LATIN AMERICA

Argentina

The Argentine economy rallied strongly in 2003. GDP grew by 7.3%, reversing much of the sharp fall (10.8%) recorded in 2002. Investment was the most dynamic component of domestic demand and the unemployment rate declined, even though the social situation remained a cause for concern. The balance-of-payments current account position was once again very positive, with exports being buoyed by stronger international prices and imports picking up considerably from the low levels observed the preceding year. Private capital outflows were lower than the year before, and the central bank was able to build up its reserves. The annual variation in the consumer price index (CPI) was below 4%. Tax revenues were sharply higher, helping to expand the public sector's primary surplus in line with projected levels. The government succeeded in signing agreements with IMF and normalizing its relations with multilateral agencies. The public debt issued since 2002 has been serviced and the remainder of the government's securitized debt now has to be restructured. The authorities have announced their intention to consolidate MERCOSUR as a partnership and as an instrument for interregional negotiation (trade negotiations within the framework of the Free Trade Area of the Americas (FTAA), with the European Union and with the member countries of the Andean Pact). In general terms and barring any unexpected disruptions, no significant changes are anticipated in the country's economic performance in the near future.

Argentina's relationship with IMF has had its ups and downs. In the early days of the year, the absence of any agreement with the Fund generated a tense situation; in fact, multilateral agencies did not refinance maturing loans, and the country then defaulted on those credits. In January, Argentina signed a provisional agreement covering the period up to the end of August which provided for loan rollovers. Once this period elapsed, it negotiated a three-year programme with the Fund, which was signed in September. The size of the primary surpluses to be attained in the years to come and policies on public services were some of the controversial issues to be addressed. The government has not authorized rate increases, which are henceforth subject to the review and renegotiation of contracts with the supplier companies.

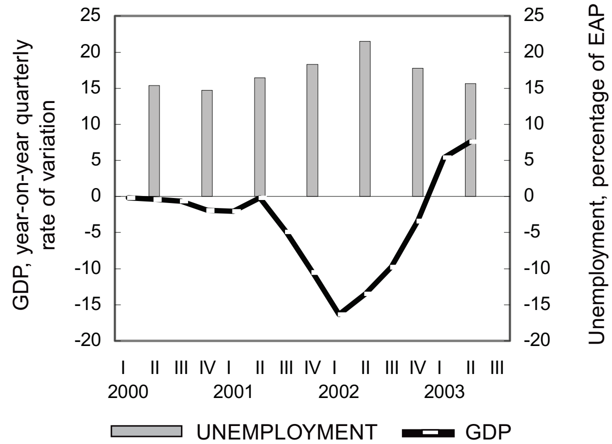
The government's proposal for restructuring its outstanding debt (US$ 60 billion) was based on a hypothetical future primary surplus equivalent to 3% of GDP and on the assumption that its liabilities with multilateral agencies would remain constant in terms of principal and interest rates. Debt issued since the end of 2001 was to be excluded from the restructuring under the proposal. Reductions in face value or interest were offered as options, and consideration was given to the possibility of issuing bonds whose payments would be indexed to GDP growth. Creditors were reluctant to negotiate on the basis of this proposal, however.

In 2003, the consolidated public-sector primary surplus amounted to the scheduled level of 2.5% of GDP. Government tax receipts increased by 45% in the first 10 months of the year compared with the same period of 2002, with taxes on foreign trade accounting for 16% of the total. Profit and personal property taxes were also up sharply (84%). The rise in value added tax (VAT) receipts, which at 36% outstripped nominal GDP growth, suggests a higher degree of compliance. Taxes earmarked for social security climbed at a slower rate (17%). Central government primary expenditure increased by almost 30% in the first nine months (17.5% of GDP, in comparison to 16.8% in 2002). Staff and social security expenditure went up following a judicial decision rescinding the reductions in wages at the higher end of the pay scale that had been introduced in 2001. The increase in transfers (41%) was consistent with a better distribution of taxes within the framework of a tax-sharing regime between the federal government and the provinces and with social welfare plan payments.

Total public debt, including arrears, is estimated to have stood at US$ 185 billion, a figure equivalent to 140% of annual GDP. Of this total, US$ 31 billion corresponded to multilateral agency loans, US$ 28 billion represented loans from local financial entities arising from bond swaps conducted in 2001 and US$ 10 billion was in the form of provincial debts guaranteed by the national government. The debt issued since early 2002 in order to compensate depositors and banks for the effect of the conversion of their deposits and loans to pesos stands at around US$ 20 billion.

The greater demand for real money balances continued in 2003. In October, the year-on-year growth

ARGENTINA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

rate of broad money, which includes quasi-monies, exceeded 40%. Primary money creation was mainly a reflection of purchases made by the central bank on the foreign exchange market (close to US$ 5.4 billion in the 12-month period ending in October) and was sterilized in part by issues of central bank bills (LEBAC). The yields offered on 90-day securities declined from a nominal annual rate of 11% at the end of 2002 to 3% in October 2003, which reflected lower expectations of inflation and devaluation. Money in the hands of private individuals (including quasi-monies) expanded by almost 35% between October 2002 and October 2003. The greater demand for money implied a willingness by individuals to hold liquid assets in pesos. The increase in currency outside banks as a percentage of M1 was probably a consequence of the tax on bank credits and debits and the scale of the informal economy.

Certificates of deposit issued as a result of the rescheduling of time deposits that took place the preceding year decreased from 23 billion pesos at the end of 2002 to 6 billion in October 2003. The difference reflects the decision taken by a group of depositors to forgo the option of accepting funds in pesos and to pursue judicial proceedings demanding a refund in dollars. In the same period, voluntarily constituted time deposits increased from 13.7 billion to 31.4 billion pesos. However, demand for time deposits has remained significantly below pre-crisis levels. The Supreme Court has ruled that the deposits that were converted into pesos in 2002 ("pesification") should be returned in dollars. The government has offered the bearers of these certificates a bond to cover the difference between the value of the asset and the dollar amount of the original deposit.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-4.4	-10.8	7.3
Consumer prices	-1.5	41.0	3.6[b]
Real wages[c]	-0.6	-13.9	-2.0[d]
Money (M1)	-13.0	37.4	48.8
Real effective exchange rate[e]	-1.9	137.7	-8.6[f]
Terms of trade	-0.6	-1.0	8.6
Annual average percentages			
Urban unemployment rate	17.4	19.7	15.6[g]
Central government fiscal balance/GDP	-3.8	-0.3	-0.2
Real deposit rate	18.3	1.5	9.0[h]
Real lending rate	28.8	29.7	18.9[h]
Millions of dollars			
Exports of goods (f.o.b.) and services	30 846	28 643	32 770
Imports of goods (f.o.b.) and services	27 360	13 010	17 305
Current account	-4 429	9 590	8 994
Capital and financial account	-17 030	-25 208	-16 216
Overall balance	-21 459	-15 618	-7 222

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Manufacturing.
[d] Estimate based on the average from January to September.
[e] A negative rate signifies an appreciation of the currency in real terms.
[f] Variation from December 2002 to October 2003.
[g] May.
[h] Average from November 2002 to October 2003, annualized.

Banking operations took place within the framework of a high level of liquidity. The deposit rate decreased from an annual rate of 23% in December 2002 to 4.5% in October 2003.[1] Lending rates also fell, but the volume of loans to the private sector contracted by 16.4% in nominal terms in the period from October 2002 to October 2003.

Domestic demand showed a significant upturn. In fact, private consumption expanded, while the domestic saving rate was higher than its pre-crisis level and fixed investment was close to 13.5% of GDP (11.3% in 2002 and 15.8% in 2001). Investment in machinery and equipment rallied considerably, driven by demand in the agriculture sector and some branches of industry. Construction rebounded despite the absence of mortgage credit, and this was reflected in higher sales and rising real estate prices.

Activity in the goods production sectors picked up more strongly than total GDP. For the first few months of 2003, the industrial production index was 28% higher than in the same period of the preceding year. The 2002-2003 grain harvest yielded a record 70 million tons, while a strong expansion in the cultivation of soybeans was a particularly conspicuous trend during this period. Textiles and engineering products other than motor vehicles were also buoyant; the upturn in these industries is all the more noticeable because its starting point is provided by the very low levels recorded when the devaluation had pushed up the cost of imports. Construction materials, chemicals and basic metal products experienced an upswing that had them operating at close to the limit of their capacity. Food and motor vehicle production also recorded increases, albeit slight ones.

Prices did not reflect the upturn in domestic spending. The increase in the CPI in the 12-month period ending in November 2003 was 3.6%, and relative domestic prices showed a moderate increase. The appreciation of the currency implied a decrease in the real exchange rate, which, in any event, remained at historically high levels.

The unemployment rate (15.6% in May) was down sharply from its 2002 high, when it stood at 21.5%. This decline was due to a considerable rise in employment, which exceeded the increase in the labour force participation rate, owing in part to the assistance programme that has been set up for male and female heads of household, which benefits approximately 2 million people. Employment rose significantly in the manufacturing sector (by slightly more than 6% between the third quarters of 2003 and 2002) and in commerce, while it declined in financial services. In any case, labour informality remained very high. Real wages in the private sector recovered slightly thanks to the lump-sum increases decreed by the authorities.

The current account registered a surplus of close to 7.6% of GDP. The trade balance (f.o.b.) exceeded US$ 16 billion, since the increase in imports was largely offset by the higher value of exports. Owing, for the most part, to the higher profits and dividends of foreign companies, the financial services deficit (which includes total interest due) widened. The current account surplus was partly counterbalanced by capital outflows, and there was a build-up in international reserves.

1 On 30-day time deposits.

The private sector again recorded a net capital outflow, which, although significant, was much lower than that of 2002, while the public sector's arrears in external markets accumulated. International financial institutions refinanced most of the maturities corresponding to principal, but not interest.

Exports grew by 14%, largely as a result of price rises (8.6%). The expansion was based on soybeans and its by-products, which accounted for more than half of the total year-on-year increase recorded in the first nine months of 2003. Other commodity exports were also higher in value terms, including cereals, meats, fruits and fishery products. Industrial exports declined owing to slacker demand from Brazil. In fact, exports to MERCOSUR again diminished as a percentage of total external sales to 18.5% in the first nine months. By contrast, sales to China expanded considerably and accounted for more than 9% of total exports.

Imports expanded by almost 50%, starting from an extremely low base value, and were led by capital goods (which increased by over 70% from one nine-month period to the next) and intermediate and consumer goods (around 45% in both cases).

Bolivia

A grave crisis that broke out in September culminated in the resignation on 17 October of President Gonzalo Sánchez de Lozada and his replacement by Vice-President Carlos Mesa. The outgoing government failed to rally public consensus on a project to export gas to the United States, fiscal adjustment measures or the coca eradication programme. October saw the start of a transition period in which the new authorities continue to grapple with the challenges they have inherited and in which institutional changes may occur in strategic areas, including the hydrocarbon sector.

The crisis arose against a backdrop of slow economic growth and the dichotomy that has emerged between an export boom and a languishing domestic market. Between 1998 and 2003 economic growth averaged only 1.9% a year, compared to 4.4% in the period 1990-1998. Growth is expected to be around 2.5% in 2003, meaning that per capita GDP will continue to trail its 1998 level (by 2.2%). Since that year Bolivia has suffered from a drop in the prices of several of its exports, the coca eradication programme and slack demand from neighbouring countries. Although there are a few buoyant areas –gas extraction and soybean cultivation– these are non-labour-intensive activities, and thus have done little to attenuate the high rates of informal employment and poverty.

Tight macroeconomic constraints have limited the capacity for policy implementation. Social security reform (1997) was implemented at a high fiscal cost (5% of GDP) and the highly dollarized financial system makes monetary policy ineffective. Moreover, the government that emerged from the 2002 elections is made up of a fragile alliance of parties.

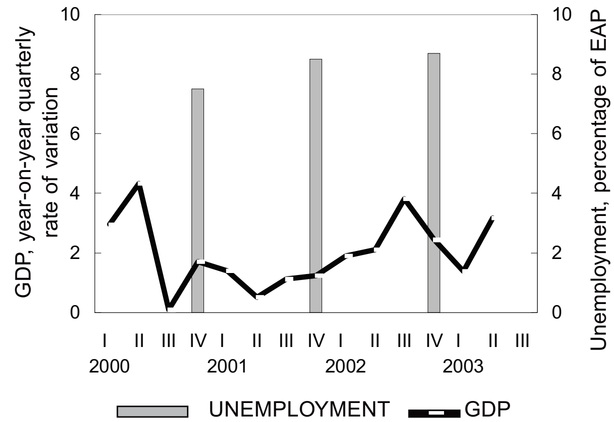
The macroeconomic problems stem mainly from the huge non-financial public-sector deficit, which amounted to 8.9% of GDP in 2002. The agreement signed in April 2003 with IMF provided for this deficit to be reduced to 6.5% (1.6% excluding pensions). The target contemplated increasing revenue by eliminating exemptions, increasing tax receipts from hydrocarbons and giving greater powers to the tax authority. In order to reduce current expenditure, the authorities planned to abolish certain ministries, cut central government spending and eliminate the problem of fraudulent pensions.

However, between January and September the fiscal situation deteriorated so badly that the deficit increased by 10% in nominal terms (6.6% in real terms), while total revenue and expenditure grew by 10.8% and 10.6%, respectively. The major factor in this development was a 14.4% increase in current expenditure, while public investment contracted by 2.3%. New ministries were established as a result of negotiations within the coalition that governed up to October, and the authorities increased outlays on wages and on the procurement of goods and services; net interest payments on the public debt also rose. The increase in fiscal income, though appreciable, could not contain the expansion of the deficit. Approximately 60% of that rise came from taxes on hydrocarbons, 30% from external grants and the remaining 10% from revenues linked to domestic activity (VAT and customs revenues, among others). Some 65% of the deficit was financed with external loans and the remaining 35% through domestic borrowing.

The political crisis was one of the reasons why fiscal accounts veered out of control and domestic activity contracted, although the decision by PETROBRAS to increase gas purchases immediately after the change of government boosted revenues in the last few months of the year. Nevertheless, the deficit is expected to stay close to its 2002 level, although the figure could be lower if the international community responds positively to the new authorities' appeal for additional aid. Meanwhile, it is estimated that the deficit will stand at US$ 100 million in the last two months of the year.

Political instability and the slower pace of domestic activity have been weakening the financial system since 2002. In 2003 the system faced two critical junctures, the first of which resulted from the disturbances in February, which caused deposits to slip by 4.1% from their level of late December 2002, when they had already fallen by 13% since 2001. Deposits later recovered but, because of the September-October crisis, their level was 6.7% lower than it had been in December 2002. In October approximately US$ 200 million in deposits were withdrawn and consolidated net international reserves (of the central bank and commercial banks) slumped by US$ 140 million. The central bank injected liquidity into the economy, modifying the composition of consolidated

BOLIVIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

reserves by recalling liquid assets held in commercial banks outside the country, which made it possible to expand the monetary base and deal with the decline in deposits.

These critical situations had repercussions on interbank interest rates in dollars (normally between 1% and 2%), bringing them to maximum levels of 4% and 5% in February and October, after which they started to subside. The nominal lending and deposit rates for bank deposits in dollars, which account for 90% of the total, followed a downward trend throughout the year. In November the average nominal rate in dollars charged by the banks was 9.7%, which compares with 11.3% in December 2002. This decline reflects the fall in international rates, the weakness of domestic activity and lending activity and the abundant banking liquidity caused by the prevailing uncertainty. All these problems are reflected in the percentage of overdue loans: 18% in October, as against 9% at the beginning of 2000.

The crawling peg system applied since 1998 started to experience problems in 2002 owing to the massive devaluations that occurred in the currencies of the MERCOSUR countries. Despite the boliviano's nominal devaluation against the dollar (9.5%) in 2002, the currency effectively appreciated –bearing in mind all of Bolivia's trading partners– by 4.6%. In 2003 the opposite occurred. In real effective terms, in October the boliviano had depreciated by 12.3%, with the rate of exchange returning to the July 1995 level. Up to October the boliviano reflected a 4% nominal devaluation against the dollar.

In the first half of 2003 GDP grew by 2.3%; the annual rate is estimated at 2.5% (2.7% in 2002). In the first six months domestic demand contracted by 0.9%

BOLIVIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.6	2.7	2.5
Consumer prices	0.9	2.4	3.3[b]
Real wages[c]	3.8	3.2	…
Money (M1)	7.7	5.6	10.9
Real effective exchange rate[d]	3.6	-4.6	12.3[e]
Terms of trade	-1.3	-0.5	4.9
Annual average percentages			
Urban unemployment rate	8.5	8.7	…
Non-financial public-sector fiscal balance/GDP	-6.9	-8.9	-9.0
Nominal deposit rate[f]	2.2	2.9	1.7[g]
Nominal lending rate[f]	12.9	11.3	9.7[g]
Millions of dollars			
Exports of goods and services	1 521	1 545	1 793
Imports of goods and services	1 980	2 048	1 940
Current account	-274	-335	-47
Capital and financial account	237	43	8
Overall balance	-37	-293	-39

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Private sector in La Paz.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Variation from December 2002 to October 2003.
[f] Average annual rate in dollars.
[g] Average to November.

with respect to the same period of the previous year. Investment declined by 14.2% owing in large part to the completion of the Yacuiba-Río Grande gas pipeline, and private consumption expanded by a mere 1.3%. In constant prices, imports shrank by 4%, while exports grew by 8%. It is estimated that in 2003 gross fixed capital formation, measured in constant 1995 dollars, represented 13.2% of GDP (15.9% in 2002).

In the last quarter of 2003 gas production increased to levels that will probably be maintained or surpassed in 2004, which will also see the construction of a gas pipeline to northern Argentina and a significant expansion in soybean production.

In November accumulated 12-month inflation was 3.3%, which was higher than the target agreed upon with IMF for the year (2.8%). Inflation picked up speed in July and August and spiked in October as a result of the shortages engendered by the crisis. In November, however, price levels were lower than they had been in October, so that the year could end with a figure not far from the target. There are no available data on employment and wages for 2003, but the pattern of domestic expenditure suggests that these variables deteriorated; in 2002 urban employment stood at 8.7%.

Exports grew by 17% in 2003, to US$ 1.5 billion, as a consequence of increased sales of gas, soybeans, tin and silver. The last three items benefited from notable price rises which brought about a 4.9% improvement in the terms of trade. A significant proportion of the soybean crop was marketed in primary form, since Venezuela and Colombia cut back on purchases of soybean products. Textile exports, although still modest, expanded somewhat. During the year imports reflected the sluggish state of the domestic market and are estimated to have slumped by 11%, resulting in a small surplus on the country's merchandise trade balance.

Brazil

Brazil experienced limited growth of 0.1% in 2003. Inflation stood at an estimated 9.2% in 2003, while country risk went down to 600 basis points, much lower than the 2,396 points recorded at the end of the third quarter of the previous year. Economic policy was geared to curbing inflation, strengthening public finances and regaining access to international financial markets at lower cost. In order to achieve these objectives, the new authorities used three main instruments: a nominal anchor in the form of inflation control targets, a floating exchange-rate regime and public-sector reforms, specifically of social security and the tax system.

Economic growth was driven by the growth of the external sector; indeed, the increase in exports (20% in terms of value and 14.8% in terms of volume) far exceeded the expansion in imports, which represented only 2.5%. Consequently, the merchandise trade surplus is estimated to be US$ 24 billion and the current account surplus, US$ 2.7 billion or 0.6% of GDP, compared to –2% of GDP the previous year. With respect to domestic demand, both consumption and investment contracted, the latter by 7.5%, and the investment-to-GDP ratio was below 18%, one of the lowest percentages in the last decades. Unemployment in the main metropolitan areas, calculated using a new methodology, increased to 12.4% in 2003 from 11.7% in 2002 (January-October average).

The growth rate is projected to exceed 3% in 2004, boosted, among other factors, by domestic activity, which started to show signs of recovery in the last quarter of 2003. On the external front, the country will have to settle payments totalling US$ 40 billion. At the same time, to maintain the primary surplus target of 4.25% of GDP on the public accounts, which is higher than the level agreed with IMF (3.75%), the authorities will have to keep a tight rein on expenditure policy so that they will not have to make any further adjustments. The inflation target is 5.5% with an allowable deviation of 2.5% in either direction, which is lower than the 2003 target of 8.5% with a similar deviation allowance. In terms of medium- and long-term strategy, the government presented proposals for a comprehensive tax reform, as well as reform of the retirement and pension system for civil servants, which represents the main component of the social security deficit; the relevant measures were adopted at the beginning of December. The growth strategy to be pursued under the multi-year plan is based on the expansion of consumption and is consistent with the objectives of improving the social situation and introducing changes in income distribution. In terms of foreign policy, the authorities have given priority to South America, especially the MERCOSUR countries, in order to secure market access through international negotiations and the joint development of new markets in Asia, Eastern Europe and Africa with the members of this group. Lastly, the government announced that it would draw for a further year on the assistance provided by the IMF programme, which offers access, if need be, to additional funds of almost US$ 10 billion. This was in addition to the successful renegotiation of repayment schedules with IMF.

At the end of November the government announced a major package of export promotion measures consisting, among other things, of the elimination of value and maturity restrictions on operations conducted under the Reciprocal Credit Agreement established within the framework of the Latin American Integration Association (LAIA); the revision of the credit risk inherent in such operations, considering all countries as “low-risk”; the inclusion of all projects financed by international agencies in interest rate equalization programmes; broader participation by major firms in the credit line programme created for small and medium-sized enterprises; the unification of the Finance and Export Guarantee Committees; and the creation of a programme to give small and medium-sized enterprises incentives to produce goods for export. This set of measures will have a strong impact on export trends in the coming years.

BRAZIL: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.5	1.9	0.1
Consumer prices	7.7	12.5	11.0[b]
Real wages[c]	-5.0	-2.1	-9.4[d]
Money (M1)	18.2	20.2	6.6
Real effective exchange rate[e]	11.8	35.7	-20.9[f]
Terms of trade	-0.2	-3.1	0.5
Annual average percentages			
Urban unemployment rate	…	11.7	12.4[g]
Federal government fiscal balance/GDP	-1.3	-0.3	-1.1
Real deposit rate	9.1	6.1	9.5[h]
Real lending rate	31.0	28.7	29.7[h]
Millions of dollars			
Exports of goods and services	67 545	69 968	82 654
Imports of goods and services	72 653	61 863	63 980
Current account	-23 213	-7 695	2 713
Capital and financial account	19 763	-3 483	991
Overall balance	-3 450	-11 178	3 704

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between November 2002 and November 2003.
[c] Workers covered by social and labour legislation.
[d] Estimate based on the average for January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Variation between December 2002 and October 2003.
[g] Estimate based on the average for January to October.
[h] Average from November 2002 to October 2003, annualized.

The main objective of fiscal policy was to raise the primary surplus to 4.3% of GDP and to control the expansion of public debt, which was exacerbated by the higher cost of exchange-rate-indexed securities and higher domestic interest rates. In the first 10 months of the year the public sector recorded a primary surplus equivalent to 5.1% of GDP; specifically, the federal government balance rose from 0.5% to 4.9% of GDP. The deficit of the social security system (1.4%) was offset by the surplus of the state governments and State-owned corporations (1.6% of GDP). By contrast to previous years, the central government achieved a higher primary surplus thanks to better control of spending, which declined by 1.3% in real terms; the central government wage bill declined by 0.5% and other non-financial current expenditure and investments were down by 0.8%. The slower pace of economic activity had an adverse effect on tax receipts and social security contributions. The pension system deficit increased by over 50%, rising to 1.4% of GDP, as a result of the increases granted to retirees and pensioners. Net public borrowing represented 57.2% of GDP in October, compared to 56.5% at the end of 2002, and public sector financing needs increased from 3.1% of GDP in January-October 2002 to 4.7% in the same period of 2003.

Early in the year the authorities raised the inflation target from 4% to 8.5% with an allowable deviation of 2.5% in either direction. They also decided to raise the benchmark nominal interest rate on government securities from 25% to 26.5% and the legal reserve requirement from 45% to 60% for demand deposits. In order to reduce exposure to the impact of a possible exchange rate increase, the government sought to reduce the amounts involved in swap or derivative operations, which offered investors in public securities the choice of applying either the domestic interest rate or the rate of currency devaluation. By this means, the government also managed to reduce its liabilities in exchange-rate-indexed securities. The monetary base and the money supply contracted by 4.8% and 3.7%, respectively, in nominal terms in the 12 months ending in October 2003. In February the central bank ceased intervening in the foreign exchange market in order to stop building up international reserves. Therefore, in the last few months the exchange rate stabilized at around 2.9 reais to the dollar, which reflects a 27% appreciation since September 2002. In the 12 months up to October 2003 the currency appreciated in real terms against the dollar, the yen and the other Latin American currencies (by 8.9%, 8% and 6.5%, respectively) and depreciated by 5.2% against the euro. The more promising economic outlook was reflected in the financial market, where stock exchange operations again expanded and the São Paulo Stock Exchange (BOVESPA) index reached a record level. Loans to private individuals expanded by 12.3% between October 2002 and 2003, while Brazilian companies resumed issues of securities abroad. Pre-set lending rates in local currency declined to an annual nominal rate of 47.1% in September 2003 after reaching 53.8% in March, while deposit rates on interbank certificates of deposit recorded an average of 20.88% in the same period, after arriving at a maximum of 26.25% in March.

Merchandise exports were the strongest component of demand, since export volumes were up by 14.8%. The higher exports were due to the sound performance of the agricultural sector and some branches of industry. Export prices rose by 4.5% thanks to the increase in the international prices of some commodities, such as soybeans, coffee and iron ore. Merchandise imports grew by only 2.5%, partly owing to the upturn in economic activity starting in August. The balance-of-payments

BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

current account posted a surplus of US$ 2.7 billion, which compares positively to the US$ 7.7 billion deficit in 2002. The merchandise balance recorded a surplus of US$ 24 billion, compared to US$ 13 billion in 2002, while the services balance remained at levels similar to those of the previous year, with a US$ 5.3 billion deficit. The positive merchandise trade balance is attributable to the 20% increase in the value of exports, especially commodities (25%), while manufactures exports increased by 19%, boosted by a 90% expansion in sales to China and Argentina. The balance on the income account showed an improvement with respect to 2002, with a deficit of US$ 18.7 billion, while the capital and financial account recorded a balance of US$ 991 million. In net terms, foreign direct investment contracted from US$ 14 billion in 2002 to US$ 7.1 billion. Changes in the regulatory frameworks of the infrastructure and communications sectors, which generally attract this type of investment, have not yet been implemented. Net portfolio investment moved from a negative value of US$ 5.1 billion to a positive value of US$ 6.9 billion thanks to gross capital inflows into the stock market and a large surplus on the issue of fixed income instruments. Therefore, international reserves increased considerably to stand at US$ 54 billion in October, which represented an increase of US$ 16.3 billion in relation to the level reached at the end of 2002 and corresponded to 14 months' worth of imports. In accordance with IMF parameters, available reserves at the end of October stood at US$ 15.5 billion, which was 23% higher than the December 2002 value. In August total external debt, at US$ 214 billion, was 1.6% higher than it had been in December 2002 and 2.3% lower than in June 2003; the latter change was due to a 9.2% decrease in short-term debt between December 2002 and June 2003.

As in the previous two years, the different sectors of the economy performed unevenly. Beginning in August 2003 there were signs of recovery in the level of activity. The manufacturing industry has recorded continuous growth since then, with upturns in the production of capital goods and consumer durables in September. The agricultural sector again performed robustly, growing by more than 5%. The industrial sector presented a contraction of close to 1%, but the service sector was flat. Construction was down by approximately 8% in the first three quarters of 2003 in comparison to the same period of 2002. In terms of demand, all the major aggregates except external trade in goods and services contracted in the first nine months of the year. From January to September government consumption grew by 0.6% compared to the same period of 2002, while household consumption declined by 4.2%, which explains the marked downturn in domestic commerce.

Despite the rise in the rate of open unemployment, which went from 11.2% in October 2002 to 12.9% in October 2003 according to the new measurement methodology, the employed population increased in that period by 3.1% in the country's six largest metropolitan regions, while the EAP increased by 5.2% as a result of a sharp upswing in the activity rate, so that the unemployment rate went up.[2] Real average wages fell by an annual average of 9.5% owing largely to higher inflation.

2 See box 3.

Chile

Spurred by exports, Chile's economy expanded by 3.2% in 2003, for a rise of 2% in per capita GDP. Although still performing below potential, the economy therefore improved upon its 2002 growth rate of 2.1%. Exports were up by 12%, while domestic demand climbed by 2.4%. Gross fixed capital formation, calculated in constant 1995 dollars, increased by 2.3% and represented 21.8% of GDP, which was substantially lower than the 26.6% recorded in 1997 but higher than the 1999 figure of 21.5%. The rate of unemployment dropped to 8.5%, but remained high in comparison to the average for the first half of the 1990s (5.5%). Inflation trended downward throughout the year, partly thanks to the considerable appreciation of the Chilean peso against the dollar, which has enabled monetary policy makers to continue lowering the benchmark rate of interest. Consumer prices rose by 1% in the 12 months up to November, which was one percentage point below the floor of the monetary authority's target range (2%-4%). With respect to fiscal affairs, the central government deficit is set to come in at 0.8% of GDP. Chile's fiscal rule requiring a structural surplus of 1% of GDP permits fiscal spending to be isolated from temporary fluctuations in copper prices and in GDP, thus conferring greater stability in spending over the economic cycle.

The outlook for 2004 is bright, with growth projected at a rate of 4.5%. Although export growth is contingent upon an upturn in the global economy, the free trade agreements signed with the European Union (effective as of 2003), the United States (effective as of the beginning of 2004) and the Republic of Korea provide grounds for expectations of a larger volume of more freely flowing trade with those economies. This is significant, bearing in mind that exports account for one third of Chile's GDP.

In January 2003, Chile took advantage of improved conditions on the international financial markets and its own low country-risk rating to issue a US$ 1 billion sovereign bond on the external market. In the second semester, the government sought and obtained approval for a temporary rise of 1% in the VAT rate, which therefore moved up to 19% as of 1 October; this increase is intended to offset the downturn in tax receipts expected as a result of the new trade agreements signed in 2003. In July, the government announced a spending cut of US$ 300 million, which brought the central government's actual deficit to 0.8% of GDP, in keeping with the fiscal rule that requires a structural surplus of 1% of GDP. The budget for 2004 is based on a projected increase in tax revenues and high copper prices, which are expected to enable the central government to narrow its actual fiscal deficit to 0.6% of GDP. Lastly, the tax authority, through the Treasury General of the Republic, is to begin issues of domestic debt in the form of 20-year bullet bonds. This move should help to deepen the capital market.

In 2003, the rise in international copper prices, in combination with higher export earnings and inflows of financial capital attracted by the buoyancy of the local stock market, translated into a large inflow of dollars and a steady appreciation of the peso within the framework of the flexible exchange rate regime established in late 1999. By early December the currency had appreciated to a rate almost 20% above the low recorded in 2002. Despite exporters' complaints about the rise of the peso (the real effective exchange rate index dropped from 124.4 in February 2003 to 113.8 in

October), the central bank reaffirmed its decision not to intervene at this stage in the currency's climb. This suggests that it is reserving the right to intervene when the exchange rate suddenly soars to very high levels, as it did before the Argentine crisis in 2001 and when uncertainty about the Brazilian real peaked in 2002. The appreciation of the peso contributed to the downward trend of inflation in 2003, which dropped from an annualized high of 4.5% in March 2003 to just 1% in November. This put the authorities in a position to lower the monetary policy interest rate, which gradually declined from a nominal annual rate of 6.5% in December 2001 to 2.25% in December 2003.

Demand for real money balances remained high in 2003. The money supply (M1) expanded by almost 14% in real terms between October 2002 and October 2003. The increase in the demand for money was not accompanied by a higher demand for currency outside banks, however, which rose by only 3.9% in real terms. The annual rate of interest on deposits was a mere 3.5% in nominal terms, which may account for the real decline of almost half a percentage point recorded in M2 in the 12 months to October. Lending rates, meanwhile, climbed from their low point for the year (a nominal rate of 12% in May) to 15.5% in October, thereby broadening the interest rate spread. The rise in lending rates reflected a much faster expansion in consumer loans (12%) than in commercial loans, which remained at a standstill.

Manufacturing expanded more slowly than GDP, rising by 2.3% in the first nine months of the year with respect to the same period of 2002. The industrial production index displayed a year-on-year increase of 1.7% in the first 10 months of 2003, while mining expanded at a rate of 6.7%, followed by agriculture (5.1%) and electricity (4.9%). The output of the commerce and transport sectors rose at a lower rate, albeit still above 3% in both cases. Up to October, the supermarket sales index displayed a real variation of 10.5% with respect to the same month of 2002 and one of 9.2% for December.

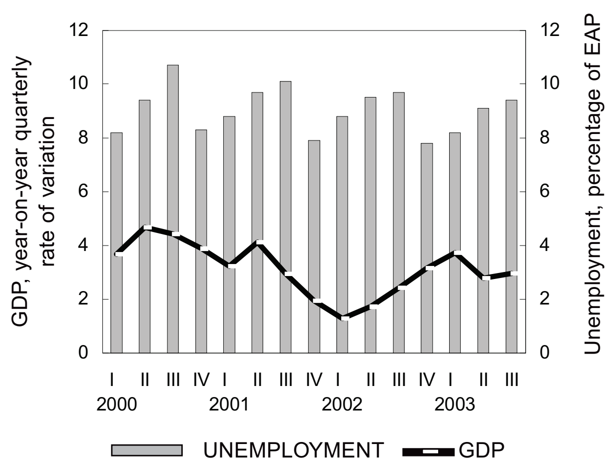
Chile posted a current account deficit of US$ 487 million, or 0.7% of GDP, while the trade balance yielded a surplus of over US$ 2.6 billion. Imports grew more quickly than exports, expanding at a rate of 13% thanks to increases in both the volume of imports (9.7%) and prices (3%). The upturn in imports encompassed intermediate goods (12% over nine months) and consumer and capital goods (7% and 5.5%, respectively). Exports climbed by 12% over the year in response to increases in both prices (5.5%) and volume (6.2%). The trade surplus was offset by a deficit of US$ 2.687 billion on the factor income account.

CHILE: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	3.2	2.1	3.2
Consumer prices	2.6	2.8	1.0[b]
Real wages [c]	1.6	2.1	0.8[d]
Money (M1)	12.6	12.8	16.9
Real effective exchange rate	12.3	-1.8	-1.1[f]
Terms of trade [e]	-6.9	0.0	2.4
Annual average percentages			
Urban unemployment rate	9.1	9.0	8.5[d]
Central government fiscal balance/GDP	-0.3	-0.8	-0.8
Real deposit rate	3.8	1.4	2.2[g]
Real lending rate	13.8	11.3	11.9[g]
Millions of dollars			
Exports of goods and services	22 571	22 300	25 186
Imports of goods and services	21 435	20 744	23 344
Current account	-1 192	-553	-487
Capital and financial account	596	752	269
Overall balance	-596	199	-218

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] General hourly wage index.
[d] Estimate based on average for January-October.
[e] A negative rate indicates an appreciation in real terms.
[f] Variation from December 2002 to October 2003.
[g] Average for November 2002 to October 2003, annualized.

CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

The average rate of unemployment for the year is estimated to have been 8.5%, which represents a drop of half a percentage point with respect to 2002. Meanwhile, the employment rate rose from an average of 47.4% for the first three quarters of 2002 to 48.1% for the same period of 2003. Job creation was strong in community, social and personal services (4.3%); transport, storage and communications (3.3%); manufacturing (3.2%); and financial services (3.1%). By contrast, employment in commerce declined. As an average over the year, the real hourly wage rose by 0.8% with respect to 2002.

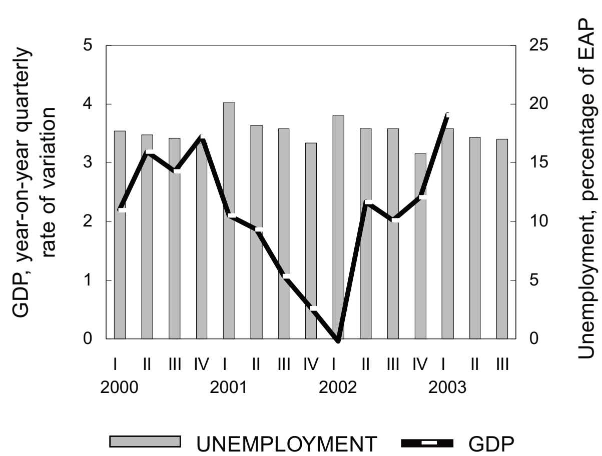
Colombia

Colombia's economy turned in a better performance in 2003. GDP rose by 3.4%, which was a significant improvement over the 2002 figure of 1.7%. Unemployment remained high, although the nationwide rate dropped from 15.7% to 14.4%. Fiscal policy was at the heart of the political agenda. After a referendum held in October returned unfavourable results, the government proposed new measures to boost revenues and cut spending, in order to meet the revised consolidated public sector deficit target of 2.8% of GDP. The authorities stabilized the nominal exchange rate in the latter months of the year, seeking to lower the rate of inflation, which gradually decreased to an annual rate of 6.1%. The monetary policy intervention rate, which was lower than the rate of inflation, rose from 5.25% to 7.25%, exceeding inflation in the final months of the year. The current account posted a deficit of about 2.2% of GDP, reflecting higher payments on external debt and a sharp downturn in exports to Venezuela.

The Colombian economy displayed an upswing in 2003 after growing slowly in the preceding two years. As noted above, GDP expanded by close to 3.4%; this represented a climb of 1.6% in per capita output, which surpassed the results of the previous five years.

The year began amid optimistic economic forecasts. The change of government and the economic programme raised expectations and boosted indicators of consumer and business confidence, fuelling a small upturn in demand and investment. The renewal and extension of the tariff preferences granted by the United States had a positive impact on the sectors concerned, including textiles, and the government announced that in April 2004 it would enter into negotiations on a free trade agreement with the United States. Meanwhile, a free trade agreement between the Andean Community and MERCOSUR was scheduled to be signed at the end of 2003.

COLOMBIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

Fiscal affairs moved to the centre of political debate after the October referendum. The government had been taking measures to rein in the deficit since mid-2002, in view of concerns over the rapid expansion of public debt, which swelled from 30.8% of GDP in 1997 to 56.2% in June 2003. The fiscal programme for 2003 was designed to limit the overall consolidated public sector deficit to 2.5% of GDP. The executive branch proposed a number of initiatives by which this might be achieved, including a wage freeze and the imposition of administrative budget controls, as well as reform of the public pension system, particularly the special regimes for teachers and military personnel. These plans were put to a constitutional referendum in October, which returned a negative response. In addition, the proposed imposition, as from 2005, of an across-the-board 2% VAT rate on the basic goods and services in the household basket was declared unconstitutional, and the Constitutional Court issued a judgement prohibiting freezes on civil service wages.

In view of this situation, the government put together a package of measures to place fiscal affairs on a sounder footing and meet the revised target of 2.8% of GDP for the consolidated public sector deficit. These measures made up what was known as "Plan B", which was geared towards dealing with the immediate problem (at the close of 2003) and planning for the coming years, from 2004 onward. The new adjustment plan included changes in the VAT regime, the elimination of income tax exemptions and the imposition of a new variable tax on pensions in excess of six times the minimum wage, as well as spending cuts.

In early November the government put this proposal to Congress, which made a number of alterations to it. The economic committees approved an increase in the tax on financial transactions (from 3 per thousand to 4 per thousand), the levy of a tax on assets for three years, a surcharge on income tax, a deduction from income tax for investments in productive assets and the rebate of two percentage points of VAT for purchases made with credit or debit cards. The increase in the VAT rate on beer was reinstated, along with the levy of a tax on gambling and the deduction of local taxes. The rise in VAT and in the tax on pensions was not ultimately approved.

In June the net debt of the non-financial public sector was 56% of GDP, which was lower than the figure of 60% recorded at the end of 2002. External debt accounted for close to 53% of total debt. The government conducted a number of transactions during the year to improve the maturity profile of the country's domestic and external debt. The central bank (Banco de la República) will allow the government to use up to US$ 500 million in international reserves to pay off part of the external debt.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.4	1.7	3.4
Consumer prices	7.6	7.0	6.1[b]
Real wages[c]	-0.3	2.4	-0.4[d]
Money (M1)	14.2	18.8	13.2[b]
Real effective exchange rate[e]	0.0	14.5	2.7[f]
Terms of trade	-5.7	-1.9	2.0
Annual average percentages			
Urban unemployment rate[g]	18.2	17.6	16.9[h]
Central government fiscal balance/GDP	-5.3	-4.9	-4.7
Real deposit rate	4.6	1.8	1.2[i]
Real lending rate	12.4	8.8	8.2[i]
Millions of dollars			
Exports of goods and services	14 952	14 160	15 052
Imports of goods and services	15 873	15 392	16 482
Current account	-1 251	-1 639	-1 677
Capital and financial account	2 468	1 777	1 388
Overall balance	1 217	138	-289

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Manufacturing-sector workers.
[d] Estimate based on average for January-August.
[e] A negative rate indicates an appreciation in real terms.
[f] Variation from December 2002 to October 2003.
[g] Includes hidden unemployment.
[h] Estimate based on average for January-October.
[i] Average from November 2002 to October 2003, annualized.

In January 2003 the monetary policy intervention rate was 5.25% a year –below the rate of inflation, which was over 7%. The intervention rate was raised twice, however, in January and April, to 7.25%, where it stayed for the rest of the year. Real interest rates continued to be low in historical terms. The real deposit rate averaged 1.2% in the 12 months ending in October, while the real lending rate was 8.2% over the same period.

Money (M1) expanded by 13.2% in the 12 months ending in November, which represented a slowdown with respect to the rate of 18.8% posted in 2002.

The increase in inflation and the rise in the exchange rate in late 2002 and early 2003 prompted the central bank to intervene in the foreign exchange market by auctioning dollar call options. As a result, the nominal exchange rate remained very stable in the seven months up to November (between 2,826 and 2,845 pesos to the dollar), which had a somewhat moderating effect on inflation. In fact, the imported goods component of the producer price index shifted downward.

The 12-month rate of increase in consumer prices, which had quickened between April 2002 (5.7%) and April 2003 (7.9%), began to slow gradually in May owing partly to the wider availability of foodstuffs, and stood at 6.1% in November. This was close to the ceiling of the monetary authorities' target range of between 5% and 6%.

In 2003 the Colombian economy experienced a modest upswing. GDP growth was 3.4% between January and September, which was higher than the rate for the same period of 2002 (1.5%).[3] The sectors where the upturn was strongest were mining (12.5%), mainly because of increased coal production; construction (9.8%), owing largely to building projects; finance (5.4%); industry (4.2%); and commerce (4.1%). Gross capital formation moved up from 15.8% of GDP in 2002 to 16.3% in 2003. Private consumption remained slack, however.

The labour market showed some signs of bouncing back, though unemployment continued to be high. The economic upturn helped to lift the employment rate slightly. In the first 10 months of 2003 urban unemployment in 13 metropolitan areas averaged 16.9%, compared to 17.6% a year earlier. The employment rate (53.4%) rose by nine tenths of a percentage point and the labour force participation rate (64.4%), by four tenths of a point, while underemployment (32%) dipped by just six tenths of a point. Thanks to a good economic performance in rural areas and small cities, the nationwide rates of unemployment and underemployment dropped further, from 15.7% to 14.4% and from 34.8% to 31.7%, respectively, while the employment rate rose by more than one point (53.1%) and the participation rate, by six tenths of a point (62%).

The financial sector performed well in 2003, with progress in indicators of portfolio growth and quality, especially in the commercial and consumer portfolios. All the entities in the sector enjoyed an increase in profits, while the process of real credit contraction seen in recent years came to a halt.

After the initial negative impact of the plunge in exports to Venezuela, these exports began to climb again in the second half of the year, and grew by 7.7% over the first nine months with respect to the same period of 2002. The rebound was driven by traditional exports, which expanded by 15.9% over that period, while non-traditional exports remained at a standstill. The large rise in traditional exports was due primarily to exports of coal, coffee, gold and ferronickel. Non-traditional exports received a boost from the renewal and extension of United States tariff preferences, which helped to offset the slump in sales to Venezuela (-51.3%). The United States continued to be the main destination for Colombian exports, accounting for 44% of the total, followed by the European Union countries (14.5%), while the Andean Community's share dropped (13.8%) because of the steep slide in exports to Venezuela and a dip (6.1%) in exports to Ecuador. Total imports expanded by 9.9% in the first nine months of the year and consisted mainly of capital and intermediate goods and fuels.

The current account deficit was 2.2% of GDP, as against 2% in 2002. An increase in transfers, especially family remittances, formed the main counterweight to a deterioration in the merchandise trade balance and an increase in external debt payments.

The capital and financial account of the balance of payments closed the year with an estimated surplus of some US$ 1.388 billion, including errors and omissions, which contrasts with the current account deficit of US$ 1.677 billion. There was a sharp downturn in foreign investment, of about US$ 2.5 billion, including both portfolio and direct investment. This drop was largely offset by a decline in capital outflows from the government and the private sector alike (just over US$ 2.6 billion). In November net international reserves stood at US$ 10.668 billion.

3 The figure for 2003 includes a contraction of 0.3 GDP percentage points to reflect the eradication of illegal crops.

Ecuador

The economic slowdown that began at the end of 2002 has continued in 2003, and ECLAC projections indicate that Ecuador's economy will grow by 2%. Growth is expected to accelerate in 2004 on the basis of increased hydrocarbons production. Since inflation slowed in 2003, the real dollar exchange rate registered only a slight appreciation, while the real effective exchange rate remained stable. Inflation is also expected to continue its downward trend during 2004.

The balance-of-payments current account deficit shrank considerably, mainly due to an upswing in exports (especially oil) and near-zero growth in imports. Emigrant remittances and foreign direct investment also climbed. This, combined with the decline in purchases of foreign assets and the reversal of the trend in private external debt, resulted in increased reserves.

Employment remained the weak spot of Ecuador's economy. In fact, in 2003, a sharp increase was seen in the unemployment rate, chiefly as a reflection of the higher number of redundancies.

During the first half of 2003, the overall fiscal surplus of the non-financial public sector was US$ 412.8 million. This was mainly attributable to the high level of oil revenues, which increased by 50% during the first quarter thanks to higher crude oil prices. Non-oil revenue also improved during 2003, but its growth slackened in the second quarter. VAT collection in particular climbed by 4% during the first quarter of 2003 but remained constant during the second, partly due to the economic slowdown. Social security contributions were up by 30% and income tax receipts expanded by 26%. Revenues from the VAT were higher than those from social security and income tax combined.

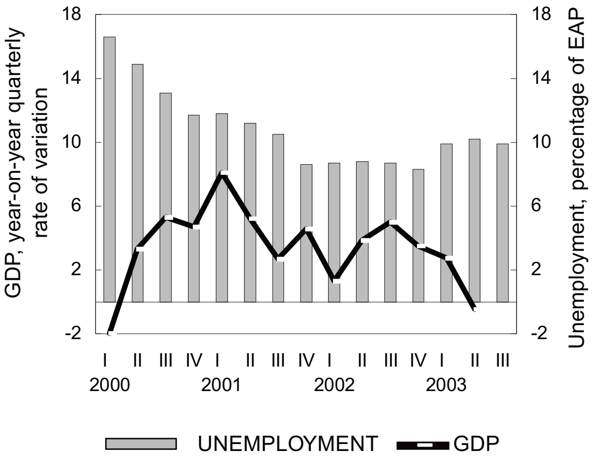
At the end of the year and in accordance with the requirements of the standby arrangement signed with the International Monetary Fund (IMF) in the first quarter, the government approved a law aimed at limiting spending on civil service wages and compensation. The application of the law is currently restricted to a small number of civil servants, but the government has announced its intention to extend its scope. The government has not yet been able to implement the necessary measures to comply with other IMF requirements, such as the placement of the State's two telephone companies under private-sector management.

Since the adoption of the United States dollar as Ecuador's official currency in January 2000, the country has had no monetary policy as such.

In a dollarized economy, the spread that investors demand above the yield of United States treasury bonds has a crucial influence on domestic interest rates. During 2003, the base rate and the lending rate dropped in parallel to the reduction of country risk.[4] Both interest rates decreased during the first quarter after the government signed an agreement with IMF and then fell again in the third quarter after the authorities launched some of the reforms they had pledged to implement (adoption of a law on civil service employment) and

4 As of 10 December 2003, Ecuador's country risk was equivalent to 845 basis points. This is considerably lower than the 1,794 points of 31 December 2002.

ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

expressed a willingness to open up some of the main oilfields of the State oil company (PETROECUADOR) to private investment. At the end of October, the reference lending rate stood at 11.5% and the reference borrowing rate was 5.4%.

As for credit, the level of arrears in the financial system remained practically unchanged between December 2002 and October 2003. The private financial sector's loan portfolio, however, increased by 8.7% in nominal terms. In open private banks, foreign security holdings other than shares (such as bonds) rose by 137.1% between February and October 2003. These holdings increased much more than the sector's assets overall (11.7%) and came to represent 9.4% of the total.[5] It would appear that foreign assets were being substituted for public domestic assets, given that the holdings of central government securities dropped by 42%, i.e. from 7% to 3.6% of the sector's total assets. Loans to non-financial private institutions grew at a lower rate than assets, whereas other loans to residents (including household loans) increased by a mere 6.4%. Private banks seem to be maintaining their strong preference for liquidity. In fact, 10.9% of the sector's total assets were transferable deposits being held abroad.

During the first half of 2003, GDP was up by only 1.1% as compared to the first half of 2002 owing to the fact that during the second quarter output fell by 0.5% in the wake of reduced hydrocarbons production. ECLAC projections point to a growth rate of around 2% for the Ecuadorian economy in 2003, thanks to the increase in oil production that is expected during the final quarter of 2003 following the opening of the heavy crude oil pipeline.

In October 2003, private oil production was more than 83,000 barrels per day higher than in July. Production by PETROECUADOR, however, continued the trend of recent years and dropped slightly. In 2004, economic growth will depend mainly on the degree of investment in hydrocarbon extraction. Investment levels are expected to be significant, given the interest shown by companies that have transportation rights in the new pipeline to take full advantage of that transport capacity. In addition, the government is interested in opening the main PETROECUADOR oilfields to private investment with a view to increasing production and tax revenues. As for sales of bananas, the country's other main export product, the low prices registered in the second half of 2003 could affect investment in that sector and therefore reduce production during 2004.

Following January's steep price hike, which was mainly due to adjustments in utility rates, inflation declined to 6.5% in November 2003 compared with the same month in 2002. It is estimated that the rate of inflation will continue to fall during 2004, although it may remain higher than the United States rate, particularly if domestic gas subsidies are eliminated and utility prices are adjusted further.

In addition to domestic inflation's stabilization at lower levels, the real appreciation of the exchange rate that began in January 2000 following dollarization slowed its pace in 2003. Between December 2002 and October 2003, real appreciation in relation to the United States dollar was 3.6%. In contrast, the first 10 months of 2003 saw a limited real appreciation in relation to the currencies of Ecuador's main Latin American trading partners and a 10.4% real depreciation in relation to the euro. In 2003 Ecuador also witnessed a stabilization of the real effective exchange rate, which depreciated by 0.5% in the first 10 months of the year. After having appreciated continuously since dollarization, as of October 2003 the effective exchange rate was 15.3% lower (appreciation) than the average for the period from January 1992 to October 2003.[6]

During 2003, the employment situation deteriorated, with the unemployment rate rising from 9.2% in 2002 to 11.7% in 2003. This increase reflected a sharp upswing

5 In February 2003, the methodology used to calculate indicators was changed.

6 In October 2003, the effective exchange rate was 11.3% lower than the average for January 1992-December 1998, i.e. the period prior to the crisis that resulted in the dollarization of the economy in January 2000.

ECUADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	5.5	3.8	2.0
Consumer prices	22.4	9.4	6.5[b]
Real effective exchange rate [c]	-18.2	-8.5	0.5[d]
Terms of trade	-7.7	2.6	3.3
Annual average percentages			
Urban unemployment rate[e]	10.4	8.6	9.8[f]
Central government fiscal balance/GDP	-0.7	-0.8	-0.9
Real deposit rate	-11.3	-3.4	-1.7[g]
Real lending rate	-2.9	6.1	7.2[g]
Millions of dollars			
Exports of goods and services	5 693	6 173	7 012
Imports of goods and services	6 613	7 742	7 808
Current account	-550	-1 178	-508
Capital and financial account	320	1 050	820
Overall balance	-230	-127	312

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between November 2002 and November 2003.
[c] A negative rate indicates an appreciation in real terms.
[d] Variation between December 2002 and October 2003.
[e] Includes hidden unemployment.
[f] Estimate based on average for January-October.
[g] Annualized November 2002-October 2003 average.

in joblessness, particularly as a result of layoffs.[7] Between 2002 and 2003, the rate of open unemployment went from 5.5% to 8.5%, whereas hidden unemployment dropped from 3.8% to 3.2%. The employment rate also fell by 2.5 percentage points.

Unlike the situation in 2002, in 2003 the largest increases in unemployment were among men, as the male unemployment rate jumped from 6% to 9.7%, whereas female unemployment only rose from 14% to 14.7%.

In the first nine months of 2003, the balance-of-payments current account deficit shrank by 63% to US$ 378 million, mainly thanks to the satisfactory result on the merchandise trade balance. The deficit was covered with a US$ 400 million surplus in the financial account and US$ 272 million in the errors and omissions account.

The improvement in the trade balance for goods was attributable to a 17.5% expansion in exports, which was in turn chiefly accounted for by hydrocarbons (up by 55.7%) and bananas (16.1%). The volume of crude oil exports increased by 4.8% and, since prices rose by an average of 21.1%, the value of oil exports climbed by 25.4%. Imports dipped slightly (–0.4%) owing to the completion of the heavy crude oil pipeline and probably also to a slowdown in aggregate domestic demand. Imports of consumer goods thus rose by a mere 1.3% while imports of raw materials contracted by 6.2%, primarily because of a decline in imports of construction materials. Imports of capital goods were down by 12.6% owing to a sharp decrease in imports of transport equipment and of capital goods for the industrial sector.

Remittances from migrants showed a 12.2% year-on-year increase in the first nine months of 2003, rising to a total of US$ 1.149 billion. During this period, this category of remittances remained slightly higher than the level of profit remittances being sent abroad (US$ 1.124 billion).

The financial account performed very differently than it had in 2002. During the first nine months of 2003, foreign direct investment amounted to approximately US$ 1.332 billion, which was 46% more than in the corresponding period in 2002. A large part of this investment was in the petroleum sector and was linked either to the opening of the pipeline at the end of 2003 or to initiatives for increasing private production of crude oil. Meanwhile, the purchase of assets abroad dropped by 62.3%. Lastly, external liabilities trended downward by US$ 473 million after having previously risen by US$ 907 million. This was mainly the result of changes in the level of private external debt, which, rather than rising as it had in 2002, decreased during the first three quarters of 2003.

All of the above combined to produce an increase of US$ 310 million in freely disposable reserves.

7 The data in this paragraph come from the annual survey conducted by the National Institute of Statistics and Censuses. The unemployment rates mentioned in this section therefore do not coincide with the rates shown in the table and figure accompanying this note, which come from the monthly surveys conducted starting in that year by the Latin American Faculty of Social Sciences (FLACSO).

Paraguay

Paraguay's GDP grew by 2.5% in 2003, thus recovering fully from its slide in 2002. This result was due exclusively to the significant expansion (around 12%) of value added in the agricultural sector, facilitated by favourable weather conditions, since non-agricultural activities as a whole registered slightly negative growth. Thus, despite the recovery of GDP in 2003, the Paraguayan economy showed very low growth for the sixth consecutive year. In this context, the rate of open unemployment in urban areas soared from 6.6% in 1998 to a record high of 14.7% in 2002.

For the second year in a row the Paraguayan economy generated a surplus on the balance-of-payments current account –albeit a smaller one than in 2002– thanks to the sound performance of agricultural exports, especially soybeans, owing to a competitive real exchange rate. The central government deficit declined from 3.1% in 2002 to 0.8% in 2003, following a significant rise in tax income attributable to administrative measures for reducing tax evasion and cutbacks in expenditure. In a stable subregional context, the guaraní appreciated moderately in the first few months of the year. Thanks to its subsequent stability, 12-month inflation diminished from a peak of 21% in April to 9.9% in November.

Until the middle of the year the outgoing government had no choice but to cope with the serious fiscal crisis and the steady deterioration of the fiscal accounts, which had started in 1999. One of the factors that contributed to this situation was the fact that since mid-2002, when the country failed to conclude an agreement with IMF, the shortage of external resources had become more acute, making the fiscal gap increasingly difficult to bridge, so that it became necessary to defer the payment of commitments at home and abroad.

In April the new government-elect, which was to take office in August, expressed its intention of moving forward with the formalization of the economy and the effort to combat corruption and tax evasion. In addition, the authorities established the priority objectives of reducing the fiscal deficit and regularizing outstanding external and domestic debt obligations.

In an unprecedented step, the President of Paraguay and the parties represented in the legislature signed an agreement in October to give priority consideration to six pieces of proposed economic legislation aimed at restructuring the public debt, instituting income taxes, reforming the social security system applicable to civil servants and public bank employees, adopting a new customs code and restructuring State-owned corporations and agencies.

In mid-December IMF approved a US$ 73-million standby arrangement for the next 15 months; the economic authorities indicated that they intended to use these funds to swell international reserves and to draw on them only in the event of an economic crisis. The agreement will give the government access to loans from the World Bank and the Inter-American Development Bank, which will be employed to regularize external debt servicing. Apart from the above-mentioned reforms, the agreement contemplates eliminating the current fiscal deficit of close to 1% of GDP in 2004 and accumulating a surplus, as well as raising GDP growth to around 2.5% and reducing inflation to 6.5%.

Towards the end of the year a proposed administrative restructuring and fiscal adjustment law providing, among other things, for a series of legal changes was making its way through the legislative pipeline. The measures proposed include broadening the income tax base by generalizing the tax and eliminating exemptions for medium and large enterprises, for which the rate is to be reduced from 30% to 10%; rates of 3% and 10% are proposed for small enterprises and personal income tax, respectively. The proposal would also expand the value added tax base to include persons who provide independent services, and would tax agricultural products in their natural state and other products and services at 5%. In addition, the measure calls for the adoption of an excise tax of 20% on cigarettes and beverages and 50% on petroleum-based fuels and for the expansion of the regulatory powers of the Office of the Under-Secretary for Inland Revenue. The government also submitted a social security reform proposal designed to reduce the growing deficit of the Fiscal Fund, the State pension system into which civil servants pay contributions, which currently accounts for a sizeable portion of the government deficit.

The effects of these measures will start to be visible in mid-2004, once the new laws have been enacted and the relevant regulations have been drawn up. However, already in 2003 (especially in the second half of the year), the central government deficit narrowed thanks to tighter evasion control policies and, albeit to a lesser extent, to spending cuts. Up to October tax revenues increased nominally by 23% and tax receipts from foreign trade and value added tax expanded. This means that the tax ratio probably went up from 9.5% of GDP in 2002 to 10% of GDP in 2003, although this is still very low. On the other hand, non-tax revenue, which includes income from the Itaipú and Yacyretá binational enterprises, increased by scarcely 8.5%. In addition, expenditure was cut back drastically, by 5%; most of this adjustment was in the area of current transfers (0.1%) and capital expenditure (3.5%). At the end of the year the central government deficit amounted to 0.8% of GDP, compared to 3.1% in 2002.

Since the beginning of the year the remarkable expansion in income from soybean exports, boosted by the sharp devaluation that occurred in 2002, made it possible to build up international reserves systematically in the following months. Reserves increased from US$ 641 million in December 2002 to US$ 853 million in October 2003. The larger supply of foreign exchange brought the price of the dollar down from a record high of 7,100 guaraníes in January to 6,200 in June, and this value remained almost unchanged until November. This development was reflected by an increase in the monetary aggregates, with M1 up by 24% in October 2003. This expansion did not lead to faster inflation, since the confidence inspired by the new authorities

PARAGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.4	-2.5	2.5
Consumer prices	8.4	14.6	9.9[b]
Real wages	1.4	-6.4	-2.3
Money (M1)	16.7	4.7	22.0
Real effective exchange rate[c]	16.5	8.1	-3.5[d]
Terms of trade	-0.1	-0.1	-1.0
Annual average percentages			
Urban unemployment rate	10.8	14.7	…
Central government fiscal balance/GDP	-1.1	-3.1	-0.8
Real deposit rate	1.8	-1.6	5.0[e]
Real lending rate	18.7	17.6	25.1[e]
Millions of dollars			
Exports of goods and services	2 431	2 425	2 663
Imports of goods and services	2 888	2 507	2 744
Current account	-275	92	59
Capital and financial account	225	-216	84
Overall balance	-50	-124	144

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] Average from October 2002 to September 2003, annualized.

triggered an increase in the demand for local currency. Consequently, inflation declined from a maximum of 21% in April to a 12-month variation of 9.9% in November. Up to mid-year the contraction in non-agricultural economic activities also contributed to this decline.

In this context, the yields on monetary regulation instruments also started to diminish steadily, to reach 11.5% in October. Nevertheless, owing to negative variations in the CPI between May and August, interest rates were very high in real terms until the third quarter, although they tended to decrease in the fourth. This situation, together with the past-due loans in the commercial banking system, which amounted to US$ 138 million and whose restructuring is the subject of legislation currently on the table, significantly reduced bank credit to the private sector, which decreased by 20% between December 2002 and September 2003, in both local and foreign currency. One of the chronic problems facing the Paraguayan economy is the existence of a wide spread between investment and lending rates, which is partly due to the concentration of banking activity.

GDP recorded a 2.5% rise, attributable almost exclusively to the notable expansion in the agricultural sector (12%), since the other sectors as a whole showed a slightly negative variation. An estimate of the performance of industry, commerce and other services suggests that the production of these goods and services suffered a sharp contraction (9%) at the beginning of the year, but started to show slightly positive values mid-year. The agricultural sector recorded an annual expansion of 5.6%, led by the strong growth in crop-farming, where the steepest rises were observed in the production of cotton (38%) and soybeans (28%), in the latter case because of higher yields, which resulted in an unprecedented output of 4,200,000 tons. By contrast, the livestock sector suffered a 7% decline due to outbreaks of foot-and-mouth disease. In the goods-producing sectors, construction showed a 2% recovery, following an 11% decline in 2002, while the manufacturing industry slipped by 1%. The service sector grew by 1% overall, with a notable climb in electricity consumption (6%).

Thanks to the Paraguayan economy's more competitive position, attributable to a 7% increase in the average annual real effective exchange rate, together with an upturn in export prices, exports posted a 12% expansion, while imports rose by 9% after having fallen off sharply in 2001 and 2002. Therefore, the merchandise trade deficit narrowed again, this time to about US$ 250 million, and the service sector yielded a surplus, as in previous years. Although net factor income was positive, current transfers showed zero growth, as a result of which the current account surplus shrank to some US$ 60 million, after having stood at close to US$ 100 million in 2002. However, in contrast to what had happened that year, there were capital inflows of some US$ 80 million in 2003. This raised the overall balance to US$ 145 million, which corresponded almost entirely to an increase in international reserves. In October Paraguay and the United States signed their first bilateral agreement, which will boost non-traditional exports. The agreement provides, among other things, for the establishment of a commission to promote investments by United States firms in Paraguay.

Peru

The Peruvian economy grew by 4%, while inflation was kept within the range established by the monetary authority, reaching 2% at the end of the year. In view of these circumstances, monetary policy was moderately expansionary and interest rates declined. The fiscal deficit was reduced to 2% of GDP, in accordance with the authorities' aim of ensuring the sustainability of public debt.

The trade surplus was the highest since 1990, mainly owing to mining exports, while the balance-of-payments current account deficit stayed at around 2% of GDP. In view of the favourable macroeconomic situation and the more stable regional context, the spread for external debt securities diminished in the course of the year.

Economic growth was constrained, however, by the fact that levels of private investment remained relatively low and public investment contracted. Moreover, the impact of growth on the labour market was still limited, and both wages and unemployment showed only minor changes.

To ensure the sustainability of public debt, the authorities applied a medium-term strategy that involved whittling down the fiscal deficit and building up the primary surplus over the next few years. For these purposes, they persisted with measures to expand the tax base in 2003 and temporarily raised the general sales tax to 19% as of 1 August. Between January and October central government revenue increased by more than 8% in real terms compared to the same period of the previous year, in particular because of higher receipts from income tax (31%) and the general sales tax (9.5%).

Meanwhile, both wage outlays and central government transfers for pensions grew by more than 6% in real terms in response to strong pressure to increase current expenditure. Interest payments were also almost 6% higher. In order to contain the potential risk to public finances inherent in the decentralization process, the Fiscal Responsibility and Transparency Act was adopted. This legislation includes rules for regional government spending and borrowing. In order to counteract the rise in current spending, the authorities again cut back on public investment, so that total central government expenditure increased by only 4% in real terms.

PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

The non-financial public-sector deficit is estimated at 2% of GDP, which represents a slight reduction, in line with the authorities' plans at the beginning of the year. The deficit was financed in part through new sovereign bond issues on the external markets, as well as a new system of bond issues for the creation of a local capital market. In contrast, income from privatizations and concessions was less than the amount budgeted.

The stability of the main prices (especially consumer prices) was beneficial for monetary policy, which facilitated the recovery effort. The authorities again set a target range of 1.5% to 3.5% for inflation, and explicitly established that the interbank rate should follow the trend defined by the lending and deposit rates of the central bank's monetary operations with the commercial banking system. Over the year the interbank rate declined from 3.8% in January to 2.5% at the beginning of December, thus contributing to the decline in the rates offered by banks to their customers.

This moderately expansionary policy did not, however, succeed in stimulating credit demand, which dropped by 2.2% between October 2002 and the same month of 2003. Mortgage and consumer loans and loans to microenterprises were relatively dynamic, while commercial credit contracted.[8]

The nuevo sol appreciated by 1% against the dollar in real terms in the first 10 months of the year, compared to the average for 2002. Owing to the appreciation of the euro, the Argentine peso and the Brazilian real, however, the real effective exchange rate rose by 3%. The stability of the dollar exchange rate helped to sustain the gradual decline in the dollarization of credit that had begun in 2002, from the high levels recorded previously. Between December 2002 and October 2003 the share of local-currency loans in total credit increased from 24% to 26%.

Exports and private investment were the main engines of economic progress, with growth rates higher than 5% over the first three quarters, while private consumption expanded less than in the previous year as a result of a weak labour market. Public consumption recovered, while public investment fell again, albeit less sharply than in 2002.

Mining was one of the main areas of expansion, although non-primary manufacturing also grew by more than 4% over the first three quarters. Agriculture and construction expanded more slowly than they had the previous year, by between 3% and 4%. Meanwhile, fishing contracted, with negative effects on primary manufacturing.

Consumer prices trended upward at the beginning of the year owing to the higher cost of oil on international markets, but year-on-year inflation later subsided, ending the year close to 2%, which was within the target range set by the monetary authorities.

Over the first nine months of the year the number of jobs in formal urban enterprises grew by 1.7% in relation to the same period of the previous year, with particularly strong expansion of employment in commerce. Employment shrank, however, in small businesses and microenterprises, which contributed to a drop in the employment rate. As the participation rate was also lower, the unemployment rate stayed virtually the same. Over the 12-month period from November 2002 to October 2003 per capita income rose by 1.7% in real terms compared to the level of the preceding 12 months. In September the minimum wage was increased by 12%, the first rise since 2000.

PERU: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	0.2	4.9	4.0
Consumer prices	-0.1	1.5	1.9[b]
Real wages[c]	-0.9	4.6	...
Money (M1)	0.8	13.6	8.7
Real effective exchange rate[d]	-2.6	1.8	4.9[e]
Terms of trade	-4.1	3.0	2.2
Annual average percentages			
Urban unemployment rate	9.3	9.4	9.3[f]
Central government fiscal balance/GDP	-2.8	-2.2	-1.9
Real deposit rate	7.7	2.1	2.1[g]
Real lending rate	25.2	19.1	19.5[g]
Millions of dollars			
Exports of goods and services	8 517	9 192	10 238
Imports of goods and services	9 618	9 932	10 791
Current account	-1 184	-1 206	-1 245
Capital and financial account	1 601	1 987	1 546
Overall balance	417	781	300

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Private-sector workers in the Lima metropolitan area.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Variation from December 2002 to October 2003.
[f] Estimate based on the average for January - October.
[g] Average from November 2002 to October 2003, annualized.

8 As interest rates are lower for commercial loans than for the other types of loans referred to, the overall result was that the average rate for all bank lending operations was higher in October than in January.

With the increase in exports, the surplus on the goods balance increased by 16% over the first 10 months of the year in relation to the same period of 2002; this was due to growth mainly in mining and, to a lesser extent, in agriculture and manufacturing. Gold sales, which increased in terms of both volume and price, surged by 43% and accounted for 23% of the value of total exports. Imports increased by 11.5%, with the biggest increments in inputs and intermediate goods, especially fuel, and in capital goods. The improvement in the goods balance was counteracted by an increase in payments for factor services, so that the current account deficit remained unchanged at about 2% of GDP.

To enhance its integration into external trade flows, Peru became an associate member of MERCOSUR, and also aspires to sign free trade agreements with the European Union and, in particular, with the United States.

With regard to the financial account, there were sovereign bond issues for US$ 1.25 billion, while private sector flows diminished, partly because of the lower level of foreign direct investment. The overall balance made it possible to increase net international reserves, which rose to about US$ 10.4 billion at the beginning of December. External debt was down slightly, from 49.3% of GDP in December 2002 to 47.9% in September 2003, as a result of the reduction in private sector debt. Thanks to the better regional situation and the stability of Peru's macroeconomic variables, the spread on external debt went down from around 600 basis points in late 2002 to a little over 300 points in November 2003.

Uruguay

In 2003 Uruguay managed to halt the economic recession which had persisted since the middle of 1998. Although overall GDP growth was as little as one percentage point for the year, after having plummeted by more than 10% in 2002, the level of activity began to pick up in the first quarter and maintained an upward trend until the end of the year.

The financial system stabilized at the low levels recorded after the acute crisis the previous year and, in the middle of the first semester, the government succeeded in implementing its proposal for the voluntary swap of foreign currency-denominated public securities. In June a new letter of intent was signed with the International Monetary Fund (IMF), which opened up access to financing from international institutions. These factors helped to dispel the pervading uncertainty that had weighed on the Uruguayan economy since the beginning of 2002. The main challenge in the near future continues to be that of achieving sustained growth that will enable the authorities to cope with the enormous burden of servicing the debt denominated in foreign currency.

The upturn in production was mainly export-driven, since domestic consumption remained slack. Annual inflation declined, approaching the 10% mark, and the unemployment rate, although very high, also tended to decrease. The higher level of activity boosted tax revenue, which, together with spending restrictions, helped to reduce the fiscal deficit to less than 4% of GDP, a level not seen for several years. The rapid expansion of exports and the limited level of imports for most of the year yielded a positive external current account balance.

The main economic policy challenge at the beginning of 2003 was the high level of public sector borrowing, since, in the 2003-2004 biennium, the authorities had to deal with the redemption of a substantial volume of government securities held by private domestic and external creditors, given that at the end of 2002 public debt in foreign currency was equivalent to almost 100% of GDP and 45% of it was owed to international institutions. In these circumstances, at the beginning of 2003 the authorities put forward a proposal for the voluntary swap of foreign currency-denominated debt amounting to US$ 5.2 billion. The proposal did not include the remission of capital or interest, but extended redemption schedules by at least five years.

The proposal was well received, since it was accepted by more than 90% of private creditors. Following the restructuring of its public securities debt, the government signed a new agreement with IMF, which offered the prospect of fresh financing from multilateral institutions. The agreement specified a consolidated public sector primary surplus on the order of 3% of GDP in 2003, rising to 4% in 2005. Bearing in mind the heavy burden of interest, the surplus will bring the consolidated deficit to around 3.5% of GDP, a level that is considered consistent with the public sector's current borrowing capacity and inflation targets. The agreement estimates that GDP will contract again (-1%) in 2003, but that growth will return to levels of about 3% a year starting in 2004.

URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

The change in the debt profile and the new agreement with IMF bolstered confidence significantly at the beginning of the second half of the year, but the reduction of the fiscal deficit continued to be an elusive goal. Tax revenue increased in line with the acceleration in the rate of activity and improved tax collection, but total central government revenues rose only slightly. Total expenditure did not show any variation from the previous year, but did change substantially in structure: while primary expenditure fell significantly, interest payments went up considerably in nominal terms to stand at almost 6% of GDP, through the combined effect of the rise in the exchange rate and the expansion of foreign-currency debt. Therefore, in 2003 interest payments accounted for more than one fifth of total expenditure, while wages represented 17% and investments, only 5%. Transfers to the social security system to balance its accounts were the item with the strongest impact: 37% of total expenditure.

The higher revenues and stable expenditure made it possible to raise the primary surplus to a level close to the target of 3% of GDP agreed upon with IMF; this placed the consolidated deficit within the planned range. To finance the deficit, the authorities turned to currency issues, loans from international institutions and short-term debt issues denominated in local and foreign currency on the domestic market. In October Uruguay rejoined the international credit market with the issue of a three-year bond payable in dollars but denominated in inflation-indexed units, at an annual interest rate of 10.5%.

Under the current free exchange-rate system, monetary policy assumed a more important position. Two clearly differentiated periods could be discerned. In the first half of the year excess liquidity was absorbed through monetary regulation bills. Once it became evident that the demand for money was growing and that expectations were clearly improving, expansionary monetary policy measures were adopted in the second half of the year. Reserve requirements were reduced and interest rates were gradually lowered. Credit, however, remained tight, given savers' preference for demand –or very short-term– deposits and the weakness of much of the banking system.

Exports of goods and services registered a real increase of almost 10%, strongly boosted by the higher level of confidence, the increase in competitiveness derived from the 45% rise in the real exchange rate between June 2002 and October 2003, better prices for the country's principal exports and the resumption of beef sales once Uruguay had been declared a foot-and-mouth-disease (FMD) free country where vaccination is practised. Domestic absorption, on the other hand, continued to retreat. Investment shrank again, this time by more than 10%, while consumption remained at low levels in a context of reduced public spending and scarce domestic credit.

In annual terms, agricultural production was the only sector to show vigorous expansion. In a context of listless private consumption, manufacturing was sluggish and construction continued to show signs of recession, with a level of activity equivalent to only 60% of the maximum recorded in 1999; services also declined. This bleak picture looks very different, however, when viewed in terms of the behaviour of GDP during the year. The sharp contraction in activity in the second half of 2002 had resulted in a negative carry-over of seven percentage points for the measurement of GDP in 2003. Nevertheless growth in the fourth quarter of the year was projected to be substantial enough (more than 10%) to offset the considerable negative overhang from the previous year. The upturn, which was based on the use of idle installed capacity, was led by agricultural and agro-industrial production, nascent import substitution and tourism-related activities.

Joblessness decreased as the level of activity picked up, but at the end of 2003 it was still high, affecting 16% of the EAP. This decline in unemployment was due to an increase in labour demand and a simultaneous decrease in the labour supply attributable to the persistent outflow of migrants, which had been observed since the beginning of 2002, and the impact of the "discouragement effect" on job-seeking. Increases in public- and private-sector wages were much lower than inflation, which meant a further setback in real wages, this time of more than 10%.

The contraction in consumption, the unexpected increase in the demand for money and the stability of the exchange rate, which rose by little more than 4% in the first 10 months of the year, helped to reduce the rate of consumer price increases to 10.8% in the 12-month period ending in November, which was less than half the preceding year's rate. In a context of shifting relative prices and rising international prices for Uruguay's main exports, wholesale prices rose faster, by 20% for the year.

Merchandise exports forged ahead starting in the middle of the year and are estimated to have expanded by around 13% in 2003. Tourism earnings also increased, boosted by the higher real exchange rate and growing demand from neighbouring countries. After showing negative growth in the first six months, imports showed signs of recovery which, together with the increase in the oil bill due to the rise in international prices, resulted in an 8% expansion for the year as a whole. Consequently, both the balance-of-payments current account and the capital account recorded a surplus and international reserves expanded, making up for part of the considerable loss registered the previous year.

URUGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-3.5	-10.7	1.0
Consumer prices	3.6	25.9	10.8[b]
Real wages	-0.3	-10.7	-12.3[c]
Money (M1)	-0.8	-2.6	19.6
Real effective exchange rate[d]	6.3	32.0	8.7[e]
Terms of trade	1.0	-0.5	1.3
Annual average percentages			
Urban unemployment rate	15.3	17.0	16.8[c]
Overall public sector fiscal balance/GDP	-4.3	-4.6	-3.6
Millions of dollars			
Exports of goods and services	3 276	2 698	2 937
Imports of goods and services	3 723	2 526	2 629
Current account	-545	251	32
Capital and financial account	847	-4 164	514
Overall balance	302	-3 914	546

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Estimate based on the average from January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Variation between December 2002 and October 2003.

Venezuela

In 2003 Venezuela continued ensnared in a complex economic and political situation. Overall, economic activity dropped by about 9.5% during the year, with steep slumps in both household consumption and investment, of about 45% in the latter case.

The strike called by opposition political parties and business groups, which lasted from December 2002 until early February 2003, led to sharp drops in the production and export of petroleum and a strong contraction in the other sectors of the economy. As a result, economic activity dropped heavily in the first quarter (-27.6%), while petroleum activity fell nearly 50% below its level of the same period of 2002. In the second quarter, by contrast, a partial recovery in petroleum activity enabled the economy to grow in relative terms, but the other sectors did not bounce back at the same rate.

All this has translated into high levels of unemployment –around 18%– and informality, as well as a steep decline in real wages. The current account surplus was larger than in 2002, mainly as a result of a plunge in imports. The fiscal deficit stayed close to its prior-year level of about 3% of GDP.

The outlook for 2004 points to a significant upturn in growth, mainly because the first quarter of 2003 represents a very low standard of comparison. The prospects for a settlement of the complex political situation are not particularly clear, and it is possible that a referendum may be held in early 2004.

Against this backdrop, the main feature of fiscal policy was an expansion in current spending, mostly in the form of transfers to public-sector agencies. This was sustained by increased domestic borrowing and a rise in the foreign exchange profits generated by international reserves.

In early 2003 the authorities adjusted the national budget by extending the bank debit tax and changing the VAT rate, which at the beginning of the year was set at 8% for certain food items, air transport and medical and dental services. New VAT withholding mechanisms were also created. Given the contraction in economic activity, however, revenues from those sources have dipped.

Petroleum revenues, by contrast, rose throughout 2003. This reflected an upswing in production after the stoppage that took place early in the year, although output is still trailing its levels of the third quarter of 2002, and a rise in the price of the Venezuelan crude basket. The performance of oil revenues is significant because they represent a little under half of all fiscal income.

The Macroeconomic Stabilization Investment Fund (FIEM) was used less and less as a source of financing in 2003 as its resources declined and were not replenished with fresh contributions. The Fund's resources slid from US$ 2.8 billion in early 2003 to US$ 700 million at the end of the year, following withdrawals allowed under legislative amendments adopted at the beginning of the year.

In order to reduce interest and principal payments, the authorities refinanced part of Venezuela's domestic debt by swapping securities maturing in 2003 for

VENEZUELA: GDP AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

VENEZUELA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	3.5	-9.0	-9.5
Consumer prices	12.3	31.2	26.1[b]
Real wages [c]	2.4	-10.0	-14.0[d]
Money (M1)	25.6	7.9	46.4
Real effective exchange rate[e]	-3.5	35.7	4.2[f]
Terms of trade	-16.2	6.5	9.5
Annual average percentages			
Urban unemployment rate	13.3	15.8	18.2[g]
Central government balance/GDP	-4.2	-3.3	-3.0
Real deposit rate	2.2	-1.1	-4.4[h]
Real lending rate	1.9	-1.4	-7.7[h]
Millions of dollars			
Exports of goods and services	27 648	27 716	26 533
Imports of goods and services	23 346	17 474	13 696
Current account	2 062	7 423	9 844
Capital and financial account	-3 901	-11 850	-3 844
Overall balance	-1 839	-4 427	6 000

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Private sector.
[d] Estimate based on average for January to September.
[e] A negative rate indicates an appreciation in real terms.
[f] Variation from December 2002 to October 2003.
[g] Estimate based on average for January-October.
[h] Average for November 2002 to October 2003, annualized.

instruments payable in 2004 and 2005. In the last quarter of 2003 the government announced a special bonus for public employees, which brought the fiscal deficit up to a level comparable to that of 2002, at close to 3% of GDP.

Real interest rates dropped significantly in 2003, reflecting the authorities' expansionary monetary policy, but this drop did not translate into an increase in credit extended by financial institutions, which has tended to stagnate in nominal terms. This is indicative of lower demand for credit on the part of economic agents, although the financial system displayed a steady increase in monetary liquidity (M2) throughout the year. [9]

In this regard, the measures the authorities took were ineffective as mechanisms to kick-start the economy. Given the impossibility of investing in the foreign exchange market and the slack demand for credit, banking institutions purchased a large volume of government securities. These instruments represent a little over half the asset portfolio held by commercial banks.

As a result of the large capital outflow recorded in 2002 and the stoppage in petroleum activity late that year and early the next, foreign exchange became scarce and the bolívar therefore devalued heavily. In February 2003 the government responded by implementing strict exchange controls, setting the exchange rate at 1,600 bolívares to the dollar and prohibiting the purchase of dollars within the country. The outcome of this restriction was the development of an unauthorized parallel market in which the price of the dollar was approximately 50% above the official price.

The resumption of petroleum production and exports, in combination with the foreign exchange controls, made for a considerable expansion of international reserves, which rose from US$ 14 billion at the beginning of 2003 to close to US$ 21 billion in December. The Foreign Exchange Board (CADIVI), a public agency responsible for the foreign exchange supply, maintained tight exchange controls throughout the year but gradually increased the amount of foreign exchange available to agents to meet their external obligations, especially import payments.

Economic activity continued to decline in 2003 in petroleum and non-petroleum sectors alike, accumulating a drop of 9.5%. The stoppage called at the end of 2002 lasted until February 2003, causing sharp contractions in both oil production and exports and

9 M2 refers to bills and coins in circulation plus sight, savings and time deposits.

across the other segments of economic activity. As a result, GDP plunged by 18.5% in the first half of the year.

Petroleum production trended back upward throughout 2003, but did not return to pre-stoppage levels. Non-petroleum activities, which represent around 75% of the total, were affected by price and exchange-rate controls, with the private sector hit by foreign exchange shortages.

The worst affected non-petroleum sectors were construction, commerce and manufacturing, which contracted by 56.1%, 27.2% and 23.8%, respectively, in the first three quarters of 2003 compared to the same period of 2002. This was attributable to slack domestic demand, a drop of around 8% in private consumption and a slump of almost 47% in investment in the first three quarters of 2003 in comparison to the year-earlier period.

As a complement to the controls implemented in the foreign exchange market, the government imposed price controls on basic consumer goods and services, encompassing more than half the items included in the CPI. A number of business sectors argued that the official prices were too low to allow them to continue producing and supplying the market and that production costs would exceed sale prices. The government therefore had to begin directly importing and distributing some basic products in order to prevent shortages. In these circumstances, the cumulative CPI in the period January-November 2003 displayed a rise of 26.1%. An alternative index prepared by the central bank, which measures the prices of goods and services not subject to price controls, showed a price rise of 35.4% in the same period, however.

Although wages increased in nominal terms in relation to 2002 –the general index, which includes both the public and private sectors, was 7.6% higher in the period January-September 2003 than in the same period of 2002– they declined sharply in real terms. Moreover, the downturn in productive activity impinged on unemployment and informal-sector employment. Even so, unemployment trended downward and in January-October 2003 stood at 18.2%, as against 15.8% in 2002. Informal-sector workers, it should be noted, represent over 50% of the total.

With regard to the external sector, petroleum exports made a partial recovery in the second quarter of the year after dropping steeply in the first. Although growth in the volume of petroleum exports picked up speed as the year went on, it was not enough to prevent a decline in average annual output. The average price of the Venezuelan crude basket moved up, largely offsetting the decline in the volume of crude exports, but petroleum exports nevertheless dropped slightly, as did non-traditional exports.

The foreign exchange shortage, foreign exchange controls and the sharp decline in domestic demand were reflected in a strong contraction in imports, which in July 2003 were down by 46% with respect to the same period of 2002. They revived somewhat during the rest of 2003, however, ending the year with a value decrease of 27%. This sharp decline in imports, together with a 5% drop in the value of merchandise exports, translated into an expansion of the trade surplus and the current account surplus, to about US$ 9.85 billion (12.9% of GDP) in the latter case.