MEXICO AND CENTRAL AMERICA

Costa Rica

According to official estimates, in 2003 gross domestic product increased by 5.6% in real terms (4.4% excluding the high-technology industry). This increase was more than double the growth rate predicted at the beginning of the year. The rise was mainly due to the major increase in exports, the recovery of the agricultural sector, the expansion of construction, transport, telecommunications and energy activities and the upturn in international tourism. The buoyancy of exports was based largely on sales from the free trade zones (especially microprocessors) and exports of agricultural products, whereas production sectors geared to meeting domestic demand recorded lower rates of expansion.

Under the monetary programme for 2003, economic policy focused on controlling inflation and reducing the fiscal deficit and the balance-of-payments current account deficit.

Fiscal policy continued to revolve around ways of addressing the chronic fiscal deficit and guaranteeing the financial sustainability of the public sector. The Legislative Assembly discussed a fiscal reform proposal without reaching a decision on the matter. It is estimated that the reduced overall public sector deficit (4.1% of GDP) will exceed the initial target (3.1%). Although the central government deficit (2.8%) will be lower than initially predicted (3.1%) as a result of the positive effects of the fiscal contingency plan and the containment of public spending, the rest of the non-financial public sector will post a surplus (0.2%) smaller than estimated (1.2%). This is mainly because the Costa Rican Electricity Institute will run a deficit and the Costa Rican Social Security Fund will probably run a smaller surplus, since both institutions made higher investment outlays in 2003. At the same time, the central bank's deficit will increase slightly (1.5%) owing to its greater money absorption needs in the wake of the unexpected increase in international reserves. In January 2003 the country issued US$ 450 million in bonds and placed them on the international market. Of this amount, US$ 200 million was used to pay off a previous bond issue and the remainder was used to finance most fiscal requirements.

The imbalance in public finances is one of the factors behind the relatively high interest rates that encourage inflows of flight capital and raise the cost of open-market operations, thereby reducing the effectiveness of monetary policy.

The central bank continued to implement a cautious monetary policy aimed primarily at maintaining the previous years' results in terms of macroeconomic stability. During the fist quarter the issuing authority gradually increased the legal minimum reserve requirement from 5% to 10%, which cut down on the amount of resources that banks could use for loans and made it possible to reduce the losses entailed by interest payments on monetary stabilization bonds. The central bank also decided to reduce the benchmark interest rates it offers on its bonds. Thus, the basic deposit rate (which is the market reference rate) dropped from 17.5% to 14%.

As a result of the implementation of prudent fiscal and monetary policies, credit and liquidity grew moderately, interest rates tended to decline, inflation rose in line with predictions and the local currency experienced a real depreciation against the dollar which, though slight, was greater than the depreciation of the currencies of Costa Rica's trading partners.

The buoyancy of GDP was based on a striking increase in exports, which offset the slump in the domestic market. The increase in GDP reflected the expansion of manufacturing activities (due to the performance of free-zone firms, including high-technology firms), construction, transport and telecommunications (particularly mobile telephones and Internet service), as well as the recovery of the agricultural sector and an upturn in international tourism. Particular mention should be made of the recovery of agriculture, which bounced back from its 2% downturn in 2002 mainly because of increased exports of non-traditional products, particularly pineapples, melons and flowers and foliage. Other contributing factors included increases in milk, fruit and vegetable production and in banana and coffee exports.

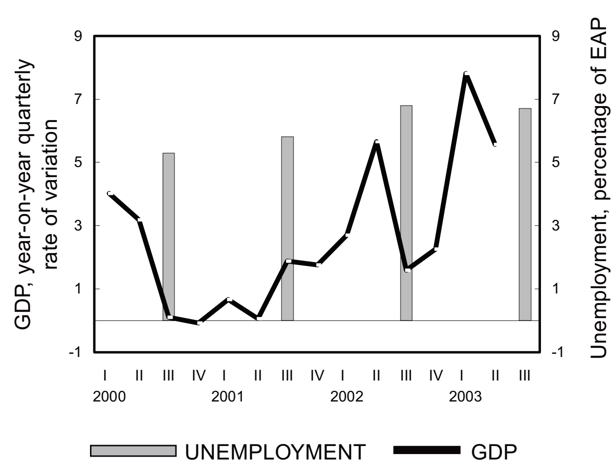
In November the consumer price index was up by 9.3% in comparison to the same month of the previous year. This was close to the 10% target set by the monetary programme. Contributing factors included monetary policy, the partial external financing of the fiscal deficit and the low price of certain imports, particularly capital goods. To a certain extent, these factors offset the inflationary pressure generated by increases in the price of hydrocarbons (particularly at the beginning of the year), utility rates, the devaluation rate and the fiscal deficit.

COSTA RICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.2	2.9	5.6
Consumer prices	11.0	9.7	9.3[b]
Real wages[c]	1.0	4.0	0.5[d]
Money (M1)	12.7	14.4	19.1
Real effective exchange rate[e]	-2.1	4.2	6.0[f]
Terms of trade	-1.4	-1.5	-3.1
Annual average percentages			
Urban unemployment rate	5.8	6.8	6.7
Central government fiscal balance/GDP	-2.9	-4.3	-2.8
Real deposit rate	0.4	1.9	3.1[g]
Real lending rate	10.3	13.4	15.2[g]
Millions of dollars			
Exports of goods and services	6 820	7 123	8 040
Imports of goods and services	6 911	7 707	8 327
Current account	-737	-946	-990
Capital and financial account	750	1 109	1 025
Overall balance	13	163	35

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

COSTA RICA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

Although economic growth was stronger, the problems affecting the labour market remained. Employment increased significantly (3.4%), but the high participation rate pushed up the nationwide rate of open unemployment from 6.4% to 6.7%, while urban unemployment stayed practically constant. Adjustments in the nominal minimum wage barely compensated for the increase in prices.

The balance-of-payments current account deficit is expected to be equivalent to 5.6% of GDP, which is one percentage point higher than the level estimated in the monetary programme and equal to the level posted in 2002. The contraction of the trade deficit was due to the significant increase in exports (15%), which exceeded the rise in imports. This improvement was offset by the widening of the deficit on the income account due to increased repatriation of profits and dividends from foreign direct investment. However, the greater inflow of external resources was used to finance the current account deficit, pay off US$ 86 million of the central bank's foreign-currency liabilities and accumulate foreign assets worth US$ 35 million.

Export performance was driven mainly by exports of non-traditional products such as microprocessors produced by the Intel plant, medical equipment and pharmaceuticals, in addition to exports of the aforementioned agricultural products. The growth of imports was concentrated in capital goods and raw materials.

El Salvador

In 2003 the Salvadoran economy was once again in a cyclical downturn. Gross domestic product increased by 2%, which meant that per capita GDP remained virtually stagnant for the fourth consecutive year. On the one hand, the economy benefited from increased external demand for maquila exports. Family remittances also continued to rise and represented 14% of GDP, thereby boosting private consumption. On the other hand, there was a fall in public investment resulting from the virtual termination of the extraordinary investment programme for repairing the damage caused by the earthquakes that occurred in 2001. Despite abundant liquidity and low interest rates, private investment showed only a slight upturn, partly because of uncertainty in the run-up to elections.

The increase in tax revenue and the decrease in capital expenditure brought down the central government deficit to 2.1% of GDP, although public borrowing rose to worrying levels. The consolidation of the dollarization process continued to encourage reductions in nominal deposit and lending rates and in year-on-year inflation, which was about 2.5% in December. The current account deficit shot up to 4.1% of GDP because of a 15% increase in the trade gap. Official estimates for 2004 predict a 2.5% rise in GDP and a fiscal deficit of 1% of GDP.

Public finances were characterized by a smaller fiscal deficit and a considerable increase in public borrowing. Excluding social security liabilities, which are recorded below the line in the public accounts, the deficit of the non-financial public sector was 2.4% of GDP, or one percentage point lower than the previous year's level. This improvement was the result of both higher income and lower expenditure. Including pension liabilities, the deficit stands at 3.5% of GDP.

The central government reduced its deficit to 2.1% of GDP, which was one percentage point below the 2002 figure. Tax revenue climbed by almost 11% as a result of increased VAT and income tax receipts and auditing programmes. Although current expenditure increased owing to a rise in consumption expenditure, this was offset by a downturn in capital outlays, mainly reconstruction spending and capital transfers.

Total public debt represented 47% of GDP as a result of the refinancing of short-term debt, which was converted to long-term liabilities. This exceeded the prudential level of 40% set by the Ministry of Finance. The external public debt, at US$ 4.6 billion, represented approximately 30.3% of GDP. Domestic public debt was US$ 2.542 billion, or 17% of GDP.

By late 2003, the consolidation of the dollarization process had brought the balance of colones in circulation to 42 million (12% of the notes and coins in the public's possession) and had accentuated recent trends towards an unprecedented reduction in inflation and the convergence of interest rates with those in the United States. Nominal deposit rates dropped to 3.4% and lending rates, to 6.6%, which resulted in a 7.7% expansion of credit to the private sector. Net international reserves increased by 14% to reach US$ 2.141 billion. The monetary aggregate M3 grew by nearly 3%. The Central Reserve Bank's net international reserves cover the issuance of currency and liquidity reserves and provide foreign-exchange backing for obligations to the public and to banks. Despite these achievements, the performance of real investment and capital flows was not encouraging. Indeed, the slow economic growth of recent years is explained in part by the slow development of investment (less than 18% of GDP) and by the fall in foreign direct investment at a time of negative growth in total factor productivity and worsening terms of trade.

The first priority of the government's trade policy continued to be the negotiations for a free trade agreement between Central America and the United States. Given the progress made, the agreement is expected to be signed at the end of the year or at the beginning of 2004. El Salvador also continued to participate in the talks on the Free Trade Area of the Americas (FTAA).

Economic activity was driven mainly by private consumption and, to a lesser extent, by exports of goods and services and gross domestic investment. In terms of supply, imports of goods and services expanded by 5.4%.

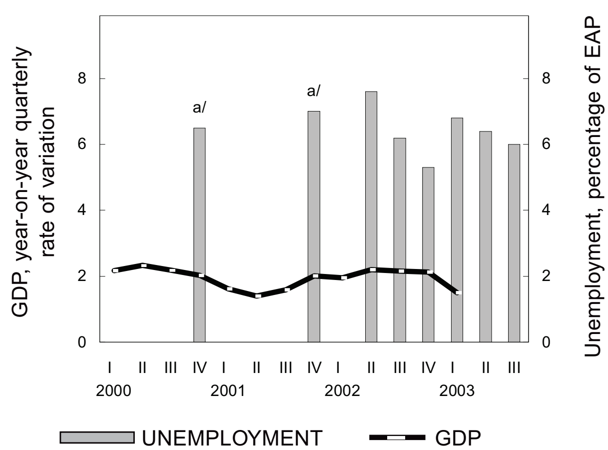
The sectors that grew and had a positive effect on GDP were manufacturing (2.8%), commerce (1.1%), finance (2.8%) and transport (3.1%). In contrast, the fall-off in the agricultural sector (-0.6%) was linked to the slow recovery of coffee and sugar prices on the

EL SALVADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.7	2.1	2.0
Consumer prices	1.4	2.8	2.6[b]
Money (M1)	17.6	-81.4	-41.3
Real effective exchange rate[c]	1.5	0.9	0.5[d]
Terms of trade	-3.1	-0.8	-1.3
Annual average percentages			
Urban unemployment rate	7.0	6.2	6.2[e]
Central government fiscal balance/GDP	-3.6	-3.1	-2.1
Real deposit rate	4.1	0.7	0.6[f]
Real lending rate	8.1	4.3	3.5[f]
Millions of dollars			
Exports of goods and services	3 587	3 799	4 057
Imports of goods and services	5 795	5 898	6 452
Current account	-190	-384	-617
Capital and financial account	12	260	883
Overall balance	-178	-124	266

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

EL SALVADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.
[a] Yearly average.

international market. The country's stalled economic growth in recent years is attributable in part to a systematic deterioration of the terms of trade.

Inflation as measured by the consumer price index showed a year-on-year rate of 2.6% in November 2003, and is expected to show a 12-month variation of 2.5% up to December. In the second quarter minimum wages in commerce and services, industry and maquila activities posted increases – the first since 1998 – ranging from 5% to 10%.

The balance-of-payments current account deficit rose to 4.1% of GDP, which was a significant increase over the 2002 figure of 2.7%. Inflows of family remittances continued to swell, reaching US$ 2.1 billion. That figure was slightly lower than the negative balance of goods and services, and represented more than three times the current account deficit.

The most noteworthy aspects of the performance of exports (6.3%) were the increase in sales of non-traditional products and the strengthening of maquila sales. Exports to Central America (23%) were up by 3%, whereas exports to the rest of the world climbed by 7.4%. Traditional exports slid by 10% overall, especially because of reduced sales of sugar (-21%) and coffee (-7.2%). Non-traditional exports rose by 4.4% and maquila exports, by 9%.

Imports surged by 9.6%, with most of the increase accounted for by imports of intermediate goods for manufacturing (10%) and of consumer goods (13%). The trade deficit therefore widened by more than 15% and came to represent 15% of GDP.

Foreign direct investment, which was down from the previous year, amounted to some US$ 140 million and was directed mainly at the maquila, fishing, finance and electricity sectors.

Guatemala

Guatemala's gross domestic product grew by 2.4% in 2003, so that per capita GDP contracted for the second consecutive year. The consumer price index increased by 5.8% (6.3% in 2002) and the primary fiscal deficit was equivalent to 1.6% of GDP (1% in 2002). These figures were in line with the targets agreed upon with IMF under the extension of the standby arrangement approved in June 2003, which was mainly intended to support economic stabilization.

The balance-of-payments current account deficit was US$ 1.1 billion, similar to the figure for 2002, and equivalent to 4.5% of GDP.[1] The deficit on trade in goods and services stayed close to its level of the previous year, at about US$ 2.8 billion. The increase in transfers from abroad, mostly remittances, offset the increase in the deficit on the income account. Higher levels of external borrowing were reflected in a US$ 380 million increase in international reserves.

1 In 2002 the balance-of-payments current account deficit represented about 5% of GDP.

The agreement with IMF was the key reason why economic policy did not neglect monetary and price stabilization, despite the pressures resulting from the holding of presidential elections. The low level of investment and sluggish job creation, however, are a cause of concern, and were mainly due to the downturn in construction, the virtual stagnation of manufacturing and difficulties in agricultural restructuring.

In 2004, if the United States economy remains buoyant, the country expects to achieve GDP growth of 2.6%, annual inflation of 4% to 6% and a fiscal deficit of between 2% and 3% of GDP.

Macroeconomic policy reflected the standby arrangement signed with IMF at the end of March 2002. This agreement expired on 31 March 2003 and was extended for another nine months as from 18 June in order to support a macroeconomic stabilization programme. The targets for 2003 were to reduce cumulative annual inflation to between 4% and 6%, increase international reserves by US$ 250 million, limit the combined public sector deficit to 1.7% of GDP and raise social spending to more than 5% of GDP (the 2002 target), with economic growth of 2.4%.

Resistance to tax increases on the part of some business groups hindered the management of public finances. Other adverse factors were the delay in the placement of Peace Bonds on the international market to finance commitments undertaken in the Peace Agreements, special outlays related to army demobilization, compensation payments to some 250,000 former combatants and the strengthening of the Savings Protection Fund and the National Mortgage Bank. Nevertheless, it is expected that the authorities will be able to limit the central government deficit to 1.6% of GDP and the consolidated public sector deficit to 1.7% of GDP, based on a tax ratio of 10.7% of GDP.

The fiscal deficit reflects the fact that the 13.9% increase in central government expenditure outpaced the increase in revenues (8.7%). Tax receipts showed modest growth of 8.4%. The deficit was financed through increased borrowing, both domestic and external. In particular, the external public debt in dollars rose by 12.3%. In 2004, given the payments to be made on public debt securities in the first few months and the pressure to make faster progress in implementing the Peace Agreements, the public deficit is likely to reach a figure of between 2% and 3% of GDP.

In 2003 the central bank continued to trade actively on the open market and to receive deposits from the central government. Thus, during the year the balance of monetary regulation instruments rose by 13.6% and liquidity (M1 and M2), by 5.2% and 6.1%, respectively. Although interest rates continued to fall, ample spreads kept lending rates at around 10% in real terms; deposit rates, meanwhile, were barely positive. Accordingly, credit to the private sector expanded by only 5.7% in nominal terms, which represents a decline in real terms.

Under the floating exchange-rate regime –with occasional intervention by the Central Bank– the quetzal showed a nominal depreciation against the dollar. By October 2003 the local currency had depreciated by 5.7% in nominal terms and 2.8% in real terms in relation to the dollar.

GUATEMALA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.6	2.2	2.4
Consumer prices	8.9	6.3	5.8[b]
Money (M1)	13.0	10.0	10.5
Real effective exchange rate[c]	-4.2	-8.2	4.6[d]
Terms of trade	-2.1	-1.0	-1.8
Annual average percentages			
Urban unemployment rate	…	3.1	3.4
Central government fiscal balance/GDP	-1.9	-1.0	-1.6
Real deposit rate	-0.1	0.8	1.5[e]
Real lending rate	9.3	10.0	10.8[e]
Millions of dollars			
Exports of goods and services	3 905	3 769	3 963
Imports of goods and services	6 070	6 622	6 797
Current account	-1 253	-1 193	-1 109
Capital and financial account	1 727	1 215	1 489
Overall balance	474	22	380

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

GDP growth in 2003 (2.2% in 2002) was driven by consumption (3.5%), both public (4.5%) and private (3.5%), the latter stimulated by a sharp rise in wages; this combined with lower import growth of 2.4%, compared to the 2002 figure of 8.4%. Gross fixed capital investment fell by 0.6% and inventories, by 15.9%, which counteracted their increase in 2002. The ratio of gross fixed investment to GDP in 2003 was thus less than 16%.

Significant features of productive activity were the decline in construction activity (4.3%), the slowdown in the agricultural sector (1.1%, compared to 1.8% in 2002) and stagnation in manufacturing (0.7%). While mining was more dynamic, it too lost momentum (3.4%, compared to 9.8% in 2002). In basic services, transport and communications continued to increase (5.5%), in the latter case because of the growth in cellular telephone services. Other services grew by 2.9% thanks to higher expenditure on government services (5%) and a moderate upturn in financial services (2.7%). In view of this sluggish expansion, open unemployment stood at 3.4% and underemployment, at 16% of the economically active population. The agricultural minimum wage went up by 14% in nominal terms and 8% in real terms, while other minimum wages rose by 16% (10% in real terms).

Although inflation tended to accelerate in the second half of the year, resulting in a slight rise in interest rates, the estimated increase in the consumer price index in 2003 was 5.8%, which was lower than the level recorded in 2002 (6.3%).

The growth of exports (6.1%), which outpaced that of imports, was sustained by an upsurge in international demand, a recovery in the prices of coffee, oil and certain export products and the real depreciation of the local currency. In view of high import levels in 2002, however, the deficit on trade in goods and services was similar to the previous year's figure, at around US$ 2.94 billion. The rise in net payments of profits and dividends (21.6%) was offset by the net inflow of current transfers, mainly family remittances, which increased by 9% in 2003. The current account deficit thus remained at about the same level as in 2002, and declined from 5.1% of GDP in 2002 to 4.5% in 2003.

Merchandise exports were up by 6%, driven by non-traditional products (12.4%), in particular clothing (54.7%), fruit and fruit preparations (42.4%) and food products (34.2%). Meanwhile, exports to other Central American countries increased by 5.2%. The value of traditional exports grew by 5.1% owing to the significant rise in the price of oil, sales of which were up by 18%, and in coffee exports (21%), which rose in both value and volume as a result of improvements in highland crops. In contrast, declines were observed in exports of cardamom (1.7%), bananas (6.4%) and sugar (9.3%).

Imports lost momentum, growing by only 2.4%, compared to 8.5% in 2002. Imports from Central America were down by 0.6%, while purchases from the rest of the world slowed down (2.8%, compared to 12.3% in 2002). Imports of capital goods fell by 5% and those of consumer goods remained stagnant (0.8%), while imports of intermediate goods rebounded by 7.4%, in view of higher fuel and lubricant prices (34.7%).

The increase in external borrowing, due in part to a government bond issue in the amount of some US$ 300 million, and inflows of short-term capital boosted international reserves by US$ 380 million, bringing the balance to US$ 2.75 billion. Foreign direct investment, however, remained stagnant.

Honduras

After two years of stagnation and decline in per capita output, the Honduran economy showed signs of recovery in 2003. GDP grew by 3%, raising per capita output by 0.4%.[2] This upturn, which was due to the recovery of both domestic and external demand, was not, however, sufficient to change the unfavourable trends observed in the labour market. At the same time, although the external deficit and the fiscal deficit widened, inflation dipped to 7.2% in a climate of exchange rate stability.[3]

Since the country failed to comply with the previous programme agreed upon with IMF, the authorities gave priority to macroeconomic stability rather than growth, with the aim of signing a new three-year programme with that institution.[4] However, owing to the delay in signing the agreement, the economy operated in a context of uncertainty. The agreement would not only send positive signals to investors regarding the credibility of the country's macroeconomic policies, but would also provide additional resources from multilateral institutions. Moreover, it would enable Honduras to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, a key objective in the authorities' efforts to fight poverty, since it would mean external debt relief of more than US$ 900 million over the next 15 years (US$ 550 million in net present value). Those resources would be used to combat poverty under the poverty reduction strategy that began to be implemented in 2002.

If external demand continues to improve, driven by growth in the United States (the country's main trading partner), Honduras could achieve growth of close to 4% in 2004, in a more stable macroeconomic environment. The balance-of-payments current account deficit would continue to increase, reaching about 6.6% of GDP, because of higher import levels resulting from the upturn in investment. The biggest question mark is the political viability of the fiscal adjustment, as government initiatives in this area prompted considerable criticism in the previous biennium.

The central bank's monetary programme for 2003 foresaw growth of between 3% and 3.5%, together with annual inflation of 7.5% to 8% and a central government fiscal deficit of 3.5% of GDP.

The Fiscal Responsibility Act now under discussion is the current administration's third reform in two years, as the previous two reforms yielded much less income than expected. Strong opposition from business groups prevented the implementation of some of the provisions of the Tax Equity Act adopted in April. The government suspended the provision for the withholding of 2.5% of income tax, one of the pillars of the reform. In the last quarter the authorities passed a general tax amnesty in order to regularize the situation of many taxpayers.

Total central government income increased from 19.4% of GDP in 2002 to 19.9% in 2003, while expenditure rose by one point to 25.3% of GDP. An unexpected increase in outlays was posted, mainly because of an agricultural debt forgiveness law passed by the Congress at a cost equivalent to 1.2% of GDP. As a result, the fiscal deficit exceeded projections, reaching 5.4% of GDP.

In the first three quarters monetary policy focused on pumping liquidity into the economy to produce a recovery through a reduction in interest rates, in the context of a gradually declining inflation rate and a stable exchange rate. In the fourth quarter, the issuing authority changed its approach to prevent the existing liquidity from being used to put pressure on the lempira in the foreign exchange market, given the large fiscal

2 Output grew by 2.7% in 2001 and 2.4% in 2002, resulting in per capita GDP variations of 0.0% and -0.2%, respectively.
3 In the 12 months ending in November 2003.
4 This programme is to be signed in the first quarter of 2004.

HONDURAS: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.7	2.4	3.0
Consumer prices	8.8	8.1	7.2[b]
Money (M1)	3.1	9.1	12.4
Real effective exchange rate[c]	-2.1	1.9	2.1[d]
Terms of trade	-2.2	-3.0	-2.8
Annual average percentages			
Urban unemployment rate	5.9	6.1	7.7[e]
Central government fiscal balance/GDP	-6.0	-5.2	-5.4
Real deposit rate	5.3	5.3	4.8[f]
Real lending rate	13.8	13.6	13.6[f]
Millions of dollars			
Exports of goods and services	2 436	2 458	2 601
Imports of goods and services	3 511	3 492	3 928
Current account	-293	-243	-454
Capital and financial account	293	307	455
Overall balance	0	64	1

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

deficit and the ongoing negotiations with IMF. Thus, the expansion of the three monetary aggregates until September, at rates higher than 10%, was attenuated by means of open-market operations in local currency and dollar-denominated certificates.

Weighted lending rates went from 22.06% to 20.47% between December 2002 and September 2003, while average deposit rates fell from 9.57% to 8.18% in the same period. This placed the interest-rate spread at 1,136 basis points. The reduction in interest rates, together with brighter prospects for the recovery of external demand, led to a 10% increase in credit demand up to September. Meanwhile, a series of mergers and acquisitions took place in the banking sector, as part of a turbulent consolidation process that has included various liquidations in recent years.

Exchange-rate policy has been geared to keeping the rate competitive and constant in real terms relative to the currencies of the country's main trading partners. The lempira depreciated by 5% over the 12 months ending in October under the system of daily public auctions of foreign exchange, meaning that the real exchange rate stayed practically the same. Trade policy revolved around the negotiations on a free trade agreement between Honduras, together with the other Central American countries, and the United States; the process was completed within one year as foreseen. In the meantime, the Central American Customs Union was put on hold.

Early in the year Nicaragua temporarily suspended its 35% tariff surcharge on Honduran exports, which it had applied since December 1999 in retaliation for Honduras's conclusion of a maritime border treaty with Colombia.

The 3% expansion of economic activity was driven by both domestic and external demand. Investment rallied (15%) after three years of decline, while consumption recorded an increase of 2%.

The fastest-growing sector was construction, which expanded by about 20%, almost offsetting the sector's contraction over the previous biennium. Also favourable was the performance of mining (10%), mainly in the quarrying segment. Manufacturing improved significantly (3.7%), thanks to the recovery of maquila activities. The performance of agriculture was uneven: there were downswings in some sectors, such as coffee, bananas and eggs, and upswings in others, such as basic grains, palm and meat.

Electricity, gas and water production increased by 6.2%, almost doubling the growth posted by transport, storage and communications. Commerce, restaurants and hotels were up by 3.5%, while public administration retreated slightly owing to the reduction in central government expenditure.

Consumer prices continued to fall, so that inflation at the end of 2003 (7.2%) was lower than it had been at the end of 2002, as expected. Wholesale prices increased by 5%, exceeding the previous year's rate but still trailing the growth of consumer prices.

Minimum wages went up by an average of 5.6% in real terms. Owing to the time lag between the onset of economic recovery and improvements in the labour market, open urban unemployment rose from 6.1% in 2002 to 7.7% in 2003. The maquila industry, however, added about 15,000 new jobs during the year, which augurs well for the future.

The current account deficit ballooned from an average of US$ 250 million over the last four years to US$ 450 million in 2003, as the trade gap widened by nearly US$ 300 million. Imports grew, by 12%, twice as fast as exports.

Exports of traditional goods continued to decrease, in contrast with non-traditional exports, whose value is now double that of traditional exports. Maquila activity increased by 5% and tourism, by 7%. There was an across-the-board recovery in merchandise imports, particularly purchases of machinery for thermoelectric plants and oil and fuel purchases. Remittances increased by approximately 15%, and to a large extent moderated the current deficit.

The financial account balance of US$ 450 million was sufficient to finance the current account deficit. Foreign direct investment surged by 50%; this rebound was related to the expansion of maquila activities, partly in anticipation of the free trade agreement with the United States and partly in response to that country's economic recovery. Net international reserves declined slightly to a level equivalent to four months' worth of imports.

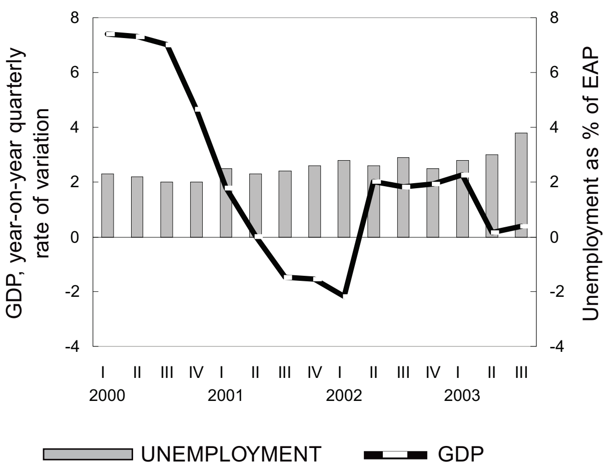
Mexico

In 2003 the Mexican economy was again characterized by low inflation and the disciplined management of public finances, but failed to break out of the low-growth cycle that had begun in 2001. Both the annual variation in the consumer price index (4% up to November) and the fiscal deficit (0.6% of GDP) were in line with the official targets, but the country's real GDP expanded by a mere 1.2%. Gross investment and non-oil exports showed downturns, while public and private consumption were slightly up. As a result, for the third year in a row, per capita GDP declined and open unemployment and part-time employment increased. Meanwhile, the effects produced by the external environment were mixed. On the one hand, oil prices were high –exceeding official projections– and interest rates came down. On the other, the economic recovery in the United States gave very little impetus to Mexican exports, which stalled as low productivity in the manufacturing sector eroded the international competitiveness of the country's products, especially against Asian competitors.

Another disturbing development was a drop in capital formation, also for the third year running. This was attributable to disagreement over the design and implementation of economic reforms and to the reduced availability of bank credit for productive activities. As a result, the business climate was clouded by uncertainty and a shortage of financing. Although fiscal, energy and labour reforms came up for discussion, no consensus was reached on their definition or implementation. While there is general agreement on the need to strengthen public finances, guarantee the long-term supply of electric power and modernize labour laws, neither the Congress nor the general public has been able to agree on the best strategies for attaining those ends. The proposed tax reform has been particularly controversial. [5]

5 The government submitted a proposal to reduce the rate of the value added tax (VAT) from 15% to 10% and to extend it to all goods and services, including food and medicine, which are currently exempted from this tax. It also proposed the imposition of an additional 2% tax on sales and services to the public, which would be absorbed by the state governments. As of late 2003 the proposals were still being

MEXICO: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

The extraordinary inflow of revenue from high oil prices and the decline in interest rates made it possible to meet the fiscal deficit target (0.6% of GDP).[6] The consequent availability of additional resources gave the authorities a degree of leeway in public expenditure. Current expenditure and investment were up by 9.6% and 6.3%, respectively, in the first nine months of 2003 in comparison to the same period of 2002.[7]

Monetary policy continued to be geared to keeping inflation low in the framework of an exchange-rate regime in which the peso's value against the dollar was allowed to float. In the first quarter of 2003 efforts were made to stave off the inflationary pressures that had emerged in 2002. In the course of those three months the annualized rate of expansion of the basic monetary aggregates –M1 and M2– fell by nearly three points, reaching a range of 10% to 11%, while the nominal annual interest rate –on treasury bills (CETES) and interbank operations– hovered around 10%, which was two or three points higher than its value at the end of 2002. The success achieved in containing inflation, together with concerns about sluggish economic activity, paved the way for a loosening of monetary policy. Starting in April interest rates tumbled and the expansion of liquidity proceeded at rates similar to those of 2002.

Monetary management had to contend with speculative movements that set off considerable exchange-rate fluctuations at different times during the year. In late November the exchange rate exceeded 11.20 pesos to the dollar, and the currency's average nominal depreciation over the year was estimated at 13% (or 10% in real terms).

The main monetary policy instrument for influencing nominal interest rates continued to be the so-called *corto*, or target level for commercial banks' cumulative monthly balances in their current accounts at the Banco de México. In the first quarter the *corto* was raised from 475 million to 700 million pesos per month, and in April this measure was replaced with a daily target balance of 25 million pesos (equivalent to 700 million pesos over 28 days). Another factor that influenced monetary policy was the rapid build-up of international reserves in the initial months of the year. In May the oil price hike boosted these reserves to a record level of US$ 55 billion; at the close of the year they amounted to US$ 50 billion. To limit quasi-fiscal losses due to the carrying cost inherent in the build-up of reserves,[8] the Banco de México introduced an ad hoc mechanism to try to slow down the rate of accumulation.

In view of low international interest rates, external liabilities were paid off ahead of time and new debt was incurred on better terms. At the close of 2003 total public debt was equivalent to 26.5% of GDP, a few points higher than its level of 12 months earlier. Part of the increase was due to the peso's nominal depreciation against the dollar.

After picking up by 2.3% in the first quarter, economic activity lost momentum for the rest of the year. The production of goods, especially manufactures, slid steadily until September. Construction was the fastest-growing activity (3.4%, compared to 1.7% in 2002). Basic services rebounded somewhat (2.5%), driven by public expenditure and private consumption. In the country's ailing manufacturing industry, the performance

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hotly debated in the Congress, with no sign of convergence among the three major political parties, the tax on food and medicine being the main sticking point.

6 Public budget revenues rose by 4.7% to an amount equivalent to 23.3% of GDP (22.6% in 2002). Oil revenues (which represented one third of the total) increased by 18%, but non-oil revenues dipped by 1%, primarily because of lower non-tax receipts, since tax receipts were up by 2.5% as a result of the increase in VAT revenues (8%).

7 Public-sector financing needs, which encompass all of the public sector's activities, regardless of whether the entities carrying them out are public or private, were equivalent to 3% of GDP, or 3.6% excluding non-recurrent revenues; in 2002 the rates were 3% and 3.4%, respectively.

8 Strictly speaking, the carrying cost is the difference between the rate of return on international reserves and the interest rate that must be paid on the instruments issued to finance their accumulation.

of export segments such as clothing and textiles (-8.2%), wood (-3.9%) and metal products, machinery and equipment (-7.0%) was especially poor.

Rises of 2% in both private and government consumption prevented per capita GDP from sagging even further. Inflows of family remittances and credit schemes for the purchase of consumer goods helped to bring about this result. Housing construction increased as well, thanks to an upturn in mortgage financing. Between January and August gross fixed capital formation retreated by nearly 1%, as the construction sector's renewed vigour (3.3%), primarily in the area of public works, did not offset the drop-off in machinery and equipment purchases (-5.3%).

In 2004 GDP is expected to grow by 2.8% in real terms. A rate this high would reverse the downturn in per capita GDP that began in 2001. Official projections place annual inflation for 2004 at 3% to 4% (similar to the 2002 rate) and the fiscal deficit at 0.3% to 0.5% of GDP. To speed up growth, the country must take steps to revitalize investment and boost manufacturing productivity and international competitiveness. Also important is the achievement of consensus on a tax reform that will raise tax revenues as a proportion of GDP, reduce their dependence on oil earnings and move towards the design of public budgets with medium- and long-term time-frames.

The country's slack economic growth drove up the average rate of open unemployment (from 2.7% in 2002 to 3.2% in 2003), slowed down formal-sector employment and produced an increase in underemployment. The number of people working in the informal sector was estimated at over 20 million, which is half the economically active population. Employment in maquila activities continued to shrink, as the number of jobs in this sector has dwindled by nearly 30% in the past three years.

By the end of the third quarter real wages had dipped by 1% in the maquila export industry and had risen by 1.5% and 4% in manufacturing and commerce, respectively. Productivity growth in the maquila industry, manufacturing and commerce failed to shake off its lethargy of the past five years, amounting to just 1%, 1.2% and 1.5%, respectively, as of July.

Modest increases in the value of exports (2.7%) and imports (1%) had the effect of narrowing the merchandise trade deficit. Up to October oil exports had swelled by 30%, but manufactures, which represent 86% of the total, had retreated (-1.6%), including both maquila (-2%) and non-maquila (-1.2%) exports.

MEXICO: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-0.3	0.8	1.2
Consumer prices	4.4	5.7	4.0[b]
Real wages[c]	6.7	1.7	1.7[d]
Money (M1)	15.1	18.7	9.8
Real effective exchange rate[e]	-6.5	8.6	10.9[f]
Terms of trade	-0.1	0.5	1.0
Average annual percentage			
Urban unemployment rate	2.5	2.7	3.2[g]
Central government fiscal balance/GDP	-0.7	-1.8	-0.6
Real deposit interest rate	6.3	0.5	1.5[h]
Real lending interest rate	9.1	3.5	3.8[h]
Millions of dollars			
Exports of goods and services	171 103	173 454	177 937
Imports of goods and services	184 614	185 419	187 318
Current account	-18 103	-14 046	-8 400
Capital and financial account	25 428	21 135	14 400
Overall balance	7 325	7 090	6 000

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Increase between November 2002 and November 2003.
[c] Manufacturing.
[d] Estimate based on the January-September average.
[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 January-October average.
[h] Annualized average for the period November 2002-October 2003.

The smaller merchandise trade deficit, together with a 35% increase in current transfers (mostly remittances), produced a significant reduction in the deficit on the current account of the balance of payments, from 2.2% of GDP in 2002 to 1.4% in 2003. Remittances amounted to some US$ 13.9 billion (US$ 10.3 billion in 2002). These inflows, which were equivalent to about 3% of private consumption, exceeded inflows of foreign direct investment, estimated at US$ 11 billion (US$ 14.4 billion in 2002).

The disappointing performance of non-oil exports was the result of several factors, including feeble productivity growth, the loss of international competitiveness suffered by the country's manufactures and reduced investment in machinery and equipment.[9]

9 Between 2001 and 2003 the share of Mexican exports in the United States market fell from 13% to 12.4%, while the share of Chinese exports surged by more than four points, approaching 16%. In terms of traditional export products such as textiles, clothing and footwear, as well as more sophisticated manufactures such as electronics and automobile parts, some Chinese products are partially displacing Mexican ones. In the textiles segment China's share jumped from 10.7% in 2002 to 14.6% in 2003, while Mexico's share slumped from 13.7% to 11.1%.

Foreign direct investment (FDI) is still one of the most important components of the capital account, but it brought in a smaller net inflow of foreign exchange in 2003 than in 2002. In 2003 most FDI was funnelled into the production of internationally tradable goods: manufacturing received 54% of the total, followed by financial services (21%), commerce (13%) and transport and communications (5.5%). The United States was once again the primary source of such investment.

Nicaragua

Despite increased consumer demand and a rise in public investment, GDP increased by only 2.3% in 2003 owing to the fall in private investment and the virtual stagnation of exports. Given the rate of population growth, per capita GDP slipped by 0.4%, bringing the cumulative downturn for the biennium 2002-2003 to 2.3%. Thus, as in 2002, the growth forecasts set out in the Strengthened Growth and Poverty Reduction Strategy did not materialize.

Economic policy was formulated within the framework of the financial support programme signed with IMF in December 2002. The fiscal deficit was reduced from 4.1% to 2.3%, which made it easier to achieve monetary policy targets concerning price and exchange-rate stability. The fall in the balance-of-payments current account deficit, combined with capital inflows, helped to strengthen the international reserve position. The country's fulfilment of its commitments with IMF will increase its chances of reaching the "completion point" under the Heavily Indebted Poor Countries (HIPC) Initiative by the end of the year. This would afford it debt relief amounting to 80% of the external public debt, estimated at US$ 6.4 billion.

In 2003 the country pursued its macroeconomic adjustment process in an effort to reduce the extreme financial and external vulnerability caused by a growing fiscal deficit, mounting liabilities, an increase in the central bank's quasi-fiscal deficit, a strong upswing in domestic public debt and declining net international reserves. Macroeconomic policy therefore took an austere approach.

In order to permit fiscal targets to be reached and to reinforce the poverty reduction strategy, in February 2003 the National Assembly adopted an amendment to the law providing for the expansion of the tax base. In addition, at the end of April it passed reforms of the tax system and general budget for 2003. This tax reform, whose object is to improve the tax system, includes tax incentives to promote exports. Higher budgetary allocations for various social sectors and an upturn in investment in infrastructure were also approved. As a result of the curbing of public expenditure and increased fiscal revenues, the central government's deficit narrowed from 4.1% of GDP in 2002 to 2.3% in 2003.

The tighter fiscal policy was designed in conjunction with a looser monetary policy. The main aims were to ensure that international reserves remained at a level conducive to the maintenance of exchange-rate stability as an anchor against inflation, and to reduce domestic debt with a view to increasing liquidity in the banking sector and thus narrowing interest-rate spreads. This coincided with the beginning of the process of recovering the assets of commercial banks that had been liquidated in previous years.

In the first half of the year the reserve requirement was maintained at 19.3%, of which three percentage points bore interest. The central bank decided to gradually reduce the interest-bearing portion starting in July, so that in December the reserve requirement stood at 16.3%. In the middle of the year the central bank's debt with private banks was renegotiated for the first time. Under the agreement, interest and principal payments on the negotiable investment certificates acquired by the main creditor bank were rescheduled for 10 years at an interest rate of 8.4%. As a result of this operation, the central bank will defer payments amounting to US$ 250 million in 2004, thereby improving its reserve position and making the tax programme more flexible, in the interests of production and social programmes.

In 2003 Nicaragua's economy showed signs of a modest recovery. After three straight years in which growth slowed considerably, GDP increased by about 2.3%. As exports virtually stood still, the modest upturn in domestic demand (1%) was due to increased public investment (9.2%) and consumption (3%). Consumption was boosted mainly by increases in family remittances, real wages and consumer and housing loans, given that private investment spending was down by 17.6%. On the supply side, the increase in GDP largely reflected the higher value added of construction, manufacturing (particularly in free trade zones) and transport, as well as a moderate recovery in the agricultural sector.

The poor performance of agricultural production for export was once more offset by the increased output of basic grains, thanks to technical assistance programmes. Services expanded at a rate similar to the one posted the previous year. Financial services, telecommunications and commerce turned in the strongest performances.

Although inflation was over two percentage points higher than its 2002 level, the annual inflation rate (6.5%) is almost in line with the established target. The rise in prices was due to short-term factors such as higher fuel and transport costs, adjustments in the rates charged for basic services and the effects of the tax reform on production costs, rather than to a deterioration of monetary conditions or an increase in domestic expenditure. The growth of the country's economy had a positive effect on employment and average real wages.

The recovery of economic activity was accompanied by a reduction of the external imbalance. The current account deficit (US$ 800 million) decreased by 9% as a result of the smaller trade deficit and an increase in current transfers (15.5%), especially family remittances, which remained on the upward trend seen in preceding years. Net capital inflows, including foreign direct investment, made it possible to finance the balance-of-payments current account deficit, increase net international reserves and provide stronger foreign-exchange backing for the monetary base.

NICARAGUA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	3.1	0.7	2.3
Consumer prices	4.8	3.9	5.3[b]
Real wages	4.3	4.3	2.4[c]
Money (M1)	15.3	0.1	2.2
Real effective exchange rate[d]	4.4	4.4	3.3[e]
Terms of trade	-8.3	-1.6	-3.4
Annual average percentages			
Urban unemployment rate[f]	10.7	12.9	…
Central government fiscal balance/GDP	-8.7	-4.1	-2.3
Real deposit rate	6.8	3.7	1.6[g]
Real lending rate	13.6	13.9	11.6[g]
Millions of dollars			
Exports of goods and services	947	916	936
Imports of goods and services	1 973	1 974	1 974
Current account	-932	-883	-804
Capital and financial account	665	673	519
Overall balance	-266	-210	-285

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

The value of merchandise exports was up by 1.4%, whereas imports dipped slightly (0.8%). The increase in exports was due to the upturn in sales of traditional products and the buoyancy of net exports from free trade zones, particularly maquila exports of textiles, since sales of non-traditional products shrank by 4%. The fall in imports reflected a decline in imports of capital goods, related in part to the completion of the investment cycle for the modernization and privatization of State enterprises. Imports of raw materials and intermediate goods, on the other hand, trended upward owing to the increase in purchases of oil, fuels and lubricants and imports of raw materials for industry and construction. At the same time, purchases of consumer goods rose considerably as credit became more readily available.

Panama

The main feature of the Panamanian economy in 2003 was a moderate recovery. The growth rate of about 3%, after two years in which it fell short of 1%, was higher than expected thanks to domestic demand and international services, and a slight increase is expected for 2004. Inflation remained low, the fiscal deficit widened slightly and the balance-of-payments current account deficit held steady at around 1% of GDP.

The government took advantage of the powers granted under the three fiscal laws promulgated in 2002 to define the economic policy framework, and implemented various infrastructure projects that facilitated the recovery of private activity. Construction grew rapidly as a result of fiscal incentives that entered into force in 2003 and expire in December 2004. Lastly, tourism posted good results, partly owing to the Republic's centenary celebration.

Tax revenues were up by 8% thanks to the 2002 tax reform and the recovery of economic activity. Other revenues contracted, however, so that total central government receipts increased by only 3%. Expenditure grew by 4%, although debt interest payments expanded by 8% and amounted to almost one quarter of total central government expenditure.

As a result of these trends, the central government deficit was equivalent to slightly more than 2% of GDP, but other public entities had surpluses, so that the negative balance of the non-financial public sector was lower.[10] In any case, the constant increase in the fiscal deficit in recent years raises questions, in view of the high level of debt. Public external debt increased by US$ 140 million, while total public debt rose to US$ 8.64 billion, equivalent to 67% of GDP.

With regard to trade policy, efforts to open external markets to the country's products continued in 2003 with the signature and entry into force of a free trade agreement with Taiwan Province of China. Moreover, the authorities formally announced the opening of negotiations for a free trade agreement with the United States.

For the banking sector, 2003 was a year of consolidation after the crisis caused by turbulence in some South American countries in 2002. Assets contracted slightly owing to the reduction in external assets, but profits, before provisions, grew by around 10%. Equity continued to grow in a situation of high liquidity, and the non-performing loan portfolio indicator continued to fall, going from 3.1% in 2002 to 2.7%. The banking system was also restructured, with the exit of various entities based in OECD countries and the entry of Central American banks.

Nominal interest rates on both deposits and loans dipped slightly, following the international pattern, although the lower inflation rate means that they increased slightly in real terms. Domestic credit demand improved, while external credit again declined. Mortgage loans expanded by 8% thanks to the extension of preferential interest rates for 10 years, while business and consumer loans rose more slowly.

The increase in GDP of about 3% reversed the tendency of per capita output to decline over the past two years. After a three-year slump, investment and the buoyancy of some export sectors once again boosted growth, while consumption grew more moderately.

The performance of the different sectors was uneven, as the upward trend has not yet extended to all of them. New service sectors (ports, telecommunications and tourism) did well, with rates that exceeded the average for the economy as a whole, but the Colón Free Zone and the international banking centre experienced contractions of about 5%.

10 The fiscal deficit of 2.6% of GDP shown in the table in this section and in the statistical appendix was calculated using the ECLAC database on GDP in local currency. Panama has revised its national accounts estimates, but has not yet published all the results. Once the new series are published, ECLAC will update its statistical database. The fiscal account figures in nominal terms included in this report coincide with those provided by official sources.

PANAMA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	0.4	0.8	3.0
Consumer prices	-0.1	1.9	1.3[b]
Real effective exchange rate[c]	2.5	0.7	3.7[d]
Terms of trade	0.5	-1.0	-2.1
Annual average percentages			
Urban unemployment rate[e]	17.0	16.5	15.6
Central government fiscal balance/GDP	-2.0	-2.4	-2.6
Real deposit rate	6.9	3.0	3.3[f]
Real lending rate	10.7	7.2	7.7[f]
Millions of dollars			
Exports of goods and services	7 997	7 567	7 275
Imports of goods and services	7 794	7 625	7 132
Current account	-174	-92	-130
Capital and financial account	818	152	111
Overall balance	644	60	-20

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from September 2002 to September 2003.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] Includes hidden unemployment.
[f] Annualized November 2002-October 2003 average.

Some agricultural activities (fruit and coffee growing) and fishing posted good results, while other segments, such as bananas and livestock, continued to perform poorly. The fishing industry surged by more than 20%. Mining and quarrying have performed well thanks to the extraordinary upswing (of about 25%) in construction. This resulted from temporary fiscal incentives for the sector, the start-up of private projects that had been delayed in the previous three years and the launching of various public-sector infrastructure projects. Manufacturing output diminished, and only cement production managed to avoid an even more serious decline.

The Panama Canal Authority achieved a positive result owing to an increase in tolls, as vessel traffic was down slightly. Domestic commerce shows signs of reviving, though still at modest rates.

Prices followed their traditional pattern of very small variations in comparison to those of other countries, rising by 1.3% between September 2002 and September 2003. The increase was more pronounced in the first half of the year owing to high international oil prices. Wages stayed virtually the same in real terms, and the urban unemployment rate was down from 16.5% in 2002 to 15.6%.

The balance-of-payments current account deficit stood at US$ 130 million, around 1% of GDP. Inflows to the financial account (including errors and omissions) were not sufficient to cover this deficit, and the overall balance ran a small deficit of US$ 20 million.

Exports contracted as a result of the decline in re-exports from the Colón Free Zone. This was due to the rather tepid economic performance of Venezuela, Colombia and Ecuador, Panama's main trading partners. Although prices are still low, the preliminary results for the third quarter show an improvement in volumes, which may augur a turnaround in free-zone operations. Meanwhile, locally produced exports rebounded to some extent. Non-traditional exports kept up their strong showing of previous years, with sales of watermelon, fish meal and fish oil expanding by more than 50%. Coffee exports also increased, but exports of other traditional products contracted.

Imports slipped for the fourth consecutive year, again reflecting a downturn in Colón Free Zone purchases, as total imports to the rest of the country scarcely changed. Within the latter category, imports of petroleum products rose by more than 50%, but imports of other products diminished.

A significant element in the financial account was the inflow of foreign direct investment, estimated at almost US$ 600 million. This was six times the previous year's figure, but represents a return to normal, as the 2002 level was exceptionally low.