

2010-2011



Economic Survey
of Latin America and the Caribbean

International integration and
macroeconomic policy challenges
amid global economic turmoil



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Notes

In this publication, the term "country" is used to refer to territorial entities, whether these are States as understood by international law and practice or simply territories for which statistical data are maintained on a separate and independent basis.

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

The following symbols have been used in the tables shown in the Survey: Three dots (...) indicate that data are not available or are not separately reported. A dash (-) indicates that the amount is nil or negligible. A point is used to indicate decimals.

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Foreword

The sixty-third edition of the *Economic Survey of Latin America and the Caribbean* covers 2010 and the first half of 2011. During this period the economies of Latin America and the Caribbean continued to recover from the global financial and economic crisis whose fallout spread across the region in the second half of 2008 and in 2009. The upturn that began late in 2009 and gained unexpected momentum in 2010 was sustained by a recovery whose characteristics were without precedent in the world economy and by the macroeconomic policies implemented by the countries themselves. The recovery carried over into 2011, albeit with economic growth easing back in response to both external and domestic factors.

The first part of this edition of the *Economic Survey* looks at the nature of the recovery and the factors underlying its initial momentum and later slackening. The differences between countries and subregions are examined along with the challenges now being faced in a setting defined by a highly liquid international economy and surging commodity prices. The outcome of the recovery is analysed in terms of economic activity, labour markets and the external sector, taking account of how macroeconomic policies have been adapted to the challenges arising in the post-crisis world. Detailed consideration is afforded to the uncertainty currently prevailing in the global economy, the resulting risks for growth and the internal factors pointing to a further, albeit gentle, slowdown in growth in 2012. This part of

the *Economic Survey* is complemented by an extensive statistical annex.

The second part of this *Economic Survey* delves into the challenges posed by highly liquid conditions in international financial markets combined with high prices for the region's key commodities. The contrasting situations these external conditions represent for the countries of the region are reviewed in detail, taking account of the very different patterns of trade and engagement with international financial markets and the varying depth of domestic financial systems. Consideration is given, as well, to the macroeconomic tools available to policymakers in the current circumstances and the advantages and drawbacks of each, both for rising to short-term challenges and in the interests of longer-term, sustained development.

The *Economic Survey* closes with an analysis of the situation in the countries of Latin America and the Caribbean during 2010 and the first half of 2011. The individual country notes are accompanied by tables showing the evolution of the main economic indicators. These notes, like the specific statistical annexes for each country, are published on the CD-ROM included with the print version and on the ECLAC website (www.eclac.org). The tables in the statistical annex can be used to obtain a rapid overview of the information for the last few years and to create spreadsheets. The disk also contains the first and second parts in electronic format. The cut-off date for the statistical information in this publication was 30 June 2011.

Executive summary

After contracting in 2009, GDP expanded by 5.9% in Latin America and the Caribbean in 2010, albeit with the region's hallmark differences in performance from one country to another. The expansion in output was driven by strong domestic demand in the forms of both consumption and investment, and by buoyant external demand. On the domestic demand side, private consumption (up 5.9%) was sustained by an upturn in employment and wages, brightening economic expectations, an expansion in lending to the private sector and, in some countries, an upswing in remittances from emigrant workers. Public consumption rose at a more modest rate of 3.9% and investment jumped by 14.5%, with strong growth in the machinery and equipment segments in particular. On the external demand side, exports of goods and services were especially buoyant—rising by over 10%—in the Southern Common Market (MERCOSUR) countries, the Dominican Republic, El Salvador, Mexico and Nicaragua. Meanwhile, imports of goods and services increased by more than 10% at constant prices on the back of robust domestic demand within the region, which rose 7.5%.

For 2011, the Economic Commission for Latin America and the Caribbean (ECLAC) projects regional GDP growth of 4.7%, or 3.6% in per capita GDP, as the recovery that began in the Latin American and Caribbean economies in the second half of 2009 firms up. The slippage in this rate compared with 2010 may be attributed to loss of momentum in the international economy and, in some

cases, the gradual withdrawal of public policy stimulus implemented to deal with the fallout from the crisis. For 2012, regional growth is projected at 4.1%, equivalent to a rise of 3.0% in per capita GDP, notwithstanding the downturn in external conditions and, on the domestic front, complex policy challenges arising from dilemmas over the direction of certain macroeconomic variables.

In the near term, activity levels in the economies of Latin America and the Caribbean are being sustained largely by private consumption, thanks to an improvement in labour indicators and an expansion in lending. At the same time, expectations of buoyant domestic demand and the depletion of idle production capacity, combined with more readily available credit, are fuelling investment.

The unemployment rate is projected to fall again in 2011, to between 6.7% and 7.0%—below pre-crisis levels— as continued growth boosts the employment generation capacity of the region's economies. Indicators show formal wage employment rising as a proportion of total employment in several countries, suggesting that the new jobs being created are of better quality. This setting of economic growth and jobs rising in both numbers and quality could herald fresh gains in poverty reduction.

Amid burgeoning domestic demand, rising prices for commodities, especially food and fuels, are exerting upward pressure on the inflation rate. The region's central banks are once again facing a dilemma in this respect. On the one hand, they need to maintain price stability. On the

other, they must try to keep their export sectors (or those producing import-substitution goods) competitive amid heavy upward pressure on the region's exchange rates. Currency appreciation is being driven by a combination of highly liquid external conditions, the solidity of some Latin American economies and, in several cases, massive inflows of foreign exchange resulting from high export commodity prices and foreign investors' renewed appetite for emerging country assets.

These circumstances present a number of risks and difficulties, both in the short term and in the medium and longer terms. First, the increase in financial inflows makes the region more vulnerable to speculative capital movements, a further risk being that the sheer magnitude of the resources involved could exceed the capacity of the financial systems to manage them and lead to financial asset or real-estate bubbles. Over a longer period, real exchange-rate appreciation could erode the external component of demand for goods, especially if world trade loses momentum, as it may if growth in the developed countries slackens as mid-2011 projections suggest it will. The combination of real exchange-rate appreciation and rising commodity prices could push the region further towards intensive specialization in the production and export of primary goods, thus leaving its economies more open to external shocks and possibly fuelling macroeconomic volatility. This would certainly hurt the economies' capacity to grow, generate productive employment and reduce inequality.

These risks may not be imminent, yet there are grounds for caution. Advantage should be taken of the current favourable conditions to strengthen the region's external position and generate public sector savings in

order to recover the policy space used up during the crisis. Measures such as short-term capital controls could also help to limit vulnerability. These recommendations are, moreover, compatible with efforts to contain currency appreciation. Recouping fiscal space is therefore vital for the countries of the region. It would help them to face not only the classic public policy challenges (the need for greater investment in physical and social capital) but also those arising from developments on the international front. More substantial public sector savings would allow governments to steer clearer of contractionary monetary policy and would help to reduce the tension between strategies to counter inflation and those to contain currency appreciation.

The second part of this report looks at the challenges thrown up in the context of high commodity prices and abundant liquidity flowing towards Latin American assets. The Latin American and Caribbean countries in this situation have the opportunity to use these resources to foster long-term growth, but must at the same time deal with greater inflationary pressures, loss of competitiveness through currency appreciation and the threat of "reprimarization"—a shift back towards primary production— of their productive apparatus.

Although the governments of the region may draw upon a range of tools to contain the negative implications of this international setting, these all have a cost, are not guaranteed to work and may cause unwanted side effects. The challenge for policymakers, then, is to craft the right mix of tools for each country's specific pattern of trade and financial engagement and to create an enabling environment for investment, employment and the greater well-being of the population at large.

Part 1

**The economic situation in Latin America
and the Caribbean in 2010-2011**

Chapter I

Regional overview

A. Introduction

ECLAC projects growth of 4.7% for the region in 2011, which represents a rise of 3.6% in per capita GDP. Growth will be driven by the ongoing recovery that began in the economies late in 2009, although slackening in the global economy, coupled with the gradual withdrawal of the crisis-response policies implemented by the region's governments, are acting as a drag on the rate. As will be explored below, economic expansion should continue in the region, even with global conditions turning less favourable and the performance of certain macroeconomic variables raising complex policy dilemmas for economic authorities in the region. As a result, regional growth is expected to ease back to around 4.1%, equivalent to a rise of 3% in per capita output, in 2012.

Figure I.1 shows that, consistently with the pattern of the last few years, the highest rates of growth have been in South America, whose combined estimated growth rate for 2011 is 5.1%. Central America as a whole, driven in particular by sustained growth of the Panamanian economy, is expected to register growth of 4.3% and the Caribbean economies, 1.9%.

The growth of the region's economies in 2011 is being sustained to a large extent by private consumption, thanks to improving labour indicators and an expansion in credit. Meanwhile, as idle production capacity has been depleted by sustained domestic demand fuelled by looser credit conditions, investment is on the rise and is regaining pre-crisis levels.

Sustained economic growth is also enhancing the economies' employment-generating capacities and the unemployment rate is expected to come down again in 2011, to between 6.7% and 7%—below pre-crisis levels. What is more, indicators for the first part of 2011 show formal wage employment rising as a proportion of total employment in several countries, suggesting that the new jobs being created are of better quality. Continued economic growth and jobs rising in both numbers and quality should usher in fresh gains in poverty reduction.

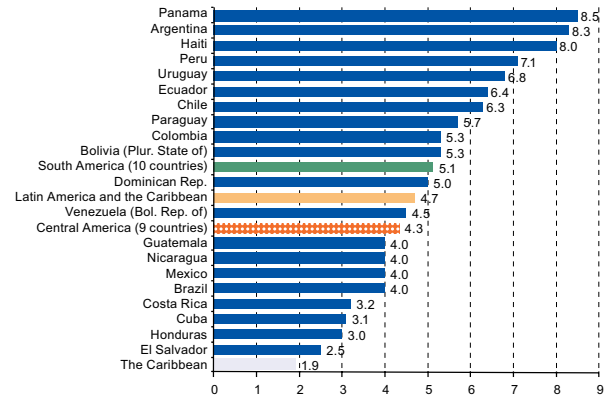
Amid burgeoning domestic demand, rising prices for commodities, especially food and fuels, are exerting upward pressure on the inflation rate. Accordingly, several of the region's countries have tightened their monetary

policy stances, which is broadening spreads between domestic and international interest rates and this, amid highly liquid external conditions, is pushing up exchange rates in the region. Although the countries are continuing to accumulate international reserves, they are doing so not so much through the current account (which is in fact running a widening deficit in most of the countries) but increasingly through the financial account, particularly by way of relatively short-term operations.

These developments are all extremely important for short-term macroeconomic policy management, resource allocation and strategic decisions on production specialization. The analytical chapters of this issue of *Economic Survey* look at macroeconomic policy and, in particular, its implications for the exchange rate in view of the very different ways in which the countries of the region participate in the global economy. The rest of this chapter is structured as follows. Section B looks at the current conditions in the international economy. Section C examines the behaviour of the main domestic and external macroeconomic aggregates; and section D

discusses macroeconomic policies and the policy challenges facing the region and considers the outlook for economic growth.

Figure I.1
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2011^a
(Percentages)



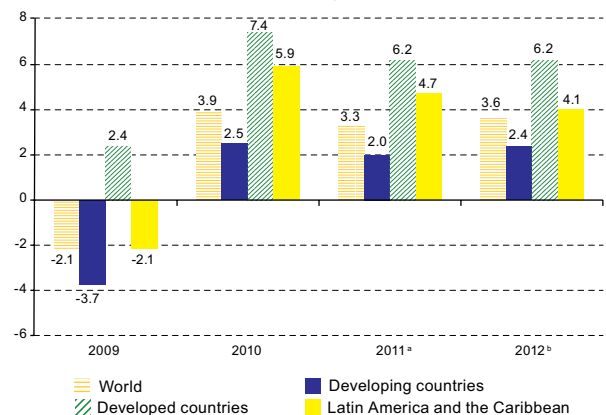
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary data.

B. The international economy

Estimates for global economic activity have been revised downwards following slower-than-expected recovery in global output from the impact of the global financial crisis: the current projections for 2011 and 2012 are 3.3% and 3.6%, respectively (see figure I.2).¹ Sluggish growth in the world economy and particularly in the developed countries is undoubtedly a function of continuing difficulties in those countries' financial markets associated, among other factors, with household deleveraging, weaknesses in real estate markets and the sovereign debt problems of some European countries. At the same time, mounting concern over the sustainability of public debt in those economies is also lending an increasingly austere slant to their public finances, which represents a further drag on growth prospects.

Figure I.2
WORLD ECONOMIC GROWTH, 2009-2012
(Percentages)



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

^a Preliminary data.

^b Projections.

¹ See United Nations, *World Economic Situation and Prospects. Monthly Briefing*, No. 32, New York, Department of Economic and Social Affairs (DESA), June 2011.

The developed economies are projected to yield a combined growth rate of 2% for 2011, perhaps rising to 2.4% in 2012. For the reasons noted earlier, economic recovery is likely to be fragile in the United States, with growth projected at 2.6% in 2011 (2.8% in 2012). Japan's economy, reeling from the combined effects of the earthquake, tsunami and problems associated with nuclear power generation, will recover very slowly, by an estimated 0.7% in 2011 (2.8% in 2012). In Europe, the outlook is very mixed. Although overall the European region is projected to return to economic growth of 1.85%

in 2011 and 1.9% in 2012, Germany and the Nordic countries are expected to expand at above-average rates, while the countries grappling with the worst sovereign debt and fiscal problems will continue to register low growth or remain in recession.

Developing economies will lead global growth, with a rate of 6.2% projected in both 2011 and 2012. Within this context of across-the-board growth rates above the global average, the strongest performers will be China (9.1% in 2011 and 8.9% in 2012) and India (8.1% in 2011 and 8.2% in 2012).

1. International financial conditions and their impact on economies in the region

The problems of a set of countries (Greece, Ireland, Italy, Portugal and Spain) grew steadily worse throughout 2010. These countries' economies have been characterized by structural fiscal deficits and very low levels of private savings, translating into steadily rising public debt and a sustained current account deficit.² This combination led to a series of critical episodes in Greece, Iceland and Ireland, whose bailouts required the creation of a special institution—the European Financial Stability Fund (EFSF)—and involved the International Monetary Fund (IMF), the European Central Bank (ECB) and the governments of countries on a sounder financial footing. Other, smaller countries in the euro area (those sometimes referred to as the peripheral countries) and European countries outside the euro area were also caught up in the turmoil.

Meanwhile, in the United States monetary measures were taken to allow an ordered winding down of low-quality credit exposure and, in general, heal the financial system after the recession that followed the financial crisis. As a result, some signs of an economic upturn began to emerge in the United States in 2010. The slow pace of the recovery persuaded the Federal Reserve to keep the monetary policy rate at historically low levels, however. Japan, whose economy has been at a standstill for a number of years, continued in 2010 to direct monetary policy towards promoting economic recovery, with very low rates of interest.

In contrast with this picture, the emerging economies recovered quickly from the crisis, many of them keeping public debt low and their financial system solvent as they did so (see table I.1). As a result, they have gained

a stronger position relative to the developed economies, as is apparent from the region's sovereign risk ratings, which are lower than those of some developed economies previously considered more solid.

As a result of all these factors, global liquidity has expanded sharply and the main reserve currencies, especially the dollar, have lost value.³ As a corollary, financial flows into the region, including foreign direct investment, have surged and, in some cases, local currencies have appreciated in both nominal and real terms.

This was not the only external shock to affect the region, however. Rapid growth in emerging economies has created vigorous demand for commodities, pushing up prices of metals, hydrocarbons and foods, and these price rises have been exacerbated by the value slippage of the main reserve currencies. The currencies of net commodity exporters have thus been pushed towards appreciation, which has worsened inflationary pressures in these countries.

This complex external scenario has carried over into 2011 and shows some signs of becoming worse. In the United States, the priority continues to be to foster the recovery of output and employment levels, which are also viewed as necessary conditions for restoring the financial system to health. With inflationary expectations low, the Federal Reserve has indicated that monetary stimulus will not be withdrawn in the immediate term—at least up to mid-2012.⁴ The fiscal authorities are

² The worst case was Greece, which is facing high levels of public debt, a structural fiscal deficit of 12.5% of GDP and an external deficit of almost 14% of GDP. For measures of the structural fiscal and current account position of these countries, see International Monetary Fund (IMF), World Economic Outlook Database, April 2010.

³ Authorities in the euro area have afforded greater priority to improving the liquidity position of bank assets than to stimulating demand and have sterilized the monetary impacts of their interventions. As a result, the euro has not been so weak as the dollar.

⁴ The need to maintain monetary stimulus until the economy shows more solid signs of recovery was set forth starkly by Paul Krugman in his article "Inflation and economic Hooliganism", *New York Times*, 11 May 2011.

engaged in lengthy negotiations over the reduction of the deficit, but sharp adjustments such as those made in Europe are not anticipated. The highly liquid global conditions originating in the United States may therefore be expected to persist in the second half of 2011. In Europe, and in the euro area in particular, the focus of macroeconomic policy thus far has been very different.

Unlike the situation in the United States, the monetary effects of measures implemented in response to the crisis have been largely sterilized. In addition, ECB began raising interest rates in April 2011 as inflationary expectations mounted. Projections show inflation running at around 3%, above the ECB yearly target of 2%, so the Bank is unlikely to change its policy stance in the short term.

Table I.1
LATIN AMERICA: RISK PREMIUMS ON FIVE-YEAR CREDIT DEFAULT SWAP CONTRACTS, 2007-2011^a
(Basis points)

	Argentina	Brazil	Chile	Colombia	Mexico	Panama	Peru	Venezuela (Bolivarian Republic of)
First semester 2007	208.1	81.0	15.0	94.9	37.6	72.7	78.3	190.1
Second semester 2007	429.3	100.2	24.1	133.1	58.9	112.0	109.2	410.6
First semester 2008	574.6	130.0	60.3	170.7	106.4	154.6	128.9	576.7
Second semester 2008	2 454.1	231.0	146.2	247.5	215.7	245.1	231.4	1 575.9
First semester 2009	3 001.1	285.4	188.8	329.1	320.8	331.8	307.1	1 956.1
Second semester 2009	1 230.2	131.2	76.0	160.1	158.2	151.8	138.0	1 149.3
2010								
January	1 027.4	144.0	76.7	168.2	150.3	155.6	145.4	1 020.1
February	1 150.6	130.2	74.2	157.0	126.8	141.9	131.6	1 026.9
March	902.8	130.5	82.9	150.1	116.2	126.6	127.8	927.9
April	850.4	123.7	84.2	146.2	115.1	115.6	121.5	899.7
May	1 212.3	135.8	103.4	163.4	133.6	129.4	135.2	1 431.0
June	986.9	139.9	104.5	152.2	137.5	135.0	136.5	1 367.6
July	793.6	116.9	77.9	123.8	116.9	108.5	109.3	1 040.3
August	945.7	131.5	77.9	137.8	143.8	114.1	116.3	1 267.8
September	750.5	115.9	73.9	117.8	122.0	112.2	120.5	1 133.0
October	625.1	99.8	67.9	100.3	105.8	94.1	107.3	1 073.5
November	735.0	123.4	93.6	125.7	125.8	115.6	131.8	1 268.8
December	601.9	111.3	84.4	112.7	113.6	98.7	113.0	1 015.9
2011								
January	625.0	118.9	82.2	120.0	122.0	107.2	112.7	1 045.1
February	658.0	118.0	78.4	119.9	114.5	104.2	113.3	1 122.3
March	591.8	111.2	61.3	108.5	105.4	90.8	137.8	1 015.3
April	586.8	105.4	59.4	100.2	98.5	84.2	154.5	1 023.1
May	602.8	104.1	67.9	100.5	102.9	84.3	132.9	1 110.4

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

^a Data for 2011 refer to first five months only.

Fiscal policy in the euro area has focused on restoring solvency as a basic condition for economic recovery, even if these budget adjustments have a short-term recessionary impact. Growing doubts over debt sustainability in some countries prompted drastic spending cuts on the basis that, in the medium term, confidence in public sector stability and solvency would stimulate investment and employment. The debt sustainability issues of the worst compromised countries have yet to be resolved, however.

In particular, Greece has again become a source of uncertainty, on the expectation that the measures taken to meet the fiscal targets agreed upon with IMF, ECB and EFSF will fail to reduce the country's deficit as much as it had been hoped and this has jeopardized the disbursement

of the next tranche of funding. According to both the Government of Greece and experts on international finance, Greece's debt must be restructured (that is, its present value reduced), in order to ease the burden of debt servicing, increase the probability of payment and avoid the vicious cycle of near-term recessionary fiscal contraction, which would worsen the domestic deficit. The difficulties such a proposal implies for the assets of ECB (one of the bailout creditors), as well as fears of contagion spreading to other over-indebted countries have delayed the implementation of a solution of this sort.

For the time being, although the monetary policy put in place by the ECB could strengthen the euro, the lack of a resolution for Europe's sovereign debt problems is casting

a heavy pall of uncertainty over the future of the euro area and this will continue to drive flows of financial resources towards other, safer and more profitable areas of the world financial market. The downgrading of some of these countries' sovereign debt in the second quarter of 2011 may add to the flight of financial resources from Europe.

In the case of Japan, sovereign debt quality has suffered as a result of the impacts of natural disasters on economic activity and public spending. Nonetheless, as the authorities maintain their objective of avoiding currency appreciation and stimulating recovery, monetary policy will continue to be directed towards expanding liquidity.

The overall picture at the global level is therefore one of strongly contrasting macroeconomic policies adopted in key financial and economic centres. Financial flows may therefore be expected to continue flowing into emerging countries, bringing about pressures towards real currency appreciation, high commodity prices and mounting inflation. Uncertainties abound, however, in particular with respect to the sustainability of public debt in some highly indebted European countries and the point at which economic recovery in the United States will achieve sufficient momentum to prompt a monetary policy shift.

Box I.1

POTENTIAL IMPACT OF THE 2011 JAPANESE EARTHQUAKE AND TSUNAMI ON LATIN AMERICA AND THE CARIBBEAN

Like previous natural disasters, the earthquake and tsunami that struck Japan on 11 March 2011 will have deep, long-lasting repercussions on the local economy but a much shorter-lived impact on the global economy. Even so, although the areas hit by the catastrophe account for less than 4% of Japan's economic activity, the destruction of part of the country's electricity-generating capacity has had a ripple effect across the entire national economy.

Following the Kobe earthquake of 1995, Japan demonstrated its capacity for rapid economic recovery. Although productivity levels plummeted in the short term, the reconstruction effort brought about a speedy recovery and it was not long before devastated infrastructure and housing had been rebuilt. However, the 2011 earthquake was much more severe than the 1995 one; so, although economic activity is expected to pick up again after a period of contraction, the destruction caused by the tsunami and the damage to the country's nuclear power plants threaten to stall further recovery and could have a broader impact on production. In fact, the impaired power-generating capacity—not only at plants directly affected but also at others shut down as a preventive measure given the risk of aftershocks—has taken a toll on the rest of the country's industry, in particular the automotive, vehicle parts, electronics and semiconductor sectors. In many instances the supply of raw materials has been temporarily cut off, affecting production both in Japan and in other countries that are part of the global production chains in which Japan is a key link. According to projections, output could contract by between 1% and 3% before returning to slightly positive levels in 2012. Global economic growth in 2011 is thus expected to slip by half a percentage point.

As was the case following previous external crises, the impact will make itself felt in Latin America and the Caribbean through trade and financial channels.

In the near term, the interruption of normal transport and distribution operations and the contraction of domestic economic activity in Japan will very likely lead to a drop in imports. However, as the reconstruction effort gets under way in the medium term, imports of raw materials and fuel should rise again. In 2008 and 2009, only 3.6% and 3.8% of total exports from Latin America and the Caribbean went to Japan. Inasmuch as exports to Japan from Chile, Peru and the Plurinational State of Bolivia exceed the regional average, the buoyant global demand for those exports—minerals and hydrocarbons—means that they can be diverted to other markets in order to offset the decline in demand from Japan. In absolute terms, Brazil and Chile are the region's main exporters to Japan, followed by Peru, Mexico and Argentina. In the services sector, the region exports very little to Japan, and Japanese tourism accounts for a very small share of the tourism service exports of Caribbean countries.

Japan accounted for 3% of total foreign direct investment in the region in 2010, and has recently been taking on greater significance in Brazil (5% of the total) and, in previous years, in Chile and Peru.^a That investment has historically targeted mining resources in Brazil, Chile and Peru and, more recently, financial services in Brazil. The earthquake in Japan is not expected to trigger any radical changes in the long-term direction of this category of investment.

As for the earthquake's impact on portfolio investment and other financial flows into the region, analysts think existing trends may intensify because of uncertainty about the future of the public debt of Japan and the United States. Investors are expected to demand higher returns (implicit interest rates) on financial investments, which would bump up the cost of financing for the region.

Japan's public debt has been following a steady upward path driven by persistent deficits and weak or zero economic growth,

which has meant only marginal increases in tax revenue. Gross public debt is approaching 225% of GDP, although discounting debt held by government agencies brings that level down to 100% of GDP, comparable with other developed countries. In contrast with other countries, however, most of Japan's public debt is in the hands of its own residents. Even so, signs are that there will be further deterioration in the short term as the projected drop in activity will yield even less tax revenue and public spending will be stepped up to fund reconstruction. In the medium to long term, the country's ageing population will make for a heavier burden in pensions and health spending. All these factors have prompted credit-rating agencies to downgrade the quality of Japan's sovereign debt.

Japan is—after China—the main holder of United States debt. As it was initially thought that private creditors would sell off some of those debt holdings to finance reconstruction and cover insurance payouts by insurance companies holding those bonds, the weeks following the earthquake saw an appreciation of the yen that was halted only after intervention by the central banks of the Group of Seven. As it happens, the insurance companies appear to have sufficient current revenue from premiums to cover earthquake-related payouts, thus allaying initial fears of a mass rush to liquidate financial assets. In the medium term, the ageing of Japan's population points to a trend towards dissaving and a subsequent reduction in demand for financial assets, including United States treasury bonds, thus pushing up the financial cost of debt at the global level. Ultimately, the outcome will hinge on a series of factors relating to global public finances, which will continue to suffer in the short and medium terms, especially in developed countries, as a result of the measures adopted to weather the recent global financial crisis.

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

^a See ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2010*, Santiago, Chile, 2011.

C. Recent major developments in the Latin American and Caribbean economies

1. Macroeconomic aggregates

The region's GDP expanded by 5.9% on average in 2010, although the performance was very uneven from one country to another. The countries posting the highest growth rates were the members of MERCOSUR —Argentina (9.2%), Brazil (7.5%), Paraguay (15.0%) and Uruguay (8.5%)— and Panama (7.5%), the Dominican Republic (7.8%) and Peru (8.8%). By contrast, output contracted in the Bolivarian Republic of Venezuela and Haiti, by 1.4% and 5.1%, respectively. In the latter case, the downturn was attributable to the earthquake of January 2010, which struck a severe blow to economic activity. The GDP contraction in the Bolivarian Republic of Venezuela reflected a slump in domestic demand as a result of declining government revenues from oil exports and drought-induced electric power rationing in the first semester.

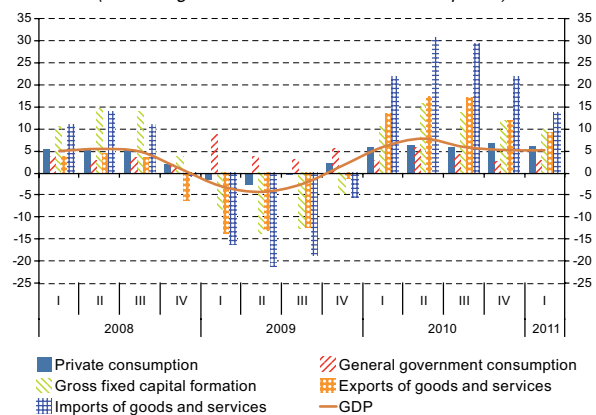
South America registered growth of 6.4% and Central America,⁵ 4%. The Caribbean countries together expanded by 0.4%. The three economies that account for roughly 70% of this subregion's GDP —Jamaica, Barbados and Trinidad and Tobago— experienced a contraction in output (-1.3%), stagnation (0.3%) and lacklustre growth (2.5%), respectively.

GDP growth was driven by strong domestic demand in the form of both consumption and investment and by buoyant external demand. On the domestic demand side, private consumption growth (up 6.0%) was due to an upturn in employment and wages, brightening economic expectations, an expansion in lending to the private sector and, in some countries, an upswing in remittances from emigrant workers. Public consumption rose at a more modest rate of 3.9%. Investment jumped by 14.3%, with strong growth in the machinery and equipment segment in particular. Gross fixed capital formation rose from 20.3% in 2009 to 21.4% in 2010, though this falls short of the 22.1% posted in 2008.

Exports of goods and services yielded high growth rates —over 10%— in the member countries of MERCOSUR, the Dominican Republic, El Salvador, Mexico and Nicaragua. Meanwhile, imports of goods and services increased by

more than 10% at constant prices on the back of robust domestic demand within the region (7.5%), with capital goods and consumer durables, especially automobiles, standing out in particular (see figures I.3 and I.4).

Figure I.3
LATIN AMERICA: YEAR-ON-YEAR QUARTERLY VARIATION IN COMPONENTS OF SPENDING, 2008-2011^a
(Percentages and constant dollars at 2005 prices)



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

^a Figures for 2011 refer to first quarter only.

Figure I.4
LATIN AMERICA: YEARLY VARIATION IN GROSS FIXED CAPITAL FORMATION, 2004-2010
(Constant dollars at 2005 prices)



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

⁵ Calculation includes Costa Rica, Cuba, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

By sector of economic activity, commerce, financial and business services and the transport and communications sector expanded across the board. The performance of the goods-producing sectors, however, including mining, manufacturing and agriculture, varied across the region. The agricultural sector enjoyed strong expansion in the MERCOSUR countries, thanks to good harvests as weather conditions returned to normal. Mining output rose in Brazil and Colombia (in both cases owing to increased petroleum production) and in the Plurinational State of Bolivia (with higher natural gas production). Manufacturing activity expanded at above-average rates in Argentina, Brazil, Colombia, Mexico and Peru.

Disposable gross national income in the region was up by 7.6%, reflecting an average gain in terms of trade⁶ and an upturn in inflows of emigrant remittances.

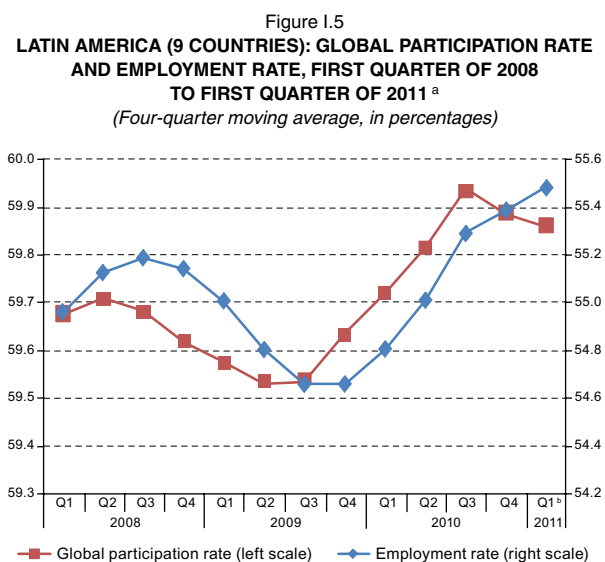
Investment, measured in current dollars as a percentage of GDP, rose from 19.8% in 2009 to 21.6% in 2010. Notwithstanding the expansion in private consumption, national saving was also up in GDP terms (from 19.5% in 2009 to 20.5% in 2010), and external saving climbed to 1.2% of GDP. Data available for the first half of 2011 indicate that economic growth has held steady, with first-quarter growth rates in several countries similar to those recorded throughout 2010. ECLAC projects the regional GDP growth rate at 4.7% for the year overall.

2. Wages and the labour market

The economic upswing in 2010 helped to nudge the employment rate up to a new high of 54.9%, a rise of 0.6 percentage points.⁷ As figure I.5 shows, the employment rate began to recover strongly in the first quarter of 2010, although this was not the case in all the countries. In 18 countries with comparable data, only 8 showed a rise in employment: Argentina, Brazil, Colombia, Dominican Republic, Nicaragua, Peru, Plurinational State of Bolivia and Uruguay.

The participation rate also changed in 2010, with a rise of 0.3 percentage points. Given that the labour supply behaves procyclically in many countries, this may be interpreted as indicating that the economic upturn improved people's perceptions of their employment options. As figure I.5 shows, the uptrend in the participation rate became apparent in the fourth quarter of 2009 and continued until the fourth quarter of 2010, before falling back slightly early in 2011, which could reflect a labour supply contraction among young people.⁸

In 2010, the faster rate of labour supply growth lessened the impact of higher employment levels on the urban unemployment rate, which nevertheless eased back from 8.1% to 7.3% and thus returned to the level of 2008, which had been a 20-year low. In absolute terms, the number of employed in the region's urban areas rose by 6.4 million in 2010, while the urban unemployed decreased by 1 million to stand at 17.1 million. The stronger labour demand reflected in the higher employment rate also helped to lower underemployment rates.



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

^a The data for each quarter represent the average value for the rolling year (four quarters) ending that quarter.

^b Data for 2011 are preliminary.

⁶ The terms-of-trade gain was around 3.4% of GDP on average in 2010. Exporters of oil, minerals and metals gained the most, while practically all the Central American countries (Costa Rica, Dominican Republic, El Salvador, Honduras and Panama) suffered terms-of-trade losses.

⁷ Unlike the series published previously, this regional rate is calculated using nationwide employment data wherever available.

⁸ In 2010, youth labour force participation fell more or rose less than that of more mature adults in several countries (including Argentina, the Bolivarian Republic of Venezuela, Brazil and Colombia). This may be attributable to a long-term trend whereby young people are spending longer in the education system.

With the economic upturn in 2010, real wages continued to rise, albeit at lower rates than in 2009, given the uptick in inflation (see figure I.6).⁹ Taking the number of employed to have risen by 2.8% and average real labour income by an estimated 2.6% (weighted average), the wage mass increased by around 5.5%¹⁰ and this has acted as a strong driver of domestic demand.

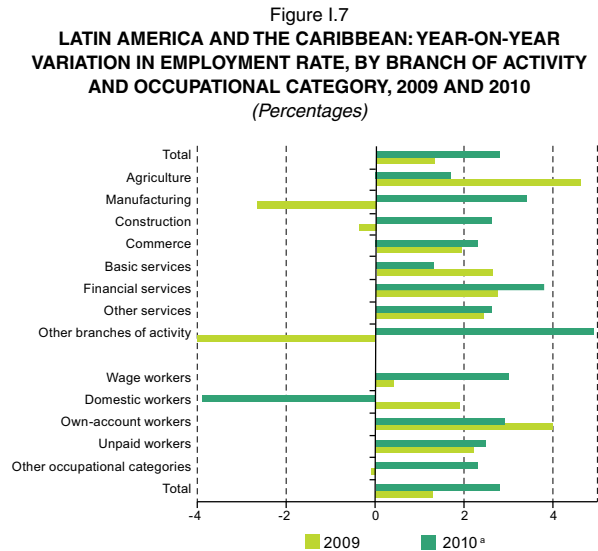


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

At the subregional level, the varying rates of economic growth in 2010 led to very different rates of job creation. For the South American countries as a group, the employment rate rose 0.4 percentage points (simple average for seven countries with comparable data). In Mexico and Central America the rate dropped by 0.2 percentage points (average for six countries) and in the Caribbean it fell by 1.3 percentage points (average for three countries).

Generation of wage employment rose much more quickly in 2010 than in 2009, whereas self-employed work showed a smaller rate of increase (see figure I.7). Wage employment increased relative to total employment in Argentina, Brazil, Costa Rica, Ecuador and Panama, and formal wage employment rose rapidly in Brazil, Chile, Nicaragua and Uruguay. By sector of employment, the number of employed in tertiary activities and agriculture

continued to rise in 2010, but the distinctive feature of the year was the recovery of employment in manufacturing and construction.



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

^a Preliminary data.

The output elasticity of wage employment was 0.56 for an average of eight countries with data available, implying that job creation was accompanied by a significant jump in average labour productivity (see table I.2). The output elasticity of formal employment was even higher, at 0.83 for an average of 10 countries.

Table I.2
LATIN AMERICA (SELECTED COUNTRIES): OUTPUT ELASTICITY OF WAGE EMPLOYMENT AND FORMAL WAGE EMPLOYMENT, 2010

Country	Output elasticity of wage employment	Output elasticity of formal wage employment
Brazil	0.57	0.81
Chile	...	1.17
Colombia	0.60	1.03
Costa Rica	0.88	0.78
Dominican Republic	0.50	...
Ecuador	0.86	1.34
Guatemala	...	0.65
Mexico	0.34	0.72
Panama	0.47	0.64
Peru	0.25	0.48
Uruguay	...	0.66

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

⁹ Minimum wages rose by just under 2% in real terms, measuring by the median variation of 19 countries, after a significant jump in 2009 (see table A-26). In 2010 the variation showed greater dispersion, however, which reflects differences in wage policy in the countries.

¹⁰ For some countries this estimate uses broader measurements than those shown in figure I.6 and table A-25, which refer to wages in the formal sector.

In early 2011 the region overall continued to create employment and reduce unemployment rapidly. For a weighted average of nine countries, the employment rate has continued to rise significantly, by 0.4 percentage points year-on-year. Although this rate is lower than during the post-crisis upswing, given that the participation rate fell slightly, it has risen enough to have a strong impact on the unemployment rate: for the countries with information available, unemployment came down by 0.7%. Importantly,

the expansion in employment continues to be associated with formal job creation. For the year overall, the regional urban unemployment rate is projected to drop again, from 7.3% to somewhere between 6.7% and 7.0%.

Although higher food and fuel prices have pushed up inflation, real wages continued to rise in the early part of 2011 at rates similar to those of 2010 thanks to strong labour demand, falling unemployment rates, a shortage of workers with specific skills and gains in labour productivity.

Box 1.2
LABOUR PRODUCTIVITY

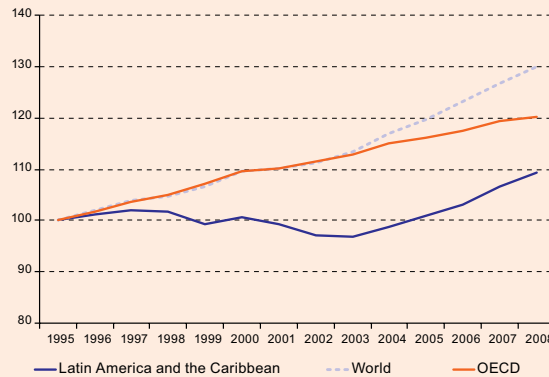
One characteristic of economic development in Latin America in the 1980s and 1990s was the lack of progress in closing the wide labour productivity gap between the region and more developed countries. The gap even began to widen again at the start of the twenty-first century, on comparing the region with the member countries of the Organization for Economic Cooperation and Development (OECD) and with the international average (see figure 1). The year 2004 marked a trend

change, as average labour productivity in the region began to grow at similar rates to the rest of the world and faster than OECD countries.

Leaving aside the differing labour productivity levels among the countries of the region, it is apparent that the upturn in labour productivity was widespread but uneven. Early in the decade, labour productivity stagnated in most countries while falling sharply in others. From 2004 (earlier, in some instances) there was a

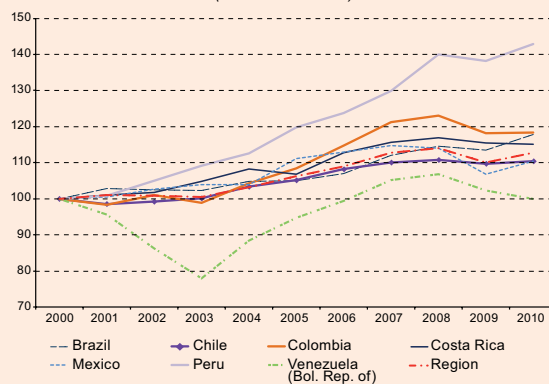
general upswing in productivity, despite disparities in the rate of growth. The impact of the 2009 crisis on average productivity varied again; for example, it declined more steeply in the Bolivarian Republic of Venezuela, Colombia and Mexico than elsewhere. The 2010 economic recovery had a positive —although mixed— impact on productivity. While Brazil and Peru were able to surpass pre-crisis levels, recovery in other countries was slower or has yet to materialize.

Figure 1
LATIN AMERICA AND THE CARIBBEAN, WORLD AND OECD COUNTRIES: LABOUR PRODUCTIVITY, 1995-2008
(Index: 1995=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Labour Organization (ILO), Key Indicators of the Labour Market (KILM) and World Bank GDP series.

Figure 2
LATIN AMERICA (7 COUNTRIES): LABOUR PRODUCTIVITY, 2000-2010
(Index: 2000=100)



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

Box I.2 (continued)

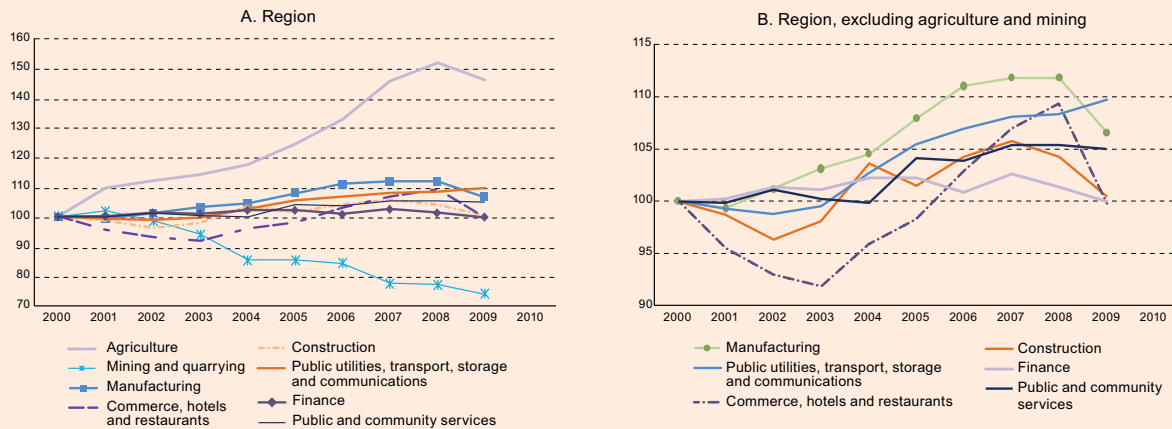
Examining labour productivity by industry, it is clear that the two primary sector industries (agriculture, forestry and fishing, and mining and quarrying), which have traditionally recorded the lowest and highest labour productivity, respectively, also reflect the two extremes in terms of recent variations. Agriculture, forestry and fishing experienced a surge, and mining and quarrying a marked decline in average productivity. As far as agriculture in concerned, this is part of a long-term trend

attributable to the expansion of commercial agriculture (which is not labour-intensive) and the decreasing share in employment of low-productivity small farming. Declining labour productivity in mining may have to do with low-yield deposits being brought into production in response to high prices for many minerals.

The highest productivity gains were made in manufacturing, but were interrupted (as in other industries) by the 2009 crisis. Within the tertiary sector,

commerce shows particularly volatile productivity, reflecting its role as an “employer of last resort” during a crisis, owing to the low entry requirements. Accordingly, at the beginning of the last decade when economic growth was sluggish, average labour productivity in commerce plummeted. During the subsequent period of higher growth, the buoyancy of domestic demand generated a boom in the industry, cut short once again by a sharp contraction in 2009.

Figure 3
LATIN AMERICA (7 COUNTRIES): LABOUR PRODUCTIVITY BY INDUSTRY, 2000-2010
(Index: 2000=100)



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

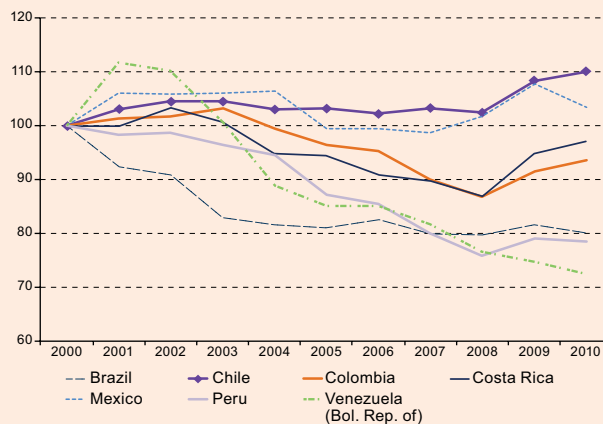
Notably, the upturn in labour productivity from 2004 on did not translate into a comparable rise in real wages in the formal sector, which grew at a slower pace in most countries. This appears

to have been a factor in deteriorating functional income distribution and a fall in unit labour costs.

In many countries, lower local labour costs were offset by currency appreciation,

which increased labour costs as measured in other currencies. Brazil, Colombia and Costa Rica all experienced a drop in unit labour costs in local currency, but a rise in those costs in dollars.

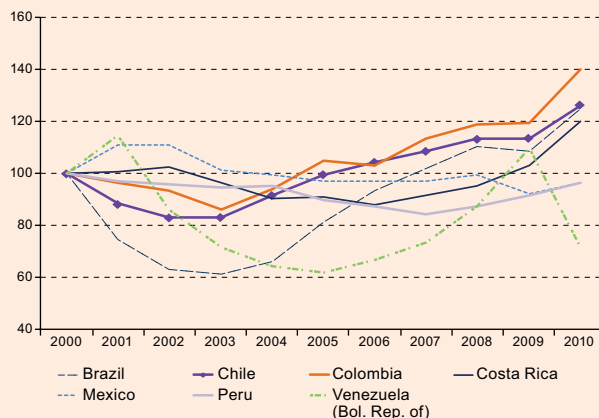
Figure 4
LATIN AMERICA (7 COUNTRIES): RATIO OF THE AVERAGE REAL FORMAL SECTOR WAGE INDEX TO THE LABOUR PRODUCTIVITY INDEX, 2000-2010
(Index 2000=100)



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

Box I.2 (concluded)

Figure 5
LATIN AMERICA (7 COUNTRIES): RATIO OF THE AVERAGE REAL FORMAL SECTOR WAGE INDEX TO THE LABOUR PRODUCTIVITY INDEX, ADJUSTED BY DOLLAR EXCHANGE RATE, 2000-2010
(Index: 2000=100)



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

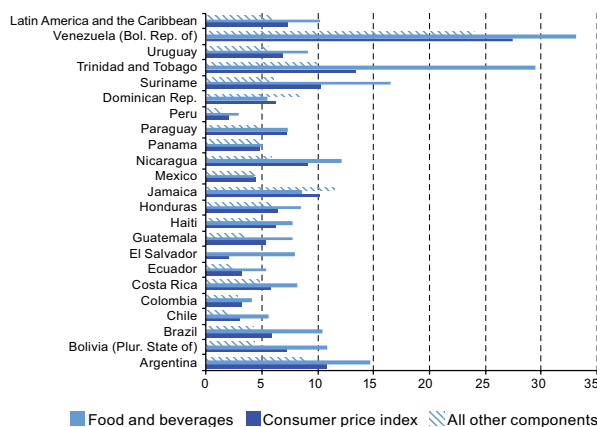
3. Inflation

Measured by the consumer price index (CPI), regional inflation stood at 6.5% in 2010 as a weighted average. Inflation ran at over 10% in Argentina, Jamaica and Trinidad and Tobago, as well as in the Bolivarian Republic of Venezuela, which recorded the region’s highest rate of 27.4%. All the countries except Ecuador registered a higher rate than in 2009, owing largely to higher prices for foods and beverages practically across the board (see figure I.8).

The inflation rate continued to rise in 2011, driven basically by food and beverage prices, although fuels and transport services and, in some cases, housing, have risen in price as well. Core inflation has also begun to climb amid rapid growth in domestic demand. In May 2011, 12-month core inflation stood at 5.6% after sitting just above 5% throughout 2010 (see figure I.9). Producer prices, too, have seen a fairly widespread increase. In fact, they have risen much faster than consumer prices in all countries except the Bolivarian Republic of Venezuela.

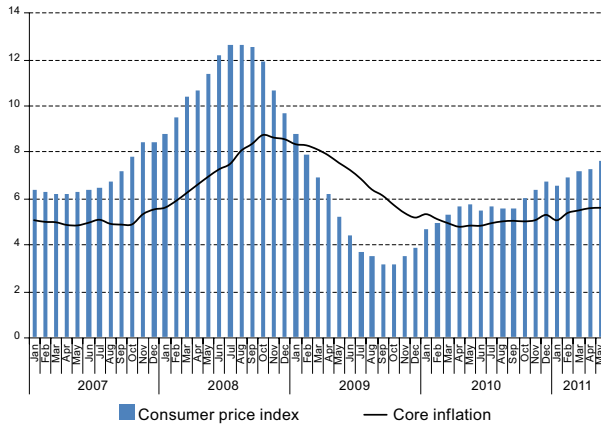
The Caribbean countries with data available show relatively high rates of inflation, whereas the Central American economies are running rates below the regional average, as is Mexico where inflation has been slowing since late 2010 (see figure I.10). An inflation rate of 7.5% is projected for the region overall in 2011.

Figure I.8
LATIN AMERICA AND THE CARIBBEAN: 12-MONTH VARIATION IN CONSUMER PRICE INDEX, FULL INDEX, FOOD AND BEVERAGES ONLY AND ALL OTHER COMPONENTS, DECEMBER 2009-DECEMBER 2010



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

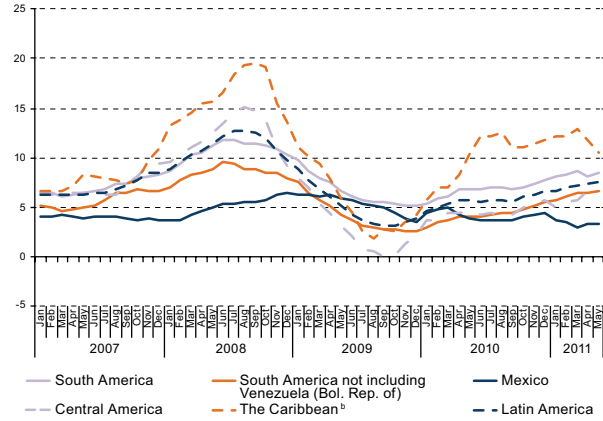
Figure I.9
LATIN AMERICA: 12-MONTH VARIATION IN CONSUMER PRICE INDEX AND CORE INFLATION, 2007-2011^a
 (Percentages)



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

^a Data for 2011 refer to first five months only.

Figure I.10
LATIN AMERICA AND THE CARIBBEAN: 12-MONTH VARIATION IN CONSUMER PRICE INDEX, SIMPLE AVERAGES, 2007-2011^a
 (Percentages)



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

^a Data for 2011 refer to the first five months.

^b Data for the Caribbean refer to Jamaica, Suriname and Trinidad and Tobago.

Table I.3
LATIN AMERICA AND THE CARIBBEAN: 12-MONTH VARIATION IN CONSUMER PRICE INDEX, FULL INDEX, FOOD AND BEVERAGES ONLY AND ALL OTHER COMPONENTS, MAY 2010 AND MAY 2011
 (Percentages)

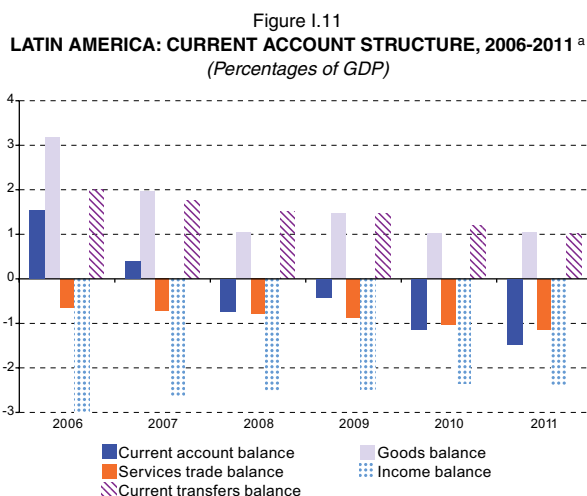
	12-month variation (May 2010)			12-month variation (May 2011)			
	CPI	CPI for food	CPI for all other products	CPI	CPI for food	CPI for all other products	
Argentina	9.9	15.1	8.1	Argentina	9.7	8.0	10.7
Bolivia (Plurinational State of)	1.4	1.7	1.1	Bolivia (Plurinational State of)	11.3	16.9	6.9
Brazil	5.2	6.8	4.4	Brazil	6.6	8.2	5.4
Chile	1.5	1.7	1.2	Chile	3.3	5.3	1.8
Colombia	2.1	1.0	2.5	Colombia	3.0	3.6	2.8
Costa Rica	6.2	4.9	6.9	Costa Rica	4.8	6.0	4.2
Dominican Republic	7.9	5.8	8.7	Dominican Republic	8.0	7.4	8.3
Ecuador	3.2	4.0	2.9	Ecuador	4.2	6.4	3.2
El Salvador	-0.1	-2.2	1.6	El Salvador	6.7	9.9	5.2
Guatemala	3.5	1.7	4.4	Guatemala	6.4	11.0	4.2
Haiti (January)	6.1	3.7	8.8	Haiti (January)	3.7	4.9	2.5
Honduras (April)	4.2	-0.4	6.4	Honduras (April)	7.3	7.1	7.4
Jamaica	9.5	14.2	6.2	Jamaica	14.1	10.0	17.2
Mexico	3.9	3.0	4.3	Mexico	3.2	5.2	2.5
Nicaragua	5.4	2.2	6.6	Nicaragua	8.7	8.2	8.9
Panama	3.2	2.7	3.4	Panama	6.4	6.1	6.6
Paraguay	4.5	2.3	1.8	Paraguay	10.2	18.1	6.5
Peru	1.0	1.7	0.8	Peru	3.1	4.6	2.1
Suriname	7.4	9.2	6.0	Suriname	20.3	20.0	20.5
Trinidad and Tobago	9.6	19.4	7.4	Trinidad and Tobago	3.9	8.2	3.0
Uruguay	7.1	6.0	6.9	Uruguay	8.5	11.1	6.7
Venezuela (Bolivarian Republic of)	32.0	44.7	26.8	Venezuela (Bolivarian Republic of)	24.8	22.1	26.0
Latin America (simple average)	6.1	6.7	5.7	Latin America (simple average)	8.1	9.5	7.4

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

4. The external accounts

(a) The balance-of-payments current account

In 2010, Latin America recorded a current account deficit equivalent to 1.2% of regional GDP, somewhat larger than the deficit of 0.4% in 2009 (see figure I.11). While the income and services accounts remained stable, the relative decline in the transfers balance and, above all, the narrowing of the trade surplus (from 1.5% of GDP in 2009 to 1.0% in 2010) caused a deterioration in the region's external accounts. More robust growth in imports than in exports was attributable to the upturn in domestic demand and the currency appreciations that took place in most of the countries of the region.



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

^a Does not include data for Cuba. Data for 2011 are projections.

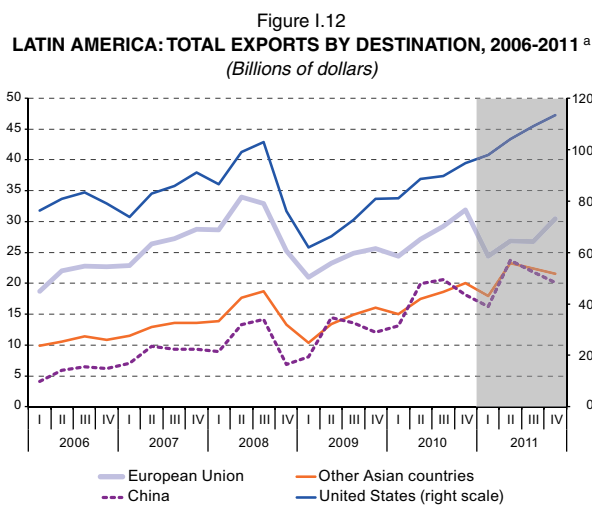
The heftier overall current account deficit reflected a considerably larger deficit in the MERCOSUR and Central American countries and a reduction in the surplus of the mineral exporting countries (Chile and Peru). By contrast, the Caribbean recorded a better external balance, since higher oil prices contributed to a more substantial surplus in Trinidad and Tobago and stronger metal prices had a similar result in Suriname, while Jamaica's deficit diminished.

The current account deficit of Latin America is projected to widen slightly in 2011 to 1.5% of GDP. The trade surplus should continue to hold at around 1% of regional GDP owing to higher prices for the main exports combined with a slower rise in imports. What will widen the current account deficit, however, will be a larger negative balance on the services account and a smaller transfers surplus. This downturn will be fairly widespread except

in the hydrocarbon-exporting countries. The Caribbean, on the other hand, is projecting a larger current account surplus overall, associated with the increase in international commodity prices and the sustained rebound in remittances and tourism inflows, although the average balance masks the fact that almost all the countries in this subregion are running a deficit on their external accounts.

(i) The balance of goods and services

As shown in figure I.12, external demand for goods produced in the region started to pick up steadily in the second quarter of 2009, although without regaining pre-crisis levels in the case of the United States and the European Union. On the other hand, exports to China and the rest of Asia at the end of 2010 were 12% and 28% higher, respectively, than in mid-2008. Exports to the United States are estimated to have pulled even with their pre-crisis level in the second quarter of 2011, whereas those to the European Union are not expected to do so until early 2012.



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

^a Does not include data for Cuba. Data for 2011 are projections.

In view of the growth rate in external demand, Latin American exports are expected to expand by 26.9% in 2011, thanks to a 16.6% rise in prices and an 8.8% increase in volume. Once again, mining and petroleum products will grow the fastest, by as much as 39.3%, a slightly higher rate than in 2010. Meanwhile, exports of agricultural products and manufactures will expand by 18.9% and 21.8%, respectively (see table I.4).

Table I.4
LATIN AMERICA: YEAR-ON-YEAR VARIATION IN INTERNATIONAL TRADE BY MAIN PRODUCT CATEGORIES, 2008-2011^a
(Percentages)

A. Exports	2008	2009	2010	2011
Agricultural products	20.5	-9.1	21.3	18.9
Mining and petroleum	23.9	-28.7	37.3	39.3
Manufactures	10.8	-20.6	23.1	21.8
Total exports	15.8	-21.9	27.0	26.9
B. Imports				
Capital goods	21.3	-17.9	23.5	21.2
Intermediate goods	16.7	-24.1	29.9	25.6
Consumer goods	20.4	-21.1	32.3	29.5
Fuels	47.3	-40.9	44.8	44.2
Total imports	21.4	-24.7	30.7	27.6

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

^a Does not include data for Cuba. Data for 2011 are projections.

Imports are projected to grow at a similar pace as exports in 2011, by an estimated 27.6%, almost three percentage points below the 2010 rate. Imports of fuels and consumer goods will continue to trend strongly upward, by 44.2% and 29.5%, respectively. In 2010, when imports surged faster than exports, Latin America's trade surplus narrowed by 13% to stand at approximately US\$ 50 billion. In 2011, however, as imports and exports grow at similar rates, the trade surplus will move back up to some US\$ 57.5 billion.

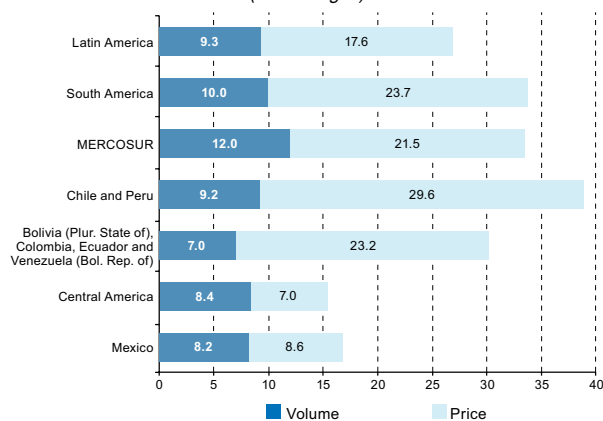
In 2010, export growth over 2009 was strongest in the mineral-exporting countries (31.7%), Mexico (29.9%) and the members of MERCOSUR (29.8%). In the hydrocarbon-exporting countries, the gain was 18%; meanwhile, Central America and the countries of the Caribbean recorded rises of 12.3% and 11.1%, respectively. In the case of Mexico and Central America, the expansion was due mainly to higher export volumes, and in the other countries to higher prices.

Figures I.13 and I.14 show projections of international trade by subregion. Both exports and imports are seen to have staged a full recovery in all countries. Price variation will be the main driver of the trade upsurge in the mineral- and hydrocarbon-exporting countries and to a lesser extent in MERCOSUR. In Mexico and the Central American countries, which trade mainly in manufactures and essentially with the developed markets, export values will move up more slowly and the effects of price and volume will be more evenly divided. Since manufactures account for a substantial percentage of imports, their growth is strongly associated with increased volumes and more homogenous across the subregions than exports.

The upturn in regional trade in 2010 brought an expansion in transport-based services; accordingly, the larger increase in goods imports in relation to exports had

a parallel effect in the services balance. Travel services too, grew much more rapidly on the import side than the export side on the strength of economic growth and currency appreciation, particularly in the case of Brazil. As a result, in 2010, the deficit on the services balance jumped by 45% with respect to 2009 for the region as a whole and stood at approximately US\$ 50 billion.

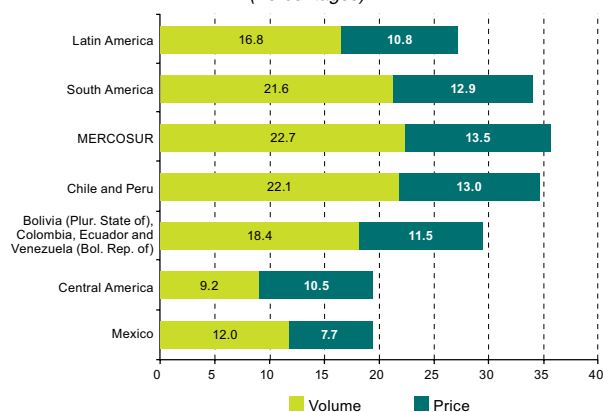
Figure I.13
LATIN AMERICA: PROJECTED VARIATION IN EXPORT VALUES BY VOLUME AND PRICE, 2011^a
(Percentages)



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

^a Does not include data for Cuba.

Figure I.14
LATIN AMERICA: PROJECTED VARIATION IN IMPORT VALUES BY VOLUME AND PRICE, 2011^a
(Percentages)

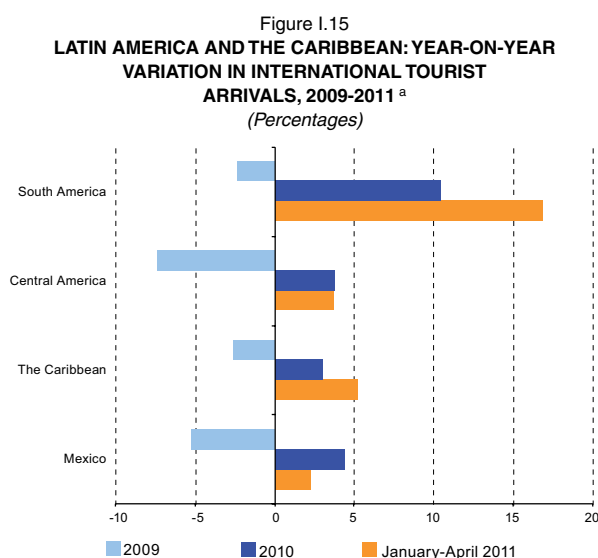


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Does not include data for Cuba.

Figure I.15 shows trends in international tourist arrivals, with a significant rebound in 2010 in all subregions following the slump in 2009. All countries benefited from the upturn in tourist arrivals, in particular the South American economies, where the numbers rose

by 10.4% even though the international crisis in 2009 damaged this subregion's tourism industry less than others. Mexico, the region's leading tourist destination, received approximately 22 million visitors (4.4% more than in 2009), only 1 million fewer than were recorded for all the South America countries and 2 million more than in the Caribbean. A number of factors augur well for continued growth in this sector: the region's efforts to improve tourism-related accessibility and infrastructure; improvements in tourist security in some countries; the vigorous promotion of some destinations in international markets; and the brightening prospects for the global economy. The data to April 2011 attest to this positive outlook (see figure I.15).



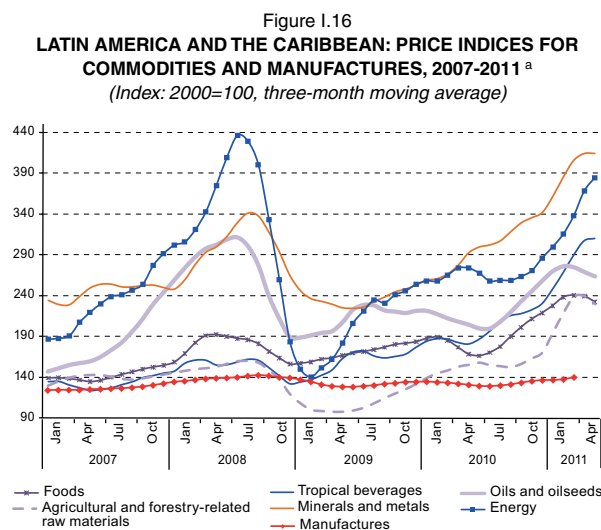
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the World Tourism Organization (UNWTO).
^a Figures for 2011 refer to first two months only.

(ii) International prices and terms of trade

Export commodity prices surged in 2010 with very few exceptions (such as rice and soybean flour). Among agricultural products, prices rose by 9.9% for foods, 25.4% for tropical beverages (coffee, tea and cacao) and 41.6% for agricultural and forestry-related raw materials. Prices for the subcategory of oils and oilseeds increased by a more moderate 3.5%. Minerals and metals were up by 29.3% in price, and energy products by 27.9%. The uptrend spread to prices of manufactures, which rose especially from late 2010 onwards.

As figure I.16 shows, commodity prices have regained the ground lost during the international crisis. In fact, with the exception of energy products and oils and oilseeds, they have exceeded the highs of 2008: the food price index published by the Food and Agriculture

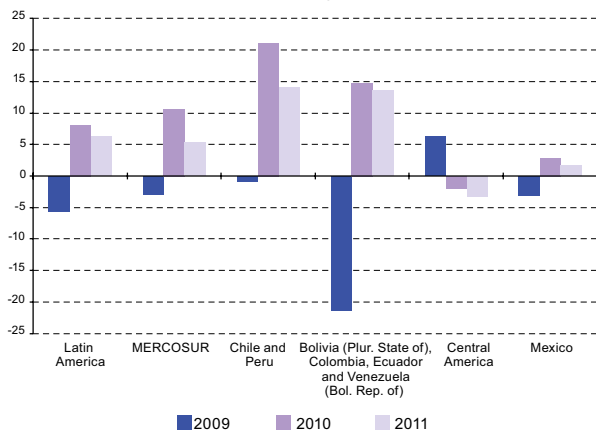
Organization of the United Nations (FAO) reached a new peak in February 2011. Factors relating to both supply and demand underlie these price surges. On the supply side are: (i) poor weather conditions, which hurt coffee production in Central America and South America; (ii) the drought in the Russian Federation, which pushed up prices for wheat and wheat substitutes; (iii) the post-election crisis in Côte d'Ivoire, which drove up cacao prices; and (iv) political instability in the Middle East, which influenced prices for oil and petroleum products. On the demand side was the global economic recovery and strong demand for commodities on the part of China, India and other emerging economies. Commodity prices are expected to continue moving upward during 2011, although less steeply than in 2010 as world economic growth slows, demand eases following completion of stock replenishment and the supply-side response to higher prices and more favourable climate conditions kicks in. This change is already apparent in the slowing of food and agricultural price inflation. These trends have had an uneven impact on the region's terms of trade, as shown in figure I.17. In 2010 exporters of minerals and metals (Chile and Peru) and hydrocarbons (Bolivarian Republic of Venezuela, Colombia and Plurinational State of Bolivia) benefited the most from higher export prices, followed by the member countries of MERCOSUR. Mexico, which exports mainly manufactured goods, saw smaller gains, while the Central American countries, as net food and energy importers, suffered terms-of-trade losses. Overall, Latin America enjoyed an 8.1% gain in its terms of trade in 2010.



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the United Nations Conference on Trade and Development (UNCTAD) and the Netherlands Bureau for Economic Analysis (CPB).

^a The categories of commodities are weighted by their share in Latin America's exports.

Figure I.17
LATIN AMERICA: VARIATION IN THE TERMS OF TRADE, 2009-2011^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures of the United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF), World Bank and Bloomberg.

^a Does not include data for Cuba. Preliminary data for 2009 and 2010 and projections for 2011.

The region's terms of trade will maintain the current trend in the short term, although the improvements will be smaller than in 2010. The countries standing to gain the most are again the exporters of minerals and hydrocarbons; and again, the opposite will occur in Central America, which will see its terms of trade deteriorate. For Latin America and the Caribbean as a whole, a positive variation of 6.2% is projected for 2011.

(iii) The income and transfers balance

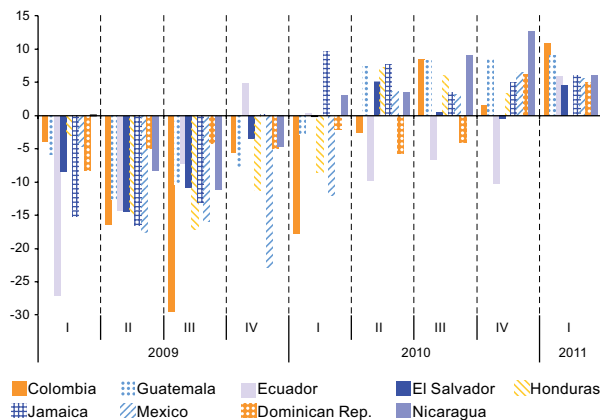
The deficit on the factor income account for Latin America rose from US\$ 98.1 billion in 2009 to US\$ 114.6 billion in 2010 but narrowed in relation to GDP, from -2.5% to -2.4% between the two years, on the strength of regional economic growth. The wider absolute deficit¹¹ chiefly reflected heftier outflows of profits and dividends, given the rise in international commodity prices and more substantial interest payments. In 2011 this deficit is likely to continue widening in absolute terms in view of projections for economic growth and still-rising prices for the region's export commodities, although in relative terms it should hold steady at around 2.4% of regional output.

After plunging in 2009, remittances from migrant workers began to rise again in early 2010, as shown in figure I.18. With the exception of Colombia, the Dominican Republic and Ecuador, all the countries shown

¹¹ Four countries accounted for 90% of the increase in the deficit: Brazil, Chile, Colombia and Peru; the rest of the countries showed smaller negative variations or even improvements in their income balance.

in the figure ended the year with a positive variation. However, growth in family remittances has been modest and levels of income from this source still fall far short of the highs observed before the crisis. The prime cause here is a sluggish labour-market recovery in developed countries, particularly Spain and the United States, the main destinations for migrants from Latin America and the Caribbean. Labour market projections for these countries suggest that growth in remittances will be modest in 2011.

Figure I.18
LATIN AMERICA AND THE CARIBBEAN (9 COUNTRIES):
QUARTERLY YEAR-ON-YEAR VARIATION IN REMITTANCES
FROM EMIGRANT WORKERS, 2009-2011^a
(Percentages)



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

^a Data for 2011 refer to first quarter only.

Like remittances, the transfers account for the region also reflected a rise, of 80% and 118% in incoming transfers for Haiti and Chile, respectively, associated with grants and official assistance extended in the wake of the earthquakes that hit the two countries.¹² The surplus on the transfers balance narrowed from 1.5% of GDP in 2009 to 1.2% in 2010, although it increased in absolute terms. In 2011 the account is projected to yield a surplus equivalent to 1.0% of regional GDP.

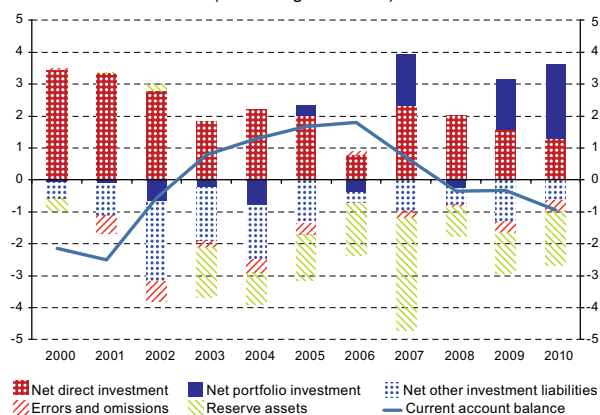
(b) The capital and financial account

In 2010, external financial conditions—in the form of abundant global liquidity and stronger net investment inflows—once again led to a positive overall balance in the region's balance of payments, with international reserves climbing to the equivalent of 16% of regional GDP.

¹² Also reflected in the transfers account is a decrease of 58% on the credit side in Argentina, associated with an allocation of special drawing rights by the International Monetary Fund (IMF) that was registered as a current transfer in the third quarter of 2009 and not repeated in 2010.

This picture disguises somewhat divergent trends, however. As figure I.19 shows, net inflows of foreign direct investment (FDI) and portfolio investment into South America and Mexico have been rising vigorously since 2007, except for a hiatus in 2008 when the global financial crisis broke out. In fact, net portfolio investment flowing into these countries reached US\$ 109.157 billion in 2010, exceeding for the first time—and by quite some way— net FDI, which came in at US\$ 59.995. The figure also reflects the role played by reserves accumulation in absorbing external liquidity, which is associated with the exchange-rate-related objectives of several countries in this group.

Figure I.19
SOUTH AMERICA AND MEXICO: CURRENT ACCOUNT BALANCE AND COMPOSITION OF EXTERNAL FINANCING, 2000-2010
(Percentages of GDP)

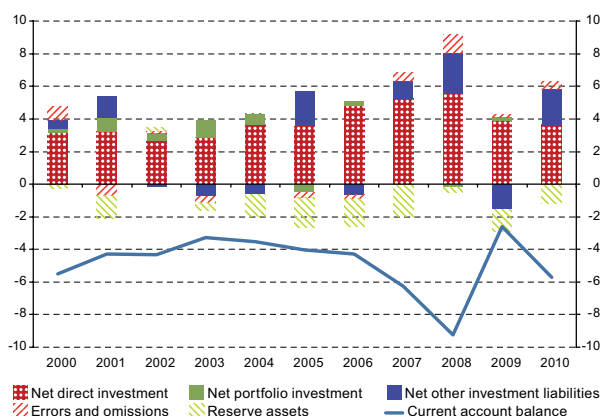


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

A very different situation prevails in the Central American countries, Dominican Republic and Haiti, however (see figure I.20). In this group, net FDI was the main component of positive inflows on the financial account, whereas portfolio investment was virtually insignificant. The next largest positive component was net other investment liabilities, which captures the effects of cross-border flows of bank deposits, loans and debt instruments. The surge in this category of inflows in 2010 was enough, together with the relatively stable net FDI flows, to finance the increase in the current account deficit over the year.

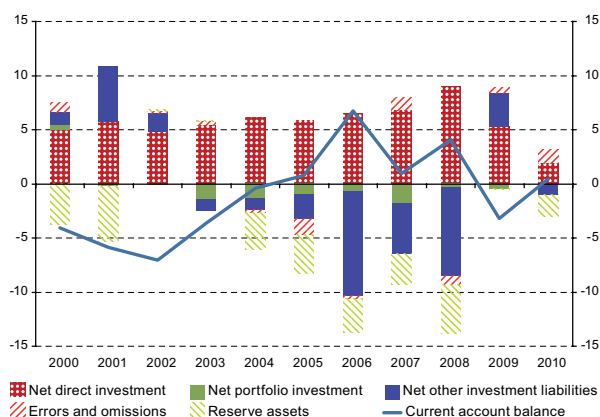
The pattern is even more pronounced in the Caribbean countries, where net FDI was virtually the only positive component of the financial account, while net other investment liabilities—mainly banking flows—were often negative (see figure I.21).

Figure I.20
CENTRAL AMERICA, DOMINICAN REPUBLIC AND HAITI: CURRENT ACCOUNT BALANCE AND COMPOSITION OF EXTERNAL FINANCING, 2000-2010
(Percentages of GDP)



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

Figure I.21
THE CARIBBEAN: CURRENT ACCOUNT BALANCE AND COMPOSITION OF EXTERNAL FINANCING, 2000-2010^a
(Percentages of GDP)



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

^a Includes data for the following countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

Net FDI is thus continuing to follow its long-term, steady upward path and was largely unaffected by the financial crisis of 2008. Recently, and especially in 2010, portfolio investment has accounted for an increasingly larger share of the region’s financial account; this has to do with the tremendous surge in global liquidity that resulted from developed countries’ responses to the global financial crisis and with the lower relative risk

offered by economies in the region, especially Brazil, Colombia, Mexico and Peru (see table I.5). These are the countries that receive the bulk of flows from net FDI, portfolio investment and other investment liabilities, which partly explains their stockpiling of reserves and the efforts many of them have deployed to stave off currency

appreciation. Chile stands out among the countries receiving FDI because it had a negative net portfolio investment flow over the period; this was attributable to the outward diversification of its pension funds and the build-up of resources in its sovereign funds on the back of high copper prices.

Table I.5
LATIN AMERICA (19 COUNTRIES): EXTERNAL FINANCIAL FLOWS, 2007-2010
(Millions of dollars)

	Net foreign direct investment	Net portfolio investment	Net other investment liabilities	Total
Venezuela (Bolivarian Republic of)	-8 679	17 729	-88 407	-79 357
Haiti	142	0	-178	-35
Paraguay	1 097	0	1 617	2 714
Ecuador	1 683	-3 778	44	-2 051
Bolivia (Plurinational State of)	1 946	-301	-1 278	366
Nicaragua	1 950	0	777	2 727
Guatemala	2 694	-229	2 144	4 609
El Salvador	2 723	651	-1 278	2 096
Honduras	3 255	-8	-202	3 045
Uruguay	5 950	-696	-6	5 248
Costa Rica	6 449	488	841	7 778
Panama	8 230	-1 556	1 214	7 889
Dominican Republic	8 329	649	4 448	13 426
Colombia	20 784	-18	14 179	34 945
Argentina	21 850	4 651	-38 000	-11 498
Peru	23 904	6 690	2 323	32 918
Chile	28 234	-42 921	5 749	-8 939
Mexico	59 226	69 925	-27 016	102 225
Brazil	125 071	162 817	-2 547	285 342
Latin America	314 877	214 145	-125 576	403 446

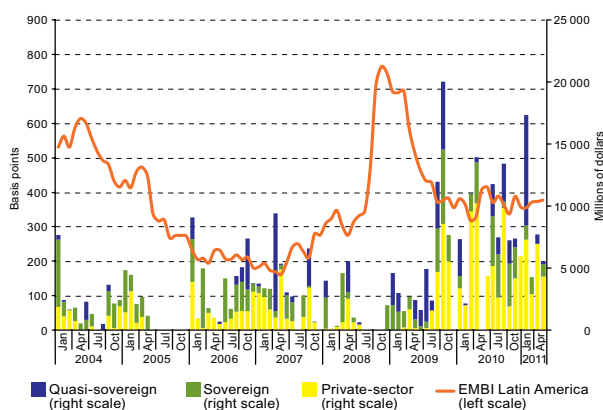
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The region has continued enjoying access to international capital markets, and its risk ratings—while higher than before the global financial crisis—are still significantly lower than those of other regions. As can be seen in figure I.22, private entities, especially banks, made voluminous and frequent external bond issues in 2010 and have continued to do so thus far in 2011. Sovereign issues, on the other hand, have declined, reflecting the efforts by the public sector in the region to pare back its foreign debt over the past several years.

The region's continued financial inflows, access to financial markets and historically high levels of international reserves show that its external financial position remains solid. Some specific developments merit closer examination, though. As shown in figure I.23, external debt has come down considerably as

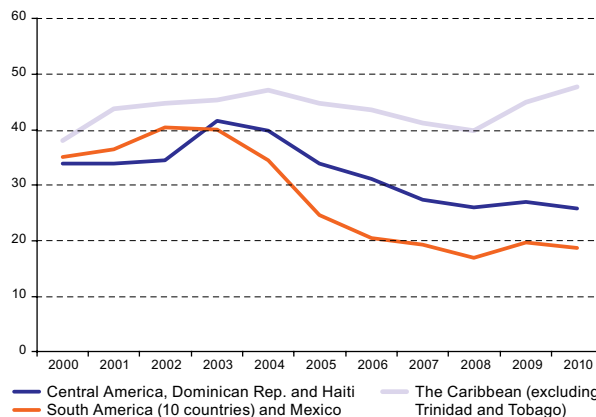
a percentage of GDP in South America and Mexico, thanks to economic growth and the fiscal and external surpluses posted in the years leading up to the global financial crisis (see figure I.23). Central America too has reduced its debt-to-GDP ratio quite significantly, largely owing to debt relief schemes such as the Heavily Indebted Poor Countries (HIPC) Debt Initiative, but by a smaller percentage than South America and Mexico given very difficult financial conditions and the slower pace of growth experienced by this group of countries. On the other hand, in the Caribbean countries—except for Trinidad and Tobago—external borrowing in relative terms has crept upward since the global financial crisis. This reflects the bleak financial conditions in the subregion since the crisis, which resulted in smaller net FDI inflows and lower current account balances (see figure I.21).

Figure I.22
**LATIN AMERICA: EXTERNAL BOND ISSUES AND
 COUNTRY RISK, 2004-2011^a**
 (Millions of dollars and basis points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from LatinFinance, Bonds database; JP Morgan and Merrill Lynch.
^a Does not include data for Cuba. Data for 2011 refer to first four months only.

Figure I.23
**LATIN AMERICA AND THE CARIBBEAN: GROSS EXTERNAL
 BORROWING, 2000-2010^a**
 (Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Does not include data for Cuba.

D. Macroeconomic policies

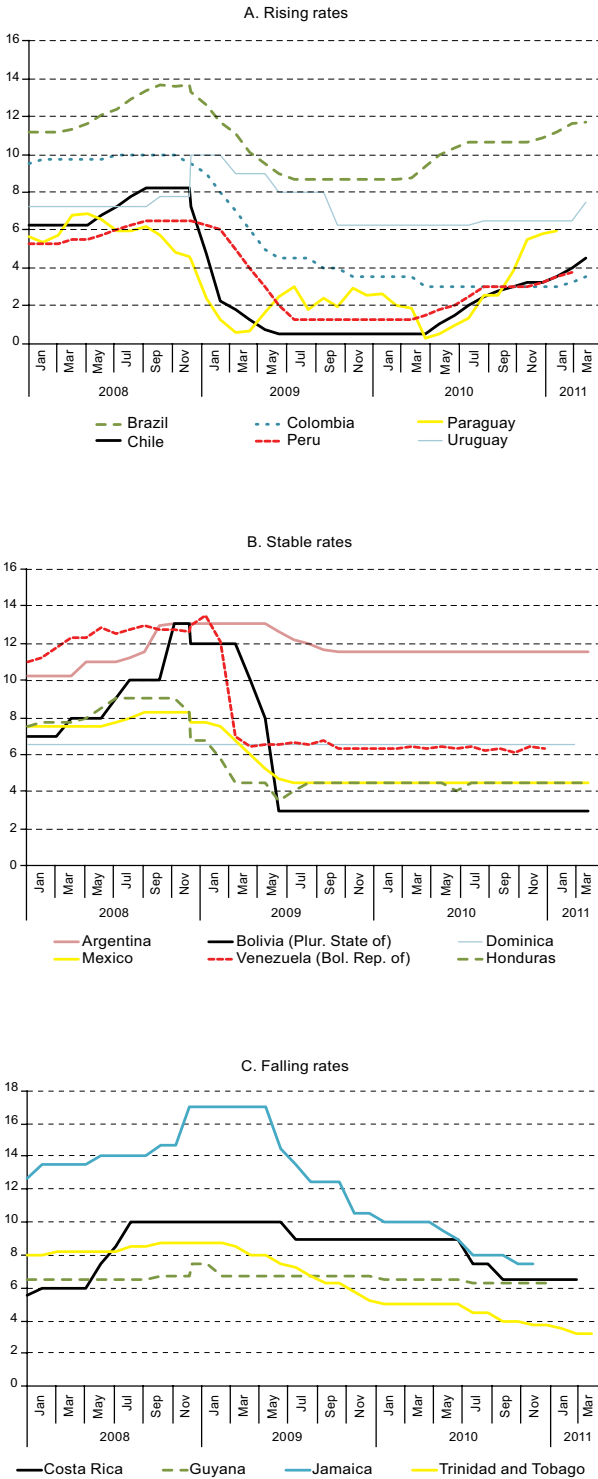
1. Monetary and exchange-rate policy

International financial conditions combined with rising commodity prices, in particular for foodstuffs and fuel, to complicate monetary and exchange-rate policy management in the region starting in the second half of 2010. Mounting inflationary pressures and expanding aggregate domestic demand prompted several countries to tighten monetary and credit policies initially created to weather the crisis, the majority of which continue to be in effect. Moreover, abundant liquidity in international financial markets and the resulting capital inflows to the region strengthened local currencies but undermined the competitiveness of the tradable goods sectors.

The region's monetary and exchange-rate policymakers now face the challenge of maintaining price stability while keeping exchange-rate appreciation from diverting resources towards the production of non-tradable goods, as that would hinder diversification in the region's manufacturing sector. The solution will lie in measures such as interest rate management, intervention in the foreign-exchange market—generally coupled with open-market operations designed to sterilize the monetary effect

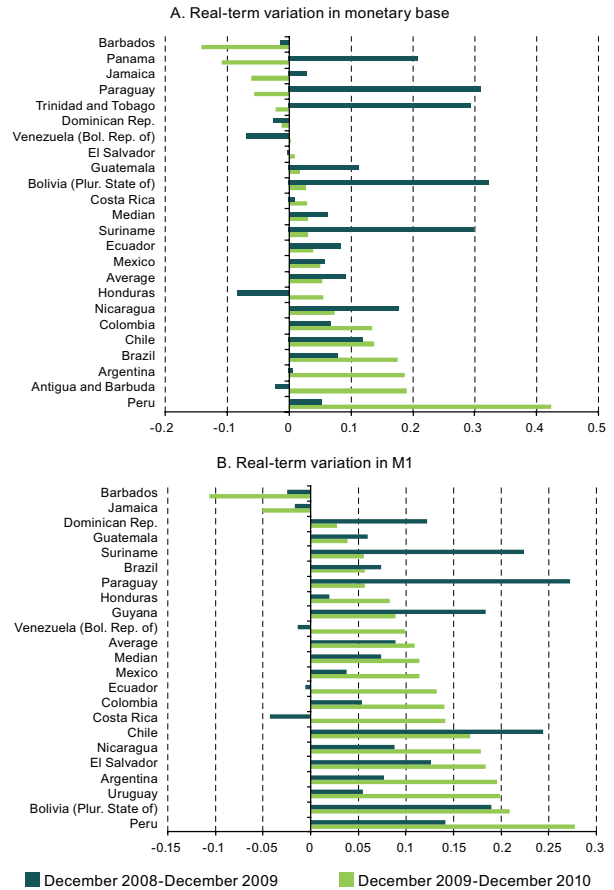
of foreign currency purchases—and the deployment of fiscal, exchange-rate, monetary and financial instruments regarded as unconventional until very recently, in an effort to restrict or discourage capital inflows. Despite the changes in policy rates, monetary policy in 2010 and the first part of 2011 maintained a distinctly expansionary slant. Benchmark interest rates and growth in the main monetary aggregates are fuelling credit expansion in the region, thus boosting aggregate domestic demand. As noted earlier, however, since mid-2010 some central banks in the region have raised monetary policy rates in response to inflationary pressures, especially external pressures relating to rising food and fuel prices in international markets. Figure I.24.A shows the rate hikes implemented by eight central banks in the region since mid-2010; despite these increases, the policy rates in those countries remain below the levels registered in 2008. Six other central banks in the region have maintained low rates similar to those set during the crisis (see figure I.24.B), and four others continued to cut their benchmark rates in 2010 and 2011 (see figure I.24.C).

Figure I.24
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
MONETARY POLICY RATES, 2008-2011
(Percentages)



Overall, the management of benchmark interest rates by central banks in Latin America and the Caribbean has resulted in minor adjustments to nominal lending rates and, given the inflation levels expected, this has meant a reduction in lending rates in real terms. Moreover, the behaviour of the main aggregates reflects the expansionary nature of monetary policy and the recent efforts to mitigate its effects on aggregate demand. Thus, in many of the region's countries the monetary base grew in real terms in 2010, albeit at a slower pace than in 2009 in many cases, with M1 and M2 following similar paths. In 2011 thus far, monetary aggregates have continued to grow, but at lower rates than those posted in 2010 (see figure I.25).¹³

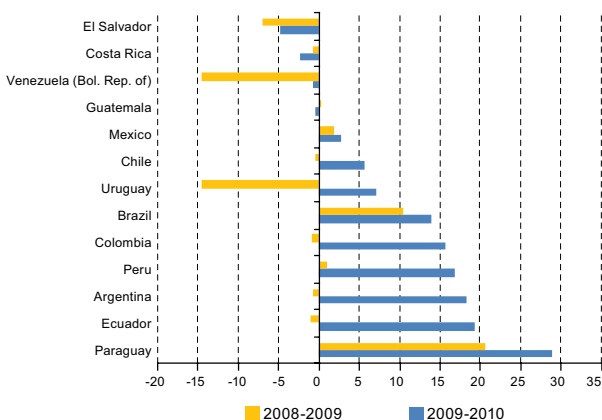
Figure I.25
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
VARIATION IN MONETARY AGGREGATES, 2008-2010
(Percentages)



¹³ The monetary base shrank in real terms in only 6 countries and expanded in the other 16 countries, albeit at a slower pace in 6 of them. Of the 21 countries for which information is available in real terms for 2010, the M1 aggregate contracted compared with 2009 in only 2 countries while growth slowed in 7 countries. With regard to real M2, of the 20 countries for which data are available, the aggregate fell in only 2 countries while growth slowed in 6.

Credit expanded significantly in 2010 in real terms. Of the 13 countries with information available, variations in lending were positive in 9 countries and negative in only 4 (see figure I.26). This trend is a reflection, in part, of the steps taken by central banks to boost credit, mitigate the effects of the crisis on the region’s economies and create liquidity conditions conducive to stimulating aggregate demand. Public sector lending started to grow in mid-2008 when the crisis began to reverberate in the region and caused lending by private financial institutions, to contract in 2009. With regard to the destination of lending, the growth posted in 2010 was fairly widespread and encompassed the industrial and commercial sectors as well as mortgage lending and consumption in general. In the first quarter of 2011, credit continued to expand vigorously, especially consumer lending, which accounted for a greater share of total lending.

Figure I.26
LATIN AMERICA (SELECTED COUNTRIES): REAL-TERM VARIATION IN TOTAL LENDING, 2008-2010
(Percentages)



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

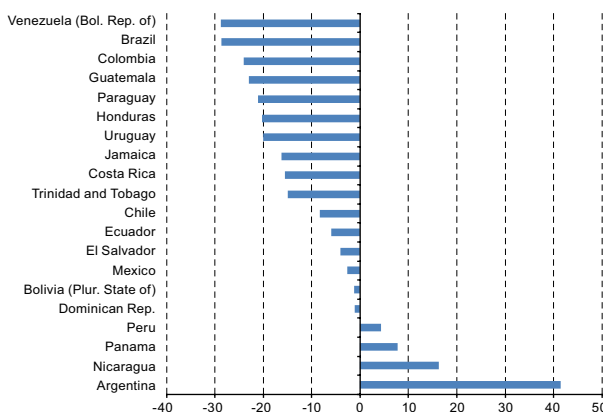
As noted earlier, abundant global liquidity and its repercussions on the region’s money markets triggered currency appreciation pressures. In an effort to reverse this trend, some countries took steps to restrict capital movements, coupled with other measures such as stockpiling international reserves at central banks, pre-payment of external debt by national treasuries and streamlined arrangements for domestic financial and non-financial agents (such as pension fund operators and public enterprises) to hold some of their international assets abroad.

In 2010, all non-dollarized economies in Latin America and the Caribbean with the exception of the Bolivarian Republic of Venezuela and Uruguay accumulated international reserves, which by the end of 2010 exceeded, as a percentage of GDP, the pre-crisis levels recorded in

2007 in most cases. In the first few months of 2011, the region’s central banks continued to build up reserves and in some cases (Brazil, for instance) intervened heavily in the foreign-exchange market. Following the strong appreciation of the Brazilian real in nominal terms and as part of the effort to stem capital inflows, the Central Bank of Brazil acquired US\$ 31.7 billion in reserves in the first four months of 2011, 273% more than the year-earlier period. Argentina, Chile, Colombia and Costa Rica also actively intervened in the foreign-exchange market in early 2011. In March and April 2011, Peru —breaking from its practice for much of 2010— drew down US\$ 1 billion in reserves with an eye to mitigating the nominal exchange rate volatility triggered by its presidential elections.

Despite the efforts deployed, 11 of the region’s countries recorded nominal appreciations in 2010 and early 2011, in particular Brazil, Colombia and Uruguay but also, to a lesser extent, Chile, Costa Rica, Mexico and Peru (see figure I.27). Against appreciating nominal exchange rates and increasing inflationary pressures, the extraregional real effective exchange rate of Latin America and the Caribbean fell by 3.5% between 2009 and 2010. The drop in the real exchange rate was widespread: in South America, it fell by an average of 2.6% in the period, or by 7% if the Bolivarian Republic of Venezuela is excluded from the calculation, while in Central America, Mexico and the Caribbean it was down by 4.5%. In the first four months of 2011, the average extraregional effective exchange rate for the region remained virtually unchanged from December 2010, with the average for South America falling by 1.4% and the average for Central America, Mexico and the Caribbean rising by 1%.

Figure I.27
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): VARIATION IN REAL EFFECTIVE EXCHANGE RATE, MAY 2011 COMPARED WITH 1990-2009
(Percentages)



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

In April 2011, the overall effective real exchange rate stood at more than 20% below (i.e. currency appreciation) the 20-year average in the Bolivarian Republic of Venezuela, Brazil, Colombia, Guatemala, Paraguay and Trinidad and Tobago and at more than 10% below the long-term

average in Costa Rica, Honduras, Jamaica and Uruguay. In the Bolivarian Republic of Venezuela, persistent high inflation partly offset the implicit devaluations of January 2010 and January 2011.

2. Fiscal policy

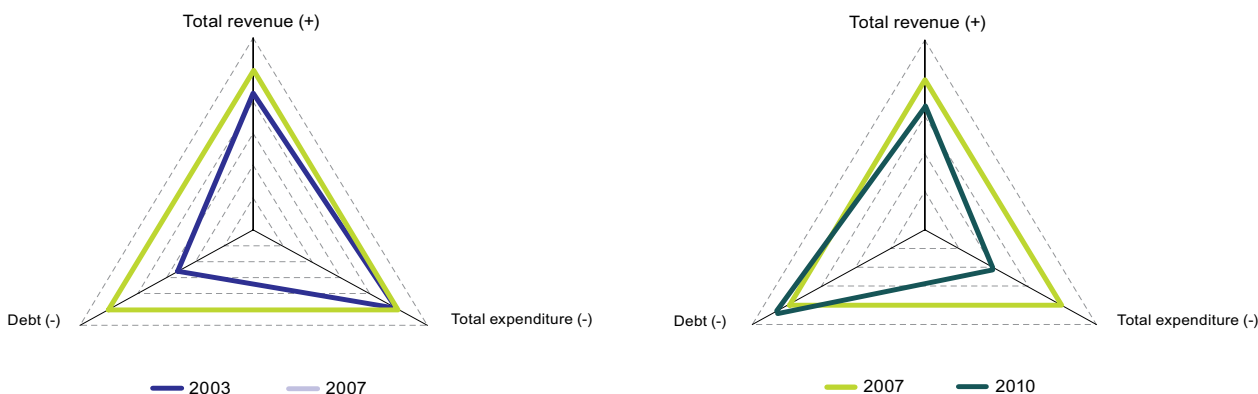
Following the fiscal activism pursued by the countries of the region in 2009, two developments in particular shaped the year-end results for 2010. One was growth in fiscal revenues on the strength of higher economic activity levels and, in countries specializing in the production and export of natural-resource-intensive goods, the rebound in commodity prices. The other was on the spending side, as governments sought to temper the impact of public policy as a driver of demand, although those efforts were not even across all countries. The outcome has been better fiscal performance on the whole, with estimates for 2011 indicating that the region will return to a primary balance near equilibrium (-0.1% of GDP).

However, even with the improved health of public accounts, the fiscal policy space for managing revenue,

spending and public debt has been critically diminished by the crisis, as can be seen in figure I.28. While the period 2003-2007 saw a solid expansion of the fiscal space thanks mainly to higher revenue flows and lower debt levels, spending increases and revenue dips during the crisis caused the fiscal space to shrink, and that space was not regained in 2010.

At the central government level, the region ran a primary deficit of 0.4% of GDP in 2010 (measured as a simple average), compared with a deficit of 1.1% in 2009; in terms of the overall balance (that is, including debt service payments), the deficit narrowed from 2.9% to 2.0% of GDP. In 2010, half the Latin American countries reviewed ran a primary surplus, while in the period 2003-2008 an average of 15 (nearly 80% of the total) had done so.

Figure I.28
LATIN AMERICA (19 COUNTRIES): VARIATION IN FISCAL SPACE
(REVENUE, EXPENDITURE AND CENTRAL GOVERNMENT DEBT),
2003-2007 AND 2007-2010^a



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

^a The triangles represent the fiscal space in direct proportion to disposable income and inverse proportion to expenditure and debt.

Table 1.6
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS, 2007-2010
(Percentages of GDP at current prices)

	Public debt ^a																					
	Primary balance					Overall balance					Central government					NFPS ^b						
	2007	2008	2009	2010	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2007	2008	2009	2010
Latin America and the Caribbean ^c	1.8	1.3	-1.0	...	-0.8	-1.3	-3.4	...	53.7	47.3	46.1	49.1	...	...	...	...	...	...	...	...	...	...
Latin America ^c	2.2	1.2	-1.1	-0.4	0.2	-0.5	-2.9	-2.0	35.9	30.0	28.6	30.0	29.5	40.7	33.6	32.1	33.6	33.6	33.6	32.1	33.6	32.8
The Caribbean ^c	1.4	2.0	-0.6	...	-2.0	-2.1	-4.0	...	79.7	72.6	71.8	79.3	...	...	...	...	...	...	...	...	...	...
Argentina	2.7	2.8	1.4	1.5	0.6	0.7	-0.8	-0.1	63.6	55.7	48.5	48.5	45.1	76.3	66.7	57.8	57.7	57.7	57.8	57.8	57.7	52.0
Bolivia (Plurinational State of) ^d	3.5	0.8	0.4	1.4	2.3	0.0	-1.1	-0.1	49.6	37.1	34.0	34.5	34.5	52.4	40.0	36.8	37.6	37.6	36.8	36.8	37.6	38.1
Brazil	2.2	2.4	1.3	2.2	-1.9	-1.2	-3.5	-1.0	31.0	30.7	24.0	29.3	27.6	47.0	45.1	38.5	42.8	42.8	38.5	42.8	42.8	40.7
Chile	8.8	4.8	-4.0	0.1	8.2	4.3	-4.5	-0.4	5.3	4.1	5.2	6.2	9.2	10.6	9.1	12.0	12.9	12.9	12.0	12.9	12.9	15.8
Colombia	0.8	0.6	-1.1	-1.1	-2.7	-2.3	-4.1	-3.8	37.5	32.9	33.2	34.7	34.8	47.4	43.8	42.6	44.8	44.8	43.8	42.6	44.8	45.9
Costa Rica	3.7	2.4	-1.3	-3.1	0.6	0.2	-3.4	-5.3	33.3	27.6	24.9	27.5	29.6	38.4	31.8	29.9	34.1	34.1	29.9	34.1	34.1	36.2
Cuba	-1.8	-5.5	-3.8	-2.1	-3.2	-6.9	-4.8	-3.4	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Dominican Republic	1.4	-1.9	-1.6	-0.6	0.1	-3.5	-3.5	-2.5	20.4	18.4	24.4	28.0	28.2	...	...	...	...	...	...	...	...	...
Ecuador	1.9	0.3	-4.2	-2.1	-0.1	-1.1	-5.1	-3.0	29.5	27.7	22.9	18.2	22.4	32.0	30.2	25.0	19.6	19.6	25.0	19.6	19.6	23.5
El Salvador	2.3	1.8	-1.2	-0.4	-0.2	-0.6	-3.7	-2.7	37.7	34.9	34.4	42.6	43.0	39.9	37.0	36.9	45.2	45.2	36.9	45.2	45.2	45.6
Guatemala	0.0	-0.3	-1.7	-1.8	-1.4	-1.6	-3.1	-3.3	21.7	21.3	20.1	23.0	24.2	21.9	21.6	20.4	23.3	23.3	21.6	20.4	23.3	23.7
Haiti	-1.3	-1.0	-0.8	-0.1	-1.6	-1.3	-1.3	-0.6	36.2	33.6	42.3	34.4	20.5	38.7	35.9	44.5	35.0	35.0	35.9	44.5	35.0	20.9
Honduras	-2.4	-1.9	-5.5	-3.8	-3.1	-2.5	-6.2	-4.8	28.7	17.4	20.1	24.5	30.0	30.0	18.3	19.0	22.9	22.9	19.0	22.9	22.9	25.4
Mexico	-0.5	-0.2	-0.5	-1.2	-1.9	-1.6	-2.2	-2.7	20.6	20.9	24.4	28.1	27.5	22.6	22.7	26.9	34.9	34.9	26.9	34.9	34.9	34.0
Nicaragua	1.9	0.0	-0.9	0.5	0.4	-1.2	-2.3	-1.0	69.5	42.7	38.2	43.6	44.5	70.0	43.5	39.3	44.8	44.8	43.5	39.3	44.8	45.6
Panama	4.6	3.4	1.4	0.1	1.2	0.3	-1.5	-2.7	60.3	52.3	44.8	44.9	46.0	61.0	52.9	45.4	45.6	45.6	52.9	45.4	45.6	46.7
Paraguay	1.8	3.1	0.7	1.8	1.0	2.5	0.1	1.4	26.0	18.6	15.9	16.1	15.5	27.6	22.2	19.2	18.8	18.8	22.2	19.2	18.8	16.3
Peru	3.4	3.6	-0.4	1.1	1.8	2.2	-1.7	0.0	30.1	26.2	24.1	23.4	21.3	31.3	27.2	24.5	23.8	23.8	27.2	24.5	23.8	21.7
Uruguay	2.1	1.7	1.3	1.2	-1.6	-1.1	-1.5	-1.1	57.8	49.0	47.7	43.6	38.7	61.1	52.2	51.1	47.7	47.7	51.1	47.7	47.7	42.6
Venezuela (Bolivarian Republic of)	4.5	0.1	-3.7	-2.4	3.0	-1.2	-5.1	-3.7	24.1	19.1	14.2	18.4	18.4	24.1	19.1	14.2	18.4	18.4	19.1	14.2	18.4	18.4
The Caribbean ^e	-2.7	-3.2	-7.8	1.3	-5.6	-5.9	-10.6	-1.1	90.5	79.7	80.1	92.8	82.6	...	...	...	...	...	...	...	...	...
Antigua and Barbuda	0.6	-1.0	-0.9	0.4	-1.2	-2.9	-3.2	-2.8	32.8	35.1	36.6	...	...	...	...	...	...	...	...	...	...	...
Bahamas	2.3	-0.2	-4.0	-2.4	-1.6	-5.1	-9.4	-8.1	79.0	84.0	88.0	101.7	...	...	...	...	...	...	...	...	...	...
Barbados ^d	0.7	5.4	0.8	1.9	-1.2	1.5	-2.9	-1.5	93.5	89.1	83.1	87.2	98.3	...	...	...	...	...	...	...	...	...
Belize	1.6	-0.7	-1.0	3.0	-0.9	-2.6	-2.1	1.4	81.2	76.2	70.5	76.0	72.4	...	...	...	...	...	...	...	...	...
Dominica	-3.7	-3.4	-2.8	0.2	-5.3	-5.0	-5.0	-1.7	87.5	83.4	79.3	91.7	93.0	...	...	...	...	...	...	...	...	...
Grenada	-2.8	-2.1	5.1	6.5	-4.5	-3.8	-3.7	-3.0	155.3	98.8	103.7	115.2	...	...	...	...	...	...	...	...	...	...
Guyana	7.2	4.9	6.2	4.4	-4.2	-7.4	-11.1	-6.0	55.9	53.9	48.7	54.2	64.7	...	...	...	...	...	...	...	...	...
Jamaica	4.7	6.5	6.1	3.0	-1.9	-0.3	-0.6	-4.2	149.5	141.5	134.5	145.3	156.3	...	...	...	...	...	...	...	...	...
Saint Kitts and Nevis	0.0	1.8	0.0	-0.8	-2.5	-0.6	-2.6	-3.5	62.3	55.5	58.1	62.2	63.8	...	...	...	...	...	...	...	...	...
Saint Vincent and the Grenadines	0.9	2.6	0.8	2.2	-2.0	0.0	-2.2	-0.6	65.3	66.9	64.8	66.3	71.7	...	...	...	...	...	...	...	...	...
Saint Lucia	5.7	5.8	8.1	-5.6	8.0	2.3	3.7	-14.7	37.0	28.5	25.2	25.0	21.0	...	...	...	...	...	...	...	...	...
Suriname	6.9	8.8	-3.2	...	4.9	7.1	-6.0	...	16.8	16.8	14.5	19.0	...	...	...	...	...	...	...	...	...	...
Trinidad and Tobago	6.9	8.8	-3.2	...	4.9	7.1	-6.0	...	16.8	16.8	14.5	19.0	...	...	...	...	...	...	...	...	...	...

^a Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^b At 31 December each year, using the average exchange rate applicable to external debt at the end of the period.

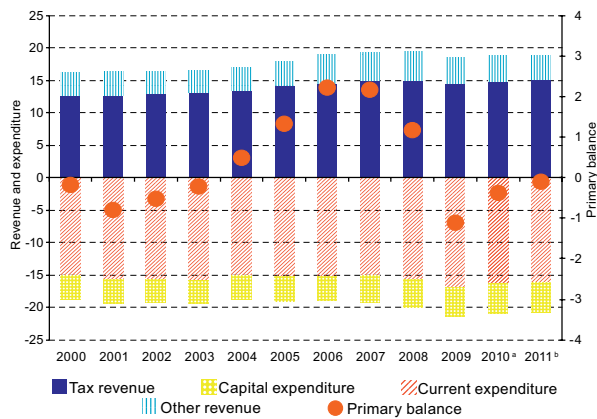
^c Non-financial public sector.

^d Simple average.

^e General government.

^f Fiscal years.

Figure I.29
LATIN AMERICA AND THE CARIBBEAN: THE PUBLIC ACCOUNTS, 2000-2011
 (Percentages of GDP)



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

^a Estimate.
^b Projection.

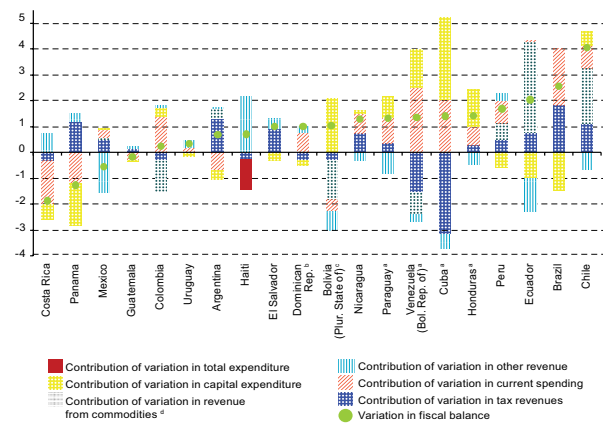
Underlying the general performance of the region's public accounts are differing patterns in the countries (see figure I. 30). As indicated earlier, the countries of South America—for the most part commodity exporters that grew above the regional average—posted a significant increase in tax revenue (except for Colombia, the Plurinational State of Bolivia, Uruguay and, especially, the Bolivarian Republic of Venezuela), and that was the main factor behind the improvement in the public accounts. In most cases, higher revenue flows were accompanied by a drop in current spending as a percentage of GDP (Argentina and the Bolivarian Republic of Venezuela being the exceptions). Mexico and the Central American countries saw much weaker fiscal revenue flows; in half of those economies (Costa Rica, Guatemala, Mexico and Panama) the public accounts worsened, while the others witnessed some improvement (Cuba, Dominican Republic, El Salvador, Honduras and Nicaragua) but not on a level comparable to South America and mainly as a result of lower spending.

Renewed economic growth in 2010 enabled the region to bring in an average tax take equivalent to 14.9% of GDP, which was still below the historic high of 15.1% recorded in 2007. Tax collection levels in a full 50% of the countries have already returned to the levels preceding the 2008-2009 crisis, although clear variations in tax revenue trends can be observed in the period 2007-2010.

A look at quarterly performance of tax revenues in some countries of the region over 2009-2011 shows an across-the-board recovery beginning in the fourth quarter of 2009. That recovery gained strength throughout the first three quarters of 2010 but lost steam in the fourth quarter, except in Argentina and Colombia.

In 2010, fiscal spending was reduced by just under 0.5 percentage points of GDP, with 13 of the 20 countries examined reporting spending cuts. Nearly all countries of the region curtailed their current expenditure, while increasing capital spending. The regional average shows a drop in current spending of 0.5 percentage points of GDP and an uptick in capital expenditure of nearly 0.2 percentage points of GDP. Primary current expenditure was down by approximately 0.3 percentage points of GDP.

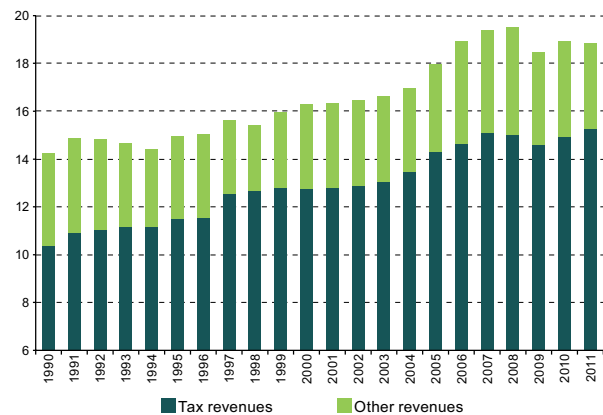
Figure I.30
LATIN AMERICA (19 COUNTRIES): CONTRIBUTION OF REVENUE AND EXPENDITURE VARIATIONS TO VARIATION IN OVERALL BALANCE, 2009-2010^a
 (Percentages of GDP)



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

^a Total expenditure does not include net lending.
^b The overall balance includes statistical discrepancies.
^c General government.
^d Includes both tax and non-tax revenue from commodities.

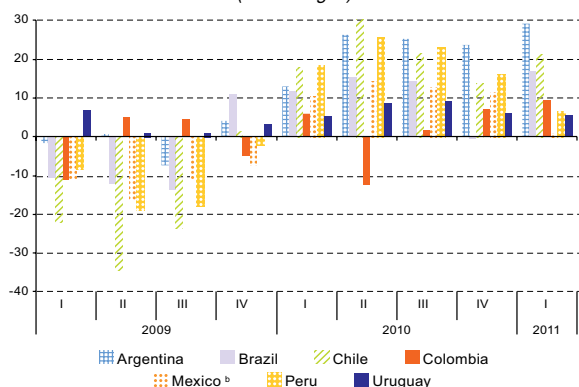
Figure I.31
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): CENTRAL GOVERNMENT REVENUES, 1990-2011^a
 (Percentages of GDP)



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

^a Data for 2011 are projections.

Figure I.32
LATIN AMERICA (SELECTED COUNTRIES): REAL-TERM YEAR-ON-YEAR QUARTERLY VARIATION IN TAX REVENUE, EXCLUDING SOCIAL SECURITY, 2009-2011^a
 (Percentages)

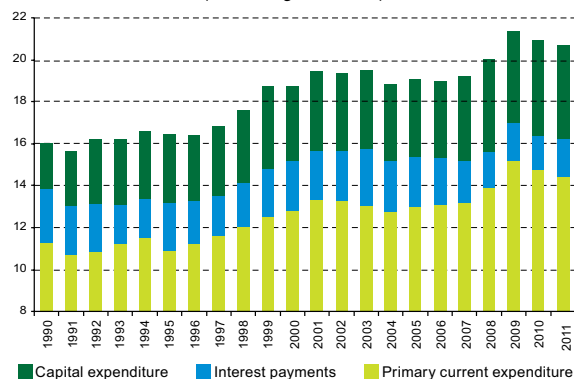


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Data for 2011 refer to first quarter only.

^b Includes non-petroleum tax revenues.

Figure I.33
LATIN AMERICA: CENTRAL GOVERNMENT EXPENDITURE, 1990-2011^a
 (Percentages of GDP)



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

^a Does not include Cuba. Data for 2011 are projections.

The region's level of public spending at year-end 2010 was 1.8 GDP percentage points above the 2007 level. The increase stemmed from a large rise in primary expenditure (2.1 percentage points of GDP), which offset the drop in interest payment outlays during the period (0.3 percentage points of GDP). Of the 20 countries examined, five reported expenditure 3 percentage points of GDP higher than in 2007. The countries with the largest increases were Ecuador (9.5 percentage points of GDP), Argentina (5.3 points), Costa Rica (4.9 points), Panama (4.8 points) and Chile (4.7 points). The countries in which interest payments dropped the most were Brazil, Costa Rica, Ecuador, Panama and Uruguay, all with reductions of around 1 percentage point of GDP. Conversely, the Plurinational State of Bolivia, Honduras and the Dominican Republic saw interest payment increases of 0.2, 0.3 and 0.6 percentage points of GDP, respectively, during the period. The region's current expenditure rose on average by more than 1 percentage point of GDP but interest payments contracted slightly, so primary current spending was up by around 1.5 percentage points. Capital expenditure rose by 0.5 percentage points of GDP approximately.

In summary, following the deterioration observed in 2009, the countries of the region are slowly recreating their fiscal space through higher fiscal revenue inflows, steady spending levels in GDP terms and lower debt-to-GDP ratios. The strategies for expanding that space will vary from one country to the next: in some countries, the authorities should focus on strengthening a weak tax burden; in others (those having more robust revenue structures), efforts should focus on containing the expansion of current public spending. In some Caribbean countries, the recurring issue of public debt sustainability will need to be addressed.

3. Summary and outlook

Beginning in the second half of 2009, the Latin American and Caribbean region has been recovering steadily from the fallout of the global crisis and—thanks to rising domestic and external demand—it is today growing at rates considered relatively high for its economic history. The region is expected to grow by 4.7% in 2011 and by 4.1% in 2012, but that growth will take place in a setting of mounting uncertainty brought about by the external context, as will be discussed below. World

economic growth, especially in developing countries, has resulted in significantly improved terms of trade, especially in the majority of South American economies, in some Caribbean economies similarly specialized in commodity production and export and, to a lesser extent, in Mexico. In Central America and most of the Caribbean economies, however, the opposite effect is observed because of their position as net importers of commodities.

Abundant liquidity in the global economy coupled with low relative risk levels in the region have opened access to international financial markets for both the public and private sectors. This has fuelled credit expansion in the region and spurred domestic demand for consumption and for investment. The clear improvement in labour market indicators driven by the economic recovery is an additional key element that explains in part why private consumption has remained so buoyant.

These developments all evolved within a framework that is still marked in some cases by a strong presence of public policies implemented to mitigate the effects of the crisis, although some governments have announced plans to dismantle these measures. For instance, while it is true that public spending has been gradually declining since 2009 (as a percentage of GDP), the projected levels for 2011 are still above pre-crisis levels.

Higher commodity prices (in particular for foodstuffs and fuel) are combining with robust domestic demand to exert upward pressure on the inflation rate. The region's central banks thus once again face the dilemma of whether to focus on price stability or on attempting to defend the competitiveness of sectors that produce exportable goods and import substitutes, at a time when the mix of available international liquidity, the solidity of some Latin American economies and renewed appetite of foreign investors for assets in emerging countries is translating into strong pressure towards exchange-rate appreciation in the region.

Although, this topic will be examined in greater detail in the second part of this study, it is worth noting here the challenges posed in terms of macroeconomic policy design. First, bearing in mind that the recent price increases were triggered by a supply shock and that the demand for goods such as foodstuffs and fuels is relatively inelastic, monetary policy loses effectiveness as an inflation-fighting instrument, although it achieves the objective of allaying fears of further price hikes. Interest rate hikes, however, tend to widen the spread between domestic rates in the region and the rates prevailing on the financial markets of the developed economies. Capital inflows are thus attracted to the region, with the ensuing pressure towards currency appreciation in the foreign-exchange markets. Currency appreciation has a deflationary effect whose magnitude depends on the share of tradable goods in the household consumption basket, by which it alleviates inflation. In the short term, capital inflows also expand the credit available for sustaining domestic demand and even help to alleviate poverty: as consumption by the poorer strata is food-intensive, the relative price of foodstuffs should normally fall hand in hand with a falling real exchange rate. It is an anti-inflation strategy that appears to have no costs, and that

is why economic authorities often cannot resist allowing some measure of appreciation.¹⁴

The foregoing notwithstanding, the situation poses a series of risks and issues for the short term as well as with regard to growth prospects. For instance, the region could become vulnerable to speculative capital movements looking for very short-term gains, compounded by the fact that the resources flowing in often exceed financial system capacity and can create bubbles in financial asset prices and real estate markets.¹⁵ At the same time, that capital can leave from one moment to the next, severely disrupting growth; this topic will be addressed in greater depth below.

A falling real exchange rate can impact the external component of the demand for goods, especially if world trade were to slow down, as could happen if growth in the developed nations stalls as is forecast for mid-2011. While there is no cause for immediate concern, the region's balance-of-payments current account has been deteriorating systematically since 2006, including during times of very favourable terms of trade for the region. As can be seen in box I.3, the region's current account estimated on the basis of international trend prices yields a higher deficit than the actual one, but financing of that deficit would pose no problem.

At the same time, excess global liquidity is pushing real exchange rates down and commodity prices up, acting as an incentive for intensive specialization in the production and export of primary goods. As indicated earlier,¹⁶ this makes the region's economies more vulnerable to external shocks and generates greater volatility in internal macroeconomic aggregates, such as investment; the overall impact is to stunt economies' ability to grow, create productive employment and reduce inequality.

Economic authorities across the region have tackled these complex macroeconomic policy dilemmas by launching measures that combine, to varying degrees, partially sterilized interventions in foreign-exchange markets and specific controls on capital inflows and financial regulations aimed at boosting demand or curbing the supply of foreign exchange on stock markets, thus alleviating pressure on currency prices. The effectiveness of the measures ultimately adopted, however, will hinge

¹⁴ See ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2010* (LC/G.2480-P), Santiago, Chile, December 2010.

¹⁵ See Nicolas Magud, Carmen Reinhart and Kenneth Rogoff, "Capital controls: myth and reality. A portfolio balance approach", *NBER Working Papers*, No. WP11-7, Peterson Institute for International Economics, 2011.

¹⁶ See R. Frenkel and M. Rapetti, "Fragilidad externa o primarización: ¿cuál es la principal amenaza para América Latina?", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2011, unpublished.

on the immediate macroeconomic policy context. For instance, as will be seen in detail below, these measures will produce greater impact if they are coordinated with fiscal policy measures to spur public sector savings, as that would reduce exchange-rate and inflationary pressure.

The situation described is not without its risks but those risks will not prevent the region from growing throughout 2011 and, it is expected, into 2012. The rate of growth, however, will likely approach a level closer to potential GDP. Much will depend on the progress made in resolving some uncertain situations, in particular in the developed

economies. For instance, the United States economy has been recovering more slowly than expected, as reflected not only in data on level of activity but also in labour market indicators and real-estate market performance. Ongoing problems at some banks, households' inability to shake off debt and the overall slow pace of the recovery are all elements that impinge on financial activity and conspire against the strategy of fostering growth through monetary policy; at the same time, budget deficits and high levels of indebtedness undermine the effectiveness of fiscal policy measures.¹⁷

Box I.3

LATIN AMERICA'S CURRENT ACCOUNTS AT TREND PRICES

From 2003 to 2007, Latin America experienced an unprecedented current account surplus that averaged 1% of GDP. With the onset of the international financial crisis at the end of 2008, the region's external balance turned negative, averaging a deficit of 0.8% of GDP during 2008-2010, in particular owing to the decline in the trade balance. Since the period under consideration coincided with a steady rise in the price of commodities, which make up a significant portion of the region's exports, it is worth asking how the current account balance would look, if measured at trend prices for commodities.

To this end, a matrix was prepared containing the main commodities exported by Latin American countries^a and their respective international prices. The trend prices were obtained using 10-year moving averages.^b Then, the ratio between the trend

price and the actual price is used as the adjustment factor applied to export items.^c For the sake of consistency, the adjustment is applied to both commodity exports and imports, the latter consisting mainly of oil and petroleum products. Given the positive and significant correlation between commodity exports and profit remittances from foreign direct investment (which shows as a debit on the income account), this component of the income account was also adjusted using the same factor.

In addition, given that the adjustment of exports and imports does not produce a symmetrical outcome, the net balance of the trade adjustment will generate an identical movement in GDP. Therefore, the current account balance in relation to GDP should be calculated as a proportion of this "corrected" GDP. Indeed, given that

the demand for imports is a component of GDP, GDP must be adjusted to be consistent with adjusted imports, in line with their income elasticity.^d Intuitively, if the region had not benefited from the very high export prices of the last few years, its disposable income would have been decidedly lower, as would its demand for imports.^e

Table 1 shows the long-term income elasticity of imports for 10 countries, and for the region overall (average for 19 countries).^f The estimates were calculated using annual data from the period 1980-2010. There is a significant dispersion in the long-term elasticities for each country, which vary from 1.3 to 1.4 in countries such as Chile, Peru and the Plurinational State of Bolivia, to above 3 in Brazil and Mexico. The aggregate for 19 countries in the region was 2.5.

Table 1

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): ESTIMATED INCOME ELASTICITY OF IMPORTS

	Argentina	Bolivia (Plurinational State of)	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Uruguay	Venezuela (Bolivarian Republic of)	Latin America (19 countries)
LM(-1)	0.57 ***		0.78 ***	1.09 ***	0.68 ***		1.02 ***	0.45 ***	0.83 ***		0.97 ***
LM(-2)							-0.43 ***				-0.14 *
LPIB	3.53 ***	3.72 ***	2.49 ***	3.02 ***	2.82 ***	1.76 ***	3.91 ***	1.65 ***	2.36 ***	2.91 ***	2.89 ***
LPIB(-1)	-2.46 ***	-2.32 ***	-1.78 ***	-3.14 ***	-2.31 ***		-4.34 ***		-2.36 ***		-2.46 ***
LPIB(-2)							1.95 **	-0.91 ***	0.35 *	-0.77 ***	
LTCR	-0.34 ***		-0.30 ***	0.33 *	-0.41 **	-0.24 **		-0.16 **	-0.20 **	-0.45 ***	-0.35 **
LTCR(-1)		-0.25 **		-0.50 *					0.15 *		0.23 *
LTCR(-2)				0.24 *	0.38 ***		-0.64 *			-0.27 **	
GDP elasticity	2.5	1.4	3.2	1.3	1.6	1.8	3.7	1.4	2.1	2.1	2.5
Real Exchange- rate elasticity	-0.8	-0.3	-1.4	-0.8	-0.1	-0.2	-1.6	-0.3	-0.3	-0.7	-0.7

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

Note: LM, imports log; LPIB, gross domestic product log; LTCR, real exchange rate log.

Dependent variable: log (imports). Method: least squares (Newey-West heteroskedasticity and autocorrelation consistent (HAC) standard errors). Sample: 1980-2010.

Significant at 1% (***), 5% (**) and 10% (*).

¹⁷ See James Mason and others, *Central Bank Watch: The Shifting Tides of Global Monetary Policy*, Roubini Global Economics (RGE), June 2011.

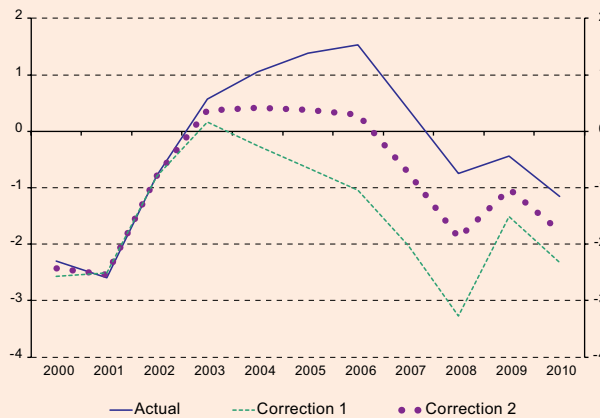
Box 1.3 (continued)

Figure 1 shows the results of the adjustment for the regional aggregate (19 countries). At the regional level, the external balance is seen to be sustainable, since, measured at trend prices, the region would still have posted a slight current account surplus for 2003-2007 (an average of 0.1% of GDP). The reversal of the external balance during the international financial

crisis—i.e. an external deficit at trend prices—peaked at 1.9% of GDP in 2008 and eased back to 1% in 2009; these figures are compatible with the region's capacity to sustain net inflows of capital. In fact, during 2003-2010, the regional capital account averaged a surplus (net inflows) of 1.4% of GDP and, in particular, the net inflow of FDI averaged 1.9% of GDP

(net portfolio investment: 0.5%; other net investment: -1%). In 2010, once the crisis was over, Latin America's current account, measured at trend prices, posted a deficit of 1.8% of GDP (an effective deficit of 1.2%), while the capital account ran a surplus of 3.1% of GDP, with FDI making up 1.4% (net portfolio investment: 2.2%; other net investment: -0.5%).⁹

Figure 1
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): CURRENT ACCOUNT AT TREND PRICES, 2000-2010
(Percentages of GDP)



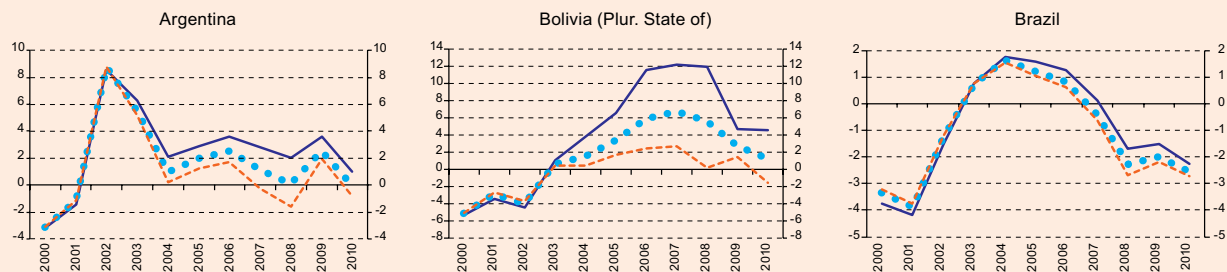
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Of course, the outcome of this exercise differs at the country level. Figure 2 shows the specific results for selected countries. Of the four countries that posted an actual surplus on their current account in 2010—Argentina (1% of GDP), Bolivian Republic of Venezuela (3.7%), Chile (1.9%) and Plurinational State of Bolivia (4.6%)—all except for the Plurinational State of Bolivia recorded a deficit measured at trend prices (-0.1%, -0.2%, -1.6% and 1.2%, respectively). The countries with

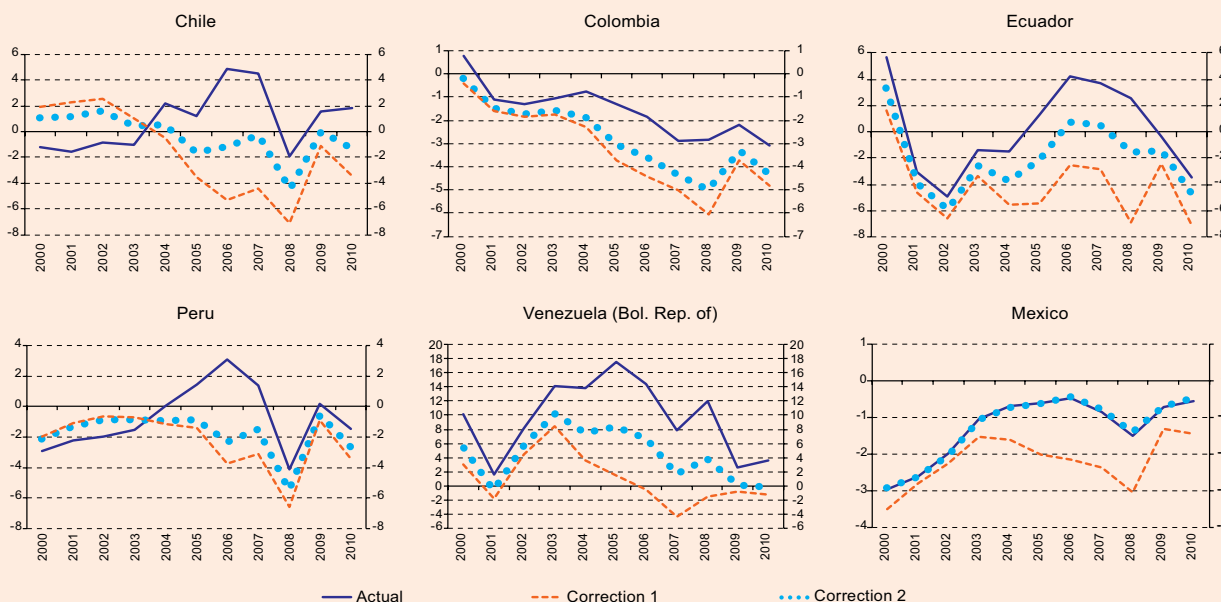
the largest gap between their actual and corrected balances are, as may be expected, the exporters of hydrocarbons, particularly those for which this item represents a significant portion of the export basket, such as the Bolivian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia. In Colombia and Ecuador, the actual current account deficit was 3% of GDP in 2010, but measured at trend prices, their deficits were larger: 4.2% and 4.7% of GDP, respectively.

The copper exporters, Chile and Peru, also had a wide gap, especially for 2006-2007, when the real price of the metal hit all-time highs. Brazil and Mexico showed the smallest gap between the actual and corrected current account balance, mainly because their export baskets are much more diversified than those of the other countries analysed. The downward adjustment of exports is offset in large part by the higher estimated income elasticity for both countries.

Figure 2
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): CURRENT ACCOUNT AT TREND PRICES, 2000-2010
(Percentages of GDP)



Box I.3 (concluded)



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

^a These products are wheat, corn, rice, soybean, copper, iron, steel, aluminium, silver, zinc, tin, nickel, lead, oil, coal and natural gas.

^b Similar results are obtained using the Hodrick-Prescott filter for the trend prices.

^c This adjustment reflects corrections in prices, not in volumes.

^d The income elasticity of imports is calculated as follows:

$$\beta = \frac{\partial \log M}{\partial \log PIB}$$

^e Of course, in seeking an overall balance, we could also consider a drop in private consumption and other effects. However, here we are focusing exclusively on correcting the elements that affect the current account.

^f The specification estimated using the ordinary least squares method in each case corresponds to constrained versions of:

$$\log M_t = c + \sum_{i=1}^2 \alpha_i \log M_{t-i} + \sum_{i=0}^2 \gamma_i \log PIB_{t-i} + \sum_{i=0}^2 \delta_i \log TCR_{t-i} + \varepsilon_t \sim N(0, \sigma^2) + \varepsilon_t$$

^g As part of the revenue relating to FDI includes profits that are reinvested, the FDI figure used for calculating the current account balance at trend prices could be lower than the observed figure.

Monetary stimuli will thus likely be maintained until the United States economy takes off again, and that will reinforce the generally gloomy forecast for global growth; it will also exacerbate the economic policy dilemmas facing the economies of the region, as discussed earlier.

Japan, for its part, continues to rebuild in the wake of the March 2011 earthquake (see box I.1) and it will grow very little in 2011 but —given the low basis for comparison— slightly more in 2012. The prolonged stagnation of the Japanese economy began with the crisis that rocked the country’s banking system in the 1990s and for which a lasting solution has yet to be found.

This inauspicious outlook for growth in the developed economies is compounded by the situation in Europe, where the focus for the time being is on finding a solution to the Greek debt problem. Latin America’s experience, the level of Greece’s indebtedness and the severity of

the fiscal adjustments needed to return the public debt to sustainable levels all point to the virtual inevitability of an across-the-board restructuring coupled with a hefty write-off. The European authorities have, however, thus far resisted this form of debt reduction, fearful of the possible contagion effect on other economies in difficult circumstances, including not just Ireland and Portugal but also Spain and Italy, despite the relative improvement seen in these countries recently.¹⁸

While that fear is not entirely unfounded, the economic history of Latin America and the Caribbean holds —as noted above— important lessons for what is happening in Europe these days. A write-off is inevitable, but it should be conducted in an orderly fashion rather than left

¹⁸ See Eduardo Levy Yeyati, “Grecia, entre la negación y la reprogramación inútil”, 20 May 2011 [online] <http://yeyati.blogspot.com/>.

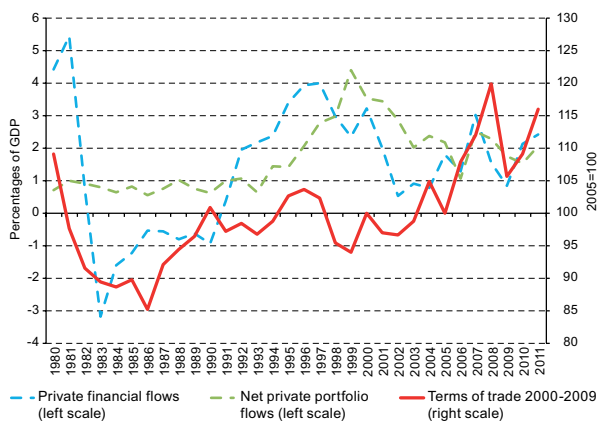
to market pressures and a possible haphazard approach. The contagion effect in the latter case could be devastating and even become systemic.

In the emerging economies, the outlook is somewhat brighter but the possibility cannot be ruled out that growing inflationary pressure in countries such as China, India and the Russian Federation, for instance, will lead to tighter monetary policy and, as a result, a slowdown in growth. That, in turn, would hamper the ability of those economies to sustain the growth in demand that is instrumental in correcting global imbalances.

Undoubtedly, there are a myriad of factors at play—slowdown of world economic growth, gradual absorption of available global liquidity and a higher risk component in financial assets, especially (but not only) of some European sovereign debt—that could culminate in a “flight to quality”. That would mean, as borne out in the recent crisis, greater demand for dollar-denominated assets and a sudden reversal in capital flows.

However, such a scenario does not appear imminent, although it could come to pass sooner rather than later depending on how the European debt problem is handled. The bad news is that the economic history of Latin America and the Caribbean clearly shows that reversals in capital flows rarely occur in isolation; rather, they are often accompanied by drops in international commodity prices and, consequently, a deterioration in the region’s average terms of trade, as can be seen in figure I.34. Notably, economies that are net commodity exporters and receive significant capital flows are much more vulnerable to such a turn of events than the majority of the economies of Central America and the Caribbean, which are net commodity importers and do not enjoy open access to international financial markets.

Figure I.34
LATIN AMERICA: CAPITAL FLOWS AND TERMS OF TRADE,
1980-2011
(Percentages of GDP)



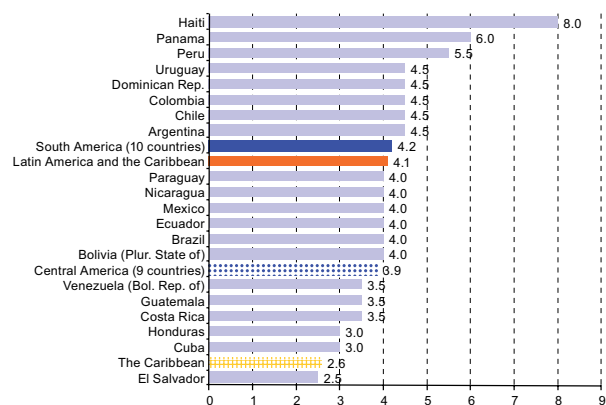
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Inasmuch as net outflows of capital usually occur in parallel with a deterioration in the terms of trade, any further worsening on the international financial markets could create pressure on the region’s external accounts, in both its current and the capital components. If, and it is possible this will be the case, the scenario is compounded by a slowdown in growth and, by extension, a dropoff in trade, the most prudent recommendation would be that the region’s economies should prepare themselves as best they can to pursue a countercyclical strategy in a context of less abundant foreign exchange.

Again, the risks are not imminent but the situation does need to be taken seriously. That means tapping the current favourable conditions to accumulate international reserves and generate public sector savings in order to reclaim the policy space lost during the crisis. Controls or limits on short-term capital inflows would also help to make economies less vulnerable. These recommendations are compatible with the need to contain the currency appreciation referred to earlier. The instruments available to the region’s economic authorities to defend, to the extent possible, levels of competitiveness with longer-term objectives could also promote macroeconomic equilibria and counteract the volatility that has been a chronic feature in Latin America and the Caribbean.

In sum, rebuilding fiscal space is of vital importance to the countries of the region, as it would underpin efforts to meet not only traditional public policy challenges (the need for greater investment in physical and social capital) but also other challenges emerging on the international stage. In addition, with higher levels of public sector savings, monetary policy could be relaxed, thus alleviating the tension between anti-inflationary and exchange-rate strategies.

Figure I.35
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2012



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

Part 2

**International integration and
macroeconomic policy challenges
amid global economic turmoil**

Chapter I

Changing external financing sources and macroeconomic regimes in the region: the uneven impacts of external shocks and response policies

The composition of external financing has changed markedly over the past 30 years for the countries of Latin America and the Caribbean. Some macroeconomic regimes have been overhauled and external shocks are transmitted to the domestic economy in new ways. This chapter offers an overview of the shifts in the region's main sources of foreign exchange, reflecting patterns in current account components in some cases and increased financial flows in others. It also looks at the main changes in macroeconomic policy regimes. Lastly, after reviewing structural elements that influence the way in which external shocks impact and spread through the domestic economy, it sets out an analytical framework for tackling the policy dilemmas faced by the countries of the region.

A. Recent changes in external financing in Latin America and the Caribbean

First, the main current account factors affecting external financing are changes in commodity prices, the composition of the income balance and migrant remittances.

Several countries in the region, especially the commodity producers and, to an even greater extent, the hydrocarbon,

metal and mineral exporters, have benefited from higher international prices and external demand for their products. This has greatly boosted their terms of trade, slashed the trade deficits seen during the 1990s and, in particularly favourable years, produced a current account surplus.

In some of these countries —Bolivarian Republic of Venezuela, Chile, Ecuador, Peru and Plurinational State of Bolivia— available gross national income expanded consistently above GDP growth between 2004 and 2010 (Kacef and Manuelito, 2008). However, for net importers of food and fuel, particularly the Central American economies, the recent hike in commodity prices has had the opposite effect: a deterioration in the trade balance. As in the past, therefore, the region remains vulnerable to external shocks related to commodities and raw materials, although their effect on the different countries is increasingly heterogeneous.

At the same time, the proportion of the regional income balance accounted for by net debt servicing and the repatriation of profits by resident foreign companies changed significantly.¹ During the 1980s and 1990s the deficit on the income account was largely the outcome of payments of interest on external debt. However, the composition of this deficit has been changing since the mid-1990s and to an even greater extent since 2000. Now its largest components are remittances of profits and dividends and payment of returns on portfolio investment assets held by resident foreign companies. This shift has been particularly notable in countries where a significant proportion of foreign direct investment (FDI) goes to natural resources (Chile and Peru).

At the regional level, the only component of the current account balance that remained in positive territory throughout the period 1990-2010 was current transfers,² owing to rising remittances from migrant workers. Starting in the 1990s, remittances became increasingly important to the region as growing numbers migrated to the United States and Europe, as well as to neighbouring countries. Meanwhile, advances in statistics and regulatory changes have enabled more accurate recording of incoming remittances and technological progress has made it easier for migrants to send money home. Although migrant remittances represent only 1.5% of GDP for the region overall, in some Central American and Caribbean countries they are a weighty source of financing, accounting for between 10% and 20% of GDP.

The second major shift in foreign exchange sourcing has been driven by changes in the components of the capital

and financial accounts. The region is engaged, to differing degrees depending on the country, with the current phase of globalization and all its productive, trade, financial, demographic and cultural facets. In terms of production, this is reflected in the way in which the countries in the region participate in goods, services and factor markets, depending on their productive specialization strategy. A number of countries adopted strategies of capital and financial account liberalization and, given the shortage of resources following the debt crisis of the 1980s, opened various sectors of the domestic economy to FDI and deployed policies targeting this type of investment. This coincided with the emergence of attractive investment opportunities in various sectors of the region's economies, such as retail commerce, banking, natural resources, tourism and other services.

As a result, since the mid-1990s, FDI has become one of the region's main sources of external financial resources and in fact been more stable than other financial flows.³ In several countries FDI makes up a hefty proportion of GDP: between 1997 and 2010 FDI exceeded 5% of GDP in Chile, Costa Rica, the Dominican Republic, El Salvador, Honduras, Nicaragua, Panama, Peru, the Plurinational State of Bolivia and Uruguay. In turn, Latin American countries have recently been investing increasingly abroad, especially within the region itself, reflecting the growing internationalization of national companies and their expansion into the rest of Latin America and the rise of a new breed of enterprise referred to as the trans-Latins (ECLAC, 2007). Despite the fact that net FDI flows into Latin America —i.e. the balance of inflows and outflows— are continuing to trend upward (with the exception of 2009), FDI has diminished in comparison with the peak levels reached in 2008.

A third change in the region's sources of foreign exchange has been driven by the rapid economic growth and successful productive transformation of several Asian economies and the resulting surge in demand for raw materials. At the same time, the transition of Eastern European countries from centrally planned economies to market economies, together with economic consolidation in several countries with intermediate levels of development, has created a new type of asset: those of the emerging economies. These markets are increasingly attractive in a risk-tolerant and diversification-seeking investment climate. Several Latin American countries have been involved in this development with a rise in both inflows and outflows of financial resources. In 2010, portfolio investment inflows actually exceeded FDI inflows, reflecting increased global liquidity and low yields in

¹ In accordance with the methodology of the International Monetary Fund's *Balance of Payments and International Investment Position Manual*, entries should be recorded on an accrual basis. Accordingly, a deficit entered on the income account gives rise to an equivalent entry in the balance of payments, but these entries do not necessarily coincide with those recorded on a cash basis (when payment has been effected).

² The travel account of the services balance also began to post a surplus throughout the region in the second half of the 1990s.

³ Despite the relative stability of these flows in the region, FDI is not impervious to volatility.

developed countries in the wake of their efforts to offset the impacts of the crisis. These burgeoning portfolio flows are attributable to two factors: (i) the local financial markets of several countries in the region are showing vigorous growth, coupled with an improvement in their indicators of fiscal and financial soundness; and (ii) as investors seek profitability in an international context of low financial returns, these improved macroeconomic indicators have made the region's countries more attractive as investment destinations and this has fuelled the growth of certain markets (Brazil, Chile and Peru).⁴

External bond issues (initially sovereign bonds and then corporate bonds) have also been on the rise, albeit at varying paces. In fact, the surge in portfolio investment flows into the region also reflects the rise in bond issues since, although these consisted essentially of sovereign bonds in the early 1990s, they have shifted heavily in

the 2000s towards corporate and bank bonds (the latter particularly in 2010).

Meanwhile, at the regional level, net other investment liabilities have on the whole led to outflows of resources, which in some countries can be attributed largely to the diversification of pension systems, the build-up of sovereign funds and the accumulation of assets overseas where national financial systems lack the capacity to absorb them. Sometimes these outflows are associated with banking crises. Only Brazil, Chile and Peru are receiving significant inflows drawn by favourable interest rate arbitrage (carry trade).⁵

Lastly, the improvement in the terms of trade, the renegotiation of debt under the Heavily Indebted Poor Countries (HIPC) Initiative, the sounder fiscal position and the substitution of external debt with domestic debt have helped to improve the region's external public debt indicators in recent years.

B. Changes in patterns of external financing and their impact on macroeconomic policies

The changing patterns of external financing in the region identified in section A were due to exogenous factors such as global financial market trends, the deeper integration some countries have pursued in these markets and changes in macroeconomic policy regimes over the past 10 to 15 years. These policy changes have been prompted in part by the external fluctuations and insufficient and unstable growth that have been characteristic of the region. These trends are important from a policy viewpoint inasmuch as they combine with certain features of the economic structure to shape the impact of external shocks on the domestic economy, the resulting macroeconomic policy dilemmas and possible responses. These matters are examined here, considering macroeconomic policy within the framework of the structural diversity typical of the region's economies.

To varying degrees, the governments of many Latin American countries undertook progressive reforms of their macroeconomic regime in the wake of the traumatic recessionary adjustments that followed the external

overindebtedness and debt crisis of the 1980s, the large fluctuations in capital inflows of the 1990s and a series of crises in the region (in Mexico in 1994, in Brazil and Ecuador in 1998-1999 and in Argentina in 2001). Criticism of the conditionalities that multilateral financing agencies attached to their assistance for overcoming these crises also helped to drive the reforms.⁶

Several countries have shifted their fiscal policy more heavily towards keeping the public accounts in balance. Some have even built up countercyclical capacities, which has enabled them, among other achievements, to gradually reduce public debt, both as a percentage of GDP and in absolute terms. In several cases, this has shrunk the impact of external debt servicing on the balance of payments.

The monetary policy stance has, in general, leaned towards controlling inflation and some countries, notably Brazil, Chile, Colombia, Mexico and Peru, have adopted specific inflation targeting schemes. Paraguay and

⁴ In 2010 portfolio investment in Latin America expanded significantly. For the first time since 1993 capital inflows from portfolio investment exceeded FDI inflows. An analysis of the net amounts shows an even greater difference. However, some countries, such as Chile, are experiencing sustained net outflows, linked to the portfolio diversification of the pension system and, in more recent years, the accumulation of sovereign fund resources held overseas.

⁵ Net other investment liabilities include accrued net changes in bank loans, foreign trade credits, currency and deposits held abroad and external debt other than bonds and exceptional financing. It therefore includes external borrowing from banking institutions, multilateral institutions (World Bank) and governments (Paris Club) (IMF, 2009).

⁶ The conditionalities imposed on some Asian countries in 1997 as part of their crisis exit strategy provoked sharp criticism and were instrumental in prompting an internal review at the International Monetary Fund (IMF) (Frenkel, 2002; Greenville, 2004).

Uruguay have recently taken steps in this direction, as well. A number of countries have gone so far as to make the central bank independent from the executive branch, although this is not a requirement for monetary policy-based inflation targeting. Consistently with this inflation-oriented approach, more countries have opted for relatively flexible exchange-rate regimes, albeit with

frequent interventions by the monetary authority in some cases. Conversely, a small group have either adopted the dollar as their legal currency in response to difficulties in controlling inflation or to restore confidence in their financial system (Ecuador, El Salvador) or else, for other reasons, maintain a heavily administered foreign-exchange regime (Bolivarian Republic of Venezuela).

Box I.1

ASPECTS OF FISCAL POLICY IN LATIN AMERICA, 2000-2010

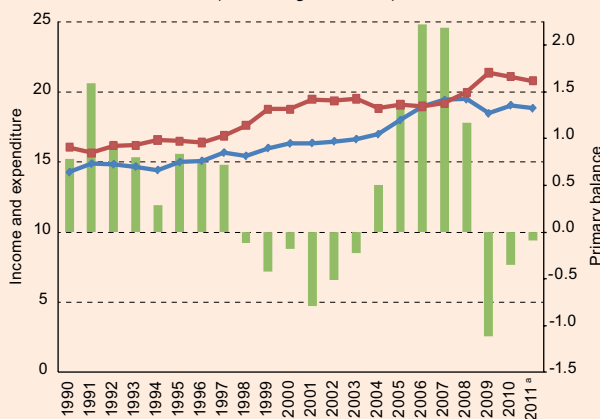
Most of the Latin American economies experienced robust growth and were able to pursue sound macroeconomic policies in the first decade of the twenty-first century. During this period, the region made progress towards greater fiscal solvency, thanks mainly to the higher fiscal revenues and low public debt

payments that were a corollary of the economic upturn.

Its sounder fiscal position made Latin America better prepared to respond to the crisis of 2008-2009. When the crisis hit, most of the countries in the region were running primary surpluses (or only small deficits) and were carrying low levels of

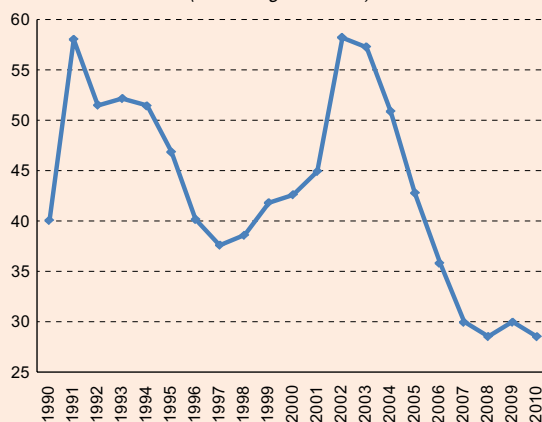
debt. The fiscal space created in the Latin American economies before the global financial crisis and the quick recovery of demand for the region's exports in its wake underpinned an economic upturn in the region in mid-2009. The challenge now for Latin America is to consolidate those gains.

Figure 1
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT INCOME, EXPENDITURES AND PRIMARY BALANCE, 1990-2011
(Percentages of GDP)



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

Figure 2
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT PUBLIC DEBT, 1990-2010
(Percentages of GDP)



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

Box I.1 (continued)

These improvements notwithstanding, virtually no progress has been made in diversifying sources of fiscal revenues nor in expanding the tax base. Latin American tax systems continue to rely on indirect taxes and thus remain neutral or even regressive in terms of income distribution, on which they have little or no effect. Governments of countries whose public revenue depends heavily on non-tax income from the extraction and export of natural resources—especially commodities—have tended to find that the

historically cyclical and volatile behaviour of prices for these goods has worsened macroeconomic vulnerability and limited their capacity to pursue countercyclical fiscal policies.

Latin America's tax collection levels remain low compared with other regions and this represents an obstacle to investing sustainably in physical and human capital and to providing public goods and services.

With respect to the public debt, although the region has recently been able to denominate most of its external

liabilities in local currency and thus reduce its exposure to exchange-rate risk, short- and medium-term debt still outweighs long-term debt, which heightens financial volatility.

Since 2000, a number of the countries have adopted fiscal policy rules with a view to making public finance more sustainable (see table below). Most of these are budgetary rules (such as primary surplus or current account targeting) or rules on spending or debt (such as limits on the overall debt stock or its expansion).

Table
LATIN AMERICA AND THE CARIBBEAN: FISCAL RULES ADOPTED IN LATIN AMERICA, 2000-2010^a

Country	Rules	Type	Coverage	Period of adjustment	Status	Year of entry into force
Argentina	Nominal growth in primary expenditure must not exceed nominal GDP growth.	Rule on spending	General government	Yearly	Law	2004
	Jurisdictions must maintain financial equilibrium in executing their budgets.	Current-account rule	General government	Yearly	Law	2004
	In each fiscal year, debt servicing must not exceed 15% of net revenue-sharing transfers to municipalities.	Rule on debt	Subnational governments	Yearly	Law	2004
Brazil	Spending target set by the government.	Rule on spending	General government	Yearly	Law	2000
	Budget target set by the government.	Current-account rule	General government	Yearly	Law	2000
	Debt target and ceilings set by the government.	Rule on debt	General government	Yearly	Law	2001
Colombia	Non-financial public sector (NFPS) primary surplus target set by the government and adjusted on the basis of the business cycle.	Current-account rule	General government	Yearly	Law	2003
	The operating costs of subnational territorial entities must be financed from their current revenue.	Current-account rule	Subnational governments	Yearly	Law	2001
Chile	Public expenditure is budgeted on the basis of structural revenue obtainable in various medium-term scenarios net of cyclical components (structural balance).	Current-account rule	Central government	Cyclical	Political commitment	2000
Ecuador	Central government current expenditure must not increase by more than 3.5% in real terms.	Rule on spending	Central government	Yearly	Law	2003
	NFPS current operating expenditure must not increase by more than 2.5% in real terms.	Rule on spending	General government	Yearly	Law	2003
	The non-petroleum deficit must be reduced by 0.2% of GDP per year (until it reaches zero).	Current-account rule	General government	Yearly	Law	2003
Mexico	Any proposal for new or higher expenditure must correspond to a (non-borrowing) revenue initiative or must be offset against reductions in other spending items (balanced budget).	Current-account rule	General government	Multi-year with a budget ceiling	Law	2006
	Surplus income (above the budgeted figure) must be used to offset rises in unbudgeted spending. Any remaining funds must be credited to four different funds in the proportions specified by law.	Rule on revenue	General government	Multi-year with a budget ceiling	Law	2006

Box 1.1 (concluded)

Country	Rules	Type	Coverage	Period of adjustment	Status	Year of entry into force
Panama	NFPS deficit of between 2% and 2.5% of GDP.	Current-account rule	General government	Yearly	Law	2002
	Reduce public debt to under 40% of GDP by 2017.	Rule on debt	General government	Yearly	Law	2002
Peru	Current expenditure growth must not exceed 3% in real terms.	Rule on spending	General government	Yearly	Law	2000
	NFPS deficit equivalent to 1% of GDP.	Current-account rule	General government	Yearly	Law	2000
Venezuela (Bolivarian Republic of)	Current account targeting.	Current-account rule	General government	Yearly	Law	2000

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of fiscal responsibility acts of the respective countries and information from the Budget Office of the Ministry of Finance of Chile.

^a The list is not exhaustive and some of the fiscal rules may no longer be in force.

No definitive conclusions may yet be drawn on the outcomes of these measures since the expansion of the fiscal space seen in the region has also coincided with the economic upturn, rising commodity prices and, therefore, burgeoning revenues. Public spending, too, increased steadily during this period. Yet the fact that such rules were established in the first place represents a sea change in fiscal policy management with respect to previous decades.

When the financial crisis broke out, the Latin American countries that had fiscal rules all had schemes targeting either

the current account or debt indicators. In principle, this tends to reduce the flexibility of fiscal policy for dealing with crises, especially where, as in several countries in the region, there are also rules on spending (which usually bar resort to discretionary incentives). In practice, then, severe shocks may force countries to break or change their own rules, as occurred in Argentina, Chile and Peru in the 2008-2009 crisis.

In short, while it is too soon to gauge the effects of the new fiscal institutional framework on the macroeconomic stability and performance of the Latin American

economies, it is widely believed that it will help to expand the policy space and confer stability on the public accounts. Nevertheless, recent experience indicates that flexibility mechanisms are also needed in order to garner a response in the event of exogenous economic shocks.

Both recent experience and the challenges posed in the new macroeconomic context underpin the need to strengthen and consolidate fiscal institutions through medium-term budgetary frameworks, greater transparency and accountability, multi-year budgeting and national public investment systems.

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

Several countries —Brazil, Chile, Colombia and Mexico— have taken steps to develop both their domestic financial market and their linkages with global financial markets, both of which are key channels through which external financial shocks are transmitted to the rest of the economy. Although the different segments of the financial system are much less developed than in the more advanced countries and in recently industrialized emerging economies, the region's financial markets are on the whole deeper and more bancarized than in previous decades. Nonetheless, with the exception of Brazil, Chile and Mexico, the capital market (equity and debt) remains shallow and little developed (Jiménez and Manuelito, 2011).

Several countries have allowed freer movements of portfolio and other financial investment flows (as distinct from FDI) as part of their efforts to secure deeper financial integration in international markets. This is the case for Brazil, Chile, Mexico, Peru and, to some extent, Colombia. As a result, capital mobility is

greater than in previous decades but even the countries mentioned enforce some capital controls. Many countries have dispensed with FDI controls and adopted policies to promote FDI, which has come to account for a greater proportion of external financing than previously.

As financial integration has deepened, several countries have begun to view the vagaries of financial and goods and services markets, as well as real exchange-rate targets, with mounting concern. Accordingly, some of them, including Brazil and Peru, have allowed their international reserve holdings to swell significantly. This has occurred in less developed countries in other regions as well, especially following the Asian crisis. A further motivation for augmenting reserve holdings has been the countries' need to build their own insurance against external shocks given the punitive conditionalities of multilateral balance-of-payment support mechanisms, the protracted negotiations for securing emergency financing and the historically procyclical nature of external financing in the region.

Table I.1
LATIN AMERICA AND THE CARIBBEAN: FOREIGN-EXCHANGE REGIMES, 1996-2010^a

	1996 ^b	2000	2005	2010
Currency board	Argentina (1991)	Argentina	Antigua and Barbuda ^c	Antigua and Barbuda ^c
	Antigua and Barbuda ^c	Antigua and Barbuda ^c	Dominica ^c	Dominica ^c
	Dominica ^c	Dominica ^c	Grenada ^c	Grenada ^c
	Grenada ^c	Grenada ^c	Saint Kitts and Nevis ^c	Saint Kitts and Nevis ^c
	Saint Kitts and Nevis ^c	Saint Kitts and Nevis ^c	Saint Vincent and the Grenadines ^c	Saint Vincent and the Grenadines ^c
	Saint Vincent and the Grenadines ^c	Saint Vincent and the Grenadines ^c	Saint Lucia ^c	Saint Lucia ^c
	Saint Lucia ^c	Saint Lucia ^c		
Dollarization	Panama (1904)	Ecuador	Ecuador	Ecuador
		Panama	El Salvador	El Salvador
			Panama	Panama
Fixed exchange rate	Bahamas	Bahamas	Bahamas	Bahamas
	Barbados	Barbados	Barbados	Barbados
	Belize	Belize	Belize	Belize
	El Salvador (1993)	El Salvador	Guyana	Guyana
		Trinidad and Tobago	Suriname	Honduras
			Trinidad and Tobago	Suriname
			Venezuela (Bolivarian Republic of)	Trinidad and Tobago
			Venezuela (Bolivarian Republic of)	
Crawling peg	Bolivia (Plurinational State of)	Bolivia (Plurinational State of)	Bolivia (Plurinational State of)	Bolivia (Plurinational State of)
	Costa Rica (1984)	Costa Rica	Costa Rica	Nicaragua
	Nicaragua (1993)	Nicaragua	Nicaragua	
Moving band	Honduras (1994)	Honduras	Honduras	Costa Rica
	Brazil (1995)	Uruguay		
	Chile (1993)	Venezuela (Bolivarian Republic of)		
	Colombia (1994)			
	Ecuador (1994)			
	Uruguay (1990)			
	Venezuela (Bolivarian Republic of) (1996)			
Flexibility (includes intervention in the foreign-exchange market)	Guatemala (1989)	Brazil	Argentina	Argentina
	Guyana	Chile ^d	Brazil	Brazil
	Haiti	Chile	Chile	Chile
	Jamaica	Colombia ^d	Colombia	Colombia
	Mexico (1994)	Colombia	Guatemala	Guatemala
	Paraguay	Guatemala	Haiti	Haiti
	Peru (1990)	Guyana	Jamaica	Jamaica
	Dominican Republic (1992)	Haiti	Mexico	Mexico
	Suriname	Jamaica	Paraguay	Paraguay
	Trinidad and Tobago	Mexico	Peru	Peru
		Paraguay	Dominican Republic	Dominican Republic
		Peru	Uruguay	Uruguay
	Dominican Republic			
	Suriname			

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official information and exchange-rate classification by the International Monetary Fund (IMF).

^a Refers to the exchange-rate regime that lasted longest during the reference year.

^b The information in brackets relates to the year in which the regime reported in 1996 was introduced.

^c Member of the Organization of Eastern Caribbean States (OECS).

^d From September 1999 onwards.

The changes made to macroeconomic policy stances in the region have been fairly diverse and this has led to some discussion over their relative merits. The point here, however, is not the advantages to be gained from one policy response or another, but the fact that exogenous changes in global financial and goods markets elicited manoeuvres in several countries that changed the way external shocks spread through their economies, achieving, in some cases, greater freedom for the policy response. Thus, the lighter burden of external debt servicing flows, the build-up of external resources—whether in the form of central bank reserves or sovereign funds—and ready access to voluntary external capital markets have shaped a context in which several countries have managed to lift or at least relax the so-called external constraint that dominated macroeconomic policy management during the 1980s and much of the 1990s. The countries which have been able to issue foreign bonds in local currency and deepen their domestic market have shown that the fate of “original sin” (Eichengreen and Hausmann, 1999)—which limited non-inflationary financing of the deficit and left public finances vulnerable to currency mismatches—is surmountable, not inexorable.

Nevertheless, in these matters the situation varies significantly from one country to the next in the region. Several Central American and Caribbean countries have yet to succeed in consolidating their fiscal positions or raising their low tax burdens. As well, the few linkages these countries have with external financial markets are

limited almost exclusively to FDI partly because they lack the domestic financial development to support greater financial integration with other markets. Because of these two factors, the channels by which external shocks are transmitted to those economies, the intensity of their effects and the response capacity are different from the situation in countries that have adapted their macroeconomic regime and improved both their financial development and their external integration. Consequently, the Central American and Caribbean countries concerned have less scope for dealing with an external shock. Although debt relief schemes (for example, the HIPC Initiative) and the improvement in the terms of trade since 2003 (Ecuador and Plurinational State of Bolivia) have eased the external constraints somewhat, the potentially tighter external liquidity situation and the shallow domestic financial development tend to bar routes towards countercyclical action.

The following section looks at the macroeconomic policy implications of the countries’ development levels and characteristics at this juncture of voluminous external liquidity and surging international prices for commodities and raw materials. Although the focus here is on domestic policy alternatives, any policies the governments adopt to prepare for external shocks need to be complemented by an international financial architecture that supports greater macroeconomic coordination between countries, particularly between large economies, and is capable of steering prudential global financial regulations towards financial stability.

1. **Structural underpinnings of the uneven impact of external shocks and countercyclical capacity amid abundant global liquidity and high commodity prices**

In the current climate, three structural characteristics are particularly important in determining how strongly the region’s domestic economies feel the shocks triggered by fluctuations in external liquidity and commodity prices and the policy options they have for tackling their consequences. First is the proportion of public revenue generated by the production and export of primary products (taxes, royalties and profits). Second is the degree of exposure to international financial markets (that is, the openness of the balance-of-payments financial account). And, third is the depth and scope of the domestic financial system as a channel for spreading external shocks through the local economy. While these are not

the only traits of the region’s economies, nor are they the only sources of external vulnerability, these factors—and particularly the interaction between them—are especially relevant here since they do much to determine the countries’ capacities to implement countercyclical fiscal and monetary policies amid the external conditions of abundant liquidity and volatility.

Financial globalization has blurred the boundary between real and financial shocks. Global financial crises impact on commodity markets not only because they influence the future course of economies requiring those goods but also because those goods have become a category of financial asset in themselves, whose value

fluctuates as financial conditions change. Consequently, even economies not exposed to external financial markets will be affected by their fluctuations, especially where commodity prices have a significant impact on public revenue and therefore on public finances and scope for deploying countercyclical fiscal policy.

The following sections present an analytical framework for examining how the interaction between these factors shapes the macroeconomic policies implemented to lessen the impact of external shocks.

(a) How external shocks and their impacts on public revenue interact with financial system development

The importance of primary products in a country's trade and its net position as an exporter or importer of those goods have often been used as indicators of external vulnerability. The indicator used here is the proportion of public revenue generated by exports of primary goods, which it will be shown has notable fiscal policy implications (see table I.2). A country's position as a net importer or exporter of raw materials means that the capacity of its fiscal policy to offset the impacts of price fluctuations is largely determined by the magnitude of public revenue from commodity exports and by the fiscal space generated by previous savings,

existing borrowing capacity, spending reallocations or a higher tax burden. In principle, then, the larger the public revenue generated by the production and export of raw materials, the greater the fiscal policy space for softening the effects of international price surges on living standards, including through subsidies, price support measures and targeted income transfers. If the fiscal institutions have mechanisms for saving public revenue during boom periods of higher export prices, then they will be better able to avoid having to make contractionary fiscal adjustments when prices drop. In the absence of savings mechanisms, however, the sheer weight of this source of income in overall revenue can force spending to behave procyclically. By contrast, countries in which raw materials account for a smaller proportion of revenue may not experience direct effects on tax receipts, but still feel significant indirect impacts through the channels of consumption and production costs depending on how much they use raw materials. This would generate strong demand for policies to offset the impacts on the economy and the recessionary consequences of external price rises could hurt tax receipts. In this situation, countries have resorted to domestic and external public borrowing, reallocations of expenditure and higher taxes to minimize the repercussions on public well-being.

Table I.2
LATIN AMERICA (8 COUNTRIES): REVENUE FROM COMMODITIES AS A SHARE
OF TOTAL CENTRAL GOVERNMENT REVENUE
(Percentages)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2007-2009 ^a
Peru	1.3	1.6	1.2	2.5	3.8	6.2	12.7	15.8	11.3	5.8	11.0
Chile	4.4	2.4	2.2	4.1	13.7	15.5	22.1	17.9	14.0	8.7	13.5
Argentina	0.1	0.1	11.3	15.2	14.1	13.9	13.1	13.9	18.0	13.4	15.1
Colombia	12.4	12.1	12.9	11.1	12.5	11.3	12.5	13.4	18.2	18.6	16.7
Ecuador	35.4	27.3	21.9	24.1	25.9	24.2	28.7	24.7	40.4	27.7	30.9
Bolivia (Plurinational State of)	20.4	20.9	19.4	19.1	18.9	29.6	35.5	34.5	32.3	31.5	32.8
Mexico	33.4	30.4	29.6	33.3	36.0	37.3	38.0	35.4	36.9	31.0	34.4
Venezuela (Bolivarian Republic of)	49.8	45.5	47.4	49.6	46.6	48.6	52.9	50.6	49.6	35.1	45.1
Average for 8 countries	19.6	17.5	18.2	19.9	21.4	23.3	26.9	25.8	27.6	21.5	24.9

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

^a Average for the period.

A conflict of objectives may arise as commodity prices go up, since the goal of mitigating the effects of higher prices—for food and fuel for example—on living standards could clash with the objective of preventing unsustainable spending hikes or of keeping public spending to a level compatible with balanced public finances and

general economic stability. This suggests that, as far as the institutional characteristics of each country allow, impact-softening programmes should target the poorest groups and should be treated as temporary measures while the disruption lasts. These policy issues are covered in the following chapters.

Procyclical public spending practices constitute a second channel for external fluctuations to impact on the economy. Transmission through this channel depends on the fiscal rules adopted, however, and significant progress has been made in the region in this regard. However, in several countries where income from commodities accounts for a large proportion of fiscal revenue, public spending levels and therefore economic activity continue to track variations in external commodity prices.

The depth and development of the financial system is also important, mainly for three reasons. First, because of the role that system plays —by means of adjustments in domestic credit volume— in spreading the effects of commodity-price-driven variations in private-sector revenue expectations. Second, because of the scope it allows for countercyclical measures through financial and regulatory policy. And third, because a more developed financial system offers an enabling setting for sustainable fiscal measures, inasmuch as local capital markets have

recently become more important as non-inflationary sources of financing for public debt.

Table I.3 shows the countries arranged⁷ in columns from left to right according to the share of central government revenue generated by commodities between 2007 and 2009, and in rows from top to bottom by the development of their financial system, taking into account the depth of their banking markets and capital market development indicators (shares and bonds and external bond issues).

Table I.3 shows that the countries exporting hydrocarbons and mining products, together with Argentina, have the largest proportion of commodity-based public revenue, as a result of which their fiscal situation will be partly determined by global economic trends owing to the procyclical effect of export prices. Three of these countries —Chile, Colombia and Mexico— also exhibit the region’s most developed financial markets, which could encourage the procyclical propagation of external fluctuations, mainly through lending.

Table I.3

MACROECONOMIC PROFILES BY SHARE OF PUBLIC REVENUE GENERATED BY COMMODITIES AND FINANCIAL SYSTEM DEPTH

		Share of public revenue generated by commodities as a proportion of total public revenue, average for 2007-2009 (from smallest to largest)		
		Countries in this column: Shocks damage well-being more than fiscal revenue, as a result of which these countries will have special financing needs for programmes to compensate for external price rises. Critical aspect for countercyclical policies: fiscal sustainability and tax burden.		Countries in this column: Fluctuations in commodity prices have a significant impact on fiscal revenue. As producers, these countries are better placed to deploy compensation programmes.
Development of domestic financial system (from least to most) ^a	Countries in this row: Monetary policies and financial regulation are not very effective and shocks are less likely to be transmitted through financial channels.	Guatemala, Nicaragua, Paraguay, Uruguay		Bolivia (Plurinational State of), Ecuador
		Costa Rica, Dominican Republic, El Salvador, Honduras	Argentina, Peru	Venezuela (Bolivarian Republic of)
	Countries in this row: Thanks to their more developed financial systems, these countries are able to implement more effective countercyclical monetary and financial regulation policies.	Brazil, Panama		In these countries the effects of external price fluctuations are more likely to spread to the economy through the financial system. Moreover, the high proportion of public revenue in foreign currency (that is, a foreign-currency fiscal surplus) tends to trigger currency appreciation as public spending increases.
		Chile, Colombia	Mexico	

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

^a Three criteria were used to determine the relative position of each country: total lending to the private sector as a percentage of GDP; the existence of an active stock market and —where one exists— share turnover; and bond issues in international financial markets.

⁷ The methodology and indicators used to arrange the countries are explained in the methodological annex.

The countries with a smaller proportion of commodity-based public revenue include the Central American economies, Brazil, Paraguay and Uruguay. In these countries fiscal revenues will have to contend with demand for programmes to compensate for rising commodity prices and perhaps also with the impact on tax income of recessionary forces triggered by rising external prices. With the exception of Brazil and Panama, most of these countries have relatively shallow financial systems, as a result of which this propagation mechanism will be less significant than in other countries.

The group of countries with a large proportion of commodity-based public revenue, particularly those which also have well-developed financial systems, have a wide range of compensatory and countercyclical policies to draw upon, including multi-year public budget systems with their associated fiscal rules, monetary policies that can help to stabilize domestic spending (depending partly on the degree of openness to capital flows) and financial regulation policies designed to prevent credit-market overheating and misalignment of key prices, including the exchange rate. However, these countries are more exposed to external fluctuations in commodity prices and the domestic financial system could magnify the impacts of those variations.

In contrast, countries whose commodity-based income accounts for a small share of total public revenue

and which have less developed financial systems have a more limited range of policy options, and fiscal policy and debt sustainability are crucial in determining ability to deal with the impacts of external fluctuations.

(b) How exposure to international capital flows interacts with depth of financial system development

To form an idea of the level of exposure to external financial fluctuations, detailed figures are needed on the net position (foreign assets and liabilities), which are generally not available. The indicator used here is the region's sources of external financing in flow terms, in other words, changes in the net position for particular instruments. The assumption is that greater exposure to the most volatile financial flows is associated with increased vulnerability to both negative and positive external financial shocks. The most volatile flows are net movements of portfolio investment and other investment liabilities by non-residents during the period 2007-2009. The former consists of net acquisition of financial assets by non-residents for short-term portfolio investment, while the latter are mainly net debt flows (bank and non-bank). Table I.4 presents data illustrating the magnitude of these flows and of FDI as sources of external financing, ranked by the weight of the most volatile component.

Table I.4
NET FLOWS OF EXTERNAL FINANCING BY NON-RESIDENTS, 2007-2009
(Percentages of goods exports)

	Portfolio investment	Other investment liabilities	Foreign direct investment	Portfolio investment and other investment liabilities
Ecuador	-7.0	6.5	2.9	-0.4
Dominican Republic	-1.8	10.8	34.4	9.0
Argentina	-1.3	7.9	10.8	6.6
Guatemala	-1.1	7.3	9.3	6.2
Nicaragua	-0.2	-19.6	19.7	-19.7
Bolivia (Plurinational State of)	0.0	-5.6	8.2	-5.6
Paraguay	0.0	2.6	3.8	2.6
Costa Rica	0.3	4.4	19.1	4.7
Honduras	0.3	-3.3	13.3	-3.0
El Salvador	2.3	-3.3	21.8	-1.0
Chile	2.4	10.8	21.6	13.2
Uruguay	3.9	24.8	23.8	28.7
Mexico	4.4	3.3	8.3	7.7
Venezuela (Bolivarian Republic of)	5.0	6.4	-1.2	11.4
Panama	5.4	36.3	19.4	41.7
Colombia	5.6	7.8	26.1	13.4
Peru	6.4	2.4	19.8	8.8
Brazil	19.9	11.0	20.4	30.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data provided by the countries.

The aim here is not to offer an opinion on the advisability of a higher or lower level of exposure to foreign markets. This has been extensively discussed in the technical literature and both the benefits and the costs have been identified. Rather, it is to emphasize that high liquidity and external volatility create a different set of conditions for monetary and exchange-rate policy, as is currently being seen in the region.

The depth (scale of financial intermediation) and reach of the financial system (size of the banking, shareholding, debt and other lending segments, and the existence of secondary liquid and asset markets) raise the stakes even higher in terms of how volatility in external financing spreads to the domestic economy. This is because the financial system represents a direct interface between the external and domestic financial environments.

The size of the financial system in turn has a bearing on the effectiveness of monetary policy as a countercyclical policy tool and the central bank's ability to take such action. It is easier for the monetary authority to stabilize or steer small financial markets (such as the currency market or the mortgage asset market), but its influence on aggregate demand is stronger in bigger markets.

In order to look more closely at the situation in a given country it must be recalled that external fluctuations are not transmitted to the domestic economy in a linear fashion, but are mediated by certain traits of the financial system; so, too, are their implications for the efficacy of monetary and regulatory policies. For example, where banks source much of their funding abroad, the larger the proportion of bank credit as a percentage of GDP, the more likely that external fluctuations will spread directly and certainly procyclically to domestic credit and spending, especially negative shocks that precipitate sudden stops in external financing. Deep capital markets (shares and bonds) and, in particular, diversified markets could disperse this effect somewhat, however, because the larger and more diversified the financial system as a whole, the more options exist (in terms of both the source and the destination of funds) for offsetting a foreign liquidity shift.⁸ In non-diversified systems, by contrast, a financial shock is concentrated in a few market segments, where the impact may be magnified. The same is true of banking systems in which credit is concentrated in only a few banks, customers and sectors. The key factor is therefore the combination of depth, reach and diversification of the financial system as a whole.

⁸ During the recent global financial crisis, central banks in some countries in the region (such as Brazil and Chile) played a countercyclical role by bolstering lending (ECLAC, 2010). Of course, central banks are not large enough (in comparison with the entire financial system) to be able to completely offset the impact of external financial shocks.

Financial systems of a greater size, reach and depth are generally considered favourable for the financing of investment, durable consumer goods and the needs of growth, provided that they are sustainable over time and not temporarily engendered by over-optimism or credit bubbles.

Table I.5 orders countries from left to right based on the change in net position of the most volatile components of external financing during 2007-2009. Vertically, they are listed by the degree of development of their financial system.⁹ The monetary policy stance and exchange-rate regime are also indicated in several cases where they play a key role in transmitting external financial shocks.

From a policy point of view, there is a substantial shift in macroeconomic policy and sources of exposure to external fluctuations from the top left to the bottom right of the table (in other words, from less exposure to capital flows and limited financial depth to a higher level of both variables). Indeed, in the first case, fiscal policy is the preferred tool for tackling external shocks, which are triggered primarily by external demand (volume and value) for goods and services. As financial systems develop and countries engage more actively with external financial markets, monetary, exchange-rate and regulatory policies become more influential in the domestic spread of shocks. At the same time, to volatility in external goods and services markets is now added volatility in financial markets.

From the perspective of economic growth, numerous proposals argue that deeper domestic financial system development is needed to underpin the financing of investment, alongside other development measures. Meanwhile, the advantages and disadvantages of external financial engagement in terms of growth—that is, looking to the right-hand side of the table—are the subject of much debate. Nevertheless, it is indisputable that many economies in other regions (such as the Republic of Korea, Taiwan Province of China and, more recently, the emerging Asian economies) which have achieved high growth rates from low starting points have done so using strategies that have led to greater financial development and external engagement, far beyond the levels seen in Latin America and the Caribbean. Following the external debt crisis of the 1980s, some Latin American and Caribbean countries made a similar transition, albeit at an evidently slower pace and in a non-linear fashion; and some of them have adopted strategies to deepen their participation in external financial markets. However, depending on the circumstances, temporary limits have been placed on external market integration, both to avert the consequences of unsustainable rises in expenditure and to avoid distorting the incentives to produce tradable goods.

⁹ The methodology and indicators used to rank the countries are explained in the methodological annex.

Table I.5
MACROECONOMIC PROFILES BY EXPOSURE TO THE MOST VOLATILE COMPONENTS OF EXTERNAL FINANCING AND FINANCIAL SYSTEM DEPTH

		Exposure to external financial markets (from least to most) ^a		
		Countries in this column: Have reduced their exposure to the most volatile components of external financing. The impact of global shocks is transmitted primarily through commodity prices		Countries in this column: Exhibit the greatest exposure to the most volatile components of external financing
Development of domestic financial system (from least to most) ^b	Countries in this row: Limited domestic financial development results in slighter spread of external financial shocks	Bolivia (Plurinational State of), Paraguay (floating exchange-rate regimes with intervention)	Ecuador (dollarized) Guatemala, Nicaragua (floating exchange-rate regimes with intervention)	Uruguay (possible high exposure owing to economic relations with Argentina and Brazil; floating exchange-rate regime with intervention)
			El Salvador, Honduras, Venezuela (Bolivarian Republic of) (dollarized, fixed and managed exchange-rate regimes, respectively); Argentina, Costa Rica, Dominican Republic (floating exchange-rate regimes with intervention. Argentina: high exchange-rate volatility in relative terms)	Peru (monetary policy-based inflation targeting; floating exchange-rate regime, with a high level of intervention)
	Countries in this row: Higher probability that external shocks will be spread via the financial system, making regulatory policy more relevant		Mexico (monetary policy-based inflation targeting; floating exchange-rate regime with some intervention, but high exchange-rate volatility in relative terms)	Brazil, Chile, Colombia (monetary policy-based inflation targeting; floating exchange-rate regime, with varying degrees of intervention. Brazil and Colombia: high exchange-rate volatility in relative terms); Panama (special case owing to presence of offshore sector)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data provided by the countries.

^a Four criteria were used to determine the relative position of each country: external bank credit to the domestic banking sector as a percentage of total external bank loans to the country extended by banks reporting to the Bank for International Settlements (BIS) (2008-2010 average); capital inflows from portfolio investment as a percentage of goods and services exports (2007-2009 average); capital inflows from other investment as a percentage of goods and services exports (2007-2009 average), and capital inflows from foreign direct investment as a percentage of goods and services exports (2007-2009 average).

^b Three criteria were used to determine the relative position of each country: total lending to the private sector as a percentage of GDP; the existence of an active stock market and —where one exists— share turnover; and bond issues in international financial markets.

Briefly, then, a regional assessment of how high international liquidity and commodity price volatility affect macroeconomic policy must take into account structural differences between the economies that mediate both the impacts of these variables and the leeway for macroeconomic regimes to adapt. Such an assessment must look not only at the global trends that have altered the nature of external financing, but also at the main channels through which external shocks (both real and financial) are transmitted to the economies, and how these shape the available policy responses.

This section has identified three structural characteristics that influence how shocks are transmitted and the respective policy responses. First, the extent to which commodity price variations impact on public revenues was examined in order to point up the fiscal policy consequences of

those variations. Second, the importance of the most volatile components of external financing as a source of funding was examined to ascertain the likelihood of external financial fluctuations having a domestic market impact. Third, the depth and size of financial systems were examined because financial system development has a hand in determining not just the means and intensity with which external shocks spread in economies but also the policy responses adopted. The considerable variation in these structural characteristics across the countries of the region must be taken into account when analysing the relevant policies. At the same time, a fuller understanding of macroeconomic functioning and potential countercyclical measures can only be achieved by examining the interaction between these characteristics and the fiscal, monetary and exchange-rate policy stance.

Methodological annex

In the preparation of tables I.3 and I.5, three criteria were used to determine the relative position of each country and to arrange the countries by degree of exposure to external shocks, by share of public revenue generated by commodities and by volume of external financial flows as a percentage of exports.

Details on the criteria are provided below, including the indicators and classifications used to establish the relative position of the countries in the tables and thus illustrate the differences across the countries in terms of exposure and complexity of policy decision-making.

A. Criteria for table I.3

1. Development of domestic financial system

The following three indicators were considered for this criterion, each broken down into three levels:

- (a) Total credit to the private sector as a percentage of GDP:
 - (i) $\leq 30\%$
 - (ii) $\geq 30\%$ and $\leq 60\%$
 - (iii) $\geq 60\%$
- (b) Existence of an active stock market and —where one exists— share turnover:
 - (i) Stock market does not exist or is of no relevance
 - (ii) Stock market with share turnover $\leq 15\%$
 - (iii) Stock market with share turnover $> 15\%$
- (c) Bond issues in international financial markets:
 - (i) No bond issues in international markets
 - (ii) Single bond issue in the international market or exclusively sovereign issues in 2007-2010
 - (iii) More than one bond issue in the international market, including corporate issues, in 2007-2010

2. Public revenue generated by commodities as a share of total central government revenue

The countries' relative positions were established by using the average of this indicator for the period 2007-2009, broken down as follows:

- (i) No revenue from this source
- (ii) $\leq 20\%$
- (iii) $> 20\%$

B. Criteria for table I.5

1. Development of domestic financial system

The same indicators were used as for table I.3.

2. Exposure to external financial markets

Four indicators were used to establish the relative position of the countries under this criterion, each broken down into three levels as follows:

- (a) External bank credit to the domestic banking sector as a percentage of total external bank loans to the country, ¹⁰ average for the period 2008-2010:
 - (i) $> 20\%$
 - (ii) $\leq 20\%$ and $\geq 10\%$
 - (iii) $< 10\%$
- (b) Capital inflows from portfolio investment as a percentage of goods and services exports, average for the period 2007-2009:
 - (i) $\leq 0.5\%$
 - (ii) $\geq 0.5\%$ and $\leq 3\%$
 - (iii) $> 3\%$
- (c) Capital inflows from other investment as a percentage of goods and services exports, average for the period 2007-2009:
 - (i) $\leq 0\%$
 - (ii) $> 0\%$ and $< 10\%$
 - (iii) $\geq 10\%$
- (d) Capital inflows from foreign direct investment as a percentage of goods and services exports, average for the period 2007-2009:
 - (i) $\leq 10\%$
 - (ii) $> 10\%$ and $< 20\%$
 - (iii) $\geq 20\%$

¹⁰ According to data from the Bank for International Settlements (BIS).

Chapter II

Integration into international financial markets in the current context of high external liquidity

A. Recent trends in the international economy and their impact on the region¹

Starting in 2003, a number of shifts in the international economic cycle, greater appetite for risk among international investors seeking more profitable options than those offered by developed countries and significant macroeconomic changes in Latin American countries all combined to bring down the risk perception of the region's economies and make local financial assets more attractive. The climate for external financing thus became extremely favourable.

This transformation was driven by both global factors and local factors relating to the region's economies. On the global front were mounting trade imbalances between the United States and emerging countries (particularly China), abundant international reserves in many developing economies and the considerable development of international financial markets, which dramatically pushed up the sums traded. All of these factors contributed to a significant increase in liquidity on international financial markets.

Factors associated with the region's own performance that helped to improve risk perception included lower external public debt (which brought down debt interest payments, thus improving access to international financial markets for the region's countries thanks to lower rates associated with high liquidity), higher growth rates and (for most South American countries) improved terms of trade and a considerable expansion of international reserves.² This combined with changes in the management

¹ This section is based on Zahler (2011).

² In the first part of this edition of Economic Survey, figures I.19 to I.23 illustrate the main external financing trends of Latin America and the Caribbean by subregions.

of macroeconomic policy variables. Foreign-exchange regimes became more flexible and some countries adopted managed currency float regimes with interventions by monetary authorities.

The international financial crisis in 2008-2009 threw these patterns into reverse. As global economic activity slumped and uncertainty grew over the state of the banking systems in developed countries, the reactions of international financial market agents led to sharp reductions in liquidity, commodity prices and the external financing options available to Latin American

and Caribbean countries. Yet from mid-2009, these trends began to ease and international financial markets showed renewed interest in emerging economies.

Following the recent international financial crisis, a number of developments in the global economy have influenced the design and implementation of macroeconomic policy in the region's countries, depending on their degree of integration in the international financial markets. The five developments outlined below have been particularly significant in this regard.

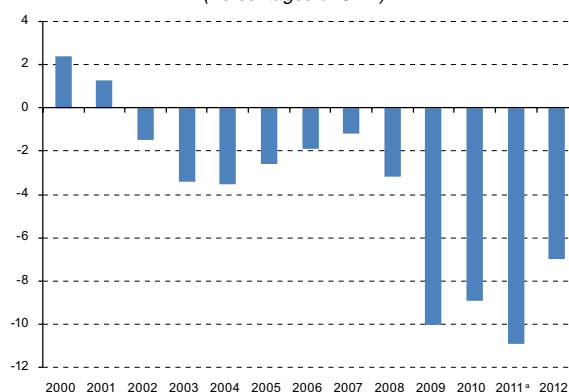
1. Expansionary monetary and fiscal policies in the United States

As a percentage of GDP, the fiscal deficit in the United States went from an average of 2.5% of GDP in 2003-2007 to 10% in 2009, 8.9% in 2010 and around 10.9% forecast in 2011. Public debt expanded from an average of 63% of GDP in 2003-2007 to 84% in 2009 and 93% in 2010, with the figure expected to reach 103% in 2011. This last public debt figure is not far short of the 120% of GDP recorded in 1947, as a result of funding the Second World War (see figures II.1 and II.2).³

Since December 2008, monetary policy in the United States has kept the reference rate at between 0% and 0.25% while boosting liquidity through Federal Reserve intervention in the form of quantitative easing programmes (QE1 and QE2) (see figure II.3).⁴ All of this has helped the United States economy to come out of the 2008-2009 crisis more quickly and strongly than euro area countries, the United Kingdom and Japan

(see figure II.4).⁵ Policies of this nature should result in the dollar depreciating in relation to other currencies and it has indeed lost value in real multilateral terms over the past few years, and more sharply of late (see figure II.5).

Figure II.1
UNITED STATES: FISCAL BALANCE, 2000-2012
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the United States Office of Management and Budget [online] <http://www.whitehouse.gov/omb/budget/Historicals>.

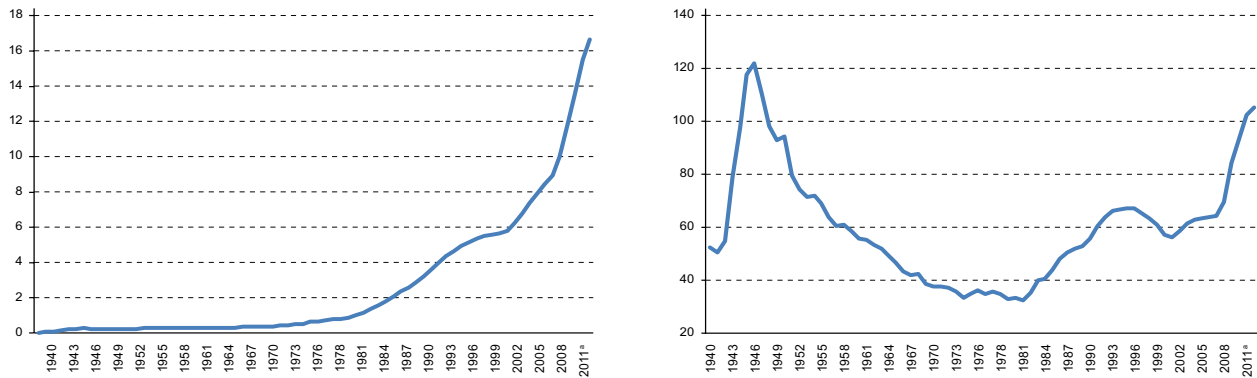
* Projections.

³ Unlike in the United States, in 2010 the European Union began to reverse expansionary fiscal policy, first as a result of the fiscal and banking crises in Greece, Ireland and Portugal, and second because of the decision to prioritize the sustainability of the fiscal accounts, especially in Germany and the United Kingdom.

⁴ Initially, these policies had limited effects and personal credit continued to contract up to the third quarter of 2010. From then on, credit began to recover, however. At the same time, debt servicing as a percentage of individual disposable income has been falling since mid-2009 (see [online] <http://www.federalreserve.gov/econresdata/releases/statisticsdata.htm>).

⁵ The European Central Bank (ECB), the Bank of England and the Bank of Japan also adopted an expansionary monetary policy, although involving smaller volumes and a shorter period of time than in the United States. From April 2011, the ECB began to raise the benchmark interest rate from 0.25% (its level since May 2009) to 0.5%. The Bank of England has kept the same benchmark interest rate (0.5%) since March 2009, while the Bank of Japan's discount rate has been at 0.3% since December 2008.

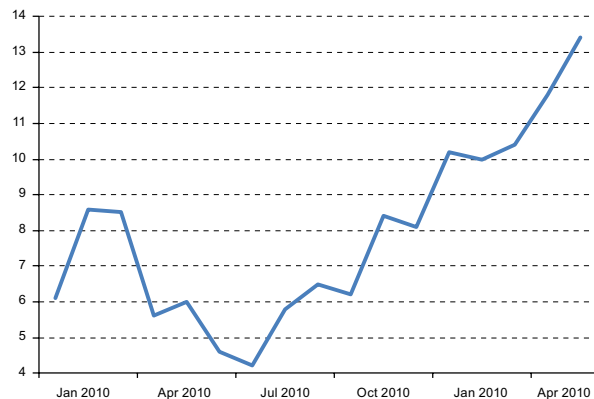
Figure II.2
UNITED STATES: PUBLIC DEBT, 1994-2010
(Trillions of dollars and percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the United States Office of Management and Budget [online] <http://www.whitehouse.gov/omb/budget/Historicals>.

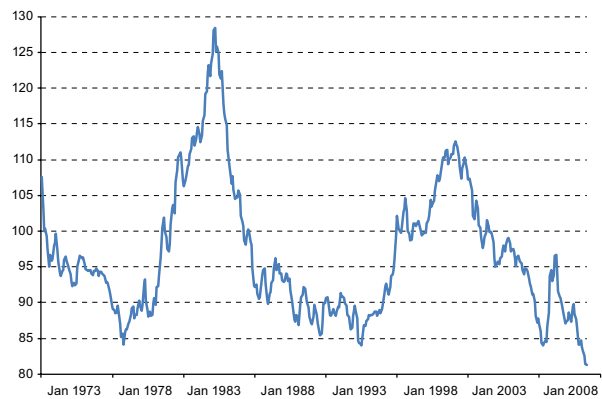
^a Projections.

Figure II.3
UNITED STATES: MONTHLY RATE OF VARIATION FOR M1, JANUARY 2010 TO JANUARY 2011
(12-month rate of variation, in percentages)



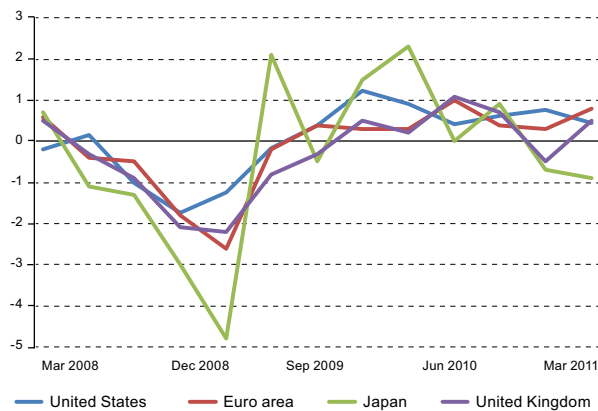
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Bloomberg.

Figure II.5
UNITED STATES: MONTHLY INDEX OF THE REAL MULTILATERAL EXCHANGE RATE, JANUARY 2000 TO APRIL 2011



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the Federal Reserve of the United States [online] http://www.federalreserve.gov/releases/h10/summary/indexbc_m.htm.

Figure II.4
DEVELOPED COUNTRIES: QUARTERLY GDP, DECEMBER 2006 TO MARCH 2011
(Seasonally adjusted series, December 2006 index=100)



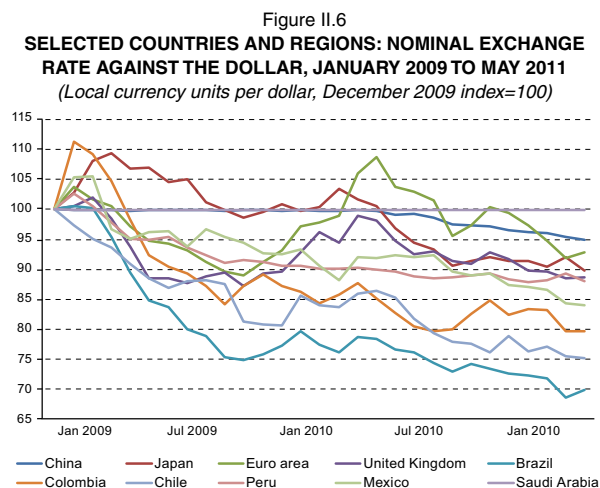
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Bloomberg.

From the point of view of restoring global equilibrium, the reserve accumulation and balance-of-payments current accounts of China, Japan, Germany and the main oil-exporting countries, as well as the United States' trade imbalance with the rest of the world, suggest that the dollar should be devaluated—mainly in relation to the renminbi, yen, euro and the currencies of the main oil-exporting countries. However, there are several obstacles to such a devaluation, although it would certainly be positive in the medium and long terms for the world in general and Latin America in particular.

China and most of the major oil exporters operate a fixed or semi-fixed exchange-rate in relation to the United States dollar. This being the case, any adjustment (real currency appreciation in relation to the dollar) can only be achieved over the long term through inflation differentials. Conditions in the euro area (except for Germany) preclude appreciation of the euro in the short term. Japan, meanwhile,

has shown that it is prepared to intervene in the foreign-exchange market to avoid further appreciation of its currency.

As a result, since mid-2010, the local currency has appreciated sharply in Japan and several emerging countries that have more flexible exchange-rate policy regimes or are more integrated into international financial markets. Within the Latin American and Caribbean region, this has been the experience of Brazil (which coined the term “currency wars”), Chile, Colombia and, to a lesser extent, Mexico. In Peru, the nominal exchange rate has been less volatile than in other countries examined (see figure II.6). Nevertheless, the real effective exchange rate of most Latin American countries has displayed a downward trend (i.e. local currency appreciation).



These conditions affect the macroeconomic management and growth of several Latin American countries in two ways. First, a number of countries have applied measures aimed at slowing the rate of currency appreciation (or last least eliminating some of its volatility), which has more to do with dynamics of the international economic and foreign-exchange markets than with productivity increases in the tradable sectors of region’s economies. Second, overly rapid appreciation of local currencies leads to risk of a surge in domestic spending as a result of the wealth effect generated by relative price changes.

In order to ride out the two situations (excessive currency appreciation and unsustainable domestic spending), several countries have built up international reserves and introduced capital controls, mainly either reducing their profitability in limiting (“discouraging”) the entry of short-term capital flows. A number of countries have also introduced macroprudential measures, especially to avoid domestic credit-market overheating.

Since the impacts of excess international liquidity began to take effect, and especially after the United States introduced the second round of quantitative easing (QE2), several emerging countries have adopted measures to soften the impact of capital inflows on their exchange rates. In Asia, the Republic of Korea and Thailand introduced measures to limit net entry of foreign short-term capital in mid-2010. Several Latin American and Caribbean countries have put in place policies to build up international reserves, as well as implementing short-term capital controls.

2. Fiscal and banking crises in some euro area countries

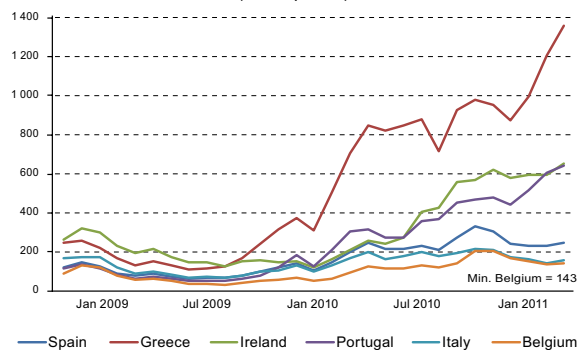
The financial markets had not identified great differences in country risk within the euro area until late 2009. From then on, and especially during the first half of 2010, the critical fiscal and bank solvency situations in some of the region’s countries dramatically changed this perception. Greece, Ireland, Italy, Portugal and Spain were the worst affected. Portugal, Ireland and Greece received assistance from the European Central Bank (ECB), the European

Union and the International Monetary Fund (IMF). The need to put public debt back on a sustainable track has led to a very different fiscal and monetary policy mix in the euro area and in the United States. With the euro area policy stance directed towards reducing fiscal expenditure and tightening liquidity, the ECB has raised benchmark interest rates. The United Kingdom has adopted a similar approach.

Despite the assistance given to some economies and the efforts of the European Union, ECB and IMF, international financial markets are still doubtful of the most fragile countries' ability to pay. And in spite of major progress made in Spain, for the first time since records began some Latin American countries have lower country-risk ratings than several euro area countries (see figures II.7 and II.8).

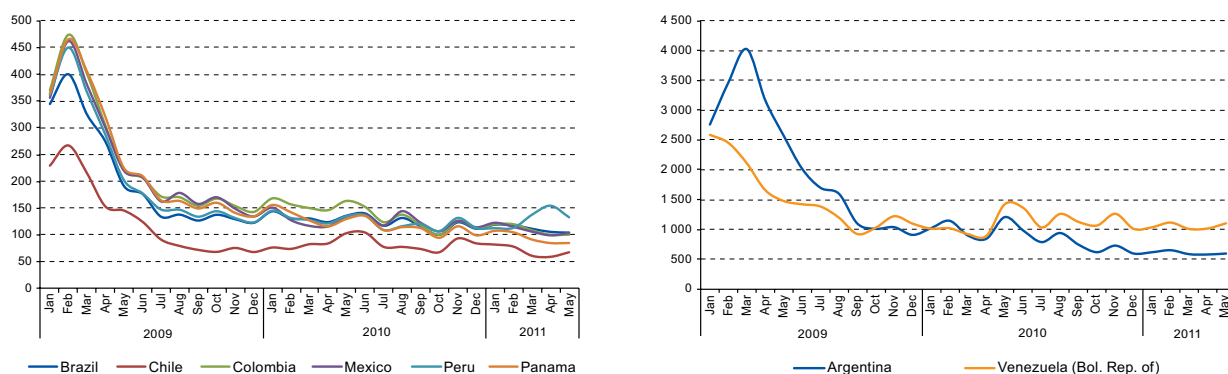
This situation, combined with the higher interest rates in non-European emerging countries such as those in Latin America, has attracted capital flows into emerging countries, which in turn magnify the effect described in the previous section. This complicated macroeconomic management in countries which are more deeply integrated with international financial markets.⁶

Figure II.7
EURO AREA (SELECTED COUNTRIES): RISK PREMIUMS ON FIVE-YEAR CREDIT DEFAULT SWAP (CDS) CONTRACTS, JANUARY 2009 TO APRIL 2011
(Basis points)



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

Figure II.8
LATIN AMERICA: RISK PREMIUMS ON FIVE-YEAR CREDIT DEFAULT SWAP (CDS) CONTRACTS, JANUARY 2009 TO APRIL 2011
(Basis points)



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

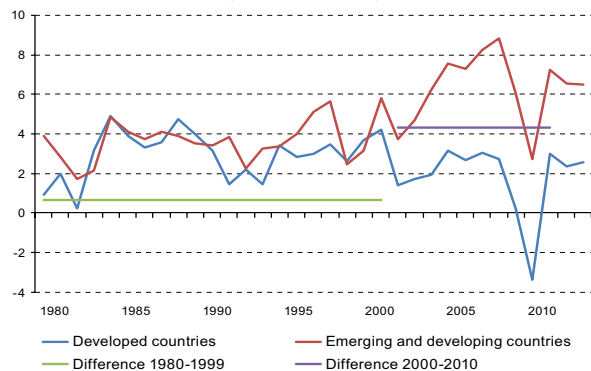
3. Emerging economies are growing faster but still participate little in international financial markets

A wide gap has opened up between the GDP growth rate of emerging and developed countries since the beginning of the 2000s (see figure II.9), and the first have thus gained importance in terms of world economic

performance. Between 1980 and 1999, the gap between the growth rates of developed and emerging countries was 0.54. Between 2000 and 2009, this gap widened to 4.2 percentage points, and between 2003 and 2009, to 5 percentage points. The growth of China and India, coupled with the buoyancy of Brazil, Indonesia and other densely populated countries that are well integrated into the world economy, suggests that these countries, as well as attracting increased FDI flows, are offering better prospects for return on equity.

⁶ As a percentage of GDP, inflows of active portfolio investment assets to Brazil rose from 0.8% in 2006 to 3.1% in 2009-2010; in Peru the figure went from net outflows of 1.8% of GDP in 2009 to net inflows of 3.1% of GDP in 2010; Mexico went from 2.2% in 2009 to 3.8% in 2010.

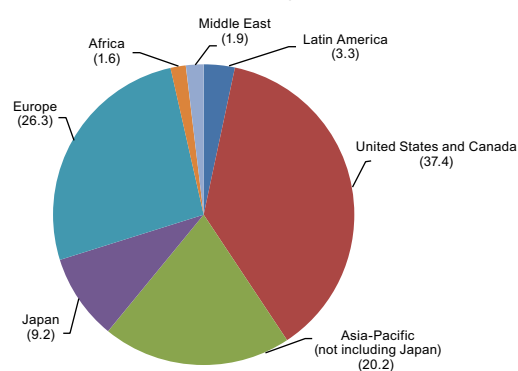
Figure II.9
GDP GROWTH AND GROWTH GAP BETWEEN DEVELOPED AND EMERGING COUNTRIES, 1980-2011
(Percentages and percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, April 2011.

However, the domestic capital markets of emerging countries that are well integrated into the international economy are much smaller than those in developed countries (see figure II.10), and bear no relation to the relative size of their economies. In 2010, the stock exchange capitalization of emerging countries represented 13% of worldwide stock exchange capitalization, while their GDP (measured in purchasing power parity) was around 50%. In Latin America, stock exchange capitalization was below 3%, while regional GDP accounted for about 7% of world GDP.

Figure II.10
WORLDWIDE STOCK EXCHANGE CAPITALIZATION BY REGION, 2008
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the World Federation of Exchanges (WFE) database.

Nevertheless, even conservative risk diversification strategies in developed countries are tending to direct financial flows towards emerging economies, and this has increased with financial globalization. Although these flows represent a very small percentage of the portfolio assets of institutional investors in their countries of origin, their absolute size means they have a crucial impact on capital markets and the foreign-exchange markets of many emerging countries and are placing growing pressure on their macroeconomic policy decisions.

4. Improved terms of trade for Latin America

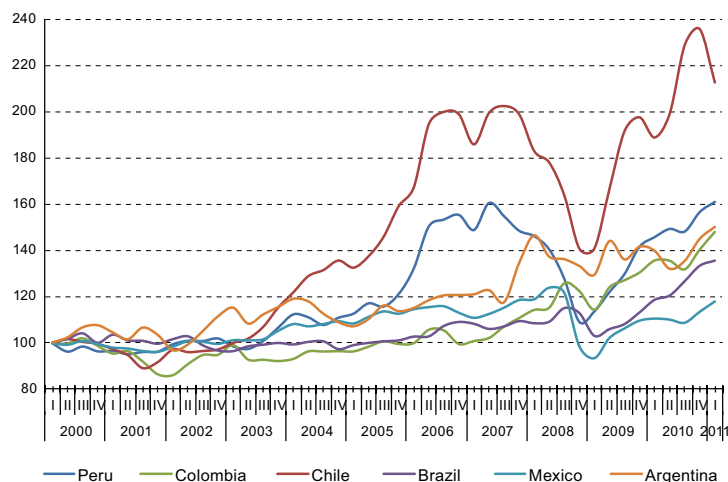
In spite of the weak economic recovery in the developed economies, the ongoing decoupling of large emerging countries and increasing global liquidity have helped to push up raw material prices on the international market. Prices for metals and minerals in particular have surged, as have those for oil, accentuated by the political and social crisis in Middle Eastern and North African countries. In these circumstances, many of the region's countries (especially exporters of hydrocarbons, metals and minerals) have benefited from significant gains in terms of trade. Figure II.11 shows the quarterly terms of trade for countries that publish such information.

This terms-of-trade upturn has led to trade balance surpluses for commodity exporters, which has in turn expanded supply of foreign exchange and driven appreciation of local currencies. Better terms of trade

have swelled national incomes, and this has boosted domestic demand, thus fuelling imports of goods and services while higher international prices for food, fuel and raw materials push up domestic prices. All of these factors add to the issues involved in striking the right macroeconomic policy mix, since it must take account of the risk of external price shocks or sudden capital outflows from the region (as has happened in the past).

However, not all Latin American and Caribbean countries have benefited from rising international commodity prices. In Central America, terms of trade deteriorated steadily from 2003, improving slightly in 2009 as international commodity prices dipped. Like in South America, though, rising international food and fuel prices have resulted in inflationary pressures on the back of higher domestic prices for these products.

Figure II.11
LATIN AMERICA (SELECTED COUNTRIES): QUARTERLY TERMS OF TRADE, 2000-2011
 (Index for first quarter of 2000=100)



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

5. Inflationary pressure in several Latin American countries amid fast-rising domestic demand

As noted in the previous section, inflation has increased in most Latin American countries as a result of higher international commodity prices, which have in turn pushed up domestic food and fuel prices. In several South American economies, this is occurring amid rapidly expanding domestic demand and activity

levels, with little room for bringing actual GDP closer to potential GDP. Accordingly, some countries (Brazil, Chile, Colombia, Guatemala, Paraguay and Peru) have raised their monetary policy interest rate.⁷ Nevertheless, benchmark rates remain low and in many cases have yet to return to pre-crisis levels.

B. Challenges for designing and implementing macroeconomic policy in the region

The five developments described in section A entail major macroeconomic policy challenges for Latin America and the Caribbean. The nature of these challenges may change depending on how long the current international situation remains the same. Continued rapid growth in the main emerging economies (particularly China and India) would keep international commodity and raw material prices high, which would sustain the terms of trade of the region's exporters of these products in the short term. However, the widening trade surplus resulting

from these terms of trade generates policy dilemmas, as expanding inflows of foreign exchange put pressure on local currencies and stimulate spending.

⁷ The exceptions are Argentina, Bolivarian Republic of Venezuela, Honduras, Mexico and Plurinational State of Bolivia, where benchmark interest rates have remained the same since 2009, and Costa Rica, where they have been kept at the same level since September 2010.

Policy decisions become more complex amid inflationary pressures. In the current economic conditions, the authorities have to face burgeoning domestic demand, which has been reflected in a surge in imports, as well as inflationary pressure caused by supply shocks. Higher interest rates, driven mainly by inflationary pressures, have widened the interest rate spread between Latin American and Caribbean, on the one hand, and the United States and Japan, on the other (and even in relation to the euro area and the United Kingdom). This has diverted financial flows towards the region, including carry trade operations. These surging inflows of rent-seeking foreign capital have driven local current appreciation in several countries of the region, especially in commodity-exporting countries. Brazil has experienced this phenomenon particularly acutely.⁸

The growing financial integration of several Latin American and Caribbean countries must be taken into account when considering these challenges. Financial integration provides benefits but impose restrictions as well. Foreign capital inflows open up opportunities to access international financial markets by facilitating the funding of investment projects and the expansion of domestic economic activity. But when a change occurs in international economic conditions or financial agents' expectations regarding the performance of a particular economy, integration is also a source of vulnerability and may lead to financial flight.

Countries also need to examine the following two fundamental factors that influence policy decisions. The first relates to effects that policy action aims to offset; in the current business cycle, policies aim to: (i) reduce exchange-rate volatility (making a distinction between the nominal and real exchange rates);⁹ (ii) ease the upward trend of local currency (distinguishing between nominal and real appreciation); and (iii) prevent overheating of the domestic credit market and over-extension of asset prices.

The second factor is the type of measures and instruments to be used to reduce these impacts. In some of the region's countries, the excess currency supply is

mainly attributable to the improved terms of trade, which implies that these flows are entering mainly through the balance-of-payments current account. In other countries, increased inflows of foreign exchange reflect excessive capital inflows, suggesting that they are entering mainly through the capital and financial account. That said, in most of the countries which have experienced strong currency appreciation, both factors are at work in driving foreign-exchange inflows.

As in other areas of economic policy, there can be no single response to a change in the variables that influence the nature and momentum of economic growth. Such is the case with the rise in global liquidity, which is having a dramatic impact on the relative value of currencies of developed and developing countries alike. This is partly because changes have both positive and negative effects—some immediate, some in the future—that affect well-being and the allocation of resources (and thus the capacity for sustained growth) and vary by income group and productive factors. It is therefore very difficult to evaluate these elements simultaneously and allocate them a present value.

The impacts of changes depend on an economy's structure and shock transmission mechanisms, so differences there will slant the assessment differently and lead to different policy proposals. Lastly, possible responses must be analysed in the current and foreseeable context, which at the moment is defined by growth problems in the most advanced economies (United States, the euro area and Japan), the strategies adopted by the largest emerging countries (mainly China) and the need to rebalance the external accounts at the global level.

The next section describes the main channels of transmission for external liquidity shocks, before discussing policy options that could be used to tackle such an eventuality in the short term. The aim is not to provide single responses, but rather propose criteria to guide the analysis of the problem based on the conditions in each country. The various policy options are therefore described in no particular order.

⁸ Australia is another country in this position, with currency appreciating partly as a result of carry trade operations originating in Japan.

⁹ In Peru, for instance, the main aim of the authorities has been to reduce exchange-rate volatility, rather than altering the exchange-rate trend.

C. Channels of transmission and macroeconomic policy responses for high external liquidity

As discussed in chapter I, the effects of increased global liquidity on a country's economy will depend on its macroeconomic policy regime and the development of its financial transmission channels. Heightened global liquidity impacts through two routes: financial transmission channels and global prices (particularly those of a country's commodity exports and imports). This chapter looks at the first of these routes, and chapter III considers the second. The main financial transmission channels for external liquidity fluctuations are considered to be:

- (a) Changes in the level and composition of banks' external financing resulting from decisions they take regarding new external loans or bond issuance on external financial markets.
- (b) Cross-border financial inflows into stock exchanges (equity and debt) and bank deposits, resulting from the actions of non-banking financial actors (such as investment and hedge funds, pension funds, insurance companies, resident and non-resident agents). Some of these flows are long-term (such as FDI), while others go into temporary holdings of national assets as part of a diversification strategy or interest rate arbitrage (carry trade operations), or may be motivated by exchange-rate expectations.
- (c) Net flows among non-financial actors and resident financial institutions, as a result of foreign-exchange hedging (including derivatives such as futures).
- (d) The central bank's efforts to achieve monetary and exchange-rate policy objectives, reflected in flows between central banks and financial institutions (usually banks).

The depth of integration into foreign financial markets will be determined by the ease or difficulty of implementing the operations mentioned in the first three points above. This in turn depends on the policies adopted by the regulatory authority and the level of development of the domestic markets concerned. Domestic market development may be represented by the countries' relative position on the vertical axis of table I.2 (see chapter I). As noted earlier, the probability of shifts in liquidity conditions of international financial markets spreading

within domestic markets increases in direct proportion to their level of development.

The financial flows mentioned under (a), (b), (c) and (d) do not impact on the foreign-exchange market in the same way, nor can they all be said to have any one particular effect. The key is to determine the extent to which the net supply in national currency is increasing or decreasing compared with the supply of assets in foreign currency. Certain short-term operations aimed solely at tapping interest rate spreads are likely to use foreign-exchange hedging (i.e. avoiding speculative or open positions) using foreign-exchange futures or other currency insurance schemes, which tend to reduce the net impact on foreign-exchange supply. Other agents, however, will have different perspectives on foreign-exchange developments, which will not necessarily coincide with the aims or expectations of monetary authorities or the rest of the market, and they will maintain open currency positions in the hope of achieving capital gains. This has a greater impact on the net supply of foreign exchange and thus on the exchange rate, unless the monetary authority or another agent offsets this effect by adopting the opposite position.

Banks are usually subject to regulations that limit their exposure to mismatches between the currency denominations of their assets and liabilities. Accordingly, the direct foreign-exchange effect of variations in their level of external financing is not immediately clear and depends on the extent to which the regulatory authority allows such mismatches. Similar provisions are applied to resident insurance companies and pension funds. Other more long-term funds such as FDI or medium-term portfolio investments can bypass foreign-exchange hedging, either because the investment activity is hedged by nature (for instance, exportable production) or because hedging would only be required for specific transactions and at the end of the investment period. In this case, the net supply of assets in foreign currency will vary (as will the exchange rate) on the basis of the sums to be invested or divested, as well as on the intended level of hedging.

In summary, depending on the implications for each country of persistent high external liquidity and the characteristics of its financial system,¹⁰ the authorities may decide to adopt measures to avoid or mitigate negative impacts. These measures include the build-up of

international reserves, the introduction of capital controls, the implementation of macroprudential measures, the adaptation of regulatory frameworks in the financial sector and, in the last instance, adoption of a more flexible exchange-rate regime.

1. Build-up of international reserves

As well as mitigating currency appreciation, building up international reserves also helps to reduce a country's vulnerability to international shocks and to cushion the effect of sudden stops in capital flows. If need be, it also enables monetary authorities to open timely and credible liquidity lines well stocked with foreign currency for the domestic financial system, which softens the impact of external shocks.

Implementing this policy comes at a cost, however, inasmuch as it may become necessary to partially or totally sterilize interventions, depending on the economy's absorption capacity, which depends on money demand. And sterilization pushes up domestic interest rates, which in turn tends to offset the local currency depreciation effect by attracting capital inflows.

These interventions also have net costs, resulting from the interest rate spread between external assets and national assets issued by the central bank. When the interest rates for monetary absorption operations are similar to international rates, there is greater scope for carrying out sterilized interventions. Where there is a large spread, on the other hand, sterilized monetary interventions create a quasi-fiscal deficit that can become large enough to erode the central bank's capital base.¹¹ Although in the short term this may not produce major problems in a State with robust fiscal accounts (given that the State is

the ultimate guarantor of the central bank's liabilities), it does affect public debt sustainability when the treasury has to finance these quasi-fiscal deficits. In any event, as with other public policies, the cost in terms of net public resources used for such interventions (the equivalent of real income transfers from the rest of the economy to export sectors and import substitution sectors) should be compared with alternative uses of the same resources.

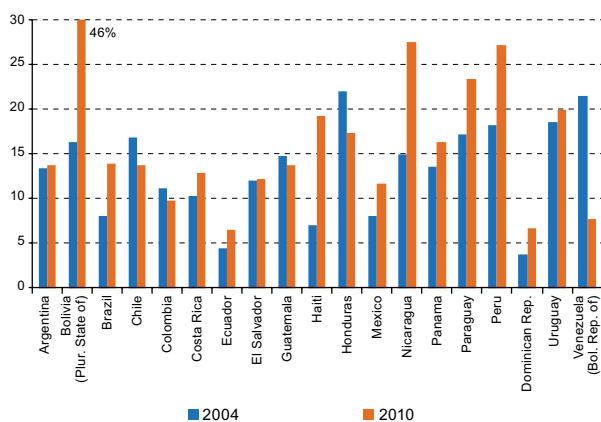
This policy has been implemented in many Latin American and Caribbean countries, and in recent years considerable international reserves have been built up in the region (see figures II.12 and II.13). The largest increases in international reserves in absolute terms were recorded in Argentina, Brazil, Chile, Colombia, Mexico and Peru, but as a percentage of GDP the greatest rises were observed in Plurinational State of Bolivia (from 16% to 46%), Paraguay (from 17% to 23.4%), Peru (from 18% to 27%) and Nicaragua (from 15% to 27%). In Brazil and Mexico, between 2004 and 2010 international reserves expanded from 8% to 13.8%, and from 8% to 11.6%, respectively.¹² As a result, in most Latin American and Caribbean countries international reserves represent over 40% of total external debt (and in some cases more than 80%). Many of the countries that publish this information have international reserves holdings far in excess of their short-term external debt.

¹⁰ Each country's position in table 1.2 of chapter I shows which characteristics it shares with others. In the table, countries are listed in order of their level of exposure to the current international financial market cycle, and the extent to which the effects may be transmitted to their domestic economies. That said, this does not mean that policy recommendations are the same, as other factors such as exchange-rate regime, degree of dollarization, financial regulations and capital inflows and outflows must also be considered.

¹¹ See discussions on the costs and benefits of such operations in Feldstein (1999), Rodrik (2006), Adler and Tovar (2011) and Frenkel (2008).

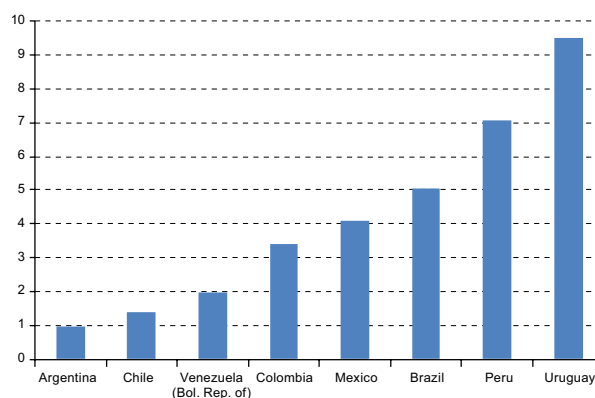
¹² These two countries account for around two thirds of the international reserves built up by countries in the region.

Figure II.12
LATIN AMERICA: INTERNATIONAL RESERVES, 2004 AND 2010
(Millions of dollars as percentages of GDP)



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

Figure II.13
SELECTED COUNTRIES: RATIO BETWEEN INTERNATIONAL RESERVES AND SHORT-TERM DEBT, 2010
(Multiples)



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

2. Applying capital controls

Another policy option that has been intensely debated in recent years is the introduction of restrictions on inflows of foreign capital. This can be a useful complement to a reserves-accumulation policy, for which it provides backstopping if the local currency appreciates in real terms. Several of the region's countries, especially those that are the most integrated into international financial markets, have taken this road. Regulating (discouraging) capital inflows—i.e. taking steps to curb inflows or change their composition (including carry trade)—becomes a realistic and pragmatic way to reduce the unwanted effects of excessive inflows of short-term foreign exchange.

In several of the region's countries which have a highly flexible exchange-rate policy stance, monetary policy has two objectives (even if they are not overtly stated): to control inflation and keep the real exchange rate at a level favourable to tradable production. Capital controls may thus be viewed as another instrument at the disposal of the authorities (along with the interest rates) for formulating and running an effective policy aimed at achieving both those objectives.

The application of capital controls usually distinguishes between the types of inflows to be taxed, be they bank loans, bonds and shares issued abroad or FDI. Specific measures include the use of taxes (in the remit of the fiscal authority) or reserve requirements (which are the responsibility of the monetary authorities) for capital inflows. These taxes or reserve requirements may vary

in accordance with the desired spread between external and domestic interest rates and with the time the capital remains in the country.

The main limitation of this policy is that it can be bypassed by creative financial engineering. Robust institutional and technical capacities are therefore required in order to design and operate such policies.

Several countries in the Latin American and Caribbean region have adopted capital controls as a policy option during the current economic cycle. Argentina applies a two-year 30% reserve requirement on non-FDI capital funds. Brazil increased the tax on financial transactions by non-residents from 2% to 6% for fixed-rate investments, derivatives and lending operations (to residents) up to 720 days, and imposed a 2% tax on capital investment and initial public offers. Colombia requires a compulsory 40% deposit for portfolio and debt disbursements. Lastly, Peru applies a 30% tax on the currency market profits of non-residents, and a reserve requirement of 120% on the foreign-currency deposits of non-residents.

Some countries, including Chile and Peru, have implemented measures to facilitate greater investment abroad by institutions such as pension funds, insurance companies and mutual funds. Between October 2008 and August 2009, Chile increased the ceiling for investment abroad by private pension funds from 40% to 60% of total assets and widened the allowable unhedged margin for those holdings, thereby reducing the net supply of external

assets. In Peru, the ceiling for private investment funds investing abroad was raised to 30% in 2010.

The main observation here is that, given the systemic importance of banks and other institutional investors, a decision to introduce capital controls should be based on strategic considerations of contribution to domestic saving, prudential risk and portfolio diversification, not short-term exchange-rate or cyclical considerations. What

is more, even with capital controls in place, agents will not necessarily prefer the international market over the national market, given the differences in return. Paradoxically, in countries that are heavily integrated with international financial markets, the implementation of capital controls sends a signal of confidence that often leads, in fact, to heavier inflows, thereby diluting the desired effect to some extent.

3. Macprudential measures

Macprudential policies are aimed at protecting financial stability by identifying sector vulnerabilities and introducing timely regulatory and policy measures to reduce systemic financial risk. Macprudential measures, which came to the fore following the international crisis in 2008, aim to offset the effect of large capital inflows on bank credit and the resulting excess of domestic borrowing, and on asset prices (which become misaligned with their fundamental determinants).

One of the main indicators to observe is the phase of the economic cycle, specifically the link between the credit cycle and the asset price cycle. This is because of the high correlation between the expansionary (or contractionary) phase of the cycle and excessively high (or low) asset prices, as well as low (or high) risk assessments and measurements on the part of markets. The endogenous behaviour of economic agents tends to amplify the cycle. Furthermore, during the expansion (or contraction), institutions and financial instruments are perceived as safer (or riskier) than they really are.

Macprudential regulation is based on the premise that, for financial institutions, capital requirements (to cover unexpected losses) and provisions (to cover expected losses) should include a countercyclical component.

The aim is to introduce forward-looking banking provisions applicable upon extension of loans, as risks often tend to increase subtly and undetected during a boom period, only to materialize during the downswing. Such “dynamic” provisions act as automatic stabilizers and help to mitigate the procyclical nature of standard provisions. As for the capital requirements of banks, these should be linked with the growth of bank credit (comparing the real increase in credit with a value consistent with the inflation target or some other macroeconomic anchor or objective).

When misaligned asset prices are identified (and where reversion to trend could endanger the stability of the

financial system), macprudential policy could increase the capital requirements for risk-weighted assets. Such requirements could be imposed for financial activities (more capital required in portfolio activities and off-balance sheet transactions, which tend to be procyclical); lending to some specific sectors (the property sector is the most likely to generate price bubbles); and direct borrowers (reducing maximum loan-to-value ratios for commercial and residential mortgages).

In addition, in countries that are integrated into the world economy, financial institutions are not always the channel for short-term financial inflows, which sometimes take the form of direct external debt in non-financial sectors. Therefore, even when a country’s financial intermediaries are not over-borrowed abroad or over-expanding their lending operations, a surge in domestic spending may push up asset prices or widen the balance-of-payments current account deficit. When the boom phase ends and capital outflows replace capital inflows, local currency devaluation then erodes the payment capacity of banks’ debtors.

In this instance, even when financial intermediaries are not direct borrowers from abroad and show no currency mismatch between their assets and liabilities, a heavy local currency devaluation can (and often does) have repercussions on the quality of loan portfolios and therefore on the stability and solvency of the financial system (insofar as some of their clients do have direct liabilities abroad). Experience shows that this is especially likely to occur when those clients are producers of non-tradable goods and services and hold foreign-currency-denominated debts with the banking system. To minimize this effect, macprudential regulation must include not only a limit on term mismatches, but also on foreign currency mismatch in financial intermediaries (given the sensitivity of bank debtors to sudden changes in the exchange rate).

4. Adoption of more flexible exchange-rate regimes

Of all the measures adopted to reduce the impacts of high external liquidity, this tends to be the most controversial. Nevertheless, in practice many of the region's countries have adopted a more flexible approach to their real exchange rate target by allowing a certain level of appreciation, while others have reduced implicit guarantees or permitted greater uncertainty over nominal exchange rate trends as a disincentive to external capital inflows. The earlier observations on the advisability of certain policy measures also apply here. There is currently a debate on the advantages of persevering on this path, given that the level of appreciation is already significant and might erode the competitiveness of non-traditional export sectors and import-substitution sectors.

In summary, recent trends in the international economy —expansionary monetary and fiscal policies

in the United States, fiscal and banking crises in several euro area countries, the decoupling of emerging countries from developed countries and the strong terms of trade for Latin America (that make it vital to continue dampening domestic demand to avoid a surge in inflation)— pose major macroeconomic policy challenges for the Latin American and Caribbean region. The challenges are more significant for countries with a greater degree of integration in world financial flows and more developed financial systems. Accordingly, measures such as those described here should be implemented even more broadly and strenuously to avoid excessive appreciation that would harm the production structure and avert spending surges driven by capital inflows originating amid high liquid conditions on the global markets.

Chapter III

Fiscal policy challenges in a context of high, fluctuating commodity prices

International commodity price patterns pose several macroeconomic policy design challenges, especially for fiscal policy in Latin America and the Caribbean. But not all countries in the region are affected in the same way since their position as net commodity exporters or importers is key to determining the type of problems faced by each country and the strategies for addressing them.

In countries that are net commodity exporters, the relative abundance of foreign currency resulting from higher export revenue is exerting pressure towards real currency appreciation, which will impact the profitability of other export and import-substitution activities, an effect known as Dutch disease.¹ The challenge here in terms of macroeconomic policy lies in finding mechanisms to contain the drop in the real exchange rate and minimize fluctuations. The capacity to tackle these pressures will also depend on the extent to which public finances are affected by international commodity price movements.

By contrast, countries that are net importers will face real depreciation pressures as their trade balance

deteriorates. In both cases domestic food and fuel prices will rise, but net importers will be harder hit because the surge in international prices will be amplified by currency devaluation.

The public sector's share of windfall revenue from the exploitation of natural resources is a relevant topic for discussion because the factors that drove commodity prices above the levels posted in previous decades could indeed persist. However, a comprehensive exploration of this issue would cover many areas that are not properly within the scope of macroeconomic analysis, so the debate is not addressed exhaustively here and what follows is instead a general discussion of this issue in so far as it relates to fiscal policy.

A. The current commodity price cycle and its effects on the terms of trade

The low commodity prices of the 1990s were followed by a period of sustained rises starting in mid-2003. The

magnitude and duration of the surges and the number of commodities concerned suggest that the current context has specific features that could last longer than in previous cycles.

Several factors contributed to these trends. First, commodity prices were driven up by strong demand from

¹ The consequences of Dutch disease for the productive structure, as well as the policy responses, are covered in chapter IV, which discusses the long-term effects of these external shocks.

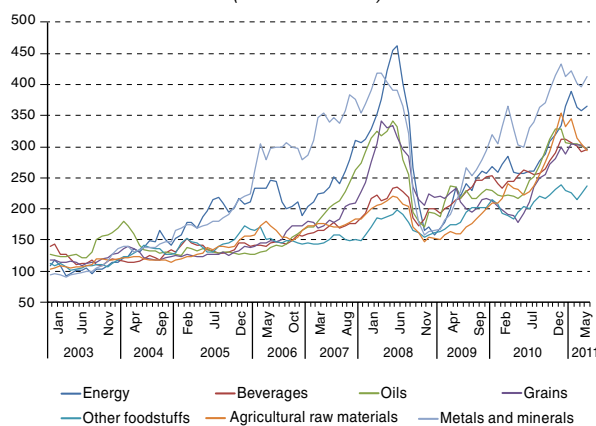
countries in Asia that have undergone rapid economic growth involving the urbanization of population groups and their incorporation into the mass consumption of goods, services and infrastructure as their income has grown. Temporary supply constraints, especially for food, were also a factor, and until the global financial crisis broke out in mid-2008, surging food prices had sparked considerable concern among governments in several regions of the world due to their effects on living standards and poverty levels.² Before the financial bubble burst in 2008 and hit the financial and real estate sectors in several developed countries, ballooning commodity prices were already unlike those in previous upswings in ways that hindered their absorption by the global economy. For example, in terms of the number of months of sustained rises, the average cycle duration more than doubled, if not tripled, compared with previous cycles for almost all the raw materials and commodities whose prices rose.³

Second, with regard to the onset of the boom phase, the average price rise before the financial crisis broke out was also greater than during previous episodes, although it was similar to those recorded in the 1970s. However, the duration of the spikes, i.e., the number of consecutive quarters of price increases, has been significantly longer in the current cycle: 14 quarters on average in the first decade of the twenty-first century to 2009, versus an average of 6 to 7 consecutive quarters in the 1970s.⁴ Thus, since 2000, several aggregate price series have posted cumulative real increases of over 100% during surges. For example, the general commodity price index showed a real increase of 140% over a period of 25 consecutive quarters. Some of the sharpest upswings have been in the prices of oil (312%), steel (302%), copper (273%), silver (247%) and gold (192%).⁵

Third, the number of markets where prices spiked at the same time was also higher than in previous boom periods and involved an increasingly broad range of products and markets. Towards the third quarter of 2008, plummeting global demand because of the financial crisis

temporarily halted this trend, as shown in figure III.1. In 2009 and 2010, however, the continuing buoyancy of the major Asian economies pushed these markets upwards again in both intensity and magnitude. In addition, post-crisis uncertainties have only served to further exacerbate the volatility of international markets, which was a major factor underlying the uneven growth in the region in the past.⁶

Figure III.1
GLOBAL COMMODITY PRICE INDICES, 2003-2011
(Index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, The Pink Sheet.

Furthermore, the jump in global liquidity resulting from the expansionary monetary policies implemented to tackle the crisis, especially in the United States, also took its toll. Several reserve currencies and the main foreign currencies used in international trade slipped in value compared with other store-of-value real and financial assets, which in turn triggered a rise in commodity prices. The interest rate slump combined with continued expectations of rising global inflation prompted a flight to profitability and to other assets that could also store value, such as commodities and financial securities in emerging countries. This shift sharpened the strong upward pressures that already existed and drove commodity prices even higher, to record highs in some cases such as industrial metals. The spikes then spread to other goods such as food, causing exogenous inflationary pressures. As the real value of the dollar fell, the commodity markets were flooded with financial agents seeking profitability and value protection, heightening the correlation between the prices of these goods as they increasingly moved together.

² The impact of these spikes has varied between countries. Aside from hitting the lowest-income groups hardest (given that, in general, these groups spend a larger proportion of their total household budget on food than higher-income groups do), these surges pose challenges for countries that are more dependent on food imports. This can be seen in several Central American and English-speaking Caribbean countries where food imports account for more than 5% of GDP, compared with the regional average of 4.3%.

³ Bello, Heresi and Zambrano (2008).

⁴ Bello, Cantú and Heresi (2011).

⁵ Jiménez, Jiménez and Kacef (2008).

⁶ Mayer (2010) and Carneiro (2011).

Box III.1

WHAT IS BEHIND THE SUSTAINED RISES IN COMMODITY PRICES?

The prolonged rises in commodity prices, the growing number of commodity markets involved, the intensity of the surges and recent developments in international financial markets have raised a number of questions concerning the role played by fundamentals in determining commodity prices and the role of elements such as derivatives markets and hedge fund indices.

Fundamentals

When explaining the price dynamics of any good, the determinants of supply and demand must be examined. On the demand side, the focus has been on the role of emerging economies, especially China, as the main engines of global growth and sources of demand for raw materials (Gilbert, 2010a).

Recent studies, including by Yu (2011), have highlighted the importance of the Chinese market as a driving force behind the evolution of raw material prices, noting both the impact and the widespread nature of price growth. The study by Yu shows that, between 1992 and 2009, Chinese iron imports grew by 25 times; between 1997 and 2008, its imports of manganese grew by 5.7, copper by 5.5, chromium by 7.7 and aluminium by 3.8. In addition, China's consumption of crude oil more than tripled between 1992 and 2010, turning the country from a net exporter of crude oil (105,000 barrels per day in 1992) to a net importer (around 5 million barrels per day in 2010).^a

With regard to food prices, new determinants of demand have emerged in addition to traditional ones such as the growth of the Asian economies and supply restrictions caused by climate-related disasters. For example, demand for alternative sources of energy such as biofuels has played a role through

competition for the use of agricultural land (see Abbott, Hurtr and Tyner, 2008, and Mitchell 2008).

On the supply side, there seems to be consensus that, although many commodities have responded to price incentives, the development of new mining centres, the difficulties encountered in incorporating broader production capacities in the oil market, political tensions within a number of major crude oil producers and adverse natural conditions in several key agricultural production areas, such as the Russian Federation and the United States, have prevented the supply of commodities from keeping pace with the growth in demand. Even in cases where the gap between supply and demand appears to have narrowed, it could be doing so at increasingly heavy costs due to falling yields in the extractive sectors.

Financial factors

Several analysts and researchers have suggested that the significant growth in commodity prices in recent years is closely linked to a new type of demand arising from speculation in the financial derivatives market by agents who are not end consumers of these goods.^b

The evidence for this hypothesis would be found in the large sums recently invested in purely financial activities relating to commodities, which have grown apace with commodity prices, and in the recent sharp upturn in commodity indices. According to this reasoning, raw material suppliers are using the prices in these derivatives markets as a reference for determining their prices, thereby moving away from fundamentals and responding more to artificial demand driven by financial speculation. Empirical studies such as those by Gilbert (2009) and Einloth (2009) provide evidence of

a possible positive correlation between the evolution of commodity indices and prices in futures markets for these goods.^c

These findings have recently been questioned, however. Irwin and Sanders (2010) maintain that the link between commodity index positions and futures market prices is not statistically significant. They hold that, in fact, based on Granger causality, speculative activity could even be dampening commodity price volatility. Gilbert and Morgan (2010) conclude that, although it is plausible that financial activities—both hedging and speculation—were partly responsible for the rises in commodity prices in the period 2006-2008 by stimulating demand for inventories, there is not sufficient empirical evidence that this made prices more volatile. Another study (Gilbert, 2010b) concludes that “it would be incorrect to argue that high oil, metals and grains prices were driven by index-based investment but index investors do appear to have amplified fundamentally-driven price movements”.

A study conducted by UNCTAD (2011) found that commodity markets do not behave as predicted by the efficient market hypothesis. This is partly because insufficient information concerning fundamentals results in herd behaviour by investors as a rational strategy when reliable information is hard to come by, which in turn causes bubbles as commodity prices move far from levels justified by the fundamentals for extended periods. Consequently, the study proposes measures designed to improve information on these determinants, especially on stocks, and to increase the transparency of positions adopted by investors, as well as regulations to prevent sharp fluctuations in these markets.

In short, discussions in this field have not yet delivered conclusive results.

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

^a Hamilton (2009) shows that the income elasticity of demand for crude oil is higher than the price elasticity and that the latter tends to narrow as a country's income grows. This suggests that emerging economies with the capacity to go on growing will continue to demand significant quantities of crude oil and possibly other natural resources.

^b The testimony of Michael Masters, manager of a major international investment fund, before the United States Senate has been used as a principal argument by those who support this hypothesis and has prompted the enactment of bills designed to regulate speculative activity in commodity markets.

^c These findings have been questioned because of possible inconsistencies between the conclusions and the evidence. It is argued that if trends in prices were determined chiefly by speculative factors, there should be a negative correlation between changes in futures prices and changes in inventories, but this is not the case. Moreover, speculative activity levels in these markets remain similar to those seen historically. Finally, with regard to price movements and volatility, the markets subject to the most financial speculation are not significantly different to those in which there is no speculation (Irwin and Sanders, 2010).

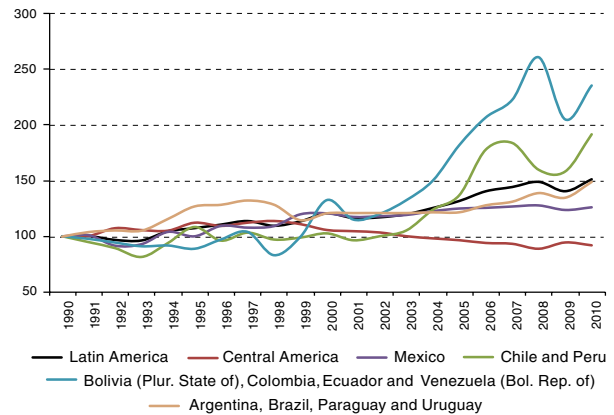
In a longer view, oil, mineral and metal prices have fluctuated the most in real terms. This is due to structural characteristics relating to falling yields from existing operations and the incorporation of lower-grade, higher-extraction-cost deposits (in the case of non-renewable natural resources), together with soaring energy costs for the extraction and refining of metallic minerals. All of these contribute to spiralling costs in the long term. Food prices, following sharp drops in the last two decades of the twentieth century, have been trending upwards in the twenty-first century to date, although they have not yet matched previous relative highs. The substantial productivity gains in agricultural commodities have helped to stem the long-term growth in agricultural prices. However, the burgeoning global demand for food (spurred by the greater consumption capacity of certain population groups that used to live in rural areas of major Asian countries), together with soaring demand for cereals and other agricultural products for the production of biofuels, have contributed to partly reversing this trend.⁷

These developments have affected the countries of Latin America and the Caribbean differently, depending on their position as net importers or exporters of these goods (see figure III.2). As net importers of metals, hydrocarbons and food, the countries of Central America and the Caribbean were hurt by the current price cycle as reflected in current account balance behaviour. By contrast, the disposable gross national income of the countries of South America, which are net exporters of such goods,⁸ jumped on the strength of improving terms of trade. This translated into a current account surplus in several years during the period 2004-2008, a trend that continued into 2010 in some cases such as Argentina, the Bolivarian Republic of Venezuela, Chile and the Plurinational State of Bolivia. The boost in national savings enabled these countries to slash their debt in relation to GDP, as well as in absolute terms in some cases, and even build up savings in sovereign funds. Mexico is in the middle in this sense since it has benefited from the jump in oil export prices, but its terms of trade have not improved as much as in the South American countries because such a large share of its exports are manufactures, whose prices have remained stable or fallen, partly due to competition from Asian countries (see figure III.3).

⁷ See Gilbert (2010a)

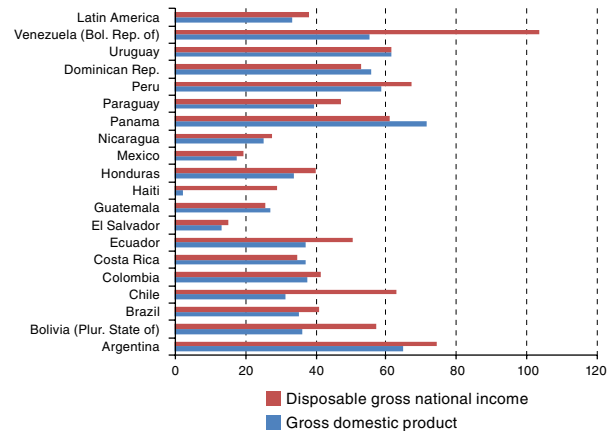
⁸ Trinidad and Tobago is also a net exporter of these goods.

Figure III.2
LATIN AMERICA: TERMS OF TRADE, 1990-2010
(Index: 1990=100)



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

Figure III.3
LATIN AMERICA: GROSS DOMESTIC PRODUCT AND
DISPOSABLE GROSS NATIONAL INCOME, CUMULATIVE
GROWTH RATES BETWEEN 2003 AND 2010
(Percentages and constant dollars at 2005 prices)



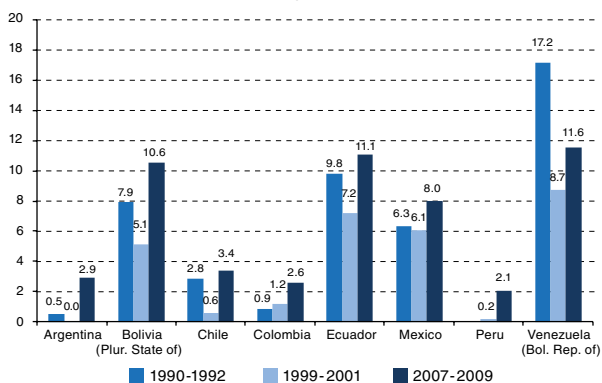
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Thus, the subregions of Latin America and the Caribbean have tackled the consequences of the global financial crisis from very different macroeconomic positions. Although in general the region has so far successfully weathered the crisis, the recovery of economic activity and the consequences of the ensuing global economic environment, with high global liquidity and soaring external prices triggering inflationary pressures, entail different policy challenges that the countries are set to address in very different ways.

B. Macroeconomic consequences of commodity price shocks

In Latin America and the Caribbean fiscal revenue from natural resources expanded considerably between the 1990s and the first decade of the twenty-first century (see figures III.4 and III.5).⁹ Compared with high-income countries that also have abundant natural resources, the region is more dependent on its export earnings and tax receipts from the exploitation of natural resources. This is mainly because the region's production structure is less diversified. Although in recent years its goods and services exports have become more diversified, commodities continue to account for a substantial share of total exports. This is especially the case in the countries of South America, whose economies are highly concentrated in commodities and are therefore very sensitive to commodity price shocks (see figure III.6). By contrast, in Mexico and the countries of Central America, manufactures account for a larger share of total exports, mainly owing to the growth in maquila exports to the United States and in manufactured exports within the Central American Common Market. Commodity exports account for just over 70% of the total in the Bolivarian Republic of Venezuela, Ecuador, Paraguay and the Plurinational State of Bolivia, between 40% and 60% in Argentina, Colombia, Peru and Uruguay, between 20% and 40% in Brazil, Chile, Costa Rica, Guatemala, Honduras and Nicaragua, and less than 20% in El Salvador, Mexico and Panama.

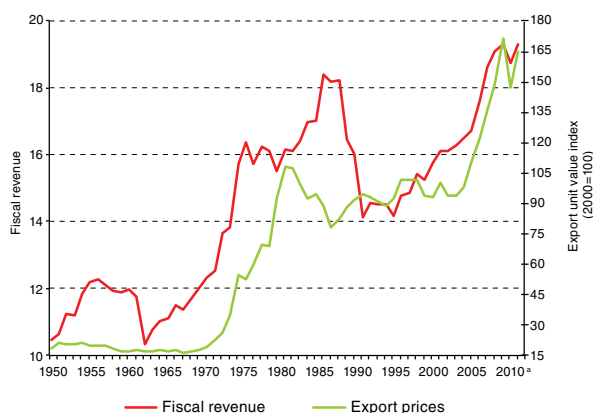
Figure III.4
LATIN AMERICA: FISCAL REVENUE FROM COMMODITIES, SELECTED YEARS
(Percentages of GDP)



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

⁹ See also table I.2 in chapter I.

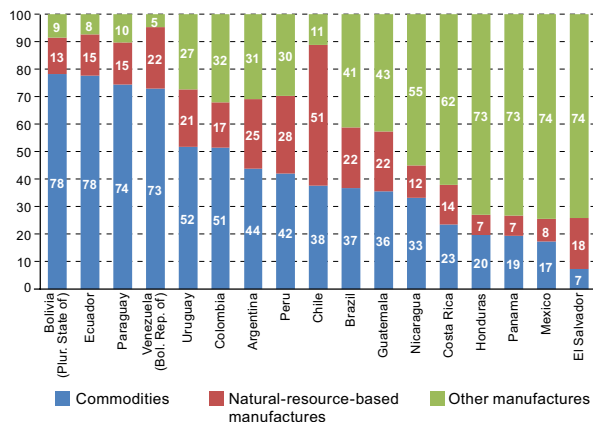
Figure III.5
LATIN AMERICA: FISCAL REVENUE AND EXPORT PRICES, 1950-2010
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Juan Pablo Jiménez and Osvaldo Kacef, "Volatilidad macroeconómica, espacio fiscal y gobernanza", *La política fiscal para el avance de las democracias en América Latina: Reflexiones a partir de una serie de estudios de caso*, Project document No. 409 (LC/W.409), Alicia Bárcena and Osvaldo Kacef (eds.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), July 2011, and official figures.

^a Projections.

Figure III.6
LATIN AMERICA (17 COUNTRIES): COMPOSITION OF EXPORTS, AVERAGE FOR 2005-2010^a
(Percentages of total exports)



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

^a The data for Mexico and the countries of Central America include the maquila sector.

As mentioned above, surging commodity prices have hit the economies of the region in different ways. In theoretical terms, the short-term effects of a terms-of-trade shock can be outlined briefly as follows:¹⁰

(a) In the case of a net exporter of a good whose relative price rises consistently, national income grows, prompting increased domestic spending. Within a normal range for the price elasticity of supply and demand, that is, the Marshall-Lerner condition, the current account balance improves. There will be a trend towards currency appreciation, which tends to offset the improvement in the current account, owing to an increase in the nominal value of the currency or in the price of non-tradable goods resulting from increased spending. This lessens the profitability of other tradable-goods sectors, including import substitutes, especially if they use the good whose price rose as an input. Furthermore, these sectors face a relative rise in the costs of non-tradable inputs compared with their production price, which falls owing to appreciation.

The transition from one short-term equilibrium to another tends to involve a certain degree of inflation, with real income losses for anyone with a fixed nominal income and for intensive consumers of the good whose price rose and of non-tradable goods. By contrast, real income gains can be posted by groups whose consumption pattern is focused more on tradable goods with lower prices due to appreciation. Unemployment levels may be affected, possibly temporarily, if production in the substitute sector is more labour-intensive than in the sectors (export and non-tradable goods) whose production expands. In short, an expansionary adjustment takes place, with improvements

in the external balance, higher production levels and a certain degree of inflation, to the extent that significant downward price inflexibilities are present. Based on current economic conditions, this group of countries includes several in South America.

(b) In the case of a net importer of a good whose relative price rises consistently, the impact is not exactly symmetrical with that of the previous case. In practice, the goods, financial services and factor markets, and the regulations that affect them, exhibit many behaviour patterns that give rise to rigidities and hinder the process of adjusting to declines in real income resulting from worsening terms of trade. The differences partly lie in the fact that surges in the price of the imported good, together with subsequent devaluation, tend to spread (or uncover) inflationary pressure and may trigger individual and collective measures to protect real income levels. This is especially the case when the external prices that surge are for food or widely-used inputs such as hydrocarbons, since the direct repercussions on living standards and production costs are rapidly and widely felt.

Within plausible ranges for the price elasticity of foreign trade supply and demand, the external accounts balance deteriorates. Real income losses may lead to a contraction in spending and falling activity and employment levels, which will be all the more severe if there is limited substitute production and the imported good is used widely for consumption or production. A contractionary adjustment therefore takes place, entailing inflation, real depreciation, shrinking activity levels and growing unemployment. This is the scenario in most countries in Central America and the Caribbean.

C. Channels of transmission and policy challenges

This summary of the effects of changes in the terms of trade has not touched on the consequences of their distributive impact in terms of income levels or production factors or between the private and public sectors; these consequences are particularly significant in the current climate. One of the most notable effects involves the

repercussions on public finances, via two main channels. The first is their direct impact on tax and non-tax public revenue. The second is the pressure to spend in order to cushion the effects of rising external prices on standards of living and production costs.

As shown in tables I.2 and I.3 in part 2, public revenue related to commodities accounted for a significant proportion of total fiscal revenue in eight countries in the region between 2007 and 2009, ranging from an average of 11% in Peru to 45% in the Bolivarian Republic of

¹⁰ This exercise focuses on surges in international prices instead of slumps, since, as explained above, this has been the dominant external trend for the countries of the region since 2003.

Venezuela.¹¹ Moreover, as the prices of these goods rose, the percentage rose considerably, from an average of 18.2% in 2002, the year before external prices began to surge, to a maximum average of 27.6% before the global financial crisis broke out. By contrast, as shown in table I.3 in part 2, in a many countries—mostly in Central America—this revenue has little or no impact.

The fiscal position of the first group of countries has tended to improve in response to rising commodity prices whereas the opposite has occurred in the second group (ECLAC, 2008). In the first group, policy dilemmas revolve around how to manage a relative, albeit at times uncertain, abundance of revenue while compensating for the negative effects that rising external prices could have on real personal income and on the profitability of other activities that produce tradable goods. In the second group, the dilemmas are more acute: aside from the negative distributive effects and declining activity levels mentioned previously, when the country is a net importer of these goods it may lose some fiscal space to tackle these challenges because of the drop in tax revenue that tends to go hand in hand with contractionary processes. Moreover, when the negative impact of rising external prices is combined with fiscal deterioration in a context where the tax burden is already low, the structural weaknesses of the State are all the more visible as it tries to address the economic repercussions of external shocks. So, although

short-term measures such as the reallocation of spending and borrowing help to secure the necessary resources to mitigate these consequences, the real challenge in the long term lies in adjusting the tax burden and modernizing public sector institutions to meet development needs within the framework of sustainable public debt.

When it comes to tackling a negative shock, fiscal policy is enhanced by a well-developed national financial system. On numerous occasions in the past, several countries in the region have turned, to varying degrees, to their domestic capital market to meet their financing needs, developing a public debt market with varying degrees of success. In other cases where countries are less developed financially, these possibilities have not existed or were more limited and they have had to resort to semi-voluntary placements in the financial investment portfolios of banks or other institutions, such as insurance companies and public and private pension funds. The existence of a developed domestic financial system allows macroeconomic shocks to be absorbed more easily and contributes to stable growth.¹² Otherwise, the burden of dealing with negative shocks will fall almost entirely on fiscal policy, whose margin is restricted by the drop in tax receipts caused by sluggish activity levels.¹³ This limitation could be counteracted by tapping the multilateral or private international financial system—an area in which the region has made uneven progress.¹⁴

D. Policy objectives and dilemmas

1. Temporary versus permanent external shocks

From the fiscal point of view, managing a period of relative abundance of revenue caused by rising commodity prices entails significant challenges. As is always the case with boom periods, the first challenge consists of establishing the duration of the favourable external scenario to determine whether long-term adjustments to the amounts and composition of expenditure and taxes are justified. Based on the public finance principle that it is unwise to use temporary income flows to finance permanent spending

programmes, temporary increases in revenue should be used to cut debt and boost savings, while temporary losses should be covered using borrowing or dissaving. Structural increases in revenues should translate into expenditures rises, but in stages according to the cyclical

¹¹ According to the information available, the eight countries are Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Mexico, Peru and the Plurinational State of Bolivia. Pending further data, this group could also include Trinidad and Tobago.

¹² Aghion and Marinescu (2007) and Aghion, Hemosu and Kharroubi (2009).

¹³ According to the classification set out in chapter I, these countries appear in the two upper left boxes of table I.3 of chapter I, meaning less financial development within the region.

¹⁴ Between 1994 and the first half of 2011, countries in the region issued bonds on the international bonds market the following number of times: Brazil, 112, Mexico, 74, Argentina, 37, Colombia, 29, Chile, 24, Jamaica, 17, and Peru, 16.

position of the economy in relation to potential output, to avoid overheating. Sustained deteriorations should result in cuts in spending and the revision of the tax burden to preserve economic and social development programmes. Given the uncertainty that tends to surround commodity price movements, the policies adopted generally combine these responses, but this can result in the adoption of fiscal positions that are unsustainable in the long term and will need to be adjusted later at the expense of growth and well-being; accordingly, caution must be exercised.

As indicated previously, global market trends have lasted longer than in previous episodes and most medium-term projections point to commodity prices remaining high, especially for non-renewable natural resources, whose supply is less elastic than agricultural goods. In the base scenario, prices of these goods will be lower than the recent highs due to the gradual, albeit slow, normalization of global liquidity conditions and as the euro zone economies' risk indicators react to the fiscal consolidation policies under way. Thus, although commodity prices are not expected to return to the lows of the 1990s, they are expected to gradually converge below current levels in the medium term. If developed countries continue to struggle to achieve fiscal sustainability, there could then be a flight to more liquid assets that could in turn cause commodity prices to crash.

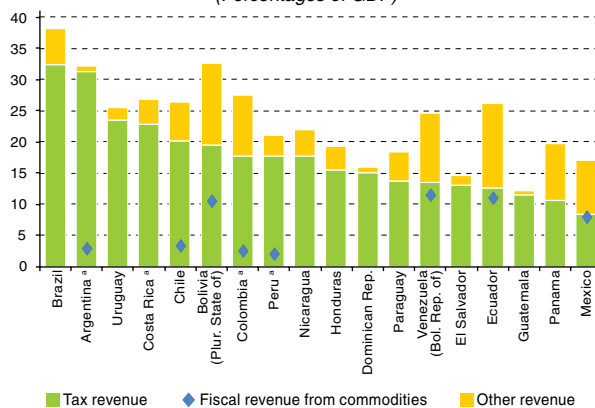
The materialization of the base scenario could lead to greater fiscal space for countries with significant public revenue related to commodities (see table I.2, chapter I). However, this has to be contrasted with the current and projected fiscal deficit in these countries in order to assess the extent to which that leads to sustainable public debt levels, that is, debt that can be serviced without drastic changes to other aspects of fiscal policy such as taxation and spending programmes.

The consequences of this outlook for commodities are very different when commodities account for only a small proportion of public revenue, especially for countries that

are net importers. In this case, demands for resources to counteract the negative effects on the real income of the poorest strata can be considerable and long-lasting, which can in turn lead to a sustained deterioration in the fiscal position and to macroeconomic instability. Consequently, the appropriateness of the tax burden in these cases should be reviewed in line with development needs.

As shown in figure III.7, the situation of the countries of Latin America varies. On the one hand, most countries in Central America, which are net commodity importers, have lower tax burden levels than the other countries. They are therefore faced with a two-fold challenge: meeting the needs of compensatory policies and increasing the tax burden enough to provide the public goods needed for development while ensuring the equitable distribution and composition of that burden. On the other hand, fiscal revenue from commodities is in other cases significant, which makes these countries vulnerable in the event of a reversal of the price trends observed since 2003.

Figure III.7
LATIN AMERICA (18 COUNTRIES): CENTRAL GOVERNMENT
FISCAL REVENUE, 2008
(Percentages of GDP)



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

^a Refers to general government or non-financial public sector.

2. Controlling the procyclicality of public spending and unsustainable private spending

A second factor that also has to do with how long the external shocks will last concerns the extent to which macroeconomic policy allows their effects to spread to the domestic economy by means of various mechanisms, including procyclical public and private spending.

The procyclical behaviour of public spending stems in part from liquidity or budgetary constraints that limit spending according to the level of public revenue in a given period, in a context of increasing social demands for policies that would entail higher spending. In these

circumstances, when public revenue grows (shrinks) due to a surge (fall) in inflows as a result of rising (falling) export prices, spending for the period expands (contracts). Fiscal spending thus transmits external variability directly and immediately to the domestic economy. Furthermore, legal provisions and practices tend to expressly link spending in certain areas to the amount of income generated by commodity exports or the prices of certain imported goods, as is the case with gasoline subsidies.

One policy response implemented in the region in such circumstances has been to adopt multi-year public budgeting methods to ensure sustainable growth in spending in line with the trend evolution of income. This means that in the event of variations in public income due to changes in export prices, spending will increase (decrease) as the trend component of income grows (shrinks). The task of identifying permanent and temporary components in the evolution of variables which, like international commodity prices, are characterized by high volatility, is not without its difficulties.

Such a strategy for managing public finances should be combined with the creation of instruments enabling saving (or dissaving) according to fluctuations in the temporary components of public revenue, supported in turn by public borrowing strategies that allow constant access to resources from the domestic and external financial systems when the macroeconomic situation so warrants.

Since the mid-1990s, several countries of Latin America and the Caribbean have extended their use of fiscal rules.¹⁵ While the initial aim of these rules was to improve the solvency of public accounts, in some cases they have also made spending less dependent on the stream of resources. The fiscal rules adopted have taken a variety of forms, ranging from quantitative limits to the fiscal balance rule and including spending and borrowing, often combined with the creation of contingency or stabilization funds (see box I.1 on fiscal policy in chapter I). Table III.1 outlines the main characteristics of these funds in the region.

A key aspect of such funds relates to their contribution to preventing the negative effects of the abundance of external resources arising from raw material price booms (an effect known as the Dutch disease). The resulting expansion of domestic spending, ballooning non-tradable goods prices and real currency appreciation lead to loss of competitiveness and hinder the development of other tradable industries.

As indicated by Gylfason (2001), in Norway one of the factors that enabled the country to sustain long-term growth was the creation of a fund for accumulating oil and gas revenue and investing it in assets maintained abroad. But Norway's experience is not easily transferable to Latin America and the Caribbean because when the former's oil and gas wealth was discovered it already had very well developed institutions, broad public policies and a per capita income that, among other things, easily met the needs of the population. To one extent or another, these factors set Norway apart from any of the countries of Latin America and the Caribbean. Nonetheless, several countries in the region have created sovereign funds; the one created by Trinidad and Tobago most closely fulfils the role of preserving the wealth implicit in the country's natural resources.

Procyclical private spending caused by rising export prices is mainly the result of euphoric expectations concerning the future growth of private wealth, supported by credit expansions that boost spending and trigger sustained asset price gains and real appreciation pressures, creating a self-perpetuating cycle. As discussed in the previous chapter, this vicious circle is based on credit mechanisms that underestimate risks in boom periods. Several instruments have been suggested to provide macroprudential control of bank lending, such as provisions for expected losses that take into account risk behaviour throughout the entire cycle (following the example of Spain), dynamic capital requirements and the reintroduction of instruments previously used to prevent unsustainable credit expansions, such as limits on bank leverage levels regardless of their portfolio risk.¹⁶

¹⁵ In the region's more decentralized countries, such as Argentina, Brazil and Colombia, one of the main objectives of these rules was to coordinate fiscal policy (spending, deficit and borrowing) across the different levels of government.

¹⁶ See the review of these proposals in the light of the recent global financial crisis in Correia, Jiménez and Manuelito (2009).

Table III.1
LATIN AMERICA AND THE CARIBBEAN: MAIN CHARACTERISTICS OF STABILIZATION FUNDS

Name and creation date	Objective	Reference price	Fund operating rules		Fund accounting	Oversight authority
			Deposits	Withdrawals			Budgetary pre-allocations
Chile Economic and Social Stabilization Fund (FEES), created in 2007. Replaces the Copper Stabilization Fund (FCC), created in 1985	Stabilization	Every year, any effective fiscal surplus is deposited in the Economic and Social Stabilization Fund after the contribution applicable under the Fiscal Responsibility Act has been deposited in the Pension Reserve Fund. This Act also authorizes the treasury to make capital contributions to the Central Bank of Chile up to 2011.	Deposits	Withdrawals	Budgetary pre-allocations	Ministry of Finance
Colombia Petroleum Saving and Stabilization Fund, created in 1995	Stabilization and saving	If additional revenue is higher than average additional revenue.	Deposits	Withdrawals	Budgetary pre-allocations	Managed by the Bank of the Republic
Ecuador Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization (CEREPS), created in 2005. Replaces the Fund for Stabilization, Social and Productive Investment and Public Debt Reduction (FEIREP), set up in 2002	Public debt reduction, stabilization and saving	Reference to the surplus generated by unexpected oil revenue or revenue higher than initially set out in the budget approved by the national congress	Deposits	Withdrawals	Budgetary pre-allocations	Ministry of Economy and Finance, administered by the central bank
Mexico Oil Revenue Stabilization Fund (FEIP), set up in 2000	Stabilization	Price used to estimate oil revenue in the Federal Revenue Act	Deposits	Withdrawals	Budgetary pre-allocations	Central bank
Trinidad and Tobago Heritage and Stabilization Fund, created in 2007. Replaces the Interim Revenue Stabilization Fund	Stabilization and intergenerational savings	Price used to estimate oil revenue in the Federal Revenue Act	Deposits	Withdrawals	Budgetary pre-allocations	Central bank

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Juan Pablo Jiménez and Varinia Tromben, "Política fiscal en países especializados en productos no renovables en América Latina", *Macroeconomía del desarrollo series*, No. 46 (LC/L.2521-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2006. United Nations publication, Sales No. S.06.II.G.48 and information from official organizations.

Box III.2

MANAGING THE IMPACT OF COMMODITIES ON PUBLIC REVENUES: THE HERITAGE AND STABILIZATION FUND IN TRINIDAD AND TOBAGO

Countries exporting non-renewable natural resources are faced with two key macroeconomic and fiscal management dilemmas: (i) depletion of those resources in the long term; and (ii) fluctuation of international market prices for those resources in the short and medium term. From the point of view of fiscal policy, the more dependent fiscal revenue is on income from the exploitation and export of natural resources, the sharper this dilemma will be.

The Caribbean country of Trinidad and Tobago, where the oil and gas sector accounts for 85% of goods exports and 50% of fiscal revenue, recognized the need to address both issues. To this end, the Heritage and Stabilization Fund was created in 2007 and the proceeds from the Interim Revenue Stabilization Fund, in existence since 2000, were transferred to it.

As its name suggests, the Heritage and Stabilization Fund is a dual-purpose fund. It is used to deposit surpluses generated by the exploitation and export of non-renewable natural resources in order to ensure reserves for future generations. And it serves to insulate fiscal policy against fluctuations in international prices. Furthermore, the fund is designed to generate a stream of revenue to fund government spending as non-renewable natural resources are gradually depleted. Recognizing the potential management conflicts between these objectives (with regard to investment terms and types of assets, for example), the country opted for a single fund with different objectives in order to minimize organization costs.

That said, the rules on deposits and withdrawals more closely resemble those of a stabilization fund since they make these operations dependent on how far fiscal revenue from the energy sector (oil and gas) deviates from the amount set in the public budget. With regard to the building up of reserves, the rules provide that a minimum of 60% of the surplus revenue above the budgeted amount will be deposited every fiscal year. Funds may be withdrawn if the revenue falls short of the budget in a given fiscal year by more than 10%. In the latter case, withdrawals of up to 60% of the estimated shortfall or up to 25% of the fund assets, whichever is smaller, are allowed. Furthermore, to guarantee the fund's nature as a wealth fund, no withdrawals may be made if they would drive the fund's value below US\$ 1 billion (the fund is denominated in United States dollars).

The fund is managed by a five-member board of directors appointed for three-year terms, including a representative of the Central Bank and another from the Ministry of Finance. The Central Bank is entrusted with its operational management and is required to submit quarterly reports to the board. The board in turn submits quarterly and annual reports to the Minister of Finance, who reports to parliament once a year. The fund accounts are audited each year by the Office of the Auditor General. To ensure that the projections of fiscal revenue from the energy sector are independent, international crude oil and natural gas price projections

must be based on an 11-year rolling average covering the five years leading up to a given fiscal year, that fiscal year and the following five years.

Between March 2007 and December 2010, deposits were made in every fiscal year except 2008/2009, which marked the height of the global economic and financial crisis. But no withdrawals were made in that period either, thus preserving the fund as a wealth fund. Fiscal stabilization was achieved residually, with deposits made when revenue was high and no deposits when revenue was low. As of December 2010, the total net assets of the fund stood at US\$ 3.702 billion, equivalent to 15.8% of GDP and more than three times the US\$1 billion floor set by law to guarantee its status as a wealth fund.

Five-year reviews are an important feature of the fund's design. The first review, scheduled for 2012, will provide an ideal opportunity to review the fund's performance since inception. The authorities consider that the fund has performed well so far but are contemplating making some changes when it is reviewed, such as measures to more clearly segregate the heritage and stabilization components to ensure that both objectives are fulfilled efficiently and sustainably, and to strengthen transparency and accountability requirements. This would include more formal crude oil and natural gas price projections as a basis for budgeting fiscal revenue in order to keep them from being used for political purposes.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Michael Méndez, "Coping with oil price volatility", paper presented at the Workshop on macroeconomic policies, external integration and international financial markets, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 13-14 April 2011.

3. Meeting current spending needs and future growth requirements

Here is a dilemma entailing an especially difficult choice, particularly for countries whose public revenue is positively correlated with commodity export prices. In general, spending pressures arise when external prices surge, which in turn tends to trigger nominal and real

currency appreciation and hinder the development of other export and import-substitution sectors.

Managing this trade-off between increasing current spending and real currency appreciation is particularly complex and depends on a series of temporary and structural

factors.¹⁷ In the short term, the balance point between the two depends on the capacity of the productive apparatus to respond to the rise in demand without fuelling inflation. This in turn depends on the availability of idle capacity. Thus, if the economy is at a stage in its cycle that is very close to its potential capacity, it is more likely that rising export prices will result in real appreciation when the boom also drives public or private spending up. In these cases, fiscal saving can be an effective macroeconomic tool for easing pressures towards real appreciation of the local currency, especially if those savings are in foreign currency.

The dilemma also entails a choice between giving priority to spending on measures to improve current living conditions (for example, by means of subsidies, transfer programmes and pay rises) or to spending and investing more to promote future human and productive capacities. Although this is an ongoing issue in any discussion of the composition of public spending, it tends to be exacerbated in times of booming revenue, when there is greater pressure to step up current spending. These issues cannot be addressed without considering the incidence of poverty and the urgency of measures to improve social conditions in individual countries, as well as the current

and potential level of development and diversification of its productive apparatus. But two basic considerations can guide decision-making: (a) increases in recurrent spending should be supported by growth in trend revenue, not only to ensure fiscal sustainability but also to actually improve quality of life; and (b) investment in productive development, whether in infrastructure, human capacity building or credit support for tradable industries, can be the key instrument for turning the external price boom into a capacity for sustained, long-term growth.

Lastly, an especially important aspect of this dilemma is public debt strategy, which should be based on predictability and sustainability. At a time when fiscal revenue is subject to volatility and uncertainty due to commodity price trends, establishing a sustainable debt profile is increasingly important for two reasons: first, to allow public spending programmes to remain in place in the event of adverse shocks, and second, to prevent or minimize the effects of possible disruptions in capital flows and ensure regular access to external financial market resources by both the public and the private sector. As indicated previously, to that end it is essential that structural income and expenditure trends be aligned.

4. Participation in extraordinary income generated by surges in external prices

A hotly debated issue is the extent to which the public and private sectors are entitled to an appropriate share of the extraordinary external revenue generated during export price booms. In a time of sharp growth in income from the exploitation and export of commodities, this debate has become increasingly relevant in the countries of Latin America and the Caribbean that specialize in these products. The discussion includes elements such as the tax structure applicable to these sectors, the capacity to collect taxes on the exploitation of commodities and even the ownership structure of this sector.

The debate is not limited to developing countries, however. Several developed countries have expanded the public sector's participation in income from activities generating extraordinary profits by means of special

windfall taxes that were not limited to revenue relating to non-renewable natural resources.¹⁸

In Latin America, where the exploitation of natural resources is largely in private hands, the countries have introduced collection mechanisms and specific taxes on the income generated by these resources. These include

¹⁷ This discussion relates to growth in spending based on the trend components of revenue in line with the previous section.

¹⁸ A well-known case was the enactment, during the presidency of James Carter, of a windfall tax on United States oil companies following the sharp increase in prices brought about by the Organization of the Petroleum Exporting Countries (OPEC) oil embargo. The tax was repealed during the presidency of Ronald Reagan amid lower oil prices. Also in the United States, the administration of the State of Alaska approved a similar tax in 2007. Australia announced that from 2012 a new tax regime will apply to iron, coal and oil operations, which includes a tax on windfall profits. Finland, Norway and Sweden also established a similar tax in 2008, which is applicable to extraordinary profits by electric power generators. In 1997 the United Kingdom established a tax on extraordinary capital gains by public utilities that had been privatized.

exploration and exploitation licences, production royalties and taxes on profits with progressive rates according to profitability. For example, the Bolivarian Republic of Venezuela taxes exports of liquid hydrocarbons and derivatives, with a range of rates according to international oil prices. Oil industry royalties and ownership structure underwent changes throughout the period 2003-2008. Similar measures have been implemented in the Plurinational State of Bolivia, and several countries have recently revised their tax rates on the extraction of non-renewable natural resources. Royalties in Chile are an example, as are special export taxes such as withholding taxes in Argentina.

All these instruments can without a doubt help to moderate the procyclical behaviour of private spending, but they also enhance the legitimacy of the tax system by enabling the benefits of rising external prices to be shared more widely and facilitating the creation of

institutions such as sovereign savings funds that ensure intergenerational equity. Furthermore, in the case of the exploitation of non-renewable natural resources, whether private or public, part of the profits generated reflect the gradual depletion of deposits and oilfields, that is, of the country's natural capital. Under the legal system of several countries, both in the region and elsewhere, the State owns the subsoil resources and therefore is entitled to a share in any benefits derived from them, either by means of taxes or through profit participation. This is in addition to the normal income tax on all activities, since in this case a publicly-owned resource is being depleted and the owner should be compensated. This additional portion should be deposited in a special fund to preserve the country's wealth and invested so as to compensate for the depletion of non-renewable natural resources in the future, as is the case in Norway and Trinidad and Tobago.¹⁹

Table III.2
LATIN AMERICA (8 COUNTRIES): CHARACTERISTICS OF THE TAX REGIMES APPLICABLE TO THE EXPLOITATION OF NON-RENEWABLE NATURAL RESOURCES

Country and commodity	Royalties (rates)	Income tax (rates)	Profits tax (rates)	Other taxes	Public participation
Argentina	Provincial: 12.5%-15%				
Plurinational State of Bolivia (hydrocarbons)	Departmental royalties: 11% National compensatory royalties: 1% National royalties (national treasury): 6%	Direct tax on hydrocarbons: 32% on hydrocarbon production	Business profits tax: 25% and 12.5% for remittances abroad Additional tax: 25% on windfall profits	Special tax on hydrocarbons and derivatives Marketing tax Special fixed margin tax Mining complementary tax	Yes ^a
Chile (copper)		First category tax on profits	Additional tax: 0.5% to 4.5% on interest remittances For public enterprises: special 40% profits tax	Specific tax on operating income from mining activity	Yes
Colombia (oil)	8-25%	33%	7%	Pipeline transport	Yes
Ecuador (oil)	12.5-18.5%	25%	Profits distributed: 25%; Profits reinvested in machinery and new equipment: 15%	Tax on extraordinary income generated by companies with contracts with the State: 70%	Yes
Mexico (oil)		Income tax: 28%; Flat-rate business tax: 17.5% Tax on income generated by Petróleos Mexicanos (PEMEX): 30%	7.7%	Special tax on production and services	Yes
Peru	Royalty		Corporate profits tax (in practice this is a 25% royalty on output)		
Trinidad and Tobago (oil)	10% on onshore sales and 12.5% on offshore sales Additional tax on sales of crude oil		Tax on profits: 35%-42% of profits from oil production Unemployment tax: 5% of profits from oil production		
Venezuela (Bolivarian Republic of) (oil)	30%	Oil income tax: 50%	No	Windfall tax: - If the price of oil exceeds US\$ 70: 80% of the difference - If the price of oil is between US\$ 90 and US\$ 100: 90% - If the price of oil exceeds US\$ 100: 95%	Yes

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of G. Brosio and J.P. Jiménez, "The intergovernmental assignment of revenue from natural resources: a difficult balance between centripetal and centrifugal forces", unpublished 2010, and official figures.

^a Supreme decree of 1 May 2006 on the nationalization of hydrocarbons.

¹⁹ As the bibliography shows, this matter has been the subject of discussion for some time, at least since Gray (1914) and subsequently Hotelling (1931). See Otto and others (2006) for a review of the tax regimes currently applicable to mining in several parts of the world. See Hamilton and Clemens (1999) for a discussion of the consequences of the depletion of natural resources for sustainable development.

Chapter IV

Summary and concluding remarks on the challenges of the medium-term external outlook

A. Summary

The preceding chapters focused primarily on the economic consequences, both short- and medium-term, of an external environment characterized by abundant liquidity and high commodity prices, and on the challenges these pose for macroeconomic policy.

Since the mid-1990s, the significant changes that have taken place internationally have had profound repercussions on the external accounts of Latin American and Caribbean countries, affecting the components of the current account as well as the composition of its financing. At the same time, several countries have made significant changes to their macroeconomic frameworks and their financial systems. Those changes have greatly modified their capacity to withstand external shocks and resist their spread to the domestic economy.

Among the changes that affect the current account, the most influential factors have been commodity price trends and the improvement in trade balances, shifts in the composition of the balance on the income account, with greater weight corresponding to profit outflows from foreign direct investment (FDI), and higher remittance flows from emigrants. In turn, the components of the capital and financial account balances have also shown

significant changes. With the integration of countries of the region into the international economy (if to varying degrees), FDI has become one of the main sources of external financing and has shown itself more stable than other financial flows. At the same time, the attractive returns offered by some Latin American economies, together with the expansion of local financial markets and improved indicators of fiscal and financial soundness, have made the region's countries more attractive as destinations for foreign capital. The improved terms of trade in South America, external debt reductions under the Heavily Indebted Poor Countries (HIPC) Initiative, progress on the fiscal front and the replacement of external debt by domestic borrowing have all helped to improve the region's external public debt indicators in recent years.

An important change with regard to macroeconomic frameworks in the region has been the adoption of fiscal policies with a greater emphasis on balancing the public

finances, including the creation of countercyclical capacities in some cases. At the same time, the thrust of monetary policy has tended to emphasize inflation control, with some countries setting explicit targets or objectives for that variable. In several cases the central bank has been given independence vis-à-vis the government, and more countries have opted for relatively flexible exchange regimes, even if the monetary authority tends to intervene frequently in some of them.

Several countries (Brazil, Chile, Colombia and Mexico) have fostered the development of their domestic financial markets and sought deeper integration into international financial markets, two of the main channels for the transmission of external financial shocks to the rest of the economy. In fact, while development of the various segments of the financial market still falls far short of the levels achieved in more advanced economies or in the newly industrialized countries, the market in the region is now deeper and banking services are more widely available than in previous decades. As well, the successive years of economic growth which the region enjoyed until the outbreak of the global crisis in 2008 boosted the development of the countries' financial systems and of banking penetration in particular. Nevertheless, only a few countries have a deep capital market (for equity and debt): the most developed markets are those of Brazil, Chile and Mexico, and to a lesser extent Colombia and Peru.

Nevertheless, the region continues to betray sharp cleavages in these aspects and fiscal imbalances persist in several countries of Central America and the Caribbean. In the first case, a low tax burden worsens the disequilibria, whereas the Caribbean countries generally have a higher tax burden than the regional average. These countries are only shallowly integrated into external financial markets and almost exclusively through FDI, in part because of the lack of domestic financial development that would enable greater financial interaction with the outside world. Both factors produce differences in the channels that transmit external shocks and in the intensity of their effects, as well as in response capacities, in comparison to countries with greater financial development and participation in international financial markets.

The intensity with which shocks sparked by fluctuations in external liquidity and commodity prices are transmitted to the region's domestic economies and the policy alternatives for dealing with their consequences depend essentially on three structural features that are especially important in the current setting: the relative weight of government revenues from commodity production and exports (taxes, royalties and the profits of State enterprises); the degree of exposure to international financial markets (in other words, the openness of the balance-of-payments financial account); and the depth and scope of domestic financial

systems as a channel for domestic transmission of those external shocks (see tables I.1 and I.2). These are not the only characteristics of the region's economies that make for external vulnerability but they—and especially their interaction—are particularly important for the present analysis, because they condition to a considerable extent the countercyclical capacity of fiscal and monetary policies in the context of high liquidity and external volatility.

The world economy in the wake of the international financial crisis has a number of traits that pose significant challenges for formulating and implementing macroeconomic policy in the countries of the region, which vary according to their degree of integration into international financial markets. Among the factors mentioned in the chapters are the highly expansionary monetary and fiscal policies of the United States, the fiscal and banking crises of some countries in the euro area, the small share of the emerging economies in international financial markets, the improvements in the terms of trade in various Latin American countries, and mounting inflationary pressures due primarily to external supply factors in the context of surging domestic demand.

Rising interest rates in the region, primarily in response to mounting inflationary pressures, have widened the pre-existing risk-adjusted interest rate spread between Latin American countries and developed economies. For several years running, the region has shown a downward trend in its sovereign risk, which was temporarily interrupted in the depths of the recent global crisis. Together with recent interest rate hikes in the region and growing debt risks in euro area countries, this has drawn even greater financial flows into the region, exerting upward pressure on local currencies. This effect has been felt particularly strongly in those economies of the region specialized in commodity exports.

A second channel through which the current spike in global liquidity and exported commodity prices can distort the domestic balance is offered by financial and real mechanisms that induce unsustainable spending behaviour. In the case of private spending, these mechanisms lie in procyclical lending patterns and the wealth effects derived from changes in the nominal exchange rate and the prices of financial assets.

In responding to these challenges, policymakers must bear in mind the differing degrees of financial integration shown by the countries in the region (see table I.5 of part 2). Broader access to external capital offers opportunities to tap international financial markets, which helps to finance investment projects and underpins domestic economic activity. Yet in the event of a shift in the international economy or a reversal in international financial agents' expectations regarding the performance of the domestic economy, this integration can become a source of vulnerability, as it may produce sudden capital flights. Moreover, countries must conduct a rigorous

assessment of two fundamental aspects that condition the kind of policies to be pursued. The first involves identifying the effects that policy will target (reducing exchange-rate volatility, easing upward pressure on the local currency, controlling the growth in domestic credit, containing the asset price bubble). The second aspect is to define the type of measures and instruments that will be used to target those effects.

In turn, rising international commodity prices create several macroeconomic policy challenges for the countries of the region, especially in the fiscal domain. First, it is important to distinguish between net exporters and net importers of commodities. For net commodity exporters, relatively abundant foreign exchange flowing from higher export revenues exerts upward pressure on the currency in real terms, which will erode the profitability of other exports and of import substitution activities. The challenge for macroeconomic policy is to adopt mechanisms that will contain the fall in the real exchange rate and lessen its variability, so as to mitigate the impact of the real appreciation of domestic currencies on resource allocation in the economy. The capacity to weather these pressures will depend on the extent to which the public finances are hostage to international commodity prices (see table I.1). Conversely, net importing countries will find their currencies under downward pressure exerted by a worsening trade balance. Domestic food and fuel prices will rise in both cases, but with a more severe impact in the second, where the surge in international prices will be intensified by local currency devaluation.

On the other hand, there is an important issue for the region with respect to public sector participation in the windfall profits derived from natural resources, given the likely continuity of the factors that have driven commodity prices above their levels of previous decades. Given this outlook, several countries of the region have made changes to the provisions whereby government and the private sector share the profits from non-renewable natural resource extraction.

As in other areas of economic policy, there is no single response to a given change in the variables determining the nature and pace of economic growth. Depending on the implications for each country of persistent high external liquidity and depending on the characteristics of its financial system, the authorities may decide to take steps to avoid or moderate negative fallout from such liquidity, with a particular eye to the exchange rate. These measures may include the build-up of international reserves, the introduction of capital controls, the adoption of macroprudential measures, the adjustment of financial sector regulatory frameworks and, as a last resort, the adoption of a more flexible exchange rate regime. At the same time, depending on the impact of commodities on government revenues, there are various policy options for cushioning the social effects of higher international prices and avoiding the unsustainable expansion of public expenditure and its effects on the productive structure, as analysed in the following section.

B. The medium-term regional outlook and policy challenges

1. Possible medium-term external conditions

The most likely medium-term external context for the region, and the one that is already gradually taking shape, is dominated by the following trends:

- (i) Continued rapid growth in the large emerging economies of Asia, which will keep prices high for the region's commodity exports, at least over the medium term.
- (ii) Persistent uncertainty over fiscal consolidation both in Europe and in the United States, as well as slow progress in cleaning up banking portfolios, especially

in Europe. As a result, Latin America could continue to enjoy relatively better risk ratings than in previous decades, amid ongoing uncertainty over the dollar-euro exchange rate.

- (iii) A correction, even if only partial, of global imbalances—especially the twin deficits of the United States—will require (among other things) real depreciation of its currency with respect to the rest of the world, and especially against the currencies of emerging countries with which it has a sizeable trade imbalance.

The external scenario could turn out to be worse than described above, if the international economic situation were to follow the less optimistic forecasts. There are three main areas of risk:

- (i) Lack of progress with fiscal consolidation in Europe: this would translate into uncertainty about the solvency of some countries, erode the growth prospects of Europe as a whole, and fuel doubts about the viability of the euro zone in its current size and makeup. These impacts would be exacerbated by failure to resolve unsustainable public debt situations in certain countries.
- (ii) Difficulties in achieving public debt sustainability in the United States, requiring swifter fiscal consolidation. If that situation also produced greater uncertainty, it could induce higher private savings in that country. Both factors would tend to give a contractionary bias to spending in the United States, which would have a global impact on commodity prices, exchange-rate parities and the growth prospects of the world economy.
- (iii) A heavy slowdown in growth in the large emerging economies of Asia, given the need to control inflationary pressures resulting from high global liquidity and the pace of domestic expenditure growth.

2. Policy challenges in a setting of external turbulence and tensions in the process of global rebalancing

The scenario described as most likely in the previous section implies that the policy challenges mentioned in the preceding chapters (that is, upward pressure on currencies in the region, unsustainable growth in expenditure and credit, financial asset bubbles, demands to offset the social impacts of rising raw material costs, and so forth) will persist over the medium term. Accordingly, they must also be considered from the standpoint of economic growth.

From the viewpoint of net commodity-exporting countries, a trend towards real local currency appreciation due to spikes in external liquidity or in export prices would reduce the profitability of other exports and of import substitution activities, particularly where costs are heavily influenced by non-tradable inputs and factors of production. In the short term, this would have repercussions on output of tradable goods and services, causing what could be termed “static” growth losses, inasmuch as they would be only one-time losses. Over time those growth losses could be offset by the reallocation of resources to activities that benefit from real currency appreciation.

A real appreciation would boost demand for imports, which would worsen the external balance. Yet, given the level of international reserves in the region and the low level of external indebtedness of most countries, this would not pose an imminent threat to their external solvency.

Nevertheless, a further analysis suggests that, beyond these static growth losses, there would be losses in future growth rates caused by a shift back towards primary production and exports (Ocampo, Bajraj and Martin, 2001; Frenkel and Repetti, 2011). This is because natural-resource-based

activities, which tend to be capital-intensive and which produce high Ricardian economic rents, would be better placed to survive a prolonged appreciation. This is either because their profitability would be less affected or because the existence of such rents would allow them to remain in business, especially with a cycle of commodity prices such as that forecast for the medium term. By contrast, export-oriented manufacturing and services (which have greater productive linkages and are more intensive in non-tradable inputs than natural resource-based production) would suffer greater profitability losses as a result of real currency appreciation, and this would hurt their output. Moreover, manufacturing—even import substitution—offers a more enabling setting than primary production for innovation and for the generation, adoption and dissemination of technical progress through horizontal and vertical linkages. As a result, slacker activity and a fall-off in investment in manufacturing would represent a loss of systemic competitiveness and would thus carry a “dynamic” loss or cost.

The empirical evidence on the growth effects of changes in the real exchange rate is almost unanimous in suggesting that excessive real appreciation of currencies damages long-term growth.¹ Moreover, experience and

¹ There is a wealth of theoretical literature positing a positive relationship between export growth and economic growth, based on a high real exchange rate. The empirical literature, however, is less conclusive on the subject. The consensus suggests that significant and sustained real appreciations are harmful to growth. See Easterly (2005), Eichengreen (2008), Fischer (1993) and (1991), Bleaney (1996), Servén (2002), Plümper and Graff (2001), Frankel and Romer (1999).

analysis both show that, while real appreciation is to be avoided, this alone will not drive the competitiveness of the sectors producing tradable goods and services that are not based on natural resources. Enhancing the competitiveness of these sectors also requires active development policies designed to boost their productivity and foster linkages with the rest of the productive apparatus. ECLAC has on various occasions warned against seeking competitiveness solely through high real exchange rates and low real wages, which it refers to as “spurious competitiveness” (ECLAC, 1990). Those sectors must over time rise to the challenge of seeking productivity through technical progress and innovation, instead of exerting pressure to bias macroeconomic prices in their favour, thereby transferring real income to themselves from the rest of society. Industrial policies, rather than macroeconomic policies, are what is really needed to make progress on these fronts.

These arguments may in fact be more applicable to large and medium-sized economies that are net exporters of commodities and of a diversified range of products, and have a large domestic market (such as Argentina, Brazil, Chile, Colombia, Mexico and Peru) and reasonably developed sectors producing for domestic demand, import substitution or non-traditional exports. In economies which are smaller or have little productive diversification, or both, and have a large natural-resource-based export sector, sectors producing tradable goods for the domestic market will carry less relative weight in the economic structure —perhaps even less than the sectors producing non-tradable goods and services, whose relative position will be enhanced by real appreciation. Consequently, for these economies the negative impacts of real appreciation will be outweighed by the real income gains for sectors whose consumption or output includes imported inputs or final goods. That, of course, should not prevent them from pursuing productive diversification, as well. Nevertheless, because the domestic tradable production base is, in relative terms, smaller than that of medium and large economies, targeted industrial development policies may be preferable to macroeconomic tools such as the exchange rate, which affects the entire economy and has potential greater undesired collateral effects in terms of distribution and price levels.

In Central American and Caribbean countries which are net exporters of services and net importers of commodities, continued high commodity prices will pose additional hurdles for improving living standards and economic growth, as was already occurring before the financial crisis of 2008. At the same time, their rather limited participation in international financial markets will preclude taking sufficient advantage of the relatively benign external liquidity conditions foreseen for the region. In contrast to the previous group, these countries’

currencies will come under downward pressure and their problems will revolve around the effects on living standards of declining real incomes, with the consequent need to formulate compensatory fiscal expenditure policies. This will be a major challenge for a number of Central American countries whose tax burden is very low.

A second aspect of the external scenario described above that will condition growth over the medium term in Central America has to do with the continuing challenge of maintaining positions in their export markets. They are facing stiff competition in those markets from countries outside the region, especially China and other Asian exporters of manufactures that rely on intensive use of unskilled labour, and this poses a strategic threat to their productive specialization. In this case, the risk inherent in a shift back to primary production for export comes not from real-exchange-rate trends but rather from the threats of competition from other countries with abundant low-cost labour which have greatly increased their productivity in recent years.

The principal response here must lie in industrial development and infrastructure programmes designed to boost productivity as quickly as possible, recognizing that the possibilities of remaining competitive in certain export areas are diminishing with the passage of time in view of the rapid growth in competing countries. Accordingly, the principal obstacle to raising productivity must be identified in each case, making it impossible to offer generalizations.

While workers’ remittances have been a very important source of external financing in this subregion, growth in these flows may hit a ceiling in the event of a downturn in the United States labour market.

In short, Central America will face major challenges, ranging from the need to strengthen the foundations of its public finances to deploying industrial development policies to underpin rapid growth in productivity. Lastly, efforts to create an expanded economic area on the basis of a revitalized Central American Common Market and convergence in macroeconomic policies are probably the most promising alternative for taking advantage of the synergies of integration and building an internal market of significant size that will enable the emergence of a subregionally-oriented industry.

In the case of the services-exporting countries of the Caribbean, as well as some that export raw materials, the dilemmas are similar in terms of the need for fiscal consolidation, given the heavy levels of debt some of these countries are carrying. This is no easy proposition, especially in countries with low per capita incomes. Thus, external financial assistance will continue to be needed to support growth in this subregion, especially if a halting economic recovery in developed economies keeps demand for their exports sluggish.

If the risks surrounding this medium-term scenario should materialize, the prices of the region's commodity exports and the demand for its services exports would suffer sharply and the resulting decline in national income would deflate aggregate demand. This, in turn, would hurt growth prospects and narrow the region's access to external liquidity.

These considerations shift the policy discussion from the national sphere addressed hitherto into the realm of the global economy. Individual countries take their policy decisions in a complex external setting characterized by global imbalances that need to be at least partially corrected. The fact is that the global financial crisis and the responses to it worsened growing public indebtedness in developed countries, in some cases to levels that threaten fiscal solvency and are bordering on the maximum tolerable limits. If their situations worsen, the repercussions will depend on the route those countries choose to regain solvency, and this could have very significant impacts for the region.

As in any process of debt reduction, the highly indebted developed countries have four routes for resolving the situation. The first, available to countries that issue reserve currencies, in particular the United States, is the non-cooperative option of reducing the real debt burden through unilateral monetary expansion, which imposes on the rest of the world higher levels of inflation and reduces the value of the currency in the country engaging in the mechanism. This in practice forces real appreciation of the currencies of other countries. The second route is to increase debt servicing capacity through drastic fiscal reforms. If they are to be successful, however, such measures may have to be supplemented by a third alternative: debt restructuring, which ranges from an agreed relaxation of agreed financial conditions (maturities and interest rates) to outright default. The objective may range from gaining time to undertake reforms in order to restore fiscal solvency to unilaterally reducing the present value of the liabilities in order to restore debt servicing capacity. A fourth option—and a key short-term goal which complements the previous three paths—is to prevent a drop in economic output, which would increase the debt service burden and making the initial situation even worse. Therefore, governments tend to implement measures designed to reduce the debt burden over the medium term by accelerating economic growth, which should lead to increased public revenues.

These approaches to reducing debt tend to be adopted in combination, and the choice of formula has

major distributive impacts in developed and developing countries alike as well as implications for their global competitiveness and their economic growth.

Of the alternatives mentioned, an upturn in economic growth in developed countries is the only route with positive long-term consequences for developing countries. As noted earlier, however, this scenario is not very probable. The other routes, especially when taken in a unilateral and uncoordinated way, carry with them a threat to global stability and growth. The monetary expansion under way in developed countries is threatening to fuel inflation worldwide and interfere with real-exchange-rate trends in developed countries, and it creates uncertainty over the future course of growth. At the same time, reducing the debt burden through unilateral cuts in the value of liabilities (for example, default), especially if the defaulter were a developed country of systemic scale, would create financial market turmoil—and that too would damage growth prospects and global export demand for developing countries. Then again, a hasty fiscal consolidation, especially without the domestic consensus needed to be lasting, could tip the developed countries and the world economy overall into recession. On the other hand, a debt reduction exercise in which the consequences are shared domestically and externally—though very difficult to achieve—could create a sustainable scenario that would underpin a restoration of confidence and a better outlook for future growth.

The fact that the process of global rebalancing now in progress has tended towards unilateral and non-cooperative solutions is a matter of concern for the global economy and for the developing countries in particular, whose growth may suffer in an uncertain scenario. It is moreover a testament to the difficulties of macroeconomic coordination between the world's largest economies. In these conditions of uncertainty and risk of global economic slowdown, the less developed countries, and the Latin American and Caribbean region in particular, must tread very carefully when taking decisions that affect the depth and the form of their international financial market integration. Careful judgement is needed, as well, in handling the fiscal effects and the social impacts of higher commodity prices. The preceding chapters have sought not to offer any single solutions to these dilemmas, but to suggest some criteria for assessing them, bearing in mind the way in which exogenous shocks interact with certain structural characteristics of economies. This interaction, more than anything else, forms a basis for gauging consequences and choosing among alternative responses.



South America

Argentina

1. General trends

After slowing rapidly in 2009, the Argentine economy resumed robust growth in 2010, with a rate well above the regional average at 9.2%. On the back of this the unemployment rate came down from 8.4% in the last quarter of 2009 to 7.3% a year later. For the first quarter of 2011, year-on-year GDP growth was 9.9%, which will provide a growth floor of 6.1% for the rest of the year.

The government has leaned towards maintaining the economic stimulus on both fiscal and monetary fronts, as a result of which GDP growth may once again outperform the regional average and exceed 8% in 2010 if current regional and international conditions hold steady. If these growth projections are borne out, unemployment should fall yet again in 2011, although this will depend on the employment elasticity of GDP—which has been relatively limited in the last few quarters by comparison with recent years—as much as GDP growth.

Inflation was higher in 2010 than in 2009, topping the regional average. The higher rate reflected a combination of factors, including rising international commodity

prices, particularly for beef, and an uptick in the nominal exchange rate amid burgeoning aggregate demand. The inflation rate for 2011 is likely to be similar to the rate for 2010 if international commodity prices, especially for foodstuffs, remain at their current levels.

The trade and current account balances both ran surpluses in 2010 (3.3% and 1.0% of GDP, respectively) and the capital and financial account registered a small net inflow. The surpluses on the current account and the capital and financial account contributed to a build-up of US\$ 4.212 billion in international reserves, which stood at US\$ 52.132, or the equivalent of 14.1% of GDP, at the end of 2010.

2. Economic policy

The expansionary policy adopted in 2009 was maintained in 2010 on both the fiscal and monetary fronts and this, together with economic growth in Argentina's main trading partners and an upturn in the agricultural sector after a year of severe drought, helped drive the economy's strong growth.

In the fiscal sphere, higher spending had an expansionary impact notwithstanding the improvement in the public sector balance. Both income and expenditure rose above the nominal rate of GDP growth in 2010.

Monetary and exchange-rate policies continued to be based on a dirty float targeting external and exchange-rate equilibrium, which required heavy intervention in

the foreign-exchange markets given improving terms of trade and some re-entry of capital from abroad. This intervention pushed the nominal exchange rate up slightly, but not enough to prevent currency appreciation in real terms. Given that economic growth in 2010, at 9.2%, was well above the 2.5% projected in the year's monetary programme published at the end of 2009, monetary aggregates expanded much faster than the rate originally calculated by the central bank, which was forced to update its monetary targets accordingly for the second half of the year. Interest rates came down in both nominal and real terms throughout 2010.

With regard to public debt management, the government's ability to meet its external liabilities from reserves enabled it to maintain an expansionary fiscal stance despite the virtual closure of voluntary credit markets to Argentina. In addition, the debt-swap scheme the Government of Argentina had made available in early 2005 following the default in late 2001 was re-opened for bondholders who had held out during the original offer. The debt-to-GDP ratio decreased steadily in 2010 to stand at around 45.1% at the end of the year. Argentina's sovereign risk rating also eased down somewhat, but is still considerably higher than that of other countries in the region.

In the sphere of industrial policy, the non-automatic import licensing regime was extended, in particular for consumer goods with domestically produced alternatives. In 2010 the central bank and the Ministry of the Economy and Public Finance launched a bicentenary production financing programme for a total of over US\$ 2 billion (0.5% of GDP), aimed at increasing long-term financing for enterprise.

In the area of social protection, 2010 was the first full year of application of the universal child allowance created in the last quarter of 2009. This is a non-contributory subsidy extended by the National Social Security Administration (ANSES) and may be claimed for all children up to the age of 18 whose parents are unemployed or informally employed, subject to certain health-care and school attendance requirements. The scheme covered some 3.5 million children in 2010.

One of the policy decisions taken by the government at the start of 2011, was to once again draw down international reserves to meet external public debt commitments, this time for US\$ 9.678 billion (2.6% of GDP). On the social front, the government implemented a complementary policy extending the universal child allowance to expectant mothers.

(a) Fiscal policy

Primary public spending expanded by 33.9% in 2010 and was associated mainly with transfers to the private sector in the form of social protection instruments and subsidies to public utilities.

Social security spending reflected the full implementation of the universal child allowance, at a fiscal cost of 0.5% of GDP. In addition, the law on pension fund mobility, which came into effect in 2009, led to a rise of 16.9% in pensions in 2010. This, together with a 20.4% hike in the minimum pension decreed by the executive, swelled spending on social security benefits by 28.6%.

Capital expenditure rose in line with total spending and continued to represent around 3.0% of GDP after receiving a strong boost in 2009 from the fiscal stimulus implemented to soften the impacts of the crisis.

The bulk of the spending increase was financed from tax revenues, which were up by 37.3% over 2009. Two other factors helped to facilitate these public sector outlays: refinancing of the national treasury's liabilities vis-à-vis the rest of the national public sector and the drawdown of international reserves to meet external public debt obligations. This last measure was managed through the issue of non-transferable debt securities bought by the central bank for US\$ 6.569 billion (1.8% of GDP).

As a result of the sharp rise in tax receipts, the tax burden posted an all-time high of 33.9% of GDP. As well as the economic upturn, this has to do with higher revenues from export duties, which rose on the back of higher international prices and larger export volumes. Other significant components were transfers of profits from the central bank and the ANSES sustainability guarantee fund, which together represented 2% of GDP.

The higher tax take led to a slight rise in the primary surplus, from 1.5% of GDP in 2009 to 1.7% in 2010, and an improvement in the overall balance from a deficit of 0.6% of GDP in 2009 to a surplus of 0.2% in 2010.

As a proportion of GDP, public debt came down from 48.5% in 2009 to 45.1% in 2010, despite the nominal increase associated with fresh bonds (US\$ 4.053 billion) issued as part of the scheme to reopen the defaulted bond swap. Of total national public debt, only 38.5% is held by the private sector; most (46.8%) is held by other public sector agencies.¹ In GDP terms, only 17.6% of national public debt is in private hands. Although Argentina's sovereign risk rating decreased significantly in 2010 compared with 2009, it still far exceeds that of most other countries in the region. Argentine public debt securities ended 2010 with a spread of 490 basis points over equivalent United States treasury bonds, whereas the average spread for the region was just 244 basis points, according to the emerging markets bond index (EMBI+).

(b) Monetary and exchange-rate policy

With international conditions highly liquid in 2010, Argentina continued to operate a dirty float exchange-rate regime, which required heavy intervention in the foreign-exchange market, resulting in a slight nominal depreciation of the peso. The rise in the nominal exchange rate was minor, however, in relation to domestic price movements, and the peso appreciated somewhat in real terms, especially in relation to the dollar. Nevertheless, the peso's appreciation was offset by currency appreciation in Argentina's main trading partners, especially Brazil.

Monetary aggregates expanded in line with nominal GDP growth in 2010, consistently with their behaviour

¹ The remainder corresponds to debt owed to international agencies and pending commitments to the Paris Club.

in previous years. The average M1 balance expanded by 24.1% in 2010 with respect to 2009, while the M2 average—the aggregate used by the central bank as a benchmark for its monetary programme—increased by 28.6% in the same period. The rise in M1 and M2 balances quickened in the second semester reflecting, in part, the low levels recorded in 2009 in mid-crisis and more robust credit growth in 2010. Consumer credit, in particular, registered year-on-year growth of 37.7% at December 2010.

3. The main variables

a) Economic activity

GDP expanded by 9.2% in 2010, driven by all components of aggregate demand. The greatest stimulus came from consumption, both private (up 9.0%) and public (9.4%). A range of conditions influenced households' consumption decisions. First was the recovery of the labour market and an increase in household income, not only from wages but also from the social security and social protection system. Second was the brightening international economic outlook, particularly in the country's main trading partners and especially Brazil. And third was an expansion in lending, although this factor remains secondary in the Argentine economy, owing to the small weight of domestic credit as a source of financing for private spending (around 13% of GDP).

Domestic gross fixed investment rose 21.2% to represent 22.8% of GDP, slightly below the historic high of 23.1% posted in 2008. Construction expanded by 8.2% and investment in durable equipment climbed 41.1%.

Exports rose by 14.6% in the largest real increase since the mid-1990s. The strength of this performance was chiefly a reflection of the low basis for comparison, given the drought during the 2008/2009 crop season. Imports substantially outperformed exports in real terms, with a surge of 34.0%.

Among the goods producing sectors of the economy, agriculture in particular stands out and posted a robust recovery after the drought of 2009. The sector overall expanded by around 30% in 2010, despite a decrease of 10% in cattle stock to 48.9 million head. This was the second consecutive year of declining stocks, this time at an even faster rate (5% in 2009). After successive declines, cattle stocks are now similar to those of 2001-2002 and the lowest in 20 years, and the 2010 beef slaughter was down by 27% on 2009. The decline in stocks and diminished beef production, together with the rise in international

beef prices, helped to push up the price of cattle on the hoof by over 100% on average.

After the financial turmoil of 2009, local-market interest rates began to ease down. Already in early 2010 nominal rates on fixed-term deposits were two percentage points down on the year-earlier period. This downtrend continued for the rest of 2010, bringing interest rates down by over 200 basis points from 11.7% to 9.3% over the year. The central bank facilitated the drop in interest rates by lowering the rate paid on its main sterilization instruments: central bank bills and notes (LEBACs and NOBACs) and passive swap operations (“pases”).

Industrial output expanded strongly in 2010, showing year-on-year average growth of 10%. Most manufacturing sectors regained pre-crisis activity levels. The automobile industry in particular rebounded strongly (41%) after taking a severe hit in 2009. Total automobile production surpassed 715,000 units, which was an all-time record.

Of these automobiles, 62.5% were exported and of these exported units 84.6% went to Brazil. Basic metal manufacturing expanded 22% and textile production, 15%. Petroleum refining and paper and paperboard were among the segments of industry which registered no growth at all or failed to recover pre-crisis levels.

(b) Prices, wages and employment

Two factors fuelled inflationary expectations in the first quarter of 2010 and produced a direct impact on wage negotiations. One was the sharp upswing in international commodity prices and their heavy impact on costs of resource-based domestic production, especially in the context of an exchange-rate policy which, diverging from practice in other countries in the region, has sought to avoid nominal currency appreciation even during terms-of-trade upturns. The other factor was a steep rise in the local price of beef, which is highly influential in the Argentine consumer basket.

The quickening of inflation in the early months of 2010 was contained in the second semester. Even so, the combination of rising international commodity prices, particularly for foodstuffs (17.2% in the course of 2010, according to data from the Food and Agriculture Organization of the United Nations), a higher nominal exchange rate (5.0% in the same period) and an average wage hike of over 20% pushed inflation above both the 2009 rate and the regional average for the year.

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	0.9	9.2
Per capita gross domestic product	-11.8	7.8	8.0	8.1	7.4	7.6	5.7	-0.2	8.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.3	6.9	-1.5	11.1	2.6	9.8	-2.5	-15.7	28.0
Mining and quarrying	-3.7	3.7	-0.4	-0.2	3.0	-0.5	1.1	-1.1	-1.5
Manufacturing	-11.0	16.0	12.0	7.5	8.9	7.6	4.5	-0.5	9.8
Electricity, gas and water	-3.0	6.9	6.5	5.0	5.0	5.7	3.4	0.9	6.2
Construction	-33.4	34.4	29.4	20.4	17.9	9.9	3.7	-3.8	5.2
Wholesale and retail commerce, restaurants and hotels	-16.8	11.7	12.4	9.5	7.9	10.7	7.9	-0.1	12.1
Transport, storage and communications	-7.9	8.2	13.4	14.8	13.5	13.7	12.1	6.5	10.6
Financial institutions, insurance, real estate and business services	-9.6	-1.1	2.2	7.1	8.2	8.1	9.3	3.1	5.5
Community, social and personal services	-3.3	2.8	4.4	5.6	5.4	5.0	4.9	4.3	4.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	-12.8	7.0	8.3	8.5	7.4	8.8	6.6	1.5	9.1
Government consumption	-5.1	1.5	2.7	6.1	5.2	7.6	6.9	7.2	9.4
Private consumption	-14.4	8.2	9.5	8.9	7.8	9.0	6.5	0.5	9.0
Gross capital formation ^c	-36.4	38.2	34.4	22.7	18.2	13.6	9.1	-10.2	21.2
Exports (goods and services)	3.1	6.0	8.1	13.5	7.3	9.1	1.2	-6.4	14.6
Imports (goods and services)	-50.1	37.6	40.1	20.1	15.4	20.5	14.1	-19.0	34.0
Percentages of GDP									
Investment and saving^d									
Gross capital formation ^c	10.9	14.1	18.7	20.9	23.0	24.2	25.1	21.2	24.5
National saving	19.4	20.4	20.8	23.8	26.7	27.0	27.2	24.8	25.4
External saving	-8.6	-6.3	-2.1	-2.9	-3.6	-2.8	-2.1	-3.6	-1.0
Millions of dollars									
Balance of payments									
Current account balance	8 767	8 140	3 211	5 275	7 768	7 355	6 755	11 127	3 573
Goods balance	17 178	16 805	13 265	13 087	13 958	13 456	15 423	18 528	14 690
Exports, f.o.b.	25 651	29 939	34 576	40 387	46 546	55 980	70 019	55 669	68 500
Imports, f.o.b.	8 473	13 134	21 311	27 300	32 588	42 525	54 596	37 141	53 810
Services trade balance	-1 460	-1 193	-1 331	-992	-501	-513	-1 284	-1 059	-744
Income balance	-7 491	-7 976	-9 284	-7 304	-6 150	-5 941	-7 553	-9 011	-10 015
Net current transfers	540	504	561	484	459	353	170	2 669	-358
Capital and financial balance ^e	-22 158	-17 177	-10 163	2 144	6 428	4 228	-10 072	-11 504	7 183
Net foreign direct investment	2 776	878	3 449	3 954	3 099	4 969	8 335	3 299	5 247
Other capital movements	-24 934	-18 055	-13 612	-1 811	3 329	-741	-18 407	-14 803	1 936
Overall balance	-13 391	-9 037	-6 952	7 418	14 195	11 584	-3 317	-377	10 756
Variation in reserve assets ^f	4 516	-3 581	-5 319	-8 857	-3 529	-13 098	9	-1 346	-4 212
Other financing	8 876	12 618	12 271	1 439	-10 666	1 515	3 309	1 723	-6 544
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	228.3	208.3	214.0	213.7	218.0	216.2	207.2	212.1	209.2
Terms of trade for goods (index: 2005=100)	92.4	100.3	102.2	100.0	106.0	110.0	124.6	118.9	118.4
Net resource transfer (millions of dollars)	-20 773	-12 535	-7 175	-3 722	-10 388	-198	-14 317	-18 792	-9 376
Total gross external debt (millions of dollars)	156 748	164 645	171 205	113 799	108 864	124 560	124 923	116 415	128 618
Average annual rates									
Employment									
Labour force participation rate ^h	55.8	60.1	60.3	59.9	60.3	59.5	58.8	59.3	58.9
Open unemployment rate ⁱ	19.7	17.3	13.6	11.6	10.2	8.5	7.9	8.7	7.7
Visible underemployment rate ^j	24.0	20.7	17.5	14.2	12.5	10.4	9.5	11.1	9.8
Annual percentages									
Prices									
Variation in consumer prices (December-December)	41.0	3.7	6.1	12.3	9.8	8.5	7.2	7.7	10.9
Variation in wholesale prices (December-December)	113.7	2.0	7.9	10.6	7.2	14.6	8.8	10.3	14.6
Variation in nominal exchange rate (annual average)	209.9	-4.9	-0.2	-0.6	5.2	1.3	1.5	17.9	4.9
Variation in average real wage	-19.4	12.2	9.2	7.4	8.9	9.1	8.8	11.7	12.9
Nominal deposit rate ^k	39.3	10.5	2.7	3.9	6.5	7.9	11.1	11.8	9.4
Nominal lending rate ^l	40.7	16.8	10.8	10.5	12.9	14.0	19.8	21.3	15.1

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central national administration									
Total revenue	14.2	16.1	16.3	16.7	17.2	18.2	19.4	21.0	22.7
Current revenue	14.1	16.1	16.2	16.5	17.0	18.1	19.3	20.8	22.6
Tax revenue	12.1	14.5	15.4	15.8	16.0	17.2	18.1	18.2	19.9
Capital revenue	0.0	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.1
Total expenditure	14.8	15.9	14.4	16.3	16.2	17.5	18.7	21.8	22.9
Current expenditure	14.1	15.1	12.9	14.3	13.6	15.3	16.4	19.1	19.8
Interest	2.1	1.9	1.3	1.9	1.7	2.1	2.1	2.3	1.6
Capital expenditure	0.7	0.8	1.5	2.0	2.6	2.2	2.2	2.7	3.1
Primary balance	1.5	2.1	3.2	2.3	2.7	2.7	2.8	1.4	1.5
Overall balance	-0.6	0.2	2.0	0.4	1.0	0.6	0.7	-0.8	-0.1
National administration debt^m	145.9	138.2	126.4	72.8	63.6	55.7	48.5	48.5	45.1
Domestic	52.8	59.4	52.7	38.3	37.4	31.8	30.0	30.4	28.3
External	93.0	78.8	73.8	34.5	26.1	23.9	18.5	18.2	16.8
Money and creditⁿ									
Domestic credit	43.2	37.9	32.7	24.9	20.7	17.1	15.8	16.9	21.3
To the public sector	48.8	42.2	38.0	29.5	22.0	17.4	15.3	18.4	20.5
To the private sector	15.3	10.8	10.5	11.7	13.0	14.5	13.7	13.5	14.6
Others	-20.9	-15.1	-15.8	-16.2	-14.3	-14.8	-13.2	-15.1	-13.8
Liquidity (M3)	23.0	26.5	28.4	28.8	29.4	28.8	25.4	26.9	29.3
Currency outside banks and local-currency deposits (M2)	22.3	25.1	25.9	26.6	27.0	26.1	22.4	23.2	25.0
Foreign-currency deposits	0.7	1.4	2.5	2.2	2.4	2.7	3.1	3.7	4.3

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1993 prices.

^c Gross capital formation does not include changes in stocks.

^d Based on figures in local currency expressed in dollars at current prices.

^e Includes errors and omissions.

^f A minus sign (-) denotes an increase in reserves.

^g Annual average, weighted by the value of goods exports and imports.

^h Economically active population as a percentage of the working-age population, urban areas.

ⁱ Percentage of the economically active population, urban areas.

^j Percentage of the working population, urban areas.

^k Fixed-term deposits, all maturities.

^l Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.

^m As from 2005, this does not include unswapped debt.

ⁿ The monetary figures are end-of-year stocks.

In the labour market, the fall in unemployment in 2010 was due partly to the economic upturn, as well as a fall in the participation rate, which dropped from an average of 59.3% in 2009 to 58.9% in 2010. After rising in 2009, unemployment decreased slowly but steadily throughout 2010. By the end of the year, it had reached the lowest rate for the last 20 years, although the manufacturing sector still fell short of generating the levels of employment and hours worked seen in 2008 before the international crisis struck.

The outcome of annual wage negotiations was an average hike of 22.5% in the general wage level. Registered private sector workers secured a gain of 24.8%, outstripping the rise for unregistered private sector workers and civil servants. Workers in the manufacturing sectors were able to negotiate a wage increase well above the general average, at 32.7%. The minimum wage was raised early in the year, by 22.7% over 2009. The setting for the wage negotiations held in the first semester of 2011 was less

pressured than in 2010, mainly thanks to the easing of food price inflation. Yet the negotiations concluded thus far are tending towards increases of over 20% this year as well, which could indicate the institution of a price-wage dynamic that may bode poorly for the economy's external competitiveness.

(c) The external sector

Demand for imports in 2010 was heavily driven by burgeoning domestic absorption and some real currency appreciation. Nevertheless, the trade balance and current account both returned surpluses (3.3% and 1.0% of GDP, respectively), largely owing to the recovery in agricultural exports. Continued rapid growth and further real currency appreciation will have a heftier impact on the external accounts in 2011, since the upswing in agricultural exports of 2010 is unlikely to be repeated.

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	2.0	-0.8	-0.3	2.6	6.8	11.8	8.6	9.2	9.9	...
Goods exports, f.o.b. (millions of dollars)	11 923	15 467	13 807	14 475	13 044	19 074	18 720	17 296	17 104	14 995
Goods imports, c.i.f. (millions of dollars)	8 312	9 056	10 510	10 909	11 067	13 733	15 787	15 915	15 316	12 016
Gross international reserves (millions of dollars)	46 933	46 026	45 348	47 967	47 460	49 240	51 125	52 145	51 298	52 060
Real effective exchange rate (index: 2000=100) ^d	194.6	210.3	220.4	223.2	216.4	206.2	205.1	208.9	211.2	219.7
Open unemployment rate	8.4	8.8	9.1	8.4	8.3	7.8	7.4	7.3	7.4	...
Consumer prices (12-month percentage variation)	6.3	5.3	6.2	7.7	9.7	11.0	11.1	10.9	9.7	9.7
Wholesale prices (12-month percentage variation)	7.1	5.6	6.8	10.3	13.8	15.5	15.1	14.6	13.0	12.5
Average nominal exchange rate (pesos per dollar)	3.54	3.73	3.83	3.81	3.84	3.90	3.94	3.97	4.01	4.07
Average real wage (variation from same quarter of preceding year)	15.1	12.5	10.5	9.2	9.6	11.3	14.4	16.1	16.9	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	12.5	12.1	11.9	10.6	9.5	9.1	9.4	9.5	9.6	9.3 ^f
Lending rate ^g	24.5	21.9	20.8	17.9	15.9	15.2	15.0	14.6	14.8	14.9
Interbank rate ^h	10.9	10.8	10.2	9.3	9.1	9.2	9.3	9.3	9.6	9.7
Sovereign bond spread (basis points) ⁱ	1 894	1 062	784	660	646	821	675	496	539	592
Stock price index (national index to end of period, 31 December 2000=100)	270	381	498	557	570	524	634	845	813	780
Domestic credit (variation from same quarter of preceding year)	3.2	-0.7	-3.5	18.5	49.5	49.9	57.9	59.5	62.3	...
Non-performing loans as a percentage of total credit	2.0	2.1	2.1	2.1	2.0	1.8	1.6	1.3	1.1	1.1 ^f

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1993 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Fixed-term deposits, all maturities.

^f Data to April.

^g Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.

^h Buenos Aires interbank offered rate (BAIBOR).

ⁱ Measured by JP Morgan's EMBI+ index to end of period.

Turning to the merchandise trade balance, export values were up by 23.0% in 2010, reflecting both higher prices (5.3%) and—especially— an upturn in volumes (16.8%), particularly of primary products and industrial manufactures (55.0% and 24.6%, respectively). Industrial manufactures represented their largest ever proportion of Argentina's trade structure in 2010, at 35.1% of all exports, although the manufacturing sector overall ran a trade deficit. Exports continued to expand in the first quarter of 2011, posting a cumulative variation of 31% (15% by price and 14% by volume).

Good imports surged by 45.5% in 2010 (5.7% by price and 37.7% by volume). The fastest-growing categories were motor vehicles (up 80%), fuels (70%) and parts and accessories for capital goods (52%). The GDP elasticity of total imports rose to 3.7%, the highest figure since 2005. Imports showed another powerful surge in the first quarter of 2011—of 40% over the year-earlier period.

Trade in real services returned a deficit that was relatively small compared with the pattern of recent years. Growth in services exports reflects incoming

tourism and the buoyant performance produced in the last few years by exports of business, professional and technical services.

The structural deficit Argentina has been running on its investment income account reached US\$ 10 billion in 2010, 11.1% larger than in 2009 but virtually unchanged in relation to GDP.

Unlike in 2009, in 2010 the capital and financial account showed a net capital inflow, although this has tended to dissipate in early 2011. Foreign direct investment surged by over 50% in 2010 with an inflow of US\$ 6.2 billion, of which 40% corresponded to reinvested earnings. A comparison with other periods shows that reinvested earnings accounted for some 13% of foreign direct investment on average in the 1990s, but as much as 23% in 2004-2008.

The surpluses on the current account and the capital and financial account contributed to a build-up of US\$ 4.212 billion in international reserves in 2010, which took holdings to US\$ 52.145 billion, or the equivalent of 14.1% of GDP, at the end of 2010.

Bolivarian Republic of Venezuela

1. General trends

The Venezuelan economy contracted by 1.4% in 2010, while inflation for the year stood at 27.2%. Stronger economic activity is expected for 2011, with real GDP projected to grow by 4.5%. The inflation rate is expected to remain high because of rising food and other commodity prices, and employment is likely to continue to stagnate.

2. Economic policy

(a) Fiscal policy

The central government's performance in 2010 was better than in 2009, as fiscal revenues outpaced spending in nominal terms. However, preliminary figures as at the third quarter of 2010 indicate that the narrowly defined public sector posted a larger deficit than in 2009. The central government's primary deficit was 2.4% of GDP in 2010, while the overall deficit was 3.7% of GDP (compared with 4% and 5.4% of GDP in 2009).

Central government non-oil revenue fell by 2.3 percentage points of GDP, while oil revenue rose by 0.4 points. Although both capital and current spending shrank as a percentage of GDP, the latter dropped more (2.3 percentage points of GDP), owing mainly to the cutback in transfers to other public bodies. Even so, the central government deployed a greater fiscal stimulus, as nominal spending exceeded inflows, especially non-oil revenue.

In 2010, nominal borrowings by the Bolivarian Republic of Venezuela rose, albeit slightly, as a percentage of GDP. Total debt crept up from 18.4% to 18.6% of GDP, with domestic debt increasing by 1.4% of GDP and external debt falling by 1.2% of GDP. The borrowings were used to finance the public deficit and secure funds for various public programmes. The official debt figures do not,

however, include the country's borrowings from China, which are to be repaid in kind with oil.

The government saw its oil revenue grow following the jump in oil prices in the fourth quarter of 2010 and the first four months of 2011. With an eye to increasing the State's share in profits generated by oil exports, in April 2011 the government established a special levy on windfall prices in the international hydrocarbons market, specifically on exports of liquid hydrocarbons and derivatives. Under the decree-law, when oil prices exceed the price set in the Budget Act but are equal to or lower than US\$ 70 per barrel, a 20% tax will be levied on the difference between the two prices. When prices are above US\$ 70 per barrel but lower than US\$ 90 per barrel, the State will collect 80% of the surplus. When prices are between US\$ 90 and US\$ 99 per barrel, the State will receive 90% of the surplus; and when prices are US\$ 100 or above, the State's share of the surplus will be 95%. The revenue from this tax is channelled into the National Development Fund. In addition, the decree-law establishes a maximum price of US\$ 70 per barrel for the purposes of calculating royalties and the extraction and export registration taxes, and it repeals the previous legislation concerning the special levy on windfall prices in the international hydrocarbons market, in force since April 2008.

In late December 2010, the government moved to invest in infrastructure and repair the damage caused by heavy rains by creating the Simón Bolívar Reconstruction Fund, which would be administered by the Ministry of People's Power for Energy and Petroleum and maintained outside the expenditure budget.

(b) Credit and monetary policy

The central bank pursued an expansionary monetary policy aimed at reviving the economy in 2010. Currency in circulation and, in particular, demand deposits topped the inflation rate (which stood at 27.2%), resulting in a nominal increase in M1 of 40% during the period. The sharp drop in term deposits (-61.5%), however, meant that M2 only rose by 24%, which was actually a slight contraction in real terms. In the first few months of 2011, M1 grew faster than during the same period in 2010, while term deposits returned to growth (8%) in the first quarter of 2011 after bottoming out in December 2010.

In the interest rate arena, monetary policy rates remained unchanged in 2010 and the central bank made no changes to the financial system's maximum and minimum lending and borrowing rates set the previous year. The lending rate ceiling remained at 24% while the maximum rate for credit cards held steady at 29%.

In an effort to boost bank lending, the central bank twice cut the marginal reserve rates for financial institutions in 2010, bringing those rates down from 23% to 17%. Prime lending rates were left unchanged for sectors regarded as strategic by the government, including agriculture, manufacturing and mortgage lending, while the prime rates for the tourism sector were pared back. In addition, the central bank maintained the minimum percentage (10% of gross portfolio as at March 2009) for credit that banks must grant to the industrial sector and to mortgage loans. Late in April 2011, the government launched a large-scale housing support initiative that entailed a 3 percentage point cut in the marginal banking reserve and a hike in the minimum portfolio percentage that banks must allocate to mortgages, from 10% to 12%.

(c) Exchange rate policy

In January 2010, the government established a two-tier exchange rate system comprising a rate of 2.6 bolívares fuertes (BsF) per dollar for selected items, chiefly food, medicine, educational materials, machinery and equipment,¹ and a rate of BsF 4.3 per dollar for other imports. In June 2010, the Transaction System for Foreign Currency Denominated Securities (SITME) was implemented, adopting an implicit exchange rate of BsF 5.3 per dollar for the year 2010. SITME allows the purchase of dollars for operations that are not eligible for currency authorized by the Foreign Exchange Administration Commission (CADIVI). In 2010, the central bank liquidated US\$ 34.844 billion through CADIVI (equivalent to 7.9% more than in 2009), while US\$ 5.08 billion was negotiated through SITME.

On 1 January 2011, the government harmonized the exchange rate at BsF 4.3 per dollar, abolishing the BsF 2.6 per dollar rate. The implicit rate of BsF 5.3 per dollar was maintained in SITME for operations not eligible for the BsF 4.3 per dollar rate authorized by CADIVI.

Despite the devaluation of the bolívar fuerte in January 2011, the country's persistently high inflation in the early months of 2011 caused the real effective exchange rate in March 2011 to be 27% lower (currency appreciation) than the average recorded between 1990 and 2009.

In 2010 the central bank transferred US\$ 7 billion in international reserves to the National Development Fund, bringing those reserves down to US\$ 29.5 billion, or 7.6% of GDP,² in December 2010; that figure compared with US\$ 35 billion, or 10.7% of GDP, in December 2009. Even though oil prices remained high, the central bank's international reserves continued to fall in the first quarter of 2011, leaving a balance of US\$ 26.861 billion at the end of March 2011 subsequent to the central bank's transfer of US\$ 2 billion to the National Development Fund in January and February of the year. In early February 2011, the government withdrew US\$ 829 million from the Macroeconomic Stabilization Fund, leaving a balance of only US\$ 3 million.

¹ This exchange rate was also applied in this period to outward family remittances and some other transactions.

² Using the exchange rate of 2.6 bolívares fuertes per United States dollar to estimate GDP in dollars.

3. The main variables

(a) Economic activity

The downtrend in GDP that began in 2009 showed signs of slowing in the second quarter of 2010, with output expanding slightly in the last quarter of the year (by 0.6% compared with the same period in 2009). As a result, GDP fell by only 1.4% in 2010 compared with the previous year.

The decline was largely triggered by the sluggish activity in 2010 in the manufacturing (-3.5%), construction (-7.0%) and financial and insurance sectors (-4.9%), although the growth in communications (9.3%) and government goods and services (2.6%) helped to minimize the contraction in GDP. On the expenditure side, the dip in GDP was due mainly to weak performance in exports (-12.4%), private final consumption (-2.3%) and gross fixed capital formation (-4.4%); this last item had declined for three consecutive years and in 2010 stood 15.1% lower than in 2007. The contraction in exports at constant prices stemmed chiefly from the lower volume of hydrocarbon exports, although non-oil exports in both the public and private sectors also fell. Private consumption fell off as high inflation rates eroded public-sector revenue. The overall drop in imports (4.6% at constant prices) could be traced in great part to lower private sector goods imports (-14.4%), while public sector imports grew by 28.8% and reflected the expanding share of the public sector in various economic sectors.

The electric power rationing introduced in the wake of the drought that significantly curtailed generating capacity at the Guri dam continued during the first half of 2010 but was suspended in June. As a result, production gradually resumed in the basic industries that had been subject to rationing during the first half of the year.

According to data from the Organization of the Petroleum Exporting Countries (OPEC), oil production by the Bolivarian Republic of Venezuela fell by 1.1% between 2009 and 2010. The second half of 2010 saw renewed investment in extraction activities in response to rising crude oil prices. According to the oilfield services company Baker Hughes, the number of oil drilling rigs in the country rose by an average of 11.2% between 2009 and 2010, while investment in the sector gathered pace in the last quarter of 2010 and the first quarter of 2011.

The Venezuelan economy is expected to post upturn in 2011, with projected GDP growth of 4.5%. The sharp rise in oil prices, coupled with government measures to increase its share of oil revenue, is expected to spur public spending and more widespread availability of hard currency in the economy. This was already evident in the first quarter of 2011, when GDP grew by 4.5% compared with the same period in 2010, boosted by a 10.4% increase in public consumption. However, encouraging private investment in a context of uncertainty, high inflation and a lagging exchange rate poses an ongoing challenge, as indicated by sluggish growth of just 4.9% in gross fixed capital formation in the first quarter of 2011, despite that rate's already low levels in the first quarter of 2010.

(b) Prices, wages and employment

Between December 2009 and December 2010, the national consumer price index rose by 27.2%, outstripping the inflation rate of 25.1% posted in 2009. During the first three months of 2011, inflationary pressures continued, with prices up by 27.4% compared with March 2010 and cumulative inflation reaching 6%. Prices climbed the most in the food and beverage sectors, in particular for farm produce.

As economic activity contracted, the unemployment rate rose, climbing from an average of 7.8% in 2009 to 8.6% in 2010; unemployment was higher in every quarter of 2010 compared with the year-earlier periods. Informal employment also expanded slightly, from 44% in 2009 to 44.5% in 2010, while the average participation rate fell by half a percentage point. In the first quarter of 2011, the unemployment rate mirrored that of first-quarter 2010, but the activity rate dropped off slightly by 0.4 percentage points.

Wages increased by 20.5% in nominal terms between the fourth quarter of 2009 and the same quarter of 2010, but were down in real terms owing to high inflation (27.2%) over the period. The drop was most notable in the public sector, where wages rose by only 9.9% in nominal terms, compared with growth of 25.5% in the private sector. In April 2011, the government ordered a 25% hike in the minimum wage, broken down into an increase of 15% from 1 May and a further 10% from 1 September.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product^c	-8.9	-7.8	18.3	10.3	9.9	8.8	4.2	-3.3	-1.4
Per capita gross domestic product^c	-10.5	-9.4	16.2	8.4	8.0	6.9	2.5	-4.9	-2.9
Gross domestic product, by sector^c									
Agriculture, livestock, hunting, forestry and fishing	-0.8	-1.3	4.4	9.8	1.0	2.6	8.1	-0.5	-1.0
Mining and quarrying	-12.9	-0.3	9.6	2.8	-1.9	-2.7	2.2	-7.5	-0.6
Manufacturing	-13.7	-7.4	23.9	6.0	7.3	3.2	1.7	-6.5	-3.1
Electricity, gas and water	2.1	-0.5	8.5	11.2	4.9	2.6	5.0	4.1	-5.8
Construction	-8.4	-39.5	25.1	20.0	30.6	20.8	10.5	-0.2	-7.0
Wholesale and retail commerce, restaurants and hotels ^d	-12.4	-9.8	28.1	21.5	15.6	16.3	3.0	-7.3	-5.4
Transport, storage and communications	-4.4	-6.5	18.7	18.4	18.9	17.5	12.9	3.4	4.2
Financial institutions, insurance, real estate and business services	-3.1	-3.3	15.9	13.9	18.3	11.0	-1.1	-1.2	-2.8
Community, social and personal services	-0.2	3.4	10.6	8.1	6.9	7.3	6.7	2.3	1.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	-6.2	-2.3	15.2	14.6	14.3	16.3	7.0	-2.2	-1.4
Government consumption	-2.5	5.7	14.2	10.7	9.6	13.8	-0.5	2.3	2.6
Private consumption	-7.1	-4.3	15.4	15.7	15.5	16.9	8.8	-3.2	-2.3
Gross capital formation	-34.0	-35.5	91.3	30.3	36.5	28.2	-1.7	-20.0	0.2
Exports (goods and services)	-4.0	-10.4	13.7	3.8	-3.0	-7.6	-2.2	-12.9	-12.4
Imports (goods and services)	-25.2	-20.9	57.7	35.2	34.8	33.0	1.4	-19.6	-4.6
Percentages of GDP									
Investment and saving^e									
Gross capital formation	21.2	15.2	21.8	23.0	26.9	30.3	25.9	24.8	20.8
National saving	29.3	29.3	35.6	40.5	41.3	38.2	37.9	27.4	24.5
External saving	-8.2	-14.1	-13.8	-17.5	-14.4	-7.8	-12.0	-2.6	-3.7
Millions of dollars									
Balance of payments									
Current account balance	7 599	11 796	15 519	25 447	26 462	18 063	37 392	8 561	14 378
Goods balance	13 421	16 747	22 647	31 708	31 995	22 979	45 656	19 153	27 173
Exports, f.o.b.	26 781	27 230	39 668	55 716	65 578	69 010	95 138	57 595	65 786
Imports, f.o.b.	13 360	10 483	17 021	24 008	33 583	46 031	49 482	38 442	38 613
Services trade balance	-2 909	-2 634	-3 383	-3 997	-4 410	-6 952	-8 354	-7 617	-8 857
Income balance	-2 756	-2 337	-3 673	-2 202	-1 045	2 467	698	-2 652	-3 379
Net current transfers	-157	20	-72	-62	-78	-431	-608	-323	-559
Capital and financial balance ^f	-12 027	-6 342	-13 364	-20 023	-21 558	-23 420	-27 936	-19 360	-22 317
Net foreign direct investment	-244	722	864	1 422	-2 032	978	-924	-4 939	-3 794
Other capital movements	-11 783	-7 064	-14 228	-21 445	-19 526	-24 398	-27 012	-14 421	-18 523
Overall balance	-4 428	5 454	2 155	5 424	4 904	-5 357	9 456	-10 799	-7 939
Variation in reserve assets ^g	4 428	-5 454	-2 155	-5 424	-4 904	5 357	-9 456	10 799	7 939
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	125.1	141.2	139.0	142.2	132.5	118.1	95.8	72.8	110.7
Terms of trade for goods (index: 2005=100)	56.7	63.9	76.5	100.0	119.4	130.9	161.6	117.6	139.8
Net resource transfer (millions of dollars)	-14 783	-8 679	-17 037	-22 225	-22 603	-20 953	-27 238	-22 012	-25 696
Total gross external debt (millions of dollars)	35 460	40 456	43 679	46 427	44 735	53 361	49 087	63 580	72 959
Average annual rates									
Employment									
Labour force participation rate ⁱ	68.7	69.3	68.5	66.3	65.4	64.9	64.9	65.3	64.7
Open unemployment rate ^j	15.8	18.0	15.3	12.4	9.9	8.4	7.3	7.8	8.6
Annual percentages									
Prices									
Variation in consumer prices (December-December) ^k	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9	27.4
Variation in wholesale prices (December-December)	49.4	48.4	23.1	14.2	15.9	17.2	32.4	24.8	26.8
Variation in nominal exchange rate (annual average)	60.5	38.7	17.0	11.8	1.9	0.0	0.0	0.0	97.6
Variation in average real wage	-11.0	-17.6	0.2	2.6	5.1	1.2	-4.5	-6.6	-5.2
Nominal deposit rate ^l	28.8	17.2	12.6	11.7	10.1	10.6	16.0	15.6	14.7
Nominal lending rate ^m	38.4	25.7	17.3	15.6	14.6	16.7	22.8	20.6	18.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue	22.2	23.4	24.0	27.5	29.7	28.6	24.9	21.6	19.0
Tax revenue	10.6	11.3	12.7	15.3	15.6	16.0	13.6	13.5	10.9
Total expenditure ⁿ	26.1	27.8	25.9	25.9	29.8	25.6	26.1	26.7	22.7
Current expenditure	20.3	22.1	20.4	19.6	22.6	19.7	20.0	20.8	18.3
Interest	4.6	4.7	3.7	2.9	2.1	1.5	1.3	1.3	1.3
Capital expenditure	5.1	5.5	5.0	5.8	6.7	5.8	5.8	5.5	4.0
Primary balance	0.6	0.3	1.8	4.6	2.0	4.5	0.1	-3.7	-2.4
Overall balance	-4.0	-4.4	-1.9	1.6	-0.0	3.0	-1.2	-5.1	-3.7
Non-financial public sector debt									
Domestic	15.1	17.8	14.0	11.0	9.2	7.3	4.6	7.6	8.9
External	27.3	28.4	24.2	21.7	14.9	11.9	9.6	10.8	9.5
Money and credit^o									
Domestic credit ^p	15.0	18.9	19.1	20.8	33.6	32.2	29.0	...	...
To the public sector	4.1	4.0	4.5	3.3	6.3	4.3	2.4	...	...
To the private sector	9.6	8.6	10.7	12.7	16.5	22.8	21.1	...	...
Others	1.3	6.3	3.9	4.7	10.8	5.1	5.5	...	...
Liquidity (M3)	18.2	23.0	21.8	23.3	30.4	31.0	29.1	33.6	28.9

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1997 prices.

^c As of 2007, figures were estimated on the basis of the quarterly figures at constant 1997 prices, published by the Central Bank of Venezuela.

^d As of 2007 does not include restaurant and hotel activities, which are included in total GDP.

^e Based on figures in local currency expressed in dollars at current prices.

^f Includes errors and omissions.

^g A minus sign (-) denotes an increase in reserves.

^h Annual average, weighted by the value of goods exports and imports.

ⁱ Economically active population as a percentage of the working-age population, nationwide total.

^j Percentage of the economically active population, nationwide total.

^k Refers to Caracas metropolitan area.

^l 90-day deposits.

^m Average lending rate of the country's six major commercial and universal banks.

ⁿ Includes extraordinary expenditure and net lending.

^o The monetary figures are end-of-year stocks.

^p Refers to domestic credit of the commercial and universal banks.

(c) The external sector

The current account surplus for 2010 stood at 3.7% of GDP, which reflected an improvement over the 2.6% surplus posted in 2009.

In terms of value, goods exports rose by 14.2% vis-à-vis 2009, but they shrank slightly in GDP terms, from 17.7% of GDP in 2009 to 17.1% in 2010. The increase in value terms was attributable entirely to higher export prices, particularly for Venezuelan crude, which shot up by 27.5% between 2009 and 2010. As noted earlier, export volumes fell significantly in 2010, both in the oil sector and in the rest of the economy. Goods imports grew by just 0.4% in value, with the drop in volume being partly offset by higher import prices.

The deficit on the capital and financial account widened slightly in 2010 to 4.9% of GDP (compared with 4.3% of GDP in 2009). This was due mainly to growth in the external assets held by both the private and public

sectors, particularly private sector deposits abroad, the central bank transfer of US\$ 7 billion to the National Development Fund and the expansion of the external assets of the State-owned oil company *Petróleos de Venezuela S.A. (PDVSA)*. The negative balance of foreign direct investment in the country shrank from 1% of GDP in 2009 to 0.4% of GDP in 2010, while Venezuelan outward direct investment remained steady at 0.6% of GDP. Lastly, with respect to 2009, in 2010 the portfolio investment account recorded a smaller issuance of external debt and, accordingly, a smaller surplus (0.8% of GDP, compared with 2.7% in 2009). In 2010, both PDVSA and the central government placed bonds: the PDVSA 2017 bond and redeemable bond 2022 respectively.

The current account is expected to deteriorate in 2011 despite rising oil prices, owing to sluggish growth in the value of exports compared with imports in a setting of economic recovery. In the first quarter, for example, exports grew by 25.1% whereas imports grew by 27.4%.

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	0.7	-2.5	-4.5	-5.8	-4.8	-1.7	-0.2	0.5	4.5	...
Goods exports, f.o.b. (millions of dollars)	9 840	14 560	16 445	16 750	16 511	16 064	15 520	17 691	20 661	...
Goods imports, f.o.b. (millions of dollars)	12 295	11 023	9 635	9 012	8 295	10 953	10 883	12 070	10 577	...
Gross international reserves (millions of dollars)	28 992	30 750	33 697	35 830	29 186	29 351	29 768	27 911	26 864	29 279
Real effective exchange rate (index: 2000=100) ^d	76.9	74.6	71.5	68.2	118.7	111.8	107.4	104.6	103.7	101.8
Unemployment rate	8.2	7.7	8.3	6.9	9.2	8.2	8.9	8.0	9.2	...
Consumer prices (12-month percentage variation)	28.5	27.4	28.9	26.9	28.2	31.8	28.5	27.4	28.7	24.8
Wholesale price index, includes value added tax. (12-month percentage variation)	29.3	31.9	33.9	24.8	26.1	31.7	25.0	26.8	26.7	18.9
Average nominal exchange rate (bolivares per dollar)	2 147	2 147	2 147	2 147	4 090	4 295	4 295	4 295	4 295	4 295
Average real wage (variation from same quarter of preceding year)	-5.4	-8.7	-5.1	-4.0	-1.6	-7.7	-6.2	-5.3	-8.2	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	4.3	4.0	3.9	3.8	3.6	3.7	3.7	3.8	4.2	4.4 ^f
Lending rate ^g	22.5	21.1	19.4	19.4	18.6	17.8	17.7	17.8	17.5	17.7 ^f
Sovereign bond spread (basis points) ^h	1 567	1 186	884	1 017	881	1 230	1 154	1 044	1 035	1 127
Stock price index (national index to end of period, 31 December 2000=100)	640	653	738	807	855	955	956	957	1 030	1 181
Non-performing loans as a percentage of total credit	2.2	2.4	2.5	2.8	3.3	...	...	...	...	...

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1997 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e 90-day deposits.

^f Data to April.

^g Average lending rate of the country's six major commercial banks.

^h Measured by JP Morgan's EMBI+ index to end of period.

Brazil

1. General trends

The Brazilian economy demonstrated its vibrancy in 2010, staging a rapid recovery from the impact of the international crisis, with 7.5% GDP growth, the highest rate observed since 1986. This expansion was underpinned by the response of the domestic market and the rebound in exports. However, the strength of domestic demand and the higher commodity prices in external markets pushed inflation up to 5.9% in 2010, which the economic authorities viewed as perilously close to the upper limit of the inflation target of 6.5%. In an effort to contain these pressures, the authorities adopted a tough monetary stance (raising interest rates) and strict credit policies (imposing more stringent lending conditions) and have programmed cuts in public expenditure for 2011. These steps, together with the dismantling of measures introduced in 2010 to address the crisis, will also help to mitigate the impact of fiscal policy on economic activity. Thus, lower growth of approximately 4.0% is forecast for 2011.

The new administration of President Dilma Roussef, which took over in January 2011, reaffirmed its commitment to macroeconomic stability and maintaining economic growth. Shortly after taking office, the new federal government, faced with a deterioration in inflation expectations, announced a fiscal package designed to cut back expenditure by almost 50 billion reais. The public-sector primary surplus to April was equivalent to 4.54% of GDP, up from 3.5% in the same period of 2010.

The central bank raised the Special System of Clearance and Custody (SELIC) interest rate from its lower nominal level of 8.75% to 12% in April 2011. This corresponds to a real annual rate of over 6%. The tightening of monetary policy has gone hand in hand with the implementation of macroprudential regulations geared to reinforcing the capitalization of the financial system, containing credit expansion and strengthening entities against the eventuality of further delays in the disbursement of approved loans.

These measures were complemented by a strategy for coping with the rapid rise in the value of the currency as a result of the amount of capital flooding into the country. The purchase of hard currencies on the foreign-exchange market, which swelled international reserves to approximately US\$ 330 billion in April 2011, was accompanied by more rigorous measures designed to discourage the inflow of short-term foreign capital, including the imposition of a tax on specific types of financial operations. This tax was set at 2% in October 2009 and reached 6% in October 2010.

The initial results for 2011 point to steady economic growth with a gradual impact on the rate of inflation, aided by a fall in fuel prices due to the continuing currency appreciation. In the first quarter of 2011, GDP grew by 1.3% over the last quarter of 2010 and by 4.2% in relation to the first quarter of 2010, at a time when growth has been slowing as confirmed by industrial production data and overall sales figures for April.

2. Economic policy

(a) Fiscal policy

Public-sector results for 2010 still reflected the use of measures adopted in 2009 to address the crisis and their gradual withdrawal during the course of the year. The public-sector primary surplus was equivalent to 2.78% of GDP, surpassing that of 2.03% of GDP recorded in 2009. This improvement reflects in part the posting of the capitalization operation concluded between the Treasury and Petrobras, which resulted in a net inflow equivalent to 0.87% of GDP. In 2010, federal government tax receipts (excluding those relating to the Petrobras operation) grew by 13.6%, compared with just 3.2% in 2009. Expenditure again increased significantly: by 14.9%, the same rate as in 2009. Payroll costs, social security payments and investment projects were the main factors pushing up expenditure.

In the first few months of 2011, fiscal policy sought to restore the public-sector primary surplus to a level close to the target of 3.0% of GDP. Between January and April, the federal government accrued a primary surplus equivalent to half of its annual target of 82 billion reais. The subnational governments also recorded a surplus, which stood at 16.7 billion reais, a 27.2% increase over the figure for the same period in 2010. The sustained growth has fuelled successive increases in tax collection. Federal tax collections were up by 18.4% in the first four months of the year. Following rate reductions, collections from the tax on industrial goods, which served as a valuable instrument in alleviating the impact of the crisis, picked up by 22.0%. Favourable corporate results, especially those of financial institutions and those relating to commodity exports, contributed to a 16.3% rise in income tax receipts.

On the expenditure side, the new government announced cut-backs of 50 billion reais in the 2011 budget, which in real terms was tantamount to zero growth in the budget. However, the government has maintained social initiatives, such as the Bolsa Familia programme or the new programme for overcoming extreme poverty, and investment projects that are part of its Growth Acceleration Programme, version two. In terms of its main expenditure, the government has postponed hiring new civil servants and launching wage negotiations with existing staff; the Congress passed a law which establishes an increase in the minimum wage, indexed on past inflation and the variation in GDP over the two preceding years. The authorities have sought to raise efficiency with less resources including greater control and a reduction in travel costs and other current expenditure.

The government is also facing higher spending pressures, especially with regard to the infrastructure for the major events scheduled to take place in the country, namely the 2014 Football World Cup and the 2016 Olympic Games. Other investments will also be necessary, in particular for the exploration of new areas of production by Petrobras. For the third year in a row, the Brazilian Development Bank (BNDES) will receive an injection of new capital, this time amounting to 50 billion reais, almost half the amount transferred annually in the previous years. In addition, with the rise in the interest rate, interest payments are expected to increase; payments in January-April 2011 were already 30.9% higher than in the same period of 2010.

(b) Monetary policy

With the recovery in economic activity in the last three quarters of 2009, the central bank took steps throughout 2010 to eliminate the incentives and special lines of credit which had been put in place in response to the crisis. The support mechanisms provided to Brazilian companies to enable them to reschedule their foreign debts or obtain credit for their exports were dismantled; the legal reserve requirement for banks was adjusted, which meant that liquidity contracted by over 100 billion reais; and essentially from April, the authorities started to raise the basic SELIC interest rate in order to rein in domestic demand. In September, these interest rate rises were halted but were resumed in January 2011. By April, the rate stood at 12%.

In the last few months of 2010, the central bank started to introduce new conditions for granting certain types of credit. For example, the capital requirement ratio was raised from 11% to 16.5% for operations of over 24 months involving natural persons or for 14-to-36-month operations for motor vehicle loans, provided the down payment was not more than 20% of the total cost; to 30% for operations of 37-48 months; and to 40% for operations of over 48 months. In addition, the marginal reserve ratio for sight deposits was increased from 8% to 12% and for long-term deposits from 15% to 20%. These higher legal reserve ratios should reduce liquidity by 61 billion reais. In addition to these measures, various initiatives have been adopted to strengthen control over sales consortia and credit cards.

Although credit expanded in the first four months of 2011 by much the same rate as in 2010, it was more

expensive with slower growth in the operations of public institutions, which had been largely responsible for the sharp growth in credit during the crisis. Moreover, the central bank has indicated that its objective is to gradually bring the rate of inflation back down to the middle of the target of 4.5% by the end of 2012. The central bank thus hopes to be in a position to support a sustainable level of economic growth, combining price stability with the expansion of production capacity.

Another economic policy challenge in Brazil has been the substantial influx of foreign capital. In 2010, net foreign direct investment (FDI) inflows represented US\$ 36.9 billion and net portfolio investments exceeded US\$ 64.5 billion. This abundance of foreign exchange placed strong pressure on the exchange rate, which was countered by significant purchases by the central bank. International reserves swelled by over US\$ 49 billion, closing the year at US\$ 288.575 billion. These strong

capital movements continued into 2011. In the first four months, net inflows exceeded US\$ 34.5 billion and were absorbed through central bank purchases, bringing international reserves to US\$ 328.062 billion. However, the currency continued to appreciate against the United States dollar, gaining more than 10% cumulatively between the end of 2009 and April 2011. With domestic inflation at a higher rate, the real exchange rate continued to deteriorate. According to ECLAC data, in the twelve months to May 2011, the real effective exchange rate fell by 11.2%, compared with the level twelve months earlier.

In order to differentiate between the types of inflows, in October 2010, the authorities once again raised the tax on financial operations by two percentage points, in particular on short-term inflows intended for stock purchases. Following this rise, the rate stood at 6%. In April 2011, the tax was extended to short-term loans of up to two years and the rate set at 6%.

3. The main variables

(a) Economic activity

Brazil's economic performance in 2010 was remarkable as witness the high growth of 7.5%; the increase in formal employment by 2.1 million new posts; the reduction in the rate of unemployment to its lowest levels: an average of 6.7% in the principal metropolitan regions; and a 4.4% increase in real average income. Investment in civil construction as well as in the purchase of locally produced and imported equipment rallied by 21.8%, boosted by public and private financing with funding from BNDES, which disbursed more than 169 billion reais, or approximately 4.6% of GDP.

In the first quarter of 2011, the Brazilian economy grew by 1.3% in relation to the previous quarter so that the cumulative 12-month growth rate was 4.2%. The quarterly rate was higher than those of the two previous quarters (0.4% and 0.8%). Nevertheless, in comparison with the same period of the previous year, activity has been growing more slowly. This slowdown is concentrated mainly in the processing industry, where the total production level has stabilized in recent months, close to the peaks observed before the 2008 crisis, with 1.6% cumulative growth between January and April, compared with 9.7% in 2010. The pace of growth has varied however from one industry to the next. The production of capital goods grew by 6.2% in the first four months of 2011, compared with the same period in 2010 and the production of consumer durables

was up by 2.3%, with automobile production increasing by 1.9%. Intermediate goods and semi-durables expanded by 1.1% and 0.1%, respectively, in the four-month period compared with the same period in 2010.

The growth in the production of capital goods is related to the increase in gross fixed capital formation, which in the first quarter of 2011 grew by 8.8% in relation to the same quarter of 2010. Civil construction recorded an increase of 5.2% over the same period. Agriculture is also expected to post favourable results in 2011, with growth rates of close to 6.5% in 2010. A 6% expansion is projected for this year's grain harvest and the livestock sector will again perform robustly with the rally in external demand for its products.

Overall consumption, including household and public consumption, was a vital component in the Brazilian economy's resilience in the face of the crisis. Even with the impact of the economic recession, household consumption has grown steadily since the end of 2003, attaining cumulative growth of 7.0%, a rate unseen since the 1980s. In addition to sound labour-market conditions, credit has played an essential role in sustaining the higher level of purchases. In 2010, credit to private individuals increased by 21.9% and credit for housing soared by over 50.4%. In the first quarter of 2011, household consumer growth slowed down, with a variation of 0.8% compared with the previous quarter, reflecting the impact of the higher inflation on income and the higher cost of credit operations.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2008	2010 ^a
Annual growth rates^b									
Gross domestic product	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.6	7.5
Per capita gross domestic product	1.2	-0.2	4.4	1.9	2.8	5.0	4.1	-1.6	6.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.1	1.3	7.9	2.1	2.2	5.3	4.1	-6.4	10.1
Mining and quarrying	2.4	1.9	8.5	1.2	1.0	5.6	3.0	-8.2	9.7
Manufacturing	-2.2	-3.3	6.6	1.8	4.7	4.9	7.9	-6.3	11.6
Electricity, gas and water	2.1	1.3	7.9	2.1	2.2	5.3	4.1	-6.4	10.1
Construction	2.9	4.0	8.4	3.0	3.5	5.4	4.5	-2.6	7.8
Wholesale and retail commerce, restaurants and hotels	2.8	-3.1	5.9	3.5	2.1	5.0	7.0	-2.5	8.9
Transport, storage and communications	5.0	4.4	5.5	4.0	1.6	7.4	8.8	3.8	3.8
Financial institutions, insurance, real estate and business services	3.9	1.5	4.2	3.7	4.0	5.4	3.7	3.6	3.8
Community, social and personal services	3.2	0.8	5.0	3.7	4.2	6.1	4.9	2.2	5.4
Gross domestic product, by type of expenditure									
Government consumption	4.7	1.2	4.1	2.3	2.6	5.1	3.2	3.9	3.3
Private consumption	1.9	-0.8	3.8	4.5	5.2	6.1	5.7	4.2	7.0
Gross fixed capital formation	-5.2	-4.6	9.1	3.6	9.8	13.9	13.6	-10.3	21.8
Exports (goods and services)	7.4	10.4	15.3	9.3	5.0	6.2	0.5	-10.2	11.5
Imports (goods and services)	-11.8	-1.6	13.3	8.5	18.4	19.9	15.4	-11.5	36.2
Percentages of GDP									
Investment and saving^c									
Gross fixed capital formation	16.2	15.8	17.1	16.2	16.8	18.3	20.7	16.5	19.2
National saving	14.7	16.5	18.9	17.8	18.0	18.4	19.0	15.0	17.0
External saving	1.5	-0.8	-1.8	-1.6	-1.3	-0.1	1.7	1.5	2.3
Millions of dollars									
Balance of payments									
Current account balance	-7 637	4 177	11 679	13 985	13 643	1 551	-28 192	-24 302	-47 365
Goods balance	13 121	24 794	33 641	44 703	46 457	40 032	24 836	25 290	20 221
Exports, f.o.b.	60 362	73 084	96 475	118 308	137 807	160 649	197 942	152 995	201 915
Imports, f.o.b.	47 240	48 290	62 835	73 606	91 351	120 617	173 107	127 705	181 694
Services trade balance	-4 957	-4 931	-4 678	-8 309	-9 640	-13 219	-16 690	-19 245	-30 807
Income balance	-18 191	-18 552	-20 520	-25 967	-27 480	-29 291	-40 562	-33 684	-39 567
Net current transfers	2 390	2 867	3 236	3 558	4 306	4 029	4 224	3 338	2 788
Capital and financial balance ^d	-3 542	-451	-5 073	13 606	16 927	85 934	31 161	70 953	96 465
Net foreign direct investment	14 108	9 894	8 339	12 550	-9 380	27 518	24 601	36 033	36 919
Other capital movements	-17 650	-10 345	-13 412	1 056	26 307	58 415	6 560	34 920	59 546
Overall balance	-11 178	3 726	6 607	27 590	30 569	87 484	2 969	46 651	49 101
Variation in reserve assets ^e	-302	-8 496	-2 244	-4 319	-30 569	-87 484	-2 969	-46 651	-49 101
Other financing	11 480	4 769	-4 363	-23 271	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	132.6	131.1	123.8	100.5	88.9	82.6	79.9	81.2	70.1
Terms of trade for goods (index: 2005=100)	99.2	97.8	98.7	100.0	105.3	107.5	111.3	108.7	126.1
Net resource transfer (millions of dollars)	-10 252	-14 234	-29 955	-35 633	-10 553	56 642	-9 401	37 269	56 899
Total gross external debt (millions of dollars)	210 711	214 929	201 373	169 451	172 589	193 219	198 340	198 192	256 804
Average annual rates									
Employment									
Labour force participation rate ^g	56.7	57.1	57.2	56.6	56.9	56.9	57.0	56.7	57.1
Open unemployment rate ^h	11.7	12.3	11.5	9.8	10.0	9.3	7.9	8.1	6.7
Visible underemployment rate ⁱ	4.1	5.0	4.6	3.7	4.1	3.6	3.1	3.1	2.7
Annual percentages									
Prices									
Variation in consumer prices (December-December)	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.9
Variation in wholesale prices (IPA-Media) (December-December)	33.6	7.6	15.1	-1.0	4.4	9.2	10.8	-4.4	13.9
Variation in nominal exchange rate (annual average)	24.3	5.3	-4.9	-16.7	-10.8	-10.5	-5.7	8.9	-12.0
Variation in average real wage	-2.1	-8.8	0.7	-0.3	3.5	1.5	2.1	1.3	2.1
Nominal deposit rate ^j	9.2	11.1	8.1	9.2	8.3	7.7	7.9	6.9	6.9
Nominal lending rate ^k	44.4	49.8	41.1	43.7	40.0	34.5	38.8	40.4	38.5

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2008	2010 ^a
	Percentages of GDP								
Central government									
Total revenue	21.6	20.9	21.5	22.7	22.9	23.2	23.6	23.1	25.0
Total expenditure	22.8	25.3	23.4	26.3	25.8	25.1	24.8	26.7	25.9
Current expenditure	18.4	21.7	19.6	22.1	21.4	20.6	20.1	22.1	19.9
Interest ^l	3.4	6.6	4.4	6.1	4.9	4.1	3.6	4.8	3.1
Capital expenditure	4.4	3.5	3.8	4.2	4.3	4.5	4.7	4.6	6.1
Primary balance ^l	2.2	2.3	2.6	2.5	2.1	2.2	2.4	1.3	2.2
Overall balance	-1.2	-4.3	-1.9	-3.6	-2.9	-1.9	-1.2	-3.5	-1.0
Federal-government and central bank public-debt	37.9	34.0	31.0	30.9	31.0	30.7	24.0	29.3	27.6
Domestic	24.6	24.6	24.5	28.8	33.0	38.8	35.8	39.1	38.2
External ^m	13.4	9.4	6.4	2.2	-2.0	-8.1	-11.8	-9.8	-10.6
Money and creditⁿ									
Domestic credit	74.6	75.5	73.7	78.3	86.2	91.0	99.0	102.8	107.2
To the public sector	41.8	43.6	41.7	41.3	42.4	39.9	39.6	39.1	37.0
To the private sector	32.5	31.8	32.0	37.0	43.8	51.0	59.3	63.6	70.1
Others	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Currency outside banks and local-currency deposits (M2)	26.9	24.3	25.4	27.1	27.8	29.2	35.3	36.6	36.9

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

^a Preliminary figures.

^b Index based on the previous year's prices in local currency.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; six metropolitan areas.

^h Percentage of the economically active population; six metropolitan areas.

ⁱ Percentage of the working population; six metropolitan areas.

^j Interest rate on savings.

^k Pre-set corporate rate.

^l Based on the "below-the-line" criterion. Central Bank of Brazil.

^m Refers to net public external debt.

ⁿ The monetary figures are end-of-year stocks.

(b) Prices, wages and employment

In the last few months of 2010, Brazil started to feel the repercussions of the rise in international commodity prices. Between August 2010 and April 2011, wholesale agricultural prices shot up by 24.8%. To a lesser degree, wholesale prices for industrial products, which had slumped in 2009 (-4.43%) as a result of the crisis, rose by 10.3% in 2010 in response to the upturn. The extended national consumer price index (IPCA) moved up throughout the year, averaging 5.91% in 2010 compared with 4.31% in 2009. In April 2011, the 12-month variation was 6.51%, exceeding the upper target limit.

However, prices for agricultural crops, especially sugar cane used to produce ethanol, trended sharply downward, declining by 0.6% in April. The wholesale price index was practically flat in May 2011. With the fall in ethanol prices, decreases of up to 10% were observed in the price of gasoline, which contains up to 25% ethanol.

The challenge for the coming months will be to incorporate price rises in the indexation mechanisms that still operate in the Brazilian economy, in particular for rental contracts of over one year and for public utilities.

Future wage negotiations should also be followed closely, as rising prices for agricultural products and services will be an additional pressure in favour of wage increases. Up to April 2011, the trend in wage indicators remained favourable. The wage bill in the main metropolitan areas continued to expand, registering an increase of 5.6% in comparison with April 2010. Real average income rose by 3.2%. In the six main metropolitan areas, the employment rate edged up by 0.6 percentage points during the first five months of the year compared with the same period in 2010, which resulted in a fall in the unemployment rate from 7.4% to 6.4%. In the same period, the number of formal-sector wage-earners increased by 6%.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-3.0	-2.8	-1.8	5.0	9.3	9.2	6.7	5.0	4.2	...
Goods exports, f.o.b. (millions of dollars)	31 178	38 774	41 846	41 197	39 230	49 958	55 742	56 986	51 233	43 382
Goods imports, c.i.f. (millions of dollars)	28 190	27 856	34 574	37 102	38 347	42 956	50 916	49 475	48 064	37 992
Gross international reserves (millions of dollars)	190 388	201 467	221 629	238 520	243 762	253 114	275 206	288 575	317 146	33 317
Real effective exchange rate (index: 2000=100) ^d	92.2	83.7	76.3	72.3	72.4	70.4	69.4	68.2	66.6	64.8
Urban unemployment rate	8.6	8.6	7.9	7.2	7.4	7.3	6.6	5.7	6.3	...
Precios al consumidor (12-month percentage variation)	5.6	4.8	4.3	4.3	5.2	4.8	4.7	5.9	6.3	6.6
Wholesale prices (IPA-M) (12-month percentage variation)	5.6	-0.6	-3.0	-4.4	0.5	5.0	9.3	13.9	13.5	7.9
Average nominal exchange rate (reais per dollar)	2.32	2.08	1.87	1.74	1.80	1.79	1.75	1.70	1.67	1.60
Average real wage (variation from same quarter of preceding year)	4.5	2.7	0.6	-1.8	1.0	1.6	3.8	1.7	1.3	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	7.7	6.9	6.7	6.4	6.5	6.6	7.3	7.1	7.2	...
Lending rate ^f	43.0	41.8	39.4	37.4	37.4	37.7	40.0	39.0	41.2	42.6 ^g
Interbank interest rate ^h	12.5	10.2	8.7	8.6	8.6	9.3	10.5	10.6	10.9	11.7 ^g
Sovereign bond spread (basis points) ⁱ	425	284	234	192	185	248	206	189	173	175
Stock price index (national index to end of period, 31 December 2000=100)	268	337	403	449	461	399	455	454	449	423
Domestic credit (variation from same quarter of preceding year)	15.3	12.5	13.1	9.1	19.6	20.7	20.3	20.3	18.3	19.0 ^g
Non-performing loans as a percentage of total credit	3.7	4.3	4.5	4.3	4.0	3.6	3.4	3.2	3.2	3.4

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

^a Preliminary figures.

^b Data to May.

^c Index based on the previous year's prices in local currency.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Interest rate on savings.

^f Pre-set corporate rate.

^g Data to April.

^h Certificates of interbank deposit rate, overnight.

ⁱ Measured by JP Morgan's EMBI+ index to end of period.

(c) The external sector

The abundant international liquidity generated by the measures adopted in the developed countries in order to keep interest rates down or boost the money supply has resulted in strong inflows of foreign exchange into Brazil in the form of direct or portfolio investments and credit inflows. Thanks to this liquidity, there was no difficulty in financing the significant foreign currency expenditure resulting from rising imports or the higher payments for goods and services and repatriation of profits. Consequently, the country had to use more external savings with a widening deficit on the current account. In the first four months of the year, the Brazilian trade balance showed a surplus amounting to US\$ 5.032 billion, or 132% more than in same period of 2010. The increase in exports (31.3%) outstripped the rise in imports (27.0%), thanks to

commodity sales, which exceeded those of manufactures in 2010 and constituted the leading category of exports from Brazil.

Export performance up to April 2011 was shored up by the windfall prices (up 27.1% over those of the corresponding period in 2010), while export volumes expanded by just 3% over the year-earlier period. In terms of the cumulative rises for January to April 2011, increases were observed for all categories, led by commodities (up 45.5%), while semi-finished goods were up by 21.1% and manufactured goods by 12.4%. In volume terms, semi-finished products climbed by 9.2%, commodities by only 1.1% and manufactures by 3.1%.

During the period January-April, the value of imports increased by 27.0%, while the overall increase (including both prices and volumes) was 12.7%. However, the rate of expansion of Brazilian imports slowed slightly by

4.6 percentage points in volume terms, owing to the increase in prices in particular those of fuels (32.0%), in comparison with the same four-month period in 2010. In the other import categories, cumulative growth rates over the year were lower than those of the 12 months up to April 2011: for example, capital goods (up 28.3% compared with 44.4% in the earlier period), intermediate goods (up 9.6% in contrast with 26.4%) and consumer non-durables (18.4% and 24.5%). Imports of consumer durables maintained a growth rate of 38%, with motor vehicle sales especially buoyant.

The income and services deficit widened in the first four months of 2011 to stand at US\$ 24.236 billion (up from US\$ 19.771 billion in the same period of 2010). During the same period, owing to falling rates on world markets, the net interest payment amounted to US\$ 3.083 billion (compared with US\$ 3.743 billion in the same period in 2010). Given the positive results from their subsidiaries and the parent companies' capital requirements, multinationals will repatriate net dividends and profits totalling US\$ 10.515 billion (up from US\$ 7.931 billion in the same period in 2010).

The current transactions deficit continued to grow in 2011, recording US\$ 18.119 billion up to April, compared with a deficit of US\$ 16.565 billion in the same period of 2010. However as GDP grew strongly throughout 2010, the deficit, expressed as a percentage of GDP, declined from 2.46% for the first four months of 2010 to 2.39%.

In the first four months of 2011, the surplus on the capital and financial account almost doubled (amounting to US\$ 53.418 billion, compared with US\$ 27.614 billion in the same period of 2010). This points to the more abundant liquidity position in international financial markets and the incremental rate of return on Brazilian assets. It was mainly foreign direct investment that increased in the first four months as a net inflow of US\$ 31.658 billion was recorded, similar to the amount for the entire year 2010, which was US\$ 36.919 billion. Portfolio investment declined from a net positive position of US\$ 15.274 billion in the first four-month period of 2010 to US\$ 12.730 billion in the same period of 2011, bearing in mind the higher cost of short-term operations for the implementation of the higher tax rate now applying, which stands at 6% in some cases.

The total external debt stood at US\$ 282.461 billion in April 2011, up from US\$ 256.804 billion in December 2010. The widening short-term debt, which at the end of 2009 amounted to US\$ 30.973 billion, increased to US\$ 57.307 billion in December 2010 and swelled to US\$ 64.333 billion in April 2011. Nevertheless, the country's external debt indicators did not show any further deterioration. The debt service to exports ratio fell from 23.0% in December 2010 to 21.2% in April 2011; the debt burden ratio decreased from 6.7% to 6.3%; the total debt/GDP ratio increased from 12.3% to 13.0%; and the international reserves/short-term external debt ratio rose from 371.4% to 386%.

Chile

1. General trends

The pattern of economic activity in 2010 was shaped by recovery from the crisis of 2008-2009 and the February earthquake, which struck a large area of the country and caused extensive damage to infrastructure. Until the earthquake, the economy had been well on the road to recovery from the impact of the global financial crisis, which heavily weakened domestic demand amid deteriorating growth expectations in 2009 and a drop in exports, albeit softened by China's robust demand for raw materials. Production slumped in the first quarter of 2010 following the earthquake, but began to rebound in the second semester as domestic-demand-driven sectors of production were buoyed by rising consumption and investment, and export sectors by external demand. Employment rates rose, which also contributed to this pattern. Thanks to this combination of factors—together with the low basis for comparison owing to the contraction of economic activity in 2009—GDP expanded at an annual rate of 5.2% in 2010, unemployment eased down throughout the year to average 8.2% (as against 11% in 2009)¹ and year-on-year inflation stood at 3% over 2009 in December.

The cyclical recovery continued to drive economic activity in 2011, which gained further momentum from an upturn in the construction sector thanks to both reconstruction efforts and brightening growth expectations as the difficult conditions created by the global financial crisis and the earthquake dissipated. Accordingly, growth is projected at somewhere between 6.2% and 6.5% for 2011 overall.

Although import values climbed strongly on the back of buoyant consumption, investment in machinery and equipment and high fuel prices, the balance-of-

payments current account posted a small surplus in 2010 owing to rising prices for Chile's main export products, and remained in positive territory in the first semester of 2011.

Lastly, a new government took office in March 2010. The proposals of the new government, which is from the opposite side of the political spectrum from the previous one, are aimed at achieving annual growth rates of around 6% while maintaining the previous government's commitment to strengthening social protection.

¹ The employment figures for 2010 are not directly comparable to those for 2009 owing to a methodological change, since a new employment survey was rolled out in 2010.

2. Economic policy

(a) Fiscal policy

Fiscal policy continued to target a medium-term structural balance (0% of GDP in 2014). In 2010 the current fiscal deficit was 0.4% of GDP—equating to a structural deficit of 2.1% of GDP.

Total revenues of the consolidated central government were up by 28.4% on 2009 revenues in real terms and represented 22.7% of GDP. This was largely a reflection of tax income from private mining concerns, which surged by 130.0% in real terms over the 2009 figure, and to the revenues of the National Cooper Corporation (CODLECO), which jumped by 87.7% in real terms, owing to high copper prices. Receipts from VAT, external trade and income tax also rose substantially thanks to rising domestic demand.

The total expenditure of the consolidated central government climbed by 7% in real terms to reach 23.1% of GDP in 2010, reflecting the continuation of the countercyclical measures adopted in response to the global financial crisis, which had already pushed public spending up strongly in 2009. The higher spending continued into 2010, although now it was directed towards mitigating the impacts of the earthquake and towards reconstruction efforts, particularly in the second half of the year.

The government continued to contribute to its sovereign funds held abroad during the year. The Pension Reserve Fund stood at US\$ 3.837 billion at the close of 2010, US\$ 415.9 million up on 2009. The Economic and Social Stabilization Fund (FEES) reached US\$ 12.72 billion, which was US\$ 1.435 billion more than in 2009, thanks to deposits of US\$ 1 billion from bond issues in the international market and the transfer of the balance of US\$ 362 million left in the Fuel Price Stabilization Fund upon its maturity.

In 2011, the economic upturn allowed the fiscal stimulus to be withdrawn and public spending returned to trend values. The government projected a real increase of 5.5% in public spending, below its GDP growth projection of 6.1%. The thinking is to break the trend that began in 2006 whereby public spending has been growing at rates well above GDP and to shift back on track towards a structural balance in 2014.

In April, amid significant currency appreciation (the Chilean State sells its dollar revenues to fund its spending), which has eroded the profits of the tradable goods producing sectors, and mounting expectations of

higher inflation owing to rising food and fuel prices, the slant of short-term fiscal policy turned less expansionary. Various public spending cuts have been made, to the tune of US\$ 750 million, equating to 1.3% of the total (0.38% of GDP). As a result of these cuts and of still-rising public revenues—thanks to the economic upturn and high copper prices—the fiscal balance is projected to post a surplus of 1% of GDP in 2011.

(b) Monetary policy

Monetary policy in 2010 continued to be guided by an annual inflation target of 3% with a range of 1% on either side. After the countercyclical monetary measures taken in 2009, which had brought the monetary policy annual rate to an all-time low of 0.5% in July that year, in 2010 the rate was raised in small increments to 3.25% by December. This uptrend continued more strongly in the first semester of 2011, with monthly increments of 50 basis points in the reference rate, which stood at 5% in May. This brought the rate into positive territory in real terms, given that expectations for inflation were in the range of 4% to 4.5% towards mid-year. In view of the higher expectations for inflation amid rising international food and fuel prices, on the one hand, and the likelihood that growth in the production sectors will shortly deplete idle capacity, on the other, the monetary authorities are expected to continue raising the monetary policy rate in order to soften the possible inflationary impact of fast-growing domestic demand. Such interest rate hikes would be aimed at slowing domestic demand and thus bringing inflation—both projected and actual—back within the target range.

(c) Exchange-rate policy

For the past 10 years, exchange-rate policy has generally been based on a floating regime, with little intervention by the central bank. In 2010, as the United States dollar depreciated globally, the Chilean peso experienced average nominal appreciation of 8.8% over the 2009 value. This was equivalent to a real appreciation of 6.8%, as an annual average, with respect to a basket of the currencies of Chile's five main trading partners. In order to soften the impacts of the peso's appreciation on the returns of export and import substitute sectors, the central bank embarked upon a programme of dollar

purchases worth US\$ 12 billion in 2011. At first the nominal exchange rate rose in response to this policy but this was quickly reversed by still-high export prices, buoyant fiscal spending, the steady improvement in Chile's credit rating and the absence of controls on external financial flows, and so the peso showed a further appreciation in the first semester. Nevertheless, the monetary and fiscal authorities have ruled out any new regulations on financial flows, on the basis that the devaluation of the United States dollar is being driven by global phenomena which are unlikely to change in the near future and the appreciation of the

Chilean peso is largely a function of higher export earnings owing to the rise in the price of copper.

(d) Other policies

The Petroleum Price Stabilization Fund matured in 2010 and was replaced by a new variable tax and subsidy scheme which will fulfil a similar purpose.

A landmark event in the second half of 2010 was the successful rescue of 33 miners who had been trapped by rockfall in a mine in the north of Chile.

3. The main variables

(a) Economic activity

In the first few months of 2011 the monthly indicator of economic activity (IMACEC) posted interannual growth rates of upward of 7% over 2010, largely owing to the effects of cyclical upturn from the slack activity levels seen that year as a result of the earthquake in February and the start-up of reconstruction efforts. According to monthly variations in IMACEC, the uptrend in activity levels has stopped rising and is holding steady at around 6% per annum. Domestic demand, consumption and investment are the main factors underpinning this performance. Accordingly, the fastest-growing sectors are those associated with domestic demand (commerce, transport and communications, and services).

(b) Prices, wages and employment

The inflation rate continued to climb slowly but steadily from the negative rates posted in late 2009 and early 2010. As a result, although the yearly rate for 2010 was 3%, by the first half of 2011 annual inflation was running at close to 4% and core inflation was rising continuously. A number of exogenous factors had a hand in driving up inflation, principally higher international prices for fuels. This was partially offset by reductions in the nominal exchange rate. However, burgeoning domestic demand together with dwindling unused production capacity has driven a steady rise in inflation, as seen in the climb in non-tradable components of the consumer price index, such as transport, housing, education and other services. This has been a source of concern for the central bank which, once inflation expectations rose above 3%, raised the monetary policy rate on several occasions in order to avoid the contagion of external price shocks and anchor expectations back within the target range.

The unemployment rate has taken a downward trend, thanks to the economic upswing of 2010. Comparisons with previous years are of limited value because a new national employment survey was introduced 2010. Nevertheless, the evidence seems to indicate that particularly strong job creation up to the third quarter of 2010. As of November, employment growth slowed, both in a year-on-year comparison and compared to the previous month. As a result, in 2011 the unemployment rate should remain around 7% (as against 8.2% in 2010). It is unlikely to fall much lower, because the labour force participation rate has recently risen—a classic procyclical response to the economic upturn and improved outlook.

The sectors generating the most jobs between the first quarter of 2010 and the first quarter of 2011 were manufacturing, commerce and construction, owing in the two latter cases to domestic demand. Job creation was strong in the manufacturing sector up to November 2010, but has stood still since then. This seems to be due to the difficulties the sector has experienced in competing with imports in the context of a lower exchange rate, on the one hand, and the depletion of excess production capacity after the cyclical upturn in domestic demand, on the other. Given that growth in manufacturing production has been slack for a number of years, the sector is unlikely to continue to act as a key generator of jobs in the rest of 2011.

Amid tighter labour market conditions, average wages rose by a nominal 3.6% (2.2% in real terms) in 2010 and the average cost of labour rose a nominal 4.4% (3.0% in real terms). Nominal wage indicators show a steady rise over the year-earlier period, which may be attributed not only to an upturn in labour demand, but also to indexing mechanisms, since inflation has also continued to climb gradually, as noted earlier.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.2	3.9	6.0	5.6	4.6	4.6	3.7	-1.7	5.2
Per capita gross domestic product	1.0	2.8	4.9	4.5	3.5	3.5	2.6	-2.6	4.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.8	2.6	11.0	7.0	4.0	0.9	4.0	-2.7	-2.5
Mining and quarrying	-4.2	5.5	6.1	-3.9	0.7	3.3	-5.6	-1.3	1.2
Manufacturing	1.9	3.3	7.0	6.0	3.9	3.0	1.4	-6.4	-1.0
Electricity, gas and water	3.3	4.3	2.8	3.0	7.6	-28.8	-1.8	14.5	13.7
Construction	2.5	4.3	3.2	10.1	4.0	4.6	10.1	-7.9	3.6
Wholesale and retail commerce, restaurants and hotels	0.9	4.9	7.3	8.5	6.9	6.2	4.9	-3.1	13.3
Transport, storage and communications	5.3	5.8	5.5	6.9	6.9	8.7	6.4	1.3	9.1
Financial institutions, insurance, real estate and business services	2.8	2.8	6.4	7.0	4.2	8.0	3.2	-0.4	5.7
Community, social and personal services	2.5	2.6	3.1	3.5	3.6	4.4	3.8	3.3	2.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.5	4.0	7.0	7.1	7.0	7.0	3.9	1.9	9.3
Government consumption	3.1	2.4	6.1	5.9	6.4	7.1	0.5	7.5	3.3
Private consumption	2.4	4.2	7.2	7.4	7.1	7.0	4.5	0.9	10.4
Gross capital formation	2.2	7.8	9.0	21.7	6.2	9.2	19.3	-26.4	42.5
Exports (goods and services)	1.6	6.5	13.3	4.3	5.1	7.6	3.2	-6.4	1.9
Imports (goods and services)	2.3	9.7	18.4	17.2	10.6	14.5	12.6	-14.6	29.5
Percentages of GDP									
Investment and saving^c									
Gross capital formation	20.8	21.1	20.0	22.2	20.1	20.5	25.2	18.9	22.4
National saving	20.0	20.1	22.2	23.4	24.9	25.0	23.3	20.5	24.3
External saving	0.9	1.1	-2.2	-1.2	-4.9	-4.5	1.9	-1.6	-1.9
Millions of dollars									
Balance of payments									
Current account balance	-580	-779	2 074	1 449	7 154	7 458	-3 307	2 570	3 802
Goods balance	2 386	3 723	9 585	10 775	22 780	23 941	8 529	14 117	15 855
Exports, f.o.b.	18 180	21 664	32 520	41 267	58 680	67 972	66 259	54 004	71 028
Imports, f.o.b.	15 794	17 941	22 935	30 492	35 900	44 031	57 730	39 888	55 174
Services trade balance	-701	-618	-746	-621	-631	-987	-964	-1 444	-1 019
Income balance	-2 847	-4 489	-7 837	-10 487	-18 401	-18 625	-13 802	-11 666	-15 424
Net current transfers	583	605	1 072	1 783	3 406	3 129	2 930	1 563	4 390
Capital and financial balance ^d	779	413	-2 265	267	-5 157	-10 672	9 751	-922	-779
Net foreign direct investment	2 207	2 701	5 610	4 801	4 556	9 961	7 109	4 813	6 351
Other capital movements	-1 428	-2 288	-7 875	-4 534	-9 713	-20 633	2 643	-5 735	-7 130
Overall balance	199	-366	-191	1 716	1 997	-3 214	6 444	1 648	3 023
Variation in reserve assets ^e	-199	366	191	-1 716	-1 997	3 214	-6 444	-1 648	-3 023
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	109.4	114.5	108.5	103.1	100.9	102.7	102.3	104.9	98.7
Terms of trade for goods (index: 2005=100)	69.5	73.5	89.3	100.0	131.1	135.6	117.9	119.3	146.0
Net resource transfer (millions of dollars)	-2 068	-4 076	-10 102	-10 220	-23 558	-29 297	-4 050	-12 588	-16 203
Total gross external debt (millions of dollars)	40 504	43 067	43 515	46 211	49 497	55 733	64 318	74 041	86 738
Average annual rates									
Employment									
Labour force participation rate ^g	53.7	54.4	55.0	55.6	54.8	54.9	56.0	55.9	58.5
Open unemployment rate ^h	9.8	9.5	10.0	9.2	7.7	7.1	7.8	9.7	8.2
Visible underemployment rate ⁱ	6.2	6.5	8.4	8.5	8.5	8.0	9.0	10.8	11.2
Prices									
Annual percentages									
Variation in consumer prices (December-December)	2.8	1.1	2.4	3.7	2.6	7.8	7.1	-1.4	3.0
Variation in wholesale prices (December-December)	10.4	-1.0	7.8	3.2	7.9	14.0	22.7	-14.9	3.5
Variation in nominal exchange rate (annual average)	8.5	0.2	-11.8	-8.1	-5.2	-1.6	0.2	6.8	-8.8
Variation in average real wage	2.0	0.9	1.8	1.9	1.9	2.8	-0.2	4.8	2.3
Nominal deposit rate ^j	4.1	3.2	2.4	4.5	5.5	5.9	7.8	2.3	2.7
Nominal lending rate ^j	14.4	13.0	11.0	13.5	14.4	13.6	15.2	12.9	11.8

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Total central government									
Total revenue	21.0	20.7	22.0	23.8	25.8	26.9	25.5	20.4	22.9
Tax revenue	18.0	17.3	17.0	18.3	18.3	20.2	19.9	16.3	18.4
Total expenditure	22.3	21.1	19.9	19.3	18.1	18.7	21.2	24.8	23.4
Current expenditure	18.8	17.9	16.8	16.1	15.1	15.5	17.4	20.1	19.2
Interest	1.2	1.1	1.0	0.8	0.7	0.6	0.5	0.5	0.5
Capital expenditure	3.4	3.3	3.1	3.1	3.0	3.2	3.8	4.7	4.2
Primary balance	-0.1	0.7	3.1	5.4	8.4	8.8	4.8	-4.0	0.1
Overall balance	-1.2	-0.5	2.1	4.6	7.7	8.2	4.3	-4.5	-0.4
Central government public debt^k	15.7	13.0	10.7	7.3	5.3	4.1	5.2	5.0	...
Domestic	9.9	7.5	5.9	4.0	2.4	2.0	3.1	3.1	...
External	5.7	5.5	4.8	3.3	2.9	2.1	2.1	1.4	1.6
Money and credit^l									
Domestic credit	61.9	61.5	60.1	59.8	55.1	60.7	64.9	67.8	59.3
To the public sector	7.9	5.2	2.7	-1.6	-3.5	-3.5	-3.6	5.0	-1.6
To the private sector	65.9	62.7	62.3	64.3	63.7	69.7	79.4	70.2	65.8
Others	-11.8	-6.3	-4.8	-2.9	-5.0	-5.5	-10.9	-7.4	-4.9
Liquidity (M3)	54.6	48.8	50.3	53.3	53.2	58.1	69.1	62.1	60.1
Currency outside banks and local-currency deposits (M2)	48.6	43.4	45.5	48.6	48.6	53.2	60.1	56.2	53.4
Foreign-currency deposits	5.9	5.4	4.9	4.7	4.7	4.8	9.0	6.0	6.7

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 2003 prices. Up to 2003, based on figures in local currency at constant 1996 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total.

ⁱ Percentage of the working population; nationwide total.

^j Non-adjustable 90-360 day operations.

^k Does not include publicly guaranteed debt.

^l The monetary figures are December averages.

(c) The external sector

The balance-of-payments current account returned a surplus of US\$ 3.802 billion in 2010, a jump of 48% with respect to the surplus of 2009. Exports of goods were up by US\$ 71 billion in value terms, which represented a 32% increase over the previous year. Most of the rise in value was associated with the higher price of copper, but export values for fruit, forestry and basic metal manufactures also rose strongly and contributed to the overall result. Total export volumes edged up a mere 1.4%, while unit value surged by 30%. Goods imports amounted to US\$ 51.1 billion. This represented a rise of 38% which, contrasting with exports, broke down into an increase of 31% in volume and 5.8% in unit price. The rise in volume reflected a large jump in investment in machinery and equipment, and in consumer durables.

The deficit on the income account widened to 32%, mostly owing to remittances of profits generated by foreign direct investment (of which about 50% was reinvested) in the context of high international prices for mining exports. Lastly, the transfers account reflected insurance payouts following the earthquake.

The financial account showed a 32% rise in net foreign direct investment, chiefly reflecting larger non-resident equity holdings and smaller net outflows of portfolio investment, again owing to a strong rise in non-resident holdings, all of which is associated with Chile's improved risk ratings combined with high liquidity and low interest rates in the international markets. Lastly, the other investment account showed large outflows of resources, partly owing to deposits in sovereign funds abroad of proceeds from high copper prices and a sovereign bond issue.

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-2.5	-4.8	-1.4	2.1	1.7	6.4	6.9	5.8	9.8	...
Goods exports, f.o.b. (millions of dollars)	11 509	12 862	14 129	15 505	16 420	16 352	18 479	19 777	20 034	14 887
Goods imports, c.i.f. (millions of dollars)	9 568	9 664	10 911	12 428	12 410	14 223	15 890	16 433	16 687	12 189
Gross international reserves (millions of dollars)	23 382	23 448	26 040	25 371	25 631	25 175	26 446	27 864	31 481	32 770
Real effective exchange rate (index: 2000=100) ^d	112.3	108.2	107.3	104.9	103.0	103.7	100.6	97.8	99.1	98.8
Unemployment rate	...	...	...	...	9.0	8.5	8.0	7.1	7.3	...
Consumer prices (12-month percentage variation)	5.0	1.9	-1.1	-1.4	0.3	1.2	1.9	3.0	3.4	3.3
Wholesale prices (12-month percentage variation)	15.5	2.5	-6.4	-14.9	-6.3	-0.3	-0.3	3.5	5.5	3.6
Average nominal exchange rate (pesos per dollar)	607	566	546	518	519	531	511	480	482	469
Average real wage (variation from same quarter of preceding year)	1.8	3.6	6.4	7.3	3.1	2.5	1.8	1.5	2.9	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	4.9	2.0	1.1	1.4	1.4	1.7	3.5	4.4	4.8	5.7
Lending rate ^e	16.5	13.1	11.1	10.9	12.4	11.4	12.2	11.1	12.2	12.9
Interbank rate ^f	5.5	1.4	0.5	0.4	0.4	0.5	1.8	2.9	3.4	4.4
Stock price index (national index to end of period, 31 December 2000=100)	229	285	311	330	347	375	442	454	426	447
Domestic credit (variation from same quarter of preceding year)	8.4	6.0	3.6	5.5	-0.9	1.5	0.0	0.7	7.6	8.7 ^g
Non-performing loans as a percentage of total credit	1.1	1.3	1.3	1.3	1.4	1.4	1.4	1.3	1.2	1.2

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2003 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Non-readjustable 90-360 day operations.

^f Overnight.

^g Data to April.

As a result, the balance of payments showed a overall surplus of US\$ 3.024 billion. International reserves rose by the same amount and stood at US\$ 27.86 billion in December.

The external accounts have continued to run a surplus thus far in 2011, continuing upward pressure on the peso and prompting the central bank to allow international reserves to build up by 15% in the first four months of the year, which has taken them to US\$ 31.5 billion.

Chile's gross external debt reached US\$ 86.738 billion, of which US\$ 4.132 billion was liabilities of the central government and US\$ 1.439 billion of the central bank. Lastly, in 2010 Standard and Poor's upgraded Chile's sovereign risk rating to A+ and Moody's Investors Service raised its grade from A1 to Aa3, on a par with higher-per-capita-GDP countries such as Taiwan province of China and Saudi Arabia.

Colombia

1. General trends

The Colombian economy grew by 4.3% in 2010, exceeding expectations; and there are clear indications that the upswing recorded in the final quarter of the year will continue throughout 2011. The economic strategy pursued by the government of President Santos, who took office in August 2010, focuses on five key sectors that have been identified as engines of economic growth: innovation, agriculture, transport infrastructure, mining and housing. The unusually heavy rainfall seen since the second half of 2010 has so far not affected the performance of trade and industry or the business and consumer confidence indices, which in early 2011 were up on the previous year. However, in dealing with the severe weather situation and rebuilding hard-hit economic and social infrastructure, care will need to be taken not to undermine efforts to maintain a healthy fiscal position. Against this backdrop, ECLAC forecasts growth of around 5.3% in 2011.

In 2011 the agencies Fitch Ratings, Standard & Poor's and Moody's all raised Colombia's credit rating to investment grade. The reasons cited were macroeconomic stability, a

favourable medium-term growth outlook, effective public-debt management and a sounder legislative framework governing fiscal management.

2. Economic policy

(a) Fiscal policy

In 2010 the government cut spending by 2.8% with respect to 2009, aiming to boost the sustainability of public finances without jeopardizing social programmes. Interest payments on the external debt were reduced by 5.1% and a new system of fuel subsidies was implemented, thus expanding the fiscal space for poverty reduction programmes such as Families in Action, whose budget

allocation increased by 33%. Although the heavy rains forced the government to redirect spending and created extra commitments during the emergency phase, the fiscal balances showed an improvement over 2009.

Economic uncertainty during 2009 brought predictions of lower tax receipts and capital resources for 2010, but those predictions were ultimately not borne out. Although a deficit of 4.4% of GDP was forecast, at year-end the central government was running a deficit

of 3.8% of GDP (0.3 points below the 2009 level), even with the unexpected expenses arising from the extreme weather. This better fiscal balance resulted from a contraction in spending of 2.8% combined with higher tax receipts generated by the upturn in economic activity. Receipts from the value added tax (VAT) and customs duties grew sharply (12.5% and 16.3% respectively); customs duties in particular benefited from an import boom. The non-financial public sector deficit stood at 3.1% of GDP, which compared with 2.4% in 2009. This was attributable to a marked drop in the decentralized sector's surplus—from 1.7% to 0.7%—mainly because of higher expenditure by local governments, rising reimbursements for medicines and medical services not covered by the health plan and the gradual depletion of the Fuel Price Stabilization Fund (FEPC). Net central government debt stood at 37.4% of GDP (as against 36.8% in 2009), owing in the main to an increase in domestic debt of 11.6%.

With a view to safeguarding public finances and their countercyclical role, as well as boosting the economy and improving tax revenues, the government has proposed new measures to foster the country's competitiveness and set out clear rules to buttress fiscal responsibility. These include establishing a goal that the total central government structural balance should not exceed an annual deficit of 1.5% of GDP and a constitutional reform incorporating a summary review of fiscal capacity as a yardstick of State administration in upholding the economic, social and cultural rights of all citizens. A tax and competitiveness law was also passed, simplifying the tariff structure, eliminating tax distortions and abolishing excess non-salary company expenses, the most important being the electricity surcharge. In addition, a reform of the health-care system was passed that establishes the funding and uses of the system, thereby creating a framework for fiscal sustainability. The desired effect is to bring in an additional 1.5% of GDP in tax receipts over the next four years.

According to government estimates for 2011, the consolidated public sector deficit (excluding any weather-related expenditure) will be 3.0% and the central government deficit will be 3.6% of GDP, similar to the 2010 figures. This consistency is attributable to anticipated growth of 0.4 percentage points of GDP in tax receipts, thanks to robust economic performance and to the package of reforms advanced by the government. Increased oil production and high oil export prices will help boost government revenue from taxes on profits and dividends. Central government spending is also expected

to rise, but not to quite the same extent as revenue. The equivalent of 0.3% of GDP will go towards strengthening the five key sectors.

The challenge for the fiscal authorities in 2011 will be to ensure fiscal sustainability despite additional spending related to the severe weather situation and reconstruction efforts. One solution pursued by the government was to strengthen the special fund that oversees the organization of reconstruction projects and transfers of resources. The fund's initial budget will be around 260 billion Colombian pesos, made available through a reallocation of resources, chiefly special housing and royalty funds.

(b) Monetary policy

The expansionary monetary policy adopted in 2009 was maintained in 2010. It was supported by the fact that inflation remained within the target range and by the economic recovery, which, although significant, fell short of the potential growth rate.

The central bank's policy rate stood at 3.5% in early 2010 and was cut by 50 basis points in April, to remain at 3.0% for the rest of the year. This policy translated into low nominal lending and borrowing rates, which fell by 60 and 115 basis points respectively between December 2009 and December 2010. Interest rates on household loans followed the same pattern: the consumer rate dropped from 20.2% to 16.8%; the credit card rate fell from 25.2% to 21.0%; and the mortgage rate edged down from 13.9% to 13.0%.

Falling interest rates generated growth in consumer, commercial and mortgage lending, which were up 16.4%, 19.1% and 6.8% respectively. This was reflected in the recovery of household consumption, private investment and home purchases. Demand for home loans was fuelled by the interest-rate subsidy, one of the pillars of the countercyclical policy.

Given the upturn in the domestic and world economy, and amid expectations that inflation would rise in the long term, the central bank's board of directors announced a gradual shift in the monetary stimulus policy for 2011. Accordingly, during the first half of the year the policy rate rose by 25 basis points on five occasions, to stand at 4.25%.

With regard to monetary aggregates, the main source of primary liquidity in 2010 was foreign currency acquisition by the central bank through direct auctions. Between December 2009 and December 2010 the monetary base posted nominal annual growth of 13.5%, while M1, M2 and M3 increased by 17.7%, 10.2% and 11.4% respectively.

(c) Exchange-rate policy

Like other Latin American countries, Colombia is experiencing strong pressure towards currency appreciation, owing to capital inflows and higher commodity prices. In 2010, international risk aversion waned, and inflows from foreign direct investment and portfolio capital surged to US\$ 11.834 billion. In effect, larger inflows of portfolio capital and the use of foreign credit to finance Colombian investment overseas led to an appreciation of 7.0% in the nominal exchange rate during the first few months of the year. By way of response, in March 2010 the central bank began buying reserves of US\$ 20 million in daily auctions (which had been suspended in October 2008), accumulating US\$ 3.06 billion over the course of the year. The auctions between March and June generated a depreciation of 0.9% in the exchange rate, while those carried out between September and December triggered a drop of 7.0%. Despite these efforts, the year closed with a nominal appreciation of the Colombian peso of 6.4%. The real effective exchange rate mirrored this process, recording a depreciation of 5.6% in 2009 and an appreciation of 13.1% in 2010.

In 2011 the central bank has continued to intervene in the currency market through daily auctions, but the trend towards appreciation is holding firm. Colombia's challenge this year is to contain currency appreciation in order to foster the country's competitiveness without driving up inflation in the process.

(d) Trade policy

The government has stated that one of the mainstays of growth is the country's positioning in the international arena, involving a comprehensive external policy that goes beyond economics and trade.

With a view to increasing Colombia's participation in the world economy and diversifying its markets, the National Development Plan contains a proposal to step up the negotiations on international trade agreements, such as the free trade agreements with Canada, the European Free Trade Association (EFTA), the United States and the European Union. It also proposes developing closer ties with the region and with Asia and the Pacific, and promoting the country's admission to the Organization for Economic Cooperation and Development (OECD) and the Asia-Pacific Economic Cooperation (APEC) forum.

From this new perspective, diplomatic relations with the Bolivarian Republic of Venezuela were re-established and trade links were reactivated; the first step in this new phase was the payment of the Venezuelan government's debt to Colombian business operators.

In June 2011 the free trade agreement with Canada was ratified; and it is expected that the United States Congress will ratify the free trade agreement with that country this year. In addition, the impact of the merger of the Chilean, Colombian and Peruvian stock exchanges will begin to become apparent during the year.

3. The main variables

(a) Economic activity

Based on preliminary official data, the Colombian economy grew by 4.3% in 2010.¹ All sectors performed well, with the exception of agriculture. The economy's strong performance was mainly attributable to mine and quarry exploitation (11.0%), commerce (6.0%), manufacturing (4.5%) and transport (4.7%). The strong growth in the mining-energy sector was due to a leap of 16.9% in the value added of crude oil, natural gas and minerals. This testifies to the newly acquired importance

of this sector to Colombia's economic growth, in view of international prices and the higher volume of production of crude oil (17.6%), natural gas (6.4%) and coal (2.0%).

The components of demand provide further evidence of good economic performance in 2010. The increase of 5.9% in domestic demand offset a net decline in external activity. A sustained expansion was seen throughout the year in both private and government consumption, which posted growth of 4.6% and 6.6% respectively at the end of 2010. The strengthening of the machinery and transport equipment sector, together with vigorous growth in public works, contributed to the 12.5% rise in investment. Imports expanded by 14.7% thanks to high volumes of investment and consumption, and to currency appreciation. Exports grew by 2.0% and overcame last year's slump.

¹ The National Administrative Department of Statistics (DANE) of Colombia took the unusual step of correcting its figure for GDP growth in 2009, revising it upwards from 0.8% to 1.5%.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.5	3.9	5.3	4.7	6.7	6.9	3.5	1.5	4.3
Per capita gross domestic product	0.9	2.3	3.7	3.1	5.1	5.3	2.0	0.0	2.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.5	3.1	3.0	2.8	2.4	3.9	-0.4	-1.1	-0.4
Mining and quarrying	-1.8	1.7	-0.9	4.1	2.4	1.5	9.7	11.4	11.0
Manufacturing	2.1	4.9	7.9	4.5	6.8	7.2	0.5	-3.9	4.5
Electricity, gas and water	0.8	4.5	3.5	4.1	4.8	4.1	0.5	2.9	2.2
Construction	12.3	8.3	10.7	6.9	12.1	8.3	8.8	8.4	1.7
Wholesale and retail commerce, restaurants and hotels	1.5	3.7	7.1	5.0	7.9	8.3	3.1	-0.3	6.0
Transport, storage and communications	2.8	4.5	7.6	7.8	10.8	10.9	4.6	0.4	4.7
Financial institutions, insurance, real estate and business services	3.0	3.9	4.6	5.0	6.4	6.8	4.5	1.8	3.1
Community, social and personal services	1.7	2.0	4.1	3.5	4.4	5.0	2.6	2.7	3.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.5	2.7	4.3	4.3	6.3	7.0	3.5	1.4	5.0
Government consumption	-0.6	1.8	6.4	5.2	5.5	6.1	3.2	3.5	6.6
Private consumption	2.0	2.9	3.9	4.1	6.4	7.2	3.5	0.9	4.6
Gross capital formation	10.1	11.4	11.2	12.8	19.2	13.0	9.2	-3.0	12.5
Exports (goods and services)	-2.4	7.4	9.8	5.7	8.6	6.9	4.5	-2.2	2.0
Imports (goods and services)	0.3	8.2	10.3	11.9	20.0	14.0	10.5	-7.3	14.9
Percentages of GDP									
Investment and saving^c									
Gross capital formation	17.3	18.7	19.4	20.2	22.4	23.0	23.4	22.7	23.1
National saving	15.9	17.6	18.7	18.9	20.6	20.1	20.6	20.5	19.9
External saving	1.3	1.0	0.8	1.3	1.8	2.9	2.8	2.2	3.1
Millions of dollars									
Balance of payments									
Current account balance	-1 296	-979	-911	-1 886	-2 988	-6 018	-6 923	-5 157	-9 032
Goods balance	307	556	1 346	1 595	323	-584	971	2 546	2 150
Exports, f.o.b.	12 384	13 813	17 224	21 730	25 181	30 577	38 534	34 026	40 777
Imports, f.o.b.	12 077	13 258	15 878	20 134	24 858	31 161	37 563	31 479	38 628
Services trade balance	-1 435	-1 439	-1 680	-2 102	-2 118	-2 647	-3 072	-2 827	-3 540
Income balance	-2 874	-3 404	-4 301	-5 461	-5 935	-8 002	-10 333	-9 488	-12 117
Net current transfers	2 706	3 309	3 724	4 082	4 743	5 216	5 512	4 613	4 475
Capital and financial balance ^d	1 434	795	3 452	3 614	3 010	10 715	9 545	6 504	12 168
Net foreign direct investment	1 277	783	2 873	5 590	5 558	8 136	8 342	4 049	203
Other capital movements	158	12	579	-1 976	-2 548	2 579	1 203	2 455	11 965
Overall balance	138	-184	2 541	1 729	23	4 698	2 623	1 347	3 136
Variation in reserve assets ^e	-138	184	-2 541	-1 729	-23	-4 698	-2 623	-1 347	-3 136
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	105.8	119.5	107.0	94.7	96.1	85.7	82.1	86.8	75.4
Terms of trade for goods (index: 2005=100)	83.3	85.8	92.2	100.0	103.8	112.1	124.4	107.0	121.0
Net resource transfer (millions of dollars)	-1 440	-2 609	-849	-1 846	-2 925	2 713	-788	-2 985	51
Total gross external debt (millions of dollars)	37 382	38 065	39 497	38 507	40 103	44 553	46 369	53 719	64 837
Average annual rates									
Employment									
Labour force participation rate ^g	62.3	62.9	61.5	60.5	59.1	58.3	58.5	61.3	62.7
Unemployment rate ^h	18.1	17.1	15.8	14.3	13.1	11.4	11.5	13.0	12.4
Visible underemployment rate ⁱ	16.8	15.3	15.2	13.8	11.9	10.0	9.1	9.5	12.0
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.0	6.5	5.5	4.9	4.5	5.7	7.7	2.0	3.2
Variation in producer prices (December-December)	3.8	10.2	5.2	3.0	5.3	1.3	9.0	-2.2	4.4
Variation in nominal exchange rate (annual average)	9.0	14.7	-8.7	-11.6	1.6	-12.0	-5.2	9.6	-12.0
Variation in average real wage	3.0	-0.7	1.7	1.5	3.8	-0.3	-2.0	1.2	2.5
Nominal deposit rate ^j	8.9	7.8	7.8	7.0	6.2	8.0	9.7	6.1	3.7
Nominal lending rate ^k	16.3	15.2	15.1	14.6	12.9	15.4	17.2	13.0	9.4

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Total central government									
Total revenue	12.4	12.6	13.0	13.5	14.7	15.0	15.6	15.2	13.7
Current revenue	11.2	11.6	12.0	12.5	13.4	13.5	13.5	12.9	12.3
Tax revenue	11.0	11.5	11.9	12.4	13.4	13.4	13.4	12.8	12.2
Total expenditure ^l	17.4	16.9	17.4	17.5	18.1	17.7	17.9	19.2	17.5
Current expenditure	15.7	15.5	16.3	16.1	16.6	15.7	15.7	16.9	15.6
Interest	3.2	3.5	3.3	2.9	3.5	3.5	2.9	3.0	2.7
Capital expenditure	1.2	1.1	1.0	1.3	1.4	1.9	2.2	2.3	1.9
Primary balance	-1.8	-0.7	-1.1	-1.1	0.1	0.8	0.6	-1.1	-1.1
Overall balance ^l	-5.1	-4.2	-4.5	-4.0	-3.4	-2.7	-2.3	-4.1	-3.8
Consolidated non-financial public sector debt									
Domestic	33.8	32.6	32.3	34.4	32.4	30.7	29.3	31.3	33.4
External	24.8	24.0	19.4	15.6	15.1	13.1	13.3	13.5	12.4
Money and credit^m									
Domestic credit	29.4	29.6	29.4	30.3	31.2	32.1	33.6	34.2	35.8
To the public sector	9.9	10.4	10.3	10.3	8.1	6.0	6.3	8.4	8.3
To the private sector	19.5	19.2	19.0	19.9	23.1	26.1	27.3	25.8	27.5
Currency outside banks and local-currency deposits (M2)	27.2	27.4	28.7	30.6	31.8	33.4	35.1	35.0	35.7

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

^a Preliminary figures.

^b Based in the new quarterly national accounts figures published by the country, base year 2005.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, thirteen cities.

^h Percentage of the economically active population, thirteen cities. Includes hidden unemployment.

ⁱ Percentage of the working population, thirteen cities.

^j 90-day fixed-term certificates of deposit.

^k Weighted average of the system lending rates.

^l Includes net lending.

^m The monetary figures are end-of-year stocks.

The upturn witnessed towards the end of last year is continuing into 2011, with GDP growth of 5.1% recorded in the first quarter. The positive expectations regarding household spending were borne out by growth in industry, driven, among other factors, by a surge in car sales. Investment indicators are also performing well, as reflected in imports of machinery and equipment and construction licences; this early construction indicator saw a variation of 66.4%, an all-time high. Low interest rates and the wide availability of credit will continue to be conducive to consumption and investment. To 30 April 2011, consumption registered the strongest growth, followed by mortgages and trade, all with real annual increases. Moreover, this year Colombia must begin repairing the damage to housing and road infrastructure caused by the heavy rains, which will mean higher spending in these sectors.

(b) Prices, wages and employment

The pressure on food prices owing to heavy seasonal rainfall and to higher international prices for some

agricultural commodities in 2010 has not prevented Colombia from achieving its inflation target. The inflation rate was 3.2% in 2010, which falls within the target range of 2%-4%. Food and housing contributed the most to this growth; together they accounted for over 70% of the total variation. The components showing the greatest price increase were health, food, education and housing. In contrast, communications and clothing experienced negative variations. End-of-year inflation, not including food, saw a variation of 2.8%, remaining stable with respect to 2009.

For 2011 the central bank has maintained an inflation target of between 2% and 4%. To May, year-on-year inflation stood at 3.0%, mainly owing to rising food prices in late 2010 and early 2011, a trend which has reversed since March, when the prices of perishable goods in particular began to fall. With core inflation below 3%, the bank considers the supply shocks seen in late 2010 to be temporary; nevertheless, to ease the pressure, the bank's board tightened monetary policy, seeking to keep inflationary expectations within the target range without affecting growth and employment in the short term.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	0.9	0.8	1.0	2.9	3.5	4.8	3.3	5.4	5.3	...
Goods exports, f.o.b. (millions of dollars)	7 577	7 908	8 368	9 000	9 135	10 114	9 745	10 825	12 629	4 697 ^d
Goods imports, c.i.f. (millions of dollars)	7 973	7 601	8 469	8 855	8 811	9 486	10 976	11 410	12 189	4 206 ^d
Gross international reserves (gross) (millions of dollars)	23 475	23 356	24 756	24 992	25 140	26 026	26 911	28 464	29 859	30 818
Real effective exchange rate (index: 2000=100) ^e	94.0	88.5	82.2	82.4	76.9	76.3	72.6	75.8	76.2	75.0
Unemployment rate	13.2	12.1	12.3	11.6	13.0	11.9	11.6	10.5	12.7	...
Consumer prices (12-month percentage variation)	6.1	3.8	3.2	2.0	1.8	2.3	2.3	3.2	3.2	3.0
Wholesale prices (12-month percentage variation)	6.8	2.7	-1.5	-2.2	-0.2	2.1	2.3	4.4	4.9	4.8
Average nominal exchange rate (pesos per dollar)	2 419	2 228	2 013	1 966	1 945	1 950	1 832	1 867	1 878	1 803
Average real wage (variation from same quarter of preceding year)	-2.1	0.2	2.8	3.9	3.3	2.6	1.8	2.2	0.5	...
Nominal interest rates (annualized percentages)										
Deposit rate ^f	8.9	6.3	5.0	4.3	4.0	3.7	3.5	3.5	3.5	3.8
Lending rate ^g	16.6	13.4	11.7	10.4	9.9	9.5	9.3	8.9	10.3	10.8
Interbank interest rate ^h	8.6	6.0	4.3	3.7	3.3	3.2	3.0	3.0	3.1	3.7
Sovereign bond spread (basis points) ⁱ	487	301	223	196	172	230	169	172	153	144
Stock price index (national index to end of period, 31 December 2000=100)	1 002	1 233	1 405	1 448	1 513	1 554	1 837	1 935	1 806	1 817
Domestic credit (variation from same quarter of preceding year)	19.2	16.4	10.0	7.4	13.2	11.2	13.4	13.0	22.3	...
Non-performing loans as a percentage of total credit	4.7	4.7	4.6	4.2	4.5	4.0	3.5	2.9	3.1	3.1 ^d

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2005 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f 90-day fixed-term certificates of deposit.

^g Weighted average of the system lending rates.

^h Overnight.

ⁱ Measured by JP Morgan's EMBI+ index to end of period.

The labour market responded favourably to greater economic activity in 2010. The unemployment rate dropped from 12.0% in 2009 to 11.8% in 2010, despite growth in the participation rate from 61.3% to 62.7%. The indicator for urban unemployment registered the best performance (a decrease from 13.0% to 12.4%); rural unemployment, however, climbed from 7.9% to 8.5%, a position which then took root as a consequence of the extreme weather conditions in the second half of the year. Despite some good results, employment quality is a concern, since most new jobs consist of self-employment and are generally described as informal. The rate of informal employment has not moved from the 51% recorded in 2008, and the unemployment rate among 14 to 26 year olds stood at around 20% for the whole year, remaining stubbornly

higher than general unemployment. To tackle this problem, legislation on formalizing and creating employment was passed, granting tax breaks to companies formalizing their business and hiring people under the age of 28 by allowing them to offset payroll taxes against the income tax.

In the first quarter of 2011 the unemployment rate showed a downward trend consistent with economic recovery, edging down from 13.0% to 12.4% at a national level. This trend appears to be borne out when comparing data for April 2010 (12.2%) with that for the same month in 2011 (11.2%). The urban unemployment rate in the first quarter of 2011 decreased from 13.7% to 13.4% and rural areas also recovered (from 9.0% to 7.9%). The best recovery, however, was seen in the category of self-employment.

(c) The external sector

In 2010, the current account deficit widened by around 1 percentage point to 3.1% of GDP, mainly on the strength of buoyant imports, increased outflows due to higher profits among transnational companies in the mining sector and a 2.9% drop in worker remittances. The dollar value of imports rose by 23.7%, spurred by vehicles and vehicle parts and electrical sound and image recording equipment and appliances (35.3%). The dollar value of exports in 2010 meanwhile rose by 21.2% with respect to 2009, thanks to vigorous growth (41.2%) in traditional exports. Sales of oil and oil products expanded both in value terms (60.6%) and in volume terms (27.1%). Non-traditional exports, however, decreased by 2.9%, mainly because of lower sales of live animals and animal products (-75.6%) and textiles (-38.7%). Trade with the Bolivarian Republic of Venezuela continued to deteriorate, with a 64.9% fall in exports. This was partly due to a total block on meat exports, following which the sale of live animals and animal products plummeted by 99.5%. This situation

was offset by an increase of 28.8% in non-traditional exports to the Andean Community.

Estimates indicate that the external sector will continue to expand this year. In April, the value of exports increased by 37.2%, owing to higher commodity prices; sales of oil and oil products grew by 60.9% in value and by 23.8% in volume. The value of imports rose by 36.7%, mainly as a consequence of the higher value of imports of vehicles and vehicle parts, boilers, machinery and parts, and fuels and mineral oils.

In 2010 the financial account posted a surplus of US\$ 11.948 billion, which was almost US\$ 5 billion up on 2009. This is attributable to capital inflows, thanks to higher net external debt, largely in the private sector. A total of US\$ 6.504 billion left the country as outward foreign direct investment (FDI), taking the form of shares in mining and quarrying, financial intermediation and industry. FDI flows remained high, despite dipping slightly from US\$ 7.137 billion in 2009 to US\$ 6.765 billion in 2010 (2.4% of GDP). Inflows to the oil sector increased by 17.8% and oil and mining activity received 72.7% of registered net inflows. A bigger FDI drive is anticipated for 2011.

Ecuador

1. General trends

In 2010 the economy of Ecuador was back on course, recording moderate GDP growth of 3.6% compared with 0.4% in 2009. Thanks to higher oil prices, the projection for 2011 has been revised upward to 6.4%. A slight upsurge in inflation is forecast for 2011, in view of international price rises. It is estimated that twelve-month inflation will close the year at between 3.5% and 4%, up on the rate of 3.3% recorded in 2010. The price increases seen in the first quarter indicate that the downward trend has come to an end, since the seasonal upswing was higher than expected for services and food. This is also borne out by higher international commodity prices, the devaluation of the dollar and the possibility that economic growth may exceed expectations. The buoyant economic performance brought about an improvement in the employment situation, and the unemployment rate fell by almost one percentage point.

Domestic demand rose by 9%, while external demand grew by just 2.3%. Surging domestic demand fuelled imports, which grew by 16.3%. This deepened the current account deficit from 0.6% of GDP in 2009 to 3.5% of GDP in 2010. Given the strong projected growth in domestic demand, a current account deficit of approximately 4% is forecast for 2011.

Greater efficiency in tax collection and the high price of oil generated more revenue than expected, resulting

in a below-forecast actual fiscal deficit of 3% of GDP. However, in 2011 the government will be unable to reproduce the revenue growth of 2010, and the fiscal deficit in relation to GDP is expected to double, given the anticipated expansion in government spending. Although real lending rates have dropped nine basis points, they have remained relatively high at 8.2%. In keeping with the strong economic recovery, bank lending to the private sector expanded, following the contraction observed in 2009.

2. Economic policy

(a) Fiscal policy

Central government revenue was up 21% with respect to 2009, following an expansion—in equal measure—in both tax and non-tax revenue. A better economic performance, efforts to clamp down on tax

evasion and substantial increases in all taxes (except for income tax) pushed up tax receipts by 17%. Petroleum revenues soared, thanks to higher international oil prices. As a result, central government revenue as a percentage of GDP climbed from 22.3% in 2009 to 25.2% in 2010.

Aside from increases in the price of oil, however, the prospects for boosting tax revenue further are limited. The gains from tackling tax evasion will diminish over time and oil production is not expected to increase significantly. In view of the level and pattern of spending, a procyclical fiscal policy will therefore continue to be implemented. This is despite maintaining the fiscal rule whereby regular expenditure is financed only with regular revenues.

The fiscal deficit is expected to widen considerably (to 6% of GDP) in 2011, given that tax revenue will increase by only 3% and spending is projected to go up by 16%.

The projected central government deficit was 5.6% of GDP, but, thanks to higher receipts and, to a lesser extent, smaller outlays, the actual deficit was 3%. Lower spending was largely due to difficulties in securing financing for investment projects, leading to lower current and capital expenditure. The non-financial public sector deficit shrank by almost a third with respect to 2009.

The year 2010 opened with financing problems, as reflected in the low levels of the Single Treasury Account in the central bank. However, this was overcome thanks in part to a series of loans amounting to US\$ 1.755 billion from the Andean Development Corporation and China Development Bank. As a result, external public debt increased from US\$ 7.393 billion at the end of 2009 (14.2% of GDP) to US\$ 8.509 billion in 2010 (15.2% of GDP). In addition, the Ecuadorian Social Security Institute (IESS) bought more than US\$ 1 billion in government bonds. These and other operations drove domestic public debt up from US\$ 2.842 billion at the end of 2009 (5.5% of GDP) to US\$ 4.665 billion in 2010 (8.2% of GDP).

(b) Monetary policy

Maximum interest rates on loans have remained stable since October 2008, following the introduction of a policy to regulate them. The only exceptions are consumer rates

and the retail and simple-accumulation microcredit rates. Having been raised to 18.92% in June 2009, the ceiling for consumer credit rates reverted to its previous level of 16.3% in February 2010. The retail microcredit rate decreased from 33.09% to 30.50% in May 2010 and the simple-accumulation microcredit rate fell from 33.30% to 27.50% in May 2010.

Real lending rates, despite falling by nine basis points, have remained relatively high at 8.2%. Following the contraction seen in 2009, bank lending to the private sector picked up in 2010. This was partly due to the economic recovery, but mainly because of a requirement stipulating that at least 45% of a bank's assets must be held or invested in the country. Banks have therefore repatriated capital which has in turn been used to provide credit.

Credit supply indicators confirm that rising domestic demand will be accompanied by higher private consumption. The specific lending standards show an increase in credit supply for the housing and microcredit sectors but less so in the consumer segment, which in the first quarter of 2011 expanded significantly—by over 25%—compared with the previous quarter and more than in any quarter in 2010. In addition, financial institutions are easing their restrictions on borrowing and are offering lower rates of interest and better loan horizons. They are also reporting an increase in new loan applications. In the production segment, the highest numbers of loan applications submitted were for industrial and commercial activities. These funds will mainly be used as working capital and for investment and asset acquisition.

Companies experienced fewer difficulties in repaying their loans in 2010, reflected in a fall in non-performing private sector loans as a percentage of total credit, which had peaked at 5% in February 2010 but by early 2011 had dropped to 4%. Most non-performing private sector loans had been accumulated by households and the biggest decrease (almost 30%) was seen in this group, while companies reduced their debt by 15%.

3. The main variables

(a) Economic activity

The real rate of economic growth in 2010 was 3.6%, driven by a surge in domestic demand. Consumption made the biggest contribution to economic growth, above all private consumption, which rose by 6.9%. However, gross capital formation recorded the most dramatic increase, with a variation of 14.6%. By asset type, investments in machinery have been growing rapidly since the second half

of 2010, while investment in construction became more dynamic from the fourth quarter of the year. Although external demand has rebounded, goods and services exports grew only slightly (2.3%) with respect to 2009, and levels remained lower than in 2007 in volume terms. This was more than adequately offset by an expansion of 16.3% in goods and services imports over the same period.

Output was up in almost every production sector, testifying to the economic recovery. The only exceptions

were agriculture and oil refining, which together account for 9.8% of GDP. Agriculture contracted by 0.7% owing to poor weather conditions, while refining was down 9.7% as maintenance work at the Esmeraldas refinery reduced its capacity for much of the year.

The value added of agriculture dipped for the first time this decade. The sector had recorded average growth of 4% over the past nine years, but contracted by 0.7% in 2010. Production of coffee (-21%), rice (-3%) and bananas (-2.5%) fell owing to the severe drought in the second half of the year and the heavy rains that followed, which adversely affected banana crops.

Manufacturing GDP not including oil refining (14% of total production) expanded by 6.7% as a result of rising demand for goods. The construction sector also grew by 6.7%, just over one percentage point more than the previous year.

Thanks to the upturn in private consumption, wholesale and retail trade grew by 6.3%. Value added for electricity and water services on the other hand grew by only 1.4%, having contracted by 12.2% in 2009. As a consequence of the electricity rationing implemented in the last quarter of 2009 and early 2010, less electricity was generated in 2010 than in 2008, which accounts for the limited growth in the electricity and water sector.

Oil production in 2010 remained below 2003 levels. Nonetheless, it compares favourably with the previous year. Following three years of steadily declining oil production, the downward trend was reversed and production increased very slightly in 2010. Production by State-owned companies rose by 7% but shrank by 9.6% for private companies, owing, among other factors, to delays in the signing of new contracts. Given the importance of oil to the mining industry, that sector grew by 0.2%. The government is renegotiating its contracts with the big oil firms operating in the country, which has prompted the departure of the Brazilian company Petrobras and some smaller companies, such as Canada Grande (Republic of Korea) and EDC (United States). CNPC (China) has cut back on its activities in the country. Foreign companies that may continue to operate in Ecuador include Repsol-YPF (Spain), Agip (Italy), Sinopec and CNPC (China) and ENAP (Chile). Under the new contracts, the government will own the oil produced and will pay companies a fixed fee per barrel extracted.

Surprisingly, growth in transport and storage slackened. Higher growth rates in user sectors over the same period were not enough to offset the contraction in the agricultural sector. The rest of services —direct and indirect financial intermediation, public and general services and other services— grew on average by 4.4%, around two percentage points more than in 2009.

Economic indicators in early 2011 reflect the buoyancy seen since the second half of 2010. Economic growth of 6.4% is forecast for 2011, fuelled by strong growth in

domestic demand, which will in turn be driven by higher oil prices and a relative increase in remittances.

(b) Prices, wages and employment

Year-on-year inflation dropped by one percentage point from 4.3% in December 2009 to 3.3% in December 2010. Inflation declined for almost all components of the consumer price index, except for food and beverages, health and communications. The biggest decrease was recorded for the miscellaneous goods and services component. However, rising international prices will have a moderate impact on the average rate of inflation for 2011, which estimates indicate will sit between 3.5% and 4%.

Economic growth brought rapid improvements in the employment situation. After reaching 9.1% in the first quarter of 2010, the unemployment rate began to fall sharply as the economy expanded, and in the fourth quarter it stood at just over 6%, the lowest figure on record since 2007. However, this occurred not only because more people were employed but also because of a decrease in labour force participation, which fell from 58.8% in 2009 to 56.9% in 2010. As a result, the average unemployment rate fell by almost one percentage point, from 8.5% in 2009 to 7.6% in 2010. With the improved outlook for growth for 2011, an unemployment rate of around 7% is forecast.

The real average minimum wage in 2010 rose by 6.7%, almost double the 2009 figure. A 10% increase in the nominal minimum wage was agreed for 2011, representing a slightly smaller real gain than the previous year.

(c) The external sector

Export growth was outstripped by the variation in imports (37.6%), leading to a trade deficit after seven years of surplus. The balance-of-payments current account deficit continued to widen during 2010, eventually hitting US\$ 1.917 billion (3.5% of GDP), which was higher than the figure recorded in 2009 (US\$ 306.4 million, or 0.6% of GDP).

Despite the increased volume and value of exports, the merchandise trade balance posted its first deficit since 2003, amounting to US\$ 1.58 billion (2.8% of GDP). The income balance continued to reflect the 2008 downturn in investment and loans to residents, with net payments of economic rents down to 2% of GDP. Remittances continued to decline (-2.4%), although at only a fifth of the rate recorded during 2009 (-12.5%), and amounted to US\$ 2.654 billion (4.8% of GDP). This may be attributed to high unemployment among the Hispanic population and within the construction industry in the United States, coupled with rising levels of unemployment in Spain (the two main destinations for Ecuadorian migrants).

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4	3.6
Per capita gross domestic product	2.2	2.1	7.6	4.6	3.6	1.0	6.1	-0.7	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.4	5.6	1.9	7.8	5.1	4.1	5.4	1.5	-0.2
Mining	-4.6	9.3	37.5	1.7	3.6	-8.3	-0.0	-3.3	0.2
Manufacturing	-0.4	0.7	5.1	6.8	6.0	3.8	8.1	-1.0	3.4
Electricity, gas and water	8.2	1.2	-8.7	1.3	0.5	15.5	20.2	-12.2	1.4
Construction	20.0	-0.7	4.0	7.3	3.8	0.1	13.8	5.4	6.7
Wholesale and retail commerce, restaurants and hotels	2.4	3.1	4.2	5.8	5.2	3.2	-1.8	-2.3	6.3
Transport, storage and communications	1.2	4.3	4.8	8.9	7.2	5.7	-27.6	3.7	2.5
Financial institutions, insurance, real estate and business services	7.9	2.7	6.2	9.0	7.3	5.3	7.2	0.4	3.6
Community, social and personal services	-0.4	2.3	2.7	2.5	3.6	5.3	7.2	0.4	3.6
Gross domestic product, by type of expenditure									
Consumption	6.3	4.6	4.5	6.8	5.2	3.9	7.4	-0.1	6.9
General government	4.3	1.4	3.6	3.5	3.7	6.1	11.5	4.0	1.4
Private	6.5	5.1	4.6	7.2	5.4	3.7	6.9	-0.7	7.7
Gross capital formation	20.3	-16.7	16.8	10.9	4.7	5.7	15.7	-8.6	14.6
Exports (goods and services)	-0.8	10.1	15.1	8.6	8.8	2.3	3.3	-5.9	2.3
Imports (goods and services)	18.3	-4.8	11.4	14.1	9.1	7.9	9.9	-11.6	16.3
Percentages of GDP									
Investment and saving^c									
Gross capital formation	26.8	21.0	23.3	23.6	23.8	24.3	27.9	23.3	23.8
National saving	21.9	19.6	21.8	24.9	28.0	28.0	30.4	23.0	20.4
External saving	4.9	1.4	1.5	-1.3	-4.2	-3.7	-2.5	0.3	3.4
Millions of dollars									
Balance of payments									
Current account balance	-1 218	-387	-479	474	1 739	1 690	1 357	-180	-1 917
Goods balance	-902	80	284	758	1 768	1 823	1 549	144	-1 580
Exports, f.o.b.	5 258	6 446	7 968	10 468	13 176	14 870	19 461	14 412	18 061
Imports, f.o.b.	6 160	6 366	7 684	9 709	11 408	13 047	17 912	14 268	19 641
Services trade balance	-716	-744	-954	-1 130	-1 305	-1 371	-1 675	-1 371	-1 593
Income balance	-1 252	-1 492	-1 840	-1 815	-1 828	-1 945	-1 462	-1 384	-1 054
Net current transfers	1 652	1 769	2 030	2 661	3 104	3 184	2 946	2 432	2 310
Capital and financial balance ^d	1 091	523	760	192	-1 870	-304	-423	-2 467	705
Net foreign direct investment	783	872	837	493	271	194	1 006	319	164
Other capital movements	308	-349	-77	-302	-2 141	-498	-1 429	-2 786	541
Overall balance	-127	136	281	666	-131	1 387	934	-2 647	-1 212
Variation in reserve assets ^e	66	-152	-277	-710	124	-1 497	-952	681	1 170
Other financing	62	17	-4	43	7	111	18	1 966	42
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	61.9	60.3	61.7	64.7	65.4	68.1	68.3	65.0	64.4
Terms of trade for goods (index: 2005=100)	84.8	87.7	89.3	100.0	107.3	110.3	121.1	107.2	118.0
Net resource transfer (millions of dollars)	-100	-953	-1 084	-1 580	-3 691	-2 138	-1 867	-1 885	-307
Total gross external debt (millions of dollars)	16 236	16 756	17 211	17 237	17 099	17 445	16 887	13 480	13 838
Employment									
Labour force participation rate ^g	58.3	58.2	59.1	59.5	59.1	61.3	60.1	58.9	56.9
Unemployment rate ^h	9.2	11.6	9.7	8.5	8.1	7.4	6.9	8.5	7.6
Visible underemployment rate ⁱ	10.2	9.8	8.1	7.3	6.3	11.3	10.6	11.8	11.5
Prices									
Variation in consumer prices (December-December)	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3	3.3
Variation in producer prices (December-December)	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	33.0	16.7
Variation in minimum urban wage	0.9	6.1	2.4	3.0	3.3	3.9	8.5	3.6	6.3
Nominal deposit rate ^j	5.1	5.3	4.0	3.8	4.4	5.3	5.5	5.4	4.6
Nominal lending rate ^k	14.1	12.6	10.2	8.7	8.9	10.1	9.8	9.2	9.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Non-financial public-sector									
Total revenue	25.7	24.3	25.0	24.8	27.0	29.6	39.9	35.3	41.6
Tax revenue	19.3	18.1	17.8	18.6	20.0	21.0	22.1	23.8	25.1
Total expenditure	24.9	22.7	23.0	24.0	23.7	27.4	40.8	39.6	43.3
Current expenditure	18.5	17.6	18.0	19.1	19.1	19.9	27.8	26.8	30.3
Interest	3.4	2.9	2.4	2.2	2.1	1.9	1.3	0.7	0.7
Capital expenditure	6.4	5.1	4.9	5.0	4.7	7.5	12.9	12.8	12.9
Primary balance	4.2	4.5	4.5	2.9	5.4	4.0	0.5	-3.6	-0.9
Overall balance	0.8	1.6	2.1	0.7	3.3	2.1	-0.9	-4.3	-1.7
Public-sector debt	54.7	49.5	43.7	38.9	32.0	30.2	25.0	19.6	23.5
Domestic ^l	11.2	10.6	10.7	10.0	7.9	7.1	6.7	5.5	8.4
External	43.5	38.9	33.0	28.9	24.2	23.1	18.3	14.1	15.2
Money and credit^m									
Domestic credit	20.6	17.4	16.6	16.9	17.1	18.1	17.4	20.8	27.5
To the public sector	-0.3	-2.6	-4.5	-6.1	-6.7	-7.0	-9.0	-7.1	-3.5
To the private sector	20.9	19.9	21.1	23.0	23.9	25.0	26.4	27.9	31.0

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

^a Preliminary figures.

^b Based on figures in dollars at constant 2000 prices.

^c Based on figures in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, three cities.

^h Percentage of the economically active population, urban total. Up to 2003, the figures relate to Cuenca, Guayaquil and Quito. Includes hidden unemployment.

ⁱ Percentage of the working population, urban total. Up to 2006, the figures relate to Cuenca, Guayaquil and Quito.

^j Weighted average of the system effective deposit rates.

^k Effective benchmark lending rate for the corporate commercial segment. Until 2003, reference lending rate in dollars.

^l Refers to the domestic debt of the central government.

^m The monetary figures are end-of-year stocks.

By destination, exports to Latin America were up 21%, while exports to countries outside the region climbed by 29%. Exports to the United States were responsible for 60% of this growth, as they expanded by 31% in 2010. By product type, oil and oil products recorded the biggest increase at 38.5%, largely due to higher prices. Non-traditional exports, which represent a fourth of total exports, grew by 19%. Traditional non-petroleum exports, which account for a fifth of total exports, were up just 6.9%. This was due to the minimal increase of 1.8% in the export value of bananas and plantains, which was offset by a rise in the export value of shrimp and by the high price of coffee, thanks to which the value of coffee exports grew by 15%.

Import growth is attributable to the higher value of imports of consumer goods, raw materials, fuels and capital goods in equal measure. The delay in renewing the agreement on preferential treatment of Ecuadorian

exports by the United States will mean lower profits for exporters, since even if it is renewed retroactively, the duty that has been paid will be recovered by the importers.

The current account deficit created a need for financing, which was achieved—in equal parts—through a fourfold increase over 2009 in other investments and through use of reserves. Net foreign direct investment inflows amounted to US\$ 164.1 million, a 49% drop with respect to 2009. The main recipient sectors were mining and quarrying, which received US\$ 159 million, and manufacturing, which received US\$ 123 million. In some sectors, such as transport and telecommunications, there were substantial divestments. The main investor countries were Canada, China and Panama. In 2011 a number of initiatives are being considered to promote foreign direct investment in Ecuador, and the government is expected to unveil a package of incentives and tax breaks to foster investment in the tourism industry.

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	2.8	0.5	-1.2	-0.5	0.4	2.5	4.5	7.0	...	...
Goods exports, f.o.b. (millions of dollars)	2 668	3 299	3 809	4 086	4 135	4 407	4 119	4 829	5 153	1 794 ^d
Goods imports, c.i.f. (millions of dollars)	3 651	3 471	3 726	4 242	4 317	5 054	5 493	5 726	5 333	1 960 ^d
Freely available International reserves (millions of dollars)	3 244	2 675	4 625	3 792	4 007	4 104	4 353	2 622	3 947	3 884
Real effective exchange rate (index: 2000=100) ^e	62.7	64.0	66.1	67.0	64.0	63.4	64.5	65.5	65.6	66.8
Unemployment rate	8.6	8.3	9.1	7.9	9.1	7.7	7.4	6.1	7.0	...
Consumer prices (12-month percentage variation)	7.4	4.5	3.3	4.3	3.3	3.3	3.4	3.3	3.6	4.2
Producer prices (12-month percentage variation)	-27.1	-27.1	-13.5	33.0	27.0	5.0	6.5	16.7	18.6	30.2
Nominal interest rates (annualized percentages)										
Deposit rate ^f	5.2	5.5	5.6	5.4	5.1	4.6	4.3	4.3	4.6	4.6
Lending rate ^g	9.2	9.2	9.2	9.2	9.1	9.1	9.0	8.9	8.5	8.3
Interbank interest rate ^h	0.9	0.7	0.2	0.3	0.2	0.5	0.3	0.4	0.8	0.8
Sovereign bond spread (basis points) ⁱ	3 568	1 322	940	769	189	1 013	1 226	913	780	799
Stock price index (national index to end of period, 31 December 2000=100)	342	302	275	292	297	304	333	342	351	345
Domestic credit (variation from same quarter of preceding year)	16.1	40.2	18.1	14.5	17.0	23.5	51.6	42.0	38.0	37.8 ^d
Non-performing loans as a percentage of total credit	8.8	9.1	9.0	8.1	8.5	7.7	7.5	6.8	...	...

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in dollars at constant 2000 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^g Effective benchmark lending rate for the corporate commercial segment.

^h Interbank market, weighted average.

ⁱ Measured by JP Morgan's EMBI+ index to end of period.

Paraguay

1. General trends

At 15.0%, economic growth in 2010 was the best seen in Paraguay in four decades. It was driven by a good performance in the agricultural sector, thanks to a bumper crop from the 2009-2010 harvest. Other sectors such as livestock, construction and manufacturing also made substantial contributions. Although public spending continued to grow in 2010, the central government achieved a fiscal surplus of 1.4% of GDP owing to higher tax receipts.

Strong growth in domestic demand, coupled with rising international food and fuel prices, drove up inflation, which ended the year at 7.2%. The favourable economic climate led to a boom in exports (43.2%) and imports (43.9%) of goods. The current account posted a deficit of

3.3% of GDP, a deterioration with respect to the surplus of 0.3% registered in 2009. The economy is expected to continue to expand in 2011, albeit at a slower pace, with an estimated growth rate of 5.7%.

2. Economic policy

(a) Fiscal policy

The central government's overall fiscal balance yielded an end-of-year surplus of 1.4% of GDP in 2010. This was higher than the previous year, when Paraguay posted a surplus equivalent to 0.1% of GDP. The primary surplus was 1.8% of GDP, an improvement on the 0.7% recorded in 2009.

The position of the public finances was largely attributable to higher tax receipts, which grew by 17.9% in 2010, notwithstanding a drop of 8.2% in taxes on net income. Rising domestic demand brought higher VAT receipts (up 27.8%) and increased revenue from taxes on foreign trade (up 50.1%). Non-tax revenue fell by 3.2% in 2010, owing to a drop of 17.3% in the contractual revenue from the Itaipú and Yacyretá binational entities.

Cumulative tax receipts from January to May of 2011 were up 19.8% over the same period in 2010 in nominal terms.

Congress once again postponed the introduction of personal income tax in 2010. Paraguay therefore remains the only country in Latin America without a tax of this kind. It also has one of the lowest tax burdens worldwide, despite an increase from 13.0% to 13.4% between 2009 and 2010.

Total central government spending rose by 4.7% and was equivalent to 17.8% of GDP (lower than the 19.6% recorded the previous year). Current spending increased by 7.5% with respect to 2009 and accounted for almost 80% of total encumbered expenditure. Capital expenditure fell by 4.9% reflecting a 25.8% reduction in capital transfers. Physical investment increased from 2.064 billion guaraníes in 2009 to 2.265 billion guaraníes in 2010, up 5.4% in

real terms. Physical investment as a percentage of GDP nevertheless dropped from 2.9% in 2009 to 2.7% in 2010. Lower total expenditure in proportion to GDP and in particular lower capital spending stemmed from a less expansionary public spending policy in comparison to 2009, when a countercyclical fiscal policy was implemented to mitigate the impact of the international crisis.

The debt of the non-financial public sector eased down from 18.8% in 2009 to 16.3% in 2010. Of this, 77.0% relates to external debt and the remainder to domestic debt. External public debt has fallen sharply in the past eight years, from 64.0% of GDP in 2002, thanks to strong economic growth and amortization in excess of disbursements over the period.

(b) Monetary policy

The rebounding economy and concerns over rising inflation led the Executive Committee for Open Market Operations and Reserves (CEOMA) of the Central Bank of Paraguay to tighten monetary policy, cutting back on the monetary stimulus introduced in 2009. As a result, interest rates on monetary regulation instruments (IRM) began edging up in the second half of 2010. The weighted average interest rate on IRMs increased from 0.3% in May to 5.5% in December 2010, exceeding both the 2.9% rate posted in December 2009 and the 3.9% in November 2010. In May 2011, the weighted average interest rate on IRMs was 9.2%. This higher reference rate is attributable to the fact that domestic growth is continuing apace, in part thanks to steady growth in the credit available within the domestic financial system, which has in turn accompanied the expansion in monetary aggregates.¹

In December 2010, total bank lending to the private sector was up by 42.5% with respect to the same month in 2009, while in March 2011 year-on-year growth of 30.8% was recorded.

The banks' weighted real lending rate in local currency was 19.9% as an annual average in December 2010, lower than the average of 24.3% for the same month of the previous year. The interest-rate spread was 25.9% in December 2010, wider than the 24.8% of December 2009. By April 2011, average lending and borrowing rates had edged up again, both for local- and foreign-currency loans, but nonetheless remained low in comparison with historical levels.

¹ In May 2011, year-on-year change for M0, M1, M2 and M3 was 16.5%, 6.1%, 11.6% and 13.7%, respectively.

(c) Exchange-rate policy

The nominal exchange rate of the guaraní against the United States dollar was down by 1.7% in December 2010, indicating an appreciation of the guaraní in relation to the same month in 2009. In April 2011, the local currency recorded year-on-year nominal appreciation of 13.9%.

The real effective exchange rate of the guaraní against the United States dollar posted a year-on-year fall of 4.1% in December 2010. In April 2011, the currency showed year-on-year appreciation of 15.3% in real effective terms.

Up to December 2010, the Central Bank of Paraguay had accumulated net annual dollar sales of US\$ 221.8 million, versus cumulative net purchases of US\$ 289.1 million in 2009. In April 2011, cumulative net dollar purchases for the year stood at US\$ 70.9 million. These interventions in the currency market in late 2010 and early 2011 were undertaken to mitigate fluctuations in the dollar exchange rate, according to central bank authorities.

Net international reserves registered a year-on-year rise of 8% in December 2010, standing at US\$ 4.169 billion, or 23% of GDP. In May 2011, net international reserves amounted to US\$ 4.829 billion, 24.3% higher than the reserves registered in May 2010.

Efforts were made to reduce volatility and curb the guaraní's appreciation against the dollar by allowing a build-up in the central bank's international reserves and increasing the foreign currency holdings of commercial banks.² Appreciation of the guaraní is attributable, among other factors, to large inflows of foreign currency in the form of international remittances (US\$ 274 million), revenue from the Itaipú and Yacyretá binational entities (US\$ 545 million), and exports. To a certain extent, the trade deficit has helped limit the sharp appreciation of the guaraní.

(d) Other policies

In 2010, social programmes such as health care, education, cash transfers and pensions for older persons accounted for 50.6% of total expenditure. Social spending is expected to continue to expand in 2011, in particular cash transfers, which were received by 112,000 families in 2010. Growth in physical investment, particularly in infrastructure, resulted in the creation of 51,000 road-building jobs.

² By raising the ceiling on the net foreign currency position of financial entities from 30% to 50% of their total assets.

3. The main variables

(a) Economic activity

The economy grew by 15.0% in 2010, the highest figure recorded in Paraguay since the 12.0% registered in 1978. In consequence, GDP per capita increased by 13.1%, to US\$ 1,509. This was largely due to a bumper crop in the agricultural sector,³ which grew by 49.9%, following a sharp decline (-25%) in 2009 when a prolonged drought severely reduced the 2008-2009 harvest. The excellent weather conditions during the 2009-2010 harvest were good for production of soybean, Paraguay's main agricultural product. The 2010 harvest produced a crop of around 7.5 million tons, up 90% on 2009. The livestock, forestry and fishing sector recorded growth of 4.6% (against 2.7% in 2009), in particular thanks to increased cattle production. The manufacturing and mining sector rebounded in 2010, showing growth of 6.3%, compared with -0.8% in 2009. Construction and services also expanded considerably in 2010, posting growth of 13.0% and 9.0%, respectively (as against growth rates of 2.0% and 2.2% in 2009).

On the spending side, all the components of aggregate demand rose in 2010. Total consumption, having contracted by 1.7% in 2009, grew by 10.6% in 2010. Private consumption climbed 10.4%, following negative growth (-3.4%) in 2009. Government consumption continued to expand in 2010 and registered a growth rate of 12.0%, compared with 13.7% in 2009. Gross fixed capital formation jumped from -11.1% in 2009 to 18.0% in 2010. Exports of goods and services expanded by 36.0%, as opposed to contracting by 13.9% in 2009, boosted by heightened demand from Paraguay's main trading partners (Argentina, Brazil and Uruguay). Imports of goods and services also recovered strongly in 2010, growing by 30.0% after having dropped by 13.7% in 2009, driven by buoyant domestic demand on the back of higher private consumption.

Bearing in mind the weight of the farming sector in the Paraguayan economy and the fact that 2009 and 2010 were atypical years, the growth rate is expected to return to normal levels in 2011 after the spectacular high recorded in 2010 and a growth rate of 5.7% is forecast for 2011. According to the monthly index of economic activity (IMAEP), a short-term trend indicator published by the central bank, growth has already begun to slacken, since real cumulative variation of 5.2% was recorded in March 2011, well below the 18.5% reported in March 2010.

³ Agriculture is the largest sector in the Paraguayan economy, accounting for a fifth of economic activity.

(b) Prices, wages and employment

Annual inflation stood at 7.2% in 2010, considerably higher than the 2009 figure of 1.9%. Inflation in 2010 sat just within the target range established by the Central Bank of Paraguay ($5\% \pm 2.5\%$). During the first three quarters of 2010, inflation remained below the centre of the target range but began to climb in the fourth quarter, eventually hitting the ceiling of the range. Higher aggregate demand driven by the auspicious economic climate also created strong inflationary pressures in 2010. Core inflation⁴ stood at 8.4% in 2010, significantly higher than in 2009 (0.7%). Core X1⁵ inflation was 8.7%, versus 1.3% in 2009. The rise in inflation carried over into 2011, as indicated by the year-on-year rate of 10.2% in May 2011 (versus 4.5% in May 2010). The higher rate of inflation in late 2010 and early 2011 may be attributed, among other factors, to rising food and fuel prices, in particular international prices for agricultural commodities and domestic prices for beef.

In December 2010 the wage and salary index stood 7.5% over the figure for the same semester of 2009. The minimum wage increased from 1,408,864 guaraníes in 2009 to 1,507,484 guaraníes in 2010, up 0.5% in real terms.

According to the 2010 Continuous Employment Survey,⁶ the open unemployment rate fell during 2010, dropping from 9.2% in the first quarter to 6.1% in the final quarter. In the last quarter of 2010, the rate for men was 4.9%, while the figure for women was significantly higher at 7.5%.

(c) The external sector

Burgeoning external demand, rising international prices for the main products exported by Paraguay and soaring domestic production thanks to excellent weather conditions all resulted in an increase in registered exports in 2010: of 43.2% in value terms and 30% in volume terms. Exports of soybean seed in particular surged by 102.1% by value (118.9% by volume) and in 2010 accounted for almost half of the growth in total registered exports. Other strong export performers were meat—which climbed 58.9% by value and 17.5% by volume—and cereals, which rose 20.2% in value terms but fell 7.2% in volume terms. Registered exports to Argentina, Brazil and Uruguay, Paraguay's main trading partners with almost 50% of registered exports, increased in value terms by 56.8%, 0.8% and 86.4%, respectively.

⁴ Excludes fruit and vegetables, the most volatile products in the basket.

⁵ Excludes fruit, vegetables and regulated services.

⁶ Covers Asunción and urban areas of the Central Department.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	-0.0	3.8	4.1	2.9	4.3	6.8	5.8	-3.8	15.0
Per capita gross domestic product	-2.0	1.8	2.1	0.9	2.4	4.8	3.9	-5.5	13.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.2	8.0	3.9	-0.1	3.6	14.3	9.2	-17.3	34.2
Mining	-9.1	15.6	2.7	7.8	-2.2	3.5	5.0	3.0	3.2
Manufacturing	-1.4	0.7	3.3	2.7	2.5	-1.2	2.0	-0.8	6.3
Electricity, gas and water	1.1	4.6	3.6	2.8	8.5	5.9	3.5	4.8	5.1
Construction	-8.9	14.3	2.1	4.5	-3.5	7.2	11.0	2.0	13.0
Wholesale and retail commerce, restaurants and hotels	-1.6	5.5	5.1	2.4	5.5	5.1	4.2	-3.2	10.7
Transport, storage and communications	2.0	0.7	9.6	7.2	10.7	10.7	5.2	-3.2	6.6
Financial institutions, insurance, real estate and business services	0.8	-4.9	2.1	4.0	4.0	3.8	7.9	7.5	7.2
Community, social and personal services	-1.1	0.5	2.7	5.9	4.3	3.0	3.9	11.5	9.1
Gross domestic product, by type of expenditure									
Consumption	-6.7	2.4	4.6	4.7	5.0	5.9	6.5	-1.7	10.6
General government	-3.2	-2.0	6.0	11.5	4.0	3.0	3.5	13.7	12.0
Private	-7.1	2.9	4.5	3.9	5.1	6.2	6.8	-3.4	10.4
Gross capital formation	-13.7	2.5	-1.9	7.3	4.3	17.8	12.6	-11.9	19.3
Exports (goods and services)	15.9	4.4	8.1	5.5	14.6	8.1	12.1	-13.9	36.0
Imports (goods and services)	-6.2	0.9	6.7	11.3	16.5	10.7	15.9	-13.7	30.0
Percentages of GDP									
Investment and saving^c									
Gross capital formation	18.7	20.1	19.2	19.8	19.6	18.0	18.1	15.8	16.4
National saving	20.5	22.4	21.3	20.0	21.0	19.5	16.2	16.1	13.1
External saving	-1.8	-2.3	-2.1	-0.2	-1.4	-1.5	1.8	-0.3	3.3
Millions of dollars									
Balance of payments									
Current account balance	93	129	143	16	128	184	-304	43	-596
Goods balance	-280	-276	-244	-462	-621	-533	-1 046	-1 031	-1 527
Exports, f.o.b.	1 858	2 170	2 861	3 352	4 401	5 652	7 798	5 805	8 312
Imports, f.o.b.	2 138	2 446	3 105	3 814	5 022	6 185	8 844	6 837	9 839
Services trade balance	214	245	327	313	414	499	558	868	792
Income balance	43	-4	-134	-58	-92	-155	-231	-312	-382
Net current transfers	116	165	194	224	426	373	414	519	521
Capital and financial balance ^d	-213	105	128	144	255	539	699	872	915
Net foreign direct investment	12	22	32	47	167	199	275	201	423
Other capital movements	-225	83	96	97	89	340	424	672	493
Overall balance	-121	234	271	160	383	723	395	915	319
Variation in reserve assets ^e	84	-301	-179	-146	-387	-727	-394	-915	-319
Other financing	37	67	-92	-14	4	5	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	106.3	113.0	106.2	118.4	106.3	96.3	85.2	94.0	91.8
Terms of trade for goods (index: 2005=100)	99.2	104.2	107.1	100.0	98.1	102.7	110.2	107.8	107.8
Net resource transfer (millions of dollars)	-134	168	-98	72	168	388	468	560	533
Total gross external debt (millions of dollars)	2 900	2 951	2 901	2 700	2 739	2 868	3 276	3 181	3 726
Average annual rates									
Employment									
Labour force participation rate ^g	61.2	59.8	63.4	61.8	59.4	60.8	61.7	62.9	62.8
Open unemployment rate ^h	14.7	11.2	10.0	7.6	8.9	7.2	7.4	8.2	6.8
Visible underemployment rate ⁱ	9.5	8.8	8.3	7.5	5.6	5.8	6.6	8.2	7.3
Annual percentages									
Prices									
Variation in consumer prices (December-December)	14.6	9.3	2.8	9.9	12.5	6.0	7.5	1.9	7.2
Variation in nominal exchange rate (annual average)	39.2	13.3	-7.6	3.3	-8.7	-10.8	-13.5	14.3	-4.4
Variation in average real wage	-5.0	-0.8	1.7	1.1	0.6	2.4	-0.7	4.5	0.7
Nominal deposit rate ^j	21.7	15.5	5.7	6.1	9.8	5.9	6.2	3.4	2.0
Nominal lending rate ^k	34.3	30.5	21.2	15.3	16.6	14.6	14.6	15.6	13.2

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central Administration									
Total revenue	17.5	17.0	18.4	18.3	18.3	17.6	17.3	19.6	19.1
Current revenue	17.3	16.9	18.3	18.1	18.2	17.2	16.9	19.2	18.7
Tax revenue	11.2	11.3	12.9	13.0	13.1	12.6	13.0	14.5	14.8
Capital revenue	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.4	0.4
Total expenditure ^l	20.7	17.4	16.8	17.5	17.8	16.7	14.8	19.6	17.8
Current expenditure	16.3	14.0	12.9	13.5	13.7	12.9	12.2	15.0	14.0
Interest	1.5	1.3	1.1	1.2	1.0	0.8	0.6	0.6	0.4
Capital expenditure	4.4	3.7	4.0	4.1	4.2	3.8	2.7	4.6	3.8
Primary balance	-1.7	0.9	2.7	2.0	1.5	1.8	3.1	0.7	1.8
Overall balance	-3.2	-0.4	1.6	0.8	0.5	1.0	2.5	0.1	1.4
Central-government debt	59.2	46.5	40.5	34.3	26.0	18.6	15.9	16.1	15.5
Domestic	8.2	7.0	6.7	5.9	4.8	4.2	3.6	3.7	3.2
External	51.0	39.5	33.9	28.4	21.1	14.4	12.3	12.4	12.3
Money and credit^m									
Domestic credit ⁿ	-5.1	-4.4	-4.0	-0.8	2.2	0.5	-3.4	-7.4	-7.2
To the public sector	5.7	3.1	3.3	3.1	1.5	0.1	-1.5	-2.7	-4.0
To the banking sector	-2.7	-4.1	-4.8	-3.9	-3.3	-4.7	-4.9	-8.7	-6.6
Others	-8.1	-3.5	-2.6	-0.1	3.9	5.1	3.1	4.0	3.4
Liquidity (M3)	31.9	29.1	28.3	27.5	26.8	30.0	31.3	39.8	40.4
Currency outside banks and local-currency deposits (M2)	13.4	14.2	15.2	15.9	16.2	19.2	19.2	25.7	24.8
Foreign-currency deposits	18.4	14.8	13.1	11.7	10.6	10.7	12.1	14.1	15.7

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 1994 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; urban total.

ⁱ Percentage of the working population; urban total.

^j Weighted average of effective interest rates on time deposits.

^k Weighted average of the system lending rates.

^l Includes net lending.

^m The monetary figures are end-of-year stocks.

ⁿ Refers to the credit extended to the banking sector by the Central Bank of Paraguay.

The strong performance of the Paraguayan economy in 2010 was reflected in the increase in registered imports of 43.9% in value terms and 22.3% in volume terms. Imports of consumer, intermediate and capital goods rose by 41.6%, 28.5% and 61.1% in value terms and 20.3%, 19.2% and 62.1% in volume terms, respectively. Among capital goods, which posted the biggest increases among total registered imports, the fastest-rising categories of imports were machinery, devices and engines and transport equipment and accessories.⁷ Registered imports from Argentina, Brazil and Uruguay together increased by 47.4% in value terms, but the most significant rise was that of imports from China, which jumped by 66.7% in relation to 2009. Indeed, goods purchased from China accounted for a third of total registered imports in 2010.

The current account balance posted a deficit equivalent to 3.3% of GDP in 2010 (as against a surplus of 0.3% of GDP in 2009). The balance-of-payments surplus shrank from US\$ 915 million in 2009 to US\$ 319 million in 2010, chiefly reflecting the current account deficit, since the capital and financial account surplus swelled by 4.9%. The stock of foreign direct investment climbed from US\$ 3.037 billion in 2009 to US\$ 3.203 billion in 2010, primarily taking the form of shares and reinvested profits.

As at April 2011, the value of registered exports had increased by 8.7%, mainly owing to the buoyant export performance of meat, cereals and soybean flour. Registered imports were up by 26.9% year-on-year thanks to surging domestic demand, which continues to climb.

⁷ Excludes automobiles, jeeps and pick-up trucks.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-5.4	-7.4	-2.4	-0.3	16.6	16.1	13.3	14.3	4.6	...
Goods exports, f.o.b. (millions of dollars) ^d	882	826	779	681	1 112	1 266	1 092	1 064	1 157	505 ^e
Goods imports, f.o.b. (millions of dollars) ^d	1 439	1 372	1 676	2 010	1 970	2 202	2 437	2 791	2 508	884 ^e
International reserves (millions of dollars)	2 870	3 183	3 552	3 861	3 855	3 908	3 996	4 169	4 377	4 829
Real effective exchange rate (index: 2000=100) ^f	90.6	94.0	95.7	95.5	89.6	90.7	92.8	94.2	87.0	79.6
Consumer prices (12-month percentage variation)	3.4	1.9	2.3	1.9	4.1	4.3	3.8	7.2	10.3	10.2
Average nominal exchange rate (guaraníes per dollar)	5 075	5 043	4 968	4 793	4 685	4 737	4 781	4 806	4 515	4 030
Nominal interest rates (annualized percentages)										
Deposit rate ^g	4.3	2.1	3.6	3.8	2.1	1.9	1.5	2.6	2.2	6.3 ^e
Lending rate ^h	18.5	15.5	14.6	13.8	13.7	12.9	12.7	13.6	15.5	16.3 ^e
Interbank rate	4.0	0.8	1.0	1.0	1.0	1.3	1.4	3.2	6.0	7.8
Domestic credit (variation from same quarter of preceding year)	38.3	33.7	27.2	22.4	28.1	36.5	43.8	42.5	33.0	30.8 ^e
Non-performing loans as a percentage of total credit	1.5	1.8	1.8	1.6	1.6	1.6	1.5	1.3	1.5	1.5

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1994 prices.

^d Refers to registered trade only.

^e Data to April.

^f Quarterly average, weighted by the value of goods exports and imports.

^g Weighted average of effective interest rates on time deposits.

^h Weighted average of the system lending rates.

Peru

1. General trends

The Peruvian economy grew by 8.8% in 2010, driven by robust domestic consumer and investor demand and by a process of inventory restocking. This performance was observed at a time when inflation was low and the fiscal deficit and balance-of-payments current account deficit had narrowed.

Fuelled by the upturn in the global economy and improved access to various markets following the signing of several free trade agreements, more vibrant export growth will combine with strong domestic demand to bring GDP growth to around 7.1% in 2011. The expansion

of investment is expected to be led by projects in the mining and hydrocarbon sector, road, port and airport infrastructure works and energy infrastructure projects (hydroelectric plants, power generation and transmission lines, and wind farms).

2. Economic policy

(a) Fiscal policy

Vigorous economic growth in the first few months of 2010 prompted the authorities to start reverting the fiscal and monetary stimulus measures. In May, the government passed an emergency decree announcing measures for reining in fiscal spending. These included a cap on growth in fiscal spending in 2010, set at 3% of the nominal value of expenditure executed in 2009, a curb on the execution of public investment projects and limitations on the use of contingency reserve funds.

Nevertheless, fiscal spending continued to rise. In 2010, total central government expenditure increased by 11.1% in comparison with 2009 (non-financial expenditure was up by 12.1% and expenditure with interest, down by 2.1%). Non-financial expenditure reflected the increase in capital expenditure intended mainly for road infrastructure projects. Current expenditure rose by 6.5% (payroll expenses by 4.4% and expenditure on

procurement of goods and services by 16.5%). Current income grew by 22.8% in 2010. Tax revenues were up by 22.6%, following a 20.4% increase in general sales tax (GST) receipts—due to higher GST collections from imports—and a 26.8% rise in income tax receipts (mainly from corporate entities); non-tax revenue was up by 24.4%. In this context, the central government economic out-turn was a deficit equivalent to 0.4% of GDP and a primary surplus of 0.8% of GDP (compared with deficits equivalent to 1.9% and 0.6% of GDP, respectively, in 2009). The deficit was financed mainly through external disbursements and domestic borrowing.

With the economy continuing to perform strongly, the authorities announced their decision to reduce the public expenditure budget for 2011 and to credit US\$ 2 billion to the Fiscal Stabilization Fund out of the 2010 surpluses and the funds eliminated under the Fiscal Equilibrium Act 2011, which sought to streamline operations. Thus, the increase in public spending has been appreciably more moderate

since the start of 2011. The more restrained expenditure would seem to be concentrated in current expenditure, since for 2011 public investment as a percentage of GDP is expected to remain at much the same level as in 2010 (around 6%).

Available cumulative data for the first four months of the year indicate that central government non-financial expenditure decreased by 0.6% compared with the same period in 2010. The decline in expenditure is attributable to the sharper fall in capital expenditure (down 20%) and the sluggish growth in current expenditure. Current income recorded a 17.7% rise during the same period. In the first five months of 2011, some 31% of the budgeted resources had been committed, reflecting mainly the execution of expenditure at the national and regional government levels.

In 2010 and 2011, various tax rates were adjusted. In 2010, the reduction (from 0.06% to 0.05%) in the tax on financial transactions became effective and in the second half of the year, the customs duty drawback rate was cut (from 8% to 6.5%). In 2011, the tax on financial transactions was further reduced from 0.05% to 0.005% and the GST rate, from 19% to 18%. Both changes took effect on 1 March. In addition, tariffs were lowered for 3,401 items, bringing the average tariff in the first quarter of 2011 to 3.4% (down from 5% in December 2010). According to the Central Bank of the Republic of Peru, these measures will cost the government the equivalent of 1% of GDP.

Under the Fiscal Accountability and Transparency Act, the deficit for 2011 and 2012 must not exceed 1% of GDP and the increase in central government consumption expenditure, measured in real terms, must not exceed 4%. Moreover, since 2011 is an election year, the non-financial expenditure that can be executed during the first seven months of the year is limited to 60% of the annual total, while the deficit for the first half of the year must not exceed 50% of the deficit projected for the entire year. The Public Budget Financial Equilibrium Act 2011 introduced a new fiscal regulation for 2011, which states that a surplus equal to 2% of annual GDP must be generated during the first quarter.

Throughout 2010, the authorities carried out public debt administration operations designed to reduce the total and to improve its debt maturity profile and amortization schedule. In February, the government issued 32-year sovereign bonds totalling 550 million nuevos soles with an interest rate of 6.85%. In April, it carried out partial buyback or conversion operations on global 2012, 2015 and 2016 dollar bonds as well as 2014 global euro bonds, for an amount of US\$ 1.8 billion. In August, 2011, 2012, 2016 and 2017 sovereign bonds totalling US\$ 1.494 billion were swapped on the domestic market for global sovereign

bonds with maturity in 2020. Lastly, in November, 2050 global bonds totalling US\$ 1 billion were issued with a maturity date of 2050, at a rate of 5.625% interest; the 2020 sovereign bond was reopened for an amount of 4.196 billion nuevos soles. In 2011, the authorities announced that financing requirements would be met through bond issues on the domestic market.

Gross public debt, consisting mainly of medium- and long-term debt, fell from 27.2% in 2009 to 23.9% in 2010 (12.9% of external debt and 10.9% of internal debt).

(b) Monetary policy

In view of the country's robust economic performance, in May 2010, the Central Reserve Bank of Peru started to raise its benchmark rate as a precautionary measure. Thus, the rate increased from 1.25% to 3% in August, and remained stable at that level up to December 2010. In January, the Bank resumed the process with gradual monthly rises that brought the benchmark rate to 4.25% in May 2011.

In annualized terms, the average local currency corporate lending rate increased from 5.6% in August 2010 to 6.9% in May 2011¹ (while the foreign currency rate rose from 5.2% to 5.3%), and the 30-day deposit rates went up from 2.2% to 4.0% (at the same time, rates for foreign currency loans fell from 2.4% to 0.5%).

Throughout 2010 and the first part of 2011, the central bank continued to implement administrative measures in order to regulate the massive financial inflows into the Peruvian economy. In order to encourage financial entities to maintain a higher proportion of long-term instruments in their external credit mix, marginal reserve requirements were applied in 2010 to new or renewed external loans with repayment periods of under two years, and the balance of derivative operations by non-residents was taxed. Other measures were the increase in the minimum reserve requirement in local currency (from 6% in March 2010 to 9% in March 2011) and the rise in the marginal reserve requirement for deposits (from 12% in August 2010 to 25% in March 2011).

In the first quarter of 2011, the average legal reserve requirement in local currency and in foreign currency was raised by 0.25% in February and again by the same percentage in March. The reserve requirement was increased to incorporate the liabilities of foreign branches of the banks operating on the local market. Short-term external debt was reduced from 75% to 60% in line with the new regulation adopted by the Office of the Superintendent of Banks (SBV), which limits the net position of bank

¹ On the basis of the new computation methodology established by the Office of the Superintendent of Banks, Insurance Companies and Pension Fund Managers.

derivatives to 40% of equity or 400 million nuevos soles, whichever is greater. The legal reserve requirement for non-residents was maintained at 120%. The dollarization ratio of the financial system remained stable at 49%.

In December 2010, bank lending to the private sector increased by 14.1% compared with the December 2009 figure, and the 12-month rate of expansion to March 2011 was 15.9%. The acceleration in the loan rate is due mainly to the stronger growth in foreign currency loans (12.5% in the 12 months to December 2010 and 17.2% in the 12 months to March 2011). The rate of increase of local currency loans dipped slightly (from 18.6% in the 12 months to December 2010 to 17.6% in the 12 months to March 2011).

(c) Exchange-rate policy

The central bank intervened in the foreign exchange market throughout 2010 in a bid to tame the volatile exchange rate. In January and March 2010, the bank made dollar purchases worth a total of US\$ 2.34 billion, going on to purchase a further US\$ 5.082 billion between June and September. Between December 2010 and May 2011, it carried out sterilized interventions in the foreign

exchange markets by issuing redeemable certificates of deposits in dollars and making direct purchases on the interbank foreign exchange market.

Between December 2009 and December 2010, the nuevo sol appreciated by 2.2% in nominal terms against the dollar (6.2% in annual average terms), while the real effective multilateral exchange rate declined by 2.1% (down 4.1% in annual average terms). Between December 2010 and March 2011, the local currency maintained its upward trend, before sustaining a slight reversal in April.

(d) Trade policy

The free trade agreement between China and Peru entered into force on 1 March 2010 and, in July, Peru signed a free trade agreement with the European Free Trade Association (EFTA). In March 2011, a free trade agreement was signed with the Republic of Korea and in April the European Union signed a free trade agreement with Peru and Colombia, which will enter into force in 2012. Also in April, Mexico and Peru concluded their negotiations for a trade integration agreement. Negotiations for a free trade agreement between Japan and Peru are still under way.

3. The main variables

(a) Economic activity

In 2010, GDP grew by 8.8% in relation to 2009, driven by the expansion of the non-primary sectors, in particular non-primary manufacturing (16.9%), construction (17.4%) and commerce (9.7%). The activity of the primary sectors increased by 1.1%, thanks to the buoyancy of the hydrocarbon sector. Domestic demand expanded by 12.8% in the same period.

On the demand side, gross domestic investment grew by 34.8%, boosted by the increase in gross fixed investment (23%), both public (26.5%) and private (22.1%), and by the process of restocking. Total consumption grew by 6.5%, with government consumption up sharply (10.6%) and private consumption also higher (6%). The substantial growth in domestic demand was reflected in

a 23.8% surge (in constant prices) in imports of goods and services. By contrast, export volumes of goods and services grew by just 2.5%.

Economic activity remained buoyant in the first quarter of 2011. GDP was up by 8.8% compared with the same period in 2010. This is attributable to the strong performance of the fisheries sector (16.2%) and to growth in manufacturing (12%), construction (8.1%), commerce (10%) and other services (9.4%). Gross domestic investment expanded by 25.2% during the same period owing to the significant increase in restocking, since gross fixed private investment increased by 15.4% and gross fixed public investment declined by 6.3%, the first year-on-year decrease since 2004. The surge in domestic demand (10.7%) was reflected in the increase in imports (13.5%). Exports of goods and services fell by 3.4%.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9	8.8
Per capita gross domestic product	3.6	2.6	3.6	5.5	6.4	7.6	8.5	-0.3	7.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.1	2.3	0.1	5.3	8.0	3.5	7.2	1.7	3.2
Mining	12.0	5.5	5.3	8.4	1.4	2.7	7.6	0.6	-0.1
Manufacturing	5.7	3.6	7.4	7.5	7.5	11.1	9.1	-7.2	13.6
Electricity, gas and water	5.5	3.7	4.5	5.6	6.9	8.5	7.8	1.2	7.7
Construction	7.7	4.5	4.7	8.4	14.8	16.6	16.5	6.1	17.4
Wholesale and retail commerce, restaurants and hotels	3.2	2.9	5.9	6.0	10.3	9.5	12.4	0.2	9.1
Transport, storage and communications	3.7	4.9	6.4	8.5	9.2	18.9	10.0	0.4	6.7
Financial institutions, insurance, real estate and business services	4.9	4.1	3.9	6.5	7.5	9.4	10.2	4.6	8.0
Community, social and personal services	3.7	5.0	3.8	5.3	5.8	4.5	5.1	7.1	7.0
Gross domestic product, by type of expenditure									
Consumption	4.4	3.4	3.7	5.1	6.6	7.9	8.0	3.9	6.5
General government	-0.0	3.9	4.1	9.1	7.6	4.3	2.1	16.5	7.9
Private	4.9	3.4	3.6	4.6	6.4	8.3	8.7	2.4	6.3
Gross capital formation	3.0	4.7	4.5	8.9	26.5	26.3	29.5	-18.1	35.5
Exports (goods and services)	7.5	6.2	15.2	15.2	0.8	6.1	9.9	-3.9	5.4
Imports (goods and services)	2.3	4.2	9.6	10.9	13.1	21.3	26.2	-16.2	28.0
Percentages of GDP									
Investment and saving^c									
Gross capital formation	18.4	18.4	18.0	17.9	20.0	22.9	27.2	22.5	26.4
National saving	16.4	16.9	18.0	19.3	23.2	24.3	23.1	22.6	24.9
External saving	2.0	1.5	-0.0	-1.4	-3.1	-1.4	4.1	-0.2	1.5
Millions of dollars									
Balance of payments									
Current account balance	-1 110	-949	19	1 148	2 872	1 460	-5 318	211	-2 315
Goods balance	321	886	3 004	5 286	8 986	8 503	2 569	5 951	6 750
Exports, f.o.b.	7 714	9 091	12 809	17 368	23 830	28 094	31 018	26 962	35 565
Imports, f.o.b.	7 393	8 205	9 805	12 082	14 844	19 591	28 449	21 011	28 815
Services trade balance	-994	-900	-732	-834	-737	-1 192	-2 056	-1 144	-2 037
Income balance	-1 457	-2 144	-3 686	-5 076	-7 562	-8 359	-8 774	-7 484	-10 053
Net current transfers	1 019	1 209	1 433	1 772	2 185	2 508	2 943	2 887	3 026
Capital and financial balance ^d	2 120	1 510	2 436	264	349	8 864	8 773	1 696	13 271
Net foreign direct investment	2 156	1 275	1 599	2 579	3 467	5 425	6 188	5 178	7 113
Other capital movements	-36	235	837	-2 315	-3 118	3 438	2 586	-3 482	6 157
Overall balance	1 010	561	2 456	1 411	3 221	10 324	3 456	1 907	10 956
Variation in reserve assets ^e	-851	-515	-2 442	-1 472	-3 209	-10 391	-3 512	-1 943	-10 975
Other financing	-158	-46	-13	60	-12	67	57	36	19
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	95.9	99.9	100.0	101.1	104.0	104.1	100.3	99.9	96.4
Terms of trade for goods (index: 2005=100)	82.4	85.6	93.2	100.0	127.3	132.0	114.4	108.1	127.7
Net resource transfer (millions of dollars)	505	-680	-1 263	-4 752	-7 225	572	56	-5 752	3 236
Total gross external debt (millions of dollars)	27 872	29 587	31 244	28 657	28 897	32 894	34 838	35 731	40 236
Average annual rates									
Employment									
Labour force participation rate ^g	62.9	63.2	62.3	62.5	64.0	63.5	66.4	68.4	70.0
Open unemployment rate ^h	9.4	9.4	9.4	9.6	8.5	8.4	8.4	8.4	7.9
Visible underemployment rate ⁱ	20.6	19.0	18.1	17.8	16.4	16.5	15.6	15.4	14.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	1.5	2.5	3.5	1.5	1.1	3.9	6.7	0.2	2.1
Variation in wholesale prices (December-December)	1.7	2.0	4.9	3.6	1.3	5.2	8.8	-5.1	4.6
Variation in nominal exchange rate (Annual average)	0.3	-1.1	-1.9	-3.4	-0.7	-4.4	-6.5	2.9	-6.2
Variation in average real wage	4.6	1.6	1.1	-1.9	1.2	-1.8	2.2	3.1	2.6
Nominal deposit rate ^j	3.2	2.9	2.4	2.7	3.4	3.5	3.3	2.8	1.5
Nominal lending rate ^k	23.3	20.2	18.7	17.9	17.1	16.5	16.7	16.0	19.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue	14.5	15.0	14.9	15.8	17.7	18.2	18.1	15.6	17.0
Current revenue	14.4	14.8	14.8	15.7	17.5	18.1	18.0	15.5	16.8
Tax revenue	12.1	12.9	13.1	13.6	15.2	15.6	15.4	13.4	14.5
Capital income	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Total expenditure	16.6	16.7	16.2	16.5	16.1	16.4	15.9	17.3	17.0
Current expenditure	14.6	14.8	14.4	14.7	14.1	14.2	13.6	13.6	12.7
Interest	2.0	2.0	1.8	1.8	1.8	1.6	1.4	1.2	1.1
Capital expenditure	2.0	1.9	1.8	1.9	2.0	2.1	2.4	3.7	4.3
Primary balance	-0.1	0.3	0.6	1.1	3.4	3.4	3.6	-0.4	1.1
Overall balance	-2.1	-1.7	-1.3	-0.7	1.6	1.8	2.2	-1.7	0.0
Central government public debt	43.2	43.4	40.1	36.9	30.1	26.2	24.1	23.4	21.3
Domestic	6.7	6.4	6.3	7.7	6.9	8.3	8.1	8.2	8.8
External	36.5	36.9	33.7	29.2	23.2	17.9	16.0	15.2	12.6
Money and credit^k									
Domestic credit	13.4	13.2	12.9	13.9	14.6	17.8	14.7	18.5	20.2
To the public sector	-4.8	-4.1	-4.3	-3.4	-3.6	-5.3	-7.1	-5.7	-6.2
To the private sector	30.1	28.7	27.0	28.7	28.6	33.1	33.6	35.5	37.6
Others	-11.8	-11.4	-9.9	-11.3	-10.5	-10.0	-11.7	-11.3	-11.1
Liquidity (M3)	26.1	24.7	24.0	25.8	24.3	26.8	29.9	30.4	33.0
Currency outside banks and local-currency deposits (M2)	9.1	9.4	10.8	11.7	12.0	14.5	15.9	16.9	20.1
Foreign-currency deposits	17.1	15.3	13.2	14.1	12.4	12.4	14.0	13.4	12.9

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1994 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, Lima metropolitan area.

^h Percentage of the economically active population, Lima metropolitan area.

ⁱ Percentage of the working population, Lima metropolitan area.

^j Market lending rate, average for transactions conducted in the last 30 business days (FTAMN).

^k The monetary figures are end-of-year stocks.

(b) Prices, wages and employment

In the 12 months of 2010, the inflation rate, as measured by the Lima consumer price index, stood at a cumulative figure of 2.1% (compared with 0.2% in 2009), reflecting a 2.9% rise in food and beverages prices and a 12.2% rise in fuel prices. In the first five months of 2011, inflation continued to trend upwards. The rate for the 12 months to May 2011 was 3.9% (4.6% for food and beverages). Despite the steeper price rises, the central bank estimates that inflation will remain within the target range (2% ± 1%), albeit close to the ceiling of this range. The achievement of this target could be jeopardized by a further escalation in food, raw material and fuel prices or a sharper increase in domestic spending.

In 2010 average unemployment stood at 7.9%, (8.4% in 2009). This reduction is due both to the decline in the female unemployment rate (from 10.4% in 2009 to 9.6% in 2010) and in the male unemployment rate (from 6.7%

in 2009 to 6.4% in 2010). The average employment rate stood at 64.5% (compared with 62.7% in 2009) and the average wages remained at similar levels to those observed in 2009. Urban employment across the country in enterprises with more than 10 workers increased by 4.2% in 2010, reflecting the higher employment generated by enterprises with 50 or more workers and employment in commerce. In metropolitan Lima, while these trends have been maintained, job creation was stronger, growing at an average of 6.2% during the year.

In the first four months of 2011, the unemployment rate, at 9.0%, was very similar to the level recorded in the same period of 2010 (9.1%). Average monthly income for this period registered a 6.9% rise compared with the same period in 2010. The monthly minimum living wage, which had been held constant at 550 nuevos soles since January 2008, increased by 30 nuevos soles in December 2010 and subsequently by 20 nuevos soles in February 2011 (a 9.1% increase overall).

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	1.9	-1.2	-0.6	3.4	6.1	10.0	9.6	9.2	8.8	...
Goods exports, f.o.b. (millions of dollars)	5 407	6 162	7 174	8 218	7 924	8 164	9 299	10 178	10 017	3 380 ^d
Goods imports, c.i.f. (millions of dollars)	4 883	4 827	5 330	5 970	6 336	6 610	7 815	8 054	8 186	3 095 ^d
International reserves (millions of dollars)	30 961	30 822	32 163	33 175	35 305	35 382	42 502	44 150	46 177	46 353
Real effective exchange rate (index: 2000=100) ^e	100.9	98.9	99.9	100.0	96.8	95.3	95.2	98.5	98.5	101.6
Unemployment rate	9.3	8.5	7.8	7.9	9.2	7.6	7.6	7.2	9.4	...
Consumer prices (12-month percentage variation)	4.8	3.1	1.2	0.2	0.8	1.6	2.4	2.1	2.7	3.1
Producer prices, national products; (12-month percentage variation)	2.7	-2.3	-6.2	-5.1	-0.5	2.5	3.5	4.6	5.8	6.1
Average nominal exchange rate (nuevos soles per dollar)	3.2	3.0	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8
Average real wage (variation from same quarter of preceding year)	...	-0.4	...	6.5	...	5.3	...	...	...	...
Nominal interest rates (annualized percentages)										
Deposit rate ^f	3.5	3.2	2.6	2.1	1.4	1.3	1.6	1.8	2.0	2.6
Lending rate ^f	17.2	16.3	15.6	15.0	19.7	19.2	18.2	18.7	18.6	18.5 ^d
Interbank interest rate	6.4	4.2	1.6	1.2	1.1	1.4	2.3	3.0	3.4	4.1
Sovereign bond spread (basis points) ^g	425	272	205	165	149	215	174	163	171	189
Stock price index (national index to end of period, 31 December 2000=100)	764	1 081	1 253	1 172	1 252	1 157	1 479	1 934	1 817	1 785
Domestic credit (variation from same quarter of preceding year)	-12.5	7.0	18.0	30.6	37.8	29.8	21.1	23.9	15.7	5.3 ^d
Non-performing loans as a percentage of total credit	1.4	1.6	1.6	1.6	1.7	1.7	1.6	1.5	1.5	1.5

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1994 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Market lending rate, average for transactions conducted in the last 30 business days (FTAMN).

^g Measured by JP Morgan's EMBI+ index to end of period.

(c) The external sector

In 2010, merchandise exports increased by 32% (owing to a 29.9% rise in prices and a 1.6% expansion in volumes); at the same time, imports of goods were up by 37.1% (a 10.1% rise in prices and a 24.5% increase in volumes). The outcome was a trade surplus of US\$ 6.75 billion, although this was not sufficient to offset the increase in the services deficit and the income deficit. The latter was due to higher repatriations of profits and dividends to the rest of the world. As a consequence, the current account balance showed a deficit of US\$ 2.135 billion (equivalent

to 1.5% of GDP). In the first quarter of 2011, merchandise exports remained buoyant (up 26.7%) owing to the growth in exports, both traditional (23.5%) and non-traditional (37.5%). Imports were up by 29.2% in the same period.

In 2010, the terms of trade improved by 17.9% on average in relation to the average 2009 value (10.4% in the first quarter of 2011, compared with the same period of 2010). As a percentage of GDP, the external debt, consisting mainly of long-term debt, stood at 26.3% in December 2010 (28% in December 2009). In December 2010, net international reserves stood at US\$ 44.15 billion (US\$ 46.18 billion in March 2011).

Plurinational State of Bolivia

1. General trends

In 2010, the Bolivian economy continued to record positive growth and to produce sound external and fiscal accounts. GDP expanded by 4.1%, reflecting a 0.7 percentage-point increase compared with the 2009 growth rate. Prices escalated fairly rapidly to register a 7.2% rise during the year. The non-financial public sector (NFPS) generated a surplus equivalent to 1.7% of GDP. The balance of payments showed a surplus of US\$ 923 million, an increase of US\$ 570 million, or 175%, over the 2009 figure. Net international reserves held by the Central Bank of Bolivia grew by US\$ 1.15 billion to stand at US\$ 9.73 billion.

These results stem from the upturn following the international financial crisis. External sales were buoyant, reflecting a rally in the average prices of Bolivia's main exports and higher export volumes, especially in the case of natural gas. The financial sector continued to grow with the domestic loan portfolio expanding by 15.7%. According to ECLAC estimates, economic activity will expand by approximately 5.3% in 2011.

Among the challenges facing the Government of the Plurinational State of Bolivia are the need to curb the rise in food prices and the inflation that these will trigger, maintain the competitiveness of the country's main exports and boost the recovery of the mining sector.

2. Economic policy

(a) Fiscal policy

For the fifth year in a row, the NFPS registered a surplus in 2010, of 1.7% of GDP. More than two thirds of the consolidated surplus was attributable to the performance of the central government and a smaller proportion to the surplus recorded by State-owned companies. The general government balance was due largely to the increase in tax revenues. In terms of public expenditure, current expenditure was up, while capital expenditure diminished. After running a deficit in 2009, State-owned companies managed to generate a surplus in 2010 thanks to the rally

in hydrocarbon sales, which accounted for the bulk of these earnings.

In 2010, the country's external public debt grew by US\$ 281 million (10.8%). This debt consists mainly of loans contracted with multilateral agencies, since its bilateral debt continued to decline. The external public debt balance stood at US\$ 2.883 billion, or 15.0% of GDP. While external debt did not increase significantly in 2010, internal debt grew rapidly, increasing by US\$ 1.378 billion (46%) and representing 23.1% of GDP. Total debt (external plus internal) of the Plurinational State of Bolivia is equivalent to 38.1% of GDP.

(b) Monetary and financial policy

In response to changes abroad, in particular the upturn in the global economy, the Central Bank of Bolivia reviewed its policy in 2010. Its objective continues to be to contain inflation at a low and stable rate and, thus, given inflationary pressures, it has sought to rein in liquidity and to withdraw the monetary stimulus measures adopted following the outbreak of the crisis. The benchmark inflation target set by the central bank for 2011 is 6%.

With inflation forecast to exceed the previous year's level, steps were taken to dismantle the stimulus measures put in place in 2009 to cope with the global financial crisis. The financial programme for 2010 was designed to curb liquidity and to offer the NFPS greater access to financing mechanisms. The authorities therefore agreed to draw on the country's net international reserves and to augment the net internal credit available to the financial sector and NFPS. As regards the financial sector, the central bank applied an open-market policy (buying and selling securities) in an attempt to control the liquidity in the system. In the first two quarters of 2010, a net redemption of securities was observed, but inflationary pressures in the third quarter prompted the bank to adopt a countercyclical policy and, in the third and fourth quarters a net issue of securities was launched. This issuance of securities began to increase in the third quarter and expanded from less than US\$ 1 billion bolivianos in the last quarter of 2009 to close to US\$ 3 billion bolivianos in the corresponding quarter of 2010. The central bank also decided to revive a programme which allows the public to buy securities directly from the central bank. This gives small savers access to more attractive rates of return than in the financial system.

In 2010, the negative balance of net domestic loans owed to the NFPS was the widest for the entire period 2006-2010, at 6.927 billion bolivianos. This reflects an increase of 118.8% over the 2009 figure. The balance was due to the accumulation of NFPS deposits in the central bank. The policy, consisting in a slight withdrawal of the stimulus, did not alter the Bank's repo rate, which remained at 3% throughout 2010. While the monetary base recorded a slight contraction in 2010, the monetary aggregates M1, M2 and M3 expanded during the year.

The combination of the above-mentioned factors had significant repercussions on the financial system. The increase in the balance of open-market operations during the year represented a net withdrawal of liquidity from the sector. In December 2010, lending rates for local currency were lower than the rates applied in the same period of 2008, although some rates (for example the 30-day rate) were higher than in the corresponding period of 2009. Deposit rates continued to decline for

all maturity periods but the reduction was not as sharp as in the previous year. Thus the spread between lending and deposit rates diminished for most maturity periods. In 2010, domestic private bank loan portfolios increased by 15.7%, a substantially higher rate than in 2009.

In November 2010, the central bank raised the legal reserve requirement for foreign currency deposits from 2% to 3.5% and the marginal cash reserve requirement in foreign currency from 30% to 45%. In order to enhance the solvency of the financial system, the cash reserve was raised once again in January 2011 for deposits in foreign currency, this time to 13.5%, while the reserve requirement for securities was lowered from 12% to 8%. These policies were part of the government's effort to bolivianize the financial system. At the end of 2010, for the first time more than half of deposits and loans were in local currency.

Although open-market operations started to gather momentum towards the end of the year, the reduction during the first half enabled the National Treasury to increase its borrowing on the domestic market. In 2010, National Treasury Bonds increased by 24.6%, but in early 2011, this balance began to fall owing to the contraction in liquidity in the financial system.

(c) Exchange-rate policy

During the first nine months of 2010, the central bank maintained fixed benchmark exchange rates of 6.97 and 7.07 bolivianos for the purchase and sale of dollars, respectively. This policy had been in effect since September 2008. In the third week of November, however, the bank started to raise the value of its currency by means of small adjustments in the exchange rate. By the end of December, the boliviano had appreciated by 3 centavos against the dollar (to stand at 6.94 and 7.04, respectively) and this trend has continued into 2011. With the continuation of the appreciation policy, the rates at the end of May 2011 stood at 6.88 to the dollar (buying) and 6.98 (selling). While these changes were the first in over two years, officially, the exchange-rate regime applied by the central bank over the past 20 years, based on small unannounced appreciations or depreciations (crawling peg), remains unchanged.

The currency was allowed to appreciate in order to counter inflationary pressures from abroad, in particular from currency appreciations in the country's main trading partners, which had contributed to a spike in inflation in the Bolivian economy. Apart from taming inflation, the appreciation of the boliviano has led to a greater build-up of international reserves by the central bank and has contributed to the bolivianization of the financial system, one of the government's key policies. Indeed, 63% of all

the conversions of deposits to bolivianos in 2010 took place after the first appreciation of the currency. These increases in the value of the currency have triggered fears of a stronger appreciation, which may explain why some of the savings in dollars have been converted to savings in bolivianos.

In order to clear up any doubt concerning expectations and future exchange-rate trends, the central bank maintained a daily supply of US\$ 50 million, which was not exceeded on any occasion by demand. In the first 10 months of 2010, the bank's foreign currency purchases were practically non-existent, but in the last two months of the year, they amounted to US\$ 431 million. The purchases in November and December show how sensitive the market is to slight movements in the exchange rate. The monthly purchase in December was the highest in the decade.

In 2010, the real effective exchange-rate index in the Plurinational State of Bolivia declined by 3.5%. Up to February 2011, it was maintained at similar levels to those registered in late 2010.

3. The main variables

(a) Economic activity

In 2010, the Plurinational State of Bolivia posted GDP growth of 4.1%, representing a modest 0.7 percentage-point improvement over the 2009 rate. Notwithstanding its outstanding performance in 2009 (one of the best in the region), in 2010, when most of the neighbouring economies were growing at stronger rates thanks to the economic upturn, the Plurinational State of Bolivia recorded growth rates more in line with potential GDP growth and among the weakest in the region. The three sectors that recorded the strongest growth in 2010 were oil and natural gas (14%), financial services (10.7%) and transport and communications (8%). These activities' contributions to GDP growth were 0.77, 0.39 and 0.86 percentage points, respectively. On the other hand, two of the mainstays of the Bolivian economy slowed in 2010: agriculture by 1.2% and metal and non-metal ores by 4.1%. In the latter case, this was due mainly to a series of work stoppages and labour confrontations.

In terms of demand, GDP growth was driven by an increase in the final consumption expenditure of households and non-profit institutions serving households (NPISHs), which grew by 4.0%. Final consumption expenditure of

(d) Other policies

On 1 May 2011, the government rescinded Supreme Decree 21060, which promulgated the current open-market economy, based on supply and demand. The remaining laws that support this Supreme Decree are to be eliminated or amended in order to strengthen and consolidate this act.

In April 2011, the government proposed the use of US\$ 2 billion of net international reserves as loans. This is not the first time that the central bank has drawn on its reserves to finance loans. In late 2009, it had granted a loan of US\$ 1 billion to Yacimientos Petrolíferos Fiscales Bolivianos and two totalling US\$ 1.5 billion to Empresa Nacional de Electricidad (ENDE) and Corporación Minera de Bolivia (COMIBOL).

In the financial sector, a decree has recently been passed which states that financial entities' investments abroad must not exceed 50% of their net worth. An agreement has been reached with the Association of Private Banks of Bolivia (ASOBAN) to reduce lending rates for loans to the productive sector by 70 basis points.

the public administration increased by 3.1% (a lower figure than in 2009). Gross fixed capital formation rose by 7.1%. Public consumption contracted following the withdrawal of policies implemented by the government to cushion the impact of the external financial crisis. The more rapid expansion of gross fixed capital formation was due to the government's new focus on boosting public investment.

(b) Prices, wages and employment

In 2010, the rate of inflation of the Bolivian economy was 7.2%, that is, 6.9 percentage points higher than in 2009. Almost all of the increase occurred in the second half-year, when inflation rose by 6.6 percentage points. This spike was due to a number of factors, notably soaring international prices, especially for food, and adverse weather phenomena (including droughts, floods, frost and hotspots), which affected the output of some agricultural products. Lastly, the 1.8% rise in December was due to the removal of the petroleum subsidy, which resulted in an 80% hike in the price of this product to the consumer, although mass mobilizations in the country prompted a hasty withdrawal of this decision one week later.

Table 1
PLURINATIONAL STATE OF BOLIVIA MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4	4.1
Per capita gross domestic product	0.4	0.7	2.2	2.5	2.9	2.7	4.3	1.6	2.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.4	8.7	0.2	5.0	4.3	-0.5	2.6	3.7	-1.2
Mining and quarrying	2.5	5.0	9.4	13.1	5.4	7.0	22.9	-2.0	4.0
Manufacturing	0.3	3.8	5.6	3.0	8.1	6.1	3.7	4.8	2.6
Electricity, gas and water	2.2	2.9	3.1	2.7	4.0	4.3	3.6	6.1	7.3
Construction	16.2	-23.7	2.2	6.4	8.2	14.3	9.2	10.8	7.5
Wholesale and retail commerce, restaurants and hotels	2.0	1.8	3.5	2.4	3.4	4.8	4.0	4.3	3.8
Transport, storage and communications	4.3	3.9	4.0	2.9	3.9	3.5	4.0	5.6	8.0
Financial institutions, insurance, real estate and business services	-3.1	-3.3	-1.5	0.4	5.4	6.3	4.7	4.1	5.6
Community, social and personal services	3.0	2.9	3.3	3.0	3.3	3.7	3.5	5.6	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.2	2.1	2.9	3.3	4.0	4.1	5.3	3.7	3.9
Government consumption	3.5	3.6	3.1	3.4	3.3	3.8	3.9	3.8	3.1
Private consumption	2.0	1.9	2.9	3.3	4.1	4.2	5.5	3.7	4.0
Gross capital formation	17.9	-12.8	-11.8	26.9	-5.1	11.1	29.3	3.9	7.1
Exports (goods and services)	5.7	12.2	16.6	8.3	11.3	3.1	2.2	-10.8	9.9
Imports (goods and services)	13.1	0.9	5.5	14.8	5.2	4.4	9.4	-10.2	11.0
Percentages of GDP									
Investment and saving^c									
Gross capital formation	16.3	13.2	11.0	14.3	13.9	15.2	17.6	17.0	17.0
National saving	11.8	14.3	14.9	20.8	25.4	27.3	29.5	21.7	21.6
External saving	4.5	-1.0	-3.8	-6.5	-11.5	-12.1	-12.0	-4.7	-4.6
Millions of dollars									
Balance of payments									
Current account balance	-352	85	337	622	1 318	1 591	1 993	813	903
Goods balance	-340	100	421	609	1 243	1 215	1 762	774	907
Exports, f.o.b.	1 299	1 598	2 146	2 791	3 875	4 458	6 527	4 918	6 290
Imports, f.o.b.	1 639	1 498	1 725	2 183	2 632	3 243	4 764	4 144	5 384
Services trade balance	-177	-187	-190	-194	-350	-400	-517	-500	-225
Income balance	-205	-302	-385	-376	-397	-489	-536	-674	-860
Net current transfers	369	474	491	584	822	1 266	1 284	1 213	1 081
Capital and financial balance ^d	9	-147	-265	-185	-112	346	381	-488	20
Net foreign direct investment	674	195	83	-291	284	362	508	426	651
Other capital movements	-665	-341	-347	106	-396	-16	-126	-914	-630
Overall balance	-343	-62	73	437	1 206	1 938	2 374	325	923
Variation in reserve assets ^e	303	-152	-157	-463	-1 286	-1 938	-2 374	-325	-923
Other financing	40	214	85	26	80	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	95.4	104.0	109.5	116.8	119.5	118.4	110.1	99.8	103.3
Terms of trade for goods (index: 2005=100)	86.0	88.1	93.0	100.0	125.0	127.0	128.7	124.6	140.9
Net resource transfer (millions of dollars)	-156	-235	-565	-535	-428	-143	-155	-1 162	-840
Total gross external debt (millions of dollars)	6 970	7 734	7 562	7 666	6 278	5 403	5 930	5 801	5 836
Average annual rates									
Employment									
Labour force participation rate ^g	64.6	67.6	64.9	62.8	66.3	64.8	...	...	...
Open unemployment rate ^h	8.7	9.2	6.2	8.1	8.0	7.7	6.7	7.9	6.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3	7.2
Variation in nominal exchange rate (annual average)	8.5	6.7	3.8	1.6	-0.8	-1.9	-7.8	-2.8	-0.2
Variation in real minimum wage	4.7	0.8	-4.2	-5.1	4.5	-1.3	-1.5	8.3	2.5
Nominal deposit rate ⁱ	2.7	1.8	2.0	1.7	2.4	2.4	3.6	1.5	0.3
Nominal lending rate ⁱ	10.9	9.1	8.2	8.2	7.8	8.2	8.9	8.3	5.7

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue	27.5	28.7	28.5	31.6	39.1	43.6	48.4	45.0	44.7
Current revenue	25.2	25.7	25.8	29.3	37.2	41.9	47.1	43.8	43.5
Tax revenue	15.4	14.8	17.0	18.4	17.9	18.1	19.2	17.2	17.7
Capital revenue	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure	36.3	36.6	34.0	33.8	34.6	41.9	45.2	44.9	43.1
Current expenditure	28.0	28.4	24.9	23.7	24.2	29.1	32.4	32.1	32.3
Interest	2.1	2.6	2.7	2.7	1.8	1.3	0.9	1.6	1.6
Capital expenditure	8.4	8.2	9.2	10.2	10.4	12.7	12.6	12.8	10.7
Primary balance	-6.7	-5.3	-2.9	0.4	6.3	3.0	4.1	1.7	3.3
Overall balance	-8.8	-7.9	-5.5	-2.2	4.5	1.7	3.2	0.1	1.7
Public debt^j	80.2	89.5	83.9	78.1	52.4	40.0	36.8	37.6	38.1
Domestic ^k	28.6	30.7	31.5	30.9	26.9	24.0	22.7	22.5	23.1
External	51.5	58.8	52.3	47.2	25.5	16.0	14.1	15.1	15.0
Money and credit^l									
Domestic credit	66.6	63.7	58.0	53.4	44.1	42.0	39.4	43.5	44.4
To the public sector	15.5	15.9	15.9	14.1	9.2	8.0	8.3	9.6	8.7
To the private sector	51.1	47.8	42.1	39.3	34.8	34.0	31.1	33.9	35.7
Liquidity (M3)	49.4	47.7	42.3	43.0	42.4	47.8	46.5	58.7	59.5
Currency outside banks and local-currency deposits (M2)	7.7	8.3	9.3	12.2	15.6	23.9	26.1	34.3	40.5
Foreign-currency deposits	41.7	39.4	33.1	30.9	26.7	23.9	20.3	24.4	19.1

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1990 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, urban total.

^h Percentage of the economically active population, urban total.

ⁱ Bank operations (61-90 days), in dollars.

^j Publicly guaranteed private debt is not included.

^k Domestic debt refers to central government debt.

^l The monetary figures are end-of-year stocks.

The sharpest increases in 2010 were seen in foods and non-alcoholic beverages (11.6%), restaurants and hotels (9.5%), and transport (8.6%). The higher cost of food and non-alcoholic beverages accounted for 65% of the rise in inflation in 2010.

In the first five months of 2011, cumulative inflation stood at 4.1%, 3.8 percentage points more than the rate recorded for the same period in 2010. Meanwhile, 12-month inflation reached 11.3%, 9.9 percentage points higher than in the corresponding period for 2010. Consequently, the average rise in the past 11 months was over 1% per month although in the April and May 2011 inflation slowed. Thus, in just one quarter of the year, the country has already arrived at 67% of its annual inflation target.

Between June 2009 and June 2010, the unemployment rate fell from 7.73% to 6.03%, owing mainly to a decline in the female unemployment rate from 9.43% to 6.89%. In the same period, the national employment rate rose from 55.95% to 56.75%. Publication of the quarterly employment survey was discontinued after the second quarter of 2010; thus, no further updates on unemployment figures are available.

In April 2011, the government reached an agreement with the Bolivia Central Workers' Union on an 11% rise for teachers and health workers. On 2 March 2011, it raised the public and private minimum wage by 20%. Following successive annual increments, the monthly minimum wage has gone up by 85.2% since 2006 and now stands at 815.4 bolivianos.

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	2.9	2.2	3.6	4.6	3.2	3.8	3.7	5.7	...	...
Goods exports, f.o.b. (millions of dollars)	1 160	1 286	1 473	1 493	1 489	1 659	1 916	1 892	1 867	1 400
Goods imports, c.i.f. (millions of dollars)	1 052	977	1 135	1 303	1 168	1 268	1 392	1 538	1 545	1 083
Gross international reserves (millions of dollars)	7 762	7 955	8 453	8 580	8 449	8 537	9 058	9 730	10 485	10 677
Real effective exchange rate (index: 2000=100) ^d	92.0	97.9	102.7	106.6	102.4	103.0	103.9	103.9	101.5	103.8
Consumer prices (12-month percentage variation)	6.6	2.1	0.6	0.3	0.7	1.3	3.3	7.2	11.1	11.3
Average nominal exchange rate (bolivianos per dollar)	7.00	7.03	7.04	7.05	7.03	7.02	7.02	7.01	6.99	6.98
Nominal interest rates (annualized percentages)										
Deposit rate ^e	2.9	1.7	0.8	0.5	0.5	0.3	0.2	0.2	0.1	0.1 ^f
Lending rate ^e	9.6	8.8	7.9	6.8	5.9	5.6	5.7	5.5	7.1	6.7 ^f
Interbank rate ^g	7.5	4.1	1.4	0.7	0.7	1.0	0.9	0.8	1.1	...
Domestic credit (variation from same quarter of preceding year)	11.4	12.4	10.6	11.2	11.4	12.1	13.7	15.7	...	...
Non-performing loans as a percentage of total credit	4.8	4.4	4.2	3.5	3.8	3.1	2.6	2.2	2.3	2.1

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1990 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Bank operations (61-90 days); three-month average, in dollars.

^f Data to April.

^g Repurchase rate, in dollars.

(c) The external sector

In 2010, the balance of payments showed a surplus of US\$ 923 million, US\$ 570 million (175%) more than the 2009 figure. The surplus on the current account swelled by US\$ 89.4 million to stand at US\$ 903 million. The capital and financial accounts (without errors and omissions) increased by US\$ 881.7 million, moving from a small deficit to close the year with a surplus of US\$ 853 million. FDI totalled US\$ 651 million in 2010, an increase of 54.6%.

The balance on the current account is attributable to a US\$ 447 million improvement in the trade balance (92.5%) with respect to the 2009 figure. With the upturn in the global economy, the country's main exports strengthened in both value and volume terms. After a fall in 2009, due to the global recession, export volumes of gas, soybean, minerals and other products expanded, coming close to the record levels attained in 2008. Imports were also up

in 2010, exceeding the 2009 levels by 21%. Intermediate and capital goods, destined mainly for industrial and agricultural use, accounted for as much as 78% of imports. Migrants' remittances, amounting to US\$ 939 million, also contributed to the positive current account balance. Even though remittances were slightly lower than in 2009 (by US\$ 79.4 million), it should be noted that the Plurinational State of Bolivia is the only country in the region where remittance inflows in 2010 exceeded the pre-crisis average (2004-2007).

At the close of 2010, net international reserves held by the central bank swelled by US\$ 1.15 billion compared with the December 2009 level to stand at US\$ 9.73 billion, a record year-end figure, equivalent to 19 months of imports of goods and services. During the first three months of 2011 this trend continued and reserves totalled US\$ 10.486 billion, an increase of 7.8% during the first quarter of the year.

Uruguay

1. General trends

Uruguay posted an 8.5% rise in GDP in 2010, underpinned by strong domestic demand and driven by private sector investment and consumption. The most buoyant sectors were retail trade, restaurants and hotels, and transport, storage and communications, while industry managed only to recover from the sharp decline in 2009. After playing a much larger role in demand in 2009, public consumption and investment moderated in 2010. As a result, the fiscal deficit shrank and public borrowing fell in relation to GDP, although it rose in absolute terms. Annual inflation stood at 6.9%, just below the ceiling of the 3%-7% target range established in the monetary programme.

The deficit on the balance-of-payments current account widened since the significant growth in exports of goods and services was cancelled out by the substantial rise in imports, mainly comprising energy goods owing to the fall in hydroelectric power output and rising oil prices. Although foreign direct investment shot up by 29.3%, the account recorded a net capital outflow.

GDP is projected to grow by almost 7% in 2011, while inflation is expected to exceed the 4% to 6% target range set by the authorities. The central government primary fiscal surplus is expected to be around 1.1% of GDP, while the overall deficit is projected to be 1.3% of GDP.

2. Economic policy

In 2010, economic policy focused on reducing the fiscal deficit in a context of growing external demand and private investment and consumption. However, borrowing continued to rise in 2010 as the Central Bank of Uruguay issued monetary regulation notes worth around US\$ 1.5 billion in an effort to reduce liquidity. The Macroeconomic Coordination Committee set an annual inflation target of 5% in September 2011, with a 1% margin of tolerance from June 2011.

(a) Fiscal policy

In 2010, non-financial public sector (NFPS) revenue climbed from 27.7% of GDP in 2009 to 29.1% in 2010, while NFPS primary expenditure increased from 27.0% of GDP to 27.5%. These developments together with the positive performance of public enterprises for most of the year, led to a rise in the NFPS primary surplus from 1.1%

of GDP in 2009 to 1.9% in 2010. The overall deficit in 2010 was thus 1.1% of GDP after debt servicing (3% of GDP), compared with 1.7% in 2009, when debt servicing was equivalent to 2.8% of GDP.

With regard to revenue, the Tax Administration Department (DGI) took in the equivalent of 17% of GDP and the Social Insurance Bank (BPS) the equivalent of 6.1%. Profits transferred from public enterprises to the government and customs duties totalled 2.2% and 1% of GDP, respectively. Total NFPS revenue rose by 11.5% in real terms compared with 2009, owing to increases of 6.4% in DGI revenue, 8.6% in BPS revenue and 68.7% in profits transferred from public enterprises.

Public sector spending totalled 27.5% of GDP and consisted of current spending (24%) and investment (3.5%), reflecting an overall increase of 8.3% in real terms. The rise was seen in all expenditure headings, especially pensions (7.9%) and transfers (12.3%), while a smaller increase was seen in wages (3.6%) and operating expenses (6.2%). The first three components totalled 20.3% of GDP in 2010 compared with 20.1% in 2009. Public investment also stood out, growing by 11.7% in real terms in 2010, accounting for 28.8% of total investment (5.9% of GDP).

The overall public sector deficit narrowed in the first four months of 2011 to 0.9% of GDP but is projected to rise to around 1.1% of GDP by the end of the year.

At the end of 2010, the NFPS gross debt fell slightly to US\$ 17.116 billion, or 42.6% of GDP, and comprised mainly external debt (71%), rather than domestic debt (29%).

(b) Monetary policy

The interbank overnight (call) rate, which governs local-currency interbank loans, continued to serve as the main instrument of control in 2010. The annual rate was set at 6.25% in December 2009, raised to 6.5% in September 2010 in response to inflationary pressures and raised again to 7.5% in March 2011.

The planned reductions in the legal reserve requirement were completed in 2010, creating excess liquidity in the banking system and prompting the Central Bank of Uruguay to intervene in order to cover the demand for interest-bearing financial instruments. The lowering of the legal reserve requirement together with foreign currency purchases by the central bank to stabilize the exchange rate became the main drivers of liquidity growth. The central bank was able to contain these permanent increases by issuing monetary regulation notes and paper denominated in pesos and indexed units.

In mid-May 2011, the central bank adopted new measures to curb rising inflation, such as creating a 15% marginal reserve requirement for new deposits and raising the reserve rate applicable to deposits in Uruguayan pesos, indexed units or foreign currency as a means of reducing liquidity. In return, the interest rate on reserves was increased in an effort to avoid losses on financial institution balance sheets.

The financial system maintained a positive solvency ratio, with high capital and a prudent reserves regime established by the Superintendency of the Financial System. In 2010, credit to the resident private sector rose by more than US\$ 1.5 billion, a 26% increase compared with 2009. Both local and foreign currency loans rose, by 38% and 20% respectively. Credit arrears remained low at 1.1% for all loans and 1.9% for local-currency loans to households. NFPS deposits in both local and foreign currency amounted to the equivalent of US\$ 2.6 billion, 17% more than in 2009, with demand and savings deposits accounting for 80% of the total stock.

At the end of 2010, the average interest rate on term deposits was 0.44% per annum for deposits in dollars and 4.8% per annum on local currency deposits. The interbank interest rate and the rate for local-currency bills stood at 6.4% and 6.9% respectively. The lending rate in dollars applied to the non-financial private sector was 5.3% in December 2010, reflecting a drop of 40 basis points compared with the end of 2009. The average interest rate on domestic-currency loans to businesses was 12.2% at the end of 2010, while the rate on household loans was 30%, in both cases markedly lower than in 2009.

(c) Exchange-rate policy

A floating exchange-rate regime was maintained throughout 2010. Nevertheless, the State actively intervened in the currency market to stabilize the peso-dollar exchange rate. Between February 2010 and the end of May 2010, the dollar trended downward before rising as a result of State intervention. However, the downtrend resumed in August 2010 and continued throughout the first four months of 2011. In nominal terms, the local currency depreciated by 1.4% against the dollar in 2010, while it appreciated by 5.76% against the dollar and by 2.87% against the Brazilian real in the first four months of 2011.

The real effective exchange rate indicator fell by 13% in 2010 compared with the previous year, reflecting the strengthening of the local currency in the second half. This decline in the indicator reflected a loss of competitiveness vis-à-vis countries outside the region, as well as in relation to Argentina (12.5%) and to a lesser extent Brazil (1.2%).

3. The main variables

(a) Economic activity

As a result of low production levels in 2009, the electricity, gas and water sector grew by 90.2%, contributing 2.4 percentage points to GDP growth. Other sectors that performed well were retail trade, restaurants and hotels (with growth of 14.8% and a 2.2 percentage-point impact on GDP growth), transport and communications (with 14.6% and 2.0 percentage points), construction (4.3% and 0.2 percentage points), agriculture (0.9% and 0.1 of a percentage point) and services (0.7% and 0.1 percentage points). In addition, manufacturing output grew by 3.7% in 2010 to reach similar levels to those posted in 2008, accounting for 0.4 percentage points of GDP growth.

GDP grew in 2010 as a result of higher domestic consumption, with public-sector consumption climbing by 2.2% and private-sector consumption by 11.4%, adding 0.2 and 7.9 percentage points to GDP, respectively. Gross capital formation was up by 13.2% in 2010, contributing 2.7 percentage points to GDP. This was due to the 14.4% increase in gross fixed capital formation, which added 2.8 percentage points to GDP growth, bringing gross fixed capital formation to 20.5% of GDP in 2010.

External demand was also a driver of economic activity although its effects were neutralized by a sharp rise in imports. Exports were up by 9.1%, raising GDP by 2.8 percentage points, while imports rose by 16.5%, equivalent to a 5 percentage-point negative impact on GDP growth.

(b) Prices, wages and employment

The consumer price index rose by 6.9% in 2010, compared with only 5.9% in 2009, with the largest increases in education (11.0%) and food and beverages (9.1%). The national producer price index (IPPN) was up by 8.4% in 2010.

Between January and April 2011, the consumer price index rose by a cumulative 4%, while inflation stood at 8.34% in the fiscal year ending in April 2011. In May, the median of annual inflation expectations was 7.50%.

The labour market remained generally stable with an average urban unemployment rate of 7.1%. The

national employment rate increased by half a percentage point in 2010, to an annual average of 59.0%. The participation rate of the working-age population was 63.2% in 2010. Underemployment and unregistered employment continued to trend downward, with the proportion of unregistered workers averaging 30.7% and the underemployed 8.7% of the employed population. Real wages rose by an average of 3.3% in 2010, with private-sector wages rising slightly more than public-sector wages.

Nationwide, household purchasing power rose by an average of 3% in 2010. The indigence rate fell to around 0.6% of households and 1.1% of the population. Poverty fell by 2 percentage points compared with 2009, affecting 12.6% of households and 18.6% of the national population.

(c) The external sector

Over the course of 2010, the current account went from a surplus in 2009 to a deficit of US\$ 160 million. The reversal was partly due to the decline in the merchandise trade balance and the income account. As trade in goods and services recovered, current values of exports rose by 23.6% and of imports by 24.9%. The trade balance in goods was in deficit by US\$ 256 million at the end of 2010, which was offset by a similar rise in exports of tourism services.

The capital and financial account recorded a net capital outflow of US\$ 200 million, a marked shift from 2009 when it recorded a net capital inflow. This was chiefly due to the requirements of the public sector, since the private sector recorded a net inflow of more than US\$ 650 million in 2010, originating mainly from foreign direct investment. In December 2010, the Central Bank of Uruguay held over US\$ 7.7 billion in reserve assets, nearly US\$ 200 million less than at the end of 2009. This decrease stemmed from the US\$ 500 million fall in foreign currency deposits of financial institutions (due to lower bank reserve requirements), which was not offset by the substantial foreign currency purchases by the State. Despite the outflow of capital, the international situation of the dollar continued to exert downward pressure on the exchange rate.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	-11.0	2.2	11.8	6.6	4.3	7.3	8.6	2.6	8.5
Per capita gross domestic product	-11.0	2.2	11.9	6.6	4.1	7.0	8.3	2.2	8.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.1	10.6	10.6	4.6	3.4	-6.8	5.5	2.9	0.9
Mining and quarrying	-37.6	14.1	7.2	4.4	21.4	13.3	10.1	-2.5	4.6
Manufacturing	-13.9	4.7	20.8	10.1	8.1	7.1	17.3	-3.7	3.7
Electricity, gas and water	-0.6	-7.4	1.8	5.8	-28.6	57.8	-52.6	10.9	90.2
Construction	-22.0	-7.1	7.5	4.2	9.2	6.2	8.5	1.4	4.3
Wholesale and retail commerce, restaurants and hotels	-24.5	-1.0	21.3	10.1	6.8	13.4	11.3	0.6	14.8
Transport, storage and communications	-9.1	3.1	11.5	11.1	8.2	18.1	35.5	14.4	14.6
Financial institutions, insurance, real estate and business services	-0.9	-5.3	-1.7	-3.5	3.5	4.1	1.3	1.3	1.8
Community, social and personal services	-3.3	0.7	3.2	1.4	0.1	3.0	8.2	4.1	4.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	-15.9	1.1	9.5	4.0	5.9	6.3	8.2	2.3	10.1
Government consumption	-9.3	-4.8	2.5	0.0	6.7	5.6	5.6	3.9	2.2
Private consumption	-16.9	2.0	10.6	4.5	5.8	6.5	8.7	2.1	11.4
Gross capital formation	-34.5	18.0	22.0	7.6	16.8	8.1	28.9	-12.7	13.2
Exports (goods and services)	-10.3	4.2	30.4	16.3	3.2	7.4	10.0	2.5	9.1
Imports (goods and services)	-27.9	5.8	26.8	10.8	15.3	5.3	22.1	-8.6	16.5
Percentages of GDP									
Investment and saving^c									
Gross capital formation	16.3	17.8	18.5	17.7	19.4	19.6	22.3	17.2	17.9
National saving	19.2	17.0	18.5	17.9	17.4	18.6	16.7	16.9	16.8
External saving	-3.0	0.7	-0.0	-0.2	2.0	0.9	5.5	0.3	1.1
Millions of dollars									
Balance of payments									
Current account balance	382	-87	3	42	-392	-220	-1 729	-106	-443
Goods balance	48	183	153	21	-499	-545	-1 714	-269	-251
Exports, f.o.b.	1 922	2 281	3 145	3 774	4 400	5 100	7 095	6 408	8 069
Imports, f.o.b.	1 874	2 098	2 992	3 753	4 898	5 645	8 810	6 677	8 320
Services trade balance	153	135	325	372	409	703	753	959	1 042
Income balance	109	-488	-588	-494	-428	-516	-917	-934	-1 352
Net current transfers	72	83	113	144	126	137	148	138	118
Capital and financial balance ^d	-4 314	1 048	302	753	2 791	1 231	3 962	1 694	82
Net foreign direct investment	180	401	315	811	1 495	1 240	2 117	1 576	2 346
Other capital movements	-4 494	647	-12	-58	1 296	-9	1 845	118	-2 264
Overall balance	-3 932	961	306	796	2 399	1 010	2 233	1 588	-361
Variation in reserve assets ^e	2 328	-1 380	-454	-620	15	-1 005	-2 232	-1 588	361
Other financing	1 604	420	149	-175	-2 414	-5	-0	-0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	117.6	149.9	152.3	134.0	128.4	127.5	120.4	117.5	102.4
Terms of trade for goods (index: 2005=100)	113.1	114.0	110.1	100.0	97.6	97.8	103.7	106.8	110.2
Net resource transfer (millions of dollars)	-2601	979	-137	84	-52	710	3045	760	-1270
Total gross external debt (millions of dollars) ^g	10 548	11 013	11 593	11 418	10 560	12 218	12 021	13 935	13 646
Average annual rates									
Employment									
Labour force participation rate ^h	59.3	58.1	58.5	58.5	60.8	62.7	62.5	63.1	62.7
Open unemployment rate ⁱ	17.0	16.9	13.1	12.2	11.4	9.6	7.9	7.6	7.1
Visible underemployment rate ^j	18.4	19.3	15.8	17.1	13.6	12.9	10.8	9.1	8.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9	6.9
Variation in producer prices, local products (December-December)	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	10.5	8.4
Variation in nominal exchange rate (annual average)	58.9	33.3	1.9	-14.7	-1.8	-2.4	-10.8	7.8	-11.2
Variation in average real wage	-10.7	-12.5	0.0	4.6	4.3	4.7	3.6	7.3	3.3
Nominal deposit rate ^k	61.7	28.4	5.5	2.3	1.7	2.3	3.2	4.0	3.7
Nominal lending rate ^l	116.4	56.6	26.0	15.3	10.7	10.0	13.1	16.6	12.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue	20.3	20.5	20.7	20.9	21.4	20.6	20.0	20.5	20.7
Tax revenue	16.8	17.8	17.7	17.9	18.8	18.1	17.8	18.1	18.1
Total expenditure	24.9	24.9	23.1	22.4	22.4	22.2	21.1	22.0	21.9
Current expenditure	23.6	23.7	21.6	21.1	21.0	20.7	19.3	20.4	20.2
Interest	3.9	5.4	4.7	4.2	4.2	3.7	2.8	2.8	2.4
Capital expenditure	1.4	1.2	1.4	1.3	1.4	1.5	1.8	1.6	1.7
Primary balance	-0.8	1.0	2.3	2.7	3.2	2.1	1.7	1.3	1.2
Overall balance	-4.6	-4.4	-2.4	-1.6	-1.0	-1.6	-1.1	-1.5	-1.1
Non-financial public sector debt	103.3	97.9	76.9	68.6	61.1	52.2	51.1	47.7	42.6
Domestic	24.7	18.4	14.8	14.7	13.7	10.2	11.6	14.0	12.4
External	78.6	79.5	62.1	53.9	47.4	42.0	39.4	33.7	30.2
Money and credit^m									
Domestic credit	51.8	29.2	17.2	13.7	18.9	14.8	12.9	11.0	15.0
To the public sector	22.3	14.1	11.8	5.9	7.5	1.3	3.0	3.6	9.3
To the private sector	72.0	44.5	29.7	26.1	25.9	24.6	29.4	22.7	24.5
Others	-42.5	-29.5	-24.4	-18.4	-14.4	-11.1	-19.6	-15.3	-18.8
Liquidity (M3)	86.0	79.6	64.8	58.0	57.1	49.6	56.2	49.9	51.7
Currency outside banks and local-currency deposits (M2)	8.7	9.3	8.8	10.4	11.3	12.6	12.7	13.5	15.4
Foreign-currency deposits	77.4	70.3	56.0	47.6	45.8	37.0	43.6	36.5	36.3

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2005 prices. Up to 2005, based on figures in local currency at constant 1983 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Figures include the private sector and do not include memorandum items on external liabilities and assets.

^h Economically active population as a percentage of the working-age population, urban total.

ⁱ Percentage of the economically active population, urban total.

^j Percentage of the working population, urban total.

^k Average rate for fixed-term deposits, 30-61 days.

^l Business credit, 30-367 days.

^m The monetary figures are end-of-year stocks.

Goods exports other than those from free-trade zones rose to US\$ 6.733 billion in 2010, a 24.6% increase over 2009.¹ The items that accounted for the largest share of total exports were beef (2.8%), livestock (3.8%), timber (2.8%) and mineral products (2.4%), which correspond to the export of fuel to Southern Common Market (MERCOSUR) members. Exports to MERCOSUR countries totalled US\$ 2.15 billion at the end of 2010, marking a 40.4% increase over 2009, which was chiefly due to the increase in sales to Argentina (64.3%) and to a lesser extent Brazil (29.4%). This bloc accounted for 31.9% of total exports from Uruguay. Exports to the European Union declined compared with 2009, accounting for 14.3% of total exports.

Imports other than those into free-trade zones totalled US\$ 8.622 billion, 24.8% more than in 2009. Crude oil, automobiles, mobile phones and cargo vehicles accounted for the largest import shares. Brazil is the largest exporter of goods to Uruguay (US\$ 1.578 billion), followed by Argentina (US\$ 1.469 billion).

In the first two months of 2011, goods exports totalled US\$ 1.118 billion, which represents a 38.2% year-on-year increase. Brazil was the leading destination for Uruguayan products in this period, with exports to the country totalling US\$ 1.422 billion.

¹ The disaggregation of foreign trade data by goods type and country of destination or origin is based on data from the Customs Registry, which do not include exports and imports from free-trade zones.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	2.2	-0.1	1.9	3.7	9.2	10.3	7.7	6.5	6.8	...
Goods exports, f.o.b. (millions of dollars)	1 079	1 488	1 454	1 383	1 288	1 959	1 764	1 729	1 681	675 ^d
Goods imports, c.i.f. (millions of dollars)	1 485	1 656	1 886	1 880	1 756	2 045	2 118	2 703	2 598	811 ^d
Gross international reserves (millions of dollars)	6 965	7 438	8 068	7 987	8 061	7 509	7 914	7 743	7 755	8 733
Real effective exchange rate (index: 2000=100) ^e	117.6	122.7	119.4	110.1	100.3	99.9	105.7	103.7	101.4	99.8
Urban unemployment rate	7.9	8.3	7.5	6.9	7.6	7.7	7.1	6.2	6.4	...
Consumer prices (12-month percentage variation)	7.5	6.5	6.9	5.9	7.1	6.2	6.3	6.9	8.2	8.5
Producer prices, national products (12-month percentage variation)	5.7	-1.0	-2.3	10.5	2.7	4.6	10.5	8.4	23.3	22.7
Average nominal exchange rate (pesos per dollar)	23.5	23.7	22.7	20.3	19.6	19.6	20.8	20.0	19.6	18.9
Average real wage (variation from same quarter of preceding year)	6.2	8.4	8.4	6.1	4.0	3.4	2.9	2.8	2.4	...
Nominal interest rates (annualized percentages)										
Deposit rate ^f	4.3	4.0	3.9	3.8	3.6	3.7	3.7	3.8	4.2	4.4 ^d
Lending rate ^g	18.0	17.0	15.8	15.5	13.0	12.4	11.5	11.1	10.8	10.6 ^d
Interbank rate	9.4	8.9	7.9	7.9	6.2	6.2	6.2	6.5	6.5	7.5
Domestic credit (variation from same quarter of preceding year)	1.8	5.3	-15.8	-7.7	10.8	8.4	25.2	56.2	44.5	50.3 ^d
Non-performing loans as a percentage of total credit	14.8	13.6	14.7	7.6	7.5	7.4	6.8	4.6	3.2	3.3

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2005 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Average rate for fixed-term deposits, 30-61 days.

^g Business credit, 30-367 days.



Mexico and Central America

Costa Rica

1. General trends

Having contracted by 1.3% in 2009, the real GDP of Costa Rica grew by 4.2% in 2010. This upturn is attributable to the strong performance of exports and a moderate expansion in consumption and gross investment. Per capita GDP grew by 2.8%, thus reversing the 2.6% fall sustained in 2009. Inflation stood at 5.8% at the end of the year, which is within the target range announced by the central bank at the beginning of the year. The open unemployment rate improved, standing at 7.3% compared with 8.4% in 2009. The central government balance continued to deteriorate and closed the year at a figure equivalent to 5.2% of GDP, compared with 3.4% in 2009. The balance-of-payments current account deficit widened considerably to 3.6% from 2% in 2009.

In 2010, the Costa Rican economy benefited from the upturn in the international economy, which had a positive influence in the form of stronger external demand for goods and services, an increase in tourism and larger foreign direct investment (FDI) flows. With regard to macroeconomic policy, the executive branch is working on a fiscal reform proposal in response to the widening fiscal deficit; however, up to June 2011, the proposed reform had yet to be adopted by the Legislative Assembly. Substantial inflows of foreign exchange pushed down the nominal exchange rate against the dollar towards the floor of the band, while the central bank accumulated large amounts of reserves.

ECLAC forecasts GDP growth of 3.2% in 2011, as a result of sluggish activity among the country's main trading partners and the as yet moderate rally in domestic demand. Commitments related to transfers and

compensation will continue to exert pressure on the fiscal balance, which, barring any significant improvement in fiscal revenues and assuming that spending stabilizes, will once again be a deficit of over 5% of GDP. High fuel and commodity prices will keep the current account deficit at about 4% of GDP.

In 2011 the central bank is facing weighty policy decisions in an international environment characterized by volatility and uncertainty. In early 2011, the exchange rate stayed close to the floor of the band, necessitating a significant intervention to protect the established rate of 500 colones to the dollar. The need to finance a large deficit could place upward pressure on the interest rate, which could also lead to increased inflows of short-term capital. On the other hand, there could be a reversal of capital flows if interest rates rise in developed countries or investor appetite for risk assets wanes.

2. Economic policy

Significantly higher central government spending, coupled with only a modest upturn in tax revenue, resulted in another increase in the fiscal deficit as a proportion of GDP. Monetary and exchange-rate policies in 2010 continued to aim for a transition towards a flexible exchange rate and inflation targeting, while also pursuing the process to keep inflation down that was begun in 2009.

(a) Fiscal policy

The overall performance of the public sector, which includes the non-financial public sector and the central bank, continued to deteriorate in 2010, resulting in a deficit equivalent to 5.4% of GDP, compared with 3.9% in 2009. Between 2007 and 2010, the central government balance went from a slight surplus (0.6%) to the largest fiscal deficit in Latin America as a percentage of GDP. The central bank's deficit was equivalent to 0.5% of GDP, down by 0.3 percentage points from 2009 because of lower interest rates on its investment instruments.

Central government current revenues picked up significantly, growing by 10% in real terms (compared with a 12.1% decline in 2009), owing to the upturn in economic activity, and especially foreign trade. Customs duties rose at an annual rate of 8.4%, while selective taxes on imports mushroomed by 24.7%. Domestic sales tax and income tax expanded by a meagre 2% and 3.5%, respectively. Given the weight of these two taxes as a proportion of total tax revenue, the tax burden diminished from 13.5% of GDP in 2009 to 13.2% in 2010.

Central government current spending expanded by 18.1% in real terms in 2010, compared with 14.8% in 2009. The wage bill shot up by 14.5% in 2010 under a programme to gradually raise salaries that began in 2009 during the economic crisis. Transfers jumped by 27.5% in real terms, as more resources were allocated to social programmes and public universities. Capital expenditure rose by 35.6% in real terms, driven by capital transfers from the central government to the National Highway Council (CONAVI) for the construction and repair of highways. Total central government spending was up by 20% in 2010 (10.7% in 2009), rising in terms of GDP from 15.7% in 2008 to 19.8% in 2010.

The growing fiscal deficit was financed by issuing domestic debt, which thus increased from an amount equivalent to 29.9% of GDP in 2009 to 31.2% in 2010. External debt stood at 11.8% of GDP at the end of the year, which was 0.5 percentage points lower than in 2009.

A loan from the World Bank for US\$ 500 million was disbursed in September with a view to paying off debts and improving the country's debt profile in terms of maturity and cost. In the same month, Moody's Investors Service upgraded the country's government bond rating from Ba1 to investment grade Baa3. At the end of 2010 total public debt was equivalent to 42.9% of GDP, compared with 42.1% in 2009.

In order to tackle the widening fiscal deficit, the executive branch has been working on a fiscal reform proposal which seeks to increase revenues and rationalize spending.

In the first four months of 2011, tax revenue grew moderately; however, if the trend continues, the deficit could widen even further, making the need for a comprehensive fiscal reform even more urgent.

(b) Monetary and exchange-rate policy

The exchange market was extremely volatile throughout the year, with a tendency towards an appreciation of the colón, which kept it close to the floor of the band (500 colones) during the last five months of the year. At the end of December, the exchange rate reached 512 colones to the dollar, representing an annual nominal appreciation of 8.3%. The bilateral real exchange rate with the United States dollar reflected a 9.5% appreciation in 2010, while in terms of the multilateral real exchange rate, the appreciation was 13.2%. The exchange rate is influenced by the central bank's reduced foreign currency holdings and by inflows of capital, attracted by the positive interest rate spread.

In September the central bank announced a programme to accumulate, as a precautionary measure, international reserves totalling up to US\$ 600 million between 2 September 2010 and 31 December 2011; thus, by the end of the last quarter of 2010, it had built up US\$ 250 million in reserves. In addition, in December the central bank openly intervened to protect the floor of the band with an operation worth US\$ 16 million. As a result, US\$ 560 million in international reserves were accumulated during 2010, giving total reserves of US\$ 4.627 billion at the end of December.

The central bank relaxed its monetary policy in the second half of 2010 as pressure on prices eased and the exchange rate appreciated. On 19 August, the monetary policy rate, which had remained unchanged since 16 July 2009, was lowered by 150 basis points. On 21 October

it was lowered by a further 100 basis points and closed the year at 6.5%.

With a view to improving the pass-through of the benchmark rate to the rates of the financial system and to increasing its control over liquidity, the central bank created an overnight deposit facility in October, setting the interest rate at 4.5%. This created a band of interest rates in the integrated liquidity market, whose ceiling is the monetary policy rate and whose floor is the overnight rate.

The interest rates in the financial system responded in part to the changes to the benchmark rate. The financial system's net average six-month deposit rate closed the year at 7.8%, compared with 8.8% in 2009. In real terms it fell substantially, from 4.6% in 2009 to 1.8%, because of higher inflation. Lending rates declined, but remain high. The real average rate of the financial system closed the year at 13.9% (18.1% in 2009), much higher than the levels seen before the crisis.

Lending to the private sector expanded by 4.8% in nominal terms, which was more than in 2009 (3.5%), but less than the growth of 30% or higher seen between 2007 and 2008. The decline of real lending rates, the upturn in economic activity and the greater availability of resources in the financial system favoured the expansion of credit. By sector, consumer loans experienced a modest increase of 5.3%, but lending to the construction industry continued to contract, falling by 19.7%.

Currency in circulation rose by 9.9%, slightly below the rate of economic growth in nominal terms. Current account deposits in national currency scaled up

significantly (26%), while deposits in foreign currency fell by 3.1%, owing to the appreciation of the colón and low domestic inflation.

In 2011, the exchange rate has remained under pressure, sticking to the floor of the band since mid-February. In the first four months of the year, the central bank purchased more than US\$ 350 million to protect the lower limit of the band. In April a legal reserve requirement was established for short-term external capital inflows (less than one year) into the financial system, with a view to reducing the economy's exposure to the volatility of such flows.

(c) Trade policy

In May 2010, the association agreement between Central America and the European Union was signed and the ratification process began. The legal review process is expected to be completed in 2011, and the next stage, involving the approval of the agreement by the legislature, will begin. Free trade agreement negotiations with China and Singapore were concluded in April 2010 and the resulting agreements are expected to be approved by the legislature and come into effect in 2011.

With a view to further widening access to Asian markets, an agreement was reached with the Government of the Republic of Korea to begin discussions on a free trade agreement, together with Panama, in 2011. In September, Costa Rica initiated negotiations on a free trade agreement with Peru. El Salvador, Honduras and Panama will also join those negotiations, which are expected to be concluded in 2011.

3. The main variables

(a) Economic activity

External and domestic demand rose by 4.8% and 8.7%, respectively, in real terms, while the significant expansion in imports (14.2%) had a negative impact on GDP growth. The expansion of aggregate demand is attributable mainly to the impetus of gross domestic investment, which climbed by 29.1%, and to a lesser extent to consumption, which rose by 3.7%. The upswing in gross domestic investment was the result of companies' restocking, rather than gross fixed capital formation, which went up by 2.6%. The upturn in private consumption (3.4% compared with 1.5% in 2009) was the outcome of

higher real available income, which in turn was associated with buoyant economic activity and the increase in real wages. Government consumption rose by 5.9% in real terms, compared with 6.7% in 2009.

Most productive sectors rallied in 2010. As the areas damaged by adverse weather events in 2009 returned to production, the agriculture and livestock sector grew at an annual rate of 6.5%, after falling by 3.2% in 2009. Having dropped by 3.9% in 2009, manufactures were up by 3.7%, driven by an upturn in external and domestic demand. In the face of continued oversupply and sluggish credit growth, the construction sector shrank once again, this time by 6.7%.

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.9	6.4	4.3	5.9	8.8	7.9	2.7	-1.3	4.2
Per capita gross domestic product	0.8	4.3	2.4	4.1	7.1	6.4	1.4	-2.6	2.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-3.3	7.4	0.7	4.3	12.7	5.6	-3.2	-3.2	6.5
Mining and quarrying	-3.1	4.2	7.7	7.6	25.7	-1.5	-5.6	-14.1	-5.3
Manufacturing	3.4	8.4	4.0	10.8	10.8	7.0	-3.7	-3.9	3.7
Electricity, gas and water	5.3	5.8	4.0	5.9	6.1	2.3	-0.6	3.3	2.8
Construction	-1.5	4.8	6.3	-0.2	18.2	21.3	14.6	-3.0	-6.7
Wholesale and retail commerce, restaurants and hotels	1.6	3.4	3.9	4.0	4.8	6.6	3.4	-6.4	4.4
Transport, storage and communications	12.0	13.7	12.0	9.6	10.5	9.8	7.6	1.9	6.4
Financial institutions, insurance, real estate and business services	4.8	7.1	6.6	5.4	11.1	9.3	8.5	5.6	5.0
Community, social and personal services	3.0	3.0	1.4	3.3	2.3	3.4	4.5	4.7	4.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.0	2.8	2.9	3.9	5.4	6.9	3.3	2.1	3.7
Government consumption	2.3	-0.3	1.3	0.2	2.9	2.3	4.4	6.7	5.9
Private consumption	3.1	3.2	3.1	4.4	5.7	7.5	3.2	1.5	3.4
Gross capital formation	9.8	-4.7	10.9	11.3	13.9	-1.2	22.2	-36.7	29.1
Exports (goods and services)	3.6	12.1	8.2	12.8	10.3	9.9	-2.6	-6.0	4.8
Imports (goods and services)	6.9	0.9	9.1	12.4	8.1	4.3	6.5	-19.9	14.2
Percentages of GDP									
Investment and saving^c									
Gross capital formation	22.6	20.6	23.1	24.3	26.4	24.7	27.6	15.9	20.0
National saving	17.5	15.6	18.9	19.4	21.9	18.4	18.2	13.9	16.3
External saving	5.1	5.0	4.3	4.9	4.5	6.3	9.3	2.0	3.6
Millions of dollars									
Balance of payments									
Current account balance	-857	-880	-791	-981	-1 023	-1 646	-2 787	-576	-1 299
Goods balance	-1 278	-1 089	-1 421	-2 159	-2 727	-2 985	-5 013	-2 039	-3 576
Exports, f.o.b.	5 270	6 163	6 370	7 099	8 102	9 299	9 555	8 838	9 375
Imports, f.o.b.	6 548	7 252	7 791	9 258	10 829	12 285	14 569	10 877	12 951
Services trade balance	685	776	857	1 116	1 351	1 734	2 201	2 188	2 635
Income balance	-440	-776	-440	-209	4	-865	-417	-1 084	-717
Net current transfers	175	209	212	270	349	470	442	359	359
Capital and financial balance ^d	1 020	1 219	872	1 374	2 053	2 794	2 439	836	1 860
Net foreign direct investment	625	548	733	904	1 371	1 634	2 072	1 339	1 404
Other capital movements	395	671	139	470	682	1 160	367	-503	456
Overall balance	163	339	80	393	1 031	1 148	-348	260	561
Variation in reserve assets ^e	-163	-339	-80	-393	-1 031	-1 148	348	-260	-561
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	98.9	104.8	106.5	107.6	106.5	103.9	100.1	99.7	89.0
Terms of trade for goods (index: 2005=100)	109.7	108.1	104.0	100.0	97.1	96.1	92.5	95.6	91.8
Net resource transfer (millions of dollars)	580	443	432	1 166	2 058	1 929	2 022	-247	1 142
Gross external public debt (millions of dollars)	5 310	5 575	5 765	6 763	7 186	8 444	9 105	8 174	8 558
Average annual rates									
Employment									
Labour force participation rate ^g	55.4	55.5	54.4	56.8	56.6	57.0	56.7	60.4	59.1
Open unemployment rate ^h	16.9	15.3	14.9	12.9	12.6	11.2	11.3	8.5	7.1
Visible underemployment rate ⁱ	12.3	15.2	14.4	14.6	13.5	11.5	10.5	13.5	11.2
Annual percentages									
Prices									
Variation in consumer prices (December-December)	9.7	9.9	13.1	14.1	9.4	10.8	13.9	4.0	5.8
Variation in industrial producer prices (December-December)	8.4	11.0	17.7	12.1	13.7	14.6	23.5	-1.2	4.5
Variation in nominal exchange rate (annual average)	9.3	10.8	10.0	9.1	7.0	1.0	1.9	8.9	-8.3
Variation in average real wage	4.1	0.4	-2.6	-1.9	1.6	1.4	-2.0	7.7	2.1
Nominal deposit rate ^j	14.0	12.6	11.5	12.1	11.4	7.1	5.4	8.6	6.1
Nominal lending rate ^k	26.8	26.2	23.4	24.0	22.7	17.3	16.7	21.6	19.4

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue	24.7	25.0	24.4	25.2	25.8	26.6	26.8	26.0	25.8
Current revenue	24.8	24.7	24.4	25.2	25.8	26.6	26.9	26.0	25.7
Tax revenue	19.8	19.9	19.7	20.2	20.7	22.1	22.8	21.3	21.2
Capital revenue	-0.1	0.4	-0.0	-0.0	-0.0	-0.0	-0.1	0.0	0.1
Total expenditure ^l	28.6	27.4	26.4	25.6	24.5	24.8	26.9	30.7	31.2
Current expenditure	23.3	22.8	22.2	21.8	21.0	20.7	21.1	24.2	25.2
Interest	4.3	4.3	4.1	4.2	3.8	3.1	2.2	2.2	2.2
Capital expenditure	5.2	4.5	4.1	3.8	3.5	4.1	5.3	6.5	5.9
Primary balance	0.4	1.9	2.1	3.8	5.2	4.9	2.1	-2.5	-3.2
Overall balance	-3.9	-2.4	-2.0	-0.4	1.3	1.8	-0.1	-4.6	-5.4
Non-financial public sector debt									
Domestic	28.7	27.0	27.6	25.5	23.4	19.6	18.1	23.1	25.7
External	16.4	18.6	19.3	17.4	15.0	12.2	11.8	11.1	10.5
Money and credit^m									
Domestic credit	31.2	33.3	36.1	36.8	36.3	39.6	45.0	45.0	41.9
To the public sector	5.6	6.5	9.0	6.7	4.4	2.2	2.2	3.4	3.2
To the private sector	25.4	26.5	26.7	29.4	31.1	36.5	41.7	40.4	37.8
Other	0.1	0.3	0.4	0.7	0.8	0.9	1.1	1.1	1.0
Liquidity (M3)	36.3	37.1	42.6	44.0	44.3	43.8	46.8	49.6	46.8
Currency outside banks and local-currency deposits (M2)	20.4	20.9	21.0	22.3	23.5	25.6	24.8	25.7	26.0
Foreign-currency deposits	16.0	16.2	21.6	21.7	20.8	18.1	22.0	23.9	20.8

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1991 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total.

ⁱ Percentage of the working population; nationwide total.

^j Average deposit rate in the financial system (gross).

^k Average lending rate in the financial system.

^l Includes net lending.

^m The monetary figures are end-of-year stocks.

Services expanded across the board. Transport, storage and communications performed particularly well, with growth of 6.4%, driven by greater demand for services relating to foreign trade and communications. Having dropped by 6.4% in 2009, the commerce, restaurants and hotels sector grew by 4.4%, owing to the upturn in domestic demand and tourism.

The monthly index of economic activity reflected average growth of 3.2% in the first four months of 2011, sustaining the moderate rate of expansion seen in the last quarter of 2010. Services, especially transport, financial intermediation and other business services, performed robustly, while manufacturing picked up only slightly.

(b) Prices, wages and employment

The consumer price index inched up by 1.8 percentage points compared with the previous year because of the increase in prices of agricultural products and regulated services. Inflation stayed within the target range set by

the central bank, despite the increase in international fuel and commodity prices, thanks to the appreciation of the colón and moderate growth in domestic demand. Inflation held steady at a single-digit rate for the second year in a row, which had not been seen in recent decades in Costa Rica.

The items that contributed the most to the rise in the consumer price index were: food and non-alcoholic beverages (33.6% of the total cumulative variation at year's end), rentals and housing services (19.8%) and transport (13.9%). Core inflation, which does not take account of variations in controlled prices, rose at a cumulative rate of 3.5%, which was 2.3 percentage points lower than headline inflation.

Although unemployment has declined as the economy has improved, it is still at a much higher level than before the crisis. The national employment rate decreased from 55.4% in 2009 to 54.8% in 2010, as the economy was unable to create enough jobs for the growing labour supply. The real minimum wage increased by 2.4%.

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-4.8	-2.5	-0.3	2.7	5.4	4.0	3.7	3.7	...	...
Goods exports, f.o.b. (millions of dollars)	2 078	2 240	2 231	2 235	2 404	2 410	2 272	2 299	2 484	1 778
Goods imports, c.i.f. (millions of dollars)	2 531	2 740	2 896	3 228	3 170	3 355	3 498	3 547	3 860	2 578
Gross international reserves (millions of dollars)	4 167	3 936	4 059	4 066	4 155	4 065	4 571	4 627	4 642	4 650
Real effective exchange rate (index: 2000=100) ^d	96.2	99.9	102.2	100.6	93.8	88.7	86.9	86.7	85.5	86.9
Consumer prices (12-month percentage variation)	12.3	8.2	4.8	4.0	5.8	6.3	5.0	5.8	4.6	4.8
Industrial producer prices (12-month percentage variation)	15.0	8.4	-2.3	-1.2	1.7	1.8	1.5	4.5	7.5	9.3
Average nominal exchange rate (colones per dollar)	562	574	585	572	551	526	515	510	503	502
Average real wage (variation from same quarter of preceding year)	13.6	7.8	8.8	11.2	-4.0	3.3	5.7	3.7	15.1	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	8.5	8.5	9.4	8.0	6.4	6.4	6.1	5.5	5.5	5.4
Lending rate ^f	21.4	22.0	22.1	20.8	19.9	20.0	19.3	18.2	18.1	17.5
Domestic credit (variation from same quarter of preceding year)	26.2	19.7	13.6	6.6	2.9	3.3	-0.8	4.5	12.7	15.0 ^g
Non-performing loans as a percentage of total credit	1.9	2.1	2.2	2.1	2.2	2.2	2.2	1.9	1.9	2.2

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1991 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Average deposit rate in the financial system (gross).

^f Average lending rate in the financial system.

^g Data to April.

Year-on-year variation in the consumer price index averaged 4.7% in the first five months of 2011, despite higher international prices for fuels and commodities. However, as long as there are no further significant fluctuations in international oil and commodity prices, achieving the central bank's annual inflation target of 4%, with a margin of tolerance of one percentage point, seems feasible.

(c) The external sector

The balance-of-payments current account deficit widened considerably because of the sharp increase in goods imports (19.2%). Higher international prices for oil, basic grains and commodities in general led the value of imports to skyrocket. Fuel imports were up by 25.6% in relation to 2009, while imports of intermediate goods for mining and industry rose by 20.7%; the latter were associated also with the upturn in the manufacturing industry. Another factor driving up imports was greater demand (consumption and rebuilding of inventories),

with the consequent higher imports of consumer goods (21.5%) and capital goods (13.5%).

Goods exports increased by 6.8% with respect to 2009, driven in particular by the higher volumes and prices of agricultural products. Traditional exports went up by 17.8%, with a considerable expansion in exports of coffee (11.7%) and bananas (13.3%). Non-traditional exports rose by 5.6%, with particular increases in exports of pineapples (12.6%) and exports from industries located outside free zones (11.5%). Total exports from free zones slowed towards the end of the year, recording an annual rate of 4.7%, because of a fall in sales of high-tech goods.

As a result of the escalation in international fuel and commodity prices, the terms of trade deteriorated by 3.9%, reversing the improvement seen in 2009 (3.3%).

Exports of services expanded at an annual rate of 20.7%, boosting their share of total exports to 32% (29.3% in 2009). The "other services" sector grew at an annual rate of 29.5%, driven in large part by information technology and information services, which have performed robustly over the last five years. Revenue from travel services picked

up significantly (16.3%, compared with a fall of 20.5% in 2009), reflecting the international upturn in tourism.

The deficit on the merchandise trade balance shot up by 75% in relation to the previous year and stood at US\$ 3.576 billion. This increase was partially offset by the positive balance of services, which, at US\$ 2.635 billion, was 20.4% higher than in 2009. The deficit on the income balance closed at US\$ 717 million owing to the repatriation of profits.

Family remittances from abroad totalled US\$ 505 million, only 3.5% higher than in the previous year because of the weak recovery of employment in the United States and tougher migration policies. Outward remittances also experienced modest annual growth of 1.4%, to give a total of US\$ 227 million, mostly destined for Nicaragua.

The financial account showed a surplus of US\$ 2.048 billion, which was higher than the current account deficit (US\$ 1.299 billion). FDI totalled US\$ 1.404 billion, which was US\$ 65 million more than in 2009. These resources were allocated mainly to the manufacturing industry (55%), commerce and services (23%) and real estate (11.6%).

The goods trade deficit is expected to widen in 2011 because of higher international oil and commodity prices and the appreciation of the currency. This will be counterbalanced by the expansion of services exports, especially tourism and business services, and higher FDI flows driven by investment in telecommunications. However, the pattern seen in the first four months of 2011 should be taken as a warning sign: exports grew at a year-on-year rate of only 5.2%, while imports surged by 18.9%.

El Salvador

1. General trends

After contracting by 3.1% in 2009, the economy of El Salvador picked up slightly in 2010, growing by 1.4%.¹ This performance was the result of an upturn in the export sector, driven by external demand for manufactured goods. Domestic demand had only a limited impact on growth, owing to the slow recovery of employment and remittances, as well as low levels of lending to the private sector.

Increased activity and a nearly 25% hike in the oil bill widened the current account deficit from 1.5% of GDP in 2009 to 2.3% in 2010. The deficit was financed with capital transfers and multilateral finance. The non-financial public sector (NAPS) deficit, which includes pensions and trust funds, narrowed from 5.7% to 4.3% (from 3.9% to 2.7% excluding pensions and trust funds) reflecting the impact of the tax reform implemented in late 2009 and the containment of spending, including the targeting of subsidies, within

the framework of the arrangement with the International Monetary Fund (IMF).

Assuming that external demand remains buoyant and lending to productive enterprise picks up, ECLAC projects growth of 2.5% for 2011. More robust domestic demand, in conjunction with higher international food and fuel prices, will broaden the current account deficit to an estimated 4%. The authorities are targeting an NFPS deficit of 3.5% of GDP or less, with a view to starting to reduce the balance of public debt, which reached 55.5% of GDP in 2010.

2. Economic policy

a) Fiscal policy

In the interest of achieving public debt sustainability, fiscal policy in 2010 was directed towards reducing the NFPS deficit within the framework of the arrangement with IMF, while protecting social spending.

The tax reform adopted in December 2009 expanded tax receipts, albeit not by as much as the 0.7% of GDP originally anticipated. Thanks to the reform and the economic upturn, the tax burden rose by 9.1% in real terms, thus expanding from 12.6% of GDP in 2009 to 13.6% in 2010 for the central government sector.

Savings made by targeting electricity consumption subsidies and improving the public debt profile allowed the government to slow spending growth to 2.1% in real terms in 2010, compared with 2.8% in 2009. The

¹ In March 2011, the Central Reserve Bank of El Salvador published revised GDP and balance-of-payments figures for 2005-2010. Unless stated otherwise, this country note uses the revised figures.

resources freed up by subsidy targeting (0.4% of GDP) have been channelled towards social programmes, in particular the *Comunidades Solidarias* (“communities in solidarity”) conditional transfer programme and the *Casa para Todos* (“housing for all”) scheme for building low-cost housing.

These measures resulted in the NFPS fiscal deficit contracting from 5.7% to 4.3% of GDP, comfortably achieving the target agreed upon with IMF (4.8% of GDP). The deficit was financed largely from external funds, in particular from the World Bank, the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI), as well as a US\$ 200 million local-market bond issue.

After jumping from 45.3% to 54.1% of GDP between 2008 and 2009, total public debt edged up to 55.5% at the end of 2010. At the same time, the maturity profile of domestic debt has improved: between 2009 and 2010, total short-term domestic debt shrank from 2.1% to 0.9% of GDP, while medium- and long-term debt went up from 20.3% to 22.4% of GDP during the same period. In January 2011, the government issued a 20-year bond for US\$ 650 million, which, together with US\$ 500 million in multilateral finance, covers the country’s financing needs for 2011.

The 2011 budget calls for an NFPS deficit equivalent to 3.5% of GDP, which means that total public debt as a proportion of GDP will start to fall as of 2011, although it will remain above 50% until 2013. The NFPS deficit target is based on the assumption that improved economic performance and various administrative measures introduced to strengthen revenue-raising capacity, such as increased cooperation between the customs and domestic tax authorities, will expand the tax burden from 13.6% of GDP in 2010 to 14% in 2011.

On the spending side, the wage rise for civil servants on low wages and the expansion of the payroll in social sectors are expected to push spending up by around 0.2% of GDP. A similar increase is expected in public investment, with resources targeting infrastructure and agricultural development projects in particular.

(b) Financial policy

Interest rates fell throughout 2010. The nominal lending rate for loans of up to one year came down from 8.42% in December 2009 to 6.59% in December 2010, or by 4.3 percentage points in real terms. During the same period the nominal deposit rate fell by half to end 2010 at 1.8%, a negative rate of 0.3% in real terms.

Despite the lower interest rates and the relatively solid situation of the Salvadoran banking system (whose

17.58% capitalization rate comfortably exceeds the required 12% and which, despite a slight increase in the default rate to 3.94%, has ample (107.86%) loan-loss provisions), lending to the private sector contracted for the second consecutive year, with a fall of 3.9% in real terms. On the basis of the pattern seen in the final quarter of 2010, lending to the private sector is expected to scale up gradually throughout 2011.

Although deposit rates were down, the nominal balance of deposits grew by 4.8%, which allowed the banking system to maintain a liquidity ratio of 42.3%, much higher than the required 17%, while at the same time improving its debt profile by paying down the outstanding balance and lengthening its maturities.

In January 2011, the legislative assembly adopted legislation on supervision and regulation of the financial system. The act names the central bank as the sole body responsible for financial regulation and strengthens its capacity to serve as a lender of last resort. The act also consolidates the supervision of the entire financial sector under one body. Throughout 2011, the authorities are expected to continue migrating towards risk-based supervision. Lastly, a bill on investment funds is under discussion in the legislative assembly and is expected to be made law towards the end of the year.

(c) Other policies

The government has launched a scheme to boost economic activity in the framework of the country’s five-year development plan for 2010-2014. The initiative is structured around measures to stimulate specific sectors, which will be financed through the creation of a development banking system.

Those measures include a production development law, which aligns export incentives with the rules of the World Trade Organization, and plans to provide strategic support to the agricultural and tourism sectors. In addition, the authorities have announced that they will submit to the legislative assembly a bill on the promotion of public-private partnerships on infrastructure projects.

Although the details remain to be worked out in the legislative assembly during the year, the plans to establish a development banking system are based on the creation of three investment vehicles: (i) the National Development Fund, which will provide credit to micro-, small and medium-sized enterprises in labour-intensive industries; (ii) the conversion of the Multisectoral Investment Bank into the Development Bank of El Salvador, which will extend long-term credit to strategic productive sectors; and (iii) the Salvadoran Guarantee Fund, which will support small businesses.

With the aim of reducing the risk of fiscal contingencies, these vehicles will be subject to the same prudential measures applicable to the rest of the Salvadoran banking system. This means that the rates charged must reflect operating costs and that the guarantees offered will be

treated for accounting purposes as part of total public debt. Financing will come from government capital allocations (US\$ 65 million for the National Development Fund and US\$ 20 million for the Salvadoran Guarantee Fund), as well as bond issues of up to US\$ 300 million.

3. The main variables

(a) Economic activity

In the second quarter of 2009 GDP contracted by 4.1% year-on-year; thereafter the rate of contraction began to ease and growth re-entered positive territory in the first quarter of 2010. The pace of growth has not risen above 1.5% since the second quarter of 2010, which brought growth for the year overall to just 1.4%.

The momentum of the recovery was limited by two factors. First, despite better employment conditions, private consumption, which had plummeted by 10.3% in 2009, climbed only 2.3% in 2010 because of the weak recovery of remittances, which accounted for 16% of GDP. Although this proportion was similar to the average for 2000-2009, it lagged almost two GDP points behind pre-crisis remittance flows. And second, the 8.5% drop in lending to the construction sector, coming on top of the 7.4% contraction in 2009, constrained expansion in gross fixed capital formation which, after falling by 5.4% and 19.2% in 2008 and 2009, respectively, grew by a mere 1.6% in 2010.

By sector, agriculture performed well with a 3.4% expansion following the impact of poor weather conditions in late 2009. A major contributing factor in this outcome was the rise in international prices of sugar and coffee. Manufacturing, which contracted by 3% in 2009, grew by 2.2% on the back of renewed demand from the United States. Services as a whole gained a modest 1.2%, reflecting still weak domestic demand. Construction contracted for the fourth consecutive year, by 6.3%.

Growth of close to 2.5% is projected for 2011, as improved remittance flows fuel private consumption. Investment will also be more buoyant in 2011, thanks to an upturn in lending to the private sector. Although exports of goods and services are expected to continue the strong performance posted in 2010 (up 12.3% in real terms), the external sector will make a negative net contribution given the impact of increased imports.

(b) Prices, wages and employment

Inflation patterns in 2010 reflected trends in international food and fuel prices. The upturn in domestic demand was too modest to exert additional pressure on domestic prices and the 12-month inflation rate at the end of the year stood at 2.1%, while average inflation was 1.2%.

Year-on-year inflation for food and non-alcoholic beverages has remained stable since the fourth quarter of 2010; however, since the second quarter of 2011, higher fuel prices (following the targeting of subsidies on gas consumption) have led to a hike in the 12-month inflation rate, which reached 6.7% in May. Reflecting international food and fuel prices, the year-on-year inflation rate is expected to finish 2011 at about 5%.

Although during 2010 the number of private sector workers contributing to the Salvadoran Social Security Institute rose by more than 25,000 (4.6%), their total number at the end of 2010 (567,142 workers) still fell short of pre-crisis levels (583,717 workers in July 2008). Almost half of all formal jobs created in 2010 were in the manufacturing sector, reflecting heavy external demand.

The results of the 2010 household survey are still not yet available but, given the relative improvement in formal employment, it is estimated that in 2010 labour force participation exceeded the 63% recorded in 2009 and the unemployment rate fell from the 7.3% posted in 2009.

With regard to wages, the average wage of private sector workers contributing to the Salvadoran Social Security Institute rose by a mere 1.5%, while the average salary of public sector workers went up by 0.4%, both in real terms. In order to reduce persistent disparities in public wages, at the beginning of 2011 the wages of public sector employees earning under US\$ 1,000 per month were increased by 10%; in addition, it was announced that the minimum pension would be brought into line with the minimum wage.

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.3	2.3	1.9	3.6	3.9	3.8	1.3	-3.1	1.4
Per capita gross domestic product	1.9	2.0	1.5	3.2	3.5	3.4	0.8	-3.6	0.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.4	0.9	2.8	5.1	5.7	8.5	3.0	-2.9	3.3
Mining and quarrying	5.7	3.4	-16.0	5.3	4.4	-2.1	-6.7	-15.4	-16.7
Manufacturing	2.9	2.2	1.0	1.7	2.2	2.5	2.3	-3.0	2.2
Electricity, gas and water	7.4	4.5	3.4	3.8	4.7	2.8	2.3	-1.1	0.2
Construction	6.6	3.2	-9.8	3.8	6.4	-6.9	-7.3	-2.8	-6.3
Wholesale and retail commerce, restaurants and hotels	1.5	2.7	2.4	5.2	4.6	4.3	1.0	-5.4	1.1
Transport, storage and communications	5.0	3.4	5.4	6.7	6.9	4.8	-0.8	-5.9	0.6
Financial institutions, insurance, real estate and business services	2.7	2.6	2.5	2.7	2.6	3.0	0.9	-1.3	2.1
Community, social and personal services	-0.6	0.5	1.3	0.8	2.5	3.8	2.0	1.3	1.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.5	1.9	2.8	5.1	4.8	5.9	1.7	-9.2	2.6
Government consumption	0.1	-0.3	1.1	2.1	2.2	0.4	-0.4	5.8	5.8
Private consumption	1.6	2.1	2.9	5.3	5.0	6.3	1.8	-10.3	2.3
Gross capital formation	-2.7	7.8	-3.9	3.6	11.6	2.8	-5.4	-19.2	1.6
Exports (goods and services)	6.0	4.7	3.6	0.9	5.9	7.1	6.9	-16.0	12.3
Imports (goods and services)	1.5	4.8	2.6	4.3	8.9	8.8	3.3	-24.8	11.1
Percentages of GDP									
Investment and saving^c									
Gross capital formation	16.4	17.0	16.2	16.1	16.8	16.3	15.2	13.4	13.3
National saving	13.6	12.3	12.1	12.4	12.7	10.3	8.0	12.0	11.0
External saving	2.8	4.7	4.1	3.6	4.1	6.1	7.2	1.5	2.3
Millions of dollars									
Balance of payments									
Current account balance	-405	-702	-642	-622	-766	-1 217	-1 533	-304	-488
Goods balance	-1 865	-2 287	-2 660	-3 037	-3 636	-4 365	-4 677	-3 108	-3 612
Exports, f.o.b.	3 020	3 153	3 339	3 465	3 783	4 070	4 703	3 930	4 577
Imports, f.o.b.	4 885	5 439	6 000	6 502	7 419	8 434	9 380	7 038	8 189
Services trade balance	-240	-107	-79	-129	-164	-141	-213	-90	-94
Income balance	-323	-423	-458	-490	-438	-456	-389	-548	-381
Net current transfers	2 023	2 114	2 555	3 035	3 472	3 746	3 747	3 442	3 599
Capital and financial balance ^d	282	1 019	589	431	812	1 496	1 866	727	193
Net foreign direct investment	496	123	366	398	268	1 455	824	366	78
Other capital movements	-214	895	224	33	545	40	1 042	361	115
Overall balance	-124	316	-52	-190	47	279	333	422	-295
Variation in reserve assets ^e	124	-316	53	190	-47	-279	-333	-423	295
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	99.6	100.2	98.9	100.8	101.4	102.7	104.4	102.1	104.1
Terms of trade for goods (index: 2005=100)	105.0	101.0	100.0	100.0	98.7	97.7	95.0	98.1	94.4
Net resource transfer (millions of dollars)	-42	595	132	-59	375	1 039	1 477	179	-187
Gross external debt (millions of dollars) ^g	3 987	7 917	8 211	9 044	9 916	9 617	10 261	10 093	10 033
Average annual rates									
Employment									
Labour force participation rate ^h	51.2	53.4	51.7	52.4	52.6	62.1	62.7	62.8	...
Open unemployment rate ⁱ	6.2	6.2	6.5	7.3	5.7	5.8	5.5	7.1	...
Visible underemployment rate ⁱ	4.3	4.8	4.5	6.2	4.9	5.3	6.3	7.7	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	2.8	2.5	5.4	4.3	4.9	4.9	5.5	-0.2	2.1
Variation in wholesale prices (December-December)	0.3	2.6	6.8	7.5	3.9	10.8	-6.9	2.7	7.1
Variation in real minimum wage	-1.8	2.1	-1.4	-4.5	-0.7	2.5	0.2	9.7	-1.0
Nominal deposit rate ^k	3.4	3.4	3.3	3.4	4.4	4.7	4.2	4.5	2.9
Nominal lending rate ^l	7.1	6.6	6.3	6.9	7.5	7.8	7.9	9.3	7.6

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue ^m	15.5	16.2	16.3	16.3	17.5	18.2	18.7	17.3	18.7
Current revenue	14.7	15.7	16.0	16.0	17.2	17.9	18.5	16.8	17.9
Tax revenue	13.0	13.3	13.3	14.1	15.1	15.2	15.1	14.3	15.3
Capital revenue	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure ⁿ	19.9	19.9	18.7	19.3	20.4	20.2	21.9	23.0	23.1
Current expenditure	15.0	16.3	16.3	16.5	17.3	17.2	18.2	19.8	19.9
Interest	1.7	2.0	2.1	2.2	2.5	2.5	2.4	2.6	2.4
Capital expenditure	4.9	3.7	2.3	2.8	3.1	2.8	3.1	3.1	3.2
Primary balance	-2.7	-1.7	-0.3	-0.8	-0.5	0.6	-0.8	-3.1	-1.9
Overall balance	-4.4	-3.7	-2.4	-3.0	-2.9	-2.0	-3.2	-5.7	-4.3
Non-financial public sector debt									
Domestic	38.6	40.3	40.5	39.7	39.9	37.0	36.9	45.2	45.6
External	11.6	11.4	12.0	12.7	10.8	10.8	11.6	15.0	14.6
Total	27.0	28.9	28.6	27.0	29.1	26.3	25.2	30.2	31.0
Money and credit^o									
Domestic credit	42.1	40.1	39.4	38.3	38.5	39.2	38.1	35.4	33.0
To the public sector	0.9	0.9	1.0	1.3	0.6	1.5	1.7	0.9	1.8
To the private sector	44.5	42.3	42.1	42.2	42.7	42.6	42.1	41.3	39.4
Others	-3.4	-3.1	-3.7	-5.2	-4.8	-4.9	-5.8	-6.9	-8.2
Currency outside banks and local-currency deposits (M2)	42.0	40.2	39.2	37.2	38.2	41.5	39.0	40.9	41.6

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 1990 prices.

^c Based on figures in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Figures for 2002 refer to public external-debt.

^h Economically active population as a percentage of the working-age population; nationwide total.

ⁱ Percentages of the economically active population; nationwide total.

^j Percentages of the economically active population; urban total.

^k Basic rate for deposits of up to 180 days.

^l Basic lending rate for up to 1 year.

^m Includes grants.

ⁿ Includes net lending.

^o The monetary figures are end-of-year stocks.

(c) The external sector

Thanks to rising external demand, goods exports grew by 16.4% in 2010, after a 16.7% nominal contraction in 2009. Non-traditional exports led the field with an increase of 16.1%.

However, the upswing in goods exports was insufficient to offset the 16% rise in imports, which reflected increased imports of consumer and intermediate goods (up 11.1% and 22.5%, respectively). As a result, the trade deficit widened by two percentage points of GDP to stand at 17.5%.

The income balance deficit narrowed from 2.7% to 1.8% of GDP as the reduction of portfolio liabilities in both the public and private sectors lowered debt servicing costs. Workers' remittances edged up a mere 1.3% in 2010 after tumbling 9.5% in 2009, reflecting the still high rate of Hispanic unemployment in the United States. The transfers surplus rose slightly as a proportion of GDP, from 16.7% to 17%.

Reflecting these factors, the current account deficit went from 1.5% of GDP in 2009 to 2.3% of GDP in 2010. Financing for the deficit came from capital transfers, mainly from the Millennium Fund (FOMILENIO), an entity created by the Government of El Salvador to administer cooperation funds provided by the United States to develop the north of the country, as well as the net effect of deleveraging in the Salvadoran banking system and disbursements of multilateral financing.

Up to the third quarter of 2010 the government was using international reserves to finance the current account deficit because of delays in the disbursement of funds from international financial institutions. As a result reserves, which had stood at US\$ 2.985 billion in late 2009, equivalent to 28.7% of M2, dwindled by US\$ 453 million, to a level equivalent to 24.4% of M2 in September. The reserve level rose again somewhat in the last quarter to US\$ 2.882 billion (27.7% of M2), which represented a decrease of 3.4% with respect to the year-earlier period.

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-3.6	-4.1	-3.2	-1.7	1.1	1.5	1.5	1.5	...	...
Goods exports, f.o.b. (millions of dollars)	985	976	980	926	1 090	1 111	1 170	1 128	1 395	913
Goods imports, c.i.f. (millions of dollars)	1 784	1 792	1 818	1 932	1 967	2 187	2 122	2 223	2 424	1 746
Gross international reserves (millions of dollars)	2 524	2 788	2 751	2 987	2 608	2 684	2 533	2 883	3 250	3 323
Real effective exchange rate (index: 2000=100) ^d	100.0	101.1	102.9	104.2	103.1	103.7	104.3	105.2	106.4	105.4
Consumer prices (12-month percentage variation)	3.3	0.2	-1.3	-0.2	0.2	0.2	0.9	2.1	2.7	6.7
Wholesale prices (12-month percentage variation)	-11.4	-14.7	-12.6	2.7	4.8	1.3	4.6	7.1	14.3	...
Average nominal exchange rate (colones per dollar)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Nominal interest rates (annualized percentages)										
Deposit rate ^e	5.2	4.9	4.2	3.7	3.5	3.1	2.8	2.1	1.7	1.7 ^f
Lending rate ^g	9.6	9.5	9.3	8.9	8.5	7.9	7.3	6.8	6.5	6.3 ^f
Domestic credit (variation from same quarter of preceding year)	0.4	-1.5	-4.1	-10.5	-7.4	-8.5	-7.2	-4.3	-11.0	-10.0 ^f
Non-performing loans as a percentage of total credit	3.2	3.8	4.2	3.8	4.0	4.3	4.4	4.1	4.2	4.2

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in dollars at current prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Basic rate for deposits of up to 180 days.

^f Data to April.

^g Basic lending rate for up to 1 year.

As export and import prices climbed by 2.9% and 7.0%, respectively, El Salvador's terms of trade fell by an average of 3.8% in 2010. Although this contrasts with the average gain of 3.2% seen in 2009, the 2009 figure was attributable mainly to the fall in import prices, with average export prices remaining constant over the period.

The overall real effective exchange rate depreciated by 2.1% on average in 2010 because most of El Salvador's trading partners experienced relative currency appreciation

with respect to the United States dollar. The real exchange rate against the dollar fell by 0.8% mainly because of the inflation differential with the United States.

The agricultural sector should continue to benefit from recent rises in coffee and sugar prices. Manufacturing exports, especially maquila, will be driven by the stimulus provided by United States demand. Nevertheless, given the likelihood that international food and fuel prices will remain high in 2011, a current account deficit of about 4% of GDP is projected for the year.

Guatemala

1. General trends

In 2010, Guatemala's real GDP grew by 2.8% (up from 0.5% in 2009), driven by an upturn in exports as the United States economy picked up and by growth, albeit modest, in domestic demand on the back of a slight improvement in remittances and foreign direct investment (FDI). Annual inflation, as at December, reached 5.4%, and the fiscal deficit stood at about 3.3% of GDP (just higher than the 3.1% of GDP posted in 2009). The trade deficit represented 10.8% of GDP and the balance-of-payments current account deficit was equivalent to 2% of GDP.

The economy is projected to grow by 4% in 2011 owing to moderate external and domestic demand and public investment; however, it will not be possible to offset fully the effects of the uncertainty surrounding the presidential elections to be held in September 2011. Inflation will rise slightly to about 6% as a result of higher prices for imported goods and the likelihood of a lower margin of idle capacity in some productive sectors. The central government's deficit could exceed slightly its current level as a proportion of

GDP owing to the possibility of higher spending during the 2011 electoral process and the commitment to meeting social needs. Indeed, the presidential elections in September will take place against the backdrop of a modest economic recovery and worsening public security. The most significant challenge for the next government, as for this and previous governments, is reaching the consensus necessary to boost fiscal revenue in order to respond to the urgent economic and social challenges that the country is facing.

2. Economic policy

(a) Fiscal policy

In 2010, total real central government revenue rose by 4.3% in relation to 2009.

Tax revenues were up by 3.9%, especially as a result of higher indirect taxes (5.3%), in particular value added tax on imports (9.6%). Direct taxes edged up by 0.9% (0.4 percentage points higher than in 2009) because of higher income tax revenues (2.1%). The tax burden stood at 10.9% of GDP, which was similar to the level in 2009, but much lower than the target stipulated in the Peace Accords (13.2% of GDP).

Total real public spending rose by 5% in relation to 2009, mainly owing to higher current spending (5.5%), as capital spending increased by only 3.8%. Among the components of current spending that rose the most were wages (6.6%), which make up 25.9% of total current spending, and domestic interest payments (10.2%). Thus, the central government's deficit was equivalent to 3.3% of GDP, a slight increase on the 3.1% recorded in 2009.

According to the authorities' revenue and expenditure estimates at the beginning of 2010, the central government's deficit would close the year at 3.1% of GDP; however, because of the spending involved in responding to natural

disasters (the eruption of the Pacaya volcano, tropical storm Agatha and subsequent torrential rains),¹ the deficit rose to 3.3% of GDP.

The government estimated that the rebuilding effort would require an investment of 15.369 billion quetzales over a five-year period (2011-2015), which was equivalent to 4.6% of GDP in 2010.

In order to begin putting its reconstruction plan into action, in 2010 the government obtained a development policy loan with a catastrophe deferred drawdown option totalling US\$ 85 million, equivalent to 680 million quetzales, from the World Bank. In addition, the Congress authorized the issuing and placement of “reconstruction bonds” worth 1.680 billion quetzales in November 2010. Furthermore, following the disaster, the Congress approved a 2.36 billion quetzal increase in the overall State budget (which was similar to that for 2009, since the draft budget for 2010 was not approved by the Congress).

Actual spending on reconstruction in 2010 totalled 640.7 million quetzales (barely 4.2% of estimated total spending), of which 64% was financed through the World Bank disaster response loan, 10.6% through “reconstruction bonds” and 25.4% through others sources of financing, such as grants and current revenues.

Low revenues forced the government to resort to higher borrowing. Total public debt amounted to 81.518 billion quetzales at the close of 2010, equivalent to 24.6% of GDP (compared with 23% of GDP in 2009). Domestic debt went up by 20.2%, while external debt rose by 12.9%. This figure does not take into account the central government’s floating debt, which is equivalent to about 1% of GDP.

A large proportion of the total debt will mature between 2011 and 2020, entailing disbursements that could soon put pressure on public finances.

The leading international rating agencies did not downgrade their assessment of Guatemala’s long-term sovereign debt in 2010. In fact, Moody’s, Standard and Poor’s and Fitch Ratings maintained Guatemala’s foreign-currency bond ratings at below investment grade (Ba1, BB y BB+, respectively) with a stable outlook.

¹ For further details, see “Evaluación de daños y pérdidas sectoriales y estimación de necesidades ocasionadas por desastres en Guatemala desde mayo a septiembre de 2010” (Spanish only) and evaluations of damage and losses by sector, and needs estimates in the wake of subsequent weather events between June and September 2010, prepared by the Government of Guatemala with support from the Inter-American Development Bank (IDB), World Bank, Economic Commission for Latin America and the Caribbean (ECLAC), International Monetary Fund (IMF), United Nations Population Fund (UNFPA), Global Facility for Disaster Recovery and Reduction (GFDRR) and United Nations Development Programme (UNDP).

The overall State budget for the 2011 tax year totalled 54.391 billion quetzales, but was increased to 56.003 billion quetzales at the end of March to take account of higher spending. The authorities are expecting a tax burden equivalent to 10.8% of GDP, including revenues equalling almost 0.3% of GDP, which would be generated if the new tax evasion legislation is passed. The bill was put forward to improve tax administration. In 2011, tax revenues are expected to reach 38 billion quetzales, 9.3% more than in 2010. The rest of public spending will be covered by external loans for 6.2 billion quetzales, local and international bond issues for 5.3 billion quetzales and 1.1 billion quetzales in grants. The central government’s deficit could widen as a result of higher spending during the electoral process.

The State budget is extremely rigid (about 91% of budget resources are earmarked), owing to the tax system, which leaves little room for manoeuvre unless the tax burden is increased.² As long as tax revenues continue to rise at a slower pace than borrowing, there is an urgent need for reform in order to give the State more resources and make higher social spending and public investment possible without putting macroeconomic stability at risk.

(b) Monetary and exchange-rate policies

In 2010, the monetary-policy interest rate held steady at 4.5%, which represented a fall of 0.7% in real terms. While the Bank of Guatemala intervened on several occasions to prevent volatility in the exchange market, the nominal bilateral exchange rate against the United States dollar reflected a 1.0% appreciation over the year compared with 2009 (3.1% in real terms). The level of international reserves was similar to that recorded in 2009, equivalent to almost five months of goods and services imports.

On average, in 2010 the monetary aggregates went up slightly in real terms (4.6%), thanks to the upturn in economic activity. The narrow money supply (M1) grew by 3.9% year-on-year and M2 by 4.3%. The broad money supply (M3) expanded by 5.6%, boosted by the 12.5% increase in foreign currency deposits.

Real interest rates on loans and deposits averaged 9.1% and 1.6%, respectively, both of which were lower than the rates in 2009 (11.8% and 3.7%, respectively). This drop reflects greater liquidity in the banking system, and a certain efficiency in banking administration. The value of new loans granted by the banking system went up by 5.4% in real terms in 2010. Transport was the

² Many resources are earmarked in the constitution, for example, the IVA-Paz (peace value added tax) and contributions to the municipalities.

branch of economic activity that saw the highest increase (74.8%), accounting for 1.3% of all loans. Commercial and consumer loans, which account for the highest proportions of lending (26.4% and 24.4%, respectively), went up by 5.7% and 16.2%, respectively.

In 2010, commercial banking withstood the international crisis thanks to earlier improvements to banking legislation and regulation. Thus the financial system consolidated its stability and solvency, primarily in terms of liquidity on the back of a slight improvement in non-performing loans. Commercial banks showed a preference for acquiring public securities because of their favourable returns and the greater certainty they offer when providing loans for productive investments, which had a positive influence on the solidity of the banks' assets.

The monetary-policy interest rate, which applies to seven-day deposit certificates, held steady at 4.5% from 2010 until 31 March 2011 when it rose to 4.75% in response to higher inflation. Further increases are expected before the end of the year. In order to implement the monetary-policy interest rate, the Bank of Guatemala set up an overnight deposit facility, thus changing its neutralization and liquidity operations through auctions and permanent facilities as follows: seven-day deposits until 31 May 2011 and one-day deposits from 1 June 2011. The aim was to strengthen monetary-policy instruments and secondary market operations.

The exchange-rate system was moderated in order to consolidate the scheme of explicit inflation targets. The band in which the moving average is allowed to fluctuate was broadened from 0.5% to 0.6%, while all other parameters remained unchanged. These changes

seek to strengthen the capacity to respond in the event of pressures on public spending as a result of the electoral process and the uncertainty surrounding how well and for how long the global economy will pick up.

(c) Trade and other policies

In terms of its trade policy in 2010, Guatemala continued with the projects and negotiations begun in previous years. A free trade agreement between Guatemala and Chile entered into force in March 2010. A meeting on the trade pillar of the Association Agreement between Central America and the European Union was held in mid-March 2010 in Brussels; and the negotiations of the Agreement were subsequently concluded in May 2010. In April 2010, legislation on public-private partnerships to develop the country's economic infrastructure was adopted with a view to speeding up competitive bidding processes and making the subsequent allocation of contracts more transparent, while also scaling up the quality and quantity of investments. However, as at May 2011, the regulations issued under the legislation had yet to be adopted.

In force since April 2009, Guatemala's stand-by arrangement with the International Monetary Fund (IMF) expired on 21 October 2010. In its fourth review under the stand-by arrangement, the IMF Executive Board determined that the country had met the targets of this precautionary arrangement.

The monetary authorities are currently evaluating the type of programme or line of credit they could apply for in the coming months. A new agreement, with resources equalling some US\$ 300 million, is expected to be signed following the 2011 presidential elections.

3. The main variables

(a) Economic activity

In 2010, real GDP went up by 2.8%, which limited the rise in per capita GDP to only 0.3%. The higher GDP is attributable mainly to the expansion in basic and other services (3.9%), manufacturing (3.2%) and agriculture (0.6%). Construction contracted by 11.9%, owing to the lack of private investment plans because of the scarcity of bank financing and the slow execution of public works.

Mining faltered by 0.1%. In terms of demand, gross fixed investment inched up by 0.2%, reversing the downward trend seen in 2009 when it fell by 14.0%. Private investment expanded by 6.5%, while public investment slumped by 18.9% and total consumption grew by 4.0%. The economy would probably have displayed higher growth in 2010 if it were not for the adverse effects of the torrential rains and natural disasters. ECLAC estimated that its impact on GDP was equivalent to about 0.3 percentage points of GDP.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Annual growth rates^b								
Gross domestic product	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.5	2.8
Per capita gross domestic product	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9	0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.4	2.5	4.2	2.1	1.3	5.9	0.9	3.8	0.6
Mining and quarrying	16.0	-6.0	-11.9	-3.2	17.6	13.9	-4.3	4.2	-0.1
Manufacturing	1.1	2.5	4.9	2.6	3.8	3.0	2.0	-0.9	3.2
Electricity, gas and water	5.1	4.9	3.6	2.7	3.0	6.3	1.6	0.7	-0.4
Construction	15.4	-3.7	-8.9	4.5	13.1	8.8	-0.5	-10.8	-11.9
Wholesale and retail commerce, restaurants and hotels	2.0	1.5	3.1	3.2	3.9	4.1	2.0	-2.1	4.4
Transport, storage and communications	7.8	10.0	15.4	11.3	18.6	22.8	14.6	2.6	2.4
Financial institutions, insurance, real estate and business services	5.0	5.9	5.5	5.3	6.0	5.5	4.8	3.4	3.0
Community, social and personal services	3.1	1.4	0.5	2.3	5.4	6.0	5.8	4.5	5.3
Gross domestic product, by type of expenditure									
Consumption	3.0	3.3	2.8	4.0	4.7	5.7	5.0	1.6	4.0
General government	-0.1	-1.5	-6.6	1.7	5.7	8.3	11.3	14.3	7.8
Private	3.4	3.9	3.9	4.3	4.6	5.5	4.3	0.3	3.5
Gross capital formation	9.3	-3.1	-1.2	4.3	15.7	5.0	-5.8	-14.0	0.2
Exports (goods and services)	0.7	-0.5	8.2	-2.1	4.8	9.4	-0.2	-6.1	8.4
Imports (goods and services)	2.0	0.5	5.7	-0.6	6.5	7.2	-5.7	-9.3	13.7
	Percentages of GDP								
Investment and saving^c									
Gross capital formation	20.6	20.3	20.8	19.7	20.8	20.8	16.4	12.8	14.7
National saving	14.5	15.6	16.0	15.2	15.8	15.6	12.1	12.9	12.7
External saving	6.1	4.7	4.9	4.6	5.0	5.2	4.3	-0.0	2.0
	Millions of dollars								
Balance of payments									
Current account balance	-1 262	-1 020	-1 165	-1 241	-1 524	-1 786	-1 680	8	-826
Goods balance	-2 837	-2 960	-3 632	-4 191	-4 852	-5 487	-5 575	-3 348	-4 292
Exports, f.o.b.	4 224	4 526	5 105	5 460	6 082	6 983	7 847	7 295	8 566
Imports, f.o.b.	7 061	7 486	8 737	9 650	10 934	12 470	13 421	10 643	12 858
Services trade balance	-251	-263	-244	-142	-260	-310	-276	-159	-154
Income balance	-275	-303	-410	-485	-680	-843	-938	-1 111	-1 200
Net current transfers	2 102	2 506	3 122	3 577	4 268	4 854	5 108	4 626	4 820
Capital and financial balance ^d	1 269	1 554	1 769	1 480	1 776	2 002	2 013	465	1 503
Net foreign direct investment	183	218	255	470	552	720	737	574	663
Other capital movements	1 085	1 337	1 514	1 010	1 225	1 282	1 276	-108	840
Overall balance	7	535	604	239	252	216	333	473	677
Variation in reserve assets ^e	-7	-535	-604	-239	-252	-216	-333	-473	-677
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	88.7	88.6	85.8	79.3	76.9	76.3	72.4	75.0	74.6
Terms of trade for goods (index: 2000=100)	104.9	101.9	100.9	100.0	98.1	96.3	93.8	101.8	101.3
Net resource transfer (millions of dollars)	993	1 251	1 359	995	1 096	1 159	1 075	-646	303
Gross external public debt (millions of dollars)	3 119	3 467	3 844	3 723	3 958	4 226	4 382	4 928	5 562
	Average annual rates								
Employment									
Labour force participation rate ^g	61.5	61.4	56.1	...	...	...	...	...	...
Open unemployment rate ^h	5.4	5.2	4.4	...	...	...	...	...	4.8
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	5.4
Variation in nominal exchange rate (annual average)	-0.2	1.3	0.4	-3.9	-0.5	0.9	-1.2	7.4	-1.0
Variation in average real wage	-0.9	0.4	-2.2	-4.0	-1.1	-1.6	-2.6	0.1	2.8
Nominal deposit rate ⁱ	7.1	5.2	4.5	4.6	4.7	4.9	5.2	5.6	5.5
Nominal lending rate ^j	16.9	15.0	13.8	13.0	12.8	12.8	13.4	13.8	13.3
	Percentages of GDP								
Central administration									
Total revenue	12.8	12.5	12.3	12.0	12.7	12.8	12.0	11.1	11.3
Tax revenue	12.2	11.9	11.8	11.5	12.1	12.3	11.5	10.6	10.8
Total expenditure	13.9	15.1	13.4	13.7	14.7	14.3	13.6	14.2	14.6
Current expenditure	9.7	10.1	9.2	9.1	9.4	9.5	9.2	10.1	10.4
Interest	1.4	1.3	1.4	1.4	1.4	1.5	1.4	1.4	1.5
Capital expenditure	4.2	5.1	4.3	4.6	5.3	4.8	4.5	4.1	4.1
Primary balance	0.3	-1.3	0.3	-0.3	-0.6	0.0	-0.3	-1.7	-1.8
Overall balance	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6	-3.1	-3.3

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Central-government public debt	18.4	20.9	21.4	20.8	21.7	21.3	20.1	23.0	24.2
Domestic	5.0	6.3	6.7	7.9	8.8	9.2	8.9	9.9	11.1
External	13.3	14.6	14.7	12.8	12.9	12.1	11.3	13.0	13.1
Money and credit^k									
Domestic credit	18.1	18.4	17.7	21.4	25.4	27.6	26.5	26.9	26.5
To the public sector	-3.1	-2.9	-3.9	-2.5	-2.3	-2.6	-2.8	-2.0	-2.0
To the private sector	20.0	20.4	20.9	23.2	27.1	29.9	29.0	28.7	28.1
Others	1.1	0.9	0.7	0.6	0.7	0.4	0.4	0.2	0.3
Liquidity (M3)	31.7	33.5	34.0	35.7	38.3	37.0	35.2	37.3	38.4
Currency outside banks and local-currency deposits (M2)	29.6	30.7	30.3	31.8	34.0	32.3	30.4	31.4	32.0
Foreign-currency deposits	2.0	2.8	3.7	3.9	4.3	4.7	4.8	5.9	6.4

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2001 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total.

ⁱ Weighted average rate for deposits in the banking system.

^j Weighted average lending rates in the banking system.

^k The monetary figures are end-of-year stocks.

The trend-cycle series of the monthly index of economic activity has picked up since mid-2010, giving an annualized increase of 3.4% in April 2011 (compared with 3.2% in April 2010). Growth of 4% is expected for 2011, on the back of domestic demand and public spending in connection with the electoral period and the reconstruction works following the disasters in 2010. The authorities estimate that between 2.514 billion quetzales (0.8% of 2010 GDP) and 4.155 billion quetzales (1.3% of 2010 GDP) will be spent on this item in 2011.

(b) Prices, wages and employment

The consumer price index rose by 5.4% between December 2009 and December 2010, owing mainly to the economic recovery, higher prices for imported goods and temporary variations caused by natural disasters. Higher prices for food and beverages because of the natural disasters contributed about 0.2% to inflation by the end of the year. Inflation of about 6% is expected for 2011, as higher prices for the main commodities, such as oil, maize and wheat, have a significant and direct impact on inflation in Guatemala.

In January 2010, the increase in the minimum wage came into effect. The minimum wage for both agricultural and non-agricultural activities thus rose from 52 quetzales per day to 56 quetzales per day, representing a nominal increase of 7.7% (2.4% higher in real terms than 12 months earlier). Wages in the maquila sector rose from 47.8 quetzales per day to 51.8 quetzales per day—an

increase of 8.4% in nominal terms and 3% in real terms.

The natural disasters in 2010 led to a temporary increase in unemployment in the areas that were hit. This situation was mitigated by rehabilitation and reconstruction activities and the economic recovery. In 2010 the estimated unemployment rate was about 3.5%, compared with 3.2% in 2008 (last official reported data). In 2010, the Guatemalan Social Security Institute had 1,107,192 registered contributors, 1.7% more than the previous year.

(c) The external sector

In 2010, goods exports were up by 17.4% compared with 2009. Traditional exports rose by 16.2%; non-traditional exports increased by 17.8%. Among the traditional exports, sugar shot up by 43.1%, oil by 18.8% and green coffee by 21.8%, while banana exports dropped by 15%. As to non-traditional goods, natural rubber exports burgeoned by 70.3%, although they made up only 2.6% of the total. Exports of shrimp, fish and lobster experienced the largest fall, slumping by 12.3%. Exports of goods to Central America, which made up 28.3% of all exports, grew by 20.4%, while those to the rest of the world expanded by 16.2%. In particular, exports to the United States (40% of all exports) increased by 2.5%, after falling by 9.1% in 2009.

Goods imports went up by 20.1% owing to higher demand for capital goods (26.7%). Intermediate goods imports surged by 19.5%. The oil bill, which accounted for 17.9% of the total intermediate goods amounted to

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-0.4	-2.0	1.6	2.7	2.9	3.0	2.1	3.1	...	...
Goods exports, f.o.b. (millions of dollars)	1 842	1 858	1 718	1 796	2 156	2 204	1 919	2 188	2 722	1 012 ^d
Goods imports, c.i.f. (millions of dollars)	2 632	2 765	2 949	3 186	3 057	3 470	3 563	3 748	3 854	1 391 ^d
Gross international reserves (millions of dollars)	5 030	5 137	5 087	5 213	5 547	5 848	5 659	5 954	6 191	6 421
Real effective exchange rate (index: 2000=100) ^e	71.2	74.5	76.5	78.0	75.9	73.9	74.1	74.5	72.5	71.4
Consumer prices (12-month percentage variation)	5.0	0.6	0.0	-0.3	3.9	4.1	3.8	5.4	5.0	6.4
Average nominal exchange rate (quetzales per dollar)	7.94	8.10	8.24	8.31	8.18	8.01	8.04	8.02	7.82	7.64
Nominal interest rates (annualized percentages)										
Deposit rate ^f	5.6	5.7	5.7	5.6	5.6	5.5	5.4	5.4	5.3	5.3 ^d
Lending rate ^g	13.9	13.8	13.9	13.7	13.5	13.4	13.3	13.2	13.3	13.4 ^d
Interbank rate	6.8	5.9	4.9	4.5	4.9	4.7	4.6	4.4	4.4	4.6
Domestic credit (variation from same quarter of preceding year)	6.3	14.3	11.1	5.5	10.3	2.3	4.6	6.1	8.1	...
Non-performing loans as a percentage of total credit total credit	2.62	3.04	3.19	2.71	2.66	2.8	2.68	2.11	1.94	2.12

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2001 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Weighted average rate for deposits in the banking system.

^g Weighted average lending rates in the banking system.

US\$ 2.476 billion, equivalent to 6% of GDP. Imports of consumer goods rose by 17.1%. Imports from Central America (10.8% of the total) were up by 13.3% and those from the rest of the world expanded by 20.9%. In 2010, the terms of trade for goods and services worsened by 0.5%, after having improved by 8.5% in 2009.

Family remittances rose by 5.5% in 2010, contrasting with the 9.3% drop the previous year, and were equivalent to 10% of GDP — a significant proportion of national revenue. Foreign-currency inflows from tourism (about 1.9 million visitors – 5.6% more than in 2009) rose by 6.2% to reach US\$ 1.378 billion owing to the better promotion of the sector and the improvement in the global economy. The current account deficit was equivalent to 2% of GDP, compared with 0% in 2009.

Foreign direct investment (FDI) in the energy, communications and services sectors went up by 14.5%, equalling 1.7% of GDP. The balance of the financial and capital account was positive. Net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments showed a surplus of US\$ 676.9 million, or about 1.6% of GDP.

A moderate increase in the imports growth rate is projected for 2011 owing to the increase in food and commodity prices (especially petroleum products). As a result, the current account deficit will be close to 3.2% of GDP. Remittances are expected to grow by 5% to about US\$ 4.3 billion. FDI is expected to reach US\$ 770 million (equivalent to 1.7% of GDP).

Honduras

1. General trends

The Honduran economy showed signs of recovery in 2010, posting growth of 2.8% compared with a 2.1% contraction in 2009. At 6.5%, inflation was within the target range (between 5% and 7%), thanks to a rallying economy and higher prices for petroleum and staple foods, especially beans and wheat.

In September 2010 Honduras signed an agreement with the International Monetary Fund (IMF) that will expand access to international financial markets and help build a better business climate in recognition of the country's efforts to achieve fiscal consolidation and stabilize the economy.

In May 2011, IMF carried out its first review of the agreement and concluded that Honduras was meeting its targets. ECLAC forecasts that the economy will grow by 3% in 2011 and the central bank has set an inflation target of between 7% and 9%, projecting an end-of-year current account deficit of around 7%.

2. Economic policy

(a) Fiscal policy

At year-end 2010 the central government deficit was 13.970 billion lempiras, equivalent to 4.8% of GDP (versus 6.2% in 2009). This improvement may be attributed to a more efficient tax system and implementation of legislation to enhance revenues, social equity and public expenditure. In particular, tax collection was reformed through the creation of a special unit to focus resources and ensure collection of taxes from the country's largest taxpayers. The government will request technical support from IMF and ECLAC to continue strengthening this unit, which will handle approximately 80% of all tax revenue.

Following implementation of the new act, tax revenues rose by 10.6%, resulting in a tax burden of 14.8% (slightly

below the target set in the IMF programme, but higher than the 2009 figure of 14.4%). Income from grants was 18.8% lower than in 2009, at 4.078 billion lempiras (1.7% of GDP).

Total expenditure showed an increase at 64.461 billion lempiras (22.2% of GDP), giving a central government deficit of 4.8% of GDP in late 2010. After surging by 11.7% in 2009, current expenditure grew at the more moderate pace of 4.5% in 2010, but continued to account for more than 83% of total expenditure.

The non-financial public sector deficit saw a significant improvement in 2010, at 7.829 billion lempiras (2.7% of GDP), versus 12.494 billion lempiras in 2009 (4.6% of GDP). This was primarily due to higher central government revenues and efforts to contain spending by State-owned

enterprises. Lower subsidies boosted net revenues from the national electric power company's sales. Current spending rose by 5.4% to 79.525 billion lempiras (27.3% of GDP), owing to higher salaries and interest payments on domestic debt, which stood at 37.420 billion lempiras (12.9% of GDP) by the end of the year.

(b) Monetary policy

The goal of central bank policy is to ensure exchange-rate and price stability. During 2010 the bank therefore stepped up its open market operations with a view to reducing the money supply, fostering price stability and boosting net international reserves.

As a result, year-on-year inflation to December 2010 stood at 6.5% (within the target range of 5%-7%), while the average over the year was 4.7%. Net international reserves swelled by US\$ 592 million at year-end 2010, and the nominal exchange rate accordingly remained at 18.895 lempiras to the dollar, its level since 2005. To encourage exchange-rate stability, the central bank continued to intervene in the market through the electronic foreign currency trading system.

The monetary policy rate remained the same as in August 2009 (4.5%). However, to December 2010 the seven-day open market operations interest rate (solely for operations with banks in the system) edged down 1.24 percentage points on December 2009 (4.5%), in connection with rising demand for central bank bonds among banks in the system. Private sector lending remained depressed, with growth of 3.5% to December 2010 (versus 2.9% and 11.7% in 2009 and 2008, respectively). This reflects the fragility of the economic recovery, the banks' preference for public bonds and a lending rate that is still high in real terms (14.3%). This last point is borne out by reports that large companies have looked to overseas banks for financing, seeking a lower interest rate and taking advantage of an exchange rate that is trending towards real appreciation.

The existing reserve requirements for local and foreign currency of 6% and 12%, respectively, were maintained. Similarly, the bank continued to require a mandatory investment of 12% in local currency and 10% in foreign currency.

Honduras moved closer towards incorporation into the interconnected payments system for Central America and the Dominican Republic, whose aim is to facilitate payments for trade in goods and services between member

States by providing better access to secure and cost-effective cross-border payments. This was an important aspect of the 2010 financial openness programme.

Total assets in the banking system amounted to 236.665 billion lempiras in December 2010 (87.6% of GDP), demonstrating reasonable levels of leverage with a total of 17 banks whose ratio of capital to risk-weighted assets is, on average, 11.56%. In terms of asset concentration, the six largest banks own 75% of the assets. The quality of the assets in the system also improved, since the delinquency rate as a percentage of the total portfolio dropped from 4.7% in December 2009 to 3.7% in December 2010, thanks to the economic upturn and the banks' portfolio recovery efforts. Loan loss provisions with regard to non-performing loans rose from 86.2% in December 2009 to 118.9% in December 2010.

Bank loans were primarily used for the construction of storage facilities for industrial use and real estate (34%), consumption (16.5%), manufacturing (13.6%) and commerce (12%). The share of loans granted in dollars remained unchanged at around 30%.

The most important advances in the process of strengthening the financial system were (i) approval of the standards for boosting financial transparency, culture and customer service; (ii) implementation of the new regulations on authorizing private credit bureaux (iii) approval of the new regulations on setting up and running stock exchanges; (iv) regulations for securities firms and firms brokering publicly offered securities; (v) capital adequacy standards for banks, savings and loan associations and finance companies; and (vi) new liquidity risk standards.

Thanks to the financial stability measures implemented by the government, no changes were made to the country's investment rating. Standard & Poor's B rating and Moody's B2 rating were maintained, both with a stable outlook.

(c) Trade policy

According to the World Trade Organization (WTO), Honduras made significant progress in 2010 in reducing its non-tariff barriers, in particular by simplifying the technical regulations and procedures relating to sanitary and phytosanitary measures. It also modernized the government procurement system, making it easier for external bidders to participate.

3. The main variables

(a) Economic activity

As political life returned to normal, domestic consumption rose and external demand recovered. Accordingly, in 2010 the economy rallied and posted GDP growth of 2.8%. Exports expanded in real terms by 6%, accounting for 37.3% of GDP, while imports rose by 10.2%, in contrast to a contraction of 27.7% in 2009. Domestic demand was also up, fuelled by a 2.3% rise in consumption that was driven in turn by a 2.4% increase in private consumption (associated with higher family remittances and the conditional transfers programme) and a 2.1% increase in government consumption. Having plunged 45.7% in 2009, gross capital formation grew by 18.8% in 2010. A major contributory factor was the recovery of public investment as multilateral organizations reopened credit lines.

Increased production was the result of growth in most production sectors. The manufacturing sector expanded by 4.0% for example (versus a fall of 8% in 2009); and commerce grew by 3.2% (as against a drop of 10% in 2009), mainly because of import growth and the recovery of family remittances, which amounted to US\$ 2.594 billion (up 5.1% on 2009). There was also an upswing in communications, although this was more restrained than during the previous period (8.6% as against 15.7% in 2009), aided in particular by a marked increase in foreign investment in mobile telephony, cable television and Internet services. The transport sector was up 2.4% (following a decrease of 4.2% in 2009). The sector comprising agriculture, forestry, fishing and hunting grew by 1.8%, which contrasted with a drop of 1.4% in 2009. The construction industry was still depressed, but to a lesser extent than the previous year, dropping by 6.7% as opposed to 10.8% in 2009. The contraction was less severe thanks to an increase in industrial construction (storage facilities), which practically doubled in 2010, given the ongoing downturn in house-building.

b) Prices, wages and employment

As previously mentioned, at the end of 2010 year-on-year inflation stood at 6.5%, largely due to higher prices for food and non-alcoholic beverages. This sector was responsible for 42.2% of the general increase in prices. The price rises stemmed from the upward trend

of international prices for certain foods, especially beans and wheat, and from weather-related domestic supply problems. Housing, water, electricity, gas and other fuels (which contributed 28.2% to the general price index) were also up (9.1%), owing to higher international prices for oil and oil products. Higher prices were also seen in education (7.1%), transport (5.7%), and alcoholic beverages and tobacco (5.3%). The only sector in which prices went down was communications (12.8%), thanks to cheaper international phone calls.

The government approved a minimum wage increase of between 3% and 7% for companies with more than 20 workers, with effect from 1 September 2010. The minimum wage for microenterprises and small businesses with between 1 and 20 workers remains at 5,500 lempiras in urban areas and 4,055 lempiras in rural areas.

A survey conducted in May 2010 revealed that, at that time, 42.1% of the total population (8 million people) were economically active, while the open unemployment rate was 3.9%. Of those who were employed, 54.1% were based in a rural area and 45.9% in an urban area.

The capacity of the labour market to absorb the workforce, measured by the average amount of time spent seeking work, was 2.7 months in urban areas and 2.9 months in rural areas. This contrasts with the figures for 2009, which were 2.9 months and 3.1 months, respectively.

(c) The external sector

At year-end 2010, exports stood at US\$ 5.742 billion (19% up on year-end 2009), thanks to the recovery of external demand and higher prices for coffee, sugar and other traditional export products.

In the case of coffee (which represents 27% of total exports) the average price rose from US\$ 118.70 to US\$ 154.40 per 46 kg bag. Sales also rose for other products, such as bananas, African palm oil, shrimp, gold and zinc.

Exports of processed products were up, especially knitwear, clothing, and vehicle instrument panels and wire harnesses. The United States continued to be the main destination for processed products from Honduras (84.5%).

Imports also grew —by 17.1%, amounting to US\$ 8.549 billion, as against a drop of 30.2% in 2009. This stems from higher fuel and food prices, among

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates									
Gross domestic product	3.8	4.5	6.2	6.1	6.6	6.2	4.2	-2.1	2.8
Per capita gross domestic product	1.7	2.5	4.1	3.9	4.4	4.1	2.2	-4.1	0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.5	2.3	7.2	-2.3	7.6	5.5	1.9	-1.4	1.8
Mining	-5.8	8.5	-5.6	-0.6	-3.5	-13.0	-9.3	-1.5	-2.4
Manufacturing	7.8	6.4	4.0	7.0	4.5	5.0	3.4	-8.0	4.0
Electricity, gas and water	-13.6	-20.6	6.2	52.4	22.6	21.8	4.3	-3.0	2.9
Construction	-11.5	3.8	1.2	-2.3	9.4	6.6	7.1	-10.8	-6.7
Wholesale and retail commerce, restaurants and hotels	3.3	2.1	4.2	5.4	5.5	3.8	3.1	-8.4	3.0
Transport, storage and communications	2.4	11.5	13.5	16.6	11.6	12.7	12.3	8.8	6.7
Financial institutions, insurance, real estate and business services	9.7	8.6	12.4	12.3	15.1	15.4	8.2	0.9	1.7
Community, social and personal services	6.9	1.3	6.2	5.3	6.8	...	...	...	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.0	4.3	5.0	6.8	7.9	7.1	3.2	-1.7	2.3
Government consumption	3.1	3.7	5.4	10.1	3.9	12.8	4.3	4.5	2.1
Private consumption	4.2	4.4	5.0	6.1	8.7	6.1	3.0	-2.9	2.4
Gross capital formation	-4.6	4.9	21.9	-1.2	7.2	24.7	8.9	-45.7	18.8
Exports (goods and services)	10.0	8.7	13.2	5.3	1.6	2.5	0.9	-12.1	6.0
Imports (goods and services)	5.9	7.9	16.2	3.6	4.1	10.9	2.4	-27.7	10.2
Percentages of GDP									
Investment and saving^c									
Gross capital formation	24.3	25.3	29.7	27.6	28.3	33.7	36.1	19.8	23.0
National saving	20.7	18.6	22.0	24.6	24.6	24.6	20.7	16.2	16.8
External saving	3.6	6.7	7.6	3.0	3.7	9.0	15.3	3.6	6.2
Millions of dollars									
Balance of payments									
Current account balance	-282	-553	-678	-290	-404	-1 116	-2 128	-516	-955
Goods balance	-637	-1 020	-1 293	-1 497	-2 027	-3 104	-4 255	-2 475	-2 808
Exports, f.o.b.	3 745	3 754	4 534	5 048	5 277	5 784	6 199	4 825	5 742
Imports, f.o.b.	4 382	4 774	5 827	6 545	7 303	8 888	10 453	7 299	8 550
Services trade balance	-190	-162	-204	-229	-291	-288	-326	-150	-310
Income balance	-301	-362	-446	-460	-537	-395	-521	-530	-598
Net current transfers	846	991	1 265	1 895	2 450	2 671	2 973	2 639	2 760
Capital and financial balance ^d	272	358	1 040	477	687	930	1 971	91	1 523
Net foreign direct investment	269	391	553	599	669	926	1 007	523	799
Other capital movements	3	-32	487	-122	19	4	964	-431	725
Overall balance	-10	-194	362	187	283	-186	-157	-424	569
Variation in reserve assets ^e	-106	97	-510	-346	-282	109	78	354	-592
Other financing	115	98	149	159	-1	78	79	71	24
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	96.9	98.5	100.9	100.6	98.3	98.0	95.1	87.8	86.8
Terms of trade for goods (index: 2005=100)	96.9	98.5	100.9	100.6	98.3	98.0	95.1	87.8	86.8
Net resource transfer (millions of dollars)	86	94	743	177	149	612	1530	-368	949
Gross external debt (millions of dollars)	5 025	5 343	6 023	5 135	3 935	3 190	3 464	3 345	3 773
Average annual rates									
Employment									
Labour force participation rate ^g	51.7	50.0	50.6	50.9	50.7	50.7	51.0	53.1	53.6
Open unemployment rate ^h	6.1	7.6	8.0	6.5	4.9	4.0	4.1	4.9	6.4
Visible underemployment rate ⁱ	4.7	5.9	6.5	6.9	5.4	4.3	3.5	4.4	6.7
Annual percentages									
Prices									
Variation in consumer prices (December-December)	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0	6.5
Variation in nominal exchange rate (annual average)	6.3	5.5	5.1	3.4	0.4	0.0	0.0	-0.0	0.0
Variation in real minimum wage	2.1	8.6	0.8	5.8	5.1	2.8	0.2	70.4	-4.5
Nominal deposit rate ^j	13.7	11.5	11.1	10.9	9.3	7.8	9.5	10.8	9.8
Nominal lending rate ^k	22.7	20.8	19.9	18.8	17.4	16.6	17.9	19.4	18.9

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue ^l	16.4	16.5	17.2	17.6	18.1	19.1	19.8	17.5	17.4
Current revenue	15.3	15.6	16.4	16.4	16.6	17.6	17.8	15.7	16.0
Tax revenue	13.3	13.7	14.5	14.5	15.2	16.4	16.1	14.6	14.8
Total expenditure ^m	20.3	21.3	19.8	19.8	19.2	22.2	22.4	23.8	22.2
Current expenditure	15.2	16.2	14.8	15.3	16.0	18.1	17.5	19.2	18.4
Interest ⁿ	1.0	1.0	1.1	1.1	1.0	0.7	0.6	0.8	1.0
Capital expenditure	4.2	4.6	5.0	4.5	3.3	4.1	4.8	5.3	3.8
Primary balance	-2.9	-3.7	-1.5	-1.1	-0.1	-2.4	-1.9	-5.5	-3.8
Overall balance	-3.9	-4.7	-2.6	-2.2	-1.1	-3.1	-2.5	-6.2	-4.8
Central government debt	55.5	60.7	59.6	44.7	28.7	17.4	20.1	24.5	30.0
Domestic	3.9	6.3	4.6	3.8	3.3	2.8	4.9	8.6	12.9
External	51.6	54.4	55.0	40.9	25.4	14.6	15.2	16.0	17.1
Money and credit ^o									
Domestic credit ^p	23.7	27.0	24.1	23.8	27.3	34.1	33.2	34.4	32.3
To the public sector	-2.4	0.3	-1.2	-1.1	-2.7	-2.1	-1.1	1.6	2.1
To the private sector	36.0	37.6	38.4	39.4	45.1	52.8	52.4	53.1	50.5
Others	-9.9	-10.9	-13.2	-14.6	-15.2	-16.6	-18.2	-20.3	-20.4
Liquidity (M3)	46.6	47.3	49.3	50.9	55.1	56.8	53.0	52.2	52.8
Currency outside banks and local-currency deposits (M2)	34.1	34.6	35.5	37.4	41.3	42.8	39.0	38.2	39.8
Foreign-currency deposits	12.5	12.7	13.8	13.5	13.8	14.0	14.0	14.1	13.0

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2000 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total.

ⁱ Percentage of the working population; urban total.

^j Weighted average rate on time deposits.

^k Weighted average of the system lending rates.

^l Includes grants and recovery of interest.

^m Includes net lending.

ⁿ Central bank data include accrued interest on the public debt.

^o The monetary figures are end-of-year stocks.

^p Includes securities issued for monetary regulation and short- and long-term external loans.

other factors. Fuels and lubricants represent 20.8% of total imports and grew by 32.6% (versus a slump of 43% in 2009). Goods for processing also performed well, increasing by 18.1% over 2009, thanks to rebounding external demand, largely from the United States.

Family remittances recovered somewhat, climbing 5.1% and amounting to US\$ 2.594 billion. This equated to 26.9% of the total inflows to the current account and to 16.8% of GDP.

Foreign direct investment rallied strongly, with inflows of US\$ 798 million. New investment was up 52.9%, especially in the communications and maquila sectors. This figure may include some repatriated capital.

The return of political stability and a sharp contraction in the central bank's net domestic assets contributed to

an adjustment of the money supply on the external side and produced a positive balance of US\$ 1.247 billion in the financial account. This is attributable to a substantial increase in foreign direct investment (from US\$ 532 million in 2009 to US\$ 798 million in 2010), to a rise of US\$ 380 million in government external liabilities in 2010 (versus US\$ 32 million in 2009) and to an expansion of US\$ 17 million in bank external liabilities, versus a contraction of US\$ 299 million in 2009.

In the light of the above, international reserves swelled by approximately US\$ 600 million (3.5% of GDP), amounting to US\$ 2.719 billion at year-end 2010 (equivalent to 3.8 months of goods and services imports). Nevertheless, the current account deficit as a percentage of GDP widened from 3.7% in 2009 to 6.2% in 2010.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-2.7	-6.3	-2.8	-1.6	3.7	4.1	1.8	5.3	4.4	...
Goods exports, f.o.b. (millions of dollars) ^d	635	648	548	473	768	751	585	645	1 136	401
Goods imports, c.i.f. (millions of dollars)	1 524	1 553	1 457	1 536	1 737	1 814	1 717	1 865	2 094	682
Gross international reserves (millions of dollars)	2 784	2 658	2 261	2 174	2 250	2 264	2 126	2 775	3 046	...
Real effective exchange rate (index: 2000=100) ^e	86.8	87.8	88.0	88.7	87.8	86.9	86.3	86.1	86.5	87.0
Consumer prices (12-month percentage variation)	8.8	5.4	3.1	3.0	4.0	4.2	5.0	6.5	6.6	7.7
Average nominal exchange rate (lempiras per dollar)	18.89	18.89	18.89	18.90	18.90	18.90	18.90	18.90	18.90	18.89
Nominal interest rates (annualized percentages)										
Deposit rate ^f	12.1	10.7	10.0	10.6	10.7	10.3	9.5	8.8	8.7	...
Lending rate ^g	19.8	19.8	19.2	19.0	19.0	18.9	18.7	18.9	19.0	...
Interbank rate	7.2	5.6	6.4	5.9	5.7	5.3	5.0	5.1	5.2	5.4 ^h
Domestic credit (variation from same quarter of preceding year)	4.4	-0.1	-3.2	5.8	8.8	7.2	8.4	1.9	6.4	10.0 ^h
Non-performing loans as a percentage of total credit	2.2	2.1	1.8	1.6	1.8	1.8	1.9	1.2	1.4	1.5

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2000 prices.

^d Does not include maquila activities.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Weighted average rate on time deposits.

^g Weighted average of the system lending rates.

^h Data to April.

Mexico

1. General trends

The Mexican economy experienced real growth of 5.4% in 2010, partially offsetting the previous year's sharp contraction of 6.1%; and per capita GDP rose by 4.4% (compared with a drop of 7.1% in 2009). This improvement was driven by the upturn in external demand (25.6% in real terms) and, in part, by consumption (4.7%), while gross capital formation expanded slightly (2.4%). Imports jumped by 23.5% but were still outpaced by exports. This contributed to an even smaller trade deficit as a percentage of GDP—at 1.3%—than the 1.5% recorded in 2009.

The public sector fiscal deficit, including investment by Petróleos Mexicanos (PEMEX), expanded to 2.8% in 2010 (compared with 2.3% in 2009), mainly because, unlike the previous year, there were no non-recurring revenues from the Oil Revenue Stabilization Fund, no yields on oil hedging contracts and no central bank operating surplus.

In December 2010, year-on-year inflation stood at 4.4% (it was 3.6% in 2009), which was 0.4 percentage points higher than the central bank's target. Urban unemployment dropped slightly, from 6.7% in 2009 to 6.4% in 2010. Large-scale inflows of investment capital coupled with the government's monetary policy stance led to appreciation of the exchange rate.

According to ECLAC estimates, real GDP will grow by 4% in 2011 as exports are expected to be less buoyant and domestic demand should increase only slightly. For 2011 the central bank has maintained its annual inflation

target of 3%, with a range of 1 percentage point on either side. Achieving this target seems feasible as long as the international price increases for fuel and commodities continue to decelerate, sufficient idle capacity remains available, wages sustain their moderate rise and the real exchange rate appreciates further. A fiscal deficit of just over 2% of GDP (including investment by PEMEX) is forecast, although higher international oil prices will provide the government with additional resources.

Job creation is expected to continue in 2011; however, the creation of fewer than 1 million formal jobs will not be enough to keep pace with the annual growth of the economically active population. Progress must urgently be made on reform, particularly fiscal reform, in order to remove obstacles to growth, increase investment and boost productivity. At the end of the year the central bank may raise the benchmark interest rate, which has remained unchanged at 4.5% since July 2009.

2. Economic policy

The government is continuing to implement fiscal policy through the Budget and Fiscal Responsibility Act. Current revenues and total spending picked up on the back of the economic recovery; the central

bank maintained its monetary policy stance throughout the year; and international reserves were strengthened by the exchange-rate appreciation triggered by capital inflows.

(a) Fiscal policy

In 2010 the public sector deficit (2.8%) represented a negative central government balance equivalent to 2.7% of GDP and a deficit of 0.1% of GDP corresponding to government agencies and businesses, such as PEMEX, the Federal Electricity Commission, the Mexican Social Security Institute and the Social Security and Social Service Institute for Government Employees. Total public sector revenue came to 22.5% of GDP, while total spending stood at the equivalent of 25.4% of GDP.

In 2010, total government revenue shrank by 0.2% in real terms as a result of a 9.6% drop in non-tax revenues, which was only partially offset by the 7.1% increase in the tax take. The year did not see a repeat of the non-recurring revenue received in 2009 in the form of a central bank operating surplus, replenishment of the Oil Revenue Stabilization Fund or yields on oil hedging contracts. The tax burden (excluding the petroleum sector) was equivalent to 10% of GDP—one of the lowest in the Organization for Economic Cooperation and Development (OECD) and in Latin America. The hike in the value added tax from 15% to 16% (applicable from 2010) coupled with the economic recovery yielded an 18.8% real increase in revenue from that source. The top income tax bracket rate was also raised—from 28% to 30%—and produced a 12.6% increase in revenues under this heading. Duties collected on imports fell by 22.1% in real terms, mainly because of the appreciation of the peso. Total oil receipts rose by 6.9% in real terms as higher prices offset lower volumes and exchange-rate appreciation.

Total government expenditure rose by 3.6% in real terms in 2010, following on a drop of 4.3% the previous year. As part of programmed spending, current expenditure rose by 3.3% and capital expenditure by 2.8%. The largest increases in programmed spending were seen in the following areas: a 50.7% increase in real terms for the Ministry of the Interior to establish the executive office for the national public security system; an additional 12.3% for the Ministry of Defence to strengthen surveillance and defence programmes within the country's borders; and an extra 21.2% for wages and other financial provisions of various funds, including the Natural Disasters Fund and the Investment Fund for States. Budgeted physical investment expanded by 6.4% in real terms.

Domestic borrowing was the main source of financing for the public sector deficit and accounted for three quarters of all new debt. The public sector deficit includes the net debt of the government, State agencies and enterprises, and development banks. At year-end 2010, net public sector debt was equivalent to 30.9% of GDP (one percentage point higher than at the end of 2009); that was lower than

the average for the OECD countries but higher than the average for Latin America.

Of this total, domestic debt represented 21.4% of GDP and net external debt 9.5% of GDP (0.9 percentage points and 0.1 percentage points higher than at the end of 2009, respectively).

The government carried out two major bond sales on international markets, which should enable it to meet its financing needs for the next two years. In early October it placed US\$ 1 billion in 100-year bonds with a redemption yield of 6.1%, making Mexico the first country in Latin America to issue debt of this kind with such a long maturity. A few days later it sold about US\$ 1.8 billion of yen-denominated paper, known as samurai bonds, maturing in 2020 with a redemption yield of 1.51%.

Also in the domestic debt area, the government launched the Cetesdirecto programme in November 2010. This programme allows individuals (who save small or medium-size amounts) to acquire directly government debt instruments that were previously out of their reach. In October the Mexican government's fixed-rate bonds were formally included in the World Government Bond Index, which is expected to attract a broader range of potential customers and enhance the debt.

The 2011 revenue act provides for minor changes, most notably an increase in special taxes, leaving for later a comprehensive fiscal reform to make fiscal revenues less heavily dependent on oil. During the first quarter, public sector budgetary revenue grew by 1.6% in real terms and total expenditure was up by 2.7%.

(b) Monetary and exchange-rate policy

The central bank maintained its benchmark interest rate—the one-day interbank rate—at 4.5% throughout 2010. This contrasts with the rate reduction policy followed in 2009, which brought rates down by 375 basis points between January and July. This monetary stance led to sluggish domestic prices because of its effect on the exchange rate. Long-term interest rates crept down in 2010, with the yield curve being flattened by lower inflationary expectations, an improved perception of country risk and demand for government paper focused on long-term issues. The real deposit rate, taking the 28-day CETES treasury bill as a reference, was negative at the end of 2010 (-1.62% annualized). As for lending rates, the weighted average effective rate on credit cards in annualized real terms rose from 24.2% in December 2009 to 25.3% in December 2010.

The exchange rate was highly volatile throughout 2010, but appreciated in the last four months of the year on the strength of massive capital inflows attracted by stronger performance of the Mexican economy, the aforementioned

inclusion of some public securities in the Citibank World Government Bond Index and the positive interest-rate spread relative to levels in developed countries.

Foreign portfolio investment (liabilities) totalled US\$ 37.102 billion in 2010, much higher than the US\$ 15.238 billion received the previous year. The interbank exchange rate stood at 12.91 pesos to the dollar at the start of 2010 but fell to 12.37 pesos to the dollar by year-end, representing an appreciation of 4.2%. The bilateral real exchange rate with the United States dollar appreciated by 8.1%.

International reserves grew significantly during 2010, in line with the explicit policy of reserve accumulation announced by the Foreign Exchange Commission (which is made up of the Bank of Mexico and the Ministry of Finance). At the end of December, reserves totalled US\$ 113.6 billion (equivalent to four and a half months of imports), compared with US\$ 91 billion at the beginning of the year. With a view to strengthening the economy against possible external shocks, a flexible line of credit for US\$ 48 billion was renewed with the International Monetary Fund in March 2010 and subsequently increased to US\$ 72 billion in January 2011.

The monetary base expanded by 9.7% in nominal terms, driven by the growth in economic activity. The monetary aggregate M3 grew by 12.9% owing to the larger volume of government bonds held abroad. In 2010 bank lending rose by 8.7% in nominal terms (4.3% in 2009), and was focused especially on financing for agriculture and industry.

The Mexican Stock Exchange Index of Prices and Quotations (IPYC) saw substantial gains, particularly towards the end of the year, thanks to enhanced performance

by the national economy, the prospect of low interest rates in the medium term and short-term inflows. At the end of December, the index stood at 38,551 points (compared with 32,758 points at the start of the year), which represented a rise of 17.7%.

In the early months of 2011, the exchange rate continued to appreciate, reaching 11.57 pesos to the dollar at the end of May. The build-up of reserves has continued, with a total of US\$ 127.98 billion accumulated at end May; and the central bank has expressed its confidence in and support for the free-floating exchange-rate system. There could be a reversal in capital flows in the second half of the year if major interest rate hikes are implemented in the United States or other developed countries or if investor appetite for risk assets wanes.

(c) Trade policy

Continuing to position itself in the global economy, in November 2010 Mexico launched formal negotiations with Brazil on a strategic economic integration agreement. This agreement between the two largest economies of Latin America is expected to cover not just tariff reductions but also services, investment, government procurement and intellectual property, among other areas.

As well in 2010, Mexico moved to review and deepen its trade relations with several partners, including Chile, Colombia and Guatemala; and in early 2011, it signed a comprehensive trade agreement with Peru. In April 2011, Chile, Colombia, Mexico and Peru signed the Lima Declaration creating the Pacific Alliance; this pact is intended to pursue deep integration and should lead to the free movement of capital, goods and people.

3. The main variables

(a) Economic activity

External demand grew by 25.6% in real terms in 2010, thus regaining its pre-crisis position as the main driver of the economy. Domestic demand rose by 5.1%, spurred by higher consumption (4.7%) and restocking, while gross fixed capital formation grew by only 2.4%. Consumption was boosted by a higher wage bill, following the expansion of wage employment and the slight improvement in credit; however, it has not recovered its pre-crisis levels.

In the first two quarters of 2010, economic activity expanded robustly, with average annualized growth of 6% continuing the recovery that had begun in late 2009. Growth slowed over the rest of the year, however, as a result of slacker external demand, falling to 4.8% for the second half of the year.

The productive sectors improved across the board in 2010, reversing the slump experienced by most of those sectors in 2009. Primary activities grew by 3.3% (after contracting by 2.2% in 2009), led by agriculture, which

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	0.8	1.4	4.1	3.3	5.1	3.4	1.5	-6.1	5.4
Per capita gross domestic product	-0.5	0.2	2.9	2.1	3.9	2.2	0.5	-7.1	4.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.9	3.8	2.9	-0.7	3.8	5.2	2.0	-3.4	3.3
Mining and quarrying	0.4	3.7	1.3	-0.3	1.4	-0.2	-1.7	-2.9	2.2
Manufacturing	-0.7	-1.3	3.9	3.5	5.8	1.9	-0.6	-9.8	9.9
Electricity, gas and water	1.0	1.5	4.0	2.0	12.2	3.7	-2.3	2.0	2.4
Construction	2.1	3.3	5.3	3.9	7.8	4.4	3.1	-7.3	0.0
Wholesale and retail commerce, restaurants and hotels	0.0	1.5	6.4	4.0	5.7	4.7	0.9	-13.1	11.9
Transport, storage and communications	1.8	5.0	7.5	5.4	7.6	6.0	2.5	-3.8	6.1
Financial institutions, insurance, real estate and business services	4.2	3.9	4.9	5.6	6.1	4.9	4.9	-3.3	1.2
Community, social and personal services	0.9	-0.6	0.4	2.0	2.2	2.4	0.5	1.2	2.0
Gross domestic product, by type of expenditure									
Consumption	1.4	2.1	4.4	4.5	5.1	3.9	1.7	-5.7	4.7
General government	-0.3	0.8	-2.8	2.5	1.9	3.1	1.1	3.5	2.8
Private	1.6	2.2	5.6	4.8	5.7	4.0	1.8	-7.1	5.0
Gross fixed capital formation	-0.6	0.4	8.0	7.5	9.9	6.9	5.9	-11.3	2.4
Exports (goods and services)	1.4	2.7	11.5	6.8	10.9	5.7	0.5	-13.7	25.6
Imports (goods and services)	1.5	0.7	10.7	8.5	12.6	7.1	2.8	-18.6	23.5
Percentages of GDP									
Investment and saving^c									
Gross fixed capital formation	23.0	22.9	24.7	24.1	25.9	26.3	27.0	23.6	25.1
National saving	21.0	21.9	24.1	23.5	25.5	25.5	25.5	22.9	24.6
External saving	2.0	1.0	0.7	0.6	0.5	0.9	1.5	0.7	0.5
Millions of dollars									
Balance of payments									
Current account balance	-14 155	-7 161	-5 237	-5 080	-4 487	-8 851	-16 339	-6 352	-5 626
Goods balance	-7 635	-5 792	-8 843	-7 710	-6 312	-10 311	-17 615	-4 926	-2 960
Exports, f.o.b.	161 278	164 986	188 294	214 633	250 319	272 293	291 886	229 975	298 860
Imports, f.o.b.	168 913	170 778	197 137	222 343	256 631	282 604	309 501	234 901	301 820
Services trade balance	-4 966	-5 596	-5 792	-5 250	-6 433	-6 337	-7 141	-8 580	-10 208
Income balance	-11 823	-11 374	-9 365	-14 257	-17 691	-18 598	-17 046	-14 377	-13 963
Net current transfers	10 268	15 601	18 763	22 137	25 949	26 396	25 462	21 531	21 504
Capital and financial balance ^d	20 001	15 502	10 404	14 984	6 694	19 707	24 420	10 878	26 242
Net foreign direct investment	22 892	14 989	20 368	17 648	14 294	21 478	25 138	8 315	4 335
Other capital movements	-2 891	513	-9 965	-2 664	-7 600	-1 771	-719	2 563	21 907
Overall balance	5 846	8 341	5 166	9 904	2 206	10 856	8 080	4 527	20 615
Variation in reserve assets ^e	-5 846	-8 341	-5 166	-9 904	-2 206	-10 856	-8 080	-4 527	-20 615
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	94.1	104.5	108.3	104.5	104.6	105.8	108.8	123.9	114.2
Terms of trade for goods (index: 2005=100)	94.5	95.4	98.1	100.0	100.5	101.4	102.2	99.0	101.8
Net resource transfer (millions of dollars)	8 179	4 128	1 039	727	-10 998	1 109	7 374	-3 499	12 279
Total gross external debt (millions of dollars)	134 980	132 524	130 925	128 248	116 668	124 433	125 233	163 345	189 175
Average annual rates									
Employment									
Labour force participation rate ^g	56.9	57.1	57.7	57.9	58.8	58.8	58.7	58.6	58.5
Open unemployment rate ^h	3.9	4.6	5.3	4.7	4.6	4.8	4.9	6.7	6.4
Visible underemployment rate ⁱ	...	...	...	7.5	6.9	7.2	6.9	9.3	8.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6	4.4
Variation in the national producer price index (December-December)	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.1	4.7
Variation in nominal exchange rate (annual average)	3.5	11.7	4.6	-3.5	0.1	0.2	2.1	21.1	-6.5
Variation in average real wage	2.3	1.9	1.3	1.7	1.4	1.4	0.2	-1.0	-1.1
Nominal deposit rate ^j	6.2	5.1	5.4	7.6	6.1	6.0	6.7	5.1	4.2
Nominal lending rate ^k	8.2	6.9	7.2	9.9	7.5	7.6	8.7	7.1	5.3

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue	20.2	21.2	20.7	21.1	21.9	22.0	23.5	23.7	22.6
Tax revenue	10.6	10.1	9.0	8.8	8.6	8.9	8.2	9.5	9.6
Total expenditure	21.3	21.8	20.9	21.2	21.8	22.0	23.6	26.0	25.5
Current expenditure	18.4	19.2	17.9	18.3	18.7	18.4	19.2	20.9	20.6
Interest	2.0	2.1	1.9	2.0	2.0	1.9	1.6	1.9	1.9
Capital expenditure	2.9	2.6	3.0	3.0	3.1	3.6	4.4	5.1	4.9
Primary balance ^l	0.9	1.6	1.7	1.9	2.1	1.9	1.6	-0.4	-1.0
Overall balance ^l	-1.1	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-2.3	-2.8
Public-sector debt	25.7	26.1	24.2	22.9	22.6	22.7	26.9	34.9	34.0
Domestic ^m	13.8	14.4	13.8	14.5	16.8	17.3	20.5	24.3	23.6
External	11.8	11.8	10.4	8.4	5.8	5.3	6.3	10.6	10.4
Money and creditⁿ									
Domestic credit	39.1	36.9	33.3	32.1	33.0	33.6	31.9	36.0	35.4
To the public sector	11.4	10.9	10.4	8.7	8.5	8.2	8.1	11.1	10.6
To the private sector	14.3	14.0	13.2	14.4	16.8	18.2	17.2	18.5	18.7
Others	13.3	12.0	9.7	9.0	7.7	7.3	6.6	6.5	6.0
Liquidity (M3)	19.2	19.4	18.9	21.0	20.2	20.8	22.5	24.1	23.7
Currency outside banks and local-currency deposits (M2)	17.7	18.3	17.6	19.6	18.9	19.6	21.2	22.7	22.4
Foreign-currency deposits	1.4	1.1	1.3	1.4	1.3	1.2	1.3	1.5	1.3

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2003 prices; up to 2003, based on figures in local currency at constant 1993 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population, urban areas.

^h Percentage of the economically active population, urban areas.

ⁱ Percentage of the working population, nationwide total.

^j Cost of term deposits in local currency in the multibanking system.

^k Lending rate published by the International Monetary Fund.

^l Does not include non-budgeted expenditure.

^m Federal-government domestic debt.

ⁿ The monetary figures are end-of-year stocks.

was up by 4% thanks to good weather and bumper harvests of maize in grain form, sugar cane, grain sorghum, fodder maize, onions, mangos, avocados, oranges and papayas.

Secondary activities enjoyed an annual increase of 6.0%, compared with a decrease of 7.6% in 2009. Manufacturing improved markedly, growing by 9.9% in 2010 (compared with a drop of 9.8% in 2009) and pushed by higher external and domestic demand. The expansion in motor vehicle (40.5%) and basic metals manufacturing was especially strong. Mexico's automobile industry benefited greatly from the restructuring of United States automotive companies, which relocated their operations to the southern United States and Mexico in a bid to reduce costs. Construction halted the downward path it had been following since the fourth quarter of 2008 and, in 2010, sector output hovered steady at the previous year's level, as lending and demand for housing gradually picked up towards the end of the year.

Tertiary activities saw growth of 5% (after contracting by 5.2% in 2009) on the back of vigorous expansion in

the external sector: trade was up 13.3% and transport 6.4%. Mass media information services experienced an increase of 5.6% thanks to the strong performance put in by the telecommunications sector. Financial services (2.7%), housing (1.7%) and education (3%) performed more modestly.

The economy grew at an annual rate of 4.6% in the first quarter of 2011, driven mainly by trade and manufactures. That rate bespeaks a slowdown in growth and, in fact, the overall indicator of economic activity (IGAE) was up by only 3.6% in March, its lowest increase in 14 months.

(b) Prices, wages and employment

High levels of idle capacity and appreciation of the exchange rate helped to keep inflation low in 2010. Core inflation rose at an average annual rate of 3.89%, while non-core inflation increased by 5.04%. The 4.49% increase in food, beverage and tobacco prices

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-7.4	-9.6	-5.5	-2.0	4.5	7.6	5.1	4.4	4.6	...
Goods exports, f.o.b. (millions of dollars)	49 665	54 012	58 521	67 506	66 597	74 641	75 590	81 645	81 803	59 065
Goods imports, f.o.b. (millions of dollars)	51 957	53 562	61 307	67 559	66 225	74 725	77 841	82 691	79 893	57 743
Gross international reserves (millions of dollars)	85 636	81 476	87 806	99 893	101 606	105 560	113 688	120 587	128 261	131 174
Real effective exchange rate (index: 2000=100) ^d	130.1	121.9	122.7	120.8	115.4	113.6	115.9	112.0	109.1	108.4
Unemployment rate	6.1	6.5	7.6	6.3	6.4	6.5	6.5	6.3	5.9	...
Consumer prices (12-month percentage variation)	6.0	5.7	4.9	3.6	5.0	3.7	3.7	4.4	3.0	3.2
National producer price index (12-month percentage variation)	7.1	3.8	5.3	4.1	3.8	3.2	2.9	4.7	5.4	5.4
Average nominal exchange rate (pesos per dollar)	14.38	13.32	13.27	13.06	12.78	12.58	12.80	12.39	12.06	11.68
Average real wage (variation from same quarter of preceding year)	-0.6	-1.2	-1.1	-1.1	-2.0	-1.3	-0.5	-0.6	0.5	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	6.7	5.2	4.2	4.1	4.2	4.1	4.2	4.2	4.2	4.2
Lending rate ^f	9.9	7.3	5.7	5.5	5.4	5.4	5.3	5.1	5.1	5.1 ^g
Interbank rate	8.0	5.9	4.9	4.9	4.9	4.9	4.9	4.9	4.8	4.9
Sovereign bond spread (basis points) ^h	379	247	201	164	130	179	151	149	135	144
Stock price index (national index to end of period, 31 December 2000=100)	347	431	517	568	589	551	590	682	662	634
Domestic credit (variation from same quarter of preceding year)	18.1	10.0	13.4	10.2	-0.5	3.6	5.7	8.0	9.4	...
Non-performing loans as a percentage of total credit	3.4	3.8	3.4	3.1	2.8	2.7	2.5	2.3	2.3	2.5

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2003 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e Cost of term deposits in local currency in the multibanking system.

^f Lending rate published by International Monetary Fund.

^g Data to April.

^h Measured by JP Morgan's EMBI+ index to end of period.

was a major component in core inflation; non-core inflation was pushed up by the reintroduction of the energy price adjustment policy and increases in local government taxes in such areas as public transport and water supply.

The drop in unemployment was associated with a lower participation rate which fell from 58.7% in 2009 to 57.1% in 2010. Formal employment, measured by the number of workers registered with the Mexican Social Security Institute, grew in 2010 and by the end of the year it had exceeded its pre-crisis level, with a total of 14.7 million workers registered.

Nonetheless, the 746,000 new jobs created were not enough to meet the demand of the 1.2 million individuals

who had joined the labour force. The proportion of people who were underemployed or working in the informal economy thus remained high, at 7.6% and 27.2% of the economically active population, respectively. Manufacturing and trade were the sectors that created the most new formal jobs in 2010.

The real minimum wage (the annual average of the country's set of minimum wages) increased slightly at an annual rate of 0.9%, while the average real wage per person working in manufacturing dropped by 0.8%.

Despite higher international prices for commodities and food, the price index had risen only 3.25% year-on-year in May 2011 thanks to the peso's appreciation and the considerable idle capacity available.

(c) The external sector

The external sector was the main driver of growth in the Mexican economy in 2010. Goods exports rebounded with the upturn in the global economy, in particular the United States economy, and totalled US\$ 298 billion, which was 29.8% more than in 2009 and higher even than in 2008, before the crisis. Oil exports were up by 34.8%, with higher international prices more than offsetting the drop in production volumes; as a result, the share of oil in total exports increased from 13.5% in 2009 to 14% in 2010. Manufactures grew by 29.5% to account for 82.4% of total exports in 2010. Exports in the automotive sector shot up by 55.4%, after contracting by 24.3% in 2009. Considerable increases were also seen in exports from the mining and metallurgy sector (44.1%) and the steel industry (32.4%). Extractive industry exports swelled by 67.4%, boosted by higher international prices.

Exports to the United States enjoyed substantial growth in 2010 and represented 12.6% of all Mexican exports; Mexico thus edged out Canada as the United States' second largest trading partner. The higher price of oil, which makes it more expensive to transport goods from Asian countries, and the relocation of productive activities to take advantage of lower costs are two of the reasons why Mexican exports are increasingly competitive.

Goods imports rose by 28.6% in 2010, driven by the rally in domestic economic activity and exports. Imports of consumer goods were up by 26.2% and intermediate goods by 34.5%, while capital goods imports were down by 1.3%.

The terms of trade improved by 2.8% in 2010, thanks to higher international prices for oil and minerals; this contrasted with the decline posted in 2009.

Exports of services saw modest expansion (3.8%), owing to renewed growth in tourism and in exports of

other services; services thus comprised 4.8% of total exports. Imports of services rose by 9.4%, with a notable increase in the transport sector (12%).

The goods and services trade balance posted a deficit of US\$ 13.168 billion, which was 2.5% lower than in 2009 and equivalent to 1.3% of GDP. Unlike in previous periods of economic recovery, this time the upturn was not accompanied by serious deterioration in the trade balance thanks to the strong growth in goods exports.

Family remittances totalled US\$ 21.271 billion, a mere 0.1% higher than the previous year and far from the peak of US\$ 26.050 billion reached in 2007. The delayed recovery of the United States labour market and tougher immigration policies are two factors that limited remittance flows.

Foreign direct investment (FDI) came to US\$ 17.726 billion, which was higher than the US\$ 15.206 billion received in 2009 but lower than the US\$ 25.864 billion received in 2008. These capital flows were directed principally at manufacturing (60%), trade (14.2%) and financial services (13.8%). Worthy of special mention is the acquisition of the Cuauhtémoc-Moctezuma brewery by the Dutch company Heineken for over US\$ 7 billion.

The strong performance by exports coupled with the upswing in FDI led to a narrowing of the current account deficit, which shrank from the equivalent of 0.7% of GDP in 2009 to 0.5% of GDP in 2010.

Goods exports continued to gain momentum during the first four months of 2011 (20%), outpacing imports (17.7%) despite the appreciation of the exchange rate. As a result, the current account deficit held steady at a moderate level. FDI is expected to grow at an annual rate of between 10% and 15% in 2011, while remittances should rally by about 5%.

Nicaragua

1. General trends

The economy grew by 4.5% in 2010, after shrinking by 1.5% in 2009, indicating that Nicaragua has recovered from the recent international financial crisis. This recovery is attributable to the rebound of exports by almost 32% (13.2% in real terms) and a slight increase in consumption (3.2% in real terms), reflecting the 3.7% growth in household consumption as a result of higher minimum wages, increased family remittances and the transfers to public sector workers using grants from the Bolivarian Republic of Venezuela.

Inflation stood at 9.1%, after closing 2009 at 1.8%, owing to the upswing in economic activity and higher prices for oil, some foods (because of climatic factors) and basic grains.

According to ECLAC estimates, economic growth will slow slightly to about 4% in 2011, depending on

expectations relating to the strength of the economic recovery in the United States, where a slowdown would decrease external demand. For 2011, the Central Bank of Nicaragua expects inflation of between 8.5% and 9.5%.

2. Economic policy

(a) Fiscal policy

The amended Fiscal Equity Act (adopted at the end of 2009) and the upturn in economic activity led to improved fiscal outcomes, with the non-financial public sector deficit narrowing from 1.9% of GDP in 2009 to 0.5% of GDP in 2010 once grants had been included.

Total non-financial public sector revenues rose slightly as a percentage of GDP, from 30.4% to 30.8%, owing to the 0.8% increase in real terms in total central government revenues mainly as a result of higher tax revenues (1.6% in real terms). The higher revenues made it possible to augment the social spending budget. Under the financial prudence policy, the central government deficit (not including grants) was reduced from 5.2% of GDP to 3.1%

of GDP, giving a total of 4.185 million córdobas. Indirect taxes went up from 6.6% of GDP to 7.0% of GDP, while direct taxes remained at almost the same level, shifting slightly from 6.2% of GDP to 6.1% of GDP. The revenue inflows of the Nicaraguan Social Security Institute also rose by 0.7% of GDP, while those of the Municipality of Managua held steady at about 1% of GDP.

Total non-financial public sector spending contracted from 32.3% of GDP in 2009 to 31.4% in 2010, owing to lower central government current spending, especially on wages, which fell from 6.9% of GDP to 6.6% of GDP in 2010. That reduction was offset by the increase in transfers using resources contributed by the Bolivarian Republic of Venezuela (530 córdobas to all public sector workers who earn less than 5,500 córdobas

per month), which were recorded as extrabudgetary private-sector transfers. Transfers established under the constitution and by law (to universities, municipalities and the Supreme Court of Justice), which depend on tax revenues, increased substantially, swelling from 5.189 billion córdobas to 6.087 billion córdobas (17.3% of GDP). Central government capital spending held steady at 5.6% of GDP in 2009 and 2010. Spending by State-owned companies rose on the back of higher operating costs, in particular, wages, while investment spending, especially by the Nicaraguan Water Supply and Sewage Company (ENACAL), shrank.

In order to finance the fiscal deficit, external debt had to be increased by US\$ 215 million, following a US\$ 54 million reduction in domestic debt. As a result, total public debt stood at US\$ 5.140 billion (78.5% of GDP). Of that total, US\$ 3.876 billion was external debt and US\$ 1.264 billion was domestic debt. Central bank liabilities accounted for 28% of domestic liabilities.

(b) Monetary and financial policy

With a view to maintaining the credibility of the exchange-rate regime as an anchor for price stability—nominal slippage of 5% in the exchange rate—a target level of international reserves was set at a minimum of 2.2 times the monetary base. In order to meet this objective, the central bank maintained the reserve requirement at 16.25% (no change in relation to 2009). As demand for credit remains low—although higher than in 2009—actual reserves closed 2010 at 24.1% (30.2% in 2009).

The central bank continued carrying out open market operations, but also sought, as far as possible and without jeopardizing its objectives, to reduce its operating costs. This effort was backed by fiscal policy through the increase of non-financial public sector deposits in the central bank and especially social security deposits (increasing the deposits of more than US\$ 50 million).

As a result of the monetary policy operations, the monetary aggregate M2 grew by 21.9% in 2010, compared with 10.4% in 2009, owing to lower interest rates on central bank bills, which went from an annual rate of 3.8% at the end of 2009 to 4% at the end of 2010.

Adjusted net international reserves¹ rose by US\$ 105.0 million, while the programme with the

International Monetary Fund (IMF) allowed for a reduction of US\$ 20 million. As a result of this increase, gross international reserves totalled US\$ 1.799 billion (2.7 times the monetary base), thus strengthening the credibility of the exchange-rate system.

In line with the growth of the monetary aggregates, the financial system's liabilities grew by 6% in real terms while credit diminished by 5.8% in real terms, which could indicate the banking system's preference for government paper.

Banking indicators showed a slight improvement. While the quality of the portfolio improved somewhat in relation to A-credit (0.2%), which makes up 80% of total credit, all other categories deteriorated, especially those with the highest default levels. The arrears rate for D-credit and E-credit loans went up from 2.8% to 3% and from 1.4% to 2.2%, respectively. With regard to the breakdown of lending, the lion's share went to commercial loans (35.3%) and consumer loans (23%) and to a lesser extent mortgage credit (15.4%) with smaller amounts going to agriculture (11.8%) and industry (11.2%). The level of provisions (over 150%) and the increased equity of institutions—the capital to risk-weighted assets ratio went from 17.2% in 2009 to 18.8% in 2010—allowed the financial system to begin a recovery process, which can be seen in the net returns on equity (adjusted for provisions outstanding) which stood at 19.2% in 2010 compared with 8.1% in 2009. In accordance with the new Central Bank of Nicaragua Organization Act, which was adopted in July 2010, the central bank has also set the objective of financial stability, which is an important step forward for the development of the sector.

(c) Trade policy

In 2010 Nicaragua continued to phase out tariffs in accordance with the provisions of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and signed the Association Agreement between the European Union and Central America. Nicaragua also began negotiations of a peoples' trade agreement within the framework of the Bolivarian Alliance for the Peoples of Our America. The free trade agreement signed with Panama in 2009 entered into force.

¹ Adjusted net international reserves exclude the reserve requirement for foreign-currency deposits and IMF disbursements.

3. The main variables

(a) Economic activity

In early 2010, after three quarters of negative growth in 2009, the economy of Nicaragua showed signs of recovery when GDP posted growth of 0.3% in the first quarter, which accelerated to 2.6% in the second quarter, giving an annual rate of 4.5% for 2010, compared with the 1.5% contraction recorded in 2009.

The agriculture, forestry, hunting and fishing sector grew by 6.5%, which was attributable, among other factors, to the 5.9% increase in agricultural activities, especially because of the higher value added of coffee production (14.9%) owing to the peak of the production cycle, favourable climatic conditions and better harvesting conditions as a result of strong international prices. The value added of sugar cane also rose by 13%, with a larger area harvested and higher productivity thanks to improved farming practices. Oilseed also went up significantly (21%), owing to the increased areas sown with soybean, sesame and peanuts. The opposite was seen in basic grains (a decrease of 0.8%), in particular because of the heavy rains that fell in the bean-growing region, which reduced productivity per plot significantly.

The value added of the livestock sector grew by 10.3% in particular as a result of the upturn in beef exports to Guatemala following the elimination of non-tariff barriers.

Fishing and aquacultural activities grew slightly by 2.1%, owing essentially to larger fish catches, since shrimp and lobster catches were hit by the closed season in Central America and the harvesting of farmed shrimp was delayed so that larger shrimp could be produced, with a view to commanding higher prices abroad.

Another activity that grew substantially was mining (39.8%), owing to higher international prices for gold and silver and the reopening of one of the largest mines following a technological renovation process aimed at increasing the volumes extracted.

The value added of the manufacturing industry also grew by about 7% thanks to the uptick in external demand. For example, Venezuelan demand for meat and fish led to a 7.8% increase in the production of those products. Thanks to the upturn in demand in the United States, the textiles and apparel branch of the manufacturing industry also rallied by 18%, after contracting by 6% in 2009.

The construction sector contracted once again, although less markedly than in 2009 (15%), shrinking by 12.5%

in 2010. The contractions might have been sharper had it not been for the social housing credit programme and construction start-ups in the new free zones.

Lastly, the commerce, restaurants and hotels sector picked up by 3.8% in 2010, compared with a fall of 2.5% in 2009.

(b) Prices, wages and employment

Higher international prices for oil and some basic grains and the economic upturn led to a surge in inflation, which stood at 9.1% at the end of December, compared with 1.8% in 2009. Food and non-alcoholic beverages climbed by 13.7%, contributing 4.6 percentage points to inflation in 2010, mainly because of the rise in prices for fresh vegetables and beans. Other areas that saw a marked increase were transport (8.9%) and housing, water, electricity and other fuels (8.3%), in both cases as second-round effects of the rising price of oil and petroleum products. The price index for construction materials grew by 8% to December 2010, in particular as a result of the rising price of iron in the international market.

The continuous household surveys, which have been conducted quarterly since February 2009, constitute a significant improvement in the measurement of employment, although it should be borne in mind that the data are not comparable with previous series given how frequently the surveys are carried out and the methodological improvements that have been made in accordance with the recommendations of the International Labour Organization (ILO).

With regard to the quality of employment, the surveys show that 75.7% of those who are employed work in informal establishments (which do not keep accounts or make social security contributions), while 53.7% of the economically-active population is underemployed. Of those, 45.2% work fewer than 40 hours a week and the rest receive wages that are lower than the legal minimum. The data show a decrease in the open unemployment rate from 7.7% in 2009 to 7.4% in 2010.

According to the Ministry of Labour, average real national wages in 2010 were the same as in 2009, but the average wages of workers covered by social security rose slightly by 1.3% in real terms, mainly as a result of the 12.36% increase in the national minimum wage. In the agriculture sector, coffee received differentiated treatment

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	0.8	2.5	5.3	4.3	4.2	3.6	2.8	-1.5	4.5
Per capita gross domestic product	-0.6	1.2	4.0	2.9	2.8	2.3	1.4	-2.7	3.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.3	1.9	5.7	4.6	2.5	-0.1	6.6	-0.2	6.5
Mining and quarrying	5.6	-10.5	20.0	-10.5	2.7	-9.6	-6.2	-8.9	39.8
Manufacturing	2.1	2.4	9.0	5.6	6.4	7.4	0.9	-1.5	7.0
Electricity, gas and water	1.4	5.1	4.4	3.6	1.5	2.7	4.0	3.7	4.2
Construction	-13.3	2.7	12.1	7.3	-3.2	-5.4	-7.8	-15.0	-12.5
Wholesale and retail commerce, restaurants and hotels	3.3	1.4	4.6	2.3	4.9	4.8	2.7	-2.5	3.8
Transport, storage and communications	2.7	9.7	4.8	6.7	7.2	7.2	3.8	1.9	2.9
Financial institutions, insurance, real estate and business services	2.3	6.8	7.2	4.0	4.9	7.4	3.3	-0.9	-1.7
Community, social and personal services	2.0	2.4	2.2	4.0	4.2	2.9	3.6	0.9	2.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	2.1	2.1	3.6	2.7	3.9	4.3	-1.7	3.2
Government consumption	-1.0	5.0	3.5	4.7	1.9	2.7	8.0	-2.6	0.0
Private consumption	4.4	1.7	1.9	3.4	2.9	4.1	3.7	-1.6	3.7
Gross capital formation	-7.1	-1.0	10.7	11.3	-0.1	10.7	0.8	-19.8	10.0
Exports (goods and services)	-3.5	9.2	17.1	7.7	12.5	8.3	7.5	2.5	13.2
Imports (goods and services)	-0.1	3.5	8.2	8.6	4.4	10.9	7.6	-7.8	10.8
Percentages of GDP									
Investment and saving^c									
Gross capital formation	26.1	25.9	28.0	30.1	30.8	33.4	32.9	24.6	27.5
National saving	7.6	9.7	13.5	15.0	17.2	15.7	9.1	11.0	12.8
External saving	18.5	16.2	14.5	15.1	13.6	17.7	23.7	13.5	14.7
Millions of dollars									
Balance of payments									
Current account balance	-744	-663	-649	-734	-710	-1 001	-1 513	-841	-963
Goods balance	-939	-971	-1 088	-1 302	-1 451	-1 759	-2 211	-1 540	-1 636
Exports, f.o.b.	914	1 056	1 369	1 654	2 034	2 336	2 538	2 387	3 157
Imports, f.o.b.	1 853	2 027	2 457	2 956	3 485	4 094	4 749	3 927	4 792
Services trade balance	-130	-119	-123	-140	-134	-182	-209	-85	-222
Income balance	-206	-198	-192	-150	-129	-135	-161	-235	-278
Net current transfers	530	625	755	857	1 003	1 075	1 068	1 018	1 173
Capital and financial balance ^d	531	441	531	670	772	1 093	1 499	1 049	1 135
Net foreign direct investment	204	201	250	241	287	382	626	434	508
Other capital movements	327	239	281	429	485	711	873	615	627
Overall balance	-213	-222	-118	-64	62	92	-14	208	172
Variation in reserve assets ^e	-69	-55	-160	-6	-186	-173	-30	-262	-222
Other financing	282	278	278	70	124	80	45	54	50
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	103.3	106.9	107.7	110.2	108.2	110.8	106.8	110.7	108.2
Terms of trade for goods (index: 2005=100)	106.9	103.3	101.4	100.0	97.6	96.6	92.4	101.3	102.2
Net resource transfer (millions of dollars)	607	520	616	590	768	1 039	1 383	868	907
Gross external public debt (millions of dollars)	6 363	6 596	5 391	5 348	4 527	3 385	3 512	3 661	3 876
Average annual rates									
Employment									
Labour force participation rate ^g	...	53.7	53.1	53.8	51.4	53.4	53.3	51.8	72.1
Open unemployment rate ^h	11.6	10.2	9.3	7.0	7.0	6.9	8.0	10.5	9.7
Annual percentages									
Prices									
Variation in consumer prices (December-December) ⁱ	...	6.6	8.9	9.7	10.2	16.2	12.7	1.8	9.1
Variation in nominal exchange rate (annual average)	6.5	5.4	5.6	3.4	6.1	6.3	5.0	5.0	5.0
Variation in average real wage	3.5	1.9	-2.2	0.2	1.4	-1.8	-3.7	5.8	1.3
Nominal deposit rate ^j	7.8	5.6	4.7	4.0	4.9	6.1	6.6	6.0	3.0
Nominal lending rate ^k	18.3	15.5	13.5	12.1	11.6	13.0	13.2	14.0	13.3
Percentages of GDP									
Non-financial public sector									
Total revenue ^l	24.3	26.6	28.9	29.6	32.1	33.0	31.7	32.3	32.4
Current revenue	21.2	22.8	25.3	26.2	27.7	29.0	28.6	28.9	30.3
Tax revenue	18.0	19.9	20.6	21.7	23.1	23.8	23.4	23.8	24.9
Total expenditure	26.3	28.9	30.3	30.6	31.4	31.7	32.5	33.8	32.9

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Current expenditure	20.7	22.2	22.9	24.1	26.3	26.5	28.2	28.9	28.9
Interest	2.2	3.1	2.1	1.9	1.9	1.5	1.2	1.4	1.4
Capital expenditure	5.6	6.6	7.4	6.5	5.1	5.2	4.3	4.9	4.1
Primary balance	0.3	0.8	0.8	1.0	2.5	2.8	0.4	-0.1	0.9
Overall balance	-1.9	-2.3	-1.4	-1.0	0.7	1.3	-0.7	-1.4	-0.5
Non-financial public sector debt									
Domestic	134.1	138.0	100.7	92.8	70.0	43.5	39.3	44.8	45.6
External	21.5	22.5	21.5	21.1	19.1	16.9	14.2	15.0	14.2
External	112.6	115.5	79.3	71.7	50.8	26.6	25.1	29.9	31.4
Money and credit^m									
Domestic credit	80.0	81.1	71.6	67.3	63.6	61.8	56.5	46.4	43.2
To the public sector	72.9	69.1	57.9	49.6	40.3	33.7	29.7	30.4	28.7
To the private sector	19.6	22.9	25.4	29.3	34.1	39.5	37.5	33.9	32.4
Others	-12.5	-10.9	-11.8	-11.5	-10.9	-11.3	-10.8	-17.9	-17.9
Liquidity (M3)	40.0	41.8	43.0	41.3	39.9	41.4	37.5	42.6	49.6
Currency outside banks and local-currency deposits (M2)	12.1	13.4	14.4	13.5	13.7	14.3	11.9	12.7	14.9
Foreign-currency deposits	27.9	28.4	28.6	27.8	26.1	27.1	25.6	29.9	34.6

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 1994 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population, urban total.

ⁱ Consumer price index in the Managua metropolitan area.

^j Weighted average rate on 30-day deposits.

^k Weighted average of the weekly lending rate for loans in national currency in the system.

^l Includes grants.

^m The monetary figures are end-of-year stocks.

because of the strong international prices for the product and a wage increase of 25.6% was set as of November 2010, which will apply to the 2010/2011 harvest. The free zones are also dealt with separately: workers there negotiated a 12.0% raise in 2010 and 8% for 2011.

(c) The external sector

The balance of payments was positive and was reflected in the boost in net international reserves to the tune of US\$ 208 million compared with 2009, giving a total of US\$ 1.631 billion. This was a result of a combination of factors, including the upturn in family remittances (7.1%), which exceeded US\$ 800 million in 2010, the 17% increase in foreign direct investment (FDI), especially in the telecommunications sector, thanks to the entry of a new mobile telephony company into the market (representing an investment of over US\$ 118.0 million), and the increase in investments in the free zone (over US\$ 100 million). In total, FDI exceeded US\$ 508 million in 2010. The external debt balance of the non-financial private sector grew by US\$ 275.2 million, mainly thanks to the support of the Bolivarian Republic of Venezuela and the banking sector's greater access to foreign lines of credit.

The upturn in external demand and the availability of lines of credit for foreign trade led to increased goods exports, totalling US\$ 3.157 billion (an increase of 32.1% in relation to 2009). This increase is also part of an aggressive trade policy aiming at opening up and diversifying Nicaragua's markets, which has led the Bolivarian Republic of Venezuela to become the second largest importer of Nicaraguan products (13.4% of the total), after the United States (with 30.6%). The third main destination of Nicaraguan goods was El Salvador with 11.1%.

The exports that experienced the highest increases in nominal terms were coffee (44.3%), beef (33%), gold (156.6%) and sugar (153.5%). Exports of manufactured products were up by 8.3% as a result of the upturn in exports of textiles and wiring assemblies for vehicles from the free zones.

At the end of 2010 goods imports stood at US\$ 4.792 billion, representing an increase of 22%, compared with a contraction of 17% in 2009. As with exports, one factor that contributed to the increase in imports was the availability of lines of credit for foreign trade and, similarly, the recovery of consumer credit and the availability of disposable income as a result of the increase

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-2.8	-4.0	-0.6	1.2	2.4	6.0	0.4	8.6	...	...
Goods exports, f.o.b. (millions of dollars)	355	362	370	307	479	499	435	438	637	195 ^d
Goods imports, c.i.f. (millions of dollars)	801	874	848	966	880	1 054	1 081	1 158	1 221	357 ^d
Gross international reserves (millions of dollars)	1 078	1 143	1 394	1 573	1 485	1 553	1 567	1 799	1 715	1 739
Real effective exchange rate (index: 2000=100) ^e	105.4	109.2	112.6	115.5	106.2	107.3	109.5	109.8	111.6	113.9
Consumer prices (12-month percentage variation)	7.1	1.1	-0.6	1.8	5.2	5.1	5.6	9.1	7.2	8.7
Average nominal exchange rate (córdobas per dollar)	19.97	20.21	20.46	20.71	20.97	21.22	21.49	21.75	22.01	22.24
Average real wage (variation from same quarter of preceding year)	-1.4	12.4	8.8	3.7	7.8	-3.1	1.1	-0.2	0.3	...
Nominal interest rates (annualized percentages)										
Deposit rate ^f	6.5	6.4	5.4	5.6	3.9	3.0	2.7	2.4	2.1	2.5 ^d
Lending rate ^g	14.3	14.2	13.9	13.8	13.9	14.6	13.1	11.7	11.0	9.4 ^d
Interbank rate	19.3	22.3	19.0	18.1	17.2	16.1	15.2	15.3	12.6	11.7
Domestic credit (variation from same quarter of preceding year)	5.9	-1.5	-13.0	-15.6	-14.7	-6.6	-0.4	3.0	-7.1	...
Non-performing loans as a percentage of total credit	2.8	2.9	3.4	3.3	3.1	3.5	2.4	3.0	3.1	3.0 ^d

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1994 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Weighted average rate on 30-day deposits.

^g Weighted average rate on short-term loans.

in family remittances, the minimum wage and transfers to public-sector workers.

Imports of consumer goods registered growth of 19.8% at the end of 2010, standing at US\$ 1.497 billion, compared with a fall of 10.6% in 2009. Imports of consumer durables burgeoned by 36.8%, after shrinking by 24.9% in 2009; non-durable consumer goods rose by 16.4%, after contracting by 7.1% in 2009.

Increased foreign investment was also reflected in higher imports, especially of capital goods (16.8%), owing to the rise in imports of telecommunications equipment, light vehicles and farming machinery and tools.

Nicaragua's trade balance in 2010 was negative, reaching US\$ 1.636 billion (25% of GDP), and was reflected in a widening of the current account deficit, which went from 13.3% of GDP in 2009 to 14.7% of GDP in 2010.

Panama

1. General trends

In 2010, the Panamanian economy grew by 7.5%, returning to the characteristically high growth rates observed since 2004 but suspended in 2009 (3.2%) by the international financial crisis. The non-financial public sector (NFPS) posted a deficit equivalent to 1.9% of GDP, in comparison with the 1.0% of 2009. The current account deficit showed a deficit equivalent to 11.0% of GDP, compared with 0.2% in 2009. Inflation rose to a historically high level of 4.9%.

In 2010, domestic demand expanded by 8.9%, led by gross domestic investment, up by 9.8%, and exports of goods and services, up by 4.0%. The most significant rebound has been in gross fixed capital investment in machinery and equipment (18.1%), following a 16.1% fall in 2009. Driven by private consumption (9%) and, to a lesser extent by general government consumption (6%), total consumption expanded by 8.5% in 2010 compared with 0.8% in 2009.

The strong performance of 2010 was due largely to steps taken by the current administration to revitalize the domestic economy. Indeed, the government launched a number of public infrastructure projects, notably the expansion of the Panama Canal, the clean-up of the Bay of Panama, the extension of the coastal strip, the construction of the metro in Panama City and the building of roads and hydroelectric plants.

These projects generated a sharp increase in public capital expenditure (up 29.5%), while central government current expenditure grew by 8.7%. This result was due to the significantly higher transfers, since existing social programmes have been continued, including the “100

para los 70” programme, which gives US\$ 100 per month to older persons who receive no pension, while others have been launched, notably the universal scholarship programme, which provides US\$ 20 per month to each school-age student. In addition, the subsidies for electricity and liquefied petroleum gas consumption have been continued. The higher expenditure was partly offset by an increase in tax revenues (15.3%).

At the beginning of 2010, the credit rating agencies Fitch Ratings, Standard and Poor’s and Moody’s gave Panama an investment grade rating, which will make it easier for the country to obtain financing on international markets at lower cost.

The Panamanian economy is expected to grow by 8.5% in 2011, driven by stronger investment in public infrastructure. The additional capital goods imports, including machinery and inputs, required for these projects, together with the higher interest payments due to the issue of more debt, will cause some pressure on the current account. Notwithstanding the projected increase in tax collection, the fiscal deficit will probably remain at its current level as fiscal expenditure is expected to go up.

2. Economic policy

(a) Fiscal policy

The NFPS closed the year 2010 with a deficit of US\$ 511.7 million, which is equivalent to 1.9% of GDP, up from 1.0% in 2009. This deficit is in compliance with the Fiscal Responsibility Act No. 32, promulgated in June 2009, which sets the maximum limit for the 2010 deficit at 2.0% of GDP, barring any extraordinary circumstance as described in the Act.

The primary balance (fiscal balance not including public debt payments) in December 2010 was a surplus of US\$ 204.4 million (0.8% of GDP), compared with the surplus of 1.9% of GDP in 2009.

Tax revenue in 2010 totalled US\$ 3.227 billion (12% of GDP), 15.3% higher in nominal terms than in 2009. This reflected a 24.4% increase in indirect tax revenue (basically from the Tax on the Transfer of Movable Property and Services (ITBMS)), attributable to improved efficiency, a better collection capacity and the more robust economic activity. At the same time, total NFPS expenditure rose by 13.3% over the earlier period to stand at US\$ 7.385 billion (27.6% of GDP). This result stems mainly from an expansion in central government expenditure, with current expenditure up by 8.7% and capital expenditure up by 29.5%.

The rise in current expenditure may be attributed to the establishment and consolidation of conditional social transfer programmes promoted by the current administration: the Universal Scholarship Programme provides US\$ 20 per month to each student of school age and in 2010 resulted in the disbursement of US\$ 24.8 million; the “100 para los 70” programme, which provides US\$ 100 per month to older persons who have no social pension, was continued and paid out US\$ 82.5 million in 2010. Capital expenditure was higher, reflecting the continuation of a number of public road, hospital, urban and penitentiary infrastructure projects among others.

In 2010, total public debt amounted to US\$ 11.629 billion (43.4% of GDP), compared with US\$ 10.972 billion (45.6% of GDP) in 2009 and a change in its composition is to be noted. In December 2009, 92.5% of the debt was external and the remaining 7.5% domestic. By December 2010, the percentage of external debt had edged down to 89.8% and the internal debt accounted for 10.2%. The US\$ 288 million increase in the external debt comes mainly from multilateral agencies (US\$ 181 million) and bilateral and official creditors (US\$ 101 million).

A fiscal deficit similar to that of 2010 is projected for 2011, owing to further increases in infrastructure expenditure, social spending and interest payments, which will be partly offset by higher tax receipts.

(b) Thonal banking centre and credit policy

Domestic credit to December 2010 showed considerable activity with a 12.1% expansion in the credit portfolio over the previous period, which has helped to boost local GDP. This dynamic was led by manufacturing, which consumed 31.9% more domestic credit. This was followed by commerce (22.7%), construction (22.7%), the mortgage sector (9.8%) and personal consumption (8.7%). The composition of domestic credit to the private sector at the end of December 2010 remained stable, the main sectors being mortgages, with 28% of the market, commerce (27%), personal consumption (21%), construction (10%) and industry (6%).

Total deposits in the international banking centre stood at US\$ 44.202 billion in December 2010, reflecting a 5.5% rise with respect to December 2009. The bulk of the deposits were concentrated in deposits of private individuals (77.3%), with the balance consisting of bank deposits (12.6%) and official deposits (10.1%). Most of the deposits of private individuals consisted of term deposits (44.3%), savings (18%) and sight deposits (15%).

Quality indicators for local and external credit portfolios show that the banking centre in Panama was able to weather the crisis without any major hitches and that in 2010 its portfolio was sounder. The arrears rate of the local banking system was 3.4% in December 2010, down from 4.2% in December 2009. The external credit portfolio represented 0.8% in December 2010, lower than the percentage of 1.1% recorded in December 2009.

Panamanian banks continue to be sound and profitable. Profits within the banking system amounted to US\$ 1.067 billion in December 2010, which represents an increase of 16.1% in relation to December 2009. The return on capital was 13.9% to December 2010, compared with 12.0% in the previous period. The return on assets totalled 1.6% to December 2010, compared with 1.4% in December 2009.

Nominal lending rates for one year were reduced by 0.4 percentage points, from 8.3% in 2009 to 7.9% in 2010, as a result of the one percentage point decline in the rate for consumer loans. The fall in real lending rates was sharper, by around 1.5 percentage points, since

inflation was higher in 2010 than in 2009. Also with respect to nominal deposit rates, there was a slight dip of between 0.2 and 0.5 of a percentage point, depending on the term.

(c) Trade policy and other policies

One of the government's main trade policy priorities for 2010 was to promote the necessary conditions so that Panama might be removed from the list of tax havens. Thus, the new administration implemented an agenda for the conclusion of double taxation treaties, mainly with member countries of the Organization for Economic Cooperation and Development (OECD). By May 2011, treaties had been signed with Luxembourg, Mexico, the Netherlands, Portugal, Qatar, Republic of Korea, Singapore and Spain. Treaties negotiated with Belgium, France, Ireland and Italy are still awaiting signature. Lastly, treaties are being negotiated with the Czech Republic, Hungary, Israel and the United Arab Emirates.

In April 2011, the National Assembly of Panama adopted law 40 relating to the agreement on fiscal

cooperation and the exchange of tax information and interpretive memoranda between Panama and the United States of America. The agreement establishes a legal framework for the exchange of information on the administration and application of the internal legislation of each country, information concerning the determination, assessment, enforcement and collection of taxes with respect to taxpayers, prosecution of tax offences and others. An important aspect of the agreement is that it attests to the Government of Panama's commitment to eliminating corporations with bearer shares, which will enhance transparency and improve fiscal control. The entry into force of the international agreement referred to in law 40 is subject to the exchange of instruments of ratification.

The trade facilitation treaty, a second agreement with the Government of the United States, was at the ratification stage in June 2011, which brings to fruition a negotiation process started since 2004. The agreement also consolidates access by Panamanian products to the market of the United States, the country's principal trading partner.

3. The main variables

(a) Economic activity

The more buoyant growth in 2010 reflects an upturn in most economic sectors. The transport, storage and communications sector, which accounts for 22% of GDP, showed robust activity and 15.5% growth stemming from the strong expansion of the port operations (26.5%) due to brisk container movement. Telecommunications recorded strong growth (17.7%), due mainly to the rise of prepaid mobile phones, mobile plans, Internet services and international calls. The wholesale and retail commercial sector expanded by 11.1% in December 2010, after having experienced 1.7% growth during the same period of the previous year. The more vigorous activity in this sector is attributable to the widespread increase in sales of household goods, motor vehicle accessories, machinery, textiles and pharmaceuticals. Other sectors enjoying vigorous growth were hotels and restaurants (11%), owing to the surge in tourist arrivals; construction (6.7%), thanks to the substantial investment in ongoing public projects, such

as the expansion of the Canal, the clean-up of the Bay, the construction of the metro and different residential and non-residential public investments; and, lastly, the mining and quarrying sector (6.1%); and electricity, gas and water (6.5%). By contrast, activity in the fishing sector slumped (by 43.4%) owing to restrictions on access to member countries of the European Union, which ruled that Panama had failed to comply with standards for avoiding illegal fishing; weather conditions; and the increase in operating costs triggered by escalating oil prices.

The significant rise in private consumption (9%) was driven by factors that boosted demand. First, during 2010, various social programmes targeting low-income families continued apace. Second, in January 2010, the minimum wage was increased significantly to compensate for the sharp rise in inflation in 2008. Third, new credit flows to the private sector surged by 13.3%, with consumer credit up by 8.7%. Lastly, shopping tourism expanded strongly. The number of visitors up to October 2010 stood at 1.35 million, up by 10.3% compared with the same period in

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.2	4.2	7.5	7.2	8.5	12.1	10.1	3.2	7.5
Per capita gross domestic product	0.4	2.3	5.6	5.3	6.7	10.2	8.3	1.6	5.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.3	9.3	1.4	2.6	4.2	0.6	8.3	-7.2	-15.3
Mining and quarrying	18.1	35.4	12.5	0.1	17.2	24.0	30.9	4.4	6.1
Manufacturing	-2.6	-3.4	2.1	4.2	3.9	5.6	3.9	-0.4	0.9
Electricity, gas and water	6.9	1.4	6.1	5.6	3.3	8.2	3.8	7.5	6.5
Construction	-7.1	32.5	13.9	1.0	18.4	21.8	30.7	4.5	6.7
Wholesale and retail commerce, restaurants and hotels	-0.9	2.4	11.9	9.2	11.2	11.3	7.3	1.7	11.1
Transport, storage and communications	2.0	10.9	14.9	11.8	13.7	17.0	15.5	6.6	15.5
Financial institutions, insurance, real estate and business services	-0.2	0.5	3.3	10.0	9.1	12.1	9.6	3.4	5.4
Community, social and personal services	4.5	1.8	3.3	0.9	3.3	6.5	4.7	3.2	3.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.3	7.3	3.9	8.1	4.2	1.4	-1.4	0.8	8.5
Government consumption	9.1	0.4	1.9	4.1	3.1	4.1	2.6	6.4	9.0
Private consumption	6.9	8.7	4.3	8.8	4.4	0.9	-2.1	-0.2	6.0
Gross capital formation	-5.4	19.0	9.9	2.8	13.5	38.9	24.2	-6.2	9.8
Exports (goods and services)	-2.5	-10.1	18.5	11.3	11.1	22.0	17.8	-5.6	4.0
Imports (goods and services)	0.7	-3.5	14.4	11.2	7.4	18.1	12.2	-12.2	6.0
Percentages of GDP									
Investment and saving^c									
Gross capital formation	15.7	19.0	18.7	18.4	19.5	24.1	27.6	25.6	28.5
National saving	15.0	14.8	11.6	11.8	16.8	17.3	15.8	25.5	16.7
External saving	0.8	4.1	7.1	6.6	2.6	6.9	11.8	0.2	11.9
Millions of dollars									
Balance of payments									
Current account balance	-96	-537	-1 003	-1 022	-448	-1 361	-2 722	-44	-2 953
Goods balance	-1 035	-1 202	-1 537	-1 558	-1 715	-3 190	-4 546	-2 123	-4 615
Exports, f.o.b.	5 315	5 072	6 080	7 375	8 475	9 334	10 323	11 133	11 330
Imports, f.o.b.	6 350	6 274	7 617	8 933	10 190	12 524	14 869	13 256	15 946
Services trade balance	968	1 240	1 337	1 420	2 273	2 840	3 155	3 329	3 333
Income balance	-272	-809	-1 020	-1 126	-1 258	-1 264	-1 570	-1 460	-1 861
Net current transfers	244	234	217	242	253	253	238	210	191
Capital and financial balance ^d	241	269	608	1 697	620	1 982	3 307	659	2 605
Net foreign direct investment	99	818	1 019	918	2 547	1 899	2 196	1 773	2 363
Other capital movements	143	-548	-411	779	-1 927	84	1 111	-1 114	243
Overall balance	146	-267	-395	675	172	621	585	616	-348
Variation in reserve assets ^e	-138	267	396	-521	-162	-611	-579	-616	348
Other financing	-8	1	-1	-154	-10	-10	-5	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	101.3	103.2	108.4	110.9	112.7	114.3	113.3	108.1	109.3
Terms of trade for goods (index: 2005=100)	108.7	103.9	101.9	100.0	97.1	96.2	91.8	96.3	94.4
Net resource transfer (millions of dollars)	-39	-539	-414	418	-648	709	1 732	-801	744
Gross external public debt (millions of dollars)	6 349	6 504	7 219	7 580	7 788	8 276	8 477	10 150	10 439
Average annual rates									
Employment									
Labour force participation rate ^g	62.6	62.8	63.3	63.6	62.6	62.7	63.9	64.1	63.5
Unemployment rate ^h	16.5	15.9	14.1	12.1	10.4	7.8	6.5	7.9	7.7
Visible underemployment rate ⁱ	...	...	4.4	4.6	3.4	2.7	2.1	2.1	1.8
Annual percentages									
Prices									
Variation in consumer prices (December-December)	1.9	1.4	-0.2	3.4	2.2	6.4	6.8	1.9	4.9
Variation in real minimum wage	-1.2	0.7	0.9	-2.8	3.4	-1.7	2.7	-2.4	6.4
Nominal deposit rate ^j	5.0	4.0	2.2	2.7	3.8	4.8	3.5	3.5	3.0
Nominal lending rate ^k	9.2	8.9	8.2	8.2	8.1	8.3	8.2	8.3	7.9
Percentages of GDP									
Central government									
Total revenue ^l	16.8	15.4	14.4	15.2	18.6	19.2	19.8	18.5	20.1
Current revenue	16.1	15.2	14.3	15.1	18.5	18.9	18.4	18.2	19.5
Tax revenue	8.6	8.7	8.5	8.7	10.3	10.6	10.6	11.0	12.2
Capital revenue	0.7	0.3	0.1	0.0	0.1	0.1	1.1	0.2	0.5
Total expenditure	18.8	19.2	19.8	19.1	18.4	18.0	19.5	20.0	22.8

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Current expenditure	16.1	16.1	16.6	16.6	15.9	14.0	13.9	13.6	14.8
Interest	4.1	4.3	4.2	4.4	4.2	3.4	3.1	2.9	2.8
Capital expenditure	2.7	3.1	3.2	2.5	2.5	4.0	5.6	6.4	7.9
Primary balance	2.2	0.5	-1.2	0.5	4.4	4.6	3.4	1.4	0.1
Overall balance	-1.9	-3.8	-5.4	-3.9	0.2	1.2	0.3	-1.5	-2.7
Central government debt	69.0	66.6	69.6	65.1	60.3	52.3	44.8	44.9	46.0
Domestic	17.7	16.7	18.9	16.8	15.0	10.6	8.0	2.9	4.3
External	51.3	49.9	50.6	48.4	45.3	41.7	36.7	42.0	41.7
Money and credit^m									
Domestic credit	91.1	88.8	90.3	90.3	90.6	87.8	86.1	83.8	94.3
To the public sector	-6.4	-3.9	-0.0	-3.7	-3.2	-7.7	-9.0	-9.0	-7.4
To the private sector	90.4	87.1	85.1	87.1	88.4	90.6	90.1	88.0	98.0
Others	7.1	5.6	5.2	6.9	5.5	5.1	5.0	4.8	3.7
Liquidity (M3)	80.9	79.5	78.3	78.0	86.1	87.5	85.2	...	...

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1996 prices.

^c Based on figures in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total. Includes hidden unemployment.

ⁱ Percentage of the working population; total of urban areas.

^j Six-month deposits in the local banking system.

^k Interest rate on 1-year trade credit.

^l Includes grants.

^m The monetary figures are end-of-year stocks.

2009, bringing in foreign-exchange inflows of US\$ 1.368 billion (not including international transport). This was 14.2% more than a year earlier.

The number of vessels transiting through the canal in 2010 was 14,230, down by 0.8% from the 14,342 recorded in 2009. A total of 300.3 million net tons was transported in 2010, that is 0.4% more than in 2009. This tonnage, together with the selective increase in the rates applicable to some of the movements, resulted in a 3.1% nominal rise in income from tolls in nominal terms over the previous year.

The Panamanian economy is expected to grow by 8.5% in 2011. Construction and tourism are expected to be the most dynamic growth sectors, given the significant number of public infrastructure projects that are under way and the increase in tourism projects.

(b) Prices, wages and employment

The rate of inflation measured as the variation in the consumer price index (CPI) between December 2009 and December 2010 was 4.9% while the average month-by-month rate was 3.5%. The significant difference between these two rates is due to the high monthly fluctuation in the CPI in 2010. Irrespective of the methodology used, these rates were above historic levels in the Panamanian economy. This stems from various factors. Fuel prices soared following the sharp rise in petroleum prices on international markets. In addition, the depreciation in the dollar against the currencies of most of Panama's trading

partners pushed up the average cost of imports. Lastly, extreme weather events, such as droughts and floods, which slashed agricultural output, resulted in higher food prices. The categories with the steepest price rises were fuels (17.3%), transport (6.0%) and various goods and services (5.2%). A resurgence in inflation to over 5.0% is predicted for 2011. This indicator was 6.3% higher in April 2011 than in the same month of 2010, basically because of the rise in petroleum prices.

The decree law which adjusts the hourly minimum wage and seeks to compensate for the high rate of inflation recorded in 2008 entered into force on 1 January 2010. The monthly minimum wage for small enterprises, based on 208 working hours and depending on the occupational category, was raised by between US\$ 20.8 and US\$ 29.1 per month, that is by 4.6% and 7.5% in real terms with respect to 2008. For the major enterprises the adjustment was US\$ 54, that is 14% more in real terms than in 2008.

The jobless and open unemployment rates reached 6.5% and 4.7%, respectively, in 2010, compared with 6.6% and 5.2% in the previous year. New job creation stood at 14,971 posts, mainly in the construction not only of hotel, tourism and commercial projects but also of various public infrastructure projects. The economically active population of young people under the age of 19 years and of adults over the age of 70 years fell in 2010, probably as a result of the "100 para los 70" and universal scholarship social programmes, both of which were promoted by the present administration.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	3.6	2.3	1.4	5.4	6.1	6.5	8.3	8.7	9.7	...
Gross international reserves (millions of dollars)	2 758	2 606	2 346	2 836	2 781	2 446	2 287	2 524	2 180	2 396 ^d
Real effective exchange rate (index: 2000=100) ^e	105.7	107.3	108.7	110.7	109.7	109.0	108.6	110.1	110.1	110.9
Consumer prices (12-month percentage variation)	3.7	1.8	0.5	1.9	2.7	2.8	4.2	4.9	5.5	6.4
Nominal interest rates (annualized percentages)										
Deposit rate ^f	3.6	3.6	3.5	3.3	3.3	3.2	3.0	2.8	2.7	2.3 ^d
Lending rate ^g	8.3	8.2	8.3	8.3	8.3	8.1	7.8	7.4	7.4	7.4 ^d
Domestic credit (variation from same quarter of preceding year)	7.6	7.6	2.2	1.9	4.8	11.2	13.0	16.5	18.2	...
Non-performing loans as a percentage of total credit ^h	2.6	2.7	2.9	2.6	2.7	2.6	2.3	2.5	2.2	...

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1996 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Six-month deposits in the local banking system.

^g Interest rate on 1-year trade credit.

^h Includes credit in arrear.

(c) The external sector

In 2010, the current account recorded a deficit of US\$ 2.953 billion (11% of GDP), compared with the zero balance of the previous period. This trend reflects a huge increase (US\$ 2.493 billion) in the merchandise trade deficit as a result of the surge in imports. Exports remained stable in 2010 recording 1.7% nominal growth with respect to the previous year. The expansion in imports reflected the increase in national imports (up 16.8%) as well as in imports through the Colón Free Zone (23.8%), originating mainly in the People's Republic of China (21.9%), Singapore (21.8%), Taiwan Province of China (10.1%), Hong Kong (Special Administrative Region of China) (10%) and the United States (8.1%).

The services surplus remained stable at US\$ 3.333 billion, similar to that of the previous year and consistent with the steady traffic passing through the Canal. The

income balance to December 2010 was a deficit of US\$ 1.861 billion, compared with one of US\$ 1.450 billion in the preceding period. The wider income deficit was due to a US\$ 418 million increase in repatriations of profits and dividends and, to a lesser extent, to a fall of US\$ 47 million in portfolio income.

The financial account ended the year 2010 with a surplus of US\$ 1.811 billion, compared with US\$ 853.5 million in 2009. This balance was fuelled basically by a wider foreign direct investment surplus, which expanded from US\$ 1.772 billion in 2009 to US\$ 2.362 billion in 2010.

Further pressure will be brought to bear on the current account in 2011, because of a surge in capital goods imports for infrastructure works to meet the demand of the buoyant economy and an increase in interest payments on the higher sovereign debt incurred in order to finance them.



The Caribbean

Bahamas

1. General trends

The Bahamian economy registered a modest recovery in 2010 with growth of 0.9% following a 5.4% decline in 2009. The economy benefited from a rebound in tourism triggered by the upturn in the United States, its major market. This rebound, together with buoyant activity in offshore financial services, helped to compensate for the weaker performance of the construction sector. Inflation declined as food and clothing prices fell. There are no official data, but employment, especially in tourism, was expected to pick up with the more buoyant economic activity. The fiscal situation deteriorated in fiscal year 2009/2010 as revenues declined more sharply than expenditure, but there was an improvement in 2010/2011. Meanwhile, the balance-of-payments current account deficit contracted moderately to 9.9% of GDP, as higher tourism receipts outweighed the increase in the trade deficit.

The economy is expected to continue recovering in 2011, with growth rising to 1.3%, propelled by continued improvement in tourism and in construction linked to foreign direct investment (FDI). Work on the Baha Mar Resort Complex, the largest tourism project in the history of the Bahamas, started in February. In the first year after completion, Baha Mar is expected to lead

to \$1 billion of spending, create 6,500-7,000 permanent jobs and attract 430,000 stopover visitors (a 30% increase). Inflation is expected to rise due to higher fuel prices. The fiscal deficit is projected to increase marginally and the balance-of-payments current account will widen as a result of higher oil prices and import payments relating to major projects.

2. Economic policy

(a) Fiscal policy

In its 2010/2011 budget, the government projected a deficit of B\$ 227 million, equivalent to 3% of GDP. However, growth in revenue outstripped the increase in expenditure, leading to a fall in the deficit by an

estimated B\$ 130 million (1.7% of GDP). Total revenue, underpinned by B\$ 210 million in receipts from the sale of the government's 51% holding in the Bahamas Telecommunications Company (BTC), was estimated to exceed the budgeted amount by 10%. Stamp tax proceeds were also bolstered by inflows from the sale of part of

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.7	-1.3	0.9	3.4	2.5	1.4	-1.3	-5.4	0.9
Per capita gross domestic product	1.4	-2.5	-0.4	2.1	1.0	0.2	-2.5	-6.5	-0.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	13.5	9.2	-6.8	-9.9	-8.2	-7.3	3.2	0.5	-6.7
Mining and quarrying	1.7	12.3	6.4	-5.0	15.3	-11.7	24.5	5.5	1.9
Manufacturing	-6.8	28.6	9.6	-5.6	10.8	-12.6	-2.2	2.0	0.9
Electricity, gas and water	2.8	2.9	5.1	5.3	-2.3	3.7	3.6	-3.0	8.0
Construction	16.0	10.5	-16.9	33.0	20.4	-34.7	13.8	0.4	-23.5
Wholesale and retail commerce, restaurants and hotels	0.1	-1.8	3.0	10.0	2.3	8.7	1.5	-10.3	6.1
Transport, storage and communications	7.6	1.1	3.6	5.3	2.7	-11.2	-8.6	-6.7	20.2
Financial institutions, insurance, real estate and business services	4.5	-3.5	2.2	1.5	-3.5	11.5	-2.1	-3.4	-4.7
Community, social and personal services	-1.3	-4.3	3.5	-1.4	-3.5	3.8	-1.9	-3.1	3.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.9	-2.1	-1.8	7.4	2.8	1.0	-1.0	-4.1	0.2
Government consumption	-1.3	-10.3	-3.2	3.1	1.8	-0.2	5.1	7.1	0.6
Private consumption	3.8	-0.3	-1.5	8.2	3.0	1.3	-2.1	-6.2	0.2
Gross capital formation	-4.7	1.1	-5.1	24.7	22.0	-2.6	-16.6	-8.6	-9.4
Exports (goods and services)	0.5	0.7	11.7	-2.1	1.9	-1.4	-2.0	-6.3	5.1
Imports (goods and services)	-2.8	0.3	3.5	14.3	12.2	-3.7	-9.9	-5.8	-1.8
Millions of dollars									
Balance of payments									
Current account balance	-298	-333	-171	-651	-1 374	-1 314	-1 165	-860	-766
Goods balance	-1 213	-1 231	-1 348	-1 763	-2 033	-2 154	-2 243	-1 825	-1 730
Exports, f.o.b.	422	427	477	549	694	802	956	711	731
Imports, f.o.b.	1 635	1 657	1 826	2 312	2 727	2 956	3 199	2 535	2 462
Services trade balance	1 057	1 014	1 068	1 230	825	1 020	1 140	1 078	1 138
Income balance	-184	-164	-141	-203	-218	-231	-118	-197	-252
Net current transfers	42	49	251	85	52	52	56	83	78
Capital and financial balance ^c	359	443	354	562	1 295	1 269	1 274	1 113	812
Net foreign direct investment	209	247	443	563	706	746	839	655	871
Other capital movements	150	197	-89	-1	589	522	435	458	-58
Overall balance	61	111	184	-89	-79	-46	109	253	46
Variation in reserve assets ^d	-61	-111	-184	89	79	46	-109	-253	-46
Other external-sector indicators									
Net resource transfer	175	279	213	358	1 077	1 037	1 156	916	560
Gross external public debt	310	364	345	338	334	337	443	767	898
Average annual rates									
Employment									
Unemployment rate ^e	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	1.9	2.4	1.9	1.2	2.3	2.8	4.6	1.3	1.6
Nominal deposit rate ^f	...	3.9	3.8	3.2	3.4	3.7	3.9	3.8	3.4
Nominal lending rate ^g	...	12.0	11.2	10.3	10.0	10.6	11.0	10.6	11.0
Percentages of GDP									
Central government^h									
Total revenue	13.0	13.6	14.7	15.9	16.8	17.1	16.1	16.7	19.7
Current revenue	13.0	13.4	14.5	15.8	16.8	17.1	16.1	16.7	19.2
Tax revenue	11.7	12.0	13.0	14.2	15.1	15.2	13.7	14.2	17.4
Capital revenue	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.3
Total expenditure	15.0	15.5	16.1	16.5	18.2	18.3	19.0	19.9	22.0
Current expenditure	13.8	14.3	14.8	14.9	16.1	16.2	17.3	17.9	19.0
Interest	1.4	1.6	1.7	1.5	1.6	1.7	1.9	2.3	2.7
Capital expenditure	1.2	1.2	1.3	1.6	2.1	2.1	1.7	2.0	2.9
Primary balance	-0.6	-0.3	0.2	0.8	0.2	0.6	-1.0	-0.9	0.4
Overall balance	-2.1	-1.9	-1.5	-0.7	-1.6	-1.2	-2.9	-3.2	-2.8

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Money and creditⁱ									
Domestic credit	68.9	69.4	71.6	74.6	82.7	89.0	95.7	102.5	109.3
To the public sector	12.5	12.6	12.5	12.2	13.4	14.6	16.6	18.3	24.2
To the private sector	56.4	56.8	59.2	62.4	69.3	74.4	79.0	84.2	85.1
Liquidity (M3)	53.8	56.0	60.9	61.2	63.6	67.4	71.5	76.9	79.9
Currency outside banks and local-currency deposits (M2)	52.5	54.6	59.5	59.3	61.6	64.9	69.1	73.9	77.0
Foreign-currency deposits	1.3	1.5	1.4	1.9	2.0	2.4	2.4	3.0	2.9

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2006 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^f Deposit rate, weighted average.

^g Lending rate, weighted average.

^h Fiscal year, from July to June.

ⁱ The monetary figures are end-of-year stocks.

the stake in the Bahamas Oil Refining Co. (BORCO) to Buckeye Partners of the United States. In addition, business and professional fees also advanced owing to higher proceeds from international business companies.

Total expenditure exceeded the budget by 3.1% to stand at B\$ 1.88 billion. Recurrent spending increased partly due to the government's contribution to the BTC Feeder Trust for pension benefit entitlements for employees and a B\$ 25 million outlay for the government's new job readiness and training programme. Meanwhile, capital expenditure was 12.5% below the budgeted amount, reflecting the slow pace of implementation of some projects and the decision not to proceed with the purchase of a property. In June 2011, government debt was estimated at B\$ 3.5 billion, the equivalent of 45% of GDP. The debt of the Bahamas remains significantly below the average for the countries of CARICOM. Nevertheless, the government is concerned about the speed at which it is widening and has targeted medium-term debt consolidation.

By contrast, fiscal performance during fiscal year¹ 2009/2010 showed a decline in government revenue that just exceeded the fall in expenditure. As a result, the overall deficit edged up from 3.1% of GDP in 2008/2009 to 3.2% of GDP in 2009/2010. Total revenues fell by 1.6% to B\$ 1.303 billion, roughly 7% below the budget target as tax receipts decreased due to lacklustre domestic demand.

Total expenditure declined by 0.6% to B\$ 1.553 billion, reflecting lower current spending as the government moved to contain its consumption. This decline offset higher capital spending on the airport, harbour and other projects.

For fiscal year 2011/2012, the government forecasts a fiscal deficit of 3.0% of GDP, generated by higher capital spending as recurrent expenditure is expected to remain stable. Public debt is projected to increase by around 7% to B\$ 3.779 billion (46.2% of GDP).

(b) Monetary and exchange-rate policy

The monetary policy stance remained unchanged in 2010. External reserves were boosted by one-off foreign-exchange inflows aimed at capitalizing the local subsidiary of a foreign bank. Furthermore, there was no real threat of a loss of reserves through imports as consumer spending remained cautious. As a result, there was no pressure on the foreign-exchange peg. In this context, the central bank's policy discount rate remained at 5.25%, the commercial banks' prime lending rate was maintained at 5.5% and reserve requirements remained unchanged.

Credit grew by 5.2% in 2010, compared with 1.5% in 2009. Nevertheless, this growth was driven by public-sector demand for infrastructure projects, as credit to the private sector declined marginally, owing to flagging investor confidence. Tourism and construction registered average net repayments of B\$ 61.5 million and B\$ 11.6 million, respectively. Consumer credit declined for a number of categories except debt consolidation loans, as households attempted to put their finances in order.

Underpinned by the fledgling recovery, the broad money supply grew by 2.6% in 2010. Growth in savings deposits improved with the increase in incomes and employment in tourism, while time deposits maintained a similar rate of growth to 2009.

¹ The fiscal year in the Bahamas runs from July 1 to June 30.

With consumer demand at a low ebb and foreign currency inflows steady (including the one-off transaction to capitalize a local bank), liquidity in the banking system strengthened in 2010. This led to a build-up of external reserves that far surpassed the previous years' level. The commercial banks' weighted average interest rate spread widened by 82 basis points to 7.61 percentage points despite high levels of liquidity, as banks discriminated in their lending owing to high levels of non-performing loans.

In 2010, commercial banks continued to face credit quality challenges associated with weak labour market conditions and poor business performance. Nevertheless, the rate of deterioration in loan quality slowed. Private-sector loans at least 30 days in arrears rose by 5.2%, compared with an increase of 42.4% in 2009. Moreover, banks remained profitable and liquid, although net income was down by 2.3%, owing to higher loan loss provisions and a fall in interest income. The exchange rate remained stable in 2010, with B\$ 1.00 equal to US\$ 1.00.

3. The main variables

(a) Economic activity

Bolstered by the recovery in the United States, the Bahamian economy grew by 0.9% in 2010, compared with a contraction of 5.4% in 2009. Real output in tourism expanded by 4.7% after the slump of 2009 and this expansion had a positive effect on distribution and other sectors. Total visitor arrivals rose by 13% to 5.2 million, spurred by marketing initiatives such as the 'Companion flies free' programme. Value added in the sector was boosted mainly by a 3.1% increase in high spending stay-over visitors in 2010, reversing the 10% decline in 2009. In addition, a 10% rise in the number of port calls led to a further increase in cruise passenger arrivals in 2010.

Value added in the construction sector plummeted (-23.5%) in 2010, mitigating the improvement in tourism. The sharp fall in construction reflected a downturn in foreign investment-funded projects and domestic private investment as investors wait for the global and local recovery to strengthen. Underscoring the softness in the market, total loan disbursements for new construction and repairs fell by 37%, while mortgage commitments, an indicator of future activity, declined in number by over 10%. Indicators suggest that activity in the offshore financial services sector remained stable in 2010. Despite the nascent recovery in major markets, investor sentiment towards the sector remained weak, as a number of institutions undertook debt consolidation.

The growth momentum gained in 2010 will be maintained in 2011, with the economy expected to grow by 1.3%. Activity will be driven by increased stopover tourist arrivals, underpinned by stronger demand in major markets. Construction activity is also expected to pick up with outlays on foreign-funded tourism and other

projects, including the Baha Mar project, which is set to almost double the room capacity on New Providence Island. Public construction will also strengthen with spending on the airport project and road infrastructure. Activity in the offshore financial services sector is also expected to improve following the firming of recovery in major markets.

(b) Prices, wages and employment

With domestic demand rallying and international fuel prices continuing to strengthen, the rate of inflation rose marginally from 1.3% in 2009 to 1.6% in 2010. The main contributors to the decline in inflation were the heavily weighted food and beverage subsector, clothing and footwear, and miscellaneous goods and services. On the other hand, the cost of housing, water, electricity, gas and other fuels increased by 3.4% and transport by 3.7%, propelled in part by the hike in international fuel prices.

Wage growth was contained in 2010 as salary increments for public officers were not paid and public employment was frozen in an effort to contain costs. Employment was expected to pick up in tourism and related segments of distribution as a result of the improvement in the tourism sector. Employment in construction and other sectors is expected to pick up in 2011, as work continues on the Baha Mar project.

(c) The external sector

In 2010, the balance-of-payments current account deficit contracted marginally relative to GDP. The deficit declined in nominal terms by US\$ 94 million, while it narrowed by over 1 percentage point in relation to GDP (from 11% to 9.9%). The trade deficit contracted by 20.6%,

a continuation of recent trends. This contraction was due to an improvement in the services account associated with higher tourism receipts in keeping with the recovery in the sector. Imports were down by (2.9%), reflecting reduced demand due to delays in construction projects.

In a significant turnaround from the 5.4% decline in 2009, the services account surplus expanded by 5.5% to stand at US\$ 1.138 billion. Services inflows increased in line with a rise in net tourism receipts. Lower net transportation outflows, partly linked to higher port fees and reduced outflows for government services also contributed to the surplus, while the limiting factors were increased net payments for insurance services and reduced net receipts due to offshore companies' local expenses.

Increased interest and profit repatriations by domestic companies, together with workers' remittance payments, caused the income account deficit to widen by 28% (US\$ 55.2 million).

The capital and financial account surplus contracted by almost 19% to US\$ 931.2 million. The erosion of the surplus resulted from a sharp decline in public-sector inflows, which offset higher private-sector loan inflows and a recovery in FDI inflows. In 2009, public-sector inflows had benefited from a US\$ 300 million bond issue

and a substantial special drawing rights (SDR) allocation under the International Monetary Fund's global initiative, but, since these extraordinary inflows were not repeated in 2010, public inflows contracted sharply. By contrast, other private-loan financing produced a net inflow of US\$ 115.4 million in 2010, following net outflows in 2009. Net FDI inflows were up by 31.1% to US\$ 870.6 million, a substantial turnaround from the sharp decline in 2009. Nevertheless, FDI was driven by inflows for the Baha Mar project and the one-off transaction involving a foreign entity's capitalization of a domestic bank. Indeed, land purchases were down, reflecting a sluggish second home market.

The balance-of-payments current account deficit is projected to widen to 15% of GDP in 2011. The trade deficit is expected to expand owing to the hike in oil prices and higher non-oil imports of materials and equipment for major FDI projects, including the Baha Mar project. This expansion would only be partly offset by an improved services account, based on the continued recovery in tourism. Meanwhile, the capital and financial account surplus is forecast to expand in line with higher FDI inflows into tourism and, to a lesser extent, construction. Between April 2010 and April 2011, external reserves expanded by 32.7% to stand at B\$ 1.134 billion.

Barbados

1. General trends

Barbados seems to be slowly recovering from the negative impacts of the recent global financial crisis. According to estimates released by the Central Bank of Barbados, the economy picked up in 2010, with 0.3% real GDP growth, after two years of negative economic performance. Tourism was the main contributor to this upturn, with value added growing by 3%, and this sector now accounts for 14.7% of GDP. Although the fiscal deficit remained high by historical standards, there was a slight improvement as it measured 8.5% of GDP. The government remains concerned about the public debt stock, which reached 102% of GDP in 2010, and fiscal consolidation remains a top government priority. Growth in tourism will remain vital to the economy, but the sector's performance is expected to be modest with revenue below the pre-crisis levels. Nevertheless, supported by a recovery in the financial services sector and increased private capital flows to fund a number of projects, the Barbados economy is projected to grow by 2% in 2011.

2. Economic policy

(a) Fiscal policy

During 2010, the government sought to exercise some fiscal discipline while at the same time adopting measures to protect the most vulnerable. Additional measures were introduced to maintain tourism competitiveness (such as marketing efforts and incentives directed at the United Kingdom stopover tourist market). Preliminary estimates from the Central Bank of Barbados suggest a small improvement in public finances in the 2010/2011 (April-March) fiscal year. The fiscal deficit to GDP is estimated to have narrowed to 8.5%, compared with 9.4% a year earlier. Tax revenues rose by 4% in nominal

terms, as a result of higher tax rates introduced during the fiscal year. These included a higher rate of value added tax (VAT) (from 15% to 17%), collections of which grew by 13%. There was also a 50% increase in excise taxes on gasoline and the removal of some allowances. Personal income tax revenue rose by just 2%, while corporate tax revenue declined by 11% year-on-year.

On the expenditure side, capital expenditure contracted by 34% year on year as the government reduced outlays on major projects as part of its fiscal consolidation plan. Wages and salaries were 3% lower than the year before and expenditure on goods and services fell by 13%. However, these reductions were partly offset by higher spending on

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	0.7	2.0	4.8	3.9	3.6	3.8	-0.2	-4.7	0.3
Per capita gross domestic product	0.7	1.6	4.4	3.9	3.2	3.4	-0.2	-5.1	-0.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-4.2	-4.0	-7.3	8.0	-5.7	2.3	0.0	2.8	-4.5
Mining and quarrying	6.4	-16.0	9.5	8.7	-3.0	-6.2	-7.7	-36.9	0.7
Manufacturing	1.0	-1.6	2.1	2.1	-0.6	-1.1	-2.3	-12.2	0.7
Electricity, gas and water	3.6	2.9	1.8	-0.5	9.8	0.9	-0.2	0.7	2.1
Construction	7.7	0.6	2.8	14.0	-0.4	0.0	-7.9	-20.0	-10.8
Wholesale and retail commerce, restaurants and hotels	-0.6	5.3	7.5	1.2	4.7	5.1	-1.0	-5.8	2.8
Transport, storage and communications	-3.0	3.0	5.3	4.9	5.5	6.1	2.8	-2.9	0.2
Community, social and personal services ^c	1.5	0.7	4.9	4.1	4.7	4.5	2.5	-0.3	...
Millions of dollars									
Balance of payments									
Current account balance	-168	-170	-337	-367	-252	-183	-421	-218	-364
Goods balance	-702	-801	-971	-1 070	-1 003	-1 084	-1 242	-917	-973
Exports, f.o.b.	253	264	293	359	510	524	488	379	425
Imports, f.o.b.	955	1 066	1 264	1 429	1 513	1 607	1 730	1 295	1 398
Services trade balance	550	647	668	765	810	911	895	797	711
Income balance	-102	-107	-122	-128	-142	-67	-121	-140	-121
Net current transfers	86	92	88	65	83	56	47	42	20
Capital and financial balance ^d	144	237	180	390	231	359	326	243	411
Net foreign direct investment	17	58	-16	119	200	256	223	218	206
Other capital movements	127	179	196	272	30	104	103	24	205
Overall balance	-24	67	-157	23	-21	177	-96	25	47
Variation in reserve assets ^e	24	-68	157	-23	21	-177	96	-25	-46
Other financing	1	1	1	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	100.5	104.9	107.8	106.0	104.1	104.9	104.6	98.8	97.2
Net resource transfer (millions of dollars)	42	131	58	263	89	293	204	102	290
Gross external debt (millions of dollars)	2 321	2 475	2 435	2 695	2 991	3 130	3 487	4 009	4 485
Annual percentages									
Employment									
Labour force participation rate ^g	68.5	69.3	69.4	69.6	67.9	67.8	67.6	67.0	66.6
Unemployment rate ^h	10.3	11	9.8	9.1	8.7	7.4	8.1	10	10.8
Percentages of GDP									
Prices									
Variation in consumer prices (December-December) (annual average)	0.9	0.3	4.3	7.4	5.6	4.7	7.3	4.4	6.5
Nominal deposit rate ⁱ	...	2.8	3.0	3.8	5.0	5.5	4.9	3.4	3.0
Nominal lending rate ^j	...	7.6	7.4	8.5	10.0	10.4	9.7	8.7	8.2
Percentages of GDP									
Non-financial public sector									
Total revenue ^k	29.0	30.2	29.6	27.4	29.3	30.2	31.6	31.2	28.4
Tax revenues	29.0	30.2	29.6	27.4	29.3	30.2	31.5	31.2	27.8
Total expenditure ^l	34.3	32.9	31.5	30.9	31.0	31.8	36.7	40.6	36.6
Current expenditure	28.3	28.5	28.2	26.6	26.2	28.8	33.1	37.0	34.4
Interest	4.5	4.5	4.2	3.9	4.2	3.9	4.9	5.5	5.7
Capital expenditure	6.0	4.4	3.3	3.2	3.4	2.5	3.6	3.6	2.2
Primary balance	-0.8	1.8	2.3	0.4	2.5	2.3	-0.2	-4.0	-2.4
Overall balance	-5.3	-2.7	-1.9	-3.5	-1.7	-1.6	-5.1	-9.4	-8.1

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Money and credit^m									
Domestic credit	61.0	62.3	69.6	70.4	73.2	76.4	85.5	90.9	83.4
To the public sector	14.3	16.9	18.3	14.9	13.7	14.7	16.9	18.8	15.2
To the private sector	46.6	45.4	51.3	55.6	59.6	61.8	68.7	72.2	68.3
Currency outside banks and local-currency deposits (M2)	91.5	93.5	101.9	101.6	100.6	118.3	118.7	119.5	111.5
Nonresidents foreign-currency deposits (minus)	10.4	9.5	9.4	13.4	9.2	16.9	13.2	10.2	8.2

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1974 prices.

^c Includes financial institutions, insurance, real estate and business services.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population.

^h Percentage of the economically active population. Includes hidden unemployment.

ⁱ Interest rate for savings.

^j Prime lending rate.

^k Includes grants.

^l Includes net lending.

^m The monetary figures are end-of-year stocks.

pensions and transfers (which were up by 6%) as well as grants to public corporations, in particular the University of the West Indies. Interest payments also increased by 10% year on year as the government debt continued to grow. As in the previous year, the fiscal deficit was funded mainly from domestic sources, particularly the national insurance scheme and private non-bank entities. Foreign inflows, principally from the capital market and policy loans, provided the balance of funding. Public-sector external debt and domestic debt both increased by 12% year on year. Total debt therefore surged to 102% of GDP at the end of 2010, and increased further to 105% of GDP by the end of March 2011, from 96.5% of GDP at the end of 2009. Fiscal consolidation is expected to continue in 2011, and the deficit is projected at 4% in 2011.

(b) Monetary and exchange-rate policy

The exchange rate of Barbados remained fixed (at BDS\$ 2: US\$ 1 since the 1990s) and the central bank's priority is to continue to support the exchange rate by ensuring that international reserves are adequate. At the end of 2010, the level of reserves reached US\$ 833.5 million. Monetary policy also sought to manage liquidity and credit. This was designed to ensure that sufficient resources were available for economic growth to be achieved. Thus, domestic interest rates were lowered in order to stimulate aggregate credit growth. The average rate on domestic 3-month treasury bills fell by 0.09 percentage points to 3.35% in December 2010, compared with an average of 3.8% at the end of 2009. The commercial bank lending rate declined

from 8.87% to 8.70%, reducing the spread between deposit and lending rates by up to 6.1 percentage points in December. Although interest rates fell, there was little improvement in credit demand due to the lacklustre economic performance. Total domestic credit declined from 90.9% of GDP in 2009 to 83.4% of GDP at the end of 2010. Private-sector credit decreased to 68% of GDP from 72% of GDP, while credit to the public sector diminished from 18.8% of GDP in 2009 to 15.2% of GDP at the end of 2010. Given the weak credit demand, liquidity (M3) fell from 109% of GDP to 103% of GDP. The monetary aggregates decreased during the year. M1 shrank by BDS\$ 179 million while M3 as measured by the country's own definition contracted by BDS\$ 20 million, a reflection of the weak economic conditions prevailing.

Nevertheless, Barbados's financial system remains broadly sound and stable. At the end of 2010, the capital adequacy ratio for the banking system was well above 18%, which was above the regulatory minimum of 8%. Banks remained liquid with the liquid asset ratio measuring 17% in 2010, up from 16% a year earlier. This occurred as a result of weak credit demand. However, asset quality deteriorated and non-performing loans increased to 10% in 2010 from 4.3% in 2009. The problem assets seem to be concentrated in one financial institution and relate mainly to large commercial loans, for the most part in the tourism sector. Loan loss provisions remain low at 15% of non-performing loans and 1.5% of total loans. This is adequate by regional and international standards.

In terms of policy, supervision and regulation in the banking sector remain solid. The Financial System Stability Assessment Update recently concluded by the

International Monetary Fund (IMF) found that while the financial system remains broadly resilient, several reforms are still needed to increase its flexibility and stability. These include establishing a clear legal framework for the consolidated supervision of banking groups; updating

the regulations on capital adequacy, asset classification and loan-loss provisioning; and ensuring that the mandate and structure of the financial services commission are adequate for the effective supervision of the non-bank financial sector.

3. The main variables

(a) Economic activity

Following two years of negative growth, the downward trend appears to have bottomed out and the Barbados economy grew by a modest 0.3% in 2010. However, business confidence still remained low. The overall positive performance was largely due to a 2.6% rally in long-stay tourist arrivals. The number of tourist arrivals from the United States of America and Canada increased by 17% and 13%, respectively, while British tourist arrivals remained weak (down by 6%). Overall, tourism grew by 2.9% in 2010 and contributed 12.7% to GDP. Marketing efforts and a number of events including the International Cricket Council's third Twenty-Twenty World Tournament helped to attract tourists to the island during the year, but these are one off events and will not be repeated in subsequent years. The tourism sector is expected to record 3% growth in 2011, supported by large investments such as the Four Seasons Hotel and increased arrivals in the winter season.

The international business and financial sector also contracted for a second year, but by less than in 2009. For the first nine months of 2010, the number of new licenses issued to companies operating in the sector was 8% below the number issued for the corresponding period of 2009. The number of registered offshore banks declined by 6% during the year and total assets fell by 12%. The offshore sector has significant growth potential and stands to benefit from the new double-taxation treaties pursued with Latin American countries. Barbados also remains attractive to offshore companies as a result of the "white list" drawn up by the Organization for Economic Cooperation and Development, which has enhanced the country's reputation. Barbados's inclusion on this list means that it is recognized as a jurisdiction that has substantially implemented the internationally agreed tax standard. Barbados was one of only seven international business centres to be included on the "white list", out of 40 countries.

Meanwhile, the agriculture sector declined by 4.5% and chemicals production declined by 8.3%. The construction

sector, a major driver of growth and an important vehicle for job creation, contracted by 10.8% in 2010, as projects were postponed or cancelled. However, mining and quarrying showed improvements. Quarrying increased by 14% and crude oil production rose by 7%. Output in distribution and retail service industries remained stagnant, owing to the slow pace of economic growth occasioned by weak demand in the economy.

In the future, growth will be spurred by the international business sector, which should benefit from the general revival in global activity, and by the signing of new tax treaties. Private capital inflows are also expected to pick up and to fund projects such as the Four Seasons Hotel and Port Ferdinand. These projects should boost activity in the traded sectors, particularly wholesale and retail trade, and construction, and contribute to growth, which is forecast to stand at 2% in 2011.

(b) Prices, wages and employment

The end-of-year inflation rate was 6.5% in 2010, compared with 4.4% in 2009. Factors contributing to the inflation rate were international oil and commodity prices, and the fiscal measures announced in the 2010/2011 (April-March) budget, which pushed up the cost of food, housing and transportation. Wage rates remained largely unchanged in 2010 as the government extended a public-sector wage freeze, which was also observed by the private sector in the economy.

Meanwhile, according to the central bank's projections, the country's unemployment rate should not rise any further in 2011. Although the economy has levelled off, the continued under-performance of North Atlantic economies (United States, Canada and United Kingdom) has put a damper on tourism and international business and financial services, and the knock-on effects depressed cash flows throughout the economy. As a result, unemployment increased to 11.2% in the third quarter of 2010, which was 0.7 percentage points higher than a year earlier. Two years of economic contraction have made it

difficult for private firms to avoid layoffs notwithstanding the Interest Waiver Programme which the government introduced to assist employers with the management of their national insurance contributions. With the upturn in economic activity, the unemployment rate should remain stable in 2011 and prices are expected to moderate, that is, barring any unforeseen increases in international oil and commodity prices.

(c) The external sector

Barbados's external accounts reflect the country's dependence on tourism and commodity imports and its open economy. Consequently, the current account deficit widened to 8.9% of GDP in 2010, reflecting higher oil imports and only a marginal increase in tourism receipts. Tourism imports (mostly oil-related), which account for more than 50% of total current account payments, rose by 8%, while travel receipts (48% of

current account receipts) fell by 1.4%. Given the trend in commodity prices, the current account deficit is expected to stay at elevated levels, the forecast for 2011 being 9.3% of GDP because of the impact of higher global commodity prices on the import bill. Foreign direct investment inflows were recorded at US\$ 150 million in 2010, up from US\$ 79 million in 2009, and consisted primarily of real estate sales, financing for several tourist projects and funding for a major manufacturing project. Official inflows included a loan of US\$ 90 million from the Inter-American Development Bank to support alternative energy production and a loan of US\$ 50 million from the Caribbean Development Bank to support the government's development programme. Additionally, the government floated a US\$ 200 million bond issue in August, part of which was used to repay maturing debt obligations. At the end of the year, gross international reserves stood at US\$ 833.5 million or 7.2 months of imports.

Belize

1. General trends

The Belizean economy recovered from stagnation in 2009 to grow by 2.9% in 2010, a rate, which, within the Caribbean Community (CARICOM), was only bested by that of Suriname (4.4%) and Guyana (3.6%). Activity was bolstered by a sharp rise in electricity generation and stronger growth in transport, communication and distributive trade. Tourism demand also improved owing to the nascent recovery in major markets. Despite the upturn in activity, inflation remained flat (0%) and higher employment was expected in recovering sectors. Notwithstanding the challenges presented by high debt levels and rising interest costs, the fiscal situation improved in 2010. Monetary policy sought to stimulate commercial bank lending to the private sector in order to facilitate the economic recovery. Meanwhile, robust growth in exports, combined with a modest rise in imports, led to a narrowing of the current account deficit by more than 50% as a percentage of GDP.

The economy is expected to continue to expand in 2011 with growth of 2.5%, driven by electricity, (due to full operation at the Vaca Dam facility and the cogeneration plant), tourism and sugar production. Inflation is expected to rise to 2.0%, led by higher fuel and other commodity prices, and employment is expected to show a modest

improvement. The fiscal deficit is projected to contract marginally to 1.3% of GDP, owing to flat growth in spending and a modest increase in revenue. A fall in service payments due to the downsizing of British military operations in Belize and reduced net exports of goods will contribute to a larger current account deficit.

2. Economic policy

Economic management in 2010 and 2011 focused on supporting the recovery, while ensuring fiscal prudence. The government sought to provide an environment in which the main productive sectors could strengthen their output and productivity. Nevertheless, with the increase in the interest rate on the Super Bond debt from 4.25% to 6.0%, which will result in a corresponding increase in debt service costs, the government was hard pressed to provide direct financial assistance.

(a) Fiscal policy

Fiscal performance benefited from the government's robust revenue-raising measures. The overall deficit shrank from 2.9% of GDP in 2009 to 1.5% of GDP in 2010. Total revenue rebounded by 8.7% following a fairly sharp decline in 2009. Petroleum taxes accounted for 52.9% of the increase in government revenue, reflecting the increase in prices and earnings. In addition, an increase

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	5.1	9.3	4.6	3.0	4.7	1.2	3.8	-0.0	2.9
Per capita gross domestic product	2.7	6.9	2.3	0.8	2.5	-1.2	1.7	-2.0	0.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.5	38.9	9.5	3.0	-6.4	-20.7	0.1	-2.2	0.6
Mining and quarrying	-5.4	0.0	5.7	-6.5	3.4	15.6	19.2	6.5	-4.7
Manufacturing	1.5	-0.6	12.2	0.9	30.5	3.8	4.9	6.5	-4.7
Electricity, gas and water	2.7	8.5	-1.5	-0.5	41.3	2.4	3.0	17.0	19.7
Construction	3.7	-17.8	4.5	-3.6	-1.9	-3.0	35.8	18.7	-5.7
Wholesale and retail commerce, restaurants and hotels	3.7	3.8	1.6	5.2	0.8	2.3	2.6	-6.6	6.0
Transport, storage and communications	11.3	8.6	5.0	8.8	3.5	13.1	2.5	-2.7	2.9
Financial institutions, insurance, real estate and business services	17.8	16.9	5.5	3.5	8.2	5.1	7.7	2.2	0.2
Community, social and personal services	3.9	5.8	2.1	2.5	-2.0	4.2	4.0	4.2	6.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.6	3.5	-0.3	-0.9	-2.3	4.8	-0.5	...	...
Government consumption	13.1	5.3	-0.9	4.0	-0.8	11.1	5.1	...	...
Private consumption	6.7	3.2	-0.2	-1.8	-2.6	3.6	-1.7	...	...
Gross capital formation	-5.3	-14.0	-5.4	8.0	1.8	5.0	37.0	...	...
Exports (goods and services)	9.6	13.2	5.7	7.7	15.2	-6.2	2.8	...	...
Imports (goods and services)	2.6	2.1	-7.5	6.7	0.5	-0.3	13.5	...	...
Millions of dollars									
Balance of payments									
Current account balance	-166	-176	-156	-151	-25	-52	-145	-83	-41
Goods balance	-187	-207	-173	-231	-185	-216	-308	-237	-174
Exports, f.o.b.	310	316	307	325	427	426	480	384	476
Imports, f.o.b.	497	522	481	556	612	642	788	621	650
Services trade balance	44	70	88	143	211	234	217	183	200
Income balance	-69	-85	-117	-114	-125	-159	-165	-108	-158
Net current transfers	47	46	46	51	74	97	112	79	92
Capital and financial balance ^c	160	146	125	139	75	75	203	130	45
Net foreign direct investment	25	-11	111	126	108	142	167	108	96
Other capital movements	135	158	13	13	-33	-67	36	22	-51
Overall balance	-5	-30	-31	-12	50	23	58	47	4
Variation in reserve assets ^d	5	30	31	12	-50	-23	-58	-47	-4
Other external-sector indicators									
Net resource transfer	91	61	8	25	-50	-84	38	22	-114
Gross external public debt	652	822	913	970	985	973	958	1 016	1 009
Average annual rates									
Employment									
Unemployment rate ^e	10.0	12.9	11.6	11.0	9.4	8.5	8.2	13.1	...
Annual percentages									
Prices									
Variation in consumer prices (November-November)	...	2.3	3.1	4.2	2.9	4.1	4.4	-0.4	0.0
Nominal deposit rate ^f	4.3	4.8	5.2	5.4	5.8	5.9	6.2	6.3	5.9
Nominal lending rate ^g	14.8	14.4	13.9	14.2	14.2	14.3	14.2	14.1	13.9
Percentages of GDP									
Central government									
Total revenue ^h	24.0	22.6	23.1	23.2	23.7	26.6	29.5	26.1	27.2
Current revenue	22.8	21.3	21.9	22.9	23.3	25.5	26.9	24.5	26.4
Tax revenue	19.0	18.7	19.8	20.5	21.2	22.6	22.7	21.6	23.0
Capital revenue	1.2	1.3	1.3	0.3	0.4	1.1	0.3	0.4	0.5
Total expenditure	31.8	31.7	30.6	30.9	26.7	31.2	27.9	29.0	28.8
Current expenditure	17.9	19.9	22.1	25.2	22.7	24.9	22.7	24.7	24.3
Interest	2.8	3.9	5.7	6.7	5.9	5.3	3.9	3.6	3.4
Capital expenditure	14.0	11.9	8.5	5.7	4.0	6.3	5.2	4.2	4.5
Primary balance	-5.1	-5.2	-1.8	-0.9	2.9	0.7	5.4	0.8	1.9
Overall balance	-6.2	-8.8	-5.9	-7.0	-1.9	-1.2	1.5	-2.9	-1.5

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Money and creditⁱ									
Domestic credit	51.0	57.2	64.1	63.3	64.8	70.5	71.1	74.9	69.9
To the public sector	3.2	5.7	10.6	9.3	8.9	9.3	7.5	7.6	6.9
To the private sector	47.8	51.5	53.5	54.0	55.8	61.2	63.6	67.3	63.0
Liquidity (M3)	57.0	55.7	59.1	59.6	62.0	68.0	72.4	78.3	75.0

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2000 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Percentage of the economically active population, nationwide total.

^f Rate for savings.

^g Weighted average rate for loans.

^h Includes grants.

ⁱ The monetary figures are end-of-year stocks.

in the general sales tax (GST) rate from 10% to 12.5% fuelled a surge in tax receipts, although these receipts still fell below expectations because of zero-rated items such as food and household appliances. An increase in the business tax rate from 1.5% to 6.5% on the supply of electricity, and the imposition of a social fee on the export processing zone boosted revenue from these sources. Likewise, Belize Telemedia Limited dividend payments and transfers from the Public Utility Commission and Financial Services Commission drove up non-tax receipts by over 17%.

On the other hand, growth in expenditure was more moderate at 3.6%. Current expenditure rose by 2.3%, owing to higher allocations for wages and salaries and goods and services. Government subsidies, principally to the Belize City Council and the Belize Trade and Investment Development Service (BELTRAIDE), pushed up transfers and subsidies by 6.5%. Interest payments on government debt registered a small decline, due to a sharp fall in government borrowing from the central bank and the use of low-interest government securities debt. Capital expenditure rebounded from the slump of 2009 to grow by 11.2% (BZ\$ 13 million). However, most of this increase (BZ\$ 10 million) was due to a loan to the Belize Sugar Industries to finance the timely harvesting of the sugar crop. Expenditure on public infrastructure was constrained by implementation problems. Nevertheless, work continued on major projects including the Kendall Bridge and the Belize-Mexico international crossing.

Public-sector debt contracted from 87.8% of GDP in 2009 to 87.1% of GDP in 2010 (but expanded in absolute terms from BZ\$ 2.35 billion in 2009 to BZ\$ 2.43 billion). The decline was associated with a 0.6% reduction in external debt and reflects higher amortization payments in relation to disbursement and downward valuation adjustments linked to the appreciation of the United States

dollar against the special drawing right (SDR) and the euro. Domestic debt (15% of the total) expanded by 13% following a greater issuance of government securities, but the bulk of the proceeds were used to reduce the government's overdraft balance at the central bank.

In its budget for fiscal year 2011/2012, the government projects that the fiscal situation will improve, with the overall deficit declining to 1.57% of GDP from 2.44% of GDP in 2010/2011. Total revenues are projected to increase by 12.1% to BZ\$ 843.6 million, buttressed by petroleum tax revenues, while the increase in total expenditure will be limited to 0.8%. Nevertheless, these targets may prove challenging in the context of a nascent international economic recovery.

(b) Monetary and exchange-rate policy

Monetary policy was modestly expansionary in 2010. In the face of a substantial increase in commercial banks' excess liquidity, partly due to inflows from an improved external current account, the central bank moved to sterilize a part of these flows. A new security regulation was introduced, which required commercial banks to hold a minimum of 6.5% of their average deposit liabilities in the form of treasury bills. At the same time, the required cash reserve ratio, a policy rate, was reduced from 10.0% to 8.5% of average deposit liabilities. This reduction provided extra funds to commercial banks, which enabled them to purchase treasury bills. Furthermore, the central bank increased the issuance of treasury bills to BZ\$ 75 million to allow these banks to augment their purchases.

Reinforcing the reduction in the cash reserve ratio, the minimum savings deposits rate was lowered from 4.5% to 3.5% to encourage lower cost lending to the private sector. However, despite the considerable excess

liquidity in the commercial banking sector, the expected decline in lending rates failed to materialize. In fact, the weighted average lending rate only declined by 20 basis points to 13.78%, while the weighted average deposit rate fell by 51 basis points to 5.61% leading to an increase in the interest rate spread of 31 basis points. In addition, non-performing loans rose sharply from 10.8% in 2009 to 16.1% of total loans in 2010, partly due to problems in the real estate market.

Despite the upturn in activity, the broad money supply (M2) declined by 0.1%, owing to a contraction in net domestic credit related to a large one-off payment from one company. Thus, loans to the private sector declined for the first time in 24 years. Buoyed by strong exports, net foreign assets soared by 11.3% but mainly contributed to banks' excess reserves in the context of the decline in credit. The exchange rate remained fixed at BZ\$ 2.00 to US\$ 1.00.

3. The main variables

(a) Economic activity

Economic activity picked up in 2010 with growth reaching 2.9% compared with 0% growth in 2009. This impetus came from a substantial increase in electricity generation, owing to the full operation of the Vaca Dam and the bagasse plant belonging to Belize Cogeneration Energy Limited (BELCOGEN). Agriculture recovered marginally from the decline in 2009. Sugarcane deliveries expanded by 22.3% to 1,122,765 long tons due partly to an extended crop season. Papaya output rose sharply thanks to higher yields, while output of most of the other major crops including citrus and bananas diminished.

After solid growth in 2009, manufacturing declined by 4.7% in 2010. Despite the addition of a new well, low productivity from existing wells led to a 5.9% decline in petroleum production to 1.51 million barrels. Sugar production was also lower because the cane/sugar ratio worsened from 9.93 in 2009 to 12.73 in 2010, owing to the continuation of harvesting into the rainy season. Similarly, citrus juice output contracted due to lower deliveries and a lower yield of juice per box of fruit.

The services sector, including tourism and distribution turned around from the decline of 2009 to grow by 3.7%. Tourism recovered to grow by 5.5% amid the fledgling recovery in major markets. The high-spending stay-over arrivals were up by 2.2% to 222,632, while cruise passenger arrivals rose by 8.4%. Net tourism receipts were up by 5.7% to stand at US\$ 228 million, reflecting an increase in visitor arrivals. Activity in wholesale and retail trade, transport and communication, and government services were up, buoyed by the recovery in tourism.

The economy is projected to grow by 2.5% in 2011. Activity will be driven by higher citrus, sugar and papaya production. Citrus production is projected to increase by

over 10%, while sugar production will rebound thanks to improved productivity. On the downside, petroleum output is forecast to drop by more than 3%, reflecting reduced productivity at ageing wells.

(b) Prices, wages and employment

In spite of the rally in demand and higher foreign prices, year-end inflation remained flat (0%) in 2010, following deflation in 2009. The prices of food and beverages and household goods and maintenance fell by 2.1% and 2.7% respectively, following the removal of import duties and general sales tax (GST) on basic food and household goods. This reduction outweighed higher price impulses from imported fuel, which pushed up the cost of transport and communication (3.2%) and distribution. In the context of the debt situation and the need for tight fiscal management, public sector wages were contained in 2010 with only the usual salary increments provided to public servants. A labour force survey was not undertaken in 2010; however, employment was expected to pick up in the more dynamic sectors, including tourism and wholesale and retail trade. Inflation is expected to increase to 1.5% in 2011, propelled by the continued high fuel prices and rising domestic demand.

(c) The external sector

The balance of payments continued to improve, with the current account deficit halved from 6.1% of GDP in 2009 to 2.9% of GDP in 2010. The trade deficit narrowed by over 26%, owing to dynamic growth in exports and contained growth in imports. Export earnings were up for most products, including petroleum, citrus, banana and papaya. A fall in citrus production in Florida pushed up

the value of citrus exports by 28.8% to US\$ 46.9 million. Banana exports also benefited from higher prices offered by the distributor Fyffes for the exclusive right to sell Belize's bananas. Exports of petroleum, the main export, expanded by 71% to BZ\$ 103.1 million, reflecting higher export volumes and stronger oil prices linked to increased demand and lower inventories in developed countries.

Bolstered by strengthened economic activity, imports increased by 4.7% after contracting in 2009. Growth in imports was fuelled by the recovery in the cross-border trade in the Corozal Free Zone. Outlays on imports of minerals, fuels and lubricants rose by US\$ 8.5 million, owing to the spike in international fuel prices. With respect to the direction of trade, there is a noticeable shift to trade with China, partly on account of the affordability of its products.

Driven by the recovery in tourism, transport, and business, professional and government services, the services account surplus expanded by 9.5% to US\$ 200 million. Transport also benefited from growth in tourism. The income account deficit widened as lower payments to foreign seasonal workers were offset by higher net outflows of investment income, linked to

steeper debt interest payments and profit remittances from the oil sector. Buoyed by Fair Trade receipts for the sugar industry and other private inflows that outweighed the decline in family remittances, current transfers improved in 2010.

The capital and financial account surplus shrank by almost two thirds to US\$ 33 million. Foreign direct investment (FDI) inflows slumped by over 10% to US\$ 97.5 million with the tapering off of investments in tourism, agriculture and petroleum. This decline was reinforced by net loan repayments by the government and the private sector. Nevertheless, gross international reserves rose marginally to US\$ 218.1 million, equivalent to 4.5 months of imports.

The balance-of-payments current account deficit is projected to widen to 4% of GDP in 2011, since the trade deficit will increase and the service account will be weakened by the reduction in the British military presence in Belize, while public-sector interest payments will be higher following the rate increase on the super bond debt to 6.0%. These developments will be offset by a modest increase in foreign direct investment and remittances and loan inflows to the public sector.

Cuba

1. General trends

Following on from the 1.4% growth recorded in 2009, the economy expanded by 2.1% in 2010. As the population shrank in absolute terms in 2010, per capita GDP grew at a faster rate. The moderate upturn in economic growth in 2010 was attributable mainly to consumption—especially private consumption—which rose by 4.1%, and goods and services exports, which grew by 2.7%. Tourism also flourished and exports, especially of services, benefited from more favourable prices; health services performed particularly well being indexed to the price of oil. For the second consecutive year there was a sharp decline in investment: 7.7% in 2010. This decline and the modest improvement in public-sector consumption made it possible to reduce the fiscal deficit from 4.8% of GDP in 2009 to 3.7% of GDP in 2010, despite a fall in tax revenue. The unemployment rate rose from 1.7% in 2009 to 2.5% in 2010, against the backdrop of significant labour-market reform. The consumer price index¹ had risen by 1.6% in the 12 months to December 2010, compared with a fall of 0.1% in 2009.

The absence of official information on the balance of payments since 2008 precludes a precise analysis of any variations. The extreme shortage of foreign currency, together with higher food and oil prices placed constraints on imports of inputs and equipment, but total imports of goods and services recovered partially in 2010, growing by 19.5% after contracting by 37.4% the previous year.² This probably reflects the greater availability of supplier's credit as a result of bilateral negotiations that have helped to improve Cuba's external payments situation.

In this context the government announced and began to implement a series of changes to Cuba's economic policy aiming to improve productivity by expanding the role of the non-State sector. Specifically, the announced changes include: (i) labour reform, for example, the

reassignment of public-sector workers, the authorization of employment in non-State activities and the generation of public revenue by taxing these activities; (ii) expanding the participation of non-State entities, such as cooperatives and semi-public enterprises, in the agro-industry, tourism and housing sectors, by granting State enterprises greater management autonomy; (iii) eliminating certain subsidies for State companies and giving them more leeway in the area of pricing within certain limits; and (iv) making control and planning mechanisms more flexible by decentralizing decision-making on investment. Between October 2009 and the first four months of 2010, 310,000 independent workers were registered, of whom 16% (49,500) were former State workers. A gradual process is under way, seeking to eliminate 1.3 million posts during the current five-year period (2011-2015).

ECLAC is of the view that economic growth could accelerate slightly in 2011 to a rate of about 3%, given

¹ The consumer price index covers only products priced in Cuban pesos.

² Food imports make up about 17% of the total.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Annual growth rates^b								
Gross domestic product	1.4	3.8	5.8	11.2	12.1	7.3	4.1	1.4	2.1
Per capita gross domestic product	1.2	3.6	5.6	11.1	12.0	7.2	4.1	1.4	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.5	2.4	0.2	-11.6	-6.0	18.0	0.6	3.4	-2.9
Mining and quarrying	12.4	1.8	-4.7	0.1	1.9	3.4	1.1	-2.6	5.3
Manufacturing	0.2	-2.0	2.5	1.2	2.7	9.9	5.7	-0.3	0.5
Electricity, gas and water	2.4	3.1	-2.5	-1.6	3.4	7.9	0.6	0.8	-0.8
Construction	-2.4	4.4	10.0	18.9	37.7	-8.6	2.4	1.3	-12.2
Wholesale and retail commerce, restaurants and hotels	2.0	5.0	0.7	4.8	22.7	0.5	-0.9	2.0	2.7
Transport, storage and communications	0.0	2.7	4.8	8.2	9.2	6.7	6.7	3.2	3.2
Financial institutions, insurance, real estate and business services	1.2	0.2	4.9	1.0	2.8	8.1	3.5	0.9	0.6
Community, social and personal services	3.4	7.7	14.2	29.6	8.9	14.5	7.4	3.1	5.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.7	6.5	3.7	3.6	15.0	4.4	-0.3	1.2	4.1
Government consumption	4.1	7.3	8.6	10.4	7.9	10.5	2.6	1.7	3.2
Private consumption	2.1	6.2	1.5	0.4	18.7	1.5	-1.8	0.9	4.6
Gross capital formation	-10.8	-9.6	13.5	33.0	26.0	2.4	21.9	-19.0	-7.7
Exports (goods and services)	-3.8	5.8	19.0	47.5	1.3	13.8	11.6	3.1	2.7
Imports (goods and services)	-7.3	12.1	13.0	25.8	20.4	-1.1	7.4	-14.9	5.2
	Percentages of GDP								
Investment and saving^c									
Gross capital formation	9.2	8.5	8.8	10.8	11.7	10.2	14.8	10.3	...
National saving	8.2	8.6	9.1	11.1	11.3	11.0	...	...	...
External saving	1.0	-0.1	-0.3	-0.3	0.4	-0.8	...	...	...
	Millions of dollars								
Balance of payments									
Current account balance	-343	20	116	140	-215	488	...	...	...
Goods balance	-2 388	-2 574	-2 918	-5 235	-6 331	-6 253	...	...	...
Exports, f.o.b.	1 422	1 671	2 180	2 369	3 167	3 830	...	...	...
Imports, f.o.b.	3 810	4 245	5 098	7 604	9 498	10 083	...	...	...
Services trade balance	1 825	2 329	2 710	6 375	6 456	7 900	...	...	...
Income balance	-600	-650	-650	-633	-618	-960	...	...	...
Net current transfers	820	915	974	-367	278	-199	...	...	...
Capital and financial balance ^d	300	200	800	...	...	...	...	...	...
Overall balance	-43	220	916	...	...	...	...	...	...
Variation in reserve assets ^e	43	-220	-916	...	...	...	...	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	94.2	99.8	106.2	105.1	112.2	115.1	126.0	126.0	124.7
Nominal exchange rate (cuban convertible pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Implicit nominal exchange rate (cuban pesos per dollar)	26.00	26.00	26.00	26.00	24.00	24.00	24.00	24.00	24.00
Terms of trade (index: 2005=100)	80.9	93.2	102.7	100.0	126.3	132.9	...	...	...
Gross external public debt (millions of dollars) ^g	10 900	11 300	5 806	5 898	7 794	8 908	...	...	...
	Average annual rates								
Employment									
Labour force participation rate ^h	71.0	70.9	71.0	72.1	72.1	73.7	74.7	75.4	74.9
Unemployment rate ⁱ	3.3	2.3	1.9	1.9	1.9	1.8	1.6	1.7	2.4
	Annual percentages								
Prices									
Variation in consumer prices ^j (December-December)	7.3	-3.8	2.9	3.7	5.7	10.6	-0.1	-0.1	1.5
Variation in average real wage	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Nominal lending rate ^k	...	9.6	9.7	9.8	9.4	9.1	9.0	9.3	9.3

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue	35.0	35.7	33.8	44.0	43.2	46.0	49.1	48.9	45.2
Current revenue	33.9	34.4	32.8	42.5	41.7	43.7	47.3	47.1	43.3
Tax revenue ^l	26.6	26.9	23.3	28.7	30.0	27.7	23.3	21.3	18.2
Capital revenue	1.2	1.3	1.1	1.5	1.5	2.3	1.8	1.8	1.9
Total expenditure	38.0	38.7	37.6	48.6	46.4	49.2	56.0	53.8	48.7
Current expenditure	30.7	31.7	30.2	38.9	33.6	38.3	45.1	42.8	40.8
Interest	0.7	0.7	0.7	1.2	1.2	1.4	1.4	1.1	1.3
Capital expenditure	5.8	5.8	6.0	7.2	9.1	8.3	8.1	8.2	5.1
Primary balance	-2.3	-2.2	-3.0	-3.3	-2.0	-1.8	-5.5	-3.8	-2.1
Overall balance	-3.0	-3.0	-3.7	-4.6	-3.2	-3.2	-6.9	-4.8	-3.4
Money and credit^m									
Currency outside banks and local-currency deposits (M2)	40.6	37.7	38.0	45.9	38.1	36.8	41.5	41.2	40.7

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

^a Preliminary figures.

^b On the basis of figures in national currency at constant 1997 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Provisional figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

^g From 2004, refers only to active external debt; excludes long-term debt, 60.2% of which is official external debt with the Paris Club.

^h Economically active population as a percentage of the working-age population; nationwide total.

ⁱ Percentage of the economically active population, nationwide total.

^j Local-currency markets.

^k Corporate lending rate in Cuban convertible pesos.

^l After devolutions.

^m The monetary figures are end-of-year stocks.

that no significant increase in public investment is planned for 2011 and the projected fiscal deficit is similar to that recorded in 2010 as a percentage of GDP. The factors contributing to this faster growth are the upturn in total consumption and exports, associated with the expansion of the non-State sector and a certain level of financial autonomy granted to State and semi-public enterprises in the export sectors, including nickel, sugar, tourism and other services. Lending to self-employed

workers and agricultural producers, authorized since March 2011, as well as higher remittances and a more flexible tax policy, could help to increase consumption and investment; however, the amounts involved remain small as the transition is a gradual process. With regard to the external accounts, the surplus in the goods and services trade balance recorded in 2010 is expected to narrow in 2011, in particular as a result of additional disbursements on food imports.

2. Economic policy

Despite lower fiscal revenues, the reduction in public spending made it possible to narrow the fiscal deficit in 2010, while a new tax regime was applied to own-account activities. The dual exchange-rate system remained unchanged; it consists of a convertible peso and a non-convertible peso—the latter being used only for domestic transactions. The convertible peso was devalued by 8% in nominal terms to put it on a par with the United States dollar.

(b) Fiscal policy

The public-sector balance improved, as the fiscal deficit narrowed from 4.8% of GDP in 2009 to 3.7% of GDP in 2010. A fiscal deficit of 3.8% of GDP is projected for 2011. The deficit was cut in 2010 as public spending was reduced by more than the decrease in fiscal revenue. In 2010 fiscal revenues fell by 2.7%, following the 5.1% decline in tax revenues due to the 17.4% slump

in taxes on sales and goods and services. At the same time direct taxes went up by 6.8%. Non-tax revenues, which represented 27.3% of total fiscal revenues in 2010, remained virtually unchanged, contracting by only 0.2%.

Total public spending declined by 4.0% in 2010 as a result of cost-cutting and efficiency measures, especially in relation to health, culture and art, and owing to lower capital spending. Public health was allocated 10.9% less of the budget than the previous year as a consequence of rationalization measures, which included the reassignment of support staff (but not medical or nursing staff), and the establishment of a new financial regime for pharmacies in order to make them less dependent on the budget. Action was also taken to promote the self-financing of art and cultural activities.

Spending commitments in relation to education declined owing to a drop in enrolments in primary schools (because of demographic changes), higher education (as a result of new entrance examinations) and adult education (as temporary programmes drew to a close). However, the increase in wages for teaching staff far outweighed these savings and spending on education therefore rose by 1.4% in 2010. Certain subsidies were reduced and capital spending diminished by 23.8%, as companies turned more to banking credit to finance their investments. Even though fiscal revenues are projected to increase in 2011, a similar deficit to that of 2010 is expected as additional resources are being allocated to capitalizing State companies with a favourable outlook that are currently experiencing financial problems.

The increase in the number of self-employed workers, as well as the government's announcement in 2011 that it was authorizing the buying and selling of automobiles and houses, should lead to higher government revenues in the next five-year period. There are currently four types of tax in Cuba: (i) income tax, by activity; (ii) sales tax; (iii) public services tax; and (iv) payroll tax, which is applied to employers. The new arrangement

establishes that all self-employed Cubans must set aside 25% of their income for social security so that they can claim a pension. In 2011, it was announced that this regime was to be made more flexible, for example, by including a possible grace period for own-account companies during the initial start-up phase, changes to take account of the specific economic conditions of the different municipalities and lower charges for companies who rent premises.

(b) Monetary and exchange-rate policy

The dual exchange-rate system remained unchanged in 2010; it consists of a convertible peso and a non-convertible peso—the latter being used only for domestic transactions. Monetary aggregates measured as a percentage of GDP contracted over the year as a whole. M1 went from representing 25.5% of GDP in 2009 to 24% of GDP in 2010, while M2 dropped from 41.2% to 40.6%. The central bank has thus been able to maintain a supply/demand balance for both currencies and to avoid exchange-rate fluctuations.

In 2010, the government continued the bilateral process of renegotiating its external debt, which began in 2009 as part of its foreign-exchange management strategy, seeking more flexible repayment terms in 2010 than in 2009. In addition, it also began to reintroduce convertibility in the business sector; a process that had been partially suspended in 2009 because of the extreme scarcity of foreign exchange. In the first quarter of 2011, the government devalued the Cuban convertible peso by 8%, thus bringing the currency back on a par with the United States dollar, as it had been until 2005.

In March 2011, the government announced a new banking and loans policy making it possible to provide microcredit to agricultural producers and self-employed workers. The first microcredits are already being used to purchase equipment and inputs from retail outlets.

3. The main variables

(a) Economic activity

Consumption rose by 4.1%, driven in particular by the 4.6% expansion in private consumption as a result of increased remittances, an increase in public-sector wages and higher earnings among producers in rural areas. Together with the upturn in exports, this factor contributed significantly to higher economic growth in

2010 than in 2009. Public consumption grew to a lesser extent (3.2%). There was no halt in the decline in gross domestic investment, which fell by 7.7% in 2010. There is an ambitious portfolio of investment projects (relating to petrochemicals, mining, cement and port facilities) to be undertaken by State and semi-public enterprises, but the shortage of foreign currency and delays in the design of certain components have prevented them from

being started in 2011; however they are expected to begin in 2012. Goods and services exports, which make up about a quarter of GDP, expanded by 2.7% in 2010, while imports rose by 5.2%, after falling sharply in 2009.

The goods sector posted zero growth in 2010, while the basic services sector (which includes electricity, gas, water, construction, transport and communications) shrank by 3.1%. Only the category of other services (which includes commerce, hotels and restaurants, financial intermediation, education, public health and professional services) recorded growth (4.0%). Agriculture and forestry fell by 2.8% overall, with the drop in the production of potatoes, taro, tomatoes, onions, rice, beans, oranges, mangoes and guavas contributing to this decline. Sugar cane exports plummeted: only 560 tons were exported from the 2009/2010 sugar cane harvest, compared with 740 tons from the previous harvest and 804 tons from the 2007/2008 harvest; however, the decline in volumes was more than offset by the higher prices in 2010. The production of poultry and cow's milk also fell. Manufacturing grew slightly (1.5%), while the construction sector slumped by 12.2% owing to diminishing public investment.

The process of granting land usage rights, which began in September 2008, was 57% complete, according to the original plans, by June 2011. Of the land that has already been handed over (1,007,112 hectares), 59.6% has been designated for livestock production, 26.8% for tubers and vegetables, 7.7% for rice, 3.4% for coffee and cacao, 1.2% for fruit trees and forests and 1.5% for tobacco and sugar. According to the National Centre for Land Control, 46% of the land that has been distributed is already in use. The factors delaying the use of the remaining land include high levels of infestation of marabou and other weeds; a lack of resources, equipment and labour; and the drought that hit Cuba in 2009 and the first half of 2010. During the first quarter of 2011, crop production (excluding sugar) went up by 14%, reflecting higher production in the non-State sector, which can be attributed to the incentive that the government gave by increasing the price it pays farmers for their produce. Nevertheless, as a consequence of the severe drought that once again hit Cuba in the first half of 2011 the initial pace of growth is unlikely to continue throughout the rest of the year.

(b) Prices, wages and employment

The consumer price index increased by 1.6% in 2010, compared with a decline of 0.1% in 2009.³ This may be partly due to the gradual withdrawal of products

from the rationing system, as well as higher food prices on the international markets. The average monthly wage rose by 4.4% in nominal terms in 2010, increasing from 429 Cuban pesos to 448 Cuban pesos; teachers' monthly wages also improved.

As a result of the readjustment of the labour market, the number of employed persons fell in absolute terms in 2010 and the unemployment rate increased from 1.7% to 2.5%. The unemployment rate for men rose by more than that for women: almost 1 percentage point compared with an increase of 0.7 percentage points for women. Of the 310,000 self-employed workers registered at the end of the first four months of 2011, 21% of them are in Havana and one fifth are involved in the preparation and sale of food products. Of all the self-employed workers, 16% were former State employees and the same percentage were retirees. As it has proved difficult to quickly absorb workers from the public sector into the non-State sector, in April 2011 the government agreed to slow the pace with which it is reducing the State payroll.

(c) The external sector

In 2010 Cuba's trade balance improved in relation to 2009. The value of goods exports shot up by 59.7%, while good imports rose by 19.5%. The expansion of goods exports is attributable in particular to the favourable prices for products such as nickel and sugar. Services exports also rose owing to growth in tourism and the higher value of other exported services (such as health services) as a result of indexing prices for services to the oil price. The government's strategy for international integration has focused on boosting services exports —of which tourism made up approximately 25% in 2010— which represented about 70% of total goods and services exports in 2010.

Imports expanded by 19.5%, but did not return to pre-2009 levels, which clearly shows the impact of the external restrictions on the performance of the Cuban economy, despite the substantial renegotiation of its external financial commitments in 2010. Despite the significant effort that has been made to use energy more efficiently, as seen in the reduction of thermal energy use, higher oil prices led to a steeper bill for this commodity, which accounted for 42.0% of total goods imports in 2010, compared with 29.7% in 2009. This, along with increased imports of wheat and maize, led to the contraction of the share of other imports.

Remittances are playing a significant role in injecting vigour into the domestic market, particularly in view of the updating of the Cuban economic model. Remittances increased by an estimated 13.7% in 2010, in part because the United States relaxed its restrictions,

³ See footnote 1.

totalling some US\$ 2 billion, which is 50% higher than the official figure. They are expected to continue rising in 2011, following the announcement in early 2011 by the United States government that non-family remittances up to US\$ 2,000 per year would henceforth be permitted. Religious institutions were authorized to receive unlimited remittances to finance their activities. Previously, only Cuban-Americans could send money (an unlimited amount) from the United States to family members in Cuba.

In 2010, Cuba received 2.5 million tourists, 4.2% more than in 2009. The main countries of origin of those tourists were Canada (37.3% of the total), the United Kingdom

(6.9%), Italy (4.4%), Spain (4.1%) and Germany (3.7%). As a result of this increase in numbers, foreign exchange inflows from tourism rose by 5.3% compared with 2009. In the first five months of 2011, the number of tourists was approximately 10% higher than in the same period in 2010. The relaxation of the restrictions on travel to Cuba announced by the President of the United States may result in a higher number of tourists from the United States visiting the island in 2011. In addition, the Government of the United States announced that all international airports in the United States could apply to offer charter flights to and from Cuba (until now only airports in Miami, New York and Los Angeles offered flights to Havana).

Guyana

1. General trends

The Guyanese economy continued to show strong growth due to buoyant commodity prices and robust domestic demand. Growth in 2010 was estimated at 3.6%, up from 3.3% in 2009. This performance was observed despite a 5.5% contraction in the sugar industry, which is a mainstay of the domestic economy and a key contributor to foreign-exchange earnings in Guyana. The non-sugar economy grew by 4.3%. In 2011 GDP growth of 4.0% is forecast owing to the continuing difficulties in the sugar industry.

In line with the expansion in domestic activity, public finances also improved as tax revenues increased. Foreign-exchange inflows were boosted by foreign direct investment and remittances, which improved considerably relative to 2009. Consequently, the foreign exchange market was stable and monetary policy moderately expansionary, resulting in a fall in interest rates, which led to credit expansion in a number of sectors.

Guyana has also continued to pursue its low-carbon development strategy and expects to receive further support for this endeavour in 2011. Under the terms of a memorandum of understanding signed with the

Government of Norway for the joint implementation of the strategy, the first performance-based funds of US\$ 30 million were deposited in 2010 with the Guyana REDD (Reducing Emissions from Deforestation and Degradation) + Investment Fund (GRIF). Payments to Guyana by the Government of Norway will amount to approximately US\$ 250 million over the period to 2015, depending on Guyana's performance based on an evaluation methodology set out by the two countries in November 2009. This arrangement will certainly boost confidence in the economy and may attract further foreign-exchange inflows in the future.

2. Economic Policy

(a) Fiscal Policy

The fiscal policy stance was restrained after a period of rising public expenditure, especially in infrastructure. The fiscal deficit of \$13.4 billion Guyana dollars (G\$) in 2010 corresponded to around 3% of GDP compared with a deficit of 3.7% in 2009. Central government revenue in 2010 stood at G\$ 108 billion, representing an increase of 14% over 2009. At the same time, tax revenue grew

by 13.3% and non-tax revenue was up by 19.1%. These revenue increases reflected the vibrancy of the domestic private sector.

Two taxes that showed substantial gains were corporate taxes (21.5%) and income taxes paid by the self employed (18.5%), which, according to the budget of fiscal year 2010/2011, was due to higher reported profits. Meanwhile, revenue from income taxes deducted at source increased by 15.8%. The higher import duties also triggered a 20%

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	1.1	-0.6	1.6	-2.0	5.1	7.0	2.0	3.3	3.6
Per capita gross domestic product	0.9	-0.9	1.3	-2.1	5.1	7.0	2.1	3.5	3.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	24.1	-1.7	3.2	-13.7	6.5	0.6	-2.9	1.3	0.5
Mining	-6.9	-8.7	-6.5	-17.8	-21.6	14.7	-0.1	-2.9	-6.9
Manufacturing ^c	-45.2	-2.2	0.0	12.0	5.2	3.0	-4.4	4.3	0.3
Construction	-3.9	5.6	4.1	9.4	12.0	7.3	2.2	0.5	10.8
Wholesale and retail commerce, restaurants and hotels	-0.9	-2.6	1.9	15.0	10.1	8.7	4.5	9.8	10.2
Transport, storage and communications	4.5	4.9	3.6	9.4	10.0	16.3	7.7	1.3	6.7
Financial institutions, insurance, real estate and business services	-0.8	1.6	1.0	6.3	8.4	0.1	7.8	8.5	7.5
Community, social and personal services	-0.8	1.1	1.2	3.2	3.4	6.6	4.3	4.8	3.3
Millions of dollars									
Balance of payments									
Current account balance	-62	-45	-20	-158	-250	-189	-321	-220	-239
Goods balance	-24	-17	-8	-233	-300	-365	-522	-401	-526
Exports, f.o.b.	490	508	584	551	585	698	802	768	892
Imports, f.o.b.	514	525	592	784	885	1 063	1 324	1 169	1 418
Services trade balance	-24	-15	-47	-53	-98	-100	-113	-102	-97
Income balance	-55	-55	-39	-39	-69	-11	-15	-17	13
Net current transfers	40	43	74	167	216	287	329	300	371
Capital and financial balance ^d	84	59	41	166	293	188	327	454	356
Net foreign direct investment	44	26	30	77	102	110	178	164	270
Other capital movements	41	33	11	89	191	78	149	290	86
Overall balance	22	14	21	8	43	-1	6	234	117
Variation in reserve assets ^e	-13	-5	-10	-24	-61	-37	-43	-271	-155
Other financing	-9	-9	-11	16	18	39	38	37	38
Other external-sector indicators									
Net resource transfer	20	-6	-10	143	242	215	350	474	407
Gross external public debt	1 247	1 085	1 071	1 215	1 043	719	834	937	1 043
Average annual rates									
Prices									
Variation in consumer prices (December-December)	6.0	5.0	5.5	8.2	4.2	14.1	6.4	3.6	4.5
Variation in nominal exchange rate (annual average)	1.8	1.7	2.3	0.8	0.2	1.1	0.6	0.2	-0.2
Nominal deposit rate ^f	4.3	3.8	3.4	3.4	3.3	3.2	3.1	2.8	2.7
Nominal lending rate ^g	17.3	16.6	16.6	15.1	14.9	14.1	13.9	14.0	15.2
Percentages of GDP									
Central government									
Total revenue ^h	25.4	23.4	24.8	26.4	27.4	26.0	25.4	23.0	23.8
Current revenue	20.2	19.8	20.7	21.4	21.4	22.8	21.1	23.0	23.8
Tax revenue	18.5	18.1	19.4	20.2	20.1	22.0	20.2	21.6	22.3
Total expenditure	28.9	29.1	29.1	34.9	35.6	30.5	29.2	30.8	29.4
Current expenditure	21.8	21.6	20.1	21.6	21.3	18.4	20.0	19.5	19.1
Interest	4.8	3.9	3.1	2.8	2.4	1.8	1.7	1.6	1.7
Capital expenditure	7.1	7.5	9.0	13.4	14.3	12.2	9.2	11.4	10.3
Primary balance	1.3	-1.9	-1.2	-5.7	-5.8	-2.8	-2.1	5.1	6.5
Overall balance	-3.6	-5.7	-4.3	-8.5	-8.2	-4.5	-3.8	-3.7	-3.0
Money and creditⁱ									
Domestic credit	13.2	11.0	15.0	15.2	14.8	12.8	15.3	11.4	12.3
To the public sector	-10.0	-5.8	-0.4	-1.2	-3.6	-5.4	-4.7	-8.1	-9.1
To the private sector	26.6	21.2	19.4	19.9	21.2	20.8	22.8	22.8	24.8
Others	-3.4	-4.4	-4.0	-3.6	-2.8	-2.6	-2.8	-3.4	-3.4
Liquidity (M3)	44.5	46.3	46.0	47.2	49.2	46.4	47.0	48.9	51.5

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2006 prices. Up to 2006, based on figures in local currency at constant 1988 prices.

^c Includes electricity, gas and water.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Small savings rate.

^g Weighted average prime rate.

^h Includes grants.

ⁱ The monetary figures are end-of-year stocks.

rise in revenue from imports. The increase in the value added tax was a more modest 8.2%. Grants totalled G\$ 11.7 billion, down by 32.6% from the previous year.

Expenditure increases were moderate as government expenditure went up by 4.5% over 2009 to stand at G\$ 133.1 billion, while current expenditure rose by 7.4% to G\$ 86 billion. Meanwhile, capital expenditure was largely unchanged at G\$ 47 billion.

In 2010, Guyana received debt relief totalling more than US\$ 100 million through the Highly Indebted Poor Country (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI). In spite of this, the gross stock of both domestic and external debt increased, but as a share of GDP they were 22.1% and 46.8%, respectively, down from 22.3% and 48.5% in 2009. These numbers appear far lower than in previous years because GDP was rebased with effect from 2006, in most cases upward to reflect the inclusion of new classes of products. This upward adjustment in GDP is the direct cause of the reduction in these debt indicators.

(b) Monetary policy

With revenues increasing and the foreign-exchange market remaining relatively stable, the monetary policy stance consisted in maintaining a low inflation regime while focusing on lowering interest rates to facilitate access to credit by the private sector. Credit to the private and public sector grew by 19% and 24%, respectively. Regarding the private sector, credit expansion was due to a 71.5% jump in credit to the mining and quarrying sector, a 32% expansion of

credit to the agricultural sector and increases of 18.7%, 24.8% and 24% to the manufacturing, distribution and real-estate sectors, respectively. These figures point to the buoyancy of private investment, especially in such areas as mining, which has been taking advantage of the very high price for gold on international markets. Credit to the public sector expanded by 24.9% in 2010 to meet the government's borrowing requirements for infrastructure projects.

In line with the positive economic performance, broad money expanded by 15.5% in 2010 compared with 8.7% in 2009, while M1 increased by 21.8%. These expansions reflected both the currency in circulation and private-sector deposits, which increased by 19.7% and 12.4%, respectively, in 2010.

The benchmark rate, which is the 91-day treasury bill rate, declined by 40 basis points to 3.78% and consequently interest rates declined as the weighted average lending rate diminished to 11.97% from 12.18% in 2009. The small savings rate also slipped, from 2.78% to 2.64%, and the interest rate spread remained relatively stable at just over nine percentage points.

(c) Exchange-rate policy.

In 2010 there was relative exchange-rate stability as the value of the Guyana dollar appreciated by 0.45% against the United States dollar to reach \$G 202.58 to US\$ 1. There was also an increase in the value of transactions on the foreign-exchange market. The volume grew by 9.24% to US\$ 5.13 million, which was in line with accelerating trade and foreign exchange inflows.

3. The main variables

(a) Economic activity

The Guyanese economy registered growth at 3.6% in 2010. The positive economic performance in the last five years has been due to improved prices for commodities such as gold, sugar and rice and to the fact that producers have been able to boost supply in the wake of these price increases. In terms of the distribution of output, agriculture, forestry, fishing and hunting accounted for 18.5% of GDP, with mining at 6.6% and construction at 9.4%. In addition, the manufacturing sector contributed 7.2% to GDP and transport, storage and communication 13.6%.

Sugar, a major contributor to output (5.4% of GDP), experienced a contraction in production and earnings in 2010 due to a drop in the price of sugar and in export volumes. This sector's export earnings decreased by 13.2%, while the amount exported was down by 3.7%. The fall-off in production reflected the persistence of various problems in the industry, including industrial unrest and managerial problems, despite considerable investment in upgrading the industry. The sector is projected to grow by 35.3% but this may be difficult in light of ongoing industrial and other difficulties.

Rice production stood at 360,996 tonnes in 2010, representing an expansion of 0.4%, and the second highest

annual output for the industry in a decade. The rest of the agricultural sector grew by 3.2%, in 2010, partly because of campaigns encouraging farmers to grow more food and because a bridge was built across the Berbice river, making it easier for them to transport their produce.

The mining and quarrying sector declined by 6.9%. The bauxite industry continued to experience difficulties and ended the year with a contraction of 9.8%. This was due to sluggish international demand and a build-up of inventories in the industry. The picture was different for the gold industry. With the rise in gold prices and investment in increased capacity, gold earnings expanded by 2.9%.

The manufacturing sector was basically stagnant in 2010, as the overall sector grew by 0.3%, which is considerably weaker than the growth of 4.3% recorded in 2009.

The construction sector continued to perform well in 2010. Building activity in the commercial and industrial sectors and the government's infrastructure projects, including housing construction, contributed to 10.8% growth. With the continuation of the government's capacity-building programme, the sector is expected to expand by 4.5% in 2011.

Financial and insurance services grew by 9.3% in 2010, which was slightly lower than in 2009, and contributed 4% of GDP, reflecting the growing strength of the domestic economy.

Considerable investment during 2010 stimulated growth in the information and communications services, while transportation and storage and government services such as education, health and social services also turned in positive results. In 2011, real GDP growth is expected to stand at 4%, somewhat lower than originally estimated owing to continuing weakness in the sugar industry and ongoing industrial unrest. On the other hand, with general elections scheduled for the end of 2011, spending on government services will undoubtedly increase.

(b) Prices, wages and employment

The inflation rate was 3.6% in 2009 and 4.5% in 2010 and this reflected the dampened economic conditions abroad, which moderated inflationary pressures in the latter part of the year. Another reason for the moderate rise in inflation was that the government continued to apply concessional excise tax rates on fuel products,

lowering the impact of high world fuel prices. These and other countercyclical measures have been in place since the time of the crisis.

A number of categories of workers received wage increases of 5% in 2010 and among these were public servants and police and army personnel. Teachers received a 1% rise as an incentive payment under a multiyear agreement covering the period 2006-2010.

(c) The external sector

The current account deficit was slightly larger in 2010 relative to 2009. In 2010 it was US\$ 239 million compared with US\$ 220 million in 2009; this was due to improvements in many of the subaccounts. For example, merchandise imports increased by 21% to US\$ 1.42 billion, reflecting increased economic activity. On the other hand, merchandise export earnings grew by 16% in 2010, to stand at US\$ 891.9 million.

The goods and services balance further deteriorated by 24% from a deficit of US\$ 502 million in 2009 to a deficit of US\$ 623 million in 2010. Earnings from sugar were 13% below the 2009 level, following a decline in prices and production volumes, while other exports including bauxite earnings picked up in 2010. The higher bauxite earnings were due to increased average prices, since export volumes were down. The services balance showed an improvement of 4.2% in 2010, as the deficit narrowed by about US\$ 5 million.

According to the budget for fiscal year 2010/2011, workers' remittances increased by 40.3% to US\$ 367.8 million and this was due to more buoyant economic activity in major host countries. The financial account balance deteriorated from US\$ 417 million in 2009 to US\$ 312.2 million in 2010. Foreign direct investment continued to flow in steadily, soaring by 64% in 2010 to reach US\$ 269.7 million or 17.8% of GDP.

Thus, the gross overall external reserve position of the Bank of Guyana improved by 24%, moving from US\$ 628 million in 2009 to US\$ 780 million in 2010. Meanwhile, new international reserves increased by 27% in 2010, from US\$ 56.9 million in 2009 to US\$ 72.4 million, representing 6.1 months' worth of import cover.

Reserves are expected to increase more modestly in 2011, by US\$ 24.4 million, as the import bill will outweigh export earnings, leading to a wider current account deficit.

Haiti ¹

1. General trends

Now that a year and a half have passed since the devastating earthquake that struck Haiti in January 2010, it is time to take stock of the progress made in rehabilitation and reconstruction. The Haitian Institute of Statistics and Information Sciences estimates that the country's gross domestic product (GDP) contracted by 5.1% in real terms in fiscal year 2010, much less than originally forecast. One of the contributory factors may have been the 15% increase in final effective household consumption, supported by transfers and grants in kind. At the sectoral level, since the agricultural sector was not as hard hit, the fall in GDP was not as sharp as it might have been, despite a 15% decline in manufacturing and an 8% contraction in commerce.

The main macroeconomic indicators also suggest that the impact was less severe than had been predicted. Average inflation stood at 4.2% and the fiscal deficit was equivalent to 2.1% of GDP. The balance-of-payments current account deficit (equivalent to 2.3% of GDP) was attributable to the steep rise in the value of imports (38%) compared with a modest increase (3%) in exports.

This stability in inflation and public finances was observed at a time when the country was in the throes of a grave humanitarian crisis due to the earthquake and the cholera outbreak, which claimed 5,000 lives.

The outlook for fiscal year 2011 is for a robust economic upturn with an 8% rise in GDP, fuelled by stronger external resources and a more dynamic reconstruction. A number of political and economic weaknesses persist, however. The solution of the political weaknesses will depend on communication between the executive and legislative

branches, bearing in mind that the recently elected president has very little support in congress. The campaign strategies of the new president were built around three pillars: free and universal primary education, relocation of the earthquake victims and revitalization of the agricultural sector. The authorities have been considering setting up a national primary education fund using specific taxes on telecommunications and remittances.

In terms of economic recovery in 2011, the government will need to reconcile its priorities and adjust its timeliness on the basis of actual disbursements of external funds by the international community. The availability of these funds on a timely basis is crucial for public investment and social programmes and projects. The escalation in international hydrocarbon and food prices is bound to have an impact on the economy in the coming months, but the extent of this is not yet clear.

¹ The period under consideration encompasses fiscal year 2010 (October 2009-September 2010) and a few months of fiscal year 2011; however, in some cases, statistics relating to the calendar year have been used for ease of comparison with regional data.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	-0.3	0.4	-3.5	1.8	2.3	3.3	0.8	2.9	-5.1
Per capita gross domestic product	-1.8	-1.2	-5.0	0.2	0.6	1.7	-0.8	1.2	-6.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-3.7	0.2	-4.8	2.6	1.4	2.3	-7.5	5.2	0.0
Mining and quarrying	2.2	0.7	-5.0	4.5	7.1	0.0	6.7	6.3	0.0
Manufacturing	1.6	0.4	-2.5	1.6	2.3	1.3	-0.1	3.7	-14.7
Electricity, gas and water	2.0	3.3	11.1	7.1	-22.7	-1.7	-8.8	30.8	1.5
Construction	1.0	1.9	-2.7	3.0	2.9	2.6	5.2	3.1	4.1
Wholesale and retail commerce, restaurants and hotels	2.9	0.6	-6.4	1.4	3.0	6.1	5.7	1.1	-7.9
Transport, storage and communications	-0.2	1.6	0.8	3.2	4.5	8.1	6.3	2.5	-2.8
Financial institutions, insurance, real estate and business services	-1.5	0.2	-0.8	1.3	2.0	1.8	3.2	0.1	-7.1
Community, social and personal services	1.1	-1.4	-3.2	1.6	1.5	4.6	4.9	0.3	1.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.2	0.9	-3.7	5.8	1.2	2.2	1.7	3.9	15.4
Gross capital formation	2.5	3.1	-3.2	1.4	2.2	3.1	2.8	3.2	-6.5
Exports (goods and services)	-2.1	7.2	9.8	0.0	7.2	-2.9	13.6	9.9	-7.3
Imports (goods and services)	-1.2	3.2	-1.1	6.6	1.9	0.5	5.3	5.8	19.7
Percentages of GDP									
Investment and saving^c									
Gross capital formation	25.1	30.7	27.3	27.4	29.3	30.5	28.8	27.4	25.0
National saving	22.3	29.1	25.8	27.6	27.6	29.2	24.3	23.9	22.7
External saving	2.8	1.6	1.5	-0.2	1.7	1.3	4.5	3.5	2.3
Millions of dollars									
Balance of payments									
Current account balance	-89	-44	-56	7	-85	-75	-289	-227	-155
Goods balance	-706	-782	-833	-849	-1 053	-1 182	-1 618	-1 481	-2 243
Exports, f.o.b.	274	334	377	460	495	522	490	551	565
Imports, f.o.b.	980	1 116	1 210	1 309	1 548	1 704	2 108	2 032	2 809
Services trade balance	-123	-164	-204	-399	-399	-412	-403	-394	-1 030
Income balance	-14	-14	-12	-35	7	2	6	13	21
Net current transfers	754	917	993	1 290	1 361	1 517	1 726	1 635	3 097
Capital and financial balance ^d	8	36	91	27	179	273	387	76	1 139
Net foreign direct investment	6	14	6	26	161	75	30	38	150
Other capital movements	3	22	85	1	18	199	357	38	989
Overall balance	-81	-8	35	34	94	198	98	-150	984
Variation in reserve assets ^e	49	25	-50	-22	-109	-208	-171	-240	-845
Other financing	32	-17	15	-12	15	10	73	390	-139
Other external-sector indicators									
Terms of trade for goods (index: 2005=100)	108.4	106.8	103.8	100.0	96.2	93.5	67.2	87.0	84.1
Net resource transfer (millions of dollars)	26	5	94	-20	201	286	465	479	1 022
Gross external public debt (millions of dollars)	1 229	1 316	1 376	1 335	1 484	1 628	1 917	1 272	307
Annual percentages									
Prices									
Variation in consumer prices (December-December)	16.5	35.8	19.1	15.3	10.3	10.0	10.1	2.0	6.2
Variation in nominal exchange rate (annual average)	18.3	38.0	-8.8	9.3	0.3	-7.2	6.3	2.1	-0.2
Variation in average real wage	-8.9	33.5	-14.7	-13.2	-11.8	-7.8	-12.9	28.0	58.0
Nominal deposit rate ^f	8.2	14.0	10.9	3.5	6.0	5.2	2.4	1.7	0.9
Nominal lending rate ^g	25.5	30.7	34.1	27.1	29.5	31.2	23.3	21.6	20.7
Percentages of GDP									
Central government^h									
Total income ⁱ	8.3	8.9	8.9	10.9	10.7	11.3	10.8	12.1	13.9
Current income	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7	11.7
Tax income	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7	11.5

Table (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Total expenditure	11.0	12.0	12.0	11.5	10.8	12.9	12.1	13.3	14.5
Current expenditure	9.0	8.7	9.2	10.2	9.8	10.2	9.7	12.6	10.2
Interest	0.1	0.4	0.7	1.0	1.2	0.3	0.3	0.5	0.4
Capital expenditure	2.0	3.3	2.8	1.2	0.9	2.7	2.4	0.7	4.3
Primary balance	-2.6	-2.7	-2.4	0.4	1.2	-1.3	-1.0	-0.8	-0.1
Overall balance	-2.7	-3.1	-3.1	-0.5	0.0	-1.6	-1.3	-1.3	-0.6
Central government debt	60.2	57.5	46.7	44.1	36.2	33.6	42.3	34.4	20.5
Domestic	17.4	17.2	14.8	13.5	10.7	8.9	13.7	14.6	15.9
External	42.7	40.4	31.8	30.6	25.5	24.7	28.5	19.8	4.6
Money and creditⁱ									
Domestic credit	35.6	34.5	29.8	28.6	24.3	22.3	21.4	20.0	14.5
To the public sector	17.3	16.8	14.3	12.8	9.8	8.1	6.6	3.6	-1.2
To the private sector	18.4	17.7	15.4	15.7	14.4	14.2	14.9	16.4	15.7
Liquidity (M3)	45.4	47.8	42.5	42.1	38.5	37.3	38.1	39.2	49.4
Currency outside banks and local currency deposits (M2)	27.9	27.7	26.0	24.1	22.6	21.4	21.4	21.0	26.2
Foreign-currency deposits	17.6	20.0	16.6	18.0	15.9	15.8	16.7	18.2	23.2

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1986-1987 prices, fiscal year from October to September.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Average of highest and lowest rates on time deposits, commercial banks.

^g Average of highest and lowest lending rates, commercial banks.

^h Fiscal year.

ⁱ Includes grants.

^j The monetary figures are end-of-year stocks.

2. Economic policy

The Haitian authorities signed a three-year extended credit facility (ECF) with the International Monetary Fund (IMF) in July 2010. This is the main economic policy management instrument available to the authorities. In May 2011, IMF delivered a favourable assessment of the first half-year results.

In response to the after-effects of the earthquake, the economic authorities in 2010 sought to maintain price, public-finance and exchange-rate stability despite the urgency of social demands, including humanitarian needs and more deeply entrenched structural problems (poverty and inequality). The macroeconomic balance was positive, while in social terms, the results were limited.

In both cases, the authorities had the backing of the financial community and a vast movement of international solidarity. However, actual disbursements at the International Donors' Conference in New York were lower than expected (31% of the programmed amount), despite bilateral and multilateral contributions and not including the specific debt-forgiveness programmes (US\$ 1.368 billion), which have been satisfactorily concluded.

Programmed funds for 2010 and 2011 amounted to US\$ 5.6 billion, of which US\$ 1.9 billion were supposed to have been allocated for 2010. Of this amount, it is estimated that only US\$ 738 million (38%) was effectively disbursed. This reveals once again the challenges of coordination and alignment between government priorities and donor autonomy.

In the current fiscal year 2010-2011, with the emergency programme still in force up to September, the economic policy situation has remained largely unchanged except as regards the possibility of macroeconomic disequilibria and the probability of a spike in domestic inflation due to the rise in international food and fuel prices, which are cause for apprehension.

(a) Fiscal policy

In 2010, the central government deficit (on a cash basis, not including externally financed extrabudgetary programmes and projects) stood at 2.1% of GDP; the valuation on an accrual basis, not including external contributions, was equivalent to 5.2% of GDP.

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross international reserves (millions of dollars)	602	561	749	733	920	1 063	1 225	1 281	1 269	1 301 ^c
Consumer prices (12-month percentage variation)	1.0	-1.0	-4.7	2.0	6.1	6.4	4.7	6.2	7.1	7.8 ^c
Average nominal exchange rate (gourdes per dollar)	40.07	39.97	39.75	39.75	39.75	39.75	39.82	39.87	40.18	40.36
Nominal interest rates (annualized percentages)										
Deposit rate ^d	1.9	1.5	1.5	1.7	1.2	0.9	0.7	0.7	0.4 ^e	...
Lending rate ^f	22.4	22.3	21.0	20.8	19.4	20.8	21.3	21.3	20.7 ^e	...
Domestic credit (variation from same quarter of preceding year)	6.6	12.3	17.8	-0.5	-8.0	-15.6	-39.1	...	-27.3	-25.6 ^c
Non-performing loans as a percentage of total credit	10.5	10.1	8.5	8.6	12.3	11.8	5.7	5.4	12.3	...

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

^a Preliminary figures.

^b Data to May.

^c Data to April.

^d Average of highest and lowest rates on time deposits, commercial banks.

^e Data to February.

^f Average of highest and lowest lending rates, commercial banks.

Fiscal revenues (12.1% of GDP) diminished by 2.7% in real terms, owing to a fall in indirect tax receipts (value added tax (VAT) was down by 10.7% and duties and licences by 29.5%). The subsidy on energy products was the main component, as the authorities froze domestic prices for hydrocarbons in an attempt to curb inflation and halt the deterioration in living conditions. This measure resulted in a loss of revenue of approximately US\$ 26 million during fiscal year 2010. Despite the special duty-free allowances granted in the aftermath of the earthquake, customs duties showed real growth of 22.3%.

Expenditure (14.2% of GDP), funded with internally generated revenues and direct budgetary assistance, grew by 2.4% in real terms, thanks to the significant increase in investment expenditure (56.6%), since current expenditure items fell by 8.4%, even with the extraordinary pay granted to civil servants (August 2010). Disbursements of direct budgetary assistance (non-earmarked external funding) stood at US\$ 225 million.

In spite of the economic hardships, the authorities did manage to rein in expenditure to some degree and budget performance was suboptimal. Public social spending amounted to 8.094 billion gourdes (approximately US\$ 200 million) due to constraints caused by delays in the release of funds and by weaknesses in the public administration's executing capacity.

The forecast for 2011, in the light of results for the first half of the fiscal year (October-March) is for a larger global deficit on an accrual basis (7.4% of GDP)—excluding grants and external funding—triggered

mainly by greater flexibility in current expenditure (due, among other things, to the electoral situation in the first quarter) and the vigorous growth in public investments.

Total cumulative revenues in the first half of fiscal year 2011 (October-March) showed a 29% real increase over the same period in the previous year, although tax receipts were down (by US\$ 85 million) owing to lower collections from hydrocarbon imports and to temporary fiscal measures designed to reactivate the reconstruction process: duty-free import of capital goods and construction materials and tax exemptions, in general, applied to real-estate activities. Nevertheless, certain extraordinary fiscal measures were adopted in order to compensate for the potential loss of revenue: for example, a new tax on vehicle ownership as well as the reactivation of the automatic adjustment of hydrocarbon prices in the domestic market in March (an increase of 27%) and, consequently, the associated tax collection.

In March 2011, total expenditure already reflected a 10% real increase based to a great extent on investments, since current expenditure declined by 2%. In the remaining months of the fiscal year, total public spending based on internally generated revenues and, even more important, external cooperation, is expected to be equivalent to 34% of GDP.

Debt relief amounting to US\$ 810 million was granted in fiscal year 2009-2010 and amounting to US\$ 558 million in 2010-2011 (up to March). This relief came from bilateral donors (including Bolivarian Republic of Venezuela, Canada, France, Italy, Spain and United States) as well as from multilateral agencies (notably Inter-American Development Bank (IDB), World Bank

and International Monetary Fund). In March 2011, the balance of the debt declined by US\$ 417 million, the principal creditors being the Bolivarian Republic of Venezuela (58% being preferential debt financing within the framework of PetroCaribe), Taiwan Province of China (20%) and the International Fund for Agricultural Development (IFAD) (16%).

(b) Monetary policy

While the Bank of the Republic of Haiti (BRH) maintained a restrictive policy stance in fiscal year 2010, the monetary aggregates (M3) and the monetary base increased by 17.2% and 37.4%, respectively, in real terms, mainly as a result of the build-up in international reserves. The Bank chose not to intervene to correct this trend because of the low inflationary risks, the need to boost the economy and the regressive behaviour of domestic credit. In fact, the legal reserve requirement for the commercial banks was reduced (to 29% on liabilities in gourdes and 34% on those in foreign exchange) as an incentive for real estate loan operations.

The benchmark interest rate (BRH bonds) remained at the August 2009 level. A 49% decline in net domestic credit in fiscal year 2010 reflects the situation of private credit markets (down 9.8%) as well as net loan repayments by the public sector. However, this decline is attributable to weaker demand (fewer new applications), and supply constraints (high risk and less solvency among clients). A partial guarantee credit fund (safeguard fund) of US\$ 35 million was set up to address this situation. The fund is administered jointly by the Industrial Development Fund of the central bank, IDB, World Bank and the United States Agency for International Development (USAID) with different banks acting as intermediaries. The Fund's operations, which were launched in December 2010, prioritize risk coverage for credit finance agencies, rescheduling of loans of delinquent and non-delinquent borrowers and, in a second phase, credit facilitation for small and medium-sized enterprises.

The findings of the first half of fiscal year 2010-2011 do not point to any likelihood of a robust credit recovery, probably because of the uncertain political and electoral context. Treasury bonds were issued in September 2010 to replace traditional central bank bonds and a second auction took place in January 2011; however, the full introduction of supplementary measures and new monetary policy instruments seems to have been postponed to fiscal year 2012.

(c) Exchange-rate policy

In the past two years, the fluctuations of the gourde against the United States dollar have been minimal, with the nominal exchange rate remaining at around 40 gourdes to the dollar. Meanwhile, the real exchange rate reflected a 3.7% appreciation during the same period, reinforced in 2010 by the abundance of foreign exchange in the economy, a moderate level of inflation and minimum speculative pressures given the strength of central bank reserves.

This situation will continue in 2011, since at the close of the first half-year (in March) the real appreciation in the value of the currency (5.1%) was maintained, bolstered by foreign currency inflows in the form of remittances and international aid; for the time being, the expansion of imports is not likely to jeopardize this relative availability; indeed the only risk of a reversal in this situation might come from a fresh escalation in international prices for certain commodities.

The economy was heavily dollarized in 2010, with 56% of deposits and 45% of loans denominated in United States dollars, although dollarized loans fell by almost 10 percentage points with respect to 2009 (56%).

While the central bank perceives a certain risk of Dutch disease and loss of competitiveness for the export sector; the labour market in Haiti is very depressed with extremely low wages, and constitutes a pool of workers for the maquila industry, the leading export sector in Haiti.

3. The main variables

(a) Economic activity

The earthquake was the main cause of the 5.1% contraction in GDP in 2010. While per capita GDP fell by 6.6%, gross national income (GNI) grew by 5.4%, thanks to the substantial transfers (remittances and grants) received by the country. The bulk of manufacturing, commerce, and transport and communications activities, which fell

by 14.7%, 7.9% and 2.8%, respectively, occur in Port-au-Prince, one of the areas hardest hit by the disaster. The direct impact on the agricultural sector, which has a high weighting in national output (25%) was less drastic, and this averted a more dramatic fall in total GDP.

Output in the sectors of construction, electricity and government services was up by 4.1%, 1.5% and 1.4%, respectively. Construction was buoyant on account of

reconstruction work (both public and private) and related tasks (including demolition and removal of debris) and because of wage rises.

On the demand side, whereas total consumption climbed sharply (15.4%), reflecting household expenses and humanitarian aid transfers in kind to households, significant declines were observed in investment (-6.5%) and exports (-7.3%).

The favourable forecasts for GDP growth (8%) for fiscal year 2011 point to a robust improvement in the economy—due to higher disbursements of external cooperation funds—the sustained dynamism of public investment and the recovery of other sectors (commerce and financial services). However, given the lags accumulated between December and March, due to the climate of uncertainty in the run-up to the elections and within three months of the closure of the fiscal year, this scenario seems highly optimistic.

(b) Prices, wages and employment

Year-on-year inflation to September 2010 was up by 4.7% and to December 2009 by 6.2%. This increase was 50% lower than the initial expectations in the aftermath of the earthquake, thanks to massive humanitarian aid programmes and the availability of foreign exchange, which boosted the value of the currency and attenuated the pass-through of higher international prices for agrifoods. However, the potential risks of greater food insecurity in Haiti are still considerable.

Inflation has spiked since the beginning of fiscal year 2011, with monthly variations in general inflation and in food inflation of 1.1% and 1.4%, respectively, resulting in year-on-year rates of 7.2% and 9.4%, respectively, at the end of the first half of the fiscal year (March). Fuel costs soared (by 27%) to the end of March and could generate second round effects, but these are more likely to occur in the production-trade chains rather than in payroll costs, and should be largely offset by the appreciation of the currency.

The adjustment in minimum wages in 2009 (which doubled from 70 gourdes to 150 gourdes) averted more drastic losses in the purchasing power of households; however, in March 2011, this advantage had been completely eroded and in year-on-year terms, the real minimum wage fell by 6.7%.

Traditional frictions in the Haitian labour market—weak demand and disproportionately high supply, lack of skills, low productivity and excessive informality, to mention just a few—flared up despite the new survival options (the cash-for-work programme), which, however, do not give rise to stable employment. Unless these programmes are placed on a more sustainable footing, it is difficult to foresee a recovery in the labour

situation, which is itself a chronic structural impediment to development.

(c) The external sector

The impact of the earthquake translated into a wider trade deficit and record levels of current transfers, while the capital account registered high and unusual inflows reflecting debt relief.

In 2010, the current account showed a deficit of US\$ 155 million (equivalent to 2.3% of GDP), less than in 2009 (3.5%), thanks to current transfers in the form of donations and remittances (US\$ 1.790 billion and US\$ 1.474 billion respectively), since the trade deficit (US\$ 3.274 billion) worsened considerably (US\$ 1.4 billion) with respect to the previous year. In fact, the value of goods and services exports (US\$ 802 million) fell by 14%, while the value of goods and services imports (US\$ 4.076 billion) shot up by 45%.

The terms of trade fell by 3.3% owing to the rise in hydrocarbon prices (20%) and in some agrifood products together with a negative net export value for cocoa and mango, despite the fact that prices were high in international markets. The change in the import mix, in which intermediate and capital goods account for a greater share (from US\$ 60 million to US\$ 120 million), also contributed to this deterioration.

Foreign direct investment stood at US\$ 150 million in 2010, which includes privatization operations in the telephone sector (US\$ 59 million invested in the purchase of a 60% share in Natcom), and flows of close to US\$ 57 million in the electricity co-generating sector invested by E-power, a financial conglomerate combining local and international capital.

At the end of fiscal year 2010, net international reserves amounted to US\$ 829 million (12.5% of GDP, and 3.5 months of import cover), thanks to external resources and foreign-exchange purchases by the central bank, which totalled US\$ 120 million during the period; in the first half of fiscal year 2011, this trend continued with additional purchases of US\$ 57 million bringing net international reserves to US\$ 856 million.

Exports from the maquila sector remain buoyant (an increase of up to 20% year on year) and the outlook for a stronger economic performance suggests that substantial quantities of inputs will need to be imported. Overall in the first half of the year, imports expanded by more than 20% compared with the average for the two years prior to the 2010 earthquake. Given the preliminary estimates to March 2011 for Haitian trade (both exports and imports) with two of its main trading partners (Dominican Republic and United States of America), both these trends will probably be strengthened.

Jamaica

1. General trends

Jamaica's external-sector economic indicators improved in 2010 largely due to inflows from multilateral institutions and improved prospects in its major export markets. Economic policy was guided by a programme of fiscal consolidation under a 15-month stand-by agreement with the International Monetary Fund (IMF). This agreement, which sets a series of targets including fiscal targets, net international reserves and public debt, is monitored on a quarterly basis and is expected to result in inflows of some US\$ 1.2 billion over its duration. Even though there were substantial foreign-exchange inflows, the economy contracted by 1.3% in 2010. GDP is projected to grow by 1.5% in 2011 thanks to stronger demand for Jamaican exports and to the fact that domestic interest rates have been trending down, stimulating private investment.

However, there are risks, as credit demand by the private sector has yet to pick up and the debt burden continues to pose a severe challenge. In 2010, all sectors of the economy declined except for the agriculture, forestry and fishing sector and public services. This result was due to soft external and domestic demand on the heels of falling incomes and reduced consumer confidence.

The monetary policy of the central bank eased considerably as interest rates trended downward and inflationary expectations subsided. The rate of inflation

rose to 11.8% in 2010 from 10.2 % in 2009, but was far lower than the 16.9% rate recorded in 2008. On the other hand, the rate of unemployment inched up to 12.4%, a gain of 1 percentage point over the rate in 2009.

In the external sector, the current account deficit decreased while international reserves increased. In March 2011, reserves stood at US\$ 3.43 billion or 8.9 months' worth of imports. It should be noted that a significant proportion of these inflows came from multilateral sources.

Table 1
JAMAICA: PRINCIPALES INDICADORES ECONÓMICOS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	1.0	3.5	1.4	1.0	2.7	1.4	-0.6	-3.0	-1.3
Per capita gross domestic product	0.2	2.7	0.7	0.3	2.1	0.9	-1.0	-3.4	-1.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.8	7.0	-11.2	-6.8	16.2	-6.0	-5.1	12.1	2.2
Mining	2.1	5.0	2.2	2.8	1.2	-2.7	1.1	-52.1	-4.0
Manufacturing	-2.0	-0.5	1.4	-4.4	-2.3	0.2	-1.2	-4.6	-3.2
Electricity, gas and water	4.6	4.7	-0.1	4.2	3.2	0.6	0.9	2.2	-4.3
Construction	-1.0	5.1	8.4	7.5	-1.9	4.6	-5.5	-5.8	-4.2
Wholesale and retail commerce, restaurants and hotels	0.4	2.2	2.1	2.1	3.8	1.7	0.7	-1.1	-1.7
Transport, storage and communications	6.2	4.0	1.4	0.9	4.4	3.3	-2.2	-4.4	-2.4
Financial institutions, insurance, real estate and business services	3.5	4.6	2.4	0.4	1.7	3.3	1.2	0.8	-2.5
Community, social and personal services	1.4	1.5	0.9	1.1	2.1	1.2	0.1	0.1	0.9
Percentages of GDP									
Balance of payments									
Current account balance	-1 074	-773	-502	-1 071	-1 183	-2 038	-2 793	-1 128	-990
Goods balance	-1 871	-1 943	-1 944	-2 581	-2 943	-3 841	-4 803	-3 088	-3 259
Exports, f.o.b.	1 309	1 386	1 602	1 664	2 134	2 363	2 744	1 388	1 370
Imports, f.o.b.	3 180	3 328	3 545	4 246	5 077	6 204	7 547	4 476	4 629
Services trade balance	315	552	578	608	628	425	428	770	845
Income balance	-605	-571	-583	-676	-616	-662	-568	-668	-580
Net current transfers	1 087	1 189	1 446	1 578	1 749	2 040	2 150	1 858	2 004
Capital and financial balance ^c	833	343	1 196	1 301	1 413	1 598	2 688	1 084	1 432
Net foreign direct investment	407	604	542	581	797	751	1 361	480	375
Other capital movements	426	-262	655	720	616	847	1 328	604	1 057
Overall balance	-241	-431	695	230	230	-440	-105	-44	442
Variation in reserve assets ^d	261	448	-686	-228	-230	440	105	44	-442
Other financing	-20	-17	-9	-2	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^e	102.0	116.7	113.4	104.4	105.6	109.1	100.5	114.0	98.8
Net resource transfer (millions of dollars)	208	-246	605	623	798	937	2 120	416	852
Gross external public debt (millions of dollars)	4 348	4 192	5 120	5 376	5 796	6 123	6 344	6 594	8 493
Average annual rates									
Employment									
Labour force participation rate ^f	65.8	64.4	64.3	64.2	64.7	64.9	65.4	63.5	62.4
Unemployment rate ^g	14.2	11.4	11.7	11.3	10.3	9.8	10.6	11.4	12.4
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.3	13.8	13.6	12.6	5.6	16.8	16.9	10.2	11.8
Variation in nominal exchange rate (annual average)	5.8	18.1	6.2	2.2	6.0	4.8	5.7	21.2	-1.0
Nominal deposit rate ^h	9.1	8.3	6.7	5.9	5.3	5.0	5.1	5.8	3.5
Nominal lending rate ^h	26.1	25.1	25.1	23.2	22.0	22.0	22.3	22.6	20.3
Percentages of GDP									
Central governmentⁱ									
Total income ^j	25.0	27.6	27.9	26.8	26.9	28.7	27.1	27.5	25.5
Current income	23.4	26.2	26.2	25.5	26.3	27.2	26.2	26.5	24.4
Tax income	22.0	24.2	24.3	23.4	24.0	24.6	24.2	24.4	22.7
Capital income	1.4	1.3	0.9	1.2	0.4	1.0	0.2	0.5	0.3
Total expenditure ^k	31.8	32.9	32.2	29.9	31.5	32.9	34.5	38.6	31.6
Current expenditure	30.1	31.9	30.4	27.6	28.6	28.3	30.5	18.6	16.9
Interest	13.3	16.2	15.0	12.7	12.4	11.4	12.3	0.4	0.3
Capital expenditure	1.7	1.0	1.8	2.2	3.0	4.6	4.1	4.0	3.3
Primary balance	6.5	10.9	10.7	9.7	7.8	7.2	4.9	6.2	4.4
Overall balance	-6.8	-5.3	-4.3	-3.0	-4.7	-4.2	-7.4	-11.1	-6.0

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Money and credit^l									
Domestic credit	35.4	40.5	36.2	34.3	30.3	30.3	33.7	34.1	25.8
To the public sector	26.7	29.6	23.4	20.9	14.9	12.8	14.2	16.3	10.7
To the private sector	10.0	12.5	13.3	14.1	15.8	18.2	20.4	19.2	17.0
Others	-1.3	-1.7	-0.6	-0.6	-0.4	-0.6	-0.8	-1.4	-1.9
Liquidity (M3)	35.2	33.8	34.1	32.8	32.6	33.6	30.8	30.4	27.4
Currency outside banks and local-currency deposits (M2)	25.5	22.7	22.8	22.3	23.1	22.7	20.7	19.9	18.7
Foreign-currency deposits	9.8	11.1	11.3	10.5	9.6	10.9	10.1	10.6	8.7

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 2003 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Annual average, weighted by the value of goods exports and imports.

^f Economically active population as a percentage of the working-age population.

^g Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^h Average rates.

ⁱ Fiscal years, from April to March.

^j Includes grants.

^k Includes statistical discrepancy.

^l The monetary figures are end-of-year stocks.

2. Economic policy

(a) Fiscal policy

Under the IMF standby agreement and together with the government's Medium-Term Socio-Economic Policy Framework (MTF), a strategy of fiscal consolidation has been implemented. The out-turn for fiscal year¹ 2010/2011 was a deficit of 6.1% of GDP, slightly below the MTF target of 6.5%, and significantly lower than the 10.9% deficit recorded in fiscal year 2009/2010. This outcome was possible because revenue growth outstripped that of expenditure. However, it exceeded by 1.5 percentage points the target set for the same period in the IMF standby agreement (a deficit of around 4.6% of GDP).

During fiscal year 2010/2011, expenditure exceeded the budget target by 4.5% while revenues and grants exceeded the target by 3.6%. Recurrent and capital expenditure grew by 3.1% and 12% respectively. At the same time, the revenue gains were due to a variety of tax increases early in 2010, which saw revenue as a share of GDP rise from 29.9% of GDP in fiscal year 2009/2010 to 32.2% in 2010/11. The General Consumption Tax (GCT) was raised from 16.5% to 17.5% and a special rate of 10% was set for GCT on residential and commercial electricity use.

Central to the fiscal consolidation program was the reduction in the government debt which stood at J\$ 1.57 trillion at the end of fiscal year 2010/2011. Meanwhile, the debt to GDP ratio declined to 127.5% moving from 129.3% in fiscal year 2009/2010.

A number of important measures were pursued in 2010 in order to restructure public finances and create greater fiscal space over the medium term. These included negotiations to divest a number of State-run corporations, the adoption of the fiscal responsibility framework in March 2010, and the design of mechanisms for better treasury management. High on the agenda is the reform of the tax system through consolidation of a number of tax administration agencies and a variety of taxes. For example the payroll taxes, of which there are several, would be consolidated into a single form.

In order to reinforce the process of fiscal consolidation the government is also contemplating a 24-month extension of the IMF standby agreement. It is not yet clear what this extension would entail, but it would be designed to restore confidence in the economy, and the country would also benefit from increased multilateral financial flows for budgetary support.

¹ The fiscal year runs from April through March of the following year.

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-3.1	-3.7	-2.3	-2.1	-2.0	-0.9	...	...	...	...
Goods exports, f.o.b. (millions of dollars)	...	262	371	308	369	320	330	352	264 ^d	...
Goods imports, c.i.f. (millions of dollars)	...	665	1 163	1 205	1 103	1 125	1 128	1 304	854 ^d	...
Gross international reserves (millions of dollars)	1 663	1 661	2 007	1 752	2 414	2 527	2 790	2 979	3 435	3 224
Real effective exchange rate (index: 2000=100) ^e	111.6	115.4	114.8	114.0	102.4	99.3	97.1	96.4	96.9	97.8
Unemployment rate	11.1	11.4	11.3	11.6	13.5	12.4	11.6	12.0	12.9	...
Consumer prices (12-month percentage variation)	12.4	9.0	7.2	10.2	13.3	13.2	11.3	11.8	8.1	6.9 ^f
Average nominal exchange rate (Jamaica dollars per dollar)	86.24	88.92	88.91	89.24	89.62	88.31	86.01	85.81	85.83	85.74
Nominal interest rates (annualized percentages)										
Deposit rate ^g	5.9	5.9	5.9	5.4	4.2	4.0	3.2	2.5	2.4	2.2 ^f
Lending rate ^g	22.5	23.3	22.7	21.9	21.4	21.1	19.8	19.1	18.5	18.4 ^f
Stock price index (national index to end of period, 31 December 2000=100)	273	280	277	288	298	299	289	295	299	307
Domestic credit (variation from same quarter of preceding year)	28.6	16.9	-8.6	8.4	-4.3	-10.0	16.7	-14.7	-6.9	...
Non-performing loans as a percentage of total credit	2.8	3.6	3.7	4.2	5.1	5.6	5.2	5.4	6.9	...

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2003 prices.

^d Data to February.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Data to April.

^g Average rates.

(b) Monetary and exchange-rate policy

In the wake of the IMF agreement, a significant amount of resources from multilateral institutions including the Inter-American Development Bank (IDB) and the World Bank, were received for budgetary support. These funds boosted foreign-exchange inflows, stabilized the exchange rate and enabled the monetary authorities to adopt a more expansionary policy regime and to reduce interest rates. In addition, the successful launch of the Jamaica Debt Exchange (JDX) in early 2010, an exchange of high-cost debt for new instruments of longer duration, paved the way for a general decline in interest rates.

In this context, the central bank lowered the interest rate on its 30-day certificate of deposit (CD) by some 300 basis points and reduced its cash reserve requirement and liquidity asset requirement against Jamaica dollar-prescribed liabilities of deposit-taking institutions from 14% to 12%. The rates for foreign currency liabilities were also lowered by 2 percentage points. As a result, market-determined rates declined. For example the yield on 30-day treasuries declined by 247 basis point to 7.48%. In addition, the overall average weighted loan rate fell from 24.64% in March to 20.43% in December 2010 while the overall weighted deposit rate over the same period declined from

4.31% to 2.95% and the interest rate spread also declined from 19.33 percentage points to 17.44 percentage points.

In 2010, nominal growth in M1 decelerated to 5.8%, compared with 7.2% in 2009. Growth in currency with the public was 6.2% in 2009 and 8.7% in 2010 while demand deposits grew by 13.9% and 3.4% respectively in 2009 and 2010. The weakness in real economic activity explains the decline in these indicators of financial activity and it would take some time for the private sector to adjust to an environment of lower returns given the high returns that were previously available for government securities.

In 2010, the stock of commercial loans and advances decreased by 2% in contrast to an increase of 4.2% in 2009. This reflected declines in loans to both the public and private sectors. However, given that loans to the private sector accounted for 87.6% of all loans, the softening of domestic economic activity is evident.

The significant financial flows released by the signing of the IMF agreement helped stabilize the exchange rate and the average selling rate of the Jamaican dollar relative to the United States dollar (US\$) showed a 4.4% appreciation in 2010, in sharp contrast with the 10.2% depreciation in 2009. The exchange rate ended the year at J\$ 85.860 to US\$ 1. For 2011, a slight depreciation in the Jamaican dollar against the United States dollar is projected.

3. The main variables

(a) Economic activity

The contraction of the Jamaican economy was estimated at 1.3% in 2010, an improvement from the decline of 3.0% the previous year. Among the many reasons were the lacklustre economic growth among Jamaica's trading partners, especially the United States, weak domestic demand, and uncertainty among the private sector in terms of areas of investment. In addition, employment fell in some sectors.

Within the goods sector, agriculture, forestry and fishing was the only sector that experienced positive growth (2.2%), albeit far lower than the 12.1% recorded in 2009. The contribution of agriculture to GDP was just over 6%. Adverse weather conditions accounted for the fall-off in growth despite an aggressive programme of agricultural promotion.

Mining and quarrying, which contributed 1.7% to GDP, declined by 4% in 2010, but this was a far cry from the precipitous decline of 52.1% in the previous year, which was due to plant closures following a slump in international demand. The reopening of one of the three alumina plants that had been closed, together with increased production at the sole bauxite plant, augurs well in the medium term, but production may be limited in the short run owing to the build-up of substantial bauxite inventories.

Manufacturing and construction were down by 3.2% and 4.2% respectively, but both sectors showed smaller declines than in 2009 and this may reflect an easing of the recessive conditions in the economy. These sectors contributed 7% and 6.6%, respectively, to real GDP in 2010.

Within the services sector, positive growth occurred in the hotel and restaurant subsector, attributable to fairly robust tourism performance, as growth in this sector was positive throughout the crisis period. Total stopover tourist arrivals grew by 4.9% and visitors from major markets such as Canada (12%) and the United States (6%) showed improvements in 2010, while Europe saw a small decline of 2%. However, cruise passenger arrivals declined for the fourth straight year, this time by 1.4% and have yet to begin to recover from the crisis. The tourism sector directly contributed 6% of GDP but this underestimates the true impact of the sector on the economy.

The largest overall decline occurred in indirect financial intermediation services (9.5%), followed by electricity, gas and water (4.3%) and finance and insurance (2.5%) and this reflected depressed domestic demand and low economic activity. These sectors contributed 4.1%, 3.3%

and 18.4%, respectively, to real GDP in 2010. The economic forecast for 2011 calls for growth of 1.5%, spearheaded by the goods-producing sector with the service sector lagging behind. The leading contributors to this growth are expected to be mining and quarrying, agriculture, forestry and fishing, and hotels and restaurants.

(b) Prices, wages and employment

The year-end 12-month inflation rate for 2010 was 11.8%, a slight increase from 2009, when inflation was 10.2%, but in general inflationary expectations have subsided due to the appreciation of the currency and the adjustments to expectations already internalized as a result of tax increases earlier in the year. In fact, the 12-month inflation rate in May 2011 had declined to 6.8%. Core inflation, which excludes the volatile components of food and fuel, stood at 8.2% for the 12 months through December 2010.

Higher prices in 2010 were due to escalating food and energy prices, which resulted from pressures at both the local and international levels. At the international level, supply constraints and higher crude oil prices pushed up grain prices, while at the domestic level, the tax package of 1 January 2010 caused price increases. These included rises in tax rates and higher bus and taxi fares plus weather-related shocks, which impacted on the cost of food. The sharpest increases were in transport, (25.7%), and housing, electricity, water, gas and other fuels (8.4%). Within the food category, alcoholic beverages and tobacco rose by 14.4% due to tax hikes.

Under the medium term macroeconomic plan, inflation in 2011 is targeted to be no more than 7%. Accumulated inflation during the first quarter 2011 was just 1%, and barring any significant increase in fuel prices, the inflation target should be met.

In terms of wages, under an agreement in April 2009, public-sector wages were effectively frozen for three financial years, which will come to an end in March 2012, although scheduled increments to public servants have continued to be paid. In light of several rounds of price hikes last year, notably in the price of electricity, the government will ask IMF to revisit the possibility of amending this policy and raising wages. However, with the emphasis on fiscal consolidation, no significant wage increases are expected to be approved.

The impact of the recession is still being felt in terms of employment. The employed labour force declined by

30,600 persons, or 2.7%, while the unemployment rate increased by 1% to 12.4% in 2010. While the overall rate seems moderate, some age cohorts have higher than average unemployment rates. For example, the youth unemployment rate was 30%. In addition, while the male unemployment rate was virtually unchanged at about 9%, the female unemployment rose from 15.7% to 16.2% in 2010.

(c) The external sector

The IMF agreement stimulated a large flow of complementary funds from other multilateral agencies and these funds have helped to fund the deficit on the balance of payments. In 2010 concessional loans totalling US\$ 850 million were obtained from IDB, the World Bank and the Caribbean Development Bank (CDB). In addition, Jamaica received grants totalling US\$ 53 million. Foreign exchange inflows were also boosted by higher remittance inflows and tourist receipts. Net international reserves increased to US\$ 2.98 billion or 7.7 months of imports. As a consequence, the current account balance improved slightly from a deficit of US\$ 1.13 billion in 2009 to a deficit of US\$ 990 million in 2010 or 7% of GDP.

This was the result of improvements in the subaccounts with the exception of the merchandise trade subsector,

which recorded a deficit of US\$ 3.26 billion, a deterioration of US\$ 171 million from 2009. However, in both 2009 and 2010 imports were only roughly 60% of imports in 2008, which suggests that the adjustment was being made by import compression due to reduced demand.

The services account increased by US\$ 75.1 million in 2010, which reflected higher tourism receipts and a reduction in expenditures by Jamaicans travelling abroad. Another improvement was the reduction in the deficit on the income subaccount, due to reduced official interest payments and profits remitted abroad.

The current transfers account also improved as a result of increases in net private transfers, which include higher remittances and grants from the European Union for growth enhancement and debt reduction. The balance on the current transfers account was US\$ 2 billion, an increase of 7.9% relative to 2009; however remittances have still not returned to their trend levels.

In 2010, there was an increase of US\$ 712.9 million in official investment and a decrease of US\$ 320.5 million in private investment in the financial account. The decline in private investment started in 2008 when it represented 15% of GDP and then fell to 6% in 2009 and later to 3% in 2010. Given the strong multilateral inflows and the desire on the part of the government to extend the IMF programme, confidence in the economy is likely to increase in the short term.

Dominican Republic

1. General trends

Thanks to expansionary policies and an upswing in external demand, the Dominican economy grew by 7.8% during 2010 (as against 3.5% in 2009). Strong growth in domestic demand deepened the balance-of-payments current account deficit to 8.6% of GDP (versus 5% in 2009) and in October the central bank embarked on a series of hikes in its reference rate, taking it from the historical low of 4% to 6.75% in May 2011. The cuts introduced during the second half of 2010 helped reduce the central government fiscal deficit to 2.5% of GDP.

The biggest macroeconomic policy challenge for 2011 will be to ensure that rising domestic demand does not cancel out the gains made in controlling inflation, which registered year-on-year change of 6.2% at the end of 2010, as opposed to 5.8% in 2009. A balance will also have to be struck between the need to scale back transfers to the electric power sector and the impact of energy price rises on the population. The public policy stance is therefore

expected to become tighter, leading to growth of 5.5%, a current account deficit of 7.5% of GDP and a central government deficit of 1.6% of GDP.

Presidential elections are due to be held in May 2012, meaning that politics in 2011 will be dominated by elections within the main parties and the subsequent campaigns. Significant changes in the country's economic policy are not anticipated, however.

2. Economic policy

(a) Fiscal policy

Reflecting the upturn in economic activity, total central government revenue grew by 6.1% in real terms in 2010 (compared with -9.3% in 2009). However, this was lower than expected, principally because business taxes were calculated using 2009 as a basis. The tax burden shrank, in fact, from 13.1% of GDP in 2009 to 12.8% in 2010.

Although transfers to the electric power sector dropped by 12.4% in real terms, they equated to 1.2% of GDP, double the original target of 0.6% of GDP. This was attributable to delays in targeting consumer subsidies on electricity, related in part to rising international oil prices.

In light of this and with the aim of meeting the target agreed with the International Monetary Fund (IMF) of a

central government deficit of 2.4% of GDP, the budget was revised during the second semester, with the result that total expenditure grew in real terms by 3.1%. This moderate figure reflects real growth in current spending of just 0.3%. Capital expenditure grew by 13.3% in real terms (-26.8% in 2009), largely owing to a substantial increase in fixed investment (31.7% in real terms, versus -30.6% in 2009), given that in real terms capital transfers contracted for a second year running (-18.5%), following a drop of 20.2% in 2009.

These measures resulted in a central government deficit equivalent to 2.5% of GDP, one percentage point below that recorded in 2009 but slightly over the target agreed with IMF. The consolidated public sector balance is therefore estimated to be close to the 3.9% of GDP

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5	7.8
Per capita gross domestic product	4.2	-1.8	-0.2	7.7	9.1	6.9	3.8	2.1	6.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.5	1.8	-2.5	5.9	8.6	1.2	-3.4	12.5	5.5
Mining and quarrying	7.7	8.8	5.8	-0.1	11.0	-1.4	-30.3	-51.9	2.9
Manufacturing	4.9	0.9	2.4	6.3	3.2	2.4	2.6	-1.2	7.2
Electricity, gas and water	9.7	-6.9	-23.8	4.8	6.3	9.7	10.3	3.0	5.4
Construction	4.6	-17.1	-2.3	9.2	24.6	3.2	-0.4	-3.9	11.0
Wholesale and retail commerce, restaurants and hotels	4.5	-2.3	-1.2	12.5	8.3	9.3	4.3	-3.1	9.9
Transport, storage and communications	15.1	5.7	6.5	18.9	17.8	12.5	15.5	10.6	7.9
Financial institutions, insurance, real estate and business services	7.7	3.9	-1.6	2.0	9.0	11.0	7.3	5.2	7.1
Community, social and personal services ^c	4.1	3.5	2.7	-1.2	5.8	4.5	3.5	5.7	4.1
Gross domestic product, by type of expenditure									
Gasto de consumo final	5.7	-4.9	3.1	15.4	12.0	8.9	7.8	4.9	7.6
Consumo del gobierno	8.0	-12.6	3.8	10.2	11.0	10.0	7.7	-3.4	3.3
Consumo privado	5.6	-4.6	3.1	15.7	12.0	8.9	7.8	5.2	7.7
Gross capital formation	3.5	-28.0	-2.3	13.1	20.8	12.4	9.2	-14.7	17.5
Exports (goods and services)	2.0	10.6	3.6	-1.2	0.7	3.2	-4.0	-7.4	11.6
Imports (goods and services)	1.5	-12.9	5.3	11.3	8.2	6.8	4.7	-9.8	14.4
Percentages of GDP									
Investment and saving^d									
Gross capital formation	21.2	15.0	14.9	16.5	18.4	18.9	18.3	14.8	16.5
National saving	18.0	20.1	19.7	15.1	14.8	13.6	8.4	9.8	7.9
External saving	3.2	-5.2	-4.8	1.4	3.6	5.3	9.9	5.0	8.6
Millions of dollars									
Balance of payments									
Current account balance	-798	1 036	1 041	-473	-1 287	-2 166	-4 519	-2 331	-4 435
Goods balance	-3 673	-2 156	-1 952	-3 725	-5 564	-6 437	-9 245	-6 813	-8 701
Exports, f.o.b.	5 165	5 471	5 936	6 145	6 610	7 160	6 748	5 483	6 598
Imports, f.o.b.	8 838	7 627	7 888	9 869	12 174	13 597	15 993	12 296	15 299
Services trade balance	1 757	2 249	2 291	2 457	2 985	3 053	2 962	2 987	2 936
Income balance	-1 152	-1 393	-1 825	-1 902	-1 853	-2 183	-1 748	-1 721	-1 788
Net current transfers	2 269	2 336	2 528	2 697	3 144	3 401	3 513	3 216	3 118
Capital and financial balance ^e	243	-1 583	-862	1 178	1 482	2 793	4 193	2 737	4 493
Net foreign direct investment	917	613	909	1 123	1 085	1 667	2 870	2 165	1 626
Other capital movements	-674	-2 196	-1 771	55	397	1 125	1 323	572	2 867
Overall balance	-555	-546	179	705	194	627	-326	406	58
Variation in reserve assets ^f	527	358	-542	-1 109	-344	-683	309	-638	-453
Other financing	28	189	363	404	150	56	17	232	395
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	101.6	135.5	128.9	92.9	98.9	98.0	100.1	102.0	100.0
Terms of trade for goods (index: 2005=100)	106.0	102.2	101.0	100.0	99.0	102.3	97.7	105.7	101.8
Net resource transfer (millions of dollars)	-881	-2.787	-2.324	-321	-221	666	2.462	1.248	3.099
Total gross external debt (millions of dollars) ^h	4.536	5.987	6.380	5.847	6.295	6.556	7.219	8.215	9.947
Average annual rates									
Employment									
Labour force participation rate ⁱ	55.1	54.7	56.3	55.9	56.0	56.1	55.6	53.8	55.0
Open unemployment rate ^j	16.1	16.7	18.4	17.9	16.2	15.6	14.1	14.9	14.3
Annual percentages									
Prices									
Variation in consumer prices (December-December)	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.8	6.2
Variation in nominal exchange rate (annual average)	9.4	63.7	38.2	-26.9	12.4	-0.3	4.3	4.3	2.5
Variation in real minimum wage	-0.5	-9.2	-15.0	18.7	-7.1	4.8	-6.5	7.0	-0.4
Nominal deposit rate ^k	16.4	20.6	21.1	12.7	9.8	7.0	10.3	7.8	4.9
Nominal lending rate ^l	21.3	27.8	30.3	21.4	15.7	11.7	16.0	12.9	8.3

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue ^m	14.6	13.2	14.0	15.7	16.1	17.7	15.9	13.7	13.6
Current revenue	14.3	13.1	13.9	15.4	15.9	17.3	15.7	13.5	13.4
Tax revenue	13.8	12.1	12.9	14.6	14.9	16.0	15.0	13.1	12.8
Capital revenue	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	16.2	16.1	16.6	16.8	17.2	17.6	19.5	16.9	16.3
Current expenditure	10.5	10.2	12.5	12.6	13.0	13.0	14.4	13.3	12.5
Interest	1.1	1.6	1.8	1.3	1.4	1.2	1.6	1.9	1.9
Capital expenditure	5.7	5.9	4.1	4.3	4.2	4.6	5.1	3.6	3.8
Primary balance ⁿ	-0.2	-2.7	-1.6	0.7	0.3	1.4	-1.9	-1.6	-0.6
Overall balance ⁿ	-1.3	-4.3	-3.4	-0.6	-1.1	0.1	-3.5	-3.5	-2.5
Central-government debt									
Domestic	...	...	...	22.0	20.4	18.4	24.4	28.0	28.2
External	...	...	...	3.3	2.6	2.0	8.2	10.3	9.3
	...	...	...	18.6	17.7	16.4	16.2	17.7	19.6
Money and credit^o									
Domestic credit ^p	35.2	38.8	29.4	30.6	26.7	26.2	24.8	25.5	25.0
To the public sector	1.5	1.6	6.2	10.4	17.9	17.4	18.0	19.1	16.8
To the private sector	33.6	37.1	23.1	23.5	19.9	21.7	21.0	21.5	22.9
Others	0.1	0.1	0.2	-3.3	-11.0	-12.9	-14.3	-15.1	-14.6
Liquidity (M3)	35.7	49.8	39.1	37.3	33.8	34.5	31.4	33.4	33.1
Currency outside banks and local-currency deposits (M2)	28.2	40.2	32.5	30.0	27.3	28.0	25.3	27.1	26.2
Foreign-currency deposits	7.5	9.6	6.6	7.3	6.5	6.5	6.1	6.3	6.8

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1991 prices.

^c Includes gas supply and business services.

^d Based on figures in local currency expressed in dollars at current prices.

^e Includes errors and omissions.

^f A minus sign (-) denotes an increase in reserves.

^g Annual average, weighted by the value of goods exports and imports.

^h Up to 2004, includes secured external debt, public and private. As from 2005, corresponds to non-financial public sector external debt, pursuant to the new methodology adopted by the Ministry of Finance.

ⁱ Economically active population as a percentage of the working-age population; nationwide total.

^j Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^k 90-day certificates of deposit.

^l Average of the benchmark rate.

^m Includes grants.

ⁿ Includes residuals.

^o The monetary figures are end-of-year stocks.

^p Figures refers to the Harmonized monetary and banking indicators.

envisaged in the agreement. The central government fiscal balance is calculated according to financing needs and therefore includes the impact of unclassified operations, without which the deficit would have amounted to 2.7% of GDP.

The fiscal deficit was financed mainly from external resources, including a US\$ 750 million bond issue. Total non-financial public sector debt rose by just 0.3 GDP points to 28.7%, which reflects measures adopted in 2010 to shift the domestic debt portfolio away from bank credit and towards medium-term government securities. As a consequence, domestic debt fell from 10.8% of GDP in 2009 to 9.4% in 2010. External public debt meanwhile rose from 17.6% of GDP in 2009 to 19.3% in 2010. Taking into account the private debt underwritten by the government, external private debt rose from 20.5% to 22% of GDP.

Rising international fuel prices present a challenge for public finances, despite the 11% hike in electricity rates announced in November 2010, and the budget cuts of 12% announced in March 2011 for all government ministries except health and education. Although the 2011 budget submitted to congress envisages a central government deficit of 1.6% of GDP (3% for the consolidated public sector), the government is negotiating for manoeuvring room on some of the fiscal targets agreed with IMF, which led to delays in the fifth review of the stand-by arrangement.

There have also been delays in the adoption of a decree permitting bonds to be issued on both the domestic and international markets, including a US\$ 500 million bond the government was planning to issue during the first half of 2011. This is one of the reasons why net international reserves dropped by over US\$ 700 million between December 2010 and May 2011.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	1.0	1.8	3.4	7.5	7.5	7.5	7.7	8.3	...	...
Goods exports, f.o.b. (millions of dollars)	1 272	1 439	1 406	1 366	1 539	1 723	1 705	1 660	1 779	...
Goods imports, f.o.b. (millions of dollars)	2 162	2 396	2 540	2 848	2 722	3 334	3 347	3 492	3 422	...
Gross international reserves (millions of dollars)	2 542	2 498	2 673	3 307	2 738	2 979	2 722	3 765	2 990	2 953
Real effective exchange rate (index: 2000=100) ^d	100.3	102.5	102.5	102.7	98.9	99.3	100.4	101.3	100.7	101.8
Consumer prices (12-month percentage variation)	2.4	0.3	-1.6	5.7	7.4	5.4	5.7	6.3	7.6	8.0
Average nominal exchange rate (pesos per dollar)	35.60	35.97	36.10	36.15	36.31	36.77	37.03	37.36	37.71	37.95
Nominal interest rates (annualized percentages)										
Deposit rate ^e	12.0	7.8	6.6	4.7	4.4	4.5	4.7	5.7	6.5	7.3
Lending rate ^f	19.4	12.3	10.4	9.4	9.0	7.9	7.7	8.8	9.2	10.1
Interbank rate	11.5	7.6	7.6	5.6	5.9	6.1	6.1	6.9	7.5	8.1
Domestic credit (variation from same quarter of preceding year)	10.2	9.6	10.2	9.5	15.3	14.4	14.9	11.1	6.9	10.8
Non-performing loans as a percentage of total credit	4.2	4.1	4.2	4.0	4.1	3.3	3.4	2.9	3.0	3.0

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 1991 prices.

^d Quarterly average, weighted by the value of goods exports and imports.

^e 90-day certificates of deposit.

^f Average of the benchmark rate.

(b) Monetary and exchange-rate policy

Having maintained a reference rate of 4% for 13 months, in October the central bank began to raise the overnight rate to prevent the economy from overheating, which could hamper efforts to meet the 2011 inflation target of between 5% and 6%.

By May 2011 the reference rate had been raised 275 basis points to 6.75%. Estimates indicate that it will close the year at over 7%. One of the aims of these increases is to slow the pace of growth in private sector credit, whose 12-month nominal expansion fell to 14.2% in early June after peaking at 19.8% at the end of 2010. The other aim is to encourage real deposit rates back into positive territory to encourage saving.

Reflecting healthy capital inflows and central bank interventions in the currency market to prevent major fluctuations, the nominal exchange rate experienced a modest average depreciation of 2.4%. Considering the differential in inflation rates, this corresponds to a 2% appreciation in the real effective exchange rate.

Although the central bank has expressed its intention to do everything in its power to meet the objective set in the monetary programme, fiscal policy may render monetary policy less effective in 2011. The delays

surrounding the review of the IMF agreement and the approval of bond issuances have compromised the plan to build up central bank reserves. Unless this situation is swiftly resolved, depreciation may be steeper than expected (approximately 4.5% on average, similar to the average depreciation witnessed in 2007-2008), which, considering exchange rate pass-through, would have an adverse effect on inflation.

In the financial sector, strong credit growth meant a slight fall in the cash ratio from 25.89% in 2009 to 24.29% in 2010. Nevertheless, the quality of the loan portfolio improved and the non-performing loans index decreased by over one percentage point to 3% in 2010, while equity returns climbed from 20.35% in 2009 to 23.25% in 2010. According to estimates by the Superintendence of Banks, financial sector assets are projected to grow by 11%-13% in 2011, with growth in the loan portfolio of between 10% and 12% and an increase in deposits of between 12% and 14%.

Within the context of the regional integration initiative brokered by the Central American Monetary Council, the Dominican Republic central bank was designated institutional manager of the regional interconnected payments system. All these operations will therefore be settled through the Dominican payment system.

3. The main variables

(a) Economic activity

Thanks to the international economic recovery, and driven by expansionary monetary and fiscal policy, the Dominican economy grew in real terms by 7.8% (6.4% per capita) in 2010. Taking into consideration the net impact of terms-of-trade deterioration and the drop in factor payments to the rest of the world and in net current transfers, available gross national income grew by 6.2% in real terms (versus 5.3% in 2009).

This robust performance is attributable to growing private consumption (7.7%), driven by better employment conditions (with increased labour-market participation and a lower unemployment rate), an expansion in personal borrowing and a recovery in investment. Having contracted by 14.7% in 2009, investment grew by 17.5% in 2010, supported by an expansion in private sector lending. Given rising domestic demand, especially on the consumption side, export recovery (11.6%) was not strong enough to offset import growth (14.4%).

By sector, the 2010 performance reflects the buoyancy of services, particularly commerce (13.6%); hotels, bars and restaurants (4.7%); and financial intermediation (12.5%). With the mobile phone penetration rate nearing 100%, growth in the communications sector has slowed to a moderate 8.3%. Manufacturing, which had contracted by 1.2% in 2009 owing to plummeting external demand, grew by 7.2% in 2010 thanks to a shift towards greater value added activities in free trade zones and rising domestic demand. The agricultural sector, which had expanded by 12.5% in 2009 thanks in part to technical and financial support from the Ministry of Agriculture, grew at the more moderate rate of 5.5% in 2010.

External demand is expected to continue to drive both mining and manufacturing, given the budget cut forced by higher oil prices and the increase in the central bank's reference rate, which is intended to curb growth in lending to the private sector and encourage saving. Nevertheless, it is estimated that growth of the Dominican economy will ease back to 5% in 2011.

(b) Prices, wages and employment

In 2010 inflation was determined by food and fuel prices, which began a new cycle of increases in the fourth quarter of 2009, driven by the global recovery. As a consequence, 12-month inflation surged to 7.9%

in May 2010. As the global recovery lost momentum, however, international commodity prices began to level off and year-on-year inflation ended 2010 at 6.2% (6.3% average for the year), within the target range of between 6% and 7%.

Owing to the depletion of idle capacity in key sectors of the economy and rising oil prices as a result of the political crisis in the Middle East, inflation picked up in early 2011. This is beginning to affect core inflation, which had climbed to 5.6% by May 2011, by contrast with 3% in early 2010. Although the monetary authorities began raising reference rates in October 2010 and will continue to do so for the rest of the year,¹ monetary policy could be rendered less effective if subsidies to the electricity sector are not sufficiently targeted. In view of this, ECLAC forecasts that year-on-year inflation at the end of 2011 will be around 6%, the ceiling of the target range laid down in the monetary programme.

Thanks to the Dominican economy's rapid response to the global recovery, labour market indicators improved throughout 2010. The participation rate is still below pre-crisis levels (56.3% in the second half of 2007), but ended 2010 at 55%, 1.4 percentage points above the rate for the first half of 2009. Broad unemployment (which includes both those seeking work and those not actively looking but willing to work) stood at 14.9% of the economically active population in 2009, but dropped by 0.8 percentage points to end 2010 at 14.1%. Although employment indicators still show gaps between men and women, these have also narrowed since the second quarter of 2009.

Despite nominal growth of 6.3% in the average hourly wage, in real terms the hourly rate decreased slightly by 0.1% in 2010, in comparison with a real increase of 7.5% in 2009. During the second quarter of 2011 negotiations took place on raising the minimum wage for workers not affiliated to a sectoral trade union, who represent almost 28% of the working population. A nominal increase of 17% was agreed.

Better employment conditions led to the creation of over 160,000 jobs, which helped to advance the fight against poverty. According to estimates from the Ministry of Economic Affairs, Planning and Development, 33.2% of the population were living in poverty in the first half of 2010,

¹ According to the survey of macroeconomic expectations carried out by the central bank in May 2011, the reference rate will close the year at around 7.8%.

a level not seen since before the 2003 crisis. The prospect of lower economic growth, greater inflationary pressures and a narrower fiscal gap in 2011 underlines the importance of shielding investments in health and education so as to leverage social policies. In this regard, the coverage of the conditional transfer programme *Solidaridad* (“Solidarity”) is expected to expand by over 10% and reach a total of 590,000 families by the end of 2011.

(c) The external sector

In 2011, the current account deficit expanded by over US\$ 2 billion, reaching the equivalent of 8.6% of GDP by the end of the year (5% in 2009). This was mainly the result of a deterioration in the merchandise balance (16.9% of GDP), owing to the rising oil bill and the impact of strong domestic demand on imports, despite the buoyancy of non-traditional exports, in particular organic products, and the nascent recovery of exports from free trade zones.

Fuel prices also ate into the surplus on the services trade account; the recovery in foreign tourist arrivals (up 3.1% in 2010 compared with a drop of 0.9% in 2009) was not enough to compensate for rising transportation costs. The flow of family remittances, which represent approximately 6% of GDP, shrank by 1.4%, an indication of the relatively high levels of unemployment that persist

in the United States and Spain (the two main destinations for Dominican migrants).

The current account deficit was comfortably financed by foreign direct investment inflows (amounting to US\$ 1.626 billion, or 3.1% of GDP), multilateral financing and a US\$ 750 million bond issue. The central bank was thus able to increase its net reserves by approximately US\$ 500 million, which took the balance to 3.1 months of merchandise import cover by the end of 2010.

For 2011, ECLAC projects that the resumption of ferronickel exports in the first half of the year and the start-up of gold exports in the fourth quarter, together with strong growth in non-traditional exports and the shift towards activities with greater value added in the free trade zones, will offset higher international fuel and food prices to some extent. Given the impact of fiscal retrenchment on employment and consumption in developed countries, no significant changes in tourism or remittances are expected.

ECLAC therefore forecasts a current account deficit of around 7.5% of GDP for 2011. As in 2010, this will be financed through a combination of foreign direct investment inflows (amounting to approximately US\$ 1.9 billion), a US\$ 500 million bond issue and multilateral financing. Drawdown of international reserves is a possibility in the event of delays in receipt of loan disbursements from international financing institutions.

Suriname

1. General trends

The economy of Suriname continued to perform robustly in 2010, recording 4.4% growth, compared with 2.2% in 2009. This performance was driven by buoyant activity in the construction sector and increased government spending. The overall fiscal balance is estimated to have gone from a surplus at 3.5% of GDP in a deficit of 14.1% of GDP in 2010. The inflation rate rose to 10% at the end of the year, owing to higher prices for food and fuels and wage increases awarded to civil servants. By February 2011, inflation had accelerated to 18.8 %, and remains a concern to policymakers. Meanwhile, in early 2011, the authorities devalued the Surinamese dollar by 20%, bringing the official rate in line with the rate in the parallel market. The balance-of-payments current account surplus is estimated to have improved significantly (by 230.7%) to stand at US\$ 692.2 million or approximately 2% of GDP, owing to strong prices for mineral exports. Net international reserves increased by US\$ 34.3 million to US\$ 757.1 million at the end of the year, which represents approximately four months of imports.

Economic policy is aimed at containing inflation through monetary channels, facilitating economic growth through increased revenue from exports and investments and maintaining fiscal discipline. The

main challenge facing the authorities is to ensure that inflation expectations do not become entrenched in the economy. Real GDP is expected to grow by 5% in 2011.

2. Economic policy

(a) Fiscal policy

The overall fiscal balance shifted from a surplus of 3.5% of GDP at the end of 2009 to a deficit of 14.1% of GDP at the end of 2010. Although mineral prices rose in 2010, and this boosted fiscal revenues for the

government, it was not sufficient to offset the increase in the wage bill (which accounted for 32.5% of total expenditure) and the elevated levels of government spending not only on goods and services but also on capital expenditure. The latter increased from 9.7% of GDP in 2009 to 15.3% of GDP in 2010 and most of

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	2.7	6.8	0.5	7.2	3.9	5.1	4.3	2.2	4.4
Per capita gross domestic product	1.2	5.5	-0.9	5.9	2.8	4.1	3.3	1.2	3.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-3.8	3.6	1.0	-5.0	5.2	5.6	-5.0	5.3	7.9
Mining and quarrying	-8.3	0.3	30.0	15.3	7.6	18.2	4.7	-12.3	-2.3
Manufacturing	-3.7	5.5	10.8	10.2	1.8	-2.2	-2.6	-0.7	4.6
Electricity, gas and water	11.6	-1.3	9.9	3.5	8.4	6.3	7.2	6.4	6.2
Construction	0.6	17.0	10.1	8.6	5.3	15.4	4.3	7.3	9.6
Wholesale and retail commerce, restaurants and hotels	8.5	32.0	8.9	11.7	7.2	9.3	15.7	7.9	7.1
Transport, storage and communications	12.3	3.0	7.7	7.9	-1.8	2.7	2.6	0.0	8.5
Financial institutions, insurance, real estate and business services	3.3	2.5	5.3	4.4	1.7	1.6	3.1	2.1	3.2
Community, social and personal services	0.2	0.7	0.1	4.7	4.0	0.1	1.2	1.2	4.1
Millions of dollars									
Balance of payments									
Current account balance	-131	-159	-137	-100	221	335	344	210	692
Goods balance	47	30	42	70	272	314	358	109	626
Exports, f.o.b.	369	488	782	997	1 175	1 359	1 708	1 404	2 069
Imports, f.o.b.	322	458	740	928	903	1 045	1 350	1 296	1 443
Services trade balance	-128	-136	-130	-151	-33	-64	-123	1	-17
Income balance	-42	-49	-63	-41	-54	8	21	5	-3
Net current transfers	-9	-5	14	22	36	77	87	94	87
Capital and financial balance ^c	112	166	175	123	-125	-160	-292	-16	-658
Net foreign direct investment	-74	-76	-37	28	-163	-247	-234	-93	-256
Other capital movements	186	242	212	95	39	86	-58	77	-402
Overall balance	-19	7	38	24	96	175	52	193	34
Variation in reserve assets ^d	19	-7	-38	-24	-96	-175	-52	-193	-34
Other external-sector indicators									
Net resource transfer	70	118	112	83	-179	-152	-271	-11	-661
Total gross external public debt	372	383	384	390	391	298	319	269	334
Average annual rates									
Employment									
Unemployment rate ^e	10.0	7.0	8.4	11.2	12.1	...	...	...	...
Percentages of GDP									
Prices									
Variation in consumer prices (December-December)	...	...	...	15.8	4.7	8.3	9.4	1.3	10.3
Variation in nominal exchange rate (annual average)	7.7	10.8	5.1	-0.1	0.4	0.0	0.0	0.0	0.0
Nominal deposit rate ^f	9.0	8.3	8.3	8.0	6.7	6.4	6.3	6.4	6.2
Nominal lending rate ^f	22.2	21.0	20.4	18.1	15.7	13.8	12.2	11.7	11.6
Percentages of GDP									
Central government									
Total revenue	30.7	31.6	37.4	37.3	39.4	46.6	37.2	49.1	43.0
Current revenue	29.4	30.0	35.5	35.0	35.8	38.3	33.4	43.3	35.8
Tax revenue	24.2	25.2	29.1	27.8	28.2	30.6	27.1	31.1	25.8
Grants	1.3	1.6	1.9	2.3	3.6	8.3	3.9	5.9	7.2
Total expenditure	35.7	30.7	38.5	38.1	40.0	38.6	34.9	45.4	57.6
Current expenditure	32.2	27.3	33.3	31.8	33.0	32.6	27.6	35.2	41.4
Interest	2.7	2.3	2.2	2.5	2.3	1.9	1.0	1.5	1.3
Capital expenditure	3.3	3.1	5.1	6.4	6.9	5.9	7.4	10.1	15.9
Primary balance	-2.9	2.6	2.2	3.2	2.7	5.7	5.8	8.1	-5.6
Overall balance	-5.0	0.8	-1.1	-0.8	-0.6	8.0	2.3	3.7	-14.7

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Money and credit⁹									
Domestic credit	32.2	30.1	38.1	35.8	37.0	37.4	36.6	46.8	49.3
To the public sector	13.8	10.2	12.6	10.3	8.1	3.0	-0.6	2.6	4.4
To the private sector	18.3	19.6	25.0	25.2	28.5	33.9	36.6	43.4	44.0
Others	0.1	0.3	0.5	0.4	0.4	0.5	0.6	0.9	0.9
Liquidity (M3)	55.8	51.0	64.6	58.0	61.0	68.2	61.3	80.2	...
Currency outside banks and local-currency deposits (M2)	34.1	27.1	32.9	30.4	31.9	35.5	32.9	43.4	...
Foreign-currency deposits	21.7	23.9	31.7	27.6	29.2	32.6	28.4	36.8	...

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1990 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Percentage of the economically-active population, nationwide total.

^f Deposit and loan rates published by the International Monetary Fund.

⁹ The monetary figures are end-of-year stocks.

this expenditure went to infrastructure upgrade projects and social programmes. Total expenditure for 2010 is estimated at around 55.4% of GDP, compared with 43.3% a year earlier. The government also announced plans to create an earmarked fund for small entrepreneurs in the mining sector. It already boasts a number of new infrastructure projects, a housing project (18,000 new homes), medical centres and free-trade zones.

This high level of spending has therefore been a concern to analysts, who believe that if this pattern continues and is not matched by corresponding increases in revenue, it may affect the government's solvency. In order to compensate for the increased spending, and with greater calls for fiscal discipline, the government introduced a number of fiscal policy measures: it raised the duty on fuel from Sr\$ 1/litre to Sr\$ 1.5/litre and the revenue tax by 2 percentage points to 10% on the sale of goods and 12% on services; reintroduced the motor vehicle tax; increased excise duties on alcohol and tobacco products by 50%; and doubled the presumptive tax on casinos.

The government also plans to reduce expenditure by phasing out a wide range of subsidies, to introduce a value added tax (VAT) in 2013 and to reduce support to defunct State-owned enterprises. To compensate for the tough fiscal measures and the rapid increase in inflation, the government has provided some support to vulnerable groups in the society and tariff incentives to encourage growth. However, the impact of these measures was insignificant.

Public debt declined from 25.2% of GDP in 2008 to 21.0% in 2010. External debt accounts for 8.7% of the current total public debt and consists mainly of bilateral arrears with the United States of America. In January 2011, the government raised the legal limit for domestic debt from 15% of GDP to 25%, while lowering the

foreign debt ceiling from 45% of GDP to 35% of GDP, since most of the data showed that a large component of government debt incurred in the past few years had been borrowed locally.

(b) Monetary and exchange-rate policy

The government and the central bank have agreed to be more transparent and consistent in their dealings and have agreed to phase out government borrowing from the central bank over a three-year period. The government is expected to finance its own spending through the use of the financial markets. The foreign currency law will also be amended by Parliament in 2011 to allow the central bank to become the only entity authorized to monitor and set exchange-rate policy.

Liquidity in the financial system fell by 5.5% and was equivalent to 39.4% of GDP, while net domestic credit diminished marginally from 32.4% of GDP in 2009 to 31.8% of GDP in 2010. Private sector credit declined to 38% of GDP in 2010 from 40.5% of GDP a year earlier, while credit to the public sector expanded marginally to 7.1% of GDP in 2010, compared with 6.1% of GDP in 2009. At the end of December 2010, M2 grew by 3.1% compared with the December 2009 figure. Lending rates increased marginally during the year. The average lending rate for commercial banks edged up slightly from 11.6% at the end of 2009 to 11.9% at the end of 2010. Deposit rates remained stable at 6.2%.

The central bank introduced a number of policy measures in order to ensure macroeconomic stability in the face of rapidly rising inflation. The official exchange rate (which had stood at Sr\$ 2.8 = US\$ 1) was realigned with the free market rate, which had been trading at

Sr\$ 3.4 = US\$ 1. The 20% devaluation of the official exchange rate to Sr\$ 3.35 = US\$ 1 was designed to help restrain domestic demand by reducing purchasing power and making imports more expensive. This devaluation of the exchange rate contributed to the removal of black market trading. The central bank also raised the reserve requirements for commercial banks on their foreign exchange holdings to 40%, up from 33%.

The banking sector as a whole appears to be well capitalized, but across the sector there have been variations in terms of compliance with regulatory norms. The collapse of the parent company of CLICO Suriname produced no lasting damage to the financial sector in Suriname and in 2010, the Surinamese affiliate was acquired by a local insurance company.

3. The main variables

(a) Economic activity

According to official estimates, real GDP in Suriname is estimated to have increased from 2.2% in 2009 to 4.4% in 2010, owing to higher levels of government spending on goods and services and capital expenditure and expansion in the construction and agricultural sectors. Despite the rebound in the prices of the country's principal exports of gold, petroleum and alumina, the stoppage of aluminum production contributed to a 2.3% decline in mining and quarrying. The manufacturing sector grew by 4.6% compared with a decline of 0.7% in 2009. Output in construction expanded by 9.6% in 2010 and represented 5.0% of GDP. This increase was due to the government's ongoing construction programme, which included infrastructure improvements, hotel construction and some private-sector home-building projects. The agriculture sector grew by 7.9% compared with 5.3% a year earlier. Prospects for this sector remain mixed. The banana industry has been restructured and appears to be in better shape but changes to the European Union's import tax regime, which will benefit banana exporters in Ecuador and Colombia, will erode the industry's competitive advantage. However, Suriname will continue to enjoy quota and duty-free access for its bananas to the European Union. The rice industry remains saddled with heavy debt and operates at a high cost base; thus, it is expected to remain weak following price reductions in 2010 and 2011. However, the government has targeted this sector for special attention in 2011. Meanwhile, transport, storage and communications grew by 8.5% compared with flat growth in 2009 and wholesale and retail trade expanded by 7.1%, reflecting stronger demand for consumer durables. In 2011, GDP is forecast to accelerate to 5% as a result of dynamic growth in the external sector. In contrast, domestic consumption is expected to be limited by higher inflation, especially for food and fuel. Therefore, increases in gold production and higher prices for gold, oil and alumina, together with

sustained construction activity, are expected to fuel the growth momentum.

(b) Prices, wages and employment

Inflation rose from 1.3% at the end of 2009 to 10.3% at the end of 2010. This trend has continued into 2011, and the year-on-year rate at the end of February 2011 recorded by the General Bureau of Statistics was 18.8%. Inflation has been pushed up by rising prices for food and fuel, which account for 55% of the total consumer basket. The implementation of the *Functie Informatiesysteem Overheid (FIS)-2*, a public-sector wage reform programme, added to domestic liquidity during the year and in turn put upward pressure on prices. Inflation is expected to reach 20% by the end of 2011 as a result of the next phase of the wage reform package and the impact of the depreciation on food imports.

The official unemployment rate at the end of 2010, as published by the General Bureau of Statistics, was 12%, but no actual studies have been undertaken since 2006. However, the economic crisis of 2008-2009 did result in job losses, especially in the bauxite industry, where the number of permanent jobs declined from 1,117 workers in 2009 to 922 workers in 2010. Meanwhile, tripartite deliberations on fiscal and other major economic issues have resumed between the main economic agents of the government, labour and industry. The process has caused some dissatisfaction, however, as the major partners had not been consulted before the fiscal measures were announced, and some commentators argue that the government is merely trying to legitimize the new measures.

(c) The external sector

In 2010, the balance-of-payments current account recorded a larger surplus of US\$ 692.2 million. This represents a 230.7% increase, attributable to improvements

in the trade balance, as Suriname's main commodity exports —alumina, gold and oil— generated higher earnings. The growth in the trade balance was due to a sharp rise in both output and prices. Spending on imports fell as the weaker free-market exchange rate made these goods more expensive to consumers. However, the services account deteriorated in 2010, recording a deficit of US\$ 17 million compared with a surplus of US\$ 1.4 million in 2009. This was largely due to a sharp drop in other private services credits, including communications and financial services. The income balance also recorded a deficit of US\$ 3 million, largely due to higher interest payments. Current transfers continued to record a surplus amounting to US\$ 86.5 million in 2010. The majority of

these transfers were remittances from expatriates in the Netherlands and these funds are expected to remain an important source of income in the future. Net international reserves increased by US\$ 34.3 million to stand at US\$ 757.1 million, or approximately four months' worth of import cover.

All indications are that the current account will continue to remain in surplus in 2011. However, this depends on prices for commodity exports such as oil, gold and alumina, over which Suriname has little or no control in international markets. Therefore, any decline in global prices could result, once more, in a deficit on the current account. Suriname therefore needs to focus on diversifying its economy into non-traditional areas.

Trinidad and Tobago

1. General trends

Thanks to the upturn in the global economy, real GDP expanded by 2.5% in Trinidad and Tobago in 2010. This was a significant improvement over 2009, when the economy contracted by 3.5%. The energy sector's performance was much better than in 2009, while the non-energy sector remained flat. Inflation also posed a challenge to the authorities, increasing to 13.4% year-on-year (compared with 1.3% at the end of 2009) as a result of domestic supply-side shocks. Nevertheless, by early 2011, the inflation rate started to trend downward. Prospects for a sustained recovery in economic growth still remain weak and growth of 2% is forecast for 2011.

According to preliminary estimates of the central bank based on data available up to the end of March 2011, the fiscal deficit for the year 2010/2011¹ will be smaller than expected (around 0.2% of GDP), as a result of lower-than-budgeted expenditure, coupled with higher revenues. The budget for fiscal year 2010/2011 projected a deficit of 5.4% of GDP, but the deficit may actually turn out to be around 2.5% of GDP. In 2010, the balance-of-payments current

account recorded a surplus of US\$ 2.89 billion or 18% of GDP. The surplus on the current account was closely linked to the recovery in energy and petrochemical prices.

In 2010, the policy mix consisted of an expansionary monetary and fiscal policy stance designed to stimulate economic activity. This combination of policies is expected to be maintained in 2011 provided that there is no resurgence in inflation.

2. Economic policy

(a) Fiscal policy

The outcome, thus far, of the government's fiscal operations in fiscal year 2010/2011 has not coincided with budget projections. The central government had forecast a deficit amounting to 5.4% of GDP. However, preliminary

estimates by the central bank to 31 March 2011 indicate that the fiscal deficit was lower than expected (around 0.2% of GDP) owing to delayed spending on goods and services and on the capital programme. The government expects spending to increase throughout the remainder of the fiscal year as the capital expenditure programme

¹ The fiscal year runs from 1 October to 30 September.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates^b									
Gross domestic product	7.9	14.4	8.0	5.4	14.1	4.8	2.4	-3.5	2.5
Per capita gross domestic product	7.5	14.1	7.5	5.1	13.7	4.4	2.0	-4.0	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.7	-15.3	-34.2	-5.4	-10.1	21.8	7.6	-31.0	35.6
Mining and quarrying ^c	13.5	31.4	8.2	6.1	24.2	1.7	-0.2	2.6	2.8
Manufacturing	3.8	12.2	8.1	13.5	10.8	16.3	2.5	-1.7	3.0
Electricity, gas and water	8.7	5.3	3.2	6.2	-0.4	6.5	3.0	0.3	0.1
Construction ^d	-5.1	23.4	8.1	16.1	6.2	7.1	4.5	-7.6	-6.2
Wholesale and retail commerce, restaurants and hotels	1.4	1.8	0.4	4.5	18.0	3.3	9.2	-21.0	-3.4
Transport, storage and communications	9.6	5.4	-0.8	7.7	4.6	6.0	3.7	0.0	4.9
Financial institutions, insurance, real estate and business services	11.5	7.3	21.7	-2.4	1.0	10.4	3.7	-4.7	0.9
Community, social and personal services	4.3	2.8	5.9	1.1	-2.4	3.2	-0.5	0.1	-0.3
Millions of dollars									
Gross domestic product, by type of expenditure									
Consumption	27.8	-10.4	15.1	-29.9	33.1	23.3	2.0	...	...
General government	-0.8	0.1	9.2	5.5	5.1	30.2	-20.2	...	...
Private	33.9	-12.0	16.2	-35.7	40.7	21.9	6.9	...	...
Gross fixed capital formation	-12.4	60.6	-10.2	53.5	-40.3	-2.6	9.1	...	...
Exports (goods and services)	-8.9	28.8	13.4	28.3	22.2	-7.3	28.0	...	...
Imports (goods and services)	6.1	5.3	14.2	5.5	6.2	3.7	12.3	...	...
Balance of payments									
Current account balance	76	985	1 647	3 594	7 271	5 364	8 519	1 614	2 890
Goods balance	238	1 293	1 509	3 948	7 700	5 721	9 064	2 202	3 428
Exports, f.o.b.	3 920	5 205	6 403	9 672	14 217	13 391	18 686	9 175	9 862
Imports, f.o.b.	3 682	3 912	4 894	5 725	6 517	7 670	9 622	6 973	6 434
Services trade balance	264	314	480	...	...	...	...	...	...
Income balance	-480	-681	-397	-760	-936	-964	-1 202	-997	-1 120
Net current transfers	55	59	56	50	55	60	47	27	67
Capital and financial balance ^e	39	-737	-1 116	-2 118	-6 152	-3 823	-5 813	-2 327	-2 472
Net foreign direct investment	684	583	973	599	513	830	2 101	709	549
Other capital movements	-645	-1 320	-2 088	-2 717	-6 664	-4 653	-7 914	-3 036	-3 021
Overall balance	116	248	532	1 476	1 119	1 541	2 706	-713	418
Variation in reserve assets ^f	-116	-248	-532	-1 476	-1 119	-1 541	-2 706	713	-418
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	90.2	90.9	93.1	91.9	90.0	88.5	91.1	83.0	79.4
Net resource transfer (millions of dollars)	-441	-1 418	-1 513	-2 878	-7 088	-4 787	-7 016	-3 323	-3 591
Gross external public debt (millions of dollars)	1 549	1 553	1 364	1 329	1 261	1 392	1 445	1 422	1 561
Average annual rates									
Employment									
Labour force participation rate ^h	60.9	61.6	63.0	63.7	63.9	63.5	63.5	62.7	61.5
Unemployment rate ⁱ	10.4	10.5	8.4	8.0	6.2	5.6	4.6	5.3	5.8
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.3	3.0	5.6	7.2	9.1	7.6	14.5	1.3	13.4
Variation in nominal exchange rate (annual average)	-0.6	0.6	0.6	1.3	0.3	0.1	-0.6	0.7	0.6
Nominal deposit rate ^j	3.5	2.9	2.4	2.4	2.4	2.4	2.4	1.7	0.4
Nominal lending rate ^k	13.4	11.0	9.4	9.1	10.2	10.5	12.3	11.9	9.2
Percentages of GDP									
Central government^l									
Total revenue	24.6	23.6	24.7	29.4	33.6	30.1	33.3	30.7	...
Tax revenue ^m	20.5	20.6	21.9	26.4	30.3	27.0	30.4	26.6	...
Capital revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...
Total expenditure	25.3	22.2	22.9	24.5	26.9	25.2	26.2	36.7	...
Current expenditure	24.1	21.1	20.9	21.7	22.9	19.9	20.5	30.3	...
Interest	4.3	3.5	2.8	2.5	2.1	1.9	1.7	2.8	...
Capital expenditure ⁿ	1.2	1.1	1.9	2.8	4.0	5.3	5.7	6.4	...
Primary balance	3.7	4.9	4.6	7.5	8.8	6.9	8.8	-3.2	...
Overall balance	-0.6	1.3	1.8	5.0	6.7	4.9	7.1	-6.0	...

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Money and credit^o									
Domestic credit	28.3	21.6	16.3	11.8	6.7	14.7	9.5	26.6	26.2
To the public sector	-1.7	-4.2	-10.3	-14.9	-20.3	-12.8	-15.7	-6.6	-4.6
To the private sector	30.0	25.9	26.6	26.8	27.0	27.5	25.2	33.2	30.8
Liquidity (M3)	40.9	32.2	33.3	35.1	37.4	35.9	34.1	61.6	57.9
Currency outside banks and local-currency deposits (M2)	31.1	26.1	24.9	27.8	28.3	27.2	24.7	43.1	43.3
Foreign-currency deposits	9.8	6.0	8.4	7.3	9.1	8.7	9.4	18.5	14.6

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

^a Preliminary figures.

^b Based on figures in local currency at constant 2000 prices.

^c Refers only to the oil industry.

^d Includes quarrying.

^e Includes errors and omissions.

^f A minus sign (-) denotes an increase in reserves.

^g Annual average, weighted by the value of goods exports and imports.

^h Economically active population as a percentage of the working-age population; nationwide total.

ⁱ Percentage of the economically active population; nationwide total. Includes hidden unemployment.

^j Savings rate average.

^k Prime lending rate.

^l Fiscal year, from October to September.

^m Refers to tax revenues from the non-petroleum sector.

ⁿ Includes net lending.

^o The monetary figures are end-of-year stocks.

gains momentum and the central government settles some more of its outstanding obligations, including debt to contractors and value added tax (VAT) refunds.

Revenue out-turn generally remained within budget estimates. Although receipts from the non-energy sector (estimated at 23% of GDP) were weak, higher oil receipts compensated for this shortfall bringing total revenue to TT\$ 43.2 billion. The shortfall in revenue in the non-energy sector reflects the weak activity in the sector and the negative effects this had on VAT collections.

Nevertheless, the government intends to maintain an expansionary fiscal stance to support the economic recovery and job creation. Thus, during the second half of the fiscal year, the problems that constrained expenditure will be corrected so that the overall deficit will be in line with the budget projections for the fiscal year. The unexpectedly strong surge in oil and gas prices augurs well for the government's fiscal position and the revised forecast by the government is for a fiscal deficit of 4% of GDP in 2010/2011. Trinidad and Tobago also maintains a Heritage and Stabilization Fund (HSF) as well as other development funds totalling \$ 9.7 billion. This gives the country enough scope for fiscal stimulus without substantially impairing public solvency ratios. The government is expected to finance the deficit with a combination of savings and new external and domestic borrowing. Total public debt stood at 37% of GDP at the end of 2010.

(b) Monetary policy

Monetary policy management was challenged by weak economic activity in the non-energy sector in the aftermath of the global crisis, exacerbated by steep price increases, particularly for those agricultural crops that were hit by weather-induced supply shocks over the year. If food prices are stripped out, inflation proves to be more modest at around 4% in 2010. With core inflation remaining more or less the same and faced with the persistent problem of weak growth in the other sectors of the economy, the central bank conducted monetary policy with the aim of reviving domestic economic activity. Monetary policy was somewhat accommodative (although excess liquidity caused the central bank to withdraw currency from the system), as the central bank reduced the repo rate six times between January and December 2010, bringing it down to 3.75% at the end of the year. The commercial banks responded by lowering their prime lending rate from 9.75% at the end of 2009 to 8.0% at the end of 2010. All other interest rates fell as well. The weighted average lending rate on all loans dipped to 9.93% in December from 10.25% at the end of 2009. Similarly, the weighted average deposit rates declined from 1.57% at the end of 2009 to 0.85% at the end of 2010. In 2011, this rate continued to slide further, reaching 0.72% at the end of the first quarter of 2011.

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-4.8	-3.5	-6.2	0.8	1.9	-1.2	0.8	-3.8	...	...
Goods exports, f.o.b. (millions of dollars)	4 121	1 595	1 510	1 950	2 843	2 653	2 208	...	...	...
Goods imports, c.i.f. (millions of dollars)	1 546	1 787	1 719	1 922	1 653	1 562	1 620	...	...	...
Gross international reserves (millions of dollars)	8 958	8 802	8 935	8 652	8 788	9 111	9 086	9 070	9 144	9 599 ^d
Real effective exchange rate (index: 2000=100) ^e	79.3	81.8	84.3	86.4	84.1	78.9	76.1	78.5	80.3	83.0
Unemployment rate	5.0	5.1	5.8	5.1	6.7	4.8	...	...	...	...
Consumer prices (12-month percentage variation)	11.3	8.4	4.9	1.3	5.1	13.6	13.2	13.4	9.4	6.4 ^d
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.26	6.28	6.31	6.34	6.34	6.34	6.33	6.34	6.37	6.39
Nominal interest rates (annualized percentages)										
Deposit rate ^f	2.4	2.0	1.5	0.9	0.7	0.5	0.3	0.2	0.3 ^g	...
Lending rate ^h	13.0	12.6	11.6	10.6	9.7	9.5	9.2	8.5	8.2	8.0 ^d
Interbank rate	10.7	10.0	8.8	7.8	7.0	7.0	6.6	5.8	5.5 ^g	...
Stock price index (national index to end of period, 31 December 2000 = 100)	186.1	176.5	178.4	173.3	185.2	187.4	186.1	189.3	197.5	209.8
Domestic credit (variation from same quarter of preceding year)	1.9	67.5	79.5	103.1	50.7	43.1	27.1	2.9	21.3	...

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2000 prices.

^d Data to April.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Special saving rates.

^g Data to January.

^h Prime lending rate.

However, the lower interest rates did not stimulate borrowing and credit demand remained weak, particularly in the case of the business sector. Credit to major business categories such as manufacturing, construction, distribution and finance and insurance contracted. The real-estate sector recorded an increase in lending in 2010, by 7% year-on-year, and there was a noticeable improvement in consumer lending. Year-on-year, this category grew by 5.2% in 2010, and the growth continued in 2011 to stand at 3.9% in the first quarter. Disaggregated data show that loans for the purpose of debt consolidation and refinancing rose by 21.2% and 10.4%, respectively, as consumers took advantage of the lower interest rates. Since these were new loans with longer maturities, the consumer loan portfolio increased.

Given the low demand for credit by the business sector, excess liquidity existed in the financial system for most of the year. In November of 2010 the central bank therefore requested commercial banks to deposit a total of TT\$ 2.0 billion in an interest-bearing account for 18 months. Additionally, the central bank removed TT\$ 5.7 billion from the domestic system through net open-market activity and foreign-exchange sales.

Bond issuance by the central government totalling TT\$ 1.4 billion also helped to soak up liquidity from the financial system. The tightening of liquidity in late 2010 caused short-term interest rates to improve marginally. After declining to 0.28% in October 2010, the domestic three-month treasury bill rate moved up to 0.47% in April 2011.

In 2010, the monetary aggregates M1 and M2 grew strongly, by 33.4% and 21%, respectively, over 2009 levels. The expansion of M1 was fuelled by demand deposits, while growth in M2 reflected that of M1 and an increase in savings deposits. However, growth in the monetary aggregates slowed in the first few months of 2011. M1A increased by 16.2% in February 2011 year-on-year, compared with 38.1% in February 2010, year-on-year. The broader measure of the money supply, M2 also trended in a similar direction. On a twelve-month basis, M2 growth slowed to 6.9% in February 2011 from 22.1% in February 2010. This occurred because time deposits declined by 14.4% in February 2011. Similarly, foreign-currency deposits declined by 16.2% and savings deposits declined by 11.1% during the same period.

(c) Exchange-rate policy

The quasi-fixed exchange-rate regime remained unchanged in 2010 and the situation is expected to continue in 2011, supported by the central bank's strong reserves position. Rebounding international energy prices in 2010 buoyed energy-sector earnings leading to higher levels of foreign-exchange inflows. West Texas Intermediate (WTI) oil prices averaged US\$ 79.41 per barrel in 2010, compared with US\$ 61.66 per barrel in 2009. Estimates suggest the energy sector supplied US\$ 2.5 billion of foreign currency to the market in 2010, compared with US\$ 2.3 billion in 2009. Demand for foreign currency remained strong in 2010, although imports declined. During 2010, authorized intermediaries sold US\$ 5.5 billion or 1.9% less to the public than in 2009.

High international energy prices sustained export earnings in foreign currency and relieved some of the pressure on the foreign-exchange market, so that less intervention by the central bank was required. Therefore, the bank's sales amounted to US\$ 1.5 billion, (18% less than in 2009). Nevertheless, these sales were 33.5% higher than the average for the last five years. In December 2010, the nominal exchange rate depreciated marginally, and the weighted average selling rate stood at US\$ 1= TT\$ 6.402. By March 2011, the Trinidad and Tobago dollar depreciated marginally, and the rate stood at US\$ 1= TT\$ 6.422. The real effective exchange rate also depreciated by 8.6% over the September 2010 to May 2011 period. This depreciation was the result of a steady reduction in domestic prices relative to those of the country's major trading partners.

3. The main variables

(a) Economic activity

Following two years of negative growth caused in large measure by the international financial crisis, and with this crisis abating, most major markets showed some recovery in 2010. The economy of Trinidad and Tobago grew by 2.5% in 2010, compared with a real GDP contraction of 3.5% in the previous year. Activity in the energy sector increased at similar rates to 2009. The energy sector is estimated to have grown by 2.8%, while the other sectors in the economy registered flat growth. Energy sector growth was spurred by higher production of natural gas (3.2%), liquefied natural gas (LNG) (1.4%) and natural gas liquids (8.3%). However, there were reductions in the production of crude oil (8.3%), petroleum refining (16.7%) and petrochemicals (0.7%). The completion of most major government projects and the slow pace of starting new ones contributed to a 6.27% contraction in construction, while lower levels of retail and wholesale activity contributed to a decline of 3.1% in commerce.

Notwithstanding the increase in international prices, the volume of crude oil production decreased in 2010 compared with 2009. Refinery output averaged 129 thousand barrels per day in 2010. However, there were initial signs of an improvement in 2011. During 2010, BHP Billiton temporarily cut production from its Angostura field to install and upgrade infrastructure. The

restart of natural gas production by BHP Billiton led to an increase in production to 4,337 mmcf/d from 4,200 mmcf/d in 2010. The strong performance in the energy sector is expected to continue in 2011. However, overall growth is expected to remain below potential owing to lagging consumer and business confidence.

(b) Prices, wages and employment

Inflationary pressures intensified in 2010, largely as a result of global food and commodity prices. The year-on-year inflation rate peaked at 14.2% in August 2010 but eased to end the year at 13.2%. The major cause of inflation was high food prices due to weather conditions which led to crop damage and low yields. Domestic food price inflation is expected to rise in 2011 as prices for key global food items including wheat and dairy products, corn, oils and fats, and sugar have increased consistently in recent months. Core inflation has remained low, at a range consistently between 3% and 4% over the period. In 2011, as the effects of supply shocks subside and as long as domestic demand remains subdued, overall inflation should decline to single-digit levels. In March 2011, on a year-on-year basis, headline inflation declined to 9.4% compared with 10.7% in the previous month and 12.5% in January. Inflation is forecast to average 6.5% in 2011. However, if upward price pressures persist, then the inflation rate may overshoot this target.

The central government raised the minimum hourly wage from TT\$ 9.00 to TT\$ 12.50 in its 2010/2011 budget. The government also settled its wage dispute with a major trade union, the Public Service Association (PSA), awarding a 5% salary increase and improved benefits. The labour relations climate remains tense, however, as other government worker-affiliated trade unions have rejected the 5% offer, and have threatened further action in the future.

Data on average weekly earnings show that wages in the manufacturing sector (as measured by the index of average weekly earnings) increased by 5.3% in 2010, compared with 9.0% in 2009.

Meanwhile, the unemployment rate stood at 6.4% in 2010 up from 5.9% in 2009. Although official estimates have not yet been released, as many as 17,600 jobs were lost in the construction sector and these account for the bulk of total job losses. Similarly, in agriculture, 7,900 jobs were lost. The job losses which occurred in 2010 were due mainly to the slowdown in the domestic economy.

(c) The external sector

In 2010, the balance-of-payments accounts registered an overall surplus of US\$ 418.4 million, compared with a deficit of US\$ 712.6 million in 2009. The strong performance of the external accounts owes much to a current account surplus of US\$ 2.9 billion for the year, since the capital account remained in deficit. Higher

commodity prices (oil, gas) and a decline in imports led to the surplus on the current account, including a merchandise trade balance of US\$ 3.4 billion or 16.8% of GDP. The services account also recorded a surplus (US\$ 514.7 million or 2.5% of GDP), which contributed to the positive balance on the current account. However, the capital and financial account (including net errors and omissions) showed an overall deficit of US\$ 2.5 billion or 12.1% of GDP.

Net foreign direct investment declined to US\$ 549.4 million in 2010, compared with US\$ 709 million in 2009. Commercial bank assets held abroad increased by US\$ 32.8 million in 2010, compared with an increase of US\$ 675.2 million a year earlier. Central government principal repayments on external debt fell from US\$ 330.9 million in 2009 to US\$ 71.6 million in 2010 largely on account of a US\$ 230 million bond placement made in September 2009. Total public debt service amounted to US\$ 121.2 million, compared with US\$ 434.4 million in 2009. At the end of 2010, gross official reserves stood at US\$ 9.1 billion, representing over 14 months of goods imports.

The positive outlook of the balance of payments accounts is expected to continue in 2011. Boosted by high oil prices, the current account is expected to be in surplus again in 2011 (around 19.1% of GDP), but this performance will depend on the evolution of oil and gas prices for the remainder of 2011.

Countries of the Eastern Caribbean Currency Union (ECCU)

1. General trends

In 2010, economic activity in the countries of the Eastern Caribbean Currency Union (ECCU) contracted by 1.6%, a more moderate decline than the 5.6% slump recorded in 2009. This protracted downturn was due to the continued negative effects of the global economic and financial crisis. With the exception of Saint Vincent and the Grenadines, where economic activity contracted further, and Dominica, which registered minimal positive growth of 0.06%, all other member countries of the ECCU slower rates of GDP contraction than in 2009. The overall fiscal deficit narrowed from 4.7% of GDP in 2009 to 1.5% of GDP as many countries curtailed capital expenditure. In fact, a number of countries implemented some degree of fiscal consolidation. The high level of public-sector debt continued to be a major challenge, especially given the small size of these economies. The total debt-to-GDP ratio was 83.9% in 2010, slightly higher than in 2009 (82.9%). Monetary policy remained virtually unchanged as there were no adjustments to the main policy rates. The current account deficit shrank in 2010 to 18.8% of GDP compared with 21.9% of GDP in 2009, reflecting a further decline in imports due to the recession throughout the ECCU area. Based on preliminary estimates, economic activity is expected to rebound by 3.2% in 2011, driven by increased tourism and construction activity, as well as utilities and other service. This growth will be spearheaded by the economies of Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Despite the prospects for positive economic activity in 2011, the economies remain vulnerable to natural disasters, as evidenced by Hurricane Tomas in the last quarter of 2010, which caused substantial damage in Saint Lucia and Saint Vincent and the Grenadines. Meanwhile the

establishment by the Organization of Eastern Caribbean States of the Eastern Caribbean Economic Union will provide the economies with more space and scope for effecting economic transformation.

Table 1
COUNTRIES OF THE EASTERN CARIBBEAN CURRENCY UNION:^a MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Annual growth rates^c									
Gross domestic product	1.9	6.0	4.6	4.5	6.4	5.9	3.2	-5.6	-1.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.9	-2.4	-2.4	-15.6	6.8	-1.2	15.1	-1.5	-8.0
Mining and quarrying	-0.6	18.1	-19.7	9.9	83.1	24.9	-5.9	-20.0	-4.8
Manufacturing	-7.3	3.9	3.4	6.7	-0.4	5.0	-2.3	0.1	-4.7
Electricity, gas and water	0.4	2.5	3.9	6.8	2.4	6.1	1.8	2.9	0.7
Construction	0.2	8.0	11.1	13.7	11.9	-1.4	6.6	-18.8	-13.8
Wholesale and retail commerce, restaurants and hotels	1.0	5.3	2.7	4.4	6.9	7.8	2.6	-12.3	-1.0
Transport, storage and communications	0.5	9.7	8.1	4.9	0.1	8.3	1.9	-3.7	-3.1
Financial institutions, insurance, real estate and business services	2.7	3.6	3.1	5.1	5.4	6.0	1.4	-0.5	1.4
Community, social and personal services	2.7	3.9	2.1	2.7	6.7	6.1	5.5	2.8	2.6
Millions of dollars									
Balance of payments									
Current account balance	-513	-621	-481	-737	-1 082	-1 387	-1 508	-1 044	-880
Goods balance	-887	-1 081	-1 133	-1 364	-1 635	-1 869	-2 011	-1 579	-1 529
Exports, f.o.b.	307	319	323	342	335	340	434	406	408
Imports, f.o.b.	1 194	1 400	1 456	1 706	1 970	2 209	2 445	1 985	1 938
Services trade balance	501	588	737	699	608	595	615	611	650
Income balance	-209	-235	-281	-237	-203	-237	-253	-207	-169
Net current transfers	81	107	194	165	148	125	141	132	169
Capital and financial balance ^d	572	654	592	705	1 160	1 420	1 492	1 144	977
Net foreign direct investment	306	524	370	522	928	1 072	871	645	501
Other capital movements	266	130	223	184	232	348	621	499	476
Overall balance	59	33	111	-32	78	34	-16	100	97
Variation in reserve assets ^e	-59	-33	-111	32	-77	-34	16	-35	-97
Other financing	0	4	0	0	0	0	0	-66	0
Other external-sector indicators									
Gross external public debt ^f	1 574	1 833	1 939	1 820	1 922	2 137	2 179	2 195	2 229
Net resource transfer	363	423	312	468	957	1 183	1 239	870	808
Annual percentages									
Prices									
Variation in consumer prices (December-December)	-0.1	1.7	2.7	4.1	1.5	5.5	3.9	1.2	2.2
Nominal deposit rate ^g	3.7	4.6	3.2	3.2	3.2	4.3	4.5	4.5	4.5
Nominal lending rate ^g	11.0	12.8	10.4	10.2	9.9	11.3	10.7	10.8	11.2
Percentages of GDP									
Central government									
Total revenue ^h	23.6	23.8	24.9	30.2	25.7	25.1	26.3	25.3	26.1
Current revenue	21.7	21.9	22.3	22.5	23.2	23.6	23.8	23.3	23.4
Tax revenues	18.7	19.2	19.7	20.4	21.0	21.5	21.5	21.1	20.6
Capital revenue	0.4	0.2	0.4	0.4	0.3	0.3	0.6	0.2	0.3
Total expenditure	31.3	28.6	28.0	28.2	30.2	28.6	29.0	29.9	27.7
Current expenditure	23.0	22.2	22.6	21.7	22.0	21.1	21.8	23.5	23.2
Interest	3.6	3.6	3.9	3.2	3.3	3.1	3.0	3.1	3.0
Capital expenditure ⁱ	8.3	6.3	5.5	6.5	8.3	7.5	7.1	6.3	4.5
Primary balance	-4.1	-1.2	0.8	5.2	-1.3	-0.4	0.3	-1.5	1.4
Overall balance	-7.8	-4.8	-3.1	2.0	-4.5	-3.4	-2.7	-4.6	-1.6
Percentages of GDP									
Money and credit^j									
Domestic credit	67.4	63.9	63.7	66.2	69.1	74.4	77.2	85.0	83.9
To the public sector	0.2	-1.1	-0.8	0.7	-0.2	0.6	1.7	3.8	1.5
To the private sector	67.2	64.9	64.6	65.5	69.2	73.7	75.6	81.1	82.4
Liquidity (M3)	73.7	77.2	80.7	78.6	79.0	79.6	77.6	83.3	84.1
Currency outside banks and local-currency deposits (M2)	67.8	70.5	73.9	71.9	70.7	71.2	70.4	75.0	75.7
Depósitos en moneda extranjera	5.9	6.7	6.8	6.7	8.3	8.5	7.1	8.2	8.4

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

^a Refers to six countries: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Vincent and The Grenadines and Saint Lucia.

^b Preliminary figures.

^c Based on figures in Eastern Caribbean dollars at constant 1990 prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f The figures for Saint Vincent and The Grenadines corresponds to gross external debt.

^g Weighted averages.

^h Includes grants.

ⁱ Includes net lending.

^j The monetary figures are end-of-year stocks.

2. Economic policy

(a) Fiscal policy

Fiscal policy in 2010 was contractionary as most governments, guided by the Eight Point Stabilization and Growth Programme of the ECCI Monetary Council, underwent some degree of fiscal consolidation. As a result, the overall fiscal deficit diminished from 4.7% of GDP in 2009 to 1.5% of GDP in 2010. Total revenue increased by 4.3% to 27.0% of GDP as current revenue, which fell by 8% in 2009, picked up slightly (by 1.7%) to stand at 23.7% of GDP in 2010. This improvement was due to a 27.2% rise in non-tax revenue, boosted mainly by land sales concluded as part of a housing strategy. Even though total revenue was higher, tax revenue declined by 1.2%. While total tax revenue and tax revenue on incomes and profits decreased, the introduction of a value added tax in Grenada and in Saint Kitts and Nevis of 15% and 17%, respectively, contributed to a marginal 3.2% increase in tax revenue from sales of domestic goods and services. Grant receipts were up by 25%. Total expenditure contracted by nearly 7% to stand at 28.5% of GDP following declines in both current and capital expenditure (1.3% and 28.4% respectively). The substantial reduction in capital expenditure was in line with the fiscal consolidation strategy. The marginal decline in current expenditure was due to lower outlays on goods and services, interest payments, and transfers and subsidies despite a 0.9% increase in outlays on wages and salaries, which reflected retroactive payments to civil servants in Saint Lucia and Saint Vincent and the Grenadines. The primary balance shifted from a deficit of 1.7% in 2009 to a surplus of 1.5% in 2010. On an individual country basis, the overall fiscal deficit improved in all countries except Saint Kitts and Nevis and Saint Vincent and the Grenadines, which reported deficits of 4.2% of GDP and 3.5% of GDP, respectively. Dominica recorded an overall fiscal surplus of 1.4% of GDP.

In 2011, fiscal policy will continue to be guided by the Eight Point Stabilization and Growth Programme, which is designed to strengthen fiscal stability, address the challenges of the financial sector and stimulate economic activity through effective implementation of the Public Sector Investment Programme (PSIP). Projections for 2011, based on national budget estimates, indicate that Antigua and Barbuda will record an overall fiscal deficit of 1.5% of GDP for fiscal year 2011/2012, as the country enters the second year of its fiscal consolidation programme backed by the International Monetary Fund (IMF). Saint

Kitts and Nevis will see an increase in its primary surplus to 8% of GDP for the fiscal year 2011/2012, as the value added tax introduced in November 2010 begins to yield higher levels of revenue, while other fiscal measures will keep a lid on expenditure. Dominica will record a smaller primary surplus of 2% of GDP for the fiscal year 2010/2011, as the country aggressively implements its PSIP. Grenada's overall fiscal deficit will widen to 6.7% of GDP, following a substantial increase in capital expenditure to spur economic growth and generate employment.

The Debt Management Advisory Services Unit, a part of the Eastern Caribbean Central Bank (ECCB) established in 2009, continued to provide technical support to member countries during 2010. Part of this support included the formulation of debt management strategies, which laid out objectives and planned for effective debt management. In 2010, total public-sector debt increased slightly to 83.9% of GDP from 82.9% of GDP in 2009 (52% external and 48% domestic). External debt increased by 7.5% to 43.8% of GDP, reflecting increased borrowing, primarily from IMF, the Caribbean Development Bank and the European Investment Bank. On the other hand, domestic debt decreased by 6% to 40.1% of GDP, primarily because of debt repayments by Antigua and Barbuda. The total debt-to-GDP ratio increased in all countries with the exception of Antigua and Barbuda, which is currently subject to an IMF Standby Arrangement. In 2011, debt will continue to increase as countries continue to borrow to support economic activity. Saint Lucia and Saint Vincent and the Grenadines benefited from IMF Rapid Credit Facilities of US\$ 8.19 million and US\$ 3.26 million, respectively, in the first quarter of 2011. Saint Kitts and Nevis reached an agreement in principle with the IMF on a US\$ 84 million Stand-by Arrangement over 36 months in June 2011.

(b) Monetary and exchange-rate policy

The ECCU monetary policy stance remained unchanged during 2010. The focus was on maintaining the stability of the financial system and the credibility of the currency peg at EC\$2.7 to the United States dollar. The central-bank-administered interest rates (the discount rate and the savings deposit rate) remained unchanged (at 6.5% and 3%, respectively). The commercial banks' average nominal deposit rate remained at 4.5%, while the nominal average lending rate increased slightly from 10.8% in 2009 to 11.2% in 2010.

Owing to sluggish economic activity, growth in broad money was minimal at 1.8% in 2010, approximately the same rate as in the previous year. M1 was down by 0.5%, reflecting declines in both the currency held by the public and demand deposits. Credit to the private sector rose by about 2% to 88.9% of GDP in 2010, a rate similar to that in 2009, but substantially lower than the growth rates of 10% in 2008 and 38% in 2007. The highest allocation of private sector credit was for household uses, namely home and land purchases, home construction and renovation, and other personal loans. The ECCU member governments became net creditors to domestic banks during 2010, reversing the trend of being net borrowers. This reversal was offset by a substantial increase in governments' external debt during the course of 2010.

In 2010, the ECCU continued to address a number of developments in the financial system which unfolded in 2009. The Bank of Antigua, which was on the brink

of failure, was purchased by the Eastern Caribbean Amalgamated Bank, which began successful operations in October 2010. The National Bank of Saint Vincent and the Grenadines had been experiencing liquidity problems and was restructured as the government divested its majority shareholder status by inviting new capital to invest through the East Caribbean Financial Holdings Company Ltd. A number of countries established Financial Services Regulatory Commissions and enacted new insurance legislation to allow for better supervision of the non-bank financial sector. Some progress, though slow, has been made in tackling issues relating to the collapse of the Colonial Life Insurance Company Limited and the British American Insurance Company. The property portfolio of the latter was sold to Caribbean Alliance Insurance Company in 2010 and the British American Insurance Company Health Insurance Support Fund was launched in May 2011.

3. The main variables

(a) Economic activity

The economic and financial crisis continued to have a negative impact on the economies of the ECCU in 2010. Construction, one of the key productive sectors of the economy, contracted by 13.8%, almost the same rate as in 2009. This decrease was due to the limited availability of foreign financing, reduced inflows of foreign direct investment and a reduction of approximately 28.4% in public capital expenditure. Declines were also recorded in mining, which is closely associated with the construction sector as the main materials extracted are sand and gravel. Wholesale and retail trade, transport, storage and communication and financial intermediation also declined. The agricultural sector, which contributes about 4% to GDP, contracted by 8.0%. This sector is a significant foreign exchange earner for the economies of Dominica, Grenada, Saint Lucia, and Saint Vincent and the Grenadines. The setback in the agricultural sector was mainly due to pest infestation and drought at the beginning of the year and to Hurricane Tomas during the last quarter. Saint Lucia and Saint Vincent and the Grenadines suffered hurricane damage to their banana subsector, with production losses of 88.0% and 27.2%, respectively. In Grenada, nutmeg production slumped by 45%. On a positive note there was a slight increase (2.5%) in livestock farming. Manufacturing

output contracted by 5.4% and makes up roughly 4% of GDP. The exception was Grenada, which saw growth in manufacturing output by 15% while all other countries experienced a decline.

The tourism sector, another key economic sector of ECCU, contributed roughly 9% of GDP. Activity in the tourism sector, proxied by hotels and restaurants, increased by 2.7% in 2010 compared with a contraction of 9.7% in 2009. Stay-over visitors, who comprise the higher end segment of the tourism market, increased by 3.4%, compared with a reduction of 12% of 2009. Stay-over visitors from the United States and Canada increased by 12.7% and 14.2%, respectively, while stay-over visitors from the United Kingdom and the Caribbean were down by 6.4% and 5.2%, respectively. Cruise visitors declined by nearly 6%, compared with an increase of 19% in the previous year.

(b) Prices, wages and employment

Inflation increased in 2010 (December to December) to 2.2% from 1.2% in 2009, owing mainly to escalating food prices and higher costs of fuel and electricity. The inflation rates varied between countries; the highest rates were recorded in Grenada (4.2%) and Saint Kitts and Nevis (3.9%). In Grenada, the higher prices were due to the initial effects of the introduction of the value added

tax. In Antigua and Barbuda there was a slight rise in inflation from 2.4% in 2009 to 2.9% in 2010 due to the reduction in the number of zero-rated items under the Antigua and Barbuda sales tax regulations. The inflation rate averaged 2% in Dominica, Saint Lucia, and Saint Vincent and the Grenadines.

Dominica increased the minimum hourly wage rate of non-established workers from EC\$ 5.00 to EC\$ 5.77 per hour with effect from April 2011. This measure will guarantee that all “non-established” workers who work a minimum of 40 hours per week receive no less than EC\$ 1,000 a month. In Saint Vincent and the Grenadines, public servants were granted a 3% salary increase in January 2010. The unemployment rate rose slightly in Saint Lucia from 18.1% in 2009 to 20.6% in 2010. Grenada’s recent labour survey showed an unemployment rate of 29% in 2010.

(c) The external sector

The sluggish state of the ECCU economies contributed to a slight improvement in the balance-of-payments current account deficit. The deficit narrowed from 21.9% in 2009 to 18.8% in 2010 or US\$ 960 million. This reduction is

attributable to a fall in imports due to weaker domestic demand. This drop in imports caused the trade deficit to diminish by 3%, to US\$1,674 million. Export earnings also fell by 2.3% due to lower volumes of domestic exports, principally bananas, nutmeg, soap and rice.

The surplus on the services account increased by nearly 9% to US\$ 705 million or 13.4% of GDP, thanks to a 5.4% rise in travel receipts as stay-over tourist demand increased by 3.4%. Meanwhile, the capital and financial account surplus narrowed by 16.5% to stand at US\$ 1.09 billion or 20.7% of GDP (including errors and omissions). This decline was due to a 16% drop in capital transfers to the government. Foreign direct investment also contracted by 17% to US\$ 576 million, or 11% of GDP, owing to a reduction in equity inflows into the tourism sector. The balance on the current and capital and financial accounts contributed to an overall balance-of-payments surplus of 2% of GDP, slightly lower than the amount recorded for 2009 (3% of GDP). Net international reserves amounted to US\$ 925 million, covering 3.7 months of imports.

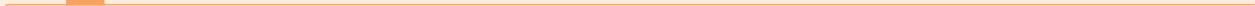
In 2011, the balance-of-payments current account deficit will increase to approximately 19.2% of GDP as economic activity picks up and international prices of commodities trend upwards.

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Statistical annex

Table A-1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates									
Gross domestic product ^b	0.5	1.8	5.9	4.6	5.6	5.6	4.0	-2.1	5.9
Per capita gross domestic product ^b	-0.9	0.5	4.5	3.3	4.3	4.4	2.8	-3.2	4.7
Consumer prices ^c	12.2	8.5	7.4	6.1	5.0	6.5	8.2	4.7	6.5
Percentages									
Urban open unemployment ^d	11.2	11.2	10.3	9.1	8.6	7.9	7.3	8.1	7.3
Total gross external debt/GDP ^e	39.8	39.9	34.4	25.1	21.0	19.6	17.3	20.3	19.3
Total gross external debt/exports of goods and services ^e	178	170	138	101	84	82	73	100	94
Millions of dollars									
Balance of payments^f									
Current account balance	-16 376	9 332	22 261	36 496	50 295	14 434	-29 277	-19 331	-56 411
Merchandise trade balance	20 057	41 381	56 815	78 828	96 926	67 972	42 073	51 614	45 805
Exports of goods f.o.b.	357 992	390 743	481 568	580 959	694 728	780 045	906 377	701 823	889 307
Imports of goods f.o.b.	337 935	349 362	424 753	502 131	597 802	712 073	864 305	650 209	843 502
Services trade balance	-12 891	-11 379	-11 758	-15 194	-16 539	-22 557	-29 882	-30 613	-46 156
Income balance	-53 472	-58 787	-68 158	-80 552	-94 255	-97 914	-108 676	-100 671	-117 359
Net current transfers	29 931	38 117	45 360	53 414	64 163	66 942	67 209	60 341	61 300
Capital and financial balance ^g	-10 650	404	-7 461	24 362	14 329	111 456	68 139	66 321	149 310
Net foreign direct investment	51 238	37 612	50 873	56 896	31 906	92 879	98 562	69 367	70 159
Other capital movements	-61 888	-37 208	-58 335	-32 535	-17 577	18 577	-30 423	-3 046	79 151
Overall balance	-27 026	9 736	14 799	60 858	64 623	125 889	38 863	46 991	92 899
Variation in reserve assets ^h	4 665	-28 315	-23 614	-39 447	-51 917	-127 834	-42 490	-51 435	-86 783
Other financing	22 361	18 583	8 815	-21 411	-12 705	1 945	3 628	4 443	-6 115
Net transfer of resources	-42 062	-40 250	-66 654	-78 081	-93 249	14 537	-36 977	-30 049	22 379
International reserves	164 784	197 615	225 668	262 168	319 045	459 152	512 240	566 961	655 137
Fiscal sectorⁱ									
Percentages of GDP									
Overall balance	-2.9	-2.9	-1.9	-1.1	-0.0	0.2	-0.5	-2.9	-2.0
Primary balance	-0.5	-0.2	0.5	1.3	2.2	2.2	1.2	-1.1	-0.4
Total revenue	16.5	16.6	17.0	18.0	18.9	19.4	19.5	18.4	18.9
Tax revenue	12.9	13.0	13.4	14.1	14.6	15.1	15.0	14.6	14.9
Total expenditure	19.3	19.5	18.8	19.1	19.0	19.2	20.0	21.3	20.9
Capital expenditure	3.6	3.7	3.7	3.7	3.7	4.0	4.4	4.4	4.6
Central-government public debt	58.2	57.4	51.0	42.9	35.9	30.0	28.6	30.0	29.5
Public debt of the non-financial public-sector	65.0	62.8	56.0	47.8	40.7	33.6	32.1	33.6	32.7

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

^a Preliminary figures.

^b Based on official figures expressed in 2005 dollars.

^c December-December variation.

^d The data for Argentina have been adjusted to allow for changes in methodology in 2003.

^e Estimates based on figures denominated in dollars at current prices.

^f Does not include Cuba.

^g Includes errors and omissions.

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

ⁱ Central government, except for the Plurinational State of Bolivia, where coverage corresponds to general government. Simple averages for 19 countries.

Table A-2
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean	1 857 626	1 925 556	2 222 683	2 693 462	3 168 903	3 747 438	4 360 465	4 050 083	4 993 225
Antigua and Barbuda	823	867	924	1 023	1 163	1 318	1 378	1 253	1 211
Argentina	102 042	129 596	153 129	183 196	214 267	262 451	328 469	308 740	370 263
Bahamas	6 958	6 949	7 094	7 706	7 966	8 319	8 240	7 807	7 702
Barbados	2 956	3 051	3 203	3 685	3 885	4 038	3 988	3 895	4 110
Belize	933	988	1 056	1 115	1 213	1 277	1 359	1 337	1 395
Bolivia (Plurinational State of)	7 905	8 082	8 773	9 549	11 452	13 120	16 674	17 340	19 640
Brazil	506 041	552 383	663 733	882 044	1 089 397	1 366 852	1 653 350	1 593 017	2 088 962
Chile	67 532	73 990	95 653	118 250	146 774	164 317	170 741	160 859	203 443
Colombia ^b	97 963	94 641	117 082	146 567	162 590	207 417	244 465	234 694	288 782
Costa Rica	16 844	17 518	18 595	19 965	22 526	26 322	29 838	29 241	35 789
Cuba	33 591	35 901	38 203	42 644	52 743	58 604	60 806	62 279	64 099
Dominica	333	347	373	368	394	424	464	466	466
Dominican Republic	24 913	20 045	21 582	33 542	35 660	41 013	45 523	46 598	51 576
Ecuador	24 718	28 409	32 646	36 942	41 705	45 504	54 209	52 022	55 754
El Salvador	14 307	15 047	15 798	17 094	18 551	20 105	21 431	20 661	21 215
Grenada	540	589	594	697	701	759	830	761	773
Guatemala	20 777	21 918	23 965	27 211	30 231	34 113	39 136	37 680	41 178
Guyana	1 158	1 185	1 256	1 315	1 458	1 740	1 923	2 026	2 226
Haiti	3 215	2 827	3 660	4 154	4 880	5 971	6 408	6 479	6 710
Honduras	7 860	8 234	8 871	9 757	10 917	12 361	13 882	14 176	15 400
Jamaica	9 677	9 399	10 135	11 165	11 957	12 908	13 995	12 414	14 127
Mexico	711 103	700 325	758 577	846 094	949 066	1 033 176	1 093 678	879 717	1 034 823
Nicaragua	4 026	4 102	4 465	4 872	5 230	5 662	6 372	6 214	6 551
Panama	12 272	12 933	14 179	15 465	17 137	19 794	23 002	24 080	24 904
Paraguay	5 092	5 552	6 950	7 473	9 275	12 222	16 873	14 240	17 896
Peru	56 775	61 356	69 701	79 389	92 319	107 524	129 107	130 355	157 324
Saint Kitts and Nevis	433	433	473	511	589	647	702	673	652
Saint Vincent and the Grenadines	463	482	523	551	611	685	702	699	705
Saint Lucia	696	757	831	881	985	1 063	1 128	1 105	1 198
Suriname	955	1 122	1 114	1 376	1 610	1 850	2 305	2 179	2 382
Trinidad and Tobago	9 008	11 305	13 280	15 982	18 369	21 642	27 179	19 623	20 397
Uruguay	12 830	11 695	13 811	17 363	19 802	23 877	31 177	31 322	40 265
Venezuela (Bolivarian Republic of)	92 890	83 529	112 452	145 513	183 478	230 364	311 131	326 133	391 308

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

^a Preliminary figures.

^b Based in the new quarterly national accounts figures published by the country, base year 2005.

Table A-3
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean^b	0.5	1.8	5.9	4.6	5.6	5.6	4.0	-2.1	5.9
Antigua and Barbuda	3.6	6.5	5.8	6.5	13.6	10.7	0.7	-11.3	-5.2
Argentina	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	0.9	9.2
Bahamas	2.7	-1.3	0.9	3.4	2.5	1.4	-1.3	-5.4	0.9
Barbados	0.7	2.0	4.8	3.9	3.6	3.8	-0.2	-4.7	0.3
Belize	5.1	9.3	4.6	3.0	4.7	1.2	3.8	-0.0	2.9
Bolivia (Plurinational State of)	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4	4.1
Brazil	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.6	7.5
Chile	2.2	3.9	6.0	5.6	4.6	4.6	3.7	-1.7	5.2
Colombia ^c	2.5	3.9	5.3	4.7	6.7	6.9	3.5	1.5	4.3
Costa Rica	2.9	6.4	4.3	5.9	8.8	7.9	2.7	-1.3	4.2
Cuba	1.4	3.8	5.8	11.2	12.1	7.3	4.1	1.4	2.1
Dominica	-1.8	7.6	3.3	-0.4	4.6	5.5	6.6	-0.4	0.1
Dominican Republic	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5	7.8
Ecuador	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4	3.6
El Salvador	2.3	2.3	1.9	3.6	3.9	3.8	1.3	-3.1	1.4
Grenada	3.6	9.7	-1.5	14.3	-4.2	5.8	1.4	-8.3	-0.8
Guatemala	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.5	2.8
Guyana	1.1	-0.6	1.6	-2.0	5.1	7.0	2.0	3.3	3.6
Haiti	-0.3	0.4	-3.5	1.8	2.3	3.3	0.8	2.9	-5.1
Honduras	3.8	4.5	6.2	6.1	6.6	6.2	4.2	-2.1	2.8
Jamaica	1.0	3.5	1.4	1.0	2.7	1.4	-0.6	-3.0	-1.3
Mexico	0.8	1.4	4.1	3.3	5.1	3.4	1.5	-6.1	5.4
Nicaragua	0.8	2.5	5.3	4.3	4.2	3.6	2.8	-1.5	4.5
Panama	2.2	4.2	7.5	7.2	8.5	12.1	10.1	3.2	7.5
Paraguay	-0.0	3.8	4.1	2.9	4.3	6.8	5.8	-3.8	15.0
Peru	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9	8.8
Saint Kitts and Nevis	-0.6	-0.4	6.9	8.0	3.9	6.7	6.1	-6.3	-5.0
Saint Vincent and the Grenadines	6.3	7.6	4.2	2.5	7.7	3.6	1.7	-1.2	-1.3
Saint Lucia	-0.3	4.9	7.5	-2.6	7.8	1.2	5.4	-1.1	3.1
Suriname	2.7	6.8	0.5	7.2	3.9	5.1	4.3	2.2	4.4
Trinidad and Tobago	7.9	14.4	8.0	5.4	14.1	4.8	2.4	-3.5	2.5
Uruguay	-11.0	2.2	11.8	6.6	4.3	7.3	8.6	2.6	8.5
Venezuela (Bolivarian Republic of)	-8.9	-7.8	18.3	10.3	9.9	8.8	4.2	-3.3	-1.4

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

^a Preliminary figures.

^b Based on official figures expressed in 2005 dollars.

^c Based in the new quarterly national accounts figures published by the country, base year 2005.

Table A-4
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT
(Annual growth rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean^b	-0.9	0.5	4.5	3.3	4.3	4.4	2.8	-3.2	4.7
Antigua and Barbuda	2.3	5.2	4.5	3.9	12.3	9.4	-0.4	-12.3	-6.3
Argentina	-11.8	7.8	8.0	8.1	7.4	7.6	5.7	-0.2	8.1
Bahamas	1.4	-2.5	-0.4	2.1	1.0	0.2	-2.5	-6.5	-0.2
Barbados	0.7	1.6	4.4	3.9	3.2	3.4	-0.2	-5.1	-0.1
Belize	2.7	6.9	2.3	0.8	2.5	-1.2	1.7	-2.0	0.9
Bolivia (Plurinational State of)	0.4	0.7	2.2	2.5	2.9	2.7	4.3	1.6	2.4
Brazil	1.2	-0.2	4.4	1.9	2.8	5.0	4.1	-1.6	6.5
Chile	1.0	2.8	4.9	4.5	3.5	3.5	2.6	-2.6	4.2
Colombia ^c	0.9	2.3	3.7	3.1	5.1	5.3	2.0	0.0	2.9
Costa Rica	0.8	4.3	2.4	4.1	7.1	6.4	1.4	-2.6	2.8
Cuba	1.2	3.6	5.6	11.1	12.0	7.2	4.1	1.4	2.1
Dominica	-1.8	7.6	3.3	1.1	4.6	5.5	6.6	-0.4	0.1
Dominican Republic	4.2	-1.8	-0.2	7.7	9.1	6.9	3.8	2.1	6.3
Ecuador	2.2	2.1	7.6	4.6	3.6	1.0	6.1	-0.7	2.5
El Salvador	1.9	2.0	1.5	3.2	3.5	3.4	0.8	-3.6	0.9
Grenada	2.6	9.7	-1.5	13.2	-4.2	5.8	0.5	-8.3	-0.8
Guatemala	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9	0.3
Guyana	0.9	-0.9	1.3	-2.1	5.1	7.0	2.1	3.5	3.8
Haiti	-1.8	-1.2	-5.0	0.2	0.6	1.7	-0.8	1.2	-6.6
Honduras	1.7	2.5	4.1	3.9	4.4	4.1	2.2	-4.1	0.8
Jamaica	0.2	2.7	0.7	0.3	2.1	0.9	-1.0	-3.4	-1.7
Mexico	-0.5	0.2	2.9	2.1	3.9	2.2	0.5	-7.1	4.4
Nicaragua	-0.6	1.2	4.0	2.9	2.8	2.3	1.4	-2.7	3.2
Panama	0.4	2.3	5.6	5.3	6.7	10.2	8.3	1.6	5.8
Paraguay	-2.0	1.8	2.1	0.9	2.4	4.8	3.9	-5.5	13.1
Peru	3.6	2.6	3.6	5.5	6.4	7.6	8.5	-0.3	7.5
Saint Kitts and Nevis	-0.6	-2.4	4.7	8.0	1.8	6.7	4.0	-8.1	-5.0
Saint Vincent and the Grenadines	6.3	7.6	3.2	2.5	7.7	3.6	1.7	-1.2	-1.3
Saint Lucia	-0.9	3.6	6.2	-3.2	6.5	-0.0	4.8	-2.2	1.9
Suriname	1.2	5.5	-0.9	5.9	2.8	4.1	3.3	1.2	3.6
Trinidad and Tobago	7.5	14.1	7.5	5.1	13.7	4.4	2.0	-4.0	2.1
Uruguay	-11.0	2.2	11.9	6.6	4.1	7.0	8.3	2.2	8.1
Venezuela (Bolivarian Republic of)	-10.5	-9.4	16.2	8.4	8.0	6.9	2.5	-4.9	-2.9

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

^a Preliminary figures.

^b Based on official figures expressed in 2005 dollars.

^c Based in the new quarterly national accounts figures published by the country, base year 2005.

Table A-5
LATIN AMERICA AND THE CARIBBEAN: COMPONENTS OF TOTAL DEMAND^a
(Indices 2005=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Total supply	86.7	88.2	94.6	100.0	107.2	114.8	120.4	114.5	125.1
Gross domestic product	88.8	90.3	95.6	100.0	105.6	111.5	116.1	113.7	120.5
Imports of goods and services	77.7	78.7	89.9	100.0	114.6	129.5	139.9	117.9	145.8
Total demand	86.8	88.2	94.6	100.0	107.2	114.8	120.4	114.5	125.0
Total consumption	89.3	90.7	95.0	100.0	105.9	112.3	116.8	116.9	123.4
Private consumption	88.6	90.0	94.7	100.0	106.4	112.9	117.9	116.9	123.8
Government consumption	92.4	93.8	96.4	100.0	103.6	109.3	112.4	117.2	121.7
Gross capital formation	89.2	83.4	93.0	100.0	111.3	124.0	136.9	119.5	136.6
Gross fixed capital formation	82.4	81.5	90.8	100.0	112.5	126.2	138.5	124.4	139.0
Domestic demand	89.3	89.2	94.6	100.0	107.0	114.7	121.0	117.5	126.1
Exports of goods and services	79.4	82.4	92.7	100.0	106.8	112.8	114.7	103.3	116.9

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

^a Based on official figures expressed in 2005 dollars. Includes information on 20 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^b Preliminary figures.

Table A-6
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT BY ECONOMIC SECTOR^a
(Indices 2005=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Gross domestic product at market prices	88.8	90.3	95.6	100.0	105.6	111.5	116.0	113.5	120.3
Agriculture, livestock, forestry, hunting and fishing	91.1	95.2	97.5	100.0	104.0	109.4	112.8	108.2	114.9
Mining and quarrying	90.9	93.7	98.3	100.0	101.1	101.1	101.9	99.3	102.6
Manufacturing	88.4	89.9	96.4	100.0	104.7	109.4	111.5	103.6	111.9
Construction	88.8	87.7	94.3	100.0	110.1	117.3	124.8	119.7	123.8
Electricity, gas, water and sanitation services	88.9	91.6	96.7	100.0	105.5	109.2	111.5	111.8	118.4
Transport, storage and communications	84.4	87.1	93.7	100.0	107.1	116.0	122.9	125.9	135.4
Wholesale and retail trade, restaurants and hotels	87.1	88.6	94.9	100.0	107.1	114.6	118.8	111.7	122.5
Financial establishments, insurance, real estate and business services	78.0	78.1	84.4	100.0	119.6	139.5	153.4	157.8	161.3
Community, social and personal services	91.5	92.9	96.3	100.0	103.8	107.9	110.9	114.1	117.6

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

^a Based on official figures expressed in 2005 dollars. Includes information on 33 countries of Latin America and the Caribbean.

^b Preliminary figures.

Table A-7
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION^a
(Percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Latin America and the Caribbean	17.2	16.8	17.6	18.6	19.8	21.0	22.1	20.3	21.4
Argentina	12.2	15.5	19.1	21.5	23.4	24.4	25.0	22.2	24.7
Bahamas	20.6	21.2	19.9	24.2	29.0	27.8	23.4	22.5	20.0
Belize	24.8	19.5	17.6	18.5	18.0	18.7	24.6	...	...
Bolivia (Plurinational State of)	15.4	13.4	12.7	13.0	13.5	14.6	16.3	16.2	16.8
Brazil	16.3	15.4	15.9	15.9	16.8	18.1	19.5	17.6	20.0
Chile	17.1	17.4	18.0	21.2	20.7	22.0	25.4	21.7	24.5
Colombia	16.1	17.2	18.2	19.7	21.8	23.3	24.7	24.2	25.1
Costa Rica	19.8	19.9	19.0	18.7	19.1	20.9	22.6	20.6	20.3
Cuba	9.1	8.2	8.3	9.0	11.5	11.0	11.4	9.5	8.2
Dominican Republic	20.4	16.3	15.8	16.4	17.9	18.6	19.3	15.9	17.3
Ecuador	22.6	21.9	21.1	22.1	21.9	22.0	23.8	22.7	24.2
El Salvador	16.6	16.6	15.5	15.3	16.5	17.1	16.0	13.3	13.4
Guatemala	20.0	18.9	18.1	18.3	20.1	19.8	18.1	15.5	15.1
Haiti	26.7	27.4	27.5	27.4	27.4	27.3	27.9	28.0	27.5
Honduras	22.7	23.1	26.8	24.9	26.5	31.0	31.7	21.1	22.0
Mexico	19.0	18.8	19.5	20.3	21.2	21.9	22.9	21.6	21.0
Nicaragua	27.1	26.6	27.0	28.5	27.8	28.5	29.1	23.3	23.9
Panama	14.1	16.7	16.9	16.8	18.1	22.7	25.9	23.4	24.4
Paraguay	17.6	18.2	18.4	19.3	19.0	20.3	22.2	20.6	21.1
Peru	16.7	17.0	17.5	18.3	20.2	22.9	27.5	25.0	29.0
Trinidad and Tobago	17.7	24.9	20.7	30.2	15.8	14.7	15.6	...	...
Uruguay	14.9	12.9	15.0	16.5	18.6	19.3	21.3	19.4	20.5
Venezuela (Bolivarian Republic of)	18.7	12.8	16.2	20.3	23.9	27.6	25.6	24.3	23.5

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

^a Based on official figures expressed in 2005 dollars.

^b Preliminary figures.

Table A-8
LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT^a
(Percentages of GDP)

	Gross domestic investment				National saving				External saving			
	2007	2008	2009	2010 ^b	2007	2008	2009	2010 ^b	2007	2008	2009	2010 ^b
Latin America and the Caribbean	22.4	23.6	19.8	21.3	22.7	22.7	19.2	20.2	-0.4	0.7	0.4	1.1
Argentina	24.2	25.1	21.2	24.5	27.0	27.2	24.8	25.4	-2.8	-2.1	-3.6	-1.0
Bolivia (Plurinational State of)	15.2	17.6	17.0	17.0	27.3	29.5	21.7	21.6	-12.1	-12.0	-4.7	-4.6
Brazil	18.3	20.7	16.5	19.2	18.4	19.0	15.0	17.0	-0.1	1.7	1.5	2.3
Chile	20.5	25.2	18.9	22.4	25.0	23.3	20.5	24.3	-4.5	1.9	-1.6	-1.9
Colombia	23.0	23.4	22.7	23.1	20.1	20.6	20.5	19.9	2.9	2.8	2.2	3.1
Costa Rica	24.7	27.6	15.9	20.0	18.4	18.2	13.9	16.3	6.3	9.3	2.0	3.6
Cuba	10.2	14.8	10.3	...	11.0	...	...	...	-0.8	...	...	...
Dominican Republic	18.9	18.3	14.8	16.5	13.6	8.4	9.8	7.9	5.3	9.9	5.0	8.6
Ecuador	24.3	27.9	23.3	23.8	28.0	30.4	23.0	20.4	-3.7	-2.5	0.3	3.4
El Salvador	16.3	15.2	13.4	13.3	10.3	8.0	12.0	11.0	6.1	7.2	1.5	2.3
Guatemala	20.8	16.4	12.8	14.7	15.6	12.1	12.9	12.7	5.2	4.3	-0.0	2.0
Haiti	30.5	28.8	27.4	25.0	29.2	24.3	23.9	22.7	1.3	4.5	3.5	2.3
Honduras	33.7	36.1	19.8	23.0	24.6	20.7	16.2	16.8	9.0	15.3	3.6	6.2
Mexico	26.3	27.0	23.6	25.1	25.5	25.5	22.9	24.6	0.9	1.5	0.7	0.5
Nicaragua	33.4	32.9	24.6	27.5	15.7	9.1	11.0	12.8	17.7	23.7	13.5	14.7
Panama	24.1	27.6	25.6	28.5	17.3	15.8	25.5	16.7	6.9	11.8	0.2	11.9
Paraguay	18.0	18.1	15.8	16.4	19.5	16.2	16.1	13.1	-1.5	1.8	-0.3	3.3
Peru	22.9	27.2	22.5	26.4	24.3	23.1	22.6	24.9	-1.4	4.1	-0.2	1.5
Uruguay	19.6	22.3	17.2	17.9	18.6	16.7	16.9	16.8	0.9	5.5	0.3	1.1
Venezuela (Bolivarian Republic of)	30.3	25.9	24.8	20.8	38.2	37.9	27.4	24.5	-7.8	-12.0	-2.6	-3.7

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

^a Based on values calculated in national currency and expressed in current dollars.

^b Preliminary figures.

Table A-9
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods f.o.b.			Exports of services			Imports of goods f.o.b.			Imports of services		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America and the Caribbean	906 377	701 823	889 307	115 824	105 028	117 096	864 305	650 209	843 502	145 706	135 642	163 252
Antigua and Barbuda	58	35	35	564	514	511	670	528	440	273	239	222
Argentina	70 019	55 669	68 500	12 156	11 029	13 076	54 596	37 141	53 810	13 440	12 088	13 820
Bahamas	956	711	731	2 543	2 275	2 364	3 199	2 535	2 462	1 403	1 196	1 226
Barbados	488	379	425	1 601	1 432	1 466	1 730	1 295	1 398	705	635	755
Belize	480	384	476	386	344	360	788	621	650	170	162	160
Bolivia												
(Plurinational State of)	6 527	4 918	6 290	500	515	550	4 764	4 144	5 384	1 017	1 015	775
Brazil	197 942	152 995	201 915	30 451	27 728	31 821	173 107	127 705	181 694	47 140	46 974	62 628
Chile	66 259	54 004	71 028	10 823	8 634	10 797	57 730	39 888	55 174	11 787	10 078	11 816
Colombia	38 534	34 026	40 777	4 137	4 202	4 446	37 563	31 479	38 628	7 210	7 030	7 986
Costa Rica	9 555	8 838	9 375	4 148	3 661	4 418	14 569	10 877	12 951	1 947	1 473	1 783
Cuba	...	...	...	...	...	...	...	...	...	...	...	...
Dominica	44	37	34	118	118	118	217	198	194	70	64	63
Dominican Republic	6 748	5 483	6 598	4 922	4 812	5 073	15 993	12 296	15 299	1 960	1 824	2 137
Ecuador	19 461	14 412	18 061	1 314	1 228	1 367	17 912	14 268	19 641	2 990	2 599	2 960
El Salvador	4 703	3 930	4 577	1 058	863	976	9 380	7 038	8 189	1 271	953	1 070
Grenada	40	35	31	149	140	138	339	263	284	113	98	101
Guatemala	7 847	7 295	8 566	1 873	1 925	2 216	13 421	10 643	12 858	2 149	2 084	2 370
Guyana	802	768	892	212	170	248	1 324	1 169	1 418	325	272	345
Haiti	490	551	565	343	379	237	2 108	2 032	2 809	746	772	1 267
Honduras	6 199	4 825	5 742	912	953	1 022	10 453	7 299	8 550	1 238	1 103	1 331
Jamaica	2 744	1 388	1 370	2 795	2 651	2 715	7 547	4 476	4 629	2 367	1 881	1 870
Mexico	291 886	229 975	298 860	17 496	14 496	15 049	309 501	234 901	301 820	24 637	23 076	25 256
Nicaragua	2 538	2 387	3 157	399	470	472	4 749	3 927	4 792	608	555	694
Panama	10 323	11 133	11 330	5 788	5 519	6 093	14 869	13 256	15 946	2 633	2 191	2 760
Paraguay	7 798	5 805	8 312	1 150	1 406	1 506	8 844	6 837	9 839	592	538	715
Peru	31 018	26 962	35 565	3 649	3 645	3 956	28 449	21 011	28 815	5 704	4 789	5 993
Saint Kitts and Nevis	69	54	58	161	132	125	286	251	201	120	100	90
Saint Vincent and the Grenadines	57	53	44	153	139	139	329	294	298	102	94	90
Saint Lucia	166	191	206	364	353	387	605	451	522	215	190	202
Suriname	1 708	1 404	2 069	285	287	241	1 350	1 296	1 443	407	285	258
Trinidad and Tobago	18 686	9 175	9 862	936	765	888	9 622	6 973	6 434	326	383	373
Uruguay	7 095	6 408	8 069	2 277	2 239	2 597	8 810	6 677	8 320	1 523	1 280	1 555
Venezuela												
(Bolivarian Republic of)	95 138	57 595	65 786	2 162	2 005	1 724	49 482	38 442	38 613	10 516	9 622	10 581

Table A-9 (continued)

	Goods and services balance			Income balance			Current transfers balance			Current account balance		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America and the Caribbean	12 190	21 001	-351	-108 676	-100 671	-117 359	67 209	60 341	61 300	-29 277	-19 331	-56 411
Antigua and Barbuda	-322	-218	-116	-60	-51	-32	25	27	36	-358	-242	-113
Argentina	14 138	17 469	13 946	-7 553	-9 011	-10 015	170	2 669	-358	6 755	11 127	3 573
Bahamas	-1 103	-746	-592	-118	-197	-252	56	83	78	-1 165	-860	-766
Barbados	-347	-120	-263	-121	-140	-121	47	42	20	-421	-218	-364
Belize	-91	-54	26	-165	-108	-158	112	79	92	-145	-83	-41
Bolivia												
(Plurinational State of)	1 245	274	681	-536	-674	-860	1 284	1 213	1 081	1 993	813	903
Brazil	8 146	6 044	-10 586	-40 562	-33 684	-39 567	4 224	3 338	2 788	-28 192	-24 302	-47 365
Chile	7 565	12 673	14 836	-13 802	-11 666	-15 424	2 930	1 563	4 390	-3 307	2 570	3 802
Colombia	-2 101	-281	-1 390	-10 333	-9 488	-12 117	5 512	4 613	4 475	-6 923	-5 157	-9 032
Costa Rica	-2 812	149	-940	-417	-1 084	-717	442	359	359	-2 787	-576	-1 299
Cuba	...	...	...	...	...	...	...	...	...	...	...	...
Dominica	-125	-107	-104	-18	-14	-12	19	19	20	-124	-102	-97
Dominican Republic	-6 284	-3 826	-5 765	-1 748	-1 721	-1 788	3 513	3 216	3 118	-4 519	-2 331	-4 435
Ecuador	-127	-1 228	-3 173	-1 462	-1 384	-1 054	2 946	2 432	2 310	1 357	-180	-1 917
El Salvador	-4 890	-3 198	-3 706	-389	-548	-381	3 747	3 442	3 599	-1 533	-304	-488
Grenada	-262	-186	-216	-47	-45	-45	35	17	43	-274	-214	-218
Guatemala	-5 851	-3 507	-4 446	-938	-1 111	-1 200	5 108	4 626	4 820	-1 680	8	-826
Guyana	-635	-502	-623	-15	-17	13	329	300	371	-321	-220	-239
Haiti	-2 021	-1 875	-3 273	6	13	21	1 726	1 635	3 097	-289	-227	-155
Honduras	-4 581	-2 625	-3 117	-521	-530	-598	2 973	2 639	2 760	-2 128	-516	-955
Jamaica	-4 375	-2 318	-2 414	-568	-668	-580	2 150	1 858	2 004	-2 793	-1 128	-990
Mexico	-24 756	-13 506	-13 168	-17 046	-14 377	-13 963	25 462	21 531	21 504	-16 339	-6 352	-5 626
Nicaragua	-2 420	-1 625	-1 858	-161	-235	-278	1 068	1 018	1 173	-1 513	-841	-963
Panama	-1 391	1 206	-1 283	-1 570	-1 460	-1 861	238	210	191	-2 722	-44	-2 953
Paraguay	-488	-164	-736	-231	-312	-382	414	519	521	-304	43	-596
Peru	514	4 807	4 713	-8 774	-7 484	-10 053	2 943	2 887	3 026	-5 318	211	-2 315
Saint Kitts and Nevis	-176	-165	-107	-32	-33	-32	33	46	43	-175	-153	-96
Saint Vincent and the Grenadines	-221	-195	-206	-23	-16	-13	13	11	13	-230	-200	-206
Saint Lucia	-291	-98	-130	-72	-48	-35	16	12	15	-347	-133	-150
Suriname	236	110	609	21	5	-3	87	94	87	344	210	692
Trinidad and Tobago	9 674	2 584	3 943	-1 202	-997	-1 120	47	27	67	8 519	1 614	2 890
Uruguay	-961	690	791	-917	-934	-1 352	148	138	118	-1 729	-106	-443
Venezuela												
(Bolivarian Republic of)	37 302	11 536	18 316	698	-2 652	-3 379	-608	-323	-559	37 392	8 561	14 378

Table A-9 (concluded)

	Capital and financial balance ^b			Overall balance			Reserve assets (variation) ^c			Other financing		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America and the Caribbean	68 139	66 321	149 310	38 863	46 991	92 899	-42 490	-51 435	-86 783	3 628	4 443	-6 115
Antigua and Barbuda	352	232	125	-6	-10	12	6	10	-12	0	0	0
Argentina	-10 072	-11 504	7 183	-3 317	-377	10 756	9	-1 346	-4 212	3 309	1 723	-6 544
Bahamas	1 274	1 113	812	109	253	46	-109	-253	-46	0	0	0
Barbados	326	243	411	-96	25	46	96	-25	-46	0	0	0
Belize	203	130	45	58	47	4	-58	-47	-4	0	0	0
Bolivia (Plurinational State of)	381	-488	20	2 374	325	923	-2 374	-325	-923	0	0	0
Brazil	31 161	70 953	96 465	2 969	46 651	49 101	-2 969	-46 651	-49 101	0	0	0
Chile	9 751	-922	-779	6 444	1 648	3 023	-6 444	-1 648	-3 023	0	0	0
Colombia	9 545	6 504	12 168	2 623	1 347	3 136	-2 623	-1 347	-3 136	0	0	0
Costa Rica	2 439	836	1 860	-348	260	561	348	-260	-561	0	0	0
Cuba	...	...	...	...	...	...	...	...	...	...	...	...
Dominica	121	122	102	-3	21	5	3	-21	-5	0	0	0
Dominican Republic	4 193	2 737	4 493	-326	406	58	309	-638	-453	17	232	395
Ecuador	-423	-2 467	705	934	-2 647	-1 212	-952	681	1 170	18	1 966	42
El Salvador	1 866	727	193	333	422	-295	-333	-423	295	0	0	0
Grenada	267	240	209	-8	26	-10	8	-8	10	0	-18	0
Guatemala	2 013	465	1 503	333	473	677	-333	-473	-677	0	0	0
Guyana	327	454	356	6	234	117	-43	-271	-155	38	37	38
Haiti	387	76	1 139	98	-150	984	-171	-240	-845	73	390	-139
Honduras	1 971	91	1 523	-157	-424	569	78	354	-592	79	71	24
Jamaica	2 688	1 084	1 432	-105	-44	442	105	44	-442	0	0	0
Mexico	24 420	10 878	26 242	8 080	4 527	20 615	-8 080	-4 527	-20 615	0	0	0
Nicaragua	1 499	1 049	1 135	-14	208	172	-30	-262	-222	45	54	50
Panama	3 307	659	2 605	585	616	-348	-579	-616	348	-5	0	0
Paraguay	699	872	915	395	915	319	-394	-915	-319	-0	0	0
Peru	8 773	1 696	13 271	3 456	1 907	10 956	-3 512	-1 943	-10 975	57	36	19
Saint Kitts and Nevis	190	179	129	15	26	33	-15	-13	-33	0	-13	0
Saint Vincent and the Grenadines	227	204	231	-3	5	25	3	8	-25	0	-12	0
Saint Lucia	336	167	182	-11	33	32	11	-10	-32	0	-23	0
Suriname	-292	-16	-658	52	193	34	-52	-193	-34	0	0	0
Trinidad and Tobago	-5 813	-2 327	-2 472	2 706	-713	418	-2 706	713	-418	0	0	0
Uruguay	3 962	1 694	82	2 233	1 588	-361	-2 232	-1 588	361	-0	-0	0
Venezuela (Bolivarian Republic of)	-27 936	-19 360	-22 317	9 456	-10 799	-7 939	-9 456	10 799	7 939	0	0	0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Preliminary figures.

^b Includes errors and omissions.

^c A minus sign (-) indicates an increase in reserve assets.

Table A-10
LATIN AMERICA: EXPORTS OF GOODS, f.o.b.
(Indices 2005=100)

	Value			Volume			Unit value		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America	155.4	121.3	154.1	110.1	99.9	111.4	141.2	121.5	138.3
Argentina	173.4	137.8	169.6	114.5	109.4	127.9	151.4	125.9	132.6
Bolivia (Plurinational State of)	233.8	176.2	225.4	143.0	117.1	123.8	163.5	150.4	182.0
Brazil	167.3	129.3	170.7	106.5	95.1	104.1	157.1	136.0	164.0
Chile	160.6	130.9	172.1	108.7	104.2	105.6	147.8	125.6	162.9
Colombia	177.3	156.6	187.7	116.9	129.0	127.8	151.7	121.3	146.8
Costa Rica	134.6	124.5	132.1	130.6	128.6	139.2	103.0	96.8	94.9
Cuba	...	...	...	...	...	...	...	...	...
Dominican Republic	109.8	89.2	107.4	91.8	80.2	91.9	119.6	111.2	116.8
Ecuador	185.9	137.7	172.5	116.5	112.0	117.0	159.6	122.9	147.5
El Salvador	135.7	113.4	132.1	120.7	105.0	118.8	112.5	108.0	111.2
Guatemala	143.7	133.6	156.9	117.4	113.0	122.3	122.4	118.3	128.3
Haiti	106.7	119.9	123.0	98.1	100.2	103.6	108.7	119.6	118.8
Honduras	122.8	95.6	113.7	104.1	87.1	91.8	117.9	109.7	123.9
Mexico	136.0	107.1	139.2	113.3	97.1	117.9	120.0	110.4	118.1
Nicaragua	153.4	144.3	190.8	130.8	127.5	154.7	117.3	113.2	123.3
Panama	140.0	151.0	153.6	125.7	138.3	136.6	111.4	109.2	112.4
Paraguay	232.7	173.2	248.0	175.7	148.7	202.7	132.4	116.5	122.3
Peru	178.6	155.2	204.8	108.5	107.8	109.4	164.6	144.0	187.2
Uruguay	188.0	169.8	213.8	122.2	132.4	148.8	153.8	128.3	143.7
Venezuela (Bolivarian Republic of)	170.8	103.4	118.1	88.9	80.7	73.1	192.1	128.1	161.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Preliminary figures.

Table A-11
LATIN AMERICA: IMPORTS OF GOODS, f.o.b.
(Indices 2005=100)

	Value			Volume			Unit value		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America	172.6	130.0	169.9	138.2	114.2	141.7	124.9	113.9	119.9
Argentina	200.0	136.0	197.1	164.7	128.4	176.0	121.5	106.0	112.0
Bolivia (Plurinational State of)	218.3	189.8	246.7	171.8	157.3	191.0	127.1	120.7	129.2
Brazil	235.2	173.5	246.8	166.6	138.6	189.9	141.1	125.2	130.0
Chile	189.3	130.8	180.9	151.1	124.2	162.1	125.3	105.3	111.6
Colombia	186.6	156.3	191.9	153.1	137.9	158.2	121.9	113.4	121.3
Costa Rica	157.4	117.5	139.9	141.3	115.9	135.3	111.4	101.3	103.4
Cuba	...	...	...	...	...	...	...	...	...
Dominican Republic	162.0	124.6	155.0	132.4	118.4	135.1	122.4	105.2	114.7
Ecuador	184.5	147.0	202.3	140.0	128.2	161.9	131.8	114.7	125.0
El Salvador	144.3	108.2	125.9	121.8	98.3	106.9	118.4	110.1	117.8
Guatemala	139.1	110.3	133.2	106.5	94.9	105.2	130.6	116.2	126.7
Haiti	161.1	155.3	214.7	99.6	112.9	152.0	161.8	137.5	141.2
Honduras	159.7	111.5	130.6	119.1	95.6	101.8	134.1	116.7	128.4
Mexico	139.2	105.6	135.7	118.6	94.7	117.0	117.4	111.5	116.0
Nicaragua	160.6	132.9	162.1	126.5	118.9	134.4	127.0	111.7	120.7
Panama	166.5	148.4	178.5	137.3	130.9	149.9	121.3	113.4	119.1
Paraguay	231.9	179.2	258.0	193.0	165.8	227.3	120.1	108.1	113.5
Peru	235.5	173.9	238.5	163.7	130.6	162.6	143.8	133.2	146.6
Uruguay	234.7	177.9	221.7	158.2	148.1	170.1	148.3	120.1	130.4
Venezuela (Bolivarian Republic of)	206.1	160.1	160.8	173.3	147.0	139.3	118.9	108.9	115.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Preliminary figures.

Table A-12
LATIN AMERICA: TERMS OF TRADE FOR GOODS f.o.b. / f.o.b.
(Indices 2005=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America	88.9	91.0	95.3	100.0	106.7	109.6	113.0	106.7	115.3
Argentina	92.4	100.3	102.2	100.0	106.0	110.0	124.6	118.9	118.4
Bolivia (Plurinational State of)	86.0	88.1	93.0	100.0	125.0	127.0	128.7	124.6	140.9
Brazil	99.2	97.8	98.7	100.0	105.3	107.5	111.3	108.7	126.1
Chile	69.5	73.5	89.3	100.0	131.1	135.6	117.9	119.3	146.0
Colombia	83.3	85.8	92.2	100.0	103.8	112.1	124.4	107.0	121.0
Costa Rica	109.7	108.1	104.0	100.0	97.1	96.1	92.5	95.6	91.8
Cuba	80.9	93.2	102.7	100.0	126.3	132.9	...	...	...
Dominican Republic	106.0	102.2	101.0	100.0	99.0	102.3	97.7	105.7	101.8
Ecuador	84.8	87.7	89.3	100.0	107.3	110.3	121.1	107.2	118.0
El Salvador	105.0	101.0	100.0	100.0	98.7	97.7	95.0	98.1	94.4
Guatemala	104.9	101.9	100.9	100.0	98.1	96.3	93.8	101.8	101.3
Haiti	108.4	106.8	103.8	100.0	96.2	93.5	67.2	87.0	84.1
Honduras	105.5	100.9	100.0	100.0	95.4	93.6	87.9	94.0	96.6
Mexico	94.5	95.4	98.1	100.0	100.5	101.4	102.2	99.0	101.8
Nicaragua	106.9	103.3	101.4	100.0	97.6	96.6	92.4	101.3	102.2
Panama	108.7	103.9	101.9	100.0	97.1	96.2	91.8	96.3	94.4
Paraguay	99.2	104.2	107.1	100.0	98.1	102.7	110.2	107.8	107.8
Peru	82.4	85.6	93.2	100.0	127.3	132.0	114.4	108.1	127.7
Uruguay	113.1	114.0	110.1	100.0	97.6	97.8	103.7	106.8	110.2
Venezuela (Bolivarian Republic of)	56.7	63.9	76.5	100.0	119.4	130.9	161.6	117.6	139.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Preliminary figures.

Table A-13
LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFER^a
(Millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Latin America and the Caribbean	-42 062	-40 250	-66 654	-78 234	-93 249	14 526	-36 908	-29 907	25 836
Antigua and Barbuda	34	67	56	136	261	333	291	181	93
Argentina	-20 773	-12 535	-7 175	-3 722	-10 388	-198	-14 317	-18 792	-9 376
Bahamas	175	279	213	358	1 077	1 037	1 156	916	560
Barbados	42	131	58	263	89	293	204	102	290
Belize	91	61	8	25	-50	-84	38	22	-114
Bolivia (Plurinational State of)	-156	-235	-565	-535	-428	-143	-155	-1 162	-840
Brazil	-10 252	-14 234	-29 955	-35 633	-10 553	56 642	-9 401	37 269	56 899
Chile	-2 068	-4 076	-10 102	-10 220	-23 558	-29 297	-4 050	-12 588	-16 203
Colombia	-1 440	-2 609	-849	-1 846	-2 925	2 713	-788	-2 985	51
Costa Rica	580	443	432	1 166	2 058	1 929	2 022	-247	1 142
Cuba	-300	-450	150	-633	-618	-960	...	...	...
Dominica	32	29	20	62	48	66	103	109	89
Dominican Republic	-881	-2 787	-2 324	-321	-221	666	2 462	1 248	3 099
Ecuador	-100	-953	-1 084	-1 580	-3 691	-2 138	-1 867	-1 885	-307
El Salvador	-42	595	132	-59	375	1 039	1 477	179	-187
Grenada	109	87	47	138	203	232	220	177	164
Guatemala	993	1 251	1 359	995	1 096	1 159	1 075	-646	303
Guyana	20	-6	-10	143	242	215	350	474	407
Haiti	26	5	94	-20	201	286	465	479	1 022
Honduras	86	94	743	177	149	612	1 530	-368	949
Jamaica	208	-246	605	623	798	937	2 120	416	852
Mexico	8 179	4 128	1 039	727	-10 998	1 109	7 374	-3 499	12 279
Nicaragua	607	520	616	590	768	1 039	1 383	868	907
Panama	-39	-539	-414	418	-648	709	1 732	-801	744
Paraguay	-134	168	-98	72	168	388	468	560	533
Peru	505	-680	-1 263	-4 752	-7 225	572	56	-5 752	3 236
Saint Kitts and Nevis	95	71	43	23	70	88	157	132	97
Saint Vincent and the Grenadines	18	55	99	70	106	168	204	176	218
Saint Lucia	75	115	47	40	268	295	264	95	147
Suriname	70	118	112	83	-179	-152	-271	-11	-661
Trinidad and Tobago	-441	-1 418	-1 513	-2 878	-7 088	-4 787	-7 016	-3 323	-3 591
Uruguay	-2 601	979	-137	84	-52	710	3 045	760	-1 270
Venezuela (Bolivarian Republic of)	-14 783	-8 679	-17 037	-22 225	-22 603	-20 953	-27 238	-22 012	-25 696

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a The net resource transfer is calculated as total net capital income minus the income balance (net payments of profits and interest). Total net capital income is the balance on the capital and financial accounts plus errors and omissions, plus loans and the use of IMF credit plus exceptional financing. Negative figures indicate resources transferred outside the country.

^b Preliminary figures.

Table A-14
LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT^a
(Millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Latin America and the Caribbean	51 238	37 612	50 873	56 896	31 906	92 879	98 562	69 367	70 159
Antigua and Barbuda	66	166	80	221	359	338	174	118	58
Argentina	2 776	878	3 449	3 954	3 099	4 969	8 335	3 299	5 247
Bahamas	209	247	443	563	706	746	839	655	871
Barbados	17	58	-16	119	200	256	223	218	206
Belize	25	-11	111	126	108	142	167	108	96
Bolivia (Plurinational State of)	674	195	83	-291	284	362	508	426	651
Brazil	14 108	9 894	8 339	12 550	-9 380	27 518	24 601	36 033	36 919
Chile	2 207	2 701	5 610	4 801	4 556	9 961	7 109	4 813	6 351
Colombia	1 277	783	2 873	5 590	5 558	8 136	8 342	4 049	203
Costa Rica	625	548	733	904	1 371	1 634	2 072	1 339	1 404
Cuba	...	...	...	...	...	...	...	...	...
Dominica	20	31	26	19	26	40	57	41	31
Dominican Republic	917	613	909	1 123	1 085	1 667	2 870	2 165	1 626
Ecuador	783	872	837	493	271	194	1 006	319	164
El Salvador	496	123	366	398	268	1 455	824	366	78
Grenada	54	89	65	70	90	157	142	103	64
Guatemala	183	218	255	470	552	720	737	574	663
Guyana	44	26	30	77	102	110	178	164	270
Haiti	6	14	6	26	161	75	30	38	150
Honduras	269	391	553	599	669	926	1 007	523	799
Jamaica	407	604	542	581	797	751	1 361	480	375
Mexico	22 892	14 989	20 368	17 648	14 294	21 478	25 138	8 315	4 335
Nicaragua	204	201	250	241	287	382	626	434	508
Panama	99	818	1 019	918	2 547	1 899	2 196	1 773	2 363
Paraguay	12	22	32	47	167	199	275	201	423
Peru	2 156	1 275	1 599	2 579	3 467	5 425	6 188	5 178	7 113
Saint Kitts and Nevis	80	76	56	93	110	134	178	131	128
Saint Vincent and the Grenadines	34	55	66	40	109	130	159	106	100
Saint Lucia	52	106	77	78	234	272	161	146	121
Suriname	-74	-76	-37	28	-163	-247	-234	-93	-256
Trinidad and Tobago	684	583	973	599	513	830	2 101	709	549
Uruguay	180	401	315	811	1 495	1 240	2 117	1 576	2 346
Venezuela (Bolivarian Republic of)	-244	722	864	1 422	-2 032	978	-924	-4 939	-3 794

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Corresponds to direct investment in the reporting economy after deduction of outward direct investment by residents of that country. Includes reinvestment of profits.

^b Preliminary estimate. Includes an adjustment due to a lack of data.

Table A-15
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES^a
(Millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
										March	May
Latin America and the Caribbean	20 208	37 906	36 383	45 054	44 647	41 176	18 466	61 950	88 657	28 110	20 605
Argentina	-	100	200	540	1 896	3 256	65	500	3 146	1 250	630
Bahamas	-	-	-	-	-	-	100	300	-	-	-
Barbados	-	-	-	325	215	-	-	450	390	-	-
Belize	125	100	-	-	-	-	-	-	-	-	-
Bolivia (Plurinational State of)	-	-	108	-	-	-	-	-	-	-	-
Brazil	6 857	19 364	11 603	15 334	19 079	10 608	6 400	25 745	39 305	13 514	12 997
Chile	1 694	3 200	2 350	1 000	1 062	250	-	2 773	6 750	2 214	300
Colombia	695	1 545	1 545	2 435	3 177	3 065	1 000	5 450	1 912	1 601	1 300
Costa Rica	250	490	310	-	-	-	-	-	-	-	-
Cuba	-	-	-	-	400	200	-	-	-	-	-
Dominican Republic	-	600	-	160	675	605	-	-	1 034	-	-
Ecuador	-	-	-	650	-	-	-	-	-	-	-
El Salvador	1 252	349	286	375	925	-	-	800	450	654	-
Grenada	100	-	-	-	-	-	-	-	-	-	-
Guatemala	-	300	380	-	-	-	30	-	-	-	-
Honduras	-	-	-	-	-	-	-	-	20	-	-
Jamaica	300	-	814	1 050	930	1 900	350	750	1 075	400	-
Mexico	6 505	7 979	13 312	11 703	9 200	10 296	5 835	15 359	26 882	6 700	4 685
Panama	1 030	275	770	1 530	2 076	670	686	1 323	-	502	-
Paraguay	-	-	-	-	-	-	-	-	-	100	-
Peru	1 000	1 250	1 305	2 675	733	1 827	-	2 150	4 693	1 000	-
Trinidad and Tobago	-	-	-	100	500	-	-	850	-	175	-
Uruguay	400	-	350	1 062	3 679	999	-	500	-	-	693
Venezuela (Bolivarian Republic of)	-	2 354	3 050	6 115	100	7 500	4 000	5 000	3 000	-	-
Supranational issues	-	-	-	784	1 067	539	447	2 800	1 526	1 227	-
Central American Bank for Economic Integration	-	-	-	200	567	-	-	500	151	-	-
Andean Development Corporation	-	-	-	584	250	539	447	1 000	1 375	477	-
Latin American Reserve Fund	-	-	-	-	250	-	-	-	-	-	-
NII Holdings	-	-	-	-	-	-	-	1 300	-	750	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund, Merrill-Lynch and JP Morgan and Latin Finance.

^a Includes sovereign, bank and corporate bonds.

Table A-16
LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT ^a
(Millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Latin America and the Caribbean ^c	728 601	757 137	758 484	669 225	657 841	727 117	745 568	808 479	949 975
Antigua and Barbuda ^d	434	497	532	317	321	501	524	496	458
Argentina	156 748	164 645	171 205	113 799	108 864	124 560	124 923	116 415	128 618
Bahamas ^d	310	364	345	338	334	337	443	767	898
Barbados	2 321	2 475	2 435	2 695	2 991	3 130	3 487	4 009	4 485
Belize ^d	652	822	913	970	985	973	958	1 016	1 009
Bolivia (Plurinational State of)	6 970	7 734	7 562	7 666	6 278	5 403	5 930	5 801	5 836
Brazil	210 711	214 929	201 373	169 451	172 589	193 219	198 340	198 192	256 804
Chile	40 504	43 067	43 515	46 211	49 497	55 733	64 318	74 041	86 738
Colombia	37 382	38 065	39 497	38 507	40 103	44 553	46 369	53 719	64 837
Costa Rica	5 310	5 575	5 765	6 763	7 186	8 444	9 105	8 174	8 558
Cuba ^{d e}	10 900	11 300	5 806	5 898	7 794	8 908	...	...	...
Dominica ^d	205	223	209	221	225	221	217	219	236
Dominican Republic ^d	4 536	5 987	6 380	5 847	6 295	6 556	7 219	8 215	9 947
Ecuador	16 236	16 756	17 211	17 237	17 099	17 445	16 887	13 493	13 878
El Salvador ^f	3 987	7 917	8 211	9 044	9 916	9 617	10 261	10 093	10 033
Grenada	262	279	331	401	481	502	513	542	538
Guatemala ^d	3 119	3 467	3 844	3 723	3 958	4 226	4 382	4 928	5 562
Guyana ^d	1 247	1 085	1 071	1 215	1 043	719	834	937	1 043
Haiti ^d	1 229	1 316	1 376	1 335	1 484	1 628	1 917	1 272	307
Honduras	5 025	5 343	6 023	5 135	3 935	3 190	3 464	3 345	3 773
Jamaica ^d	4 348	4 192	5 120	5 376	5 796	6 123	6 344	6 594	8 493
Mexico	134 980	132 524	130 925	128 248	116 668	124 433	125 233	163 345	189 175
Nicaragua ^d	6 363	6 596	5 391	5 348	4 527	3 385	3 512	3 661	3 876
Panama ^d	6 349	6 504	7 219	7 580	7 788	8 276	8 477	10 150	10 439
Paraguay	2 900	2 951	2 901	2 700	2 739	2 868	3 276	3 181	3 726
Peru	27 872	29 587	31 244	28 657	28 897	32 894	34 838	35 731	40 236
Saint Kitts and Nevis ^d	261	316	304	299	310	319	329	308	299
Saint Vincent and the Grenadines	168	195	219	231	220	219	232	255	305
Saint Lucia ^d	246	324	344	350	365	375	364	375	393
Suriname ^d	372	383	384	390	391	298	319	269	334
Trinidad and Tobago ^d	1 549	1 553	1 364	1 329	1 261	1 392	1 445	1 422	1 561
Uruguay	10 548	11 013	11 593	11 418	10 560	12 218	12 021	13 935	14 623
Venezuela (Bolivarian Republic of)	35 460	40 456	43 679	46 427	44 735	53 361	49 087	63 580	72 959

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Includes debt owed to the International Monetary Fund.

^b Preliminary figures.

^c Does not include Cuba.

^d Refers to external public debt.

^e As from 2004 refers only to active external debt; excludes other external debt, 60.2% of which is official debt owed to the Paris Club.

^f The figure for 2002, corresponds to external public debt.

Table A-17
LATIN AMERICA AND THE CARIBBEAN: GROSS INTERNATIONAL RESERVES
(Millions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
										March	May
Latin America and the Caribbean	164 784	197 615	225 668	262 168	319 045	459 152	512 240	566 961	655 137	695 943	718 521
Antigua and Barbuda ^a	88	114	120	127	143	144	138	108	...	...	...
Argentina	10 420	13 820	19 299	27 262	31 167	45 711	46 198	47 967	52 145	51 298	52 060
Bahamas	373	484	668	579	500	454	563	816	861	981	1 144
Barbados	518	555	389	418	444	622	523	563	834	...	...
Belize	...	...	...	...	95	99	156	210	216	207	228
Bolivia (Plurinational State of)	897	1 096	1 272	1 798	3 193	5 319	7 722	8 580	9 730	10 485	10 677
Brazil	37 823	49 296	52 935	53 799	85 839	180 334	193 783	238 520	288 575	317 146	333 017
Chile	15 351	15 851	16 016	16 963	19 429	16 910	23 162	25 371	27 864	31 481	32 770
Colombia	10 540	10 608	13 220	14 634	15 109	20 607	23 672	24 992	28 464	29 859	30 818
Costa Rica	1 502	1 839	1 922	2 313	3 115	4 114	3 799	4 066	4 627	4 642	4 650
Dominica ^a	45	48	42	49	63	60	55	64	...	...	...
Dominican Republic	829	279	825	1 929	2 251	2 946	2 662	3 307	3 765	2 990	2 953
Ecuador ^b	...	...	...	2 147	2 023	3 521	4 473	3 792	2 622	3 947	3 884
El Salvador	1 591	1 910	1 893	1 833	1 908	2 198	2 545	2 987	2 883	3 250	3 323
Grenada ^a	88	83	122	94	100	110	104	112	...	...	...
Guatemala	2 381	2 932	3 529	3 783	4 061	4 310	4 659	5 213	5 954	6 191	6 421
Guyana	280	272	225	251	277	313	356	628	780	742 ^c	...
Haiti	139	112	166	187	305	494	587	733	1 281	1 269	1 301 ^d
Honduras	1 687	1 609	2 159	2 526	2 824	2 733	2 690	2 174	2 775	3 046	...
Jamaica	1 643	1 196	1 882	2 169	2 399	1 906	1 795	1 752	2 979	3 435	3 224
Mexico	50 674	59 028	64 198	74 110	76 330	87 211	95 302	99 893	120 587	128 261	131 174
Nicaragua	454	504	670	730	924	1 103	1 141	1 573	1 799	1 715	1 739
Panama ^e	1 183	1 011	631	1 211	1 335	1 935	2 424	3 028	2 715	...	...
Paraguay	641	983	1 168	1 293	1 703	2 462	2 864	3 861	4 169	4 377	4 829
Peru	9 690	10 206	12 649	14 120	17 329	27 720	31 233	33 175	44 150	46 177	46 353
Saint Kitts and Nevis ^a	66	65	78	71	89	96	110	123	...	...	...
Saint Vincent and the Grenadines ^a	52	50	74	69	78	86	83	75	...	...	...
Saint Lucia ^a	92	105	130	114	132	151	140	151	...	...	...
Suriname ^e	106	106	129	126	215	401	433	659	639	683	738
Trinidad and Tobago	...	...	2 539	4 015	5 134	6 674	9 380	8 652	9 070	9 144	9 599 ^d
Uruguay	772	2 087	2 512	3 078	3 091	4 121	6 360	7 987	7 743	7 755	8 733
Venezuela (Bolivarian Republic of)	14 860	21 366	24 208	30 368	37 440	34 286	43 127	35 830	27 911	26 864	28 885

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Net international reserves.

^b Freely available International reserves.

^c Balance as of January.

^d Balance as of April.

^e Does not include gold.

Table A-18
LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES
(National indices to end of period, 31 December 2000=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
										March	May
Argentina	126	257	330	370	502	516	259	557	845	813	780
Brazil	74	146	172	219	291	419	246	449	454	449	423
Chile	92	137	166	181	248	281	219	330	454	426	447
Colombia	206	291	543	1 188	1 393	1 335	944	1 448	1 935	1 806	1 817
Costa Rica	117	104	88	96	169	193	177	139	...	...	...
Ecuador	195	178	216	272	353	329	349	292	342	351	345
Jamaica	157	234	390	362	348	374	277	288	295	299	307
Mexico	108	156	229	315	468	523	396	568	682	662	634
Peru	115	202	307	397	1 066	1 450	583	1 172	1 934	1 817	1 785
Trinidad and Tobago	124	157	243	242	220	222	191	173	189	198	210
Venezuela (Bolivarian Republic of)	117	325	439	299	765	555	514	807	957	1 030	1 181

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

Table A-19
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATES ^a
(Average annual index, 2000=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b	2011 ^{b c}
Latin America and the Caribbean ^d	110.1	118.8	118.0	110.5	107.7	105.1	99.6	99.9	94.9	93.2
Argentina	228.3	208.3	214.0	213.7	218.0	216.2	207.2	212.1	209.2	214.6
Barbados	100.5	104.9	107.8	106.0	104.1	104.9	104.6	98.8	97.2	96.1
Bolivia (Plurinational State of)	95.4	104.0	109.5	116.8	119.5	118.4	110.1	99.8	103.3	102.4
Brazil	132.6	131.1	123.8	100.5	88.9	82.6	79.9	81.2	70.1	65.9
Chile	109.4	114.5	108.5	103.1	100.9	102.7	102.3	104.9	98.7	96.3
Colombia	105.8	119.5	107.0	94.7	96.1	85.7	82.1	86.8	75.4	75.7
Costa Rica	98.9	104.8	106.5	107.6	106.5	103.9	100.1	99.7	89.0	86.0
Cuba ^e	94.2	99.8	106.2	105.1	112.2	115.1	126.0	126.0	124.7	...
Dominica	102.1	104.8	108.3	111.1	113.2	116.1	116.9	116.7	117.3	119.4
Dominican Republic	101.6	135.5	128.9	92.9	98.9	98.0	100.1	102.0	100.0	101.1
Ecuador	61.9	60.3	61.7	64.7	65.4	68.1	68.3	65.0	64.4	66.1
El Salvador	99.6	100.2	98.9	100.8	101.4	102.7	104.4	102.1	104.1	106.0
Guatemala	88.7	88.6	85.8	79.3	76.9	76.3	72.4	75.0	74.6	72.0
Honduras	96.9	98.5	100.9	100.6	98.3	98.0	95.1	87.8	86.8	86.7
Jamaica	102.0	116.7	113.4	104.4	105.6	109.1	100.5	114.0	98.8	97.3
Mexico	94.1	104.5	108.3	104.5	104.6	105.8	108.8	123.9	114.2	108.8
Nicaragua	103.3	106.9	107.7	110.2	108.2	110.8	106.8	110.7	108.2	112.5
Panama	101.3	103.2	108.4	110.9	112.7	114.3	113.3	108.1	109.3	110.5
Paraguay	106.3	113.0	106.2	118.4	106.3	96.3	85.2	94.0	91.8	84.0
Peru	95.9	99.9	100.0	101.1	104.0	104.1	100.3	99.9	96.4	99.8
Trinidad and Tobago	90.2	90.9	93.1	91.9	90.0	88.5	91.1	83.0	79.4	81.4
Uruguay	117.6	149.9	152.3	134.0	128.4	127.5	120.4	117.5	102.4	100.8
Venezuela (Bolivarian Republic of)	125.1	141.2	139.0	142.2	132.5	118.1	95.8	72.8	110.7	103.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund and national sources.

^a Annual averages. A country's overall real effective exchange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by each partner's share in the country's total trade flows in terms of exports and imports. The extraregional real effective exchange rate index excludes trade with other Latin American and Caribbean countries. A currency depreciates in real effective terms when this index rises and appreciates when it falls.

^b Preliminary figures, weighted by trade in 2009.

^c January-May average.

^d Simple average of the extraregional real effective exchange rate for 20 countries.

^e Preliminary figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

Table A-20
LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE
(Average annual rates)

			2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a	
Latin America and the Caribbean^b			Total	59.8	60.1	60.2	60.3	60.1	60.9	61.2	61.7	61.7
			Female	46.0	46.5	47.1	47.4	47.3	48.1	48.7	49.4	49.9
			Male	74.5	73.9	74.2	73.9	73.7	74.7	74.7	74.9	74.4
Argentina ^c	Urban areas	Total	55.8	60.1	60.3	59.9	60.3	59.5	58.8	59.3	58.9	
		Female	43.3	49.2	49.0	48.3	49.0	47.7	47.2	48.0	47.0	
		Male	70.3	72.9	73.2	73.2	73.3	73.0	72.0	72.1	72.3	
Barbados	National total	Total	68.5	69.3	69.4	69.6	67.9	67.8	67.6	67.0	66.6	
		Female	62.7	64.0	64.2	64.5	62.8	61.9	62.5	62.2	62.0	
		Male	74.8	75.0	75.1	75.2	73.6	74.3	73.3	72.3	71.7	
Bolivia (Plurinational State of)	National total	Total	64.6	67.6	64.9	62.8	66.3	64.8	...	...	...
		Female	56.3	60.1	57.2	54.8	58.7	56.2	...	...	...
		Male	73.2	75.4	73.3	71.5	74.2	74.2	...	...	...
Brazil ^c	Six metropolitan areas	Total	56.7	57.1	57.2	56.6	56.9	56.9	57.0	56.7	57.1	
		Female	43.9	47.8	48.3	47.7	48.1	48.5	48.7	48.6	49.0	
		Male	70.5	67.7	67.3	66.7	66.8	66.5	66.5	66.0	66.5	
Chile ^d	National total	Total	53.7	54.4	55.0	55.6	54.8	54.9	56.0	55.9	58.5	
		Female	35.0	36.6	38.1	39.2	38.5	39.1	40.9	41.3	45.3	
		Male	73.0	73.0	72.3	72.6	71.7	71.4	71.8	71.0	72.1	
Colombia	National total	Total	62.3	62.9	61.5	60.5	59.1	58.3	58.5	61.3	62.7	
		Female	49.9	40.9	49.1	48.1	46.9	46.1	46.5	49.8	51.8	
		Male	75.3	75.5	74.4	73.6	72.0	71.1	71.1	73.3	74.2	
Costa Rica ^e	National total	Total	55.4	55.5	54.4	56.8	56.6	57.0	56.7	60.4	59.1	
		Female	38.2	38.5	36.8	40.4	40.7	41.6	0.0	44.5	43.5	
		Male	73.2	73.3	72.9	73.9	73.5	73.2	72.5	77.2	75.9	
Cuba ^f	National total	Total	71.0	70.9	71.0	72.1	72.1	73.7	74.7	75.4	74.9	
		Female	53.9	54.2	54.4	55.6	56.7	59.3	60.2	61.0	60.5	
		Male	86.6	86.0	86.1	87.0	86.0	86.7	87.8	88.4	87.7	
Dominican Republic	National total	Total	55.1	54.7	56.3	55.9	56.0	56.1	55.6	53.8	55.0	
		Female	42.1	41.0	43.7	43.1	43.6	43.2	43.5	40.3	42.4	
		Male	68.3	68.6	69.2	68.8	68.6	69.3	67.9	67.4	67.8	
Ecuador	Urban total	Total	58.3	58.2	59.1	59.5	59.1	61.3	60.1	58.9	56.9	
		Female	46.7	47.0	47.9	48.6	47.7	50.9	49.6	48.4	46.6	
		Male	70.2	69.8	70.8	70.9	71.2	72.5	71.3	70.0	68.0	
El Salvador ^g	National total	Total	51.2	53.4	51.7	52.4	52.6	62.1	62.7	62.8	...	
		Female	38.6	40.4	38.6	39.5	40.4	46.7	47.3	47.6	...	
		Male	65.8	68.3	66.5	67.4	67.0	81.0	81.4	81.0	...	
Honduras	National total	Total	51.7	50.0	50.6	50.9	50.7	50.7	51.0	53.1	53.6	
		Female	32.5	33.0	32.7	33.2	33.5	33.3	34.4	35.9	37.4	
		Male	72.3	68.4	70.0	70.0	69.7	70.1	69.3	72.3	71.0	
Jamaica	National total	Total	65.8	64.4	64.3	64.2	64.7	64.9	65.4	63.5	62.4	
		Female	57.3	55.4	55.8	55.5	56.4	56.5	57.3	55.7	54.8	
		Male	74.7	73.7	73.3	73.3	73.5	73.6	73.9	71.8	70.4	
Mexico	National total	Total	56.9	57.1	57.7	57.9	58.8	58.8	58.7	58.6	58.5	
		Female	37.4	37.9	39.1	39.9	41.2	41.7	41.5	42.0	41.8	
		Male	78.7	78.4	78.4	78.2	78.7	78.4	78.0	77.1	76.9	
Nicaragua ^d	National total	Total	...	53.7	53.1	53.8	51.4	53.4	53.3	51.8	72.1	
		Female	...	...	...	39.4	...	...	...	...	...
		Male	...	...	...	69.2	...	...	...	...	...
Panama	National total	Total	62.6	62.8	63.3	63.6	62.6	62.7	63.9	64.1	63.5	
		Female	45.1	45.9	46.6	47.4	45.8	46.8	47.2	48.3	47.5	
		Male	80.1	79.9	80.6	80.3	79.9	79.3	81.5	80.9	80.4	
Paraguay	Asunción and urban areas of the Departamento Central ^h	Total	61.2	59.8	63.4	61.8	59.4	60.8	61.7	62.9	62.8	
		Female	45.8	45.7	50.4	48.6	45.3	48.0	47.9	49.7	54.3	
		Male	76.9	74.3	76.6	75.1	73.7	73.9	75.8	75.9	71.8	
Peru ^e	Metropolitan Lima	Total	62.9	63.2	62.3	62.5	64.0	63.5	66.4	68.4	70.0	
		Female	51.8	54.2	49.9	52.3	53.4	51.7	56.4	60.1	61.7	
		Male	75.3	72.9	75.6	73.4	75.4	76.1	77.0	77.2	79.0	
Uruguay	National total ⁱ	Total	59.3	58.1	58.5	58.5	60.8	62.7	62.5	63.1	62.7	
		Female	49.4	48.9	48.7	49.5	50.9	52.9	53.4	53.9	53.7	
		Male	70.7	69.0	70.0	69.3	72.3	74.1	73.2	73.8	72.9	
Venezuela (Bolivarian Republic of)	National total	Total	68.7	69.3	68.5	66.3	65.4	64.9	64.9	65.3	64.7	
		Female	54.3	55.5	54.5	51.5	50.6	50.0	50.1	51.0	50.5	
		Male	83.5	83.0	82.6	81.2	80.4	79.9	79.9	79.7	79.2	

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

^a Preliminary figures.

^b The data relating to the different countries are not comparable owing to differences in coverage and in the definition of the working age population. The regional series are simple averages of national data (excluding Nicaragua and the Plurinational State of Bolivia) and include adjustments for lack of information and changes in methodology.

^c New measurements have been used since 2003; the data are not comparable with the previous series.

^d New measurements have been used since 2010; the data are not comparable with the previous series.

^e New measurements have been used since 2009; the data are not comparable with the previous series.

^f In Cuba, the working-age population is measured as follows: for males, 17 to 59 years and for females, 15 to 54 years.

^g New measurements have been used since 2007; the data are not comparable with the previous series.

^h Up to 2009, nationwide total.

ⁱ Up to 2005, urban total.

Table A-21
LATIN AMERICA AND THE CARIBBEAN: OPEN URBAN UNEMPLOYMENT
(Average annual rates)

		2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean^b		11.2	11.2	10.3	9.1	8.6	7.9	7.3	8.1	7.3
Argentina ^c	Urban areas	19.7	17.3	13.6	11.6	10.2	8.5	7.9	8.7	7.7
Bahamas ^d	National total	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2	...
Barbados ^d	National total	10.3	11.0	9.8	9.1	8.7	7.4	8.1	10.0	10.8
Belize ^d	National total	10.0	12.9	11.6	11.0	9.4	8.5	8.2	13.1	...
Bolivia (Plurinational State of)	Departmental capitals ^e	8.7	9.2	6.2	8.1	8.0	7.7	6.7	7.9	6.5 ^f
Brazil	Six metropolitan areas	11.7	12.3	11.5	9.8	10.0	9.3	7.9	8.1	6.7
Chile ^g	National total	9.8	9.5	10.0	9.2	7.7	7.1	7.8	9.7	8.2
Colombia ^d	Thirteen metropolitan areas	18.1	17.1	15.8	14.3	13.1	11.4	11.5	13.0	12.4
Colombia ^h	Thirteen metropolitan areas	16.5	15.7	14.4	13.1	12.2	10.7	11.0	12.4	11.8
Costa Rica ⁱ	Urban total	16.9	15.3	14.9	12.9	12.6	11.2	11.3	8.5	7.1
Cuba	National total	3.3	2.3	1.9	1.9	1.9	1.8	1.6	1.7	2.4
Dominican Republic ^d	National total	16.1	16.7	18.4	17.9	16.2	15.6	14.1	14.9	14.3
Dominican Republic ^h	National total	6.6	6.8	6.1	6.4	5.5	5.1	4.7	5.3	5.0
Ecuador ^d	Urban total	9.2	11.6	9.7	8.5	8.1	7.4	6.9	8.5	7.6
Ecuador ^h	Urban total	5.7	8.4	7.0	6.5	5.7	5.5	5.3	6.8	6.1
El Salvador	Urban total	6.2	6.2	6.5	7.3	5.7	5.8	5.5	7.1	...
Guatemala	Urban total	5.4	5.2	4.4	...	...	...	...	...	4.8
Honduras	Urban total	6.1	7.6	8.0	6.5	4.9	4.0	4.1	4.9	6.4
Jamaica ^d	National total	14.2	11.4	11.7	11.3	10.3	9.8	10.6	11.4	12.4
Jamaica ^h	National total	6.2	5.3	6.4	5.8	5.8	6.0	6.9	7.5	8.0
Mexico	Urban areas	3.9	4.6	5.3	4.7	4.6	4.8	4.9	6.7	6.4
Nicaragua	Urban total	11.6	10.2	9.3	7.0	7.0	6.9	8.0	10.5	9.7 ^j
Panama ^d	Urban total	16.5	15.9	14.1	12.1	10.4	7.8	6.5	7.9	7.7
Panama ^h	Urban total	8.6	13.7	11.4	9.3	8.4	5.8	5.0	6.3	5.8
Paraguay	Asunción and urban areas of the Departamento Central ^k	14.7	11.2	10.0	7.6	8.9	7.2	7.4	8.2	6.8
Peru	Metropolitan Lima	9.4	9.4	9.4	9.6	8.5	8.4	8.4	8.4	7.9
Suriname	National total	10.0	7.0	8.4	11.2	12.1	...	...	...	...
Trinidad and Tobago ^d	National total	10.4	10.5	8.4	8.0	6.2	5.6	4.6	5.3	5.8 ^f
Uruguay	Urban total	17.0	16.9	13.1	12.2	11.4	9.6	7.9	7.6	7.1
Venezuela (Bolivarian Republic of)	National total	15.8	18.0	15.3	12.4	9.9	8.4	7.3	7.8	8.6

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

^a Preliminary figures.

^b The data for Argentina have been adjusted to allow for changes in methodology in 2003.

^c New measurements have been used since 2003; the data are not comparable with the previous series.

^d Includes hidden unemployment.

^e Up to 2008, urban areas.

^f First semester.

^g New measurements have been used since 2010; the data are not comparable with the previous series. For 2002-2005, the series were adjusted to splice with the series applicable as of 2006.

^h Excludes hidden unemployment. Includes an adjustment to the economically active population statistics.

ⁱ New measurements have been used since 2009; the data are not comparable with the previous series.

^j Preliminary estimate.

^k Up to 2009, urban total.

Table A-22
LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE ^a
(Average annual rates)

		2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Latin America and the Caribbean ^c		52.0	52.5	52.9	53.3	53.7	54.2	54.5	54.3	54.9
Argentina ^d	Urban areas	45.9	49.8	52.0	52.9	54.1	54.5	54.2	54.2	54.4
Barbados	National total	61.4	61.6	62.7	63.2	61.9	62.7	62.1	60.3	59.4
Bolivia (Plurinational State of)	Departmental capitals ^e	53.0	54.9	55.0	51.2	54.0	52.7	...	52.4	53.6 ^f
Brazil ^d	Six metropolitan areas	48.7	50.1	50.6	51.0	51.2	51.6	52.5	52.1	53.2
Chile ^g	National total	48.4	49.3	49.5	50.4	50.5	51.0	51.7	50.5	53.7
Colombia	National total	52.6	54.1	53.1	53.4	52.0	51.8	51.9	53.9	55.4
Costa Rica ^h	National total	51.8	51.8	50.9	53.0	53.3	54.4	53.9	55.4	54.8
Cuba	National total	68.6	69.2	69.7	70.7	70.7	72.4	73.6	74.2	74.9
Dominican Republic	National total	46.2	45.4	46.0	45.9	46.9	47.4	47.7	45.8	47.1
Ecuador	Urban total	52.9	51.5	53.5	54.4	54.3	56.8	56.0	53.9	52.6
El Salvador ⁱ	National total	48.0	49.7	48.2	48.3	49.2	58.1	59.0	58.2	...
Honduras	National total	49.7	47.4	48.6	48.6	49.0	49.2	49.4	51.5	51.5
Jamaica	National total	56.4	57.1	56.8	57.0	58.0	58.6	58.5	56.3	54.6
Mexico	National total	55.2	55.3	55.4	55.8	56.7	56.7	56.3	55.4	55.3
Nicaragua ^h	National total	...	49.5	49.6	50.8	48.8	48.6	50.1	61.8	66.8
Panama	National total	54.1	54.6	55.9	57.3	57.2	58.7	60.3	59.9	59.4
Paraguay	Asunción and urban areas of the Departamento Central ^j	54.6	55.0	58.8	58.2	55.4	57.4	58.2	58.9	58.5
Peru	Lima metropolitana	62.0	61.1	61.6	60.7	61.8	63.0	62.4	62.7	64.5
Trinidad and Tobago	National total	54.6	55.2	57.8	58.6	59.9	59.9	60.6	59.4	58.0 ^f
Uruguay	National total ^k	46.2	45.4	46.0	45.9	54.2	56.8	57.7	58.5	59.0
Venezuela (Bolivarian Republic of)	National total	57.8	56.8	58.1	58.1	58.9	59.5	60.2	60.2	59.0

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

^a Employed population as a percentage of the working-age population.

^b Preliminary figures.

^c Weighted average adjusted for lack of information and changes in methodology.

^d New measurements have been used since 2003; the data are not comparable with the previous series.

^e Up to 2008, urban areas.

^f First semester.

^g New measurements have been used since 2010; the data are not comparable with the previous series.

^h New measurements have been used since 2009; the data are not comparable with the previous series.

ⁱ New measurements have been used since 2007; the data are not comparable with the previous series.

^j Up to 2009, urban total.

^k Up to 2005, urban total.

Table A-23
LATIN AMERICA AND THE CARIBBEAN: FORMAL EMPLOYMENT INDICATORS
(Indices 2000=100)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Argentina ^b	93.1	96.2	107.0	118.7	128.9	139.6	148.8	148.4	152.7
Brazil ^c	101.6	104.2	109.5	115.7	121.3	127.5	135.6	138.5	147.0
Chile ^b	103.4	105.9	109.6	118.2	125.7	135.8	145.7	147.4	156.5
Costa Rica ^d	104.0	106.9	110.9	116.1	123.9	134.4	144.3	143.4	147.9
El Salvador ^d	100.9	102.5	104.9	108.6	113.9	119.8	123.3	119.9	121.8
Guatemala ^d	104.9	105.5	108.9	110.4	113.0	118.2	118.1	119.9	121.9
Jamaica ^e	97.4	96.3	97.9	99.0	100.0	101.4	103.4	102.4	...
Mexico ^d	98.6	98.2	99.6	102.8	107.7	112.2	114.5	111.0	115.2
Nicaragua ^d	101.0	103.7	112.9	123.2	136.2	148.8	159.9	163.6	173.4
Panama ^f	89.7	95.7	99.4	108.5	115.9	132.3	152.8	155.8	163.3
Peru ^e	98.1	99.8	102.5	107.1	115.0	124.3	134.7	136.5	142.1
Uruguay ^g	92.1	93.9	99.8	110.7	120.5	130.9	141.0	145.2	153.8

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

^a Preliminary figures.

^b Dependent workers paying into pension schemes.

^c Workers covered by social and labour legislation.

^d Workers with social security coverage.

^e Workers of medium-sized and large firms.

^f Workers in small, medium-sized and large businesses, in manufacturing, commerce and services. Up to 2009, refers to workers with social security coverage.

^g Employment positions generating social security contributions.

Table A-24
LATIN AMERICA: VISIBLE UNDEREMPLOYMENT BY HOURS
(Percentages of employed workers)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Argentina ^b	24.0	20.7	17.5	14.2	12.5	10.4	9.5	11.1	9.8
Brazil ^c	4.1	5.0	4.6	3.7	4.1	3.6	3.1	3.1	2.7
Chile ^d	6.2	6.5	8.4	8.5	8.5	8.0	9.0	10.8	11.2
Colombia ^e	16.8	15.3	15.2	13.8	11.9	10.0	9.1	9.5	12.0
Costa Rica ^f	12.3	15.2	14.4	14.6	13.5	11.5	10.5	13.5	11.2
Ecuador ^g	10.2	9.8	8.1	7.3	6.3	11.3	10.6	11.8	11.5
El Salvador ^h	4.3	4.8	4.5	6.2	4.9	5.3	6.3	7.7	...
Honduras ⁱ	4.7	5.9	6.5	6.9	5.4	4.3	3.5	4.4	6.7
Mexico ^j	...	...	...	7.5	6.9	7.2	6.9	9.3	8.5
Panama ^k	...	...	4.4	4.6	3.4	2.7	2.1	2.1	1.8
Paraguay ^l	9.5	8.8	8.3	7.5	5.6	5.8	6.6	8.2	7.3
Peru ^m	20.6	19.0	18.1	17.8	16.4	16.5	15.6	15.4	14.5
Uruguay ^k	18.4	19.3	15.8	17.1	13.6	12.9	10.8	9.1	8.9

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

^a Preliminary figures.

^b Employed persons who work less than 35 hours per week and wish to work more hours; urban total.

^c Employed persons who work less than 40 hours per week and wish to work more hours; six metropolitan areas.

^d New measurements have been used since 2010; the data are not comparable with the previous series. Employed persons who work up to 30 hours per week and wish to work more hours; national total. Up to 2009, employed persons who work less than 35 hours per week and who wish to work more; national total; third quarter of each year. The figures up to 2005 and as from 2006 are not comparable since the sample changed.

^e Employed persons who work less than 48 hours per week and wish to work more hours; 13 metropolitan areas.

^f Employed persons who work less than 47 hours per week and wish to work more hours; national total. New measurements have been used since 2009; the data are not comparable with the previous series.

^g Employed persons who work less than 40 hours per week and wish to work more hours, urban total; up to 2006, Cuenca, Guayaquil and Quito.

^h Employed persons who work less than 40 hours per week and wish to work more hours; urban total. New measurements have been used since 2007; the data are not comparable with the previous series.

ⁱ Employed persons who work less than 36 hours per week and wish to work more hours; total urban areas.

^j Employed workers wishing to work more than their current job permits, national total.

^k Employed persons who work less than 40 hours per week and wish to work more hours; urban total.

^l Employed persons who work less than 30 hours per week and wish to work more hours; Asunción and urban areas of the Departamento Central; up to 2009, total urban areas.

^m Employed persons who work less than 35 hours per week and would like to work more, Lima metropolitan area.

Table A-25
LATIN AMERICA: REAL AVERAGE WAGES^a
(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Argentina ^c	98.8	79.6	89.3	97.5	104.8	114.1	124.5	135.4	151.3	170.8
Bolivia (Plurinational State of) ^d	105.8	109.3	111.1	114.1	110.0	101.2	95.5	88.4	91.8	...
Brazil ^e	95.1	93.1	84.9	85.5	85.2	88.2	89.5	91.4	92.6	94.5
Chile ^f	101.7	103.7	104.6	106.5	108.5	110.6	113.7	113.5	118.9	121.6
Colombia ^g	99.7	102.7	102.0	103.7	105.3	109.3	109.0	106.9	108.1	110.8
Costa Rica ^h	101.0	105.1	105.5	102.8	100.8	102.4	103.8	101.7	109.5	111.8
Cuba	96.2	105.1	107.8	114.6	129.5	144.5	142.3	142.5	149.0	153.5
El Salvador ⁱ	95.1	94.4	93.5	90.3	88.2	88.5	86.4	83.7	86.6	87.5
Guatemala ^h	100.5	99.6	100.0	97.8	93.9	92.9	91.4	89.0	89.1	91.6
Mexico ^h	106.7	109.1	111.2	112.7	114.6	116.2	117.8	118.0	116.8	115.5
Nicaragua ^h	101.0	104.5	106.5	104.2	104.5	105.9	104.0	100.2	106.0	107.4
Panama ^j	98.8	95.8	95.3	94.5	93.4	95.3	96.5	92.5	95.0	96.8
Paraguay	101.4	96.3	95.6	97.2	98.2	98.8	101.1	100.4	104.9	105.6
Peru ^k	99.1	103.7	105.3	106.5	104.4	105.7	103.8	106.1	109.4	112.2 ^l
Uruguay	99.7	89.0	77.9	77.9	81.5	85.0	89.0	92.2	98.9	102.2
Venezuela (Bolivarian Republic of)	106.9	95.1	78.4	78.6	80.7	84.8	85.8	81.9	76.5	72.5

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

^a Figures deflated by the official consumer price index of each country.

^b Preliminary figures.

^c Registered private-sector workers.

^d Private-sector average wage index.

^e Private-sector workers covered by social and labour legislation. In 2002 includes public-sector workers.

^f General index of hourly wages.

^g Manufacturing.

^h Average wages declared by workers covered by social security.

ⁱ Gross salary.

^j Workers in small, medium-sized and large businesses, in manufacturing, commerce and services. Up to 2009, refers to workers with social security coverage.

^k Private-sector workers in the Lima metropolitan area.

^l Estimate based on data from June.

Table A-26
LATIN AMERICA AND THE CARIBBEAN: REAL MINIMUM WAGE^a
(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^b
Argentina	101.1	81.3	84.0	129.8	171.1	193.2	219.6	253.3	292.1	321.3
Bolivia (Plurinational State of)	110.8	116.0	116.9	112.0	106.3	111.1	109.7	108.0	117.0	119.9
Brazil	109.8	114.3	117.4	121.4	128.5	145.3	154.8	160.8	172.7	182.0
Chile	103.8	106.8	108.3	111.3	113.4	116.3	118.5	118.3	124.7	127.7
Colombia	101.2	101.9	102.0	103.8	105.0	108.0	108.7	106.9	110.3	111.6
Costa Rica	100.2	99.5	99.2	97.6	97.8	99.5	100.8	99.5	103.3	105.8
Cuba	89.6	94.3	92.4	94.4	206.6	196.6	183.6	180.6	182.8	180.4
Dominican Republic	105.7	105.1	95.5	81.2	96.4	89.6	93.8	87.7	93.9	93.5
Ecuador	111.5	112.5	119.3	122.2	125.9	130.0	135.1	146.7	152.0	161.5
El Salvador	96.4	94.6	96.7	95.3	91.1	90.5	92.7	92.9	101.9	100.9
Guatemala	108.3	108.6	117.3	117.6	115.9	119.6	117.7	111.9	117.7	122.0
Haiti	88.4	80.5	107.5	91.7	79.6	70.2	64.8	56.4	72.2	114.1
Honduras	102.5	104.6	113.6	114.5	121.2	127.4	130.9	131.1	223.5	213.4
Mexico	100.4	101.2	100.4	99.1	99.0	99.0	98.3	96.2	94.8	95.6
Nicaragua	102.1	105.9	109.2	113.5	118.1	128.5	131.6	141.6	165.5	174.6
Panama	107.0	105.8	106.5	107.5	104.5	108.1	106.3	109.2	106.5	113.3
Paraguay	103.7	102.9	105.8	102.4	104.4	106.7	103.9	101.3	102.0	102.5
Peru	101.2	101.0	102.2	106.9	105.1	112.0	111.7	114.5	111.2	110.1
Uruguay	98.7	88.7	77.7	77.5	131.9	153.2	159.6	176.9	194.4	196.8
Venezuela (Bolivarian Republic of)	100.0	94.5	83.3	92.7	103.7	113.9	114.4	107.2	99.4	93.8

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

^a Figures deflated by the official consumer price index of each country.

^b Preliminary figures.

Table A-27
LATIN AMERICA AND THE CARIBBEAN: MONETARY BASE
(End-of-year balances as percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Antigua and Barbuda	11.8	14.3	13.8	13.2	12.9	11.6	10.5	11.6	13.3
Argentina	9.3	12.3	11.7	10.3	12.2	12.2	10.6	10.4	10.8
Bahamas	6.5	7.0	9.0	7.6	7.1	8.1	7.8	8.9	10.7
Barbados	15.4	17.7	12.0	10.5	10.7	13.8	14.2	14.4	11.7
Belize	10.3	10.3	10.9	11.5	13.3	13.2	14.1	16.0	14.9
Bolivia (Plurinacional State of)	8.2	8.5	8.3	10.2	12.2	16.9	18.5	24.3	23.6
Brazil	5.0	4.3	4.6	4.7	5.1	5.5	4.9	5.2	5.6
Chile	4.2	4.1	4.1	4.4	4.5	4.3	4.8	5.2	5.4
Colombia	5.8	6.0	6.3	6.7	7.0	7.5	7.7	7.8	8.2
Costa Rica	5.2	5.7	5.9	6.4	6.7	7.6	7.3	7.2	7.0
Cuba	32.5	27.8	31.6	31.6	26.0	24.6	31.1	24.4	23.1
Dominica	14.5	13.4	11.6	12.3	13.8	13.6	10.6	11.9	12.9
Dominican Republic	8.3	12.5	8.7	9.1	9.0	9.0	8.5	8.2	7.6
Ecuador	...	...	...	...	...	10.0	11.3	13.3	13.3
El Salvador	9.9	11.6	10.4	9.9	9.3	10.3	10.7	11.0	11.1
Grenada	14.7	14.7	20.4	13.4	13.8	14.8	12.8	13.3	12.9
Guatemala	10.0	9.8	10.0	10.2	11.1	10.9	9.7	10.3	10.3
Guyana	16.4	17.3	17.4	18.5	17.3	15.5	14.9	17.5	20.3
Haiti	22.0	24.0	22.7	21.1	20.4	20.3	21.0	22.2	31.9
Honduras	8.5	8.4	9.1	8.9	9.6	11.3	11.5	10.6	11.0
Jamaica	7.6	7.5	7.3	7.1	7.4	7.3	7.0	7.4	6.9
Mexico	3.8	4.0	4.0	4.1	4.3	4.4	4.7	5.3	5.3
Nicaragua	6.3	7.3	7.5	7.8	8.8	9.4	8.4	9.8	10.4
Panama	6.0	6.0	5.6	5.2	4.9	5.1	4.5	5.2	4.7
Paraguay	8.8	9.7	9.8	9.2	9.2	10.5	10.3	14.4	12.1
Peru	3.4	3.5	3.9	4.5	4.6	5.3	5.9	6.0	7.7
Saint Kitts and Nevis	15.3	13.9	16.6	14.0	15.1	14.8	14.5	19.0	23.9
Saint Vincent and the Grenadines	12.3	12.3	12.0	11.6	11.8	12.5	12.0	9.8	14.8
Saint Lucia	13.4	13.8	15.0	12.5	12.7	12.7	12.6	13.5	13.7
Suriname	21.1	15.4	17.4	15.2	17.2	19.5	17.6	24.4	25.4
Trinidad and Tobago	8.1	6.6	5.7	7.0	7.2	6.8	8.2	14.8	15.7
Uruguay	4.1	4.2	3.9	4.9	4.5	5.6	5.5	5.5	5.4
Venezuela (Bolivarian Republic of)	7.1	8.4	7.8	7.6	11.4	13.0	12.5	14.1	12.5

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

Table A-28
LATIN AMERICA AND THE CARIBBEAN: MONEY SUPPLY (M3)^a
(End-of-year balances as percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Antigua and Barbuda	75.6	88.1	87.1	84.9	83.1	83.0	81.2	88.6	91.9
Argentina	23.0	26.5	28.4	28.8	29.4	28.8	25.4	26.9	29.3
Bahamas	53.8	56.0	60.9	61.2	63.6	67.4	71.5	76.9	79.9
Barbados	91.5	93.5	101.9	101.6	100.6	118.3	118.7	119.5	111.5
Belize	57.0	55.7	59.1	59.6	62.0	68.0	72.4	78.3	75.0
Bolivia (Plurinational State of)	49.4	47.7	42.3	43.0	42.4	47.8	46.5	58.7	59.5
Brazil ^b	26.9	24.3	25.4	27.1	27.8	29.2	35.3	36.6	36.9
Chile	54.6	48.8	50.3	53.3	53.2	58.1	69.1	62.1	60.1
Colombia ^b	27.2	27.4	28.7	30.6	31.8	33.4	35.1	35.0	35.7
Costa Rica	36.3	37.1	42.6	44.0	44.3	43.8	46.8	49.6	46.8
Cuba ^b	40.6	37.7	38.0	45.9	38.1	36.8	41.5	41.2	40.7
Dominica	67.1	68.9	67.1	70.5	72.3	74.2	70.6	77.3	80.2
Dominican Republic	35.7	49.8	39.1	37.3	33.8	34.5	31.4	33.4	33.1
Ecuador ^b	...	...	...	...	...	...	...	35.3	38.9
El Salvador ^b	42.0	40.2	39.2	37.2	38.2	41.5	39.0	40.9	41.6
Grenada	84.4	82.9	99.3	80.5	80.2	83.1	78.9	88.6	88.0
Guatemala	31.7	33.5	34.0	35.7	38.3	37.0	35.2	37.3	38.4
Guyana	44.5	46.3	46.0	47.2	49.2	46.4	47.0	48.9	51.5
Haiti	45.4	47.8	42.5	42.1	38.5	37.3	38.1	39.2	49.4
Honduras	46.6	47.3	49.3	50.9	55.1	56.8	53.0	52.2	52.8
Jamaica	35.2	33.8	34.1	32.8	32.6	33.6	30.8	30.4	27.4
Mexico	19.2	19.4	18.9	21.0	20.2	20.8	22.5	24.1	23.7
Nicaragua	40.0	41.8	43.0	41.3	39.9	41.4	37.5	42.6	49.6
Panama	80.9	79.5	78.3	78.0	86.1	87.5	85.2	...	...
Paraguay	31.9	29.1	28.3	27.5	26.8	30.0	31.3	39.8	40.4
Peru	26.1	24.7	24.0	25.8	24.3	26.8	29.9	30.4	33.0
Saint Kitts and Nevis	78.2	83.9	94.0	92.3	91.2	93.6	88.0	96.8	104.7
Saint Vincent and the Grenadines	61.7	60.5	62.3	61.8	59.2	57.5	57.1	57.5	58.5
Saint Lucia	71.5	71.0	70.4	75.6	81.0	80.9	81.3	84.1	79.1
Suriname	55.8	51.0	64.6	58.0	61.0	68.2	61.3	80.2	...
Trinidad and Tobago	40.9	32.2	33.3	35.1	37.4	35.9	34.1	61.6	57.9
Uruguay	86.0	79.6	64.8	58.0	57.1	49.6	56.2	49.9	51.7
Venezuela (Bolivarian Republic of) ^b	18.2	23.0	21.8	23.3	30.4	31.0	29.1	33.6	28.9

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

^a According to the ECLAC definition, this corresponds to M1 plus savings and time deposits in national currency plus foreign-currency deposits.

^b Corresponds to M2.

Table A-29
LATIN AMERICA AND THE CARIBBEAN: FOREIGN CURRENCY DEPOSITS
(End-of-year balances as percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Antigua and Barbuda	6.6	7.8	6.9	7.0	7.5	9.5	7.2	12.0	13.2
Argentina	0.7	1.4	2.5	2.2	2.4	2.7	3.1	3.7	4.3
Bahamas	1.3	1.5	1.4	1.9	2.0	2.4	2.4	3.0	2.9
Barbados	10.4	9.5	9.4	13.4	9.2	16.9	13.2	10.2	8.2
Bolivia (Plurinational State of)	41.7	39.4	33.1	30.9	26.7	23.9	20.3	24.4	19.1
Chile	5.9	5.4	4.9	4.7	4.7	4.8	9.0	6.0	6.7
Costa Rica	16.0	16.2	21.6	21.7	20.8	18.1	22.0	23.9	20.8
Dominica	2.5	4.6	2.8	1.2	1.1	0.9	1.2	1.1	2.3
Dominican Republic ^a	7.5	9.6	6.6	7.3	6.5	6.5	6.1	6.3	6.8
Grenada	5.5	6.1	5.7	5.6	4.2	6.3	5.6	6.5	5.4
Guatemala	2.0	2.8	3.7	3.9	4.3	4.7	4.8	5.9	6.4
Haiti	17.6	20.0	16.6	18.0	15.9	15.8	16.7	18.2	23.2
Honduras	12.5	12.7	13.8	13.5	13.8	14.0	14.0	14.1	13.0
Jamaica	9.8	11.1	11.3	10.5	9.6	10.9	10.1	10.6	8.7
Mexico	1.4	1.1	1.3	1.4	1.3	1.2	1.3	1.5	1.3
Nicaragua	27.9	28.4	28.6	27.8	26.1	27.1	25.6	29.9	34.6
Paraguay	18.4	14.8	13.1	11.7	10.6	10.7	12.1	14.1	15.7
Peru	17.1	15.3	13.2	14.1	12.4	12.4	14.0	13.4	12.9
Saint Kitts and Nevis	20.5	22.9	24.9	24.9	26.3	26.0	21.0	20.6	20.6
Saint Vincent and the Grenadines	0.9	0.8	2.0	1.0	1.9	2.2	1.9	1.6	2.4
Saint Lucia	1.3	1.6	1.8	2.6	8.3	5.2	5.2	4.8	4.7
Suriname	21.7	23.9	31.7	27.6	29.2	32.6	28.4	36.8	...
Trinidad and Tobago	9.8	6.0	8.4	7.3	9.1	8.7	9.4	18.5	14.6
Uruguay	77.4	70.3	56.0	47.6	45.8	37.0	43.6	36.5	36.3

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

^a Series corresponding to harmonized monetary indicators.

Table A-30
LATIN AMERICA AND THE CARIBBEAN: DOMESTIC CREDIT TO THE PRIVATE SECTOR
(End-of-year balances as percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Antigua and Barbuda	67.0	66.9	63.4	63.6	65.6	65.9	68.8	75.1	77.3
Argentina	15.3	10.8	10.5	11.7	13.0	14.5	13.7	13.5	14.6
Bahamas	56.4	56.8	59.2	62.4	69.3	74.4	79.0	84.2	85.1
Barbados	46.6	45.4	51.3	55.6	59.6	61.8	68.7	72.2	68.3
Belize	47.8	51.5	53.5	54.0	55.8	61.2	63.6	67.3	63.0
Bolivia (Plurinational State of)	51.1	47.8	42.1	39.3	34.8	34.0	31.1	33.9	35.7
Brazil	32.5	31.8	32.0	37.0	43.8	51.0	59.3	63.6	70.1
Chile	65.9	62.7	62.3	64.3	63.7	69.7	79.4	70.2	65.8
Colombia	19.5	19.2	19.0	19.9	23.1	26.1	27.3	25.8	27.5
Costa Rica	25.4	26.5	26.7	29.4	31.1	36.5	41.7	40.4	37.8
Dominica	48.9	45.6	45.5	48.9	50.6	49.3	48.8	52.0	56.9
Dominican Republic	33.6	37.1	23.1	23.5	19.9	21.7	21.0	21.5	22.9
Ecuador	20.9	19.9	21.1	23.0	23.9	25.0	26.4	27.9	31.0
El Salvador	44.5	42.3	42.1	42.2	42.7	42.6	42.1	41.3	39.4
Grenada	65.3	61.9	64.2	59.2	65.7	69.5	71.2	81.2	84.4
Guatemala	20.0	20.4	20.9	23.2	27.1	29.9	29.0	28.7	28.1
Guyana	26.6	21.2	19.4	19.9	21.2	20.8	22.8	22.8	24.8
Haiti	18.4	17.7	15.4	15.7	14.4	14.2	14.9	16.4	15.7
Honduras	36.0	37.6	38.4	39.4	45.1	52.8	52.4	53.1	50.5
Jamaica	10.0	12.5	13.3	14.1	15.8	18.2	20.4	19.2	17.0
Mexico	14.3	14.0	13.2	14.4	16.8	18.2	17.2	18.5	18.7
Nicaragua	19.6	22.9	25.4	29.3	34.1	39.5	37.5	33.9	32.4
Panama	90.4	87.1	85.1	87.1	88.4	90.6	90.1	88.0	98.0
Paraguay ^b	22.3	13.6	13.6	13.8	13.4	16.2	20.1	25.7	30.4
Peru	30.1	28.7	27.0	28.7	28.6	33.1	33.6	35.5	37.6
Saint Kitts and Nevis	58.6	66.0	68.3	68.2	65.9	67.1	65.6	72.2	78.0
Saint Vincent and the Grenadines	51.4	49.7	48.0	46.5	47.8	48.6	48.8	49.9	50.4
Saint Lucia	93.3	82.9	82.9	89.8	98.8	116.4	120.8	125.5	117.6
Suriname	18.3	19.6	25.0	25.2	28.5	33.9	36.6	43.4	44.0
Trinidad and Tobago	30.0	25.9	26.6	26.8	27.0	27.5	25.2	33.2	30.8
Uruguay	72.0	44.5	29.7	26.1	25.9	24.6	29.4	22.7	24.5
Venezuela (Bolivarian Republic of)	9.6	8.6	10.7	12.7	16.5	22.8	21.1	...	...

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

^a Preliminary figures.

^b Credit granted to the private sector by the banking sector.

Table A-31
LATIN AMERICA AND THE CARIBBEAN: REPRESENTATIVE LENDING RATES
(Annual average of monthly annualized rates)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Antigua and Barbuda ^a	...	13.4	11.5	11.2	10.7	10.3	10.1	9.5	10.2
Argentina ^b	40.7	16.8	10.8	10.5	12.9	14.0	19.8	21.3	15.1
Bahamas ^a	...	12.0	11.2	10.3	10.0	10.6	11.0	10.6	11.0
Barbados ^c	...	7.6	7.4	8.5	10.0	10.4	9.7	8.7	8.2
Belize ^a	14.8	14.4	13.9	14.2	14.2	14.3	14.2	14.1	13.9
Bolivia (Plurinational State of) ^d	10.9	9.1	8.2	8.2	7.8	8.2	8.9	8.3	5.7
Brazil ^e	44.4	49.8	41.1	43.7	40.0	34.5	38.8	40.4	38.5
Chile ^f	14.4	13.0	11.0	13.5	14.4	13.6	15.2	12.9	11.8
Colombia ^a	16.3	15.2	15.1	14.6	12.9	15.4	17.2	13.0	9.4
Costa Rica ^g	26.8	26.2	23.4	24.0	22.7	17.3	16.7	21.6	19.4
Cuba ^h	...	9.6	9.7	9.8	9.4	9.1	9.0	9.3	9.3
Dominica ^a	11.0	11.8	8.9	9.9	9.5	9.2	9.1	10.0	9.4
Dominican Republic ^c	21.3	27.8	30.3	21.4	15.7	11.7	16.0	12.9	8.3
Ecuador ⁱ	14.1	12.6	10.2	8.7	8.9	10.1	9.8	9.2	9.0
El Salvador ^j	7.1	6.6	6.3	6.9	7.5	7.8	7.9	9.3	7.6
Grenada ^a	...	...	10.3	10.0	9.8	9.7	9.4	10.7	9.4
Guatemala ^a	16.9	15.0	13.8	13.0	12.8	12.8	13.4	13.8	13.3
Guyana ^c	17.3	16.6	16.6	15.1	14.9	14.1	13.9	14.0	15.2
Haiti ^k	25.5	30.7	34.1	27.1	29.5	31.2	23.3	21.6	20.7
Honduras ^a	22.7	20.8	19.9	18.8	17.4	16.6	17.9	19.4	18.9
Jamaica ^g	26.1	25.1	25.1	23.2	22.0	22.0	22.3	22.6	20.3
Mexico ^l	8.2	6.9	7.2	9.9	7.5	7.6	8.7	7.1	5.3
Nicaragua ^m	18.3	15.5	13.5	12.1	11.6	13.0	13.2	14.0	13.3
Panama ⁿ	9.2	8.9	8.2	8.2	8.1	8.3	8.2	8.3	7.9
Paraguay ^a	34.3	30.5	21.2	15.3	16.6	14.6	14.6	15.6	13.2
Peru ^o	23.3	20.2	18.7	17.9	17.1	16.5	16.7	16.0	19.0
Saint Kitts and Nevis ^a	...	...	10.0	9.9	9.2	9.3	8.6	8.6	8.5
Saint Vincent and the Grenadines ^a	...	...	9.7	9.6	9.7	9.6	9.5	9.1	9.0
Saint Lucia ^a	...	...	10.8	10.4	10.5	9.9	9.3	9.0	9.5
Suriname ^l	22.2	21.0	20.4	18.1	15.7	13.8	12.2	11.7	11.6
Trinidad and Tobago ^c	13.4	11.0	9.4	9.1	10.2	10.5	12.3	11.9	9.2
Uruguay ^p	116.4	56.6	26.0	15.3	10.7	10.0	13.1	16.6	12.0
Venezuela (Bolivarian Republic of) ^q	38.4	25.7	17.3	15.6	14.6	16.7	22.8	20.6	18.0

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

^a Weighted average of the system lending rates.

^b Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.

^c Prime lending rate.

^d Nominal dollar rate for 60-91-day banking operations.

^e Preset lending rates for legal persons.

^f Lending rates for periods of 90-360 days, non-adjustable operations.

^g Average lending rate.

^h Corporate lending rate in convertible pesos.

ⁱ Effective benchmark lending rate for the corporate commercial segment. Until 2003, reference lending rate in dollars.

^j Basic lending rate for up to 1 year.

^k Average of minimum and maximum lending rates.

^l Lending rate published by the International Monetary Fund.

^m Weighted average of the weekly lending rate for loans in national currency in the system.

ⁿ Interest rate on 1-year trade credit.

^o Market lending rate, average for transactions conducted in the last 30 business days (FTAM).

^p Business credit, 30-367 days.

^q Average rate for loan operations for the six major commercial banks.

Table A-32
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variation December-December)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^a
Latin America and the Caribbean^b	12.2	8.5	7.4	6.1	5.0	6.5	8.2	4.7	6.5	6.5
Antigua and Barbuda	...	...	2.8	2.5	0.0	5.2	0.7	2.4	2.9	2.6 ^c
Argentina	41.0	3.7	6.1	12.3	9.8	8.5	7.2	7.7	10.9	9.7
Bahamas	1.9	2.4	1.9	1.2	2.3	2.8	4.6	1.3	1.6	1.8 ^c
Barbados	0.9	0.3	4.3	7.4	5.6	4.7	7.3	4.4	6.5	8.4 ^d
Belize	...	2.3	3.1	4.2	2.9	4.1	4.4	-0.4	0.0	0.9 ^d
Bolivia (Plurinational State of)	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3	7.2	11.3
Brazil	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.9	6.6
Chile	2.8	1.1	2.4	3.7	2.6	7.8	7.1	-1.4	3.0	3.3
Colombia	7.0	6.5	5.5	4.9	4.5	5.7	7.7	2.0	3.2	3.0
Costa Rica	9.7	9.9	13.1	14.1	9.4	10.8	13.9	4.0	5.8	4.8
Cuba ^e	7.3	-3.8	2.9	3.7	5.7	10.6	-0.1	-0.1	1.5	1.7 ^f
Dominica	0.5	2.8	-7.2	2.7	1.8	6.0	2.0	3.3	...	...
Dominican Republic	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.8	6.2	8.0
Ecuador	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3	3.3	4.2
El Salvador	2.8	2.5	5.4	4.3	4.9	4.9	5.5	-0.2	2.1	6.7
Grenada	2.3	-7.1	2.5	6.2	1.8	8.0	5.2	-2.3	4.7	2.1 ^f
Guatemala	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	5.4	6.4
Guyana	6.0	5.0	5.5	8.2	4.2	14.1	6.4	3.6	4.5	...
Haiti	16.5	35.8	19.1	15.3	10.3	10.0	10.1	2.0	6.2	7.8 ^g
Honduras	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0	6.5	7.7
Jamaica	7.3	13.8	13.6	12.6	5.6	16.8	16.9	10.2	11.8	7.1
Mexico	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6	4.4	3.2
Nicaragua	...	6.6	8.9	9.7	10.2	16.2	12.7	1.8	9.1	8.7
Panama	1.9	1.4	-0.2	3.4	2.2	6.4	6.8	1.9	4.9	6.4
Paraguay	14.6	9.3	2.8	9.9	12.5	6.0	7.5	1.9	7.2	10.2
Peru	1.5	2.5	3.5	1.5	1.1	3.9	6.7	0.2	2.1	3.1
Saint Kitts and Nevis	...	...	...	...	7.9	2.1	7.6	1.0	3.9	...
Saint Vincent and the Grenadines	-0.7	0.5	3.5	5.2	9.6	0.0	3.8	1.0	-0.6	0.1 ^f
Saint Lucia	0.4	2.7	1.7	3.9	4.8	8.3	8.7	-1.6	2.0	...
Suriname	...	...	...	15.8	4.7	8.3	9.4	1.3	10.3	20.3
Trinidad and Tobago	4.3	3.0	5.6	7.2	9.1	7.6	14.5	1.3	13.4	3.9
Uruguay	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9	6.9	8.5
Venezuela (Bolivarian Republic of)	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9	27.4	24.8

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

^a Twelve-month variation to May 2011.

^b The only English-speaking Caribbean countries included are Barbados, Jamaica and Trinidad and Tobago.

^c Twelve-month variation to January 2011.

^d Twelve-month variation to February 2011.

^e Refers to national-currency markets.

^f Twelve-month variation to March 2011.

^g Twelve-month variation to April 2011.

Table A-33
LATIN AMERICA: WHOLESALE PRICES
(Percentage variation December-December)

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 ^a
Argentina	WPI	113.7	2.0	7.9	10.6	7.2	14.6	8.8	10.3	14.6	12.5
Brazil	IPA-M	33.6	7.6	15.1	-1.0	4.4	9.2	10.8	-4.4	13.9	7.9
Chile	WPI	10.4	-1.0	7.8	3.2	7.9	14.0	22.7	-14.9	3.5	3.6
Colombia	PPI	3.8	10.2	5.2	3.0	5.3	1.3	9.0	-2.2	4.4	4.8
Costa Rica	IND-PPI	8.4	11.0	17.7	12.1	13.7	14.6	23.5	-1.2	4.5	9.3
Ecuador	PPI	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	33.0	16.7	30.2
El Salvador	WPI	0.3	2.6	6.8	7.5	3.9	10.8	-6.9	2.7	7.1	14.3 ^b
Mexico	NPPI	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.1	4.7	5.4
Peru	WPI-NP	1.7	2.0	4.9	3.6	1.3	5.2	8.8	-5.1	4.6	6.1
Uruguay	PPI-NP	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	10.5	8.4	22.7
Venezuela (Bolivarian Republic of)	WPI-VAT	49.4	48.4	23.1	14.2	15.9	17.2	32.4	24.8	26.8	18.9

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

^a Twelve-month variation to May 2011.

^b Twelve-month variation to March 2011.

Note:

WPI: Wholesale price index;

IPA-M: Wholesale price index (acronym in Portuguese);

PPI: Producer price index;

IND-PPI: Industrial producer price index;

NPPI: National producer price index;

WPI-NP: Wholesale price index, national products;

PPI-NP: Producer price index, national products;

WPI-VAT: Wholesale price index, includes value added tax.

Table A-34
LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR BALANCE
(Percentages of GDP)

	Central government						Non-financial public sector					
	Primary balance			Overall balance			Primary balance			Overall balance		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America and the Caribbean (33 countries)^b	1.3	...	...	-1.2	-3.5	-2.7	...	...	...	...	...	...
Latin America (19 countries)^c	1.2	-1.1	-0.4	-0.5	-2.9	-2.0	2.2	-0.8	0.5	0.2	-2.8	-1.8
Caribbean (13 countries)^d	2.0	...	...	-1.7	-4.3	-3.8	...	...	...	...	...	...
Antigua and Barbuda	-3.2	-7.8	1.3	-5.9	-10.6	-1.1	...	...	...	...	...	...
Argentina ^e	2.8	1.4	1.5	0.7	-0.8	-0.1	2.6	0.4	...	0.2	-2.3	...
Bahamas	-1.0	-0.9	0.4	-2.9	-3.2	-2.8	...	...	...	...	...	...
Barbados ^f	-0.2	-4.0	-2.4	-5.1	-9.4	-8.1	-0.2	-4.0	-2.4	-5.1	-9.4	-8.1
Belize	5.4	0.8	1.9	1.5	-2.9	-1.5	...	...	...	...	...	...
Bolivia (Plurinational State of) ^g	0.8	0.4	1.4	-0.0	-1.1	-0.1	4.1	1.7	3.3	3.2	0.1	1.7
Brazil ^h	2.4	1.3	2.2	-1.2	-3.5	-1.0	3.5	2.0	2.8	-1.9	-3.3	-2.5
Chile	4.8	-4.0	0.1	4.3	-4.5	-0.4	5.8	-2.6	...	4.9	-3.4	...
Colombia ⁱ	0.6	-1.1	-1.1	-2.3	-4.1	-3.8	...	...	...	0.0	-2.4	-3.8
Costa Rica	2.4	-1.3	-3.1	0.2	-3.4	-5.3	2.1	-2.5	-3.2	-0.1	-4.6	-5.4
Cuba	-5.5	-3.8	-2.1	-6.9	-4.8	-3.4	...	...	...	...	...	...
Dominica	-0.7	-1.0	3.0	-2.6	-2.1	1.4	...	...	...	...	...	...
Dominican Republic ^l	-1.9	-1.6	-0.6	-3.5	-3.5	-2.5	...	...	...	...	...	...
Ecuador	0.3	-4.2	-2.1	-1.1	-5.1	-3.0	0.5	-3.6	-0.9	-0.9	-4.3	-1.7
El Salvador	1.8	-1.2	-0.4	-0.6	-3.7	-2.7	-0.8	-3.1	-1.9	-3.2	-5.7	-4.3
Grenada	-3.4	-2.8	0.2	-5.0	-5.0	-1.7	...	...	...	...	...	...
Guatemala	-0.3	-1.7	-1.8	-1.6	-3.1	-3.3	...	...	...	...	...	...
Guyana	-2.1	...	...	-3.8	-3.7	-3.0	...	...	...	...	...	...
Haiti	-1.0	-0.8	-0.1	-1.3	-1.3	-0.6	...	...	...	...	...	...
Honduras ^j	-1.9	-5.5	-3.8	-2.5	-6.2	-4.8	...	...	...	...	...	...
Jamaica	4.9	...	...	-7.4	-11.1	-6.0	...	...	...	...	...	...
Mexico ^k	-0.2	-0.5	-1.2	-1.6	-2.2	-2.7	1.6	-0.4	-1.0	-0.1	-2.3	-2.8
Nicaragua	0.0	-0.9	0.5	-1.2	-2.3	-1.0	0.4	-0.1	0.9	-0.7	-1.4	-0.5
Panama	3.4	1.4	0.1	0.3	-1.5	-2.7	3.6	1.9	0.8	0.4	-1.0	-2.1
Paraguay	3.1	0.7	1.8	2.5	0.1	1.4	4.0	0.6	1.9	3.3	-0.3	1.3
Peru	3.6	-0.4	1.1	2.2	-1.7	0.0	3.6	-0.3	0.6	2.1	-1.6	-0.5
Saint Kitts and Nevis ^m	6.5	6.1	3.0	-0.3	-0.6	-4.2	...	...	...	...	...	...
Saint Vincent and the Grenadines	1.8	-0.0	-0.8	-0.6	-2.6	-3.5	...	...	...	...	...	...
Saint Lucia	2.6	0.8	2.2	0.0	-2.2	-0.6	...	...	...	...	...	...
Suriname	...	...	...	2.3	3.7	-14.7	...	...	...	...	...	...
Trinidad and Tobago	8.8	-3.2	...	7.1	-6.0	...	...	...	...	...	...	...
Uruguay	1.7	1.3	1.2	-1.1	-1.5	-1.1	1.5	1.2	2.0	-1.4	-1.5	-0.4
Venezuela (Bolivarian Republic of)	0.1	-3.7	-2.4	-1.2	-5.1	-3.7	-1.2	-6.7	...	-2.7	-8.2	...

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

^a Preliminary figures.

^b Simple averages of the figures for 33 countries.

^c Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^d Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

^e The central government coverage corresponds to national public administration.

^f The central government coverage corresponds to the non-financial public sector.

^g The central government coverage corresponds to general government.

^h The figures are derived from the primary balance based on the below-the-line criterion and nominal interest.

ⁱ The central government coverage corresponds to the central national government. The central government balance does not include the cost of financial restructuring.

^j The central government coverage corresponds to the central administration.

^k The central government coverage corresponds to the federal government. The coverage of the non-financial public sector corresponds to the public sector.

^l The overall balance includes the residue.

^m The central government coverage corresponds to the federal government.

Table A-35
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL REVENUE
(Percentages of GDP)

	Total revenue			Current revenue			Capital revenue		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America and the Caribbean (33 countries)^b	23.8	23.1	23.0	22.5	22.0	21.7	0.3	0.2	0.3
Latin America (19 countries)^c	19.5	18.4	18.9	18.9	17.9	18.4	0.2	0.2	0.1
Caribbean (13 countries)^d	28.2	28.0	27.5	25.8	26.2	25.2	0.5	0.2	0.3
Antigua and Barbuda	20.7	17.7	21.4	19.8	17.6	19.6	0.1	0.1	0.5
Argentina	19.4	21.0	22.7	19.3	20.8	22.6	0.1	0.2	0.1
Bahamas	16.1	16.7	19.7	16.1	16.7	19.2	0.0	0.0	0.3
Barbados ^e	31.6	31.2	28.4	31.5	31.2	27.8	...	...	...
Belize	29.5	26.1	27.2	26.9	24.5	26.4	0.3	0.4	0.5
Bolivia (Plurinational State of) ^f	32.7	31.3	30.8	31.5	30.1	29.7	0.0	0.1	0.0
Brazil	23.6	23.1	25.0	23.6	23.1	25.0	...	...	...
Chile ^g	25.5	20.4	22.9	25.5	20.3	22.9	0.0	0.1	0.0
Colombia ^h	15.6	15.2	13.7	13.5	12.9	12.3	2.1	2.3	1.4
Costa Rica	15.9	14.1	14.5	15.9	14.1	14.5	0.0	0.0	0.0
Cuba	49.1	48.9	45.2	47.3	47.1	43.3	1.8	1.8	1.9
Dominica	33.2	32.8	32.7	26.9	27.8	27.9	0.0	0.0	0.1
Dominican Republic	15.9	13.7	13.6	15.7	13.5	13.4	0.0	0.0	0.0
Ecuador	25.5	22.3	25.2	25.5	22.3	25.2	0.0	0.0	0.0
El Salvador	15.1	13.8	15.1	14.9	13.4	14.5	0.0	0.0	0.0
Grenada	23.0	21.0	23.9	20.7	19.6	20.1	0.0	0.0	0.0
Guatemala	12.0	11.1	11.3	12.0	11.1	11.3	0.0	0.0	0.0
Guyana	25.4	23.0	23.8	21.1	23.0	23.8	0.1	0.0	0.0
Haiti	10.8	12.1	13.9	10.6	11.7	11.7	0.0	0.0	0.0
Honduras	19.8	17.5	17.4	17.8	15.7	16.0	0.0	0.0	0.0
Jamaica	27.1	27.5	25.5	26.2	26.5	24.4	0.2	0.5	0.3
Mexico	16.8	16.8	15.9	16.8	16.8	15.9	0.0	0.0	0.0
Nicaragua	21.9	21.3	21.7	19.0	18.9	19.7	0.0	0.0	0.0
Panama	19.8	18.5	20.1	18.4	18.2	19.5	1.1	0.2	0.5
Paraguay	17.3	19.6	19.1	16.9	19.2	18.7	0.0	0.4	0.4
Peru	18.1	15.6	17.0	18.0	15.5	16.8	0.1	0.1	0.2
Saint Kitts and Nevis ⁱ	33.4	34.2	32.7	28.6	29.5	28.9	3.3	1.0	0.8
Saint Vincent and the Grenadines	29.0	27.7	25.6	25.8	24.5	24.8	0.8	0.1	0.1
Saint Lucia	26.5	26.7	26.2	25.6	25.8	24.0	0.2	0.0	0.3
Suriname	37.2	49.1	43.0	33.4	43.3	35.8	...	0.0	0.0
Trinidad and Tobago	33.3	30.7	...	33.2	30.7	...	0.0	0.0	...
Uruguay	20.0	20.5	20.7	20.0	20.5	20.7	0.0	0.0	0.0
Venezuela (Bolivarian Republic of)	24.9	21.6	19.0	24.9	21.6	19.0	0.0	0.0	0.0

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

^a Preliminary figures.

^b Simple averages of the figures for 33 countries.

^c Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^d Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

^e Non-financial public sector.

^f General government.

^g Total revenue corresponds to revenue plus sales of physical assets.

^h Total revenue includes special funds and incorporates accrued revenues.

ⁱ Federal government.

Table A-36
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL EXPENDITURE
(Percentages of GDP)

	Total expenditure			Current expenditure			Capital expenditure			Interest		
	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a	2008	2009	2010 ^a
Latin America and the Caribbean (33 countries)^b	25.0	26.7	25.8	19.6	20.9	20.3	5.3	5.3	5.0	2.4	2.2	2.1
Latin America and the Caribbean (19 countries)^c	20.0	21.3	20.9	15.6	16.8	16.3	4.4	4.4	4.6	1.7	1.8	1.6
Caribbean (13 countries)^d	29.9	32.6	31.5	23.5	25.1	24.8	6.4	6.3	5.7	3.5	2.8	2.8
Antigua and Barbuda	26.6	28.3	22.5	20.6	23.1	20.9	6.0	5.2	1.6	2.8	2.8	2.4
Argentina	18.7	21.8	22.9	16.4	19.1	19.8	2.2	2.7	3.1	2.1	2.3	1.6
Bahamas	19.0	19.9	22.0	17.3	17.9	19.0	1.7	2.0	2.9	1.9	2.3	2.7
Barbados ^e	36.7	40.6	36.6	33.1	37.0	34.4	3.6	3.6	2.2	4.9	5.5	5.7
Belize	27.9	29.0	28.8	22.7	24.7	24.3	5.2	4.2	4.5	3.9	3.6	3.4
Bolivia (Plurinational State of) ^f	32.7	32.4	30.9	21.8	20.4	20.9	10.9	12.0	9.9	0.8	1.6	1.5
Brazil	24.8	26.7	25.9	20.1	22.1	19.9	4.7	4.6	6.1	3.6	4.8	3.1
Chile ^g	21.2	24.8	23.4	17.4	20.1	19.2	3.8	4.7	4.2	0.5	0.5	0.5
Colombia ^h	17.9	19.2	17.5	15.7	16.9	15.6	2.2	2.3	1.9	2.9	3.0	2.7
Costa Rica	15.7	17.5	19.8	13.5	15.7	17.4	2.2	1.8	2.4	2.2	2.1	2.1
Cuba	56.0	53.8	48.7	45.1	42.8	40.8	8.1	8.2	5.1	1.4	1.1	1.3
Dominica	35.8	34.9	31.3	23.6	22.9	24.3	12.2	12.0	7.0	2.0	1.1	1.7
Dominican Republic	19.5	16.9	16.3	14.4	13.3	12.5	5.1	3.6	3.8	1.6	1.9	1.9
Ecuador	26.5	27.3	28.2	15.6	17.2	17.1	10.9	10.2	11.1	1.4	0.9	1.0
El Salvador	15.8	17.6	17.9	13.0	14.7	14.7	2.8	2.9	3.2	2.4	2.5	2.3
Grenada	28.0	26.0	25.6	18.5	20.3	19.9	9.5	5.7	5.7	1.6	2.2	1.9
Guatemala	13.6	14.2	14.6	9.2	10.1	10.4	4.5	4.1	4.1	1.4	1.4	1.5
Guyana	29.2	30.8	29.4	20.0	19.5	19.1	9.2	11.4	10.3	1.7	1.6	1.7
Haiti	12.1	13.3	14.5	9.7	12.6	10.2	2.4	0.7	4.3	0.3	0.5	0.4
Honduras	22.4	23.8	22.2	17.5	19.2	18.4	4.8	5.3	3.8	0.6	0.8	1.0
Jamaica	34.5	38.6	31.6	30.5	18.6	16.9	4.1	4.0	3.3	12.3	0.4	0.3
Mexico ⁱ	18.4	19.0	18.6	14.9	16.4	16.1	3.5	2.6	2.6	1.4	1.7	1.5
Nicaragua	23.1	23.6	22.7	17.4	18.3	17.5	5.7	5.3	5.2	1.2	1.4	1.4
Panama	19.5	20.0	22.8	13.9	13.6	14.8	5.6	6.4	7.9	3.1	2.9	2.8
Paraguay	14.8	19.6	17.8	12.2	15.0	14.0	2.7	4.6	3.8	0.6	0.6	0.4
Peru	15.9	17.3	17.0	13.6	13.6	12.7	2.4	3.7	4.3	1.4	1.2	1.1
Saint Kitts and Nevis ^j	33.7	34.8	36.9	28.3	29.6	29.8	5.4	5.2	7.1	6.8	6.7	7.1
Saint Vincent and the Grenadines	29.6	30.3	29.1	22.7	24.7	25.2	6.9	5.6	3.9	2.5	2.6	2.7
Saint Lucia	26.5	28.9	26.9	20.6	22.2	22.4	5.9	6.7	4.5	2.6	3.0	2.9
Suriname	34.9	45.4	57.6	27.6	35.2	41.4	7.4	10.1	15.9	1.0	1.5	1.3
Trinidad and Tobago	26.2	36.7	...	20.5	30.3	...	5.7	6.4	...	1.7	2.8	...
Uruguay	21.1	22.0	21.9	19.3	20.4	20.2	1.8	1.6	1.7	2.8	2.8	2.4
Venezuela (Bolivarian Republic of) ^k	26.1	26.7	22.7	20.0	20.8	18.3	5.8	5.5	4.0	1.3	1.3	1.3

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

^a Preliminary figures.

^b Simple averages of the figures for 33 countries.

^c Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^d Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

^e Non-financial public sector.

^f General government.

^g Total expenditure refers to expenditure plus investment, capital transfers and fixed capital consumption.

^h Includes accrued expenditure and floating debt.

ⁱ Current expenditure, capital expenditure and interest correspond to federal government expenditure.

^j Federal government.

^k Total expenditure includes extrabudgetary.

Table A-37
**LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX BURDEN
INCLUDING SOCIAL SECURITY CONTRIBUTIONS**
(Percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean (33 countries)^b	16.1	16.4	16.9	17.5	18.0	19.2	18.8	18.8	18.7
Latin America (19 countries)^c	14.4	14.5	14.9	15.6	16.2	16.7	16.6	16.4	16.6
Caribbean (13 countries)^d	17.8	18.2	19.3	19.3	19.8	22.1	21.7	22.1	21.8
Antigua and Barbuda ^e	15.7	16.4	17.1	16.5	18.1	19.4	18.6	16.9	17.6
Argentina	11.7	13.7	15.4	15.8	16.0	17.2	18.1	18.2	19.9
Bahamas ^e	11.7	12.0	13.0	14.2	15.1	15.2	13.7	14.2	17.4
Barbados ^e	26.8	28.3	28.3	25.6	28.0	28.6	29.8	28.3	26.5
Belize ^e	19.0	18.7	19.8	20.5	21.2	22.6	22.7	21.6	23.0
Bolivia (Plurinational State of) ^f	17.3	17.2	19.2	20.6	20.0	20.6	21.7	22.6	17.5
Brazil	22.1	21.6	22.2	23.4	23.4	24.0	24.0	23.1	25.0
Chile	18.0	17.3	17.0	18.3	18.3	20.2	19.9	16.3	18.3
Colombia	13.2	13.6	14.3	14.7	15.6	15.7	15.4	14.9	14.3
Costa Rica	13.2	13.3	13.3	13.6	14.0	15.2	15.6	13.8	13.6
Cuba	26.6	26.9	23.3	28.7	30.0	27.7	23.3	21.2	18.2
Dominica ^e	18.0	19.2	20.4	23.1	23.3	24.9	24.5	25.5	26.0
Dominican Republic	13.0	12.0	12.8	14.6	15.0	16.0	15.0	13.1	12.7
Ecuador	14.2	13.0	12.8	13.1	13.9	14.4	16.0	17.9	19.7
El Salvador	13.0	13.3	13.3	14.1	15.1	15.2	15.1	14.3	15.3
Grenada ^e	18.0	18.8	17.4	18.3	19.0	19.7	19.4	18.5	18.9
Guatemala	12.2	11.9	11.8	11.5	12.1	12.3	11.5	10.6	10.8
Guyana ^e	0.0	0.0	0.0	0.0	0.0	22.0	20.2	21.6	22.2
Haiti ^e	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7	11.8
Honduras	15.4	15.5	15.5	15.7	16.2	17.6	16.4	15.8	15.7
Jamaica ^e	22.0	24.2	24.3	23.4	24.0	24.6	24.2	26.7	25.5
Mexico	12.5	12.1	10.8	10.6	10.3	10.5	9.8	11.1	11.3
Nicaragua	16.8	19.0	19.3	20.3	21.6	22.2	21.6	22.0	23.2
Panama	14.8	14.6	14.4	14.3	15.7	16.4	16.6	17.1	18.4
Paraguay	11.2	11.3	12.9	13.0	13.1	12.6	13.0	14.5	14.8
Peru	13.8	14.6	14.7	15.1	16.8	17.1	17.2	15.2	16.3
Saint Kitts and Nevis ^e	18.1	20.0	22.1	24.9	23.5	22.9	22.2	21.7	19.5
Saint Vincent and the Grenadines ^e	21.8	20.9	20.6	20.7	21.9	21.8	23.6	22.7	21.6
Saint Lucia ^e	21.6	21.1	22.1	22.7	22.7	23.0	23.8	24.3	22.5
Suriname ^e	23.4	24.4	31.8	26.7	27.5	30.0	25.7	30.6	25.8
Trinidad and Tobago ^{e,g}	15.8	13.4	14.0	13.8	13.3	12.6	13.6	15.1	16.4
Uruguay	21.5	21.4	21.6	22.6	23.7	23.4	24.2	25.2	25.4
Venezuela (Bolivarian Republic of)	11.2	11.9	13.3	15.9	16.4	16.8	14.3	14.5	11.5

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

^a Preliminary figures.

^b Simple averages of the figures for 33 countries.

^c Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^d Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

^e Does not include social security contributions.

^f General government.

^g Corresponds to non-petroleum sector.

Table A-38
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX BURDEN AND COMPOSITION OF TAX REVENUES
(Percentages of GDP)

	Total		Social security contributions		Direct taxes		Income tax and capital gains tax		Property tax		Other direct taxes	
	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a
Latin America and the Caribbean (33 countries)^b	18.8	18.7	2.7	2.7	6.2	6.1	5.6	5.0	0.5	0.5	0.1	0.1
Latin America (19 countries)^c	16.4	16.6	2.6	2.6	5.2	4.8	4.7	4.4	0.5	0.4	0.0	0.0
Caribbean (13 countries)^d	22.1	21.8	2.9	2.5	7.9	8.2	7.3	6.1	0.5	0.5	0.1	0.1
Antigua and Barbuda ^e	16.9	17.6	...	...	3.3	3.4	2.9	2.8	0.4	0.5	0.0	0.0
Argentina	18.2	19.9	5.7	6.1	4.2	4.5	2.6	2.8	1.7	1.7	0.0	0.0
Bahamas ^e	14.2	17.4	...	...	1.4	1.8	0.0	0.0	1.4	1.8	0.0	0.0
Barbados ^e	28.3	26.5	2.9	2.5	13.2	10.7	10.6	8.5	1.5	1.4	1.1	0.8
Belize ^e	21.6	23.0	...	...	7.8	8.7	7.6	8.5	0.2	0.2	0.0	0.0
Bolivia (Plurinational State of) ^f	22.6	17.5	1.8	1.8	7.4	4.8	6.2	4.5	1.2	0.3	0.0	0.0
Brazil	23.1	25.0	8.1	5.8	8.6	...	7.4	...	0.6	...	0.6	...
Chile	16.3	18.3	1.5	1.3	5.0	7.0	5.0	7.0	...	...	0.0	0.0
Colombia	14.9	14.3	2.0	2.1	6.5	5.7	5.5	4.8	1.0	0.9	0.0	0.0
Costa Rica	13.8	13.6	0.3	0.3	4.8	4.6	4.1	4.0	0.7	0.6	0.0	0.0
Cuba	21.2	18.2	4.5	4.6	2.8	3.3	2.4	2.9	...	...	0.4	0.5
Dominica ^e	25.5	26.0	...	...	5.2	5.6	4.4	5.0	0.7	0.7	0.0	0.0
Ecuador	17.9	19.7	3.9	4.6	5.1	4.5	4.8	4.2	0.2	0.3	0.0	0.0
El Salvador	14.3	15.3	1.7	1.7	4.7	4.8	4.6	4.7	0.1	0.1	0.0	0.0
Grenada ^e	18.5	18.9	...	...	5.2	4.6	4.2	3.8	0.9	0.8	0.0	0.0
Guatemala	10.6	10.8	0.3	0.3	3.2	3.1	3.2	3.1	0.0	0.0	0.0	0.0
Guyana ^e	21.6	22.2	...	...	8.4	8.7	8.1	8.7	0.3	0.4	0.0	0.0
Haiti ^e	11.7	11.8	0.0	0.0	2.0	2.2	2.0	2.2	0.0	0.0	0.0	0.0
Honduras	15.8	15.7	1.2	1.1	4.8	4.6	4.7	4.4	0.1	0.2	0.0	0.0
Jamaica ^e	26.7	25.5	...	...	10.9	22.7	10.9	8.5	0.0	0.0	0.0	0.0
Mexico	11.1	11.3	1.6	1.6	5.2	5.4	4.9	5.2	0.3	0.2	0.0	0.0
Nicaragua	22.0	23.2	4.4	4.9	6.2	6.1	6.2	6.0	0.0	0.1	0.0	0.0
Panama	17.1	18.4	5.7	6.0	6.1	6.1	5.3	5.3	0.5	0.6	0.2	0.2
Paraguay	14.5	14.8	1.4	1.3	3.1	0.0	3.1	2.5	0.0	0.0	0.0	0.0
Peru	15.2	16.3	1.8	1.8	5.9	6.4	5.6	6.2	0.2	0.2	0.0	0.0
Dominican Republic	13.1	12.7	0.1	0.1	4.1	3.6	3.2	2.8	0.9	0.8	0.0	0.0
Saint Kitts and Nevis ^e	21.7	19.5	...	...	8.6	5.8	8.1	5.3	0.5	0.5	0.0	0.0
Saint Vincent and the Grenadines ^e	22.7	21.6	...	...	6.0	5.9	5.9	5.7	0.1	0.2	0.0	0.0
Saint Lucia ^e	24.3	22.5	...	...	7.7	7.0	7.6	6.9	0.1	0.1	0.0	0.0
Suriname ^e	30.6	25.8	...	...	16.1	12.6	15.7	...	0.0	...	0.5	...
Trinidad and Tobago ^{e,g}	15.1	16.4	...	...	8.5	9.3	8.4	9.1	0.1	0.0	0.0	0.0
Uruguay	25.2	25.4	7.1	7.3	6.3	6.3	5.0	5.1	1.3	1.2	0.0	0.0
Venezuela (Bolivarian Republic of)	14.5	11.5	1.0	0.5	5.6	3.7	5.6	3.6	0.0	0.0	0.0	0.0

Table A-38 (concluded)

	Indirect taxes		General goods and services taxes		Specific goods and services taxes		Tax on trade and International transactions		Other indirect taxes		Other taxes	
	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a	2009	2010 ^a
Latin America and the Caribbean (33 countries)	10.7	10.9	6.1	6.2	1.7	1.5	2.6	2.9	0.3	0.3	0.3	0.3
Latin America (19 countries)	8.3	8.6	5.5	5.7	1.6	1.6	1.2	1.3	0.0	0.0	0.3	0.3
Caribbean (13 countries)	14.0	14.4	6.7	7.2	1.9	1.4	5.0	5.6	0.8	0.8	0.2	0.3
Antigua and Barbuda	13.6	14.3	7.3	6.8	0.0	0.0	5.4	6.5	0.9	1.0	0.0	0.0
Argentina	7.6	8.6	3.7	4.0	0.8	0.8	3.1	3.8	0.0	0.0	0.6	0.6
Bahamas	9.9	12.6	0.0	0.0	1.8	2.1	8.2	10.4	0.0	0.0	2.9	3.1
Barbados	15.1	15.8	...	...	0.0	0.0	2.4	2.3	2.0	2.4	0.0	0.0
Belize	13.8	14.2	...	...	7.9	8.4	5.9	5.8	...	...	0.0	0.0
Bolivia (Plurinational State of) ^f	12.5	12.3	9.1	9.0	2.4	2.2	1.0	1.1	0.0	0.0	0.9	0.4
Brazil	6.2	6.7	4.6	4.9	1.0	1.2	0.5	0.6	0.0	0.0	0.3	0.3
Chile	9.4	9.9	7.8	8.1	1.4	1.5	0.2	0.3	0.0	0.0	0.4	0.0
Colombia	6.1	6.4	5.1	5.3	0.3	0.3	0.8	0.8	0.0	0.0	0.1	0.1
Costa Rica	8.6	8.5	5.0	4.9	2.8	2.8	0.9	0.9	0.0	0.0	0.0	0.1
Cuba	13.1	9.0	11.9	7.7	1.2	1.3	0.0	0.0	0.0	0.0	0.9	1.2
Dominica	20.3	20.4	14.8	14.6	0.0	0.0	5.5	5.8	0.0	0.0	0.0	0.0
Ecuador	8.9	9.4	5.8	6.4	0.9	1.0	2.2	2.1	0.0	0.0	0.0	1.3
El Salvador	7.5	8.4	6.1	6.8	0.8	0.9	0.7	0.7	0.0	0.0	0.4	0.5
Grenada	13.3	14.3	6.8	4.3	0.8	0.7	5.5	9.2	0.2	0.2	0.0	0.0
Guatemala	7.0	7.2	4.9	5.1	1.1	1.1	0.8	0.8	0.2	0.2	0.2	0.2
Guyana	13.0	12.8	5.6	10.7	5.2	0.4	2.0	2.1	0.2	...	0.2	...
Haiti	7.5	8.0	3.4	3.2	0.7	0.5	3.4	4.3	0.0	0.0	2.2	1.5
Honduras	9.8	9.9	5.4	5.5	3.6	3.6	0.8	0.8	0.0	0.0	0.0	0.0
Jamaica	15.8	17.0	4.3	...	0.8	...	8.2	7.6	2.5	...	0.0	0.0
Mexico	4.1	4.1	3.4	3.9	0.5	0.1	0.3	0.2	0.0	0.0	0.2	0.2
Nicaragua	11.3	12.2	7.1	7.4	3.5	4.0	0.8	0.9	0.0	0.0	0.0	0.0
Panama	5.1	6.2	2.3	3.1	1.2	1.5	1.6	1.6	0.0	0.0	0.2	0.2
Paraguay	9.8	10.9	6.3	7.0	2.1	2.1	1.4	1.8	0.0	0.0	0.1	0.1
Peru	7.3	7.9	5.7	6.2	1.1	1.1	0.4	0.4	0.2	0.2	0.2	0.2
Dominican Republic	9.0	9.0	4.2	4.3	3.5	3.4	1.3	1.2	0.0	0.0	0.0	0.0
Saint Kitts and Nevis	13.1	13.7	5.6	6.0	0.8	0.8	4.9	5.2	1.8	1.7	0.0	0.0
Saint Vincent and the Grenadines	16.7	15.7	11.1	10.5	0.0	0.0	4.5	4.0	1.0	1.2	0.0	0.0
Saint Lucia	16.5	15.5	7.8	6.3	1.5	1.8	6.6	7.0	0.7	0.5	0.0	0.0
Suriname	14.5	13.2	5.3	...	5.3	...	3.9	...	0.0	...	0.0	...
Trinidad and Tobago ^g	6.7	7.1	4.6	5.7	0.7	...	1.5	1.4	0.0	0.0	0.0	0.0
Uruguay	11.3	11.4	8.5	8.4	1.8	2.0	1.0	1.0	0.0	0.0	0.5	0.4
Venezuela (Bolivarian Republic of)	7.9	7.3	5.9	5.5	1.1	0.9	0.9	0.8	0.0	0.0	0.0	0.0

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

^a Preliminary figures.

^b Simple averages of the figures for 33 countries.

^c Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

^d Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

^e Does not include social security contributions.

^f General government.

^g Corresponds to non-petroleum sector.

Table A-39
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT GROSS PUBLIC DEBT
(Percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean^b	58.2	57.4	51.0	42.9	35.9	30.0	28.6	30.0	29.5
Argentina ^c	145.9	138.2	126.4	72.8	63.6	55.7	48.5	48.5	45.1
Bolivia (Plurinational State of) ^d	77.4	86.7	81.1	75.4	49.6	37.1	34.0	34.5	34.5
Brazil ^e	37.9	34.0	31.0	30.9	31.0	30.7	24.0	29.3	27.6
Chile ^f	15.7	13.0	10.7	7.3	5.3	4.1	5.2	6.2	9.2
Colombia ^g	41.7	42.6	38.9	39.1	37.5	32.9	33.2	34.7	34.7
Costa Rica	43.6	41.3	41.0	37.5	33.3	27.6	24.9	27.5	29.6
Dominican Republic	...	...	...	22.0	20.4	18.4	24.4	28.0	28.2
Ecuador	50.7	46.2	40.8	36.1	29.5	27.7	22.9	18.2	22.4
El Salvador ^d	35.2	37.2	38.1	37.5	37.7	34.9	34.4	42.6	43.0
Guatemala ^d	18.4	20.9	21.4	20.8	21.7	21.3	20.1	23.0	24.2
Haiti ^h	60.2	57.5	46.7	44.1	36.2	33.6	42.3	34.4	20.5
Honduras	55.5	60.7	59.6	44.7	28.7	17.4	20.1	24.5	30.0
Mexico ⁱ	21.9	22.1	20.7	20.3	20.6	20.9	24.4	28.1	27.5
Nicaragua	133.7	137.7	100.6	92.6	69.5	42.7	38.2	43.6	44.5
Panama ^j	69.0	66.6	69.6	65.1	60.3	52.3	44.8	44.9	46.0
Paraguay	59.2	46.5	40.5	34.3	26.0	18.6	15.9	16.1	15.5
Peru	43.2	43.4	40.1	36.9	30.1	26.2	24.1	23.4	21.3
Uruguay	96.2	91.9	72.7	65.4	57.8	49.0	47.7	43.6	38.7
Venezuela (Bolivarian Republic of) ^k	42.4	46.3	38.1	32.8	24.1	19.1	14.2	18.4	18.4

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

^a Preliminary figures.

^b Simple averages.

^c National public administration. As from 2005, does not include debt not presented for swap.

^d Does not include publicly guaranteed private debt.

^e Net public debt. Federal government and central bank.

^f Consolidated.

^g Central national government.

^h Does not include public sector commitments to commercial banks.

ⁱ Federal government.

^j Does not include domestic floating debt.

^k Non-financial public sector.

Table A-40
LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR GROSS PUBLIC DEBT
(Percentages of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Latin America and the Caribbean^b	65.0	62.8	56.0	47.8	40.7	33.6	32.1	33.6	32.7
Argentina ^c	184.4	156.9	143.3	87.6	76.3	66.7	57.8	57.7	52.0
Bolivia (Plurinational State of) ^d	80.2	89.5	83.9	78.1	52.4	40.0	36.8	37.6	38.1
Brazil ^e	60.6	54.9	50.6	38.5	47.0	45.1	38.5	42.8	40.7
Chile ^f	22.1	19.5	16.8	13.0	10.6	9.1	12.0	12.9	15.8
Colombia ^g	58.6	56.6	51.6	50.1	47.4	43.8	42.6	44.8	45.8
Costa Rica	45.1	45.6	46.9	42.9	38.4	31.8	29.9	34.1	36.2
Dominican Republic ^h	...	...	...	...	...	19.0	25.3	28.6	29.2
Ecuador ^d	54.7	49.5	43.7	38.9	32.0	30.2	25.0	19.6	23.5
El Salvador ^d	38.6	40.3	40.5	39.7	39.9	37.0	36.9	45.2	45.6
Guatemala ^d	19.6	22.0	22.4	21.5	21.9	21.6	20.4	23.3	23.7
Haiti ⁱ	66.5	63.5	51.1	47.5	38.7	35.9	44.5	35.0	20.9
Honduras	55.1	59.9	59.4	44.8	30.0	18.3	19.0	22.9	25.4
Mexico ^j	25.7	26.1	24.2	22.9	22.6	22.7	26.9	34.9	34.0
Nicaragua	134.1	138.0	100.7	92.8	70.0	43.5	39.3	44.8	45.6
Panama	69.4	67.0	70.4	66.2	61.0	52.9	45.4	45.6	46.7
Paraguay	64.0	49.8	45.2	36.5	27.6	22.2	19.2	18.8	16.3
Peru ^k	45.7	47.4	41.8	38.2	31.3	27.2	24.5	23.8	21.7
Uruguay	103.3	97.9	76.9	68.6	61.1	52.2	51.1	47.7	42.6
Venezuela (Bolivarian Republic of)	42.4	46.3	38.1	32.8	24.1	19.1	14.2	18.4	18.4

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

^a Preliminary figures.

^b Simple averages.

^c Consolidated figures. In 2002 the figure refer to national public-sector debt plus provincial debt.

^d Refers to the external debt of the non-financial public-sector and central-government domestic debt.

^e Net public debt. Public sector.

^f Consolidated.

^g Consolidated non-financial public sector.

^h Public sector.

ⁱ Does not include public sector commitments to commercial banks.

^j Includes public sector external debt and federal government domestic debt.

^k Includes local and regional government debt owed to Banco de la Nación.

Table A-41
LATIN AMERICA AND THE CARIBBEAN: SUBNATIONAL GOVERNMENT FISCAL INDICATORS
(Percentages of GDP)

		2002	2003	2004	2005	2006	2007	2008	2009 ^a
Argentina	Provinces								
	Total revenue	10.4	11.3	12.8	13.4	13.5	13.9	13.9	14.6
	Total expenditure	10.9	10.9	11.8	13.1	13.4	14.0	14.4	15.6
	Primary balance	-0.0	0.9	1.4	0.7	0.5	0.2	-0.3	-0.7
	Overall balance	-0.5	0.4	1.0	0.3	0.1	-0.1	-0.5	-1.0
	Public debt	21.9	18.8	16.8	14.8	12.8	9.2	9.2	7.0
Bolivia (Plurinational State of)	Regional governments								
	Total revenue	8.2	7.7	8.5	10.2	12.1	12.3	11.3	10.8
	Total expenditure	7.9	7.3	8.0	8.1	10.2	11.2	10.8	11.6
	Primary balance	0.5	0.6	0.7	2.3	2.1	1.3	0.7	-0.6
	Overall balance	0.3	0.4	0.6	2.1	1.9	1.1	0.5	-0.8
	Public debt	1.1	1.2	1.5	1.5	1.2	1.1	1.0	1.1
Brazil	States								
	Total revenue	12.8	12.3	12.3	12.8	12.9	12.9	13.8	14.0
	Total expenditure	12.7	12.0	11.9	12.3	12.5	12.2	13.0	14.0
	Primary balance ^b	0.3	0.6	0.7	0.7	0.6	0.9	0.9	0.2
	Overall balance ^b	-0.4	-0.1	0.1	0.0	-0.1	0.4	0.4	-0.3
	Public debt ^c	19.8	18.6	18.1	16.3	15.4	13.7	12.8	12.4
Chile	Municipalities								
	Total revenue	3.3	3.1	2.7	2.9	2.7	2.7	2.9	2.7
	Total expenditure	3.3	3.1	2.8	2.8	2.5	2.6	2.8	2.6
	Primary balance	0.0	0.0	-0.0	0.2	0.2	0.1	0.0	0.1
	Overall balance	0.0	0.0	-0.0	0.2	0.2	0.1	0.0	0.1
Colombia	Departments and municipalities								
	Total revenue	7.5	8.0	7.9	8.2	8.1	8.1	8.1	8.9
	Total expenditure	7.4	7.7	7.3	7.9	8.3	8.6	7.8	8.7
	Primary balance	0.4	0.5	0.9	0.5	-0.0	-0.3	0.5	0.4
	Overall balance	0.1	0.3	0.6	0.3	-0.2	-0.5	0.3	0.2
	Public debt	3.1	2.4	1.8	1.7	1.5	1.4	1.5	1.7
Costa Rica	Local governments								
	Total revenue	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0
	Total expenditure	0.8	0.8	0.8	0.8	0.8	0.9	1.1	1.1
	Primary balance	0.1	0.1	0.0	-0.0	0.1	0.0	-0.2	-0.2
	Overall balance	0.0	0.1	-0.0	-0.1	0.0	-0.0	-0.2	-0.2
Cuba	Local governments								
	Total revenue	17.3	17.5	17.9	20.8	21.3	21.3	23.4	25.5
	Total expenditure	17.3	17.5	17.9	20.8	21.3	21.3	23.4	25.5
	Primary balance	...	...	...	...	...	...	...	...
	Overall balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador	Provincial councils and municipalities								
	Total revenue	4.0	3.7	4.3	4.0	4.1	7.0	3.7	2.4
	Total expenditure	3.8	3.4	4.2	3.7	4.1	4.5	4.4	4.1
	Primary balance	0.2	0.3	0.1	0.3	0.1	2.6	-0.7	-1.6
	Overall balance	0.2	0.3	0.1	0.3	0.0	2.5	-0.7	-1.7
Mexico	State governments and federal district								
	Total revenue	7.7	8.0	7.8	8.2	8.4	8.4	9.3	10.0
	Total expenditure	7.9	7.9	7.6	8.0	8.2	8.2	8.9	10.0
	Primary balance	-0.1	0.1	0.2	0.2	0.3	0.2	0.6	0.1
	Overall balance	-0.2	0.0	0.1	0.1	0.2	0.1	0.5	-0.0
	Public debt ^d	1.7	1.6	1.5	1.6	1.5	2.0	2.4	2.7
Paraguay	Provincial governments								
	Total revenue	0.3	0.3	0.5	0.5	0.5	0.5	0.4	...
	Total expenditure	0.2	0.3	0.5	0.5	0.5	0.4	0.3	...
	Primary balance	0.0	0.0	0.0	0.0	0.0	0.1	0.1	...
	Overall balance	0.0	0.0	0.0	0.0	0.0	0.1	0.1	...
Peru	Local governments								
	Total revenue	2.1	2.2	2.3	2.5	2.7	3.7	3.6	3.6
	Total expenditure	2.0	2.1	2.2	2.2	2.6	2.6	3.6	4.0
	Primary balance	0.1	0.2	0.1	0.3	0.1	1.1	0.0	-0.4
	Overall balance	0.1	0.1	0.1	0.3	0.1	1.1	0.0	-0.4

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

^a Preliminary figures.

^b The primary and overall balances do not include financial resources (credit operations and disposal of assets).

^c Includes states and municipalities.

^d Includes federal and municipal entities.



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