Chile

1. General trends

The year 2003 marked an upturn for the Chilean economy, whose growth was once again led by exports. Real growth amounted to 3.3%, as against the 2.2% posted in 2002. Inflation gradually declined in the course of the year, partly because of the substantial appreciation of the peso, while keen competition in the retail sector resulted in smaller mark-ups and lower prices. Over the 12 months ending in December 2003 inflation amounted to only 1.1%, which was almost a full point lower than the bottom of the target range (2% to 4%) set by the central bank for 2003.

This performance was the outcome of an economic policy geared to achieving fiscal and price equilibria. As a result, the Chilean government and enterprises are benefiting from the lowest international spreads seen to date; in fact, these spreads are close to the ones observed in the Republic of Korea, which has a much more developed economy and a higher growth rate.

The economic authorities have avoided significant imbalances, and recent figures imply that faster economic growth is in the offing, provided that external conditions are more favourable and that domestic demand and investment stage a recovery.

Unemployment fell in 2003, although it remained higher than its pre-1998 levels. The 2003 unemployment rate of 8.5% was an improvement over the 9% posted in 2002 and the higher rates observed in 2000 and 2001. Unemployment has risen in 2004, however, reaching 9.4% in the three-month period from March to May. Despite this setback, Chile continues to enjoy a remarkable degree of political and social stability, which contrasts with the situations seen recently in neighbouring countries.

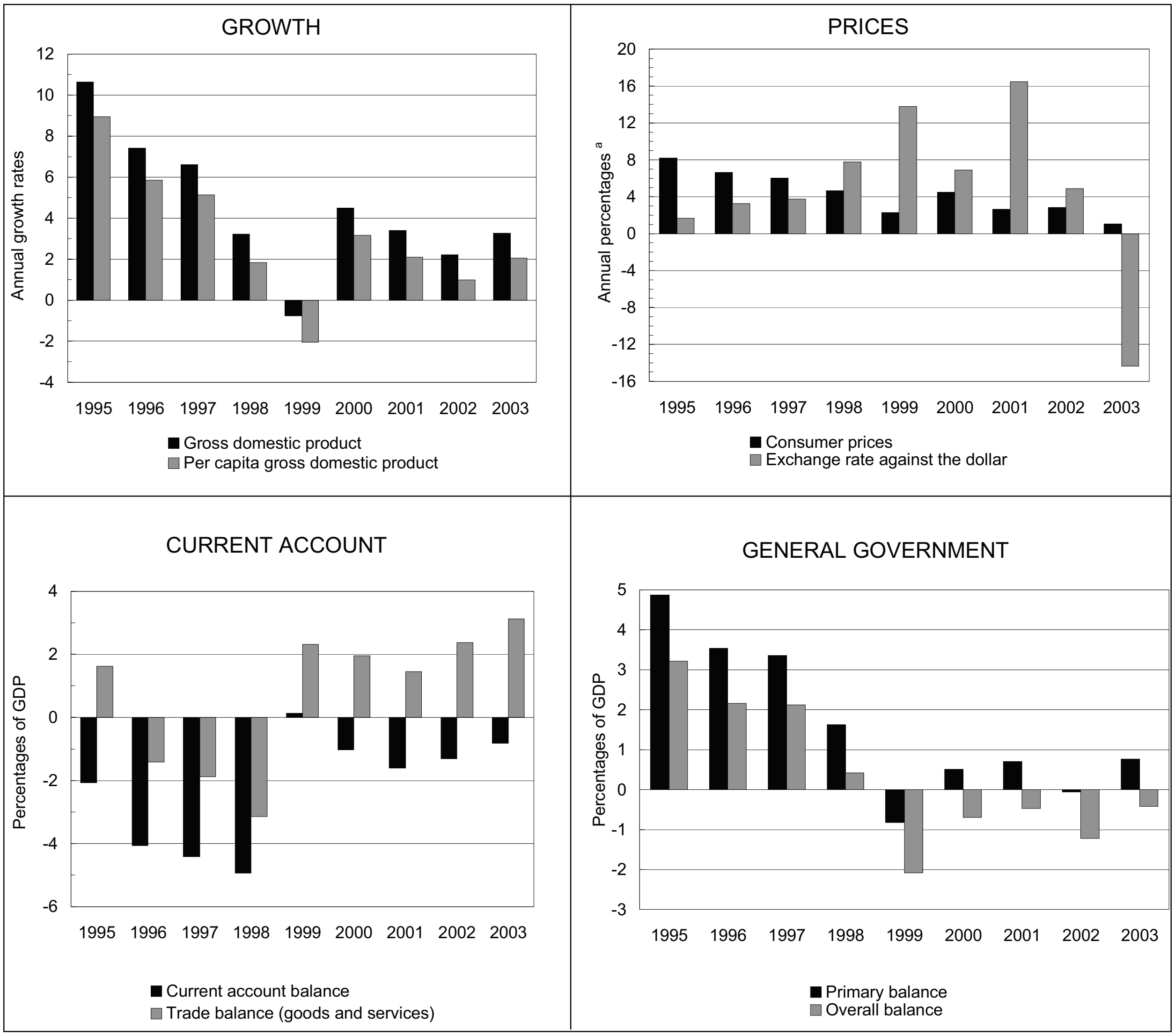
At the beginning of 2004 the public perception of economic prospects for the year was positive. Export value grew faster in the first few months, thanks to significant increases in the prices of Chile's exports, but future developments will hinge on the recovery of the global economy. In any event, the country's free trade agreements with the European Union, the United States and the Republic of Korea should increase and facilitate trade flows with these important external markets.

2. Economic policy

For the past five years exports have been the main source of GDP growth. In 2003 sales abroad increased by 7.8%, while domestic demand rose by 3.5%. Investment has yet to return to the record levels it achieved up to 1998, of about 27% of GDP, as it has amounted to less than 24% of GDP in the years since then.

The Chilean economy's relatively stronger performance in 2003 was achieved in the context of an

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



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

economic policy designed to safeguard fiscal and price equilibria and to reduce external vulnerability, while preserving and strengthening the economy's openness to global markets and, at the same time, enhancing social equity. This strategy, which is not problem-free even though it is being implemented in a climate of institutional stability, has enabled Chile to avoid the crisis situations that have plagued other nations of the region. As the global economy gathers momentum, Chile will be well positioned to take advantage of this favourable turn of events to achieve higher growth rates.

Chile's macroeconomic strategy is based on a structural fiscal surplus target, a flexible exchange rate system and an inflation targeting policy whose primary instrument is the monetary policy interest rate.

The fiscal target, which commits the government to achieving a structural surplus of 1% of GDP per year, enables the authorities to isolate fiscal spending from temporary fluctuations in copper prices and GDP. The main objective of this rule, which the current administration adopted upon taking office, is to stabilize spending over the business cycle. Strict compliance with the target since 2000 has generated growing confidence in the soundness of fiscal discipline.

(a) Fiscal policy

The central government's structural balance excludes the most significant cyclical components of the budget to prevent fiscal policy from reacting procyclically to fluctuations in the economy. A panel of experts conducts technical analyses of the relevant projections, as a means of depoliticizing this economic issue.

The central government's actual fiscal deficit, calculated on an accrual basis, was 0.4% of GDP, compared to 0.8% of GDP when calculated on a cash basis, as was done in prior years. The budget for 2004 is based on the assumption of a 4.4% rise in GDP, average annual inflation of 2.4% (or 3% from December to December), an increase in tax revenue of 6.4% over the September 2003 figure and higher copper prices. According to these figures, the central government's actual fiscal deficit is expected to shrink to 0.1% of GDP.

The central government's current expenditure remained practically the same in terms of GDP (18.7%), as did its main components, while capital expenditure again went down slightly (from 3.8% to 3.7% of GDP).

To compensate for the downturn in customs receipts as a result of the new trade agreements and to finance the country's new health-care plan (known by the Spanish acronym *AUGE*), which guarantees a basic set of medical services to the entire population, as well as the "*Chile Solidario*" programme, which is intended to reduce the number of poor households by 200,000, the government obtained congressional approval of a temporary 1% hike in the VAT rate, which rose to 19% as of October. In July the government announced that it would implement spending cuts totalling US$ 300 million.

In January 2003 better conditions in international financial markets and Chile's low country-risk rating enabled the government to attract funds on the external market by issuing a new sovereign bond with a par value of US$1 billion and a spread of 163 basis points. These resources will be used to make prepayments on existing debt incurred at higher interest rates.

The budget law for 2004 provides for US$ 1.5 billion in new borrowing on both the international and domestic markets. In the case of the domestic market, the local-currency bond could have a 20-year maturity, which would represent an innovation in that area.

The central government's gross financial debt declined to 13.3% of GDP in December 2003. The combination of gross financial debt and central bank debt amounts to 34.4% of GDP; this is also lower than the 2002 figure.

The 2004 budget, unlike the country's previous budgets, was prepared on an accrual basis, meaning that any economic operation carried out by the government is recorded at the time a payment obligation is incurred (i.e., when a good is delivered, a service is provided or work is performed). In addition, the budget includes income and expenditure under the copper reserve law and the law on the Petroleum Stabilization Fund. Up until 2003 the government's practice had been to record operations at the time it made the relevant payments (cash basis).

(b) Monetary and exchange-rate policy

Monetary policy was applied in a context of low inflation, greater international economic stability than in 2002, low country risk, a growing surplus on the merchandise trade balance and sizeable capital inflows.

The authorities continued to make use of the inflation targeting system, with a central target of 3% and an allowable range of 2% to 4%. In 2003 inflation again met the target and even fell below this range, amounting to just 1.1%. In the initial months of 2004 the 12-month inflation rate did not exceed 2%.

The appreciation of the peso in 2003 undoubtedly helped to bring down annual inflation from a peak of 4.5% in March to a mere 1.1% in December. Strong competition in the retail sector also helped to lower prices.

Low inflation and the fiscal target afforded more room for manoeuvre to the central bank, which reduced the monetary policy interest rate to a low of 1.75%. The rate-cutting policy began in January 2002, starting from a nominal annual rate of 6.5%, and entailed a series of reductions that brought the rate to 3% in August 2002. The absence of inflationary pressures made it possible to lower the interest rate steadily in the course of 2003, from 3% in December 2002 to 1.75% in February 2004, and to keep it at that level in the subsequent months. In real terms, this rate was barely positive at the end of 2003 and turned negative in 2004.

The United States Federal Reserve's decision to raise its federal funds rate has triggered a global upturn in the rates controlled by central banks. Chile's central bank is therefore expected to increase its monetary policy interest rate after a short lag.

The higher demand for real monetary balances continued to be evident in 2003. The year-on-year variation in the private money supply (M1A) between December 2002 and December 2003 was 16.6% in real terms, with inflation of 1.1%. In contrast, notes and coins in free circulation rose by only 6.3% in real terms and the rate on one- to three-year deposits reached a nominal annual rate of just 3.5%.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003[a]
	Annual growth rates [b]								
Gross domestic product	10.6	7.4	6.6	3.2	-0.8	4.5	3.4	2.2	3.3
Per capita gross domestic product	8.9	5.9	5.1	1.8	-2.1	3.2	2.1	1.0	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.9	2.8	3.4	2.3	0.8	6.6	7.6	5.7	0.9
Mining	9.3	15.8	11.3	8.3	10.6	3.2	7.3	-3.9	5.4
Manufacturing	7.5	3.2	4.7	-2.3	-0.5	4.9	0.9	2.7	2.4
Electricity, gas and water	7.6	-3.8	8.3	4.4	-4.7	9.5	1.1	2.2	4.1
Construction	9.9	8.6	6.3	1.9	-9.9	-0.7	2.7	1.7	3.6
Wholesale and retail commerce, restaurants and hotels	14.2	9.5	7.6	3.5	-4.4	4.4	2.1	1.7	4.1
Transport, storage and communications	14.7	10.2	10.9	6.6	0.8	8.6	7.3	6.0	3.4
Financial institutions, insurance, real estate and business services	8.3	6.1	5.9	5.0	0.5	4.0	3.2	2.4	2.6
Community, social and personal services	2.7	4.6	0.0	4.8	2.7	1.8	3.0	2.9	2.5
Gross domestic product, by type of expenditure									
Consumption	9.2	8.8	6.5	4.3	-0.4	3.6	2.8	2.1	3.5
General government	4.2	4.0	5.8	2.2	2.7	3.0	2.9	2.7	2.1
Private	9.8	9.4	6.6	4.7	-1.0	3.7	2.8	1.9	3.7
Gross domestic investment	34.2	5.9	9.4	2.2	-20.1	14.0	0.5	3.9	3.5
Exports (goods and services)	11.0	11.8	11.2	5.2	7.3	5.1	7.5	1.5	7.8
Imports (goods and services)	25.0	11.8	13.2	6.7	-9.5	10.1	4.1	2.4	8.8
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	25.8	27.4	27.7	26.9	20.9	21.9	22.0	21.8	21.8
National saving	23.8	23.1	23.1	21.8	21.0	20.6	20.5	20.4	21.0
External saving	2.0	4.3	4.7	5.1	-0.1	1.2	1.5	1.4	0.8
	Millions of dollars								
Balance of payments									
Current account balance	-1 350	-3 083	-3 660	-3 918	99	-766	-1 100	-885	-594
Merchandise trade balance	1 381	-1 072	-1 428	-2 040	2 427	2 119	1 843	2 256	3 015
Exports, f.o.b.	16 025	16 627	17 870	16 323	17 162	19 210	18 272	18 177	21 046
Imports, f.o.b.	14 644	17 699	19 298	18 363	14 735	17 091	16 428	15 921	18 031
Services trade balance	-324	-1	-136	-452	-737	-648	-844	-656	-767
Income balance	-2 714	-2 518	-2 617	-1 889	-2 233	-2 795	-2 526	-2 915	-3 280
Net current transfers	307	508	520	462	643	558	427	430	438
Capital and financial balance [d]	2 488	5 677	6 979	1 727	-846	1 083	504	1 084	228
Net foreign direct investment	2 205	3 681	3 809	3 144	6 203	-348	2 590	1 594	1 587
Financial capital [e]	283	1 995	3 170	-1 417	-7 049	1 431	-2 086	-511	-1 359
Overall balance	1 139	2 594	3 318	-2 191	-747	317	-596	199	-366
Variation in reserve assets [f]	-740	-1 119	-3 318	2 191	747	-317	596	-199	366
Other financing [g]	-399	-1 475	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	99.8	97.3	91.8	94.5	99.3	100.0	112.5	113.3	119.7
Terms of trade for goods (index: 1997=100)	120.4	97.2	100.0	88.2	88.6	88.6	82.5	82.5	86.5
Net resource transfer (% of GDP)	-1.0	2.2	5.3	-0.2	-4.2	-2.3	-3.0	-2.7	-4.2
Total gross external debt (millions of dollars)	21 736	26 272	29 034	32 591	34 758	37 177	38 032	40 395	41 179
Total gross external debt (% of GDP)	33.3	34.7	35.1	41.1	47.6	49.4	55.6	60.0	57.2
Net profits and interest (% of exports) [i]	-14.0	-12.4	-11.9	-9.2	-10.5	-11.9	-11.3	-12.9	-12.7

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003[a]
					Average annual rates				
Employment									
Labour force participation rate [j]	54.8	54.2	54.2	54.4	54.4	53.7	52.9	52.5	52.9
Open unemployment rate [k]	7.4	6.4	6.1	6.4	9.8	9.2	9.1	9.0	8.5
Visible underemployment rate [k]	...	3.8	5.2	4.0	4.9	5.4	6.4	5.6	5.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	8.2	6.6	6.0	4.7	2.3	4.5	2.6	2.8	1.1
Variation in nominal exchange rate (December-December)	1.7	3.3	3.8	7.8	13.8	6.9	16.4	4.9	-14.4
Variation in average real wage	4.0	4.1	2.4	2.7	2.4	1.4	1.6	2.1	0.8
Nominal deposit rate [l]	...	...	12.7	12.6	8.9	8.7	6.5	4.1	3.2
Nominal lending rate [l]	...	...	20.2	22.5	17.6	18.7	16.7	14.4	13.0
					Percentages of GDP				
General government [m]									
Income	23.4	23.6	23.5	23.1	22.5	23.7	23.9	23.2	23.4
Expenditure	17.2	17.9	18.0	19.0	20.7	20.9	20.8	20.7	20.2
Gross operating balance	6.2	5.6	5.5	4.1	1.8	2.8	3.1	2.5	3.2
Net acquisition of non-financial assets	3.0	3.5	3.4	3.7	3.9	3.5	3.6	3.7	3.6
Primary balance	4.9	3.5	3.4	1.6	-0.8	0.5	0.7	-0.1	0.8
Overall balance	3.2	2.2	2.1	0.4	-2.1	-0.7	-0.5	-1.2	-0.4
Public debt of the central government	17.4	14.7	12.6	12.2	13.3	12.9	14.5	15.2	15.4
Domestic	11.8	10.6	9.6	9.3	9.6	9.6	10.3	9.6	8.9
External	5.6	4.1	3.1	3.1	3.8	3.4	4.4	5.5	6.5
Interest payments (% of income)	7.1	5.9	5.3	5.2	5.6	5.1	4.9	5.0	5.0
Money and credit [n]									
Domestic credit [o]	61.8	62.5	65.5	66.3	69.3	68.6	71.3	73.1	75.8
To the public sector	1.3	1.4	2.4	2.4	2.7	2.7	3.3	4.1	4.0
To the private sector	60.5	61.1	63.2	63.9	66.6	65.9	67.9	69.0	71.7
Liquidity (M3)	37.1	37.8	40.3	45.4	50.1	49.9	51.7	52.6	50.7
Money stock and local-currency deposits (M2)	34.7	35.9	38.7	43.2	46.1	45.5	46.4	46.6	45.0
Foreign-currency deposits	2.4	1.9	1.6	2.3	4.0	4.4	5.3	5.9	5.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant 1996 prices; for 1995 and 1996, based on figures at 1986 prices. [c] Based on figures in local currency at current prices. [d] Includes errors and omissions. [e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [f] A minus sign (-) denotes an increase in reserves. [g] Includes the use of IMF credit and loans and exceptional financing. [h] Annual average, weighted by the value of merchandise exports and imports. [i] Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. [j] Economically active population as a percentage of the working-age population, nationwide total. [k] Percentages of the economically active population, nationwide total. [l] Non-adjustable 90- to 360-day operations. [m] Reflects the new accounting methodology set out in the 2001 IMF manual. [n] The monetary figures are annual averages. [o] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

Interest rates of all types came down as a result of the lower monetary policy interest rate, but the average interest rate rose because of a significant increase in consumer and mortgage loans, which carry higher rates, and a much slower expansion in business loans, which carry lower rates. The average interest rate on local-currency loans (with terms of between 90 days and 1 year) rose from 11.8% in December 2002 to 13% in December 2003, then fell to 10.9% in April 2004, when there was an upsurge in business loans.

The slower growth of commercial credit is also a symptom of stagnant domestic demand and of the precarious financial situation in which most small and medium-sized enterprises (SMEs) find themselves. Such businesses have been unable to recover from the monetary and financial squeeze triggered by the central bank in early 1998. Their problematic situation is consistent with the persistently high unemployment rates observed in the past five years.

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2002				2003[a]				2004 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	1.1	1.5	2.7	3.5	3.7	3.0	3.1	3.3	4.8	...
Merchandise exports, f.o.b. (millions of dollars)	4 623	4 942	4 052	4 560	5 276	5 271	5 067	5 433	7 335	...
Merchandise imports, c.i.f. (millions of dollars)	4 012	4 399	4 508	4 277	4 579	4 855	4 922	5 058	5 423	...
International reserves (millions of dollars)	14 150	15 223	14 740	15 351	16 499	15 490	15 655	15 851	15 965	15 853
Real effective exchange rate (index: 2000=100) [c]	111.4	108.7	116.6	116.5	123.7	122.9	120.3	111.7	108.6	114.2
Unemployment rate	8.8	9.5	9.7	7.8	8.2	9.1	9.4	7.4	8.1	9.6
Consumer prices (12-month percentage variation)	2.6	2.0	2.3	2.8	4.5	3.6	2.2	1.1	-0.7	1.1
Average nominal exchange rate (pesos per dollar)	670	659	708	718	738	710	693	623	588	629
Average real wage (variation from same quarter of preceding year)	2.5	2.5	1.7	1.3	0.3	0.0	1.0	2.4	3.1	2.5
Nominal interest rates (annualized percentages)										
Deposit rate [d]	5.7	4.4	3.2	3.1	3.1	3.2	3.4	3.2	2.2	2.1
Lending rate [d]	16.0	15.6	13.4	12.4	13.3	12.5	13.0	13.0	11.0	10.5
Interbank interest rate	5.8	4.4	3.2	3.0	2.7	2.7	2.7	2.7	1.8	1.7
Sovereign bond spread (basis points)	153	166	238	191	195	162	133	121	127	118
Stock price index (in dollars, June 1997=100)	62.1	53.8	46.0	52.5	52.5	65.6	82.1	94.9	92.5	89.8
Domestic credit (variation from same quarter of preceding year) [e]	12.4	7.3	8.1	9.8	8.2	13.3	10.7	11.6	11.2	10.6
Non-performing loans as a percentage of total loans [f]	1.7	1.8	1.9	1.8	1.9	1.9	1.8	1.6	1.6	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Based on figures in local currency at constant 1996 prices. [c] Quarterly average, weighted by the value of merchandise exports and imports. [d] Non-adjustable 90- to 360-day operations. [e] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. [f] Refers to total credit extended by the banking system.

Bank credit increased by 5.7% in December 2003 and by 3.8% up to April 2004. Non-financial private-sector entities issued local-currency bonds in an amount equivalent to US$ 2.2 billion in 2003, while the central bank's equity holdings grew by 7.6%. The banking system reduced the level of non-performing loans from 1.8% in December 2002 to 1.6% in December 2003 and to 1.5% in April 2004.

Chile is one of the few countries in the region whose financial system does not have a large proportion of assets and liabilities in dollars. This is because it has long had systems, adopted as far back as the 1960s, for indexing financial institutions' local-currency deposits and loans to inflation, thus creating an alternative unit of account with constant purchasing power to replace the dollar in this area.

International reserves increased from US$ 15.351 billion in December 2002 to US$ 15.851 billion in December 2003, and reached US$ 16.137 billion in May 2004.

Chile has had a flexible exchange-rate regime since late 1999. The peso appreciated steadily in 2003 owing to the more encouraging situation in Argentina and the positive outlook for Brazil. In addition, in the last quarter there was an increased inflow of dollars owing to the hike in copper prices, higher export earnings and inflows of financial capital from investors seeking to take advantage of an upswing in the stock market.

By early December 2003 the peso had appreciated by a little over 20% in relation to the exchange rate's peak level, which was observed in March. Despite pressure from exporters, the central bank reaffirmed its decision not to intervene at that point, when the peso was particularly strong. This response made it clear that the central bank intervenes only when the exchange rate suddenly soars to very high levels, as it did on the eve of the Argentine crisis in 2001 and in the midst of uncertainty about the Brazilian real in 2002. Should such an emergency occur, the central bank would announce the scale of the intervention, as it has done in the recent past.

The decline in the nominal exchange rate from 758 pesos to the dollar in March 2003 to 599 in December was followed by a partial reversal that brought it to 650 pesos to the dollar in May 2004. The multilateral exchange rate (1998=100) rose in 2003 from 125.8 in January to 129.7 in June, then fell to 116.7 in June 2004.

The appreciation increased the attractiveness of dollar yields on financial investments in Chile, which were extraordinarily high in 2003: by December the selective share price index (IPSA) had risen by almost 50%. This, together with the peso's revaluation, raised the rate of return to some 70%. The mutually reinforcing relationship between the rise in share prices and the sale of dollars for the purpose of participating in the stock market is symmetrical, so that a downturn in the stock market would change this relationship from positive to negative. In 2003 the central bank did not intervene significantly in the foreign-exchange market, carrying out operations for just US$ 50 million.

(c) Trade policy

The signing of preferential trade agreements with the United States and Europe, and subsequently with the Republic of Korea, has opened up new opportunities for Chile's economic activity after the slowdown of recent years. These treaties, in addition to the free trade agreements that are expected to be concluded with India and China in the near future, will require Chile to meet new challenges in order to take full advantage of their potential. These challenges include the need to provide adequate labour training, achieve high quality standards, enhance productive efficiency and establish effective marketing mechanisms. For these reasons, the potential advantages of these agreements are particularly significant for the Chilean economy, as exports account for one third of its GDP. This means that the country's growth prospects depend to a large extent on the global economy and on domestic policies that affect the profitability of exports.

In another area of foreign trade policy, the main problem currently facing the authorities is the Argentine government's non-compliance with a contract to supply natural gas, which was to have met 40% of Chile's needs in this regard.

3. The main variables

(a) Economic activity

Exports increased by 7.8% in 2003, thus becoming the main source of growth for the Chilean economy. Foreign sales were even more buoyant in 2004, thanks to a rise in export volume and a significant upturn in the price of copper and other export products.

For 2004 as a whole growth is expected to be in the 4.5%-to-5.5% range, which is higher than the 2003 rate. The fastest-growing components are likely to be exports (of mining, agricultural and industrial products) and private investment. The central bank has projected that in 2004 exports of goods and services will expand by 11.8% and domestic demand, by 5.7%.

Private consumption rose by 3.7% in 2003, while consumer credit grew by 16.8% in 2003 and another 6% up to May 2004. For 2004 as a whole, private consumption is expected to rise by 4%. Gross fixed capital formation, meanwhile, should grow by 7.1%, outpacing its 2003 rate of 4.8%. If this expansion occurs, gross fixed capital formation will be equivalent to 24% of GDP.

Manufacturing expanded more slowly than total GDP (by 2.4% in 2003, compared to 2.7% the preceding year). In contrast, mining grew by 5.4% over the same period, followed by electricity and commerce, both of which were up by 4.1%. Output growth was slowest in the transport sector, reaching only 3.4%. The supermarket sales index posted a real variation of 9.1% in 2003 in relation to its 2002 level. Low interest rates are fuelling a recovery in construction, while durable goods consumption and investment show signs of recovery.

In the first half of 2003 interest rates, including lending rates, remained closely aligned with the monetary policy interest rate. In the second half of the year, however, lending rates began to increase, diverging from the monetary policy rate.

(b) Prices, wages and employment

In late 2003 underlying inflation amounted to 2.3%, while the wholesale price index showed an average annual increase of 6.6%. The consumer price index rose by 3.5% over the 12 months ending in May 2004, owing to increases in the prices of oil and of certain food imports. Also in May, underlying inflation rose to 2.8% and wholesale price inflation, to 7.8%. The central bank estimates that inflation will come in at 2% in 2004 and 3% in 2005.

Despite a 2.1% increase in the economically active population, the employment rate rose slightly, from 92.1% in the last quarter of 2002 to 92.6% in December 2003, boosting the employed population by 2.6% over that period. The sectors where job growth was fastest were transport, storage and communications (8.7%); electricity, gas and water (5.8%); and financial services (5.2%). In contrast, employment contracted in the commerce sector, where it is concentrated among self-employed workers and SMEs, and among individuals with low levels of education. Meanwhile, the real hourly wage rose by 2.3% in comparison to its December 2002 level.

To mitigate the country's sharp social inequalities, the government has supported the expansion of pre-school education coverage.

(c) The external sector

The current account recorded a deficit of US$ 594 million (0.8% of GDP) and the trade balance (f.o.b.) exceeded US$ 2.2 billion. Imports grew faster than exports, rising by 12.9% as a result of higher volumes (9.6%) and prices (2.9%). Intermediate goods imports increased by 13.7% over a nine-month period, while consumer and capital goods imports rose by 11.6% and 5.7%, respectively. Exports expanded by 7.8% over the year in real terms, with rises in both prices and quantities.

The merchandise trade surplus widened to US$ 3.015 billion, from US$ 2.256 billion in 2002, but was offset by a US$ 3.28-billion deficit on the factor income account. The balance of payments showed a deficit of US$ 366 million (0.5% of GDP). Among the country's exports, there was a considerable increase in sales of mining products, especially copper, which jumped by 19%. Other exports were up by 12.9%; the best performers were agricultural products (fruits and vegetables) and industrial products (textiles, chemicals, iron and steel and jewellery). This growth accelerated in early 2004, resulting in a 33% expansion in the first quarter.

In 2004 the merchandise trade surplus is expected to increase to US$ 7 billion, more than doubling the figure for 2003 (US$ 3.015 billion). The trade balance should be equivalent to 1.3% of GDP, compared to a deficit of 0.8% in 2003, and the current account balance will probably amount to 1.1% of GDP.

The public sector's external debt grew from 11.1% of GDP in 2002 to 12.9% in 2003, while the private sector's external debt declined from 49.7% of GDP in 2002 to 47.3% in 2003.