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PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN 2001

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REGIONAL OVERVIEW

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Economic Commission for Latin America and the Caribbean

Last year's recovery and hopes that a new growth cycle had begun in Latin America and the Caribbean were cut short by the sharp slowdown in the world's economy in 2001. Regional output (GDP) grew barely 0.5% and the prospects for growth in 2002 aren't very encouraging: 1.1%.

The region's economies, however, still managed to absorb the destabilizing effects of these shocks and avoid falling into domestic or external crises, except for Argentina, deep in the throes of crisis for the past three years.

Inflation continued to fall and the rise in external deficits was modest. Macroeconomic results under these adverse conditions are noteworthy, although a succession of "stop-go" cycles over the past decade have led to low long-term growth that is well below the level necessary to reduce high unemployment and improve the precarious conditions in which most of the population lives.

Unlike the crises in the 1990s, which only affected a single group of countries, this wave in 2001 affected all the region's economies.

In this sombre context, intra-regional trade sustained the exports of many countries, because it is more intensive in manufactured products and less dependent on international conditions. This was the case in Central America and the Andean countries, thanks to the consolidation of sub-regional integration processes. In contrast, trade within Mercosur fell by 10%.

(continued on page 3)

Latin America: Gross Domestic Product
(Percentage anual variation, based on figures in constant 1995 dollars)

	1996	1997	1998	1999	2000	2001 Estimate	2002 Proyected
Argentina	5.5	8.0	3.8	- 3.4	- 0.6	-3.8	-3.5
Bolivia	4.5	4.9	5.2	0.4	1.8	0.0	1.5
Brazil	2.5	3.1	0.1	0.7	4.5	1.7	2.2
Chile	6.9	6.8	3.6	- 0.1	4.9	3.0	3.2
Colombia	2.1	3.4	0.5	- 4.1	2.7	1.5	2.0
Costa Rica	0.8	5.4	8.3	8.1	1.7	0.3	1.5
Dominican Rep.	7.2	8.3	7.3	8.0	7.8	3.0	3.5
Ecuador	2.3	3.9	1.0	- 9.5	2.8	5.0	2.5
El Salvador	1.8	4.2	3.5	3.4	1.9	1.5	2.0
Guatemala	3.0	4.4	5.1	3.9	3.1	2.0	2.5
Honduras	3.7	4.9	3.3	- 1.5	5.0	2.5	2.5
Mexico	5.4	6.8	5.1	3.7	7.0	-0.1	1.0
Nicaragua	5.1	5.4	4.1	7.4	4.7	2.0	2.0
Panama	2.7	4.7	4.6	3.5	2.6	0.5	0.5
Paraguay	1.1	2.4	- 0.6	- 0.1	- 0.6	1.5	1.5
Peru	2.5	6.8	- 0.5	0.9	3.0	-0.5	3.5
Uruguay	5.0	5.4	4.4	- 2.9	- 1.5	-2.5	0.0
Venezuela	- 0.4	7.4	0.7	- 5.8	4.0	2.8	2.5
TOTAL	3.7	5.2	2.2	0.3	4.1	0.5	1.1

Source: **ECLAC**

THE THIRD ECONOMIC CRISIS IN LESS THAN A DECADE

José Antonio Ocampo

The frequency and intensity of economic cycles has become one of the most worrisome elements within the world economic order. In 2001-2002, Latin America experienced its third sharp slowdown in productive activity in less than a decade. This time it is a worldwide crisis, the worst in 20 years. Its epicentre has been the US economy, the engine driving the world economy during the 1990s. Its effects were already strongly felt before 11 September, but this terrorist event will end up delaying reactivation in the United States by three quarters and, above all, has added a heavy load of uncertainty. The most important compensatory element has been the prompt response of US economic authorities': they have slashed interest rates and adopted fiscal programs that should help to reactivate expenditure

The most important transmission channel of the crisis has been trade. World trade went from 12% real growth in 2000 to stagnation in 2001. This deceleration, of 12% in one year, is unprecedented. Its impact on Latin America has been profound. In real terms, exports went from 12% growth to a thin 2%. Commodity prices also plunged, pushing exports by value even lower.

In financial terms, Argentina has experienced a sizeable shock, worth some US$23 billion, just over 8% of its Gross Domestic Product. Brazil has also been shaken, while the impact in the rest of the region was more moderate. In fact, financial markets never recovered after the Asian crisis, with regard to developing countries. Since then, external financing for this region has been volatile and its conditions (maturities and costs) unfavourable. Direct foreign investment, the most dynamic financing source during the 1990s has gone through its second year of contraction, although it remains high.

"No Latin American economy has escaped the effects of the crisis."

The margins for action open to the economic authorities of our countries to cushion the international crisis have been limited. In fact, the current crisis has made patently clear the enormous asymmetry in the world's economy, in which industrialized countries enjoy rather considerable room to manoeuvre in terms of anti-cyclical policies, while developing countries not only face more severe shocks, but also lack this possibility, and in some cases are forced to adopt macroeconomic policies that accentuate, instead of weakening, the economic cycle. This shows beyond a doubt that one of the most important reforms to the international economic system must be to expand the opportunities for applying anti-cyclical macroeconomic policies, which on one hand avoid a situation where external booms translate into unsustainable expansion and on the other, provide more room for reactivation policies when a crisis hits.

Although the impacts have varied, no Latin American economy has escaped from the effects of the international crisis. Amidst hopes that the still-incipient reactivation of early 2000 could last, the magnitude of the slowdown that hit the region's economies took analysts by surprise. Moreover, throughout the year, the crisis has tended to spread. Because of this, Latin America grew modestly during the first half, only to face contraction in the second. The adverse effects will continue to be felt during the first half of 2002. Because of this, even with reactivation in the United States from the middle of next year on, slow growth in 2001 (0.5%, according to ECLAC estimates) will be followed by equally modest growth in 2002 (1.1%).

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(➡ from page 1)

Capital flows into Latin America and the Caribbean fell significantly and autonomous flows barely reached US$33 billion, comparable to the meagre amounts posted in 1999.

The adverse effect of international conditions spread into every economic sector and the consequences affected domestic economic activity even more than exports.

The poor performance of domestic demand was the result of several elements. With a few exceptions, among them Chile, Mexico and some countries of Central America and the Caribbean, real changes in interest and exchange rates led to poorer monetary conditions than in 2000.

Structural and trade reforms also slowed, although there was some progress in service and public infrastructure concessions and fiscal policy reforms. In the financial sphere, reforms began to integrate domestic financial markets more fully and improve their regulatory frameworks.

Except for Argentina, there were no cases of balance of payment or open financial crises. The Argentine crisis, however, spread to its neighbours during the second and third quarters, but trends in financial and currency indicators during the fourth quarter of 2001 suggest that the region's economies have freed themselves of these impacts now.

At the governmental level, authorities sought to offset lower revenues with cuts to investment programs, and fiscal deficits rose slightly on average in most countries.

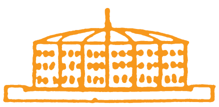
The sharp drop in growth negatively affected the workforce. Regional employment remained at 8.4% of the working population. Wages stagnated or fell in real terms.

In a context of real appreciation of most currencies, the current account deficit rose to US$53 billion, but remained within the external financing capabilities of each country.

Foreign investment fell for the second year running, but remained high compared to past averages. Official loans offset reduced private capital flows, although net transfers into the region were zero. This virtual balance between financial inflows and outflows constitutes a warning signal.

Given the possibility that net flows could become negative, reforms are urgent to reduce the region's external vulnerability, strengthen domestic capacity to finance investment and social expenditure, and soften economic cycles.

In **ECLAC**'s opinion, managing volatility requires: consistent, flexible macroeconomic management (fiscal, monetary, credit, foreign currency); strict regulations and prudent supervision of domestic financial systems; and "liability policies" oriented to producing an appropriate public and private debt profile, both domestically and externally.



THE EXTERNAL SECTOR

Trade was the main transmission channel that brought the world economic crisis into Latin America and the Caribbean. Faced with a sharp deceleration in external demand, most countries' export revenues contracted and they all suffered from lower prices for their products. Many exported smaller quantities than in 2000.

The decline in domestic demand affected import expenditure. Despite the fact that import prices also dropped, many countries saw the quantities purchased abroad diminish. For the first time since 1982, the value of both imports and exports fell simultaneously. The balance of trade in goods posted a deficit and the regional trade balance deteriorated.

The deficit in regional factor income also worsened. In contrast, current transfers, consisting mainly of remittances from the United States, continued to rise. These have been important to several Central American countries, Bolivia and Ecuador for sometime, and became important to Colombia and Peru in 2001.

The deficit in the current account of the balance of payments rose to US$53 billion, 2.8% of the regional GDP, up from US$46 billion (2.4% of GDP) one year earlier.

Net capital inflows weren't enough to finance the regional current account deficit and, for the third year in a row, gross inflows plus compensatory capital went wholly to servicing foreign debt and remunerating foreign capital.

By volume, world trade virtually stagnated in 2001.

Lower world demand was reflected in commodity prices and two of the region's main exports were affected. The prices of oil and derivatives fell by 20% from levels the previous year. Coffee prices also plunged, falling 30% this time, after four years of steady decline.

In the case of non-fuel minerals and metals, average prices quoted during the first ten months were 9% lower than for the whole of the previous year and somewhat more than 1% in the case of agricultural commodities. Some agricultural products experienced two-digit falls, while others such as wood pulp dropped by 30%, although leather recovered by almost half. Several metals prices (zinc, tin, aluminium, steel products, silver and copper) saw prices lose ground, falling more than 10%.

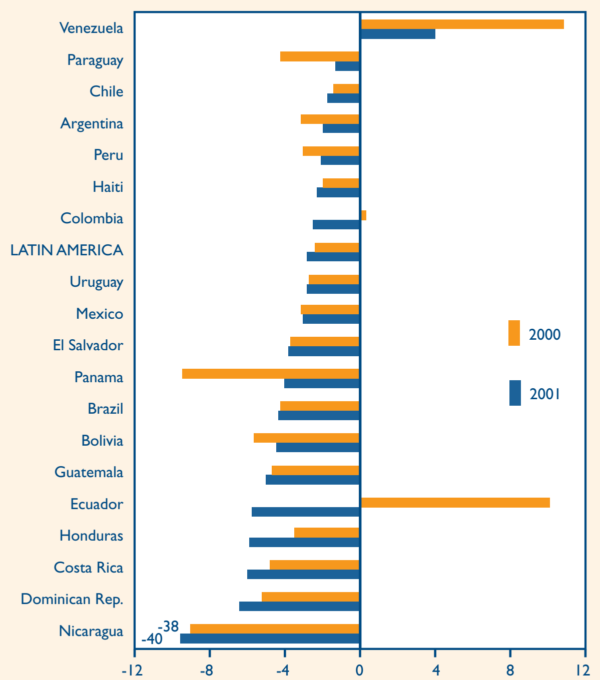
Only the food group, which had been suffering from excess supply, recovered, although the increase in its average annual price barely brought it up to 1996 levels. This rise was driven by the banana, whose price rose by almost half, and wheat, which rose by 10%, but still remained well below pre-Asian crisis levels.

**Latin America and the Caribbean:
Main Economic Indicators**

	1999	2000	2001 a/
Economic activity and prices		Annual grouth rates	
Gross domestic product	0.4	4.1	0.5
Per capita gross domestic product	-1.2	2.5	-1.0
Consumer prices	9.5	8.7	7.0
Terms of trade	0.4	5.9	-3.7
		Percentages	
Urban open unemployment	8.8	8.4	8.4
Fiscal balance/GDP b/	-3.1	-2.7	-3.1
External sector		Billions of dollars	
Exports of goods and services	341.0	405.7	391.4
Imports of goods and services	362.7	419.1	413.7
Balance on goods	-6.2	4.2	-2.2
Balance on services	-15.6	-17.5	-20.0
Balance on income account	-52.2	-52.3	-53.4
Balance on current account	-55.1	-45.7	-52.8
Balance on capital and financial account	43.3	67.0	32.7
Overall balance	-11.8	20.5	-20.1
Net resource transfer	-3.1	1.0	-3.4

Source: Statistical Appendix.
a/ Preliminary estimates.
b/ Simple average.

**Latin America and the Caribbean:
Current Account Balance**
(Percentage of GDP)



Source: **ECLAC**, on the basis of official figures.

Trade Contracted Throughout the Region

Some of the region's countries managed to boost export volumes, but most suffered from a deceleration or even a contraction, and no one was immune to the decline in average prices for goods sold abroad. The result was a general drop in revenues, with the regional total, including goods and services, falling to US$390 billion, about 3.5% less than the previous year.

The countries of Central America and the hydrocarbon exporting countries were hardest hit.

In the specific case of services, income from tourism and travel to countries in the Caribbean suffered the impact of the terrorist attacks on 11 September in the United States.

Among the countries able to increase export revenues, Argentina and Brazil stand out. This last increased its shipments by 9%, while Argentina's rose 5%.

Imports' performance varied enormously, although the prevailing trend saw a slowdown or reduction in imports by both volume and value. Only Ecuador and Colombia were able to substantially boost their purchases abroad.

At the aggregate, regional level, the volumes of merchandise imported stagnated, a result that contrasts with last's 14% increase. The value of goods and services purchased abroad fell to around US$414 billion, about 1.3% less than the previous year.

Intraregional trade, composed mainly of manufactured goods, performed well in the Andean Community and the Central American Common Market, contrasting with negative figures for trade with the rest of the world. Mercosur, however, performed differently, with trade falling by almost 10% during the first three quarters, despite the rise posted by extra-regional exports. The percentage of the total corresponding to reciprocal trade fell to 17.5%, within this organization.

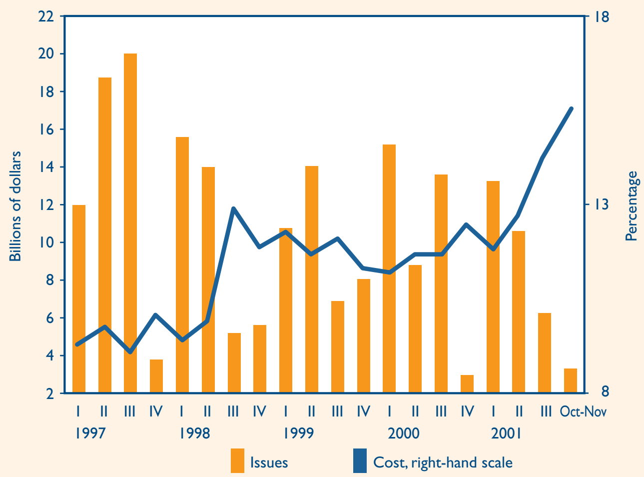
Notorious Decline in Autonomous Capital Inflows

Autonomous capital inflows into Latin America reached US$33 billion, considerably less than the US$67 billion entering the region in 2000.

Argentina and Venezuela suffered massive capital outflows and Brazil saw direct investment flows drop. To offset this decline, the International Monetary Fund disbursed unprecedented funds: over US$16 billion to Argentina and Brazil. Mexico maintained high capital inflows. Most of the remaining countries posted capital inflows that had changed little over 2000.

As with the previous year, the main capital movement took the form of direct foreign investment, although this was somewhat more diluted for the second year in a row: investment via shares was negative, while flows of bonds and bank loans were used exclusively to amortize debt that had come due.

Latin America and the Caribbean:
Issues and Cost of International Bonds



Source: **ECLAC**

External Financing Forecast for 2002, despite Argentine Crisis

In contrast with Argentina's difficulties, most of the region's governments met their targets in terms of placing public securities on international markets by mid-year. The largest borrowers were Brazil, Colombia and Mexico, with Costa Rica and El Salvador also issuing. After 11 September, the governments of Chile, Mexico, and Uruguay also carried out issues to provide external financing for 2002, as did the governments of Colombia, Guatemala and the Dominican Republic, although at higher interest rates.

The region's external financing nonetheless remained unstable, with episodes of volatility.

In terms of foreign debt, average maturities hovered around five years and the cost of access remained at around 16% annually.

Excluding Argentine securities and, to a lesser degree, Brazilian ones, the average cost remained at 11% annually, a rate that is still high given how international rates have fallen in 2001. Through November, Argentina had seen conditions worsen the most, as they rose from 12.5% to 23.5%, while Brazil's rate rose from 12.5% to 14.5%. Colombia saw conditions improve, with interest falling from 13% to 10%, further favoured by a drop in spreads. The countries with the lowest external costs were Chile, Uruguay and Mexico.

Latin America's gross foreign debt fell slightly from US$740 billion in 2000 to US$726 billion in 2001. The most indebted countries include Bolivia, Brazil and Peru with a debt/export ratio of around 350%, while Argentina's fell to 450% from an average 500% during 1999-2000 and Nicaragua's held steady at 700%.

THE AFTER-EFFECTS OF 11 SEPTEMBER

The terrorist attacks of 11 September 2001 have had important repercussions for the region's economies in the current context and in long-term expectations, by sharpening the symptoms of recession apparent throughout industrialized countries.

In early September, analysts still hoped for a slight recovery in the US economy. By October these hopes had vanished amidst the reduced expectations of consumers and investors alike. Now no one assumes that growth in 2002 will be better than forecast for 2001 (1.2% and 1.1%, respectively). Pessimism has deepened in Japan and Europe. 2001-2002 could end up posting the worst results in the past 30 years, in terms of world growth.

Commodity prices, already depressed before the attacks, fell even further after rising during the initial panic. The price of oil fell by more than five dollars per barrel in the three weeks after the attack.

In Mexico, Central America and the Caribbean, impacts on trade were particularly evident, because their economies are closely tied to that of the US. In some cases, this is because of countries' maquila-type specialization in manufacturing exports; in others, it is due to tourism; and in some cases this reflects migrant workers' sending money home. In the Caribbean, tourism fell by 20% to 60% in October. Air traffic also fell.

The financial consequences for emerging economies became another troubling issue in Latin America, which is very vulnerable to financial cycles.

By December, however, the most immediate effects of 11 September had begun to fade. Favourable developments in the geopolitical context and the coordinated implementation of counter-cyclic macroeconomic policies in industrialized countries helped to reduce international interest rates. Financial markets had returned to their pre-crisis levels and commodity prices seemed to have bottomed out. Prospects for tourism also improved in the Caribbean.

The main direct economic impact on the region will probably be at least a three-month delay in the international economy's turnaround, which will hurt the prospects for rapid recovery in this region.

Foreign Direct Investment (FDI) Declined

For the second year, FDI in the region fell, this time from US$65 billion in 2000 to US$58 billion. This occurred throughout the region and hit Argentina, Brazil and Venezuela particularly hard. In contrast, Chile turned around the negative balance experienced the previous year, Ecuador achieved record-breaking amounts, and Mexico maintained its high levels from recent years.

In 2001, capital flows in the form of shares were very volatile and only entered Mexico. In late November, the regional price index had fallen some 15% over the previous year, although with significant peaks and troughs.

MACROECONOMIC POLICY AND REFORMS

The sharp decline in activity during this past year and the unfavourable expectations that this generated in economic agents as events at home and abroad caused the economy to slow even further only served to underline the importance of recovering growth as quickly as possible in almost every country in this region.

Authorities' room to manoeuvre in the sense of applying the kind of anti-cyclic policies adopted by developed countries, however, remained very limited. The slowdown or contraction in activity directly affected fiscal revenues. At the same time, expenditures rose due to the added burden of servicing domestic and foreign debt, which was even heavier due to increased debt and rising exchange rates. While many countries increased foreign debt to cover a widening fiscal gap, this recourse was limited, and required shrinking investment expenditure, thus making fiscal expenditure behave pro-cyclically.

Early in the year, the objective of monetary policy was to provide the liquidity necessary for a hoped-for economic reactivation. This strategy didn't work, because neither credit nor aggregate demand rose as expected. Thus, monetary policy grew increasingly austere as the year advanced.

Those managing exchange rate policies, on the other hand, had to decide between the problems arising from the unfriendly external scenario, which aimed at reinforcing external competitiveness, sweeping dollarization of public debt and private contracts in some countries, and the consequences that exchange rate trends could have on domestic prices.

One noteworthy achievement was the control achieved over the much-feared "contagion" from the Argentine crisis, which erupted mid-year. Toward the end of 2001, Argentina's financial problems appeared to be isolated from the rest of the region.

Priorities established to deal with these unfavourable conditions and progress made in this area in previous years contributed to slowing further structural reforms. Privatizations fell due to a natural process and priorities focused on proceeding with concessions and measures to reduce monopolies and improve regulations.

In 2001, activities focused on reforming state and regulatory measures covering bank supervision and controlling capital flows from illegal sources. Regional integration was limited to tariff reductions already provided for in sub-regional agreements. At the same time, there were several trade disputes and friction over exchange rate regimes adopted by Mercosur partners.

Fiscal Deficits Rose as Public Revenues Fell

Public deficits fell in 2000, only to rise again, this time to 3% of Latin America and the Caribbean's GDP. Governments resorted to cutting expenditure, mainly on investment, and financing imbalances with domestic and foreign financing to avoid pressures on price stability.

The reduction in revenues, especially from taxes, affected the entire region, except for successful cases of tax reforms in Colombia, Ecuador and the Dominican Republic. The collapse of oil prices hurt the revenues of public corporations exporting this commodity.

South America's two strongest economies, Argentina and Brazil, saw tax revenues fall significantly.

Expenditures, in contrast, rose. More austere monetary policy also made domestic debt more expensive, a tendency that was not offset by lower international interest rates. Most governments resorted to reducing capital expenditures to limit the increase in the deficit.

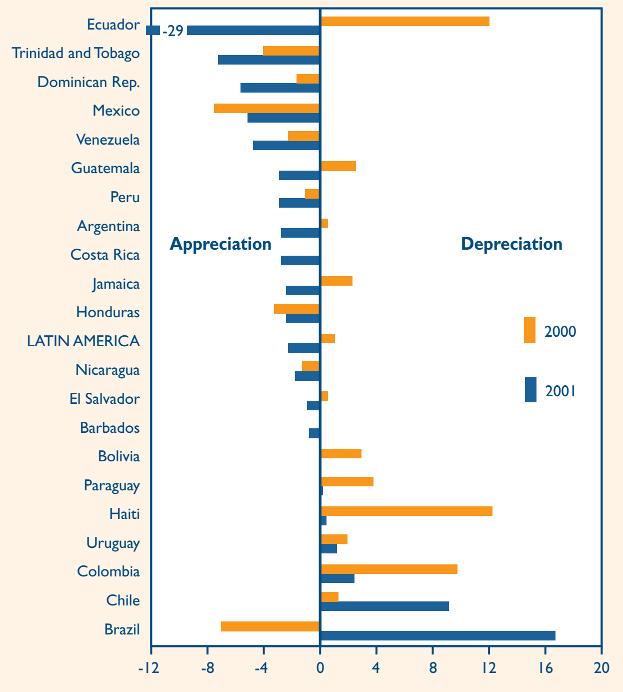
High deficits in the past four years, financed with debt, significantly increased public debt. Public sectors such as those of Argentina, Brazil, Colombia, Costa Rica, Ecuador, among others, have accumulated debt stock that is over half or even reaches all of output.

Currency Markets Responded, with Some Tension

In 2001, the external scenario was very different from that apparent during the climate of abundant capital inflows and rising world trade prevailing in the 1990s. Country currencies, however, showed no signs of depreciating as much as they appreciated during that period. In 2001, with a few exceptions, (Brazil, Chile and Colombia, with flexible exchange rate regimes, and Uruguay with mobile parity and a floating band), the region's countries saw their currencies appreciate against a basket of their main trading partners' currencies.

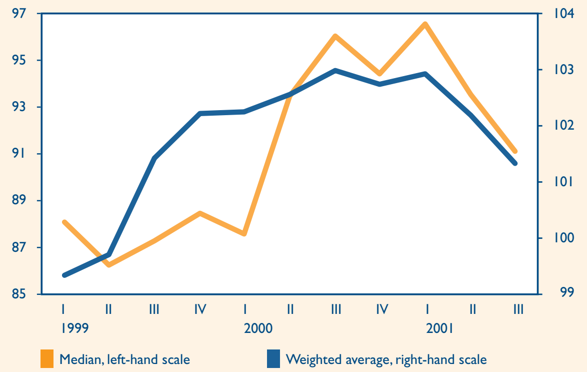
Thirteen countries with different exchange rate regimes saw their currencies appreciate. For most, this appreciation coincided with net capital inflows from abroad that financed fiscal deficits. In 2001, El Salvador started to dollarize its economy, thus bringing to three the region's countries with this system.

Latin America and the Caribbean: Real Exchange Rates
(Annual Variation)



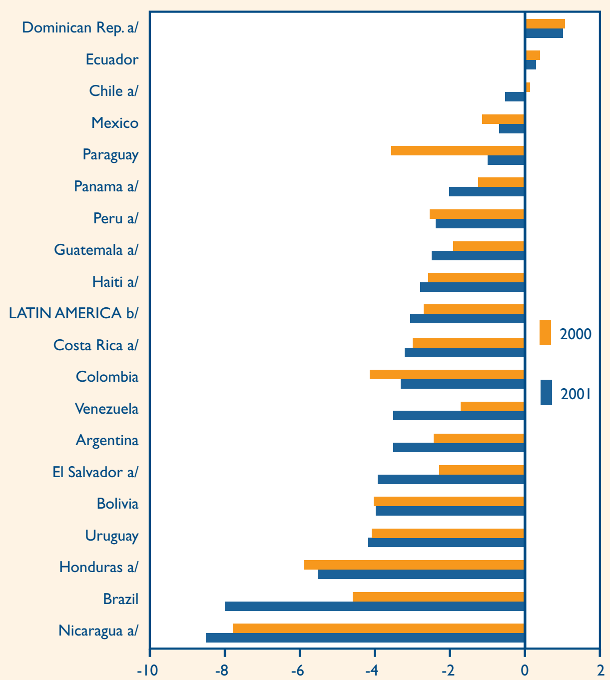
Source: **ECLAC**, on the basis of official figures.

Latin America and the Caribbean: Monetary Conditions Index, 1999-2001
(Index 1995=100)



Source: **ECLAC**, on the basis of official figures.

Latin America and the Caribbean: Public-sector fiscal balance
(Percentage of GDP)



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

While all this suggests that there was some fragility on some currency markets and that these were underlying in others, with very few exceptions national authorities managed to keep these tensions under control. The considerable weakening in productive activity proved, however, to be the downside of the way macroeconomic policies handled sources of weakness from the external sector.

In early 2001, given favourable expectations for international and national scenarios, several countries made their monetary policies more flexible in order to provide sufficient liquidity for the hoped-for reactivation. The fact that these scenarios did not materialize limited monetary authorities' ability to manoeuvre.

SUCCESSION OF CRISES

The crisis currently affecting Latin America and the Caribbean is the third episode in less than a decade during which the region's gross domestic product has plunged, along with per capita output.

The previous crises, in 1995 and from 1998-1999, were caused by external impacts, which drew attention to the transmission channels through balance of payments accounts: trade and capital flows.

The three crises have been significantly different.

The 1995 crisis affected a single country (Mexico), although it also affected Argentina and Uruguay. It was transmitted along financial channels and within three quarters it had passed.

The crisis that started in Asia in mid-1997 was of intermediate significance in terms of origin and reach. Its transmission through trade was significant, although its main impact was financial. Commodity prices important to the region, such as oil and other minerals, fell, but financial trouble started in Asia and grew more serious with the moratorium and devaluation in the Russian Federation in August 1998, thus deepening the crisis in 1999. The financial instability this left in its wake has lasted into the present. Strong growth in the US economy, in contrast, generated positive trade impacts for Mexico and Central America, so the crisis affected South American countries more.

The current situation is a true global crisis, touched off by the sharp deceleration of the world's economy, which started in the country with the most far-reaching economic and regional influence. It has been transmitted mainly through trade, with slowdowns and contractions in export volumes and falling commodity prices. This has affected most countries.

The primarily financial nature of transmission involved in the first two crises and conditions in countries that have started up stabilization programs with exchange rate anchors left economic authorities with little room to manoeuvre. The sharp reduction in external financing inevitably chilled demand, generating a pro-cyclical response in economic policy.

Given the global nature of the current crisis, national measures to improve external competitiveness and reactivate domestic demand, for all that they are desirable and necessary, will not be enough to get the required results. International and regional measures must complement national policies.

Credit Supply and Demand Remained Weak

Credit's performance was controlled by negative supply and demand factors. Fragile financial systems in several countries (Colombia, Ecuador, Guatemala, Nicaragua, Peru) and pessimism regarding economic growth limited the supply of credit. The fact that economies were growing steadily weaker, combined with the decline in private borrowers' debt capacity led to reduced demand, despite interest rates, which tended to fall.

DOMESTIC PERFORMANCE

In 2001, the economies of Latin America have had to perform in an extremely hostile environment, amidst the sharp deceleration of world trade and the US economy, and plunging commodity prices. The financial turbulence associated with the declines in world stock markets and uncertainty following the events of 11 September in the United States also affected the general state of the world's economy.

This combined with several realities specific to the region: the growing financial crisis in Argentina and its repercussions in other economies within the region, which was tending to settle toward the end of the year; the energy crisis in Brazil; natural calamities (earthquakes in El Salvador, drought in several Central American countries, hurricanes in Cuba, Honduras and Jamaica); and the reappearance of foot and mouth disease in the southern countries, which suspended their meat exports.

The Regional Economy Deteriorates

Economic activity didn't grow much in Latin America and the Caribbean in 2001, cutting short the satisfactory recovery that began in 2000. During the first half of the year, output rose 1.5%, but fell by 0.8% during the second half. Output for the region as a whole rose 0.5%, while per capita output fell by almost 1%. National revenue didn't change, given the decline in the terms of trade and the rise in net factor payments abroad.

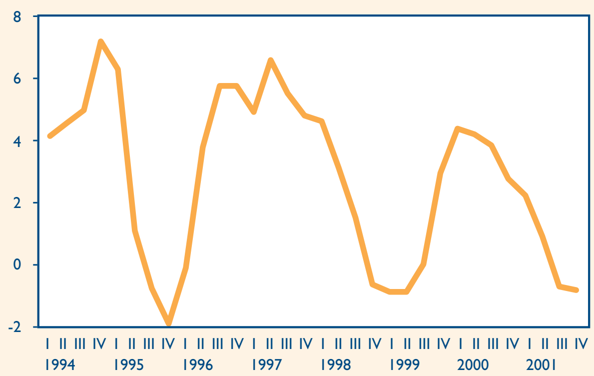
Regional consumption stagnated and fixed gross investment fell 1%, while exports rose just over 2% and imports held steady. This adverse performance was characteristic of tradable and non-tradable activities.

Unfavourable trends in terms of activity affected virtually every sector and hit both countries that had been enjoying strong growth and those recovering from the 1999 crisis.

In the first group is Mexico, which had been growing at an average annual rate of 6% for the past five years, but stagnated in 2001, as the lengthy expansion in the US economy came to an end, contrasting with previous years, when it had been posting the highest growth rates in the region. The Dominican Republic showed a modest increase, compared to trends in previous years, when it had been enjoying the region's strongest growth. In other Central American countries growth also fell, as external problems were compounded by a generalized drought. Costa Rica was also affected by less activity in its high technology electronic industry.

Most South American countries, very hard hit by the 1999 crisis, continued to perform poorly in 2001. Brazil's promising recovery ground to a halt due to the crisis in its electrical power supply, adverse international conditions, and the deepening economic and financial crisis affecting the region. The Chilean economy also slowed, despite the strength of its economic fundamentals, given the unpromising external context. In Colombia, reactivation froze given the ongoing weakness of domestic demand and worsening conditions abroad, with the single exception of a hefty rise in exports to Ecuador and Venezuela. Peru performed poorly most of the year. Bolivia stagnated due to weakness apparent in both domestic and foreign markets.

Latin America and the Caribbean: Quarterly Gross Domestic Product a/
(Percentages)



Source: **ECLAC**, on the basis of official figures.
a/ Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Similarly, given the strong contraction in foreign financing and capital outflows, the Argentine recession, which began three years ago, continued into the first half of the year, deepening further during the second. Despite belt-tightening measures, the fiscal deficit did not decline, given plunging tax revenues. Uruguay continued in recession for the third year running.

Amid these adverse conditions the exception was Ecuador, which enjoyed strong growth during the first half, although this weakened with the decline in hydrocarbon prices. Venezuela grew at a moderate rate. The oil bonanza and the low real exchange rate contributed to expanding domestic demand, but led to a considerable rise in imports. Paraguay enjoyed modest growth.

In the Caribbean Community (CARICOM) countries, the GDP fell by 0.8%. By year's end, the region was also feeling the effects of lower income from tourism.

Investment Fell in 2001

The recovery in gross fixed investment that began in 2000 turned around in 2001, falling by 1%, affected by general pessimism and measures to control public spending. External saving for the region as a whole rose, but it was driven by figures from some specific countries, since in others there was no change or this component fell. National saving dropped, especially by the public sector.

In the northern part of the region, which in 2000 experienced strong investment growth, investment fell in 2001. This happened because Mexico, which enjoyed an increase of almost 9% in 2000, experienced a 3.5% drop in 2001. In other countries results were rather poor, reflecting modest growth in output.

In South America, investment didn't perform any better. Chile and Brazil showed modest growth, well below the results observed during the first quarter. Argentina, Peru and Uruguay again registered significant declines. In contrast, in Colombia investment continued to recover from its collapse in 1999, but without reaching 1998 levels again. Venezuela had no serious problems in continuing to encourage investment, particularly by the public sector, thanks to plentiful fiscal revenues from oil exports in recent years.

Inflation Fell Again

In 2001, inflation continued to decline, reaching 7%. Wholesale prices rose by 6%, after strong increases during 1999-2000. Moderate inflation in 2001 reflected stable exchange rates in most countries and an end to rising oil prices, combined with the continuation of the same prudent monetary policies and the recessive conditions affecting the region, although some countries experienced deflation, which could become worrisome.

In 17 of the 22 countries for which information is available, price increases were modest, while in just five they rose significantly. Among these, Brazil and Guatemala stood out, with rates rising 3% to 4% over 2000. The best overall result was Ecuador, with a significant drop in inflation of over 60%. Thus, in 2001, just four economies experienced two-digit inflation, with the highest reaching 25%. Four countries enjoyed very low inflation or even deflation.

In Ecuador, after the strong rise in inflation in 1999 and early 2000, runaway inflation was brought under control thanks to the dollarization of the economy. Mexico also achieved favourable results, with clear signs of consolidating its stabilization process, by achieving annual inflation of just 5.4%, the best result since 1971. In Venezuela, inflation continued to fall, but more slowly. Brazil also enjoyed relatively good results.

Chile, El Salvador and Uruguay again enjoyed very low, and declining, inflation. Panama continued with low inflation, while Bolivia and Peru saw zero price increases in 2001. In Argentina, consumer prices fell by almost 2% and wholesale prices by 6%, a deflationary situation that resulted from the recession.

The Labour Market Deteriorated in 2001

The strong reduction in growth negatively affected labour conditions throughout the region. The occupation rate dropped by more than half a percentage point, but unemployment held steady at 8.4% because the labour supply also declined. In any case, unemployment hit a high point in historic terms. The low demand for labour was reflected in wages. While in the 1990s real wages rose on average 1.5% to 2% annually, in 2001 they stagnated or fell.

The occupation rate fell from 53.3% in 2000 to 52.7% in 2001, thus wiping out the gains achieved in 2000. Brazil and Mexico both contributed to the decline in this indicator. The occupation rate also fell in Chile and Argentina, while it held steady in Colombia. It rose in Costa Rica, Ecuador, Uruguay and Venezuela. The supply of workers fell from 58.4% in 2000 to 57.7% in 2001, the sharpest plunge in the past ten years. The performance of this indicator varied widely, falling in Brazil and Mexico, while in another five countries the participation rate rose.

Although at the regional level the unemployment rate held steady, there were major differences between countries. In ten of the 15 countries for which information is available, unemployment rose, most notoriously in five of them (Argentina, Colombia, Peru, the Dominican Republic and Uruguay), by 1% or more. In Venezuela, unemployment held steady, while it dropped in Brazil, Cuba, Ecuador and El Salvador.

The recession that hit the US economy negatively affected job creation in export-related activities in Mexico and for the first time in 15 years, occupation in the export maquiladora industry fell (by 14% from September 2000 to September 2001). In manufacturing, employment fell by almost 4%. Thus, open unemployment reached 2.5% (up from 2.3% in 2000).

In Brazil, the net creation of new jobs also fell. Nonetheless, urban unemployment also fell from 7.1% in 2000 to 6.3% in 2001. In Argentina, the employment coefficient fell by one percentage point, while the unemployment rate rose from 15.1% in 2000 to 17.4% in 2001, rising more strongly during the second half.

In Chile, the creation of jobs in the formal sector weakened in the fourth quarter of 2000, bringing the unemployment rate up slightly to 9.5% in 2001. In Colombia, the urban unemployment rate remained high, averaging 18.5% during the first ten months of 2001, up from 17.2% one year earlier. In Ecuador, starting in the second half of 2000, the occupation rate rose from 48.8% in 2000 to 49.7% in 2001. Unemployment, however, rose from 9% to 10%, after a significant decline the previous year of over 5%.

The sluggish performance of labour markets affected wages and in most cases minimal changes and declining real average wages prevailed, in the formal sector. Slight increases occurred in Chile (1.5%) and Colombia (0.2%), with declines of 0.4% to 3% in 0.4% and 3% in Brasil, Peru and Uruguay. Mexico was the sole exception to the rule, with wages rising 5.5%, thanks to inflation being lower than expected.

No Rapid Growth Expected in 2002

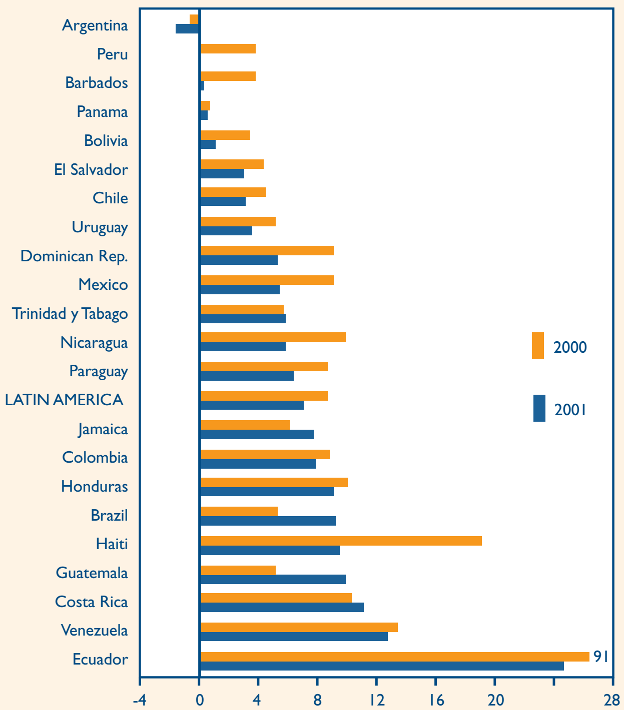
There is still a lot of uncertainty about the hoped-for reactivation of Latin American and Caribbean economies in 2002. The prospects for the world economy aren't very encouraging. Despite the sharp drop in international interest rates, there's no sign of capital returning to developing countries, due to the enormous risk perceived. Foreign direct investment, the main mechanism for moving capital around the developing world in the 1990s is going through a period of shrinkage.

Conditions in the United States affect Mexico, Central America and the Caribbean in particular, and their trade with the US is still slow, while tourism remains in crisis. Nonetheless, Mexico is expected to undergo a modest reactivation, as is Costa Rica. In South America, Brazil is likely to improve its performance somewhat, thanks to exports and a reactivation in domestic demand.

The Southern Cone countries will probably experience another decline in output, basically due to Argentina, whose prospects are rather discouraging, since a further contraction is expected in economic activity. Chile will manage modest growth, while Uruguay will have less adverse results in 2001. The Andean Community will increase growth slightly. Peru's reactivation will be driven by the start-up of a major mining project and normalization of its domestic affairs. Venezuela will continue to enjoy moderate growth, Colombia should perform somewhat better than in 2001, while Ecuador should continue to recover, although somewhat more slowly.

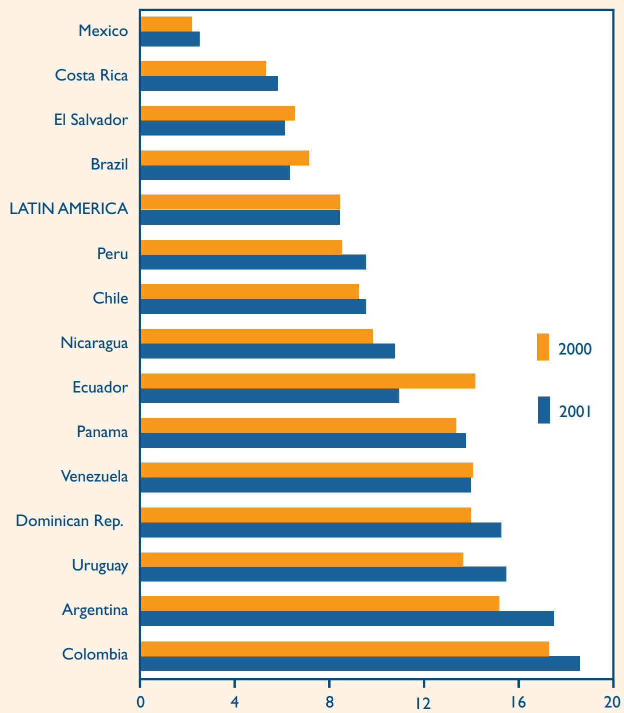
Overall, for the region as a whole, growth is expected to reach barely 1.1% in 2002.

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



Source: **ECLAC**, on the basis of official figures.
a/ Most recent period available.

Latin America and the Caribbean: Urban Unemployment
(Annual average rate)



Source: **ECLAC**, on the basis of official figures.

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

Fell's cave | Astronomic observatory | Mining and trade | Inmigration | Mayan numbers | Hands: Cañadon's cave

STATISTICAL APPENDIX

Latin America and the Caribbean: Total and Per-Capita Gross Domestic Product.

(In percentage, based on values in constant 1995 dollars)

	Annual growth rates						Annual average rate	
	1999		2000		2001 a/		1991-2001	
	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita
Latin America and Caribbean	**0.4**	**-1.2**	**4.1**	**2.5**	**0.5**	**-1.0**	**2.9**	**1.2**
Subtotal (20 countries)	**0.3**	**-1.2**	**4.1**	**2.5**	**0.5**	**-1.0**	**2.9**	**1.2**
Argentina	-3.4	-4.6	-0.6	-1.8	-3.8	-5.0	3.4	2.1
Bolivia	0.4	-1.9	1.8	-0.4	0.0	-2.2	3.4	1.0
Brazil	0.7	-0.7	4.5	3.2	1.7	0.4	2.5	1.1
Chile	-0.1	-1.4	4.9	3.5	3.0	1.7	5.8	4.2
Colombia	-4.1	-5.8	2.7	0.9	1.5	-0.3	2.5	0.6
Costa Rica	8.1	5.6	1.7	-0.6	0.3	-1.9	4.6	1.8
Cuba	6.8	6.4	5.5	5.1	3.0	2.7	-1.1	-1.6
Dominican Republic	8.0	6.1	7.8	6.0	3.0	1.3	5.6	3.8
Ecuador	-9.5	-11.2	2.8	0.9	5.0	3.1	2.0	-0.1
El Salvador	3.4	1.3	1.9	-0.1	1.5	-0.4	4.1	2.0
Guatemala	3.9	1.1	3.1	0.4	2.0	-0.6	3.9	1.2
Haiti	2.4	0.6	1.3	-0.6	-0.9	-2.7	-1.0	-2.8
Honduras	-1.5	-4.1	5.0	2.3	2.5	-0.1	3.2	0.3
Mexico	3.7	2.1	7.0	5.4	-0.1	-1.6	3.2	1.5
Nicaragua	7.4	4.5	4.7	1.9	2.0	-0.6	3.3	0.5
Panama	3.5	1.9	2.6	1.0	0.5	-1.0	4.2	2.4
Paraguay	-0.1	-2.6	-0.6	-3.1	1.5	-1.0	1.7	-0.9
Peru	0.9	-0.8	3.0	1.3	-0.5	-3.1	3.6	1.8
Uruguay	-2.9	-3.6	-1.5	-2.2	-2.5	-3.2	2.5	1.8
Venezuela	-5.8	-7.7	4.0	2.0	2.8	0.9	2.4	0.3
Subtotal Caribbean	**4.2**	**3.4**	**3.1**	**2.4**	**0.8**	**0.0**	**2.2**	**1.4**
Antigua y Barbuda	4.9	4.2	2.6	2.0	_	_	3.3 b/	2.7 b/
Barbados	3.1	2.7	3.0	2.6	-1.5	-1.9	1.1	0.7
Belice	5.9	3.6	10.1	7.7	-2.0	-4.1	3.9	1.8
Dominica	1.3	1.3	0.7	0.7	_	_	2.0 b/	2.0 b/
Granada	7.5	7.1	6.5	6.1	2.5	2.1	3.7	3.4
Guyana	3.9	3.4	3.0	2.5	1.0	0.5	5.7	5.3
Jamaica	0.7	-0.1	0.5	-0.3	1.5	0.7	0.7	-0.2
Saint Kitts and Nevis	3.5	3.5	7.1	7.1	_	_	4.4 b/	4.7 b/
San Vicente and the Granadines	4.2	3.3	2.0	1.1	_	_	3.2 b/	2.3 b/
Santa Lucia	3.4	2.3	0.6	-0.5	_	_	2.0 b/	0.8 b/
Suriname	-2.4	-2.8	-1.0	-1.4	_	_	1.1 b/	0.7 b/
Trinidad and Tobago	7.8	7.3	5.0	4.5	1.0	0.5	3.3	2.7

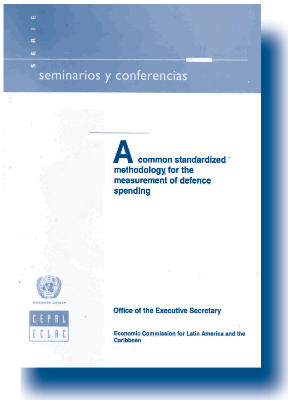
Source: **ECLAC** on the basis of official figures.

Note: Totals and subtotals do not include those countries for which no information is given,
a/ Preliminary estimate.
b/ Refers to 1991-2000

RECENT TITLES

1 E-commerce and Export Promotion Policies for Small- and Medium-Sized Enterprises: East Asian and Latin American Experiences, by Mikio Kuwayama. Comercio Internacional Series No. 13, October 2001 (LC/L. 1619-P, English, US$10). SMEs in Asia are more export-oriented than their Latin American counterparts. Kuwayama explores the issue from the dual perspective of e-commerce and its potential in both regions. www

2 A Common Standardized Methodology for the Measurement of Defence Spending, by the Office of the Executive Secretary. Seminarios y Conferencias Series No. 14, November 2001 (LC/L. 1624-P, English and Spanish, US$10). A major initiative from **ECLAC** this year. www



3 Mejores Prácticas de Transporte Intermodal en las Américas: Estudio de Casos de Exportaciones del Mercosur al NAFTA *(Best Practices for Intermodal Transportation in the Americas: Case Study Using Mercosur Exports to NAFTA)*, by José María Rubiato Elizalde. Recursos Naturales e Infraestructura Series No. 33, October 2001 (LC/L. 1615-P, Spanish, US$10). This study examines export-related transportation within Mercosur and NAFTA, as well as looking specifically at copper and iron exports. www

The next two studies provide different perspectives on the issue of genetically modified plants and foods:

4 Las Nuevas Fronteras Tecnológicas: Promesas, Desafíos y Amenazas de los Transgénicos *(New Technological Frontiers: Promises, Challenges and Threats from Transgenics)*, by César Morales. Desarrollo Productivo Series No. 101, October 2001 (LC/L.1590-P, Spanish US$10). www

5 Organismos Genéticamente Modificados: su Impacto Socioeconómico en la Agricultura de los Países de la Comunidad Andina, Mercosur y Chile *(Genetically Modified Organisms: their Socio-Economic Impact in the Agriculture of the Andean Community, Mercosur and Chile)*, by Marianne Schaper and Soledad Parada. Medio Ambiente y Desarrollo Series No. 43, November 2001 (LC/L.1638-P, Spanish, US$10).

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CALENDAR

MONTH	EVENT	VENUE
JANUARY		
7 - 9	Regional Seminar on Foreign Direct Investment Policies in Latin America, **ECLAC**/ United Nations Conference on Trade and Development (UNCTAD)	**ECLAC** Headquarters, Santiago, Chile
14 - 15	Experts Meeting on Financing for Development, **ECLAC**	Mexico City, Mexico
28 - 31	14th Regional Seminar on Fiscal Policy and Electronic Government in Latin America Workshop, **ECLAC**	**ECLAC**
FEBRUARY		
26 - 27	International Seminar "Clusters and Natural Resources: Analysis, Experiences and Proposals," **ECLAC**	**ECLAC**
MARCH		
18 - 22	International Conference on Financing for Development, United Nations (UN)/ **ECLAC**	Monterrey, Mexico
20 - 21	Workshop on Transit Congestion in Santiago, Chile, **ECLAC**/ GTZ	**ECLAC**
26 - 27	International Conference, Toward Regional Currency Zones? **ECLAC** / International Finance and Economics Centre, Aix-en-Provence (CEFI)	**ECLAC**
25 - 26	First Meeting of the Executive Committee of the **ECLAC** Statistical Conference of the Americas	Rio de Janeiro, Brazil
APRIL		
2 - 3	Experts Meeting on Gender Impacts on Pension Reforms in Latin America, **ECLAC**	**ECLAC**
MAY		
6 - 10	29th Session, **ECLAC**	Brasilia, Brazil
15 - 16	Seminar "Hemispheric Cooperation on Competition Policy," **ECLAC**/ OEA	**ECLAC**
JUNE		
To be defined	Course on Project Execution Management, Latin American and Caribbean Institute for Economic and Social Planning (ILPES)/ **ECLAC**	Santa Cruz de la Sierra, Bolivia
JULY		
To be defined	Course on the Use of Socio-economic Indicators to Evaluate the Impacts of Anti-poverty Projects and Programs, ILPES/ **ECLAC**	Cartagena de Indias, Colombia

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