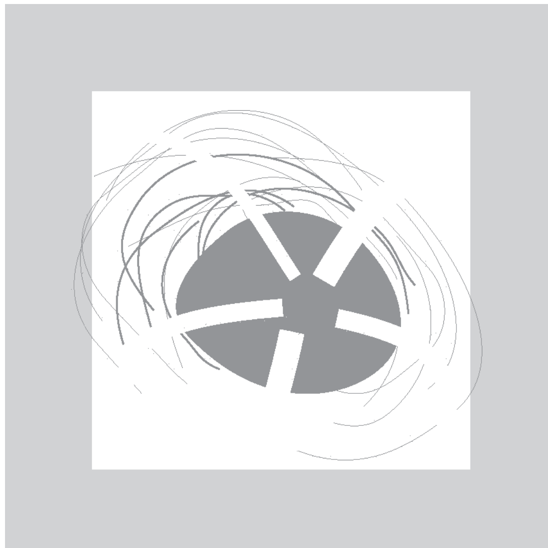
2002



# Preliminary overview of the economies

OF LATIN AMERICA AND THE CARIBBEAN

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The *Preliminary Overview of the Economies of Latin America and the Caribbean* is prepared annually by the Economic Development Division in collaboration with the Statistics and Economic Projections Division, the ECLAC subregional headquarters in Mexico and Port of Spain, and the ECLAC national offices in Argentina and Brazil.

We are grateful to the central banks and national statistical offices of the countries in the region for their valuable cooperation in supplying the statistical information used in the preparation of the *Preliminary Overview*.

The national accounts data presented in this edition of the *Overview* are based on the official statistics of each of the countries covered in this report; for purposes of comparison between countries, these statistics are, however, expressed in 1995 dollars. Thus, in some cases there may be apparent discrepancies with information issued by individual countries.

**Notes and explanation of symbols**

The following symbols have been used in the tables in this *Preliminary Overvie*w:

Three dots (...) indicate that data are not available or are not separately reported.
The dash (–) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.
A full stop (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, signifies an annual average for the calendar years involved, including the beginning and the end years.
References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth of variation mean cumulative annual rates.
Figures and percentages in tables may not neccessarily add up to the corresponding totals, because of rounding.

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# SUMMARY

The economies of Latin America and the Caribbean contracted by 0.5% in 2002. As a result, per capita GDP for the year was below the level recorded in 1997, which means that the last five years have been lost to the region in terms of economic growth. The average growth rate for the region as a whole was influenced by the performance of the South American economies, and especially those of Argentina, Uruguay and Venezuela, but there was a loss of dynamism in almost all of the countries. The regional unemployment rate reached an all-time high of 9.1% of the labour force, in spite of a significant increase in informal employment. Social conditions deteriorated concomitantly, and 7 million people across Latin America and the Caribbean joined the ranks of those living in poverty in 2002.

The adverse external environment was a determining factor in the region's poor economic performance. There were, in particular, three major elements whose effects varied from country to country. The first was the deterioration in financing conditions, which, although widespread, had a particularly strong impact on the MERCOSUR economies in terms of both the cost and volume of external resources. In fact, the net transfer of external resources amounted to an outflow of US$ 39 billion for the year. The second was the loss of momentum in the United States economy in 2001-2002, which particularly affected Mexico, Central America and parts of the Caribbean. The third was the worsening terms of trade of the non-oil-exporting economies, which lost ground in this respect for the fifth year running.

The response capacity of domestic economic policy was very limited. Most of the countries deployed tight monetary policies in order to shield their currencies from exchange-rate pressures. Fiscal policy was also contractionary in most instances, as it was directed at maintaining the accumulation of public debt at a sustainable pace. In most cases, real exchange rates were the sole factor stimulating competitiveness in the real sector of these economies. The few countries that enjoyed enough economic manoeuvring room —carried over from previous years— to pursue countercyclical economic policies were the exception to the rule.

Inflation rose to 12% in 2002, which represented a setback with respect to the rate of 6% posted in 2001. The increase was attributable almost exclusively to currency devaluations, since wage behaviour was generally aligned with changes in productivity. In most cases, however, the upswing in inflation resulted from one-time surges, and the pace of price increases is expected to ease in 2003.

Even though average GDP growth for 2002 was weak, it did gather momentum over the course of the year, and the region posted a positive rate for the final quarter. This trend towards a moderate upswing should continue into 2003, when the region's economy is expected to grow by 2.1%.

# REGIONAL PANORAMA

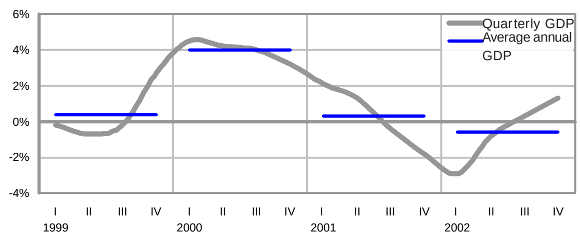
## 1. Introduction

Economic activity in the region was down by 0.5% in 2002. As a result, per capita GDP growth in Latin America and the Caribbean was negative (-1.9%) for the second year in a row. The hardest-hit economies have been Argentina, Uruguay and Venezuela, while per capita GDP has stagnated in the rest of the region. This result rounds off five years of sluggish growth (-0.3% average annual per capita GDP growth since 1998) within an adverse international economic context. Social conditions in the region have deteriorated in line with these trends.

A considerable portion of the slump in GDP seen during 2002 is accounted for by the economic slowdown experienced in 2001. The business cycle bottomed out in the first quarter of 2002 (when the 12-month variation in GDP totalled -2.9%), and the region then began to rebound somewhat in the second quarter. GDP growth for the fourth quarter of 2002 is expected to show a 1.3% improvement over the last quarter of 2001 (see figure 1). **In most countries of the region, a break in trend was seen in the first half of the year**. The main exceptions are Paraguay; Uruguay; Venezuela; Bolivia, which had a bad fourth quarter; and the Dominican Republic, which exhibited a declining trend, although its growth figures are still in a positive range. Even the downward slide in Argentina's economy came to a halt as of the second quarter of 2002 (over half of the contraction in GDP for 2002 is accounted for by the downturn that preceded the discontinuation of the convertibility regime). These short-term swings in economic performance have been kept within a range of low rates, however. Owing to this mild recovery, **the region's GDP is expected to expand by 2.1% in 2003.**

The performance of Latin America and the Caribbean has been influenced by the adverse international economic conditions which made their initial appearance in 1998 when the first repercussions of the Asian crisis began to be felt and by the imbalances that built up during the 1990s. **The external events that have had the strongest impact on the region include the deterioration in international financial conditions, the slowing pace of economic activity in the United States and the steady decline in the non-oil-exporting countries' terms of trade.** The economies of the region that have witnessed a turnaround are primarily those in which export investment projects are coming on line and those which have begun to reap the sectoral benefits of more competitive real exchange rates.

Figure 1
**LATIN AMERICA AND THE CARIBBEAN: QUARTERLY GDP, 1999-2002**
*(Percentage change from the corresponding quarter of the preceding year)*




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

Among the external factors that have had a bearing on Latin America's performance, the downturn in the international financial market has been the most significant, particularly in the case of the MERCOSUR economies. Net external resource transfers for Latin America as a whole have been negative for 2002 (-US$ 39 billion, or -2.4% of GDP at current prices),[1] with half of that figure corresponding to Argentina. When this phenomenon is measured as a percentage of GDP, the economies where its impact has been the most striking are Uruguay (-19.8%), Argentina (-18.3%) and Venezuela (-14.4%).

**The deterioration in external financing terms has also been reflected in widening sovereign spreads,[2] which have more than offset the decrease in international interest rates.** In 2001, Argentina exceeded the 4,000 basis point (bp) threshold, and its spread soared to nearly 7,000 bps during the worst days of 2002. Spreads this large are associated with a perception of insolvency, and the corresponding interest rates are meaningless for the purposes of portfolio analysis or cost of funds indices, to say nothing of resource allocation. Traditional exit mechanisms have proved ineffective in the Argentine crisis, as they do not provide institutionalized alternatives for dealing with situations of sovereign insolvency (see box 1). The international financial community mistakenly concluded that the Argentine crisis would not affect other economies. The financial impact that this crisis has had on Uruguay and Paraguay and the shocks that have spread to other economies in the region via various transmission mechanisms demonstrate the magnitude of that miscalculation.

Brazil's financial situation warrants special mention. After a number of years of adjustment, Brazil posted a primary fiscal surplus and, more recently, a trade surplus which -if interest rates were to subside to reasonable levels- would put it on the road to fiscal and external solvency. Brazil needs some domestic and external breathing space in order to resume a steady pace of balanced growth, despite the persistence of some risks that the new authorities will have to address. The presidential elections generated uncertainty in the market and were preceded by an increase in sovereign spreads, which climbed to over 2,400 bps at the most critical juncture. A by-product of the financial market's overreaction was a reduction in the degrees of freedom available for domestic economic policy design. The

Table 1
**LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| **Economic activity and prices** | | | |
| Gross domestic product | 3.8 | 0.3 | -0.5 |
| Per capita gross domestic product | 2.2 | -1.2 | -1.9 |
| Consumer prices | 9.0 | 6.1 | 11.4 [b] |
| Terms of trade | 6.0 | -2.9 | -0.2 |
| **Percentages** | | | |
| Urban open unemployment | 8.4 | 8.4 | 9.1 |
| Fiscal balance/GDP [c] | -2.5 | -3.2 | -3.3 |
| **Billions of dollars** | | | |
| **External sector** | | | |
| Exports of goods and services | 407.4 | 392.0 | 392.5 |
| Imports of goods and services | 420.5 | 412.2 | 381.5 |
| Balance on goods | 4.5 | -1.2 | 24.7 |
| Balance on services | -17.6 | -19.0 | -13.7 |
| Balance on income account | -53.4 | 54.7 | -52.5 |
| Balance on current account | -46.3 | -51.3 | -15.9 |
| Balance on capital and financial account | 61.0 | 33.0 | -1.4 |
| Overall balance | 14.7 | -18.4 | -17.2 |
| Net resource transfer | -0.2 | -4.6 | -39.1 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Simple average.

1 Net external resource transfers are composed of net capital inflows (including exceptional financing and errors and omissions) minus the balance on the income account (net profits and interest). The region's net external resource transfers have been negative since 1999.

2 The sovereign spread is the difference between the yields of sovereign bonds traded on the international market and comparable United States Treasury bonds; 100 basis points (bps) are equal to 1% annual interest.

candidates' endorsement of the IMF agreement helped to ease financial tensions, and the spreads narrowed somewhat, but they are still abnormally high.

**The slowdown in the United States economy in 2001-2002 has also had a significant influence on Latin America's performance**, especially in the cases of Mexico, the five members of the Central American Common Market, the Dominican Republic, Haiti and Panama. All of these economies have also slowed their pace in 2001-2002, and this year only three of them (Costa Rica, the Dominican Republic and El Salvador) have positive -but below their historical average- per capita GDP growth rates.

**The terms of trade for Latin American economies have deteriorated since 1998, except in the case of the region's net oil exporters (Venezuela, Ecuador, Mexico, Colombia and Argentina) and the Dominican Republic.** Overall, the countries posting the sharpest cumulative decreases in external relative prices have been Peru (-21%), Chile (-19%) and Brazil (-16%). The economies that have been hurt the most by this trend in 2002 are Brazil (-4%), Bolivia and Honduras (around -3% each), while Peru's terms of trade have improved by 5% following four consecutive years of steep declines. The deterioration in the terms of trade has also had a strong effect on the performance of most of the Central American economies and on some regionally important activities, most notably the coffee sector.

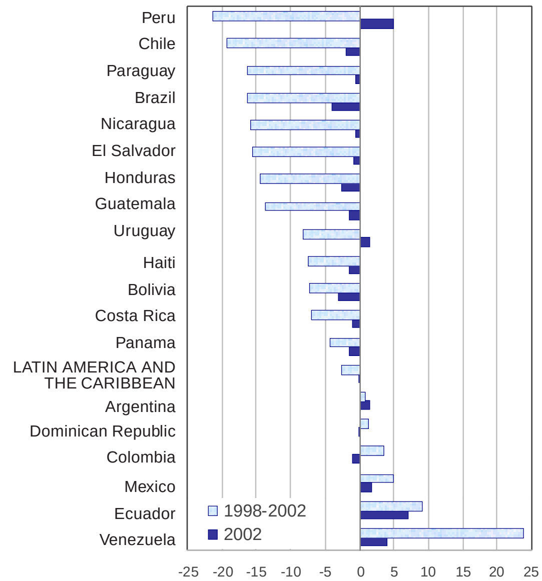
In most countries of the region, procyclical monetary and fiscal policies have amplified the shocks generated by unfavourable external conditions. In many cases, monetary policy has been used to mitigate exchange rate overshooting and has therefore introduced an additional contractionary bias. Fiscal policy has primarily been focused on ensuring that public finances are on a sustainable course, and this has generated contractionary pressures as well. The countries' exchange rates have, in turn, tended to depreciate in real terms, thereby improving the region's competitive position. Overall, the most conspicuous aspect of economic policy in 2002 has been the authorities' loss of degrees of freedom in dealing with economic events as they unfold. This reduction in the authorities' autonomy in managing economic policy is partially due to the presence of more severe external constraints, but the imbalances that built up during the years of economic strength have also been a factor.

**With very few exceptions, monetary policy in the region has been tightened in response to the pressure being exerted on the foreign exchange market**. Trends in the sovereign spreads of other countries in the region have shown some degree of correlation with Brazil's,

Figure 2

**LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE**

*(Cumulative variation 1998-2000 and variation for 2002)*




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

and in most cases this has pushed up domestic interest rates. In the economies that have been hurt the most by developments in the financial market, exchange rate overshot, and the authorities found that they had less latitude in managing monetary policy. In fact, Argentina, Uruguay and Venezuela abandoned their existing exchange regimes and began to float their currencies. At the other extreme, Chile, Colombia, Mexico and Peru have enjoyed sufficient degrees of freedom to pursue an expansionary monetary policy.[3] Even in these countries, however, the main channel for the transmission of an expansionary monetary policy –an increase in lending to the private sector– has not always functioned as it should because of the cautious stance adopted by banks and borrowers alike.

**Fiscal policy makers have also had less manoeuvring room in most of the region's economies**, although in this case conditions have varied more widely from one country to the next. This is partly because the

3 In Colombia the expansionary effect has been blunted to some extent, as the main effect of this policy has been concentrated in short-term interest rates. Long-term rates tended to align themselves with international rates as the sovereign spread widened, especially in the third quarter, and it was not until the fourth quarter that some downward adjustment was seen.

available degrees of freedom had already been used to implement the countercyclical policies of the last three years. Barbados and Chile are the only economies in the region that have had explicitly expansionary monetary and fiscal policies in 2002. These countries' authorities adopted prudent policy approaches during the boom years, and as a result they are now better able to implement countercyclical policies. Costa Rica and the Dominican Republic have combined loose fiscal policies with tight monetary policies in 2002, and the net effect of the resulting policy mix has been expansionary. The other cases in which an expansionary fiscal stance (i.e., an increase in the fiscal deficit) has been adopted are associated with declining public revenues within the context of a slowdown or actual drop in economic activity, rather than with an explicit decision to take an expansionary fiscal approach.

**Some of the countries have made an effort to improve public finances by using structural reforms to boost fiscal revenues.** The Dominican Republic, Guatemala and Nicaragua have undertaken tax reforms aimed at raising tax receipts in 2002. Ecuador has been refining its tax administration system in recent years and has succeeded in increasing government revenues substantially. Brazil has also boosted its tax receipts by introducing structural adjustments in its public revenue system. Panama, meanwhile, has enacted a fiscal responsibility law designed to give its authorities greater control over public finances. Mexico made an unsuccessful bid to increase its revenues, and in Colombia a tax reform bill is now being debated that would focus more on building up revenues than on curbing expenditure. In all of these cases, the aim has been to concentrate the fiscal adjustment on the side of government revenues rather than government spending, since the latter usually involves a greater structural adjustment of public finances. **Most of the region's economic authorities have embarked upon a fiscal policy course designed to address the issue of public debt sustainability, thereby generating an additional contractionary force.**

**The chief lesson to be learned in this respect is that the capacity to pursue countercyclical fiscal policies is built up during economic booms.** If, on the other hand, procyclical policies are implemented during boom years, then fiscal authorities will have no choice but to use policy measures that will inevitably magnify recessionary factors during economic busts.

**Uneven trends in real bilateral exchange rates within the region have been another hallmark of the year 2002.** This trend stands out particularly clearly if the exchange rates for the third quarters of 2001 and 2002 are compared. With the exception of the recently dollarized economies (El Salvador and especially Ecuador), Guatemala, and Trinidad and Tobago, the countries' currencies have all depreciated against the dollar in real terms. All Latin American and Caribbean currencies have depreciated against the euro as well. Trends in real bilateral exchange rates within the region, on the other hand, have been mixed, and Argentina's currency has been the only one to depreciate in real terms against the currencies of all its major trading partners. Bolivia is a particularly interesting case because its currency has depreciated in real terms against the United States dollar and the euro, but appreciated against the currencies of the other Latin American countries; because of the volume of its trade with other countries in the region, the net effect is an appreciation of 1.7% in real terms. The country has consequently registered a marginal reduction in its competitiveness vis-à-vis its trading partners; this also means that its foreign-currency financial commitments have increased in value, which translates into a considerable decline in net worth. Brazil's exchange rate has also been affected by opposing forces. The Brazilian real has depreciated by 16% against the United States dollar (real bilateral exchange rate) and by 28% against the euro, but it has appreciated against some of the other currencies in the region, especially the Argentine peso. Given the volume of its bilateral trade with these countries, its currency's real depreciation during 2002 amounts to an average of 10%.

The net effect of these trends is that a majority of the region's economies will start out the new year with more competitive exchange rates. **In 2002 it has become clear that, sooner or later, real exchange rates eventually align themselves with the level of competitiveness exhibited by a country's real sector. Whenever exchange policy has diverged from that course, either because it has been used to stabilize inflation (a nominal anchor) or because financial stimuli have temporarily pointed in the other direction, the deterioration in the real sector's competitive position has eventually made a change in policy necessary.**

**Adverse developments in the international economy and the national policy responses to them have impacted the economies of South America the most, and their results have strongly affected the regional averages.** Since 1999 (1998 in Brazil's case), activity in the MERCOSUR economies has slowed as conditions in the international financial market have deteriorated, and the crises that have overtaken three of this subregion's four economies deepened in 2002. Argentina's per capita GDP plummeted by 12% in 2002 and the cumulative decrease over the last four years amounts to 22.4%, while Uruguay registered a cumulative decrease in its per capita GDP of 20% for that four-year period. Brazil was the only country in this group to post even a marginal expansion of per capita GDP for the year (0.2%). The growth rates of the Andean Community economies have also been slipping since 1998 (since 1999 in Bolivia's case), but within this unfavourable external environment, financial conditions and inherently domestic factors in each country have generated differing trends. Venezuela is a particularly striking case, with its per capita GDP tumbling by around 9% for the year. Peru and, to a lesser extent, Ecuador are the only ones that had strong growth figures in 2002, but their performance over the past five years as a whole has been poor. Bolivia and Colombia will post positive economic growth rates, but their populations have grown faster than their economies. The Chilean economy also languished in 2002, as the steep downturn in the country's terms of trade that began in 1998 continued to make itself felt.

As noted earlier, Mexico, the economies of the Central American Common Market, the Dominican Republic, Haiti and Panama lost momentum in 2001-2002, primarily because of the effects of the business cycle in the United States and, in most cases, of a downtrend in their terms of trade. Cuba's economy has grown in 2002, although more slowly than before. The English-speaking Caribbean has turned in a mixed performance, but the overall per capita growth rate for the subregion will be a moderate 1.2% for 2002.

Production capacity has continued to weaken, with gross fixed capital formation (measured as a percentage of GDP at 1995 prices) in Latin America falling for the fourth year running in 2002. This decline has also been concentrated in South America, and Ecuador will be the only South American country to post a sizeable upturn (Bolivia and Colombia will register marginal increases). Of the various Latin American subregions, this indicator has been fairly stable in Central America, although the individual countries' performances have varied. **Lower levels of investment in fixed capital point towards a reduction in growth potential over the medium term. In the more critical cases, short-term growth will have to be based on the increased use of production resources that have become underutilized (unemployment, underemployment and idle production capacity) as a result of recent recessions.**

The lower level of investment in 2002 is not associated with a drop in national saving, since this year's national savings rate will be slightly above the average for the 1990s. **The decline in investment is the natural counterpart of the adjustment in the balance-of-payments current account deficit (or external saving), which will amount to 1.0% of GDP at current prices in 2002, as compared to the 2.7% average for the 1990s.** The deficit was US$ 35 billion smaller in 2002 than in 2001, and 80% of this is accounted for by events in Argentina and Brazil. Apart from Nicaragua, whose economic results usually diverge from the regional averages, Ecuador will have the region's heftiest current account deficit for the year (8.5% of GDP in 2002),[4] followed by Bolivia, Costa Rica and Guatemala, all of which are running deficits in the range of 5.5% of GDP.

These decreases in investment and external saving have been associated with the appearance of an external constraint which is reflected in the underutilization of domestic factors of production and a situation in which balance-of-payments trends are becoming a determinant of the level of economic activity. For the majority of the region, this is the first time that such a situation has arisen since the 1980s. **This external constraint is particularly severe for the four MERCOSUR economies**, whose investment rates have all hit 12-year lows against a backdrop of substantial adjustments in these countries' current accounts and exchange rates.

The bulk of the adjustment in the countries' current accounts in 2002 has taken the form of a reduction in imports, which fell by over US$ 30 billion from their 2001 levels (US$ 25 billion of this sum is accounted for by the MERCOSUR economies). Part of the downturn is due to the recession that is affecting a large part of the region, and this cyclical component of the decline could readily be reversed by an economic reactivation. However, real depreciation has also been a significant factor. **As long as competitive exchange rates are maintained, a more structural (and, hence, less cyclical) adjustment in imports should be possible, together with an increased contribution from exports, which tend to react to changes in relative prices more slowly. This course of action should enable the countries to move towards a genuine solution for the external constraints affecting them.**

On the international front, the trade agreements that Chile has concluded with the European Union and the United States were significant events for the region as a whole in 2002. Chile has thus become the second country in the region (Mexico was the first) to have free trade agreements with the major Western economies. Other developments of regionwide importance were the initiation of FTAA negotiations under the joint

4 Ecuador's statistics are influenced by the investments being made in a new oil pipeline.

chairmanship of Brazil and the United States, which has now been backed up by the authorizations that the United States Congress has issued to that country's government, and by the renewed political momentum of MERCOSUR and of the South American integration effort, which is strongly supported by Brazil. This process will also be bolstered by the WTO negotiations to be held in Cancún, Mexico, in 2003.

**The unemployment rate climbed from 8.4% of the labour force in 2001 to a regional record of 9.1% in 2002. These figures attest to the cyclical nature of employment, but they also underscore the structural deterioration of employment trends throughout the past decade, which has been reflected in unemployment levels that are even higher than they were during the crisis of the 1980s.** Argentina's jobless rate has soared to over 20%, and informal employment has risen in tandem with unemployment. **Real wages have slipped, on average, by 1.5% from their 2001 levels.** This regional average is skewed, however, by the results for economies where a sharp devaluation in the currency has triggered an upswing in inflation, since real wages are moderately higher in most of the region and are up by about 4% in Colombia, Nicaragua and Peru. In 2002, changes in real wages have moved in step with trends in GDP per employed person. No misalignments in real wages have been observed that would pave the way for an inflationary spike when the economies that have been in the deepest recessions begin to rebound. Be this as it may, conditions in the labour market have clearly deteriorated, as have social conditions in the region. ECLAC estimates that during 2002 the number of poor people in the region has swelled by over 7 million. Moreover, the economies where poverty has increased the most do not have the fiscal resources they would need to fund public policies capable of reversing this downturn in social conditions.

**Inflation will rise sharply this year (following eight years of subsiding rates) to stand at an average of 12%, versus just 6% in 2001.** In each and every case, the upward trend in inflation is a direct consequence of the nominal devaluations that have occurred, rather than the result of wage pressures that outstrip productivity gains. Although inflation has picked up its pace in the economies that have experienced the steepest devaluations (Argentina, Uruguay and Venezuela, in particular, and, to a lesser extent, Brazil), this has not triggered an inflationary spiral. This is a relatively unusual state of affairs in a region that has begun to dismantle its automatic indexation mechanisms. Here again, Argentina is a noteworthy case, since many analysts had predicted that a hyperinflationary surge would ensue once the country abandoned its convertibility regime. **In most cases, nominal devaluations have mainly translated into changes in the real exchange rate and corrections in relative prices rather than higher inflation.** The steps taken to do away with indexation mechanisms and the greater credibility enjoyed by monetary authorities have contributed to this outcome, but so have the recessionary conditions affecting many countries. As the overshooting of exchange rates (especially in the MERCOSUR economies) is corrected, inflation is likely to abate once again.

## 2. The external sector

In 2002, the net transfer of resources abroad from Latin America and the Caribbean amounted to US$ 39 billion, equivalent to 2.4 percentage points of GDP in current values. While the region had not experienced a net resource inflow since 1999, it had not had a negative balance of this magnitude since the late 1980s. The primary reason for this outflow was the sharp decline in net capital inflows, since interest payments and profit remittances held steady at the high levels they had reached in previous years. Furthermore, the region's trade balance underwent a considerable adjustment, owing mainly to the drop in imports. This balance-of-payments outcome confirms that external constraints on the region's growth have reappeared.

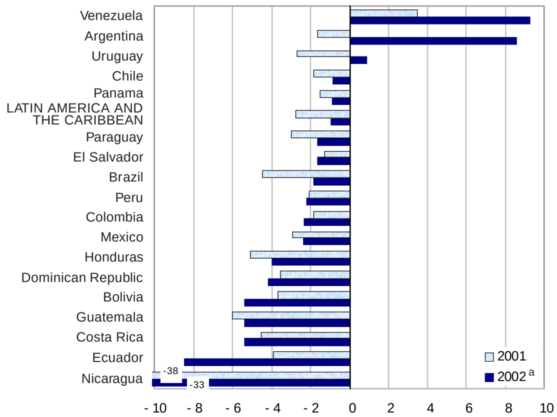
The global economic downturn that had adversely affected Latin America and the Caribbean in 2001 carried over into 2002. This year, both the volume of world trade and world output continued to move at a plodding pace, with growth rates estimated at between 1% and 2% for both variables. Accordingly, the Latin American and Caribbean countries were once again faced with weak global demand and low prices for their export commodities, which worsened the persistent downward trend in terms of trade experienced by most of the countries since 1998. This phenomenon, whose influence was felt in all the countries, though to different degrees, was compounded by the profound but more geographically circumscribed impact of financial disturbances that triggered large capital outflows from several countries in the region. The ensuing adjustment of the economies concerned, which took the form of weakened economic activity and sharp currency depreciations, led to a widespread and significant slide in imports. Only a handful of countries, mainly in the Andean and Central American subregions, deviated from this general pattern.

The adjustment in imports inverted the region's trade balance, turning last year's US$ 20.2-billion deficit into a US$ 11.1-billion surplus this year, the first positive balance in more than a decade. This change was primarily the result of the large trade surpluses generated in Argentina, Brazil, Venezuela and, to a lesser extent, Chile, which more than offset the deficits recorded in the other countries. Added to this positive balance was the net inflow of current transfers, consisting mainly of family remittances, which were a major source of external financing for a number of countries, as they have been for the past several years. Current transfers stayed on their upward trend, exceeding US$ 25 billion in 2002. The Argentine crisis led to a reduction in the flow of remittances to Bolivia and Paraguay; transfer income in Colombia and Peru also shrank while Ecuador's remained stable. The Dominican Republic and nearly all the Central American countries, on the other hand, received sizeable amounts of transfer income. Brazil, Guatemala and Mexico racked up the biggest increases in absolute terms.

The trade surplus and transfers from residents abroad combined were not enough to cover net payments of profits and interest (US$ 52.5 billion). Overall, the balance-of-payments current account deficit was considerably smaller, contracting from more than US$ 51.3 billion in 2001 to US$ 15.9 billion in 2002, which was equivalent to 1% of regional GDP (see figure 3).

The financial turmoil plaguing the region was reflected in the erosion of the capital and financial

Figure 3
**LATIN AMERICA AND THE CARIBBEAN: CURRENT-ACCOUNT BALANCE**
*(Percentages of GDP)*



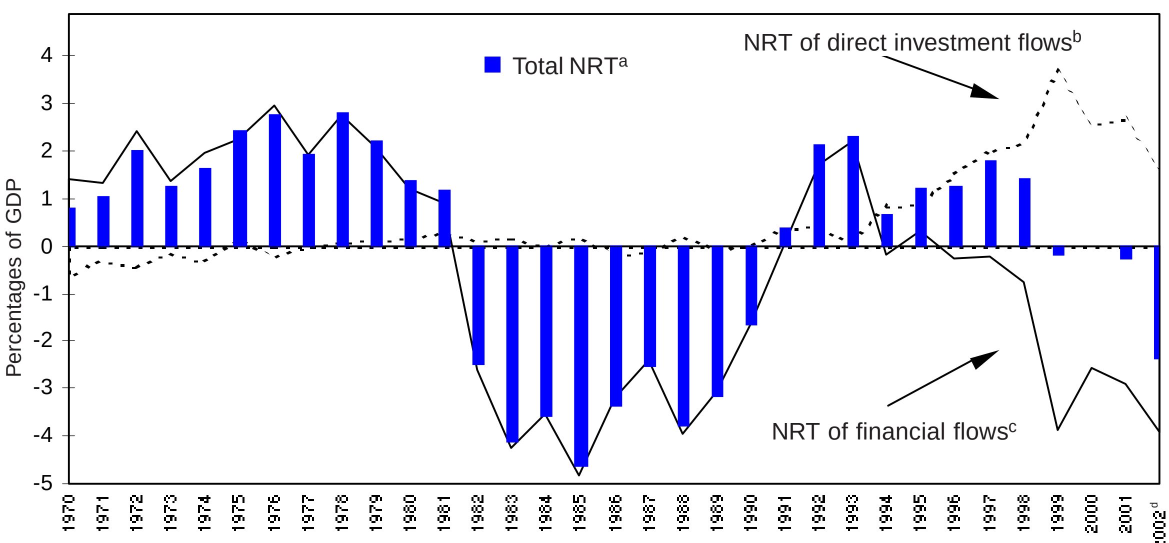

**Source:** ECLAC, on the basis of official figures and IMF data.
[a] Preliminary estimates.

accounts of the balance of payments. Problems in obtaining external financing, dwindling inflows of foreign direct investment and large outflows of short-term capital resulted in a steep decline in net inflows of autonomous capital for the second year running, especially in Argentina, Brazil, Uruguay and Venezuela. In fact, the region as a whole registered zero or slightly negative net inflows of such capital in 2002, which had not happened since 1990. To cover the current-account deficit, the authorities had to use compensatory capital derived from IMF financing and, in the case of Argentina, delays in payments of interest and amortizations of mature debt. The upshot of all these factors was a loss of international reserves across the region; these losses were very severe in the four countries mentioned above, with the exception of Brazil, which was able to replace the reserves it used with funds from an IMF loan.

Because net capital inflows were limited to resources from exceptional financing, the net transfer of resources reached unprecedented negative values. FDI flows were again positive, but more modest than those received in 2001. The negative net transfer of resources can be traced to financial flows, which, between interest payments and net capital outflows, amounted to nearly US$ 65 billion, which was equivalent to almost four points of regional GDP (see figure 4).

In 2003, the region's current-account deficit may not be much bigger than this year's figure, even though imports can be expected to recover somewhat from the abnormally low levels they are currently posting in several countries. Exchange-rate corrections will probably sustain the improvement seen in exports in the second half of 2002. In addition, FDI flows are likely to remain positive, even within the downward trend they have shown in recent years. Notwithstanding these prospects, if the Latin American and Caribbean

Figure 4
**LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS** [a]




**Source:** ECLAC, on the basis of IMF data.
[a] Net resource transfers are equivalent to net capital inflows (including non-autonomous flows and errors and omissions) minus the balance on the factor income account (net profits and interest). Negative sums indicate outward transfers of resources. [b] Equivalent to net inflows of FDI minus net profit remittances. [c] Equivalent to net inflows of capital other than FDI, minus net interest payments. [d] Preliminary estimates.

economies are to have enough funds to meet their obligations in terms of debt servicing and profit remittances, it is vitally important that they regain access to external financing at normal interest rates. Otherwise, more of the region's countries will have to turn to mechanisms for restructuring external debt (see box).

### Capital inflows reach their lowest ebb since 1989

Against the backdrop of a downturn in the international financial market, in 2002 capital flows to Latin America and the Caribbean declined to the lowest levels since the 1980s. Investors' risk aversion mounted between June and September, partly due to the climate in the run-up to the elections in Brazil. As a result, the region's external borrowing conditions took a turn for the worse and sovereign spreads rose, which more than offset the decrease in international interest rates. In the wake of Brazil's agreement with IMF, which was backed by all the presidential candidates, from October on the financial turmoil began to settle, although spreads remained abnormally high.

Capital inflows amounted to almost US$ 14 billion in 2002, which stands in sharp contrast to the average of US$ 58 billion received by the region between 1991 and 2001. The positive net inflow of capital is the result of inflows of compensatory capital (IMF credits and exceptional financing), since the contribution of autonomous capital was virtually nil. The region had not recorded capital inflows this low since 1989.

All components of autonomous capital contracted, though some of them were still positive. FDI came in at US$ 39 billion, which was far below the average of US$ 67 billion recorded between 1997 and 2001 (though still higher than the levels received between 1992 and 1996). This fall was due in part to short-term factors, which, depending on the country concerned, ranged from recession to greater political instability or the uncertainty generated by changes in the "rules of the game", such as occurred in Argentina. Also influencing this outcome, however, were longer-term factors such as the completion of privatization processes in many of the countries. Moreover, the strategy of expansion pursued by some transnational groups, which had led them to acquire Latin American banks and firms of different types (including many privately-owned ones), seems to have petered out. This mirrors the fact that, at the world level, an exceptionally active phase of mergers and acquisitions has drawn to a close.

The FDI slump was especially acute in Brazil, Mexico and Chile, as purchases of existing assets fell off sharply. Some countries, however, have managed to keep FDI flows relatively stable in recent years thanks to new investments, mainly in the primary sector. In particular, less volatile flows were observed in the Andean Community countries. Direct investment abroad, nearly all of which came from residents of Brazil, Chile, Colombia and Venezuela, was about US$ 5 billion, by contrast to 2001, when it was almost zero.

Flows of debt and other private capital were negative, following the pattern begun in 1999. Outflows of such capital were massive, especially in the cases of Argentina, Uruguay and Venezuela, which replaced their fixed exchange rates or exchange bands with currency floats. Once the devaluations took place, capital outflows tended to become more moderate, meaning that most of them were observed in the first half of the year. Brazil also experienced capital flight in the months preceding its October elections, but this eased significantly once the electoral process was over. Thus, the negative balance on the capital account can be blamed in part on speculative movements which should not persist (at least to the same degree) once the forces propelling them have disappeared.

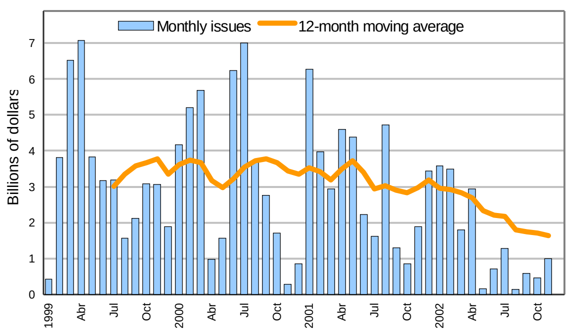
There are also, however, more long-term factors that make the recovery of easy access to external financing unlikely for a number of countries, including, in particular, the high degree of indebtedness they built up over the 1990s, which has already caused external debt-servicing problems. Another factor is the persistence of a "flight to safety" that has dampened the flow of new capital to emerging markets, particularly since the Russian crisis of 1998.

After a period between 1992 and 1997 when capital flows had returned to the region and had even become quite abundant, net financial flows to the region from international banks have declined. The region's debt to international banks decreased by almost 20% between late 1997 and June 2002, according to figures from the Bank for International Settlements. Another major financial flow in this period consisted of borrowing through international bond issues, a mechanism favoured by the region's governments and leading firms. Public-sector resources from these operations, however, have gone mainly to refinance existing liabilities and have not brought in new financing for the larger economies.

Equity flows continued to be volatile, and the first half of the year saw a net outflow of capital. This was associated with the sharp downturn in stock prices, especially in the main financial centres in the region. In November 2002, the dollar-denominated regional index was down by 20% with respect to the end of 2001. A drop this steep had not been seen since 1998, when the region had been hit by the effects of the Russian moratorium.

Bond issues on the international markets amounted to US$ 16.2 billion in 2002, or half the figure recorded in 2001 (see figure 5). The bulk of these operations consisted of sovereign bond issues, launched mainly by Brazil, Colombia, Mexico, Panama and Uruguay, and the proceeds went almost entirely to amortizations of mature debt or to debt swaps. Bonds were also issued by the governments of Chile, El Salvador, Jamaica and, for the first time since 1928, Peru. Most of the issues were made between January and April, followed by a few between September and November. Few regional firms issued bonds in 2002, with Chile's CODELCO, Mexico's PEMEX and Brazil's PETROBRAS the only significant players involved.

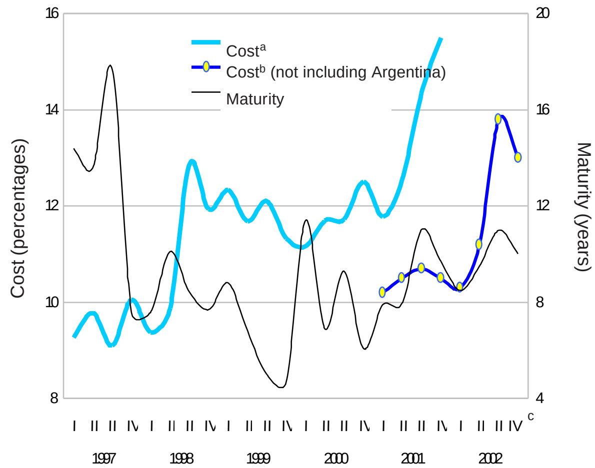
Figure 5
**LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES**
*(Billions of dollars)*




**Source:** ECLAC, on the basis of data from IMF and Merrill Lynch.

The cost and maturity of bond issues continued to reflect the generally negative trend that has prevailed since the Asian crisis (see figure 6). Maturities remained unchanged at around seven years. There was a relative improvement in the second half of the year, but this corresponded to small issues made by a small number of governments. In the first quarter, the average cost of new issues varied around an annual rate of 11%. From May onward, when very few issues were being made, this cost rose to reach 14% in September, then dropped slightly, although this average masks a variety of very dissimilar cases. The increase was entirely attributable to the larger spreads paid by the region's countries, since the yield on 10-year United States Treasury bonds held steady at around 4% per year.

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




**Source:** ECLAC, on the basis of figures from J.P. Morgan, Emerging Markets Bond Index Monitor, and Merrill Lynch, Emerging Markets Daily.

[a] Sum of the average spread for bond issues and the yield on long-term United States Treasury bonds. Spreads correspond to estimates given in the Latin Eurobond Index (LEI).

[b] LEI recalculated using fixed weightings corresponding to November 2001.

[c] October and November.

Between June and September, when investor's risk aversion was at its height, sovereign spreads increased across the region and the regional average rose above 1,000 basis points. The largest increases were recorded in Argentina, Brazil and Uruguay, where spreads reached levels that reflected an effective exclusion from the voluntary market. Spreads were also sharply up, though not to such extreme levels, in Colombia and Peru. Chile and Mexico, whose sovereign bonds enjoy investment-grade rating, posted the lowest rises between June and September (see figure 7). Spreads began to come down from October on, but remained abnormally high for most governments; in mid-December the average spread on the region's sovereign bonds was around 870 basis points.

IMF financing became crucial, given the limited access to voluntary financing and balance-of-payments crises in a number of countries. Brazil and Uruguay, battered by the Argentine crisis and with virtually no

Figure 7a
**LATIN AMERICA AND THE CARIBBEAN: SOVEREIGN BOND SPREADS (EMBI)**
*(Over yields of United States Treasury bonds)*

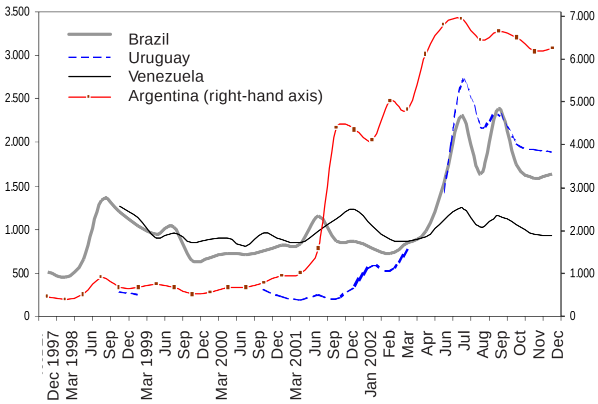
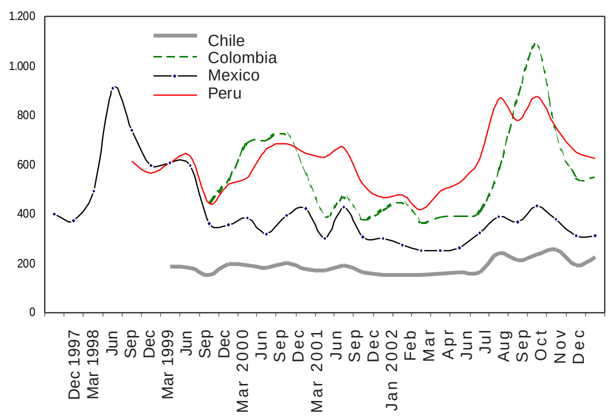



Figure 7b




**Source:** ECLAC, on the basis of data from J.P. Morgan.
**Notes**: EMBI: Emerging Markets Bond Index. Argentina: ELI PARL index; Brazil: ELI PBRL index; Mexico: ELI PMXL index; Peru: ELI PPRL index; Venezuela: ELI PVNL index. Uruguay: Yld YTM Bid of standard global sovereign bond maturing in 2008. Chile: Yld YTM Ask of sovereign bond maturing in 2009. Colombia : YTW of global sovereign bond maturing in 2009.

access to voluntary credit, were able to secure sizeable loans from IMF. Brazil had an existing arrangement with the Fund, and in August signed another which provides access to disbursements for a total of US$ 30 billion up to the end of 2003. By September Brazil had drawn on US$ 8.5 billion of this amount, which helped it maintain the level of its reserves. In Uruguay, IMF disbursements were used to shore up the private banking system, which had to deal with a run on deposits. In June and August, the government received disbursements of US$ 1.6 billion, or the equivalent of 12% of GDP, of which over half went to restore international reserves that had been used to support stricken banks. The banks whose operations had been suspended at the time of the bank holiday declared in July were still unable to open their doors at the end of November, which led to the postponement of two instalments of the loan arranged with IMF.

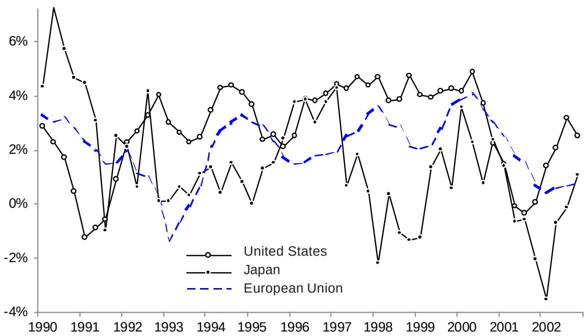
Other countries failed to reach agreement with IMF regarding the conditions attached to new loans and were thus unable to secure resources from the Fund. A number of countries even made net payments on their IMF debts, including Argentina, which made net payments of US$ 630 million on this item. Including also the payments made to the World Bank and IDB, in 2002 Argentina made loan repayments totalling US$ 2.8 billion. Early in the year Ecuador received a disbursement of US$ 90 million, but the government later rejected the conditions attached to the loan by IMF. In August the Fund granted Paraguay a US$ 200-million loan, but these resources were not disbursed because the government was unable to secure congressional approval for the fiscal and banking reforms stipulated in the loan agreement. As these examples show, IMF conditionality is becoming increasingly vested in requirements that need to be approved by congress, which is being questioned by some of the region's governments and legislatures.

## Foreign trade continues to face a sluggish global economic environment

The world economy's slow growth showed little change in 2002. The performance of the developed regions was uneven, but the slowdown that began in 2001 affected all of them (see figure 8). This situation affected the countries of the region mainly in the form of lower prices for commodities, their main export. As a result, most of the countries saw a new decline in their terms of trade, which intensified the downward trend that has been in evidence since 1998.

Over the first 11 months of the year, the commodity price index for non-oil commodities exported by Latin America and the Caribbean dropped by almost 1.5% with respect to the average for 2001, resulting in a cumulative decline of over 6% in two years. Given the close relationship between raw material consumption and the level of economic activity, these commodities (especially minerals) were the products most seriously affected by the erosion in prices. Important food products from tropical and subtropical zones, in particular sugar and shrimp, also suffered from the downturn. Coffee was again the most dramatic casualty, however, with a price

Figure 8
**GDP IN THE UNITED STATES, JAPAN AND THE EUROPEAN UNION, 1990-2002**
*(Variation in quarterly GDP in relation to the same quarter of the previous year)*

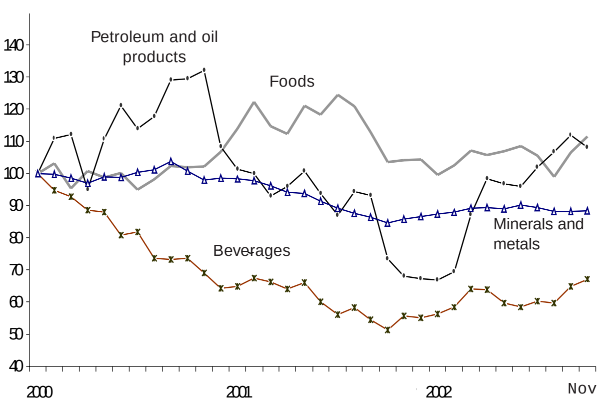



**Source:** ECLAC, on the basis of figures from official sources and Project Link.

slide of more than 10%, which continued the downward trend observed since 1998. The average price in 2002 stood somewhere between 30% and 40% (depending on the variety of coffee) of the price obtained in the mid-1990s. Among agricultural raw materials, cotton and pulp were particularly affected by price slumps.

On the other hand, some products fetched higher prices, notably grains, fish meal, wool and gold, which was used as a store of value in response to the threat of an international armed conflict. Crude oil prices, meanwhile, rose by almost 10% recovering in part from the preceding year's decline (see figure 9).

Figure 9
**PRICES OF LATIN AMERICAN EXPORT COMMODITIES**
*(Indices, January 1999=100)*




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

Import prices also diminished in almost all the countries, which enabled some of them to avert a decline in their terms of trade. Most, however, experienced a worsening in the downward trend that had begun in 1998 following the Asian crisis. Since that time, the non-oil-exporting countries in particular have sustained substantial terms of trade losses. In Brazil, Chile, Paraguay, Uruguay and most of the Central American countries (especially El Salvador, Guatemala, Honduras and Nicaragua), the cumulative decline over the past five years has ranged from 15% to 20% approximately. In 2002 alone, Brazil's terms of trade declined by 4% and Bolivia's and Honduras' by around 3%.

Another channel through which the global economic situation affected the region's trade was export volumes. As in 2001, this had the greatest impact in the countries with the closest ties to the United States market. United States purchases from Mexico remained flat between January and September, while those from Central America showed moderate growth of 4%. Thus, this market was no longer the engine of growth it had been up until 2000. The CARICOM countries saw a decline of 6% in exports to the United States, with the sole exceptions of Bahamas, Montserrat and Saint Kitts and Nevis.

A number of factors apart from the global economic environment also affected export volumes. A principal constraint was the performance of intraregional trade as indicated below. Others reflected domestic factors and were particular to individual countries. This was true of Brazil, whose shipments expanded appreciably in the second semester thanks to the greater competitiveness achieved through currency devaluation, entry into new markets and an upturn in agriculture. Conversely, other countries were plagued by adverse developments: Colombia, by a drop in its oil extraction, and Paraguay, by losses of export crops owing to drought. Export volumes showed a moderate increase of 2% for the region as a whole, but declined in about half of the countries.

In several countries, currency depreciation resulted not in an expansion of exports, but rather a contraction in imports. This was due to the predominance of commodities in the external sales of most countries in the region, since the supply of these products is not elastic in the short term. The stabilization of exchange-rate adjustments, however, will facilitate the emergence of a relative price structure that is conducive to investment in tradable goods sectors, including the production of both primary and manufactured goods for export.

### … aggravated by a contraction in the regional market

The slowdown in economic activity in most of the region's countries resulted in a contraction in imports, especially in South America. Currency depreciation did not have a significant effect on sales within this market, and intraregional trade shrank by 16% (see figure 10). Most of this decline occurred in the MERCOSUR countries, and was due primarily to the slump in Argentina's imports, whose intraregional purchases dropped by about 40%. The automotive sector was the hardest hit, as trade among MERCOSUR countries fell off by some 60%, while capital goods trade declined by 20%. For the MERCOSUR countries as a group, the share of intraregional exports in total exports declined to 11% (compared to 25% in 1998). The Andean Community saw intraregional exports decrease by 8% in the first three quarter of the year, which brought them down to 10% of the bloc's total exports.

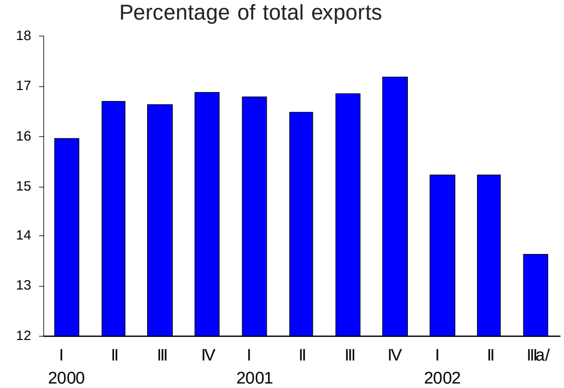
By contrast, trade within the Central American Common Market expanded by some 4%. Exports within this market came to account for more than a quarter of the group's total exports.

### As a result, exports weaken and imports slide in most of the countries

All in all, more than half the countries in the region suffered losses in their merchandise export earnings (see figure 11), while an even larger number experienced a decline in imports in tandem with the economic slowdown and the currency depreciations that took place in several of them. The mixed results in this area reflect differences between groups of countries with respect to the influences described above.

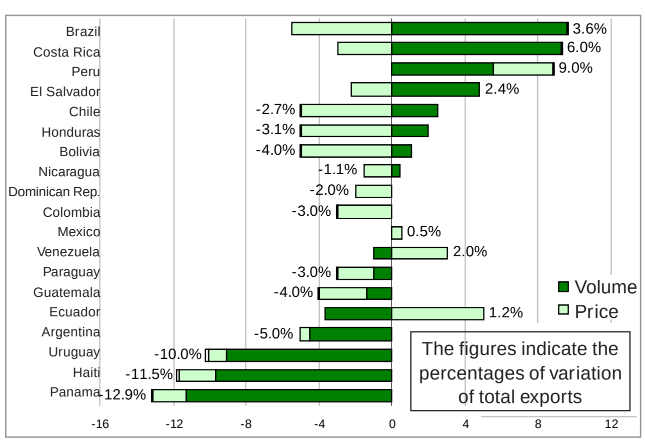
Figure 10
**LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE**

Percentage of total exports




**Source**: ECLAC, on the basis of official figures.
[a] Preliminary figures.

Figure 11
**LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE VARIATION IN EXPORTS BY UNIT VALUE AND VOLUME, 2002**




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

The Central American countries had to contend with lower prices for their main agricultural exports, including coffee, sugar and bananas, and with the downswing in the United States market. The results of the Central American Common Market countries varied according to their export mix, especially in relation to commodities and to manufactured goods produced under the maquila system and in free zones. In Costa Rica and El Salvador, where such manufactures represent a high percentage of total exports, sales rallied after a succession of slumps, although the recovery was very limited in the case of Costa Rica. In all the other countries, export figures were dragged down by the poor performance of commodities. In the case of Mexico, whose main trading partner is the United States, exports dropped the first quarter and remained virtually flat for the year as a whole, which prevented any recovery of the ground lost in 2001.

With just a few exceptions, imports to Mexico and Central America followed a pattern similar to their exports. This trend reveals, first, the influence of exports on economic activity in these countries and, hence, on their demand for imports; and second, the importance of the maquila sector, whose exports have a high imported content.

In the Caribbean Basin countries, tourism, another important source of foreign currency earnings, showed only feeble signs of recovery from the negative impact of the slowdown in the United States economy and the terrorist attacks of 11 September 2001. Figures for the early months of the year revealed flat growth or further reductions both in tourist arrivals and in earnings from this activity. Only a few positive signs brightened this panorama. In Belize, the agreements signed with cruise ship operators resulted in an increase in cruise ship arrivals. Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines had more stopover tourist arrivals in the first quarter and Saint Lucia, in the third quarter. El Salvador was another exception in this area, as its tourism revenues jumped by almost a quarter.

Trade performance in South America reveals, moreover, the influence of the subregion's two largest economies, Argentina and Brazil, on each other and on their neighbours. The financial problems besetting these two countries, which took the form of steep falls in the value of their currencies and in domestic demand, led to a double-digit slide in their imports. This was especially severe in the case of Argentina, where the decrease approached 60%.

The contraction of these large markets had an impact on the value of exports from many countries of the region. This variable was down in all the MERCOSUR members except Brazil, with Uruguay suffering a double-digit loss. These declines occurred even though these countries' sales to the rest of the world rose as their currencies depreciated against the United States dollar. This was in keeping with the uneven trends in bilateral exchange rates within the region.

As for the rest of the subcontinent, various Andean countries posted positive export results. The best performance was that of Peru, which, like Bolivia, saw an increase in shipments by its extractive industry, while Ecuador and Venezuela benefited from the upswing in crude petroleum prices. Lower export earnings in Bolivia, Colombia and Chile were due to sagging prices.

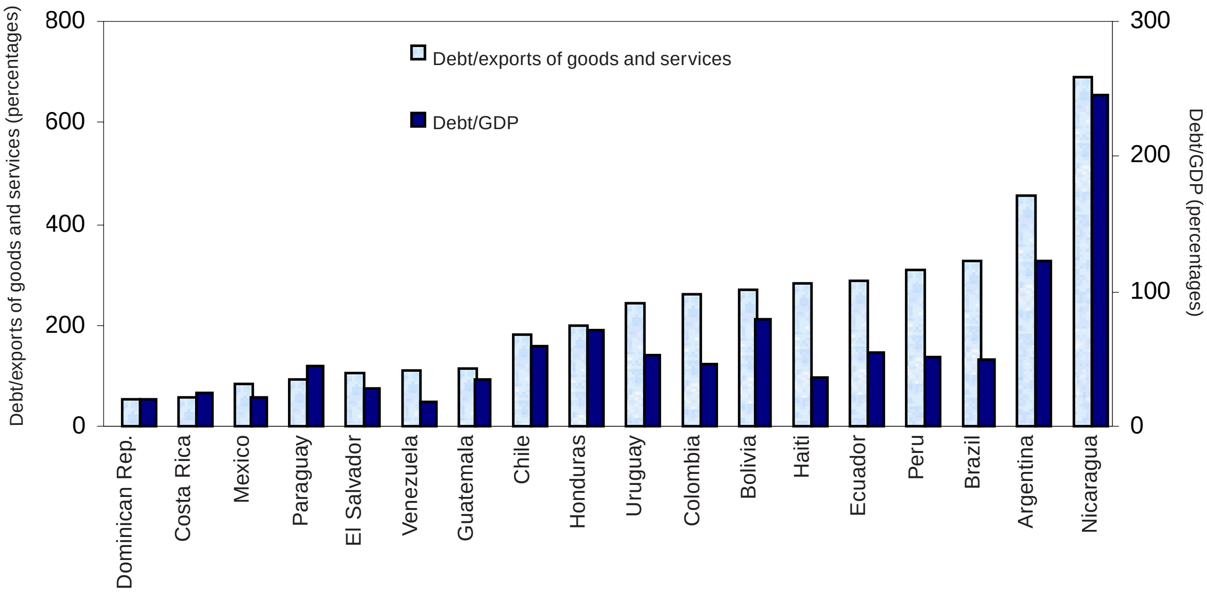
The level of imports to these countries reflected variations in their economic activity. At both ends of the spectrum were oil exporters: Venezuela, with a 25% drop attributable to the economic recession and the devaluation of the bolívar, and Ecuador, with a substantial increase. In the latter case, the increase may be ascribed to imports of capital goods for building the heavy crude oil pipeline and to persistent currency appreciation. The trade balances of these two countries trended in opposite directions, as Venezuela's surplus increased and Ecuador's deficit widened. With a negative current-account balance equivalent to 8.4% of GDP, Ecuador had the second biggest deficit in the region, after Nicaragua.

### External debt again shows no increase in 2002

Latin America's gross external debt showed a nominal decline of 0.4% in 2002, which brought it down to US$ 725 billion. In a year in which the region's countries found external financing hard to obtain, most of them registered either small increases or even nominal decreases in their external liabilities. Only a few countries engaged in additional borrowing. Among those with the biggest increases were Ecuador (10%), owing to the expansion of private debt, and Uruguay (19%), which undertook new commitments with multilateral institutions.

More than half of the Latin American and Caribbean countries, generally those with economies more open than the regional average, kept the two traditional debt burden indicators in the moderate range (see figure 12). In contrast, Bolivia, Brazil and Peru, which were among the most heavily indebted, had an external debt-to-GDP ratio of close to 50% and a debt-to-exports ratio of nearly 300%. Even so, it is encouraging to note that this indicator has systematically improved in Brazil and Peru since 1999. In Ecuador and Uruguay, however, both indicators have deteriorated.

Figure 12
**LATIN AMERICA AND THE CARIBBEAN: GROSS EXTERNAL DEBT INDICATORS, 2002**[a]




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

Argentina whittled down its external debt, despite the accumulation of interest arrears of approximately US$ 4.3 billion on its public debt, by making net payments to multilateral institutions, while some private-sector debts were paid off, although a payment of loan principal to the World Bank went unpaid in November. The debt burden, however, increased in local currency after the devaluation, which could pose serious problems, particularly for the public accounts. Argentina needs to restructure the principal and interest arrears on its external public debt, under conditions that provide for significant discounts, longer maturities and interest rates that will make its external debt servicing sustainable over the medium and long term.

### THE DEBATE CONCERNING PROPOSALS FOR RESTRUCTURING DEVELOPING COUNTRIES' EXTERNAL DEBTS; AN UPDATE[1]

The financial crises that have been overtaking developing countries with such frequency since the mid-1990s have revived the debate as to which crisis-resolution mechanisms are the most effective and, in particular, on how to go about restructuring what are considered to be "unsustainable" external debts.

One category of debtor countries is made up of the lowest-income, least developed nations. Both the Paris Club and the Highly Indebted Poor Countries (HIPC) Initiative have set up debt-reduction mechanisms with official bilateral and multilateral lenders that cover almost the entirety of these countries' external obligations. Within Latin America and the Caribbean, the countries eligible for these mechanisms are Bolivia, Guyana, Honduras and Nicaragua; Bolivia and Nicaragua have already reached the "completion point" where they can now formalize their official debt reductions.[2]

Another category is mainly composed of what are known as "emerging markets", whose debts are largely owed to private creditors. The financial crises experienced by a number of these countries have been triggered, moreover, by sudden, large-scale turnarounds in the capital account rather than the current account. In order to help such countries overcome these crises, large financial packages have been put together as part of "bailouts" which are generally led by the International Monetary Fund (IMF). Ever since the first such rescue operation (Mexico, 1995), this approach has come in for strong criticism, however. Nonetheless, there are circles in which it is argued that these operations are still the best solution, although some aspects might need to be modified. The proponents of this approach compare these sovereign debt crises with bank runs; they claim (although this point is disputed by some) that in both cases a lender of last resort is called for (i.e., an institution that is willing to lend -and to commit itself to lending- however much is needed to avert or halt such a run).[3] This option raises the question, however, of how to go about identifying that lender, which thus far has usually been the Fund itself. In order to perform this function effectively, the Fund would need to have greater resources at its command, but in many countries, –especially the United States– there is a deep reluctance to allocate more government resources for official development assistance, let alone for this purpose. In the opinion of some authors, this difficulty could be overcome through the use of special drawing rights, but this idea has not gained the necessary support from some of the most influential members of the Fund.

As many authors have pointed out, however, these crises may be explained in large measure by the instability of the international financial market and the impact of large industrialized countries' policies. If this is the case, then the best way to resolve these sorts of situations would be to provide generous financing, since such crises would have been the result of temporary liquidity crunches rather than of unsustainable debts, and debtor countries would thus bear no responsibility for causing them. The most important course of preventive action, meanwhile, would be to improve the international financial order in order to avert crises generated by its instability.

In the past few years, however, the debate has turned against the use of bailouts because of the prevailing reluctance to use public funds and concern about the moral hazard they entail. There is a sizeable school of thought which contends that the expectation of a bailout may lead to the build-up of an excessive level of debt, since both lenders and borrowers will count on being rescued by official creditors if they run into trouble. Another element in this controversy is the belief that, in some cases, these crises may actually be caused by an unsustainable debt rather than merely a short-lived liquidity squeeze. In such cases, it becomes necessary to admit that it has become impossible to service the debt and that simply deferring payments on principal and interest will therefore not resolve the situation; under such circumstances, an actual debt reduction becomes necessary.

These considerations have given rise to two proposals that are, in the final analysis, deemed to be complementary. The first proposal is to include collective action clauses in contracts governing sovereign bond issues; the second is to set up a sovereign debt restructuring mechanism (SDRM).[4] The SDRM would be analogous to the bankruptcy proceedings that exist in the private law systems of most countries, where a debtor and all its creditors engage in systematic debt reduction negotiations under the authority of a third party designated by law.

The idea of including collective action clauses in bond contracts was first raised in the "Rey Report," which was prepared at the request of the Group of Ten in the wake of the 1994-1995 Mexican crisis.[5]

Three types of collective action clauses have been discussed in this connection: (i) majority action clauses, which allow payment terms to be modified without the unanimous approval of bondholders; (ii) collective representation/engagement clauses, which permit an agent or agents to negotiate on behalf of the bondholders as a group; and (iii) sharing clauses, under which bondholders who receive payments must share them out equitably with all the others. The general purpose of these clauses is to facilitate renegotiations in situations such as those created when a large proportion of the debt is made up of bond issues. This type of debt is usually more widely dispersed than the bank loans that were typical of the early 1980s, and the holders of such debts are not linked to one another by sharing clauses. In such a situation creditors are more likely to take an individualist approach that can lead to legal disputes and paralyse negotiations, since the modification of payment terms usually requires unanimous approval. In addition, unlike banks, many of these creditors have no relationship with the debtor country other than the fact that they hold some of its bonds, which means that they have little stake in its future prosperity. Collective action clauses help to avoid this type of difficulty because they permit decisions to be taken by majority vote, allow representatives to be designated and require that any payments made on the debt be apportioned among all the bondholders. At the same time, however, they place the negotiations in the hands of the market rather than in those of the government or any other decision-making body.

The main objection that has been raised to these clauses is that the process of incorporating them into sovereign bond contracts can take a very long time. It has also been claimed that their inclusion may discourage potential creditors from lending to countries that they suspect might find it necessary to renegotiate their obligations later on.

Whereas it was once thought that the financial market was entirely capable of handling these kinds of situations without resorting to any new sort of institutional mechanism, the use of collective action clauses in sovereign bond contracts is now beginning to gain acceptance.[6]

As to the second proposal, the idea of solving the problems associated with sovereign debt renegotiations by using procedures similar to the bankruptcy proceedings employed in private law has a long history. In fact, it dates all the way back to the very father of modern economic thought, Adam Smith.[7] Over the past few years this idea has been raised again by, among others, UNCTAD. It was also brought up in November 2001 by Anne Krueger, a few months after she was named Deputy Managing Director of the International Monetary Fund.[8]

The basic idea is to create an institutional framework for restructuring unsustainable sovereign debts and to prevent a debtor and its creditors from indefinitely postponing the recognition of the debts' unsustainability, since such delays provide time for problems to accumulate and thus make the eventual rescue operation more difficult to carry out. In this case, the legal acceptance of debt standstills and of a temporary suspension of any claims by individual creditors or groups of creditors is a key element in creating an appropriate negotiating framework. One of the principal difficulties involved in applying this type of scheme is precisely the lack of a universally valid legal instrument for backing up such a suspension within the courts of all the relevant countries.

Another key element, which is a feature of national bankruptcy proceedings and could be present in a similar form in collective action clauses is that a sufficiently broad majority of creditors could grant full legal validity to a debt restructuring or write-down agreement in the territory of all the countries involved.

The International Financial and Monetary Committee of the Board of Governors of the International Monetary Fund has given its support to the idea of refining both the proposal for the introduction of collective action clauses and the proposal for setting up an SDRM. The private sector, on the other hand, has forcefully rejected the latter proposition in various instances. Additionally, many developing countries, especially those in a more vulnerable position, have also firmly opposed the introduction of such a mechanism. They argue that the possibility of bankruptcy-type proceedings being invoked could discourage lenders, thereby effectively closing the international financial market's doors to countries that are unable to guarantee that will be absolutely free of any marked fluctuations in the future.[9]

As to the details of this proposal, there are a broad range of options with regard to the following components: (i) which party would declare the debt standstill and under what terms (the country directly concerned with IMF authorization, the Fund or the creditors) and what criteria would be used in determining whether or not a debt is unsustainable; (ii) how to ensure the suspension of creditor litigation (there are those who contend that the IMF Articles of Agreement would be sufficient for this purpose, but there is a general consensus as to the need to modify the Articles or supplement them with another international legal instrument to this end); (iii) how to determine which arbiter or court would be responsible for approving an agreement between a debtor and its creditors (given the strong opposition to the idea of having the International Monetary Fund play this role, as it is considered an interested party); (iv) which debts would be included in the restructuring process (sovereign debts only, or also those of private debtors) and whether or not the claims of international financial institutions would be covered; and (v) what specific criteria and procedures would be applied to sovereign debts (Kunibert Raffer and the Jubilee organization suggest that the procedures to be used should be those applied in the United States to municipalities with unpaid debts).

ECLAC has taken part in the debate on these issues on a number of occasions over the past few years. Its views have been expressed in a report of the United Nations Executive Committee on Economic and Social Affairs in 1999, whose preparation it coordinated,[10] and in ECLAC documents[11] and other contributions to international debates on the subject.[12] The Secretariat of the Commission has recommended, among other points, that: (i) emergency IMF financing and mechanisms for resolving problems associated with the accumulation of excessive debt should be viewed as complementary to each other rather than as substitutes, since the former is intended to deal with liquidity problems and the latter with solvency problems; (ii) emergency IMF financing should be expanded through the greater use of special drawing rights, particularly temporary issues during periods of international illiquidity; (iii) collective action clauses and sovereign debt restructuring mechanisms should be seen as alternative means of dealing with solvency problems; (iv) the application of collective action clauses should be universal in nature in order to avoid creating a new factor of discrimination against developing countries; (v) within the restructuring process, seniority should be granted to private financing extended under crisis conditions, and in some cases this should be made a requirement for such a process; and (vi) credit supplied by multilateral lending agencies during the renegotiations and the period immediately following their conclusion should be considered a key element. In this last case, the focus should be on expediting the countries' re-entry into private capital markets; to this end, consideration should be given to the possibility of setting up a multilateral system of guarantees which would be backed up by a special fund managed by the major development banks.

**Sources**:

[1] This article is based on Arturo O'Connell, "La deuda externa de América Latina y el Caribe", Estudios estadísticos y prospectivos series, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), forthcoming.

[2] The mechanisms used to date have been the object of various criticisms, however, and are now being reviewed. See, inter alia, International Monetary Fund, *Heavily Indebted Poor Countries Initiative (HIPC): Status of Implementation*, document prepared by staff members of the International Monetary Fund and the World Bank, 19 September 2002; Nancy Birdsall and John Williamson, *The HIPC Initiative*, Washington, D.C, Institute for International Economics (IIE), 2002 and Daniel Cohen, *The HIPC Initiative: How Really Good Is It?*, Paris, École Normale Supérieure/Development Centre of the Organisation for Economic Co-operation and Development (OECD), 2001.

[3] Perhaps the best known advocate of the idea of establishing an international lender of last resort and of formalizing the International Monetary Fund's role in this regard is Stanley Fischer, who was the Managing Director of IMF until 2001. See Stanley Fischer, "On the need for an international lender of last resort", *Essays in International Economics*, No. 220, Princeton, New Jersey, November 2000. For an overview of the debate on lenders of last resort at the national level, see Xavier Freixas and others, "Lender of last resort: a review of the literature", *Financial Stability Review*, No. 7, London, Bank of England, November 1999.

[4] See International Monetary Fund, Communiqués of the International Monetary and Financial Committee of the Board of Governors, Press Release No. 02/22, 20 April 2002 and Press Release No. 02/45, 28 September 2002.

[5] The "Rey Report" is the informal name for the report entitled "The Resolution of Sovereign Liquidity Crises: A Report to the Ministers and Governors Prepared under the Auspices of the Deputies", May 1996. A majority action clause is usually included in contracts governing bonds issued under British law, but this is not the case under the laws of the State of New York.

[6] See the note of 23 June 2002 sent by representatives of a number of financial institutions to the Secretary of the United States Treasury.

[7] Kenneth Rogoff and Jeromin Zettelmeyer, "Bankruptcy Procedures for Sovereigns: a History of Ideas, 1976-2001", IMF Working Paper No. 02/133, Washington, D.C., August 2002.

[8] United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report, 1998* (UNCTAD/TDR/1998), Geneva, 1998, chapter IV, "The management and prevention of financial crises", and *Trade and Development Report, 2001* (UNCTAD/TDR/2001), Geneva, 2001, part two, chapter VI, "Crisis management and burden sharing". In fact, UNCTAD had analysed the bankruptcy mechanism several years before; see United Nations Conference on Trade and Development (UNCTAD), *Trade and Development Report, 1986,* Geneva, 1986, annex to chapter 6. See also Anne Krueger, *International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring,* Washington, D.C., American Enterprise Institute, 26 November 2001 (a fuller version is available in *A New Approach to Sovereign Debt Restructuring*, Washington, D.C., International Monetary Fund, April 2002) and Anne Krueger, *Sovereign Debt Restructuring Mechanism: One Year Later*, Mexico City, International Monetary Fund, 12 November 2002. A similar idea was set forth in a joint proposal made by staff at the Bank of England and the Bank of Canada; see Andy Haldane and Mark Kruger "The resolution of international financial crises: Private Finance and Public Funds", working paper No. 2001-20, Bank of Canada, November 2001.

[9] See, inter alia, the discussion of the Group of 20 at their last meeting, held in New Delhi, "G-20 Finance Ministers' and Central Bank Governors' Meeting-Delhi Communiqué", 23 November 2002, and "G-20 countries disagree on debt defaults", *Financial Times*, 25 November 2002.

[10] United Nations, "Towards a New International Financial Architecture: Report of the Task Force of the Executive Committee on Economic and Social Affairs of the United Nations" (LC/G.2504), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), March 1999.

[11] Economic Commission for Latin America and the Caribbean (ECLAC), Globalization and Development (LC/G.2157), Santiago, Chile, April 2002; *Growth with Stability: Financing for Development in the New International Contex"*, Bogotá, D.C., ECLAC/Alfaomega, September 2001.

[12] José Antonio Ocampo, *La reforma del sistema financiero internacional: un debate en marcha,* Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/ Fondo de Cultura Económica, 1999; Stephany Griffith-Jones and José Antonio Ocampo, *What Progress in International Financial Reform? Why So Little?* Financial Sector Issues, Expert Group on Development Issues (EGDI), Stockholm, Ministry of Foreign Affairs, 2002, forthcoming.

# 3. Macroeconomic policy

## Fiscal policy

Fiscal policy played a more modest role in macroeconomic management in 2002 than in previous years. In general, fiscal expenditure was not used to buoy economic activity, in some cases because it had already been used for this purpose and to continue to do so would be risky, and in other cases because the capacity for fiscal manoeuvring had not been strengthen during the high-growth years and had become even weaker as the region sank deeper into recession and the public debt burden grew heavier.

In Argentina, Paraguay, Uruguay and Venezuela, economic activity plummeted and fiscal expenditure contracted. In contrast, spending cuts in the Central American countries and Panama took place under medium-term stabilization programmes and in a context of moderate economic growth. In other countries, expenditure held steady or even rose; the clearest examples of this are Barbados, Brazil, Chile, Costa Rica, the Dominican Republic, Ecuador and Jamaica. In line with recent practice, capital expenditure was the variable adjusted in many countries. In Honduras, Nicaragua, Panama, Paraguay, Peru and Trinidad and Tobago, the adjustment process affected essentially public investment. By contrast, investment was stepped up considerably in Bolivia, the Dominican Republic, Haiti and Paraguay in an effort to make up for the sluggishness of private-sector activity

Income fell in all the countries that experienced a recession. The worst cases were Argentina and Uruguay, where fiscal revenues shrank by about 20% in real terms. The decline was less severe in Paraguay, similarly to Venezuela, which benefited from high international prices for petroleum and oil products. Other petroleum-exporting countries also received large amounts of oil revenue, with the exception of Colombia, whose oil output is in outright decline.

Income expanded in half the countries of the region, most of them in Central America and the Caribbean. In Guatemala and the Dominican Republic this was due to the preceding year's tax reforms, and in Nicaragua, to the reform conducted in 2002. In South America two exceptional cases were Ecuador and Brazil, whose income swelled by over 10% in real terms, owing in both cases to an increase in tax receipts, combined, in Brazil, with the emergence of new sources of revenue.

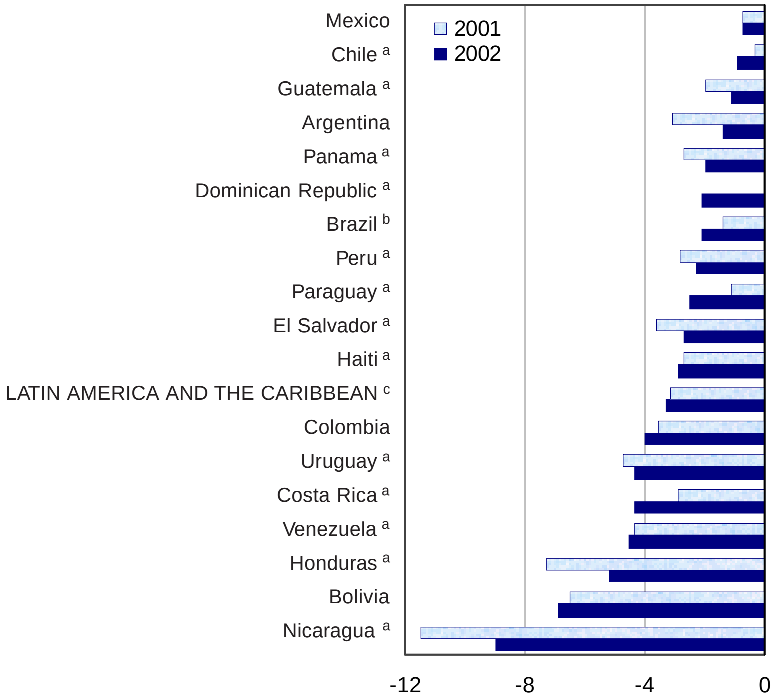
In other countries the authorities also took steps to increase tax collection or raise tax rates, as a way of halting the deterioration in their fiscal affairs. The Argentine government imposed new taxes (including a tax on exports) and the Uruguayan authorities passed a law increasing contributions to finance social security. In Venezuela, VAT and the tax on bank withdrawals were raised, a number of VAT exemptions were eliminated and the least expensive grade of petrol started to be phased out. In Colombia, the government enacted a one-off tax on net worth in the framework of what its constitution calls a "state of internal disturbance", and is processing a broad-based fiscal reform which is expected to improve the fiscal balance by two GDP percentage points per year. Guatemala, Nicaragua and the Dominican Republic have begun to implement reforms intended to increase the tax-take; by contrast, efforts to win passage for fiscal reforms through the legislatures of Mexico and Paraguay have not prospered.

These revenue and spending patterns combined to keep the public-sector balance relatively unchanged, with a deficit of 3.3%. This average masks large differences among countries, however, since the fiscal deficit narrowed in half of them and widened in the rest (see figure 13).

The non-financial public sector (NFPS) balance in the region's three largest economies varied markedly. In Argentina the NFPS balance improved from -3.1% of GDP in 2001 to -1.4% in 2002; in Brazil the operational balance worsened slightly, as the deficit rose from -1.7% to -2.1% of GDP; and in Mexico the fiscal deficit remained unchanged at 0.7% of GDP.

Only Chile and Mexico enjoyed access to sources of external finance throughout the year, while a number of Central American and Caribbean countries, as well as Brazil, Colombia, Jamaica, Peru and Uruguay, resorted to sovereign bond issues early or late in the year. The domestic market and, to a lesser extent, international financial institutions were the main sources of finance for the South American countries, although Argentina and Brazil, among others, had difficulties in raising revenue from domestic sources. Brazil faced problems with the refinancing of its domestic debt in the pre-electoral climate and its risk premium rose to prohibitive levels in the third quarter.

Figure 13
**LATIN AMERICA AND THE CARIBBEAN: PUBLIC SECTOR BALANCE**
*(Percentages of GDP)*




**Source:** See Statistical Appendix.
[a] Central government. [b] Operational balance. [c] Simple average.

As a result of these trends, fiscal policy tended to be passive in 2002. First, in the last five years the economic authorities have found themselves with constantly decreasing room for manoeuvre in respect of fiscal affairs, as the fiscal deficit already represented an average of 3.2% of GDP in 2001. Second, faced with tougher external financing conditions, the governments have been obliged to protect the credibility of their policies by adopting a more austere policy stance. Only Barbados, Chile, Costa Rica and the Dominican Republic enjoyed enough leeway to implement a compensatory fiscal policy.

The worsening of economic conditions brought the issue of public debt sustainability to the forefront once again. Certainly, a fiscal deficit which has been expanding ever since the beginning of the Asian crisis and sluggish economic growth have raised public debt in relation to GDP, but investor behaviour has also been responsible for triggering and propagating panic and contagion, thus giving rise to a self-fulfilling prophecy. The fact that two countries with a high public debt/GDP ratio (Ecuador and Brazil) have a large primary surplus testifies to a major effort to improve this indicator which has been disregarded by investors.

The problem of public debt has also been exacerbated by developments in the area of monetary and exchange-rate policy. Monetary policy was fairly expansionary early in the year, but then tightened in response to exchange rate instability and to rising inflation in a number of countries. This was reflected in an increase in interest rates, which added to the burden of domestic debt servicing and worsened public debt sustainability indicators. In Brazil, currency devaluation caused a fiscal downturn equivalent to 5.4% of GDP in nominal terms.[1] In combination, these factors brought about an increase in Brazil's country-risk indicators, which further complicated an already difficult fiscal situation. However, positive final-quarter signals observed in the markets of most of the region's countries, led by Brazil, together with expectations for moderate growth in 2003 augur a less thorny fiscal situation in the coming year. Argentina was forced to suspend payments on its external public debt, first to private creditors, but at the end of the year to multilateral creditors too. It is

[1] This effect is not reflected in the operating balance of the public sector, which is mentioned earlier in this chapter.

for this reason that the local currency devaluation did not generate a large increase in the government's financial expenses as it did in Brazil.

### Exchange rates and monetary policy

The year 2002 saw a further loss of degrees of freedom in foreign-exchange and monetary policy management in most of the economies of the region, especially the Mercosur countries. In particular, the crisis in Argentina and the financial turmoil in Brazil had far-reaching effects on foreign-exchange markets in the countries of the region and, in particular, on the neighbouring countries having the closest trade and financial ties with these economies (Uruguay, Paraguay and Bolivia). The hardest-hit countries (Argentina, Uruguay and Venezuela) abandoned the foreign-exchange regimes that had been in place up to 2001 and floated their currencies, which went on to register sharp real depreciations. Other countries also experienced significant rises in their exchange rates, which forced authorities to implement contractionary monetary policies to defend their currencies and prevent their depreciation from boosting inflation. Only a few countries in the region –among them, Chile, Colombia, Mexico and Peru– were in a position to adopt more independent and more countercyclical monetary policies. Their effectiveness was somewhat impaired, however, by the fact that financing terms for the private sector did not improve in some cases.

### Foreign-exchange markets

Events in the Mercosur countries and in Venezuela had a strong impact on the region's foreign-exchange markets. The crises in these countries forced Argentina, Uruguay and Venezuela to float their currencies and led to steep real depreciations in all of them. The rest of Latin America and the Caribbean generally experienced moderate real exchange-rate depreciations, both in bilateral rates against the dollar and in their "effective" exchange rates, that is, their rates against the currencies of their main trading partners.

Many Latin American countries have recently opted for floating exchange-rate regimes. The major exceptions have been Ecuador and El Salvador,[2] which have moved in the opposite direction (see table 2). However, the adoption of currency floats has not always been a matter of free choice and, in fact, was due to force of circumstance in the most recent cases. The particular mix of economic policies (fiscal and, where appropriate, monetary policy) must be functional to the exchange rate regime so that the real exchange rate trend will reflect changes in the production sector's international competitiveness. In a number of cases, the collapse of an exchange regime has been preceded by serious relative price distortions or by significant fiscal and external disequilibria.

The countries that switched over to a currency float in 2002 also registered nominal and real (excluding the effect of inflation) depreciations of their currencies in relation to the dollar, the euro and the currencies of other countries outside the region. However, the sharp depreciation of some Latin American currencies suggests that other countries in the region may have seen a real appreciation in their exchange rates with respect to Latin America and the Caribbean as a whole while at the same time registering a real depreciation with respect to the rest of the world. This effect is illustrated in table 3, which compares variations in exchange rates from the third quarter of 2001 to the third quarter of 2002. These figures clearly point up the differences between movements in real bilateral exchange rates with respect to extra-regional currencies (the dollar and the euro, among others) and in relation to the currencies of other countries in the region.

The Mercosur countries experienced the largest real depreciations. The four full members of this trade bloc were among the five countries in the region (the other country being Venezuela) whose currencies depreciated the most in real terms between the third quarter of 2001 and the third quarter of 2002.

The change made in Argentina's foreign-exchange regime in January 2002 triggered a steep real depreciation of the Argentine peso during the first half of the year, both against the dollar and against the currencies of all of its main trading partners. By the fourth quarter of 2002, however, the Argentine peso had stabilized thanks to the country's large trade surplus, the regulations introduced regarding the sale of foreign exchange by exporters and the decline in outflows of private capital. These conditions enabled the Central Bank to intervene when the exchange rate reached 3.5 pesos to the dollar.

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[2] El Salvador embarked upon the formal dollarization of its economy on 1 January 2001 with the entry into force of the Monetary Integration Act. Under this Act, the rate of exchange of the colón against the dollar of the United States of America was set at a fixed and unalterable rate and the dollar became full legal tender for the payment of monetary obligations in the country. The process of dollarization and the replacement of colones by dollars proceeded in 2002, and it is estimated that by September 2002, 85% of all transactions were being made in dollars.

Table 2
**LATIN AMERICA: FOREIGN-EXCHANGE REGIMES, 1996-2002**

| System | 1996 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| **Dollarization** | Panama | Panama | Panama<br>Ecuador | Panama<br>Ecuador | Panama<br>Ecuador<br>El Salvador |
| **Currency board** | Argentina | Argentina | Argentina | Argentina | |
| **Other fixed-parity regimes** | El Salvador | El Salvador | El Salvador | El Salvador | |
| **Crawling band** | Bolivia<br>Costa Rica<br>Nicaragua | Bolivia<br>Costa Rica<br>Nicaragua | Bolivia<br>Costa Rica<br>Nicaragua | Bolivia<br>Costa Rica<br>Nicaragua | Bolivia<br>Costa Rica<br>Nicaragua |
| **Moving band** | Brazil<br>Colombia<br>Chile<br>Ecuador<br>Honduras<br>Uruguay<br>Venezuela | Colombia<br>Chile<br>Honduras<br>Uruguay<br>Venezuela | Honduras<br>Uruguay<br>Venezuela | Honduras<br>Uruguay<br>Venezuela | Honduras |
| **Flotation** | Guatemala<br>Haiti<br>Mexico<br>Paraguay<br>Peru<br>Dominican Republic | Brazil<br>Ecuador<br>Guatemala<br>Haiti<br>Mexico<br>Paraguay<br>Peru<br>Dominican Republic | Brazil<br>Chile<br>Colombia<br>Guatemala<br>Haiti<br>Mexico<br>Paraguay<br>Peru<br>Dominican Republic | Brazil<br>Chile<br>Colombia<br>Guatemala<br>Haiti<br>Mexico<br>Paraguay<br>Peru<br>Dominican Republic | Argentina<br>Brazil<br>Chile<br>Colombia<br>Guatemala<br>Haiti<br>Mexico<br>Paraguay<br>Peru<br>Dominican Republic<br>Uruguay<br>Venezuela |

**Source**: For 1999-2001, adapted from *International Financial Statistics,* International Monetary Fund. For 1996 and 2002, authors' compilations.

Table 3
**LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE CHANGE IN REAL EXCHANGE RATE**
*(Third quarter 2001 - third quarter 2002)* [a b]

| | Bilateral exchange rate against the US$ | Bilateral exchange rate against the euro | Effective exchange rate against whole world | Effective exchange rate against Latin America and the Caribbean only |
|---|---|---|---|---|
| **Latin America** | | | | |
| Argentina | 168.9 | 198.3 | 163.3 | 135.0 |
| Bolivia | 10.2 | 22.3 | -1.6 | -15.0 |
| Brazil | 15.9 | 28.5 | 10.5 | -27.0 |
| Chile | 5.0 | 16.4 | -1.6 | -22.5 |
| Colombia | 9.5 | 21.5 | 6.1 | -7.2 |
| Costa Rica [c] | 2.4 | 13.6 | 2.5 | -3.7 |
| Ecuador | -9.6 | 0.3 | -12.0 | -20.9 |
| El Salvador [c] | -0.3 | 10.6 | 0.3 | -0.6 |
| Guatemala [c] | -6.6 | 3.6 | -7.6 | -11.0 |
| Haiti | 7.9 | 19.7 | n/d | N/d |
| Honduras [c] | 0.6 | 11.6 | 1.1 | -0.4 |
| Mexico | 3.6 | 14.9 | 4.1 | -10.4 |
| Nicaragua [c] | 5.3 | 16.8 | 4.1 | 1.4 |
| Panama | 0.4 | 11.4 | 0.1 | -4.4 |
| Paraguay | 29.9 | 44.1 | 8.1 | -10.0 |
| Peru | 3.6 | 15.0 | 1.7 | -11.2 |
| Dominican Republic [d] | 3.7 | 15.1 | 2.2 | -9.7 |
| Uruguay | 64.5 | 82.5 | 39.5 | 8.6 |
| Venezuela | 54.2 | 71.0 | 53.5 | 43.9 |
| **The Caribbean** | | | | |
| Barbados | 3.4 | 14.7 | 5.1 | 3.7 |
| Jamaica [e] | 1.7 | 12.9 | 3.0 | -1.9 |
| Trinidad and Tobago | -2.9 | 7.8 | -4.7 | -12.7 |

**Source:** ECLAC, on the basis of official and IMF data.

[a] This period was used because it provides the clearest illustration of the differences between real bilateral exchange rates for currencies outside the zone (dollar, euro, etc.) and for currencies of other countries in the region.

[b] January 1999 is used as the base period for bilateral exchange rates against the euro and the dollar; January 2000 is the base for the average effective exchange rate for imports and exports.

[c] The data supplied by the Foreign Trade Data Bank for Latin America and the Caribbean (BADECEL) for calculating the effective exchange rates of the Central American countries do not include the maquila industry.

[d] The effective exchange rate was calculated using IMF figures for 2000.

[e] The effective exchange rate was calculated using BADECEL figures for 2000.

The Brazilian real started to lose value in real terms in the second quarter of 2002, despite the intervention of the Central Bank; this was due in part to the climate that prevailed as the country readied itself for elections. The real devaluation against the dollar amounted to 15.9% in the third quarter in comparison with the same quarter of the previous year. However, the real effective exchange rate for Brazil's currency depreciated much less than this during the same period as a result of the devaluation of its trading partners' currencies (particularly Argentina's). In October, November and the first half of December, the price of the dollar remained volatile at levels above 3.5 reales, partly as a result of market uncertainty regarding the economic situation in Brazil in the short term.

The depreciation of the Argentine peso and, subsequently, the smaller depreciation of the Brazilian real had a strong impact on the effective rates of exchange of these countries' trading partners within Mercosur. In fact, although the Paraguayan guaraní and the Uruguayan peso[3] sustained significant losses against the dollar and the euro in the period under review, the real effective exchange rates of these two currencies depreciated much less (see table 3). In October and November, the Uruguayan peso appreciated in nominal terms in relation to the low point it had reached in September and has since remained stable, whereas the guaraní has continued to depreciate.

Bolivia continued to pursue a line of policy aimed at maintaining a stable real effective exchange rate. This policy translated into a depreciation of its currency against the dollar (10% in real terms) to compensate for the sharp depreciations in the currencies of the other Mercosur member countries, but even so, its real effective rate of exchange appreciated slightly (1.6%) during the period under review. In Chile, the peso depreciated by 5% in real terms against the dollar, but because of the importance of MERCOSUR as a trading partner, its average real effective exchange rate showed a small appreciation.

Outside MERCOSUR, Venezuela was the country whose currency depreciated the most during the period. Monetary authorities were unable to staunch the country's heavy capital outflows, despite a considerable increase in interest rates. Thus, between the third quarter of 2001 and the third quarter of 2002, the bolívar depreciated by 55% in real terms against the dollar.[4] Then, however, a gradual appreciation of the nominal exchange rate, which began in early October and continued throughout the fourth quarter of 2002, brought the rate back to the levels of June/July 2002.

The Colombian peso depreciated by a little less than 10% in real terms against the dollar during the same reference period,[5] with the Central Bank's expansionary monetary policy being one of the factors that facilitated this trend. Colombia's real exchange rate depreciated even more with respect to that of Ecuador, but because of the sharp real depreciation of the Venezuelan bolívar (and the smaller depreciation of the Brazilian real), the Colombian peso appreciated in relation to the currencies of the Latin American and Caribbean region as a whole, and the depreciation of the real effective exchange rate (the rate vis-à-vis Colombia's major trading partners as a group) amounted to only 6%.

During the period under review, most of the other countries in the region saw their currencies decline in value by 5% or less in real terms against the dollar and against their trading partners' currencies.[6] This group includes Nicaragua, Dominican Republic, Peru, Mexico, Barbados, Costa Rica, Jamaica and Honduras, all of which, generally speaking, have less close trade ties with Mercosur.[7]

Guatemala and Trinidad and Tobago were the only non-dollarized economies to experience nominal and real appreciations of their currencies during the period, in both cases thanks to strong capital inflows. However, the Trinidad and Tobago dollar depreciated in nominal terms in October and November 2002, thus dropping back to the levels observed in June 2001. The quetzal, on the other hand, has continued to appreciate in nominal terms. Two of the region's three dollarized economies –El Salvador and Panama– have remained on a low inflation path, which accounts for the stability of both their effective exchange rate and their bilateral rates of exchange against the dollar. The third -Ecuador-has been reining in inflation, but the rate is still above international standards; this has been reflected in a loss of exchange-rate competitiveness that amounts to a little less than 10% against the dollar and 12% overall against its trading partners. The most significant real appreciation in the case of Ecuador has been in relation to the currencies of the other Latin American countries.

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3 In Uruguay, following a run on deposits in the local financial system, the government was obliged to float the Uruguayan peso on 20 June 2002.

4 Venezuela abandoned its system of exchange-rate bands and allowed the bolívar to float in February 2002.

5 The depreciation took place mainly between the end of the first quarter and the third quarter 2002.

6 With the exception of Haiti, whose currency depreciated by just under 8% against the dollar.

7 The specific reasons for the exchange-rate movements in each of these countries are set out in the country section of the *Preliminary Overview.*

## Monetary policy

In most countries of the region, monetary policy took a back seat to exchange-rate variations, which in 2002 implied a predominantly contractionary policy stance. Only a few economies had enough leeway to apply a countercyclical monetary policy, which did not have much influence on the cost and availability of credit to the private sector.

With production activity sluggish in most countries, few had the capacity to use monetary policy as a countercyclical instrument. In this context, four typical situations could be discerned. First, the group of countries that had come under strong exchange-rate pressure used interest-rate hikes to shore up their currencies. A second group of countries tried to implement a countercyclical monetary policy, but they were thwarted by the increase in interest rate spreads in international markets. A third group of countries was successful in reducing interest rates on lower deposits, but this did not always result in lower lending rates, owing to the limited effectiveness of monetary policies in the circumstances prevailing in 2002. Lastly, the dollarized economies do not have an explicit monetary policy and, as expected, their monetary conditions were automatically determined by international market trends and changes in the perception of country risk in international markets.

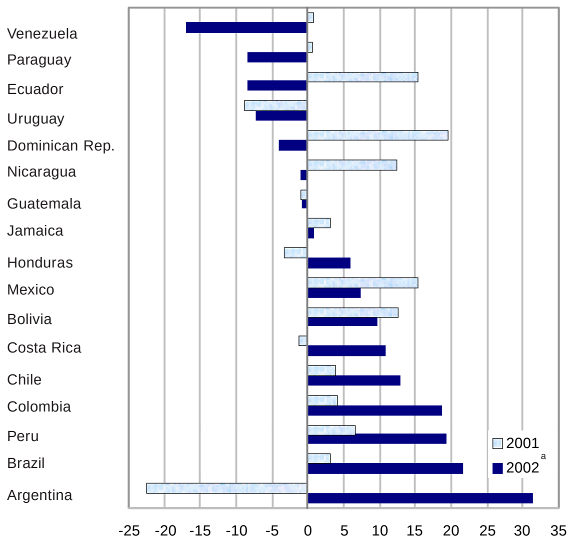
The MERCOSUR economies belong to the first group, as Brazil, Paraguay and Uruguay pursued explicitly contractionary policies in response either to difficulties in financing their external liabilities or to exchange-rate pressures. National monetary authorities intervened in order to mitigate any overshooting that could fuel inflationary pressures or create greater instability in their national financial systems. Brazil was unable to maintain its policy of progressive reductions in the interbank interest rate (Special Settlement and Custody System, or SELIC, rate), under which the rate had declined from 19% a year in December 2001 to 18% in July 2002. This policy had been adopted in an effort to foster economic recovery in a period of weak growth and low inflation. The sharp currency depreciation in the second quarter of 2002 triggered an inflationary spike in August and September that prompted the Central Bank to raise the interbank rate to 21% a year in October. This reversal directly affected the cost of credit, insofar as spreads are high and are sensitive to variations in base rates. This also had a negative effect on the cost of very short-term public debt.

In Paraguay, despite the contraction in productive activity, monetary policy was also restrictive and deposit rates rose in the course of 2002. This situation, together with the effects of the currency devaluation, had an impact on the financial system; in the middle of the year the authorities took over one of the largest local banks. Uruguay also faced serious problems with its banking system, which experienced capital outflows and a massive run on deposits by both residents and non-residents (especially Argentines). At the same time, the loss of deposits destabilized the local banking system and resulted in exchange-rate volatility. The authorities responded by raising domestic interest rates significantly, but this did not prevent a sharp devaluation and a domestic banking crisis. In June the government was forced to abandon the exchange-band system and allow the Uruguayan peso to float; only in October did bank deposits pick up again, for the first time in 2002. At the end of November, however, those banks whose operations had been suspended during the bank holiday declared in July were still not in a position to reopen for business, and credit remained tightly restricted.

Argentina faced a peculiar combination of strong monetary expansion and high interest rates, especially in the first half of 2002, in the context of measures that impinged on ownership rights in respect of savings and deposits in foreign currency. Both trends were a response to the banking and foreign-exchange crisis besetting the country: money creation by the Central Bank mainly reflected loans granted to banks, through the discount window to help them cope with substantial withdrawals of deposits not subject to the "corralito". Since this liquidity tended to find its way into the foreign-exchange market, further eroding the value of the peso, the monetary authorities and the banks themselves maintained a policy of high interest rates. These rates did not subside until the second half of the year, when both the outflow of deposits and the depreciation of the currency were brought under control. Credit was flat, as the commercial banking system is still not fully operational. In any event, despite the dire predictions of economic analysts, Argentina was able to avoid hyperinflation, and the domestic demand for pesos rallied in the second half of the year.

The situation of the Venezuelan economy seemed similar to that of the MERCOSUR countries in that it also reflected enormous difficulty in implementing a countercyclical monetary policy. As mentioned earlier, the maintenance of an exchange-rate band was no longer

Figure 14
**LATIN AMERICA AND THE CARIBBEAN: VARIATION IN MONEY SUPPLY**
*(Real 12-month rates of variation)*




**Source**: ECLAC, on the basis of official figures.
[a] Most recent period for which data are available; figures deflated by the consumer price index.

feasible because of persistently large outflows of capital. The domestic political situation and market unease about the fiscal accounts put further pressure on the bolívar. The Central Bank raised interest rates, but, in this case as well, the move failed to prevent a sharp currency depreciation.

The second group is made up of most of the Central American countries, whose monetary policies were contractionary. In Guatemala, for example, this was because inflation was expected to exceed the target set in the government programme. In Honduras, the authorities' main concern was to shore up the exchange rate in a context of copious external borrowing on the government's part. Nicaragua tried to keep interest rates on a downward trend, but reversed that policy starting in mid-2002 in view of the gradual decline in the level of international reserves. Costa Rica applied a contractionary monetary policy and an expansionary fiscal one; the net effect of this mix was expansionary.

In the group of countries with dollarized economies (Ecuador, El Salvador and Panama), domestic interest rates dropped significantly, mirroring the steep fall in interest rates in international markets. Ecuador's financial system, which is still being restructured, continued to improve, and commercial banks saw a decline in their non-performing loan portfolios and a nominal increase in loans and deposits. However, monetization levels and credit balances expressed as a percentage of GDP remained low. Liquidity in the financial system was high, in part because lenders showed extreme caution in supplying credit, and interest rates on deposits and, to a lesser extent, on loans continued to trend downward.

Lastly, the fourth group of economies, which were in a better position to implement countercyclical monetary policies, includes Chile, Colombia, Peru (until the third quarter) and Mexico. In Chile, which keeps a tight rein on inflation and enjoys a sounder external financial position, the Central Bank lowered the money-market intervention rate six times, bringing it to a historically low nominal rate of 3% a year, notwithstanding the volatility of the exchange rate. In Colombia, high market liquidity and favourable inflation trends enabled the Central Bank to reduce interest rates throughout the first half of the year, but this policy was interrupted by events in the third quarter. Peru, where a period of slight deflation was succeeded by one of very low inflation, also managed to maintain an expansionary monetary policy, although increased exchange-rate instability in the third quarter prompted the authorities to adopt a more cautious monetary stance. Lastly, Mexico, which suffered only minor contagion from Argentina and Brazil, continued the slightly expansionary monetary policy applied in 2001, with the result that interest rates fell from an average of 11.3% in 2001 to around 8.5% in 2002.

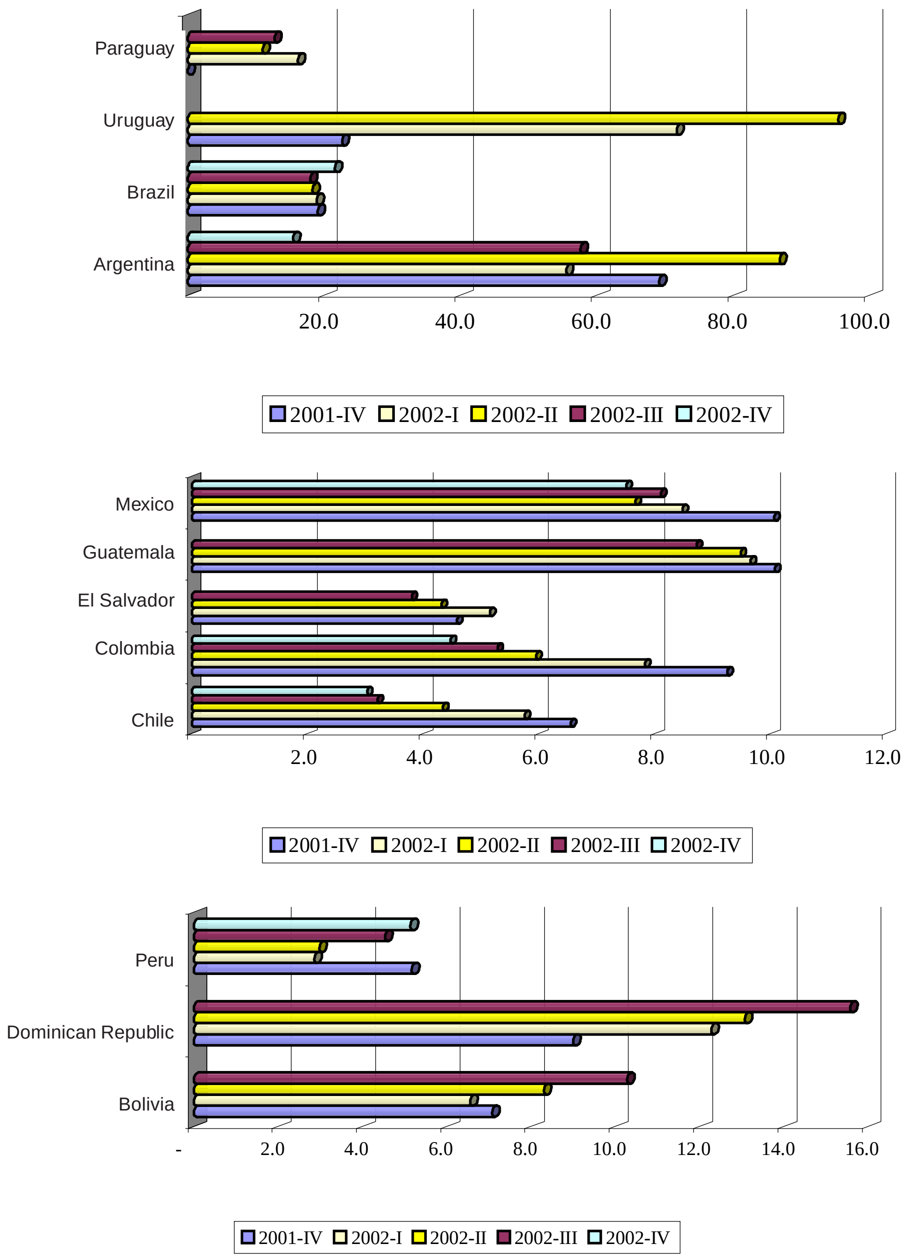
The net supply of credit, meanwhile, remains low in a significant number of countries, owing to the greater caution exercised by local banks. Interest rate spreads are still high and have even increased in some countries.

In a pattern reminiscent of the trends observed in 2001, several countries recorded gross credit expansion that was below total interest rates on loans in 2002, something that could imply an effective contraction in lending. One indicator of domestic borrowing conditions is the bank interest rate spread, which increased in many economies (such as those of Argentina, Aruba, Bahamas, Barbados, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Guyana, Haiti, Nicaragua, Panama, Paraguay and Uruguay) in the initial quarters of 2002. This indicates that the decline in deposit rates was not matched by a proportional fall in lending rates, which suggests that

Figure 15

**INTERBANK INTEREST RATES IN SELECTED COUNTRIES**

*(Annualized quarterly averages)*




**Source**: ECLAC, on the basis of figures supplied by national authorities and Bloomberg.

the commercial banking system is following a fairly conservative policy in view of sluggish productive activity (in many countries), domestic political uncertainty (in a smaller group of countries) and problems in obtaining external financing (as described above). Thus, the cost of credit is still very high, restricting the availability of financing for production. This situation is particularly acute in the case of small and medium-sized enterprises (SMEs) in the region.

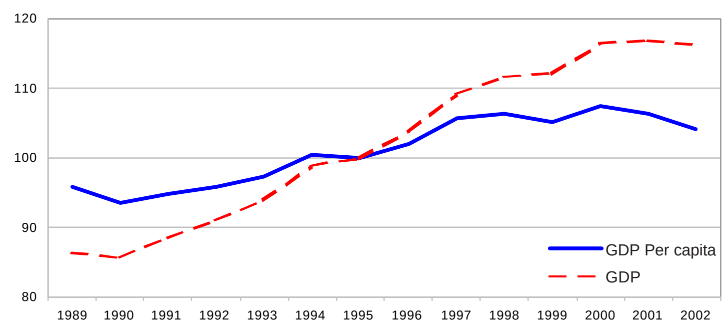
# 4. Domestic economic performance

## Growth and investment

The economy of Latin America and the Caribbean shrank in 2002, which was reflected in a decline of 0.5% in GDP. This rounded off five years of economic stagnation in the region, with per capita GDP below the figure recorded in 1997 (see figure 16).

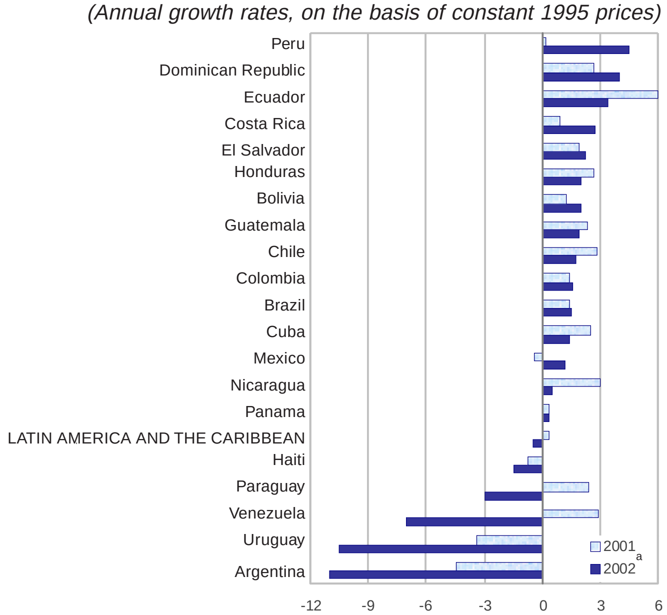
Per capita GDP slipped for the second year running. This was partly attributable to the sharp downturn in economic activity in Argentina, Uruguay and Venezuela, but in fact almost all of the countries posted low growth rates (under 2% in most cases) (see figure 17).

Figure 16
**LATIN AMERICA AND THE CARIBBEAN: GDP AND PER CAPITA GDP, 1989-2002**
*(Index 1995=100, on the basis of constant 1995 dollars)*




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

Figure 17
**LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT**
*(Annual growth rates, on the basis of constant 1995 prices)*




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

This situation was in part the result of a number of domestic factors that were specific to each country or group of countries, although the adverse conditions in the international economy were an overriding common factor. In some of the countries, economic performance depended primarily on trade volumes while, in others, it reflected the prices of their export products, and a third group was impacted mainly by capital-account movements. These factors naturally combined with the domestic situation in each country, which held down growth rates in most cases. The main domestic dampers on growth were tight monetary policies, the stagnation of domestic credit, fiscal problems, high levels of public and private debt, speculative pressures which affected interest rates, high rates of unemployment and underemployment and, in a number of countries, social and political disturbances. Some countries were also troubled by adverse weather conditions. In a few cases, there were positive domestic factors related to resource-based industries, a slight upturn in domestic demand and the resolution of specific problems, such as electricity rationing in Brazil.

On this basis, it is possible to distinguish several groups of countries. The first such group is composed of those countries that were the hardest hit by the persistent weakness of demand for imports in the United States. This group includes the Dominican Republic, Haiti Mexico, Panama and the Central American Common Market countries. Second, those countries whose performance suffered from downturns in their terms of trade (which have declined over the past five years in all the economies of the region that are not net exporters of petroleum). This group includes Chile and Peru, although Peru's terms of trade picked up again in 2002 after four years of steep decline. The third group of countries were encumbered with high levels of domestic and external debt, which left them very vulnerable to the imposition of tougher conditions for international loans and to speculative attacks. This category included the four MERCOSUR countries. Lastly, there was a fourth category of countries in which the level of activity was not as strongly influenced by external trade or financial conditions as in previous years, but instead responded to domestic factors. This group included Ecuador, Venezuela and, albeit to a lesser degree, Colombia. Naturally, most of the countries mentioned experienced the effects of these domestic and external factors combined.

Slack growth in United States demand deprived the first group of countries of an engine of growth that had been crucial in the 1990s. Mexico's exports and imports both declined sharply in 2001 and stagnated in 2002 after expanding at an average annual rate of around 15% between 1990 and 2000. This performance accounts for the stagnation of production and employment in industry, especially in the *maquila* sector, which exacerbated the lag in job creation. Public spending could not be used as a prop for the level of activity either, as the government afforded priority to meeting its fiscal targets despite a downturn in non-petroleum fiscal revenues. On the other hand, the good oil price avoided the need to make larger adjustments. The Mexican economy expanded by 1.2% in 2002, which translated into a new decline in per capita GDP. Against this backdrop, and in combination with the continued contraction of credit from the financial system to the non-financial private sector, investment slipped again in 2002, by a little over 1%.

The Central American countries also saw their external trade flag. Their exports to the United States became steadily stronger as the year progressed, although the cumulative value for the first nine months was a mere 4% higher than the figure for 2001, which accounts for the meagre growth for the year overall in the *maquila* industry. These countries also suffered the effects of the Mexican market's loss of momentum, while the low prices paid for some of their traditional goods hurt the output of the agriculture and fisheries sectors. Although the price of coffee rose slightly in the second semester, the subregion has been severely affected by the crisis in the coffee sector, which has had serious repercussions for agricultural production and employment. Despite the stagnation in the level of activity, a number of countries (Guatemala, Honduras, Nicaragua and Panama) implemented fiscal adjustments, consisting essentially of cuts in public investment, which further weakened total demand. Together, these factors led to a small downturn in per capita output in the Central American countries, with the exception of El Salvador and Costa Rica, where it rose by half a percentage point. In Costa Rica the moderate upswing with respect to 2001 was a reflection of domestic demand, including public spending, and the expansion of activity in the free zones. In El Salvador, public investment in reconstruction work in the wake of the earthquakes of 2001 continued to be a significant engine of activity, but total consumption stagnated.

In general, the Caribbean countries turned in low rates of growth, due to the fact that tourism did not fully make up the downswing of 2001 (with the sole exception of Belize) and to the effect of slack external demand on the free zones. Foreign direct investment also ebbed. Moreover, a number of countries experienced supply problems, especially in the agricultural sector, because of climatic phenomena, with floods in Jamaica and poor weather conditions in Barbados and Cuba. Output declined in 2002 in Barbados, Haiti and the Eastern Caribbean States, but rose by between 1.5% and 2% in Cuba and Jamaica. The only exceptions to this pattern were Trinidad and Tobago, whose economy grew by 2.7% on the back of a good performance from the agricultural and petroleum sectors, and Belize and the Dominican Republic, which posted gains of close to 4% in 2002. The Dominican Republic had to discontinue its expansionary economic policy early in the year, however, when external demand failed to rebound as expected and pressures began to build in the foreign exchange market.

Chile is possibly the country that has been the worst affected by an unrelenting downward trend in its terms of trade. The deterioration has persisted ever since the Asian crisis and today reflects a cumulative decline of 20% in five years. Export prices declined again in 2002 owing to a downturn in the prices of copper and pulp, while a decrease in the prices of some imported goods has been partially offset by the price of petroleum, which began to climb in the second quarter. In recent years poor export prices and conservative consumer and investment spending by the private sector have consistently conspired to prevent the economy from recovering the growth rates seen before the Russian and Asian crises. The rate of investment has held steady at around 23% of GDP, which is higher than the regional average, but much lower than the figure of 27% recorded in the period 1996-1998. Consequently, despite the lower interest rates and the government's countercyclical fiscal policy, the economy will have grown by only 1.8% in 2002, and gross fixed investment will stagnate. The second part of the year brought an upturn, which augurs well for a better performance in 2003.

The MERCOSUR countries, which bear heavy burdens of domestic and external debt, have been the worst affected by capital movements. To compound matters, the local currency was very overvalued in two of them at the beginning of 2002. It is therefore unsurprising that the members of the bloc have found themselves very vulnerable to the toughening of external borrowing conditions, financial speculation and capital flight. All this has translated into sharp devaluations, runs on deposits and a breakdown in credit mechanisms in Argentina, Uruguay and, to an extent, in Paraguay. In Argentina and Uruguay unemployment rose to record levels, while domestic demand, which was already very slack, continued to flag.

In Argentina, the steep decline in output which began in mid-2001 continued into the first quarter of 2002.[1] At the end of the first quarter, bank withdrawals combined dangerously with a rising dollar exchange rate and a high rate of money creation by the central bank through its discount window. Faced with the possibility of further devaluations, exporters postponed the sale of their foreign currency holdings, while capital flight and payments to multilateral agencies continued to eat into international reserves. In such a situation, the stabilization of the dollar was a crucial accomplishment. To this end, the government took steps to strengthen exchange controls, limit the withdrawal of bank deposits more effectively and ensure stricter enforcement of exporters' obligation to sell hard currency. In addition, the central bank continued to intervene actively in the foreign exchange market. Together, these measures helped to bring down the rate of interest, begin the re-establishment of payment mechanisms, rebuild reserves, resume voluntary deposit-taking in the banking system and phase out restrictions on the availability of deposits in general. Inflation also subsided markedly. The slide in activity levels came to a halt in the second quarter of 2002, thanks to the high profitability of the export sectors, import substitution and the payment of unemployment benefit. Nevertheless, in 2002 Argentina's GDP will have contracted by 11%, of which seven percentage points are attributable to the decline in output in the second semester of 2001.[2] Gross fixed investment was down by 35%, with a drastic decline in capital goods imports and a downturn of almost 30% in construction.

The Argentine crisis spread to Uruguay and Paraguay, in particular, by a number of means. Argentine imports in those countries decreased by over 50%, transfers from Paraguayan workers residing in Argentina were sharply down and Argentine tourist

[1] ECLAC, Economic Survey of Latin America and the Caribbean, 2001-2002, Santiago, Chile, August 2002.

[2] This is because of the statistical carry-over effect: GDP decreased so sharply in the final quarters of 2001 that if the non-seasonally adjusted level of activity of the last quarter of 2001 had been maintained throughout 2002, total GDP in 2002 would have been lower than the 2001 figure by 7%.

arrivals in Uruguay declined drastically. In addition, the banking crisis in Argentina triggered a massive withdrawal of deposits from Uruguayan banks and an outflow of capital, which led to the discontinuation of the exchange rate band, sharp currency devaluation and the partial freezing of bank deposits. The financial crisis proved extremely costly for Uruguay, which saw its GDP shrink by 10.5% and gross fixed investment decrease by 30% in 2002. Paraguayan GDP also lost ground in 2002, slipping by 3%. Like the other countries mentioned, Paraguay is in the grips of a banking crisis while agriculture, one of its most vigorous sectors in recent years, has been stricken by drought.

Brazil was vulnerable to financial disturbances because of its burdensome public debt (which was largely the result of State-supported bank restructuring in previous years) which, to make matters worse, was partially indexed to the dollar and mostly short-term. Attacks against the Brazilian currency in the exchange markets intensified as the October presidential elections approached and as the opposition candidate gained ground in the polls. Although the pressure on the real eased after the elections, those episodes forced the government to raise interest rates, which was not enough to avert a considerable devaluation of the currency, however. As a result of this situation, the public sector faced a much heavier burden of interest payments which, despite a larger primary surplus, even came to threaten its solvency. At the same time, the spread on Brazilian bonds increased sharply, which effectively cut off access to private external financing and increased the magnitude of the adjustment in the trade balance, with a large reduction in imports and a considerable increase in exports in the last months of the year. Meanwhile, investment failed to bounce back and output expanded by only 1.5% in 2002.

This group of countries also includes Bolivia, which was the Andean country worst affected by the crisis in the MERCOSUR bloc, mainly because of the decline in remittances from emigrant workers. Domestic demand remained slack, reflecting high unemployment and the loss of income from the coca sector, while investment shrank for the fourth year in a row. Gas exports were one of the few components driving economic activity, which expanded at an annual rate of less than 2%.

The fourth group includes most of the Andean countries, in which domestic factors pushed external issues into a secondary role as determinants of economic performance. Ecuador continued to recover from the severe crisis of 1999, although per capita output remained below 1998 levels. Growth was driven by investment, which went mainly to the construction of a new oil pipeline, and by household consumption. One factor that has acted as a brake on economic growth is Ecuador's loss of competitiveness, caused by the persistent upward trend of domestic prices which, in a dollarized economy, cannot be offset by means of exchange-rate adjustment. This situation affects both non-traditional exports and those activities that compete with imports. Emigration has played a significant role in containing unemployment and has also given rise to a large volume of remittances. These have not been sufficient to avoid an expansion of Ecuador's persistent current-account deficit, however, which will pose a serious challenge to the newly-elected government if it remains at its current levels.

Venezuela's GDP slipped by around 7% in 2002, despite relatively favourable external conditions, especially petroleum prices, which were on average comparatively high. This performance was chiefly a reflection of domestic factors in both the economic and political arenas. In the first four months of the year, a number of developments and economic policy measures combined to plunge the economy into a recession. The tenacious defence of the exchange-rate band was abandoned in February 2002 amid massive capital flight, but not before it had generated sharp rises in interest rates. The devaluation of the bolívar rekindled inflation. In addition to these factors, the government implemented fiscal adjustment measures when petroleum prices were trending downwards, although this trend was later reverted. With the economy already in recession, and amid mounting social and political conflict, in April a number of fresh developments threatened the institutional order and made it clear that any expansion of private sector investment was highly unlikely. In consequence, gross fixed investment will have shrunk by more than 20% in 2002. In addition, in December the domestic political conflict took another turn for the worse, with a prolonged strike which may reduce annual output even further.

Colombia was also unable to take full advantage of higher petroleum prices, because production of crude has declined in tandem with levels of investment. The new government has taken a firm stance with respect to fiscal problems, growing public debt and the need to find more resources for security spending. High levels of unemployment and underemployment have dampened domestic demand, while a lacklustre performance in the country's main export markets (among which Venezuela figures prominently) account for the downturn in exports. Investment remained low in relation to GDP, at 15.6%. These factors have prevented GDP growth from rising above 1.6% this year, in spite of the fact that the government deployed an expansionary monetary policy during most of the year (except for the third quarter).

Peru's economy, which was the fastest-growing in the region in 2002, is another one that is, as a rule, very sensitive to international conditions, which affect it through the prices of its export products, mainly metals. This was not the case in 2002, however, because the decline in the price of certain products (copper and zinc) was offset by the rise in the prices of fishmeal and gold. The Peruvian economy has been experiencing an upswing and will have grown by 4.5% in 2002. This performance was attributable mainly to an increase in public and private consumption, and to the production and export of minerals as the Antamina mine came on stream. The rate of investment remained low, however, although new mining and gas extraction projects could spark a reactivation.

In summary, the region's economic performance was poor in 2002, very similar in most aspects to the year before. Be this as it may, activity began to pick up again in most of the countries by contrast with the downslide experienced throughout 2001. In fact, the main factors underlying the feeble performance in 2001 –the slowdown in the United States economy, electricity rationing in Brazil and the depression that engulfed Argentina in the final phase of the convertibility regime– affected the region mainly in the second half of the year. This partly explains the fact that year-on-year growth rates were negative in the first quarters of 2002 because they were compared with the relatively high levels of output recorded in early 2001, whereas just the opposite was true in the latter part of 2002.

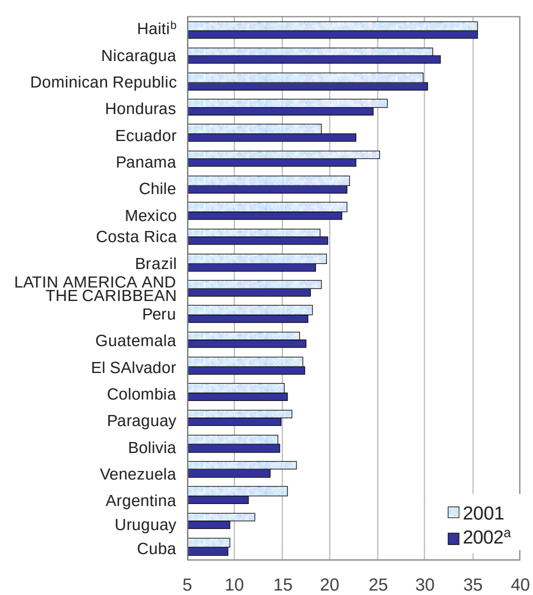
Output contracted sharply in a number of countries in 2002. This was mainly a reflection of domestic factors (over-indebtedness, capital flight, banking crises and slack domestic demand), but external financing conditions also had a hand in the downswing. International trade continued to be sluggish, which meant that export volumes did not recover and the prices of many raw materials, with the exception of petroleum, failed to return to the levels seen before the Asian crisis of 1997.

Gross investment contracted again (see figure 18), which placed the regional investment rate at 18 GDP percentage points (at 1995 prices), even lower than the rates recorded in the late 1980s and early 1990s. The steepest downturns were experienced in the South American countries. As tends to occur in a recession, fixed investment was the component of global demand to contract the most. During this particular recession, limited export prospects combined with the higher prices of imported capital goods (inflated by the effect of devaluation), while scarce or expensive financing discouraged construction activity. In addition, political instability or conflict seriously retarded capital formation. Ecuador was the only country in the subregion to record significant growth in this respect, thanks to the construction of a new oil pipeline.

Figure 18

**LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION**

*(Percentages of GDP, on the basis of constant 1995 prices)*




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

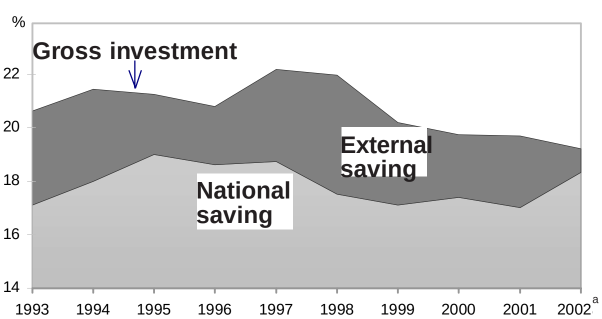
[a] Preliminary estimates.

[b] Refers to gross domestic investment.

In Central America and Mexico investment ratios remained relatively unchanged from the levels of 2002. The development that affected these countries the most was the cessation of the high rates of investment growth that the majority of them enjoyed between 1997 and 1999 (in Costa Rica the boom lasted until 1998 and in Mexico and the Dominican Republic until 2000).

A preliminary calculation of saving trends at current values shows, most significantly, little variation in the gross saving rate (which dropped from 19.7% to 19.2%). The downturn in external saving was matched by an increase in national saving, as percentages of GDP. The lower rate of external saving corresponded to a narrowing of the balance-of-payments current account deficit (another way of referring to external saving), from 2.7% of GDP in 2001 to just under 1% in 2002. In times when external saving has been more abundant, the countries have tended to post lower rates of national saving, which means that investment has not increased at the same rate as available financing. At the present juncture, as external saving has narrowed, national saving has expanded as a percentage of output, and public and private domestic consumption has therefore contracted (see figure 19). This greater domestic effort has not been enough to avoid a downturn in investment in physical terms, however, which amounted to 6% in the region as a whole.

Figure 19
**LATIN AMERICA AND THE CARIBBEAN: SAVING AND INVESTMENT RATIOS**
*(Percentages of GDP, in current dollars)*




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

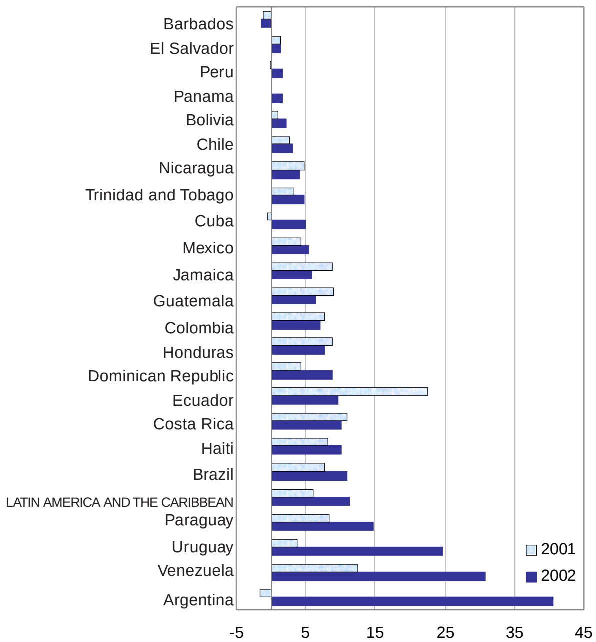
The lower rate of investment in fixed capital affected the countries' medium-term growth potential. In some cases, short-term growth could be achieved by tapping into resources that have been underused (unemployed and underemployed workers and idle capacity) due to recession. A low rate of investment is apparently not the only obstacle to the resumption of sustained growth, however. The deteriorated social and political conditions across most of the region represent a major challenge for the governments. Moreover, the downturn in external conditions may reflect, at least in part, long-term factors: the existence of debt overhang problems in some countries will make it difficult to secure the return of generous net inflows of financing, while foreign direct investment will be lower than in previous years, because many processes of privatization and take-overs of banks and private firms by transnational corporations have run their course. This multifaceted situation means that 2002 may not simply be defined as the low point of an economic cycle, which would naturally give way to an upswing. Instead, it must be viewed as the continuation of the economic stagnation which has bedevilled the region for the last five years. The outlook for 2003 is for a modest regional growth rate of 2.1% which, however, will not be enough to significantly raise per capita GDP.

### Regional inflation rises, but stays moderate

Inflation for the region as a whole in 2002, measured by the consumer price index, moved up after eight years of steady decline, reaching an annual rate of about 12%; this is twice the rate recorded in 2001 (see figure 20). Wholesale prices rose even more sharply (as was to be expected in a context of widespread devaluations), posting an annual rate of about 29% for the region, compared to only 6% in 2001.

The upsurge in inflation essentially reflected the fact that several countries of the region experienced currency devaluations, some of which were quite severe. Devaluations are to blame for the inflation rates of 41%, 32% and 26% recorded in Argentina, Venezuela and Uruguay, respectively. In Bolivia, Brazil, Chile, Colombia, Haiti, Mexico and Paraguay, inflation did not reach these orders of magnitude, but the devaluations were nonetheless significant, especially in the second half of 2002, and this was reflected in the higher inflation rates posted towards the end of the year. Indeed, inflation climbed steadily over the course of the year in most of the region's countries. A notable exception to this was Argentina where, after a steep rise in the early months of 2002, inflation subsided markedly later in the year.

Figure 20
**LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES**
*(Twelve-month variation)*[a]

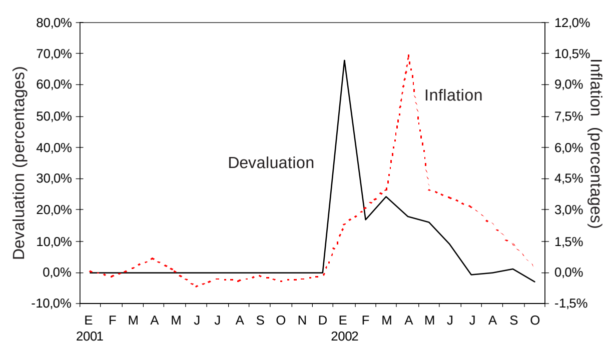



**Source**: See Statistical Appendix.
[a] Latest available period.

The countries with the sharpest price hikes are the ones that also witnessed the biggest exchange-rate increases, namely Argentina, Uruguay and Venezuela. These devaluations immediately followed the countries' abolition of their fixed-rate (convertibility or exchange band) regimes, which had considerably distorted relative prices and ultimately proved to be unsustainable. The drastic change in Argentina's exchange-rate regime caused the currency to plummet, losing nearly three fourths of its value. Wholesale prices, in which imports weigh heavily, bore the brunt of this loss, soaring by more than 118%, which was much higher than the rise in consumer prices. As a result of the deep recession and high unemployment, nominal wages were not significantly adjusted to offset the sharp increase in prices. The exchange rate's stability in the second half of the year helped to slow inflation to about 10%, in contrast to the 30% posted in the first half of the year. The inflationary effect of the devaluation was countered by smaller increases in rates and charges for public goods and services; the effect of these negotiated increases should be apparent in the inflation rates recorded in the initial months of 2003. It should be underscored, in this regard, that predictions that ending convertibility would unleash a sustained process of high inflation or even hyperinflation were not borne out. The inflationary effects of devaluation have proved to be fairly weak and short-lived (see figure 21).

Despite these developments, the increase in regionwide inflation does not seem to signal the start of a long-term trend; rather, it represents the region's response to a shock that is being gradually absorbed without giving rise to sustained inflationary processes. It is worth noting, for example, that none of the devaluations triggered an inflationary spiral; this suggests that indexation, which was very common in past decades, has not resurfaced. Moreover, in almost every case price hikes have been much more modest than the devaluations that caused them –which impacted more significantly on real exchange rates– evincing the moderating effect that low growth or recession have on inflation. Another factor that hints at a coming slowdown in inflation is the overshooting of the exchange rate in a number of countries and the rate's nominal decline beginning in the last quarter of 2002.

Figure 21
**ARGENTINA: DEVALUATION AND INFLATION IN 2002**




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

In Venezuela, inflation shot up after having declined steadily for five years. Here again, the turnaround was sparked by the abandonment of the exchange system (exchange band), which led to a sharp devaluation in the first part of the year. In the second half of 2002, however, the recovery of crude oil prices mitigated the exchange rate's instability and even pushed up the bolívar's value, but this has not yet been reflected in domestic prices, which are still on the rise. The persistence of this trend may be due in part to the raising and extension of the VAT and to cutbacks in the subsidies provided in respect of certain products. In Uruguay, the rise in inflation was due to the steep devaluation of the currency, especially after the sliding-band system was discarded and replaced with a floating rate. Consumer prices went up by an estimated 26% (25% between November 2001 and November 2002), compared to less than 4% in 2001, while wholesale prices surged by more than 60%. The country's severe recession, combined with the problems caused by the financial crisis, the credit squeeze and the freezing of deposits in some institutions, have softened the impact of the sharp devaluation. On the other hand, the economy's widespread dollarization has limited the capacity to cushion the impact of the exchange-rate hike, although many prices had to be adjusted in response to the new circumstances. Wages have not been further increased, despite the quickening pace of inflation. In Paraguay, consumer prices rose by 15% and wholesale prices by 24% in 2002, wholly as a result of devaluation, which has intensified since the third quarter. As in the above-mentioned cases, the mix of recession and high unemployment limited the extent to which cost increases deriving from the devaluation were passed on to domestic prices.

Brazil's 2002 inflation rate came in at about 12%, compared to 7.7% the year before. The upsurge occurred near the end of the year as a result of the devaluation recorded between May and October. Wholesale prices came under stronger inflationary pressure, since the wholesale price index jumped by 31%, or 19 percentage points more than in 2001. The price hike can be traced not only to the devaluation, but also to increases in fuel prices and public rates and charges. Accordingly, inflation far overshot the Central Bank's target, to an even greater extent than in 2001. It was nonetheless kept from speeding up even further by persistently sluggish economic growth, combined with the tight monetary policy that the authorities continued to apply to cope with inflationary pressures and, in particular, the instability of the foreign-exchange market. Interest rates remained very high throughout 2002 and rose even further in the final months of the year, reaching an annual rate of some 22%.

Unlike the countries mentioned above, Ecuador and El Salvador maintained a regime of full dollarization. Ecuador once again posted a significant drop in inflation, from 22% to 9%, but this result could not prevent the rise in prices from eroding the country's competitiveness. Prices in El Salvador showed a very slight increase similar to the 2001 rate; unlike Ecuador, El Salvador has had single-digit inflation since before it switched exchange-rate regimes.

In Guatemala and Jamaica, inflation went down by about three percentage points thanks to less severe currency devaluations. Honduras, meanwhile, turned in a favourable performance, with clear signs that the stabilization process had taken hold after several years of double-digit annual inflation. In Colombia inflation also subsided, consolidating the stabilization process launched in recent years, even though the currency depreciated significantly between May and October. Costa Rica's inflation stayed at around 10%, where it has more or less held steady in recent years, while Panama's rate remained at its usual low level. Trinidad and Tobago saw a slight increase in consumer prices, despite the revaluation of its currency. Bolivia, Chile, Nicaragua and Peru again posted very low inflation, which showed that their stabilization processes were firmly entrenched, even though their exchange rates came under some pressure. In Haiti and the Dominican Republic, on the other hand, inflation sped up as their currency devaluations sharpened in the final quarter. Inflation in the Dominican Republic could be as high as 10%, compared to 4.4% in 2001.

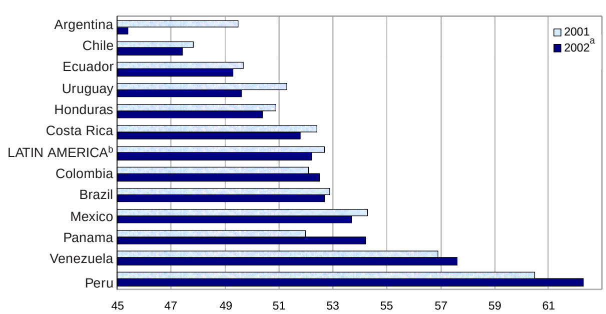
The inflation outlook for 2003 is favourable for most of the countries. In some of the ones that had previously exhibited an exchange-rate misalignment, the dramatic relative price changes associated with devaluation have already taken place, without setting off indexation processes or massive pass-throughs of higher costs to domestic prices. Inflation will probably become more moderate in 2003 in countries that suffered excessive devaluations, mirroring the extent to which the exchange-rate overadjustment is gradually absorbed. In the remaining countries, the conditions that made it possible to gradually reduce regional inflation in the 1990s are still in evidence, and economic policy continues to give high priority to maintaining that achievement. Generally speaking, economic policies no longer involve measures that seriously alter relative prices and that may have lasting effects on competitiveness.

## Employment and wages

The labour market turned in a weak performance in the context of a shrinking regional economy. The main labour trends were a steep decline in the rate of employment, a sharp rise in unemployment, the expansion of informality and sluggish job creation in small and medium-sized firms. As a result, many Latin Americans saw their living conditions take a turn for the worse in 2002. At the same time, real wages reflected patterns in rates of inflation and did not greatly diverge from labour productivity trends.

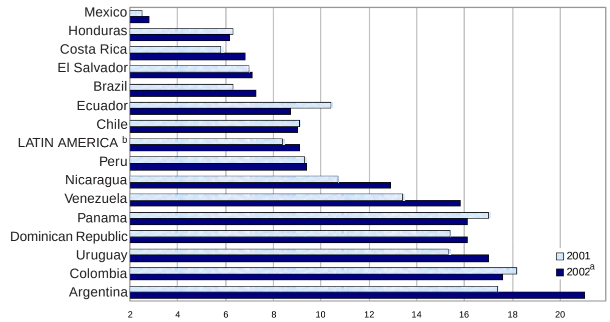
After dropping sharply in 2001, in 2002 the rate of employment declined heavily again, from 52.7% to 52.2%, due to the first negative rate of economic growth recorded in the region since 1983. Given that the rate of labour force participation remained unchanged, regional unemployment climbed from 8.4% to 9.1%, which was the highest figure since comparable measurements became available. This deterioration in employment and unemployment rates was seen in nearly all the countries of the region (see figures 22 and 23).

Figure 22
**LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE**
*(Employed as a percentage of the working-age population)*




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

Figure 23
**LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT**
*(Annual average rate)*



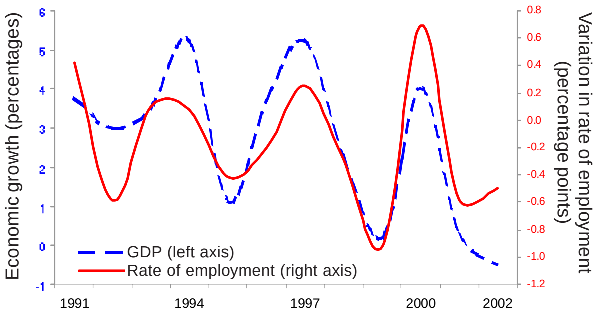

**Source**: ECLAC, on the basis of official figures.
[a] Preliminary figures.
[b] Weighted average.

The heavy downturn in the employment rate testified to the existence of a close link between economic growth and job creation, which has been a feature of the labour markets in recent years (see figure 24).

As the figure shows, this trend suggested that employment would perform even more poorly in 2002 than it actually did. In many countries, corporate demand for labour, reflected in the generation of waged employment, was even weaker than the employment rate indicates. This slack demand was partly offset by an expansion of informal employment, mainly self-employment, as households responded to the need to generate income. Waged employment as a proportion of total employment thus declined from 73.9% to 72.9% in Argentina, from 73.7% to 72.7% in Mexico and from 58.1% to 56.7% in Peru. In Venezuela, an expansion of informal employment pushed up the rate of employment, despite a heavy decline in GDP.

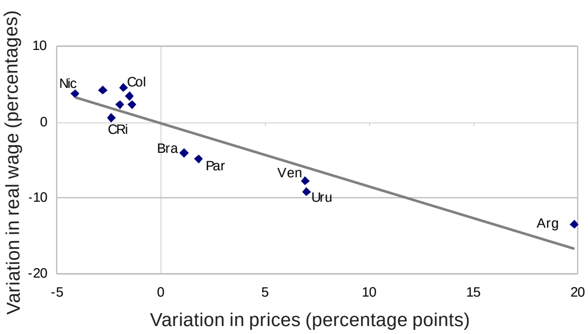
Owing to the custom of setting nominal wages on the basis of past inflation, real wages in the formal sector were determined to a great extent by the annual variation in inflation. This meant substantial declines in countries that experienced surges of inflation and small rises in countries that posted decreasing rates of inflation (see figure 25). Variations in real wages in the formal sector ranged from -15% in Argentina to over 4% in Colombia, Nicaragua and Peru (see table A-6 in annex). At the regional level, information from 12 countries shows an increase of 1% in real wages as a median, and a decline of 1.5% as a weighted average.

Figure 24
**LATIN AMERICA: ECONOMIC GROWTH AND EMPLOYMENT**



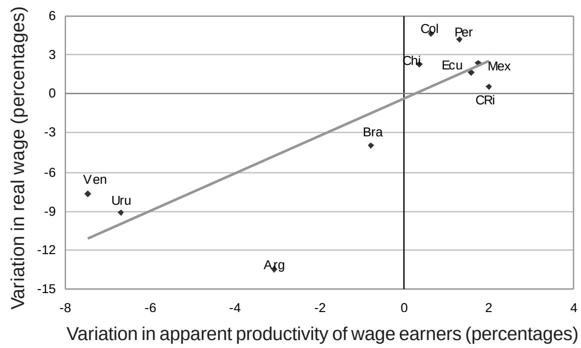

**Source**: ECLAC, on the basis of official figures.

Figure 25
**REAL WAGES AND INFLATION**




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

Figure 26
**WAGES AND APPARENT LABOUR PRODUCTIVITY OF WAGE-EARNERS**




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

In 2002 an inverse relationship was clearly visible between the inter-annual changes in inflation and economic growth. In keeping with these two trends, real wages grew faster in countries with higher rates of economic growth. Given that in many countries the bulk of the increase in employment took place in low productivity sectors (for reasons of household subsistence), a calculation of growth in average labour productivity based on the variation in the number of wage-earners alone gives a positive correlation between labour productivity and the variation in the real wage. In fact, real wages rose in countries that recorded an increase in the apparent productivity of wage-earners and declined in the other countries (see figure 26). Thus, although real wages were strongly affected by the rate of inflation, they did not diverge much from productivity trends, which means that no wage misalignment was observed in 2002.

Countries' international competitiveness is also a function of trends in their real exchange rates, however. With widespread depreciation in real effective exchange rates, many countries posted gains in wage competitiveness in 2002. Currency depreciation also tends to stimulate the hiring of labour, because it has the effect of making it cheaper in comparison with capital goods, which are largely imported. As discussed in chapter 3, in 2002 relatively few countries experienced a downturn in currency competitiveness (notable exceptions to this were Ecuador and Guatemala).

Although the rate of job creation was low across the region, the phenomenon varied in magnitude and detail from one country to another. Two groups of countries can be distinguished in this respect. First, those countries that were overtaken by a profound economic crisis and, second, the majority of the countries in the region whose GDP expanded only modestly and whose per capita GDP stood still, together with the few countries (Ecuador, Peru and Dominican Republic) that recorded higher economic growth rates of around 4%.

The first group of countries (Argentina, Uruguay and Venezuela) saw demand for labour drop sharply even though real wages sagged owing to inflationary surges. The worst affected sectors were those that rely on domestic demand. In Greater Buenos Aires formal employment contracted by almost 10% in the first three quarters of 2002 with respect to the same period of 2001. Although formal employment declined in all the segments of activity, the hardest hit were construction (down 38%, following a decline of 19% in 2001) and commerce (down 11%). As a result, in May unemployment in the construction sector climbed to above 50%. The crisis was especially hard on small and medium-sized enterprises, in which around 12% of formal jobs were lost. The rise in unemployment also affected heads of household, among whom the rate rose from 12.8% to 17.7%. At the same time, underemployment increased and real wages declined sharply. Together, these trends translated into a substantial worsening of poverty indicators. The situation would have been even worse but for emergency employment programmes, which enabled the transfer of resources to approximately one million people.

The majority of the other countries in the region posted low rates of economic growth, which also affected labour trends. The rate of employment trended down in most of countries in the second group that had information available (Brazil, Chile, Costa Rica, Ecuador and Mexico), although much less drastically than in the first group. The exceptions were Colombia, where a strong expansion of informal employment compensated for the weakness of labour demand, and Peru and the Dominican Republic, where stronger economic growth helped to maintain the level of employment, even amid weak generation of waged employment. Given the sluggish rate of job creation, unemployment increased in most of the countries. In some of them, however, open unemployment decreased because households reacted to the situation in a way that translated into a contraction of the labour supply. In Ecuador, persistent emigration also contributed to a decline in labour supply.

In most of the countries in this group, real wages increased slightly in the context of a decreasing inflation rate. The main exception to this pattern was Brazil, where real wages in the formal sector continued the downward trend that has persisted ever since 1999.

Similarly to Argentina, although in a different context, in the two countries in this group –Chile and Peru– in which information was available on formal employment by size of firm, the larger firms performed better than small and medium-sized enterprises. This suggests that, first, it cannot be stated that large firms invariably react to sluggish economic activity by cutting back on hiring and, second, that small and medium-sized firms often bear the brunt of slack domestic demand and of such economic difficulties as credit shortages.

In many countries, slow domestic demand continued to undermine employment in construction, which depends more heavily on it than any other sector. In Brazil, for example, employment in construction contracted by almost 9% in the period from January to September 2002, in comparison with the year-earlier period. Employment in manufacturing was affected to a greater or lesser extent across the region by weak external, regional and local markets. As a result, employment in manufacturing declined as a percentage of total employment, particularly in the largest economies of the second group –Brazil, Colombia and Mexico– and in the countries of the first group.

Since the 1990s, if not before, economic growth and hence employment trends in the countries of the north of the region (Mexico, Central America and the Caribbean) have closely shadowed economic performance in North America, because of growing trade integration in goods production (especially *maquila*) and in services provision (tourism). During most of the 1990s, the dynamic North American economy fuelled growth in those countries, but the downturn that began in late 2000 had an adverse impact on their labour markets.

In the particular case of the Mexican *maquila* industry, almost 300,000 jobs were lost between October 2000, when employment was at a record high, and March 2002. From April onwards, the number of jobs in this sector began to increase again as the North American economy swung back, to reach 29,000 new posts by September. Even so, growth in *maquila* employment was negative between 2001 and 2002 and, as competition from the Asian *maquila* sector steps up, there can be no assurances that Mexican and Central American *maquila* will be able to return to the rates of employment growth recorded in the 1990s.

### Outlook for 2003

Latin America and the Caribbean is expected to grow by 2.1% in 2003, which will translate into a slightly positive variation in per capita growth.

Current growth trends show that most of the countries began to experience an upturn in the second quarter of 2002, which will generate a carry-over effect of 1.1% in 2003. The world economy is also expected to see a slight upswing in 2003. In the United States the rate of expansion will be similar to that of 2002, at around 2%, while economic growth in both Europe and Japan will exceed the 2002 rates of under 1% and -0.5%, respectively. Thanks to strong economic expansion in China and India, the growth rate for the developing countries as a group will increase.

There is a great deal of uncertainty surrounding the prices of agricultural and mining commodities, but they should continue to climb slowly upwards from the low levels recorded in 2001. This trend began in 2002, fuelled by demand from the United States and South-East Asia. Petroleum will not vary significantly in price in 2003, although the geopolitical situation in the Middle East is generating some apprehension in this respect.

The growth rate of 2.1% projected for Latin America and the Caribbean reflects a mixed performance across countries and groups of countries within the region, with respect to 2002 (see table 4).

Table 4
**LATIN AMERICA: GDP TRENDS AND PROJECTIONS, 2001-2003**
*(Annual growth rates)*

| | 2001 | 2002 | 2003[a] |
|---|---|---|---|
| **Latin America and the Caribbean** | **0.3** | **-0.5** | **2.1** |
| Argentina | -4.4 | -11.0 | 2.0 |
| Bolivia | 1.3 | 2.0 | 2.0 |
| Brazil | 1.5 | 1.5 | 1.8 |
| Chile | 2.8 | 1.8 | 3.5 |
| Colombia | 1.4 | 1.6 | 2.0 |
| Costa Rica | 1.0 | 2.8 | 3.0 |
| Ecuador | 6.0 | 3.4 | 1.0 |
| El Salvador | 1.9 | 2.3 | 2.5 |
| Guatemala | 2.4 | 1.9 | 2.5 |
| Honduras | 2.7 | 2.0 | 2.5 |
| Mexico | -0.4 | 1.2 | 3.0 |
| Nicaragua | 3.0 | 0.5 | 1.5 |
| Panama | 0.4 | 0.4 | 2.0 |
| Paraguay | 2.4 | -3.0 | -2.0 |
| Peru | 0.2 | 4.5 | 3.5 |
| Dominican Republic | 2.7 | 4.0 | 3.0 |
| Uruguay | -3.4 | -10.5 | -2.5 |
| Venezuela | 2.9 | -7.0 | -0.5 |

**Source**: ECLAC, Statistics and Economic Projections Division.
[a] Projections.

The Southern Cone will experience a major shift in economic trends. First, the sharp contraction in Argentina and Uruguay will not be repeated in 2003, while Chile will turn in a slightly better performance than in 2002, chiefly thanks to an upturn in the external situation following the signature of free trade agreements with the European Union and the United States. Argentina should grow by 2%, reflecting a modest recovery from the crisis that began in late 1998 and appears to have reached its blackest point in early 2002. Although the demise of the convertibility regime has opened up possibilities with regard to exports and import substitution, the country still faces difficulties in tapping into those opportunities effectively. The high rate of unemployment, the sharp downturn in real income and the shortage of credit –which represents an obstacle to the expansion of exports– have conspired to stifle the domestic market. Argentina's GDP has risen only slowly since the upturn in the second quarter of 2002 and the projections indicate that this trend will continue into 2003. In Uruguay the adverse effects carried over from 2002 will make expansion unlikely, although exports may increase. A downturn is projected in Paraguay, as the contraction begun in the second half of 2002 continues, exacerbated by the reappearance of foot-and-mouth disease and external debt servicing problems.

The Andean Community is expected to expand at a rate of 1.6%, which represents an upturn by comparison with the stagnation experienced in 2002. The complex situation in Venezuela has triggered a sharp economic downswing and a decline in petroleum production, which could harm exports and rule out a positive growth rate in 2003. Colombia's projected growth rate of 2% reflects a continuation of the modest recovery that began in the second quarter of 2002. Ecuador is forecast to expand at a rate of 1%, because of a recent downturn in the external accounts which has created an element of uncertainty with regard to its economic performance in 2003. Peru recorded the region's highest growth rate in 2002 and will probably retain its lead position –jointly with Chile– in 2003. Its economy should expand by 3.5% thanks, in particular, to the incipient recovery of construction investment and an increase in domestic and external demand in construction and other sectors.

The Brazilian economy will expand by 1.8%, provided that the current domestic and external macroeconomic conditions –a favourable exchange rate and high rates of interest– hold steady. This expansion will be the result of a revitalization in construction, which was beleaguered until recently by the electricity crisis, and of exports, which should post a significant increase again in 2003. Expectations of buoyant external sales are based on the devaluation of the real and favourable conditions for the production of a number of commodities and semi-manufactures. Inflation showed signs of rekindling at the end of 2002, however, which could hinder a return to better investment figures.

Mexico's economy is projected to grow at a rate of 3%. The extrapolation of late 2002 figures does not paint a very optimistic picture, since the year ended with a drop in investment and the stagnation of non-petroleum exports. The projected growth rate reflects a modest expansion of exports with respect to 2002, a slight upturn in investment and a level of consumption comparable to 2002. Economic growth in the United States, Mexico's main export market, will not significantly exceed the previous year's rate, which will weaken growth in the Mexican economy.

The Central American countries and the Dominican Republic should post a growth rate of 2.6%, which represents little variation with respect to 2002. The Dominican Republic could turn in the strongest performance among the group, but this may be contingent upon the mitigation of certain domestic and external disequilibria which sharpened in 2002. Costa Rica is in a similar situation. Nicaragua will post the subregion's lowest growth rate of 1.5%, as the political crisis takes its toll on investment. The other Central American economies will expand at rates of between 2% and 3%.

# SOUTH AMERICA

## Argentina

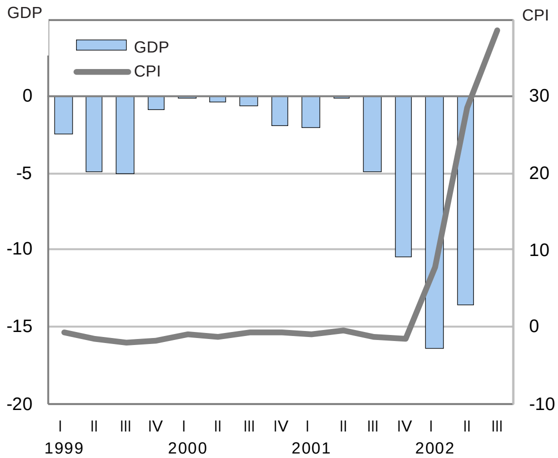
The demise of the convertibility regime, after a long and traumatic downslide, marked a turning point in the Argentine economy and substantially altered the way it operated. The disruption in the system of contracts caused by the devaluation of the peso sharpened the financial crisis and helped to prolong the steep downtrend in activity that had accelerated in mid-2001. Economic activity bottomed out in the first quarter of 2002, however, and from the second quarter on production showed signs of a slight upturn, driven by sectors linked to exports and import substitution.

GDP shrank by 11% in 2002, which translated into a cumulative decline of 20% in a period of four years and represented a level of activity below the figure posted in 1993. At the same time, in May the urban unemployment rate rose to 21.5%, which exceeded all existing records. The currency depreciated sharply in the first half of 2002, then stabilized later in the year. This heavy devaluation generated a steep rise in prices, but did not ignite an inflationary spiral. Nominal wages varied only slightly. The downturn in employment and in real wages worsened the country's levels of poverty and indigence.

Aggregate spending slumped heavily. In particular, investment plunged by 35%. The decline in imports contributed to a trade surplus of US$ 15.6 billion, which was equivalent to over 50% of exports. The current account yielded a surplus of 8.6 GDP points. The public sector did not service its bond debt, and there were widespread instances of arrears or renegotiations of private external debts. Nevertheless, international reserves declined, which was a reflection of heavy capital outflows in the private sector, especially in the early part of the year, and of the pressure of net capital and interest payments to multilateral agencies, which represented close to 4% of GDP. Laborious negotiations went on throughout the year with IMF, but no agreement was reached. Consequently, in November the government deferred a capital amortization payment to the World Bank, in order to preserve international reserves. Such a default on obligations to a multilateral agency was unprecedented.

The government's primary spending posted no significant nominal variation and declined as a percentage of GDP. The tax burden also shrank, although to a lesser extent. The lower tax receipts generated sharp fiscal tensions at the beginning of the year, when the government had already announced the suspension of debt payments. In the first quarter, the national non-financial public sector recorded a primary deficit of 1.7% of quarterly GDP. Later, as the effects of price rises and export taxes began to kick in, the government's nominal revenues rebounded, thus easing the payment difficulties of the public sector. One of the outcomes of the critical state of public finances early in the year was that the national administration and several local governments

**ARGENTINA: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

issued small-denomination bonds to meet their current obligations. These quasi currencies circulated –with varying degrees of acceptance– as "emergency monies".

The crisis in Argentina was marked by severe disarray in the financial markets. Towards the end of 2001, in response to the draining of deposits and the run on the currency, the authorities restricted cash withdrawals from the banks and transfers of funds abroad. Restrictions on the withdrawal of funds constrained transactions and further fuelled the existing social and political tensions. President De la Rua resigned in December. Congress appointed a successor who remained in the post for only a week, during which the government announced the suspension of public debt servicing payments. In early 2002, a new government formally terminated the convertibility regime and announced the establishment of a dual currency system. This was replaced a few weeks later by a unified floating exchange rate subject to intervention by the central bank. In addition, restrictions continued to apply to the use of the foreign-currency proceeds of export activity and to the purchase of dollars. However, the exchange rate in the informal market did not differ appreciably from the rate used for authorized transactions.

As was to be expected, the effects of devaluation on net worth were extremely costly, since they called the whole contract system into question. Currency depreciation cast a spotlight on the treatment of payments denominated in foreign currency. Creditors (particularly the holders of dollar-denominated bank deposits) insisted upon their right to recoup dollars at the rate agreed. Debtors, on the other hand, resisted making repayments in a currency whose price had risen dramatically. The authorities imposed a system of "asymmetric pesification" of assets and liabilities within the financial system. The bulk of all loans were converted at a rate of one peso to the dollar, and deposits at a rate of 1.4 pesos to the dollar, while banks were to receive government bonds to cover the difference.

These measures, which generated large distributional effects, were highly controversial. In response to widespread protests on the part of borrowers, the authorities postponed the application of a mechanism indexing debt to domestic prices, which had been established together with the conversion into local currency. Savers reacted with public demonstrations and a plethora of legal submissions. The authorities also reprogrammed fixed-term deposits, and maintained restrictions on cash withdrawals. These measures were not sufficient to ease the pressure on bank liquidity, due to outflows of deposits authorized under the existing legislation and, in particular, to the impact of numerous court orders ("amparos") giving individual savers the right to withdraw their funds. As a result, in the early months of the year bank activity was irregular and rediscounts, which were extended in large volumes, became a source of considerable monetary expansion. Between January and March the central bank's peso-denominated liabilities grew by 70%.

The money creation entailed in the return of deposits helped to step up pressure on the currency markets, while the virtual breakdown of credit mechanisms visibly affected the circulation of funds and the conduct of transactions. In the first quarter, GDP contracted sharply (about 6% in seasonally adjusted terms, with respect to the preceding quarter). In the same period the nominal exchange rate rose by around 200%, in a climate of extreme apprehension and despite interventions on the part of the central bank, whose reserves declined by some US$ 2 billion. In marked contract to past experiences, however, prices responded in a fairly subdued manner. The peso retained its function as a price denominator and a means of exchange for day-to-day transactions. Tradable goods (and goods with a large proportion of tradable inputs) rose considerably in price, but other articles did not follow suit and no wage adjustments were made. The government announced the pesification of utility rates that had been contractually fixed in dollars, and refused to authorize rate hikes. In the first quarter the wholesale price index rose by almost 35%, but consumer price inflation remained below 10%. In the months that followed, assistance to banks continued to drive domestic credit creation, which was partly offset by issues of central bank bills. Initially, these bills were auctioned in small amounts, with very short maturities

**ARGENTINA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | -0.8 | -4.4 | -11.0 |
| Consumer prices | -0.7 | -1.5 | 40.6 [b] |
| Real wages [c] | 1.5 | -1.2 | -15.4 [d] |
| Money (M1) | -2.7 | -23.8 | 106.9 [b] |
| Real effective exchange rate [e] | 1.6 | -3.9 | 136.4 [f] |
| Terms of trade | 10.5 | -0.6 | 1.5 |
| **Average annual percentages** | | | |
| Urban unemploymen rate | 15.1 | 16.4 | 21.5 [g] |
| Central government fiscal balance/GDP | -2.2 | -3.9 | -2.5 |
| Real deposit rate | 10.0 | 15.3 | -6.1 [h] |
| Real lending rate | 12.7 | 28.2 | … |
| **Millions of dollars** | | | |
| Exports of goods and services | 31,092 | 30,846 | 29,322 |
| Imports of goods and services | 32,822 | 27,360 | 13,742 |
| Current account | -8,864 | -4,429 | 9,282 |
| Capital and financial account | 7,647 | -17,030 | -17,282 |
| Overall balance | -1,218 | -21,459 | -8,000 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Refers to manufacturing.
[d] Estimate based on average January-September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average January-October.
[g] Estimate.
[h] Average January-September, annualized.

(14 days) and at high rates of interest. Pressures in the exchange market persisted, however, and at the end of June the dollar exchange rate came close to four pesos, while reserves continued to decline in the second quarter. The instability of the currency market helped to speed the transmission to prices, with a rise of 10% in the CPI in April and a cumulative increase of 30% in the first semester.

Despite the gravity of the financial crisis, payment mechanisms gradually shifted back towards normality. Also, the changes in relative prices enabled a number of firms to recover their margins, which allowed them to generate cash flows to substitute for the almost non-existent supply of credit. In the second quarter, GDP posted a slight upturn (seasonally adjusted) although it was still 13.5% down on the year-earlier figure. Price increases and the maintenance of real activity boosted VAT receipts, which in May and June exceeded the nominal levels recorded in the same months of 2001. In addition, revenues from export duties were also significant; in June taxes on external trade represented over 15% of the federal tax agency's receipts.

The treatment of reprogrammed bank deposits continued to be hotly debated in the courts and in the arena of economic policy. The authorities announced a voluntary swap operation, which would allow savers to swap their deposits for public bonds denominated in dollars. The take-up of this option encompassed about a quarter of all deposits.

Towards mid-year, the withdrawal of deposits through court-ordered releases slowed, which meant that assistance to the financial system could be greatly scaled down. This helped to reduce the issue of base money through domestic lending operations. Regulations on the sale of export-generated foreign currency were tightened, however. Outflows of private capital eased and the large trade surplus made itself felt on the exchange market. Between July and November, the price of the dollar held steady (the peso even appreciated somewhat) while market interventions resulted in net purchases of US$ 2 billion. The calm in the currency market was clearly reflected in price trends. The variation of the CPI became steadily more moderate, and in October a rate of just 0.2% was posted. As well, there was an incipient return of flows towards to the banks and interest rates came down: around mid-November peso-denominated bills issued by the central bank with maturities of 90 days were yielding an annual rate of under 20%. The level of activity did not make a decisive recovery, but it did post a slight upturn in the third quarter and looked set to maintain this trend into the following months. A number of surveys reported a slight improvement in the demand for labour.

Although there were signs of an upswing in export activity during the year, the value of exports shrank by 5% in 2002 overall. A number of factors were to blame for this result. Unit values were down (possibly partly because of declarations engineered to sidestep tax payments and requirements to sell foreign currency). The acute shortage of credit and higher input prices affected the supply of goods, including exportables. At the same time, some of these goods acted as reserves of value: for example, amid mistrust of financial instruments, part of the grain harvest is believed to have been stored and its export delayed. Another factor was the downturn in sales to Brazil. Even so, the trade surplus was extraordinarily high, at about 15% of GDP, because of a heavy slump of about 60% in goods imports. Capital movements reflected the serious disruption of the economy, mainly in the first semester. The public sector ran up arrears of some US$ 4.3 billion. Direct investment was down, and the other operations of the non-financial private sector together generated a net outflow of about US$ 13 billion.

At the end of 2002, the state of the economy remained fragile, although there were signs of a return to normality. The asset effects of the exit from convertibility had yet to be resolved; in particular, litigation continued over the forced conversion of deposits into pesos. Rate setting for privatized public utilities remained a pressing issue. Public debt restructuring was still to be addressed and private external debt renegotiations were still ongoing. The government and IMF were yet to arrive at an agreement on the refinancing of obligations to multilateral agencies. The authorities therefore decided to cease the drawdown of reserves to service loans from those agencies, which led to a default on a capital payment on a World Bank loan. On the other hand, restrictions were lifted on all current and savings accounts, without this leading to a loss of bank deposits or increased tensions in the currency market. On the contrary, the central bank built up reserves in the last few months.

In summary, to put the economy's performance in 2002 into perspective, it may be observed that exports have stagnated since the late 1990s, as the dollar appreciated and the real exchange rate rose in Brazil, while external credit was shrinking. These factors translated into a currency misalignment and a loss of competitiveness. They also exerted downward pressure on aggregate spending, which was forced down in dollar terms. A disturbance of this nature could not be absorbed by the rigidity of the currency regime and a system in which financial contracts were widely dollarized. In addition, weaknesses began to show clearly in the tax structure, exacerbated by a prolonged recession. As agents began to perceive that no there was no clearly defined exit scenario but that, on the contrary, the financial system and the currency regime were becoming ever more fragile, their decisions regarding demand for goods and asset holdings tended to steepen the slide in activity and accentuate the drain on deposits and reserves, while fiscal problems deepened due to a large downturn in revenues. This led to the collapse of the currency regime and rendered the public sector insolvent. Convertibility carried high exit costs, given the extent of dollarization of public and private debts. These costs were manifested in a breakdown of the financial contract system, generating grave conflicts –many of which remain unresolved– over the apportionment of major areas of ownership rights. The credit supply was therefore interrupted and, with a massive outflow of capital when spending was already depressed, the level of activity continued to slip backwards in the months immediately after devaluation. The peso retained its function as a transaction currency, however, and the impact on prices was relatively moderate. After a troubled first quarter, activity showed some signs of a return to normalcy and the volume of production ceased to decline. Although the crisis may have bottomed out, however, the story is far from over: highly complex questions remain to be answered, especially in relation to the asset effects of the crisis (in respect of the domestic financial system, public debt and private external debt) and to the form the fiscal regime will take henceforth.

The Argentine crisis also revealed serious analytical failings on the part of the international community which underestimated the risks run by the Argentine economy and failed to help define measures to cope with the emergency, beyond general calls for sustainable policies. The effects of contagion on other economies were also underestimated. At a broader level, it became clear that the global financial institutions were unprepared to deal with financial crises in large emerging economies.

# Bolivia

For the fourth consecutive year, the Bolivian economy recorded low growth with GDP expanding by barely 2% in 2002. This result was based mainly on natural gas production. Domestic demand remained depressed, given the uncertain external environment both internationally and regionally, coupled with a domestic situation marked by the elections and the change in Government at the beginning of the second half-year. These two factors triggered an outflow of capital, which, together with a negative export performance, led to a deterioration in the current-account and balance-of-payments deficits and a sharper depreciation of the Bolivian currency. There was an upsurge in inflation with the inter-annual rate rising to 2.3% in November.

Natural gas production was once again the driving force of the economy, recording almost 30% growth in the first three quarters. Although this sector is export-oriented, its increased product was not sufficient to boost overall external sales. On the other hand, inventories expanded considerably and so did gross investment, albeit to a lesser extent; however, these increases had little impact on GDP since they carry limited weight in this indicator.

Weak demand kept inflation low, although the monthly rate moved up from the negative value recorded in March. This trend meant that rises in nominal wages translated into parallel increases in purchasing power. In the first half-year, when inflation was lower, real private-sector wages had gone up by 3.5% in comparison with the same period of 2001. At the beginning of the year, the Government raised the national minimum wage to 430 bolivianos, up from 400 bolivianos in 2001.

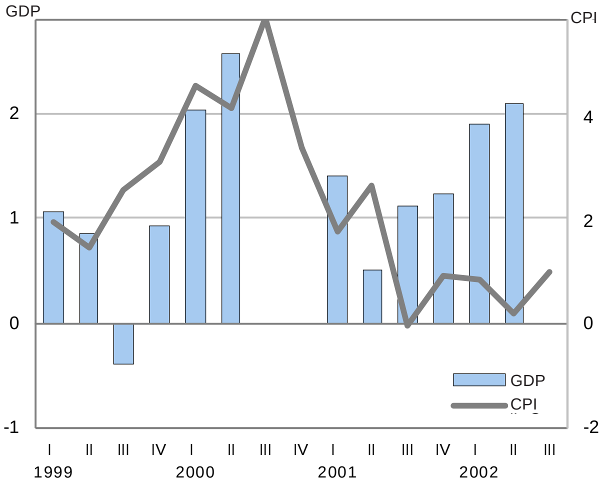
The increase in investment was led by the public sector, which sought to compensate for the sluggishness of private investment in the face of the prevailing uncertainty at home and abroad. Scheduled public investment was almost 10% higher than in 2001, reflecting the bias of a fiscal policy whose margin for manoeuvre was determined by external contributions in a context of weak, flat tax collection.

In this context, public spending increased, while total income also grew as a result of grants from abroad. The fiscal deficit, already close to 6% of GDP in the first three quarters, remained at a similar level to that of the previous year. Growth in expenditure was due mainly to higher investment spending geared especially to job creation. The cost of the transition from a social security system to a private system continued to be a burden on the public purse. By the middle of the year, the number of workers affiliated to pension fund management companies (AFP) had grown by 7% compared with the figure one year earlier. The social security deficit was in itself equivalent to the total fiscal deficit.

Given the concessionary nature of external financing, most of which was provided under the highly indebted poor countries (HIPC) initiative, domestic borrowing in 2002 accounted for far more than a quarter of total public debt.

In the absence of inflationary pressures, authorities had more leeway in setting monetary policy and foreign exchange policy. The latter was directed towards avoiding excessive variations in the real external value of the boliviano in relation to the currencies of the

**BOLIVIA: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

**BOLIVIA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 2.3 | 1.3 | 2.0 |
| Consumer prices | 3.4 | 0.9 | 2.3 [b] |
| Real wages [c] | 0.9 | 4.0 | 2.1 [d] |
| Money (M1) | 6.4 | 13.7 | 10.7 [e] |
| Real effective exchange rate [f] | 1.2 | 0.9 | -0.8 [g] |
| Terms of trade | 2.0 | -1.3 | -3.1 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 7.5 | 8.5 | ... |
| Central government fiscal balance/GDP | -4.4 | -7.2 | -7.5 |
| Real deposit rate | 7.7 | 9.1 | 6.8 [h] |
| Real lending rate | 30.5 | 19.2 | 17.9 [h] |
| **Millions of dollars** | | | |
| Exports of goods and services | 1,470 | 1,521 | 1,463 |
| Imports of goods and services | 2,078 | 1,996 | 2,051 |
| Current account | -447 | -292 | -415 |
| Capital and financial account | 408 | 255 | 296 |
| Overall balance | -39 | -37 | -118 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] Private sector in La Paz.
[d] First half-year.
[e] Percentage change September 2001-September 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average for January to October.
[h] Average for January to September, annualized.

country's main trading partners. Thus, at the beginning of the year, monetary authorities announced a more active foreign exchange policy, which resulted in an acceleration in the nominal depreciation to accompany the sharp devaluations in the Argentine and Brazilian currencies, which fuelled a higher demand for foreign currency in Bolivia. In mid-December, the nominal depreciation accumulated over the year with respect to the dollar exceeded 9%, compared with 6.6% over the preceding year, but, in real terms, the boliviano appreciated against the other currencies.

Capital outflows, prompted by the uncertainty prevailing both internationally and domestically, combined with a run on deposits to put pressure on domestic liquidity. The Central Bank of Bolivia responded by providing liquidity through open market operations. Disbursements from the Central Bank's net reserves amounted to approximately US$ 190 million in the first eleven months as a result of which, by November, the level of reserves had fallen to US$ 890 million. The Central Bank's policy served to counter-balance the contractionary effect of this reduction on the monetary base, which in November showed an inter-annual growth of 20%, in contrast with a 7% reduction in liquidity. The pressure on the latter interrupted the decline in interest rates observed in 2001. In October, nominal deposit and lending rates reached monthly averages of 10.6% and 25% respectively, compared with 8% and 19% at the beginning of the year, although they returned to these levels in November.

The balance-of-payments deficit widened as a result of the lower export earnings and private capital outflows. The value of exports declined slightly owing especially to the results in the mining sector, including the natural gas industry which saw an almost 10% contraction in sales in the first three quarters. This was due to a fall in prices, since the volumes exported were almost 8% higher. Since these sales account for such a high proportion of exports, their decline could not be offset by the buoyant performance of agricultural exports. Imports, on the other hand, expanded at a rate somewhat higher than domestic economic activity owing to the high level of purchases of intermediary goods, since imports of consumer and capital goods declined significantly. This increase is attributable largely to the expansion of imports from the MERCOSUR countries.

Consequently, the trade balance deteriorated; the same occurred with the current-account balance, which also reflected a decline in transfers. In the first three quarters, the current deficit was equivalent to 5% of GDP. Private capital outflows offset the bulk of the increase in inflows in the form of net public-sector borrowing and, above all, foreign direct investment, which remained high. The overall balance-of-payments deficit in the first nine months was close to US$ 200 million, double that recorded in the same period of the preceding year.

# Brazil

In 2002 the Brazilian economy posted a moderate rate of growth (1.5%) for the second year running, although there were some signs of an upswing during the year. This performance was attributable to adverse conditions in the world and regional economies, a downturn in terms of trade, a serious shortage of external credit and the collapse of trade with Argentina. All this forced the government to maintain a cautious stance on monetary policy, amid steep rises in the exchange rate. Currency speculation intensified in the run-up to the elections, while spreads on Brazil's sovereign bonds rose to over 2,000 basis points, which was more than double the figure recorded in December 2001. This situation obliged the government to negotiate a new agreement with IMF, which will secure an additional US$ 24 billion in funding. This amount should easily cover the current-account deficit projected for 2003, but in itself is not enough to meet amortization payments.

In 2002 the rate of inflation was over 11%, which exceeded the target ceiling of 5.5%, while wholesale prices rose by a steep 31.29%. Currency devaluation hurt the fiscal balance, especially public debt, which expanded by more than 10 percentage points to 64% of GDP. The current-account deficit declined to 1.8% of GDP, by comparison with a figure of 4.5% in 2001. There was also a downturn in foreign direct investment and in sales of Brazilian debt portfolios, while international banks scaled down their credit exposure, which translated into a 60% decrease in capital inflows during the year.

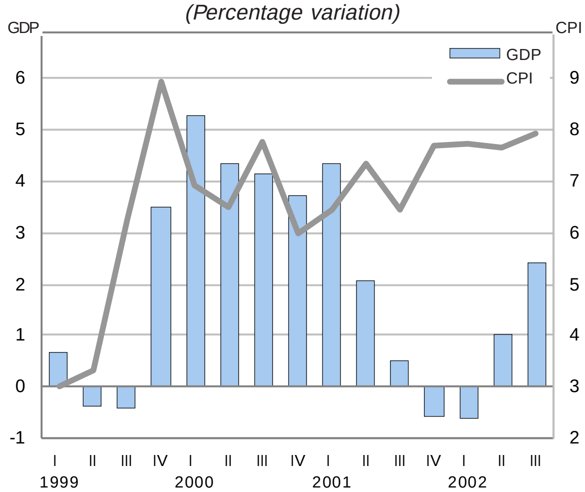
Thanks to more favourable trends in the exchange rate, in the latter months of 2002 balance-of-payments current transactions yielded excellent results, which narrowed the current-account deficit from US$ 23.217 billion in 2001 to US$ 8.601 billion in 2002. The goods surplus multiplied fivefold, from US$ 2.642 billion in 2001 to US$ 12.5 billion in 2002. The services deficit narrowed by 34.55% and the deficit on the income account by 7%. By contrast, the capital account posted negative results. Net direct investment was down by 46%, while portfolio investments moved from a net inflow of US$ 3.4 billion to a net outflow of US$ 2.8 billion.

Exports performed well from mid-year onwards. In the second semester the value of exports increased by 24% with respect to the same period of 2001, which was more than enough to compensate for the downturn of 13% posted in the first semester. The expansion for the year overall was 3.6%, despite a decline in export prices, a large decrease in sales to Argentina (almost two thirds), which hurt manufactures, and the protectionist measures imposed on Brazilian goods by the United States. The trade surplus was not –as it had been until recently– solely the fruit of limited demand for imports, but also the result of a good export performance. The largest increase in export volumes was recorded in commodities and semi-manufactures (11%). This was partly offset, however, by a downturn of over 5% in prices (which have slipped by 22% in five years). The volume of manufactured exports decreased, chiefly because of the crisis in Argentina, but began to post an upturn in July, thanks to sales in new markets such as the United States, Canada, Mexico, China, India and Russia.

Import volumes were down again, this time by 13%, amid controversy over whether Brazil was running an

**BRAZIL: GROSS DOMESTIC PRODUCT AND INFLATION**

*(Percentage variation)*




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

import substitution scheme. Industry accounted for 95% of the downturn, since the sector's external trade deficit narrowed from US$ 7 billion in 2001 to US$ 700 million in 2002. Three quarters of this adjustment, however, was attributable to four areas alone: metallurgy, mechanics, chemicals and electrical and telecommunications materials. It was argued that a substitution process would require increasing rates of investment, which have not been in evidence in recent years. On the other hand, since 2002 a gap has opened up between physical production and the import of inputs, which appears to indicate that any such process could not be considered to be temporary.

In September 2002 international reserves stood at US$ 38.4 billion, which was equivalent to 10 months of imports, compared with US$ 35.9 billion in December 2001. In July estimated total external debt was US$ 216 billion, of which US$ 187 billion corresponded to medium- and long-term holdings and US$ 29 billion to short term liabilities.

In 2002 Brazil met the IMF-agreed fiscal targets for the four year running, with a primary fiscal surplus of around 4% of GDP. This was not enough to offset the impact of the heavy devaluation on the stock of public debt, however, which was equivalent to 5.4% of GDP. Meanwhile, the states and municipalities yielded a primary surplus of 0.8% of GDP, which was a tribute to the effectiveness of the refinancing agreements signed three years ago and the Fiscal Responsibility Act that came into force in 2000. The central government's larger primary surplus reflected the expansion of extraordinary revenues and new sources of funding. Federal tax receipts, not including social security, expanded by more than 10% in real terms in 2002. New mechanisms of arrears collection and tax on income from pension funds, together with a new levy on fuels, account for most of the real increase. In contrast, the economic slowdown and financial uncertainty translated into lower receipts from taxes on imports, automobiles and capital gains and interest. Higher growth in revenues provided scope for a looser stance on federal government spending than had originally been envisaged. Primary expenditures (excluding interest) expanded by 17% in nominal terms, which was less than the nominal growth in revenues (25%). On the other hand, the social security deficit continued to widen, to reach 1.2% of GDP.

The administration's management of monetary policy was affected in 2002 by the downturn in external borrowing conditions, inflationary pressures generated by currency devaluation and uncertainty over the path economic policy, particularly fiscal policy, would take in view of the approaching change in government. The central bank sought to draw a distinction between speculative movements and structural situations, in order to avert unnecessary damage to the level of activity. Meanwhile, although it maintained the system of inflation targets, the central bank refrained from using it too intensively. The annual base rate of interest was therefore cut from 19% in December 2001 to 18.5% in March and 18% in July. Only when inflation surged in August and September did the central bank raise interest rates, to 21% in October and 22% in November. As well, in 2002 the method of valuation of investment fund portfolio assets was changed, requiring them to be marked to market, and alterations were made to the system of payments among financial institutions, which lowered the central bank's systemic risk in day-to-day market operations. These factors helped to accentuate a preference for liquid assets, which expanded the means of payment.

As the conditions for refinancing public debt became tougher, the treasury and the central bank opted to redeem liabilities rather than renew them. Consequently, the monetary base expanded rapidly (by 41% over the 12 months to October). To control the expansion of liquidity –which also affected demand for dollars– the central bank raised the banking reserve requirement. Difficulties also arose with securities indexed to the exchange rate, because the market demanded a much higher rate of interest to renew such instruments, amid fears that they could be subject to some type of restriction in the future. Only from November on was it possible to fully roll over maturing debt of this category.

**BRAZIL: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 4.0 | 1.5 | 1.5 |
| Consumer prices | 6.0 | 7.7 | 10.9 [b] |
| Real wages [c] | -1.0 | -5.0 | -2.3 [d] |
| Money (M1) | 18.5 | 11.2 | 31.9 [e] |
| Real effective exchange rate [f] | -6.8 | 20.0 | 5.9 [g] |
| Terms of trade | -3.0 | -0.2 | -4.1 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 7.1 | 6.2 | 7.3 [h] |
| Central government fiscal balance/GDP | -3.2 | -3.9 | -6.0 |
| Real deposit rate | 10.7 | 9.5 | 8.8 [i] |
| Real lending rate | 48.1 | 46.4 | 48.1 [i] |
| **Millions of dollars** | | | |
| Exports of goods and services | 64,469 | 67,545 | 69,567 |
| Imports of goods and services | 72,774 | 72,652 | 62,138 |
| Current account | -24,669 | -23,217 | -8,601 |
| Capital and financial account | 32,731 | 19,766 | -76 |
| Overall balance | 8,061 | -3,450 | -8,677 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Workers covered by existing social and labour legislation.
[d] Estimate based on average January-September.
[e] Variation between October 2001 and October 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average January-October.
[h] Estimate based on average January-October.
[i] Average January-September annualized.

The sharp devaluation recorded in 2002 was attributable to market factors and external pressures. The fact that 2002 was an election year, coupled with the relative concentration of domestic and external public debt commitments and with the shortage of liquidity in international markets, exerted pressure on the currency market. The nominal exchange rate rose by more than 50% in 2002, with real gains in relation to the currencies of the country's main trading partners. The real depreciated by 36% with respect to the euro, but appreciated by 14% in relation to the Latin American currencies due, in particular, to the devaluation of the Argentine peso.

As well as its effects on the public accounts, currency depreciation had an adverse impact on private-sector borrowing. A number of firms –in the segments of air transport, communications and basic inputs– approached their creditors with requests for restructuring of loans. In some cases, BNDES, the official development bank, provided assistance in the form of local-currency credit lines to enable the restructuring of foreign currency-denominated liabilities.

The level of activity was modest again, although it trended upwards throughout 2002 following the downslide recorded from the second quarter of 2001. In the first quarter of 2002 activity was down by 0.6% by comparison with the year-earlier period, but by the third quarter it was up by 2.4%, driven by a strong export performance. Gross fixed capital formation declined by 4.8% in 2002, in response to a downswing in public works, a contraction in the demand for housing, idle capacity in manufacturing, high rates of interest and uncertainty over the future of the economy. Private consumption stood still. The large increase in the volume of exports, however, served to offset these adverse trends.

Economic performance varied from one sector to another. Mineral extraction was up by 12%, thanks to excellent conditions in petroleum production, while the agricultural sector expanded by 4.5% and services posted a moderate growth rate of 1.6%. By contrast, manufacturing and construction contracted heavily, although the trend was less negative at the end of 2002.

The rate of unemployment reached 7.3% of the economically active population, which was higher than the rate of 6.2% posted in 2001. The economy's sluggish performance and the rise in inflation translated into a real decline of 1.6% in the wage bill. This was despite an increase of 1.6% in the rate of employment, which reflected an expansion in labour-intensive activities, such as agriculture. The number of formal contracts rose at a faster rate than might be expected from their proportion of overall employment, which represented the continuation of a positive trend that began in 2000. Labour productivity expanded again in 2002, widening the gap with respect to the trend in real wages, which have declined steadily in the last four years.

Despite the trying circumstances described, the Brazilian economy enjoys enough manoeuvring room to ensure fiscal and external solvency, which should help the country recover a positive growth path in the next few years. Its external competitiveness has improved, given the high level of the real exchange rate and the large gap between labour productivity and real wages. Having already made the major adjustments that were needed, Brazil is on a sound footing to deal with external and public debt issues, although it faces a number of large maturities in 2003. The public accounts have yielded a significant primary surplus, which is enough to service interest payments, providing these maintain a reasonable real rate. Large trade surpluses such as those Brazil has recorded in recent years help to meet external commitments, but sovereign spreads of the magnitude seen in the second semester of 2002 during the run-up to the elections convey an extremely high implicit rate of interest that makes Brazilian public and external debt unsustainable, stymies domestic adjustment efforts and tightens constraints on the management of domestic economic policy.

# Chile

In 2002 the Chilean economy continued to post a moderate rate of growth. GDP expanded by 1.8%, compared with 2.8% in 2001. Inflation exhibited seasonal fluctuations and proved sensitive to exchange-rate variations and to the international prices of petroleum and petroleum derivatives. Overall, the inflation rate was around 3%, in keeping with the monetary authority's target. The world economic slowdown, the regional crisis and the increase in global risk premiums not only translated into a sharp downturn in external trade, but also a steady worsening in the terms of trade –which were down 9% in the biennium 2001-2002– and a contraction in capital inflows which, together, amounted to over 5 percentage points of GDP. The external environment was one of the harshest experienced since the crisis of 1982-1983 and Chile did not escape the effects of external turbulence and of the drastic reduction in capital flows to emerging economies.

As a result of the crisis in Argentina and the slowdown in Brazil, exports to those countries decreased by 60.7% and 23.2%, respectively, which represented a decline of over US$ 500 million in the period from January to October 2002 with respect to the same period of 2001. Contagion spread mainly through trade losses, which were only partially offset by the redirection of exports to other markets. Financial contagion was less significant, judging from the volume of financial and investment flows. In 2002 net external transfers were negative again, at -2% of GDP. The nominal exchange rate reacted strongly, however, rising by more than 10% between January and October, when it peaked. The central bank announced that it was prepared to use up to US$ 4 billion over a period of four months for foreign exchange operations (until November, some US$ 600 million had been sold on the currency market). These measures, together with the calm post-electoral atmosphere in Brazil, counteracted expectations of a sharply rising exchange rate, and nominal currency depreciation was no more than 5% over the year.

With inflation under control, monetary policy was geared towards at boosting domestic demand. The Central Bank Board cut the Monetary Policy Rate, or MPR (sometimes referred to by its Spanish acronym, TPM), six times, by a total of 350 basis points between January and August 2002, to reach a historically low nominal annual rate of 3%. Nevertheless, the transmission of TPM cuts to market interest rates was slow and concentrated in large and long-term loans.

Fiscal policy, meanwhile, continued to be governed by a rule requiring the maintenance of a structural surplus of 1% of GDP. The central government's structural balance represents a recalculation of fiscal revenues taking into account potential GDP growth and the long-term price of copper. As macroeconomic conditions worsened, fiscal revenues were lower than had been provided in the budget law, but this did not entail adjustments to public spending plans. The cyclical component of the public-sector balance was therefore negative by almost two GDP percentage points, which meant that the government had to deploy a considerable countercyclical effort. Public finances played an important stabilizing role by softening the impact of the harsh external conditions on domestic spending. A new feature in the preparation of the 2003 budget was the use of non-government experts to estimate potential output and the price of copper for the coming year, showing that the authorities are taking an increasingly non-discretionary approach to complying with the fiscal rule.

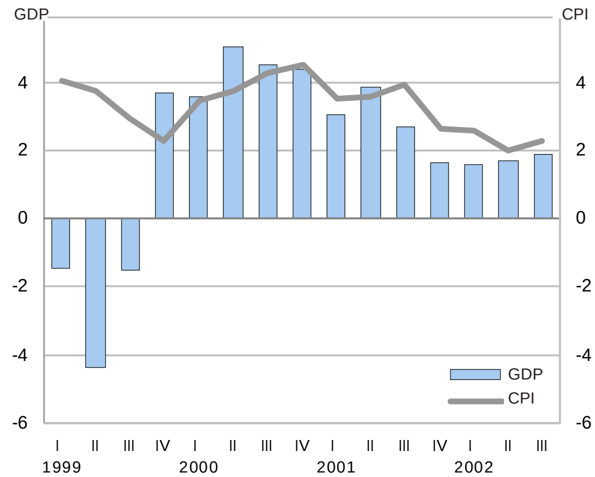
The projected accounting deficit of 0.9% of GDP for 2002 was financed with an issue of sovereign bonds on the international market, in April, in the amount of US$ 900 million. The remainder of that operation was used to prepay older and more expensive external loans and to refinance the Copper Stabilization Fund. In 2003 a deficit of 0.7% of GDP is projected. This should be covered easily, given the central government's low level of indebtedness, which is equivalent to 17 GDP points in gross terms.

In the first semester of 2002 the price effect brought down the value of exports. Negative variations of 16.4% and 8.9% were recorded in the first and second quarters, respectively, by comparison with the same quarters of 2001. In the third quarter the price effect was positive, however, with a rise of 2.7% in relation to the third quarter of 2001. By volume, manufactured goods were up 13.9%, mining by 3.7% and agricultural, forestry and fisheries exports by 14%. The value of imports decreased by 7.8% (comparing the periods January-September of 2001 and 2002), with declines of 3.3% in consumer goods, 9.2% in intermediate goods and 8% in capital goods. To September, foreign direct investment inflows were US$ 1,574 billion, which was far less than the figure of US$ 3.9 billion recorded to the same month of 2001. International reserves were US$ 14.9 billion at October 2002.

At the end of the year, the heavy decline in imports and the negative trend in supermarket sales were evidence that domestic demand remained slack, with consumption sluggish and rates of unemployment relatively high. There were some signs of an upturn, however, such as an increase in sales of houses and apartments and in consumer credit, while the large firms have taken advantage of the lower rates of interest to conduct massive debt restructuring operations. In the last three months the register of private investment projects for the coming five years expanded by 11.2%, as a number of initiatives that were at the planning stage came on stream, mainly in the mining sector. In addition, total bank credit increased by 3.6% in nine months and consumer credit was up by 6.3% between January and September. The non-performing loans portfolio stood at 1.8% of total assets, a low figure according to international standards.

In spite of expectations of an upswing in 2003, unemployment continues to be the main unresolved item, although for the first time in three years it stayed below 10% in the winter months. The labour situation was mitigated in part by direct public employment programmes and subsidies to private employment (reintegration and training allowances). These programmes financed 160,000 jobs during the three-month winter period.

**CHILE: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

A number of structural reforms were carried out in different areas in 2002. One of the most significant facts or from the point of view of Chile's position in the international economy was the signing of a free trade agreement with the United States, which will come into effect at the end of 2003 subject to ratification by congress in the two countries. This agreement will improve trade with the United States by regulating matters relating to dispute settlement, access to goods and services markets –including financial markets– labour and the environment. A controversial aspect of the agreement was the elimination of Chile's reserve requirement on short-term capital inflows, which is currently applicable under Chilean law (though now at a rate of zero). The agreement will ultimately eliminate restrictions on the free movement of capital between the United States and Chile, but provides tools that allow Chile to implement temporary capital controls in extreme circumstances that may have serious effects on economic conditions. These barriers would not enter into conflict with the other clauses in the agreement.

Trade agreements were also reached with the European Union and South Korea. The European Union is Chile's largest trading partner, its main source of

**CHILE: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 4.4 | 2.8 | 1.8 |
| Consumer prices | 4.5 | 2.6 | 3.0 [b] |
| Real wages [c] | 1.4 | 1.6 | 2.3 [d] |
| Money (M1) | 9.3 | 6.6 | 16.4 [e] |
| Real efective exchange rate [f] | 1.6 | 12.1 | 1.3 [g] |
| Terms of trade | 0.0 | -6.9 | -2.1 |
| **Average annual percentages** | | | |
| Unemployment rate | 9.2 | 9.1 | 9.0 [d] |
| Central government fiscal balance/GDP | 0.1 | -0.3 | -0.9 |
| Real deposit rate | 4.3 | 3.9 | -0.5 [h] |
| Real lending rate | 9.7 | 9.5 | 3.4 [h] |
| **Millions of dollars** | | | |
| Exports of good and services | 22,971 | 22,315 | 21,870 |
| Imports of good and services | 21,702 | 21,221 | 20,271 |
| Current account | -1,073 | -1,241 | -526 |
| Capital and financial account | 1,410 | 645 | 1,326 |
| Overall balance | 337 | -596 | 800 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] General index of hourly wages.
[d] Estimate based on average January-October.
[e] Variation between October 2001 and October 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average January-October.
[h] Average January-September, annualized.

foreign investment and largest provider of international cooperation. The accord was signed on 18 November and is to come into effect in 2003. The most important trade implication of the accord is that 85% of Chilean exports to the European Union will enter tariff-free once the agreement comes into force, while remaining products will be subject to tariff-reduction programmes of up to 10 years. According to official estimates, agricultural exports could double within five years, with significant increases in exports of red and white meats.

The free trade agreement with the Republic of Korea, the first of its kind between an Asian and a Western economy, is also the first for Korea and a pioneering venture in cross-Pacific trade agreements. The Republic of Korea is an important trading partner for Chile, as it ranks between fourth and sixth as an export destination, competing with Brazil and Mexico. Tariff reductions will be applicable to goods from the fisheries, mining, forestry, agricultural, industrial and agribusiness sectors.

On the domestic front, a wide range of legal and institutional modifications are covered by what is known as the “Agenda for growth”, a private sector initiative that was quickly embraced by the public authorities. The initiatives are: regulatory measures to improve competitiveness, policies on technology and on expanding the use of new information technologies, measures to simplify public-sector procedures, changes to the tax structure to boost investment, deepening of the capital market, measures to increase the efficiency of public expenditures, labour projects and export development. Before it can come into effect, this agenda will require the enactment of a substantial package of legislation, part of which is currently in Congress.

The government obtained legislative approval for tax measures aimed at stimulating growth and creating conditions that will facilitate the use of Chile as a platform for regional investment. The extension of the accelerated depreciation mechanism will enable investors to recoup investment costs more quickly. The new law also exempts the refinancing of mortgage loans of over one year that were granted for the purposes of acquiring, building or extending a dwelling from the stamp duty on credit operations. A special tax regime was also created to exempt income generated in third countries from taxation on passing through Chile to the country where the investment originated.

Overall, growth is expected to pick up considerably in 2003 in the context of a broadly balanced economic performance.

# Colombia

The slowdown that was evident in the Colombian economy in 2001 carried over into the first quarter of 2002. From the second quarter on, indicators corresponding to the real sector pointed to a moderate upturn. As a whole, output expanded by 1.6%, as against 1.4% in 2001. Unemployment remained high and underemployment continued to rise. The government pursued an expansionary monetary policy, in order to bring down interest rates and thus aid economic reactivation and stimulate an upturn in the financial system. No resumption of credit to the private sector ensued, however. The current-account deficit widened to 2.3% of GDP and, although the exchange rate returned to competitive levels, non-traditional exports declined due to sluggish growth in the economies of the country's main trading partners. A downturn in the fiscal balance translated into a consolidated public-sector deficit of 4% of GDP, which was attributable chiefly to lower public revenues.

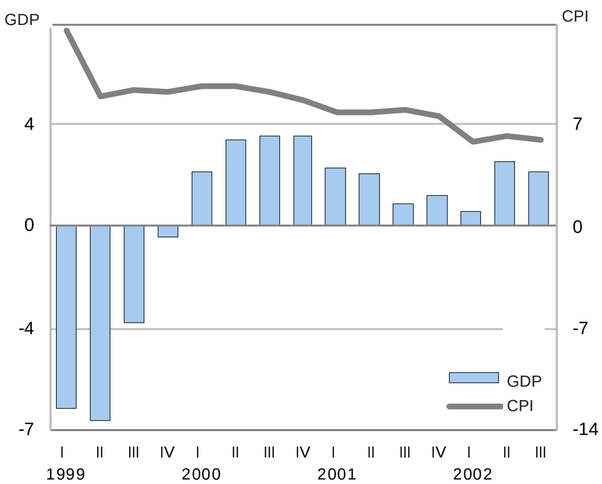
In August Alvaro Uribe took office as President after a sweeping election victory, which was interpreted as a mandate to bring the internal conflict –perceived as the country's main problem– to a rapid solution. A few days into his term, the new President declared a "state of internal disturbance", which gave the government the power to enforce temporary public order measures. The measures taken in this framework included, in particular, the enactment of a tax of 1.2% on net worth to finance higher spending on national security. In addition, the new government submitted to Congress a proposal on tax reforms to raise the revenues needed to put fiscal affairs on a sounder footing, together with programmes covering labour reform and the pension scheme. A referendum was also proposed, encompassing fiscal austerity measures.

Considerable liquidity in the market and the satisfactory performance of inflation enabled the central bank to continue to implement an expansionary monetary policy, which translated into a decrease in interest rates, particularly in the first semester. Money-market intervention rates declined by 3.25 percentage points and most were even lower than current inflation. Market rates followed suit, trending down in the first semester and stabilizing in the second. As a result, the average borrowing rate in the financial system for 90-day term deposits stood at 7.9% in mid-December, which was three percentage points lower than the figure recorded in January.

This downward trend was unaffected by the temporary rise in the rates of interest payable on public debt in the third quarter. Rates on treasury bills increased, which reflected a combination of domestic factors, with the new government's acknowledgement of the existence of serious public finance problems, and external factors, as spreads on Colombian debt increased as a result of contagion from speculative pressures on the Brazilian economy. These pressures eased in the last quarter, however, and the government was even able to issue bonds on the international market, in the amount of US$ 500 million.

The decline in the price of public debt in the third quarter placed strong pressure on the exchange rate. At the end of September, the price of the dollar rose above 2,850 Colombian pesos, which represented an annual devaluation of over 23%. These speculative pressures receded later, but the currency continued to be volatile into the final months of the year and in mid-December the rate of annual devaluation was 16%.

**COLOMBIA: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

**COLOMBIA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 2.2 | 1.4 | 1.6 |
| Consumer prices | 8.8 | 7.6 | 7.1 [b] |
| Real wages [c] | 3.9 | 0.3 | 4.7 [d] |
| Money (M1) | 30.5 | 12.1 | 15.8 [b] |
| Real effective exchange rate [e] | 10.0 | 3.7 | -0.5 [f] |
| Terms of trade | 12.9 | -5.7 | -1.0 |
| **Average annual percentages** | | | |
| Urban unemployment rate [g] | 17.2 | 18.2 | 17.6 [h] |
| Central government fiscal balance/GDP | -5.9 | -5.8 | -6.5 |
| Real deposit rate | 3.4 | 4.7 | 2.4 [i] |
| Real lending rate | 9.5 | 12.4 | 9.2 [i] |
| **Millions of dollars** | | | |
| Exports of goods and services | 15,668 | 14,971 | 14,568 |
| Imports of goods and services | 14,399 | 15,844 | 15,540 |
| Current account | 424 | -1 538 | -1 897 |
| Capital and financial account | 445 | 2,756 | 2,197 |
| Overall balance | 869 | 1,218 | 300 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Workers in manufacturing.
[d] Estimate based on average January-August.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average January-October.
[g] Includes hidden unemployment.
[h] Estimate based on average January-October.
[i] Average January-September, annualized.

The financial system's portfolio showed some signs of improvement in the third quarter, but this process was not fully consolidated. The mortgage portfolio continued to trend downwards, in terms of both quantity and quality. Although the financial portfolio expanded at a rate of over 12%, excluding purchases of public debt securities this was only slightly higher than inflation. In consequence, credit to the private sector, which is the main channel of transmission for an expansionary monetary policy, failed to carry out this function properly as banks and debtors maintained a cautious stance.

Fiscal affairs took a turn for the worse. The expected adjustment did not materialize and the targets agreed upon with IMF were not met. The central government deficit increased to 6.5% of GDP and the non-financial public sector deficit expanded to 4%, by comparison with 5.8% and 3.6%, respectively, in 2001. This increase was basically a reflection of a decline in revenues, owing to the economic slowdown recorded in 2001 and early 2002.

The government covered its borrowing requirements for 2003 with new loans from multilateral banks (worth about US$ 2.7 billion, or 78% of the external borrowing requirement), the World Bank, IDB and the Andean Development Corporation, in addition to the bond issues mentioned earlier. An IMF technical mission gave its approval to the government's economic programme and agreed to extend a new stand-by loan that will provide US$ 2 billion in funds to be disbursed over the next two years.

Between January and September GDP grew by 1.5%, which was similar to the rate recorded in the year-earlier period. By sector, growth has been led by construction and agriculture, with an upturn also apparent in industrial production. Mining, especially petroleum extraction, contracted, however. In the third quarter the annualized GDP growth rate was 1.9%, as against 0.8% in the same quarter of 2001, which pointed to a slight acceleration of this upswing.

Urban unemployment (13 metropolitan areas) continued to be high, with an average rate of 17.6% in the first 10 months of 2002, compared to 18.2% a year earlier. The overall labour force participation rate of 64% remained unchanged from the year before, due to increased participation by secondary household workers in response to lower household income. The employment rate rose slightly, but the deterioration in the quality of employment was reflected in a marked increase in underemployment, which rose from 30%

in the first 10 months of 2001 to 33% in the same period of 2002.

Driven by a gradual upswing in domestic demand, consumer price inflation reached 7.1% in the 12-month period to November, which meant that the central bank missed its target rate of 6%. Cumulative inflation was 6.7% in November as consumer prices rose under pressure from supply shocks, especially those affecting food (and particularly potatoes). The sharpening of devaluation in the third quarter had no particular effect on consumer prices, but did lead to a significant rise in producer prices, which were up by 9% in November.

The external environment was defined in the first nine months by a downswing in exports (-5.2%) which was larger than the decline in imports (-3.9%). Traditional exports were down by 10%, which was chiefly attributable to a decrease in petroleum sales, which declined by 10% between January and September as production contracted. Non-traditional exports were down 1.4%, which was a reflection of the slow economic upswing in the United States and the decline of economic activity in Latin America, particularly the crisis in Venezuela. Exports to Ecuador expanded, but this was not enough to fully offset the downward trend: in the first nine months of the year the trade surplus narrowed to US$ 128 million, which will translate into a current-account deficit of around 2.3% of GDP for the year overall.

Net capital inflows were considerably smaller than the previous year, mainly because international issues of public debt instruments were lower than in 2001, when issues were stepped up in order to bolster the economy against the potential destabilizing effects of the elections in early 2002. At the close of the year, the capital and financial accounts of the balance of payments will yield a surplus of about US$ 2.2 billion, and international reserves will stand at around US$ 10.8 billion.

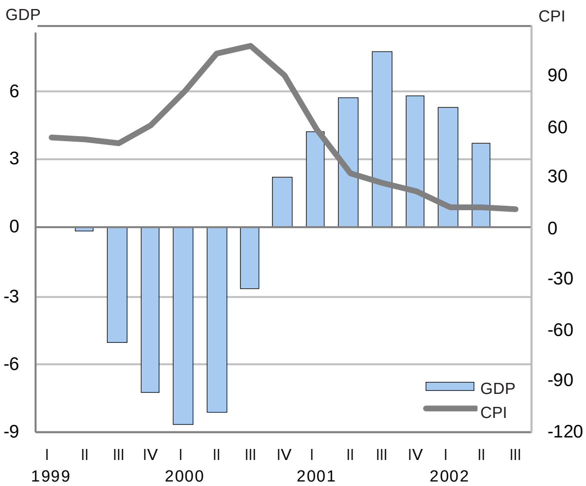
## Ecuador

The money in economic activity in 2001 (6.0%) could not be maintained in 2002, and the Ecuadorian economy grew at a more moderate rate. GDP increased by only 3.4%, despite the significant level of investment related to the construction of the heavy crude oil pipeline (OCP), while the gap in the balance-of-payments current account continued to widen, rising to the equivalent of 8.4% of GDP. In contrast, inflation and unemployment rates showed a clear improvement.

In 2002, Ecuador was on the way to completing three years of relative economic and political stability as the dollarization of the economy proceeded. The high prices for oil, the country's main export, and the continuous increase in tax revenue were crucial for this performance. The price of Ecuadorian oil remained at around US$ 21 per barrel over the three-year period 2000-2002, compared to the historical average of US$ 16. Also, the improvements in tax collection resulted in a significant increase in the tax ratio from 7% of GDP in 1998 to 13% in 2002. The relatively favourable conditions existing during this period, however, were only partly exploited, as the economy remained vulnerable to external and domestic crises.

In this election year, privatizations of public energy distribution companies were suspended, and the

**ECUADOR: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

**ECUADOR: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 2.3 | 6.0 | 3.4 |
| Consumer prices | 91.0 | 22.4 | 9.7 [b] |
| Real minimum wage | -3.5 | 11.5 | … |
| Real effective exchange rate [c] | 13.2 | -29.7 | -12.4 [d] |
| Terms of trade | 16.5 | -7.7 | 6.9 |
| **Average annual percentage** | | | |
| Urban unemployment rate [e] | 14.1 | 10.4 | 8.7 [f] |
| Central government fiscal balance/GDP | -1.1 | 0.9 | 1.0 |
| Real deposit rate | -39.0 | -8.5 | -2.8 [g] |
| Real lending rate | -34.6 | -0.9 | 6.1 [g] |
| **Millions of dollars** | | | |
| Exports of goods and services | 5,987 | 5,774 | 5,940 |
| Imports of goods and services | 5,012 | 6,754 | 7,943 |
| Current account | 916 | -704 | -1,703 |
| Capital and financial account | -6,623 | 474 | 1,578 |
| Overall balance | -5,707 | -230 | -125 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Average from January to October.
[e] Includes hidden unemployment.
[f] Estimate based on average from January to October.
[g] Average from January to September, annualized.

previously planned price increases for public services were cancelled. At the same time, private oil companies began litigation against the State for the return of VAT payments, thereby jeopardizing Ecuador's participation in the plan for extension of the United States tariff preferences granted to the Andean countries. Lastly, and despite the government's efforts, no new agreement was reached with IMF. All of these factors, together with the financial turbulence that affected the region, were reflected in the emerging market bond index (EMBI) for Ecuador, which went from 1,000 basis points in April to around 2,000 in the last quarter of the year.

The most important fiscal event of the year was the adoption of the Fiscal Responsibility, Stabilization and Transparency Act, the central element of which is the use of the additional fiscal resources to be received from the commissioning of the OCP to set up stabilization fund. These resources will mainly be used for payment or purchase operations of external and domestic public debt and, to a lesser degree, for dealing with fiscal problems or natural disasters and for social development projects. The same act also introduces a 3.5% ceiling for annual growth in public spending in order to strengthen the government's fiscal position.

Fiscal revenue was boosted by high international oil prices and by improved tax collection. In fact, the Internal Revenue Service collected more than US$ 2.7 billion, which is an increase of around 20% over the year before. On the expenditure side, there was an increase of about 50% in wage payments. Public-sector wages thus exceeded the level reached prior to the 1999 crisis. In the first six months, the non-financial public sector showed a surplus; however, as the fiscal accounts were under review, at the time of writing it was not yet possible to give a fiscal result for the year as a whole.

The situation of the financial system continued to improve, although its restructuring is not yet completed. The increases in deposits and credit were significant, both with nominal annual growth rates of close to 20%. As there was a high level of liquidity in the financial system, the slow decline in interest rates was maintained, more in the case of deposits than loans. The ratio of non-performing loans for private banks went down to 10%, whereas in the public-sector banks it remained at 90%. The Monetary Reserve of Free Availability (RILD) maintained a relatively high level –between US$1.1 and 1.2 billion– mainly thanks to public-sector deposits in the central bank. In view of the inflation rate differential between Ecuador and the United States and the strong depreciation of some currencies in the region, the real effective exchange rate continued to appreciate and, as a result, is now overvalued by around 10% compared to the average for the 1990s.

The 3.4% rise in GDP was the result of an increase of over 5% in aggregate demand, but a larger proportion of the latter was oriented to external supply than in previous years. Whereas imports grew by 15%, exports grew by less than 2% in volume. With regard to domestic demand, investment was significant, especially private investment, which expanded by more than 20%, driven by construction of the OCP. For the same reason, the highest level of sectoral growth was in construction (18%), followed by trade (7%). The only sector that contracted was oil and mines, owing to the lower level of extraction of crude oil.

Inflation continued to decline, and in November the inter-annual inflation rate was at 9.7%, compared to 22.4% in the previous year. Real wages recovered a significant part of their purchasing power owing to the combined effect of nominal rises and reduced inflation. The labour market also improved substantially, as the unemployment rate went down from an average 10.4% in the first ten months of 2001 to 8.7% for the same period of 2002.

The Ecuadorian trade balance continued to deteriorate in 2002. Imports, encouraged by the overvalued real exchange rate, grew by 23%, whereas exports increased their value by only 5%. Imports of consumer and capital goods were the most dynamic, bolstered by the recovery of salaries and the OCP construction, respectively. Exports of primary products were responsible for the overall increase in exports. Remittances from emigrants, again close to US$ 1.5 billion, did not manage to compensate entirely for the deficit in the services and income balances. The deficit on the balance-of-payments current account doubled in 2002 over the previous year's is level, reaching around US$ 1.7 billion, equivalent to 8.4% of GDP. This gap was financed with long-term capital inflows, especially foreign direct investment and the increase of over 50% in private-sector foreign debt. This expansion of private foreign debt led to an increase in total external debt of over US$ 1.5 billion.

## Paraguay

Faced with the precarious situation in the subregion and greater disturbances than in 2001, especially from June to September, the Paraguayan economy slipped into recession in 2002; GDP declined by 3%, bringing to a halt the recovery of the previous year and completing five years of lacklustre economic performance. All of this occurred amidst an intense debate on domestic economic reforms. Unlike the situation in 2001, adverse weather conditions caused a marked loss in dynamism in crop production. The depreciation of the guaraní pushed inflation up to 14.6%, real wages fell while weak demand caused a decline in real tax revenues; thus the fiscal deficit rose to the equivalent of 2.5% of GDP.

In the first quarter, a sharp debate arose over the transparency of the COPACO telephone company privatization process, provided for under the State Reform Act and contemplated in the 2001 IMF monitoring programme. A series of delays since the start of the year ended in June, when Congress approved the indefinite suspension of the sale of this company. Negotiations with IMF were resumed and culminated in August in the approval of an agreement for 200 million United States dollars' worth of special drawing rights. The disbursement of funds under this agreement is subject to approval by Congress of fiscal and banking reforms.

At the beginning of 2002, it was projected that a portion of privatization proceeds would be made available as exceptional financing but when the privatizations were suspended, legal amendments were proposed in an effort to reduce the shortfall between government revenue and expenditure. Since September, the National Congress has been debating an economic transition bill which provides for a series of measures including a rise in VAT from 10% to 12%, an increase in public utility rates, salary cuts in the public service and regulations for improving tax collection. With presidential elections in the offing, the study of this body of laws has been delayed.

In September, fiscal revenue fell by more than 10% in real terms with a sharp reduction in tax revenue –almost 15%– attributable to the recessionary environment. The smaller decrease in non-tax revenue stemmed from the lower contractual income and royalties from binational entities. For its part, total expenditure stagnated in real terms with higher funds earmarked for physical investments. Capital expenditure, unlike current expenditure, expanded making good the decline of 2001, but remaining below the 1997 level. The trend in these variables points to a government deficit of around 2.5% of GDP, financed mainly through domestic borrowing.

Until April, the foreign exchange market enjoyed stability: the exchange rate was in the range of 5,000 guaraníes to US$ 1. However, as a result of the intense debates on privatizations and the spillover from turbulence in the Brazilian market, the exchange rate rose sharply to 6,300 guaraníes to the United States dollar by the end of July. In accordance with its policy of avoiding wide fluctuations in the value of its currency, The Central Bank intervened in the middle of the year and managed to stabilize the exchange rate at 6,100 guaraníes to the dollar in August. In the fourth quarter, it again soared to almost 6,800 guaraníes per dollar. In order to curb exchange-rate volatility, the central bank ordered commercial banks to reduce their degree of participation in the foreign exchange market. In the third quarter, the authorities raised the rate of monetary management instruments to an average of 30% for the same purpose. Monetary policy continued to be restrictive and, up to September, M1 scarcely varied in nominal terms, while inflation continued to rise. Despite the soaring exchange rate, there was only a moderate real depreciation, given the domestic inflation and the sharp devaluations sustained by two of Paraguay's main trading partners.

**PARAGUAY: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | -0.6 | 2.4 | -3.0 |
| Consumer prices | 8.6 | 8.4 | 14.6 [b] |
| Real wage | 1.3 | 1.4 | -4.9 [c] |
| Money (M1) | 17.8 | 9.0 | 4.1 [d] |
| Real effective exchange rate [e] | 3.3 | 3.4 | 8.5 [f] |
| Terms of trade | -3.9 | -0.1 | -0.5 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 10.0 | 10.8 | ... |
| Central government fiscal balance/GDP | -4.3 | -1.1 | -2.5 |
| Real deposit rate | 6.3 | 7.9 | 7.1 [g] |
| Real lending rate | 16.5 | 19.1 | 17.2 [g] |
| **Millions of dollars** | | | |
| Exports of goods and services | 2,926 | 2,907 | 2,782 |
| Imports of goods and services | 3,335 | 3,278 | 2,938 |
| Current account | -192 | -220 | -96 |
| Capital and financial account | -145 | 164 | -25 |
| Overall balance | -336 | -56 | -121 |

**Source**: Statistical appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] First half-year.
[d] Percentage change October 2001-October 2002.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average for January to October.
[g] Average January to September, on an annualized basis.

Contagion from the Argentine crisis showed up through financial and commercial channels. In addition to the effects of the exchange rate, the impact was visible in the financial system, where the authorities adopted emergency measures to bail out one of the largest national banks following losses in Argentina and a decline in depositor confidence. The banking reform under review is aimed precisely at giving greater stability to the financial system and guaranteeing savers' deposits.

The economic downturn became more evident in September. By contrast with the buoyancy of 2001, the crop-farming sector was affected by the adverse weather conditions. A drought in the early part of the year, followed by heavy rainfall, caused extensive damage to crops yielding heavy losses. Soya bean production decreased by 6%, despite a 7% expansion in the area under cultivation. Corn and cotton also registered poor results; on the other hand, wheat and cassava were buoyant. For its part, industrial production lost momentum, while the recovery in other activities was sluggish except for livestock production, although this was affected by outbreaks of foot-and-mouth disease in some areas of the country in October. Against this background, the jobless rate is expected to soar to its highest level in the last five-year period, up from 11% in 2001. The situation is all the more precarious bearing in mind the expansion in informal activity.

Since June, inflationary pressures have grown with the intensification in the devaluation of the guaraní. The producer price index, owing to its high import component reflected more rapidly these pressures and rose in September to 24% per year. On the other hand, owing to depressed demand, inflation measured by the consumer price index (CPI) remained relatively controlled until this month recording an annual variation of 13.8%. Real wages fell by 5% in the first half-year.

Up to September, foreign trade was affected strongly by the sharp devaluation sustained by neighbouring countries. Imports were down drastically in value terms, (-20%), whereas exports declined by 5%; this reduced the merchandise trade deficit to half its former level. The non-factor services balance showed a lower surplus, owing to the reduction in income from tourism, while lower remittances from Argentina resulted in a decline in current transfers. The outcome of these movements was a reduction in the current account deficit to US$ 96 million, which can be compared with US$ 220 million in 2001.

This deficit was financed by drawing on reserves as there was a small deficit on the capital and financial account. The balance of payments deficit stood at US$ 120 million. Given the constraints on access to external financing, as of September the government external debt had increased only slightly in nominal terms to stand at US$ 2.2 billion.

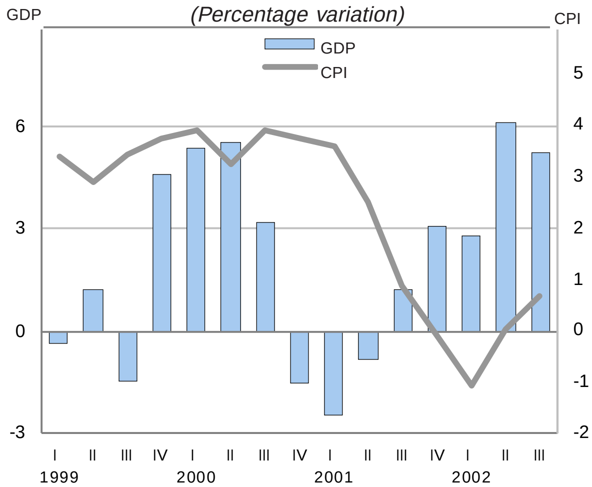
## Peru

In a difficult regional and global context, Peru continued with the moderate recovery that had begun in the second semester of the previous year and achieved a growth rate of 4.5% in 2002, the best result of the past five years. This expansion was helped by the increase in mining exports and –especially in the second semester– a recovery of domestic demand, stimulated by the moderately expansionary monetary policy in place since the end of 2001 and a moderate upturn in the labour market, while credit and public spending (apart from incentives for construction) did not contribute significantly to growth.

The authorities that took over in July 2001 sought to strengthen the stability inherited from the transitional government and to stimulate economic growth. They defined their goals in a new stand-by agreement with IMF and implemented a programme of inflation targeting, with the objective being a rate of 2.5% within a range of one percentage point on either side. Given the slight deflation observed at the beginning of the year and the very low inflation recorded subsequently, this range made it possible to apply an expansionary monetary policy, although the greater instability of the exchange rate in the third quarter led to a more cautious policy. Even so, as of October the monetary base had grown by an annual rate of around 14%. Broad money in national currency expanded by 16%, while total broad money (including quasi-money in dollars) grew by only 8%, owing to the slight de-dollarization of the financial system. At the same time, during the first semester interest rates continued the descent that had begun in the previous year. In the third quarter, the greater volatility of the external situation caused a slight increase; both nominal and real rates, however, remained low in historical terms.

Following the contraction in credit to the private sector over the two previous years, the latter has still not become an engine of growth. Although there was a

**PERU: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

recovery, it was slight, at 2.5% in October (7.8% in new soles and a drop of 2.9% in dollars), which was less than the nominal economic growth rate. In any case, the financial system continued to grow stronger, and the ratio of non-performing loans was reduced from almost 10% of total credit at the end of 2001 to 8% in September, while loan-loss provisions exceeded 125% of non-performing loans.

The nominal exchange rate, which remained stable during the first half of the year, was affected by regional instability in the third quarter, and appreciated again towards the end of the year. The average for the period from January to October thus showed a real depreciation of 1.2% with regard to the dollar, while, in view of the strong devaluations of other currencies in the region, the multilateral exchange rate declined by 1.3%.

The drop in fiscal income during the first half of the year, caused by the reduction in the special solidarity tax, the lowering of tariffs and the settlement of tax debts, precluded a more expansive fiscal policy, in view of the deficit goal of 1.9% of GDP, which was subsequently adjusted to 2.3%. In the second part of the year, collection increased significantly, owing to the recovery of internal demand and improvements in tax administration. Accordingly, in terms of percentage of GDP, central government income fell from 14.3% to 14.1% during the first three quarters. Over the same period, current spending remained at 14.3%, while capital spending fell from 2.1% to 1.9%, so that the central government deficit was maintained at 2.1%. For the end of the year the estimated non-financial public sector deficit amounted to 2.3% of GDP. This shortfall was financed mainly with foreign debt, but also with bonds floated on the domestic market, while income from privatizations was less than programmed.

Another factor that tended to favour internal demand was the development of the labour market, as over the year the level of employment rose. Although most new jobs appeared in informal activities and the labour demand from the formal sector was weak, the new jobs generated purchasing power. In addition, the government made efforts to deal with the difficult labour situation through a new programme of temporary employment. At the same time, the increase in employment was accompanied by a larger supply, so that the inter-annual variation in unemployment was modest.

Over the first months of the year there was deflation, but subsequently the CPI rose slightly, and in November inflation reached an inter-annual value of 1.5%, at the floor of the range envisaged by the authorities. These price changes contributed to an increase in real salaries.

Owing to the development of the labour market, household consumption, which had been weak at the beginning of the year, recovered in the second quarter. Public consumption, which had contracted in the previous year, grew significantly, mainly as a result of salary increases granted at the end of 2001, whereas the fiscal restrictions mentioned led to a fall in private investment. Fixed private investment continued the decline of the four previous years during the first months of 2002, but then recovered slightly in the second quarter and grew by more than 4% in the third quarter.

Exports were thus the main engine of growth. The expansion of mining played a key role, as it grew by 15% during the first nine months of the year, in particular owing to the opening of the Antamina mine in the previous year.

Another dynamic sector was construction, which, after contracting in previous years, expanded by 10% during the first three quarters of the year, thanks in part to public programmes to promote housing construction. The agricultural sector also recovered from the fall of the previous year, with growth of more than 5% over the same period. Non-primary manufacturing showed a similar level of recovery in the second quarter, with an expansion of more than 4% up to September.

**PERU: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 3.0 | 0.2 | 4.5 |
| Consumer prices | 3.7 | -0.1 | 1.5 [b] |
| Real wages [c] | 0.8 | -0.9 | 4.1 [d] |
| Money (M1) | -1.7 | 6.6 | 20.0 [e] |
| Real effective exchange rate [f] | -0.8 | -2.4 | -1.3 [g] |
| Terms of trade | -2.9 | -4.1 | 4.9 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 8.5 | 9.3 | 9.4 [h] |
| Central government fiscal balance/GDP | -2.7 | -2.8 | -2.3 |
| Real deposit rate | 9.1 | 10.8 | 0.5 [i] |
| Real lending rate | 23.2 | 21.4 | 11.0 [i] |
| **Millions of dollars** | | | |
| Exports of goods and services | 8,614 | 8,597 | 9,267 |
| Imports of goods and services | 9,723 | 9,487 | 9,809 |
| Current account | -1,568 | -1,094 | -1,211 |
| Capital and financial account | 1,437 | 1,511 | 2,256 |
| Overall balance | -131 | 417 | 1,045 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change: November 2001- November 2002.
[c] Private-sector works in the Lima metropolitan area.
[d] March.
[e] Percentage change: September 2001- September 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average for January - October.
[h] Estimate based on the average for January - October.
[i] Average: January - September on annualized basis.

Exports increased by 9%, partly because they benefited from price increases for some main products. Apart from mining products, however, there was only an increase in sales of non-traditional agricultural products. Imports showed a higher level of dynamism as of mid-year and in a comparison of the first nine months of 2002 and 2001, imports of consumer goods increased by 10.5%, whereas capital goods and inputs fell by 1.8%. An increase in imports of 3% is estimated for the year as a whole. As a result, the balance of goods was slightly positive, for the first time in twelve years. Owing to a larger payment for factor services, the balance-of-payments current account deficit remained stable, at 2.2% of GDP.

The financial account showed a surplus of more than 3% of GDP (compared to 2% in 2001) owing to a higher level of foreign direct investment and two placements of public bonds, one for an amount of US$1.43 billion (US$500 million in global bonds and 930 million for a Brady bond swap) at the beginning of the year and another for US$500 million in November. External debt, however, remained stable at 51% of GDP (in October), as the increase in public debt was offset by a decrease in private debt. The net international reserves of the Central Bank had increased by US$1.1 billion by the beginning of December.

## Uruguay

In a situation of serious economic and financial crisis, the GDP of Uruguay collapsed (-10.5%), inflation accelerated abruptly to an annual 25% and the unemployment rate rose to 19%. Despite cutbacks in spending, the loss of income due to the recession prevented the public sector deficit from being reduced to less than 4% of the product, while the significant rise in the price of the dollar and weak internal demand contributed to closing the external gap.

The financial crisis in Argentina had serious consequences for the financial system, as from the beginning of the year there was a mass withdrawal of non-resident deposits. In the first months of 2002, Uruguay lost the investment grade rating that had made it possible to obtain external financing at low interest rates. As of that time, public bonds fell sharply. During the same period, two large banks were in serious difficulties owing to the continuous withdrawal of deposits. At the end of June, the Central Bank adopted a floating exchange rate regime after a number of years of a sliding exchange-rate band, which encouraged uncertainty in a highly volatile exchange market. As a result, the price of the dollar rapidly doubled its value in pesos, a factor which together with its immediate consequence for domestic prices, substantially raised the value in national currency of the extensive public- and private-sector debts in dollars.

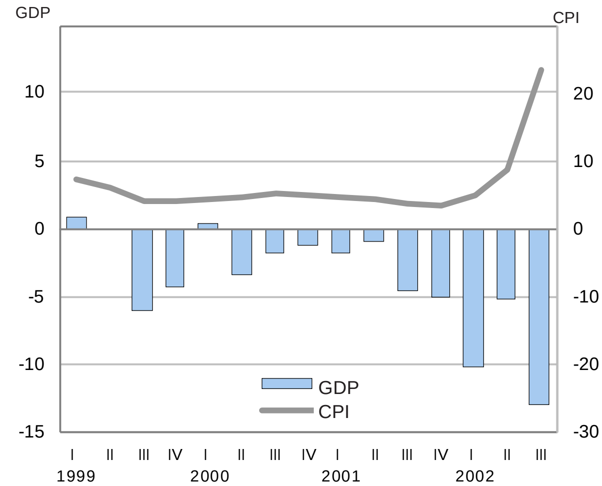
The unavailability of deposits in Argentine banks had a negative effect on expectations in Uruguay, where the domestic economic situation was very weak after three years of recession and in the context of a disadvantageous real exchange rate with Brazil and the European Union. The sudden devaluation of the Argentine peso undermined the country's external competitiveness, although the authorities had already begun to accelerate the devaluation of the Uruguayan peso. All of the above had a strong impact on the national financial system. Deposits by non-residents, almost all Argentine, which at the end of 2000 amounted to US$4.6 billion and had increased by US$1.6 billion in 2001, contracted by more than 3 billion in the first six months of 2002. Meanwhile, resident deposits to a value of US$1.45 billion were withdrawn over the same period.

The rapid loss of deposits exploded in mid-year when the activity of another national private bank was suspended because of fraudulent operations by the owners. At this point, there was a marked acceleration in the daily decline of the international reserves of the Central Bank, which together with its function of lender of last resort is the guarantor for timely service payments for the huge external debt of the national government. When international reserves reached the equivalent of one fifth of the level recorded at the end of the previous year, the authorities ordered -at the end of July- a one-week bank holiday, in addition to temporarily suspending the activities of four national private banks, and approving a bill on the unilateral restructuring of fixed-term deposits in State banks. A substantial level of financial support from multilateral credit organizations –amounting to close to US$4 billion (almost one third of the country's current GDP in dollars)– together with the contribution from the United States Treasury (which assigned a bridge loan of U$1.5 billion while the above loans were being negotiated), allowed the rest of the financial system to reopen (official and foreign-owned banks). The problem of the suspended banks had to wait for a later solution.

The financial assistance referred to was based on a new agreement with the IMF, the third such agreement signed during the year, which predicted a fall in GDP of 11% in 2002 and of 4.5% in 2003, and estimated inflation for the current year of the order of 40%, with the possibility of rising to 50% in the following year.

**URUGUAY: GROSS DOMESTIC PRODUCT AND INFLATION**

*(Percentage variation)*




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

With a new external situation, the current-account surplus for 2002 is expected to be equivalent to 0.9% of GDP (-2.5% in 2001).

The agreement signed with the IMF aimed to achieve a primary consolidated public-sector surplus equivalent to 1.6% of GDP in 2002 (-1% in 2001), which would grow to 4.3% of GDP in 2003. The public deficit would thus be reduced to 3.4% of the product in 2002 and to only 1.5% in 2003. In order to achieve these ambitious goals, the letter of intent stated that there would be no public-sector wage increases in 2002, and that pension adjustments would be limited to the legal requirement, which would involve slight variations in 2003, as pensions are adjusted with changes in average wages.

The agreement made it possible to create the Fund for the Stabilization of the Banking System, in order to preserve the functioning of the payment chain. This initiative, which used US$1.5 billion of multilateral credit, finances the withdrawal of current-account deposits denominated in pesos and in dollars from the official banks and the suspended national banks. The law that established the Fund also made provision for postponing the maturity of fixed-term deposits with the State banks. Deposits in all other foreign or domestic banks that had reopened were not subject to restrictions.

**URUGUAY: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | -1.9 | -3.4 | -10.5 |
| Consumer prices | 5.1 | 3.6 | 24.7 [b] |
| Real wages | -1.3 | -0.2 | -9.1 [c] |
| Money (M1) | 15.6 | -5.6 | 11.3 [d] |
| Real effective exchange rate [e] | 1.9 | 1.6 | 17.0 [f] |
| Terms of trade | -9.2 | 1.0 | 1.5 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 13.6 | 15.3 | 17.0 [g] |
| Central government fiscal balance/GDP | -4.2 | -4.7 | -4.3 |
| Real deposit rate | 6.8 | 9.7 | 0.4 [h] |
| Real lending rate | 41.9 | 45.6 | 53.9 [i] |
| **Millions of dollars** | | | |
| Exports of goods and services | 3,659 | 3,276 | 2,859 |
| Imports of goods and services | 4,193 | 3,718 | 2,672 |
| Current account | -567 | -512 | 117 |
| Capital and financial account | 733 | 815 | -4,135 |
| Overall balance | 167 | 302 | -4,018 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] Estimate based on the average from January to October.
[d] Variation from August 2001 to August 2002.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average from January to October.
[g] First three quarters.
[h] Average from January to July, annualized.
[i] Average from January to August, annualized.

The figures available do not show divergences from what was planned. On the one hand, the fall in GDP (-10.5%) was almost at the expected level. The positive development of the agricultural sector, which showed significant growth (7%), partially offset the decline in other activities. The significant decrease in demand, both domestic and external, had a strong impact on the manufacturing industry, construction and the commerce, restaurants and hotels segment of services, which were down more than 10%.

Inflation, limited by depressed domestic demand, decelerated rapidly in the final quarter, to a level of around an annual 25% (3.6% in 2001). This change took place in the context of substantial deterioration in real wages (more than 10%) and a sudden increase in the unemployment rate, which with a considerable loss of jobs, reached a historic maximum in the third quarter of almost one fifth of the economically active population.

In other areas, the expected turnabout in the external current account did occur, but this was due to the drop in imports of goods and services, as exports continued to fall. The increase in traditional exports was not sufficient to counteract the substantial decline in sales of non-traditional goods, so that exports of goods contracted by 10%. The increase in traditional exports was mainly due to the expansion of beef sales, after their paralysis in the previous year following the outbreak of foot-and-mouth disease.

Non-traditional products, on the other hand, in the context of the stagnation of domestic credit and still with a low level of international competitiveness despite the considerable depreciation of the peso (the currencies of neighbouring countries also depreciated substantially), continued to fall steeply. In particular, demand from Argentina collapsed 65%. The devaluation of the Uruguayan currency, however, together with the sudden fall in domestic demand, caused an even greater fall in imports, which slumped by 30%.

Lastly, the decline in public income kept the fiscal deficit above the expected level, as there was continued resistance to going below the level of 4% recorded in recent years. Nominal expenditure was maintained, which brought a sizeable reduction in disbursements in real terms. Nevertheless, the banking crisis affected the private sector with immediate consequence on tax collection, which fell dramatically. In a vicious circle, the public sector postponed payment to private creditors, which then aggravated the decline in the level of activity, the delay in tax payments and the financial restriction. The persistent public sector deficit and the external account surplus showed that the private sector continued to make significant adjustments.

The economic and financial situation in Uruguay towards the end of the year showed a certain improvement. In October there was an increase in bank deposits for the first time during the year. The dollar exchange rate slowed down significantly after its rapid ascent in the third quarter, which was a pattern similar to that observed for domestic prices. There was still uncertainty, however, as to how the subregional situation would develop, taking into account the forthcoming changes of government in Argentina and Brazil, while in the following year there would be an heavy schedule for foreign debt service payments. At the end of November the banks suspended at the time of the bank closure in July had still not been able to reopen, which meant a postponement of two loan instalments agreed with the IMF while severe credit restrictions were maintained.

# Venezuela

The Venezuelan economy became caught up in a serious political and economic crisis in 2002, as a result of which GDP declined by 7% and inflation rose. The rate of inflation measured by the consumer price index was 30%, compared with 12.3% in 2001, while wholesale prices increased by around 50%. GDP contracted in the first semester, then experienced a slight upturn in the third quarter. Petroleum activity slipped further than the non-petroleum sector and investment plunged. In the external sector, the current-account surplus was twice the figure recorded in 2001, thanks to an upswing in the value of exports in the second semester and a large decline in imports as economic activity contracted. The fiscal deficit remained around 4% of GDP in 2002, which was still a considerable figure given the relatively high oil prices. This was attributable to the government's procyclical fiscal policy, which entails taking advantage of favourable crude oil prices to increase spending, but which forces adjustments on a large scale when the price of crude declines and the fiscal deficit widens dangerously.

An increasingly complicated political situation was largely to blame for the woes of the Venezuelan economy, with a number of strikes during the year that hurt productive activity and investment. In combination with the strong appreciation of the bolívar seen in recent years, the political crisis also helped to trigger a large outflow of capital. In these straitened circumstances, the Central Bank of Venezuela (BCV) was forced to allow the bolívar to float freely in February 2002. Until then the nominal exchange rate had been kept within a systems of bands set by BCV, but serious exchange-rate and fiscal disequilibria –which had already been mounting– sharpened in late 2001 and early 2002.

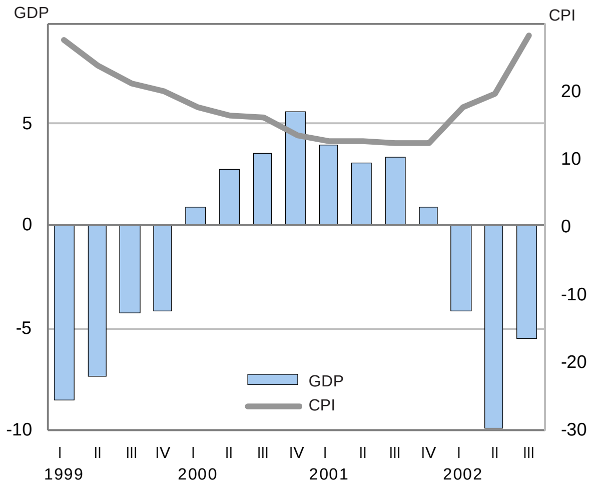
As part of the effort to halt currency depreciation, the authorities drew on international reserves, which declined form US$ 20 billion to US$ 15 billion in the early months of 2002. BCV then raised interest rates sharply, which helped to recoup reserves but also dampened the incipient economic upturn.

With the new exchange-rate system, the price of the dollar initially surged by 40% and went on to rise by a total of 70% in the year overall, from 763 bolívares at the end of December 2001 to about 1,300 bolívares a year later. The highest dollar price was recorded in September, when it peaked at 1,500 bolívares. Towards the end of the year there was a slight decrease in the nominal exchange rate, which was a reflection of an increase in the value of exports as the petroleum price rose. Currency depreciation helped to boost fiscal revenues, which meant that the deficit, though still sizeable, was narrower than had been envisaged early in the year. The proceeds of debt issues were not enough to cover the government's spending commitments, and the deficit was financed by means of a drawdown of funds from the Macroeconomic Stabilization Fund (MSF), among other measures.

The petroleum sector experienced the sharpest contraction in economic activity in 2002, with a heavy decline in the second quarter (down 12% from the preceding quarter). Petroleum activity declined throughout 2001 and the first quarter of 2002 because of the quota reductions negotiated with OPEC. This was

**VENEZUELA: GROSS DOMESTIC PRODUCT AND INFLATION**

*(Percentage variation)*




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

**VENEZUELA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 3.8 | 2.9 | -7.0 |
| Consumer prices | 13.4 | 12.3 | 30.7 [b] |
| Wages | ... | 4.0 | -7.6 [c] |
| Money (M1) | 31.5 | 13.2 | 8.0 [b] |
| Real effective exchange rate [d] | -2.3 | -4.8 | 29.5 [e] |
| Terms of trade | 47.0 | -16.2 | 4.0 |
| **Average annual percentages** | | | |
| Unemployment rate | 14.0 | 13.4 | 15.8 [f] |
| Central government fiscal balance/GDP | -1.6 | -4.3 | -4.5 |
| Real deposit rate | 3.2 | 2.9 | -5.4 [g] |
| Real lending rate | 11.2 | 9.0 | 0.5 [g] |
| **Millions of dollars** | | | |
| Exports of goods and services | 34,394 | 28,296 | 28,760 |
| Imports of goods and services | 19,868 | 21,775 | 16,628 |
| Current account | 13 112 | 4 365 | 8 672 |
| Capital and financial account | -7,294 | -6,435 | -10,672 |
| Overall balance | 5,818 | -2,070 | -2,000 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Estimate based on average January-September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average January-October.
[f] To the third quarter.
[g] Average January-September, annualized.

exacerbated in the second and the fourth quarters by a downturn in activity on the part of PDVSA, the state-owned oil company, which reflected the serious events that unfolded during the month of April and the strike in December. By contrast, in the third quarter PDVSA production posted an upturn and the output of private firms and petroleum refineries expanded. Economic activity in general picked up in the third quarter, on the back of the upswing in the petroleum sector. Nevertheless, Venezuela fell short of the OPEC targets for the second semester, as production decreased because of the depletion of a number of oil fields and a lack of investment in new ones, in combination with labour conflicts within PDVSA.

The increase in inflation in 2002 was chiefly the result of the devaluation of the bolívar. Imported goods account for a high proportion of total consumption and of intermediate goods, which tends to translate into large price rises. In addition, unemployment rose sharply, from an average rate of 13.4% in 2001 to 15.9% in 2002. The increase in unemployment would have been sharper but for the government's decision to extend a firing freeze applicable to public- and private-sector workers earning up to 633,000 bolívares per month. As well, the obligatory minimum wage for workers in urban areas was increased by 20% and a bonus of three months' wages was announced for public-sector employees.

Total exports declined in 2002, which was attributable to a downturn in petroleum shipments. The value of state petroleum exports trended sharply downwards in the first semester. In the second semester, however, a significant upturn was recorded in the value of exports thanks to an increase of 16.6% in the international price of hydrocarbons and to increased sales of crude petroleum by private firms, as well as a steady rise in the volumes exported by non-petroleum state enterprises, particularly chemicals and base metals. Although overall private-sector non-petroleum exports posted a small decline of 3.5%, there were considerable rises in iron and steel products and in the automotive sector. Imports were down by 24% in 2002, with a sharper fall in the second semester. This large contraction was attributable to currency depreciation and to the downswing in the real economy, which led to lower rates of consumption and investment. The plunge in imports translated into a considerable increase in the trade surplus. The balance-of-payments current account yielded a surplus of US$ 8.7 billion, which was US$ 4.3 billion more than in 2001. The net outflow of capital on all items was even larger, however, at close to US$ 11 billion.

# CENTRAL AMERICA AND MEXICO

## Costa Rica

Despite the adverse international situation, the GDP of the Costa Rican economy grew by 2.8%, which meant an improvement in per capita GDP. The main impetus came from the increase in domestic demand and, to a lesser extent, from a moderate recovery in export earnings. Due to the rapid growth of imports, the deficit on the balance-of-payments current account continued to widen. Despite the higher rate of economic activity, the unemployment rate reached 6.4% and was even higher in urban areas, while labour income lost purchasing power.

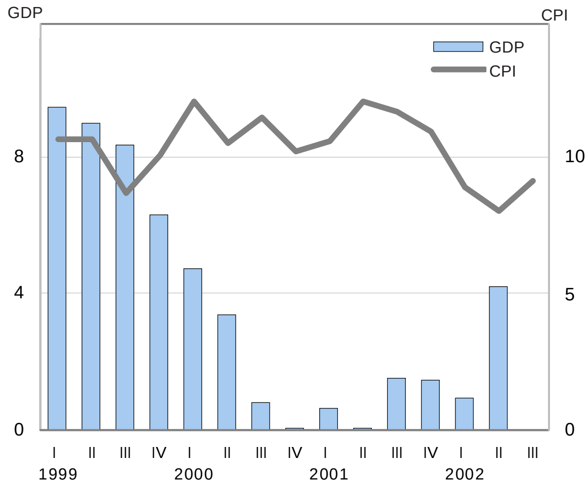
A significant increase in public spending helped to boost the economy, but caused the consolidated public sector deficit to reach 4% of GDP, compared to 1.7% the previous year. Monetary policy, in turn, was moderately restrictive, which caused a slight increase in domestic interest rates, while credit expanded for both the public and private sectors. The inflation rate reached 10% in 2002 and the monthly exchange devaluation policy was continued and, as a result, nominal parity depreciated 11%. The real exchange rate increased slightly, counteracting in part the fall recorded in the two previous years.

It is estimated that economic growth will slow down to 2% in 2003. Domestic demand will weaken in view of the need to moderate fiscal and external imbalances, so the impetus for growth will come mainly from external demand.

The balance-of-payments current-account deficit increased by US$ 905 million, which amount to 5.4% of GDP. Although foreign direct investment was of the order of US$ 424 million, 5% less than in 2001, capital income was US$ 990 million, 32% more than in the previous year. This made it possible to finance the external deficit and even to accumulate net international reserves of around US$ 85 million.

As non-traditional agricultural products and sales in the free trade zones performed well, merchandise exports grew by 6%. This was a positive result in an adverse international context, especially in view of the continuing weak level of demand from the United States,

**COSTA RICA: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

the main market for such merchandise. In contrast, sales of traditional agricultural products declined, despite the increase in coffee exports, which benefited from the international grain price increase that occurred in the second half of the year. Exports to the Central American Common Market were also down.

Exports of services also rose (2.2%), thanks to the recovery of tourism and activities such as telecommunications, data processing, software production, medical services and electronic betting centres.

Merchandise imports grew rapidly (14%), with the purchase of machinery and equipment and consumer goods, especially durables, showing the highest growth rates.

As a result of the moderate growth in tax income and a relatively lax public spending policy, public finances deteriorated considerably. The central government financial deficit reached 4.3% of GDP (2.9% in 2001), owing to the expansion of total expenditure, which grew by 12% in real terms. The latter represented 18% of GDP, while tax income maintained a coefficient of 13.3%.

At the same time, the authorities proceeded with the strategy of exchanging domestic debt for external debt, in order to reduce its cost, although introducing an exchange risk, placing bonds on the international market for US$250 million. Domestic debt, however, still accounted for two-thirds of total liabilities.

The greater external imbalance and the expansion of the fiscal deficit meant that most of the adjustment was the responsibility of the monetary authority. The issue of monetary control instruments brought an increase in the base lending rate during the first semester, which then stabilized as of July at about 17.5%, 150 basic points above the level in December 2001. Even so, net domestic credit expanded by 17% over the year; while credit to the private sector increased by 23%. Total liquidity increased by 6.9% in real terms in contrast with the reduction of 1.3% in 2001. The cost of monetary intervention for the central bank was high; losses are estimated at approximately 1.5% of GDP. The average daily rate of depreciation was maintained and reached a cumulative annual devaluation of 11%.

With regard to trade policy, free trade agreements with Chile, the Dominican Republic and Canada came into force in 2002. Meanwhile, the negotiations with Panama and Trinidad and Tobago continued, and preparations began for negotiating the agreement between the United States and Central America.

During the year in question there were no new initiatives with regard to the processes of economic and structural reform. Nor is it clear that the current administration would promote a political agenda in that direction.

The expansion of domestic demand brought the greatest stimulus to economic activity, as the recovery in external demand was moderate (exports in 2001 had decreased by 9.2%). Growth in gross fixed capital formation was significant (7.9%), due to both public spending on electricity generation and distribution and telecommunications, and private spending in free trade zones, tourism, commercial construction and business services. At the same time, total consumption increased by 2.8%.

The goods-producing sectors recovered slightly after two consecutive years of contraction. Growth in the manufacturing sector was fundamental (2.2%) owing to the higher level of growth in the free trade zones, including the high-technology industry. In contrast, the agricultural sector decreased by 1% owing to the decline in coffee and banana production, while other agricultural products related to exports –pineapples, flowers, foliage, tubers, mangoes and citrus fruits– have made up for the reduction in traditional products.

Construction contracted (-1%) after a high level of growth in the previous year, as residential construction

**COSTA RICA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual rate of variation** | | | |
| Gross domestic product | 2.2 | 1.0 | 2.8 |
| Consumer prices | 10.2 | 11.0 | 10.0 [b] |
| Real wages [c] | 0.8 | 2.0 | 0.6 |
| Money (M1) | 16.2 | 9.7 | 15.4 [b] |
| Real effective exchange rate [d] | -1.4 | -2.5 | 1.5 [e] |
| Terms of trade | -6.8 | -1.4 | -1.0 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 5.3 | 5.8 | 6.8 |
| Central government fiscal balance/GDP | -3.0 | -2.9 | -4.3 |
| Real deposit rate | 3.3 | 1.0 | 2.4 [f] |
| Real lending rate | 13.7 | 11.9 | 15.9 [f] |
| **Millions of dollars** | | | |
| Exports of goods and services | 7,748 | 6,820 | 7,158 |
| Imports of goods and services | 7,295 | 6,911 | 7,796 |
| Current account | -707 | -737 | -905 |
| Capital and financial account | 555 | 750 | 990 |
| Overall balance | -152 | 13 | 85 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] Average wages declared by workers covered by social security. In 2002, all wage earners.
[d] A negative rate signifies an appreciation of the currency in real terms.
[e] Average from January to October.
[f] Average from January to September, annualized.

slowed down. Commercial, industrial and services construction, however, grew throughout the year.

Basic services were again among the most dynamic activities, growing by 9.7%, in particular high-value-added telecommunications services, such as cellular telephone services, Internet access, international calls and data transmission. Commerce maintained the rate of growth of the previous year (2.2%). Tourist activities increased slightly, thanks to enhanced domestic spending on such services.

In 2002 the inflation rate (10%) remained in line with the goal of the central bank. Underlying inflation did not show any significant demand pressures that would create a more significant inflationary process.

Real average wages for the employed population were reduced during the year. In July, real average wages had fallen by 1.4%, although the income of wage earners increased marginally (0.6%). The nominal minimum wage increased by 7%, and purchasing power fell by 2.7%. The open unemployment rate went from 6.1% in 2001 to 6.4% in 2002. One significant feature is that urban open unemployment increased, rising from 5.8% to 6.8% of the labour force, while unemployment in rural areas decreased.

# El Salvador

The Salvadoran economy grew by 2.3% in 2002, which was a slight improvement in relation to the 1.9% recorded the previous year. Per capita GDP, however, remained virtually stagnant for the third consecutive year. The factors assisting this moderate recovery included the impetus, although still weak, of United States demand, and the high public investment required to rebuild the infrastructure destroyed by two major earthquakes in early 2001. In contrast, international coffee prices were low for most of the year and oil prices increased, which had a negative impact on the terms of trade. Meanwhile, private investment stagnated, as it was affected by the deterioration in domestic political and social stability.

The results for 2002 were strongly affected by the process of dollarization of the economy and by the continuing inflow of family remittances. In that context, efforts were made to reduce the fiscal deficit by controlling current spending, while application of a domestic debt conversion policy diminished the short-term financial pressures, but considerably increased the level of public external debt. Affected by the lowering of international interest rates, local interest rates diminished significantly, a trend that did not however result in a higher level of demand for credit for investment. At the same time, real salaries deteriorated owing to the freeze on minimum wages that has been in place since 1998.

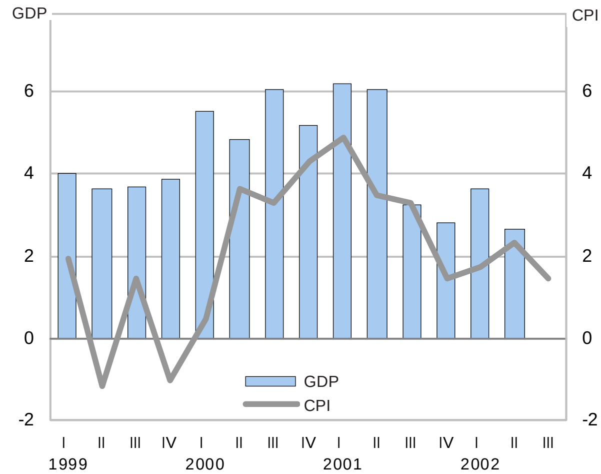
The elections of deputies and mayors scheduled for March and the presidential elections in 2004 have an impact on the economic prospects for 2003, as they will affect investment and government management decisions, as well as the announced fiscal adjustment. The probable onset of negotiations for a free trade treaty between Central America and the United States also has an effect. The official estimates are a 3% increase in GDP, inflation at 2.5% and a public-sector deficit of 1.6% in relation to GDP.

The external sector improved with regard to the previous year thanks to the positive performance of exports, with growth of 2.4%. Non-traditional sales increased by 6.1%. In particular, there were signs of a revival of United States demand for maquila exports, as shipments rose by 5%. In contrast, traditional exports continued their negative trend, with a decline in coffee, sugar and shrimp export earnings. As total imports stagnated, the country's trade deficit diminished to 13.5% of GDP. Although the current account deficit increased slightly, it remained at manageable levels (1.6% of GDP) thanks to income from family remittances of almost US$2 billion, which represented 13.8% of GDP. These resources also made it possible to maintain a level of international reserves equivalent to 4 months of imports.

Progress was made in 2002 in controlling the fiscal deficit, while investment expenditure for economic and social infrastructure increased. The non-financial public sector (NFPS) deficit reached 3% of GDP, which was less than in the previous year. The central government deficit went down to 2.7% of GDP. This progress in controlling the fiscal deficit was the result of applying a containment policy for current expenditure, as well as the increase of 10% in tax revenue thanks to the auditing and control plans implemented over the year, which partly compensated for slow economic growth and import stagnation. As a result, the tax burden reached 11.1% of GDP.

**EL SALVADOR: DOMESTIC PRODUCT AND INFLATION**

*(Percentage variation)*




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

External public debt increased by 27.8% compared to the previous year, owing to the aggressive policy of substituting external for internal debt in which the government placed US$1.25 billion in bonds abroad. As a result, external public debt reached US$4.02 billion, equivalent to 28.1% of GDP and internal public debt diminished by 23.7%, making a total of about US$1.64 billion, equivalent to 11.5% of GDP. In net terms, the total public debt increased by around 7%, representing 39.6% of GDP.

The main objective of monetary policy was to manage the process of dollarization, which was implemented for a second year without major obstacles, helping to reduce the country risk and reinforce financial stability. Thanks to dollarization and the significant lowering of international interest rates, local rates declined significantly. The average lending rate for one-year loans was at 7.2%, while the average deposit rate for 180-day deposits reached 3.4% (the rates reported by the IMF are even less: 5.2% and 1.4%, respectively). This reduction in interest rates did not, however, result in a higher level of credit for the private sector or in a higher level of investment.

With regard to trade policy, preparations were made for negotiations for the free trade agreement between Central America and the United States. El Salvador's international re-integration strategy is based on trade and migration flows with the United States, and so the government made the negotiations for the free trade agreement its first priority.

**EL SALVADOR: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 2.1 | 1.9 | 2.3 |
| Consumer prices | 4.3 | 1.4 | 1.4 [b] |
| Real effective exchange rate [c] | -0.6 | -0.3 | 0.4 [d] |
| Terms of trade | -4.8 | -3.1 | -0.8 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 6.5 | 7.0 | 7.1 [e] |
| Central government fiscal balance/GDP | -2.3 | -3.6 | -2.7 |
| Real deposit rate | 3.7 | 4.6 | 1.4 [f] |
| Real lending rate | 8.1 | 8.7 | 5.2 [f] |
| **Millions of dollars** | | | |
| Exports of goods and services | 3,662 | 3,977 | 3,870 |
| Imports of goods and services | 5,636 | 5,892 | 5,814 |
| Current account | -431 | -177 | -238 |
| Capital and financial account | 385 | -1 | 208 |
| Overall balance | -46 | -178 | -30 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Average from January to October.
[e] First three quarters.
[f] Average from January to September, annualized.

The expansion of activity was moderate again, which shows the difficulties facing the Salvadoran economy in its effort to return to the high growth levels recorded in the first five years of the 1990s. Domestic demand showed a slight recovery of 1.4%, which was driven by public investment spending, as overall consumption was slack and external demand was down. The most dynamic sectors were construction, which increased by 6.2%, as well as basic services for electricity, gas and water, which grew by 5.6%. Manufacturing industry increased by 3.4%, while the agricultural sector (1%) recovered from the fall of the previous year.

El Salvador continued to have one of the lowest inflation rates in Latin America and the Caribbean. In November the inter-annual rate of inflation was 1.4%. This behaviour is associated with the process of dollarization of the economy, as well as the availability of a sufficient supply of dollars that made it possible to overcome sectoral bottle-necks by means of imports, together with the positive production of basic foods recorded over the year.

As in previous years, official minimum wages for the agricultural, industrial, trade and services sectors did not change in nominal terms, which meant a reduction in real terms for the fifth consecutive year.

## Guatemala

Despite a recovery in the second semester, economic growth in Guatemala slowed down for the fourth consecutive year. GDP expanded by 1.9%, somewhat less than in the previous year (2.4%). This performance is associated with the sluggishness of the world economy, together with the drop in internal investment and implementation of the stabilization programme. The latter made it possible to reduce the central government deficit to 1.1% of GDP (2.0% in the previous year) and reduce inflation to 6.6%, compared to 8.9% in 2001. The low level of external demand and the real exchange rate appreciation brought a significant increase in the trade deficit, but in view of the extraordinary growth in international remittances from Guatemalan resident, the current-account deficit reduced slightly.

The main causes of the reduction in inflation and the fiscal deficit included the steady implementation of the stabilization programme agreed with the IMF (signed in March), as well as the implementation of the fiscal reform approved in the previous year. If there is a an improvement in the international economy and fiscal discipline is maintained –in particular, if the pressures to increase public spending that are typical of presidential election periods can be contained– it is estimated that growth could be of the order of 2.7% in 2003, with annual inflation of 5% and a current-account deficit of 5% of GDP. One condition for achieving these goals would be to avoid a real appreciation in the quetzal.

One significant development in 2002 was the stagnation of the external market, especially in Central America, together with the real exchange rate appreciation (6.7% in twelve months). The trade deficit widened by more than 20%, in view of a fall in exports (-4%) and an increase in imports (7%). Sales to Central America were down (-13.7%) and sales to the rest of the world showed a small increase (1.7%). Traditional exports stagnated (0.8%), still affected by low international prices; the fall in coffee (-12.7%) could not be offset by the increases in cardamom (28.9%), bananas (5.9%) and sugar (2.5%). Non-traditional exports expanded gradually (2.8%). There were sales increases only for oil (50%, owing mainly to price increases), natural rubber (26%) and sesame (26%). Maquila activities continued to slow down, with growth of only 2%.

Imports expanded owing to the significant increase in purchases from the rest of the world (11%), which more than counteracted the strong contraction in those from Central America (-17%). There was an increase in purchases of capital goods for industry (23%), with a significant component of equipment for construction and for energy generation. In contrast, imports of consumer goods slowed down (7%), as did those of intermediate goods (3%), and fuel and lubricant purchases declined (-13%).

The substantial increase in net income from current transfers (70%) exceeded the increase in the trade and income deficits, so that the current account deficit was slightly reduced. The high level of capital income –mostly short term, as direct investment was down– limited the reduction in international reserves to only US$75 million, leaving its estimated balance at the end of the year at US$2.275 billion, which is within the limit specified in the stabilization programme.

In April a drawing rights agreement with the IMF entered into force, valid for twelve months, in order to support a macroeconomic stabilization programme. The initial goals for 2002 included: 2.3% economic growth, 4-6% annual inflation; reducing the fiscal deficit to 1.5% of GDP –but maintaining social expenditure above 5% of GDP– and limiting the fall in reserves to US$210 million. The agreements provided for potential access to 84 million special drawing rights (US$105 million) from the IMF, and to additional resources from the IDB and the World Bank. Economic policy conformed to that programme and it is estimated that the monetary/fiscal goals will be achieved, but with slightly higher inflation and lower growth.

A central element in the fiscal reorganization was the increase in tax revenue (21%) –31% for direct taxes– as a result of the greater effort against evasion and application of the fiscal reform approved in 2001, which increased the rate of VAT by two points (to 12%), established a special tax on business assets, and increased other levies. It is expected that the fiscal burden will reach 10.7% of GDP (one point higher than 2001). Non-tax revenue fell by 24% following settlement of the interest due on the final payment by the telephone company. Nominal current expenditure rose by 3%, that is, they fell in real terms (-3%). The increase in capital expenditure (14%) was due in part to the need to make payments in respect of previous years. The central government deficit is estimated at

**GUATEMALA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rate** | | | |
| Gross domestic product | 3.4 | 2.4 | 1.9 |
| Consumer prices | 5.1 | 8.9 | 6.3 [b] |
| Money (M1) | 20.4 | 7.8 | 6.3 [c] |
| Real effective exchange rate [d] | 1.6 | - 3.7 | -6.7 [e] |
| Terms of trade | - 2.9 | - 2.1 | - 1.4 |
| **Average annual percentages** | | | |
| Central government fiscal balance/GDP | -1.9 | -2.0 | -1.1 |
| Real deposit rate | 3.9 | -0.1 | 1.8 [f] |
| Real lending rate | 14.0 | 9.3 | 11.2 [f] |
| **Millions of dollars** | | | |
| Exports of goods and services | 3,860 | 3,896 | 3,809 |
| Imports of goods and services | 5,568 | 6,040 | 6,441 |
| Current account | -1,049 | -1,238 | -1,202 |
| Capital and financial account | 1,703 | 1,712 | 1,128 |
| Overall balance | 654 | 474 | -75 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] Variation from September 2001 to September 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average from January to October.
[f] Average from January to September, annualized.

1.1% of GDP (compared to 2.0% in 2001). Quasi-fiscal losses (0.5% of GDP) increased the consolidated deficit to 1.6% of GDP, one point lower than in 2001).

External capital was very important for financing the public sector. In fact, in net terms the internal debt was covered using part of the resources obtained with a sovereign bond placement for US$325 million in 2001. The active intervention of the Central Bank in open market operations limited the annual rate of monetary expansion to 8% (15% in 2001) and broad money (M3) to 11% (17% in 2001) while the rediscount rate fell below 1%. In contrast, real lending rates rose by one point (9.8%), which helped to maintain the restriction on credit to the private sector.

At the end of the year, Congress approved a bond flotation for US$700 million. The resources will, provisionally, be used to assist with certain commitments made in the Peace Accords (including demobilisation of the army and industrial conversion of its lands) and to restructure public debt and support the reorganization of the financial sector.

Despite the fact that gross fixed capital formation in the private sector rose by 6.8% –interrupting the fall reported in the previous year– economic growth was not higher than in 2001 in view of the poor export performance, the reduction in inventory accumulation (-4.6%) and the slowdown in public spending. Consumption grew by 3.6%, almost the same as the previous year.

Goods production scarcely expanded (1.2%), owing to the slow growth of the agricultural sector (1.4%) and of manufacturing (0.7%). In contrast, electricity, gas and water services grew at a higher level (3.2%), owing to the increased production for domestic consumption and for exporting energy to El Salvador. The transport and communications sector reported the highest growth (4.3%), owing in part to the transformation of the telephone industry, stimulated to some extent by privatization.

The information available does not give exact information on changes in employment. The limited recovery in the economy however, the decline in rural activity, and the slow performance of manufacturing and the maquila industry suggest that formal job creation is not responding adequately to employment needs. Minimum wages show, on average, a nominal increase of 9% (3% in real terms).

The increase in the consumer price index was close to the inflation goal of the government programme, and several points below the level recorded in 2001. This reduction of inflationary pressures reflects the greater level of fiscal and monetary discipline, the gradual elimination of the one-time impact of the VAT rate increase on price levels and also to some extent the impact of the exchange-rate appreciation.

# Honduras

Low growth was once again the dominant feature of Honduras's economic performance in 2002. GDP grew by 2% and per capita GDP declined by 0.6%, compared with flat growth in per capita GDP in 2001.

Having recovered from the damage caused by Hurricane Mitch, the export sector remained virtually static. Slow growth in the world economy, the prolongation of the crisis in the coffee sector and the slump in the international prices of some of the country's primary exports depressed production, pushing up unemployment and discouraging gross fixed investment. As in the preceding year, the agricultural sector accounted for much of the downward adjustment in economic growth. The maquila industry recorded one of its lowest annual growth rates, while some service activities also suffered a slowdown.

Notwithstanding the low rate of growth, the performance of the main financial variables fulfilled the objectives for stability set out in the Central Bank's monetary programme. Remittances from nationals resident abroad were once again the mainstay of the economy as a whole.

The current-account deficit stood at US$ 262 million or US$ 64 million less than in 2001. A 3.1% contraction in exports was attributable to the weakness of external demand (which affected, in particular, the maquila industry) and to the low international prices for some primary products. Imports declined by 4.1%, basically as a result of the slowdown in the domestic economy and the reduction in investments.

Transfers and foreign direct investment (FDI) were used to finance the trade deficit. In the first case, the substantial component turned out to be the amount remitted by Honduran workers in the United States totalling just over US$ 600 million. In the second case, FDI flows, although down by 8%, continued to be an important source of financing.

As in the preceding years, the Central Bank's international reserves closed the year in a sound position having recorded an annual gain of approximately US$ 260 million.

The 2002 fiscal deficit amounted to 5.2% of GDP, which was slightly higher than projected by authorities, but almost one third lower than in 2001. This was due mainly to the low level of execution of scheduled public investment spending. On taking up office in January, the new Government restructured the budget, which delayed the disbursements of funds to the public sector for capital expenditure for almost the entire year, thereby contributing to a sharper fall in aggregate demand.

As has been the case for the past five years, the central government deficit was financed almost totally through external financing (loans and grants) Tax revenue was lower than budgeted and annual growth in this revenue (5.1%) did not keep pace with inflation. The modest yield from both direct and indirect taxation is attributable to the decline in economic activity and the benefits granted to taxpayers who, for different reasons, have not complied with their tax obligations. Total central government revenue represented 17.5% of GDP (seven decimal points less than in 2001).

Total government spending was equivalent to 22.7% of GDP (against 25.5% a year earlier). Recurrent items in the budget continued to be the most dynamic component of government spending, representing almost 75% of total spending in 2002, or six percentage points

**HONDURAS: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 4.8 | 2.7 | 2.0 |
| Consumer prices | 10.1 | 8.8 | 7.7 [b] |
| Money (M1) | 4.7 | 5.2 | 13.5 [c] |
| Real effective exchange rate [d] | -4.3 | -3.1 | 0.3 [e] |
| Terms of trade | -5.8 | -2.2 | -2.8 |
| **Average annual percentages** | | | |
| Urban unemployment rate | ... | 5.9 | 6.2 |
| Central government fiscal balance/GDP | -5.9 | -7.3 | -5.2 |
| Real deposit rate | 4.9 | 5.8 | 5.1 [f] |
| Real lending rate | 14.7 | 14.4 | 13.3 [f] |
| **Millions of dollars** | | | |
| Exports of goods and services | 2,464 | 2,447 | 2,371 |
| Imports of goods and services | 3,318 | 3,498 | 3,315 |
| Current account | -258 | -326 | -262 |
| Capital and financial account | 191 | 342 | 386 |
| Overall balance | -66 | 16 | 124 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] Percentage change September 2001-September 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average for January to October.
[f] Average January to September, annualized.

more than in 2001. By contrast, and owing in large measure to problems with efficiency in their management (budget restructuring continued until May and public bids take around seven months), investment spending contracted sharply, diminishing by 20% with respect to the previous year.

The exchange rate policy remained unchanged. The reference price for the lempira against the dollar rose by 5.8% in 2002, a rate which is somewhat higher than in previous years. However, there is still a lag compared with international inflation.

Further steps were taken towards the establishment of a customs union in Central America, which is expected to enter into force towards the end of 2003; in addition, a mechanism for the exchange of information with the United States was established with a view to the negotiation of a free trade agreement with that country.

The money supply grew as the expansion in net international reserves was greater than the increase in public-sector deposits at the Central Bank. As in previous years, registered securities were issued to absorb the excess liquidity. In 2002, the preference for financial placements in foreign currency was again very pronounced, recording an inter-annual expansion of more than 10%, compared with zero growth in local currency deposits.

Bank credit to the private sector stagnated in the first three quarters, reviving towards the end of the year. In real terms, the amount of resources from this source of financing contracted by almost 2.4%.

The costs of bank financing declined slightly. Although weighted average interest rates decreased slightly in the course of the year, financial intermediation spreads remained at the high levels recorded in the preceding years (around 11.7%).

The National Banking and Insurance Commission intervened to bail out two banking institutions with solvency problems, declaring shareholders' shares to be devoid of value and investing a total of 478 million lempiras (equivalent to close to 7% of the "current account" deposits in the financial system).

In 2002, the interim period of the Highly Indebted Poor Countries (HIPC) Debt Initiative came to an end, leaving Honduras to await the final phase, which is contingent on the agreement being negotiated with IMF.

The total external debt balance stood at US$ 4.7 billion, slightly less (-1.8%) than in the previous year.

GDP growth was expected to amount to 3%, but only reached 2% owing mainly to the slowdown in agricultural and manufacturing activity.

The agricultural sector, which accounts for one fifth of GDP and employs more than one third of the economically active population, saw a deepening of the recession started a year earlier and a decline in its real growth rate of almost one percentage point. This situation reflects the chronic crisis in the coffee sector as well as the downtrend in the international price and demand for other important agricultural items and the financial problems being experienced by a significant percentage of farmers. The production of basic grains, for their part, showed an improvement over 2001.

Manufacturing output showed a marked downturn (2.2% against an average of 5.4% in the previous biennium). This result was due mainly to the reduction in international demand and the stagnation in private investment. Growth in the maquila industry, which plays a leading role in industry trends, hit one of its lowest levels ever (around 2%).

The 7.6% inflation rate posted for 2002 was within the range established by the country's monetary authorities. This achievement was made possible by two factors: the general decline in economic activity and the expansion in the supply of basic grains.

The average minimum wage showed a nominal increase of 13% (three points less than in 2001). After adjustment for inflation, this was equivalent to an increase of 5.3% in its purchasing power.

The open urban unemployment rate was 6.2%, somewhat higher than that of the previous year, while the rates of visible and invisible underemployment stood at 3.9% and 36.2%, respectively, reflecting a deterioration with respect to 2001.

# Mexico

In 2002 the Mexican economy grew by just 1.2%, which was well below the government's target. This rate reflected the virtual stagnation of production for the second year in a row and the negative effects that this had on per capita income. Contributing factors included slack United States demand –which had been the main driver of the economy in recent years– combined with a tight, procyclical economic policy and a lacklustre performance by the domestic market.

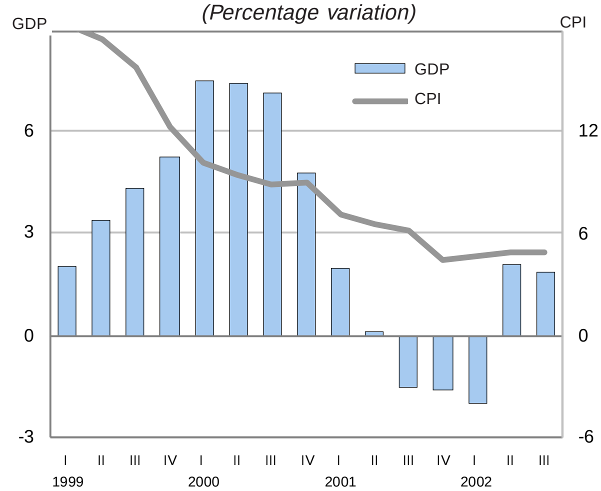
An increase in real wages –albeit at a lower rate than in recent years– together with non-bank financing schemes served to buoy private consumption, which nevertheless performed only modestly, while investment declined. The adverse international conditions contributed to the volatility of the foreign-exchange and money markets, which was partly to blame for the nominal depreciation of the peso after almost 18 months of steady appreciation. In combination with the effects of poor weather conditions on the prices of several foodstuffs, the currency depreciation contributed to increase inflation to a yearly rate of over 5%, which was one percentage point in excess of the official target.

The balance-of-payments current account deficit (2.4% of GDP) came in below target due to a lower goods trade deficit and increased remittances from abroad, among other factors. Disciplined management of public finances kept the public-sector deficit in line with the target set at the start of the year.

According to the government's targets for 2003 GDP growth should reach 3%, with projected inflation of around 3% and a fiscal deficit of 0.5% of GDP.

The performance of external trade reflected the weak expansion of external and domestic demand. Exports and imports stagnated and generated a lower current-account deficit than in 2001, which was financed with long-term resources from the private sector. Manufacturing activity accounted for over 90% of total exports, half of which corresponded to the *maquila* sector.

**MEXICO: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

Petroleum exports benefited from the rise in international prices, manufacturing exports stood still as *maquila* activity picked up only sluggishly and agricultural exports declined. The downturn in domestic investment generated a steep decline in capital goods imports. Intermediate goods imports remained unchanged from the previous year, in line with economic activity in general. Imports of consumer goods, however, rose by 6%. Mexico's trade continued to rely heavily on the United States, which accounted for 89% of its exports and 65% of imports. Remittances from Mexicans residing abroad were about US$ 9 billion, which was equivalent to 80% of petroleum exports.

Foreign direct investment was close to US$ 13.5 billion in 2002. This was a little more than half the figure recorded in 2001, but much the same if the 2001 sale of Banamex is excluded from the calculations. Over a third of investment went to manufacturing and another third went to the financial sector. The United States was the main source of revenues, accounting for around 80% of total foreign investment.

Despite the lower rate of GDP growth and episodes of financial and exchange-rate volatility during the year, public finances stayed within the fiscal target. The deficit was 0.7% of GDP, and 2.9% including the cost of financial rehabilitation operations, but this was still smaller than the deficit of 3.2% allowed in the economic programme for the year.

Non-petroleum tax receipts were less than 10% of GDP, as the fiscal measures implemented failed to generate the anticipated increase in resources. The lower fiscal revenues were offset by a rise in electricity and gasoline prices, together with additional resources provided by higher international prices of petroleum, even though the volume exported was lower than expected. The constraints on federal government revenues also translated into an estimated 9% decline in federal contributions to states and municipalities. An iron fiscal discipline was the hallmark of public spending in 2002, but the Executive's structural reforms failed to negotiate Congress successfully.

Total public debt represented 25% of GDP, 1.6 points more than in 2001, while external debt increased by 0.7 GDP percentage points to reach 12.5%, which was entirely attributable to the depreciation of the peso. Domestic debt rose by 0.9 points, also to 12.5%. The main source of external financing, which amounted to US$ 9.4 billion, was the issuance of bonds on the international market, in the amount of US$ 4.066 billion. Debt payments amounted to US$ 16 billion, including advance payments.

Although monetary policy in 2002 was geared towards ensuring price stability, the inflation target was overshot slightly. An inflation rate of 3% is projected for 2003, in order to converge with the rates in the United States and Canada. The economic downturn in early 2002 led to a loosening of monetary policy in April, but as exchange-rate volatility and interest rates appeared to threaten its grip on inflation, the central bank tightened monetary policy by expanding its liquidity control mechanism (the "corto") –the amount of funds borrowed by banks from the central bank at above-market rates– from the daily rate of 300 million pesos set in April to 400 million in September and 475 million in December. Interest rates decreased from an average of 11.3% in 2001 to around 8.5% in 2002. The Mexican stock exchange also experienced a number of fluctuations with an overall downward trend in line with the performance of the New York stock exchange.

Commercial bank credit to the non-bank private sector declined in real terms for the eighth year running (to September it was down by 7.7% with respect to the same month of 2001). Mortgage loans and credit to firms and self-employed people were also down, but consumer loans expanded at an annual rate of 36%.

In the framework of the floating currency scheme, which has been in place since 1995, the peso depreciated in real terms for the first time since 1998. This was due to several –albeit short-lived– speculative attacks during

**MEXICO: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 6.8 | -0.4 | 1.2 |
| Consumer prices | 9.0 | 4.4 | 5.4 [b] |
| Real wages [c] | 6.1 | 6.6 | 1.4 [d] |
| Money (M1) | 15.4 | 20.5 | 12.6 [e] |
| Real effective exchange rate [f] | -7.4 | -6.0 | -1.6 [g] |
| Terms of trade | 5.0 | -0.1 | 1.8 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 2.2 | 2.5 | 2.8 [h] |
| Central government fiscal balance/GDP | -1.3 | -0.7 | -0.7 |
| Real deposit rate | -1.7 | 0.0 | -1.7 [i] |
| Real lending rate | 9.4 | 8.6 | 4.3 [i] |
| **Millions of dollars** | | | |
| Exports of goods and services | 180,167 | 171,103 | 172,527 |
| Imports of goods and services | 190,494 | 184,614 | 183,854 |
| Current account | -18,160 | -18,002 | -15,000 |
| Capital and financial account | 25,269 | 25,327 | 19,600 |
| Overall balance | 7,110 | 7,325 | 4,600 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Manufacturing.
[d] Estimate based on average January-September.
[e] Variation between October 2001 and October 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average January-October.
[h] Estimate based on average January-October.
[i] Average January-September, annualized.

the year. The depreciation stimulated exports, but also exerted pressure on domestic prices.

There was virtually no progress on structural reforms in 2002, owing to dissent between the executive and legislative bodies. After being discussed in Congress in late 2001, the Executive's proposal on integrated fiscal reform translated into an assortment of measures which were ultimately too limited to boost receipts and which, moreover, came up against an tough economic environment, while others –such as the implementation of the luxury goods tax– were repealed. The state of public finances therefore remained fragile and continued to depend perilously on petroleum income. Other major reforms that were still to be sent to or approved by Congress referred to energy, telecommunications and labour.

After stagnating in the first semester, economic activity posted a modest gain in the second, averaging a rate of 1.2% for the year overall. Consumption rose slightly and investment slid by 1.7% between January and September, with a standstill or decline in all the sectors. Commerce, restaurants and hotels, manufacturing and mining all shrank in real terms, while agriculture and services recorded an upswing.

Private consumption of durable goods continued to increase, chiefly on the back of schemes offered by banks and non-bank institutions (such as department and self-service stores and automobile distributors) which enabled consumers to take advantage of the lower rates of interest. During the period January-October domestic automobile sales expanded by 9%, while export production declined by 2.8%.

The total number of employed persons covered by the Mexican Social Security Institute (IMSS) continued to decrease, and the number of jobs created was barely a fourth of the volume required to absorb the labour supply, which is expanding by 1.2 million people per year. Employment and hours worked in the *maquila* industry declined, which was a reflection of slack external demand, and the informal sector apparently continued to absorb a large volume of labour, since the rate of open unemployment barely increased, from 2.5% in 2001 to 2.8% in 2002.

The upward trend in real wages continued, however. In combination with the lower rate of economic activity, this implies a fresh rise in unit labour costs. Contractual wages, excluding productivity bonuses, posted an average nominal increase of around 6.5%. This represented real wage growth in most of the sectors of production, which came in addition to the rise recorded in 2001.

# Nicaragua

The Nicaraguan economy slowed down for the third consecutive year. Real GDP grew by 0.5% in 2002, two and a half percentage points less than the previous year. This translated into a reduction in the per capita product (-2.1%) and an increase in the unemployment rate to 12.9%. The lower rate of growth is associated with a deterioration in the terms of trade, the slow recovery of the economy and world trade, and the fiscal adjustment process, which mainly affected investment expenditure.

One of the contributing factors in this unfavourable economic performance was the political uncertainty created by the lack of parliamentary support for the Executive's proposals. This caused a deterioration in the investment climate and not only delayed the signature of a new agreement with IMF, but also access to external assistance flows. Despite the fact that the internal and external imbalances were still very high, inflation remained low and the devaluation rate was maintained (6%). In the external sector, the current account deficit was reduced. The reduction in net capital income, however, caused a larger deficit in the balance of payments and losses of international reserves.

The slow pace of economic activity brought about a reduction in the current-account deficit, from 38% of GDP in 2001 to 33% in 2002. The lower level of external imbalance was the result of the contraction of the trade deficit, the reduction in payments for interest, profits and dividends, and the increase in current transfers, especially family remittances.

The goods trade deficit diminished by almost 5% in 2002, yet remained very high. Imports were down by 3%, while exports declined 1%, including those of companies operating in the export-processing zones. The decline in exports was largely due to the reduction in sales of traditional products (16%), caused by the fall in coffee and shellfish exports. The value of imports went down owing to the fall in external purchases of intermediate and consumer goods, a result of the slowdown in activity and the lower growth rate of domestic demand. In contrast, imports of capital goods showed an increase (3.3%), reflecting the improved expectations of growth in the last two months of the year, which meant that the coefficient of gross fixed capital formation increased by one percentage point in relation to GDP.

In view of the acute external and financial vulnerability of the country, macroeconomic policy was austere in tone. The main objectives of the measures adopted were to reduce the fiscal deficit and to accumulate international reserves in order to achieve a gradual reduction in domestic public debt.

In the course of the year a tax reform law was approved with the aim of expanding the tax base by reducing exemptions and special regimes, reducing the regressive nature of the tax structure and combating tax evasion. At the same time, adjustments were made to make budget expenditure compatible with resource availability and with the poverty reduction strategy. At the end of the year, it is estimated that the current savings of the non-financial public sector (NFPS) increased from 0.6% to 2.9% of GDP, owing to the greater dynamism of fiscal revenues and the moderate increase in current expenditure, mainly due to wage increases. In this context, the anticipated reduction in the overall NFPS deficit from 16.1% to 9.4% of GDP is based on the contraction in public investment.

Monetary policy remained restrictive, thus slightly reinforcing the contraction in the fiscal area. The central bank maintained the legal reserve requirement at 19.25%, continuing the interest-bearing increase of three percentage points introduced in September 2001. The

**NICARAGUA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 6.4 | 3.0 | 0.5 |
| Consumer prices | 9.9 | 4.7 | 4.2 [b] |
| Real wages | 1.6 | 4.3 | 5.4 [c] |
| Money (M1) | 6.4 | 17.6 | 3.5 [d] |
| Real effective exchange rate [e] | -2.0 | 0.8 | 3.3 |
| Terms of trade | -4.7 | -8.3 | -0.5 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 9.8 | 10.7 | 12.9 [f] |
| Central government fiscal balance/GDP | -7.8 | -11.5 | -9.0 |
| Real deposit rate | -0.2 | 4.8 | 2.8 [g] |
| Real lending rate | 10.7 | 18.1 | 17.6 |
| **Millions of dollars** | | | |
| Exports of goods and services | 956 | 919 | 906 |
| Imports of goods and services | 1,991 | 1,982 | 1,923 |
| Current account | -917 | -976 | -837 |
| Capital and financial account | 717 | 710 | 561 |
| Overall balance | -199 | -266 | -275 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from October 2001 to October 2002.
[c] Average from January to July.
[d] Variation from October 2001 to October 2002.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Official estimates.
[g] Average from January to September, annualized.

higher level of savings by the government and public enterprises and the lower level of fiscal pressure, however, facilitated the management of monetary policy. The balance of credit provided to the NFPS by the financial system, which had increased by 30% in 2001, contracted by 1% in 2002, which made it possible to increase credit to the private sector, maintain an adequate level of total liquidity and to redeem more indexed debt securities than were placed.

The dynamism of economic activity was affected by the sluggish external market, the process of fiscal adjustment and the delay in the signing of a new three-year agreement with the IMF. The slowdown was also due to the deterioration of the investment climate associated with the political uncertainty resulting from the disagreements between the Government and the National Assembly.

GDP grew more slowly, which is due both to the contraction in the agricultural sector and the fishing industry and the significant deceleration in construction, as well as to the modest growth in other productive areas. On the demand side, in view of the reduction in exports and public spending, the increase in GDP was due to the expansion of consumption and investment spending in the private sector.

Although basic grains production increased significantly, agricultural production as a whole diminished as a result of the reduction in export crops, especially coffee. The livestock sector was affected by the cut-back in exports of stock on the hoof to Mexico due to marketing difficulties and by the lower level of poultry production. Fishing declined sharply owing to the fall in international shrimp prices and the prohibition on lobster catching, which was announced after excessive exploitation in recent years. Construction slowed down rapidly owing to the severe fiscal adjustment, which significantly reduced public investment. In contrast, production in the manufacturing sector increased at a higher rate than in 2001. Growth, stimulated by a higher level of foreign direct investment and the increased activity in free zones, was mainly concentrated in the areas of foodstuffs, beverages and clothing. Service activities continued to grow at a slower rate. The most significant slowdown was in commerce.

Inflation stood at 4.2% in October 2002, a figure slightly less than the 4.7% recorded at the end of 2001. This slight price increase reflected the declining pressure of demand as the economy lost buoyancy, the restrictive nature of fiscal and monetary policy, the relative abundance of agricultural products and the greater stability of tariffs for basic services.

The 8.8% rise in minimum wages, the salary adjustments in the public sector and the increase in remuneration in certain sectors resulted in a considerable improvement in real average remuneration. The modest level of economic growth, however, led to an increase in the unemployment rate from 10.7% to 12.9%, which was higher than the decline in underemployment and raised the global underemployment rate from 23% to 24.5%.

# Panama

The Panamanian economy remained stagnant for the second consecutive year. GDP grew by scarcely 0.4%, and so per capita GDP again declined. The weakness of the Latin American economies caused a contraction of merchandise re-exports, as well as a meagre performance of international services. Domestic demand lost impetus as investment fell for the third consecutive year, while growth in consumption was moderated. Inflation remained very low, unemployment receded marginally and average real wages diminished slightly. The Assembly's failure to approve the budget caused a stir, but at mid-year the political impasse was resolved in the framework of the National Dialogue, when significant measures for economic recovery were agreed, which are expected to take effect in 2003.

As a result of the sluggishness of economic activity, the balance-of-payments current account deficit was at a level of around 0.9% of GDP. This was helped by the fact that the substantial increase of the traditional surplus in services neutralized the large negative balance of the trade in goods. Minor international bank operations reduced the non-factor services account. At the same time, the flow of direct foreign investment diminished.

Exports of goods fell by 13%, as a result of the adverse performance of re-exports from the Colón Free Zone, and even more because of national exports. The former were affected by the persisting economic weakness of the main South American customers (Venezuela and Colombia). In the case of the latter, both banana and coffee exports reached their lowest level for the past five years. Sales of marine products stagnated, and those of clothing declined.

As for exports of services, the number and spending of passengers in transit increased, port operations continued to grow, although at a lower rate, and income from the Panama Canal rose as a result of toll increases.

The value of imports went down by 2%, as a result of the lesser supply of merchandise from the Colón Free Zone and the reduction (-6%) in imports for the national economy. As a result of the cut-back in aggregate demand, capital goods purchases were reduced, while the acquisition of inputs stagnated.

The fiscal year began with the budget of the previous year, as the Executive's proposal had not been approved by the Assembly. That meant adopting measures to restrain expenditure, which resulted in a slight reduction of the deficit. The framework for managing economic policy however went through important changes as a significant agreement was reached in the context of the National Dialogue. Thus, Law 20 issued in May defined mechanisms for the use of State assets (the Trust Fund and reverted areas of the Canal), for establishing ceilings on debt and fiscal deficit and for anti-cyclical public action, measures which are expected to have an impact in 2003. The discussion on fiscal reform was also revived.

The central government deficit went down from 2.7% to 2.0% of GDP. On the one hand total income increased by a nominal 4.1%, based on the increase in capital income, as current income contracted (1.5%) in practically all areas owing to the economic cooling. At the same time, the interest accrued by the Trust Fund was not collected and the share of profits of state enterprises decreased. Central government expenditure stagnated owing to the brake on investment, as current expenditure increased because of higher interest payments.

The balance of external debt was reduced by US$ 45 million to reach US$ 6.22 billion. In the first

**PANAMA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 2.6 | 0.4 | 0.4 |
| Consumer prices | 0.7 | 0.0 | 1.6 [b] |
| Real effective exchange rate [c] | -0.7 | 2.0 | 0.3 [d] |
| Terms of trade | -5.7 | 0.5 | -1.4 |
| **Average annual percentages** | | | |
| Urban unemployment rate [e] | 15.2 | 17.0 | 16.1 |
| Central government fiscal balance/GDP | -2.2 | -2.7 | -2.0 |
| Real deposit rate | 6.4 | 7.9 | 3.7 [f] |
| Real lending rate | 9.8 | 12.1 | 8.1 [f] |
| **Millions of dollars** | | | |
| Exports of goods and services | 7,820 | 8,010 | 7,800 |
| Imports of goods and services | 8,099 | 7,817 | 7,722 |
| Current account | -716 | -154 | -90 |
| Capital and financial account | 388 | -150 | -40 |
| Overall balance | -328 | -304 | -130 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from October 2001 to October 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Average from January to October.
[e] Includes hidden unemployment.
[f] Average from January to September, annualized.

quarter the operation for re-financing of external debt was completed, with the redemption of US$ 360 million worth of Eurobonds issued in 1998. There was also a local issue for the first time of National Treasury notes with a three-year term to finance public expenditure. With regard to the use of the assets of the Trust Fund (US$1 billion, from earlier privatizations), authorization was granted for their investment in Panamanian global bonds in order to improve the financial yield.

Import tariffs were raised to the consolidated levels of WTO, for coffee, its substitutes and derivatives, and toned milk, except for milk for infants. There was also a tariff reduction for certain packagings and intermediate products. Together with other countries, Panama made a request to WTO for an extension of the deadline (2002) for lifting export subsidies.

Panama concluded its first trade agreement with El Salvador, which allows for a period of up to 10 years to achieve free trade. Also, at the beginning of the year, the Central American presidents signed a common text on the standards for trade in goods and services. After the announcement by the United States concerning the beginning of negotiations for a free trade treaty with Central America, the negotiations with Costa Rica were suspended; nor was progress made with Nicaragua, and there is no specific renewal date for Mexico and Chile. There was an announcement of interest in reaching a free trade agreement with Taiwan.

The supply of goods and services contracted in view of the slow growth in consumption, the cut-back in investment and the continuing weakness of external demand. In almost all areas the level of activity fell. The exceptions were electrical energy production, which grew by 14% owing to increased hydroelectric generation, and government services.

Telecommunications and port operations, especially in the handling of container cargo, continued to grow, but at a lesser rate. Income from the Panama Canal increased although the number of ships in transit declined. In contrast, in the banking sector deposits and credit operations were significantly reduced. International operations contracted in view of the difficulties in the region. Credit to the internal market diminished as a result of the low level of demand, as well as the application of stricter standards for portfolio evaluation, especially in the area of consumption which had shown strong growth in past years.

Agricultural production receded by almost 3%, reflecting external marketing difficulties with bananas and coffee, although there was success with other crops, such as watermelon, melon and pineapple. The livestock industry stagnated.

Manufacturing contracted for the fourth consecutive year (-3.5%), owing to the loss of competitiveness on the national and international market. The construction industry contracted for the second consecutive year (11%) as housing construction diminished, owing to problems in implementing large public projects and prudential measures in bank credit.

The inflation rate rose to 1.6% at the month of October, but was very low compared internationally. This was affected by the unification of urban transport tariffs and the increase in petrol prices. However, there were price reductions for foodstuffs, beverages, footwear, clothing and medicines, and other products. The adjustment to the minimum wage was postponed, while average real wages diminished.

Despite the stagnation of the economy, the national unemployment rate was at 13.2%, compared to 14% in the previous year.

# THE CARIBBEAN

## Barbados

The Barbadian economy registered negative growth (-0.4%) for the second year in a row. Authorities reacted to the slump by stepping up capital expenditures, which led to a widening of the fiscal deficit. The build-up of liquidity in the banking system, created by sluggish demand for credit, helped to finance that gap.

The external sector was also affected by the economic contraction. Revenue from tourism and merchandise exports declined and demand for imports waned. The net result was a marginal widening of the current account deficit. Inasmuch as the external deficit could not be financed by a surplus on the capital and financial account, international reserves fell.

The central government registered a fiscal deficit equivalent to 4.1% of GDP, up slightly from the 3.6% registered in 2001. This outturn was due to an increase in government expenditure and, to a lesser extent, lower inflows. Direct tax revenues slipped as a result of the underperformance of corporate tax receipts; personal income tax receipts were down as well. The underperformance of direct taxes was offset by receipts of indirect taxes, particularly the value added tax and the international trade tax, which expanded 22% –despite the decline in total import value– owing to the adoption of a 60% bound tariff on selected agricultural products.

Capital expenditure projects, mainly ongoing work on infrastructure, ports and transportation facilities, were the main source of the increase in spending. Current expenditures showed only a marginal increase.

The deficit was financed mainly from domestic sources. Net external financing was down in relation to the previous year, as the government did not go to international capital markets and its loan repayments exceeded the project-fund portion of external financing.

Base money expanded by 36%, while the banking system's liabilities to the private sector recorded no growth. The behaviour of monetary aggregates mirrored the slowdown in economic growth and the fiscal stance of the government. In a shrinking economy, overall demand for loans increased only marginally, and the marked absence of attractive alternatives to commercial bank deposits had the effect of inflating these banks' reserves (73%).

This monetary policy strategy had two main effects. First, the accumulation of commercial bank reserves, coupled with an ample stock of government deposits in the central bank, enabled the latter to finance a larger share of the government's budget deficit (70% of the total). Second, by enabling the central bank to mop up excess bank liquidity and obviating the need for new domestic debt issues, the policy stifled interest rate movements that could have put pressure on the fixed exchange rate regime. The weighted average lending interest rate declined marginally, from 10.97% to 10.79%. In December 2002, the monetary authorities decided to lower loan and deposit rates in an effort to reduce the operating costs of businesses and banking institutions.

The shares of GDP contributed by sugar production and manufacturing continued to shrink or remain stagnant in 2002, thus highlighting the growing importance of the services sector (79% of the total), especially those related to tourism. The sugar sector experienced a contraction (-10%) owing to adverse weather conditions and the late start of the harvest season. All other subsectors stagnated.

Tourism shrank by 3% as a result of the sector's underperformance in the first half of the year (-10%). However, the third quarter witnessed a marked recovery in tourist and cruise ship arrivals.

As in the past, inflation shadowed the trend of international prices and stood at 2.8% for the year. The main components of the retail price index posted declines or only marginal expansion. Unemployment rose from 9.9% to 10.5%, reflecting the prevailing economic conditions.

The balance of payments posted a negative overall outturn (-US$ 23 million) as the result of a marginal increase in the current account deficit and a substantial decline in the capital and financial account surplus (from US$ 288 million in 2001 to US$ 74 million in 2002). The current account deficit reflected a slight increase in the trade deficit that can be traced to a combination of factors: falling exports (-12%) due to decreased output of sugar and electronic components; stagnation of the chemicals, food and beverages subsectors; and the downturn in imports (-5%) linked to the slowdown of the economy.

The outturn of the capital and financial account was partly a result of the decision to tap domestic rather than external funding sources. In 2001 the government had borrowed US$ 150 million on the international capital markets as a precautionary measure to cope with the economic fallout from the events of 11 September. Private-sector foreign direct investment (US$ 133 million in 2001 and US$ 55 million in 2002) focused on the tourism sector and infrastructure projects.

**BARBADOS: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 3.1 | -2.2 | -0.4 |
| Consumer prices | 3.8 | -1.2 | -1.4 [b] |
| Real effective exchange rate [c] | -1.1 | -1.0 | 3.0 [d] |
| **Average annual percentages** | | | |
| Urban unemployment rate | 9.2 | 9.9 | 10.5 |
| Central government fiscal balance/GDP | -1.5 | -3.6 | -4.1 |
| Real deposit rate | 1.9 | … | … |
| Real lending rate | 7.0 | … | … |
| **Millions of dollars** | | | |
| Exports of goods and services | 1,328 | 1,309 | 1,243 |
| Imports of goods and services | 1,616 | 1,539 | 1,470 |
| Current account | -145 | -94 | -97 |
| Capital and financial account | 324 | 288 | 74 |
| Overall balance | 201 | 227 | -23 |

**Source**: Statistical Appendix.
[a] Preliminary estimates to third quarter.
[b] Variation between July 2001 and July 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Average January-October.

# Belice

Belize's economy grew by 3.7% in 2002, almost one percentage point less than the previous year. Although agriculture and agro-processing failed to recover fully from adverse weather conditions, other sectors (such as sugar production) posted favourable performances that, coupled with the increase in cruise ship arrivals, made satisfactory GDP growth possible.

The central government's fiscal deficit rose to 10.9% in fiscal year 2001/2002, due to an increase in spending that was not offset by tax receipts. Total revenues were equivalent to 25% of GDP, reflecting the performance of international trade and transactions taxes, specifically the revenue replacement levy on petroleum. Spending trends mirrored increases in both current and capital spending. The rise in current expenditures was attributable to interest payments and wages, while the higher capital outlays were owed to domestically financed projects. The budget deficit was financed from government deposits at the Central Bank as well as external sources.

The fiscal accounts are expected to show improvement in 2002-2003. Revenues from international trade and transactions, which accounted for the bulk of the increase in current revenue, were up, while current expenditures declined, as the result of lower payroll outlays and interest payments. Capital spending also contracted, by 15%. A deficit target of 5% of GDP was set for the year.

The government's financing strategy helped to expand the net domestic assets of the Central Bank. At the same time, the economy experienced increased demand for foreign exchange, which translated into a weakening in the net international reserve position of the monetary authorities (-23%). As a result, the growth rate of the monetary base slowed from 8% in 2001 to 6% in 2002.

Credit demand witnessed an increase of 9%, fuelled by personal loans, manufacturing activity, real estate and tourism. Commercial banks responded to this heightened demand with measures to expand the supply of credit and attract deposits by offering more favourable conditions. Also in response to the increased demand for liquidity, banks reduced their excess reserve ratios and cut lending rates.

The authorities sought to ease pressure on the foreign exchange market by partially legalizing the parallel currency market, tightening monetary and fiscal policies and widening the scope of liquidity-absorbing measures. As part of this strategy, from the beginning of the second quarter of 2002 the Government allowed currency exchange establishments to trade at non-official exchange rates. Later, in the third quarter, the cash-reserve requirement for all deposits was increased by 2 percentage points.

Sugar cane delivery increased by 7% thanks to the introduction of more efficient production methods. Sugar production posted a more modest increase of 3%, owing to a decline in cane purity that translated into a lower cane-sugar ratio.

The citrus sector recorded a downturn of 24%, because of damage caused by Hurricane Iris. Specifically, the orange and grapefruit harvests were down (by 26% and 16%, respectively) and, as a result, so was juice production (by 26% and 36%, respectively).

Banana production showed some signs of recovery from the hurricane damage. The upturn in the banana sector has been aided by ready availability of financing for rehabilitation purposes.

The tourism sector yielded mixed results. In the first semester, tourist stay-over arrivals fell by 1.5%, but cruise ship arrivals jumped from 20,000 to 105,000, subsequent to the signing of agreements with cruise lines for year-round port calls to Belize.

Inflation remained unchanged from the previous year, reflecting higher fuel costs for consumers and a hike in the rates for basic telephone services in January. Transport and communications saw the highest rise in prices.

**BELICE: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 10.5 | 4.7 | 3.7 |
| Consumer prices | 0.6 | 1.1 | 1.5 |
| Money (M1) | 21.6 | 20.8 | … |
| **Average annual percentages** | | | |
| Urban unemployment rate | 11.1 | 9.3 | … |
| Central government fiscal balance/GDP | -8.2 | -10.0 | -10.9 |
| Real deposit rate | 5.0 | 4.3 | 4.3 [b] |
| Real lending rate | 15.8 | 15.4 | 14.6 [b] |
| **Millions of dollars** | | | |
| Exports of goods and services | 288 | 269 | 297 |
| Imports of goods and services | 462 | 461 | 424 |
| Balance of goods and services | -131 | -153 | -71.6 |
| Current account | -127 | -170 | -102 |
| Capital and financial account | 206 | 145 | … |
| Overall balance | 77 | -11 | -24 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Rate in June.

Tighter monetary and fiscal policies and the resulting decline in the level of absorption will probably push the rate of unemployment above the figure of 9.3% posted in 2001.

The overall balance of payments is expected to turn in a negative result because the expected surplus on the financial account will not be enough to offset the current account deficit. Even so, that deficit should narrow from 21% of GDP in 2001 to 12% in 2002, thanks to improved export performance and weaker demand for imports as a result of tighter monetary and fiscal policies.

In the first semester, merchandise exports expanded by 8%, led by the export-processing zones. The improved performance in services stemmed from a 10% upturn in the tourism sector, spearheaded by higher inflows of foreign exchange from cruise ship arrivals.

The surplus on the capital and financial account is expected to drop significantly, owing chiefly to the public sector's commitment to repay part of the external debt. Lastly, foreign direct investment is likely to decline from the sizeable levels recorded in 2001 with the privatization of the water and sewerage company.

# Cuba

External setbacks and adverse weather conditions caused the Cuban economy to lose momentum for the third consecutive year in 2002 (GDP growth slowed to 1.4% compared with 2.5% in 2001). The external context remained unfavourable given the decline in international tourism following the terrorist attacks of 11 September 2001 in the United States. Foreign direct investment stagnated for the second year in a row as a result of the weak world economic situation. Overall, capital formation was flat.

Hurricane Michelle struck the island late in 2001, and then in 2002, two other hurricanes –Isidore and Lili– caused substantial material damage to export crops, including sugar and citrus fruits. Hurricane Michelle caused direct and indirect damage totalling US$ 1.9 billion (6.3% of GDP) and its effects were fully felt in 2002. The other two hurricanes followed similar paths and struck the western region of the country, leaving in their wake over US$ 800 million in damage (2.7% of GDP).

These adversities exacerbated existing macroeconomic disequilibria. In the realm of public finances, the fiscal deficit widened to 2.9% of GDP, up from 2.5% the previous year, although this was still within the range provided for by economic policy (3% of GDP). The narrow money supply (M1A) expanded substantially, rising to 45% of GDP (38.6% in 2001), and the consumer price index showed increases both in national currency (5%) and in foreign currency, after having declined during the previous three years. With foreign exchange becoming gradually scarcer, the exchange rate on the parallel market rose by 8%. The country's balance-of-payments current account position also deteriorated, going further into the red.

The current account deficit climbed to US$ 630 million as a result of higher net factor service payments (US$ 600 million), while trade in goods and services showed a deficit of US$ 850 million and net current transfers increased slightly (US$ 820 million). The capital account surplus (US$ 650 million) was sufficient to offset that deficit and to permit a slight increase in the country's low level of international reserves.

Tourism activity remained virtually at the same level as in 2001. Tourist arrivals totalled 1.8 million and generated gross earnings of US$ 1.84 billion. Hotel capacity stood at 40,000 rooms, while the occupancy level was 50%.

The increasingly tight foreign-exchange situation and the need to repair the hurricane damage forced authorities to concentrate on short-term economic management. As a result, longer-term reforms came to a virtual standstill. Some advances were made, however, in upgrading State-owned companies by providing greater autonomy in the area of production management. Measures of this type were extended to include some 300 firms as compared with 205 the year before.

As spending outstripped revenues, the fiscal deficit widened to 2.9% of GDP. The increase in current outlays was notable since capital outlays actually declined. In highly adverse conditions and with a declining growth rate for the economy, tax income rose by almost 1 percentage point of GDP over the previous year's figure to represent 52% of GDP. This brought total expenditures to 55% of GDP. Current income grew as a net result of the increase in tax collections, principally of direct taxes, since non-tax receipts declined. The new tax system was applied to all businesses in the country and generated an increase in direct tax collections, mainly from taxes on profits and on labour force use. Social security contributions and personal income tax receipts also increased but less significantly.

**CUBA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001[a] | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 5.3 | 2.5 | 1.4 |
| Consumer prices [b] | -3.0 | -0.5 | 5.0 |
| Money (M1) | … | 16.4 | 18.8 |
| Terms of trade | -5.7 | 4.9 | -9.2 |
| **Average annual percentages** | | | |
| Urban unemployment rate | 5.5 | 4.1 | 3.5 |
| Central government fiscal balance/GDP | -2.4 | -2.5 | -2.9 |
| **Millions of dollars** | | | |
| Exports of goods and services [c] | 4,791 | 4,615 | 4,320 |
| Imports of goods and services [c] | 5,671 | 5,561 | 5,170 |
| Current account [c] | -776 | -553 | -630 |
| Capital and financial account [c d] | 805 | 595 | 650 |
| Overall balance [c] | 29 | 42 | 20 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Refers to local currency markets.
[c] Based on the official exchange rate: 1 peso = US$ 1.
[d] Includes Errors and omissions.

Receipts from the country's main taxes –the circulation and sales taxes– grew, while taxes on services diminished, mainly because the increases in wholesale fuel prices were not passed on to consumers.

The external public debt balance was higher than in the previous year, amounting to US$ 12 billion. It was composed mainly of government-guaranteed export credits (32.5%), bank deposits and loans (26%) and inter-government loans (16.9%).

Progress continued with decentralization and modernization of the financial, banking and non-banking system, affording companies greater access to temporarily immobilized financial resources, consolidating domestic convertibility for the public, and making loans available in national and foreign currency through risk analysis. Insurance continued to be extended to all productive activities.

In the area of exchange rate policy, the official exchange rate was maintained at Cuban peso 1 = US$ 1, although the scarcity of foreign exchange led to an 8.3% devaluation in the parallel rate, which stood at 26 Cuban pesos per dollar.

One of the most notable economic reforms was the restructuring of the sugar industry. Almost one half of the 156 sugar mills were shut down and 50% of the area used for sugar was replanted to import-substitution food crops; 25% of the labour force was relocated to other productive jobs. Sugar production reached 3.6 million metric tons in the 2001/2002 harvest, compared with 3.5 million in the previous period.

The dip in goods and services imports (-11.2%) led overall supply to display virtually flat growth (-0.4%), in a context of 1.4% growth in GDP. External demand contracted for the second year (-11.5%). Domestic demand, on the other hand, expanded (1.6%), with total consumption up (2%) as a result of higher government consumption (4.9%) and, to a lesser extent, higher private consumption (1%). By contrast, investment declined slightly in the wake of adjustments implemented as of mid-2001 to address the country's acute shortage of foreign exchange.

At the sectoral level, energy production expanded thanks to the significant increase (20%) in national oil and associated gas production. Accordingly, imports under this heading diminished and the electricity supply improved. Government services (5.2%) and trade (2.5%) also showed increases. On the other hand, agricultural output declined (-3.8%), manufacturing was down (-1%), and the construction sector was flat (0.3%).

After three years of deflation, the consumer price index increased by 5%, basically because of the lower supply of agricultural products on the open market. In the managed market, supply was maintained at the same level as in 2001. Unemployment declined to 3.5%, compared with 4.1% in 2001.

## Haiti

The economic climate in Haiti has been openly recessionary since the year 2000. The main signs of this deterioration in 2002 were a 1.5% contraction in GDP, a downturn in foreign trade (with a marked drop in exports), sharp devaluation of the gourde and an extremely fragile fiscal situation, all due mainly to the persistent political and institutional instability. The political crisis led to the almost total suspension of external financing by international agencies, which forced the country to declare a moratorium on its foreign-debt interest payments. Stronger remittance flows helped to mitigate the damage to the balance-of-payments current account. By the end of the fiscal year, net international reserves were equivalent to less than two months' imports.

A 13% increase in real government revenue was generated by higher receipts from customs (7.4%) and indirect taxation (8.4%), although these were insufficient to reduce the fiscal gap. Those increases, which fell short of the Government's targets, were undermined by losses associated with oil-related taxation. Despite the depreciation of the currency, domestic fuel prices have not changed since September 2000, implying higher subsidies and losses to the public treasury. The central government deficit grew by 8%, financed with resources from the Central Bank (Banque de la République d'Haïti - BRH) and the accumulation of external arrears.

The climate of deep distrust was exacerbated by the credit union crisis, during which payments where suspended, and by the failure of authorities to repay, as promised, funds that had been withheld. Persistent rumours of a possible conversion of dollar deposits into local currency triggered a rapid devaluation of the gourde in October and November, and led to a significant outflow of foreign exchange.

A new agreement with the IMF remains on hold pending fulfilment of the respective requirements, which include raising domestic oil and gas prices and restoring external payments to a sound footing. These two factors are the main prerequisites for renewing the staff-monitored programme for the 2002/2003 fiscal year. Execution and compliance with the programme for a six-month period will lay the foundations for possible agreement on a Poverty Reduction and Growth Facility with the IMF.

Exports fell by 11.5% despite a strong surge in mango sales (63%). Sluggish demand in the United States affected the maquila industry, which recorded an 8% decline. Imports, too, were off (by 7%), because of the slow economic growth and sharp devaluation of the currency. The merchandise trade balance with the United States –Haiti's main international market– remained practically flat compared with 2001. Net current transfers (inflows) were again high, thanks to substantial remittances from Haitians living abroad. Consequently, the current account deficit stood at only US$ 45 million (1.3% of GDP). However, this deficit was difficult to cover in view of the suspension of multilateral financial assistance. This situation led to a build-up of arrears (US$ 49 million) in interest owed on foreign debt, in particular to the Inter-American Development Bank (IDB) and the World Bank, which, together, accounted for 76% of this heading.

As the result of negotiations between the Government and the IDB, the latter agreed –subject to the full settlement of arrears– to extend close to US$ 50 million in new credits under accelerated policy-based lending arrangements. This should ease the severe financial restrictions on the Government, since total disbursements amounted to scarcely US$ 13 million in 2002.

**HAITI: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 1.9 | -0.7 | -1.5 |
| Consumer prices | 19.0 | 8.1 | 10.1 [b] |
| Money (M1) | 19.7 | 7.8 | 18.5 |
| Terms of trade [c] | -7.5 | 1.2 | -1.5 |
| **Average annual percentages** | | | |
| Central government fiscal balance/GDP | -2.6 | -2.7 | -2.9 |
| **Millions of dollars** | | | |
| Exports of goods and services | 503 | 442 | 427 |
| Imports of goods and services | 1,336 | 1,300 | 1,230 |
| Current account | -71 | -97 | -45 |
| Capital and financial account | 26 | 99 | -25 |
| Overall balance | -45 | 2 | -70 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change September 2001-September 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.

The measures taken by the authorities in 2002 were insufficient to achieve higher growth or macroeconomic stability. Given the sharp contraction in the economy, monetary policy was relaxed; the interest rate on Central Bank bonds (91-day BRH bonds) was reduced by 11 percentage points (from 21.1% to 10.2%) over the course of the fiscal year, and the M1 money supply expanded by 11%. While the bond policy enabled the Government to reduce its financing costs, there were no wider repercussions in terms of recovery, and the real lending rate (16.5%) continued its upward trend. Credit to the private sector grew by 5%, while public-sector borrowing increased by 16%.

Upward pressure on the exchange rate, coupled with the associated inflationary effects, prompted the monetary authorities to announce, on 11 November, a hike in the BRH bond interest rate to 15%.

Although dollarization had been proceeding steadily (dollar deposits account for 37% of M3), there was an apparent reversal triggered by rumours that foreign currency accounts would be converted into gourdes. In October, close to US$ 90 million in foreign exchange flowed out of the country (20% of total deposits in the banking system). The exchange rate rose by 36% in 2002, hitting the mark of 36 gourdes to the dollar in early December.

To compensate for the lack of external financing, the Government imposed stiffer taxation measures on the main contributors (10% of whom account for two thirds of total tax revenues). There was an increase in real terms both in direct taxation (17%) and in the value added tax (8%); more than one quarter of inflows continued to originate in taxes on foreign trade. Some specific taxes were also increased (e.g., long-distance telephone services). Central-government investment expenditure increased by 11% (for public works in general and maintenance work on the Péligre hydroelectric dam, in particular) to compensate for the drastic reduction (-26%) in the preceding fiscal year. The fiscal deficit (2.9% of GDP) was financed almost exclusively through BRH, with a higher contribution (21%) than in the previous year.

Industrial production expanded by 2.8% but its modest contribution to GDP (7%) and the considerable decline in maquila exports do not augur well for the sector. If the initiative presented in October 2002 by the Haitian Chamber of Commerce to the United States Congress (Haiti Recovery Opportunity Act - HARO) is successful in obtaining preferential treatment for textiles, this could herald a more promising future.

The downturn in the construction sector (-1.2%) also reflects the recessionary trend in the economy as a whole. Public works undertaken or completed in the course of the year mitigated this decline, attracting more than one third of government investment.

The marginal expansion in power generation (1.2%), following the sharp fall in the previous fiscal year (-31%), is far from sufficient to meet demand. The authorities had to contract with private suppliers in order to meet part of the emergency pent-up demand, especially after the temporary closure of the country's largest hydroelectric plant in the middle of the year.

Year-on-year inflation stood at 10.1% in September, which meant an increase with respect to the rate recorded in December 2001. Consequently, purchasing power continued to deteriorate and the real minimum wage showed an 8% decline compared with the previous year. The sharp devaluation in the gourde in the closing months of 2002 could result in higher inflation, especially if oil and gas prices, which are currently frozen, increase.

## Jamaica

In 2002 the Jamaican economy returned to modest growth (2%) against a backdrop of supply shocks, adverse external conditions and uncertainty in the foreign exchange market. Economic activity was also affected by the political climate during the run-up to the general elections of October 2002.

The fiscal accounts registered a higher-than-expected imbalance due to the increase in current expenditures and the decrease in tax revenues. The deficit thus amounted to 6% of GDP. Capital expenditures were used as adjustment leverage.

The slide in the value of the Jamaican dollar, supply shocks and higher wages fuelled inflationary expectations, forcing monetary authorities to intervene. The Central Bank had to draw on international reserves and tightened its monetary stance.

Export performance was undermined by flood rains and the poor competitiveness of non-traditional exports. The services account suffered adverse effects from the dip in tourist spending. However, the negative current account balance and the significant flight of private capital were offset by foreign direct investment, which led to a positive change in international reserves.

The decline in tax revenues is explained by the performance of the income and profits taxes and, more importantly, taxes on interest (-16%). The poor showing by international trade taxes reflected developments in the tourism sector, which had not yet fully recovered from the downturn of the previous year.

Total government expenditure rose by 18%, owing to increases in current expenditure since capital expenditures contracted significantly (-25%). The higher current expenditures stemmed from wages and salaries (12%) and interest on the external debt (60%).

The government deficit was financed from both domestic and external sources. The former included long-term bond issues designed to lengthen the maturity period of the debt and government surpluses deposited with the Central Bank. External financing included US$ 300 million raised through the placement of a 15-year Eurobond.

Monetary policy sought chiefly to maintain exchange-rate stability in order to achieve the Central Bank's inflation target. The exchange rate moved from J$ 47.40 at the end of December 2001 to around J$ 50.00 at the end of 2002. This movement can be traced to lower-than-expected net inflows of foreign exchange, an increase in private capital outflows and foreign debt service.

The monetary authorities responded to these market pressures by selling foreign exchange, thus reducing the country's net international reserves (-10%). Authorities also raised interest rates with effect from September.

In July, the Bank of Jamaica lowered its repurchase –or repo– rates (interest rate charged for overnight borrowings). Commercial banks followed suit and lowered the weighted loan rate from 19.7% to 17.85% between August 2001 and August 2002. Credit demand during this period increased by 42%, while narrow money expanded 7% and broad money 5%.

The country's modest GDP growth is the result of climatic vagaries that affected the agricultural sector and poor performance by the mining sector, specifically the drop in bauxite production owing to technical problems at one of the refineries. Lower-than-projected growth in the food processing industry, petroleum refining, the tobacco industry, and the textile and garment industries was reflected in a stagnant manufacturing sector. The construction sector, on the other hand, grew during the year, thanks to liquidity in the economy and the recovery activities launched once the heavy rains stopped.

The tourism sector had still not recovered from the weather events of July, the slowdown in the United States economy and the events of 11 September 2001. Total visitor arrivals were down 6% in comparison with the previous year.

**JAMAICA: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 1.0 | 1.8 | 2.0 |
| Consumer prices | 6.1 | 8.7 | 5.8 [b] |
| Money (M1) | -2.5 | 18.9 | 7.2 [c] |
| Real effective exchange rate [d] | 7.3 | -3.5 | 0.0 [e] |
| **Average annual percentages** | | | |
| Urban unemployment rate | 15.5 | 15.0 | ... |
| Central government fiscal balance/GDP | 1.4 | -6.3 | -6.0 |
| Real deposit rate | 6.0 | 0.2 | 2.1 [f] |
| Real lending rate | 17.1 | 10.3 | 11.5 [f] |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between October 2001 and October 2002.
[c] Variation between September 2001 and September 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average January to October.
[f] Average January to September, annualized.

Inflation abated in 2002 to 5.8%, nearly 3 percentage points lower than in 2001. The main price increases were triggered by supply shocks, mainly in the foods subsector, although increases were also recorded in beverages, housing and other home-related expenditures. Unemployment is expected to exceed 15%, as fallout from the meagre performance by most economic sectors.

The current account balance registered a deficit, which was more than offset by a surplus on the financial and capital account that led to an increase in international reserves. This outturn was the result of a widening of the trade deficit, an increase in the income account and a narrower surplus in the services balance.

Total merchandise exports were adversely affected by supply shocks and temporary production disruptions in the mining sector. Non-traditional exports also showed a decrease, owing to stiff competition in the apparel sector and the interruption in the production of limestone.

Imports were down as well, mirroring essentially the dip in raw material imports, since all other categories recorded increases over the previous year.

The smaller surplus in the services account reflected the sluggish recovery in the tourism sector, while the deficit in the income account stemmed from the repatriation of profits and dividends, and debt service payments.

# Dominican Republic

Although external demand continued to shrink, economic activity in the Dominican Republic expanded by almost 4% in 2002, a higher rate than in the previous year but considerably lower than the average of 7.7% recorded in the period 1996-2000. Growth was driven mainly by domestic demand owing to the strong increase both in consumer spending and in capital formation.

Public expenditure expanded substantially –financed in part by unused resources from sovereign bonds issued in 2001– and helped to offset the slump in activity in export-processing zones and international tourism. Employment grew and real wages improved slightly. However, domestic and external macroeconomic imbalances led to an adjustment of the compensatory policy in the second half of the year. For the year as a whole, the fiscal deficit and the balance-of-payments current-account deficit widened somewhat. The monetary authorities intervened in the foreign exchange market, allowing a gradual slide in the peso-dollar ratio; the rate adjustment was significant enough, however, to lead to a loss in international reserves. The inflation rate doubled, and interest rates crept upwards as a result of monetary restrictions.

Given the possibility of continued weak external demand in 2003, GDP growth is estimated at between 3.0% and 3.5%. Fiscal and monetary restrictions will be maintained for much of the year in an effort to attenuate macroeconomic disequilibria. In December, the Senate approved the issue of US$ 600 million in sovereign bonds on the international market, which will help to achieve this purpose.

Family remittances climbed to nearly US$ 2 billion. However, the wider trade deficit and higher interest and dividend payments pushed the balance-of-payments current-account deficit up to US$ 915 million (equivalent to 4.2% of GDP, compared with 3.5% in 2001). Capital inflows declined, partly as a result of the lower level of foreign direct investment, which –in conjunction with Central Bank interventions to stabilize the exchange rate– produced a dip in reserves on the order of US$ 560 million.

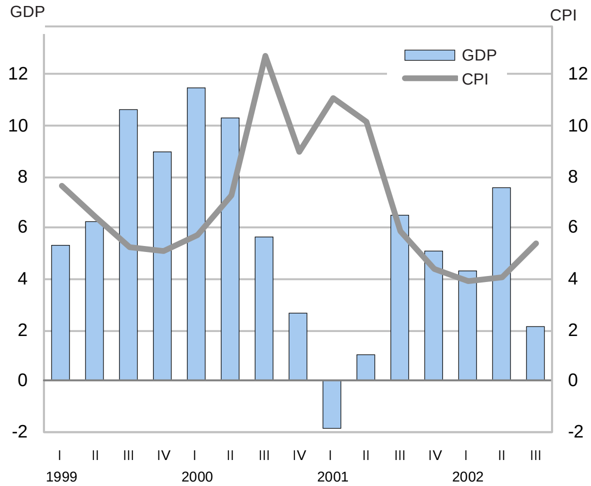
Weak performance of the export-processing zones, which account for 85% of total merchandise exports, resulted in a decline in this heading for the second consecutive year (-2%). In particular, garment sales to the United States, the sector's main client, were down. Declines were also noted in ferro-nickel, tobacco and coffee, because of lower demand and weak international prices. Sugar and cocoa were the only categories to post improvements, thanks to stronger prices.

Although imports into the export-processing zones declined, their total value did not fall off sharply (-0.3%) inasmuch as the expansion in domestic demand helped to spur purchases.

Although tourist arrivals fell by 9.3% in the first ten months of the year, the services balance continued to run a surplus. Even so, the improvement observed at the end of the year was not sufficient to offset the meagre results. Outlays for dividends and earnings increased as bonds issued in 2001 started to fall due.

Economic policy at the beginning of 2002 was conducted with the expectation that external demand would pick up in the course of the year. Accordingly, public expenditure expanded strongly, in parallel with efforts by the monetary authorities to maintain domestic and external stability. This expansionary policy was discontinued, however, when external demand failed to rally and signs came in that the macroeconomic imbalances were unsustainable. Two measures merit special mention: the broad-based adjustment in

**DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND INFLATION**
*(Percentage variation)*




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

**DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 7.3 | 2.7 | 4.0 |
| Consumer prices | 9.0 | 4.4 | 8.8 [b] |
| Real urban minimum wage | -0.1 | 5.5 | ... |
| Money (M1) | -10.1 | 24.7 | 0.6 [c] |
| Real effective exchange rate [d] | -2.7 | -3.0 | 1.6 [e] |
| Terms of trade | -1.9 | 1.5 | -0.2 |
| **Average annual percentages** | | | |
| Urban unemployment rate [f] | 13.9 | 15.4 | 16.1 [g] |
| Central government fiscal balance/GDP | 1.1 | 0.4 | -2.1 |
| Real deposit rate | 6.7 | 12.9 | 5.1 [h] |
| Real lending rate | 15.0 | 21.3 | 13.7 [h] |
| **Millions of dollars** | | | |
| Exports of goods and services | 8,964 | 8,366 | 8,091 |
| Imports of goods and services | 10,852 | 10,056 | 9,978 |
| Current account | -1,026 | -751 | -915 |
| Capital and financial account | 979 | 1,264 | 353 |
| Overall balance | -48 | 513 | -562 |

**Source**: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] Percentage change August 2001-August 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average from January to October.
[f] Includes hidden unemployment.
[g] April.
[h] Average January to September, annualized.

electricity rates and the adoption of the Monetary and Financial Act.

Even taking into account the restraint in spending in the second half of the year, central government expenditure grew by 15% in real terms, financed in part by funds remaining from sovereign bonds issued in 2001. On the one hand, a number of jobs were created, wages were raised and debt interest payments increased. On the other hand, capital outlays for various infrastructure works rose considerably.

Tax revenue was up as a result of stronger domestic demand and the reforms and adjustments launched in 2001. However, the increase was insufficient, and the central government deficit rose to 2.1% of GDP.

Domestic credit expanded significantly (20% in real terms in October compared with December), especially credit made available to the central government. The higher placement of treasury certificates and the cutback in money creation were aimed at curbing liquidity and avoiding excessive pressure on the external sector, the foreign exchange market and prices. Consequently, deposit and lending rates rose (by 7 percentage points with respect to December), the money supply contracted and term deposits expanded. As credit demand shrank in the final months of the year, monetary policy was relaxed, with the authorities reducing the legal reserve requirement from 20% to 17% and opening up the Reserve Bank's loan portfolio to the private sector.

The limited supply of foreign exchange generated pressure on the foreign exchange market throughout the year. In order to stabilize the exchange rate, the Central Bank intervened during much of the first half of the year, but in April the focus shifted towards allowing adjustments consistent with the foreign exchange balance. As a temporary measure, the monetary authorities, banks and foreign exchange agents agreed in October to adopt a fixed exchange rate as a means of stabilizing the market. At the beginning of December, however, the exchange rate against the dollar had depreciated by 15% compared with the same month of the previous year, and authorities therefore decided to implement monetary and foreign exchange restrictions.

Negotiations with the United States to include the Dominican Republic in that country's free trade agreement with Central America were not successful, and the Government is now seeking to establish bilateral arrangements with the United States. Progress was made with negotiations on a trade agreement with Panama, and initial contacts have been made to negotiate with Colombia and Chile.

Consumption and investment grew at high rates in the period from January to September, notwithstanding a slowdown in GDP growth in the third quarter. Activities linked to the domestic market were the most buoyant. These included manufacturing, construction, communications, commerce and energy. By contrast, the export sector contracted sharply, especially the export-processing zones and the hotel industry.

Agriculture suffered a setback, as a result of the dip in tobacco and tomato production and adjustments in the production of items for domestic consumption following the abundant supply in 2001. Although power generation expanded significantly, there continued to be a shortfall and, consequently, consumers and producers continued to face power outages. In order to regularize the service, the Government approved a sharp hike in electricity rates and modified the generalized subsidies to target the low-income sectors of the population.

Inflation climbed to 8.8% –a rate double that observed a year earlier– and generated an important impact on the adjustment in electricity rates. Fuel prices also increased. The public sector implemented a 6% wage increase at the beginning of the year, and the private sector (except in the export-processing zones) followed suit in October, with an 8% salary increase. In both cases, the adjustments were positive in real terms.

## Trinidad and Tobago

The GDP of Trinidad and Tobago grew 2.7% in 2002, compared with 3.3% in the previous year. The oil sector experienced faster expansion than in 2001, and the agricultural sector saw a return to growth. Manufacturing output also expanded. Political uncertainty reigned throughout most of the period, inasmuch as the December 2001 election results were so heatedly contested that it was not possible to elect a prime minister and new general elections had to be called.

The external sector yielded a balanced result thanks to a current account surplus (generated by higher insurance flows) that was able to offset the deficit on the capital and financial account (the result of external debt payment obligations). This favourable balance-of-payments situation enabled the authorities to maintain a solid reserve position and to keep the exchange rate and inflation within the Government's target ranges.

Fiscal year 2001/2002 ended with a balanced budget, since the shortfall in projected revenue was matched by lower levels of fiscal expenditure. The Government was thus able to honour its debt service obligations and pursue a monetary policy built around interest rate targets. The main challenge was to establish rules for trading on the money market in an environment of excess liquidity. The Central Bank engaged in sterilization operations and at the same time eased its monetary stance so as to stimulate the demand for credit.

Tax revenues reflected a drop in receipts from the income and profits tax (-17%), as tax payments by oil firms plummeted (-38%) because of lower crude prices in 2001 and higher allowances and deductions for capital goods. The tax intake on goods and services increased as VAT revenues expanded (13%). The lower level of expenditure was the result of a contraction in capital outlays (-24%). Current expenditure rose marginally, mirroring increases in wage payments and emoluments. The fiscal outcome allowed the Government to pare back its borrowing requirements and make substantial debt repayments.

The budget for fiscal year 2002/2003 will likely yield a deficit of 1% of GDP due to payments to settle salary arrears. Allowance has been made for the reduction in the marginal rate for the top brackets of the income and corporation taxes (from 35% to 30%) and the elimination of export subsidies to comply with WTO-related agreements.

The Central Bank introduced the repo rate (the interest rate charged to commercial banks for overnight borrowing) as the key indicator for guiding monetary policy. Private-sector demand for loans slid steadily throughout the year, and commercial bank deposits rose 15%.

Within this context, the Central Bank opted to lower the repo rate from 5.75% to 5.25%, while sterilizing the excess liquidity through Treasury bill issues. The net result was an across-the-board drop in interest rates (the basic prime rate fell from 14.5% to 12% between January and September). Money supply aggregates were responsive to interest rate objectives. Narrow and broad money rose by 7% and 14%, respectively, between August 2001 and August 2002. Implementation of monetary policy was made easier by the build-up in net international reserves, which kept the exchange rate stable.

The petroleum sector grew 4.5% in 2002, despite uneven performance by the petrochemicals subsector. Nitrogenous fertilizer production rose 1%, and methanol production expanded thanks to upgrades in plant capacity and production methods. Iron and steel output increased as well.

The revival of growth in the agricultural sector (11%) came from the strong performance by sugar production (21%). Slow manufacturing growth (1.1%) was due to low levels of technology, high costs, an unsuited marketing strategy and supply constraints in the provision of raw materials. The drop in construction activity reflected the contraction in public capital expenditures. Lastly, the tourism sector remained depressed (-1.3%), following the sharp drop the previous year.

Inflation jumped from 3.2% to 4.7%, with foodstuffs accounting for the bulk of the increase. The participation and unemployment rates remained unchanged from the previous year (61% and 11% in 2001 and 2002, respectively).

The external sector registered a balanced overall result thanks to a current account surplus which, for the most part, offset the shortfall on the capital and financial account. The current account performance reflected surpluses on the merchandise and services accounts that outweighed the deficit on the income account.

Export growth was down with respect to the previous year, showing a decline in trade in fuels that was offset in part by a rise in petrochemicals. Trade in fuels was affected by unfavourable price and demand conditions for part of the year and by the expiration of a fuel trade agreement with Venezuela. Manufacturing exports increased, while agricultural exports contracted.

**TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS**

| | 2000 | 2001 | 2002 [a] |
|---|---|---|---|
| **Annual growth rates** | | | |
| Gross domestic product | 6.1 | 3.3 | 2.7 |
| Consumer prices | 5.6 | 3.2 | 4.7 [b] |
| Money (M1) | 14.1 | 36.9 | 7.0 [c] |
| Real effective exchange rate [d] | -2.3 | -4.8 | -4.3 |
| **Average annual percentages** | | | |
| Urban unemployment rate [e] | 12.2 | 10.7 | 11.0 |
| Real deposit rate | 3.3 | 2.3 | 3.4 [f] |
| Real lending rate | 11.2 | 10.0 | 10.7 [f] |
| **Millions of dollars** | | | |
| Exports of goods and services | 4,290 | 4,124 | … |
| Imports of goods and services | 3,322 | 3,694 | … |
| Current account | 544 | 127 | … |
| Balance of goods and services | 1,135 | 730 | … |
| Capital and financial account | -103 | 344 | … |
| Overall balance | 441 | 471 | … |

**Source**: Statistical Appendix.
[a] Preliminary estimates to third quarter.
[b] Variation from October 2001 to October 2002.
[c] Variation from August 2001 to August 2002.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Includes hidden unemployment.
[f] Average from January to July, annualized.

The expansion in merchandise imports was spurred by production requirements in the energy sector.

The surplus on the services account swelled from US$ 34 million in 2001 to US$ 52 million in 2002, reflecting mainly the rise in insurance flows, since the transportation and travel headings declined in response to stalled activity in the tourism sector. The deficit on the income account was attributable to foreign exchange outflows in the form of repatriation of profits.

The poor financial account outturn stemmed from repayment of the public external debt, although foreign direct investment increased with respect to the previous year, drawn by investment opportunities in the energy sector.

# STATISTICAL APPENDIX

Table A -1

**LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS DOMESTIC PRODUCT**

*(Percentages, based on values at 1995 prices)*

| | Annual growth rates | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
| **Latin America and the Caribbean** | **3.3** | **5.2** | **1.1** | **3.7** | **5.1** | **2.2** | **0.5** | **3.8** | **0.3** | **-0.5** |
| **Subtotal** (20 countries) | **3.4** | **5.2** | **1.1** | **3.8** | **5.2** | **2.2** | **0.5** | **3.8** | **0.3** | **-0.5** |
| Argentina | 5.9 | 5.8 | -2.9 | 5.5 | 8.0 | 3.8 | -3.4 | -0.8 | -4.4 | -11.0 |
| Bolivia | 4.3 | 4.8 | 4.7 | 4.5 | 4.9 | 5.0 | 0.3 | 2.3 | 1.3 | 2.0 |
| Brazil | 4.5 | 6.2 | 4.2 | 2.5 | 3.1 | 0.1 | 1.0 | 4.0 | 1.5 | 1.5 |
| Chile | 6.9 | 5.0 | 9.0 | 6.9 | 6.8 | 3.3 | -0.7 | 4.4 | 2.8 | 1.8 |
| Colombia | 4.4 | 5.9 | 4.9 | 1.9 | 3.3 | 0.8 | -3.8 | 2.2 | 1.4 | 1.6 |
| Costa Rica | 7.1 | 4.6 | 3.9 | 0.8 | 5.4 | 8.3 | 8.0 | 2.2 | 1.0 | 2.8 |
| Cuba | -16.0 | 2.0 | 3.4 | 8.7 | 3.3 | 1.3 | 6.8 | 5.3 | 2.5 | 1.4 |
| Ecuador | 2.2 | 4.4 | 3.0 | 2.3 | 3.9 | 1.0 | -7.9 | 2.3 | 6.0 | 3.4 |
| El Salvador | 6.4 | 6.0 | 6.2 | 1.8 | 4.2 | 3.8 | 3.4 | 2.1 | 1.9 | 2.3 |
| Guatemala | 4.0 | 4.1 | 5.0 | 3.0 | 4.4 | 5.1 | 3.9 | 3.4 | 2.4 | 1.9 |
| Haiti | -8.0 | -17.6 | 9.5 | 5.6 | 3.2 | 2.9 | 2.9 | 1.9 | -0.7 | -1.5 |
| Honduras | 7.1 | -1.9 | 3.7 | 3.7 | 4.9 | 3.3 | -1.5 | 4.8 | 2.7 | 2.0 |
| Mexico | 1.8 | 4.5 | -6.2 | 5.4 | 6.8 | 5.0 | 3.7 | 6.8 | -0.4 | 1.2 |
| Nicaragua | -0.4 | 4.0 | 4.4 | 5.1 | 5.4 | 4.1 | 7.4 | 6.4 | 3.0 | 0.5 |
| Panama | 5.3 | 3.1 | 1.9 | 2.7 | 4.7 | 4.6 | 3.5 | 2.6 | 0.4 | 0.4 |
| Paraguay | 4.0 | 3.0 | 4.5 | 1.1 | 2.4 | -0.6 | -0.1 | -0.6 | 2.4 | -3.0 |
| Peru | 4.8 | 12.7 | 8.6 | 2.5 | 6.8 | -0.5 | 0.9 | 3.0 | 0.2 | 4.5 |
| Dominican Republic | 3.0 | 4.7 | 4.3 | 7.2 | 8.2 | 7.4 | 7.8 | 7.3 | 2.7 | 4.0 |
| Uruguay | 3.5 | 7.0 | -2.3 | 5.0 | 5.4 | 4.4 | -3.4 | -1.9 | -3.4 | -10.5 |
| Venezuela | -0.4 | -3.7 | 5.9 | -0.4 | 7.4 | 0.7 | -5.8 | 3.8 | 2.9 | -7.0 |
| **Subtotal Caribbean** | **0.9** | **3.1** | **2.7** | **2.6** | **2.0** | **3.6** | **2.8** | **3.5** | **1.8** | **1.9** |
| Antigua and Barbuda | 5.0 | 6.2 | -4.8 | 6.0 | 5.5 | 5.0 | 4.9 | 2.6 | 4.3 | 0.0 |
| Barbados | 1.1 | 4.4 | 1.9 | 2.5 | 2.6 | 4.0 | 3.0 | 3.1 | -2.2 | -0.4 |
| Belice | 4.3 | 1.5 | 3.7 | 1.3 | 4.4 | 2.0 | 6.0 | 10.5 | 4.7 | 3.7 |
| Dominica | 1.9 | 1.9 | 1.2 | 2.9 | 2.2 | 3.1 | 1.3 | 0.7 | -5.2 | -6.0 |
| Grenada | -1.1 | 3.4 | 3.1 | 3.0 | 4.3 | 7.6 | 7.5 | 6.5 | -3.3 | 3.4 |
| Guyana | 11.4 | 9.4 | 3.8 | 7.4 | 6.8 | -2.2 | 5.0 | -2.3 | 2.3 | 2.0 |
| Jamaica | 2.2 | 1.6 | 2.2 | -0.1 | -1.8 | -0.8 | 0.6 | 1.0 | 1.8 | 2.0 |
| Saint Kitts and Nevis | 5.2 | 5.5 | 3.2 | 5.8 | 7.2 | 1.1 | 3.5 | 5.0 | 2.0 | -2.5 |
| Saint Vincent and the Grenadines | 2.0 | -2.3 | 7.8 | 1.2 | 3.5 | 5.8 | 3.6 | 1.8 | 0.3 | 4.0 |
| Saint Lucia | -1.3 | 4.6 | 2.1 | 0.8 | -0.3 | 3.0 | 2.8 | 0.3 | -5.0 | 1.0 |
| Suriname | -4.1 | -0.1 | 0.0 | 5.3 | 3.3 | 2.9 | -3.5 | -1.2 | … | … |
| Trinidad and Tobago | -1.2 | 4.2 | 4.2 | 4.4 | 4.0 | 7.8 | 4.4 | 6.1 | 3.3 | 2.7 |

**Source**: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
**Note**: Totals and subtotals do not include those countries for which no information is given.
[a] Preliminary estimates.

Table A -2

**LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT**

*(Percentages based on values at 1995 prices)*

| | Annual growth rates | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
| **Latin America and the Caribbean** | **1.6** | **3.4** | **-0.5** | **2.1** | **3.5** | **0.6** | **-1.0** | **2.2** | **-1.2** | **-1.9** |
| **Subtotal** (20 countries) | **1.6** | **3.4** | **-0.6** | **2.1** | **3.5** | **0.6** | **-1.1** | **2.2** | **-1.2** | **-2.0** |
| Argentina | 4.5 | 4.4 | -4.1 | 4.1 | 6.6 | 2.5 | -4.6 | -2.0 | -5.6 | -12.1 |
| Bolivia | 1.7 | 2.3 | 2.2 | 2.0 | 2.4 | 2.6 | -2.0 | 0.1 | -0.9 | -0.2 |
| Brazil | 3.0 | 4.7 | 2.7 | 1.1 | 1.7 | -1.2 | -0.3 | 2.6 | 0.2 | 0.2 |
| Chile | 5.1 | 3.3 | 7.3 | 5.4 | 5.3 | 1.9 | -2.0 | 3.1 | 1.6 | 0.6 |
| Colombia | 2.4 | 3.8 | 2.9 | 0.0 | 1.4 | -1.1 | -5.6 | 0.4 | -0.4 | -0.1 |
| Costa Rica | 3.8 | 1.5 | 1.0 | -1.9 | 2.7 | 5.6 | 5.4 | -0.1 | -1.2 | 0.7 |
| Cuba | -16.5 | 1.4 | 2.8 | 8.1 | 2.9 | 0.8 | 6.4 | 4.9 | 2.1 | 1.1 |
| Ecuador | -0.1 | 2.1 | 0.8 | 0.2 | 1.8 | -0.9 | -9.7 | 0.4 | 4.1 | 1.6 |
| El Salvador | 4.2 | 3.7 | 4.0 | -0.3 | 2.1 | 1.6 | 1.3 | 0.1 | 0.0 | 0.4 |
| Guatemala | 1.3 | 1.4 | 2.2 | 0.3 | 1.7 | 2.4 | 1.1 | 0.7 | -0.3 | -0.7 |
| Haiti | -9.6 | -19.0 | 7.5 | 3.7 | 1.3 | 1.0 | 1.1 | 0.1 | -2.5 | -3.3 |
| Honduras | 4.0 | -4.7 | 0.7 | 0.8 | 2.1 | 0.5 | -4.1 | 2.1 | 0.1 | -0.6 |
| Mexico | -0.1 | 2.6 | -7.8 | 3.7 | 5.1 | 3.3 | 2.1 | 5.2 | -1.9 | -0.3 |
| Nicaragua | -3.3 | 0.9 | 1.5 | 2.2 | 2.6 | 1.4 | 4.6 | 3.6 | 0.3 | -2.1 |
| Panama | 3.4 | 1.3 | 0.1 | 0.9 | 2.9 | 2.9 | 1.9 | 1.0 | -1.1 | -1.1 |
| Paraguay | 1.3 | 0.4 | 1.7 | -1.6 | -0.2 | -3.2 | -2.6 | -3.1 | -0.1 | -5.4 |
| Peru | 2.9 | 10.8 | 6.7 | 0.7 | 4.9 | -2.2 | -0.8 | 1.4 | -1.4 | 2.9 |
| Dominican Republic | 1.2 | 2.9 | 2.5 | 5.3 | 6.3 | 5.6 | 6.0 | 5.5 | 1.0 | 2.3 |
| Uruguay | 2.8 | 6.2 | -3.0 | 4.2 | 4.6 | 3.6 | -4.1 | -2.6 | -4.1 | -11.1 |
| Venezuela | -2.7 | -5.8 | 3.7 | -2.5 | 5.2 | -1.3 | -7.7 | 1.8 | 1.0 | -8.7 |
| **Subtotal Caribbean** | **0.2** | **2.4** | **2.0** | **1.9** | **1.3** | **2.9** | **2.1** | **2.8** | **1.1** | **1.2** |
| Antigua and Barbuda | 4.6 | 5.8 | -5.1 | 5.6 | 5.2 | 4.6 | 4.5 | 2.2 | 4.0 | -0.3 |
| Barbados | 0.6 | 4.0 | 1.5 | 2.1 | 2.2 | 3.7 | 2.6 | 2.8 | -2.6 | -0.7 |
| Belice | 2.5 | -0.2 | 1.8 | -0.7 | 2.2 | -0.2 | 3.6 | 8.1 | 2.6 | 1.7 |
| Dominica | 2.0 | 2.0 | 1.3 | 3.0 | 2.3 | 3.2 | 1.4 | 0.8 | -5.2 | -5.9 |
| Grenada | -1.4 | 3.0 | 2.8 | 2.7 | 4.0 | 7.2 | 7.2 | 6.2 | -3.6 | 2.7 |
| Guyana | 11.0 | 8.9 | 3.3 | 6.9 | 6.2 | -2.7 | 4.5 | -2.7 | 1.9 | 1.7 |
| Jamaica | 1.3 | 0.7 | 1.3 | -0.9 | -2.6 | -1.6 | -0.2 | 0.1 | 0.9 | 1.1 |
| Saint Kitts and Nevis | 6.2 | 6.4 | 4.1 | 6.7 | 8.1 | 1.9 | 4.3 | 5.8 | 2.7 | -1.8 |
| Saint Vincent and the Grenadines | 1.3 | -3.0 | 7.1 | 0.5 | 2.8 | 5.1 | 2.9 | 1.2 | -0.3 | 3.4 |
| Saint Lucia | -2.5 | 3.5 | 0.9 | -0.3 | -1.5 | 1.9 | 1.7 | -0.8 | -6.1 | -0.1 |
| Suriname | -4.4 | -0.4 | -0.3 | 4.9 | 3.0 | 2.5 | -3.9 | -1.7 | … | … |
| Trinidad and Tobago | -2.0 | 3.3 | 3.4 | 3.8 | 3.4 | 7.3 | 3.9 | 5.6 | 2.8 | 2.2 |

**Source**: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
**Note**: Totals and subtotals do not include those countries for which no information is given.
[a] Preliminary estimates.

Table A - 3
**LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION**
*(Annual growth rates based on constant 1995 dollars)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **4.8** | **10.4** | **-4.3** | **5.1** | **13.3** | **3.2** | **-6.4** | **3.9** | **-2.3** | **-6.3** |
| Argentina | 15.1 | 13.5 | -13.0 | 8.8 | 17.5 | 6.7 | -12.6 | -6.8 | -15.7 | -35.0 |
| Bolivia | 2.5 | -8.4 | 14.1 | 11.8 | 27.6 | 28.2 | -15.3 | -8.1 | -21.0 | 2.5 |
| Brazil | 4.1 | 14.2 | 7.3 | 1.2 | 9.3 | -0.3 | -7.2 | 4.5 | 1.1 | -5.0 |
| Chile | 17.9 | 6.3 | 23.7 | 8.9 | 10.7 | 1.8 | -18.6 | 8.8 | 1.9 | -0.2 |
| Colombia | 35.8 | 21.8 | 0.9 | -1.4 | -2.0 | -6.3 | -34.6 | -0.8 | 22.3 | 4.0 |
| Costa Rica | 12.0 | 2.4 | 3.0 | -8.3 | 14.7 | 25.0 | -3.9 | -2.4 | 3.7 | 7.9 |
| Cuba | -28.9 | -29.3 | 7.3 | 36.5 | 3.0 | 4.1 | 6.3 | 1.9 | 1.1 | -0.1 |
| Ecuador | 0.7 | 3.6 | 3.3 | 1.7 | 3.8 | 6.4 | -34.5 | 9.6 | 37.3 | 22.5 |
| El Salvador | 15.4 | 12.4 | 13.3 | -11.1 | 7.9 | 9.4 | -0.9 | 4.1 | 0.2 | 3.0 |
| Guatemala | 8.3 | -2.4 | 8.3 | -2.9 | 23.9 | 19.6 | 5.5 | -6.7 | 1.7 | 6.0 |
| Haiti [b] | -26.0 | -34.8 | 123.4 | 11.8 | 7.6 | -3.2 | 24.0 | 18.3 | -6.8 | -1.5 |
| Honduras | 35.8 | -0.2 | -14.3 | 6.2 | 15.8 | 10.3 | 7.0 | -7.7 | -3.5 | -3.7 |
| Mexico | -3.2 | 8.5 | -29.8 | 17.0 | 22.3 | 8.5 | 7.7 | 11.4 | -5.9 | -1.1 |
| Nicaragua | -6.4 | 15.5 | 13.1 | 8.6 | 19.4 | 12.0 | 39.3 | -10.7 | -3.2 | 3.5 |
| Panama | 41.5 | 5.5 | 7.8 | -3.0 | 5.1 | 15.5 | 22.4 | -6.5 | -14.0 | -9.5 |
| Paraguay | 3.7 | 4.5 | 7.5 | 0.1 | -1.4 | -4.7 | -3.9 | -0.6 | -19.6 | -10.0 |
| Peru | 11.5 | 33.6 | 21.5 | -2.9 | 15.3 | -1.3 | -11.0 | -5.0 | -8.1 | 1.7 |
| Dominican Republic | 6.7 | -2.9 | -5.8 | 6.7 | 19.4 | 30.8 | 11.2 | 7.5 | 1.8 | 5.5 |
| Uruguay | 14.9 | 6.4 | -5.6 | 8.7 | 9.2 | 8.0 | -6.2 | -11.1 | -12.4 | -30.0 |
| Venezuela | -6.1 | -18.7 | 2.3 | -7.6 | 26.6 | -3.3 | -16.4 | 1.1 | 13.6 | -23.0 |

**Source**: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] Refers to gross domestic investment.

Table A - 4
**LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES**
*(December-December variations)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **872.4** | **328.7** | **26.0** | **18.6** | **10.7** | **10.0** | **9.7** | **9.0** | **6.1** | **11.4** |
| Argentina | 7.4 | 3.9 | 1.6 | 0.1 | 0.3 | 0.7 | -1.8 | -0.7 | -1.5 | 40.6 |
| Barbados | -1.0 | 2.1 | 2.8 | 1.8 | 3.6 | 1.7 | 2.9 | 3.8 | -1.2 | -1.4 [b] |
| Bolivia | 9.3 | 8.5 | 12.6 | 7.9 | 6.7 | 4.4 | 3.1 | 3.4 | 0.9 | 2.3 |
| Brazil | 2 477.2 | 916.5 | 22.4 | 9.6 | 5.2 | 1.7 | 8.9 | 6.0 | 7.7 | 10.9 |
| Chile | 12.2 | 8.9 | 8.2 | 6.6 | 6.0 | 4.7 | 2.3 | 4.5 | 2.6 | 3.0 |
| Colombia | 22.6 | 22.6 | 19.5 | 21.6 | 17.7 | 16.7 | 9.2 | 8.8 | 7.6 | 7.1 |
| Costa Rica | 9.0 | 19.9 | 22.6 | 13.9 | 11.2 | 12.4 | 10.1 | 10.2 | 11.0 | 10.0 |
| Cuba | 0.0 | 0.0 | -11.5 | -4.9 | 1.9 | 2.9 | -2.9 | -3.0 | -0.5 | 5.0 |
| Ecuador | 31.0 | 25.3 | 22.8 | 25.5 | 30.7 | 43.4 | 60.7 | 91.0 | 22.4 | 9.7 |
| El Salvador | 12.1 | 8.9 | 11.4 | 7.4 | 1.9 | 4.2 | -1.0 | 4.3 | 1.4 | 1.4 |
| Guatemala | 11.6 | 11.6 | 8.6 | 10.9 | 7.1 | 7.5 | 4.9 | 5.1 | 8.9 | 6.3 |
| Haiti | 44.4 | 32.2 | 24.8 | 14.5 | 15.7 | 7.4 | 9.7 | 19.0 | 8.1 | 10.1 [c] |
| Honduras | 13.0 | 28.9 | 26.8 | 25.3 | 12.8 | 15.7 | 10.9 | 10.1 | 8.8 | 7.7 |
| Jamaica | 30.1 | 26.8 | 25.6 | 15.8 | 9.2 | 7.9 | 6.8 | 6.1 | 8.7 | 5.8 [d] |
| Mexico | 8.0 | 7.1 | 52.0 | 27.7 | 15.7 | 18.6 | 12.3 | 9.0 | 4.4 | 5.4 |
| Nicaragua | 19.5 | 12.4 | 11.1 | 12.1 | 7.2 | 18.5 | 7.2 | 9.9 | 4.7 | 4.2 [d] |
| Panama | 0.9 | 1.4 | 0.8 | 2.3 | -0.5 | 1.4 | 1.5 | 0.7 | 0.0 | 1.6 [d] |
| Paraguay | 20.4 | 18.3 | 10.5 | 8.2 | 6.2 | 14.6 | 5.4 | 8.6 | 8.4 | 14.6 |
| Peru | 39.5 | 15.4 | 10.2 | 11.8 | 6.5 | 6.0 | 3.7 | 3.7 | -0.1 | 1.5 |
| Dominican Republic | 2.8 | 14.3 | 9.2 | 4.0 | 8.4 | 7.8 | 5.1 | 9.0 | 4.4 | 8.8 |
| Trinidad and Tobago | 13.4 | 5.5 | 3.8 | 4.3 | 3.5 | 5.6 | 3.4 | 5.6 | 3.2 | 4.7 [d] |
| Uruguay | 52.9 | 44.1 | 35.4 | 24.3 | 15.2 | 8.6 | 4.2 | 5.1 | 3.6 | 24.7 |
| Venezuela | 45.9 | 70.8 | 56.6 | 103.2 | 37.6 | 29.9 | 20.0 | 13.4 | 12.3 | 30.7 |

**Source**: ECLAC, on the basis of information provided by official sources in the countries.
[a] Figures correspond to the variation from November 2001 to November 2002.
[b] July 2001-July 2002.
[c] September 2001-September 2002.
[d] October 2001-October 2002.

Table A - 5
**LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT**
*(Average annual rates)*

| | | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean [b]** | | **6.6** | **6.3** | **7.5** | **8.0** | **7.8** | **8.1** | **8.9** | **8.4** | **8.4** | **9.1** |
| Argentina | Urban areas [c] | 9.6 | 11.5 | 17.5 | 17.2 | 14.9 | 12.9 | 14.3 | 15.1 | 17.4 | 21.0 [d] |
| Barbados [e] | Total national | 24.3 | 21.9 | 19.7 | 15.6 | 14.5 | 12.3 | 10.4 | 9.2 | 9.9 | 10.5 |
| Bolivia | Departmental capitals | 5.8 | 3.1 | 3.6 | 3.8 | 4.4 | 6.1 | 8.0 | 7.5 | 8.5 | … |
| Brazil | Six metropolitan areas | 5.4 | 5.1 | 4.6 | 5.4 | 5.7 | 7.6 | 7.6 | 7.1 | 6.2 | 7.3 [f] |
| Chile | Total national | 6.5 | 7.8 | 7.4 | 6.4 | 6.1 | 6.4 | 9.8 | 9.2 | 9.1 | 9.0 [f] |
| Colombia [e] | Seven metropolitan areas | 8.6 | 8.9 | 8.8 | 11.2 | 12.4 | 15.3 | 19.4 | 17.2 | 18.2 | 17.6 [f] |
| Costa Rica | Total urban | 4.0 | 4.3 | 5.7 | 6.6 | 5.9 | 5.4 | 6.2 | 5.3 | 5.8 | 6.8 |
| Cuba | Total national | 6.2 | 6.7 | 7.9 | 7.6 | 7.0 | 6.6 | 6.0 | 5.5 | 4.1 | 3.5 |
| Ecuador [e] | Total urban [g] | 8.9 | 7.8 | 7.7 | 10.4 | 9.3 | 11.5 | 14.4 | 14.1 | 10.4 | 8.7 [f] |
| El Salvador | Total urban | 8.1 | 7.0 | 7.0 | 7.5 | 7.5 | 7.6 | 6.9 | 6.5 | 7.0 | 7.1 [h] |
| Guatemala [i] | Total national | 2.6 | 3.5 | 3.9 | 5.2 | 5.1 | 3.8 | ... | ... | … | ... |
| Honduras | Total urban | 7.0 | 4.0 | 5.6 | 6.5 | 5.8 | 5.2 | 5.3 | ... | 5.9 | 6.2 |
| Jamaica [e] | Total national | 16.3 | 15.4 | 16.2 | 16.0 | 16.5 | 15.5 | 15.7 | 15.5 | 15.0 | ... |
| Mexico | Urban areas [c] | 3.4 | 3.7 | 6.2 | 5.5 | 3.7 | 3.2 | 2.5 | 2.2 | 2.5 | 2.8 [f] |
| Nicaragua [i] | Total national | 17.8 | 17.1 | 16.9 | 16.0 | 14.3 | 13.2 | 10.7 | 9.8 | 10.7 | 12.9 |
| Panama [e] | Total urban [j] | 15.6 | 16.0 | 16.6 | 16.9 | 15.5 | 15.2 | 14.0 | 15.2 | 17.0 | 16.1 |
| Paraguay | Total urban [k] | 5.1 | 4.4 | 5.3 | 8.2 | 7.1 | 6.6 | 9.4 | 10.0 | 10.8 | … |
| Peru | Metropolitan Lima | 9.9 | 8.8 | 8.2 | 8.0 | 9.2 | 8.5 | 9.2 | 8.5 | 9.3 | 9.4 [f] |
| Dominican Republic [e] | Total national | 19.9 | 16.0 | 15.8 | 16.5 | 15.9 | 14.3 | 13.8 | 13.9 | 15.4 | 16.1 [l] |
| Trinidad and Tobago [e] | Total national | 19.8 | 18.4 | 17.2 | 16.2 | 15.0 | 14.2 | 13.2 | 12.2 | 10.7 | 11.0 |
| Uruguay | Total urban | 8.3 | 9.2 | 10.3 | 11.9 | 11.5 | 10.1 | 11.3 | 13.6 | 15.3 | 17.0 [h] |
| Venezuela | Total national | 6.6 | 8.7 | 10.3 | 11.8 | 11.4 | 11.3 | 14.9 | 14.0 | 13.4 | 15.8 [h] |

**Source**: ECLAC, on the basis of official figures.
[a] Preliminary figures.
[b] In 1992 does not include the Caribbean countries.
[c] Covers a large and increasing number of urban areas.
[d] Estimate.
[e] Includes hidden unemployment.
[f] Estimate based on average January-October.
[g] As of 1999: Quito, Guayaquil and Cuenca.
[h] First three quarters.
[i] Official estimates.
[j] Up to 1999 figures correspond to the metropolitan region.
[k] Up to 1993, figures correspond to the metropolitan area of Asunción.
[l] April.
[m] Estimate based on average January-September.

Table A - 6

**LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES**

*(Average annual indices: 1995 = 100)*

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Argentina [b] | 101.7 | 100.4 | 101.1 | 100.0 | 99.9 | 99.3 | 99.0 | 100.1 | 101.6 | 100.4 | 84.9 [c] |
| Bolivia [d] | 85.5 | 91.2 | 98.5 | 100.0 | 98.5 | 104.5 | 108.0 | 113.7 | 114.8 | 119.4 | 122.0 [e] |
| Brazil [f] | 87.0 | 95.6 | 96.3 | 100.0 | 107.9 | 110.8 | 110.8 | 105.9 | 104.8 | 99.6 | 97.3 [c] |
| Chile [g] | 88.7 | 91.8 | 96.1 | 100.0 | 104.1 | 106.6 | 109.5 | 112.1 | 113.7 | 115.5 | 118.1 [h] |
| Colombia [i] | 93.8 | 98.1 | 99.0 | 100.0 | 101.7 | 104.4 | 103.1 | 109.0 | 113.3 | 113.6 | 118.8 [j] |
| Costa Rica [k] | 89.2 | 98.3 | 102.0 | 100.0 | 97.9 | 98.7 | 104.3 | 109.2 | 110.1 | 112.3 | 113.0 |
| Mexico [b] | 100.7 | 109.7 | 114.9 | 100.0 | 90.1 | 89.1 | 91.5 | 92.4 | 98.0 | 104.5 | 106.0 [c] |
| Nicaragua | 100.5 | 93.3 | 98.2 | 100.0 | 97.9 | 97.7 | 104.9 | 109.6 | 111.3 | 116.1 | 122.4 [l] |
| Paraguay | 90.9 | 91.7 | 93.0 | 100.0 | 103.1 | 102.6 | 100.7 | 98.6 | 99.9 | 101.3 | 96.3 [e] |
| Peru [m] | 95.2 | 94.4 | 109.2 | 100.0 | 95.2 | 94.5 | 92.7 | 90.7 | 91.4 | 90.6 | 94.3 [n] |
| Uruguay | 97.3 | 102.0 | 102.9 | 100.0 | 100.6 | 100.8 | 102.7 | 104.3 | 102.9 | 102.7 | 93.4 [h] |
| Venezuela [o] | 136.5 | 124.4 | 104.8 | 100.0 | 76.7 | 96.3 | 101.5 | 96.8 | 98.3 | 100.7 | 93.0 [c] |

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

[a] Preliminary figures.
[b] Manufacturing.
[c] Estimate based on average January-September.
[d] Private sector in La Paz.
[e] First semester.
[f] Workers covered by social and labour legislation.
[g] Until April 1993, non-agricultural workers; from May 1993 on, general index of hourly wages.
[h] Estimate based on average January-October.
[i] Manual workers in manufacturing.
[j] Estimate based on average January-August.
[k] Average wages declared by workers covered by social security. In 2002, all workers.
[l] Average January-July.
[m] Private-sector manual workers in the Lima metropolitan area.
[n] March.
[o] Private sector.

Table A -7

**LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR DEFICIT (-) OR SURPLUS**

*(Percentages of GDP)*

| | Coverage | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | | **-1.4** | **-1.8** | **-1.5** | **-1.5** | **-1.4** | **-2.4** | **-2.8** | **-2.5** | **-3.2** | **-3.3** |
| Argentina | NNFPS | 1.5 | -0.3 | -0.6 | -2.1 | -1.6 | -1.5 | -1.7 | -2.5 | -3.1 | -1.4 |
| Bolivia | NFPS | -6.1 | -3.0 | -1.8 | -1.9 | -3.5 | -4.7 | -3.5 | -3.8 | -6.5 | -6.9 |
| Brazil [b] | NFPS | -0.8 | 1.1 | -4.9 | -3.4 | -4.3 | -7.4 | -3.4 | -1.2 | -1.4 | -2.1 |
| Chile | CG | 2.0 | 1.7 | 2.6 | 2.3 | 2.0 | 0.4 | -1.5 | 0.1 | -0.3 | -0.9 |
| Colombia | NFPS | 0.1 | 1.0 | -0.6 | -2.0 | -3.1 | -3.4 | -5.1 | -3.7 | -3.6 | -4.0 |
| Costa Rica | CG | -1.5 | -5.5 | -3.5 | -4.0 | -3.0 | -2.5 | -2.3 | -3.0 | -2.9 | -4.3 |
| Ecuador | NFPS | -0.1 | 0.6 | -1.1 | -3.0 | -2.6 | -5.7 | -4.7 | 1.7 | 0.7 | … |
| El Salvador | CG | -1.5 | -0.8 | -0.5 | -2.0 | -1.1 | -2.0 | -2.1 | -2.3 | -3.6 | -2.7 |
| Guatemala | CG | -1.5 | -1.4 | -0.5 | 0.0 | -0.8 | -2.2 | -2.8 | -1.9 | -2.0 | -1.1 |
| Haiti | CG | -3.2 | -3.3 | -4.8 | -1.6 | -2.0 | -2.4 | -2.4 | -2.6 | -2.7 | -2.9 |
| Honduras | CG | -9.9 | -7.0 | -4.2 | -3.8 | -2.9 | -1.1 | -4.0 | -5.9 | -7.3 | -5.2 |
| Mexico | NFPS | 0.7 | -0.3 | -0.2 | -0.1 | -0.6 | -1.2 | -1.1 | -1.1 | -0.7 | -0.7 |
| Nicaragua | CG | 0.0 | -5.2 | -0.5 | -1.5 | -1.3 | -1.9 | -4.9 | -7.8 | -11.5 | -9.0 |
| Panama | CG | 0.5 | -0.8 | 0.9 | -1.3 | -0.9 | -3.2 | -0.7 | -2.2 | -2.7 | -2.0 |
| Paraguay | CG | -0.5 | 1.7 | -0.2 | -0.8 | -1.3 | -1.0 | -3.6 | -4.3 | -1.1 | -2.5 |
| Peru | CG | -3.6 | -3.1 | -3.4 | -1.5 | -0.9 | -1.1 | -3.1 | -2.7 | -2.8 | -2.3 |
| Dominican Republic | CG | 0.3 | -0.6 | 1.1 | 0.0 | 0.9 | 0.6 | -0.5 | 1.1 | 0.4 | -2.1 |
| Uruguay | CG | -1.0 | -1.9 | -1.9 | -1.8 | -1.6 | -1.2 | -3.8 | -4.2 | -4.7 | -4.3 |
| Venezuela | CG | -2.9 | -7.2 | -4.3 | 0.6 | 1.9 | -4.1 | -2.6 | -1.6 | -4.3 | -4.5 |

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

**Note**: Abbreviations used: CG = central government. NFPS = non-financial public sector. NNFPS = national non-financial public sector (does not include provinces or municipalities). Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimate.

[b] Operational financial balance.

Table A -8

**LATIN AMERICA AND THE CARIBBEAN: INDICES OF THE REAL EFFECTIVE EXCHANGE RATE FOR IMPORTS [a]**

*(Indices: 2000=100, CPI used in the calculations)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean[c]** | **106.5** | **105.6** | **103.8** | **101.2** | **96.5** | **96.0** | **99.5** | **100.0** | **98.3** | **105.9** |
| Argentina | 105.2 | 104.4 | 110.4 | 112.5 | 109.2 | 106.8 | 99.4 | 100.0 | 95.6 | 227.3 |
| Barbados | 99.2 | 100.9 | 103.6 | 102.5 | 97.0 | 99.5 | 100.4 | 100.0 | 98.7 | 101.6 |
| Bolivia | 103.1 | 108.7 | 111.1 | 104.3 | 102.4 | 98.3 | 97.2 | 100.0 | 101.3 | 96.8 |
| Brazil | 82.4 | 82.5 | 73.4 | 69.0 | 68.1 | 71.4 | 107.6 | 100.0 | 119.1 | 125.4 |
| Chile | 111.1 | 107.3 | 100.2 | 97.1 | 91.2 | 93.9 | 98.7 | 100.0 | 111.8 | 106.5 |
| Colombia | 107.3 | 87.2 | 85.6 | 79.2 | 74.6 | 80.2 | 91.1 | 100.0 | 102.4 | 102.4 |
| Costa Rica | 95.4 | 95.7 | 92.9 | 91.4 | 93.9 | 95.6 | 99.9 | 100.0 | 97.2 | 97.7 |
| Ecuador | 68.4 | 65.8 | 67.2 | 68.2 | 66.1 | 65.1 | 89.3 | 100.0 | 69.7 | 61.3 |
| El Salvador | 122.9 | 115.2 | 108.0 | 100.3 | 99.4 | 98.5 | 99.4 | 100.0 | 99.6 | 99.6 |
| Guatemala | 104.3 | 99.0 | 92.8 | 89.4 | 84.7 | 85.2 | 97.4 | 100.0 | 95.3 | 88.5 |
| Honduras | 124.0 | 136.5 | 121.2 | 123.9 | 116.8 | 106.8 | 103.3 | 100.0 | 96.9 | 96.7 |
| Jamaica | 134.0 | 135.4 | 126.5 | 105.5 | 94.4 | 92.0 | 96.2 | 100.0 | 97.1 | 96.4 |
| Mexico | 100.3 | 103.0 | 152.1 | 135.5 | 117.7 | 117.9 | 108.2 | 100.0 | 92.9 | 92.1 |
| Nicaragua | 78.1 | 90.5 | 94.9 | 96.5 | 100.5 | 100.0 | 101.3 | 100.0 | 101.0 | 102.8 |
| Paraguay | 100.1 | 94.1 | 92.9 | 89.6 | 88.3 | 98.2 | 96.3 | 100.0 | 103.4 | 105.7 |
| Peru | 97.5 | 92.4 | 92.2 | 91.0 | 91.6 | 92.9 | 101.1 | 100.0 | 97.8 | 94.6 |
| Dominican Republic | 101.2 | 98.0 | 95.0 | 89.6 | 90.8 | 97.5 | 101.8 | 100.0 | 96.8 | 97.2 |
| Trinidad and Tobago | 90.0 | 93.7 | 98.1 | 93.7 | 99.9 | 100.2 | 101.4 | 100.0 | 92.9 | 88.0 |
| Uruguay | 123.4 | 112.9 | 107.8 | 107.1 | 105.1 | 104.6 | 98.0 | 100.0 | 102.1 | 115.1 |
| Venezuela | 181.7 | 189.0 | 149.5 | 178.5 | 139.1 | 114.5 | 102.4 | 100.0 | 94.0 | 121.6 |

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

[a] The average of the indices for the real (main official) exchange rate for the currency of each country against the currencies of its main trading partners, weighted according to the relative magnitude of imports from the countries. The weightings reflect the average for 1995-1998. As of 2000, the weightings reflect imports of the year in question.

[b] Average January-October.

[c] Simple average.

Table A - 9

**LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS FOB**

*(Indices: 1995 = 100)*

| | Value | | | Unit value | | | Volume | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002[a] | 2000 | 2001 | 2002[a] | 2000 | 2001 | 2002[a] |
| **Latin America and the Caribbean** | **156.1** | **150.0** | **150.3** | **97.1** | **91.3** | **90.1** | **160.7** | **164.2** | **166.8** |
| Argentina | 124.8 | 126.0 | 119.7 | 91.6 | 88.4 | 88.0 | 136.2 | 142.5 | 136.0 |
| Bolivia | 119.7 | 123.4 | 118.4 | 99.1 | 94.5 | 89.8 | 120.7 | 130.6 | 131.9 |
| Brazil | 118.4 | 125.2 | 129.7 | 85.6 | 83.0 | 78.4 | 138.4 | 150.8 | 165.3 |
| Chile | 120.1 | 115.5 | 112.4 | 71.0 | 63.5 | 60.3 | 169.2 | 181.9 | 186.3 |
| Colombia | 128.6 | 120.6 | 117.0 | 109.0 | 99.7 | 96.7 | 118.0 | 121.0 | 121.0 |
| Costa Rica | 167.0 | 141.4 | 149.9 | 87.9 | 83.4 | 80.9 | 189.9 | 169.5 | 185.3 |
| Ecuador | 115.0 | 108.8 | 110.1 | 115.1 | 102.8 | 107.9 | 99.9 | 105.9 | 102.0 |
| El Salvador | 179.4 | 175.6 | 179.9 | 92.0 | 86.5 | 84.6 | 195.0 | 203.0 | 212.7 |
| Guatemala | 142.9 | 132.8 | 127.5 | 79.7 | 74.9 | 73.0 | 179.2 | 177.3 | 174.8 |
| Haiti | 216.6 | 199.6 | 176.7 | 97.0 | 94.2 | 92.3 | 223.3 | 211.9 | 191.4 |
| Honduras | 137.0 | 136.5 | 132.3 | 95.1 | 89.6 | 85.1 | 144.1 | 152.4 | 155.4 |
| Mexico | 209.3 | 199.2 | 200.1 | 101.7 | 98.1 | 98.6 | 205.8 | 203.1 | 203.0 |
| Nicaragua | 147.5 | 139.2 | 137.8 | 86.3 | 76.7 | 75.5 | 171.0 | 181.5 | 182.3 |
| Panama | 95.9 | 98.4 | 85.8 | 103.8 | 100.7 | 98.9 | 92.3 | 97.8 | 86.7 |
| Paraguay | 55.4 | 55.8 | 54.1 | 90.8 | 87.7 | 85.9 | 61.0 | 63.6 | 62.9 |
| Peru | 125.9 | 127.2 | 138.6 | 75.6 | 69.6 | 71.9 | 166.5 | 182.7 | 192.8 |
| Dominican Republic | 151.8 | 139.6 | 136.8 | 94.6 | 92.7 | 90.8 | 160.4 | 150.6 | 150.6 |
| Uruguay | 111.0 | 99.8 | 89.8 | 82.1 | 79.6 | 78.8 | 135.2 | 125.4 | 114.0 |
| Venezuela | 173.1 | 141.8 | 144.6 | 141.0 | 114.8 | 118.2 | 122.8 | 123.5 | 122.3 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Preliminary figures.

Table A - 10

**LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, FOB**

*(Indices: 1995 = 100)*

| | Value | | | Unit value | | | Volume | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002[a] | 2000 | 2001 | 2002[a] | 2000 | 2001 | 2002[a] |
| **Latin America and the Caribbean** | **156.4** | **152.6** | **141.5** | **94.0** | **91.0** | **90.0** | **166.3** | **167.8** | **157.3** |
| Argentina | 126.8 | 101.8 | 42.8 | 84.2 | 81.7 | 80.1 | 150.6 | 124.6 | 53.4 |
| Bolivia | 129.5 | 122.1 | 125.7 | 88.5 | 85.5 | 83.8 | 146.4 | 142.8 | 150.1 |
| Brazil | 112.4 | 111.9 | 96.2 | 94.2 | 91.5 | 90.1 | 119.3 | 122.3 | 106.8 |
| Chile | 116.7 | 112.1 | 105.4 | 96.5 | 92.7 | 89.9 | 121.0 | 120.9 | 117.2 |
| Colombia | 84.4 | 93.4 | 91.0 | 94.1 | 91.3 | 89.5 | 89.7 | 102.3 | 101.7 |
| Costa Rica | 158.4 | 151.0 | 172.6 | 91.8 | 88.3 | 86.5 | 172.5 | 171.0 | 199.5 |
| Ecuador | 82.5 | 117.4 | 141.9 | 93.0 | 90.0 | 88.4 | 88.7 | 130.5 | 160.6 |
| El Salvador | 151.0 | 154.5 | 153.5 | 111.2 | 107.9 | 106.4 | 135.8 | 143.2 | 144.3 |
| Guatemala | 156.4 | 169.6 | 181.9 | 94.1 | 90.3 | 89.2 | 166.2 | 187.8 | 203.9 |
| Haiti | 164.9 | 162.0 | 150.2 | 110.1 | 105.7 | 105.2 | 149.8 | 153.3 | 142.8 |
| Honduras | 169.9 | 179.1 | 171.8 | 91.6 | 88.2 | 86.2 | 185.5 | 203.1 | 199.3 |
| Mexico | 240.8 | 232.4 | 230.8 | 94.7 | 91.4 | 90.2 | 254.3 | 254.3 | 255.8 |
| Nicaragua | 186.9 | 184.8 | 178.9 | 111.6 | 108.2 | 107.1 | 167.5 | 170.8 | 167.0 |
| Panama | 104.5 | 99.9 | 97.6 | 104.0 | 100.4 | 100.0 | 100.5 | 99.5 | 97.6 |
| Paraguay | 64.7 | 64.2 | 56.5 | 107.8 | 104.2 | 102.6 | 60.0 | 61.7 | 55.1 |
| Peru | 94.8 | 92.8 | 95.8 | 93.5 | 89.8 | 88.5 | 101.4 | 103.4 | 108.3 |
| Dominican Republic | 183.3 | 169.4 | 168.9 | 92.7 | 89.5 | 87.9 | 197.8 | 189.3 | 192.2 |
| Uruguay | 122.2 | 107.5 | 75.3 | 95.2 | 91.4 | 89.1 | 128.3 | 117.6 | 84.5 |
| Venezuela | 128.4 | 143.2 | 104.5 | 89.6 | 87.1 | 86.2 | 143.3 | 164.4 | 121.2 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Preliminary figures.

Table A - 11

**LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE (GOODS), FOB/FOB**

*(Indices: 1995 = 100)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **94.2** | **98.8** | **100.0** | **100.8** | **102.8** | **97.2** | **97.5** | **103.3** | **100.4** | **100.1** |
| Argentina | 104.8 | 105.6 | 100.0 | 108.5 | 108.9 | 103.9 | 98.5 | 108.8 | 108.2 | 109.9 |
| Bolivia | 88.3 | 102.5 | 100.0 | 111.7 | 115.6 | 109.9 | 109.8 | 112.0 | 110.5 | 107.1 |
| Brazil | 79.9 | 91.5 | 100.0 | 98.0 | 103.8 | 103.8 | 93.6 | 90.9 | 90.7 | 87.0 |
| Chile | 74.2 | 84.1 | 100.0 | 80.7 | 83.0 | 73.3 | 73.5 | 73.6 | 68.5 | 67.1 |
| Colombia | 91.0 | 104.9 | 100.0 | 103.7 | 104.4 | 95.8 | 102.6 | 115.8 | 109.2 | 108.1 |
| Costa Rica | 84.5 | 93.9 | 100.0 | 94.9 | 100.6 | 103.9 | 102.8 | 95.8 | 94.5 | 93.5 |
| Ecuador | 106.4 | 108.9 | 100.0 | 109.6 | 111.9 | 99.6 | 106.2 | 123.8 | 114.2 | 122.1 |
| El Salvador | 63.7 | 81.0 | 100.0 | 93.6 | 94.1 | 91.8 | 86.9 | 82.7 | 80.2 | 79.5 |
| Guatemala | 84.3 | 89.9 | 100.0 | 87.7 | 94.8 | 94.3 | 87.2 | 84.7 | 82.9 | 81.8 |
| Haiti | 94.1 | 96.8 | 100.0 | 90.6 | 94.8 | 96.6 | 95.3 | 88.1 | 89.1 | 87.8 |
| Honduras | 90.3 | 92.1 | 100.0 | 92.8 | 115.4 | 118.0 | 110.2 | 103.8 | 101.6 | 98.8 |
| Mexico | 104.9 | 103.3 | 100.0 | 102.8 | 104.0 | 100.4 | 102.3 | 107.4 | 107.3 | 109.3 |
| Nicaragua | 81.3 | 95.5 | 100.0 | 88.1 | 83.9 | 87.4 | 81.1 | 77.3 | 70.9 | 70.5 |
| Panama | 106.8 | 110.1 | 100.0 | 101.3 | 103.4 | 103.3 | 105.9 | 99.8 | 100.3 | 98.9 |
| Paraguay | 87.2 | 105.1 | 100.0 | 100.0 | 99.9 | 92.4 | 87.7 | 84.2 | 84.2 | 83.7 |
| Peru | 89.1 | 95.7 | 100.0 | 96.5 | 103.2 | 89.7 | 83.3 | 80.9 | 77.5 | 81.3 |
| Dominican Republic | 90.7 | 95.6 | 100.0 | 97.7 | 102.0 | 103.1 | 104.0 | 102.0 | 103.6 | 103.4 |
| Uruguay | 94.6 | 94.7 | 100.0 | 96.7 | 96.4 | 103.1 | 94.9 | 86.2 | 87.1 | 88.4 |
| Venezuela | 100.9 | 100.0 | 100.0 | 115.6 | 110.8 | 79.9 | 107.0 | 157.4 | 131.8 | 137.1 |

**Source**: ECLAC.

[a] Preliminary figures.

Table A -12

**LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS**

*(Millions of dollars)*

| | Exports of goods (f.o.b.) and services | | | Imports of goods (f.o.b.) and services | | | Balance on goods | | | Balance on services | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] |
| **Latin America and the Caribbean** | **407,395** | **392,026** | **392,530** | **420,493** | **412,197** | **381,450** | **4,469** | **-1,175** | **24,749** | **-17,568** | **-18,995** | **-13,669** |
| Argentina | 31,092 | 30,846 | 29,322 | 32,822 | 27,360 | 13,742 | 2,558 | 7,507 | 17,280 | -4,288 | -4,021 | -1,700 |
| Bolivia | 1,470 | 1,521 | 1,463 | 2,078 | 1,996 | 2,051 | 339 | -209 | -305 | -269 | -266 | -282 |
| Brazil | 64,469 | 67,545 | 69,567 | 72,774 | 72,652 | 62,138 | -730 | 2,642 | 12,500 | -7,574 | -7,749 | -5,071 |
| Chile | 22,971 | 22,315 | 21,870 | 21,702 | 21,221 | 20,271 | 2,154 | 2,094 | 2,576 | -886 | -999 | -978 |
| Colombia | 15,668 | 14,971 | 14,568 | 14,399 | 15,844 | 15,540 | 2,531 | 510 | 431 | -1,261 | -1,383 | -1,404 |
| Costa Rica | 7,748 | 6,820 | 7,158 | 7,295 | 6,911 | 7,796 | -211 | -821 | -1,347 | 665 | 729 | 709 |
| Ecuador | 5,987 | 5,774 | 5,940 | 5,012 | 6,754 | 7,943 | 1,395 | -462 | -1,516 | -420 | -518 | -487 |
| El Salvador | 3,662 | 3,977 | 3,870 | 5,636 | 5,892 | 5,814 | -1,740 | -1,913 | -1,809 | -235 | -2 | -136 |
| Guatemala | 3,860 | 3,896 | 3,809 | 5,568 | 6,040 | 6,441 | -1,660 | -2,278 | -2,765 | -48 | 133 | 133 |
| Haiti | 503 | 442 | 427 | 1,336 | 1,300 | 1,230 | -743 | -750 | -708 | -90 | -108 | -95 |
| Honduras | 2,464 | 2,447 | 2,371 | 3,318 | 3,498 | 3,315 | -668 | -820 | -767 | -185 | -231 | -177 |
| Mexico | 180,167 | 171,103 | 171,700 | 190,494 | 184,614 | 183,500 | -8,003 | -9,954 | -8,000 | -2,323 | -3,558 | -3,800 |
| Nicaragua | 956 | 919 | 906 | 1,991 | 1,982 | 1,923 | -920 | -942 | -898 | -115 | -121 | -119 |
| Panama | 7,820 | 8,010 | 7,800 | 8,099 | 7,817 | 7,722 | -1,143 | -675 | -1,295 | 864 | 868 | 1,374 |
| Paraguay | 2,926 | 2,907 | 2,782 | 3,335 | 3,278 | 2,938 | -568 | -532 | -256 | 160 | 160 | 100 |
| Peru | 8,614 | 8,597 | 9,267 | 9,723 | 9,487 | 9,809 | -317 | -90 | 319 | -793 | -800 | -861 |
| Dominican Republic | 8,964 | 8,366 | 8,091 | 10,852 | 10,056 | 9,978 | -3,741.8 | -3,484.5 | -3,563.7 | 1,854.3 | 1,794.9 | 1,677 |
| Uruguay | 3,659 | 3,276 | 2,859 | 4,193 | 3,718 | 2,672 | -927 | -771 | -111 | 394 | 329 | 298 |
| Venezuela | 34,394 | 28,296 | 28,760 | 19,868 | 21,775 | 16,628 | 17,544 | 9,774 | 14,981 | -3,018 | -3,253 | -2,849 |

Table A -12 (continued)

| | Trade balance | | | Current transfers | | | Balance on the income accounts | | | Balance on the current account | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] |
| **Latin America and the Caribbean** | **-13,098** | **-20,170** | **11,080** | **20,272** | **23,547** | **25,562** | **-53,435** | **-54,718** | **-52,513** | **-46,262** | **-51,341** | **-15,871** |
| Argentina | -1,730 | 3,486 | 15,580 | 235 | 180 | 200 | -7,370 | -8,095 | -6,499 | -8,864 | -4,429 | 9,282 |
| Bolivia | -608 | -475 | -588 | 387 | 393 | 373 | -226 | -210 | -200 | -447 | -292 | -415 |
| Brazil | -8,305 | -5,107 | 7,429 | 1,521 | 1,638 | 2,350 | -17,886 | -19,747 | -18,380 | -24,669 | -23,217 | -8,601 |
| Chile | 1,269 | 1,094 | 1,598 | 454 | 422 | 521 | -2,795 | -2,757 | -2,645 | -1,073 | -1,241 | -526 |
| Colombia | 1,269 | -873 | -973 | 1,668 | 2,085 | 1,962 | -2,514 | -2,750 | -2,887 | 424 | -1,538 | -1,897 |
| Costa Rica | 453 | -92 | -638 | 92 | 148 | 155 | -1,252 | -793 | -422 | -707 | -737 | -905 |
| Ecuador | 975 | -981 | -2,003 | 1,352 | 1,545 | 1,500 | -1,411 | -1,268 | -1,200 | 916 | -704 | -1,703 |
| El Salvador | -1,975 | -1,915 | -1,945 | 1,797 | 2,004 | 2,049 | -253 | -266 | -342 | -431 | -177 | -238 |
| Guatemala | -1,708 | -2,145 | -2,631 | 868 | 997 | 1,680 | -209 | -90 | -251 | -1,049 | -1,238 | -1,202 |
| Haiti | -833 | -858 | -803 | 771 | 769 | 775 | -9 | -8 | -17 | -71 | -97 | -45 |
| Honduras | -853 | -1,051 | -944 | 747 | 871 | 760 | -151 | -146 | -77 | -258 | -326 | -262 |
| Mexico | -10,326 | -13,511 | -11,800 | 6,994 | 9,338 | 10,100 | -14,827 | -13,829 | -13,300 | -18,160 | -18,002 | -15,000 |
| Nicaragua | -1,035 | -1,063 | -1,017 | 320 | 336 | 375 | -202 | -249 | -195 | -917 | -976 | -837 |
| Panama | -279 | 193 | 78 | 177 | 198 | 209 | -614 | -545 | -377 | -716 | -154 | -90 |
| Paraguay | -408 | -371 | -156 | 177 | 167 | 120 | 40 | -16 | -60 | -192 | -220 | -96 |
| Peru | -1,109 | -890 | -542 | 993 | 999 | 904 | -1,452 | -1,203 | -1,573 | -1,568 | -1,094 | -1,211 |
| Dominican Republic | -1,888 | -1,690 | -1,887 | 1,902 | 2,028 | 2,149 | -1,041 | -1,089 | -1,177 | -1,026 | -751 | -915 |
| Uruguay | -533 | -442 | 187 | 28 | 43 | 40 | -61 | -114 | -110 | -567 | -512 | 117 |
| Venezuela | 14,526 | 6,521 | 12,132 | -211 | -610 | -660 | -1,203 | -1,546 | -2,800 | 13,112 | 4,365 | 8,672 |

Table A - 12 (concluded)

| | Balance on the capital and financial accounts [b] | | | Overall balance | | | Reserve assets [c] (variation) | | | IMF loans and credit and exceptional financing | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] | 2000 | 2001 | 2002 [a] |
| **Latin America and the Caribbean** | **60,962** | **32,974** | **-1,377** | **14,700** | **-18,367** | **-17,248** | **-7,309** | **1,196** | **2,463** | **-7,696** | **17,172** | **14,785** |
| Argentina | 7,647 | -17,030 | -17,282 | -1,218 | -21,459 | -8,000 | 439 | 12,083 | 4,000 | 778 | 9,376 | 4,000 |
| Bolivia | 408 | 255 | 296 | -39 | -37 | -118 | 39 | 34 | 117 | 0 | 4 | 1 |
| Brazil | 32,731 | 19,766 | -76 | 8,061 | -3,450 | -8,677 | 2,262 | -3,307 | 177 | -10,323 | 6,757 | 8,500 |
| Chile | 1,410 | 645 | 1,326 | 337 | -596 | 800 | -337 | 596 | -800 | 0 | 0 | 0 |
| Colombia | 445 | 2,756 | 2,197 | 869 | 1,218 | 300 | -869 | -1,218 | -300 | 0 | 0 | 0 |
| Costa Rica | 555 | 750 | 990 | -152 | 13 | 85 | -152 | -13 | -85 | 0 | 0 | 0 |
| Ecuador | -6,623 | 474 | 1,578 | -5,707 | -230 | -125 | -307 | 106 | -65 | 6,014 | 124 | 190 |
| El Salvador | 385 | -1 | 208 | -46 | -178 | -30 | 46 | 178 | 30 | 0 | 0 | 0 |
| Guatemala | 1,703 | 1,712 | 1,128 | 654 | 474 | -75 | -654 | -474 | 75 | 0 | 0 | 0 |
| Haiti | 26 | 99 | -25 | -45 | 2 | -70 | 57 | -5 | 40 | -12 | 4 | 31 |
| Honduras | 191 | 342 | 386 | -66 | 16 | 124 | -119 | -147 | -258 | 185 | 132 | 134 |
| Mexico | 25,269 | 25,327 | 19,600 | 7,110 | 7,325 | 4,600 | -2,824 | -7,325 | -4,600 | -4,286 | 0 | 0 |
| Nicaragua | 717 | 710 | 561 | -199 | -266 | -275 | 16 | 114 | 19 | 183 | 152 | 256 |
| Panama | 388 | -150 | -40 | -328 | -304 | -130 | 109 | -479 | 130 | 219 | 783 | 0 |
| Paraguay | -145 | 164 | -25 | -336 | -56 | -121 | 207 | 58 | 121 | 129 | -1 | 0 |
| Peru | 1,437 | 1,511 | 2,256 | -131 | 417 | 1,045 | 190 | -448 | -1,100 | -58 | 31 | 55 |
| Dominican Republic | 979 | 1,264 | 353 | -48 | 513 | -562 | 70 | -519 | 562 | -22 | 5 | 0 |
| Uruguay | 733 | 815 | -4,135 | 167 | 302 | -4,018 | -167 | -297 | 2,400 | 0 | -5 | 1,618 |
| Venezuela | -7,294 | -6,435 | -10,672 | 5,818 | -2,070 | -2,000 | -5,314 | 2,259 | 2,000 | -504 | -189 | 0 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Preliminary estimates.
[b] Includes errors and omissions.
[c] A minus sign (-) indicates an increase in reserve assets.

Table A - 13
**LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT**[a b]
*(Millions of dollars)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002[c] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **10,383** | **24,231** | **25,299** | **40,032** | **55,876** | **60,876** | **79,741** | **67,711** | **68,081** | **38,974** |
| Argentina[d] | 2,089 | 2,622 | 4,111 | 5,349 | 5,508 | 4,968 | 22,633 | 10,654 | 3,304 | 1,500 |
| Bolivia | 125 | 147 | 391 | 472 | 728 | 952 | 983 | 693 | 647 | 721 |
| Brazil | 801 | 2,035 | 3,475 | 11,666 | 17,877 | 26,002 | 26,888 | 30,498 | 24,894 | 13,402 |
| Chile | 600 | 1,672 | 2,205 | 3,681 | 3,809 | 3,144 | 6,203 | -348 | 3,045 | 858 |
| Colombia | 719 | 1,298 | 712 | 2,784 | 4,753 | 2,032 | 1,336 | 1,905 | 2,386 | 1,864 |
| Costa Rica | 243 | 292 | 331 | 421 | 402 | 607 | 614 | 400 | 445 | 424 |
| Ecuador | 474 | 576 | 452 | 500 | 724 | 870 | 648 | 720 | 1,330 | 1,335 |
| El Salvador[e] | 16 | 0 | 0 | 0 | 59 | 1,103 | 162 | 178 | 277 | 317 |
| Guatemala | 143 | 65 | 75 | 77 | 85 | 673 | 155 | 230 | 456 | 110 |
| Haiti | -2 | -3 | -2 | 4 | 4 | 11 | 30 | 13 | 4 | 8 |
| Honduras | 52 | 42 | 69 | 90 | 128 | 99 | 237 | 262 | 195 | 179 |
| Mexico[f] | 4,389 | 10,973 | 9,526 | 9,185 | 12,830 | 11,602 | 12,476 | 15,318 | 25,221 | 13,500 |
| Nicaragua | 40 | 40 | 75 | 97 | 173 | 184 | 300 | 265 | 132 | 171 |
| Panama | 156 | 411 | 267 | 410 | 1,300 | 1,296 | 652 | 603 | 513 | 350 |
| Paraguay | 75 | 138 | 98 | 144 | 230 | 336 | 89 | 74 | 152 | 74 |
| Peru | 687 | 3,108 | 2,048 | 3,242 | 1,697 | 1,880 | 1,969 | 662 | 1,063 | 1,943 |
| Dominican Republic | 189 | 207 | 414 | 97 | 421 | 700 | 1,338 | 953 | 1,015 | 850 |
| Uruguay | 102 | 155 | 157 | 137 | 113 | 155 | 238 | 274 | 319 | 168 |
| Venezuela | -514 | 455 | 894 | 1,676 | 5,036 | 4,262 | 2,789 | 4,357 | 2,684 | 1,200 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Refers to direct investment in the reporting economy minus direct investment abroad by residents. For some countries this information is not available. Includes reinvested earnings.
[b] In accordance with the fifth edition of the *IMF Balance of Payments Manual*, all transactions between non-financial direct investment enterprises and their parent companies and affiliates are included in direct investment.
[c] Preliminary figures.
[d] In 1999, includes the value of the investment by REPSOL in Yacimientos Petrolíferos Fiscales. Part of this amount corresponds to the purchase of shares in the company held by non-residents. In the balance of payments, the value of those shares is reflected in a debt under the portfolio investment item.
[e] The Central Reserve Bank of El Salvador has kept systematic records of foreign direct investment since 1998.
[f] Includes the value of the investment by City Group in BANAMEX.

Table A - 14

**LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES [a]**

*(Millions of dollars)*

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **12,577** | **28,794** | **17,931** | **23,071** | **46,915** | **52,003** | **39,511** | **38,707** | **35,615** | **33,579** | **16,237** |
| Argentina | 1,570 | 6,308 | 5,319 | 6,354 | 14,070 | 14,662 | 15,615 | 14,183 | 13,025 | 1,501 | - |
| Brazil | 3,655 | 6,465 | 3,998 | 7,041 | 11,545 | 14,940 | 9,190 | 8,586 | 11,382 | 12,239 | 6,475 |
| Chile | 120 | 322 | 155 | 300 | 2,020 | 1,800 | 1,063 | 1,764 | 680 | 1,536 | 964 |
| Colombia | - | 567 | 955 | 1,083 | 1,867 | 1,000 | 1,389 | 1,676 | 1,547 | 4,263 | 1,000 |
| Costa Rica | - | - | 50 | - | - | - | 200 | 300 | 250 | 250 | 250 |
| Ecuador | - | - | - | 10 | - | 625 | - | - | - | - | - |
| El Salvador | - | - | - | - | - | - | - | 150 | 50 | 354 | 1,252 |
| Grenada | - | - | - | - | - | - | - | - | - | - | 100 |
| Guatemala | - | 60 | - | - | - | 150 | - | - | - | 325 | - |
| Jamaica | - | - | 55 | - | - | 225 | 250 | - | 421 | 691 | 300 |
| Mexico | 6,100 | 11,339 | 6,949 | 7,646 | 16,353 | 15,657 | 8,444 | 9,854 | 7,078 | 9,232 | 4,066 |
| Paraguay [c] | - | - | - | - | - | - | - | 400 | - | - | - |
| Peru | - | 30 | 100 | - | - | 250 | 150 | - | - | - | 1,430 |
| Dominican Republic | - | - | - | - | - | 200 | - | - | - | 500 | - |
| Trinidad and Tobago | 100 | 125 | 150 | 71 | 150 | - | - | 230 | 250 | - | - |
| Uruguay | 100 | 140 | 200 | 211 | 145 | 479 | 550 | 350 | 443 | 1,106 | 400 |
| Venezuela | 932 | 3 438 | - | 356 | 765 | 2,015 | 2,660 | 1,215 | 489 | 1,583 | - |

**Source**: International Monetary Fund, Research Department, Emerging Markets Studies Division.
[a] Gross issues. Includes medium-term euronotes.
[b] Preliminary estimates.
[c] Official information.

Table A - 15

**LATIN AMERICA AND THE CARIBBEAN: INDICES OF STOCK EXCHANGE PRICES IN DOLLARS [a]**

*(Indices: June 1997 = 100)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America** | **77.4** | **76.2** | **62.5** | **72.5** | **90.6** | **56.0** | **88.0** | **74.6** | **63.5** | **52.8** |
| Argentina | 84.9 | 63.6 | 69.1 | 82.1 | 96.3 | 68.9 | 91.9 | 68.9 | 33.4 | 21.8 |
| Brazil | 38.2 | 64.0 | 49.8 | 64.9 | 78.3 | 44.9 | 75.0 | 68.7 | 46.9 | 32.6 |
| Chile | 67.8 | 95.8 | 93.0 | 77.0 | 79.6 | 55.7 | 75.4 | 64.8 | 59.6 | 50.4 |
| Colombia | 81.6 | 103.5 | 77.1 | 80.5 | 99.9 | 56.4 | 45.1 | 24.8 | 29.5 | 32.2 |
| Mexico | 156.0 | 91.1 | 66.5 | 77.3 | 114.1 | 69.5 | 125.4 | 99.8 | 102.9 | 97.0 |
| Peru | 43.9 | 66.8 | 73.1 | 73.6 | 83.8 | 50.5 | 61.1 | 44.1 | 48.3 | 61.5 |
| Venezuela | 65.6 | 47.8 | 32.7 | 75.7 | 93.3 | 44.9 | 39.3 | 49.7 | 42.9 | 27.1 |

**Source**: ECLAC, on the basis of figures provided by the International Finance Corporation.
[a] Figures at end of month, general index.
[b] At the end of November.

Table A - 16
**LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT**[a]
*(Millions of dollars)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **528,037** | **564,399** | **619,233** | **641,306** | **666,505** | **747,630** | **763,684** | **740,472** | **727,833** | **725,074** |
| Argentina | 72,209 | 85,656 | 98,547 | 110,613 | 125,052 | 141,929 | 145,289 | 146,338 | 139,783 | 132,900 [c] |
| Bolivia [d] | 3,784 | 3,777 | 4,216 | 4,523 | 4,366 | 4,234 | 4,390 | 4,461 | 4,412 | 4,228 [e] |
| Brazil | 145,726 | 148,295 | 159,256 | 179,935 | 199,998 | 241,644 | 241,468 | 236,157 | 226,067 | 228,723 [f] |
| Chile | 19,665 | 21,768 | 21,736 | 22,979 | 26,701 | 31,691 | 34,167 | 36,477 | 38,032 | 39,204 [g] |
| Colombia | 18,908 | 21,855 | 26,341 | 31,116 | 34,412 | 36,606 | 36,662 | 36,398 | 39,781 | 37,800 [h] |
| Costa Rica | 4,011 | 4,133 | 4,209 | 3,289 | 3,086 | 3,402 | 3,641 | 3,742 | 3,951 | 4,175 [h] |
| Cuba | 8,785 | 9,083 | 10,504 | 10,465 | 10,146 | 11,209 | 11,078 | 10,961 | 11,100 | 12,210 [h] |
| Ecuador | 13,631 | 14,589 | 13,934 | 14,586 | 15,099 | 16,400 | 16,282 | 13,564 | 14,411 | 15,898 [g] |
| El Salvador [d] | 1,976 | 2,056 | 2,168 | 2,517 | 2,689 | 2,632 | 2,789 | 2,832 | 3,148 | 4,022 [h] |
| Guatemala | 2,347 | 2,895 | 2,947 | 3,026 | 3,197 | 3,618 | 3,831 | 3,929 | 4,100 | 4,200 [h] |
| Guyana | 2,062 | 2,004 | 2,058 | 1,537 | 1,514 | 1,500 | 1,196 | 1,250 | 1,250 | 1,200 [h] |
| Haiti [d] | 866 | 875 | 898 | 914 | 1,025 | 1,100 | 1,166 | 1,180 | 1,189 | 1,212 |
| Honduras | 3,850 | 4,040 | 4,243 | 4,121 | 4,073 | 4,404 | 4,729 | 4,721 | 4,802 | 4,715 [h] |
| Jamaica | 3,687 | 3,652 | 3,452 | 3,232 | 3,278 | 3,306 | 3,024 | 3,375 | 4,146 | 4,231 [g] |
| Mexico [i] | 130,500 | 139,800 | 165,600 | 157,200 | 149,028 | 160,258 | 166,381 | 148,652 | 144,534 | 141,000 [h] |
| Nicaragua [d] | 10,987 | 11,695 | 10,248 | 6,094 | 6,001 | 6,287 | 6,549 | 6,660 | 6,374 | 6,242 [h] |
| Panama [d] | 5,264 | 5,505 | 5,891 | 5,070 | 5,051 | 5,349 | 5,568 | 5,604 | 6,263 | 6,218 [h] |
| Paraguay | 1,254 | 1,271 | 1,741 | 1,801 | 1,927 | 2,133 | 2,697 | 2,701 | 2,586 | 2,586 [h] |
| Peru | 27,447 | 30,191 | 33,378 | 33,805 | 28,642 | 29,477 | 28,704 | 28,150 | 27,508 | 28,555 [h] |
| Dominican Republic | 4,562 | 3,946 | 3,999 | 3,807 | 3,572 | 3,537 | 3,636 | 3,685 | 4,180 | 4,300 [c] |
| Trinidad and Tobago | 2,102 | 2,064 | 1,905 | 1,877 | 1,565 | 1,471 | 1,585 | 1,680 | 1,638 | 1,614 [f] |
| Uruguay [d] | 3,578 | 4,251 | 4,426 | 4,682 | 4,754 | 5,195 | 5,618 | 6,116 | 5,855 | 6,981 [c] |
| Venezuela | 40,836 | 40,998 | 37,537 | 34,117 | 31,328 | 30,248 | 33,235 | 31,840 | 32,724 | 32,859 [c] |

**Source**: ECLAC, on the basis of official figures.
[a] Includes debt owed to the International Monetary Fund.
[b] Preliminary figures.
[c] Balance in August 2002.
[d] External public debt.
[e] Balance in June 2002.
[f] Balance in September 2002.
[g] Balance in July 2002.
[h] Balance in October 2002.
[i] Public debt does not include investment by non-residents in government securities.

Table A - 17
**LATIN AMERICA AND THE CARIBBEAN: NET EXTERNAL RESOURCE TRANSFERS**[a]
*(Millions of dollars)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **31,470** | **10,356** | **19,784** | **22,441** | **35,398** | **28,055** | **-3,163** | **-169** | **-4,572** | **-39,104** |
| Argentina | 9,416 | 8,145 | 447 | 5,259 | 9,392 | 10,653 | 5,768 | 1,055 | -15,749 | -19,780 |
| Bolivia | 200 | 46 | 250 | 459 | 433 | 638 | 324 | 182 | 49 | 98 |
| Brazil | -1,714 | -896 | 19,599 | 19,743 | 7,664 | 7,291 | -1,250 | 4,522 | 6,776 | -9,956 |
| Chile | 1,070 | 2,004 | -626 | 1,748 | 4,374 | -39 | -2,575 | -1,386 | -2,112 | -1,319 |
| Colombia | 784 | 2,414 | 2,994 | 4,414 | 3,805 | 2,070 | -2,343 | -2,069 | 6 | -689 |
| Costa Rica | 464 | 273 | 311 | 2 | 448 | -97 | -660 | -698 | -43 | 568 |
| Ecuador | 428 | 543 | -108 | -740 | -318 | 468 | -2,717 | -2,019 | -670 | 568 |
| El Salvador | 123 | 36 | 338 | 243 | 297 | 231 | 165 | 132 | -267 | -134 |
| Guatemala | 704 | 586 | 210 | 356 | 717 | 1,100 | 709 | 1,494 | 1,622 | 876 |
| Haiti | 54 | 22 | 158 | -13 | 99 | 7 | 81 | 5 | 95 | -12 |
| Honduras | -4 | 151 | 51 | 110 | 254 | 150 | 551 | 225 | 328 | 443 |
| Mexico | 17,911 | -1,741 | -1,464 | -9,659 | 5,387 | 4,945 | 1,661 | 6,157 | 11,498 | 6,300 |
| Nicaragua | 360 | 524 | 402 | 610 | 836 | 604 | 1,051 | 699 | 613 | 622 |
| Panama | -97 | -133 | 32 | 181 | 1,119 | 402 | 640 | -7 | 88 | -418 |
| Paraguay | 84 | 734 | 262 | 423 | 478 | 189 | 287 | 25 | 147 | -85 |
| Peru | 1,331 | 3,729 | 3,045 | 3,722 | 3,320 | 1,140 | -502 | -73 | 340 | 738 |
| Dominican Republic | -9 | -785 | -455 | -527 | -593 | -453 | -352 | -84 | 181 | -824 |
| Uruguay | 230 | 294 | 203 | 185 | 485 | 798 | 482 | 673 | 695 | -2,627 |
| Venezuela | 134 | -5,590 | -5,864 | -4,076 | -2,797 | -2,042 | -4,484 | -9,001 | -8,170 | -13,472 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] The net transfer of resources is equal to net capital inflows (including non-autonomous flows and errors and omissions) minus the balance on the income account (net payments of profits and interest). Negative figures indicate net outward resource transfers.
[b] Preliminary figures.

Table A - 18

**LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOWS AND NET EXTERNAL RESOURCE TRANSFERS**

*(Billions of dollars and percentages)*

| | Net capital inflows | | | Net payments of profits and interest | Resource transfers | Exports of goods and services | Resource transfers as a percentage of exports of goods and services (percentages) |
|---|---|---|---|---|---|---|---|
| | Autonomous [a] | Non-autonomous [b] | Total | | 5 = (3) - (4) | | (7) = (5) / (6) |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1980 | 29.2 | 1.7 | 30.9 | 18.9 | 12.0 | 106.9 | 11.2 |
| 1981 | 38.4 | 1.8 | 40.2 | 29.1 | 11.1 | 115.6 | 9.6 |
| 1982 | 3.3 | 17.2 | 20.5 | 38.9 | -18.4 | 105.2 | -17.5 |
| 1983 | -22.1 | 30.1 | 8.0 | 34.5 | -26.5 | 105.4 | -25.1 |
| 1984 | -10.6 | 23.9 | 13.3 | 37.5 | -24.2 | 117.5 | -20.6 |
| 1985 | -16.0 | 20.3 | 4.3 | 35.5 | -31.2 | 112.8 | -27.7 |
| 1986 | -12.1 | 21.8 | 9.7 | 32.7 | -23.0 | 99.2 | -23.1 |
| 1987 | -13.7 | 26.5 | 12.8 | 30.9 | -18.1 | 113.3 | -16.0 |
| 1988 | -19.4 | 22.8 | 3.4 | 34.6 | -31.2 | 130.6 | -23.9 |
| 1989 | -19.7 | 29.3 | 9.6 | 39.1 | -29.5 | 145.8 | -20.2 |
| 1990 | -7.3 | 24.3 | 17.0 | 34.4 | -17.4 | 161.4 | -10.8 |
| 1991 | 23.0 | 12.8 | 35.8 | 31.6 | 4.2 | 164.0 | 2.6 |
| 1992 | 49.1 | 7.8 | 56.9 | 30.4 | 26.5 | 177.6 | 14.9 |
| 1993 | 61.3 | 4.9 | 66.2 | 34.7 | 31.5 | 194.1 | 16.2 |
| 1994 | 42.3 | 4.4 | 46.7 | 36.6 | 10.1 | 223.3 | 4.5 |
| 1995 | 30.2 | 30.0 | 60.2 | 40.9 | 19.4 | 266.0 | 7.3 |
| 1996 | 66.8 | -1.4 | 65.4 | 42.8 | 22.7 | 294.3 | 7.7 |
| 1997 | 84.6 | -4.0 | 80.6 | 48.2 | 32.3 | 326.7 | 9.9 |
| 1998 | 69.5 | 8.9 | 78.4 | 51.2 | 27.2 | 326.1 | 8.3 |
| 1999 | 43.3 | 5.8 | 49.1 | 52.2 | -3.1 | 341.0 | -0.9 |
| 2000 | 61.0 | -7.7 | 53.3 | 53.4 | -0.2 | 407.4 | 0.0 |
| 2001 | 33.0 | 17.2 | 50.1 | 54.7 | -4.6 | 392.0 | -1.2 |
| 2002 [c] | -1.4 | 14.8 | 13.4 | 52.5 | -39.1 | 392.5 | -10.0 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Includes errors and omissions.

[b] Includes IMF loans and credit and exceptional financing (includes transactions such as debt forgiveness and accumulation of arrears).

[c] Preliminary figures.

Table A - 19

**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL ACCRUED INTEREST TO EXPORTS OF GOODS AND SERVICES [a]**

*(Percentages)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **18.3** | **17.2** | **17.2** | **16.2** | **15.4** | **16.6** | **16.5** | **14.5** | **14.5** | **12.9** |
| Argentina | 23.2 | 26.5 | 27.8 | 27.8 | 29.0 | 34.6 | 40.8 | 39.7 | 39.2 | 34.1 |
| Bolivia | 21.2 | 14.3 | 16.6 | 12.1 | 14.8 | 15.1 | 15.7 | 14.3 | 10.3 | 10.1 |
| Brazil | 21.8 | 17.9 | 21.9 | 25.3 | 24.0 | 28.1 | 31.6 | 26.5 | 26.4 | 22.2 |
| Chile | 10.3 | 8.2 | 7.2 | 7.2 | 7.3 | 8.3 | 8.0 | 8.3 | 7.9 | 8.0 |
| Colombia | 12.3 | 15.7 | 15.6 | 16.2 | 18.7 | 19.8 | 18.2 | 17.1 | 17.4 | 17.7 |
| Costa Rica | 6.8 | 5.5 | 5.7 | 4.8 | 4.6 | 3.6 | 3.2 | 4.1 | 5.1 | 4.9 |
| Ecuador | 21.1 | 18.5 | 16.8 | 16.1 | 15.8 | 21.1 | 21.1 | 20.0 | 16.9 | 15.3 |
| El Salvador | 8.5 | 6.3 | 5.9 | 6.1 | 8.2 | 8.0 | 8.7 | 8.6 | 8.4 | 10.2 |
| Guatemala | 6.2 | 5.8 | 4.8 | 6.1 | 5.4 | 4.0 | 4.3 | 4.7 | 3.4 | 6.2 |
| Haiti | 7.9 | 6.1 | 10.4 | 3.1 | 3.2 | 1.9 | … | … | 1.9 | 1.9 |
| Honduras | 15.6 | 15.6 | 13.2 | 11.4 | 8.8 | 7.9 | 8.6 | 7.5 | 6.6 | 5.9 |
| Mexico | 18.8 | 17.7 | 15.2 | 13.1 | 10.9 | 10.1 | 9.4 | 8.3 | 8.0 | 7.6 |
| Nicaragua | 116.7 | 99.7 | 57.3 | 45.0 | 28.3 | 18.4 | 19.7 | 17.1 | 20.3 | 14.7 |
| Panama | 15.6 | 15.4 | 22.5 | 17.0 | 15.7 | 19.1 | 20.5 | 20.2 | 15.6 | … |
| Paraguay | 3.0 | 2.5 | 2.1 | 2.1 | 2.4 | 2.0 | 3.1 | 4.2 | 4.1 | 5.8 |
| Peru | 38.9 | 34.6 | 33.2 | 25.2 | 19.6 | 24.1 | 23.1 | 18.8 | 16.3 | 14.9 |
| Dominican Republic | 5.8 | 4.0 | 4.0 | 3.3 | 2.5 | 2.3 | 2.2 | 2.3 | 2.6 | … |
| Uruguay | 14.4 | 14.9 | 16.5 | 15.9 | 16.9 | 18.1 | 20.9 | 20.6 | 23.7 | 27.2 |
| Venezuela | 17.0 | 17.0 | 16.1 | 11.2 | 13.8 | 15.4 | 12.8 | 8.6 | 10.3 | 11.3 |

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

[a] Includes interest paid and interest due and not paid.

[b] Preliminary figures.

Table A - 20

**LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFIT PAYMENTS TO EXPORTS OF GOODS AND SERVICES** [a]

*(Percentages)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [b] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **4.4** | **4.5** | **5.4** | **5.6** | **4.7** | **5.3** | **5.7** | **6.1** | **5.3** | **5.2** |
| Argentina | 11.0 | 10.4 | 8.6 | 7.4 | 8.9 | 8.9 | 8.0 | 8.1 | 5.4 | 2.8 |
| Bolivia | 1.9 | 2.2 | 3.1 | 5.4 | 5.7 | 6.0 | 10.9 | 10.1 | 11.2 | 11.0 |
| Brazil | 4.5 | 4.7 | 5.3 | 7.6 | 9.1 | 10.2 | 9.3 | 6.6 | 7.4 | 8.2 |
| Chile | 8.1 | 12.9 | 11.2 | 10.2 | 10.1 | 7.8 | 8.2 | 10.7 | 10.1 | 8.9 |
| Colombia | 10.4 | 4.6 | 2.9 | 4.9 | 4.0 | -0.2 | -1.8 | 4.3 | 6.0 | 6.2 |
| Costa Rica | 2.9 | 1.7 | 2.4 | 1.8 | 3.3 | 5.5 | 21.0 | 14.7 | 8.7 | 2.6 |
| Ecuador | 2.5 | 3.1 | 2.8 | 3.4 | 3.2 | 4.6 | 4.7 | 4.7 | 5.8 | 5.6 |
| El Salvador | 1.8 | 1.6 | … | … | … | 1.0 | 3.5 | 1.6 | 1.8 | 1.6 |
| Guatemala | 2.6 | 2.6 | 2.6 | 3.6 | 4.4 | 3.1 | 3.9 | 5.8 | 6.8 | 5.5 |
| Haiti | … | … | 1.5 | 0.1 | 0.4 | 0.3 | … | … | … | … |
| Honduras | 4.5 | 1.7 | 3.6 | 3.7 | 2.7 | 2.9 | 1.9 | 2.8 | 3.7 | 2.0 |
| Mexico | 4.4 | 5.3 | 3.2 | 3.9 | 3.4 | 4.1 | 2.4 | 3.3 | 3.1 | 2.6 |
| Nicaragua | 3.5 | 3.6 | 4.7 | 7.0 | 6.7 | 7.0 | 7.4 | 7.3 | 8.4 | 7.7 |
| Panama | 4.6 | 3.7 | 3.9 | 6.4 | 6.0 | 8.4 | 11.1 | 7.9 | 8.7 | … |
| Paraguay | 1.3 | 1.0 | 1.3 | 1.8 | 3.8 | 4.3 | 3.6 | 2.9 | 4.2 | 3.6 |
| Peru | 3.0 | 3.3 | 5.3 | 5.7 | 6.8 | 6.4 | 6.2 | 4.4 | 2.9 | 5.6 |
| Dominican Republic | 6.5 | 10.6 | 10.8 | 10.7 | 10.9 | 9.8 | 10.1 | 11.1 | 12.1 | 11.9 |
| Uruguay | 0.0 | 0.0 | 1.7 | 1.3 | 1.5 | 0.9 | 0.6 | 1.4 | 2.0 | 2.4 |
| Venezuela | 1.4 | 3.3 | 3.6 | 2.9 | 2.1 | 1.7 | 4.1 | 6.7 | 3.6 | 2.8 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Includes reinvested profits.

[b] Preliminary figures.

Table A - 21

**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL DISBURSED EXTERNAL DEBT TO EXPORTS OF GOODS AND SERVICES**

*(Percentages)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 [a] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Latin America and the Caribbean** | **271.9** | **252.8** | **232.8** | **217.5** | **203.4** | **228.8** | **223.2** | **181.8** | **185.7** | **184.7** |
| Argentina | 441.9 | 442.3 | 395.8 | 390.8 | 405.6 | 457.2 | 523.5 | 470.7 | 453.2 | 453.2 |
| Bolivia | 421.9 | 310.7 | 340.2 | 343.4 | 308.9 | 312.4 | 335.0 | 303.4 | 290.1 | 288.9 |
| Brazil | 334.3 | 302.6 | 302.5 | 342.7 | 334.1 | 409.3 | 437.4 | 366.3 | 334.7 | 328.8 |
| Chile | 167.9 | 150.7 | 112.3 | 113.8 | 122.8 | 157.2 | 164.3 | 158.8 | 170.4 | 179.3 |
| Colombia | 190.1 | 205.6 | 214.3 | 236.5 | 242.1 | 272.5 | 262.4 | 232.3 | 265.7 | 259.5 |
| Costa Rica [b] | 115.2 | 108.3 | 94.6 | 68.1 | 57.7 | 49.4 | 44.3 | 48.3 | 57.9 | 58.3 |
| Ecuador | 361.4 | 316.3 | 268.2 | 259.9 | 249.7 | 327.7 | 304.6 | 226.6 | 249.6 | 267.7 |
| El Salvador | 144.5 | 125.4 | 106.1 | 114.3 | 92.3 | 86.4 | 87.8 | 77.3 | 79.2 | 103.9 |
| Guatemala | 116.0 | 126.6 | 105.2 | 109.4 | 100.5 | 104.4 | 111.5 | 101.8 | 105.2 | 110.3 |
| Haiti | 530.8 | 628.8 | 349.2 | 277.6 | 270.3 | 227.3 | 220.8 | 234.5 | 269.0 | 283.8 |
| Honduras | 318.0 | 295.0 | 244.6 | 215.1 | 186.6 | 179.8 | 211.2 | 191.6 | 196.3 | 198.9 |
| Mexico | 212.9 | 196.4 | 185.4 | 147.5 | 122.7 | 124.2 | 112.4 | 82.5 | 84.5 | 82.1 |
| Nicaragua | 3,019.3 | 2,522.1 | 1,674.3 | 945.9 | 752.7 | 757.1 | 781.0 | 696.7 | 693.3 | 688.9 |
| Panama | 78.4 | 73.9 | 77.4 | 68.4 | 60.2 | 64.7 | 77.9 | 71.7 | 78.2 | 79.7 |
| Paraguay | 38.0 | 33.6 | 36.3 | 41.0 | 48.4 | 51.1 | 93.4 | 92.3 | 89.0 | 93.0 |
| Peru | 630.4 | 533.2 | 496.7 | 462.3 | 342.2 | 392.8 | 376.0 | 326.8 | 320.0 | 308.1 |
| Dominican Republic [b] | 96.1 | 75.3 | 69.8 | 61.5 | 50.6 | 47.3 | 45.5 | 41.1 | 50.0 | 53.1 |
| Uruguay | 129.6 | 130.9 | 126.2 | 121.7 | 112.7 | 125.6 | 161.5 | 167.1 | 178.7 | 244.2 |
| Venezuela | 253.3 | 231.9 | 180.9 | 135.0 | 124.4 | 158.9 | 150.2 | 92.6 | 115.6 | 114.3 |

**Source**: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Preliminary figures.

# ECLAC publications

ECONOMIC COMMISSION FOR LATIN AMERICA
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