13.5	-4.8	1.4	3.5	5.4
Uruguay	13.1	12.5	15.0	18.2	13.1	12.8	13.1	17.4	-0.0	-0.3	1.9	0.8
Venezuela (Bolivarian Republic of)	21.8	23.0	25.3	28.0	35.6	40.5	40.0	36.7	-13.8	-17.5	-14.7	-8.8

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

[a] Based on values calculated in national currency and expressed in current dollars.

[b] Preliminary figures.

Table A-9
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods f.o.b.			Exports of services			Imports of goods f.o.b.			Imports of services		
	2005	2006	2007[d]	2005	2006	2007[d]	2005	2006	2007[d]	2005	2006	2007[d]
Latin America and the Caribbean [e]	**580 996**	**691 447**	**777.120**	**77 767**	**87 459**	**100 540**	**501 885**	**596 617**	**709 592**	**92 185**	**103 336**	**122 234**
Antigua and Barbuda	82	74	83	463	477	498	455	560	653	227	259	294
Argentina	40 387	46 546	55 780	6 615	7 975	10 283	27 300	32 588	42 525	7 651	8 511	10 782
Bahamas	549	665	802	2 486	2 436	2 599	2 312	2 763	2 956	1 256	1 611	1 580
Barbados	378	465	484	1 438	1 529	1 665	1 447	1 468	1 536	676	718	774
Belize	325	427	429	302	374	398	556	612	642	159	150	167
Bolivia	2 791	3 875	4 490	489	477	468	2 334	2 814	3 444	531	664	628
Brazil	118 308	137 807	160 649	16 047	19 476	23 895	73 606	91 351	120 621	24 356	29 116	37 250
Chile	41 267	58 485	67 644	7 134	7 824	8 786	30 492	35 899	43 991	7 755	8 452	9 947
Colombia	21 729	25 181	30 579	2 668	3 377	3 618	20 134	24 859	31 173	4 770	5 496	6 223
Costa Rica	7 100	8 068	9 268	2 621	2 955	3 532	9 252	10 836	12 255	1 505	1 595	1 811
Cuba	2 369	3 167	3 830	6 550	6 667	8 192	7 604	9 498	10 083	175	211	292
Dominica	43	44	40	85	100	100	146	147	174	52	52	59
Ecuador	10 468	13 188	14 863	1 012	1 037	1 175	9 709	11 423	13 067	2 142	2 341	2 572
El Salvador	3 447	3 760	4 035	1 128	1 426	1 492	6 385	7 300	8 108	1 214	1 505	1 734
Grenada	33	31	48	116	130	148	294	263	316	95	99	108
Guatemala	5 460	6 082	7 012	1 308	1 519	1 709	9 650	10 934	12 482	1 450	1 785	2 029
Guyana	551	585	681	148	148	173	784	885	1 063	201	245	273
Haiti	455	492	522	145	203	207	1 309	1 548	1 618	542	588	703
Honduras	5 048	5 195	5 594	700	686	750	6 545	7 317	8 556	929	984	1 037
Jamaica	1 664	2 134	2 344	2 431	2 649	2 595	4 246	5 077	5 771	1 761	2 021	2 132
Mexico	214 233	249 925	271 875	16 066	16 221	17 617	221 820	256 058	281 949	20 779	21 957	23 556
Nicaragua	1 654	2 034	2 313	309	341	372	2 956	3 451	4 078	448	478	552
Panama	7 591	8 476	9 312	3 217	3 940	4 928	8 907	10 201	12 625	1 781	1 726	2 096
Paraguay	3 352	4 409	5 463	693	808	846	3 814	5 022	6 008	343	383	455
Peru	17 368	23 800	27 956	2 289	2 647	3 343	12 082	14 866	19 599	3 123	3 428	4 270
Dominican Republic	6 145	6 610	7 237	3 913	4 543	4 690	9 869	12 174	13 817	1 456	1 558	1 722
Saint Kitts and Nevis	64	59	57	163	173	161	185	220	240	95	102	114
Saint Vincent and the Grenadines	42	41	51	158	171	181	203	240	276	84	88	98
Saint Lucia	89	97	100	411	334	347	418	521	541	172	169	176
Suriname	1 212	1 174	1 359	204	234	245	1 189	1 013	1 185	352	264	317
Trinidad and Tobago	9 672	12 100	11 822	356	286	286 [f]	5 725	6 843	7 305	...	...	...
Uruguay	3 774	4 407	5 063	1 311	1 392	1 762	3 753	4 867	5 554	939	987	1 249
Venezuela (Bolivarian Republic of)	55 716	65 210	69 165	1 342	1 572	1 673	24 008	32 498	45 463	5 339	6 005	7 524

Table A-9 (continued)

	Trade balance			Current transfers			Income balance			Current account balance		
	2005	2006	2007[d]	2005	2006	2007[d]	2005	2006	2007[d]	2005	2006	2007[d]
Latin America and the Caribbean [e]	**64 693**	**78 953**	**45 834**	**52 051**	**62 207**	**64 577**	**-80 157**	**-91 130**	**-92 100**	**36 589**	**50 031**	**18 310**
Antigua and Barbuda	-137	-267	-367	8	22	21	-42	-64	-56	-171	-309	-402
Argentina	12 051	13 422	12 756	489	446	310	-7 304	-5 858	-5 600	5 236	8 011	7 466
Bahamas	-533	-1 273	-1 135	85	52	52	-203	-218	-232	-651	-1 439	-1 314
Barbados	-307	-192	-161	97	86	107	-151	-171	-191	-361	-277	-245
Belize	-88	39	18	51	74	93	-114	-129	-154	-151	-16	-43
Bolivia	415	873	887	584	822	1 091	-376	-418	-173	622	1 277	1 806
Brazil	36 394	36 816	26 673	3 558	4 306	4 029	-25 967	-27 480	-29 242	13 985	13 643	1 461
Chile	10 153	21 959	22 491	1 783	3 297	2 974	-10 487	-18 418	-18 265	1 449	6 838	7 200
Colombia	-507	-1 797	-3 199	4 082	4 743	5 236	-5 456	-6 003	-7 888	-1 882	-3 056	-5 851
Costa Rica	-1 037	-1 407	-1 267	270	349	480	-219	-3	-712	-985	-1 061	-1 499
Cuba	1 140	125	1 647	-367	278	-199	-633	-618	-960	140	-215	488
Dominica	-70	-54	-93	20	20	20	-28	-17	-17	-78	-52	-90
Ecuador	-372	460	400	2 661	3 104	3 246	-1 942	-1 950	-2 048	348	1 614	1 598
El Salvador	-3 025	-3 619	-4 315	3 035	3 472	3 776	-579	-528	-579	-569	-675	-1 119
Grenada	-240	-200	-229	82	36	37	-28	-29	-31	-186	-193	-222
Guatemala	-4 332	-5 118	-5 790	3 577	4 268	4 863	-485	-662	-770	-1 241	-1 512	-1 697
Guyana	-286	-398	-481	167	216	287	-39	-69	-37	-158	-250	-232
Haiti	-1 250	-1 441	-1 593	1 290	1 361	1 505	-37	7	7	3	-73	-80
Honduras	-1 726	-2 420	-3 249	1 895	2 450	2 622	-460	-539	-598	-290	-509	-1 225
Jamaica	-1 911	-2 316	-2 963	1 578	1 749	1 969	-676	-616	-806	-1 009	-1 183	-1 800
Mexico	-12 300	-11 869	-16 013	20 733	24 124	24 332	-13 639	-14 485	-13 834	-5 206	-2 229	-5 516
Nicaragua	-1 442	-1 553	-1 945	859	961	1 075	-127	-124	-131	-710	-717	-1 001
Panama	120	488	-481	245	258	259	-1 125	-1 298	-1 355	-759	-552	-1 577
Paraguay	-113	-188	-155	224	426	373	-58	-19	-93	53	219	126
Peru	4 452	8 153	7 429	1 772	2 185	2 495	-5 076	-7 581	-8 418	1 148	2 757	1 505
Dominican Republic	-1 268	-2 579	-3 612	2 697	3 144	3 410	-1 902	-1 827	-2 028	-473	-1 262	-2 231
Saint Kitts and Nevis	-54	-89	-137	24	32	33	-35	-32	-31	-65	-90	-135
Saint Vincent and the Grenadines	-87	-116	-143	18	20	20	-31	-24	-26	-100	-120	-149
Saint Lucia	-90	-259	-270	13	12	12	-73	-56	-62	-150	-303	-320
Suriname	-125	130	102	22	36	76	-40	-52	8	-144	115	185
Trinidad and Tobago	4 303	5 543	4 803	50	47	58	-760	-936	-964	3 594	4 655	3 897
Uruguay	393	-54	22	144	126	134	-494	-441	-342	42	-369	-186
Venezuela (Bolivarian Republic of)	27 711	28 279	17 851	-62	-38	-415	-2 202	-1 092	2 565	25 447	27 149	20 001

Table A-9 (concluded)

	Capital and financial balance [a]			Overall balance			Reserve assets (variation) [b]			Other financing [c]		
	2005	2006	2007[d]	2005	2006	2007[d]	2005	2006	2007[d]	2005	2006	2007[d]
Latin America and the Caribbean [e]	**22 006**	**12 174**	**106 343**	**58 595**	**62 204**	**124 651**	**-37 230**	**-49 339**	**-126 682**	**-21 363**	**-12 863**	**2 034**
Antigua and Barbuda	179	324	403	7	15	1	-7	-15	-1	0	0	0
Argentina	2 158	6 102	4 024	7 394	14 113	11 490	-8 857	-3 530	-13 098	1 463	-10 582	1 608
Bahamas	562	1 360	1 269	-89	-79	-46	89	79	46	0	0	0
Barbados	135	320	523	-226	43	278	228	-41	-278	0	0	0
Belize	139	66	66	-12	50	23	12	-50	-23	0	0	0
Bolivia	-145	390	147	478	1 668	1 952	-504	-1 516	-1 952	26	-152	0
Brazil	13 606	16 927	86 024	27 590	30 569	87 484	-4 319	-30 569	-87 484	-23 271	0	0
Chile	267	-4 841	-10 414	1 716	1 997	-3 214	-1 716	-1 997	3 214	0	0	0
Colombia	3 608	3 089	10 557	1 726	33	4 706	-1 726	-33	-4 706	0	0	0
Costa Rica	1 378	2 092	2 647	393	1 031	1 148	-393	-1 031	-1 148	0	0	0
Cuba	...	...	...	...	...	...	...	...	...	...	...	...
Dominica	92	65	91	14	13	1	-14	-13	-1	0	0	0
Ecuador	318	-1 745	-211	666	-131	1 387	-710	124	-1 497	43	7	111
El Salvador	510	747	1 399	-59	72	280	59	-72	-280	0	0	0
Grenada	159	198	233	-27	6	11	27	-6	-11	0	0	0
Guatemala	1 479	1 765	1 913	239	252	216	-239	-252	-216	0	0	0
Guyana	166	293	231	8	43	-1	-24	-61	-37	16	18	39
Haiti	47	166	240	50	93	159	-22	-109	-208	-29	15	52
Honduras	477	820	1 063	187	311	-162	-346	-310	109	159	-1	53
Jamaica	1 238	1 413	1 390	229	230	-410	-228	-230	410	-1	0	0
Mexico	12 371	1 226	15 802	7 164	-1 003	10 286	-7 164	1 003	-10 286	0	0	0
Nicaragua	646	779	1 094	-64	62	92	-6	-186	-173	69	124	80
Panama	1 434	728	2 198	675	176	622	-521	-166	-611	-154	-10	-10
Paraguay	107	164	601	160	383	727	-146	-387	-727	-14	4	0
Peru	380	-30	8 082	1 528	2 726	9 588	-1 628	-2 753	-9 654	100	27	67
Dominican Republic	1 178	1 452	2 888	705	190	657	-1 109	-314	-692	404	124	35
Saint Kitts and Nevis	58	107	141	-7	17	5	7	-17	-5	0	0	0
Saint Vincent and the Grenadines	97	132	147	-3	12	-2	3	-12	2	0	0	0
Saint Lucia	135	316	332	-15	13	12	15	-13	-12	0	0	0
Suriname	168	-21	-7	24	94	177	-24	-94	-177	0	0	0
Trinidad and Tobago	-1 701	-3 010	-1 977	1 893	1 645	1 920	-1 893	-1 645	-1 920	0	0	0
Uruguay	753	2 791	1 191	796	2 421	1 005	-620	15	-1 005	-175	-2 437	0
Venezuela (Bolivarian Republic of)	-19 993	-22 011	-25 743	5 454	5 138	-5 742	-5 454	-5 138	5 742	0	0	0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Includes errors and omissions.
[b] A minus sign (-) indicates an increase in reserve assets.
[c] Includes the use of IMF credit and loans and exceptional financing.
[d] Preliminary figures.
[e] Excluding Cuba.
[f] For 2005, 2006 and 2007, refers to the balance of trade in services.

Table A-10
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, f.o.b.
(Indices 2000=100)

	Value			Volume			Unit value		
	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]
Latin America and the Caribbean	**156.8**	**186.6**	**210.3**	**128.2**	**137.1**	**141.6**	**122.3**	**136.1**	**148.6**
Argentina	153.3	176.7	211.8	136.0	145.2	155.3	112.7	121.7	136.3
Bolivia	224.0	310.9	360.4	171.8	183.4	184.8	130.4	169.5	195.0
Brazil	214.8	250.2	291.6	178.5	185.7	195.0	120.3	134.7	149.6
Chile	214.8	304.5	352.1	141.1	144.9	155.2	152.2	210.1	226.9
Colombia	158.4	183.5	222.8	128.0	136.1	143.7	123.7	134.8	155.1
Costa Rica	122.1	138.8	159.4	129.0	146.6	166.7	94.7	94.7	95.6
Cuba	141.4	189.0	228.6	93.0	96.7	98.1	152.1	195.5	232.9
Ecuador	203.8	256.7	289.3	171.8	185.0	189.5	118.6	138.8	152.7
El Salvador	116.3	126.9	136.2	111.8	118.4	121.0	104.0	107.2	112.5
Guatemala	137.8	153.5	177.0	128.7	136.6	148.6	107.1	112.4	119.1
Haiti	137.3	148.3	157.4	125.3	132.6	136.7	109.6	111.8	115.2
Honduras	151.0	155.4	167.3	166.1	164.4	168.6	90.9	94.5	99.2
Mexico	129.0	150.4	163.7	112.0	124.4	126.5	115.2	120.9	129.4
Nicaragua	187.8	231.0	262.7	191.7	225.8	246.9	98.0	102.3	106.4
Panama	130.0	145.2	159.5	125.3	137.1	144.9	103.8	105.9	110.1
Paraguay	143.9	189.3	234.6	134.7	173.7	195.6	106.9	109.0	119.9
Peru	249.7	342.2	402.0	175.1	176.4	181.8	142.6	194.0	221.1
Dominican Republic	107.1	115.2	126.2	100.0	103.4	104.4	107.1	111.4	120.9
Uruguay	158.3	184.9	212.4	149.1	163.3	175.4	106.2	113.2	121.1
Venezuela (Bolivarian Republic of)	166.2	194.5	206.3	95.6	91.0	84.7	173.8	213.7	243.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.

Table A-11
LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, f.o.b.
(Indices 2000=100)

	Value			Volume			Unit value		
	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]
Latin America and the Caribbean	**135.6**	**161.5**	**192.3**	**120.5**	**136.6**	**152.7**	**112.6**	**118.2**	**125.9**
Argentina	114.3	136.4	178.0	108.4	126.6	152.9	105.5	107.8	116.4
Bolivia	145.0	174.8	213.9	124.3	138.8	153.0	116.6	125.9	139.8
Brazil	131.9	163.8	216.2	108.8	126.2	154.3	121.3	129.8	140.2
Chile	178.4	210.0	257.4	163.8	183.7	216.4	108.9	114.4	118.9
Colombia	181.6	224.2	281.1	162.9	191.5	225.5	111.5	117.0	124.6
Costa Rica	153.6	179.9	203.4	143.3	162.9	180.7	107.2	110.4	112.6
Cuba	158.6	198.1	210.3	135.4	166.1	155.8	117.1	119.2	135.0
Ecuador	259.4	305.2	349.1	223.9	241.7	258.4	115.9	126.3	135.1
El Salvador	135.8	155.2	172.4	126.2	138.3	144.9	107.5	112.3	119.0
Guatemala	173.6	196.7	224.5	148.0	156.7	165.7	117.3	125.5	135.5
Haiti	120.4	142.5	148.9	101.5	113.3	111.7	118.6	125.7	133.2
Honduras	164.1	183.5	214.6	157.4	161.5	176.5	104.3	113.6	121.6
Mexico	127.1	146.8	161.6	114.4	126.3	131.2	111.2	116.2	123.2
Nicaragua	164.1	191.5	226.4	136.3	148.6	167.3	120.4	128.9	135.3
Panama	127.6	146.1	180.8	115.0	125.4	147.8	111.0	116.5	122.3
Paraguay	133.1	175.2	209.6	121.3	153.6	175.0	109.7	114.1	119.8
Peru	164.0	201.8	266.1	137.3	157.2	188.4	119.4	128.4	141.2
Dominican Republic	104.1	128.4	145.8	93.1	109.4	118.2	111.8	117.4	123.3
Uruguay	113.4	147.0	167.7	96.9	115.2	125.2	117.0	127.6	133.9
Venezuela (Bolivarian Republic of)	142.4	192.7	269.6	126.5	166.3	223.6	112.5	115.9	120.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.

Table A-12

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS, f.o.b./f.o.b.

(Indices 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**94.5**	**100.0**	**96.3**	**96.6**	**98.6**	**103.6**	**108.6**	**115.1**	**118.0**
Argentina	90.9	100.0	99.3	98.7	107.2	109.2	106.9	113.0	117.1
Bolivia	97.1	100.0	95.8	96.2	98.5	104.1	111.8	134.6	139.5
Brazil	97.0	100.0	99.6	98.4	97.0	97.9	99.2	103.8	106.7
Chile	94.2	100.0	93.3	97.2	102.8	124.9	139.8	183.7	190.7
Colombia	87.2	100.0	94.2	92.5	95.2	102.3	111.0	115.2	124.4
Costa Rica	106.9	100.0	98.4	96.9	95.5	91.9	88.3	85.8	84.9
Cuba	104.2	100.0	114.0	105.1	121.0	133.3	129.8	164.0	172.6
Ecuador	89.1	100.0	84.6	86.8	89.8	91.5	102.4	109.9	113.0
El Salvador	99.6	100.0	102.5	101.6	97.7	96.8	96.8	95.5	94.6
Guatemala	101.9	100.0	96.7	95.8	93.0	92.1	91.3	89.6	87.9
Haiti	104.2	100.0	101.2	100.2	98.7	96.0	92.4	88.9	86.4
Honduras	107.5	100.0	94.8	92.0	88.0	87.2	87.2	83.2	81.6
Mexico	99.3	100.0	97.4	97.9	98.8	101.6	103.6	104.1	105.1
Nicaragua	95.3	100.0	88.4	87.0	84.1	82.5	81.4	79.4	78.6
Panama	104.6	100.0	102.7	101.6	97.2	95.3	93.5	90.8	90.0
Paraguay	101.7	100.0	100.2	96.7	101.4	104.3	97.4	95.5	100.1
Peru	100.8	100.0	95.6	98.4	102.2	111.3	119.4	151.1	156.6
Dominican Republic	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9	98.0
Uruguay	95.9	100.0	104.0	102.6	103.5	99.9	90.7	88.7	90.4
Venezuela (Bolivarian Republic of)	66.1	100.0	82.2	87.6	98.7	118.1	154.4	184.4	202.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.

Table A-13

LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFER [a]

(Millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[b]
Latin America and the Caribbean	**-1 661**	**1 100**	**-1 396**	**-41 317**	**-37 981**	**-67 581**	**-79 513**	**-91 819**	**16 276**
Antigua and Barbuda	44	16	56	75	90	57	136	260	347
Argentina	5 639	993	-16 030	-20 773	-12 535	-7 175	-3 683	-10 338	33
Bahamas	136	240	366	174	279	213	358	1 142	1 037
Barbados	114	243	234	44	130	58	-16	149	332
Belize	60	161	115	91	61	8	25	-63	-89
Bolivia	324	182	30	-156	-226	-565	-495	-180	-26
Brazil	-1 336	4 077	6 778	-10 252	-14 234	-29 955	-35 633	-10 553	56 782
Chile	-3 079	-1 621	-2 022	-1 985	-4 076	-10 097	-10 220	-23 259	-28 679
Colombia	-2 338	-2 177	-324	-1 439	-2 609	-848	-1 849	-2 914	2 669
Costa Rica	-691	-714	-63	580	443	432	1 160	2 089	1 934
Dominica	21	31	39	36	23	23	64	49	74
Ecuador	-2 715	-2 020	-817	-100	-953	-1 084	-1 580	-3 688	-2 148
El Salvador	165	132	-293	-42	595	117	-69	219	819
Grenada	32	61	70	109	81	30	131	170	202
Guatemala	696	1 494	1 618	993	1 251	1 359	995	1 102	1 144
Guyana	29	81	81	58	39	-1	143	242	232
Haiti	80	45	129	26	5	94	-18	188	299
Honduras	528	348	322	86	94	743	177	280	519
Jamaica	-271	517	1 168	208	-246	612	561	797	584
Mexico	2 660	6 491	11 161	8 502	5 706	315	-1 269	-13 258	1 967
Nicaragua	888	624	455	607	520	616	589	779	1 043
Panama	652	3	202	-39	-508	-409	156	-580	834
Paraguay	300	-25	237	-135	170	-96	35	149	509
Peru	-701	-293	391	512	-670	-1 262	-4 596	-7 584	-269
Dominican Republic	-352	-85	168	-881	-2 787	-2 324	-321	-251	894
Saint Kitts and Nevis	57	32	84	95	71	40	23	75	110
Saint Vincent and the Grenadines	57	19	30	17	55	99	66	108	121
Saint Lucia	63	64	73	75	115	45	62	260	270
Suriname	25	31	123	18	91	112	127	-72	1
Trinidad and Tobago	-268	-732	-453	-440	-1 257	-1 309	-2 461	-3 945	-2 941
Uruguay	480	672	707	-2 602	979	-137	84	-87	850
Venezuela (Bolivarian Republic of)	-2 957	-7 792	-6 030	-14 783	-8 679	-17 292	-22 195	-23 103	-23 178

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] The net transfer of resources is calculated as total capital income minus the balance of the income account (net payments of profits and interest). Total net capital income is the balance of the capital and financial account plus errors and omissions, plus loans and the use of International Monetary Fund credit, plus exceptional financing. Negative figures indicate resources transferred outside the country.
[b] Preliminary figures.

Table A-14

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

(Millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[b]
Latin America and the Caribbean	**81 326**	**72 148**	**66 564**	**50 988**	**38 414**	**48 926**	**53 692**	**30 036**	**84 091**
Antigua and Barbuda	32	43	98	66	166	80	214	375	391
Argentina	22 257	9 517	2 005	2 776	878	3 449	3 954	2 919	4 571
Bahamas	149	250	192	209	247	443	563	706	713
Barbados	16	18	17	17	58	-16	53	...	...
Belize	54	23	61	25	-11	111	126	103	110
Bolivia	1 008	734	703	674	195	63	-294	275	200
Brazil	26 888	30 498	24 715	14 108	9 894	8 339	12 550	-9 380	27 518
Chile	6 203	873	2 590	2 207	2 701	5 610	4 801	4 482	10 627
Colombia	1 392	2 069	2 526	1 277	783	2 873	5 578	5 365	8 658
Costa Rica	614	400	451	625	548	733	904	1 371	1 661
Dominica	18	18	17	20	31	26	33	27	46
Ecuador	648	720	1 330	1 275	872	837	493	271	183
El Salvador	162	178	289	496	123	366	398	151	1 390
Grenada	42	37	59	54	89	65	70	85	140
Guatemala	155	230	138	183	218	255	470	531	658
Guyana	46	67	56	44	26	30	77	102	152
Haiti	30	13	4	6	14	6	26	160	75
Honduras	237	375	301	269	391	553	599	674	815
Jamaica	429	394	525	407	604	542	582	797	...
Mexico	13 734	17 789	23 045	22 158	15 341	18 451	14 471	13 532	16 430
Nicaragua	337	267	150	204	201	250	241	287	335
Panama	864	624	467	99	818	1 019	962	2 574	1 825
Paraguay	89	98	78	5	22	32	47	166	189
Peru	1 812	810	1 070	2 156	1 275	1 599	2 579	3 467	5 343
Dominican Republic	1 338	953	1 079	917	613	909	1 123	1 459	1 698
Saint Kitts and Nevis	58	96	88	80	76	46	93	110	143
Saint Vincent and the Grenadines	57	38	21	34	55	66	41	110	92
Saint Lucia	83	54	59	52	106	77	78	234	261
Suriname	-62	-148	-27	-74	-76	-37	28	-163	-247
Trinidad and Tobago	379	654	685	684	1 034	972	599	513	830
Uruguay	238	274	291	180	401	315	811	1 400	876
Venezuela (Bolivarian Republic of)	2 018	4 180	3 479	-244	722	864	1 422	-2 666	-1 591

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Corresponds to direct investment in the reporting country after deduction of direct investment outside the country by residents of that country. Includes reinvestment of profits.
[b] Preliminary figures.

Table A-15
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES [a]
(Millions of dollars)

	1999	2000	2001	2002	2003	2004	2005[b]	2006[c]	2007[d]
Latin America and the Caribbean	**44 107**	**40 255**	**38 503**	**20 208**	**37 906**	**36 383**	**45 054**	**44 647**	**41 176**
Argentina	14 900	13 468	2 711	-	100	200	540	1 896	3 256
Barbados	-	200	150	-	-	-	325	215	-
Belize	-	-	-	125	100	-	-	-	-
Bolivia	-	-	-	-	-	108	-	-	-
Brazil	11 180	12 068	13 010	6 857	19 364	11 603	15 334	19 079	10 608
Chile	1 765	676	1 515	1 694	3 200	2 350	1 000	1 062	250
Colombia	1 676	1 622	4 329	695	1 545	1 545	2 435	3 177	3 065
Costa Rica	300	250	250	250	490	310	-	-	-
Cuba	-	-	-	-	-	-	-	400	200
Ecuador	-	-	-	-	-	-	650	-	-
El Salvador	150	50	354	1 252	349	286	375	925	-
Grenada	-	-	-	100	-	-	-	-	-
Guatemala	-	-	325	-	300	380	-	-	-
Jamaica	-	422	812	300	-	814	1 050	930	1 900
Mexico	11 441	9 777	11 016	6 505	7 979	13 312	11 703	9 200	10 296
Panama	500	350	1 100	1 030	275	770	1 530	2 076	670
Paraguay	400	-	-	-	-	-	-	-	-
Peru	-	-	-	1 000	1 250	1 305	2 675	733	1 827
Dominican Republic	-	-	500	-	600	-	160	675	605
Trinidad and Tobago	230	250	-	-	-	-	100	500	-
Uruguay	350	641	856	400	-	350	1 062	3 679	999
Venezuela (Bolivarian Republic of)	1 215	482	1 575	-	2 354	3 050	6 115	100	7 500

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF), Merrill-Lynch and J.P. Morgan.
[a] Include sovereign, bank and corporate bonds.
[b] Does not include US$ 584 million issued by the Andean Development Corporation (ADC) and US$ 200 million issued by the Central American Bank for Economic Integration (CABEI).
[c] Excluding US$ 250 million issued by the Andean Development Corporation (ADC), US$ 250 million issued by the Latin American Reserve Fund (FLAR) and US$ 567 million issued by the Central American Bank for Economic Integration (CABEI).
[d] Excluding US$ 539 million issued by the Andean Development Corporation (ADC).

Table A-16

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

(Millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[b]
Latin America and the Caribbean	**765 755**	**743 429**	**749 794**	**738 561**	**767 138**	**763 282**	**673 132**	**662 332**	**728 559**
Antigua and Barbuda	398	391	388	434	497	532	317	321	…
Argentina	152 563	155 014	166 272	156 748	164 645	171 205	113 799	108 762	123 197
Bahamas [c]	355	350	328	309	363	345	338	334	326
Barbados	651	928	1 117	1 130	1 188	1 207	1 334	1 473	1 415
Belize [c]	255	431	495	652	822	913	970	985	972
Bolivia	6 983	6 740	6 861	6 945	7 709	7 562	7 666	6 274	5 361
Brazil	225 610	216 921	209 935	210 711	214 929	201 373	169 451	172 589	193 219
Chile	34 758	37 177	38 527	40 504	43 067	43 517	44 934	47 590	54 146
Colombia	36 733	36 130	39 097	37 325	38 008	39 442	38 450	40 107	44 746
Costa Rica [d]	3 641	5 307	5 265	5 310	5 575	5 710	6 485	6 992	8 349
Cuba [c e]	11 078	10 961	10 893	10 900	11 300	5 806	5 898	7 794	8 908
Dominica	136	152	177	206	224	221	222	225	221
Ecuador	15 902	13 216	14 376	16 236	16 756	17 211	17 237	17 099	17 538
El Salvador [f]	2 789	2 831	3 148	3 987	7 917	8 211	8 761	9 584	9 060
Grenada	115	139	154	262	279	331	401	424	…
Guatemala [c]	2 631	2 644	2 925	3 119	3 467	3 844	3 723	3 958	4 226
Guyana [c]	1 210	1 193	1 197	1 247	1 085	1 071	1 215	1 043	718
Haiti [c]	1 162	1 170	1 189	1 229	1 316	1 376	1 335	1 484	1 628
Honduras	4 691	4 711	4 757	4 922	5 242	5 912	5 093	3 879	3 036
Jamaica [c]	3 024	3 375	4 146	4 348	4 192	5 120	5 376	5 796	6 123
Mexico	166 381	148 652	144 526	134 980	132 273	130 925	128 248	116 669	124 581
Nicaragua [c]	6 549	6 660	6 374	6 363	6 596	5 391	5 348	4 527	3 385
Panama [c]	5 568	5 604	6 263	6 349	6 504	7 219	7 580	7 788	8 276
Paraguay [g]	2 996	3 275	3 074	3 336	3 371	3 330	3 056	3 031	3 087
Peru	28 586	27 981	27 195	27 872	29 587	31 244	28 657	28 300	31 361
Dominican Republic [c]	3 661	3 679	4 176	4 536	5 987	6 380	6 813	7 266	7 566
Saint Kitts and Nevis	152	162	216	261	316	304	285	280	…
Saint Vincent and the Grenadines	160	160	168	168	195	219	231	231	…
Saint Lucia	153	170	204	246	324	344	350	365	375
Suriname [c]	…	291	350	371	382	382	388	389	296
Trinidad and Tobago [c]	1 585	1 680	1 666	1 549	1 553	1 364	1 329	1 261	1 278
Uruguay	8 261	8 895	8 937	10 548	11 013	11 593	11 418	10 560	12 218
Venezuela (Bolivarian Republic of)	37 016	36 437	35 398	35 460	40 456	43 679	46 427	44 952	52 949

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

[a] Total gross external debt includes debt owed to the International Monetary Fund.

[b] Preliminary figures.

[c] Refers to external public debt.

[d] From 2000, a new methodology was used for this series.

[e] From 2004, refers only to active external debt; excludes other external debt, 60.2% of which is official debt with the Paris Club.

[f] Until 2002, corresponds to public external debt. From 2003, corresponds to total external debt.

[g] For 2007, data correspond to the third quarter.

Table A-17
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVE ASSETS [a]
(Millions of dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
										I	II
Latin America and the Caribbean	**164 447**	**170 084**	**163 274**	**165 372**	**200 969**	**227 514**	**263 354**	**321 116**	**459 774**	**492 752**	**509 275**
Antigua and Barbuda	70	64	80	88	114	120	127	143	144	167	172[b]
Argentina	33 100	34 234	15 232	10 476	14 119	19 646	28 077	32 037	46 176	50 464	47 516
Bahamas	404	343	312	373	484	668	579	500	464	550	685
Barbados	302	473	690	669	738	580	603	636	839	910	…
Belize	71	123	112	115	85	48	71	114	109	111	138
Bolivia	1 223	1 160	1 139	897	1 096	1 272	1 798	3 193	5 319	6 232	7 121
Brazil	36 342	33 011	35 866	37 823	49 296	52 935	53 799	85 839	180 334	195 232	200 827
Chile	14 946	15 110	14 400	15 351	15 851	16 016	16 963	19 429	16 910	17 898	20 251
Colombia	8 103	9 006	10 245	10 844	10 921	13 540	14 957	15 440	20 955	22 138	22 855
Costa Rica	1 472	1 318	1 334	1 500	1 839	1 922	2 313	3 115	4 114	4 891	4 334
Dominica	32	29	31	45	48	42	49	63	61	61	79[b]
Ecuador	873	1 180	1 074	1 008	1 160	1 437	2 147	2 023	3 521	4 144	6 103
El Salvador	1 972	1 894	1 712	1 591	1 910	1 893	1 833	1 908	2 198	2 275	2 305
Grenada	51	58	64	88	83	122	94	100	111	100	114[b]
Guatemala	1 220	1 874	2 348	2 370	2 919	3 528	3 782	4 061	4 320	4 338	4 771
Guyana	268	305	287	284	276	232	252	280	313	353	337[c]
Haiti	264	182	141	82	62	114	133	253	443	482	473[c]
Honduras	1 255	1 312	1 414	1 523	1 430	1 971	2 330	2 633	2 733	2 737	2 505
Jamaica	555	1 054	1 903	1 643	1 196	1 882	2 169	2 399	1 906	2 106	2 477
Mexico	30 733	35 585	44 814	50 674	59 028	64 198	74 110	76 330	87 211	91 134	94 045
Nicaragua	513	497	383	454	504	670	730	924	1 103	1 073	1 123
Panama	805	707	1 075	1 166	992	611	1 192	1 335	1 935	1 801	1 757[c]
Paraguay	988	772	723	641	983	1 168	1 297	1 703	2 462	2 638	3 193
Peru	9 003	8 563	8 838	9 690	10 206	12 649	14 120	17 329	27 720	33 608	35 550
Dominican Republic	881	818	1 341	829	279	825	1 929	2 251	2 946	2 892	2 584
Saint Kitts and Nevis	50	45	56	66	65	78	72	89	99	118	95[b]
Saint Vincent and the Grenadines	43	55	61	53	51	75	70	79	88	81	87[b]
Saint Lucia	75	79	89	94	107	133	116	135	155	160	149[b]
Suriname	109	127	188	112	113	137	140	237	434	498	483
Trinidad and Tobago	963	1 403	1 924	2 049	2 258	2 993	4 787	6 777	7 053	7 439	7 533[c]
Uruguay	2 600	2 823	3 100	772	2 087	2 512	3 078	3 091	4 121	4 993	6 101
Venezuela (Bolivarian Republic of)	15 163	15 883	12 296	12 003	20 666	23 498	29 636	36 672	33 477	31 130	33 514

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Including gold.
[b] Balance as of May.
[c] Balance as of April.

Table A-18
LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES
(National indices to end of period, 31 December 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007		2008	
									III	IV	I	II
Argentina	132	100	71	126	257	330	370	502	525	516	505	506
Brazil	112	100	89	74	146	172	219	291	396	419	400	426
Chile	104	100	109	92	137	166	181	248	300	281	268	277
Colombia [a]	140	100	134	206	291	542	1 187	1 393	1 302	1 335	1 120	1 146
Costa Rica	87	100	113	117	104	88	96	169	186	193	235	232
Ecuador	86	100	130	195	178	216	272	353	342	329	353	347
Jamaica	76	100	117	157	234	390	362	348	333	374	372	380
Mexico	126	100	113	108	156	229	315	468	536	523	547	520
Peru	152	100	97	115	202	307	397	1 066	1 806	1 450	1 439	1 348
Trinidad and Tobago	95	100	98	124	157	243	242	220	212	222	225	261
Venezuela (Bolivarian Republic of)	79	100	96	117	325	439	299	765	546	555	514	546

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information from Bloomberg.
[a] The figures up to 2000 are based on the Bogota Stock Exchange Index (IBB).

Table A-19
LATIN AMERICA AND THE CARIBBEAN: OVERALL REAL EFFECTIVE EXCHANGE RATES [a]
(Indices 2000=100, deflated by CPI)

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [b]	2008 [b c]
Latin America and the Caribbean [d]	**100.9**	**100.0**	**99.2**	**111.0**	**120.5**	**119.6**	**111.5**	**108.5**	**105.3**	**100.3**
Argentina	99.8	100.0	95.9	225.8	205.1	212.8	213.3	218.1	222.8	237.1
Bolivia	98.6	100.0	101.1	95.5	104.2	109.3	116.7	119.2	118.0	114.2
Brazil	108.4	100.0	120.4	132.6	131.2	123.8	100.4	88.9	82.1	74.8
Chile	98.4	100.0	111.7	109.4	114.7	108.5	103.1	100.8	102.2	94.8
Colombia	91.6	100.0	104.2	105.7	119.6	107.1	96.7	95.5	85.3	78.5
Costa Rica	101.7	100.0	97.5	98.7	104.5	106.1	107.2	106.1	103.8	100.1
Cuba [e]	102.7	100.0	90.6	94.2	99.8	106.1	105.3	106.2	110.8	123.8
Dominica	99.9	100.0	100.3	101.6	104.1	107.9	110.9	113.2	116.8	119.8
Ecuador	89.0	100.0	70.7	61.8	60.3	61.6	64.5	65.3	68.6	70.8
El Salvador	100.7	100.0	99.8	99.7	100.2	98.9	100.9	101.3	102.6	105.5
Guatemala	98.7	100.0	95.9	88.4	88.7	85.7	79.8	77.5	77.5	75.8
Honduras	104.5	100.0	97.2	96.9	98.5	100.9	100.5	98.0	96.3	95.5
Jamaica	97.7	100.0	101.7	101.2	116.9	113.6	104.4	104.6	107.8	103.9
Mexico	108.3	100.0	94.4	94.0	104.5	108.3	104.6	104.6	105.3	104.3
Nicaragua	102.0	100.0	101.1	103.2	106.9	107.8	108.5	107.2	109.4	106.2
Panama	100.8	100.0	103.1	101.2	103.2	108.4	110.9	112.4	114.1	114.7
Paraguay	97.0	100.0	102.8	106.5	112.6	106.4	118.7	106.4	95.3	86.0
Peru	101.6	100.0	98.1	95.8	99.8	99.9	101.1	103.9	104.9	101.9
Dominican Republic [f]	103.4	100.0	96.5	98.5	131.3	125.5	87.4	95.7	95.8	98.9
Trinidad and Tobago	102.3	100.0	94.5	91.1	91.9	93.6	91.0	89.0	87.3	87.0
Uruguay	98.4	100.0	101.4	118.4	150.5	152.5	134.1	128.2	126.9	116.7
Venezuela (Bolivarian Republic of)	102.6	100.0	95.3	125.1	141.1	139.5	141.0	132.3	117.8	102.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Annual averages. A country's overall real effective exchange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by each partner's share in the country's total trade flows in terms of exports and imports. The extraregional real effective exchange rate index excludes trade with other Latin American and Caribbean countries. A currency depreciates in real effective terms when this index rises and appreciates when it falls.
[b] Preliminary figures, weighted by trade in 2006.
[c] January-June average.
[d] Simple average of the extraregional real effective exchange rate for 20 countries (does not include Cuba or Dominica).
[e] Provisional figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.
[f] Owing to lack of data, the period 2002-2008 has been weighted using trade figures for 2001.

Table A-20
LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE
(Average annual rates)

			1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean [b]		**Global**	**…**	**59.3**	**59.6**	**59.5**	**59.7**	**59.9**	**59.9**	**59.9**	**60.2**
		Female	…	44.9	45.7	45.7	46.6	46.7	47.0	47.1	47.6
		Male	…	74.5	74.4	74.1	73.6	73.9	73.7	73.6	73.8
Argentina [c]	Urban areas	Global	…	56.6	56.0	55.8	60.1	60.3	59.9	60.3	59.5
		Female	…	43.4	42.6	43.3	49.2	49.0	48.3	49.0	47.7
		Male	…	71.7	71.4	70.3	72.9	73.2	73.2	73.3	73.0
Bolivia	National total	Global	64.2	62.4	67.8	64.6	67.6	64.9	…	…	...
		Female	56.8	53.7	60.1	56.3	60.1	57.2	…	…	...
		Male	72.0	71.8	75.9	73.2	75.4	73.4	…	…	...
Brazil [c]	Six metropolitan areas	Global	57.1	58.0	56.4	56.7	57.1	57.2	56.6	56.9	56.9
		Female	43.9	45.2	43.9	43.9	47.8	48.3	47.7	48.1	48.5
		Male	72.2	72.7	71.0	70.5	67.7	67.3	66.7	66.8	66.5
Chile	National total	Global	54.8	54.4	53.9	53.7	54.4	55.0	55.6	54.8	54.9
		Female	35.7	35.6	35.0	35.0	36.6	38.1	39.2	38.5	39.1
		Male	74.6	74.0	73.4	73.0	73.0	72.3	72.6	71.7	71.4
Colombia	Thirteen metropolitan areas [d]	Global	63.8	63.5	64.2	64.2	64.5	62.9	62.7	61.2	61.0
		Female	54.9	54.8	55.6	56.2	56.8	54.8	54.7	53.0	53.0
		Male	74.5	73.8	74.3	73.9	73.7	72.7	72.3	71.0	70.7
Costa Rica	National total	Global	54.8	53.6	55.8	55.4	55.5	54.4	56.8	56.6	57.0
		Female	35.5	35.0	38.6	38.2	38.5	36.8	40.4	40.7	41.6
		Male	75.1	72.8	73.7	73.2	73.3	72.9	73.9	73.5	73.2
Cuba	National total	Global	70.6	70.1	70.9	71.0	70.9	71.0	72.1	72.1	73.7
		Female	53.9	53.9	53.7	53.9	54.2	54.4	55.6	56.7	59.3
		Male	86.2	84.9	86.7	86.6	86.0	86.1	87.0	86.0	86.7
Ecuador	Urban total	Global	60.0	57.3	63.1	58.3	58.2	59.1	59.5	59.1	61.3
		Female	47.8	45.0	52.5	46.7	47.0	47.9	48.6	47.7	50.9
		Male	73.1	70.3	74.0	70.2	69.8	70.8	70.9	71.2	72.5
El Salvador	National total	Global	52.6	52.2	53.3	51.2	53.4	51.7	52.4	52.6	...
		Female	39.1	38.7	39.5	38.6	40.4	38.6	39.5	40.4	...
		Male	68.1	67.7	69.2	65.8	68.3	66.5	67.4	67.0	...
Honduras	National total	Global	54.9	…	52.5	51.7	50.0	50.6	50.9	50.7	50.7
		Female	37.6	…	34.7	32.5	33.0	32.7	33.1	33.5	33.3
		Male	73.9	…	71.8	72.3	68.4	70.0	70.0	69.7	70.1
Jamaica [e]	National total	Global	64.5	63.4	63.0	65.8	64.4	64.3	64.2	64.7	64.8
		Female	56.3	54.2	53.6	57.3	55.4	55.8	55.5	56.4	56.5
		Male	72.8	72.8	73.0	74.7	73.7	73.3	73.3	73.5	73.6
Mexico	Urban areas	Global	58.3	58.7	58.1	57.8	58.3	58.9	59.5	60.7	60.7
		Female	40.4	41.4	40.9	40.6	41.5	42.9	44.1	45.8	46.2
		Male	78.2	78.0	77.3	76.9	76.8	76.7	76.9	77.6	77.3
Nicaragua	National total	Global	…	53.8	57.5	…	53.7	53.1	53.8	51.4	51.1
		Female	…	…	40.2	…	…	…	39.4	…	...
		Male	…	…	75.6	…	…	…	69.2	…	...
Panama	National total	Global	61.2	59.9	60.5	62.6	62.8	63.3	63.6	62.6	62.7
		Female	43.1	41.6	41.7	45.1	45.9	46.6	47.4	45.8	46.8
		Male	79.7	78.8	79.5	80.1	79.9	80.6	80.3	79.9	79.3
Paraguay	National total	Global	57.3	63.7	59.2	61.2	59.8	63.4	61.8	60.1	60.8
		Female	41.3	49.0	45.5	45.8	45.7	50.4	48.6	46.1	48.0
		Male	73.9	78.9	73.3	76.9	74.3	76.6	75.1	74.0	73.9
Peru	Metropolitan Lima	Global	65.7	63.4	65.5	62.9	63.2	62.3	62.5	64.0	63.5
		Female	56.0	51.4	55.9	51.8	54.2	49.9	52.3	53.4	51.7
		Male	76.7	76.8	76.1	75.3	72.9	75.6	73.4	75.4	76.1

Table A-20 (concluded)

			1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Dominican Republic	National total	Global	53.5	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.1
		Female	36.6	40.6	40.0	42.1	41.0	43.7	43.1	43.6	43.2
		Male	71.2	70.4	69.2	68.3	68.6	69.2	68.8	68.6	69.3
Uruguay	Urban total	Global	59.3	59.7	60.8	59.3	58.1	58.5	58.5	60.9	62.7
		Female	48.6	49.3	51.0	49.4	48.9	48.7	49.5	51.9	53.7
		Male	72.0	71.9	72.2	70.7	69.0	70.0	69.3	71.7	73.6
Venezuela (Bolivarian Republic of)	National total	Global	66.3	64.6	66.5	68.7	69.3	68.5	66.3	65.4	64.9
		Female	48.8	47.3	50.9	54.3	55.5	54.5	51.5	50.6	50.0
		Male	83.7	81.9	82.0	83.5	83.0	82.6	81.2	80.4	79.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] The data relating to the different countries are not comparable owing to differences in coverage and in the definition of the working age population. The regional series are simple averages of national data (excluding Bolivia and Nicaragua) and include adjustments for lack of information and changes in methodology.
[c] New measurements have been used since 2003; the data are not comparable with the previous series.
[d] For 1999, the figures correspond to seven metropolitan areas.
[e] New measurements have been used since 2002; the data are not comparable with the previous series.

Table A-21
LATIN AMERICA AND THE CARIBBEAN: OPEN URBAN UNEMPLOYMENT
(Average annual rates)

		1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean [b]		**11.0**	**10.4**	**10.2**	**11.0**	**11.0**	**10.3**	**9.1**	**8.6**	**8.0**
Argentina [c]	Urban areas	14.3	15.1	17.4	19.7	17.3	13.6	11.6	10.2	8.5
Bahamas [d]	National total	7.8	…	6.9	9.1	10.8	10.2	10.2	7.6	7.9
Barbados [d]	National total	10.4	9.2	9.9	10.3	11.0	9.8	9.1	8.7	7.4
Belize [d]	National total	12.8	11.1	9.1	10.0	12.9	11.6	11.0	9.4	8.5
Bolivia	Urban total [e]	7.2	7.5	8.5	8.7	9.2	6.2	8.1	8.0	7.7
Brazil [f]	Six metropolitan areas	7.6	7.1	6.2	11.7	12.3	11.5	9.8	10.0	9.3
Chile	National total	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.7	7.1
Colombia [d]	Thirteen metropolitan areas [g]	19.4	17.3	18.2	17.6	16.7	15.4	13.9	13.0	11.4
Costa Rica	Urban total	6.2	5.3	5.8	6.8	6.7	6.7	6.9	6.0	4.8
Cuba	National total	6.3	5.4	4.1	3.3	2.3	1.9	1.9	1.9	1.8
Ecuador [d]	Urban total [h]	15.1	14.1	10.4	8.6	9.8	9.7	8.5	8.1	7.4
El Salvador	Urban total	6.9	6.5	7.0	6.2	6.2	6.5	7.3	5.7	...
Guatemala	Urban total	...	...	...	5.4	5.2	4.4	…	...	...
Honduras	Urban total	5.3	...	5.9	6.1	7.6	8.0	6.5	4.9	4.0
Jamaica [d]	National total	15.7	15.5	15.0	14.2	11.4	11.7	11.3	10.3	9.9
Mexico	Urban areas	3.7	3.4	3.6	3.9	4.6	5.3	4.7	4.6	4.8
Nicaragua	Urban total [i]	10.7	7.8	11.3	11.6	10.2	9.3	7.0	7.0	6.9
Panama [d]	Urban total [j]	13.6	15.2	17.0	16.5	15.9	14.1	12.1	10.4	7.8
Paraguay	Urban total	9.4	10.0	10.8	14.7	11.2	10.0	7.6	8.9	7.2
Peru	Metropolitan Lima	9.2	8.5	9.3	9.4	9.4	9.4	9.6	8.5	8.4
Dominican Republic [d]	National total	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6
Suriname	National total	14.0	14.0	14.0	10.0	7.0	8.4	11.2	12.1	12.0
Trinidad and Tobago [d]	National total	13.2	12.2	10.8	10.4	10.5	8.4	8.0	6.2	5.9
Uruguay	Urban total	11.3	13.6	15.3	17.0	16.9	13.1	12.2	11.4	9.6
Venezuela (Bolivarian Republic of)	National total	15.0	13.9	13.3	15.8	18.0	15.3	12.4	10.0	8.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] The data for Argentina and Brazil have been adjusted to reflect changes in methodology in 2003 and 2002, respectively.
[c] New measurements have been used since 2003; the data are not comparable with the previous series.
[d] Includes hidden unemployment.
[e] For 1999, the figures relate to departmental capitals.
[f] New measurements have been used since 2002; the data are not comparable with the previous series.
[g] For 1999, the figures relate to seven metropolitan areas.
[h] Up to 2003, the figures relate to Cuenca, Guayaquil and Quito.
[i] For 1999, the figures relate to the national total.
[j] For 1999, the figures relate to the metropolitan area.

Table A-22

LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE [a]

(Average annual rates)

		1999	2000	2001	2002	2003	2004	2005	2006	2007[b]
Latin America and the Caribbean [c]		**52.2**	**52.8**	**52.3**	**52.0**	**52.4**	**53.0**	**53.5**	**54.0**	**54.6**
Argentina [d]	Urban areas	49.6	49.0	47.4	45.9	49.8	52.0	52.9	54.1	54.5
Bolivia	Urban total [e]	52.3	51.9	55.4	53.0	54.9	55.0	51.2	54.0	52.7
Brazil [d]	Six metropolitan areas	52.7	53.8	52.9	48.7	50.1	50.6	51.0	51.2	51.6
Chile	National total	49.2	49.1	48.6	48.4	49.3	49.5	50.4	50.5	51.0
Colombia	Thirteen metropolitan areas [f]	50.8	52.6	52.7	53.4	54.2	53.8	54.5	54.0	54.8
Costa Rica	National total	51.5	50.8	52.4	51.8	51.8	50.9	53.0	53.3	54.4
Cuba	National total	66.2	66.3	68.0	68.6	69.2	69.7	70.7	70.7	72.4
Ecuador	Urban total	51.4	52.1	56.2	52.9	51.5	53.5	54.4	54.3	56.8
El Salvador	National total	48.9	48.7	49.8	48.0	49.7	48.2	48.3	49.2	...
Honduras	National total	53.7	…	50.3	49.7	47.4	48.6	48.6	49.0	49.2
Jamaica	National total	54.4	53.4	53.5	54.0	57.1	56.8	56.7	58.0	58.4
Mexico	Urban areas	56.1	56.8	56.0	55.5	55.6	55.8	56.7	57.9	57.8
Nicaragua	National total	...	50.6	51.0	...	49.5	49.6	50.8	48.8	48.6
Panama	National total	54.0	51.8	52.0	54.1	54.6	55.9	57.3	57.2	58.7
Paraguay	National total	53.4	59.0	54.7	54.6	55.0	58.8	58.2	55.4	57.4
Peru	Metropolitan Lima [g]	61.6	59.7	60.5	62.0	61.1	61.6	60.7	61.8	63.0
Dominican Republic	National total	46.1	47.6	45.8	46.2	45.4	46.0	45.9	46.8	47.4
Trinidad and Tobago	National total	52.8	53.8	53.8	54.6	55.2	57.8	58.6	59.9	59.9
Uruguay	Urban total	52.6	51.6	51.4	49.1	48.3	50.9	51.4	53.9	56.7
Venezuela (Bolivarian Republic of)	National total	56.4	55.5	57.6	57.8	56.8	58.1	58.1	58.9	59.5

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

[a] Employed population as a percentage of working-age population.

[b] Preliminary figures.

[c] Weighted average adjusted for lack of information and changes in methodology.

[d] New measurements have been used since 2003; the data are not comparable with the previous series.

[e] For 1999, the figures relate to the departmental capitals.

[f] For 1999, the figures relate to seven metropolitan areas.

[g] Up to 2000, the figures relate to the urban total.

Table A-23

LATIN AMERICA AND THE CARIBBEAN: FORMAL EMPLOYMENT INDICATORS

(Indices 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Argentina [b]	99.3	100.0	101.0	93.1	96.2	107.0	118.7	129.6	139.8
Brazil [c]	98.2	100.0	102.9	101.6	104.2	109.5	115.7	121.3	127.5
Chile [b]	96.1	100.0	101.6	103.4	105.9	109.6	118.2	125.7	136.7
Costa Rica [d]	98.5	100.0	97.6	104.0	106.9	110.9	116.1	123.9	134.4
El Salvador [d]	102.1	100.0	102.7	102.4	107.8	104.9	106.9	114.9	...
Guatemala [d]	98.3	100.0	102.2	104.9	105.5	108.9	110.4	113.0	114.4
Jamaica [e]	103.8	100.0	98.0	97.4	96.3	97.9	99.0	100.2	101.5
Mexico [d]	94.4	100.0	99.5	98.6	98.2	99.6	102.8	107.7	112.2
Nicaragua [d]	91.4	100.0	101.8	101.0	103.7	112.9	123.2	136.2	148.8
Panama [f]	105.3	100.0	95.5	89.7	95.7	99.4	108.5	117.6	124.1
Peru [e]	102.7	100.0	98.1	98.1	99.8	102.5	107.1	115.0	124.3
Uruguay [d g]	102.9	100.0	97.7	92.1	93.9	99.8	110.7	120.5	130.9

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

[a] Preliminary figures.

[b] Dependent workers contributing to pension schemes.

[c] Workers covered by social and labour legislation.

[d] Workers with social security coverage.

[e] Workers of medium-sized and large firms.

[f] Private workers with social security coverage. In 2007, workers of small, medium-sized and large businesses.

[g] Employment positions generating social security contributions.

Table A-24
LATIN AMERICA: VISIBLE UNDEREMPLOYMENT INDICATORS
(Percentage of employed)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Argentina [b]	16.7	17.1	18.9	24.0	20.7	17.5	14.2	12.5	10.4
Brazil [c]	…	…	…	4.1	5.0	4.6	3.7	4.1	3.6
Chile [d]	5.5	6.1	7.1	6.2	6.5	8.4	8.5	8.5	8.0
Colombia [e]	…	14.2	16.3	16.8	15.3	15.2	13.8	11.9	10.0
Costa Rica [f]	14.0	10.5	11.3	12.3	15.2	14.4	14.6	13.5	11.5
Ecuador [g]	17.9	16.1	12.6	10.2	9.8	8.1	7.3	6.3	5.5[h]
El Salvador [i]	3.9	3.7	3.8	4.3	4.8	4.5	6.2	4.9	...
Honduras [j]	2.6	…	4.0	4.9	6.3	7.1	7.4	5.6	4.4
Mexico [k]	…	…	…	…	…	…	7.5	6.9	7.2
Panama [i]	…	…	…	…	…	4.4	4.6	3.4	2.7
Paraguay [l]	5.8	9.1	8.3	9.5	8.8	8.3	7.5	5.6	5.8
Peru [m]	12.5	12.3	12.8	11.8	9.8	9.6	9.5	9.4	9.6
Uruguay [i]	…	11.9	15.3	18.4	19.3	15.8	17.1	13.6	12.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Employed persons who work less than 35 hours per week and wish to work more hours; total urban areas.
[c] Employed persons who work less than 40 hours per week and wish to work more hours; six metropolitan areas.
[d] Employed persons who work less than 35 hours per week and who wish to work more; national total; third quarter of each year. The figures up to 2005 and since 2006 are not directly comparable since a change in the sample causes a break in the comparability.
[e] Employed persons who work less than 48 hours per week and wish to work more hours; 13 metropolitan areas.
[f] Employed persons who work less than 47 hours per week and wish to work more hours; national total.
[g] Employed persons who work less than 40 hours per week and wish to work more hours; Cuenca, Guayaquil and Quito.
[h] January-August average.
[i] Employed persons who work less than 40 hours per week and wish to work more hours; total urban areas.
[j] Employed persons who work less than 36 hours per week and wish to work more hours; total urban areas.
[k] Employed workers wishing to work more than their current occupation permits, national total.
[l] Employed persons who work less than 30 hours per week and wish to work more hours; total urban areas.
[m] Employed persons who work less than 35 hours per week and wish to work more hours; Lima metropolitan area.

Table A-25
LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES
(Average annual Index, 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Argentina [b]	97.8	100.0	99.2	85.4	83.8	92.1	97.6	106.1	118.9
Bolivia	98.6	100.0	105.8	109.3	111.1	114.1	110.0	101.2	98.4
Brazil [c]	101.1	100.0	95.1	93.1	84.9	85.5	85.2	88.2	89.5
Chile [d]	98.6	100.0	101.7	103.7	104.6	106.5	108.5	110.6	113.7
Colombia [b]	96.3	100.0	99.7	102.7	102.1	103.8	105.3	109.2	108.7
Costa Rica [e]	99.2	100.0	101.0	105.1	105.5	102.8	100.8	102.4	103.8
Cuba	92.0	100.0	96.2	105.1	107.8	114.6	129.5	144.5	143.1
Guatemala [e]	96.3	100.0	100.5	99.6	100.0	97.8	93.9	92.9	88.6
Mexico [b]	94.3	100.0	106.7	108.7	110.2	110.5	110.2	110.6	111.7
Nicaragua [e]	100.0	100.0	101.0	104.5	106.5	104.2	104.5	105.9	104.0
Panama [f]	105.6	100.0	98.8	95.8	95.3	94.5	93.4	95.3	96.2
Paraguay	98.7	100.0	101.4	96.3	95.6	97.2	98.2	98.8	101.1
Peru [g]	99.3	100.0	99.1	103.7	105.3	106.5	104.4	105.7	103.8
Uruguay	101.3	100.0	99.7	89.0	77.9	77.9	81.5	85.0	89.0
Venezuela (Bolivarian Republic of)	96.1	100.0	106.9	95.1	78.4	78.6	80.7	84.8	85.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Manufacturing
[c] Workers covered by social and labour legislation. Since 2003, only the private sector.
[d] General index of hourly wages.
[e] Average wages declared by workers covered by social security.
[f] Average declared remuneration of workers affiliated to social security. The variation in remunerations for 2007 relative to 2006 refers to workers in large, medium-sized and small enterprises.
[g] Private sector workers in the Lima metropolitan area.

Table A-26
LATIN AMERICA AND THE CARIBBEAN: REAL MINIMUM WAGE
(Indices 2000=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Argentina	99.1	100.0	101.1	81.3	84.0	129.8	171.1	193.2	219.6
Bolivia	97.2	100.0	110.8	116.0	116.9	112.0	106.3	111.1	109.7
Brazil	97.4	100.0	109.8	114.3	117.4	121.4	128.5	145.3	154.8
Chile	93.4	100.0	103.8	106.8	108.3	111.3	113.4	116.3	118.5
Colombia	99.5	100.0	101.2	101.9	102.0	103.8	105.0	107.9	108.6
Costa Rica	100.6	100.0	100.2	99.5	99.2	97.6	97.8	99.5	100.8
Cuba	...	100.0	89.6	94.3	92.4	94.4	206.6	196.6	184.7
Ecuador	103.7	100.0	111.5	112.5	119.3	122.2	125.9	130.0	135.1
El Salvador	102.3	100.0	96.4	94.6	96.7	95.3	91.1	90.5	92.7
Guatemala	95.8	100.0	108.3	108.6	117.3	117.6	115.9	119.6	117.7
Haiti	113.5	100.0	88.4	80.5	107.5	91.7	79.6	70.0	64.7
Honduras	97.0	100.0	102.5	104.6	113.6	114.5	121.2	127.4	130.9
Mexico	99.3	100.0	100.4	101.2	100.4	99.1	99.0	99.0	98.3
Nicaragua	100.5	100.0	102.1	105.9	109.2	113.5	118.1	128.5	131.6
Panama	96.3	100.0	107.0	105.8	106.5	107.5	104.5	108.1	106.3
Paraguay	95.9	100.0	103.7	102.9	105.8	102.4	104.4	106.7	103.9
Peru	90.0	100.0	101.2	101.0	102.2	106.9	105.1	112.0	111.7
Dominican Republic	100.4	100.0	105.7	105.1	95.5	81.2	96.4	89.6	93.8
Uruguay	101.7	100.0	98.7	88.7	77.7	77.5	131.9	153.2	159.6
Venezuela (Bolivarian Republic of)	96.4	100.0	100.0	94.5	83.3	92.7	103.7	113.9	114.4

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

Table A-27
LATIN AMERICA AND THE CARIBBEAN: MONETARY BASE
(End-of-year balances as percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Antigua and Barbuda	12.2	11.6	13.3	13.6	16.4	15.6	15.5	14.9	13.5
Argentina	5.8	5.3	4.5	9.3	12.3	11.7	10.3	12.2	12.2
Bahamas	3.2	3.0	2.9	2.8	3.1	4.4	3.4	3.2	3.2
Barbados	7.9	7.9	8.2	8.9	8.8	9.1	9.6	...	...
Belize	4.5	5.6	6.3	4.9	5.5	5.5	6.6	7.8	8.2
Bolivia	7.7	7.9	8.3	8.2	8.5	8.3	10.2	12.2	16.9
Brazil	4.5	4.0	4.1	5.0	4.3	4.6	4.7	5.2	5.8
Chile	4.4	4.1	4.2	4.2	4.1	4.1	4.4	4.5	4.3
Colombia	5.7	5.5	5.5	6.1	6.2	6.4	6.8	7.2	7.7
Costa Rica	6.1	5.9	5.2	5.1	5.4	5.5	6.1	6.4	7.2
Cuba	...	28.2	32.2	32.5	27.8	31.7	31.2	25.7	23.7
Dominica	13.1	12.6	12.9	18.9	17.7	15.2	15.1	17.2	17.4
Ecuador	4.6	1.6	1.4	1.2	1.1	1.2	1.5	1.4	1.7
El Salvador	14.9	13.0	11.8	9.9	11.6	10.4	9.9	9.3	10.2
Grenada	13.8	14.1	15.9	18.2	18.1	25.9	16.9	17.3	18.9
Guatemala	9.2	9.2	9.5	10.0	9.8	10.0	10.2	11.1	11.1
Guyana	23.4	22.9	24.4	26.2	27.5	27.7	29.5	27.6	25.0
Haiti	17.7	17.4	19.9	22.0	24.0	22.7	21.1	20.0	19.4
Honduras	11.0	9.7	8.3	8.5	8.4	9.1	8.9	9.6	11.3
Jamaica	...	10.1	9.2	8.7	8.6	8.3	8.2	8.5	8.1
Mexico	3.7	3.5	3.5	3.8	4.0	4.0	4.1	4.4	4.4
Nicaragua	6.2	5.5	6.1	6.3	7.3	7.5	7.8	8.7	9.3
Paraguay	9.4	8.5	8.4	7.5	9.7	9.8	9.2	9.2	10.8
Peru	3.4	3.0	3.2	3.4	3.5	3.9	4.5	4.6	5.3
Dominican Republic	8.4	8.5	9.3	8.3	12.6	8.6	9.1	9.0	8.9
Saint Kitts and Nevis	14.5	15.4	16.5	18.2	15.8	18.9	16.1	17.8	18.2
Saint Vincent and the Grenadines	15.8	17.6	18.6	16.2	16.4	15.7	14.6	14.6	15.2
Saint Lucia	10.8	11.0	13.3	13.3	14.1	15.7	13.0	13.7	15.5
Suriname	17.6	26.0	21.2	18.0	14.6	14.4	13.4	12.6	...
Trinidad and Tobago	9.0	8.2	8.8	8.1	6.6	5.9	7.5	7.3	7.0
Uruguay	4.6	4.1	4.0	4.3	4.4	4.1	5.1	4.7	5.8
Venezuela (Bolivarian Republic of)	8.3	7.3	7.3	7.1	8.4	7.8	7.6	11.3	13.1

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

Table A-28

LATIN AMERICA AND THE CARIBBEAN: MONEY SUPPLY (M3) [a]

(End-of-year balances as percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Antigua and Barbuda	74.5	77.2	77.2	80.1	91.9	92.4	92.6	91.1	90.0
Argentina	28.8	29.6	24.9	21.9	24.9	24.7	25.8	25.8	26.2
Bahamas	61.7	62.7	64.3	63.3	65.5	71.6	72.5	73.6	77.5
Barbados	73.9	78.8	83.2	96.8	95.1	105.1	108.1	110.8	119.2
Belize	57.4	58.0	59.7	57.0	55.7	59.1	59.6	62.0	68.0
Bolivia	52.2	51.5	52.9	49.4	47.7	42.3	43.0	42.4	47.8
Brazil [b]	25.8	24.1	24.7	26.9	24.3	25.4	27.1	28.5	30.8
Chile	53.0	53.1	54.2	54.6	48.8	50.3	53.3	53.4	58.2
Colombia [c]	31.5	28.9	29.1	28.6	28.3	29.5	31.0	32.3	34.0
Costa Rica	30.4	33.4	33.8	36.3	37.1	42.6	44.1	44.3	43.9
Cuba [d]	...	48.5	51.0	52.4	47.0	50.4	54.5	45.7	43.0
Dominica	64.8	64.7	71.5	79.8	78.1	76.3	77.6	80.2	83.5
Ecuador	22.6	25.6	24.2	23.4	20.3	21.7	23.0	24.2	26.6
El Salvador	47.8	46.3	44.9	42.0	40.2	39.2	37.2	38.0	40.9
Grenada	79.6	85.0	95.6	98.9	97.2	117.1	98.2	97.8	102.3
Guatemala	27.1	30.3	32.1	31.7	33.5	34.0	35.7	37.9	37.8
Guyana	69.1	65.7	69.7	70.9	73.8	73.2	75.2	78.5	75.1
Haiti	34.9	37.6	38.7	45.4	47.8	42.5	42.1	37.8	35.6
Honduras	...	...	...	46.5	47.2	49.2	50.8	55.5	57.0
Jamaica	39.8	39.2	39.1	40.2	38.8	39.2	38.1	37.6	38.9
Mexico	40.5	39.1	43.3	44.4	45.6	45.1	48.6	49.5	50.2
Nicaragua	39.5	37.5	37.4	40.0	41.8	43.0	41.3	39.4	41.0
Panama	74.8	80.6	85.6	80.9	79.5	78.3	78.0	86.1	88.1
Paraguay	33.1	31.7	35.3	31.9	29.1	28.3	27.5	26.8	30.6
Peru	26.5	25.4	26.1	26.1	24.7	24.0	25.8	24.3	27.0
Dominican Republic	24.6	24.3	27.9	28.5	36.8	27.8	27.7	25.2	25.7
Saint Kitts and Nevis	73.8	87.4	86.0	89.2	92.4	101.9	97.3	97.1	101.3
Saint Vincent and the Grenadines	65.1	70.3	70.3	71.9	70.0	73.5	72.7	69.4	65.0
Saint Lucia	58.5	61.8	66.7	67.2	68.3	70.1	74.6	83.4	92.7
Suriname	...	68.2	65.0	55.8	51.0	56.0	53.9	56.6	67.7
Trinidad and Tobago	40.1	37.4	40.3	40.9	32.4	34.9	37.2	37.9	37.3
Uruguay	66.5	74.3	94.0	89.9	83.1	67.7	60.6	58.6	51.3
Venezuela (Bolivarian Republic of)	21.5	20.4	19.1	18.2	23.0	21.8	23.3	30.3	31.3

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

[a] According to the ECLAC definition, this corresponds to M1 plus savings and time deposits in national currency plus foreign currency deposits.

[b] According to the country's definition, this corresponds to M1 plus special interest-bearing deposits, savings deposits and securities issued by deposit institutions.

[c] According to the country's definition, this also includes deposits of entitites in liquidation and, since 2001, term deposit certificates of special entities and demand deposits of non-bank entities.

[d] Refers to M2 (M1 plus fixed-term deposits in local currency).

Table A-29
LATIN AMERICA AND THE CARIBBEAN: FOREIGN CURRENCY DEPOSITS
(End-of-year balances as percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Antigua and Barbuda	4.0	5.4	4.3	6.1	5.2	6.1	5.8	7.5	9.2
Argentina	15.2	16.8	16.5	0.7	1.4	1.7	2.0	2.3	2.6
Bahamas	1.0	1.6	1.6	1.5	1.7	1.6	2.2	2.3	2.8
Barbados	10.1	6.3	8.3	12.5	10.7	10.7	16.4	11.3	19.9
Bolivia	44.7	44.3	45.0	41.7	39.4	33.1	30.9	26.7	23.9
Chile	4.7	5.1	6.3	5.9	5.4	4.9	4.7	4.7	4.8
Costa Rica	11.6	12.6	13.9	15.2	15.3	20.5	21.0	20.0	17.5
Dominica	1.8	1.4	2.2	3.2	1.4	1.7	1.3	1.3	1.1
Grenada	3.9	5.9	6.6	6.7	7.4	7.0	6.8	5.1	7.5
Guatemala	0.1	0.1	1.4	2.0	2.8	3.7	3.9	4.2	4.7
Haiti	9.4	11.7	13.1	17.6	20.0	16.6	18.0	15.6	15.1
Honduras [a]	...	...	...	12.6	12.7	13.8	13.5	13.9	15.0
Jamaica	8.8	9.5	9.8	11.1	12.8	12.9	12.1	11.0	12.7
Mexico	1.4	1.3	1.7	1.5	1.2	1.4	1.5	1.4	1.3
Nicaragua	24.9	24.6	25.0	27.9	28.4	28.6	27.8	25.8	26.8
Paraguay	16.8	16.2	19.9	18.4	14.8	13.1	11.7	10.6	11.0
Peru	18.5	17.7	17.4	17.1	15.3	13.2	14.1	12.4	12.4
Dominican Republic	0.5	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Saint Kitts and Nevis	14.5	28.0	25.4	24.9	27.0	28.8	28.4	30.4	31.1
Saint Vincent and the Grenadines	1.9	1.0	0.8	1.0	1.0	2.3	1.2	2.3	2.6
Saint Lucia	1.1	0.4	0.7	1.3	1.6	1.8	2.7	8.4	4.7
Suriname	...	24.9	25.4	21.7	23.9	27.5	25.7	27.1	32.5
Trinidad and Tobago	9.7	10.2	9.1	9.8	6.1	8.8	7.7	9.2	9.0
Uruguay	55.2	62.9	83.6	80.8	73.5	58.5	49.7	47.0	38.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Term deposits in foreign currency.

Table A-30

LATIN AMERICA AND THE CARIBBEAN: DOMESTIC CREDIT TO THE PRIVATE SECTOR

(End-of-year balances as percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
Antigua and Barbuda	68.0	72.8	71.6	80.2	73.2	68.2	70.6	73.8	74.6
Argentina	24.9	23.9	20.8	15.3	10.8	10.5	11.7	13.0	14.5
Bahamas	59.6	63.5	66.8	66.4	66.4	69.6	73.9	80.3	85.5
Barbados	51.3	51.2	51.0	55.7	51.4	58.4	68.1	72.5	72.6
Belize	44.3	41.2	44.6	47.8	51.5	53.5	54.0	55.8	61.2
Bolivia	64.0	58.5	53.2	51.1	47.8	42.1	39.3	34.8	34.0
Brazil	32.1	33.8	32.5	32.5	31.8	32.0	37.0	44.6	53.6
Chile	65.0	66.0	65.6	65.9	62.7	62.3	64.3	63.8	69.8
Colombia	29.7	23.8	22.3	20.6	19.8	19.6	20.2	23.2	26.6
Costa Rica	17.6	21.0	23.5	25.4	26.5	26.7	29.5	31.1	36.6
Cuba [b]	...	...	...	...	...	...	9.2	15.0	21.0
Dominica	58.1	62.3	62.1	63.0	59.3	58.5	59.1	62.0	62.3
Ecuador	29.6	31.1	26.6	20.7	19.8	21.1	22.8	24.1	25.6
El Salvador	...	...	40.2	41.7	41.6	41.2	42.3	42.5	42.1
Grenada	71.5	75.7	77.7	75.9	72.0	78.6	72.8	80.8	87.6
Guatemala	0.0	19.8	20.6	20.0	20.4	20.9	23.2	27.1	30.5
Guyana	50.1	44.9	43.3	42.4	33.7	30.9	31.8	33.7	33.7
Haiti	15.0	16.0	15.6	18.4	17.7	15.4	15.7	14.2	13.6
Honduras	34.8	34.1	36.7	36.0	37.6	38.4	39.3	45.3	52.5
Jamaica	8.8	8.6	9.3	11.4	14.4	15.3	16.2	18.2	21.0
Mexico	17.5	15.7	12.9	14.3	14.0	13.2	14.4	16.9	18.4
Nicaragua	...	...	17.7	19.6	22.9	25.4	29.3	33.7	39.0
Panama	96.8	101.9	108.6	90.4	87.1	85.1	87.1	88.4	91.2
Paraguay [c]	…	…	…	22.3	13.6	13.6	13.8	13.4	16.6
Peru	34.3	31.9	30.4	30.1	28.7	27.0	28.6	28.6	33.2
Dominican Republic	19.5	21.1	24.5	26.5	26.8	18.0	17.5	17.2	19.0
Saint Kitts and Nevis	74.1	76.6	73.1	69.6	70.3	69.4	68.0	67.3	71.5
Saint Vincent and the Grenadines	61.2	65.5	65.0	64.2	61.8	57.5	56.4	57.3	58.8
Saint Lucia	74.6	77.7	83.3	82.0	74.7	76.6	83.5	96.9	88.8
Suriname	...	...	16.9	18.3	19.7	21.8	23.7	25.7	32.4
Trinidad and Tobago	0.0	0.0	0.0	30.0	26.0	27.9	28.4	27.5	28.6
Uruguay	56.3	57.3	67.9	75.3	46.5	31.0	27.3	26.5	25.4
Venezuela (Bolivarian Republic of)	11.2	10.5	11.6	9.6	8.6	10.7	12.7	...	...

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

[a] Preliminary figures.

[b] Includes credit service and agricultural production cooperatives, basic cooperative production units, private farmers and individuals.

[c] Credit granted to the private sector by the banking sector.

Table A-31

LATIN AMERICA AND THE CARIBBEAN: REPRESENTATIVE LENDING RATES

(Annual average of monthly annualized rates)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Antigua and Barbuda [a]	11.0	10.7	10.8	11.0	10.7	10.6	10.8	10.8	10.8
Argentina [b]	11.0	11.1	26.5	53.0	19.1	6.8	6.2	8.6	11.1
Bahamas [c]	...	...	...	...	12.0	11.2	10.3	10.0	10.6
Barbados [d]	...	...	...	...	7.6	7.4	8.5	10.0	10.5
Belize [e]	16.3	16.0	15.5	14.8	14.4	13.9	14.2	14.2	14.3
Bolivia [f]	...	...	13.7	10.9	9.1	8.2	8.2	7.8	8.2
Brazil [g]	64.8	41.9	41.1	44.4	49.8	41.1	43.7	40.0	34.5
Chile [h]	17.6	18.7	16.7	14.4	13.0	11.0	13.5	14.4	13.6
Colombia [i]	29.4	18.8	20.7	16.3	15.2	15.1	14.6	12.9	15.4
Costa Rica [j]	29.8	28.1	26.7	26.8	26.2	23.4	24.0	22.7	17.3
Cuba [k]	...	...	...	...	9.6	9.7	9.8	9.4	9.1
Dominica [a]	10.0	10.0	10.0	9.8	9.5	9.3	9.3	9.3	9.3
Ecuador [l]	...	15.2	15.5	14.1	12.6	10.2	8.7	8.9	10.1
El Salvador [m]	...	10.7	9.6	7.1	6.6	6.3	6.9	7.5	7.8
Grenada [a]	10.0	10.0	10.0	9.8	9.3	9.0	9.0	9.3	10.7
Guatemala [n]	19.4	20.9	19.0	16.9	15.0	13.8	13.0	12.8	12.8
Guyana [o]	17.1	17.2	17.3	17.3	16.6	16.6	15.1	14.9	14.1
Haiti [p]	22.9	25.1	28.6	25.5	30.7	34.1	27.1	29.5	31.2
Honduras [n]	30.2	26.8	23.8	22.7	20.8	19.9	18.8	17.4	16.6
Jamaica [q]	36.8	32.9	29.4	26.1	25.1	25.1	23.2	22.0	22.0
Mexico [r]	23.7	16.9	12.8	8.2	6.9	7.2	9.9	7.5	7.6
Nicaragua [s]	17.6	18.1	18.6	18.3	15.5	13.5	12.1	11.6	13.0
Panama [t]	10.1	10.3	10.6	9.2	8.9	8.2	8.2	8.1	8.3
Paraguay [u]	30.2	26.8	28.3	34.3	30.5	21.2	15.3	16.6	14.6
Peru [v]	...	...	...	22.3	20.2	18.7	17.9	17.1	16.5
Dominican Republic [w]	22.2	23.6	20.0	21.3	27.8	30.3	21.4	15.7	11.7
Saint Kitts and Nevis [a]	10.5	10.3	10.5	10.6	9.8	9.4	8.7	8.8	8.8
Saint Vincent and the Grenadines [a]	11.3	10.8	10.1	10.0	10.0	9.8	10.0	10.0	10.0
Saint Lucia [a]	10.0	10.0	10.0	10.0	9.9	9.8	9.8	9.8	9.8
Suriname [r]	27.4	29.0	25.7	22.2	21.0	20.4	18.1	15.7	13.8
Trinidad and Tobago [x]	17.1	16.5	15.6	13.4	11.0	9.4	9.1	10.2	10.5
Uruguay [y]	39.0	32.1	38.1	116.4	56.6	26.0	15.3	10.7	10.0
Venezuela (Bolivarian Republic of) [z]	31.3	24.5	24.8	38.4	25.7	17.3	15.6	14.6	16.7

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

[a] Prime lending rate, average of minimum and maximum rates.
[b] Thirty-day loans in pesos to leading firms, arithmetical average.
[c] Interest rate on loans and overdrafts, weighted average.
[d] Prime lending rate.
[e] Rate for personal and business loans, residential and other construction; weighted average.
[f] Nominal dollar rate for 60-91-day banking operations.
[g] Preset lending rate for legal persons.
[h] Lending rates for periods of 90-360 days, non-adjustable operations.
[i] Total lending rate of the system.
[j] Average rate of the financial system for loans in national currency.
[k] Average of loans to enterprises by the country's main banks.
[l] Benchmark dollar lending rate.
[m] Basic lending rate for up to 1 year.
[n] Weighted average lending rates.
[o] Weighted average prime rate.
[p] Average of minimum and maximum lending rates.
[q] Average interest rate on loans.
[r] Lending rate published by the International Monetary Fund.
[s] Weighted average of the weekly lending rate for loans in national currency in the system.
[t] Interest rate on 1-year trade credit.
[u] Weighted average of effective lending rates in national currency, not including overdrafts or credit cards.
[v] Average lending rate, constant structure.
[w] Prime lending rate.
[x] Prime interest rate on term loans.
[y] Business credit, 30-367 days.
[z] Average rate for loan operations for the six major commercial banks.

Table A-32
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variation December–December)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean [b]	**9.7**	**9.0**	**6.1**	**12.2**	**8.5**	**7.4**	**6.1**	**5.0**	**6.5**	**8.9**
Antigua and Barbuda	...	...	...	2.5	1.8	2.8	2.5	0.0	5.1	...
Argentina	-1.8	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	9.3
Bahamas	1.4	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.9 [c]
Barbados	2.9	3.8	-0.3	0.9	0.3	4.3	7.4	5.6	4.7	7.5 [d]
Belize	-1.2	0.6	1.1	2.3	2.6	3.1	4.2	3.0	4.1	6.9 [c]
Bolivia	3.1	3.4	0.9	2.5	3.9	4.6	4.9	4.9	11.7	18.5
Brazil	8.9	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.5	6.1
Chile	2.3	4.5	2.6	2.8	1.1	2.4	3.7	2.6	7.8	9.5
Colombia	9.2	8.8	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.2
Costa Rica	10.1	10.2	11.0	9.7	9.9	13.1	14.1	9.4	10.8	12.8
Cuba [f]	-2.9	-3.0	-1.4	7.3	-3.8	3.0	3.7	5.7	2.8	0.7 [d]
Dominica	0.0	1.1	1.1	0.5	2.7	0.9	2.7	1.8	3.0	5.6 [g]
Ecuador	60.7	91.0	22.4	9.3	6.1	1.9	3.1	2.9	3.3	9.7
El Salvador	-1.0	4.3	1.4	2.8	2.5	5.4	4.3	4.9	4.9	9.0
Grenada	1.1	3.4	-0.7	-0.4	1.2	2.5	6.2	1.7	7.4	8.5 [g]
Guatemala	4.9	5.1	8.9	6.3	5.9	9.2	8.6	5.8	8.7	13.6
Guyana	8.7	5.8	1.5	6.0	5.0	5.5	8.2	4.2	14.1	8.2 [g]
Haiti	9.7	19.0	8.1	14.8	40.4	20.2	14.8	10.2	9.9	15.8
Honduras	10.9	10.1	8.8	8.1	6.8	9.2	7.7	5.3	8.9	12.2
Jamaica	6.8	5.9	8.6	7.3	13.8	13.6	12.6	5.6	16.8	24.0
Mexico	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.8	5.3
Nicaragua	7.2	9.9	4.7	4.0	6.6	8.9	9.6	10.2	16.2	22.7
Panama	1.5	0.7	0.0	1.9	1.5	1.5	3.4	2.2	6.4	9.6
Paraguay	5.4	8.6	8.4	14.6	9.3	2.8	9.9	12.5	6.0	13.4
Peru	3.7	3.7	-0.1	1.5	2.5	3.5	1.5	1.1	3.9	5.7
Dominican Republic	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.0	8.9	12.2
Saint Kitts and Nevis	3.2	...	...	1.7	3.1	1.7	6.0	5.9	4.0	3.9 [g]
Saint Vincent and the Grenadines	-1.8	1.4	-0.2	0.4	2.2	1.7	3.9	4.8	8.3	11.6 [g]
Saint Lucia	6.1	0.4	0.0	1.4	0.5	3.5	5.2	-0.6	8.2	10.1 [g]
Suriname	112.9	76.1	4.9	28.4	14.0	9.3	15.8	4.7	8.3	...
Trinidad and Tobago	3.4	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.6	11.3
Uruguay	4.2	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.5	7.1
Venezuela (Bolivarian Republic of)	20.0	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5	29.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Twelve-month variation to June 2008.
[b] The only English-speaking Caribbean countries included are Barbados, Jamaica and Trinidad and Tobago.
[c] Twelve-month variation to May 2008.
[d] Twelve-month variation to April 2008.
[e] Twelve-month variation to February 2008.
[f] Refers to national-currency markets.
[g] Twelve-month variation to March 2008.

Table A-33

LATIN AMERICA AND THE CARIBBEAN: WHOLESALE PRICES

(Percentage variation December–December)

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008[a]
Argentina	WPI	1.2	2.4	-3.4	113.7	2.0	7.9	10.6	7.2	14.6	13.8
Brazil	IPA-DI	28.9	12.1	11.9	35.4	6.3	14.7	-1.0	4.3	9.4	17.9
Chile	WPI	13.5	7.9	3.1	10.4	-1.0	7.8	3.2	7.9	14.0	13.7
Colombia	PPI	7.1	14.9	9.0	3.8	10.2	5.2	3.0	5.3	1.3	8.0
Costa Rica	IND-PPI	11.3	10.2	8.6	8.4	11.0	17.7	12.1	13.7	14.6	20.5
Ecuador	PPI	186.9	64.9	-5.6	17.7	4.5	4.3	21.6	7.2	18.2	44.0
El Salvador	IPRI	10.8	4.9	-4.8	4.9	-0.6	13.0	6.9	0.4	14.2	26.4
Mexico	NPPI	12.5	6.4	1.3	9.2	6.8	8.0	3.4	7.3	5.4	10.4
Peru	WPI-NP	5.5	3.8	-2.2	1.7	2.0	4.9	3.6	1.3	5.2	8.8
Uruguay	PPI-NP	-0.3	9.5	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	23.1
Venezuela (Bolivarian Republic of)	WPI-VAT	13.6	15.8	10.2	49.4	48.4	23.1	14.2	15.9	17.2	20.3

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

[a] Twelve-month variation to June 2008.

Abbreviations: WPI: Wholesale price index; IPA-DI: Wholesale price index-domestic availability (acronym in Portuguese); PPI: Producer price index; IND-PPI: Industrial producer price index; IPRI: Industrial price index; NPPI: National producer price index; WPI-NP: Wholesale price index, national products; PPI-NP: Producer price index, national products; WPI-VAT: Wholesale price index, includes value added tax.

Table A-34

LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR BALANCE

(Percentages of GDP)

	Central government						Non-financial public sector					
	Primary balance			Overall balance			Primary balance			Overall balance		
	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]
Latin America and the Caribbean (exc. Cuba)	**1.3**	**2.1**	**2.3**	**-1.2**	**-0.2**	**0.3**	**3.3**	**4.2**	**...**	**0.4**	**1.4**	**...**
Latin America and the Caribbean (inc. Cuba)	**1.0**	**1.9**	**2.1**	**-1.3**	**-0.3**	**0.1**	**3.3**	**4.2**	**...**	**0.4**	**1.4**	**...**
Argentina [b]	2.3	2.7	2.8	0.4	1.0	0.6	3.3	3.5	...	1.0	1.4	...
Bolivia	-0.7	2.8	2.9	-3.5	0.3	0.8	0.4	6.3	3.0	-2.2	4.5	1.7
Brazil [c]	2.5	2.1	2.3	-3.6	-2.9	-2.0	4.4	3.9	4.0	-3.0	-3.0	-2.3
Chile	5.4	8.4	9.4	4.6	7.7	8.8	8.1	12.4	...	6.9	11.4	...
Colombia [d]	-1.5	-0.1	0.8	-4.5	-3.8	-3.0	3.1	3.1	2.9	-0.3	-0.8	-1.0
Costa Rica [e]	2.0	2.7	3.7	-2.1	-1.1	0.6	3.8	5.2	4.9	-0.4	1.3	1.8
Cuba	-3.3	-2.0	-1.8	-4.6	-3.2	-3.2	...	...	...	...	...	...
Ecuador [f]	1.8	2.1	1.9	-0.5	-0.2	-0.1	2.9	5.5	4.1	0.7	3.3	2.2
El Salvador	1.1	2.0	2.2	-1.0	-0.4	-0.2	1.1	1.4	2.2	-1.1	-1.1	-0.2
Guatemala	-0.3	-0.6	0.0	-1.7	-1.9	-1.5	...	...	...	...	...	...
Haiti	0.4	1.1	-1.2	-0.6	0.3	-1.6	...	...	...	...	...	...
Honduras [g]	-1.1	-0.1	-1.6	-2.2	-1.1	-2.3	...	...	...	...	...	...
Mexico [h]	0.5	-0.3	-0.5	-1.1	-1.8	-2.0	1.9	2.1	1.9	-0.1	0.1	0.0
Nicaragua [i]	0.1	1.8	2.1	-1.8	0.0	0.6	1.0	2.5	3.1	-0.9	0.7	1.6
Panama [i]	0.5	4.4	4.7	-3.9	0.2	1.2	...	...	...	...	...	...
Paraguay [j]	2.0	1.5	1.8	0.8	0.5	1.0	...	...	...	1.5	2.3	2.0
Peru	1.1	3.2	3.4	-0.7	1.5	1.8	1.6	4.0	4.9	-0.3	2.1	3.1
Dominican Republic [k]	0.7	0.3	1.8	-0.6	-1.1	0.6	...	...	...	...	...	...
Uruguay	2.8	3.3	2.2	-1.6	-1.0	-1.7	4.1	3.9	3.5	-0.5	-0.6	-0.4
Venezuela (Bolivarian Republic of)	4.6	2.1	4.5	1.6	0.0	3.0	7.1	0.6	-1.0	4.1	-1.5	-2.6

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

[a] Preliminary figures.

[b] The central government coverage corresponds to national public administration, on an accrual basis. The non-financial public sector (NFPS) coverage corresponds to the public sector, on a cash basis.

[c] The central government coverage includes federal government and central bank. The figures are derived from the primary balance based on the-below-the-line criterion and nominal interest.

[d] The central government coverage corresponds to the central national government. The central government balance does not include accrued revenue, accrued expenditure, floating debt or the cost of financial restructuring.

[e] NFPS coverage corresponds to the narrowly-defined non-financial public sector.

[f] Accrual basis.

[g] The central government coverage corresponds to the consolidated central government.

[h] Central-government coverage includes the federal government. The coverage of the non-financial public sector refers to the public sector.

[i] Cash basis.

[j] The central government coverage corresponds to the central administration.

[k] Accrual basis. The overall balance includes the residue.

Table A-35
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL REVENUE
(Percentages of GDP)

	Total revenue			Current revenue			Capital revenue		
	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]
Latin America and the Caribbean (exc. Cuba)	**17.8**	**18.8**	**19.4**	**16.9**	**17.9**	**18.5**	**0.2**	**0.2**	**0.2**
Latin America and the Caribbean (inc. Cuba)	**19.1**	**20.0**	**20.7**	**18.3**	**19.2**	**19.8**	**0.3**	**0.3**	**0.3**
Argentina	16.7	17.2	18.4	16.5	17.0	18.3	0.2	0.2	0.1
Bolivia	25.4	27.9	28.4	23.3	25.9	26.5	2.1	2.1	1.8
Brazil	22.7	23.3	24.4	...	...	...	..	..	..
Chile [b]	23.8	25.9	27.4	23.8	25.8	27.4	0.0	0.0	0.0
Colombia [c]	13.7	14.9	15.3	12.7	13.6	13.8	1.0	1.3	1.5
Costa Rica	13.9	14.2	15.5	13.9	14.2	15.5	0.0	0.0	0.0
Cuba	44.0	43.2	46.0	42.5	41.7	43.7	1.5	1.5	2.3
Ecuador	16.3	16.7	19.1	16.3	16.7	19.1	0.0	0.0	0.0
El Salvador	13.5	14.4	14.6	13.2	14.2	14.3	0.0	0.0	0.0
Guatemala	12.0	12.7	13.1	12.0	12.7	13.1	0.0	0.0	0.0
Haiti	10.8	10.8	10.8	9.7	10.2	10.3	0.0	0.0	0.0
Honduras	17.6	18.2	19.0	16.4	16.7	17.5	0.1	0.0	0.0
Mexico	15.4	15.1	15.3	15.4	15.1	15.3	0.0	0.0	0.0
Nicaragua	21.4	22.8	23.2	18.0	18.8	19.5	0.0	0.0	0.0
Panama	15.2	18.6	19.4	15.1	18.5	19.1	0.0	0.1	0.1
Paraguay	18.3	18.3	18.0	18.1	18.2	17.6	0.1	0.1	0.0
Peru	15.8	17.5	18.4	15.7	17.4	18.2	0.1	0.1	0.1
Dominican Republic [d]	15.6	16.1	17.7	15.4	15.9	17.3	0.0	0.0	0.0
Uruguay	21.8	21.9	21.3	21.8	21.9	21.3	0.0	0.0	0.0
Venezuela (Bolivarian Republic of)	27.5	29.6	28.9	27.5	29.6	28.9	0.0	0.0	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Total revenue corresponds to revenue plus sales of financial assets.
[c] Total revenue includes special funds and incorporates accrued revenue.
[d] Accrual basis.

Table A-36
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL EXPENDITURE
(Percentages of GDP)

	Total expenditure			Current expenditure			Capital expenditure			Interest		
	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]	2005	2006	2007[a]
Latin America and the Caribbean (exc. Cuba)	**18.9**	**18.9**	**19.1**	**15.4**	**15.5**	**15.4**	**3.1**	**3.0**	**3.3**	**2.4**	**2.3**	**2.0**
Latin America and the Caribbean (inc. Cuba)	**20.4**	**20.3**	**20.6**	**16.6**	**16.4**	**16.6**	**3.4**	**3.4**	**3.6**	**2.4**	**2.2**	**2.0**
Argentina	16.3	16.2	17.8	14.3	13.6	15.6	2.0	2.6	2.2	1.9	1.7	2.1
Bolivia	28.9	27.6	27.6	24.6	24.7	24.1	4.3	3.0	3.4	2.8	2.4	2.1
Brazil	26.3	26.3	26.3	...	...	...	...	...	...	6.1	5.0	4.3
Chile [b]	19.3	18.2	18.6	16.1	15.1	15.4	3.1	3.0	3.2	0.8	0.7	0.6
Colombia [c]	17.8	18.4	18.1	16.4	16.7	16.1	1.3	1.6	1.9	2.9	3.7	3.8
Costa Rica	16.0	15.3	15.0	14.9	14.4	13.7	1.1	0.9	1.3	4.1	3.8	3.1
Cuba	48.6	46.4	49.2	38.9	33.6	38.3	7.2	9.1	8.3	1.2	1.2	1.4
Ecuador	16.8	16.9	19.2	12.7	12.8	13.3	4.1	4.0	5.9	2.3	2.3	2.1
El Salvador	14.6	14.8	14.8	12.1	12.2	12.3	2.6	2.6	2.5	2.2	2.4	2.4
Guatemala	13.7	14.7	14.6	9.1	9.4	9.7	4.6	5.3	4.9	1.4	1.4	1.5
Haiti	11.5	10.6	12.4	10.2	9.7	9.7	1.2	0.9	2.6	1.0	0.8	0.3
Honduras	19.8	19.3	21.4	15.3	16.1	17.6	4.5	3.4	3.8	1.1	1.0	0.7
Mexico [d]	16.4	16.9	17.3	13.8	14.0	14.3	2.6	2.8	3.0	1.6	1.5	1.4
Nicaragua	23.2	22.7	22.6	17.8	19.3	18.8	5.4	3.5	3.7	1.9	1.8	1.5
Panama	19.1	18.4	18.1	16.6	15.9	14.1	2.5	2.5	4.1	4.4	4.2	3.4
Paraguay	17.5	17.8	17.0	13.5	13.7	13.2	4.1	4.2	3.8	1.2	1.0	0.9
Peru	16.5	16.1	16.6	14.7	14.1	14.4	1.9	2.0	2.2	1.8	1.8	1.6
Dominican Republic [e]	16.7	17.1	17.2	12.6	13.0	12.9	4.1	4.1	4.3	1.3	1.4	1.2
Uruguay	23.5	22.9	22.9	22.1	21.5	21.4	1.4	1.4	1.6	4.4	4.3	3.8
Venezuela (Bolivarian Republic of) [f]	25.9	29.6	25.8	19.6	22.5	19.9	5.8	6.7	5.8	2.9	2.1	1.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Total expenditure refers to expenditure plus investment, capital transfers and fixed capital consumption.
[c] Includes accrued expenditure, floating debt and financial restructuring costs.
[d] Current expenditure, capital expenditure and interest correspond to federal government expenditure.
[e] Accrual basis.
[f] Total expenditure includes extrabudgetary.

Table A-37

LATIN AMERICA AND THE CARIBBEAN: TAX BURDEN INCLUDING SOCIAL SECURITY CONTRIBUTIONS

(Percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007 [a]
Latin America and the Caribbean (exc. Cuba)	**15.2**	**15.2**	**15.5**	**15.4**	**15.6**	**16.1**	**16.8**	**17.4**	**18.2**
Latin America and the Caribbean (inc. Cuba)	**15.9**	**15.8**	**16.0**	**16.0**	**16.2**	**16.5**	**17.4**	**18.0**	**18.6**
Argentina [b]	21.2	21.5	20.9	19.9	23.4	26.4	26.8	27.4	29.2
Bolivia [b]	18.6	17.9	17.0	17.3	17.2	19.0	20.4	19.8	20.1
Brazil [b]	29.0	30.4	31.3	31.9	31.5	32.2	33.4	34.2	35.6
Chile [b]	18.3	18.9	19.4	19.3	18.6	18.2	19.5	19.5	21.3
Colombia [c]	12.6	12.5	14.1	13.9	14.0	14.7	14.9	15.8	16.0
Costa Rica [c]	11.9	12.2	13.2	13.2	13.3	13.3	13.6	14.0	15.2
Cuba [c]	28.6	27.5	25.9	26.6	26.9	23.3	28.7	30.0	27.7
Ecuador [c]	9.9	11.6	13.3	14.1	12.9	12.8	13.0	14.0	14.8
El Salvador [c]	12.1	12.4	12.3	13.0	13.3	13.3	14.1	15.0	15.0
Guatemala [c]	10.7	10.8	11.0	12.0	11.8	11.7	11.4	12.0	12.5
Haiti [c]	8.8	8.0	7.4	8.3	8.8	8.9	9.7	10.2	10.3
Honduras [c]	15.3	14.3	16.6	15.4	15.5	15.5	15.7	16.4	17.7
Mexico [c]	11.7	11.1	11.7	12.0	11.5	10.3	10.0	9.8	11.7
Nicaragua [c]	17.1	17.5	16.0	16.8	18.6	19.3	20.3	21.3	21.9
Panama [c]	15.6	15.2	14.5	14.0	14.6	14.4	14.3	15.7	16.5
Paraguay [c]	11.8	12.0	12.0	11.2	11.3	12.9	13.0	13.1	12.9
Peru [c]	14.5	14.1	14.3	13.8	14.5	14.7	15.2	16.6	17.2
Dominican Republic [c]	12.1	11.3	13.1	13.0	12.0	12.8	14.6	15.0	16.0
Uruguay [c]	23.7	23.5	23.3	22.4	22.3	22.4	23.5	24.2	24.1
Venezuela (Bolivarian Republic of) [c]	13.8	13.6	12.2	11.2	11.9	13.3	15.9	16.3	17.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] General government.
[c] Central government.

Table A-38
LATIN AMERICA AND THE CARIBBEAN: TAX BURDEN AND COMPOSITION OF TAX REVENUES
(Percentages of GDP)

	Total		Income tax and capital gains tax		Property tax		Other direct taxes		General goods and services taxes	
	2006	2007[a]	2006	2007[a]	2006	2007[a]	2006	2007[a]	2006	2007[a]
Latin America and the Caribbean (exc. Cuba)	**17.4**	**18.2**	**4.4**	**4.8**	**0.7**	**0.7**	**0.0**	**0.0**	**6.3**	**6.5**
Latin America and the Caribbean (inc. Cuba)	**18.0**	**18.6**	**4.3**	**4.7**	**0.7**	**0.7**	**0.1**	**0.1**	**7.0**	**7.0**
Argentina [b]	27.4	29.2	5.3	5.4	3.2	3.3	0.0	0.0	9.7	10.4
Bolivia [b]	19.8	20.1	3.4	3.3	1.4	1.3	0.0	0.0	8.8	9.2
Brazil [b]	34.2	35.6	7.0	7.7	2.8	2.9	0.5	0.5	13.0	13.2
Chile [b]	19.5	21.3	7.0	8.4	0.6	0.6	0.0	0.0	7.4	7.9
Colombia [c]	15.8	16.0	5.6	5.7	0.8	1.0	0.0	0.0	5.7	5.5
Costa Rica [c]	14.0	15.2	3.4	3.9	0.5	0.6	0.0	0.0	5.4	5.9
Cuba [c]	30.0	27.7	2.7	3.9	…	…	0.9	0.3	20.0	16.8
Ecuador [c]	14.0	14.8	2.6	2.9	0.2	0.2	0.0	0.0	5.4	5.6
El Salvador [c]	15.0	15.0	4.2	4.6	0.1	0.1	0.0	0.0	7.0	6.8
Guatemala [c]	12.0	12.5	2.4	2.6	0.0	0.0	0.0	0.0	5.4	6.0
Haiti [c]	10.2	10.3	1.8	1.9	0.0	0.0	0.1	0.1	2.9	3.0
Honduras [c]	16.4	17.7	4.4	5.1	0.2	0.2	0.0	0.0	5.6	6.1
Mexico [c]	9.8	11.7	4.3	4.7	0.2	0.2	0.0	0.0	3.7	3.7
Nicaragua [c]	21.3	21.9	5.1	5.4	0.0	0.0	0.0	0.0	7.3	7.6
Panama [c]	15.7	16.5	4.8	4.8	0.6	0.6	0.3	0.2	1.0	1.0
Paraguay [c]	13.1	12.9	1.8	2.0	0.0	0.0	0.0	0.0	5.4	5.9
Peru [c]	16.6	17.2	6.5	7.3	0.3	0.3	0.0	0.0	5.6	5.8
Dominican Republic [c]	15.0	16.0	3.3	4.0	0.9	1.0	0.0	0.0	4.5	4.9
Uruguay [c]	24.2	24.1	3.3	3.6	1.6	1.4	0.0	0.0	9.1	9.1
Venezuela (Bolivarian Republic of) [c]	16.3	17.0	7.0	7.7	0.1	0.6	0.0	0.0	6.6	5.7

	Specific goods and services tax		Tax on trade and international transactions		Other indirect taxes		Other taxes		Social security contributions	
	2006	2007[a]	2006	2007[a]	2006	2007[a]	2006	2007[a]	2006	2007[a]
Latin America and the Caribbean (exc. Cuba)	**1.8**	**1.8**	**1.4**	**1.4**	**0.0**	**0.0**	**0.3**	**0.3**	**2.5**	**2.7**
Latin America and the Caribbean (inc. Cuba)	**1.8**	**1.8**	**1.3**	**1.3**	**0.0**	**0.0**	**0.4**	**0.3**	**2.6**	**2.8**
Argentina [b]	1.9	1.7	3.1	3.4	0.0	0.0	0.5	0.4	3.8	4.5
Bolivia [b]	3.0	3.2	1.0	1.1	0.0	0.0	0.3	0.3	1.8	1.8
Brazil [b]	1.6	1.6	0.4	0.5	0.1	0.1	0.5	0.5	8.4	8.7
Chile [b]	2.0	2.0	0.4	0.4	0.0	0.0	0.8	0.7	1.4	1.3
Colombia [c]	0.3	0.3	0.9	1.0	0.0	0.0	0.2	0.2	2.3	2.3
Costa Rica [c]	3.1	3.3	1.1	1.2	0.0	0.0	0.0	0.1	0.3	0.3
Cuba [c]	1.2	1.4	0.0	0.0	0.0	0.0	1.1	1.1	4.2	4.1
Ecuador [c]	0.6	0.5	1.5	1.5	0.0	0.0	0.0	0.0	3.8	4.2
El Salvador [c]	0.9	0.8	1.1	1.0	0.0	0.0	0.0	0.0	1.6	1.6
Guatemala [c]	1.4	1.3	1.2	1.1	0.3	0.4	1.1	1.0	0.2	0.2
Haiti [c]	0.6	0.8	3.4	3.0	0.0	0.0	1.5	1.7	…	…
Honduras [c]	3.9	3.7	1.1	1.2	0.0	0.0	0.0	0.0	1.2	1.3
Mexico [c]	-0.0	-0.0	0.3	0.3	0.0	0.0	0.1	0.1	1.1	2.7
Nicaragua [c]	4.0	3.9	1.0	1.0	0.0	0.0	0.0	0.0	3.8	3.9
Panama [c]	1.1	1.1	2.5	2.9	0.1	0.0	0.2	0.2	5.1	5.6
Paraguay [c]	2.1	2.2	1.8	1.4	0.0	0.0	0.9	0.2	1.1	1.3
Peru [c]	1.4	1.3	0.9	0.7	0.2	0.2	0.2	0.2	1.5	1.6
Dominican Republic [c]	3.9	4.2	2.3	1.7	0.0	0.0	0.0	0.0	0.1	0.1
Uruguay [c]	2.7	2.4	1.4	1.4	0.0	0.0	0.0	0.0	6.1	6.2
Venezuela (Bolivarian Republic of) [c]	0.6	0.7	1.3	1.5	0.0	0.0	0.0	0.0	0.7	0.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] General government.
[c] Central government.

Table A-39
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT PUBLIC DEBT
(Percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**43.6**	**43.3**	**45.6**	**58.6**	**57.7**	**51.1**	**43.0**	**36.0**	**30.2**
Argentina [b]	43.0	45.0	53.7	145.9	138.2	126.4	72.8	63.6	55.8
Bolivia [c]	59.0	60.7	72.7	77.5	86.8	81.1	75.6	49.8	37.3
Brazil [d]	29.7	29.9	31.6	37.9	34.0	31.0	30.9	31.7	32.2
Chile [e]	13.7	13.6	14.9	15.7	13.0	10.7	7.3	5.3	4.1
Colombia [f]	26.3	32.9	39.0	44.0	43.9	40.0	39.6	38.1	35.8
Costa Rica [g]	42.9	42.4	43.2	43.6	41.3	41.0	37.6	33.3	27.7
Ecuador [g]	84.9	73.3	56.9	50.3	45.8	40.8	35.9	29.7	28.4
El Salvador [c]	...	27.2	30.7	35.2	37.2	38.1	37.6	37.5	34.5
Guatemala [c]	19.7	19.0	20.2	18.4	20.9	21.4	20.8	21.7	21.8
Haiti [h]	38.6	43.8	46.2	60.2	57.5	46.7	44.1	35.6	30.2
Honduras [g]	...	55.6	53.9	55.5	60.7	59.6	44.7	28.9	17.4
Mexico [i]	23.3	21.2	20.5	21.9	22.1	20.8	20.3	20.7	21.1
Nicaragua [g]	116.4	113.0	109.9	133.7	137.7	100.6	92.6	68.7	41.2
Panama [j]	66.0	65.5	70.1	69.0	66.6	69.6	65.1	60.3	52.7
Paraguay [g]	30.4	32.6	41.1	59.2	44.4	38.0	31.4	23.8	17.3
Peru [k]	48.1	45.2	44.2	45.7	47.4	41.7	38.2	31.2	27.3
Dominican Republic	...	...	...	...	...	...	22.0	20.4	18.4
Uruguay	26.2	31.9	41.9	98.7	94.3	74.6	67.1	59.3	50.7
Venezuela (Bolivarian Republic of) [l]	29.3	26.8	30.4	42.4	46.3	38.1	32.8	23.9	19.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Gross public debt. National public administration. As from 2005, does not include debt not presented for swap.
[c] Gross public debt. Does not include publicly guaranteed private debt.
[d] Net public debt. Federal government and central bank.
[e] Consolidated gross public debt.
[f] Gross public debt. Central national government.
[g] Gross public debt.
[h] Gross public debt. Does not include public sector commitments to commercial banks.
[i] Gross public debt. Federal government.
[j] Gross public debt. Does not include domestic floating debt.
[k] Gross public debt. Includes local and regional government debt with the Banco de la Nación.
[l] Gross public debt. Non-financial public-sector.

Table A-40
LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR PUBLIC DEBT
(Percentages of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
Latin America and the Caribbean	**48.6**	**47.4**	**49.6**	**64.5**	**62.2**	**55.3**	**47.6**	**39.9**	**33.0**
Argentina [b]	49.3	53.1	64.8	184.4	156.9	143.3	87.6	76.3	63.8
Bolivia [c]	64.3	65.8	76.7	80.2	89.5	83.9	78.3	52.6	39.7
Brazil [d]	48.5	47.7	50.8	59.6	53.7	49.3	46.7	46.0	45.4
Chile [e]	19.0	18.6	20.2	22.1	19.5	16.8	13.0	10.6	9.1
Colombia [f]	34.5	39.5	42.9	49.5	46.7	42.4	38.9	36.5	33.0
Costa Rica [g]	...	41.8	43.2	45.1	45.6	46.9	43.0	38.9	32.0
Ecuador [h]	94.0	81.7	62.7	54.3	49.2	43.7	38.6	32.3	30.9
El Salvador [h]	28.3	30.0	33.6	38.3	40.6	40.8	40.6	39.6	36.5
Guatemala [h]	22.7	21.2	21.7	19.6	22.0	22.4	21.5	21.9	22.0
Haiti [i]	42.7	49.1	50.7	66.5	63.5	51.1	47.5	38.1	34.3
Honduras [g]	66.0	55.4	53.5	55.1	59.9	59.4	44.8	30.2	18.3
Mexico [j]	28.3	25.3	24.1	25.7	26.1	24.2	23.0	22.7	22.9
Nicaragua [g]	120.2	114.7	111.3	134.1	138.0	100.7	92.8	69.1	42.0
Panama [g]	67.2	66.5	71.1	69.4	67.0	70.4	66.2	61.0	53.3
Paraguay [g]	33.5	35.3	44.0	63.0	46.9	41.7	32.8	24.8	24.8
Peru	48.1	45.2	44.2	45.7	47.4	41.7	38.2	31.2	27.3
Dominican Republic [k]	...	...	...	...	...	...	...	...	19.1
Uruguay	30.9	35.9	46.7	106.0	100.4	78.9	70.4	62.7	54.0
Venezuela (Bolivarian Republic of)	29.3	26.8	30.4	42.4	46.3	38.1	32.8	23.9	19.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Gross public debt. Up to 2002 the figures relate to national public-sector debt plus provincial debt; from 2003 onward, the figures are consolidated data.
[c] Gross public debt. Refers to the external debt of the non-financial public sector and central government domestic debt.
[d] Net public debt. Public sector.
[e] Consolidated gross public debt.
[f] Gross public debt. Consolidated non-financial public sector.
[g] Gross public debt.
[h] Gross public debt. Refers to NFPS external debt and central government domestic debt.
[i] Gross public debt. Does not include public sector commitments to commercial banks.
[j] Gross public debt. Refers to public sector external debt and federal government domestic debt.
[k] Gross public debt. Public sector.

Table A-41

LATIN AMERICA AND THE CARIBBEAN: SUBNATIONAL GOVERNMENTS FISCAL INDICATORS

(Percentages of GDP)

		1999	2000	2001	2002	2003	2004	2005	2006[a]
Argentina [b]	Total revenue	11.4	11.5	11.2	10.4	11.3	12.8	13.4	13.5
	Total expenditure	12.8	12.6	13.5	10.9	10.9	11.8	13.1	13.4
	Primary balance	-0.9	-0.5	-1.5	0.0	0.9	1.4	0.7	0.5
	Overall balance	-1.5	-1.2	-2.4	-0.5	0.4	1.0	0.3	0.1
	Public debt	5.8	7.5	11.2	21.9	18.8	16.8	14.8	12.8
Bolivia [c]	Total revenue	6.8	6.3	7.8	8.2	7.7	8.6	10.4	12.7
	Total expenditure	7.0	6.4	7.9	7.9	7.3	8.1	8.2	10.8
	Primary balance	0.1	0.1	0.1	0.5	0.4	0.7	2.4	2.1
	Overall balance	-0.1	-0.1	-0.2	0.3	0.4	0.6	2.2	1.9
	Public debt	0.8	1.0	0.9	1.1	1.2	1.5	1.5	1.2
Brazil [d]	Total revenue	12.8	12.9	12.9	12.8	12.3	12.3	12.8	13.1
	Total expenditure	13.1	12.8	13.1	13.1	12.4	12.4	12.7	13.2
	Primary balance	-0.7	0.2	0.3	0.3	0.6	0.7	0.7	0.6
	Overall balance	...	...	-0.3	-0.3	-0.1	0.0	0.1	0.0
	Public debt	16.0	15.7	17.6	19.8	18.6	18.1	16.3	15.7
Chile [e]	Total revenue	3.3	3.2	3.2	3.3	3.1	2.7	2.9	2.7
	Total expenditure	3.2	3.3	3.2	3.3	3.1	2.8	2.8	2.5
	Primary balance	0.0	-0.1	0.0	0.0	0.0	0.0	0.2	0.2
	Overall balance	0.0	-0.1	0.0	0.0	0.0	0.0	0.2	0.2
Colombia [f]	Total revenue	7.0	6.8	6.9	7.5	7.8	7.8	8.7	8.7
	Total expenditure	8.0	7.4	6.9	7.4	7.5	7.1	8.6	9.1
	Primary balance	0.1	-0.1	0.3	0.4	0.5	0.9	0.4	-0.1
	Overall balance	-0.4	-0.5	0.0	0.1	0.3	0.7	0.3	-0.3
	Public debt	3.1	3.2	3.6	3.3	2.5	1.8	1.7	1.6
Costa Rica [g]	Total revenue	0.6	0.8	0.9	0.9	0.8	0.8	0.8	0.9
	Total expenditure	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
	Primary balance	-0.1	0.1	0.1	0.1	0.1	0.0	0.2	0.2
	Overall balance	-0.1	0.1	0.0	0.1	0.1	0.0	-0.1	0.0
Cuba	Total revenue	12.1	15.0	15.9	17.3	17.5	17.9	20.8	21.3
	Total expenditure	12.1	15.0	15.9	17.3	17.5	17.9	20.8	21.3
	Primary balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Overall balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador [h]	Total revenue	2.3	2.8	3.9	4.0	3.7	4.3	3.9	4.1
	Total expenditure	2.2	2.1	3.3	3.8	3.3	4.2	3.6	4.1
	Primary balance	0.2	0.6	0.6	0.2	0.3	0.1	0.3	0.1
	Overall balance	0.2	0.6	0.6	0.2	0.3	0.1	0.3	0.0
Mexico [i]	Total revenue	6.0	6.2	6.8	6.8	7.1	6.9	7.3	...
	Total expenditure	5.9	6.2	6.8	6.9	7.0	6.8	7.2	...
	Primary balance	0.1	0.1	0.1	0.0	0.1	0.2	0.2	...
	Overall balance	0.1	0.1	0.0	-0.1	0.1	0.1	0.1	...
	Public debt	1.6	1.5	1.6	1.7	1.6	1.5	1.6	1.6
Paraguay [j]	Total revenue	0.4	0.4	0.4	0.3	0.3	0.5	0.5	0.5
	Total expenditure	0.4	0.4	0.4	0.2	0.3	0.5	0.5	0.5
	Primary balance	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Overall balance	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Peru [g]	Total revenue	1.9	2.1	2.1	2.1	2.2	2.3	2.5	2.7
	Total expenditure	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.7
	Primary balance	-0.1	0.1	0.1	0.1	0.2	0.1	0.3	0.1
	Overall balance	-0.1	0.0	0.0	0.1	0.1	0.1	0.3	0.1

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

[a] Preliminary figures.

[b] Figures relate to provinces.

[c] Figures relate to regional governments.

[d] Figures relate to states and municipalities.

[e] Figures relate to municipalities.

[f] Figures relate to departments and municipalities.

[g] Figures relate to local governments.

[h] Corresponds to town councils and municipalities.

[i] Figures relate to state governments.

[j] Figures relate to provincial governments.

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