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THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN CONTINUE TO GROW, BUT MORE SLOWLY THAN DEVELOPING COUNTRIES OVERALL

REGIONAL OVERVIEW

For the third year running, in 2005 the Gross Domestic Product (GDP) of Latin America and the Caribbean rose. Estimations indicate it reached 4.3%, almost a 3% increase in per capita GDP. Unemployment fell from 10.3% last year to 9.3% in 2005. Similarly, poverty fell from 44% in 2002 to 40.6% in 2005.

Strong domestic demand in the region's countries and favourable conditions prevailing in the world economy, which grew 3.3% in 2005, were behind this development, according to *ECLAC's Preliminary Overview of the Economies of Latin America and the Caribbean 2005*.

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UNITED NATIONS



Economic Commission for Latin America and the Caribbean

Latin America and the Caribbean: Growth of GDP, 2005-2006
(Annual rate of variation)

Country	2005 a/	2006 b/
Argentina	8,6	6,0
Bolivia	3,8	3,0
Brazil	2,5	3,0
Chile	6,0	5,5
Colombia	4,3	4,5
Costa Rica	4,2	4,0
Ecuador	3,0	3,0
El Salvador	2,5	2,5
Guatemala	3,2	4,0
Haiti	1,5	-
Honduras	4,2	4,0
Mexico	3,0	3,5
Nicaragua	4,0	4,0
Panama	6,0	6,5
Paraguay	3,0	3,0
Peru	6,0	5,0
Dominican Republic	7,0	5,0
Uruguay	6,0	4,5
Venezuela (Bolivarian Republic of)	9,0	5,5
Caribbean	4,1	5,1
Latin America and the Caribbean	4,3	4,1

Source: **ECLAC**, on the basis of official figures. a/ Estimate. b/ Projection.

Note: The government of Cuba estimates growth reached 11.8% in 2005, driven by service exports. The methodology used to reach this estimation is being evaluated by **ECLAC**. Because this process is not complete and **ECLAC** does not have its own estimates Cuba's growth rate is not included in the regional average.

THE GROWTH CYCLE IN THE REGION AND CHALLENGES TO COMPETITIVENESS

JOSÉ LUIS MACHINEA

2 005 marks the third year running of growth in Latin America and the Caribbean, with GDP rising an estimated 4.3% and per capita GDP almost 3%. For 2006, forecasts suggest this growth phase in the economic cycle will continue, although somewhat less strongly (4.1%). If these projections are confirmed, the average growth rate for 2003-2006 will reach just over 4%, while per capita GDP will have accumulated a rise of almost 11%.

From a historic perspective this growth is very positive, but it should be noted that most countries in this region are growing less than other regions worldwide. In some cases, they are growing less than the developed countries.

Although this reflects a weaker performance from the region's two largest economies, it also indicates that problems remain that limit some countries' ability to increase their growth rate.

The combination of rising export volumes, better terms of trade (especially in some South American countries) and remittances together define the most distinctive characteristic of this phase of economic growth: it is occurring at a time when the surplus in the balance of payments current account continues to rise, an unprecedented situation in the region's economic history. It is estimated that in 2005, the current account will post a surplus equivalent to 1.3% of GDP, up from 2004 (0.9%) and 2003 (0.5%).

Nonetheless, while in South America the current account surplus represents about 3.0% of GDP, projections for Central America and Mexico suggest that in 2005 their deficit reached about 1.8% of GDP. In the Caribbean, minus Trinidad and Tobago -a net oil exporter- the current account deficit has topped 10% for the past three years.

Investment has also helped to drive growth, rising 10% in the past year in this region, although with marked differences between countries. Expressed over GDP, however, it remains very low and insufficient to produce the growth

“Productivity increases must be speedily achieved, by raising capital investment and applying a policy approach that focuses on improving product quality, raising the degree of domestic manufacture, and encouraging the ongoing incorporation of innovation.”


necessary to resolve persistent labour and welfare issues still pending in Latin America and the Caribbean.

In any case, better economic conditions have started to improve labour markets. The rise in employment attributable to ongoing economic growth has combined with a weaker labour supply, as fewer young people enter the work force. This reduced the

unemployment rate from 10.3% in 2004 to 9.3% in 2005, as the share held by formal employment rose.

Governments are making the most of these favourable conditions to improve their public accounts. In a trend unusual in the region, as fiscal revenues have risen, the increased resources have not brought more spending. Rather, these primary balance surpluses have been used to pay off public debt more quickly than in the developed countries (which in fact are increasing their borrowing) and other emerging economies.

Currency appreciation in almost every country has started to raise concerns. We believe that there is some margin for foreign exchange and monetary policy to influence the real exchange rate in the short term, and that central banks must make use of this fact.

As long as the favourable international climate persists, it will be increasingly difficult to use a high exchange rate to encourage long-term competitiveness. Productivity increases must be speedily achieved, by raising capital investment and applying a policy approach that focuses on improving product quality, raising the degree of domestic manufacture, and encouraging the ongoing incorporation of innovation. This is essential for the region to enjoy a growth rate capable of reducing high unemployment and, therefore, mitigating current social imbalances. 

The author is ECLAC Executive Secretary.

For 2006, forecasts point to ongoing economic growth, at a rate of 4.1% for Latin America and the Caribbean. If these projections prove correct, average annual growth for 2003-2006 should be just over 4%, while per capita GDP should accumulate an 11% increase. Although this trend is promising, the region continues to grow less than developing countries overall. Their output is expected to rise 5.7% on average between 2003 and 2006.

The subregions have posted different behaviour, with the countries of the Southern Cone and the Andean Community enjoying the most growth, headed by Venezuela (9%), Argentina (8.6%), Uruguay (6%), Chile (6%), Peru (6%) and Panama (6%).

Growing Surplus in the Balance of Payments Current Account

According to **ECLAC**, one outstanding characteristic of this period has been the growing surplus in the balance of payments current account, unprecedented in the region's economic history for the past 50 years. It is estimated that in 2005, the current account surplus will reach about 1.3% of GDP (up from 0.9% in 2004 and 0.5% in 2003), although with some differences among the subregions.

While South America's surplus will reach 3% of GDP in 2005 (up from 2.5% in 2004 and 2.1% in 2003), projections for Central America and Mexico point to a deficit of 1.8% of GDP in 2005 (up from 1.4% in 2004 and 1.6% in 2003), while in the Caribbean (minus Trinidad and Tobago, a net oil exporter), the current account deficit has been over 10% for three years.

Improvements in the terms of trade and remittances from émigrés have contributed to this trend in the current account. World economic growth and participation from China, India and other Asian economies improved the terms of trade for the countries of South America (a 31% increase between 1990 and 2005) and, to a lesser extent, Mexico's (a 22% increase during the same period).

In contrast, the countries of Central America, net oil importers and competitors with China in the US textile market, suffered a decline in their terms of trade (of 12% between the 1990s and 2005), and a significant drop in the growth rate of their sales abroad.



Remittances by Emigrant Workers

Meanwhile, these countries and Mexico received an enormous amount in remittances from workers who have emigrated. Differences in economic trends are also apparent in investment. While in 2005, gross formation of fixed capital increased in South America by an average rate of more than 12%, in Central America and Mexico it rose just 6.1%, 2% in the case of the countries of Central America alone.


Although investment has recovered, it remains below 1998 levels. Higher growth rates, which are essential to reduce unemployment more quickly, require an increase of several points in the investment rate, **ECLAC** notes.

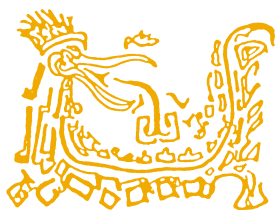
Governments are making the most of these favourable conditions to improve public accounts. As fiscal revenues rise, surpluses are being used to reduce public debt, a very positive sign, according to **ECLAC**. Although the debt coefficient for many countries is still high, with the exception of several Caribbean countries a decline in the public debt to GDP ratio has reduced the region's external vulnerability.

Sustained growth has begun to favour the labour market and helped to mitigate difficult social conditions in Latin America and the Caribbean. Rising employment, combined with a weaker supply of labour, has reduced unemployment, at a time when formal employment's share of total employment is rising in the region.

Currency appreciation in almost all countries of Latin America and the Caribbean in recent months is cause for "some concern". According to this UN commission, improvements in the region's financial and economic relations with the rest of the world have produced excesses on the foreign exchange market, pressuring the region's real exchange rates downwards, by different amounts depending on the country.

In the medium term, **ECLAC** is emphasizing the fact that despite the region's improvement over conditions in recent years, much remains to be done to turn Latin America and the Caribbean into a relevant player on an increasingly competitive world stage.

To do so, competitiveness must be boosted amidst strategies that favour both the quality and the value-added components of exports. Initiatives on both these fronts are essential to sustain the growth rates necessary to reduce still high unemployment and mitigate social imbalances. 



THE EXTERNAL SECTOR

In 2005, the world economy performed relatively well, with GDP rising about 3.3% and trade 7.3%

Exports were among the strongest performers on the demand side, especially in some South American countries. The region's

average export growth, by volume, reached about 8%, slightly higher than the world average, with several countries enjoying increases of more than 10% in 2005.

With some exceptions, the largest growth rates in export volumes were posted in South America, with the lowest occurring in Mexico and Central America.

The rising trend in the current world economic cycle peaked in mid-2004, with activity and trade slowing somewhat in 2005, reflecting a shift in the US' pro-growth strategies from 2001 onward and measures to control rising investment in China.

From April 2005 on, growth in US non-oil imports from Latin America and the Caribbean slowed, although this remained a major market for the region.

Imports from Mexico slowed toward mid-2004, with its share of the US market shrinking yet again in 2005, from 10.6% in 2004 to 10.4% during the first nine months of 2005.

Forecasts suggest world output and trade will grow at similar levels in 2006.

OIL BILLS OF SOME CENTRAL AMERICAN COUNTRIES HAVE DOUBLED SINCE 2002

Oil price hikes have hurt Central American economies considerably in the past three years, with spending on this item climbing from US\$2.386 billion in 2002 to US\$5.199 billion in 2005.

For the subregion's countries, this higher cost of oil imports added up to 2.5% of GDP in 2005. The average annual price per barrel rose from US\$28.20 in 2002 to US\$35.09 in 2003, US\$42.24 in 2004 and US\$50.31 in 2005.

According to ECLAC's *Preliminary Overview of the Economies of Latin America and the Caribbean 2005*, this trend in the oil bill helped drive the deficit in the current account balance of payments of the Central American isthmus up from US\$3.659 billion to US\$5.424 billion, with oil purchases' share of the deficit rising from 73% to 96%.

The oil bill rose 121.6% in Nicaragua, 112% in Costa Rica, and 107.2% in Guatemala. In terms of the current account it accounted for 145% in current account deficit in Honduras, 45% to 56% in Costa Rica, El Salvador and Guatemala, and around 24% in Nicaragua and Panama.

Minus the oil bill, instead of rising from 4.7% to 5.8% of GDP, the current account deficit in the countries of this subregion would have fallen from 1.3% to 0.2% of GDP.

The report from this regional UN commission underlines the fact that despite the higher oil bill, four of the six countries reduced their current account deficit, when measured against GDP. The rise reflects conditions in El Salvador and above all Panama.

The increase in oil prices is significant for the Caribbean countries too, although comparable information is not available. In fact, to mitigate the effects of any eventual rise in the oil price, 13 Caribbean countries signed an energy cooperation agreement with Venezuela, PETROCARIBE*, which replaced the 1999 Caracas agreement. The new pact increased the duration of short-term credits for oil imports from 30 to 90 days and created deferred payment schemes for loans to finance the oil bill, linked to the oil price.

* These include Antigua and Barbuda, Bahamas, Belize, Cuba, the Dominican Republic, Grenada, Guyana, Jamaica, San Vicente and the Grenadines, Saint Kitts and Nevis, Saint Lucia, and Surinam.



Commodity Prices

In the first ten months of 2005, prices for Latin America and the Caribbean's export commodities rose overall by 20.6%, 14.4% excluding energy. They increased less than in 2004, an exceptional year, although several products continued to enjoy very favourable conditions in 2005.

In the past two years, prices for all goods except energy rose 27.7% over the average for 1990-2003, giving some idea of the boom enjoyed by several countries offering commodities in the past two years.



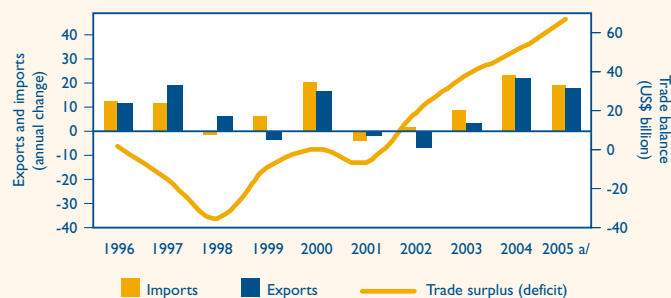
Trade in Goods and Services

In 2005, imports and exports together were over US\$1 billion, 44% of the region's GDP, pushing trade up 18.3%. Exports rose 19.0% and imports 17.5%, revealing a mild slowdown in both compared to the unprecedented growth they enjoyed in 2004. At constant prices, exports were up 7.7% and imports 11.4%.

This is the fourth year that the goods account has posted a surplus, which in this case reached US\$75.7 billion, 3.2% of the region's GDP, up US\$17.3 billion over 2004.

Latin America and the Caribbean: Foreign Trade, 1995-2005

(Exports and imports, by annual rate of variation; trade balance, US\$ billion)



Source: ECLAC, based on official figures. a/ Preliminary figures.

Oil sales made a significant contribution to this noteworthy rise in the region's exports in 2005.

Of the 19% increase in regional exports, 10.6 points reflected higher prices, while the remainder resulted from larger volumes. Higher prices mainly benefited oil producing and mining countries, particularly Venezuela and Colombia (oil), followed by Peru and Chile (mining).

Led by Argentina, Brazil, Colombia and Peru, nine economies saw export volumes rise at two-digit rates.

Like exports, imports grew significantly in 2005. For the second year running, imports rose by double-digit rates: after rising 21.7% in 2004, they increased a further 17.5% in 2005.

Trade in services (exports plus imports) rose 19.7% in 2005, up from 14.0% in 2004. Tourism-related revenues rose 16.8%, down slightly from an 18.7% rise in 2004.

In 2005, intraregional trade reached US\$100 billion, rising more (25.1%) than exports (19%). Mercosur experienced the largest rise (26.0%), followed by the Andean Community (22.8%) and Caricom (21.0%). Similarly, exports from Chile and above all Mexico to the rest of the region rose substantially.

Terms of Trade

From 2002 to 2005, the terms of trade for the region's goods accumulated a 13.2% rise. In the past year, the increase reached 4.8%, down somewhat from the 5.3% of the previous year. Growth was led by oil, mineral and metal exporting countries.

For the third year running, the region posted a surplus in its balance of payments current account. This reached US\$29.7 billion, 1.3% of GDP, up US\$11.4 billion over 2004.

NEW TREND IN LATIN AMERICA IS TO ISSUE SOVEREIGN EXTERNAL DEBT IN LOCAL CURRENCIES

In the past three years, Brazil, Chile, Colombia, Mexico and Uruguay have issued sovereign debt denominated in local currencies on external markets.

These are considered rather cautious pioneering efforts to establish a record that, in future, should give countries access to longer maturities and larger amounts, at lower interest rates, notes ECLAC's *Preliminary Overview of the Economies of Latin America and the Caribbean 2005*.

The difficulties faced by developing countries wishing to contract foreign debt in their own currency aggravate problems of macroeconomic adjustment in the event of an imbalance in external accounts, according to the recently released report.

If external debt is denominated in foreign currency, a real devaluation may increase the load (in local currency) involved in servicing this debt, which in turn may compress other spending, potentially leading to more losses in output and employment, as has occurred in some Latin American countries during the crises at the start of this decade.

To overcome this difficulty, emerging economies have made major efforts and increased debt issues in local currency. The idea is to attract international investments by both enhancing the attractiveness of domestic debt markets and issuing external debt in local currency.

Brazil and Mexico have facilitated foreign investors' access by developing and deepening local debt markets. In Brazil, foreigners hold 4% of locally issued government bonds, while in Mexico they hold 70% of 20-year bond issues.

A Government Bonds Index was recently created for local emerging markets, composed by instruments from 16 countries, four of which are in Latin America: Brazil, Chile, Colombia and Mexico.

Given the potential benefits inherent in the development of this sort of market, regional multilateral agencies such as the Inter-American Development Bank (IDB) and the Andean Development Corporation (*Corporación Andina de Fomento*, CAF) have worked to further deepen these markets.

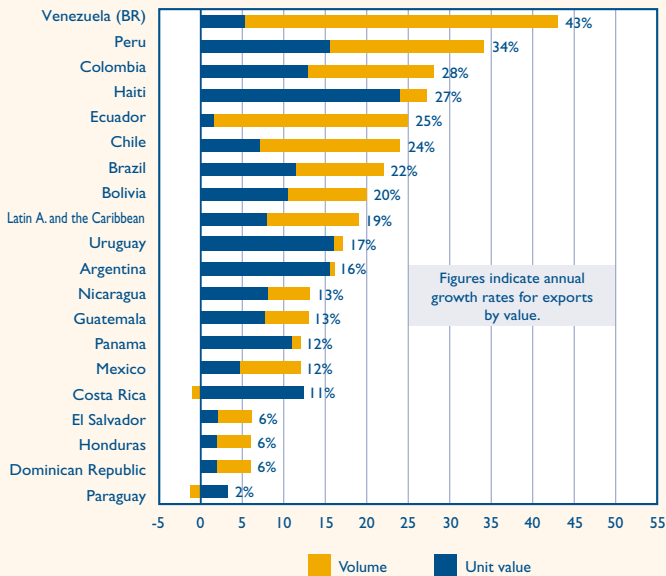
The ECLAC study recognizes that external debt issues in domestic currency have occurred amidst favourable conditions worldwide, characterized by low interest rates and high commodity prices, which have stimulated local currency appreciation.

Brazil's debt issue completed in the third quarter of 2005 was the most successful in terms of maturity (10 years) and amount (US\$1.479 billion). Issues by Colombia and Uruguay were for shorter maturities and relatively modest amounts, by international standards.

ECLAC's report estimates, as expected, that debt issued in local currencies incurred in higher financial costs than debt issued in dollars, since it involves new instruments and is a form of insurance against the problems described above.



Latin America and the Caribbean: Exports of Goods, FOB, by Unit Value and Volume, 2005 a/



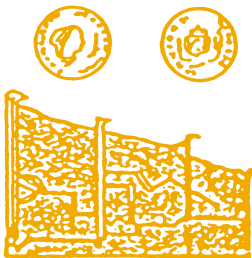
Source: ECLAC, based on official figures. a/ Preliminary figures.

In 2005, Latin America remained attractive to international investors, as was apparent in the positive acceptance of bond issues and reduced interest rate spreads. Favourable conditions for debt issues in local currencies also benefited several countries.

The current account's solid performance in 2005 was complemented by a surplus in the foreign direct investment (FDI) current account, estimated at US\$47 billion, up 4% over 2004.

The region's basic balance sheet posted a surplus of almost US\$77 billion (3.3% of GDP), of which some US\$35 billion went to reserves (1.5% of GDP) and US\$42 billion to reducing external debt, including exceptional financing and International Monetary Fund credits.

In October, 2005, Latin America and the Caribbean posted total international reserves of almost US\$240 billion, the highest level since 1990, and a 57% rise over 1999, 53% over 2002.



MACROECONOMIC POLICY

VULNERABILITY OF LATIN AMERICAN AND CARIBBEAN COUNTRIES TO EXTERNAL EVENTS HAS DECLINED

The governments of Latin America and the Caribbean are making the most of favourable economic conditions to improve their public accounts, ECLAC reports, in its *Preliminary Overview of the Economies of Latin America and the Caribbean 2005*.

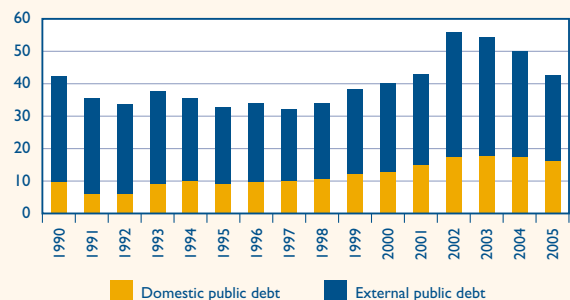
This year, countries continued to consolidate their fiscal positions. Their debt to GDP ratio, which peaked in 2002 at 61.3% of GDP, will stand at just 45.9% of GDP by the end of 2005. This reflects a drop in the region's debt by more than 15 points of GDP.

Factors behind this reduction in vulnerability to external events include the generation of a primary fiscal surplus (that is, excluding interest on debt), economic growth, debt restructuring and the appreciation of countries' currencies against the dollar.

Fiscal revenues in 2004 and 2005 were the highest since 1990. Economic growth improved public revenues at the same time as prices for the oil and some minerals, which are several countries' key exports, also significantly boosted income.

Latin America (18 Countries): Changes in Public Debt Balances, by Creditor, 1990-2004

(Percentages of GDP, simple averages, not including Nicaragua)

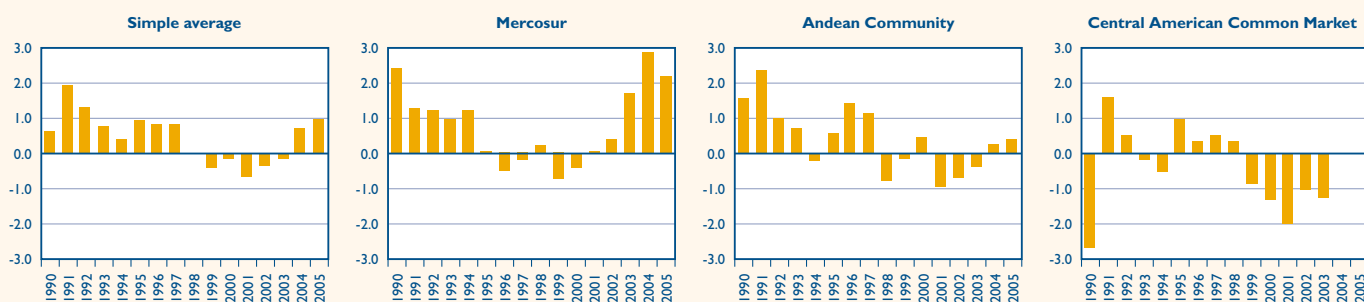


Source: ECLAC, on the basis of official information.

If we compare estimated revenues from hydrocarbons and minerals in 2005 with those for 2002, the rise in revenues for Bolivia, Chile, Ecuador, Mexico and Venezuela amounts to somewhere between 2% and 3% of GDP.

Latin America and the Caribbean: Primary Balance of the Central Government, by Subregion, 1990-2005

(Percentages of GDP)



Source: ECLAC, on the basis of official information.

An outstanding feature of fiscal policy is the fact that while fiscal revenues have risen, driven by more economic activity and the high prices of many of the region's export commodities, the greater availability of resources has not brought more spending. In fact, growing surpluses have been used to reduce public debt more quickly than in developed countries (where it has grown) and other emerging economies, ECLAC points out.

A good part of the fiscal results for 2003-2005 reflects the improvement in the public accounts of state or provincial governments, depending on the country. Unlike in the past, in more decentralized countries such as Argentina, Brazil, Mexico and Colombia, subnational governments contributed to improved fiscal results.

In Argentina, Brazil and Colombia, the primary surplus for subnational governments in 2004 reached over 1% of GDP, an all-time high for all three countries, since 1990. For 2005, in Brazil the surplus posted by subnational governments will grow yet again. In contrast, in Argentina and Colombia subnational governments will achieve surpluses, but these will be smaller than in 2004.

Another novelty mentioned in the report is that this fiscal performance, combined with accumulating reserves and governments' need to demonstrate their autonomous commitment to fiscal solvency, have discouraged national authorities from signing new agreements to withdraw resources from the International Monetary Fund.

Of the six largest countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela), by mid-2005 only Colombia had a stand-by agreement to use special drawing rights. The December announcement from Brazilian and Argentine authorities that they would pre-pay their entire debt with the IMF (US\$15.46 billion and US\$9.8 billion, respectively) should be understood as another gesture of this nature.



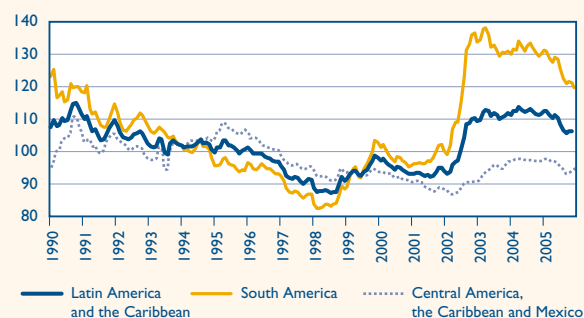
Two Issues Remain Pending

The ECLAC report warns that the region still suffers from some worrisome structural conditions: weak and unequal tax structures and an important dispersion of fiscal effort in some countries. The strengthening of fiscal revenues will make it possible to complete several tasks pending in the public sector, such as increasing public investment, improving social services, and overcoming significant deficiencies in social security systems in terms of coverage and solvency.

It remains important for hydrocarbon and mineral exporters to make the most of high oil prices by diversifying their tax structures and strengthening their fiscal position. Several countries have set up savings and stabilization funds in recent years, but some have not yet accumulated sufficient resources, ECLAC warns.

Latin America and the Caribbean: Extraregional Real Effective Exchange Rate

(Average for January 1990-December 1999 = 100)



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

It should also be remembered that many countries still have a high debt to GDP ratio. In this sense, the possibility of an international scenario marked by lower growth and higher interest rates will require that governments apply more prudent fiscal measures, to keep reducing their debt/output ratio.

The Region's Real Exchange Rate Has Appreciated

In the first ten months of 2005, Latin America and the Caribbean's real extra-regional exchange rate (excluding trade with other countries within the region) had fallen (appreciated) by 3.8% over the same period of the previous year.

This reflected greater real appreciation on average of South American currencies, which reached 5.5%, the result of currency appreciation in seven of the ten countries in this subregion.

In Central America, Mexico and the Caribbean, actual extra-regional appreciation was less, reaching 2.3%, reflecting currency appreciation in seven countries.



INTERNAL PERFORMANCE

In 2005 the economies of Latin America and the Caribbean grew 4.3%, boosting the region's per capita GDP by 2.8%.

After lacklustre results in 1998-2003, 2004-2005 saw the region's economic activity rise 10.6% over 2003, while per capita GDP increased 7.5%.

These satisfactory regional trends were apparent in most countries. Except Guyana, all posted positive growth, led by the Bolivarian Republic of Venezuela (9%) and Argentina (8.6%), while those with the least growth included Haiti (1.5%), Brazil (2.5%) and El Salvador (2.5%). Chile, Panama, Peru, the Dominican Republic and Uruguay ranged from 5.5% to 7%; Bolivia, Colombia, Honduras and Nicaragua around 4%; and Ecuador, Guatemala, Mexico and Paraguay around 3%. The Caribbean countries grew 4.1%, led by Grenada (9%), Saint Lucia (8%), and Trinidad and Tobago (7%).

Reasons Behind Solid Performance

In 2005, growth in the economic activity of the countries of Latin America formed part of favourable conditions worldwide, prevalent since mid-2003, which, despite some slowdown,

Controlling Inflation

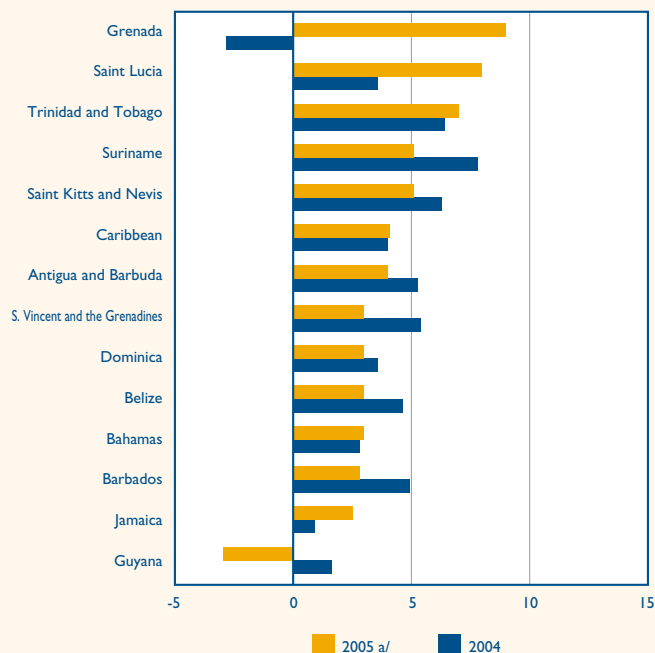
Controlling inflation remains one of the main objectives of monetary policy in the region's countries. Given the rise in oil prices and better prospects for economic activity, Latin America's central banks have focused even more on price increases.

Moreover, given the general tendency for local currencies to appreciate, prices have risen rather moderately. However, in several countries central banks have had to intervene in the foreign exchange market to cushion undesirable affects and reduce appreciation.

Since mid-2004, monetary policy rates have risen throughout the region, but they remain relatively low in historic terms. Given this modest rise and rising prices in some countries, real interest rates have essentially held steady or even fallen in the past 30 months.

Nonetheless, two important exceptions have appeared, affecting the region's two largest countries: Brazil and Mexico. There, real interest rates are even higher than two or three years ago and have only fallen slightly in recent times.

The Caribbean: Gross Domestic Product, Annual Growth Rates, Constant 2000 Dollars (Percentage)



Source: ECLAC, based on official figures. a/ Preliminary figures.

contributed to the good performance of the regional external sector. The region's exports have been rising strongly since the fourth quarter of 2003, driven by soaring world demand for several commodities exported by the region, and stimulated by high prices for these goods in international markets.

The recovery in internal demand, which grew steadily stronger throughout 2004, continued in 2005 in most countries. This factor and trends in exchange rates brought high growth rates in consumer and capital goods imports in most countries.

As in 2004, one highlight of the regional economy in 2005 was strong growth in gross domestic disposable income. Calculated using prices from the previous year, this rose 5.6%. In general, the terms of trade played a significant role, while other factors contributing to income measures offset each other. Altogether, the terms of trade effect in the region accounted for about 1.34% of GDP, up from 2004.

Moreover, Latin America saw an important increase in national saving, which became considerable in several countries. At current prices and for the regional overall, this reached 23.1% of GDP, its highest point since 1990. Similarly, and as in 2003 and 2004, external saving declined, reaching just 1.3% of GDP in 2005. As a result, as in the two previous years, in 2005 the region's investment was completely financed by domestic saving and the surplus (negative external saving) went to reducing the region's net debt and accumulating reserves.

Subregional Growth

While economic growth of Mercosur members essentially responded to growth in export volumes, growth in the Andean countries, including Chile, reflected growing domestic demand, which was the result of a significant rise in income thanks to significantly better terms of trade. Although this occurred in the Mercosur countries as well, this trend was particularly strong in the Andean region.

Growth in Central America and Mexico has been closely linked to the economic cycle in the United States, as was apparent in trends in their export sectors. Greater competition from Asian countries, especially China, as exporters of manufactured goods to the US market, also influenced external competitiveness, as this subregion's currencies were all affected by real appreciation of their currency. Similarly, domestic demand has been associated with a steady rise in current transfers, mostly thanks to remittances from workers abroad.

ECONOMIC GROWTH FUELS BETTER JOB CREATION IN LATIN AMERICA AND THE CARIBBEAN

The Latin America and the Caribbean region can create more jobs as long as it keeps growth rates high, as it has in the past two years (5.9% and 4.3%), according to the *Preliminary Overview of the Economies of Latin America and the Caribbean 2005*, published today by **ECLAC**.

At the regional level, 5.6 million people have found work in urban areas in 2005 and the proportion of the working age population actually employed rose half a percentage point, from 53.1% to 53.6%. Moreover, employment in the formal wage-paying sector posted the most growth in several countries.

This year, growth in the workforce slowed, reflecting a decline in participation from 59.5% to 59.2% of the working age population. Partial data suggests that the reason for this trend is that young men and women have withdrawn from the workforce, amidst better economic and labour conditions. According to **ECLAC**, it is likely that many have gone back to school.

The dual impact of stronger job creation and more moderate growth in the number of people actively seeking work cut the number of those unemployed in urban areas by 1.5 million, to 17.8 million in total, pushing the unemployment rate down from 10.3% to 9.3%, for the first time in 20 years.

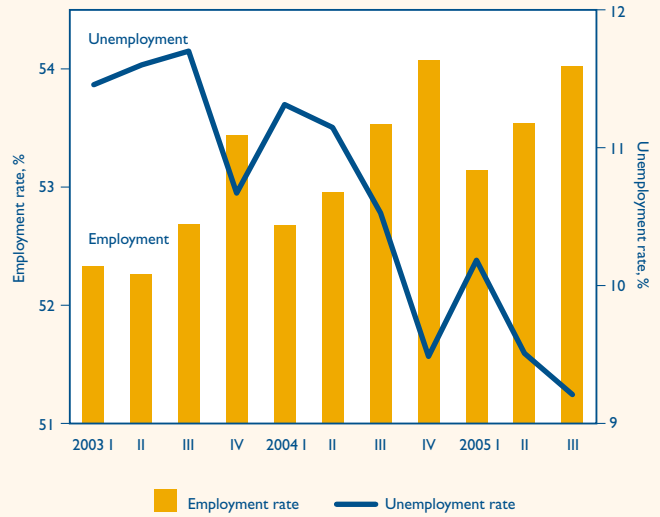
This news is encouraging, but **ECLAC** points out that most of the workforce in Latin America and the Caribbean continues to suffer from serious problems. Even with recent drops, the unemployment rate is still high, from a historical perspective, and a significant number of those employed remain in low income, low productivity, precarious jobs with no social security.

In a context marked by increasingly volatile markets, even formal employment is increasingly precarious, arising through the use of temporary contracts, for example, this regional UN commission points out. Finally, in most countries, trends in real wages have not reflected the economic upsurge.

ECLAC estimates indicate that in 2005 inflation in Latin America and the Caribbean reached 6.3% (down from 7.4% in 2004), and this indicator continues its downward trend. This reflects declines in inflation rates in Brazil and Mexico (from 7.6% and 5.2% in 2004 to 6.2% and 2.9% in 2005). Other countries seeing this decline included Haiti (from 20.2% to 15.4%), Peru (from 3.5% to 1.3%), the Dominican Republic (from 28.7% to 7.5%), Uruguay (from 7.6% to 5.4%) and the Bolivarian Republic of Venezuela (from 19.2% to 15%). In contrast, Argentina, Chile, Ecuador, and Paraguay saw inflation rise, particularly Chile (4.3%), which reached its highest point since 2000.

The other countries in the region posted inflation rates similar to those of 2004. Despite the fact that several continued to post two-digit rates of change in consumer prices, for the first time no country in the region posted inflation over 20%. In fact, it is estimated that the highest inflation affected Haiti.

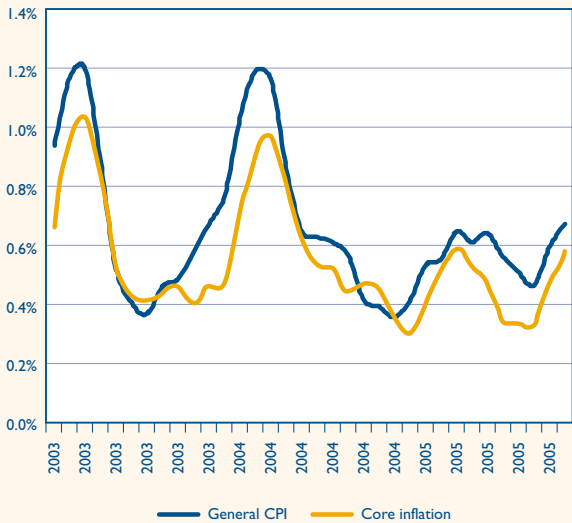
Latin America (9 Countries): Employment and Unemployment, Quarterly Rates



Source: ECLAC, based on official country figures.

Latin America: Change in the Consumer Price Index and the Core Inflation Index

(Three month moving average, unweighted average)



Source: ECLAC, based on official figures.

As is apparent, inflation performed differently in different countries. Some posted a strong decline compared to 2004, while others saw it rise with domestic demand and higher prices for regulated goods and services, combined with effects associated with the internal availability of some foods. An important rise in international prices for oil and fuels affected the prices of transportation and basic services in several countries, but not to the full extent, thanks to domestic policies regulating these prices.

Wholesale prices also varied according to the country. In Chile, Ecuador, El Salvador and Peru they rose more than consumer prices, less elsewhere. Given that wholesale price baskets consist mainly of goods, their behaviour tends to affect primarily trends in international commodity prices, manufactured goods and transportation costs, and insurance on imported products. Moreover, they reflect shifts in the foreign exchange rate, particularly with regard to imports.

Although domestic demand, particularly private consumption, held strong in 2005, in several countries this wasn't enough to bring more consumer price increases: except for Brazil, Ecuador, Mexico and Uruguay, core inflation was lower than general inflation as measured by the consumer price index.

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

Ecuadorean Raft Santiago del Nuevo Extremo Quetzalcoatl Mining and Trade A Mongolfiera

STATISTICAL APPENDIX

Latin America and the Caribbean: Main Economic Indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 a/
Annual rates of change										
Gross Domestic Product b/	3,8	5,5	2,6	0,4	3,9	0,3	-0,8	2,0	5,9	4,3
Per Capita Gross Domestic Product b/	2,0	3,8	0,9	-1,2	2,3	-1,3	-2,3	0,5	4,3	2,8
Consumer prices c/	18,6	10,7	10,0	9,7	9,0	6,1	12,2	8,5	7,4	6,3
Percentage										
Open urban unemployment rate d/	9,9	9,3	10,3	11,0	10,4	10,2	11,0	10,9	10,3	9,3
Total gross external debt GDP e/	35,5	34,0	37,0	42,3	37,0	38,4	42,6	42,4	37,3	32,0
Total gross external debt /										
exports of goods and services	215	203	221	214	174	183	179	170	141	118
Balance of payments										
US\$ billion										
Current account balance	-38 643	-64 412	-88 218	-54 914	-46 594	-51 438	-13 742	8 571	18 299	29 670
Merchandise trade balance	5 184	-13 134	-34 981	-6 823	3 493	-3 831	24 047	44 693	58 359	75 683
Exports of goods and services, f.o.b.	257 370	286 680	283 369	299 393	359 051	343 532	347 092	378 206	464 362	552 768
Imports of goods and services, f.o.b.	252 187	299 813	318 350	306 217	355 559	347 362	323 045	333 513	406 002	477 086
Services trade balance	-15 858	-18 997	-18 973	-17 187	-17 118	-18 889	-14 216	-13 240	-14 569	-20 604
Income balance	-42 728	-47 653	-51 295	-50 304	-53 589	-53 888	-52 057	-57 743	-66 767	-72 811
Net current transfers	14 759	15 371	17 032	19 401	20 620	25 171	28 484	34 862	41 276	47 403
Capital and financial balances f/	63 879	89 213	63 400	42 583	61 168	34 021	-12 114	2 237	-7 224	12 645
Net foreign direct investment	40 301	57 599	63 677	79 345	68 876	65 124	43 225	32 600	45 351	47 319
Financial capital g/	23 579	31 614	-277	-36 762	-7 708	-31 103	-55 339	-30 363	-52 575	-34 674
Overall balance	25 237	24 801	-24 818	-12 331	14 574	-17 417	-25 856	10 808	11 075	42 315
Change in reserve assets h/	-26 129	-15 800	9 085	6 203	-6 882	986	3 213	-29 501	-21 132	-34 986
Other financing i/	892	-9 001	15 733	6 127	-7 692	16 431	22 644	18 693	10 058	-7 328

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

a/ Preliminary figures.

b/ Based on official figures converted into dollars at constant 2000 prices.

c/ December - December variation.

d/ The data for Argentina, Brazil and Mexico have been adjusted to allow for changes in methodology in 2003, 2002 and 2005 respectively.

e/ Estimates based on figures denominated in dollars.

f/ Includes errors and omissions.

g/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

h/ A minus sign (-) indicates an increase in reserve assets.

i/ Includes the uses of IMF credit and loans and exceptional financing.

1 **Macroeconomic Coordination in Latin America: does it have a future?** José Luis Machinea and Guillermo Rozenwurcel. Informes y Estudios Especiales series No. 15 (LC/L 2431-P, December 2005, English). This report examines the reasons for macroeconomic coordination from a theoretical perspective, based on the degree of economic interdependency within Latin America. It then analyzes Mercosur's experience, obstacles and opportunities for macroeconomic coordination in the region, and, finally, presents some conclusions. [www](#)

2 **Aprender de la experiencia. El capital social en la superación de la pobreza** (*Learning from Experience. Social Capital in Overcoming Poverty*). Irma Arriagada, editor, **ECLAC** books, No. 86 (LC/G.225-P, September 2005, Spanish). This contains a selection of



12 studies analyzing the difficulties facing poverty reduction programmes at different levels of application. Using a social capital approach, ideas are provided for overcoming these problems. The report includes national studies from Argentina, Brazil, Chile and Mexico.

3 **Las industrias extractivas y la aplicación de regalías a los productos mineros** (*Extractive Industries and the Application of Royalties to Mining Products*), by Cesar

Polo Robilliard. *Recursos Naturales e Infraestructura* series No. 98 (LC/L 2392-P, October 2005, Spanish). This study proposes a new approach to mining, which harmoniously integrates the economic, social and environmental dimensions. The concept of "development continuity" is introduced, as vital to mining development. This report covers recent experience in Peru. [www](#)

4 **El precio de mercado de la tierra desde la perspectiva económica** (*The Market Price for Land from an Economic Perspective*), by Raimundo Soto. *Desarrollo Productivo* series No. 163 (LC/L 2355 P, August 2005, Spanish). This report develops two analytical models for how land prices are established. The first defines the transfer price, which operates when there is a change in use; and the second a price involving no change in land use. [www](#)

5 **Implicancias del término del Acuerdo sobre los Textiles y el Vestuario para América Latina y el Caribe** (*Implications of the Ending of the Agreement on Textiles and Clothing (ATV) for Latin America and the Caribbean*), by Mikio Kuwayama and Martha Cordero. *Comercio Internacional* series No. 53 (LC/L 2399-P, October 2005, Spanish). This report analyzes the effects of the elimination of quotas from the Agreement on Textiles and Clothing, which occurred in January 2005. [www](#)

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MONTH	EVENT	PLACE
JANUARY		
16	21st Session of the Caribbean Development and Cooperation Committee (CDCC). ECLAC	Port of Spain, Trinidad and Tobago
17 - 18	Senior ECLAC -UNCTAD meeting on Transnational Corporations and the Internationalization of Research and Development, ECLAC/UNCTAD	ECLAC headquarters, Santiago, Chile
18 - 19	International meeting on traffic safety for Latin American countries. ECLAC/Comisión Nacional de Seguridad del Tránsito (Chile's national commission on traffic safety, Conaset)	ECLAC
19	Regional implementation forum for Latin America and the Caribbean, in preparation for the 14 th session of the UN Commission on Sustainable Development (CSD 14). ECLAC	ECLAC
23 - 26	18 th Regional Seminar on Fiscal Policy. ECLAC (ILPES)	ECLAC
24	Meeting on Fiscal Policy and the Environment. ECLAC	ECLAC
24	Workshop on "Financing and Coordinating Policies to Achieve MDGs in terms of environmental infrastructure and management at different levels of government". ECLAC	ECLAC
26	Visit from the President of Mexico, Vicente Fox. ECLAC	ECLAC
FEBRUARY		
22 - 24	Regional consultation on urban health. ECLAC/Pan-American Health Organization (OPS)	ECLAC
MARCH		
16 - 17	Third Meeting of the Latin American Finance Network (<i>Red Latinoamericana de Finanzas</i>). ECLAC/University of Chile/Inter-American Development Bank (IDB) .	ECLAC
20 - 24	31 st Session, ECLAC .	Montevideo, Uruguay

