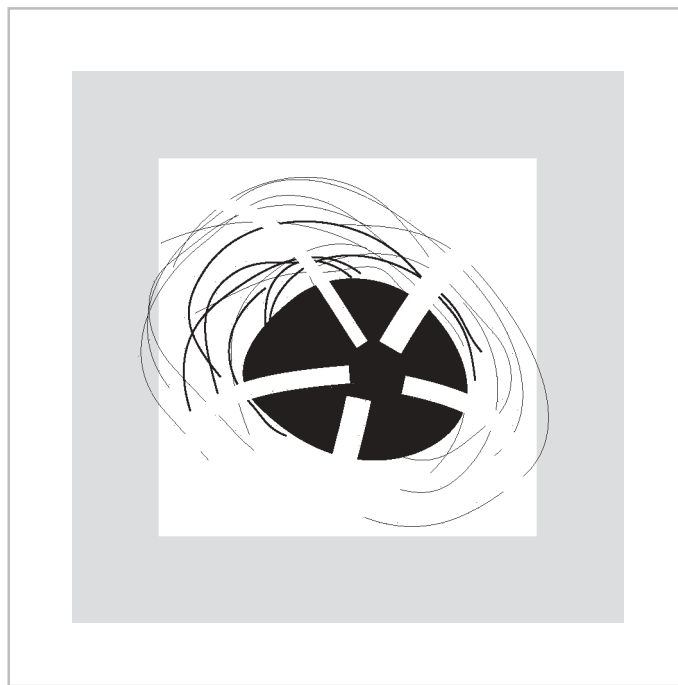


2004



Preliminary Overview of the Economies

**OF LATIN AMERICA
AND THE CARIBBEAN**



UNITED NATIONS

ECLAC

The *Preliminary Overview of the Economies of Latin America and the Caribbean* is an annual publication prepared by the Economic Development Division in collaboration with the Statistics and Economic Projections Division, the ECLAC subregional headquarters in Mexico, the ECLAC subregional headquarters for the Caribbean, in Trinidad and Tobago, and the Commission's country offices in Argentina, Brazil and Colombia.

We are grateful to the central banks and statistical offices of the countries in the region for their valuable cooperation in supplying the statistical information used in the preparation of the *Preliminary Overview*.

The national accounts data presented in this edition of the *Overview* are based on the official figures issued by each of the countries covered in this report; for purposes of comparison between countries, however, these statistics are expressed in constant 1995 dollars. Thus, in some cases there may be apparent discrepancies with the information issued by individual countries.

Explanatory notes

The following symbols are used in tables in this edition of the *Preliminary Overview*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

Use of a hyphen (-) between years (e.g., 2003-2004) indicates reference to the complete period considered, including the beginning and end years.

The word "tons" means metric tons and the word "dollars" means United States dollars, unless otherwise specified.

References to annual rates of growth or variation signify compound annual rates, unless otherwise specified.

Individual figures and percentages in tables do not necessarily add up to the corresponding totals because of rounding.

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Contents

	<i>Page</i>
Summary	7
Regional panorama	9
1. Introduction	11
Prominent features of the region's growth in 2003-2004	11
The international backdrop	16
The economic performance of Latin America and the Caribbean in 2004	16
The outlook for 2005	19
2. The external sector	21
Profile of the world economic recovery	22
The effects of world economic activity on Latin American and Caribbean exports	24
Commodity prices	26
The balance-of-payments current account	27
Trade in goods and services	28
The terms of trade	30
The region will witness an outflow of capital equivalent to 0.6% of its GDP for 2004	32
Net external transfers total 4% of GDP	34
Financial markets	35
3. Macroeconomic policy	39
Fiscal policy	39
Exchange-rate policy	43
Monetary policy	50
4. Domestic performance	57
Economic activity	57
Inflation	64
Employment and wages	66
South America	73
Argentina	75
Bolivarian Republic of Venezuela	78
Bolivia	81
Brazil	83
Chile	86
Colombia	88
Ecuador	90
Paraguay	92
Peru	94
Uruguay	97

	<i>Page</i>
Mexico and Central America	101
Costa Rica	103
El Salvador	105
Guatemala	107
Honduras	109
Mexico	111
Nicaragua	114
Panama	116
Caribbean	119
Bahamas	121
Barbados	123
Belize	125
Cuba	127
Dominican Republic	129
Guyana	132
Haiti	134
Jamaica	136
Suriname	138
Trinidad and Tobago	140
Organization of Eastern Caribbean States (OECS)	142
Statistical annex	145
Table A-1 Latin America and the Caribbean: main economic indicators	147
Table A-2 Latin America and the Caribbean: gross domestic product	148
Table A-3 Latin America and the Caribbean: per capita gross domestic product	149
Table A-4 Latin America and the Caribbean: gross fixed capital formation	150
Table A-5 Latin America and the Caribbean: financing of gross domestic investment	150
Table A-6 Latin America and the Caribbean: balance of payments	151
Table A-7 Latin America and the Caribbean: current account of the balance of payments	152
Table A-8 Latin America and the Caribbean: exports and imports of goods, f.o.b.	153
Table A-9 Latin America and the Caribbean: exports of goods, f.o.b.	153
Table A-10 Latin America and the Caribbean: imports of goods, f.o.b.	154
Table A-11 Latin America and the Caribbean: terms of trade for goods, f.o.b./f.o.b.	154
Table A-12 Latin America and the Caribbean: net resource transfers	155
Table A-13 Latin America and the Caribbean: total net capital inflows and net resource transfers	156
Table A-14 Latin America and the Caribbean: ratio of total accrued interest to exports of goods and services	157
Table A-15 Latin America and the Caribbean: ratio of profit payments to exports of goods and services	157
Table A-16 Latin America and the Caribbean: net foreign direct investment	158
Table A-17 Latin America and the Caribbean: international bond issues	159
Table A-18 Latin America and the Caribbean: total gross external debt	159
Table A-19 Latin America and the Caribbean: ratio of total disbursed external debt to exports of goods and services	160
Table A-20 Latin America and the Caribbean: stock exchange indices in dollars	160
Table A-21 Latin America and the Caribbean: real effective exchange rates	161
Table A-22 Latin America and the Caribbean: urban unemployment	162
Table A-23 Latin America and the Caribbean: consumer prices	163
Table A-24 Latin America and the Caribbean: average real wages	164
Table A-25 Latin America and the Caribbean: public-sector deficit (-) or surplus	165

Summary

The Latin American and Caribbean economy grew by about 5.5% in 2004, outstripping the most optimistic forecasts, while the region's per capita GDP is estimated to have risen by about 4%. In 2005 GDP growth is projected to come in at about 4%; this rate would be high enough to raise per capita GDP almost 5% above the level recorded in 1997, from which it had varied little until last year.

The satisfactory performance of the region's economies was closely tied to developments in the international economy. World economic activity picked up speed in 2004, resulting in estimated global GDP growth of just under 4% (versus 2.7% in 2003), while the expansion of world trade could top 9% (versus 5.8% in 2003). The United States and China were the engines of this expansion, which contributed to the commodity price hikes that have benefited many countries of the region, especially those in South America.

The upswing in world trade had the effect of prolonging the recovery in the terms of trade, which had begun in 2003 with an increase of 1.3%. This process gained momentum in 2004, with a 5.6% improvement attributable to a 10.5% increase in the prices of exported goods and a 4.7% rise in those of imported goods. The trends observed in the prices of commodities, especially petroleum and metals, were a key determinant of this outcome.

One feature that distinguishes the current upturn from other junctures in the region's economic history is the fact that for the second year running GDP growth has been accompanied by a surplus on the balance-of-payments current account, and both are on the rise. A related phenomenon is the fact that the substantial climb in output has occurred in a context of capital outflows. In 2004 net capital flows to the region dropped sharply but, in contrast to what had been observed in previous episodes, sovereign risk premiums also came down.

These aspects of the expansionary cycle that began in the second half of 2003 and gained strength in 2004 largely reflect the fact that demand was led by exports, followed by investment. Consumption moved more slowly than GDP and imports rose 2.6 times as fast as output. However, gross capital formation as a proportion of GDP, at 18.9%, is still trailing the average recorded in the 1990s.

The climb in the real exchange rate observed since the beginning of the decade has spurred an expansion in the supply of internationally tradable goods, replacing imports and increasing exports. Starting in 2003, and more markedly in 2004, propitious external conditions began to have a positive impact on the terms of trade.

Two phenomena warrant particular mention as regards macroeconomic policy. First, the countries' central banks lowered interest rates in keeping with the downward trend in risk premiums, thereby promoting economic recovery. A flexible approach to monetary policy also helped to keep the nominal exchange rate stable.

Second, while the maintenance of a high level of public saving did not facilitate economic expansion (since its effects were, at best, neutral), it did help to sustain the relative prices of tradable goods and to give greater leeway to monetary policy makers. The macroeconomic performance seen in 2004 resulted in a significant improvement in the Latin American and Caribbean countries' fiscal accounts.

The exchange-rate policies implemented in the region succeeded in keeping real exchange rates relatively stable, in a context in which currency movements were almost without exception unrestricted. This was no simple task, considering the prevalence of high commodity prices and the increase in export volume, especially in the case of South America.

The most striking feature of the region's labour market was the faster pace of job creation as a result of higher labour demand. In the absence of labour supply pressures, higher employment translated into a decline in the regional unemployment rate, from 10.7% in 2003 to 10.0% in 2004. This positive outcome, however, was due not to a widespread improvement in the region's labour-market indicators, but mainly to the trends observed in countries that are recovering from severe crises. It may be presumed that the decline in unemployment, along with a slight upturn in wage levels, contributed to the downturn seen in the region-wide poverty rate, from an estimated 44.3% in 2003 to an estimated 42.9% in 2004.

The rate of inflation continued to descend, reaching a region-wide average of 7.7% in the 12 months ending in November, as against 8.5% in 2003 and 12.1% in 2002.

The cycle of expansion begun two years ago is expected to continue in 2005, albeit at a slightly slower pace. Growth should average 4% region-wide, with positive rates in all the countries and smaller deviations from that figure. The outlook is not without risk, however, especially in view of the imbalances currently in evidence in the international economy, which could lead to higher interest rates and slower worldwide growth. In any event, Latin America and the Caribbean should seize this opportunity to alter the basis on which it participates in the world economy, boost aggregate productivity and improve income distribution.

Regional panorama



1. Introduction

The Latin American and Caribbean economies have grown by an estimated 5.5% in 2004, thus surpassing even the most optimistic forecasts, and their per capita GDP has expanded by around 4%. GDP growth for the coming year is also projected to reach approximately 4%. This will translate into a further increase in per capita GDP that will take it up to a level more than 11% above the average for the 1990s and to nearly 5% above its 1997 level, which was around where it had hovered until 2003.

Prominent features of the region's growth in 2003-2004

One of the distinguishing characteristics of the current recovery that makes it stand out from other events in the region's economic history is that, for the second year in a row, GDP growth has been coupled with a surplus on the balance-of-payments current account; moreover, both of these aggregates are on the rise. In the past, when GDP was growing, the current account was deteriorating, and when the current account was improving based on positive trade balances, this was because imports had contracted owing to slack domestic demand in the countries of the region. A strengthening current account has been combined with

GDP growth of over 2% for the region as a whole in only three of the last 20 years; the other two cases were 1987 and 2000, but the increase in economic activity has been sharper in 2004 than it was in either of those two years.¹

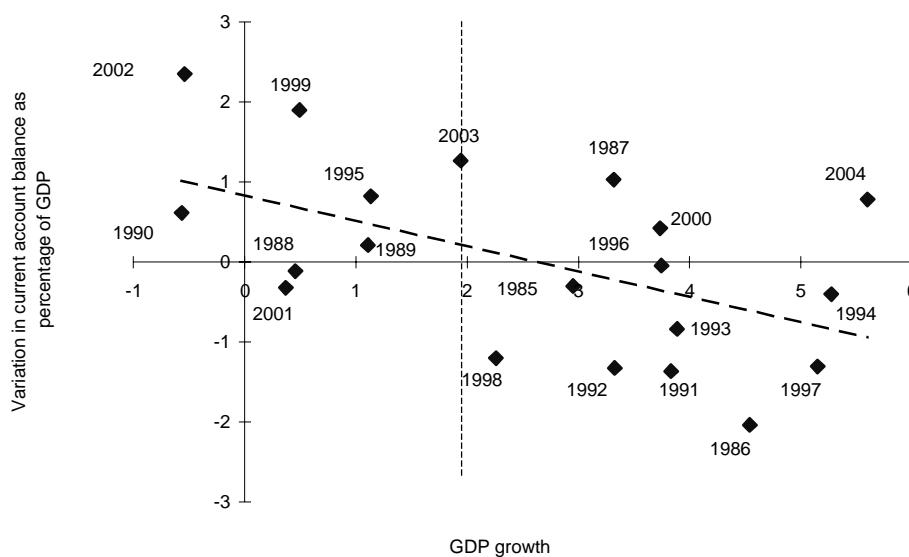
A second distinctive trait which is related to the first is that the sharp increase in GDP has occurred at a time when the region is registering capital outflows, which means that the net capital flow being received by the region is much smaller than it was in 2003. Decreases of this scale have never before been seen in conjunction with an increase in GDP growth. Furthermore, this

¹ The upturn in the terms of trade is one factor that the three episodes have in common; the major difference between the situation in this respect in 2000 and this year, however, is that in 2000 the improvement in the terms of trade was almost wholly due to the increase in oil prices.

situation has been accompanied by a downward trend in sovereign risk premiums, which are now approaching record lows. Thus, the net outflow of capital has coincided with strengthening demand for regional financial assets.

In view of the uniqueness of the current situation, an analysis of the process now under way is warranted in order to identify the factors that have given rise to this growth trend.

Figure 1.1
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE CURRENT ACCOUNT BALANCE AS A PERCENTAGE OF GDP AND GDP GROWTH



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

Since the start of this decade, the region has been witnessing an increase in the real exchange rate. This upward trend (which has been steeper and stronger in South America, whereas in some of the Central American countries and Mexico, it was slower to take shape and has been somewhat less marked) has driven up the relative prices of tradable goods, thereby providing an incentive to expand exportable supply and hence to substitute such goods for imports and to expand export activity.²

As was to be expected, the increase in the real exchange rate has had the effect of diminishing income levels, especially in the case of wage earners, and has thus reduced total expenditure (thereby causing the exportable surplus to expand) and redirected it towards domestic production (thereby reducing imports). This is a plausible description of what occurred in 2002 and part of 2003, which was a period marked by very slow

GDP growth and a hefty trade surplus which enabled the region to post a positive balance on its current account in 2003. Owing to the effects of the stabilization programmes implemented in previous years and of the recession and unemployment triggered by the adjustment, the recovery of relative prices did not generate any major inflationary pressures. Of course, this general description is simply an attempt to trace the chain of events occurring in the region as a whole, since there are important differences to be observed across countries.

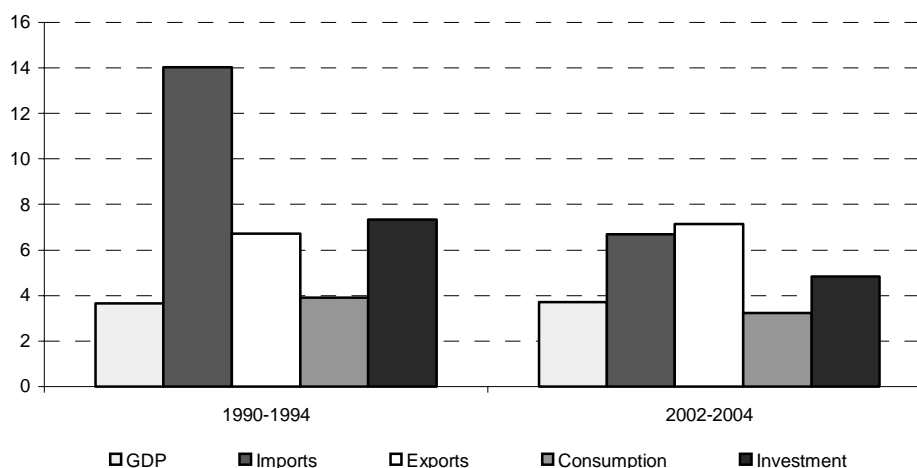
Starting in 2003 but especially in 2004, favourable external conditions began to have a positive effect on the terms of trade. This, in turn, increased the purchasing power of export earnings and, since export activity was becoming more profitable, stimulated the growth of exportable supply. As a result, exports became the initial

² Generally speaking, the countries of the region can sell the sum total of their output without influencing prices. There are some exceptions, however, in cases where Latin America is the supplier for a sizeable portion of the total market for certain export commodities. Be this as it may, the expansion of exports reflects a number of longer-term factors, including the technological modernization and investments undertaken in the region in past years.

driving force behind the recovery of economic activity, in conjunction, especially in the beginning, with an increase in the supply of import-substituting domestic goods. Since the context for these events included high

unemployment, low real wages, an underutilization of installed capacity and, in many cases, a recent history of great instability, it comes as no surprise that domestic demand was slow to react.

Figure 1.2
LATIN AMERICA AND THE CARIBBEAN: TOTAL SUPPLY AND DEMAND
(Annual growth rates)



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

Macroeconomic policy has made two important contributions to the situation. First, the countries' central banks lowered interest rates as the level of activity began to recover based on a flexible monetary policy that also helped to sustain the nominal exchange rate. Secondly, the public sector maintained a high savings rate, and although this did nothing to facilitate the expansion of the economy (in the best of cases, it was a neutral factor), it did help to sustain the relative prices of tradables while at the same time giving monetary policy makers a certain degree of flexibility.

As exchange rates remained high and the impact of this strategy was, particularly from 2003 on, heightened by the improvement in the terms of trade, the upward trend in exports gradually began to be accompanied by an upswing in investment and, although the response of consumption was slower in coming (owing to low wage levels), GDP growth started to pick up. This elicited an elastic response from imports, which began to rise accordingly.

This process, which had begun to take shape in 2003, has firmed up in 2004. Exports have expanded further; the upward trend in investment has grown more

solid, especially in tradables-producing sectors; and the region has begun to see a substantial increase in employment and a slight rise in real wages. This has spurred overall consumption, although the consumption of durable goods had already begun to pick up in response to the decline in interest rates.

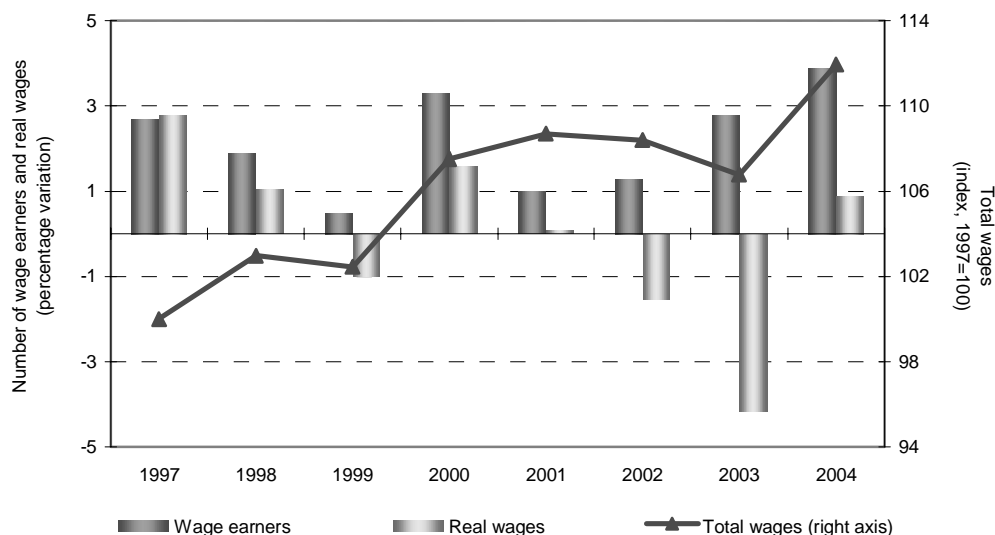
As a result, GDP growth has accelerated, thereby spurring an expansion of imports and giving rise to a situation not seen in the region in at least the past 50 years: the region has posted a positive economic growth rate, for the second year running, in combination with a current account surplus. Unlike past episodes, the trade surplus that is underpinning the positive balance on the current account is not based on a drop in imports. In fact, imports have exhibited a GDP elasticity of 2.6 and, in real terms, have begun to rise faster than exports. Thus, the "terms of trade effect" is gradually emerging as a decisive element in accounting for the trade surplus and, in conjunction with remittances, the surplus on the current account as well.

It is noteworthy that, with the sole exception of Haiti, all the countries of the region have grown in 2004. What is more, for only the second time in the last 20 years, the

region's six largest economies have all grown by more than 3%. This expansion has, as noted earlier, been coupled with an increase in gross capital formation, although, when expressed as a percentage of GDP (18.9%

of GDP in 1995 dollars), this aggregate is still slightly below the average for the 1990s. Private consumption, meanwhile, has continued to grow more slowly than GDP, thereby helping to raise the savings rate.

Figure 1.3
LATIN AMERICA AND THE CARIBBEAN: TOTAL WAGES, 1997-2004



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

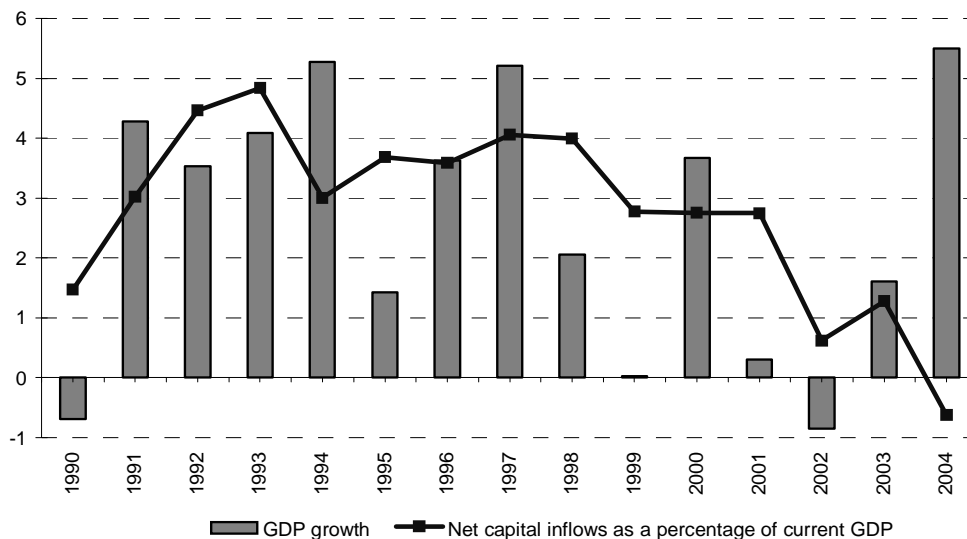
Another striking aspect of the situation is that the region's economy has grown at a time when it is witnessing a net outflow of capital which has translated into a net reduction in capital inflows of nearly US\$ 34 billion (1.7% of GDP) since 2003. This is only the second time that per capita income has risen when capital flows are shrinking. The other instance was in 1994, but in that case the significant decrease in net inflows of external capital was caused by the outflow of capital from Mexico in the final quarter, which had few consequences in terms of economic activity during that year but had a strong negative impact in 1995.³

This situation stemmed largely from the sizeable current account surplus, which made it possible to reduce domestic interest rates, thus discouraging capital inflows. The significant decline in the region's country risk—which, at 451 basis points as of November, is currently approaching the historical minimum of the series, as noted earlier—indicates that these capital outflows are due not to an increase in the region's risk rating, but rather to the fact that the downturn in local interest rates has in many cases outpaced the decline in the cost of external financing.⁴

³ In 1994 there was a net capital outflow of approximately US\$ 19 billion, but if it had not been for the net outflow of somewhat more than US\$ 33 billion registered by Mexico in the final quarter of that year, the net flow would have been positive.

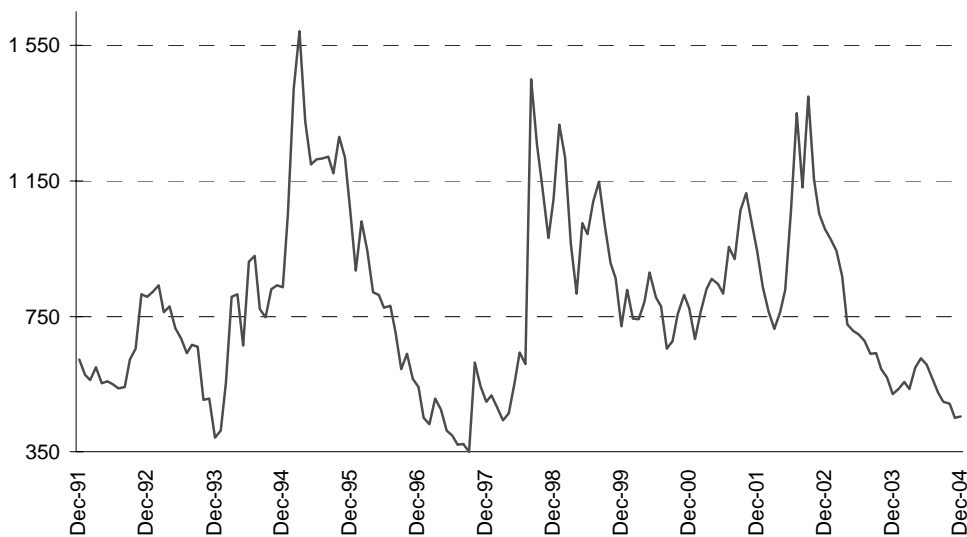
⁴ Excluding Argentina, the region's average country-risk spread is about 360 basis points.

Figure 1.4
LATIN AMERICA: GDP GROWTH AND NET CAPITAL INFLOWS



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

Figure 1.5
LATIN AMERICA: AVERAGE COUNTRY-RISK SPREAD



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

The counterpart to these trends in the capital and financial accounts of the region's balance of payments is the current account surplus achieved in this period, which reflects not only the brisk growth of exports in real terms,

but also the improvement in the terms of trade, whose impact on the purchasing power of export earnings was equivalent to a capital inflow of US\$ 24 billion. The increase in remittances added another US\$ 40 billion.

The international backdrop

As noted earlier, the region's strong economic performance was closely tied to developments in the international economy. World economic activity picked up speed in 2004, resulting in estimated global GDP growth of just under 4% (versus 2.6% in 2003), while the expansion of world trade could top 9% (versus 5.5% in 2003). The United States and China have propelled the expansion in global economic activity, which has contributed to the commodity price hikes that have benefited many countries of the region, especially those in South America.

For 2004 as a whole the United States' GDP is likely to expand by just over 4% (as against the 3% recorded in 2003), although growth slowed down somewhat in the course of the year and will probably continue to trend downward in 2005. Durable goods consumption and housing investment, which had been sustaining the recovery, have begun to falter in the context of a large fiscal deficit that could exceed 4% of GDP and a worsening external imbalance that could raise the balance-of-payments current account deficit to 5.7% of GDP. The shortfall has been financed largely with inflows from Asian governments seeking to prevent their currencies from appreciating. The monetary policy stance changed in June, when the authorities began to raise the federal funds rate, and by mid-December, this rate stood at 2.25%. However, this did not curb the depreciation of the dollar, whose value had fallen by

9.5% against the euro and by 5.9% against the yen by the end of November.

China posted GDP growth of 9.5% in the first three quarters of 2004, which witnessed a continuation of the large-scale investment seen since 2003. Despite the various measures taken by the Chinese authorities to gradually cool down the economy so as to avert the danger of a sharp adjustment, as of the third quarter (in which GDP grew by 9.1%) the economy had yet to show any clear signs of slowing down, apart from a considerable slide in import growth.

Japan's growth could reach some 4% in 2004 (compared to the 2.5% posted in 2003) on the strength of exports, which were given a decisive lift by the expansion of Chinese and United States demand. Growth tended to slacken in the course of the year, however, probably in response to the slower increase in China's imports and the appreciation of the yen. The growth of the European Union's GDP is estimated at 2% for the year as a whole. Here again, the economy slowed down in the course of 2004, undoubtedly because of the sharp appreciation of the euro.

In keeping with its usual procyclical pattern, intraregional trade has risen steeply as the regional economy expands. The biggest increases in intraregional trade have been seen in the Andean Community and in MERCOSUR, but Mexico's and Chile's exports to other countries in the region are also up sharply.

The economic performance of Latin America and the Caribbean in 2004

Thanks to current trends in the world economy and world trade, the improvement in the region's terms of trade that began in 2003, when they rose by 1.3%, has strengthened in 2004, with a positive variation of 5.6% resulting from the 10.5% upturn in export prices and the 4.7% increase in import prices. Trends in commodity prices (especially in the cases of petroleum and metals) have been a decisive factor in this regard.

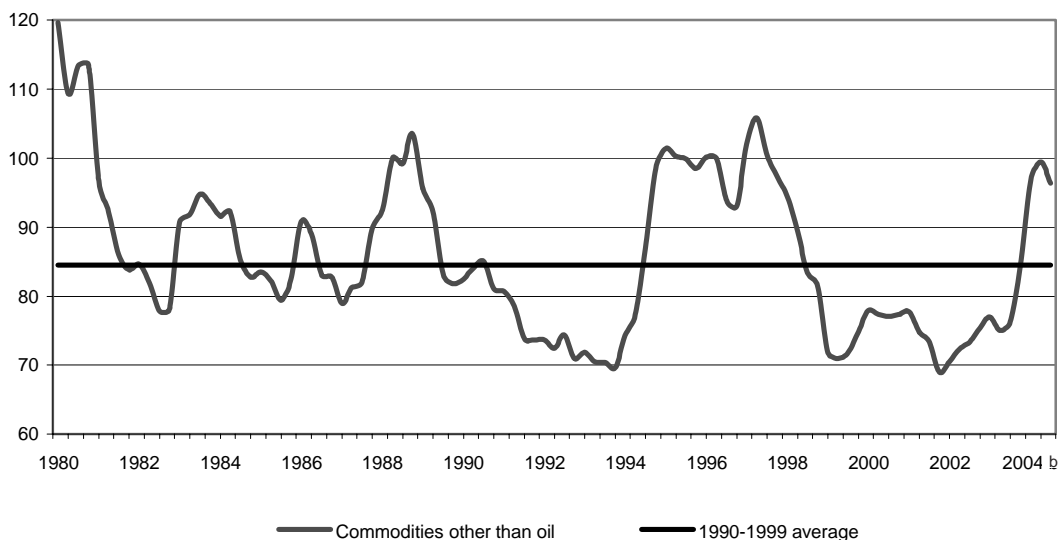
Among the countries that are net oil importers, which are thus at a relative disadvantage, this negative effect has been more than offset in the cases of Chile and Peru (which are metal exporters) by higher export prices. The combination of higher prices and larger

volumes has given rise to an almost unprecedented upswing in the region's merchandise trade. The sum of total exports and imports amounts to US\$ 860 billion (44% of GDP) and represents a 21.2% growth rate. Exports have expanded by 22.4% (10.8% of the increase corresponds to the rise in volume and 10.5% to higher prices), while imports have climbed by 19.8% (with 14.4% corresponding to volume and 4.7% to prices). For the third consecutive year, the region has posted a surplus on the merchandise trade account, with the positive balance rising at a rate of some US\$ 20 billion per year, thus reaching the 2004 figure of US\$ 61.875 billion (3.2% of GDP).

As mentioned earlier, the improvement in the terms of trade in 2004 has brought an additional US\$ 24 billion in foreign exchange into the region, which is more than the increase in the trade surplus and more than the

upswing in the current account balance. In other words, if it had not been for that improvement, both of these aggregates would have deteriorated slightly relative to their 2003 levels.

Figure 1.6
LATIN AMERICA AND THE CARIBBEAN: QUARTERLY MOVEMENTS OF NON-OIL
COMMODITY EXPORT PRICES, 1980-2004^a
(Indices: 1995=100)



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

^a Nominal prices, weighted by the share of each product category in the region's non-oil commodity exports in 1995.

^b Preliminary figures for the third quarter of 2004.

For the second year in a row, the region is posting a surplus (US\$ 21.8 billion, or 1.1% of GDP) on the balance-of-payments current account. The factors that account for the region's surplus are qualitatively identical to those that were at work in 2003, but this time their impact has been stronger. The positive components of the regional current account are the merchandise trade balance (US\$ 61.875 billion) and current transfers (US\$ 40.275 billion), for a combined balance of US\$ 102.15 billion. The services balance and the income balance both show deficits (US\$ 15 billion and US\$ 65.3 billion, respectively). The region has been drawing on its largest current account surplus in at least the last 50 years to build up its reserves by US\$ 9.3 billion (0.5% of GDP) and to pay off external liabilities equivalent to 0.6% of GDP. This will show up in the region's accounts as a capital outflow of US\$ 12.5 billion, which can be broken down into net autonomous outflows (registered on the capital and financial accounts, plus errors and omissions) of US\$ 19.4 billion and net compensatory inflows (use of IMF credit and exceptional financing) totalling US\$ 6.8 billion. The

variation in the region's autonomous flows can, in turn, be disaggregated into net inflows of US\$ 37.9 billion in FDI (1.9% of GDP) and US\$ 57.2 billion (2.9% of GDP) in outflows of portfolio investment and other capital.

With a net capital outflow equivalent to 0.6% of GDP (not counting workers' remittances) and a US\$ 65.3 deficit on the income account, the region will have made outward transfers totalling US\$ 77.8 (4.0% of GDP) in 2004, as compared to US\$ 34.367 (2.0% of GDP) in 2003. If remittances are included in the calculations, then the region's outward transfers are reduced to US\$ 37.5 billion, or 1.9% of GDP, versus a net inflow of US\$ 100 in 2003.

As of July 2004, the region's bond issues amounted to US\$ 17.509 billion, which was 15% lower than the total for the corresponding period in 2003 and equivalent to 31% of total emerging-market bond placements. It is important to note that, although the region has been losing ground to other emerging markets (Central Europe and Eastern Europe), some of the countries in the region have begun to issue long-term, local-currency instruments, and for the first time ever, the Inter-

American Development Bank has placed bonds denominated in the currencies of countries in the region.

The region's macroeconomic performance in 2004 resulted in a significant improvement in the countries' fiscal accounts that will enable them to accumulate a weighted average central-government primary surplus equivalent to 2% of GDP, as against the 1.8% surplus posted in 2003. The overall deficit (including interest on the debt) shrank from 1.2% of GDP to 1%. At a broader level of coverage that is more representative of countries that have a more highly decentralized public sector (Argentina, Brazil, Colombia and Mexico), the non-financial public sector's primary surplus increased, on average, from 3.2% of GDP in 2003 to 3.8% in 2004.

At least in the countries for which the relevant information is available, this year's fiscal out-turn is due more to revenue increases than to spending cuts. Revenues, buoyed by the generally favourable context, behaved in a manner consistent with the level of activity in 2004, rising slightly as a percentage of GDP in comparison to their 2003 level, but expenditure remained constant in real terms. The financial surplus made it possible to reduce debt-to-GDP ratios, but these ratios nonetheless remain very high, averaging 50% but exceeding 60% in seven countries of the region.

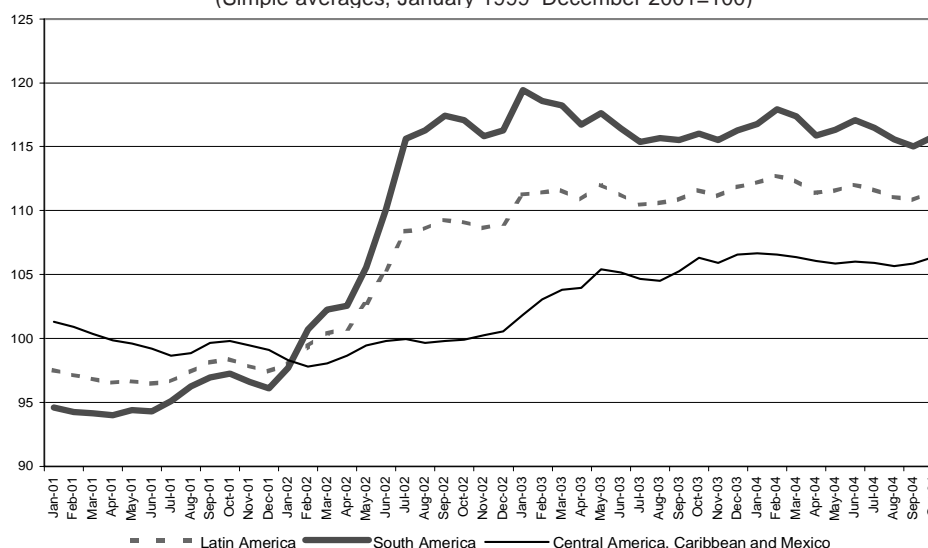
An analysis of movements in the benchmark interest rates set by the region's central banks in the course of 2004 reveals that, in general, monetary policy supported the recovery of domestic demand by bringing down the

cost of financing. Although there were some months in which inflation indices went up, prompting the countries' monetary authorities to raise interest rates, real interest rates generally followed a downward trend, with few exceptions, and even reached negative values in some cases.

This strategy was facilitated by the fact that public accounts were balanced and by the downturn in international interest rates in the first half of 2004. In this regard, the United States Federal Reserve Board's decision to raise interest rates and the expectation of further increases in the near future portend changes in the region's interest-rate trends, whose magnitude and sequencing will reflect developments in international financial markets, although these changes are likely to be relatively small.

The Latin American and Caribbean countries' exchange-rate policies, almost all of which were implemented in an environment free of constraints, succeeded in keeping real exchange rates relatively stable. This was no simple task, considering the prevalence of high commodity prices and the increase in export volume, especially in the case of South America. This subregion's effective exchange rates displayed a slight real appreciation, especially in the latter part of the year, that was particularly sharp in relation to the dollar. In Mexico and Central America, on the other hand, real exchange rates have been more stable; in fact, they showed a tendency to rise somewhat in 2004, especially in Mexico, although this trend subsided in the second half of the year.

Figure 1.7
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATES
(Simple averages, January 1999–December 2001=100)



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

Real exchange-rate movements in several Central American countries reflected a slight improvement in the terms of trade and, in some cases, an upturn in remittance inflows. The supply pressure that these developments exerted on the relevant countries' exchange markets coincided with the emergence of growing competition from Chinese products in the United States market, especially in view of the forthcoming expiration, in early 2005, of the Agreement on Textiles and Clothing. This situation has posed an economic policy dilemma for the subregion's central banks.

The most striking feature of the region's labour market was the faster pace of job creation as a result of higher labour demand. After the sharp upturn in labour-market participation in 2003, the labour supply expanded more moderately in 2004.⁵ This, together with the region-wide increase in the rate of job creation, reduced

the unemployment rate from 10.7% in 2003 to 10.0% in 2004. This positive outcome, however, is due not to a widespread improvement in the region's labour-market indicators, but mainly to the trends observed in countries that are recovering from severe crises. It may be presumed that this slight decline in unemployment, along with the incipient recovery of wage levels, contributed to the small downturn seen in the region-wide poverty rate, from an estimated 44.3% in 2003 to an estimated 42.9% in 2004.

The rate of inflation continued to descend, reaching a region-wide average of 7.6%, as against 8.5% in 2003 and 12.1% in 2002. Although trends in international commodity prices, particularly for food and oil, exerted upward pressure on price indices in the first half of the year, in the second half these pressures abated and inflation showed a fairly widespread tendency to decline.

The outlook for 2005

In 2005 the international environment is expected to be positive for the region, albeit less so than in 2004, as world economic growth is projected to reach some 3%. The probable slowdown in the United States economy and the recessionary and inflationary effects of high oil prices are the main factors underlying this forecast. Moreover, while the dynamics of the cooling-down process in the Chinese economy are as yet uncertain, that economy's growth is likely to be slower in 2005 than it was in 2004. Growth is also expected to slacken in Japan and the euro area. The risks currently facing the world economy are related to the imbalances in the United States economy and their potential impact on interest rates and the value of the dollar, the possibility of a sudden stop in China's growth, the uncertainty surrounding the oil market and the possible adoption of protectionist measures, especially in the United States.

On the basis of this external environment and trends in the region's economies, it is expected that the expansion begun two years ago will continue in 2005, although at a somewhat slower rate than in 2004. Economic activity is likely to pick up, resulting in a region-wide average growth rate of 4%, which would raise per capita GDP by about 2.5% (see table 1.1).

Table 1.1
LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH

Country	2003	2004	2005 ^a
Argentina	8.7	8.2	5.0
Bolivia	2.4	3.8	4.0
Brazil	0.6	5.2	4.0
Chile	3.3	5.8	6.0
Colombia	4.1	3.3	3.0
Costa Rica	6.4	4.1	3.5
Cuba	2.5	3.0	4.0
Dominican Republic	-0.4	1.8	2.0
Ecuador	2.3	6.3	3.5
El Salvador	2.0	1.8	2.0
Guatemala	2.0	2.6	3.0
Haiti	0.5	-3.0	2.0
Honduras	3.5	4.3	4.0
Mexico	1.2	4.1	3.6
Nicaragua	2.3	4.0	3.5
Panama	4.7	6.0	4.5
Paraguay	3.8	2.8	3.5
Peru	3.8	4.6	4.0
Uruguay	3.0	12.0	6.0
Venezuela (Bolivarian Republic of)	-9.7	18.0	5.0
Latin America	1.9	5.5	4.0
Caribbean	3.4	4.3	4.0
Latin America and the Caribbean	1.9	5.5	4.0

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

^a Projections.

5 The labour supply is represented by the economically active population, which increases or decreases according to rates of population growth and labour-market participation.

The question arises as to the extent to which the growth observed in the region is based on a solid foundation that can sustain this growth in the medium term, or whether, on the contrary, this performance is merely the outcome of conditions that have been extraordinarily favourable but may deteriorate in the near future, as noted above.

The reasons for believing that the region's growth is sustainable, albeit perhaps at rates lower than the ones posted this year, include the existence of a healthy domestic macroeconomic context; the maintenance of high real exchange-rate parities and the effect of this situation on the region's export supply; the still-low external dependence of demand in comparison to other components; the influence of the multiplier effect on the growth of demand; and the possible existence of repressed consumer demand that has thus far been held back by high unemployment and low real wages, but may tend to break free if 2005 proves to be a third straight year of economic growth. Furthermore, the region has a considerable current account surplus that

should be able to sustain relatively high growth rates, while no significant tension is foreseen in the external sector. Nevertheless, it must be borne in mind that not long ago (from 1996 to 1998), the region experienced a comparable episode of high international commodity prices that enabled it to build up a current account surplus, but that these circumstances were short-lived. Accordingly, in the short term the greatest risks seem to lie in the possibility of a traumatic adjustment of some of the imbalances currently in evidence in the international economy, since this would result in a drastic downturn in world GDP (and, therefore, in demand for the region's exports) and would heighten global uncertainty.

In any event, the region should seize this opportunity to alter the basis on which it participates in the world economy. In the medium term, this will require it to reduce its dependence on low-value-added natural resources, especially in the case of South America, and to correct its export profile's excessive reliance on low wages, particularly in the case of Central America and the Caribbean and, to a lesser extent, Mexico.

2. The external sector

In 2004 the Latin American and Caribbean region's external sector turned in an excellent performance, buoyed by the region's supply capacity with respect to both goods and services and by an international environment that strongly stimulated demand and prices. For the third year in a row the merchandise trade balance ran a surplus (3.2% of GDP), and for the second year in a row the balance-of-payments current account posted a positive out-turn (1.1% of GDP). The combination of this surplus with substantial GDP growth is unprecedented in the region and can be attributed to three factors: (a) the slow or zero growth that preceded it, which initially depressed imports; (b) relative price changes that were favourable for tradable goods in many countries of the region; and (c) higher export prices, which considerably improved the terms of trade.

The sharp upturns observed in the prices of a number of commodities were particularly beneficial for the South American countries that specialize in these products. These increases were largely due to the stimulus generated by the rapid growth of China's imports, in addition to the expansion of the United States economy. High commodity prices helped to boost the region's terms of trade, which improved much more than they had in 2003. As a result, the region's import capacity expanded, with external purchases rising sharply (by 19.8% and 14.4% in nominal and real terms, respectively), while its exports racked up one of the biggest increases on record (22.4% in nominal terms

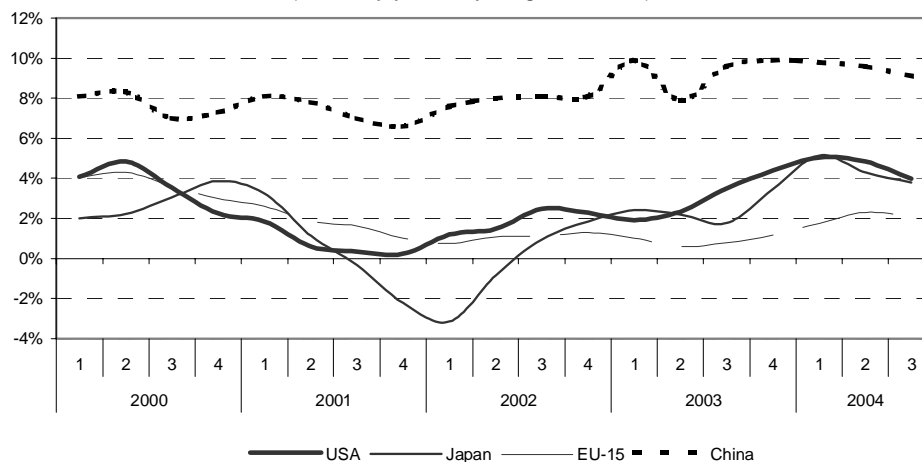
and 10.8% in real terms). On the other hand, these external conditions were not helpful to the resource-poor economies of Central America and the Caribbean, which saw their external accounts deteriorate in the course of 2004. The stimulus provided by the growth of United States demand has been insufficient to offset the higher prices of these countries' imports, while their exports have come up against fierce competition from Chinese products. The international environment should continue to be favourable in 2005, albeit to a somewhat lesser degree owing to the probable slackening of growth in the countries that account for the largest share of the world economy.

Profile of the world economic recovery

World economic activity picked up speed in 2004, resulting in GDP growth of about 3.9% (versus 2.6% in 2003), while the expansion of world trade could top 9% (versus 5.5% in 2003).¹ The vitality of trade reflects the external sector's key role in propelling growth in many countries. This expansion has been observed in both developed and developing economies and has been relatively faster in the latter group. The improvement seen in 2004 does not, however, mean that the low-growth phase that began in 2001 is unequivocally over. On the contrary, economic recovery has been elusive, as shown in figure 2.1. The expansion seemed to gain a firmer foothold starting in the third quarter of 2003, but growth in the leading economies slackened again

from the second quarter of 2004 onward. The United States and China have been the main engines of global economic activity.² Since 2003 the Chinese economy has enjoyed an investment boom that has had positive effects on activity in the other Asian countries, including Japan, and also in commodity suppliers such as some of the Latin American economies. In the United States, on the other hand, growth has reflected the effects of the one-off fiscal and monetary stimulus measures taken to forestall a deepening of the 2001 recession. The more moderate growth rates observed since mid-2004 have resulted mainly from changes in the factors underlying these two countries' economic expansion.

Figure 2.1
QUARTERLY REAL GDP GROWTH IN THE LEADING ECONOMIES, 2000-2004
 (Quarterly year-on-year growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States Bureau of Economic Analysis, the Statistical Office of the European Communities (EUROSTAT), the Economic and Social Research Institute of Japan and the National Bureau of Statistics of the People's Republic of China.

1 Based on United Nations, Department of Economic and Social Affairs, *LINK Global Economic Outlook*, New York, November 2004; aggregate growth calculated using market exchange rates.

2 The estimated size of China's share of the world economy is strongly dependent on the methodology used to convert its GDP to a common unit of measurement. This share amounts to 4% when estimated at market exchange rates, but reaches 13% when purchasing power parities are used. Beyond these measurements, China's impact should be gauged by the extent to which its imports have indirectly generated growth in other economies.

For 2004 as a whole the United States' GDP is likely to expand by just over 4% (as against the 3% recorded in 2003), although growth slowed down somewhat in the course of the year and will probably continue to trend downward in 2005. Durable goods consumption and housing investment, which had been sustaining the recovery, have begun to falter, and the negative growth of net exports has worsened despite the depreciation of the dollar. This loss of momentum can be traced to the gradual waning or reversal of policy stimuli, in a context of ballooning fiscal and external deficits. According to OECD estimates, the treasury's financing needs amounted to 4.2% of GDP in 2004, but the current account deficit on the balance of payments was equivalent to 5.7% of GDP.³ Given that private capital inflows have dwindled since 2001, the financing of this imbalance has become increasingly dependent on official inflows, particularly from Asian governments seeking to prevent their currencies from appreciating. In the first half of the year these flows were sufficient to cover 58% of the current account deficit. The monetary policy stance changed in June, when the authorities began to raise the federal funds rate, which had thus risen to 2.25% by mid-December. However, as the authorities have opted to raise rates gradually, they have not managed to curb the depreciation of the dollar. Accordingly, the exchange rate became the adjustment variable used to cope with the external imbalance, particularly towards the end of the year. The dollar depreciated by 9.5% against the euro and by 5.9% against the yen (year-on-year rates as of late November), creating tensions in the world foreign-exchange market. In addition to gradually tightening its monetary policy, the United States may take steps to strengthen its fiscal position, dampening economic growth in the process. The current situation of other variables raises doubts as to whether the country has entered a period of sustained growth. The personal saving rate is anaemic, at less than 0.9% of disposable income in the first nine months, while total gross debt has escalated to three times the value of GDP.⁴ The labour market also has yet to show a decisive improvement, despite the growth of output, and the use of installed capacity is still trailing its pre-recession level by 7%.

China posted GDP growth of 9.5% in the first three quarters of 2004, which witnessed a continuation of the large-scale investment seen since 2003. The investment

boom—comparable to the one observed in the early 1990s—was generated by the revitalization of world trade and of capital inflows thanks to high real and financial profitability and to expectations of a revaluation of the yuan. The liquidity created by these inflows triggered a huge jump in investment. The authorities have taken action to address problems of overinvestment in certain sectors, bottlenecks, the scarcity of inputs, a rise in inflation and increased risk in the country's fragile banking system. Banks' reserve requirements were raised and temporary investment controls were imposed, with the result that growth in GDP and other indicators declined in the course of the year. Nonetheless, given the country's negative real interest rates—which further boosted spending—and the continued vigour of growth in the third quarter (9.1%), short-term rates were raised slightly in late October. This increase, being the first in nine years, is a sign that stronger measures may be needed to cool down the economy's growth to the 8%-to-9% range in 2005.

Japan's growth could reach some 4% in 2004 (compared to the 2.5% posted in 2003) on the strength of exports, which were given a decisive lift by Chinese and United States demand. Growth tended to slacken in the course of the year, as the annualized rate of GDP growth went from 6.3% in the first quarter to 0.3% in the third, in response to the relative cooling-down of the Chinese economy and upward pressure on the yen. The European Union's GDP has followed a similar pattern, with annualized growth rates of 2.8% and 1.2% in the above-mentioned quarters. Here again, export growth was held back by the pronounced appreciation of the currency (euro); growth for the year will border on 2%.

The upshot of these trends is that the international environment will still be favourable for the region in 2005 but less so than it was in 2004, with world economic growth of about 3.2%.⁵ The slowdown in the United States economy, which is expected to grow by between 3.0% and 3.5%, and the recessionary and inflationary effects of high oil prices (see figure 2.2) will bring about this change of circumstances. While the outcome of China's economic boom is as yet uncertain, its 2005 growth rate is likely to fall short of the 2004 figure and is expected to be in the 7.5%-to-8.8% range. Japan will also experience a slowdown, to between 1.8% and 2.3%, and the euro area will witness an expansion of between 1.9% and 2.2%.⁶

3 Organisation for Economic Co-operation and Development (OECD), *OECD Economic Outlook*, No. 76, Paris, November 2004.

4 Total gross debt is the sum of external debt plus the liabilities of households, non-financial enterprises and local and federal governments, and in 2003 amounted to some US\$ 34 trillion.

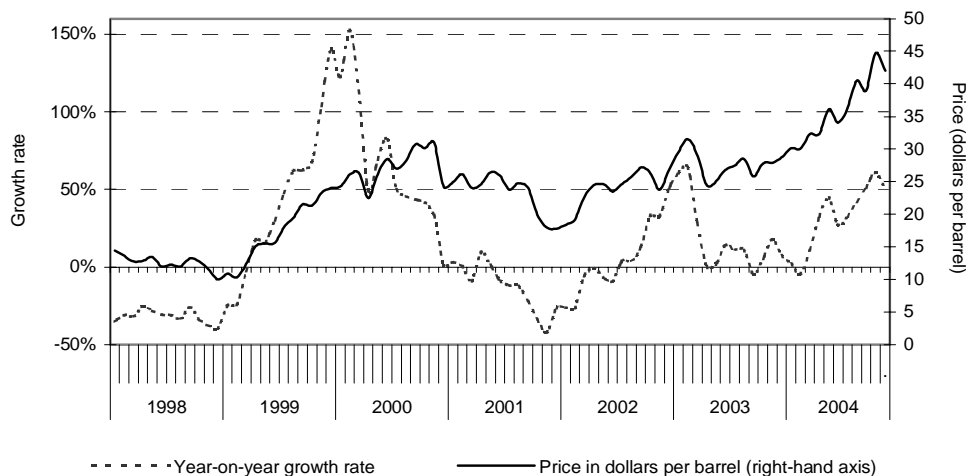
5 Aggregate growth calculated using market exchange rates. United Nations Department of Economic and Social Affairs, op. cit., and World Bank, *Global Economic Prospects 2005*, November 2004. When aggregate growth is calculated using purchasing power parities, these two institutions estimate growth rates of 3.8% and 4.2%, respectively, in 2005.

6 These projections were taken from United Nations Department of Economic and Social Affairs, op. cit.; OECD, op. cit.; World Bank, op. cit.; and International Monetary Fund (IMF), *World Economic Outlook*, September 2004.

Towards the end of 2004 a number of institutions lowered their projections for 2005 in view of the publication of discouraging indicators in some leading economies. The risks currently facing the world economy are related to the imbalances in the United

States economy and their potential impact on interest rates and the value of the dollar, the possibility of a sudden stop in China's growth, the uncertainty surrounding the oil market and the possible emergence of protectionist measures.

Figure 2.2
MONTHLY OIL PRICES,^a JANUARY 1998-NOVEMBER 2004
(Dollars per barrel and monthly year-on-year growth rates)



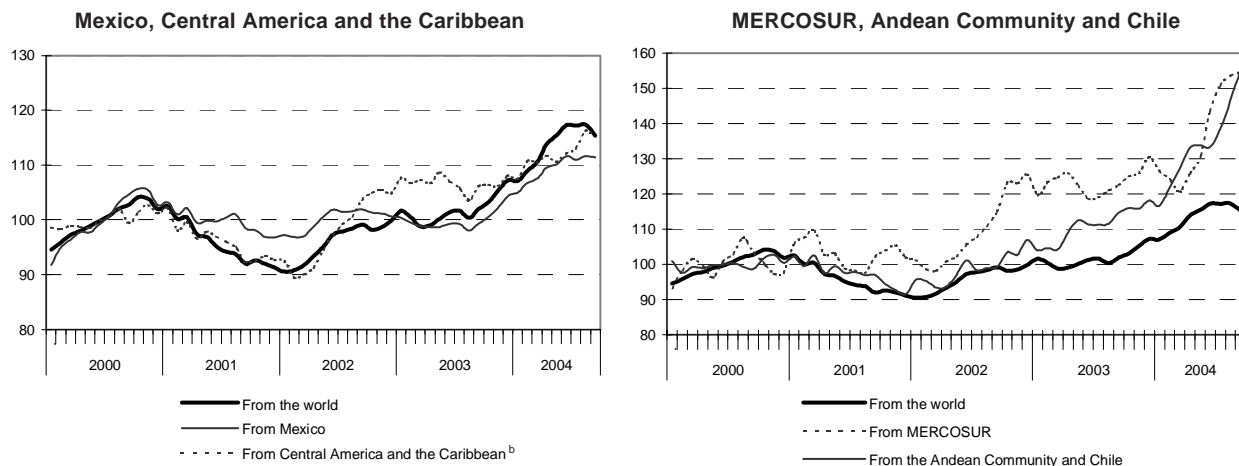
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund and the International Energy Agency.
^a World average, weighted by export volume.

The effects of world economic activity on Latin American and Caribbean exports

World economic activity has had an impact on the region, essentially by way of increased import demand in the United States and China. The recovery of the United States economy stimulated its non-oil imports (see figure 2.3), whose year-on-year growth between January and September 2004 reached a solid 13.7%, with a notable expansion in purchases from China (28.8%). The different countries of the region have taken advantage of this momentum to different degrees. Mexico's exports to the United States revived, after having languished for some time, and posted a rate not far below the growth of the worldwide total (11.3%). Exports from Central America and the Caribbean exhibited a much more modest increase (5.5%) because of the poor performance of those from Costa Rica, El Salvador and the Dominican Republic, although exports from Honduras, Nicaragua and Trinidad and Tobago rose considerably, owing in

this last case to sales of petrochemicals. Nevertheless, given the slower growth of exports from Mexico and from Central America and the Caribbean, these suppliers have continued to lose market share in the United States. The expansion of exports from MERCOSUR (15.4%) was driven mainly by those from Brazil, which accounted for 85% of the aggregate increase, with significant sales of manufactured goods (aircraft and inputs). Exports from the Andean countries (24.8%) were heavily reliant on commodity sales (gold and copper), although they also included sales of manufactures (clothing, jewellery and furniture), which were boosted by the Andean Trade Promotion and Drug Eradication Act (ATPDEA). United States imports from all countries levelled off around the middle of the year; this trend was closely mirrored by exports from Mexico but not by those from other parts of the region.

Figure 2.3
UNITED STATES: NON-OIL IMPORTS, JANUARY 2000-SEPTEMBER 2004^a
 (Index: 2000=100)



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

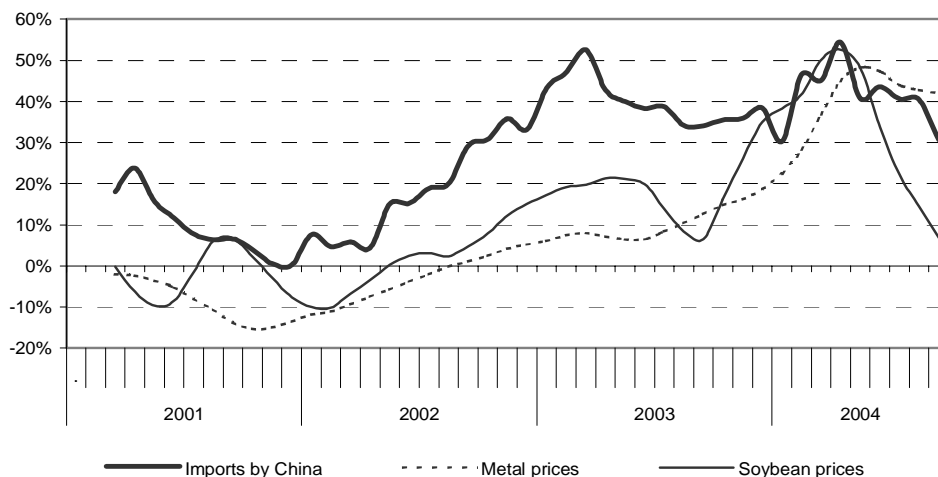
^a 3-month moving average of the respective series, seasonally adjusted.

^b Bahamas, Barbados, Belize, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Dominican Republic, Panama and Trinidad and Tobago.

The flourishing Chinese economy has been crucial to the external sector in a number of Latin American countries owing to the increase in its imports, particularly in the first five months of the year, when its purchases from the region swelled by 68.8% (while its imports from all countries rose by 41.0%). This phenomenon reflects

increases in both import volume and commodity prices. In fact, the trends observed in some commodity prices have been closely linked to China's import patterns (see figure 2.4), with the result that the slowdown in such imports from April onward has curtailed the upward trend in these prices.

Figure 2.4
MONTHLY IMPORTS BY CHINA AND SELECTED COMMODITY PRICES,
JANUARY 2001-SEPTEMBER 2004
 (3-month moving average of monthly year-on-year growth rates)



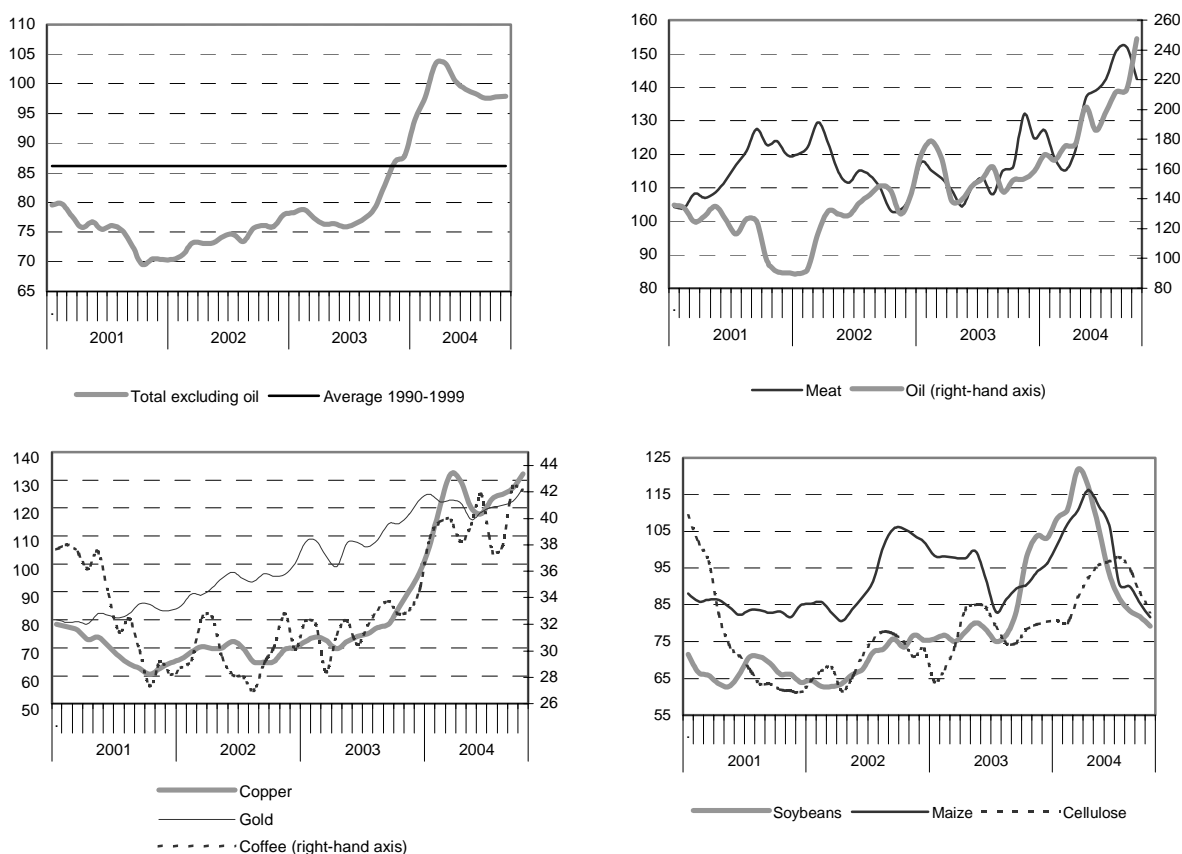
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of customs statistics from the People's Republic of China and official institutions.

Commodity prices

In the first 10 months of 2004 the price index for the commodities exported by Latin America and the Caribbean rose by 25.9%; excluding oil, the increase amounted to 27.1% (see figure 2.5). This outcome was strongly influenced by minerals and metals, whose prices surged by 41.9%, thus outstripping the rise in oil prices. In part, these year-on-year rates reflect the fact that the levels of these prices in the early months of 2003 provide a low basis for comparison. The index began to rise in

the second half of 2003 and peaked in April 2004, at which point it changed direction, falling by 5.4% between April and October (excluding oil). As a result of the price increases observed in 2003-2004, for three months the index exceeded the peak level it had reached in 1997, just before it had entered a five-year decline. Measured against a still less demanding basis for comparison, such as its average for the period 1990-1999, the index showed a 14.8% improvement in the first 10 months of 2004.

Figure 2.5
LATIN AMERICA AND THE CARIBBEAN: EXPORT COMMODITY PRICES,
JANUARY 2001-OCTOBER 2004
 (Index: 1997=100)^a



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

^a Indices weighted by the share of each product out of the region's total exports in 1995. For analytical reasons, the figures use 1997 as the benchmark year.

In relation to the peak level reached by the aggregate index in April 2004, three significant patterns of price behaviour can be discerned. First, the prices of some products have continued to rise since then owing to specific market situations. Examples of such products are oil and meat. In the case of oil, the upsurge in world demand since 2003 has led to the intensive use of installed capacity in some links of the production chain, where investment levels are low. Although the supply of oil increased in 2004, the industry's scant excess production capacity has magnified the impact of geopolitical tensions and short-term supply problems on oil prices. Consequently, the price of crude oil between January and October 2004 was 23.4% higher than it had been in the same period of 2003, and came on top of a 20.9% increase in 2003. The increase in meat prices was triggered by the closing of Pacific markets to United States meat exports

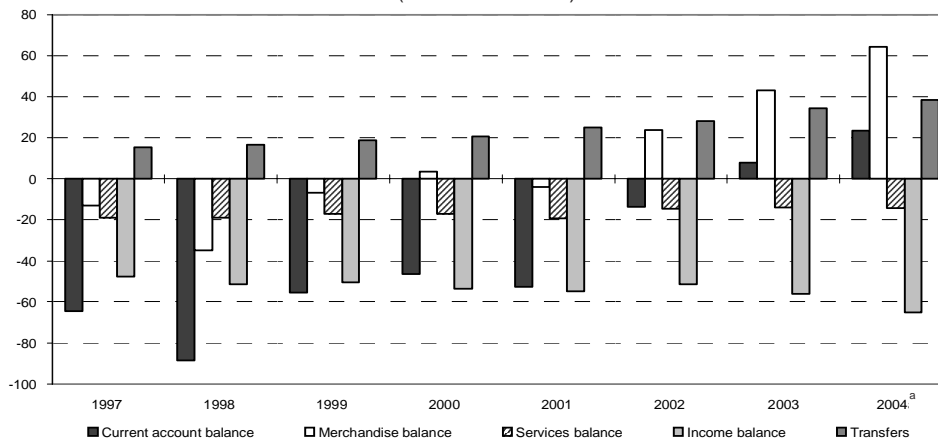
because of health and sanitation concerns. Other prices followed a second pattern consisting of sharp rises up until April 2004 and the maintenance of high levels since then, sometimes with considerable fluctuations. Copper, gold and coffee are some of the commodities that followed this pattern. These markets operate in conditions of scarcity brought about by rising demand (in the case of metals) or falling supply (in the case of coffee). The third pattern, in contrast, is one of dramatic price decreases since April 2004. A notable case is that of soybeans, a very important crop whose prices fell as a result of protectionist measures taken by China and, in particular, burgeoning world production, which contrasts with the 4% downturn posted in 2003. Projections for the 2004/2005 harvest point to a 20% increase in output, despite the outbreak of soybean rust discovered in the southern United States in November.⁷

The balance-of-payments current account

For the second year in a row, the region posted a surplus on the current account of the balance of payments. In 2004, this surplus amounted to US\$ 21.85 billion (1.1% of GDP), which was nearly a threefold increase over the balance recorded in 2003 (see figure 2.6).⁸ Brazil accounted for 51% of this amount, with the rest coming from Argentina, the Bolivarian Republic of Venezuela, Bolivia, Chile, the Dominican

Republic and Ecuador. Haiti, Panama, Peru and Uruguay all had nearly balanced current accounts, which in most cases represented an improvement over the preceding year's result. Moving in the same direction, Mexico cut its deficit by 18%. On the other hand, the current account deficits of the Central American countries (with the exception of Panama) were 9% larger in 2004 than in 2003.

Figure 2.6
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF THE CURRENT ACCOUNT BALANCE, 1997-2004
(Billions of dollars)



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

^a Preliminary figures.

7 United States Department of Agriculture, *World Agricultural Supply and Demand Estimates Reports*, December 2004.

8 In 2003, the current account surplus amounted to US\$ 8.1 billion (0.5% of GDP). This figure was corrected after the publication of the *Economic Survey of Latin America and the Caribbean, 2003-2004* (where the surplus was estimated at US\$ 5.9 billion), mainly because a new estimate was issued by the Bolivarian Republic of Venezuela which put the level of exports much higher than before.

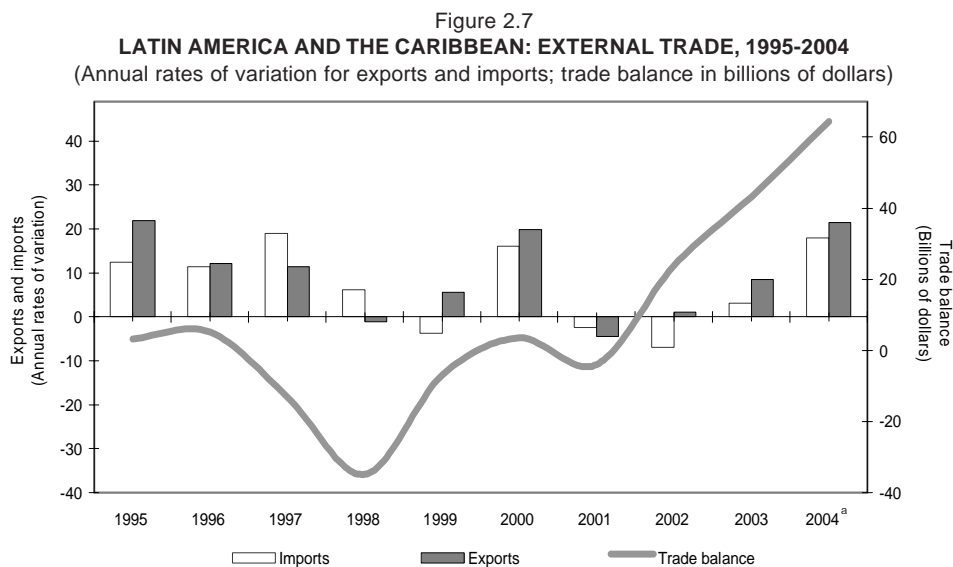
The factors that account for the region's surplus are qualitatively identical to those that were at work in 2003, but this time their impact was stronger. The positive components of the regional current account are the merchandise trade balance (US\$ 61.875 billion) and current transfers (primarily workers' remittances, which jumped by 16.8%), which totalled US\$ 40.275 billion,

for a combined balance of US\$ 102.15 billion. The services balance and the income balance both show deficits (US\$ 15 billion and US\$ 65.3 billion, respectively). The deficit on the services account deepened, but investment income expanded considerably (17.0%) thanks to the upswing in activity and the region's exchange stability.

Trade in goods and services

In 2004, the region's merchandise exporters turned in an outstanding performance. Total exports and imports amounted to US\$ 860 billion (44% of GDP), which was a 21.2% increase. Exports climbed by 22.4% and imports by 19.8% (as compared to 8.6% and 3.2%, respectively, in 2003). This was the third year in a row that a surplus has been posted on the merchandise trade balance, and since 2002 it has expanded at a rate of nearly US\$ 20 billion per

year, thus reaching the 2004 figure of US\$ 61.875 billion (3.2% of GDP) (see figure 2.7). It is interesting to note that in 2004 the effect of the improvement in the region's terms of trade was greater (130%) than the variation in the merchandise trade balance; in 2003, on the other hand, this effect accounted for only 27% of that variation, which was mainly a reflection of the increase in export volumes and sluggish growth in import volumes.



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

^a Preliminary figures.

The export sector's resounding success is the net result of three types of situations. First of all, in 2004 MERCOSUR and the Andean countries (including Chile but excluding the Bolivarian Republic of Venezuela) have further improved upon the remarkable export performance they achieved in 2003. These countries account for 55% of the expansion of the region's external sales this year. For the most part, their

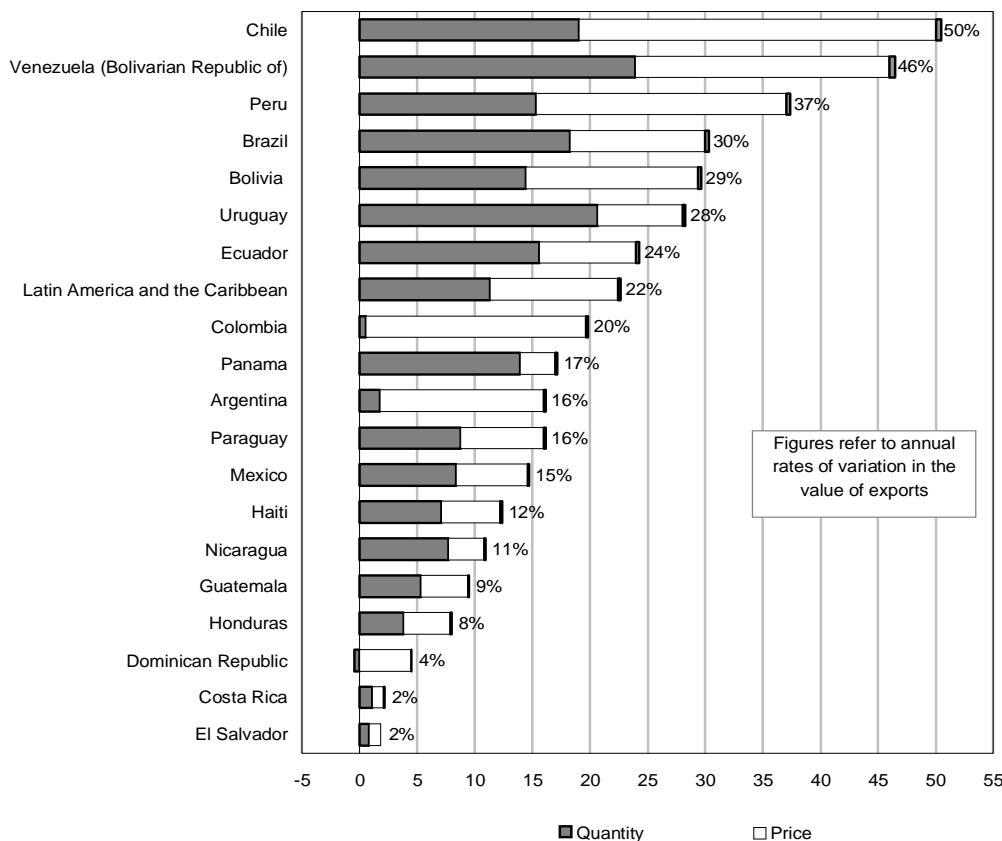
exports are associated with the supply capacity of a fairly limited number of agricultural and mining products for which current market conditions are quite favourable. These countries (particularly Argentina and Brazil) have also contributed to the growth of exports of manufactures, which are more sensitive to the advantageous level of the real exchange rate in a number of them. Secondly, there are the Bolivarian

Republic of Venezuela and Mexico, which have only now, in 2004, turned in a good export performance. Their important contribution to the growth of the region's exports (43%) to some extent thus represents a recovery from the low levels of earlier years. Thirdly, the Central American and Caribbean countries' export performance has been mixed and is much less striking than the rest of the region's. The markets for their agricultural exports have strengthened somewhat, but not as much as the markets for the South American

countries' products have and, as for their exports of manufactures, only countries with low labour costs have been able to take advantage of the reactivation of demand in the United States.

Estimates indicate that higher export prices and increased export volumes were each responsible for about half of the region's 22.4% export growth rate (see figure 2.8). Higher prices have been a more important factor in countries whose export mix includes a larger proportion of strongly performing commodities.

Figure 2.8
**LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE EXPORTS (f.o.b.)
 BY UNIT PRICE AND QUANTITY, 2004^a**



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

After four years of lacklustre results, the region's imports surpassed the peak level recorded in 2000. This indicates that, in a number of countries, economic activity has recovered the strength it had lost in recent years. All the countries posted positive growth rates for their imports, and in some cases –such as Argentina (60%) and the Bolivarian Republic of Venezuela (55%)– the increases were remarkable. Here, too, a recovery from abnormally low levels in earlier years

has been one of the contributing factors. Cases in point include Mexico (whose exports are closely linked to imports because of the size of its maquila sector), the Bolivarian Republic of Venezuela and the member countries of MERCOSUR. In these countries, the quantum of imports has been the primary cause for the increase. Exchange stability, or a slight appreciation of their currencies, has also been a stimulus for imports. Colombia's and Chile's imports rose above the levels

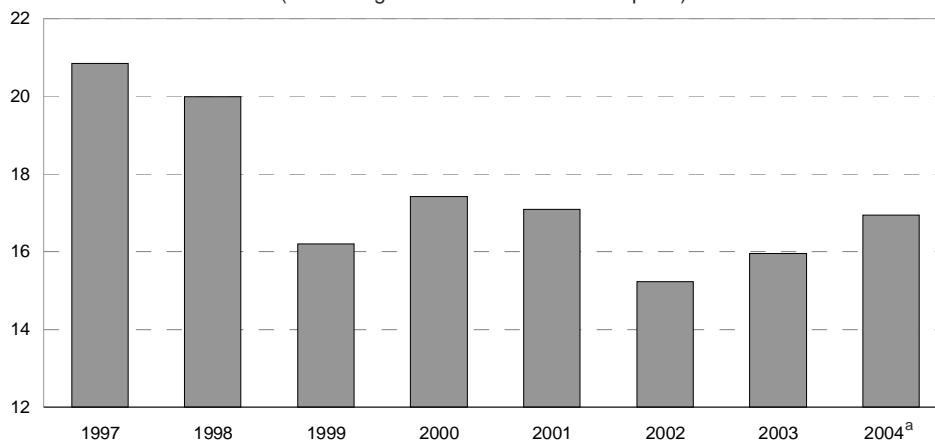
registered in 2000, after having regained those levels in 2003. In the case of the Central American and Caribbean countries, higher prices are a more important part of the explanation for the expansion of imports, a large portion of which are made up of raw materials whose prices have risen. For the region as a whole, 14 percentage points of the 19.8% expansion of imports of goods correspond to an increase in volume, with the remainder being accounted for by the upturn in prices.

Trade in services grew by around 9.1% in 2004 thanks to an upswing in tourism in the region and an

increase in freight and insurance, which reflects stronger demand for transport services and higher rates.

The fact that intraregional trade grew more (28%) than total exports did attests to its procyclical character. It now represents 17% of total exports, as compared to 16% in 2003. This level is similar to what it was in 2001, but is still far below the 21% share recorded in 1997 (see figure 2.9). The faster growth rate of intraregional trade was reflected in the figures for the Andean Community (36%) and MERCOSUR (34%); Mexico's and Chile's exports to other countries in the region also rose steeply, while trade within the Central American Common Market was up by 15%.

Figure 2.9
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE, 1997-2004
(Percentages of the total value of exports)



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

^a Preliminary figures, on the basis of the first nine months of the year.

The terms of trade

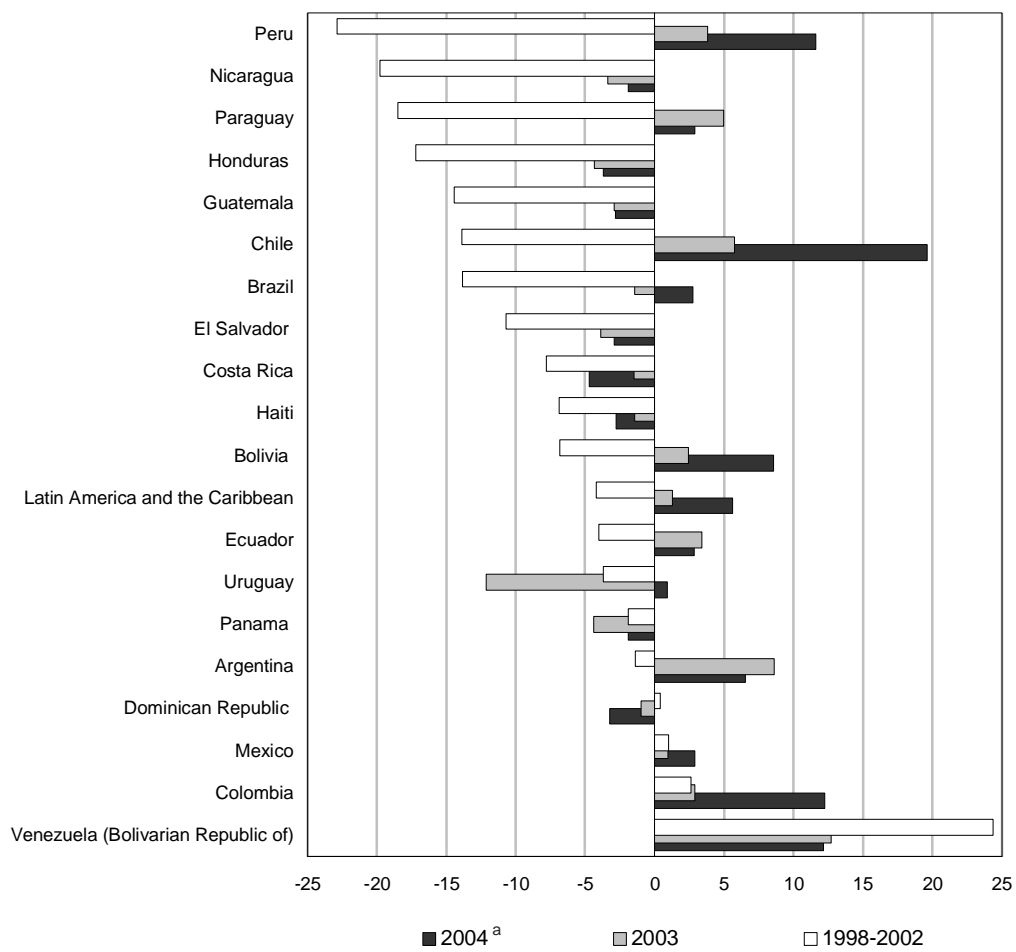
The upward trend in the terms of trade that had begun in 2003 (1.3%) strengthened in 2004, as a 10.5% rise in export prices and a 4.7% increase in import prices translated into a positive variation of 5.6% (see figure 2.10). The trend in commodity prices played a crucial role in this improvement. If petroleum is factored out of the calculations, however, then the increase amounts to 2.7%; in other words, the rise

in oil prices accounts for slightly over half of the upswing in the region's terms of trade.⁹ The surge in oil prices was, of course, a positive development for net hydrocarbon exporters¹⁰ and a negative one for net importers (see figure 2.11). Among the net importers, this negative effect was more than offset by increase in export prices only in the cases of Chile and Peru.

9 This estimate differs from the figure given in earlier editions of the *Economic Survey of Latin America and the Caribbean* and the *Preliminary Overview of the Economies of Latin America and the Caribbean* because the impact of oil prices on exports and imports is now calculated individually for each country. Previously, the variation in the terms of trade was calculated after excluding the total trade figures for net oil exporters.

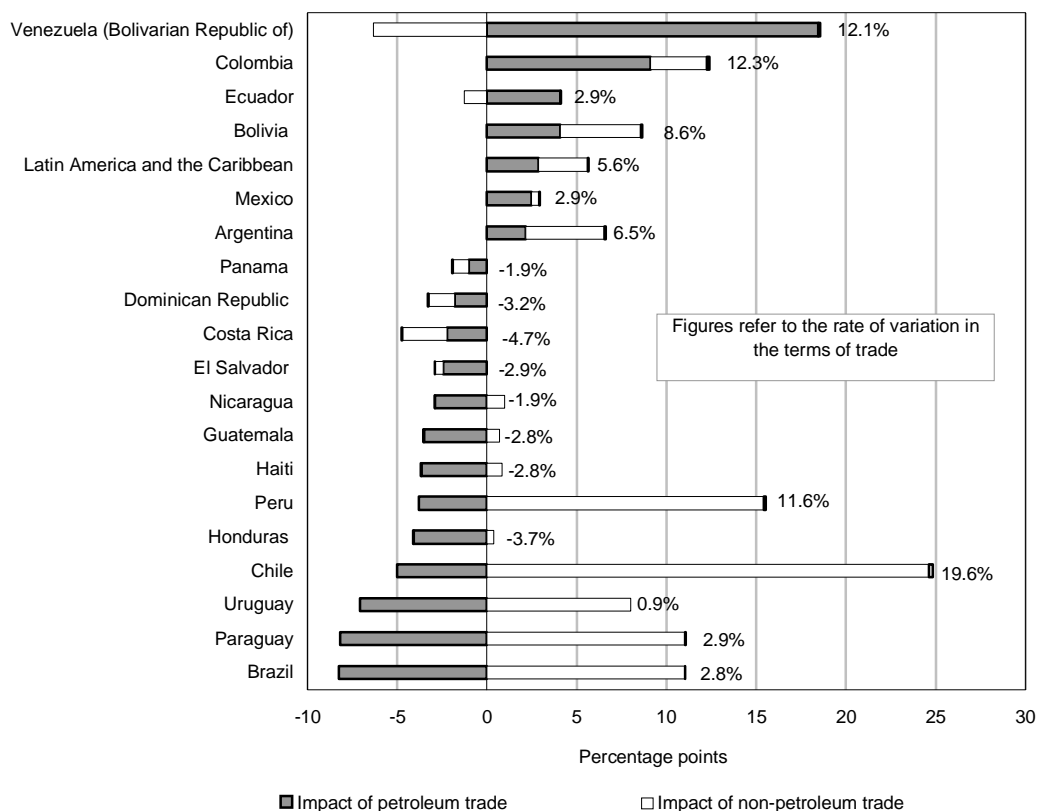
10 Argentina, Bolivarian Republic of Venezuela, Bolivia, Colombia, Ecuador and Mexico.

Figure 2.10
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE
 (Cumulative percentage variation, 1998-2002, and variations in 2003 and 2004)



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

Figure 2.11
**LATIN AMERICA AND THE CARIBBEAN: IMPACT OF PETROLEUM AND NON-PETROLEUM
 TRADE ON VARIATION IN TERMS OF TRADE, 2004^a**
 (Rates of variation and percentage points)



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

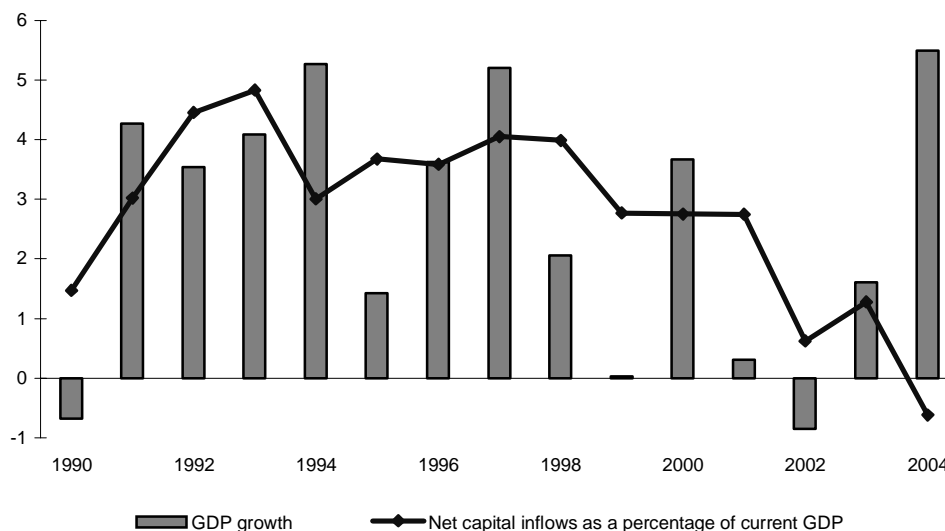
^a Preliminary figures.

The region will witness an outflow of capital equivalent to 0.6% of its GDP for 2004

The region has drawn on its hefty current account surplus (nearly US\$ 22 billion, or 1.1% of GDP) in 2004 to build up its reserves by US\$ 9.304 billion (0.5% of GDP) and to pay off external liabilities equivalent to 0.6% of GDP. This will show up in the region's

accounts as a capital outflow of US\$ 12.5 billion. By contrast, in 2003 the region registered a capital inflow of US\$ 21.437 billion, equivalent to 1.3% of GDP. This outflow has been coupled with growth estimated at 5.5% (see figure 2.12).

Figure 2.12
LATIN AMERICA: GDP GROWTH AND NET CAPITAL INFLOWS

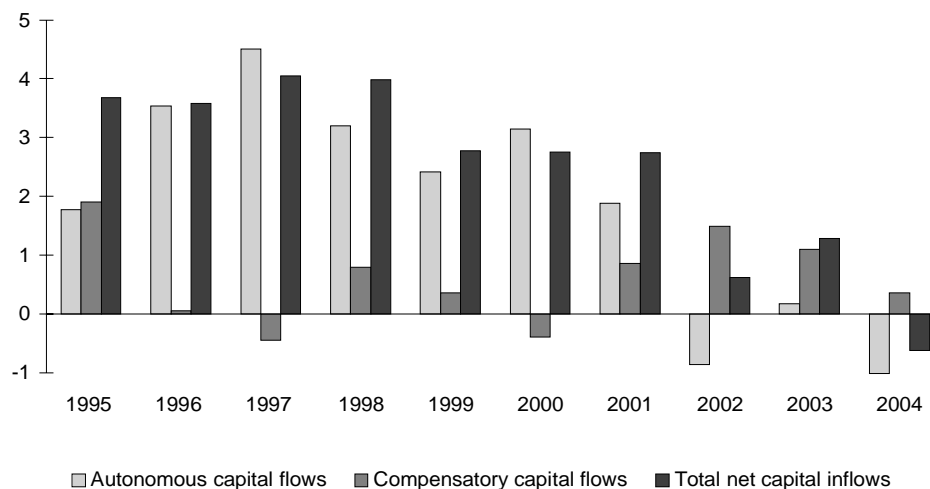


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Net autonomous outflows (registered on the capital and financial accounts, plus errors and omissions) will amount to US\$ 20 billion, while compensatory flows (use of IMF credit and exceptional financing) will total US\$ 6.84 billion. The region's autonomous flows have included a net inflow of US\$ 37.85 billion in FDI (1.95% of GDP) and US\$ 57 billion (2.9% of GDP) in outflows of portfolio investment

and other capital. These kinds of results had not been seen since 1980 (see figure 2.13). Argentina will post an outflow of portfolio investment and other capital (including errors and omissions) of nearly US\$ 12.6 billion, while the Bolivarian Republic of Venezuela, Brazil and Mexico will register outflows of almost US\$ 16 billion, US\$ 10.5 billion and US\$ 3.3 billion, respectively.

Figure 2.13
LATIN AMERICA: NET CAPITAL INFLOWS, BY COMPONENT
(Percentages of GDP at current prices)



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

Net FDI will thus exhibit a US\$ 9.3 billion variation relative to its 2003 level. The difference is smaller, however, if the US\$ 4.6 billion purchase of equity in BBVA-Bancomer in Mexico by BBVA is factored out of the calculations. When the FDI figures are broken down by geographically defined trading blocs (MERCOSUR, the Andean Community, the Central American Common Market (CACM) and Mexico), it becomes clear that the trend in FDI in 1999-2004 has been more erratic in MERCOSUR than it has in the others, as the coefficient of variation for FDI (as a percentage of GDP) during this period for MERCOSUR

is 0.55, whereas the coefficients of variation for Mexico, CACM and the Andean Community are 0.30, 0.16 and 0.23, respectively. Meanwhile, Chile is the country that receives the largest volume of FDI, measured as a percentage of GDP (8.2% in 2004). These variations across trading blocs notwithstanding, FDI continues to be the main source of external financing and has been the second-most stable flow (after workers' remittances). Remittances, which are usually not included under the heading of financial flows because they are classified as current transfers, will total US\$ 40.2 billion, or 2.1% of GDP, in 2004 (see table 2.1).

Table 2.1
LATIN AMERICA AND THE CARIBBEAN: SOURCES OF EXTERNAL FINANCING, 1990-2004
(Percentages of GDP, calculated in dollars at current prices)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A. Debt	0.7	1.4	2.8	2.7	0.7	2.2	0.9	0.7	1.4	-1.1	-0.9	-0.2	-1.0	-0.4	-2.6
Loans ^a	-0.1	0.6	0.8	-1.2	-2.2	2.3	-0.7	0.0	-0.2	-1.9	-0.9	-0.2	-0.4	-0.3	-2.6
Bonds	0.8	0.8	2.0	4.0	3.0	-0.1	1.5	0.8	1.6	0.8	0.0	0.1	-0.6	-0.1	...
B. Investment	0.8	1.5	1.6	2.3	2.6	1.8	2.9	3.5	2.9	4.0	3.4	3.4	2.2	1.5	2.0
Direct	0.6	0.9	1.0	0.8	1.6	1.6	2.2	2.9	3.2	4.5	3.5	3.4	2.3	1.7	2.0
Equities	0.2	0.6	0.6	1.5	1.0	0.3	0.6	0.6	-0.3	-0.5	-0.2	0.0	-0.1	-0.2	...
C. Other	0.9	1.0	1.1	0.7	0.6	0.7	0.8	0.7	0.7	1.1	1.4	1.0	1.2	2.3	2.1
Capital account ^b	-0.1	0.1	0.0	-0.2	-0.3	-0.3	-0.1	-0.2	-0.3	-0.2	0.2	-0.5	-0.6	0.1	0.0
Workers' remittances	1.0	1.0	1.1	0.9	0.9	1.0	0.9	0.9	1.0	1.2	1.2	1.4	1.8	2.1	2.1
Total (A+B+C)	2.4	4.0	5.5	5.8	3.9	4.7	4.5	4.9	4.9	4.0	3.9	4.2	2.4	3.4	1.4
Total, excluding remittances	1.5	3.0	4.5	4.8	3.0	3.7	3.6	4.1	4.0	2.8	2.8	2.7	0.6	1.3	-0.6

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

^a Includes loans from commercial banks, multilateral banks and IMF.

^b Includes errors and omissions.

Under the heading of compensatory flows, the use of IMF credit will be negative this year (almost -US\$ 5.6 billion), as compared to US\$ 5.467 billion in 2003. Argentina has paid out over US\$ 1.3 billion to the

Fund, while Brazil's payments to IMF total somewhat over US\$ 4 billion. Exceptional financing (which includes Argentina's interest arrears) is estimated at US\$ 12.5 billion (versus US\$ 13.24 billion in 2003).

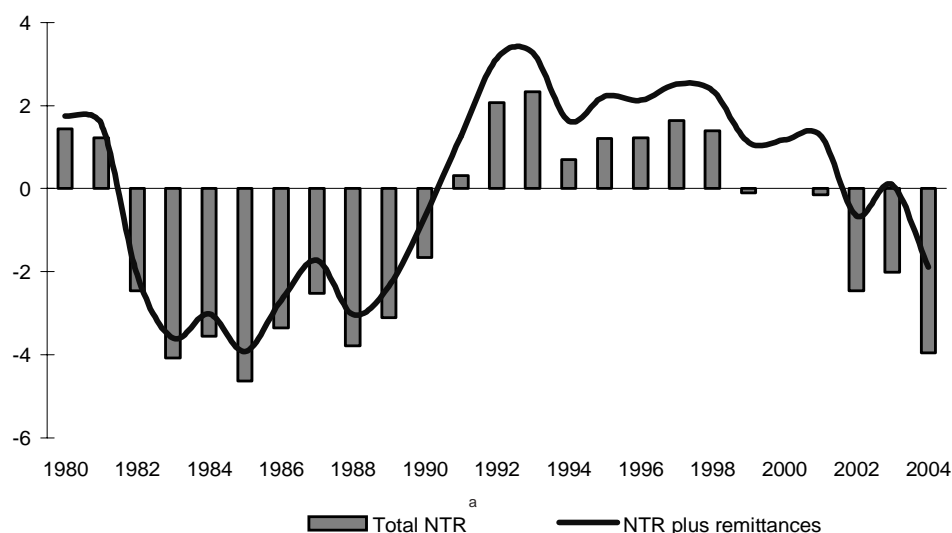
Net external transfers total 4% of GDP

With net capital outflows amounting to 0.6% of GDP -not counting workers' remittances- and a US\$ 66 billion deficit on the income account (which was to be expected in view of the recovery made by a number of countries), the region will have made outward transfers totalling US\$ 78 billion (4% of GDP),

compared to US\$ 34.4 billion (2.0% of GDP) in 2003 (see figure 2.14).

As of December 2004, Latin America's gross external debt stands at US\$ 720 billion, or 38% of the region's GDP, which is an improvement over the level of this indicator in 2003 (43%).

Figure 2.14
LATIN AMERICA: NET TRANSFER OF RESOURCES
 (Percentages of GDP at current prices)



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

^a The net transfer of resources (NTR) is calculated by adding the income balance (net profit remittances and interest payments) to total net capital inflows. Net capital inflows correspond to the capital and financial balances, plus errors and omissions, IMF loans and credit, and exceptional financing. Negative figures indicate outward resource transfers.

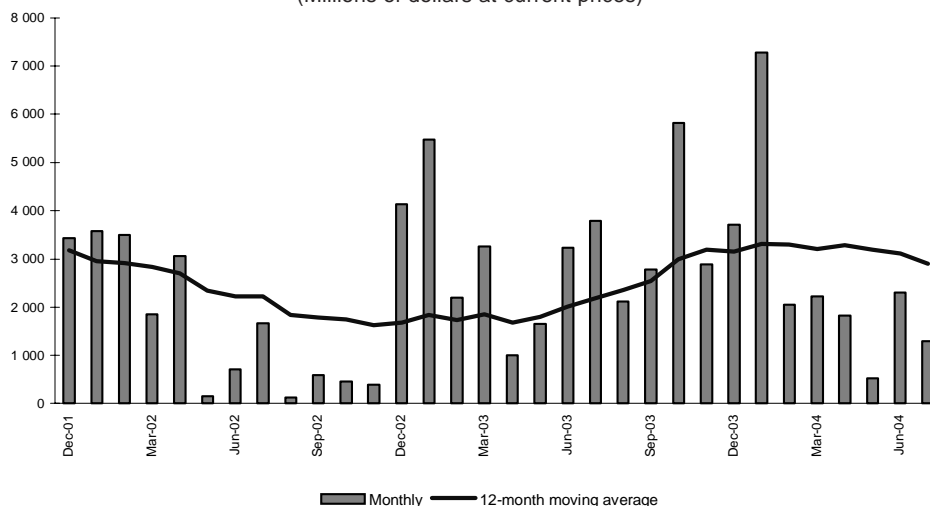
Financial markets

Debt instruments and equities

As of July 2004, the region's bond issues amounted to US\$ 17.509 billion, which was 15% lower than the total for the corresponding period in 2003 and equivalent to 31% of total emerging-market bond placements. Brazil and Mexico each issued nearly 33% of the regional total, while the

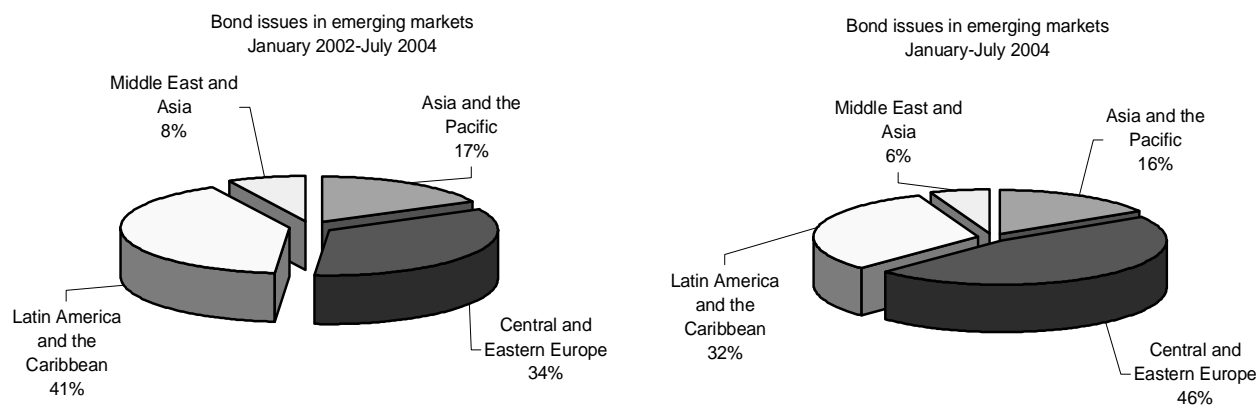
Bolivarian Republic of Venezuela issued US\$ 2 billion in bonds (11% of the total). The 12-month moving average does not yet reflect the 15% drop because of the high bond-issue figures posted during the second half of 2003 (see figure 2.15). The region has been losing ground to other emerging markets (Central Europe and Eastern Europe) in this area (see figure 2.16).

Figure 2.15
LATIN AMERICA: INTERNATIONAL BOND ISSUES
 (Millions of dollars at current prices)



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

Figure 2.16
EMERGING MARKETS: INTERNATIONAL BOND ISSUES
 (Percentages of total issues)



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

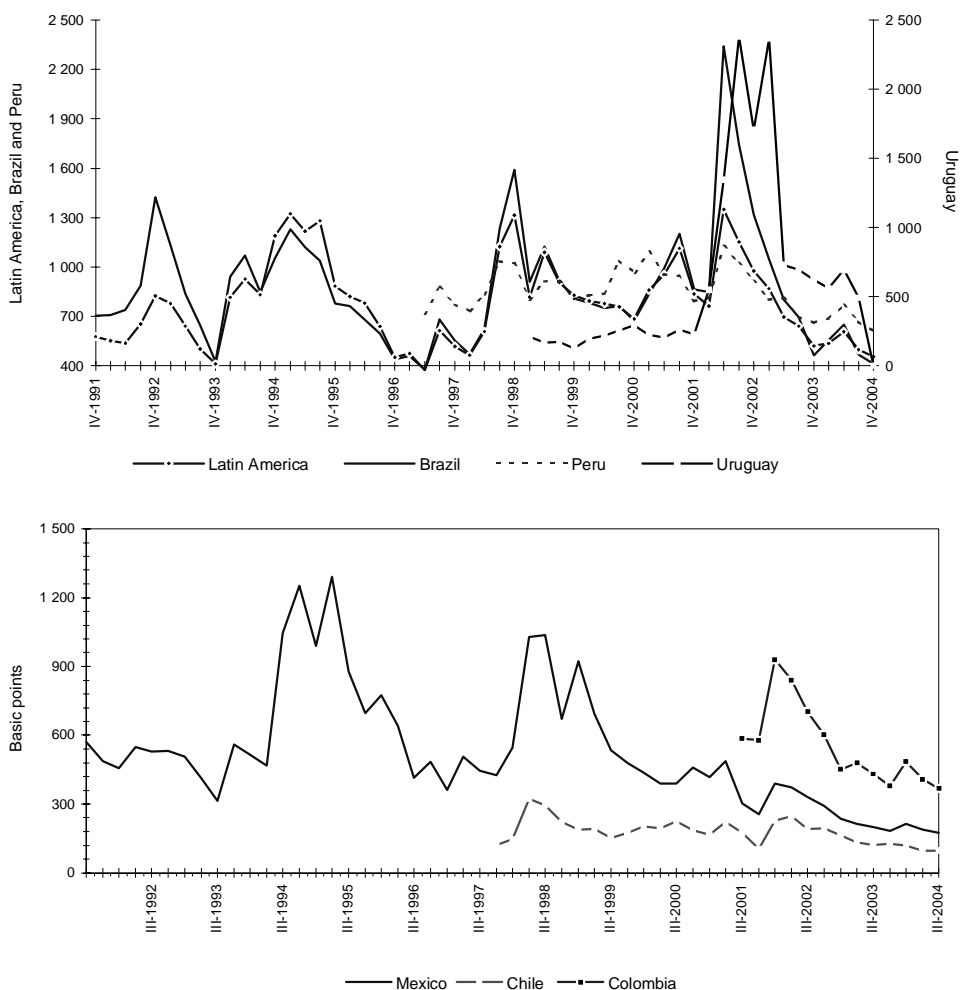
Another development is that maturities have been growing shorter since the start of the year (the average was 17.6 years in January 2004, but had shrunk to 5.57 years by June). For the region as a whole, 58% of the total for January-July was accounted for by sovereign bond issues, 32.6% by corporate bonds and the remainder by bank bonds. The breakdown by issuer varies a great deal across regions, however; for example, in the Middle East and Asia, 81% of the total corresponds to sovereign issues, while no corporate bonds were issued at all.

The cumulative average weighted rate on Latin American sovereign bonds up to July was 6.2%, which was just slightly lower than the rates at which other emerging-market sovereign bonds were placed. The increase in bond issues by emerging-market regions signals a decline in investor risk aversion. In the case of corporate bonds, the weighted rate for Latin American offerings is 5.9% and the average maturity is nine years, which compare favourably with the terms and conditions obtained in other emerging-market regions.

Country risk, as measured by sovereign bond spreads, has continued to decline in 2004 from the peak levels reached in the third quarter of 2002. As of November 2004, the Emerging Markets Bond Index (EMBI) for Latin America was in the vicinity of 460

basis points, which was similar to where it had been in February 1998, before the Asian crisis. Risk premiums were lower for all the countries and continued to decline despite the rise in international interest rates observed during the year (see figure 2.17).

Figure 2.17
LATIN AMERICA: COUNTRY RISK AS MEASURED BY THE EMBI



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

The dollar-denominated stock index for the region had risen by 17.3% as of October, thus surpassing the previous record level, set in September 1997. For the year to date, the average rate of return (in dollars) for investors

on Argentina's stock exchange comes to 15.5%, Brazil's to 10.6%, Chile's to 8.5% and Colombia's to 72.3%, while the Bolivarian Republic of Venezuela, Mexico and Peru posted returns of 70%, 26.6% and 12.5%, respectively.

3. Macroeconomic policy

Fiscal policy

The region's macroeconomic performance in 2004 brought about a significant improvement in the countries' fiscal accounts, thanks to a considerable upswing in the level of activity. As a result, the region's central governments are likely to achieve, by the close of 2004, a weighted average primary surplus of 2.0% of GDP, as against the 1.8% surplus posted in 2003.¹ At the same time, the overall deficit (including interest on the debt) shrank from 1.2% to 1.0% of GDP.

This level of coverage (central government) is not, however, fully adequate for assessing the situation of some countries of the region that have a more decentralized public sector. If an expanded level of coverage is used in the case of the most highly decentralized countries of the region (Argentina, Brazil, Colombia and Mexico), the simple average primary balance of the non-financial public sector increased from 3.2% of GDP in 2003 to 3.8% in 2004.

The trends observed in the course of the year closely mirrored the forecasts contained in the *Economic Survey of Latin America and the Caribbean, 2003-2004*, which indicated that sound fiscal performance would remain in evidence in 2004 and

would result in an outcome not seen in the region for many years. Indeed, the weighted average primary surplus this year is the best of the series beginning in 1990. Moreover, although only preliminary data are available as yet, a review of budgeted revenues and expenditure for 2005 suggests that the coming year will witness a continuation of this trend.

Thanks to this out-turn, the Latin American and Caribbean countries' average public debt-to-GDP ratio went down. In 2004 this ratio stands at 46.6% of GDP, whereas it was 51.0% in 2003 (weighted average for the non-financial public sector). As pointed out in the *Economic Survey*, however, in most countries of the region the debt represents a very high proportion of

¹ In terms of simple averages, the primary surplus rose from 0.1% of GDP in 2003 to 0.5% in 2004.

GDP. Thus, given that the international climate is likely to remain favourable, but with lower growth rates and higher interest rates, the region's governments should continue to implement fiscal prudence measures aimed at further reducing the debt-to-GDP ratio.

Fiscal revenues grew faster than fiscal expenditure in 2004. While revenues have followed trends in the level of activity (increasing slightly as a proportion of GDP since 2003), expenditure has risen by less than the regional growth rate, remaining constant in real terms

and falling as a percentage of GDP, thus giving rise to a healthier aggregate fiscal position.

On the revenue side, this outcome resulted from a combination of several factors. On the one hand, the significant rise in the level of activity had a strong impact on tax receipts, since it not only expanded the tax base, but also led to an improvement in tax compliance. On the other, the rise in the prices of certain commodities helped to strengthen the fiscal accounts of the countries that produce them.

Table 3.1
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS ^a
(Percentages of GDP at current prices)

	Primary balance			Overall balance			Public debt ^b					
	2002	2003 ^c	2004 ^d	2002	2003 ^c	2004 ^d	Central government			Non-financial public sector		
							2002	2003	2004	2003	2004	
Latin America and the Caribbean												
Simple average	-0.3	0.1	0.5	-2.9	-2.6	-2.2	56.6	60.1	55.7	64.1	59.3	
Weighted average	1.4	1.8	2.0	-1.4	-1.2	-1.0	38.2	42.0	38.4	51.0	46.6	
Argentina ^e	1.8	2.2	2.9	-0.3	0.3	1.3	134.6	138.0	124.0	144.6	129.5	
Bolivia ^f	-6.9	-5.1	-3.2	-9.0	-7.7	-6.1	72.6	83.9	82.8	94.3	93.0	
Brazil ^g	2.3	2.6	2.5	-0.3	-1.0	-1.2	35.7	37.6	34.1	58.7	53.7	
Chile	-0.1	0.7	2.4	-1.2	-0.4	1.9	15.1	15.7	13.1	22.5	21.3	
Colombia ^h	-1.1	-0.5	-0.4	-5.0	-4.8	-5.6	50.7	51.9	47.6	56.2	50.8	
Costa Rica	0.0	1.4	2.6	-4.3	-2.9	-3.0	40.2	39.4	38.7	...	...
Ecuador	2.6	2.2	1.1	-0.8	-0.9	-1.7	51.1	47.9	44.6	51.8	47.8	
El Salvador	-1.6	-0.8	1.2	-3.1	-2.7	-1.3	35.8	38.0	39.4	41.4	41.7	
Guatemala	0.3	-1.1	0.2	-1.0	-2.3	-1.3	16.4	18.4	17.8	19.5	18.6	
Haiti	-2.7	-2.7	-1.9	-2.5	-2.7	-2.7	50.8	58.6	...	64.8	...	
Honduras	-3.3	-4.0	-2.1	-5.2	-5.9	-3.5	64.5	69.0	63.8	68.2	63.1	
Mexico ⁱ	1.7	2.2	2.5	-1.2	-0.6	-0.3	23.4	24.3	22.2	27.6	25.2	
Nicaragua	1.6	1.8	-1.5	-4.1	-3.3	-3.8	194.4	193.8	176.6	...	...
Panama ^j	1.6	1.7	-1.3	-2.0	-1.9	-5.0	...	...	...	67.3	62.4
Paraguay ^k	-1.6	0.9	1.9	-3.0	-0.4	0.7	41.6	40.9	33.1	44.0	35.4	
Peru	-0.2	0.2	0.6	-2.1	-1.8	-1.3	46.9	47.7	43.1	...	...
Dominican Republic	-1.4	-2.0	-0.9	-2.7	-3.8	-2.7	...	...	...	36.1	32.9
Uruguay ^l	0.0	2.7	3.4	-4.6	-3.2	-3.1	77.1	90.9	79.6	96.7	85.0	
Venezuela (Bolivarian Republic of)	1.0	0.3	0.4	-3.5	-4.3	-3.3	...	...	...	43.2	...

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

^a Includes social security.

^b At 31 December each year, using the average exchange rate in the case of external debt. For 2004, most recent data available. The public debt figures for Paraguay and the Dominican Republic include external debt only.

^c Preliminary estimate.

^d Projections as of the end of the fiscal year.

^e National administration.

^f General government.

^g Federal government.

^h National central government. The balances do not include adjustments for accruals, floating debt or the cost of financial restructuring.

ⁱ Public sector.

^j Non-financial public sector.

^k Central administration.

^l Global public sector.

This behaviour is part of a pattern of rising tax revenues observed in recent years. The 2003 tax intake is the highest of the series beginning in 1990.² This phenomenon can also be traced to the considerable increase in tax rates in the last 10 years.³ The average rate of value added tax –the region’s primary source of tax revenue– was 14.6% as of July 2004, whereas it had been only 11.7% in 1994.⁴

The higher prices fetched by the region’s commodities had a strong influence on growth in the level of activity. In this connection, governments have devised different ways of appropriating some of these resources by way of taxation. In the case of agricultural products, Argentina finances a sizeable share of its government expenditure with revenues generated by

export duties. Various revenue mechanisms have been designed by the governments of countries that engage in the large-scale exploitation of non-renewable resources, especially when these resources are State-owned. The most common of these instruments are royalties, generally based on output, that guarantee the State at least a minimum amount of income from mineral resources, and ordinary income taxes (often with differential rates) on companies in the business of exploiting such resources. In addition, some governments opt to participate more directly in these activities, either through a State-owned enterprise or by purchasing a stake in related projects. Table 3.2 provides an overview of some of the tax instruments used in selected countries of the region.

Table 3.2
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): OIL TAX REGIMES

Country	Royalties	Income tax rate	Dividend withholding tax (non-residents)	Investment incentives
Bolivia	18%	25%	12.5%	Yes
Chile	28%-45%	15%	35%	Yes
Colombia	5%-25%	35%	7%	No
Ecuador	12.5%-18.5%	25%	25%	—
Guatemala	5%-20%	30%	No	Yes
Guyana	No	35%	10%	Yes
Mexico	No	35%	7.7%	Yes
Trinidad and Tobago	12.5%	50%	—	Yes
Venezuela (Bolivarian Republic of)	30%	50%	No	Yes

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J.M. Davis, R. Ossowski and A. Fedelino, *Fiscal Policy Formulation and Implementation in Oil-Producing Countries*, Washington, D.C., International Monetary Fund (IMF), 2003.

On the expenditure side, the countries have, on average, shown prudence in managing government outlays, thus building up the above-mentioned fiscal savings. This has created a divergence between spending patterns and economic growth trends, which is quite unusual in the region. A number of reforms and decisions combined to produce this result: the operation of macro-fiscal rules (Brazil’s Fiscal Responsibility Act; Peru’s Fiscal Prudence and Transparency Act), government commitment to maintaining the fiscal surplus in the medium term (Chile’s structural balance rule) and fiscal

policy decisions that take advantage of favourable economic conditions (Argentina’s decision to postpone revenues and bring forward expenditure corresponding to 2005 owing to an expected slowdown in growth that year; Brazil’s decision to raise the primary surplus target for 2004).

Stabilization and savings funds are another type of instrument used by countries that produce oil or other commodities. Their purpose is to isolate, to some extent, the higher fiscal revenues derived from commodity price increases so that the authorities can keep fiscal policy

2 This tax information can be found on the Commission’s public finance web site (<http://www.eclac.cl/ilpes>).

3 In addition, several countries of the region have extended the imposition of taxes that are normally considered emergency measures, most notably the financial transactions tax, which is currently in force in Argentina, Brazil and Colombia and was introduced this year in Bolivia and Peru.

4 Notwithstanding this increase, it should be borne in mind that, as explained in Latin American and Caribbean Institute for Economic and Social Planning (ILPES), *Panorama de la gestión pública (LC/IP/L.243)*, Santiago, Chile, 2004, the efficiency of VAT collection (defined as the percentage of actual receipts out of potential receipts) is relatively low in the region, since it reached 37% in 2002, with sharp differences between countries.

smoother over time.⁵ The funds are meant to soften the impact that revenue changes caused by commodity price fluctuations can have on public accounts. The principal feature of these funds is their status as government institutions that are normally separate from the budget and receive inflows from the exploitation of non-renewable resources. While these funds are a long-standing tradition in the region, they have been given new impetus in recent years. As they are often of an extrabudgetary nature, special care must be taken in designing their operating rules to ensure that they function with the greatest possible transparency and the least possible discretionality. A basic recommendation in this regard is that governments should avoid making successive changes to the funds' operating rules with the intention of making their resources easier to withdraw, as authorities in some countries of the region have done in recent years.

This combination of rules and policy decisions made it possible to curb spending increases, thereby increasing government saving in the region. For the medium and long terms, however, this improvement has not necessarily made the region's public sectors less vulnerable. Looking beyond 2004-2005, many countries have substantial financing needs and are still exposed to external shocks and adverse domestic factors. It should be recalled, as well, that the possible increase in international interest rates could raise total financing needs, especially among heavily indebted countries.

Against this general backdrop, specific nuances can be discerned in each subregion. The MERCOSUR countries have maintained the upward trend noted in the *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*. The overall improvement (despite differences between the countries) in this subregion's primary fiscal balance (which rose, on average, from 2.1% in 2003 to 2.7% in 2004) was produced by a sharp upturn in revenues; in fact, in the biennium 2003-2004 Argentina and Brazil posted the highest tax revenue-to-GDP ratio for the period beginning in 1990. This, in turn, resulted from

the higher level of activity (growth in the subregion averaged 7.1%, exceeding the region-wide average) and prudent management of expenditure. Nevertheless, these countries (primarily Argentina and Uruguay) have high debt-to-GDP ratios that will require them to ensure that their policies in this area are sustainable in the medium term.

The Andean subregion can be divided into two groups: oil-producing and other countries. Among the oil-producing countries (Ecuador and the Bolivarian Republic of Venezuela), in 2004 there was a very sharp rise in the level of activity (which was much more pronounced in the Bolivarian Republic of Venezuela). However, this improvement was not reflected in these countries' fiscal accounts, owing to their expansionary spending policies (and tax cuts, in the case of the Bolivarian Republic of Venezuela).

The other countries of the subregion continue to face complications on the fiscal front, to varying degrees. Although their economies grew in 2004 (by a simple average of 3.9%), this growth fell short of the region-wide average. They have succeeded, to some extent, in taking advantage of the better macroeconomic situation to whittle down their deficits. However, given their fragile fiscal position (which is especially precarious in Bolivia), they need to apply prudent measures to guarantee the sustainability of their account balances in the medium term.

The Central American countries posted average growth of 3.8%, which was below the region-wide average. The expansion was not enough to significantly reduce the subregion's average overall deficit, which went from 3.2% of GDP in 2003 to 3.0% in 2004. This overall outcome masks a variety of situations, however.⁶ Nicaragua is a special case, as it formalized its eligibility for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative in 2004 and had much of its debt written off.

On average, the Caribbean countries' fiscal accounts showed an improvement in 2004 despite the extremely complicated fiscal situation, which was aggravated by the natural disasters that struck the subregion. It should

5 Noteworthy examples of such funds are Chile's Copper Stabilization Fund (established in 1985 and activated in 1987); Colombia's National Coffee Fund (established in 1940) and Oil Savings and Stabilization Fund (established in 1995); Ecuador's Fund for Stabilization, Social and Productive Investment and Public Debt Reduction (FEIREP), established in 2002; Mexico's Oil Stabilization Fund (established in 2000); and the Bolivarian Republic of Venezuela's Macroeconomic Stabilization Fund (established in 2004), which replaces the former Macroeconomic Stabilization Investment Fund. These funds usually have three main components: (a) a benchmark price for the relevant product, based on generally conservative medium-term forecasts; (b) investment criteria stipulating where the accumulated surplus funds will be directed in boom periods, with a view to using them in bust periods; and (c) operating rules that spell out the relationship between price fluctuations and contributions to or withdrawals from the fund. For more details on the functioning of these funds and on their advantages and disadvantages, see ILPES, *op. cit.*, and J.M. Davis, R. Ossowski and A. Fedelino, *Fiscal Policy Formulation and Implementation in Oil-Producing Countries*, Washington, D.C., International Monetary Fund (IMF), 2003.

6 In Panama the new administration changed the fiscal methodology and, in 2004, posted a fiscal deficit of 5.3% of GDP, which is comparable to a deficit of 2% under the former methodology.

be borne in mind, however, that these countries' public borrowing has sped up in recent years, raising the debt-to-GDP ratio from 62% in 1997 to 85% in 2003.

In sum, and again with respect to region-wide trends, fiscal policy in 2004 has met its objective of reducing the deficit and the debt-to-GDP ratio. Two caveats are in order, however. The first is that this is the outcome of factors that are not normally observed in the region: an unprecedented level of tax receipts (attributable to a very revenue-friendly external and macroeconomic framework) and a spending pattern that has not been aligned with this economic growth (owing to various initiatives and instruments).

The second caveat is that the region continues to display a number of structural problems that vary in terms of urgency, but are equally in need of attention. Despite its recent revenue performance, the region still has a weak tax structure and shows a significant dispersion of tax burdens across the different countries.

On the expenditure side, the problems yet to be addressed include the very low level of public investment, the need to improve the provision of social services and the need to remedy the serious coverage and solvency problems observed in social security systems.

Lastly, the large debts carried by many countries of the region render them particularly vulnerable. The region's current level of economic growth and the still-favourable external environment provide a unique opportunity to progress towards a countercyclical approach to fiscal policy, along with the design of mechanisms for reducing the vulnerability of the region's economies and enhancing their capacity to achieve sustained growth. Capitalizing on these positive conditions by introducing fiscal institutions aimed at better ensuring the medium- and long-term solvency and equity of fiscal policy, in a framework of high social demand, is an outstanding challenge for the region.

Exchange-rate policy⁷

The situation in the region

During the first 10 months of 2004, the region's average real effective exchange rate appreciated by 0.6%; during that same period, the countries' currencies exhibited an average year-on-year appreciation of 4.1% against the United States dollar.⁸ In both cases, a substantial portion of the appreciation is attributable to the fact that the basis of comparison is provided by the high exchange rates posted for the region during the first half of 2003 (see figures 3.1 and 3.2).

As in 2003, in 2004 real exchange-rate trends in Latin America and the Caribbean varied across subregions (see figures 3.1 and 3.2).⁹ The South American countries saw an appreciation in both their

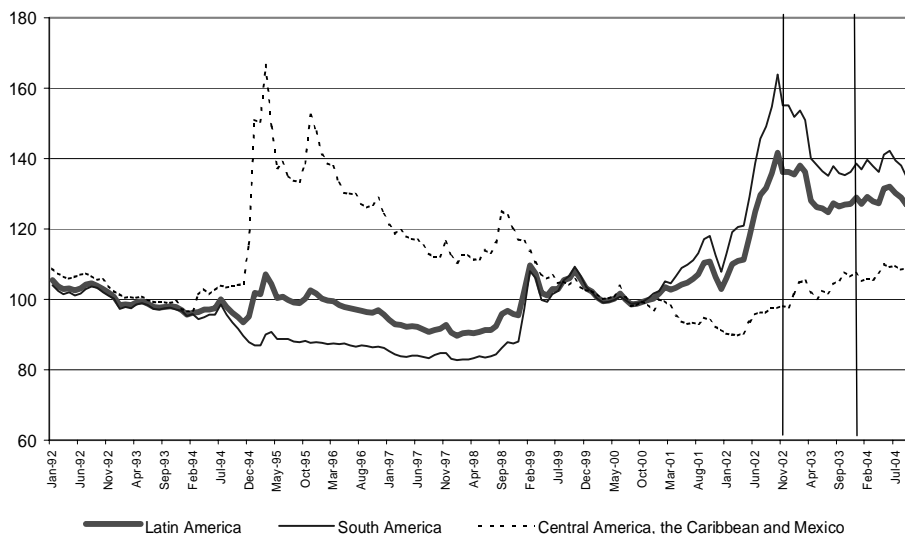
real effective exchange rates and their exchange rates against the dollar, whereas the Central American and Caribbean countries and Mexico registered depreciations in real effective terms and against the dollar. In the absence of any major domestic macroeconomic imbalances, external factors such as the weakness of the United States dollar, high commodity export prices and, in some cases, increased export volumes contributed to the real effective appreciation of a number of the South American countries' currencies against a backdrop of net capital outflows, although, here again, variations are to be observed from one country to the next. The real depreciation of the Mexican peso, which will be discussed below, accounts for the depreciation recorded for the other group of countries as a whole.

7 The nominal exchange rate for a foreign currency is defined as the number of units of a given country's currency that must be surrendered in exchange for one unit of the foreign currency at any given point in time. A country's currency depreciates (appreciates) in nominal terms when, at that point in time, more (fewer) units of that currency must be surrendered in exchange for one unit of the foreign currency than during the reference period. The real bilateral exchange rate index for a foreign currency (for example, the dollar) is calculated by deflating the nominal exchange rate by the ratio between the inflation rate in one country and another (in the case of the dollar, the United States). A currency depreciates (appreciates) in real terms when the real bilateral exchange rate index rises (falls).

8 This weighted average (which does not include the Dominican Republic) is no more than an indicative measurement of the effective exchange rate between the region and the rest of the world, since the real effective exchange rate calculated for the Latin American and Caribbean countries also reflects trade among countries of the region. The average is weighted by each country's real GDP.

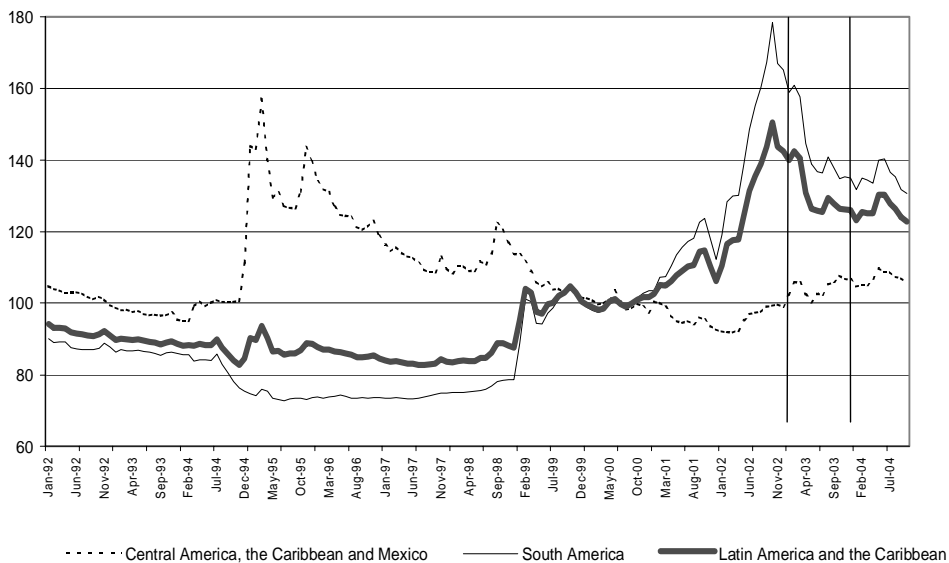
9 Comments on exchange-rate movements are based on a comparison of the average levels for the first 10 months of 2004 with the corresponding period of 2003, unless otherwise indicated. The analysis covers only those countries whose real effective exchange rates changed by over 4% and that serve to illustrate region-wide trends. See the country notes on Bolivia, Ecuador, Haiti and Paraguay.

Figure 3.1
**LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE,
 WEIGHTED BY REAL AVERAGE GDP (2000-2004)**
 (Index: 2000=100)



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

Figure 3.2
**LATIN AMERICA AND THE CARIBBEAN: REAL EXCHANGE RATE AGAINST THE UNITED STATES
 DOLLAR, WEIGHTED BY REAL AVERAGE GDP (2000-2004)**
 (Index: 2000=100)

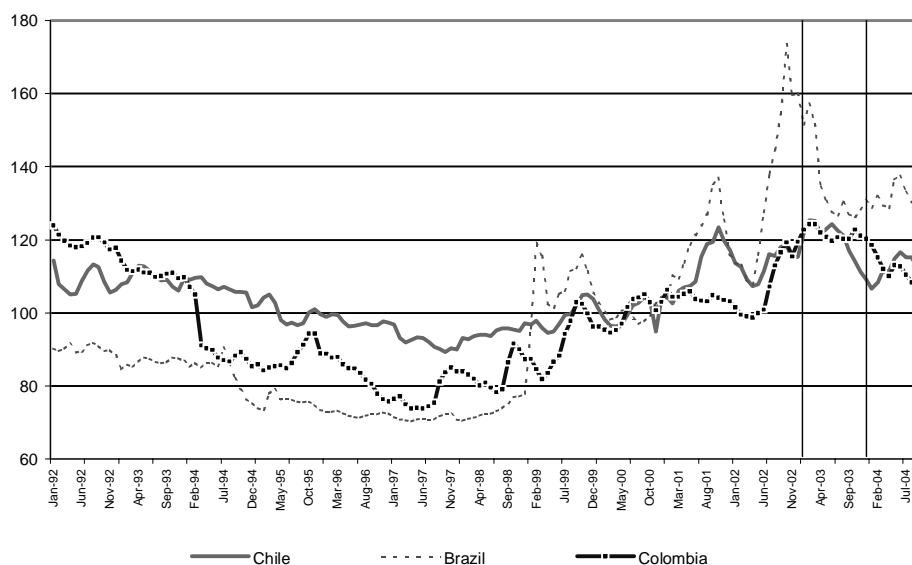


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

South America witnessed an appreciation of 2.4% in its effective exchange rate and one of 6.8% in real terms against the dollar, on average, in 2004. Whereas 2003 was a transitional year in exchange-rate trends, after a number of South American countries (including Argentina and Brazil) had experienced sharp real depreciations in 2002, 2004 ushered in a more stable macroeconomic environment and expectations. In some

countries, positive external factors were reinforced by better fiscal results. What is more, unlike what occurred at some points in the 1990s, monetary policy was not exposed to severe current-account constraints, which helped to slow the appreciation of the countries' currencies. The countries that experienced the sharpest variations in their real exchange rates will be analysed in greater detail below.¹⁰

Figure 3.3
BRAZIL, CHILE AND COLOMBIA: REAL EFFECTIVE EXCHANGE RATE
(Index: 2000=100)



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

Colombia has registered a real effective appreciation of 8.3% and a 10.9% appreciation against the dollar. The Colombian peso has risen against the dollar in nominal terms throughout almost all of 2004, with the only exception being a short-lived depreciation in April after interest rates had begun to climb in the United States. This nominal appreciation, which has averaged 7.9%, reflects the region's higher level of earnings from both industrial and commodity exports (such as oil, ferronickel and coal), as well as copious capital inflows and a steady influx of remittances.

The real effective exchange rate for the Chilean peso has appreciated by 7.6% in 2004, while the currency's real appreciation against the dollar amounts to 11.6%.

A sizeable average nominal appreciation (13.1%) relative to 2003 has also occurred, although the nominal exchange rate has fluctuated considerably in the course of the year. Chile has posted a high level of export earnings against the backdrop of very favourable terms of trade and sizeable FDI inflows, which have been partly offset by large-scale acquisitions of foreign assets and the settlement of liabilities.

Brazil's real effective exchange rate has appreciated by 4.1%, on average, and the *real* has risen by 8.4% against the dollar. Thanks to the country's outstanding export performance, it has a robust current account surplus that has more than offset the voluminous outflows of foreign exchange registered on the financial

¹⁰ As of October 2004, five South American countries had real effective exchange rates which, when compared with the average levels for 2003, yield lower values (i.e., an appreciation) than those calculated on the basis of a comparison between the average for the first 10 months of 2004 and the average for the first 10 months of 2003. Some of these countries are shown in figure 3.3.

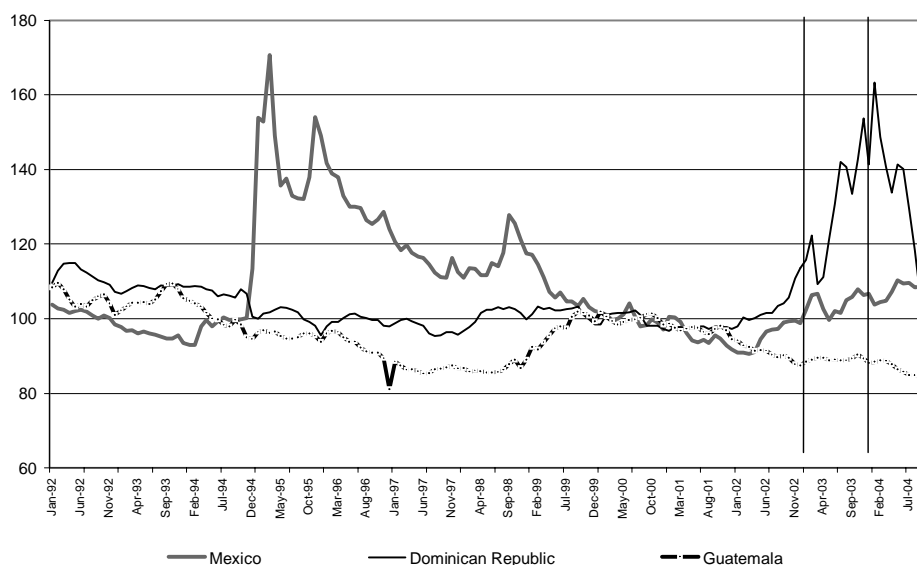
account. These outflows have included the settlement of sizeable external liabilities. A monetary policy designed to keep a tight rein on inflation and improved expectations concerning the government's economic policy has helped to spur demand for *real*-denominated financial assets. All of these factors had something to do with the Brazilian currency's 4.9% nominal appreciation against the dollar.

The currencies of the Central American and Caribbean countries and of Mexico, taken as a group, depreciated by an average of 4.1% in real effective terms and by 2.7% in real terms against the dollar.

The Mexican peso exhibited an average real effective depreciation of 4.6% and a real depreciation

of 3.3% relative to the dollar. The depreciation of the nominal exchange rate was at least partly attributable to the conflicting effects of interest rate hikes, high oil prices, increased remittances and copious inflows of FDI and portfolio investment at a time when interest rates in the United States were rising, a large current account deficit (although it is smaller than it was in 2003) and the acquisition of substantial holdings of external financial assets. The figure given above for the real depreciation of the peso reflects the result of comparing the average real exchange rates for the dollar in 2003 and 2004; a comparison of the real rates in December 2003 and October 2004, on the other hand, yields a very small variation (0.8%) (see figure 3.4).

Figure 3.4
DOMINICAN REPUBLIC, GUATEMALA AND MEXICO: REAL EXCHANGE RATE
AGAINST THE UNITED STATES DOLLAR
(Index: 2000=100)



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

The Guatemalan quetzal's real appreciation against the dollar steepened in 2004 to an average of 3.2%, whereas its real effective appreciation amounted to just 1.4%. The slight nominal appreciation (1%) of the quetzal is attributable to the inflow of foreign exchange, (especially in the form of remittances, which were up by 17% over the preceding year's level), although

Guatemala also continues to receive hefty financial inflows. This real appreciation can primarily be understood in terms of the differential between the country's inflation rate and inflation in the United States in 2004.

The Dominican Republic was one of the countries in this group¹¹ that witnessed sharp fluctuations in its

11 Haiti, which is grappling with a difficult internal situation, has also experienced sharp currency fluctuations.

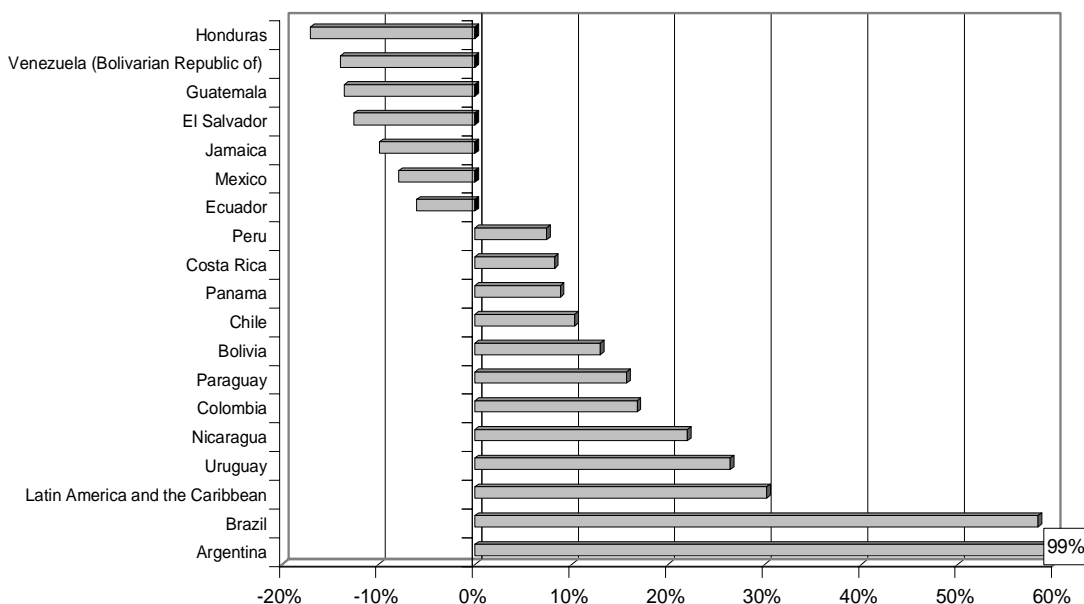
12 Given the sharp depreciation and subsequent appreciation of the Dominican peso, a comparison of the average rate for the first 10 months of 2004 and the corresponding period of 2003 yields a real depreciation against the dollar of only 3.3%.

real exchange rate (see figure 3.4).¹² Deteriorating expectations and the surge in money creation that was a consequence of the Banco Intercontinental (BANINTER) crisis were two of the main causes of the peso's depreciation and the increase in inflation seen in 2003 and the first half of 2004; the nominal exchange rate for the Dominican peso against the dollar soared (i.e., depreciated) by 106.1% between April 2003, when the government stepped in to resolve the BANINTER situation, and May 2004, when presidential elections were held. Then, between May and October 2004, the nominal exchange rate for the Dominican peso appreciated sharply, thus pushing down the real dollar exchange rate for the peso to historical lows. Central bank issues of high-interest debt instruments and the upturn in economic agents' expectations following the presidential elections were significant contributing factors to the peso's appreciation in the third quarter of 2004.

Long-term trends in effective exchange rates

With the exceptions of the Bolivarian Republic of Venezuela and Ecuador,¹³ the South American countries continued to exhibit high (i.e., depreciating in relation to historical averages) real effective exchange rates (see figure 3.5). In October 2004, the real effective exchange rates of the full and associate member countries of MERCOSUR were over 10% higher than their average levels for the period from January 1992 to December 1998, i.e., the period preceding the devaluation in Brazil and the crises that broke out in Argentina and Ecuador. This means that part of the correction of effective exchange rates has been retained in countries that have discontinued their fixed exchange-rate regimes in the past few years (such as Argentina and Uruguay); this correction has helped bring relative prices closer to levels compatible with each country's equilibrium exchange rate.¹⁴

Figure 3.5
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE
 (Current period compared with historical average, 1992-1998)



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

13 Both countries are net oil exporters and could therefore be vulnerable to the “Dutch disease”, which would generate a long-term trend towards the appreciation of the real effective exchange rate.

14 In Argentina and the Bolivarian Republic of Venezuela, among other countries, the level of the equilibrium exchange rate is determined by the estimated volume of “sustainable” capital flows. Such estimates are difficult to arrive at because of the current situation with respect to the former country’s external debt and the tight exchange controls instituted by the latter nation. The comparisons of historical averages are therefore of no more than indicative value.

In contrast, the real effective exchange rates for Mexico and the Central American and Caribbean countries have been below their historical average, with the exception of Costa Rica, Panama and, especially, Nicaragua. The currencies of three Central American countries (Honduras, Guatemala and El Salvador) have been more than 10% below the figures recorded for the above period. As of October 2004, the real exchange rate against the dollar for the Dominican Republic, whose main trading partner is the United States, was 12% below the average for January 1992-December 1998, thus registering a notable appreciation. The large volume of remittances sent by emigrants may be one of the principal causes why the currencies of the countries in this group have appreciated in real terms. At the same time, these countries' exports face strong competition

from the products that China manufactures for sale on the United States market.

Exchange-rate regimes remain unchanged

The relative exchange-rate stability observed throughout 2004 in Latin America and the Caribbean (with the notable exceptions of the Dominican Republic and Haiti) has also been fostered by the stability of the region's exchange-rate regimes (see table 3.3). The only noteworthy change that was observed in the countries listed in table 3.3 is the modification of the Bolivarian Republic of Venezuela's official parity in February from 1,596 to 1,920 bolívares to the dollar, but even this change was made in accordance with the strict exchange controls then in place.

Table 3.3
LATIN AMERICA AND THE CARIBBEAN: EXCHANGE-RATE REGIMES, 1999-2004^a

	1999	2000	2001	2002	2003	2004
Dollarization	Panama	Panama Ecuador	Panama Ecuador	Panama Ecuador El Salvador	Panama Ecuador El Salvador	Panama Ecuador El Salvador
Currency board Other fixed-parity regimes	Argentina El Salvador	Argentina El Salvador	Argentina El Salvador		Venezuela (Bolivarian Republic of)	Venezuela (Bolivarian Republic of)
Crawling peg	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua
Moving band	Colombia Chile Honduras Uruguay Venezuela (Bolivarian Republic of)	Honduras Uruguay Venezuela (Bolivarian Republic of)	Honduras Uruguay Venezuela (Bolivarian Republic of)	Honduras	Honduras	Honduras
Flexible	Brazil Dominican Republic Ecuador Guatemala Haiti Jamaica Mexico Paraguay Peru	Brazil Chile Colombia Dominican Republic Guatemala Haiti Jamaica Mexico Paraguay Peru	Brazil Chile Colombia Dominican Republic Guatemala Haiti Jamaica Mexico Paraguay Peru	Argentina Brazil Chile Colombia Dominican Republic Guatemala Haiti Jamaica Mexico Paraguay Peru Uruguay Venezuela (Bolivarian Republic of)	Argentina Brazil Chile Colombia Dominican Republic Guatemala Haiti Jamaica Mexico Paraguay Uruguay	Argentina Brazil Chile Colombia Dominican Republic Guatemala Haiti Jamaica Mexico Paraguay Uruguay

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

^a El Salvador initiated the formal process of dollarization of its economy on 1 January 2001, but is listed in the category "dollarization" in 2002 because the process of dollarization matured during 2002.

South American trading partners' bilateral exchange rates

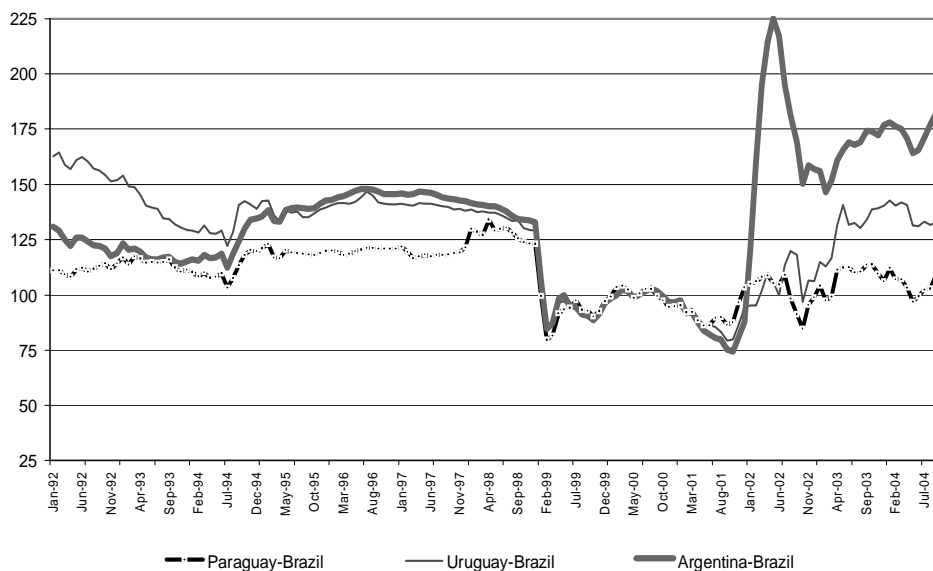
In policy-making circles, the prevailing view is that a low level of volatility in trading partners' bilateral exchange rates and the positioning of exchange rates near their long-term equilibrium levels will facilitate the regional integration processes now under way in Latin America and the Caribbean. The theoretical arguments advanced on this subject range from the idea that exchange-rate volatility has the effect of diminishing trade flows between countries to the postulate that it can discourage foreign investment. The effect of exchange volatility on a region's economic policy has also been a recurrent subject of analysis and of interest for policy makers. The following two figures illustrate how the real bilateral exchange rates of some of the members of MERCOSUR and the Andean community that are important trading partners have trended over the past 12 years.

In addition to the high degree of volatility exhibited by the three bilateral exchange rates shown in this figure,

it may be seen that Argentina's and Brazil's bilateral exchange rate underwent a radical change starting in December 2001. In October 2004, it was 37.9% higher than the real bilateral exchange rate posted between January 1992 and December 1998 (before the *real* was allowed to float in 1999). In contrast, Paraguay's and Uruguay's real bilateral exchange rates with Brazil were below that average.

Thanks to the adoption of a flexible exchange-rate regime in Argentina, the ongoing efforts of Brazil's central bank to build its credibility in the effort to combat inflation and the policy measures adopted by Paraguay and Uruguay, it appears that there has been a change in the rules of the game that, until recently, gave rise to the exchange-rate trends depicted in figure 3.6. The reduction in the differences between the countries' exchange-rate regimes will probably help to smooth out the sharp bilateral currency misalignments that have been seen so frequently in the past decade, thereby helping to consolidate the regional integration process of MERCOSUR.

Figure 3.6
MERCOSUR: REAL BILATERAL EXCHANGE RATE
(Index: 2000=100)

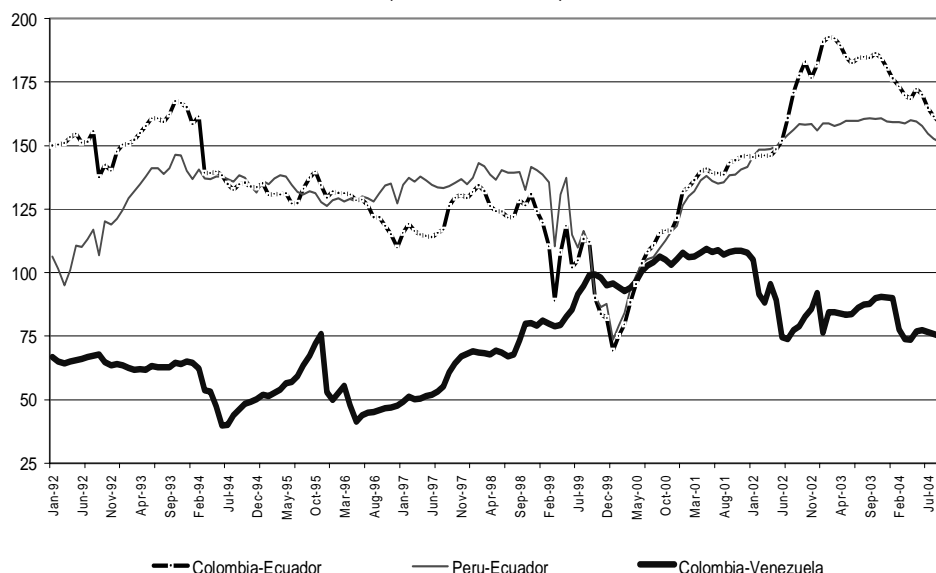


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

There has also been a significant degree of volatility in the Andean Community, although there is less trade within this bloc than within MERCOSUR and the impact of exchange volatility is therefore generally less marked. In October 2004, at 18.1% and 14.1%, respectively, the real bilateral exchange rates between Colombia and Ecuador and between Peru and Ecuador remained above

their January 1992-December 1998 averages despite the recent real appreciation of these currencies. The Bolivarian Republic of Venezuela's and Colombia's real bilateral exchange rate, on the other hand, was 28.9% higher than that average despite the steep devaluations seen in the former in 2003 and 2004 and the recent appreciation of the Colombian peso.

Figure 3.7
ANDEAN COMMUNITY: REAL BILATERAL EXCHANGE RATE
 (Index: 2000=100)



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

Monetary policy

Monetary policy has been an important tool for policy makers over the last two years as they work to reactivate the region's economies while at the same time keeping inflation under control. This has been made possible by the greater degrees of freedom associated with a favourable external environment. Within this context, the region's expanding current account surplus has made it unnecessary to provide incentives in the form of higher interest rates. At the same time, there have been no major sources of pressure on exchange rates, and inflation has remained low in a majority of the countries. Thanks to all of these factors, the economic situation in the last few years has given rise to a different type of cycle than has traditionally been seen in Latin America, which has typically been burdened by exchange-rate and inflationary constraints.

Against this backdrop, the countries' central banks lowered interest rates in 2003 and the first half of 2004 in order to bolster the recovery. In some cases, these reductions resulted in negative interest rates in real terms. In order to remedy this situation and, in a few countries, to maintain existing spreads between local rates and the higher rates set by the United States Federal Reserve, the central banks moved cautiously to raise their interest rates in the second half of the year. As a result, real interest rates picked up somewhat in the final months of

the year. This did not, however, block the economic reactivation. In countries that witnessed an inflationary upsurge, as occurred in Mexico, rates rose more sharply.

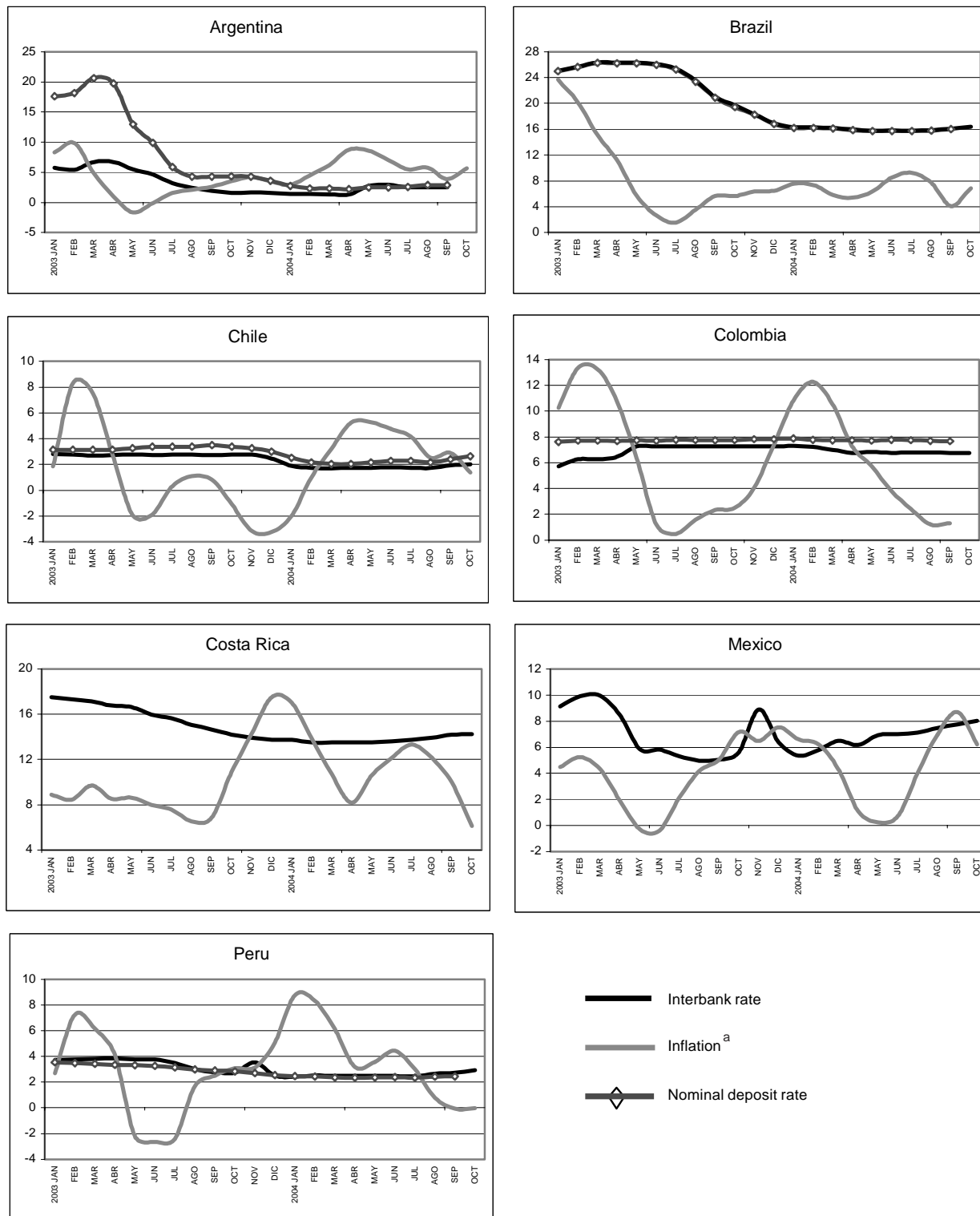
As the year comes to a close, monetary policy (which, as noted, paved the way for the recovery during the first half of the year) continues to be assisted by the above factors and has sufficient degrees of freedom so that it can focus more directly on forestalling future inflationary episodes.

The challenge now facing the monetary authorities is to design a policy that will address the problem of negative real interest rates without dampening economic growth or spurring inflation.

Policies to support the reactivation

A number of countries in the region (including Argentina, Brazil, Chile, Colombia, Costa Rica and Peru) seized the opportunity offered by favourable external conditions and low inflation to bolster their economies' recoveries by reducing interest rates in 2003 and part of 2004 (see figure 3.8). Mexico's decision to take action early on, before any of the other countries, to reverse the decline in interest rates reflects its government's determination to quell any further inflationary spikes.

Figure 3.8
LATIN AMERICA (7 COUNTRIES): NOMINAL INTEREST RATES
 (Percentages)



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

^a Moving three-month average, centred around the reference month.

As a result of the various steps taken in this respect, real interest rates have fallen in 2004—in some instances, as noted earlier, to negative levels. In various cases, negative rates

have been associated with an upturn in inflation. The increase seen in real interest rates in the past few months should thus be analysed in the light of this phenomenon (see figure 3.9).

Figure 3.9
LATIN AMERICA (12 COUNTRIES): REAL INTEREST RATES ^a
 (Percentages)

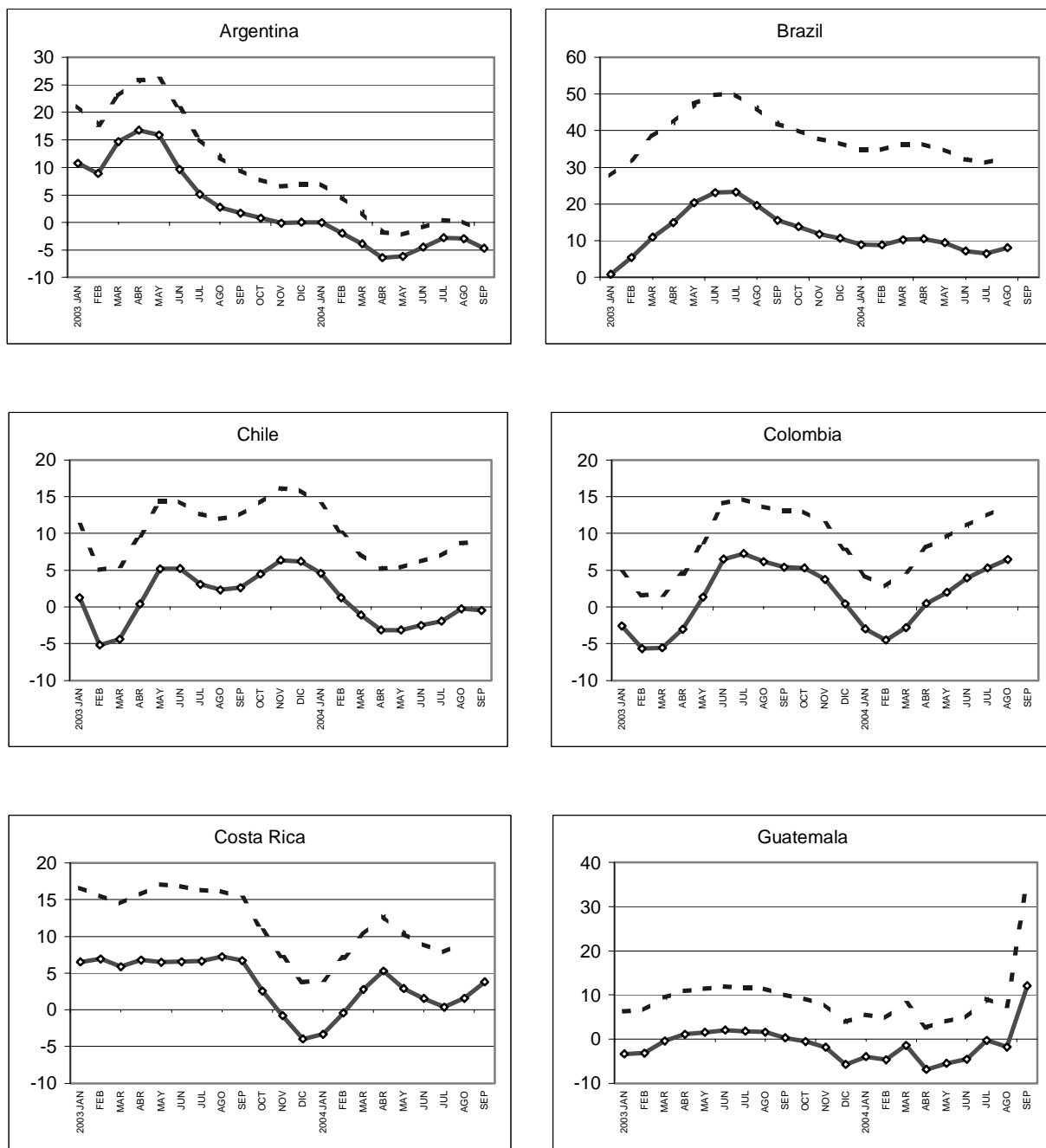
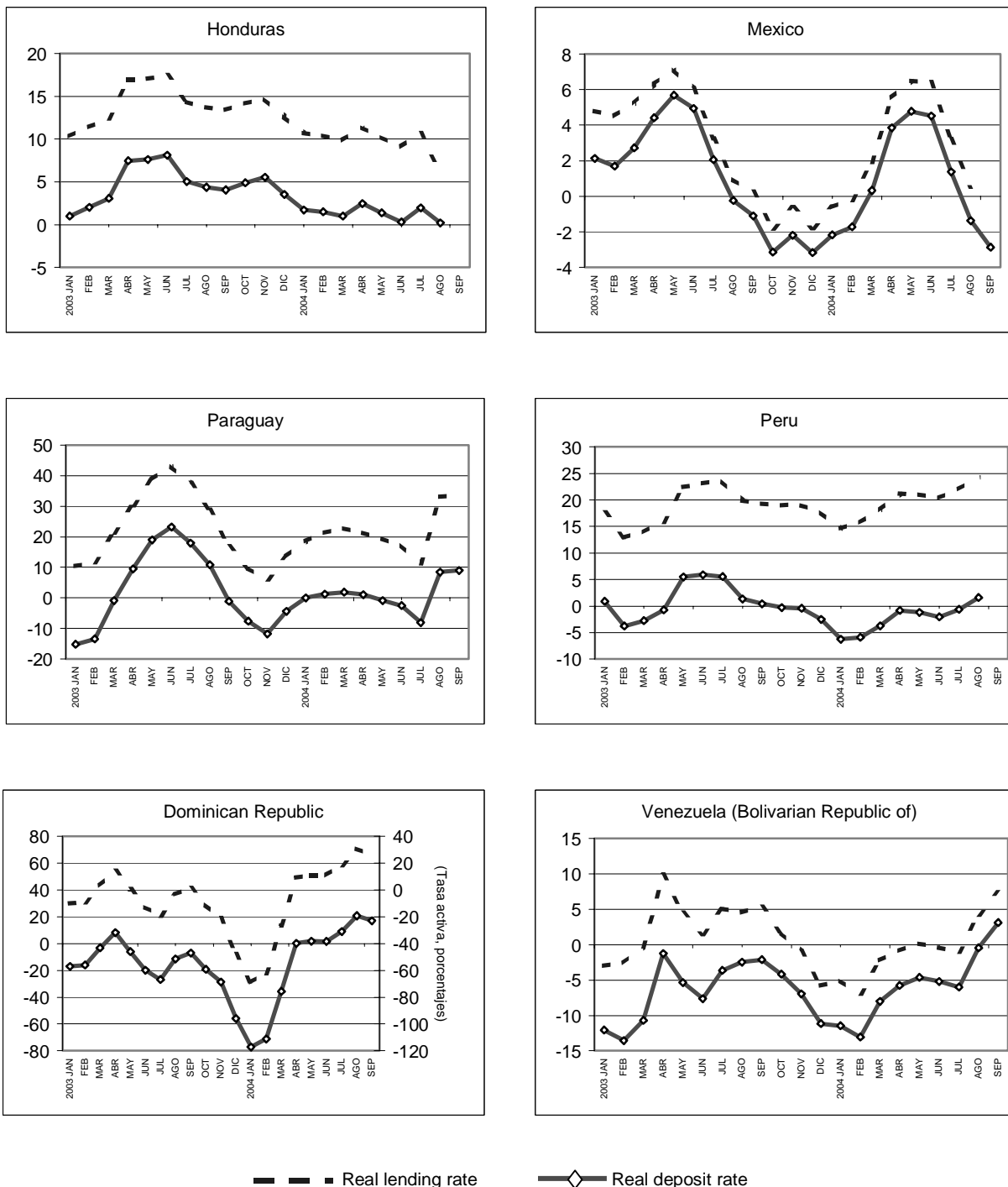


Figure 3.9 (concluded)



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

^a Moving three-month average, centred around the reference month. Real rates were calculated as $r=i-p$, where i is the nominal rate and p is the annualized inflation rate.

More and more countries are using interest rates as a monetary policy instrument and are setting explicit inflation targets.

In view of the fact that the upswing in inflation registered in the second half of 2003 was followed by a further increase in the second half of 2004, Mexico's monetary authorities have taken drastic steps to curb inflationary outbreaks. They raised the rate offered on treasury certificates from 6.6% in June to 8.5% in November 2004, which is the largest rate hike to be made by any of the countries that are using inflation targets. In recent months, the rise in inflation has driven down real interest rates sharply.

Brazil cut the SELIC rate by 10 percentage points to 16% in May 2004, but then raised it in September and October to 16.75%, thereby underscoring the authorities' determination to meet their inflation targets. The situation in Peru is quite similar: the central bank raised the target interbank rate from 2.5% in July to 3% in November and increased the open market operations rate by 50 basis points; meanwhile, inflation has broken through the ceiling (3.5%) of the target band.

The Dominican Republic has not adopted the system of inflation targeting that is being used by the three countries mentioned above, but its monetary policy is clearly designed to reduce the economy's high inflation rate, which topped 60% in the 12-month period ending in May and translated into extraordinarily negative real rates in the closing months of 2003 and early 2004. This tight monetary policy, which entails keeping real interest rates high, has succeeded in dampening inflation in recent months.

Chile is at the other end of the spectrum, with an inflation rate that remained below the floor (2%) of the band until October. Even so, the central bank joined in the process initiated by the United States Federal Reserve and raised the monetary policy rate from 1.75% in August to 2% in September and 2.25% in November. The 12-month inflation rate climbed to 2.5% in November,

however, so it appears likely that the annual (December-December) inflation rate will approach the mid-point of the band (3%) established by the central bank.

Another country that has used inflation and interest-rate targets as policy tools is Colombia, which has continued to apply the 6.75% rate set in April 2004. In real terms, this rate –which was negative in the early part of the year (annualized inflation in the first semester amounted to 9.4%)– has since turned positive (annualized inflation for August-October was just 2.5%).

The Argentine authorities have not been neglecting inflation control (inflation has held to moderate levels), but their chief concern has been to block any further appreciation of the currency and, to this end, they have been intervening in the foreign-exchange market. In the next few months both Argentina and Uruguay are expected to switch from the use of monetary aggregates to interest rates as their main policy tool.

In the Bolivarian Republic of Venezuela, the degrees of freedom of monetary policy have been restricted because of the need to finance the fiscal deficit.

In most of the countries, real interest rates have still not surpassed the levels seen in the second half of 2003. The exceptions to this rule are the Bolivarian Republic of Venezuela and the Dominican Republic, where rates were deeply negative owing to high inflation, and, to a lesser extent, Colombia and Peru (see figure 3.9).

Commercial and industrial credit rallies

Banking activity plays a larger role in the countries of the region than it does in more developed countries, and the credit channel is thus more important. Thus, the fact that the volume of business and industrial loans remained very depressed up to the end of 2003 in most of the countries, even though their economies had already made a partial recovery, was seen as a warning sign. The only categories in which some growth was seen were mortgages and consumer loans (see table 3.4).

Table 3.4
LATIN AMERICA (SELECTED COUNTRIES): BANK CREDIT
(Percentage increase in 12 months)

Country	Period	Industrial and commercial loans		Mortgage loans		Consumer loans		Total credit	
		2003	2004	2003	2004	2003	2004	2003	2004
Brazil	October-October	-3.6	21.3	-4.4	-3.2	8.5 ^a	31.7 ^a	0.5	23.1
Chile	September-September	2.7 ^b	9.1 ^b	12.2	19.4	18.0	36.7	3.2	11.6
Colombia	September-September	9.5	12.7	-11.0	-17.0	21.6	28.1	6.5	9.6
Costa Rica	October-October	5.5	11.2	13.9	-18.2	24.9	58.8	16.1	19.1
Mexico	September-September	-0.4 ^b	9.9 ^b	-5.5	2.5	44.7	45.8	0.9	8.7
Peru	October-October	-8.4 ^c	-6.9 ^c	11.0	12.6	17.0	17.1	-4.6	-2.0

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

^a Personal loans.

^b Includes commercial credit only.

^c Industrial credit corresponds to loans extended to the manufacturing sector.

In the early months of 2004, however, commercial and industrial credit began to rally in many countries. This has been a reflection of more optimistic expectations in the countries' production sectors and banking systems, which have thus validated their forecasts that the outlook for growth would improve.

As indicated in table 3.4, in 2004 commercial and industrial credit has expanded considerably in Brazil, Mexico, Chile, Costa Rica and has risen, although less sharply, in Colombia (in comparison, in all cases, to the corresponding period of 2003). In Peru, on the other hand, the supply of these types of credit (as well as total credit) has continued to shrink; the Bolivarian Republic of Venezuela is at the other end of the spectrum, since total credit in that country has jumped by 86.5% in 2004; this trend constitutes an important component of the inflationary process being experienced by that economy.

The outlook

Throughout 2003 and the first half of 2004, the countries' policy makers placed priority on bolstering the reactivation of their economies while also keeping inflation under control. During the second half of 2004, although the external situation remains favourable and no exchange-rate or inflationary pressures are in evidence in most of the countries, their central banks'

prime objectives have been to forestall inflationary surges and to eliminate negative real interest rates without endangering the economic upswing. This is precisely the challenge they are facing in the months ahead: to keep inflation low and avoid negative real rates without undermining the recovery of economic activity.

All of the above is taking place within the context of higher international interest rates. In fact, rates began to rise on international markets even before the United States Federal Reserve decided to hike its rates in June 2004. The LIBOR rate climbed from 1.2% in June 2003 to 1.49% in November and, after dipping to 1.34% in April 2004, rebounded to 2.53% in October. These movements are being observed with concern by countries in the region that have hefty debt loads made up, at least in part, of short-term borrowings.

Against a backdrop of relatively normality in United States financial markets, it is very probable that monetary policy rates will continue to climb gradually, whether as part of an effort to curb inflation, as in Mexico, to hold the spread with rates in the United States constant, as in Chile, or to complete the transition to positive real interest rates. It is also quite likely that the application of tighter monetary policies will continue to bring down the rate of price increases in high-inflation economies in the fairly near future. In that event, sooner or later real interest rates can be expected to rise again.

4. Domestic performance

Economic activity

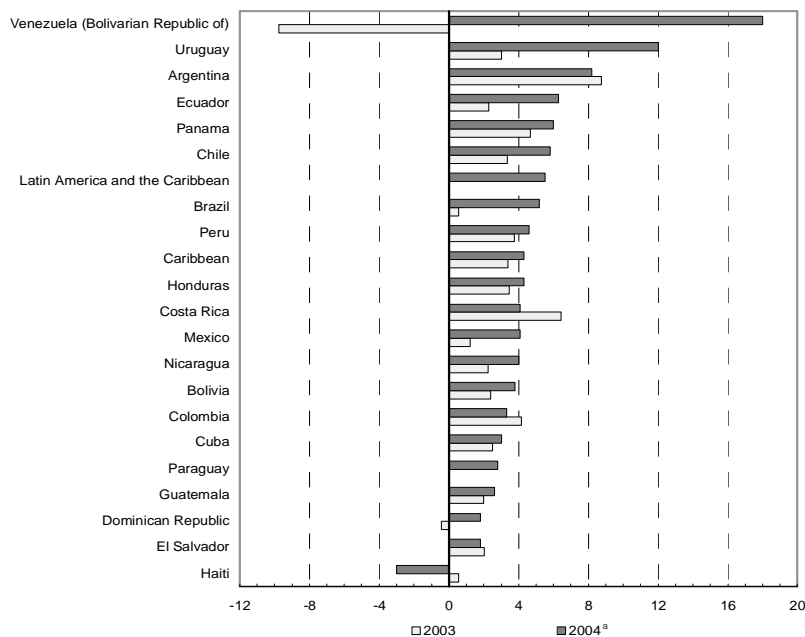
The momentum that the Latin American and Caribbean economies had acquired in the second half of 2003 continued throughout 2004. Regional GDP expanded by 5.5% in what was the largest jump since 1980, contrasting with the low rates recorded since the late 1990s. Meanwhile, the region's per capita GDP climbed by 4.0%, which was the sharpest increase since 1979. This performance represented a shift away from the trends that prevailed in the period 1998-2003, when per capita income tended to stagnate or even decrease slightly. The regional gross national disposable income, per capita, was up by 5.2%, measured at 2003 prices (see figures 4.1, 4.2 and 4.3).

The outlook is bright for 2005, since the region's economies should continue to grow briskly, albeit at slightly lower rates of about 4%. This outlook is consistent with the international conditions described in the chapter on the external sector.

These impressive aggregate results reflect the performance of most of the region's economies. With the exception of Haiti, all the Latin American and Caribbean countries turned in positive growth rates. In Brazil, a significant upturn in domestic demand, combined with the vigour exhibited by the export sector since 2003, pushed the economy's rate of growth above 5%. Argentina's economy continued to forge ahead in 2004, with a rate of 8.2% driven by

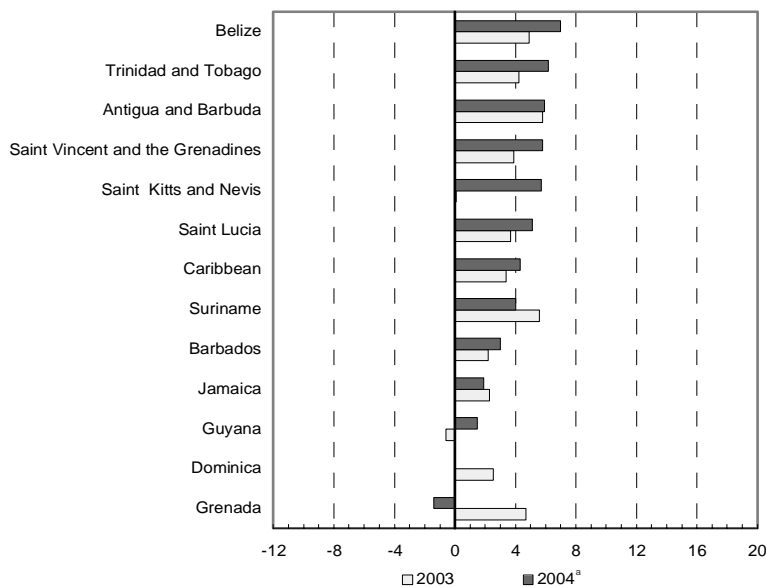
an upswing in domestic demand and the return of investment to pre-crisis levels. The Mexican economy benefited from continued expansion in United States demand, growing by 4.1%. The Bolivarian Republic of Venezuela and Uruguay recorded the region's highest rates of growth in 2004 (18% and 12%, respectively), reflecting a comeback from very low rates and an upturn in domestic demand, driven by both investment and consumption. Haiti, mired in a complex political and economic situation, was the only country to turn in a negative growth rate (3%). The economic performance of the other Caribbean countries was undermined by the natural disasters that hit the subregion during the year.

Figure 4.1
**LATIN AMERICA AND THE CARIBBEAN: ANNUAL GDP GROWTH RATES
 IN CONSTANT 1995 DOLLARS**
 (Percentages)



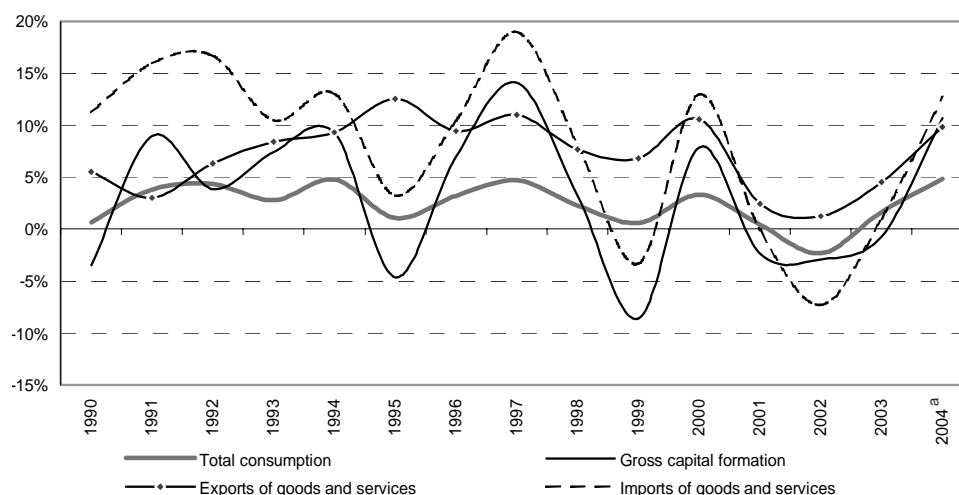
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Preliminary figures.

Figure 4.2
THE CARIBBEAN: ANNUAL GDP GROWTH RATES IN CONSTANT 1995 DOLLARS
 (Percentages)



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

Figure 4.3
LATIN AMERICA AND THE CARIBBEAN: GDP AND RATES OF VARIATION IN THE COMPONENTS OF EXPENDITURE



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

^a Preliminary figures.

Exports, which were up by 10% in real terms in 2004 and expanded at an average annual rate of 5.1% in 2002-2004, became the main engine of growth. A real increase in domestic demand was further strengthened by an improvement in the terms of trade. The increase in both export volumes and the purchasing power of export earnings helped to build up demand for imports while maintaining a substantial trade surplus.

In a number of countries, trends in real exchange rates in 2002 had generated a correction of the relative prices of tradable as opposed to non-tradable goods and services and had helped to boost the external competitiveness of those countries' export sectors. This, in combination with the existence of idle capacity and a policy of lowering interest rates, enabled these economies to take advantage of the additional demand generated by more auspicious external conditions in 2003 and 2004.

On the external front, the global economic expansion driven by growth in the United States and the Asian economies fuelled increased demand for commodities and for some of the manufactures exported by the region. At the same time, faster growth in domestic demand in the United States had a positive

impact on the exports of those countries whose economic performance is most closely tied to the United States economy. High international oil prices benefited net exporters of this product, helping to boost the fiscal revenues of countries whose oil income represents a significant proportion of the total.

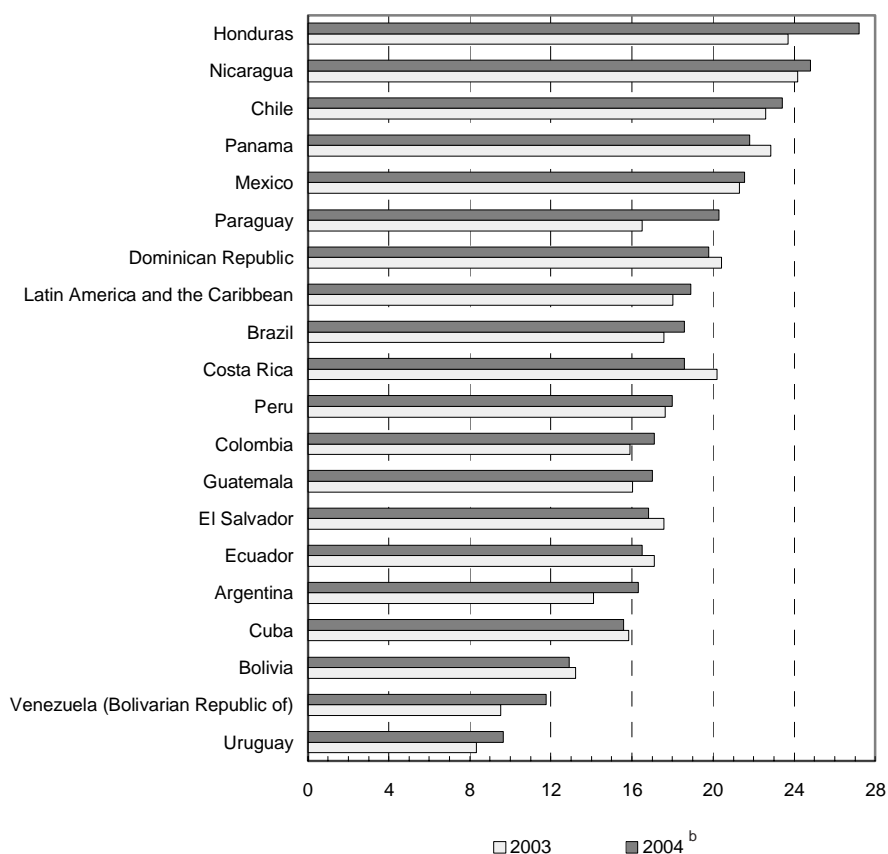
The prices of commodities that are important to the region remained high throughout 2004. This heightened the terms-of-trade effect and the resulting positive impact on domestic economic activity by stimulating first an upturn in investment and later an increase in consumption.

Regional investment is estimated to have risen by about 11% in 2004, meaning that it returned almost to its level of 1998.¹ This is largely attributable to the low rates seen previously, in combination with the revival of economic activity, the use of idle capacity (especially in the industrial sector) and low rates of interest. Exchange-rate trends and higher demand spurred a significant rise in investment in machinery and equipment, most of which was imported. This was in addition to more freely available bank credit. As a percentage of GDP, however, the investment ratio² was slightly below 19%. This was higher than the 2002 ratio, but lower than the ones seen in the 1990s.

1 Measured in 1995 dollars, gross domestic investment in 2004 was 0.8% below the figure for 1998, but 2.4% above its 1997 level.

2 Measured in constant 1995 dollars; corresponds to gross fixed capital formation divided by GDP.

Figure 4.4
**LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION
 AS A PERCENTAGE OF GDP**
 (Constant 1995 dollars)^a



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

^a Does not include Haiti, since this indicator would give an overestimate of the magnitude of investment relative to GDP in that country.

^b Preliminary figures.

In historical terms, the estimated 4.8% increase in total consumption was substantial. In the 1990s, comparable rates of growth in consumption were recorded only in 1994 and 1997, when regional GDP expanded by over 5%. Private consumption benefited from a significant increase in employment at the regional level and a slight upturn in wages and salaries, in addition to some of the factors already discussed. Public consumption was not restricted, but tended to remain stable. As explained in the chapter on fiscal policy, however, this did not endanger the achievement of government finance targets, since the tax intake expanded significantly.

One of the most noteworthy features of the region's economic performance in 2004 was a significant increase in gross national disposable income; measured at 2003 prices, this indicator rose by 6.8%. This demonstrates the significant impact of the improvement in Latin America's terms of trade, which is estimated at 1.3% of regional GDP, in addition to the fact that higher net factor payments abroad were offset by an equivalent increase in current transfers to the region, mainly in the form of remittances from non-residents.

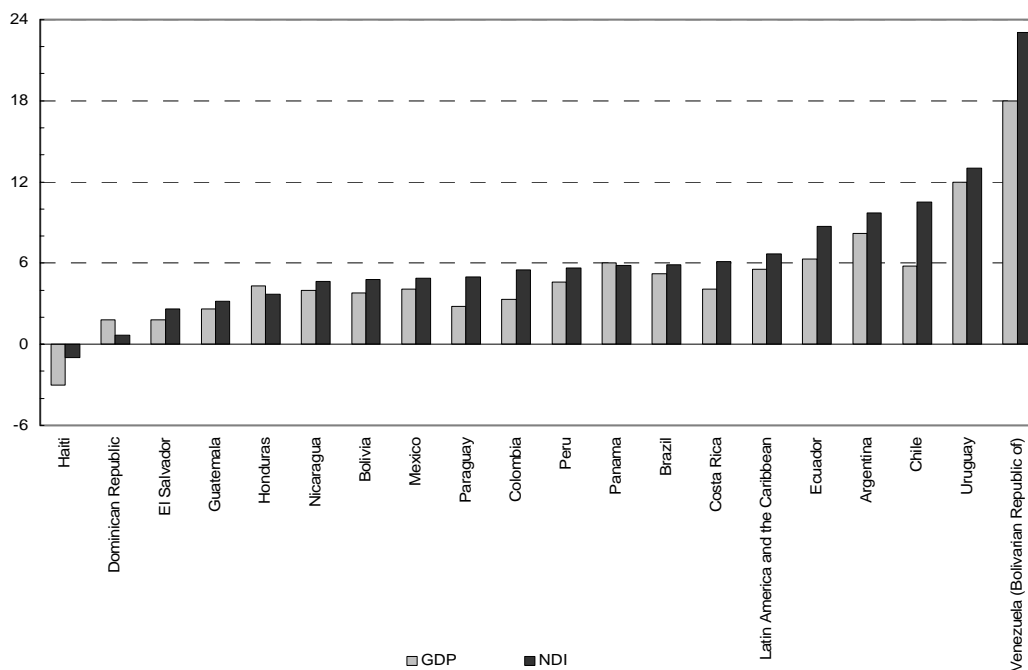
As well as higher income, the region recorded a significant increase in total saving. Measured in current dollars, region-wide total saving rose from 18.4% of GDP in 2003 to 19.2% in 2004. The increase in national saving in the countries was noticeably larger, as the rate rose from 18.7% of GDP in 2003 to 20.2% in 2004. This difference reflects the fact that a sizeable share of national saving was used to finance the negative external saving recorded in the region since 2003, which was equivalent to 1.0% of GDP in 2004.³

Beyond these general features, a number of factors were more influential in some countries than in others. As shown in figure 4.5, the positive terms-of-trade effect was felt most strongly in the South American countries. In the Andean countries, including Chile, the expansion of economic activity was driven mainly by vigorous growth in sectors linked to the production of hydrocarbons (Ecuador and Bolivia) and metals and

minerals (Chile and Peru), as well as by a rise in domestic demand based on faster investment growth (Colombia) or a return to previous levels (Bolivarian Republic of Venezuela). Several Andean countries also saw an increase in exports of manufactures to the United States in the framework of trade agreements. Although these exports do not account for a large share of total manufacturing output, they grew quickly enough during the year to contribute to the performance of that sector. The income of the Andean countries climbed considerably, at rates well above the growth of GDP, with the result that domestic demand rose faster than had initially been expected and economic activity outstripped the authorities' initial projections.

In the MERCOSUR countries, economic growth was fostered by the recovery of domestic demand (in Argentina, Brazil and Uruguay), in combination with consistently robust external demand, which boosted the

Figure 4.5
LATIN AMERICA AND THE CARIBBEAN: GDP AND NATIONAL DISPOSABLE INCOME, ANNUAL GROWTH RATES AT PRECEDING YEAR'S PRICES, 2004^a
 (Percentages)



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

^a Preliminary figures.

3 External saving is calculated on the basis of the countries' national accounts, using adjusted balance-of-payments information.

production of export-oriented agricultural goods (soybeans and soybean products, meat and wool). National income rose faster than GDP, but not to the same extent as in Chile and the Andean countries. Argentina's unemployment rate, though still high, dropped significantly. This, together with a partial upturn in real wages, contributed to a considerable rise in consumption. The manufacturing sector kept up the momentum it had gained in 2003, thanks to stable external demand and rising domestic demand, in a context of moderate real exchange-rate appreciation throughout the year. At the same time, the more favourable terms of trade had a positive impact on fiscal revenues. Brazil experienced an upswing in domestic demand in 2004, based on investment both in machinery and equipment and in construction. Continued high external demand bolstered the production of manufactures for export, particularly capital goods (iron and steel and aeronautical equipment) and consumer durables (motor vehicles); these two sectors expanded by about 25%. The production of non-durable consumer goods, however, which is more dependent on domestic household consumption, grew at a considerably more modest rate.

In Mexico, high oil prices helped to swell fiscal revenues, while increased external demand from the United States spurred a revival in the maquila industry in the course of the year. In the first nine months the maquila production index rose by 7.7% with respect to the same period of 2003. In addition, investment in machinery and equipment rallied and growth sped up in the construction sector. Up to the third quarter of 2004 gross fixed capital formation rose by 6.3%, with a 7.4% increase in investment in machinery and equipment, especially imports (9.7%), compared to the first nine months of 2003. Private consumption also expanded throughout the year, thanks mainly to increased remittances from non-residents and an upturn in consumer credit.

As in Mexico, in a number of Central American countries (Honduras and Nicaragua) the maquila

industry benefited from growth in the United States economy, while domestic demand trended upward, except in El Salvador. In contrast to what happened in the South American countries, however, higher growth in the Central American subregion was not a result of income gains from better terms of trade. For these countries, high international oil prices offset the rise in the prices of coffee and bananas, which are two of the subregion's major exports, so that the overall effect was negative or only slightly positive (Guatemala). Accordingly, higher domestic demand was financed mainly by increased remittances from non-residents. Remittances continued to grow at rates that generally fell short of the 2003 figures (except in the case of El Salvador, whose positive current transfer balance rose by some 20%), but were still above 10%. The upturn in investment may be attributed in some cases to increased activity in the construction sector (Honduras, Nicaragua, Panama), while Guatemala recorded higher investment in machinery and equipment.

Economic growth in the Caribbean countries was undermined by the natural disasters that hit the subregion in the second half of the year. In addition to hurricanes Ivan, Jeanne and Frances (which affected the Bahamas, Grenada, Jamaica and the Dominican Republic, in particular, and Saint Vincent and the Grenadines and Saint Lucia, to a lesser extent), Dominica was ravaged by an earthquake in November. These phenomena not only affected the tourist industry, but also destroyed some of the agricultural sector's export crops, including bananas. Although some countries were harder hit by the storms than others, practically the whole subregion was affected to some degree. Nevertheless, Belize, Suriname and Trinidad and Tobago again recorded high rates of growth (7.0%, 4.0% and 6.2%, respectively) in 2004, thanks to increases in mining (Suriname), hydrocarbons and petrochemicals (Trinidad and Tobago) and tourism (Belize). Like those of the Latin American economies, the external accounts and the income of the Caribbean economies benefited from the upturn in international commodity prices.

Box 4.1

THE 2004 CARIBBEAN HURRICANE SEASON: FACTS, FIGURES, PRELIMINARY CONCLUSIONS AND LESSONS LEARNED

ECLAC estimates indicate that in the last three decades more than 150 million people have been affected by natural disasters in Latin America and the Caribbean. These disasters have taken their toll on more than 12 million direct victims and have caused 108,000 deaths. Moreover, the total damage –and this is not an exhaustive estimate for the entire region– amounts to more than US\$ 50 billion (calculated at constant 1998 prices) and has been concentrated in the smallest and relatively less developed countries.

The extraordinarily severe 2004 hurricane season in the Caribbean basin caused substantial damage in many islands as well as bordering continental countries. The damage had varying economic and social impacts depending on the nations' and territories' resilience and response capability and on the size, diversification and strength of their economies, societies and infrastructure. At the request of the affected areas, ECLAC has undertaken assessments in the Bahamas, Cayman Islands, Dominican Republic, Grenada and Jamaica and will have completed an impact study on the Gonaïves tragedy in Haiti before the end of the year. Partial estimates put the damage and losses (in terms both of assets lost, destroyed or damaged and of economic flows that have been interrupted or altered) at over US\$ 5.593 billion. The five case studies conducted by ECLAC so far this year indicate that 79% of the total impact corresponds to actual physical damage to assets (houses, businesses, roads and bridges, utilities, schools, health care facilities, etc.). This damage has, in turn, resulted in losses in terms of economic flows of more than US\$ 1.195 billion. The sectoral breakdown shows that most of the damage was done in social sectors (48%) and production –both goods and services, especially tourism– activities (33%). Damage to infrastructure and electricity, water and sanitation utilities,

and transport represents 16% of the total, and the direct environmental impact, 1.4%. This last figure is smaller than it would be otherwise because most of the affected natural resources are expected to recover, but this does not mean that environmental action in terms of clean-up, habitat restoration and better environmental management is of lesser importance. In point of fact, the amount of assessable damage clearly demonstrates that the valuation of environmental assets and services is inadequate.

The impact, measured in terms of GDP, is quite severe in most cases, with the only major exception being the Dominican Republic, where damage and losses represent less than 2% of that country's current GDP. In Grenada it amounts to 212% of GDP, and in the Cayman Islands it totals 138%. Although the figures for Jamaica (8%) and the Bahamas (7%) are lower, they nonetheless represent a significant burden for the economy. ECLAC has not appraised the impact on a number of other territories and countries (such as the Netherlands Antilles, parts of Mexico or the State of Florida), but once the impact on the overall economic performance of these areas is taken into account, the figure may end up being as much as 10 times higher.

From a social point of view, however, the most severe socioeconomic and human impacts have been concentrated in the smaller and least developed nations, whose capability to rebuild and return to a path of growth and development is limited owing to the lack of appropriate insurance coverage, institutional response capacity and preventive policies. This is particularly the case in Haiti and Grenada, but other economies with fragile environments and indebted or poorly performing economies have been hard hit by these events. Grenada and the Cayman Islands, with damage amounting to

US\$ 889 million and US\$ 3.432 billion, respectively, illustrate the level of exposure to a major hurricane of very small territories, one of which has almost no insurance coverage or endogenous resources to cope with a disaster of these proportions, while the other is heavily insured and hence will be able to rebuild, although this will take its toll on the government budget and cash flow. Although the impact is somewhat less in the Bahamas (US\$ 381 million), Jamaica (US\$ 575 million) and the Dominican Republic (US\$ 270 million), it nevertheless reinforces one of the key lessons learned from this year's experience: namely, that the sustainability of economic and social development is closely intertwined with the environment. The cumulative impact of natural disasters compounds the many development constraints faced by some of the smallest and poorest countries and territories, thereby making the quest for development an even more difficult task. Strengthening the capacity to prevent and respond to the emergencies caused by natural disasters is thus one of the main ingredients in development and poverty eradication in many poor countries.

Another conclusion is that, even though most of the damage generally occurs in the private sector, it is the job of the governments concerned to assist low-income groups and segments of the population that are highly dependent on basic agricultural or fishing activities. Production activities sustain a large proportion of the damage and the ensuing economic losses, which in some cases may persist for years. The vulnerability of infrastructure is exacerbated by poor environmental management and environmental degradation, which thus generate high production risks and enormous human suffering.

Inflation

For 2004 as a whole, inflation in Latin America and the Caribbean will barely exceed 7.5% (compared to 8.5% in 2003), thus maintaining its downward trend at the regional level, even though several countries have overshot the targets announced by the authorities at the

start of the year. The regional figure reflected lower inflation rates in the Bolivarian Republic of Venezuela (down from 27.1% in 2003 to 18% in 2004), Brazil (from 9.3% to around 7.5%), Dominican Republic (from 42.7% to 36.5%) and Haiti (from 40.4% to 18.5%).

Table 4.1
LATIN AMERICA AND THE CARIBBEAN (23 COUNTRIES): CONSUMER PRICE INDEX, WHOLESALE PRICE INDEX AND VARIATION IN THE NOMINAL EXCHANGE RATE ^a

	2003 ^b			2004 ^c		
	Consumer prices	Wholesale prices	Exchange rates	Consumer prices	Wholesale prices	Exchange rates
Argentina	3.7	2.0	-14.8	5.2	8.3	1.4
Bahamas	2.3		0.0			
Barbados	0.3		0.0			
Bolivia	3.9		4.6	3.4		2.5
Brazil	9.3	6.3	-19.3	6.0	13.0	-2.6
Chile	1.1	-1.0	-14.1	2.6	11.9	0.3
Colombia	6.5	5.7	-0.2	4.9	4.9	-8.3
Costa Rica	9.9	11.0	10.6	10.3	15.5	7.7
Ecuador	6.1	4.5	0.0	1.6	18.2	0.0
El Salvador	2.5	2.2	0.0	5.2	9.6	0.0
Guatemala	5.9		4.9	7.5		-2.2
Haiti	40.4		15.4	17.5 ^d		-18.3
Honduras	6.8		5.0	7.8		4.3
Jamaica	14.1		20.7	10.4		1.2
Mexico	4.0	3.2	10.4	4.1	8.5	0.9
Nicaragua	6.5		6.0	8.9		3.6
Panama	1.5		0.0	1.8 ^e		0.0
Paraguay	9.3		-13.8	1.3		-0.6
Peru	2.5	2.0	-1.2	3.2	5.0	-4.3
Dominican Republic	42.7		75.6	32.9		-15.2
Trinidad and Tobago	3.0		0.0	5.1 ^f		-1.2
Uruguay	10.2	20.5	7.4	7.8	6.7	-7.2
Venezuela (Bolivarian Republic of)	27.1	48.8	21.0	15.4	19.5	20.0
Latin America and the Caribbean	8.5	...	...	7.6	...	...

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

^a The regional average is weighted by the population of each country. The statistical appendix contains data on the consumer price index up to November (table A-24).

^b December 2003 in relation to December 2002.

^c October 2004 in relation to December 2003.

^d September 2004 in relation to December 2003.

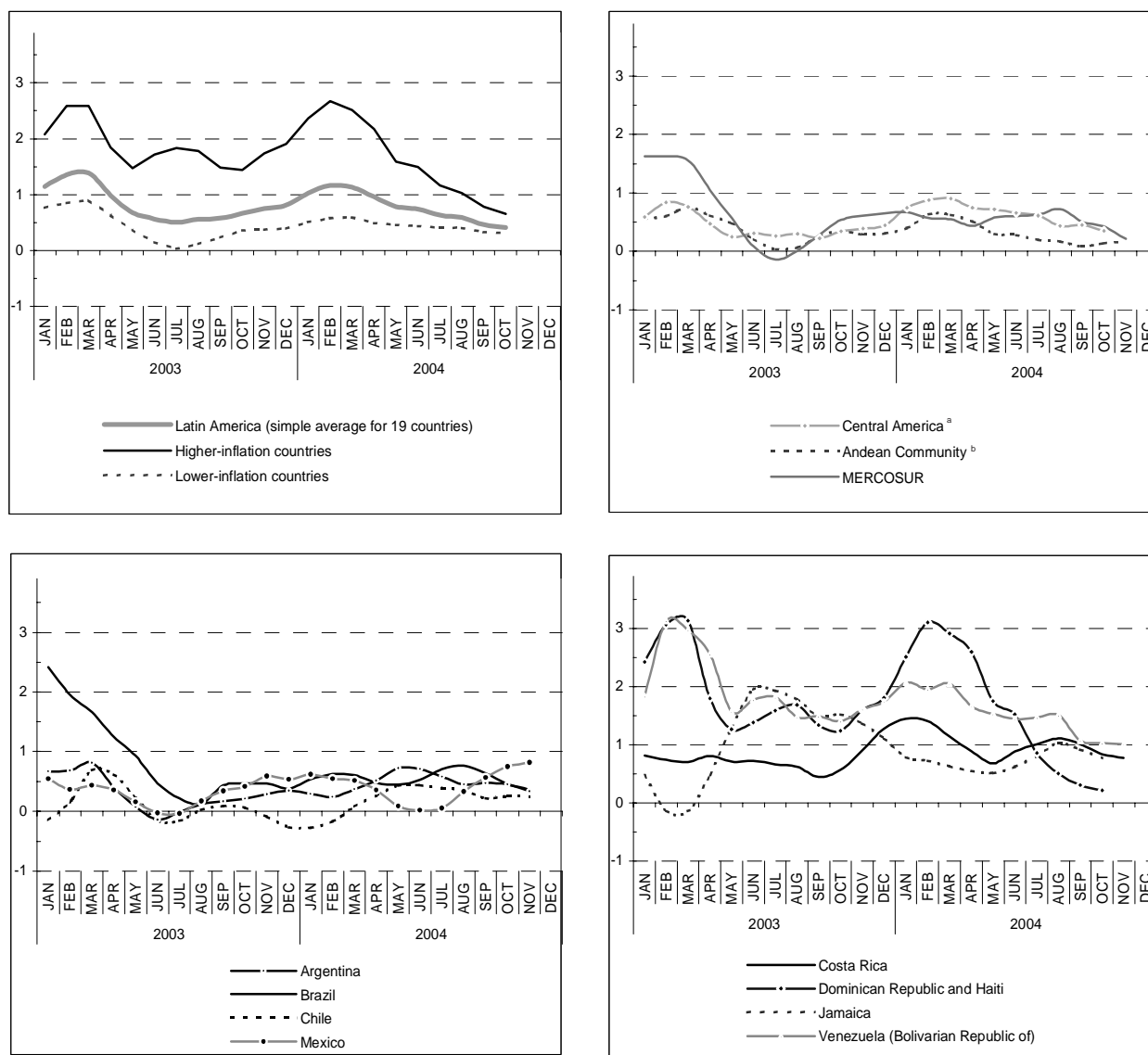
^e July 2004 in relation to December 2003.

^f June 2004 in relation to December 2003.

Several countries recorded slightly higher inflation rates than in 2003, and in some cases there were minor inflationary surges (mostly in the first half of the year) driven by higher prices for transport, housing services and food (see figure 4.6). These increases largely reflected upturns in the international prices of commodities –particularly food, oil and fuels– and of

a number of industrial manufactures, in addition to the higher cost of transport and insurance services. The pattern was most pronounced in the Central American countries, given their reliance on imports of oil and other raw materials. Meanwhile, in several countries the recovery of domestic demand and stronger economic growth enabled wholesale suppliers to restore their profit margins.

Figure 4.6
LATIN AMERICA AND THE CARIBBEAN: MONTHLY INFLATION RATE, THREE-MONTH MOVING AVERAGE
 (Inflation rates in relation to the preceding month, in percentages)



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

Note: Higher-inflation countries: those in which cumulative inflation for the year exceeds 10% (Bolivarian Republic of Venezuela, Costa Rica, Dominican Republic, Haiti and Jamaica).

Lower-inflation countries: all others.

The subregional aggregates were calculated as simple averages of the inflation rates in the corresponding countries.

^a Includes El Salvador, Guatemala, Honduras, Panama and Nicaragua.

^b Excludes the Bolivarian Republic of Venezuela.

In the second half of the year the pace of inflation slackened generally (except in Mexico, mainly because of sharper increases in food prices and regulated prices). This slowdown reflected the behaviour of exchange rates in the course of the year, the application of a monetary policy of raising interest rates in several of the region's countries

and slower increases in commodity (particularly food) prices. At the same time, as hikes in the international prices of industrial manufactures and of transport and insurance services tended to be concentrated in the first half of 2004, the prices of most countries' manufactures imports were lower in the second half of the year than in the first.

In many countries, exchange-rate patterns somewhat mitigated the extent to which higher international prices for commodities and manufactured goods were passed through to domestic consumer prices. In contrast to their behaviour in 2003, the countries' exchange rates did not depreciate significantly; in fact, several local currencies appreciated, including some that had followed a similar trend in 2003 (those of Argentina, Brazil, Chile, Colombia, Paraguay and Peru).

Moreover, the fact that wages and salaries failed to rise in most of the countries in 2004 had a positive effect on producers' costs. The behaviour of oil prices continues to run counter to the trend described above, however, and presumably will continue to exert upward pressure on prices.

An analysis of wholesale or producer prices in countries that regularly publish such information shows that these prices generally outpaced consumer prices. A rise in the wholesale price index is primarily indicative of increases in the international prices of raw materials

and manufactures, since the basket used to calculate the index consists mainly of goods, many of which are tradable. The bigger upturn in wholesale prices also shows that, while domestic demand in several countries grew faster than initially expected, this was not sufficient to allow wholesale price rises to be fully passed through to the final consumer.⁴ This phenomenon can also be illustrated with an analysis of underlying inflation in consumer prices in the countries for which this indicator is available. In all the countries considered except Argentina and Chile, underlying inflation rose by less than overall inflation as measured by the consumer price index.⁵

In addition, domestic price trends in several countries were affected by short-term factors: supply problems in the case of agricultural products (Bolivia), drought (Peru), increases in regulated goods and services prices (Bolivarian Republic of Venezuela, Costa Rica and Mexico) and burgeoning domestic demand spurred by economic growth (Argentina, Brazil, Chile and Uruguay).

Employment and wages

The upswing in regional economic activity fuelled dynamic job creation, but real wages hardly varied. In contrast to the pattern in 2003, urban employment showed a significant increase of about 3.8% in 2004. This had a clear impact on the regional unemployment rate, which eased from 10.7% to 10.0%.⁶ The improvement is explained by the fact that, following a sharp increase in 2003, labour-market participation rose only slightly, from 58.8% to 58.9% of the working-age population (14

countries). In fact, the drop in unemployment was the steepest since 1986. The outstanding feature of the occupational structure in 2004 is the substantial growth of formal employment in several countries.

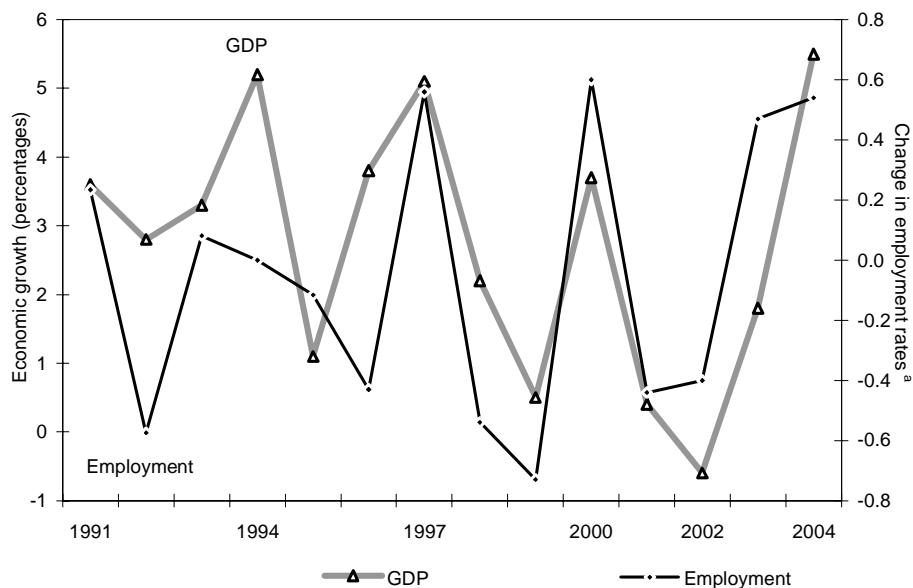
In the wake of vigorous job creation, the employment rate rose from 52.2% to 52.7% of the working-age population (14 countries), providing further evidence of the close correlation between this variable and economic growth (see figure 4.7).

4 The two indices have different characteristics: whereas the wholesale price index includes only goods, most of which are tradable, the consumer price index encompasses both goods and services, and most of the latter are non-tradable.

5 A common methodology was applied, which consisted of excluding the same product lines from the consumer price index (fuels and petroleum products and perishable foods).

6 As Brazil had done a year earlier, in 2003 Argentina introduced changes in its methodology for measuring labour-market variables, and these changes were part of the reason why its participation, employment and unemployment rates went up. Specifically, under the new methodology Argentina counts more people as being employed because it includes activities that traditionally have not been regarded as employment. The number of people recorded as unemployed also increased because the period within which a person must have sought work in order to be counted as unemployed was lengthened and because more informal job-search methods were included. In the preceding edition of the *Preliminary Overview*, figures for Argentina and the regional calculation were based on data generated under the old methodology, in order to maintain comparability with previous rates. As from this edition, however, the data generated under the new methodology will be used. Consequently, at the regional level, the three rates mentioned for 2003 are higher than the ones published in the preceding edition of this report.

Figure 4.7
LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND EMPLOYMENT RATES, 1991-2004



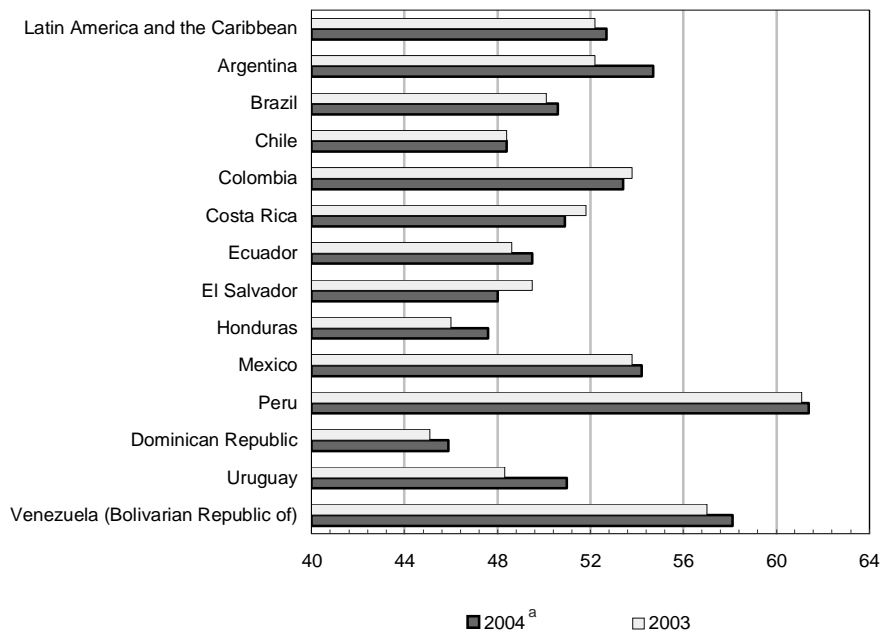
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Percentage points.

In fact, with the pace of economic growth increasing almost everywhere, most of the countries (9 out of the 13 for which information is available) also reported increases in the employment rate. Nonetheless, only four of these nine countries (Argentina, Bolivarian Republic of Venezuela, Brazil and Uruguay) can claim a clear improvement in the labour-market situation, since in these cases strong economic growth produced a substantial rise in the employment rate, which in turn alleviated the rate

of unemployment. In the other five (Dominican Republic, Ecuador, Honduras, Mexico and Peru), whose economies generally grew more slowly, the improvement in the level of employment was more than matched by an expansion in the labour supply, with the result that unemployment increased (see figures 4.8 and 4.9). A similar pattern prevailed in Chile, where the employment rate remained broadly unchanged while labour-market participation increased, generating higher unemployment.

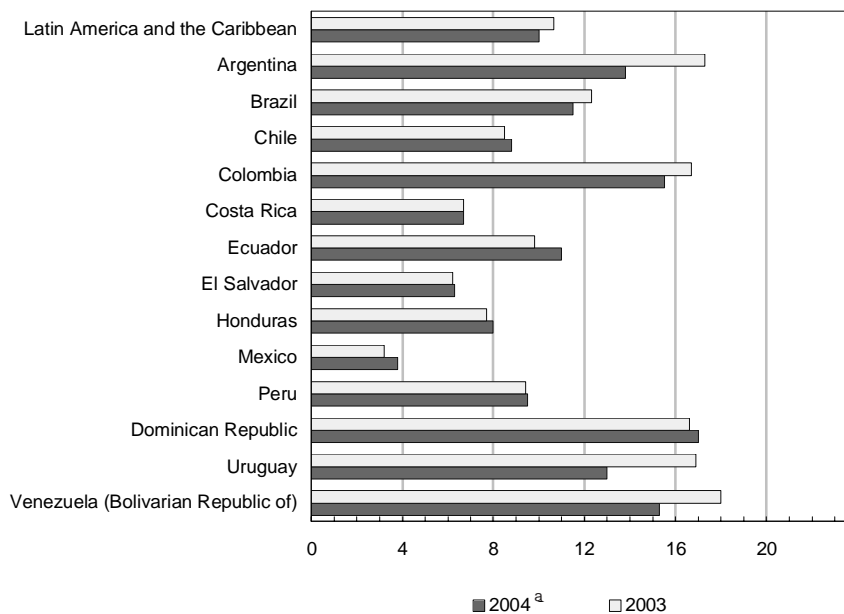
Figure 4.8
LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATES, 2003 AND 2004 ^a



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

^a Preliminary figures.

Figure 4.9
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT RATES, 2003 AND 2004 ^a



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

^a Preliminary figures.

Thus, while in some countries the economic upturn produced a clear improvement in employment indicators, in others the volatility of economic growth and the predominantly procyclical behaviour of the labour supply are still limiting the recovery's impact on unemployment. In these cases, it is unlikely that the expansion of the labour supply will revert to trend, making it possible for job creation to be reflected in unemployment rates, until economic growth becomes more stable.

Lastly, in the other three low- to moderate-growth countries (Colombia, Costa Rica and El Salvador), the employment rate dropped, but did not result in higher unemployment because labour-market participation also declined.

As the above description shows, the behaviour of the labour supply varied across countries. Although small increases in the participation rate prevailed overall, some countries (such as Ecuador and Mexico) recorded sharp rises, while others (such as the Bolivarian Republic of Venezuela and Colombia) saw substantial falls. At the regional level, this pattern generated the aforementioned increase of one tenth of a percentage point in the regional participation rate, which is below

the long-term trend as determined by the growing number of women entering labour markets (see box 4.2). The fact that the participation rate has departed from its clearly procyclical trend of previous years needs to be analysed in the light of events in 2003. That year the region-wide labour supply increased sharply in response to the economic recovery, even though the upturn was still incipient. This rise made up for earlier falls, illustrating the procyclical labour-market behaviour of many households. The labour supply's strong growth in 2003 can be interpreted as an ex ante adjustment to the approaching recovery, which did not go into full swing until 2004, and this is probably why the rate increased only slightly this year.

Despite the meagre increase in the participation rate, the economically active population in urban areas expanded by nearly 5 million people (3%) as a result of population growth, which is still relatively high in the region, and migration. The sharp increase in employment was sufficient to absorb this expansion of the labour force and to reduce the unemployed population by over half a million. Even so, roughly 16.4 million people in urban areas are unemployed.

Box 4.2

WOMEN'S GROWING PARTICIPATION IN THE LABOUR MARKET

One of the most striking trends in Latin American and Caribbean labour markets in recent years has been the rise in women's labour-market participation. This increase reflects the new opportunities that have arisen for women in the areas of both labour supply and labour demand, although inequalities and discrimination are still in evidence.

With respect to the labour supply, the upturn in women's

participation is a long-term trend that fluctuates in line with the economy's performance. Women's participation has clearly been trending upward for the past several decades. This pattern has been influenced by demographic changes, such as the decline in the average number of children per family, and cultural changes, such as the transformation of women's economic and social

roles. In all but a few cases, this has given rise to the expansion of women's access to the educational system and more widespread recognition of their right to engage in paid work. Accordingly, in recent years women's participation has risen markedly in most countries of the region, while men's participation has remained largely unchanged (see table below).

LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES): RATES OF PARTICIPATION, EMPLOYMENT, UNEMPLOYMENT AND INFORMAL EMPLOYMENT AND INDICATOR OF THE DURATION OF UNEMPLOYMENT, BY SEX, CIRCA 1990 AND CIRCA 2002
(Simple averages)

	Total		Women		Men	
	1990	2002	1990	2002	1990	2002
Participation	62.7	67.1	42.9	51.9	84.1	83.4
Employment	57.6	60.1	38.6	45.3	78.2	76.1
Unemployment	8.1	10.4	9.9	12.7	7.0	8.8
Unemployment lasting four months or longer (%)	37.1	34.5	39.6	36.7	35.6	32.7
Informal employment	47.4	50.3	53.8	55.3	43.1	46.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from household surveys conducted in the countries.

Box 4.2 (concluded)

This is not a uniform process, however, as shown by the considerable differences in participation rates between women with different levels of education. While men have high participation rates that are more or less the same across all levels of education, reflecting the fact that men are more likely to be primary breadwinners, in the case of women there is a clear and positive correlation between participation and education.

At the same time, in the short term labour-market participation reflects changes in living conditions in the households to which workers belong. In the case of poor households, the crises of the 1980s and 1990s triggered an increase in women's participation, and many of these women subsequently stayed in the labour market. This helped to fuel the long-term increase in women's participation and to narrow the gap in economic activity rates between women from poor and non-poor households.

In addition, there is a "secondary labour force" (consisting mainly of young women and men) that enters and leaves the labour market –or delays or speeds up entry into it– in line with changes in the economy's performance and in households' perception of economic conditions. This generates short-term fluctuations that combine with the long-term upward trend. In recent years the behaviour of

this secondary labour force has been primarily procyclical in many countries. Consequently, during the low-growth phase that the region's economy entered in 1998, women's participation increased more slowly. However, given that men's participation rate dipped slightly at the beginning of the current decade, the proportion of women in the region's labour force has continued to rise. Since 2003 the earlier trends have re-emerged and women's participation rate has climbed significantly.

The increase in women's labour-market participation has been brought about not only by factors affecting the labour supply, but also by changes in labour demand. Substantial growth has been observed in some branches of activity in which women's participation has traditionally been high: commerce, restaurants and hotels; financial services, insurance, real estate and business services; and community, social and personal services, among others. Moreover, in many branches the proportion of women has increased. This has led to a sharp rise in women's employment rates (see table).

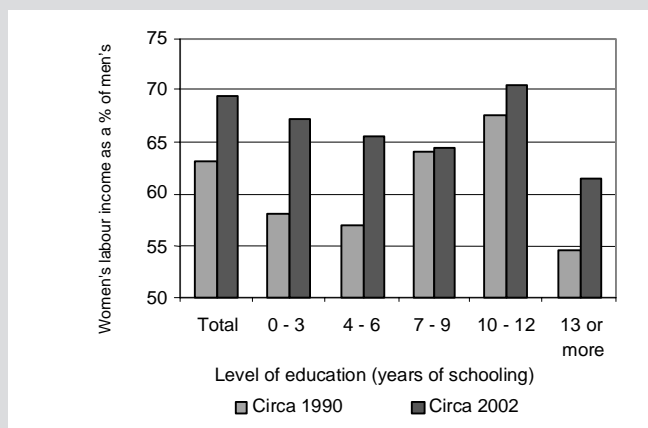
For women, however, labour demand mostly targets workers with intermediate or high levels of education. Women with low levels of education have few options in the formal labour market, and a high proportion of the workers in this category engage in informal commerce, domestic service

and –especially in the case of young women– unpaid family work. Women's occupational structure therefore shows a higher proportion of informal employment than men's (see table). Recently, the expansion of demand for women workers in formal-sector activities, especially in the tertiary sector, has narrowed this "informality gap", but in the context of an increase in the proportion of informal employment in the labour market as a whole.

The fact that women have higher unemployment rates and take longer to find employment is another sign of persistent labour-market inequality (see table). While women's employment rates have increased substantially, so has the unemployment gap between women and men in recent years. The imbalance between the expanding supply of women workers and the scarcity of employment opportunities is also reflected by the increase in women's labour emigration, often in conditions of discrimination and exploitation.

In aggregate terms, the labour income gap between men and women is slowly shrinking. Recently this trend has been fairly widespread among workers in all categories of educational attainment (see figure below). Even so, the gap still ranges from 30% to 40%, depending on the number of years of schooling, and the biggest difference is observed at the highest level of education.

LATIN AMERICA AND THE CARIBBEAN: WAGE GAP BETWEEN THE SEXES, BY LEVEL OF EDUCATION, URBAN AREAS
(Simple averages)



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

The upturn in economic growth also affected the characteristics of new jobs. For the first time since 1998, wage employment expanded faster than self-employment (at estimated rates of 3.8% and 3.7%, respectively), reflecting higher labour demand among firms. This growth in wage employment was the fastest in the last 10 years. Although these two categories of employment cannot be identified with “high-quality” and “low-quality” jobs, respectively, since both categories are very heterogeneous, the greater buoyancy of wage employment is good news because these jobs generally provide better standards of social protection and income stability, among other considerations. Formal job creation gained momentum in a number of countries during the year. Between December 2003 and September 2004 the year-on-year growth of formal-sector wage employment, measured in most cases by participation in social security systems, rose from 7.8% to 9.0% in Argentina, from 2.9% to 6.3% in Brazil, from 1.8% to 4.2% in Costa Rica, from 3.5% to 10.8% in Nicaragua and from 1.9% to 2.7% in Peru. In Mexico this indicator slipped by 0.7% in December 2003, but registered an increase of 1.9% in September 2004. In Chile formal-sector wage employment continued to grow at a fairly steady rate, with figures of 4.3% in December and 4.1% in September. It should be borne in mind, however, that these measurements may lead to the overestimation of net job creation, as they may include cases in which existing jobs have been “formalized”. Even so, the growth of this type of employment is a positive trend.

Just as employment growth did not reduce unemployment rates in every country, the expansion of formal employment was not always accompanied by a reduction in underemployment, since part of the growing labour supply could only find work in low-productivity, low-quality jobs. The rate of underemployment diminished in Argentina, Brazil, Ecuador and Peru, among other countries, but rose in Chile and in urban areas of Colombia, El Salvador, Honduras and Mexico.⁷

As mentioned earlier, the upturn in economic activity translated primarily into new job creation, while nominal wages rose only slightly, in a context of low or falling inflation. Real wages rose modestly in the region as a whole, by a weighted average rate of 0.9% and a median of 0.2% for 11 countries. Thus, the downturn in real wages in the previous two years (measured on a weighted-average basis) was halted, but there was no significant recovery in purchasing power.

The main exception was Argentina, where wages began to regain the ground they had lost in terms of purchasing power. Nonetheless, even though average real wages are estimated to have grown by nearly 9% over the year as a whole, their value is still 8% below its 2000 level. In the other two countries that are recovering from severe economic crises in which wages lost much of their purchasing power –the Bolivarian Republic of Venezuela and Uruguay– average real wages fell again for the year as a whole. The declining trend was levelling off, however, and in Uruguay, at least, year-on-year rates were positive from August onward.

Except in Argentina, as mentioned above, and in a general setting of modest increases in nominal wages, the trend of real wages was largely determined by the behaviour of inflation (see figure 4.10). In fact, in most countries nominal wage increases appear to have been based mainly on expected inflation. Given that the countries generally met their inflation targets for the year, except in a few cases where price rises slightly overshot the target, available data show only minimal increases in real wages. Relatively high levels of inflation undermined workers’ purchasing power in some countries, including the Bolivarian Republic of Venezuela (as noted above), Costa Rica and, in particular, the Dominican Republic. This last country is struggling to overcome a serious crisis in which inflation has risen dramatically, with negative consequences for real wages.

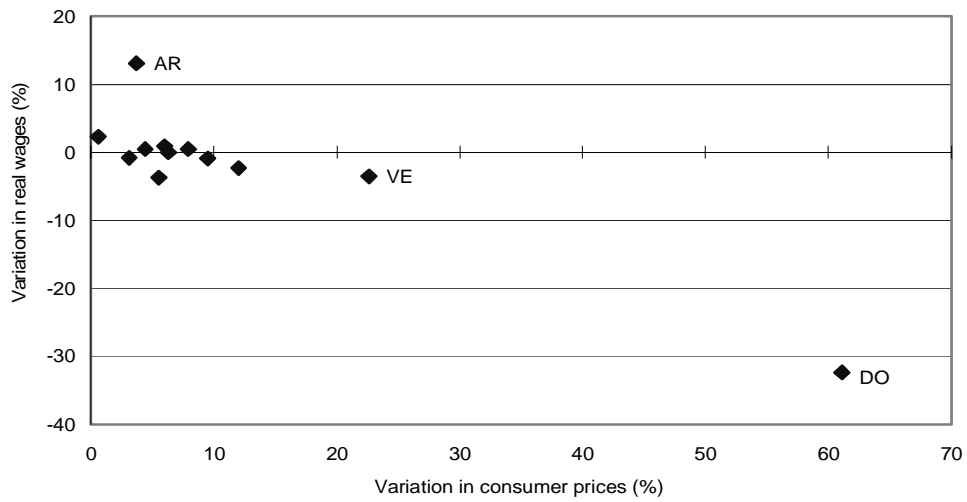
In brief, faster economic growth has fuelled brisk job creation in the vast majority of the countries, but has not yet had positive effects on wages. The unemployment rate fell quite steeply for the region as a whole, although this reduction was seen in only some of the countries. In others, employment growth was offset by an expansion of the labour supply. The rise in employment levels has helped reduce the proportion of the population living in poverty from an estimated 44.3% in 2003 to 42.9% today, while indigence fell from 19.6% to 18.6% over the same period.⁸ Nonetheless, the labour-market situation remains very difficult in many countries, as indicated by persistent migratory flows.

For 2005 as a whole, a moderate reduction in the unemployment rate can be expected, in view of the improvement in the labour-market situation over the last few quarters (see figure 4.11), good economic growth prospects and expectations of a further but moderate expansion of the labour supply.

7 Countries use a variety of methodologies and terms to classify employment according to quality. In this report, low-quality employment is uniformly referred to as “underemployment”.

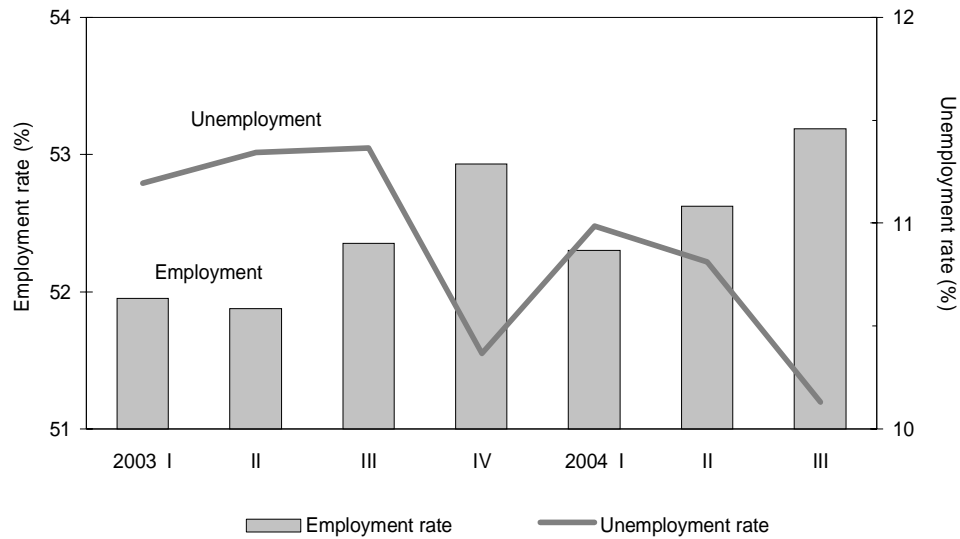
8 Economic Commission for Latin America and the Caribbean (ECLAC) (2004), *Social Panorama of Latin America, 2004* (LC/G.2220-P), Santiago, Chile, November.

Figure 4.10
LATIN AMERICA AND THE CARIBBEAN: INFLATION AND REAL WAGES, 2004



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

Figure 4.11
LATIN AMERICA (9 COUNTRIES): QUARTERLY EMPLOYMENT AND UNEMPLOYMENT RATES



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

South America



Argentina

Economic activity continued to make a recovery in 2004. GDP growth exceeded 8%, for a cumulative increase of over 18% since the low recorded in 2002. Aggregate output is approximately 3% below the annual high posted prior to the severe crisis of the early years of this decade. Unemployment is still high, especially if the jobs provided under special assistance plans are not taken into account, but there has nonetheless been a significant decrease in the jobless rate, which now stands at a comparable level to the rate registered prior to the most serious phase of the crisis. This, in conjunction with a partial recovery of real wages, has contributed to a slight decline in the country's high poverty and indigence rates. The annual rate of inflation (measured according to the consumer price index) has risen somewhat but, at about 6%, is still moderate.

The expansion of economic activity has been buoyed by the maintenance of a high real exchange rate and an improvement in the terms of trade, which has also helped to back up fiscal policy (thanks to export tax receipts). Another factor has been the perception that, despite the existence of unresolved issues in the aftermath of the crisis (such as the public debt), the economy is getting back to normal. This feeling has paved the way for production and spending decisions based on time horizons that, while still limited, appear to be gradually growing longer.

The trade account has once again yielded a hefty surplus, although it is smaller than the figure posted for the preceding biennium. The current account is also registering a positive balance equivalent to around 2% of GDP (even after computing the interest arrears on the external public debt). This outcome, together with the downward trend in the outflow of capital from the private sector, has generated a persistent excess supply of foreign exchange which has been absorbed by public-sector purchases (a build-up of reserves by the central bank and acquisitions paid for with the national government's financial surpluses). This policy is one of the factors that has helped to hold the nominal exchange rate steady, which has translated into a moderate appreciation in real terms.

The central bank has issued bonds at lower interest rates in order to sterilize a portion of the money created

by these acquisitions. The means of payment have continued to expand, although more slowly than the year before. The broader monetary aggregates have increased substantially, even though the low rate of return on time deposits has dampened the private sector's demand for these instruments. In contrast, public-sector deposits are up sharply, and banks have been moving out of their deficit positions and maintaining their liquidity. Furthermore, despite the weakness of private-sector credit demand, the volume of bank financing has rebounded.

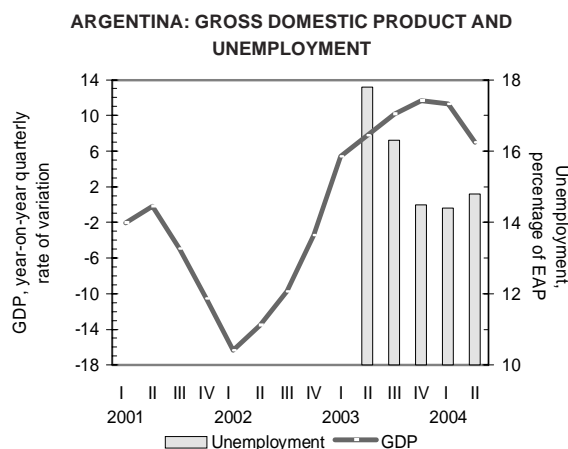
Fiscal management has proceeded smoothly. The public sector has generated the largest primary surplus (measured in terms of GDP) to be recorded in recent decades and is posting a sizeable financial surplus as well. This trend has been underpinned by a steep upswing in revenues, with significant increases in receipts from taxes on domestic activity (in a 10-month time span, revenues from the profits tax jumped by over 60% and VAT receipts by more than 50%) and on imports; collections of export duties have also risen, but less sharply. Government expenditure has been reconfigured and has been kept under control. The national public sector's primary expenditures (measured in terms of GDP) have climbed owing to an increase in transfers to the provinces, adjustments in retirement pensions and a sizeable upturn in capital expenditure.

A portion of the external assets built up by public agencies has had to be used to pay off credits owed to the International Monetary Fund (IMF). Relations between the Argentine government and the Fund have had visible ups and downs, even though the country has fully met its fiscal targets. The authorities did not concur with some of the demands made by the Fund (one of which was for the government to generate even larger primary surpluses in the future) and, given the lack of agreement among the parties, the existing arrangement was suspended. A new programme is to be negotiated in 2005.

The government drew up a proposal for a bond swap in order to replace the securities that it had stopped servicing in late 2001 (this outstanding debt, including interest, totals somewhat more than US\$ 100 billion). This proposal called for substantial debt reductions in both the debt principal and interest but, unlike the proposal put forward the year before, it recognized the interest arrears that have accumulated since payments were suspended. The projected service on the restructured debt would amount, over time, to more than 3% of GDP, which is quite a high figure in terms of Argentina's past fiscal record. The government secured a swap agreement with local pension fund managers, but the formal submission of the offer to all creditors has been postponed until early 2005.

In addition to the restructuring of the public debt, which will surely have an influence on the future economic outlook, other contractual issues which arose as a result of the crisis remain pending. These issues include those now under litigation in the wake of the conversion of debts into peso-denominated obligations. The Supreme Court has ratified the constitutionality of these measures, but this has apparently not laid the legal controversy to rest.

Another topic of debate has been the operation of privatized public utilities and, in particular, the outlook in terms of future energy supplies, after signs of possible shortages appeared midway through the year. In response, the government decided to create a public enterprise (with some shares perhaps to be held by private investors) in this sector. The authorities also announced their intention to take advantage of higher fiscal revenues and other resources to boost investment in infrastructure. Talks on the subject with the Government of China have covered plans for investments in such sectors as railroads, housing, hydrocarbons and communications. Be that as it may, the vast majority of basic services are provided by the private sector, and although a number of temporary agreements have been reached regarding privately-operated utilities, systems that define future terms and



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

conditions regarding regulatory schemes, investments, and rates and prices are yet to be established.

Trends in aggregate demand in 2004 have reflected a steep increase in private consumption, which is thus outpacing GDP growth. Public consumption has risen very little, however, so the domestic savings/GDP ratio appears either to have held more or less steady or may perhaps have continued to rise. Investment has rebounded in all the components of the capital formation process and has apparently topped 18% of GDP. Construction has expanded once again (although less than in 2003) thanks to the use of liquidity built up by the private sector, in addition to higher public investment. At the same time, an appreciable increase has been seen in acquisitions of capital goods, especially in the agricultural sector and in smaller businesses; a less marked rise in such acquisitions has also been observed among large enterprises.

A larger amount of land was planted with soybeans for the 2003/2004 crop year, but the harvest was smaller owing to bad weather. The area planted with soybeans for the 2004/2005 crop year is expected to be about the same as last year's, in view of the fact that international prices for this crop have declined. Wheat output has risen considerably in 2004 and, although maize production is down, the area planted with maize for the current crop year is expected to have increased considerably.

Manufacturing output has risen by an estimated 10%, thereby regaining levels comparable to those recorded in 1999. Activity in this sector slowed during the second quarter (perhaps, in part, owing to reductions in energy supplies), but then picked up again. Noteworthy increases in production have been seen in the automotive, mechanical engineering, construction materials and chemical industries. The oil refining and iron and steel industries, on the other hand, have posted slight variations and have been operating at close to capacity.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	-10.8	8.7	8.2
Consumer prices	41.0	3.7	5.4 ^b
Real wages ^c	-13.9	-1.5	9.1 ^d
Money (M1)	43.6	43.2	35.3 ^e
Real effective exchange rate ^f	137.8	-6.9	3.9 ^e
Terms of trade	-0.6	8.6	6.5
Annual average percentages			
Urban unemployment rate	...	17.3	13.8 ^g
National government overall balance / GDP	-0.3	0.3	1.3
Nominal deposit rate	39.3	10.5	2.5 ^h
Nominal lending rate	53.0	19.1	7.1 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	28 684	33 231	38 622
Imports of goods (f.o.b.) and services	13 135	18 485	27 578
Current account	9 627	7 941	3 653
Capital and financial account	-25 339	-17 153	-10 853
Overall balance	-15 712	-9 212	-7 200

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Manufacturing.

^d Estimate based on the average from January to September.

^e Data to October.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Estimate based on the first half-year.

^h Average from January to September, annualized.

Employment levels have continued to rise, thanks to their elastic response to the upswing in activity. This response may in part reflect the influence exerted by the fact that labour has become relatively less expensive since the currency's depreciation. In the second quarter, the employment rate reached 39.4%, thus outstripping the high recorded for the 1990s. Even if the computations factor out the people whose main source of employment is one of the assistance plans implemented in this area (who account for 2% of the population), the employment coefficient is still comparatively high. The unemployment rate amounted to 14.8% in the second quarter (17.4% if the beneficiaries of job plans who are actively seeking work are not counted as employed) and is thought to have declined later in the year. Following a steep drop in real wages during the crisis, stronger labour demand in the private sector has fuelled a recovery that has benefited both registered and informal workers. Nominal wages have slipped somewhat in the public sector, but have remained in step with price variations.

The consumer price index (CPI) amounts to about 6% for 2004 as a whole. As a result of higher domestic spending levels, rate hikes for privately-operated services have outpaced the general rate of price increases. The real exchange rate has dipped slightly from its formerly high levels. Late in the year, the Argentine peso's real

parity with the dollar has been nearly twice as high as it was when the convertibility regime came to an end. The multilateral exchange rate has been even higher, given the dollar's cumulative depreciation against the euro and the Brazilian real.

The country's surplus on the balance-of-payments current account has narrowed considerably, but the fact that it has maintained a positive balance during an upswing in the business cycle is a noteworthy development. The surplus on the merchandise trade account is smaller than it was the year before, but nonetheless appears to have topped US\$ 11 billion (nearly 7.5% of GDP). The deficit on the services trade account has risen somewhat. A significant increase in inbound tourism has boosted revenues, but there has also been an offsetting rise in Argentine residents' expenditures in other countries. An upturn in profit remittances has influenced the result on the income account. Private capital flows are close to their equilibrium point, with a net outflow of some US\$ 500 million being recorded for the first nine months of the year, versus an outflow of US\$ 5.5 billion during the same period of 2003. In all, foreign-exchange movements have resulted in a sizeable build-up in reserves.

In terms of value, exports are up by nearly 13%. The predominant factor in this result is the increase in prices, although towards the end of the year there have been some signs of a slowdown in this trend while volumes have apparently been picking up. Clear differences are to be observed among the various categories of goods. In the first nine months of the year, exports of agricultural manufactures (especially dairy products and meat) were considerably higher, while exports of industrial manufactures rose by 17%. Merchandise imports, for their part, jumped by more than 60%. A particularly striking increase has been seen in imports of capital goods, which soared by almost 140% in the first nine months of 2004.

MERCOSUR has strengthened its position as an importer of Argentine goods to some degree, but even so, its share amounts to less than 20% and is therefore much smaller than it was a few years ago. On the other hand, with a 37% share, MERCOSUR retained its traditional position as a major supplier of Argentine imports. As a result, Argentina has run a deficit on its trade within the MERCOSUR area.

China's growing importance as a market for the country's exports (9% in the first nine months of 2004) has been one of the hallmarks of this period. The Argentine government has sought to expand trade with this country, and letters of intent have been submitted that herald the opening of export markets. In addition, China has now been granted market-economy status (a step that has given rise to apprehension in some local industrial sectors).

Bolivarian Republic of Venezuela

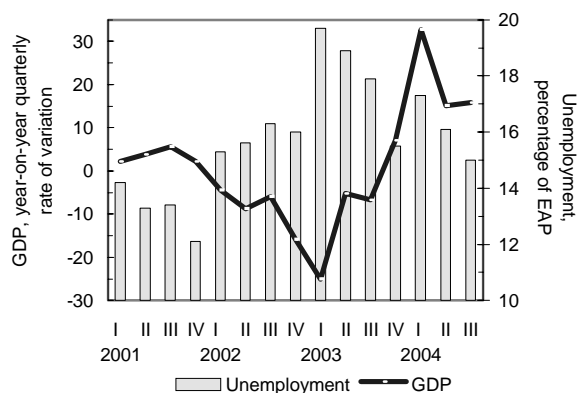
The political turmoil that had been observed in the Bolivarian Republic of Venezuela in 2003 carried over into 2004. The result of the recall referendum held on 15 August confirmed that the current President will remain in office until the end of his term in early 2007. At the same time, strong economic growth over the year (18%) came close to restoring economic activity to the levels seen prior to the general strike that was called in late 2002. The upswing was observed in all sectors, and its magnitude exceeded initial estimates. However, the value of GDP is still trailing its 2001 level.

The budget submitted in October 2004 projects a growth rate of about 5% in 2005. The authorities announced that as of 1 January 2005 the local currency would be devalued from 1,920 to 2,150 bolívaes per United States dollar.

A number of factors were at work in the expansion of economic activity in 2004. First, the 2004 rate reflects a considerable statistical effect, since the first quarter of 2003 represented a very low basis for comparison, as shown by the fact that GDP in the first quarter of 2004 was up by a dramatic 32.8% over its level in the year-earlier period. Second, growth was boosted by the economic policies implemented in 2004.

Fiscal policy continued to be openly expansionary; in the first half of the year public spending by the central government was up by about 60% in nominal terms in relation to its level in the same period of 2003. Nonetheless, the overall fiscal deficit was slightly smaller than the year-earlier figure of about 4% of GDP. This was made possible by a large jump in ordinary revenues as a result of high crude oil prices and by an upsurge in tax receipts due to the economic upturn.¹ Added to this were the measures taken to reduce tax evasion, which helped to raise the intake of VAT and other taxes, and an across-the-board rise in the prices of goods and services subject to consumption taxes. In view of this situation, the government lowered the VAT rate from 16% to 15% as from 1 September 2004. The tax on business assets

BOLIVARIAN REPUBLIC OF VENEZUELA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

was eliminated as from the same date. The consequent drop in revenue from these sources was offset by the rise in receipts from oil sales and from other domestic taxes.

For the year as a whole the fiscal deficit of the narrowly defined public sector should come in at about 3.5% of GDP. This shortfall was financed through domestic borrowing and an increase in the foreign-exchange profits turned over to the government by the central bank. In 2004 the central bank continued the process of refinancing and restructuring the national public debt.

¹ In the first 11 months of 2004 the average per-barrel price of the basket of Venezuelan crude was US\$ 33.77, which was 31% higher than the 2003 average of US\$ 25.76.

In the domain of exchange-rate policy, the government devalued the bolívar by 20% in nominal terms in February 2004, to a rate of 1,920 bolívares per dollar. Exchange-rate controls remained in place, but were loosened slightly.² This was reflected in the parallel exchange market, in which the local currency tended to appreciate.³

In 2004 nominal interest rates continued on the downward trend begun in 2003. There was a sizeable upturn in private credit extended by the banking system, the amount of which, in nominal terms, was 60% higher up to September 2004 than it had been up to December 2003. Monetary aggregates continued to expand in nominal terms, though at much slower rates than in 2003. By October 2004 currency in circulation (M1) had risen by 18.4% and broad money, by 23.1%, over their December 2003 levels (following increases of 74.7% and 57.5%, respectively, in 2003). Deposits in the banking system increased at a similar pace, with the exception of time deposits, which recorded an increase of 43% up to September 2004, compared to 22% in 2003.

The upturn in activity took place more or less across the board. The economy expanded by 20.4% in the first three months of the year, driven by a 20% increase in non-petroleum activity (the fastest-growing sectors were manufacturing, construction, commerce, transport and financial services) and by a sharp rise in import duties (68.1%). Petroleum activity grew by 18.6% over the same period. This smaller increase was due to the fact that production in 2004 showed no variation with respect to the final months of 2003. Manufacturing also recorded a significant upswing in the first seven months of 2004 in comparison to the same period of 2003 (38%); the largest increases were seen in sectors linked to construction, machinery and equipment production and motor vehicle manufacturing.

Domestic demand also improved, rising by 28.6% in the first three quarters of 2004 in comparison to its level in the same period of 2003. The upturn was driven by the rebound in investment, which was seen in both gross fixed investment and the replenishment of stocks. Consumption was up by about 15%.

Inflation, measured by the consumer price index, posted a substantial drop in relation to 2003, with a cumulative rate of 17.3% between January and

**BOLIVARIAN REPUBLIC OF VENEZUELA:
MAIN ECONOMIC INDICATORS**

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	-8.9	-9.7	18.0
Consumer prices	31.2	27.1	19.5 ^b
Real wages ^c	-10.0	-16.7	-3.6 ^d
Money (M1)	8.0	58.0	53.7 ^e
Real effective exchange rate ^f	31.1	11.8	0.8 ^e
Terms of trade	6.5	12.7	12.1
Annual average percentages			
Urban unemployment rate	15.8	18.0	15.3 ^g
Central government overall balance / GDP	-3.5	-4.3	-3.3
Nominal deposit rate	28.8	17.2	12.4 ^h
Nominal lending rate	38.4	25.7	17.5 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	27 841	27 738	39 217
Imports of goods (f.o.b.) and services	17 329	13 834	19 629
Current account	7 599	11 524	15 594
Capital and financial account	-12 026	-6 081	-15 596
Overall balance	-4 427	5 443	-3

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Private sector.

^d Estimate based on data from January to September.

^e Data to October.

^f A negative rate indicates an appreciation on the currency in real terms.

^g Estimate based on data from January to October.

^h Average from January to October, annualized.

November 2004, as against 27.1% in 2003. This was attributable to the real appreciation of the exchange rate, developments in exchange-rate policy, the maintenance of price controls and the wider availability of goods as a result of the increased imports made possible by the release of larger amounts of foreign exchange. The index of core inflation rose by 19.4% in the same period of 2004.⁴

With respect to the labour situation, the rate of unemployment dropped, to stand at 14.5% in September 2004 (down from 19.1% in January). The rate of informal employment out of the total remained above 50%, however. The general wage index was 14% higher in the first half of 2004 than it had been in December 2003; this represented a small rise in real terms. The increase was mainly the result of wage hikes in the public sector (30% in the period), since private-sector wages rose by only 8.6%.

2 Foreign exchange became easier to obtain in the controlled market because the list of products that could legally be imported was lengthened and the travel quota was increased. The maximum allowable amount of remittances abroad also increased. In addition, the Foreign Exchange Board (CADIVI) significantly increased the amount of foreign currency released daily.

3 In 2004 the price of the bolívar in relation to the dollar moved from 3,240 in February to 2,550 in September.

4 The central bank defines the index of core inflation as an alternative measurement of consumer prices. The prices used in calculating the index are those of processed foods, textiles and clothing, non-energy industrial goods and services, as well as goods and services not subject to price controls.

External trade rallied strongly in 2004, with sharp increases in both exports and imports of goods. The steep rise in exports (48.9% in the first three quarters of the year compared to the same period of 2003) was essentially due to the increase in international oil prices. The upturn in merchandise imports (62.7% in the same period) reflected the low figures recorded in 2003, the wider availability of foreign exchange and a brighter economic outlook. Even though imports climbed strongly in 2004, the robust performance of exports was enough to swell the merchandise trade surplus significantly (to US\$ 23.2 billion, compared to US\$ 16.25 billion in 2003). As a result, in 2004 the current

account surplus amounted to US\$ 15.5 billion, or 14.6% of GDP (up from US\$ 11.524 billion, or 13.5% of GDP, in 2003).

In October 2004 the central bank's international reserves stood at US\$ 22.68 billion, including the resources available in the macroeconomic stabilization fund. These resources expanded to US\$ 24 billion in July 2004, then declined as a result of the decision by *Petróleos de Venezuela S.A. (PDVSA)*, with the agreement of the central bank, to institute a new foreign-currency account, in combination with the company's external debt buy-back operations and the increased flexibility of the regime regulating the sale of foreign exchange.

Bolivia

Bolivia's political and social situation remained relatively stable throughout the year. In July a referendum was held on the management of hydrocarbons, but progress towards the passage of a new law in that area has been stalled in the legislature, where this issue has been the subject of much debate. The uncertainty surrounding the regulations governing this key sector of the economy has reopened conflicts within the region and has hindered the drafting of the budget bill for 2005, as part of the projected revenues will not be available until the hydrocarbons law has been adopted. The level of activity, the fiscal situation and the balance-of-payments current account improved in relation to 2003. Nevertheless, the country has not yet come close to emerging from the low-growth phase that began in 1998 or to overcoming the severe constraints it faces in the fiscal and monetary spheres. According to ECLAC estimates, GDP expanded by 3.8% in 2004 (compared to 2.4% in 2003). The prospects for 2005 depend to a large extent on the consolidation of political and institutional stability, as well as a favourable international context, which was a decisive factor in 2004.

The country's fiscal situation was significantly better in 2004 than it had been in 2003, when the non-financial public sector had run a fiscal deficit equivalent to 7.9% of GDP. The pension system's deficit –which accounts for most of this shortfall– stood at 4.9% of GDP in 2004. About 69% of the fiscal deficit was covered through the use of external financing, particularly soft loans. At the beginning of the year the country's fiscal situation was critical, prompting the government to seek exceptional external financing in February. As this initiative was unsuccessful, expenditure had to be contained and new taxes created. The Congress adopted a financial transactions tax, which came into force in July and provided for certain exceptions. Tax receipts increased owing to the growth of hydrocarbons exports and to the exceptional revenues received between March and May as a result of a tax amnesty programme (“perdonazo”). This additional income, which exceeded the programmed amount, was used to increase public investment in infrastructure. In the first eight months of

2004 current income rose by 26.8% and tax revenues, by 37.2%. Over that period, restrictions on current expenditure led to a 12.6% decline in goods and services purchases and limited the growth of outlays for personal services to just 7.7%. Investment rose by 45.8% and interest payments, by 24%. Owing to the delay in the disbursement of external funds, the treasury resorted to liquidity credits from the central bank, though without exceeding the limits agreed upon previously. The complex fiscal deficit problem led to an increase in total public debt, which, according to estimates, amounted to US\$ 8.032 billion, or 91% of GDP, as of late September; domestic debt has also grown rapidly and accounts for 39.7% of that sum. Originally, the draft budget for 2005 envisaged a downturn in the deficit (to 5.5% of GDP) and additional revenues from the financial transactions tax, the hydrocarbons law and an increase in gas exports, as well as further spending restrictions. In late November, however, the Congress returned the bill to the executive branch for redrafting.

The debate on the financial transactions tax and the referendum on hydrocarbons triggered another wave of deposit withdrawals, which reached a peak at the end of June (when deposits were down by US\$ 300 million, or 11.6%, in relation to their level of late December). By October the situation had begun to turn around, with the recovery of about US\$ 60 million. Owing to slack demand and the downturn in deposits, the credit portfolio also diminished (by US\$ 160 million, or 6.3%, between late December and late October). Non-performing loans continued to represent about 18% of the total. The central bank reacted to the deposit withdrawals by raising interest rates and injecting liquidity through guarantee credits and repo operations. Between February and August the liquidity squeeze set off increases in virtually the entire interest rate structure; subsequently, these hikes were partially reversed. As savings accounts in bolivianos are exempt from the financial transactions tax, there was an incipient de-dollarization of the monetary aggregates. Accordingly, the proportion of total M2 denominated in bolivianos went from 27.7% to 35.3% between December 2003 and October 2004. This positive effect of the tax is a first step towards reducing the economy's high level of dollarization, which is the focus of measures currently being devised by the authorities.

As of late October the rate of nominal devaluation within the crawling-peg exchange-rate regime was much slower than in 2003, owing to the stabilization of the currencies of some of Bolivia's main trading partners. By the end of October the boliviano had depreciated against the dollar by 2.8% in real terms and by 4.4% in effective terms in relation to its value at the end of 2003.

In the first half of 2004 there was an upturn in activity, as shown by strong export growth and the stabilization of private consumption and gross capital formation. These two variables, especially the latter, had suffered a serious deterioration in 2003. In the first half of the year GDP and overall demand registered year-on-year increases of 3.3% and 4.4%, respectively. The recovery scarcely involved domestic demand, which rose by only 1.2%, while exports grew by 15%. Hydrocarbon extraction and refining and food production accounted for much of the expansion. Agriculture was beset by weather-related and sanitary problems; for example, a drought reduced soybean yields. In 2005 economic activity will continue to depend on external conditions, including the possible expansion of gas exports to Argentina and the behaviour of soybean prices, which have been slipping since the first quarter of 2004.

BOLIVIA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.7	2.4	3.8
Consumer prices	2.5	3.9	4.9 ^b
Money (M1)	5.6	14.3	12.5 ^c
Real effective exchange rate ^d	-2.2	9.2	7.5 ^c
Terms of trade	0.5	2.4	8.6
Annual average percentages			
Urban unemployment rate	8.7	9.5	...
Non-financial public-sector overall balance / GDP	-9.0	-7.9	-6.1
Nominal deposit rate ^e	2.7	1.8	2.0 ^f
Nominal lending rate ^e	10.9	9.1	8.2 ^f
Millions of dollars			
Exports of goods (f.o.b.) and services	1 555	1 872	2 350
Imports of goods (f.o.b.) and services	2 072	1 976	2 209
Current account	-352	35	225
Capital and financial account	50	42	-227
Overall balance	-302	78	-2

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Data to October.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Average annual rate in dollars.

^f Average from January to October, annualized.

At the end of November the inflation rate with regard to December 2003 prices was 4.0%, which was higher than the target of 3.5%. The rise in prices reflected shortages in the supply of agricultural products.

In the first half of the year the balance-of-payments current account recorded a surplus of some US\$ 140 million, but the increase in deposit withdrawals resulted in a net outflow of capital. These flows made a partial recovery late in the third quarter, with the result that the level of reserves stabilized. Foreign direct investment inflows were very meagre. Exports, meanwhile, jumped by 39% between January and August and will probably exceed US\$ 2 billion for the year as a whole (as against US\$ 1.571 billion in 2003). The export boom was concentrated in a very narrow range of products: gas, fuels and soybeans, which account for two thirds of the growth posted in the first eight months of the year. Some manufactured products (clothing, wood manufactures) grew briskly, but still represent only a small proportion of the export supply. Tin and zinc benefited from higher international prices and regained some of their former pre-eminence as a share of external sales. In line with the weakness of domestic demand, import growth was slight.

Brazil

In 2004 Brazil's economy will post its best out-turn since 1994, with GDP growth of over 5%. This growth is particularly significant in that it was achieved together with a current account surplus and in a framework of fiscal austerity and inflation control.

The merchandise trade balance will show a surplus of US\$ 33 billion, with an expansion of about 30% over the year in terms of both exports and imports of goods. Despite the large deficit on the income account, this outcome generated an unprecedented balance-of-payments current account surplus of some US\$ 11 billion (1.6% of GDP). In the first three quarters of 2004 household consumption was up by 4% in relation to the year-earlier period, whereas in the first nine months of 2003 it had shown a cumulative decline of 2.4% in relation to the same period of 2002. The fiscal accounts will post a public-sector primary surplus equal to 4.5% of GDP, bringing the nominal deficit below 3% of GDP and reducing net public debt to 54% of GDP, from 58.7% at the end of 2003. For the first time in two years cumulative inflation for the year as a whole, measured using the extended consumer price index (IPCA), will be as low as 7.5%, which is within the target range for 2004.

More stable expectations and lower interest rates paved the way for an expansion of consumer credit, which set off a cycle that was favourable for domestic sales. This effect, combined with the impetus provided by external demand, boosted domestic output, with positive repercussions for employment and wage levels. The manufacturing industry grew by 8% over the first nine months of 2004. The economy added 1.7 million new jobs in the formal sector, and the unemployment rate eased from more than 13% in May 2004 to 10.5% the following October. After having fallen off sharply in previous years, the employed population's average income began to climb in the course of 2004, with the result that its level in the period July-October 2004 was 1.9% higher than it had been in the same period of 2003.

Completing this positive cycle, investment expanded by about 12%, improving considerably on its sluggish

performance in 2003. However, there is still no guarantee that gross capital formation will continue to expand, for two reasons. First, in order to reach its inflation target for 2005, the central bank recently raised interest rates to bring the growth of demand into line with its assessment of the economy's output potential, thereby forestalling the emergence of inflationary pressures. Second, a number of structural reform initiatives aimed at improving the regulatory framework for infrastructure investment (to boost public-private partnerships, for example) or at facilitating the granting of credit and the definition of guarantees (a new legal framework for bankruptcies, for example) have yet to be adopted by the Congress.

For 2005 the central bank has announced that the inflation target, originally set at 4.5%, will instead be 5.1%, with an allowable deviation of two and a half points. This revision was made in response to supply shocks and to the higher prices of fuels and derivatives and their expected impact on administered prices.

In 2004 the country's economic policy continued to be geared to maintaining fiscal austerity and meeting the inflation target. In terms of fiscal policy, the government changed the public sector's primary surplus target by a quarter of a point, raising it to 4.5% of GDP, as a result of an increase in revenue (specifically, a real cumulative rise of 11% up to October) attributable to the economy's expansion and higher receipts of taxes and contributions. Particularly significant in this regard were the decision to make imports subject to the Contribution to the Financing of the Social Security System (COFINS) tax and the introduction of a new methodology, as part of the tax reform adopted in 2003, to reduce this tax's "cascade" effect.

The social insurance system continues to account for most of the fiscal deficit. Up to October its primary deficit amounted to 1.6% of GDP, slightly exceeding

the 1.5% observed in the same period of 2003. Total federal government expenditure rose by almost 8% in real terms up to October, mainly because primary current expenditure (not including personal expenditure) increased by nearly 20% in real terms.

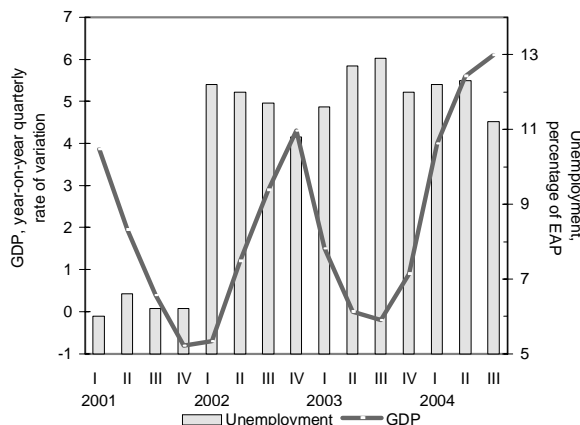
The salient feature of monetary policy was the expansion of the means of payment (M1), which grew by about 30% in the 12 months ending in October 2004 (after having dwindled by 3.7% in the year-earlier period). The behaviour of monetary liquidity in 2004 was linked to the expansion of total credit, which swelled by 19.7% in the 12 months ending in October, with increases of 26% in personal loans and 27% in business loans. Directed credit using mandatory funds expanded by 12.8% over the same period.

In January 2004, for reasons related to its management of the inflation targeting system, the central bank halted the downward trend of the economic policy interest rate. At the time, this rate stood at 16.5% per year, compared to 26.5% per year in February 2003. In March and April 2004 the declining trend resumed as the rate was reduced to 16% per year. In September, however, the central bank reacted to the increase in the level of activity and to the pressures that international price hikes were exerting on fuel and derivative prices by announcing that it would begin a process of raising the economic policy interest rate; as a result, the rate stood at 17.5% per year in November.

The third pillar of Brazil's economic policy was the maintenance of the floating exchange-rate regime, with limited central bank intervention. The bank purchased foreign exchange in the amount of some US\$ 2.6 billion in January 2004 and carried out smaller-scale operations in the remaining months. Over the first 10 months of 2004 the country accumulated US\$ 4 billion in reserves, which brought its total reserves, net of IMF liabilities, to US\$ 22.2 billion. In November the government announced that it would purchase some US\$ 3 billion on the market so that it could meet its outstanding external debt obligations up to June 2005 without drawing on international reserves.

The improvement in the performance of productive activity spread to all sectors. Agriculture continued its expansionary cycle, growing by 5.6% in the first three quarters of 2004 in comparison to the same period of 2003. The biggest increase was observed in the manufacturing sector, which expanded by 7.4% in that period. The segments of the manufacturing sector that achieved the largest increases in output were consumer durables and capital goods (26%), whose growth far outstripped that of intermediate goods (7.4%) and non-durable consumer goods (3.1%). Growth in the service

BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

sector was led by commerce, which expanded by 8.1%, followed by other services, which were up by 5.5%.

Household consumption was up by 3.9% between January and September 2004 in comparison to the same period of 2003, thus returning to the level recorded in 2000. Starting in the second quarter, this upward trend was accompanied by a steady increase in consumer confidence indices, which continued into the final quarter.

There was also a hike in gross fixed capital formation, whose level was 11.8% higher in the first three quarters of 2004 than it had been in the same period of 2003. The rise was attributable both to increased investment in machinery and equipment (23%) and to an upswing in the construction sector (5.9%). As a percentage of GDP at current prices, the investment rate is expected to stand at between 19% and 19.5%, thus recovering from the low level recorded in 2003 (17.8%, one of the lowest figures of the past few decades).

Employment fared well in 2004. In October the unemployment rate in the main metropolitan areas fell to 10.5%, after having reached an unprecedented 13.1% in April. There was an across-the-board increase in employment, with upturns of 6.5% in industry, 6.6% in construction, 5.7% in services and 1.2% in commerce. The earnings of formal-sector employees increased slightly in real terms in the course of the year.

The trade balance will end the year with an estimated surplus of US\$ 33 billion. This impressive performance is due to a 30% rise in export value (which reached US\$ 95 billion), and particularly to increases in commodity exports (by a cumulative 36% up to October 2004 in comparison to the same period of 2003) and manufactures exports (by 31.4% in the first

BRAZIL: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	1.5	0.6	5.2
Consumer prices	12.5	9.3	7.2 ^b
Real wages ^c	-2.1	-8.7	0.3 ^d
Money (M1)	20.2	8.7	14.4 ^e
Real effective exchange rate ^f	12.2	0.3	-4.1 ^e
Terms of trade	-1.3	-1.4	2.8
Annual average percentages			
Urban unemployment rate	11.7	12.3	11.5 ^g
Federal government operating balance / GDP	-0.3	-1.0	-1.0
Nominal deposit rate	19.0	23.3	16.1 ^h
Nominal lending rate	44.4	49.8	41.2 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	69 913	83 552	106 994
Imports of goods (f.o.b.) and services	61 749	63 851	78 492
Current account	-7 637	4 016	11 094
Capital and financial account	-3 542	-289	-6 693
Overall balance	-11 178	3 726	4 401

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Workers covered by social and labour legislation.

^d Estimate based on data from January to September.

^e Data to October.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Estimate based on data from January to October.

^h Average from January to October, annualized.

10 months of 2004 in comparison to the year-earlier period). Three main factors account for this performance: an upsurge in sales to non-traditional markets such as China, Eastern Europe and other Latin American countries such as Mexico and Chile; increases in international commodity prices and in the volume of manufactures exports; and the renewed vigour of sales to Argentina.

Imports will reach US\$ 62 billion, exceeding their 2003 level by 28.5%. In the period January-October the biggest upturns were seen in imports of fuel (47%) and consumer durables (28%). Significant increases were

also observed in imports of intermediate goods (27%) and capital goods (14%), as the level of economic activity rallied.

The current account balance will stand at an estimated US\$ 11 billion (1.6% of GDP), reflecting the combined effects of the trade surplus and the expected widening of the deficit on the income account (to US\$ 20.6 billion, from US\$ 18.55 billion in 2003). This larger deficit is due to the higher amount of net profit remittances, which totalled US\$ 7.2 billion in 2004, as against US\$ 5.1 billion in 2003.

The capital and financial account went from a US\$ 334-million surplus in 2003 to a US\$ 6.7-billion deficit in 2004. Net foreign investment fell from US\$ 9.9 billion in 2003 to US\$ 7.1 billion in 2004 as a result of a large jump in Brazilian investments abroad, which amounted to US\$ 9 billion.

Although Brazil's international bond issues remained at the same level as in 2003 (about US\$ 11 billion), the country's private sector posted a net payment of external debt that reduced its international liabilities from US\$ 75 billion in December 2003 to US\$ 68 billion in August 2004. In that month Brazil's total external debt fell to US\$ 203 billion, of which US\$ 20.5 billion corresponded to short-term debt (taking into account inter-company loans, total debt amounts to US\$ 221 billion).

Debt indicators have therefore improved; the ratio of external debt to merchandise exports fell to 2.5 in June 2004, as against 4.7 in 1999. Brazil's trade negotiations with the European Union, through MERCOSUR, did not come to fruition in 2004. However, it signed an agreement with the Andean Community to consolidate the effort to strengthen South American integration. It also sought to expand its markets through trade agreements (such as the ones signed with China and Viet Nam) and trade missions to countries in Asia, Africa and the Middle East.

Chile

In 2004 the Chilean economy turned in its best performance since 1997, driven once again by the continued buoyancy of exports, particularly copper, which did well in terms of both price and volume. GDP grew at an estimated rate of 6% in real terms, almost doubling its 2003 growth of 3.3%. The terms of trade were up by a substantial 19.6%, compared to only 5.8% the preceding year. Record-high copper prices (US\$ 1.49 per pound in October) were the main source of the expansion in the terms of trade and easily counteracted the negative effect of higher prices for petroleum, of which Chile is a net importer.

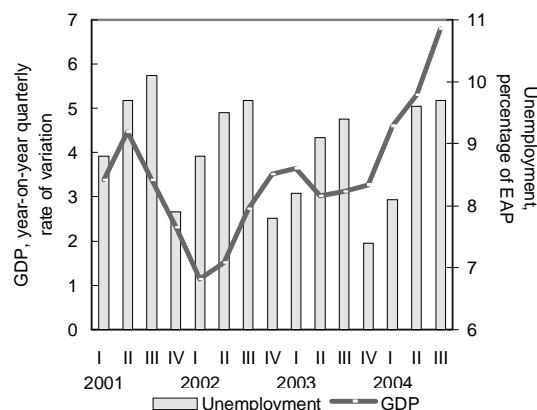
Inflation remained low, thus affording monetary policy makers additional degrees of freedom. Although annual inflation was below the floor of the 2%-to-4% band established by the central bank, this authority raised the monetary policy interest rate twice, in line with trends in the rate controlled by the United States Federal Reserve.

Unemployment was still high, at 9.4% of the labour force in the period August-October 2004 (quarterly moving average). This figure exceeded the 8.8% recorded in the same period of 2003.

Rising exports have been the main engine of GDP growth over the last five years. In 2004 exports are estimated to have increased by about 14.5%, while domestic demand rose by more than 7%. This latter development is attributable to a surge in investment, which jumped by about 10%, although this was not enough to bring it back to the record levels seen in the period up to 1998, when it had been equivalent to 27% of GDP. In 2004 investment represented 24% of GDP.

Economic policy in 2004 was directed mainly at averting fiscal, external and price imbalances. Within this framework, Chile achieved faster growth than in previous years, thanks to highly favourable terms of trade and strong international demand for its export products, in combination with a monetary policy geared towards economic expansion. The most significant note of

CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

caution comes from the unstable international situation, since a deterioration of the currently propitious external conditions could affect Chile's future expansion.

The main objective of fiscal policy continued to be the maintenance of a structural surplus equivalent to 1% of GDP. The 2004 budget was based on GDP growth of 4.4% and a copper price of US\$ 0.83 per pound, but these assumptions fell short of the levels actually achieved. Accordingly, instead of a deficit of 0.1% of GDP, the central government's fiscal accounts are

CHILE: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.0	3.3	5.8
Consumer prices	2.8	1.1	2.5 ^b
Real wages ^c	2.1	0.8	2.0 ^d
Money (M1)	14.2	19.1	19.7 ^e
Real effective exchange rate ^f	0.8	5.6	-7.6 ^g
Terms of trade	4.2	5.8	19.6
Annual average percentages			
Urban unemployment rate	9.0	8.5	8.8 ^d
Central government overall balance / GDP	-1.2	-0.4	1.9
Nominal deposit rate	4.1	3.2	2.3 ^h
Nominal lending rate	14.4	13.0	11.0 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	22 509	25 851	37 319
Imports of goods (f.o.b.) and services	20 909	23 602	28 672
Current account	-885	-594	2 908
Capital and financial account	1 083	228	-3 065
Overall balance	199	-366	-157

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c General hourly wage index.

^d Estimate based on data from January to October.

^e Data to November.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Data to October.

^h Average January to October, annualized.

estimated to have run a surplus of about 1.9%. The government used the increased revenues from copper, as well as funds raised through the issuance of sovereign bonds, to prepay debt incurred at rates higher than the ones available today.

Monetary policy was implemented in a context of below-target inflation, highly favourable terms of trade and external demand, a swelling surplus on the merchandise trade balance, voluminous capital inflows and low country risk. The central bank's inflation target is 3%, with an allowable range of 2% to 4%. Given the manoeuvring room afforded by the low rate of inflation (which was below the floor of the band up to October), the central bank lowered the monetary policy interest

rate to help boost the economy. However, it raised the rate to 2% in September and 2.25% in November, a few weeks after the United States Federal Reserve increased its interest rates.

The 12-month rate of variation in the supply of money held by private individuals was 19.2% in real terms in October 2004, while 12-month inflation was 1.9%. The nominal annual rate of interest on one- to three-year deposits was 3.6% in October, and the 12-month expansion of bank credit was 10.9% in August. The proportion of non-performing loans in the financial system's portfolio decreased from 1.6% in December 2003 to 1.4% in October 2004.

In the course of the year the nominal exchange rate fluctuated between 559 and 650 pesos to the dollar, with no significant market intervention by the central bank. The multilateral exchange rate (where 1998=100) showed a variation of 1.8% in 2004, and international reserves slipped from US\$ 15.851 billion in December 2003 to US\$ 15.704 billion in October 2004.

Low interest rates provided the impetus for an upswing in construction and rises in durable goods consumption and investment. Employment increased only slightly, however, by 1.3% in the first three quarters with respect to the same period of the preceding year, and was therefore the principal weak spot in the economy's performance. Wage employment grew at a faster rate of 2.7%, but this was partially offset by a decline in own-account employment. The behaviour of real wages mirrored that of inflation, with larger increases early in the year and smaller ones in the second half, when price rises became sharper. On average, real wages went up by 2% over the year as a whole.

As regards the external sector, the current account posted a surplus of US\$ 2.268 billion in the third quarter, while the trade balance (f.o.b.) showed a surplus of nearly US\$ 7.5 billion in October. Up to that month, imports expanded by 22.9% and exports, by 49.3%. Volume increases accounted for 12.3% of the growth in exports, while price increases accounted for 33%.

Colombia

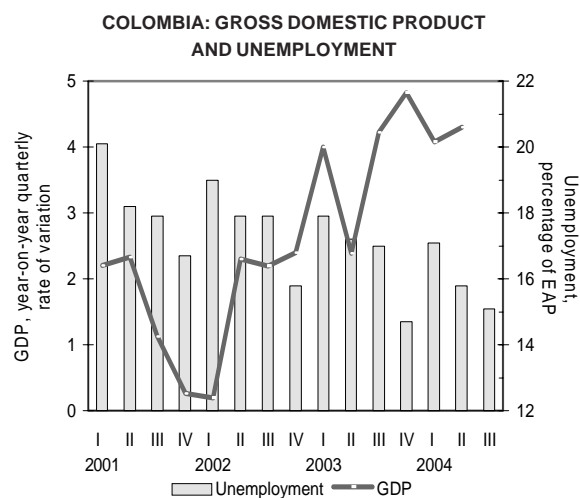
In 2004 the Colombian economy performed well, buoyed in particular by private investment and external demand. Between January and September real GDP grew by 3.5%, equalling the rate observed in the same period of 2003. For 2004 as a whole, real GDP will grow by about 3.3%.¹

Fiscal affairs remained the primary focus of debate, with the discussion of reform proposals aimed at creating conditions for reducing the country's high level of debt. In May negotiations began on the conclusion of a free trade agreement between the United States, Colombia, Peru and Ecuador.

The government has submitted a new social security reform proposal to the Congress. The proposal has four main provisions, all of which are intended to enhance the system's financial viability. These provisions would eliminate special retirement regimes, end the practice of paying a fourteenth monthly pension benefit each year for new pensioners, establish a ceiling equivalent to 25 times the minimum wage for public-sector retirement pensions and bar workers from using collective bargaining to obtain social security conditions that are more advantageous than those provided under the general regime.

The fiscal accounts have behaved as programmed at the beginning of the year and are expected to meet the target for the consolidated public sector's deficit, of 2.5% of GDP at the end of 2004 (compared to the 2.7% recorded in 2003). A larger central government deficit is expected (5.6% of GDP at the close of 2004, compared to 4.8% in 2003), but the decentralized sector's surplus is also likely to be bigger (3.1% of GDP, compared to 2.5% in 2003).

Net borrowing by the non-financial public sector amounted to 50% of GDP in June, which was slightly lower than the figure recorded at the end of 2003 (51.5% of GDP). External debt represented about 53% of total debt at mid-year. The authorities conducted a number of transactions during the year to improve the maturity profile of the country's domestic and external debt.



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

The intervention interest rate was reduced from 7.25% to 6.75% in the first quarter of the year and was kept stable in the following months, so that real interest rates remained at historically low levels. By October the real deposit rate had reached 1.7% (12-month average), while the lending rate stood at 8.6%. In November the growth of the means of payment (M1) was somewhat slower than it had been in the year-earlier period (12.1%, compared to 16% in 2003). Over the same period, the broad monetary aggregate (M3) expanded slightly more than in 2003 (12%, as against 11% in 2003). The financial sector enjoyed faster growth and a higher-quality loan portfolio, especially for business and consumer loans.

¹ The eradication of illicit crops reduced the percentage growth rate of GDP by 0.16.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.7	4.1	3.3
Consumer prices	7.0	6.5	5.8 ^b
Real wages ^c	2.7	-0.1	0.8 ^d
Money (M1)	18.8	16.4	12.1 ^e
Real effective exchange rate ^f	3.1	13.1	-8.3 ^g
Terms of trade	-1.9	2.9	12.3
Annual average percentages			
Urban unemployment rate ^h	17.6	16.7	15.5 ⁱ
National central government overall balance / GDP	-5.0	-4.8	-5.6
Nominal deposit rate	8.9	7.7	7.7 ^j
Nominal lending rate	16.3	15.2	15.1 ^j
Millions of dollars			
Exports of goods (f.o.b.) and services	14 182	15 527	18 303
Imports of goods (f.o.b.) and services	15 409	16 642	19 128
Current account	-1 452	-1 345	-1 267
Capital and financial account	1 590	1 161	2 799
Overall balance	139	-184	1 532

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Manufacturing-sector workers.

^d Estimate based on average from January to August.

^e Data to November.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Data to October.

^h Includes hidden unemployment.

ⁱ Estimate based on data from January to October.

^j Average from January to October, annualized.

The peso has continued to appreciate since the last quarter of 2003, owing largely to an increase in net capital inflows (foreign direct investment and asset movements), better terms of trade and higher volumes and values of exports and remittances. The monetary authorities adopted various measures over the year to slow down the peso's revaluation. By November the nominal exchange rate had appreciated by 8%.

Twelve-month inflation subsided from 6.5% in December 2003 to 5.4% in May 2004, partly because of a smaller increase in tradable goods prices as a result of the peso's appreciation, but rose again in subsequent months. Over the 12-month period ending in November inflation amounted to 5.8%, which was within the target range established by the monetary authorities (between 5% and 6%).

The conditions prevailing in 2004 were conducive to growth in the Colombian economy, which was driven mainly by private investment and external demand. In the third quarter, however, there was a slowdown in GDP growth because of the poor performance of agriculture and of mining and quarrying. The fastest-growing sector was construction (8.6%), which was boosted by an upswing in building construction; next in importance were industry (5%), commerce (5%) and the financial sector (4%). Investment was the main domestic factor propelling GDP growth, while private consumption,

fuelled by an increase in durable goods consumption, made a recovery.

The unemployment rate, though still high, showed a tendency to decline. The average for urban areas (13 metropolitan areas) in the first 10 months of the year was 15.5%, compared to 16.7% one year previously. The labour-force participation rate diminished (from 64.4% to 62.9%) and employment stagnated (53%). The underemployment rate fell from 32% to 30.7%. Nationwide, the downturn in unemployment was more modest (from 14.4% to 13.9%), while the employment rate was down from 53.1% to 52.4% and the labour-force participation rate, from 62% to 60.9%.

Exports grew faster in 2004 thanks to high commodity prices and dynamic global demand, with the recovery of the Bolivarian Republic of Venezuela being particularly significant. In the first nine months of the year total exports swelled by 22%. The biggest boost came from non-traditional exports to the Bolivarian Republic of Venezuela (147%) and, to a lesser degree, from those to Ecuador (20%). Traditional exports (coffee, oil, coal and ferronickel) benefited from higher international prices. The United States was once again the main destination for Colombian exports (40% of the total), followed by the Andean Community countries (19%)—primarily the Bolivarian Republic of Venezuela (9%)—and the European Union (14%). Meanwhile, total imports grew by 17% in the first nine months of the year. Most of this increase was accounted for by raw materials and intermediate goods for industry (24%), followed by capital goods for industry (12%). Purchases of consumer goods increased by 14%, with consumer durables up by 23%.

The current account deficit is expected to close the year at 1.4% of GDP, improving on the 1.7% posted in 2003. The deficit on the non-factor services balance and higher external debt payments are estimated to have been offset by an increase in net transfers, especially family remittances, and by the trade surplus.

The balance-of-payments capital and financial account should close the year with a surplus on the order of US\$ 2.8 billion (2.6% of GDP), which will be enough to finance the current account deficit of US\$ 1.3 billion and to increase international reserves by US\$ 1.5 billion. There were substantial capital inflows, in the form of both short- and long-term debt, and a smaller outflow of assets abroad, in both the public and private sectors. In turn, thanks to higher levels of investment in petroleum, hydrocarbons and mining, foreign investment inflows amounted to US\$ 2.3 billion.

The extension of the country's IMF programme, which expires in January 2005, will boost confidence still further and will help Colombia to consolidate the progress it has made in fiscal and financial matters.

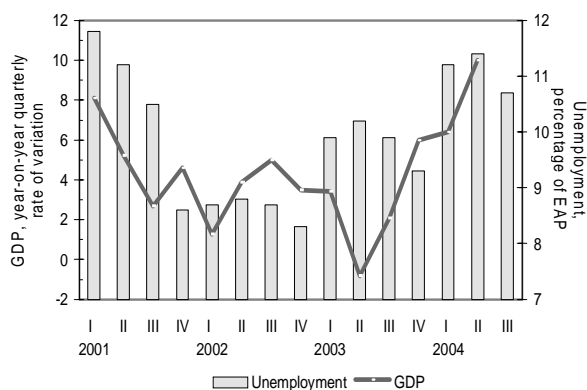
Ecuador

The Ecuadorian economy grew briskly in 2004, reflecting an increase in oil extraction by private companies. According to ECLAC projections, GDP growth amounted to 6.3% in 2004 and will reach 3.5% in 2005. The expected slowdown is due to projections of lower growth in private-sector oil production. The rapid expansion brought about a modest improvement in the employment situation. In addition, inflation continued to fall in 2004, reaching levels similar to the ones seen in developed countries. This, together with the depreciation of the dollar on international markets, resulted in an improvement in the country's exchange-rate competitiveness.

In the first half of 2004 the non-financial public sector recorded an overall surplus of US\$ 358.9 million, thanks to a 15.4% increase in revenues compared to the figure posted in the first half of 2003, notwithstanding an 18.5% rise in expenditure. In particular, there was a 32.7% increase in oil export revenues and a 22.1% upturn in income tax receipts. With respect to expenditure, it should be noted, first, that there was a nominal 18.8% rise in payroll expenditure compared to the level observed in the first half of 2003. That year the proportion of total public spending under this item was the highest in the last 10 years (34.7%), and this proportion is unlikely to diminish significantly in the near future, with the result that the authorities will have less budget flexibility. Second, pension outlays increased in the first half of 2004: central government transfers rose by 48%, while other public-sector entities' transfers to the private sector climbed by 55.1%. In addition, in mid-2004 the Ecuadorian Social Security Institute raised pension levels and the Congress increased the minimum pension. Third, Ecuador's continued dependence on oil revenues is a cause of concern. Lastly, the decision to resort to domestic borrowing to finance the fiscal deficit entailed a significant increase (50.6%) in interest payments under this heading, albeit from a low initial level.

Following the expiration of its stand-by arrangement with the International Monetary Fund in April 2004, Ecuador did not enter into another arrangement with the

ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Fund because the reforms required by that institution could not be implemented, mainly for political reasons.

Inflation eased and bank liquidity rose substantially (the sum of sight deposits and quasi-money in private banks increased by 15.3% between October 2003 and October 2004). By September 2004 benchmark interest rates on loans and deposits had declined to 11.7% and 3.5%, respectively. Financial-sector credit to the private sector increased by 19.8% between October 2003 and the same month of 2004.

ECUADOR: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	3.8	2.3	6.3
Consumer prices	9.4	6.1	2.0 ^b
Money (M1)	27.0	0.7	16.9 ^c
Real effective exchange rate ^d	-11.4	-2.5	4.3 ^c
Terms of trade	2.6	3.4	2.9
Annual average percentages			
Urban unemployment rate ^e	8.6	9.8	11.0 ^f
Central government overall balance / GDP	-0.8	-0.9	-1.7
Nominal deposit rate	5.1	5.3	4.1 ^g
Nominal lending rate	14.1	12.6	10.5 ^g
Millions of dollars			
Exports of goods (f.o.b.) and services	6 121	7 095	8 618
Imports of goods (f.o.b.) and services	7 828	7 858	8 892
Current account	-1 358	-455	128
Capital and financial account	1 230	592	326
Overall balance	-127	136	454

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Data to October.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Includes hidden unemployment.

^f Estimate based on data from January to October.

^g Average from January to October, annualized.

The upward trend witnessed in 2003 in the proportion of non-resident securities (including United States treasury bonds) in private banks' portfolios reached a peak in May 2004, then started to slide in July. As of October 2004 private banks kept 9.8% of their total assets (US\$ 835 million) in non-resident securities. Similarly, deposits held abroad as a percentage of total assets reached a maximum (12.7%) in January 2004, after which they declined to 10.3%. At the same time, private banks increased the supply of credit in 2004, possibly owing to the steady increase in funds available for lending, as well as to the more attractive returns on loans (particularly consumer loans) in comparison to foreign asset holdings.

In the first half of 2004 GDP was 8.2% higher than it had been in the same period of 2003, mainly because of an increase in oil production by private companies following the coming on stream of a heavy crude oil pipeline in September 2003. Other sectors that enjoyed robust growth in 2004 were financial intermediation (after several years of stagnation following the 1999 crisis) and services other than commerce.

Inflation continued to trend downward in 2004; between November 2003 and the same month of 2004 the consumer price index went up by only 2%. Relatively similar rates of inflation are expected in 2005.

The depreciation of the dollar on international markets in 2004 in the context of substantial fiscal and

current account imbalances in the United States, together with the significant decline in inflation in Ecuador, brought about an improvement in the country's exchange-rate competitiveness, measured by its real effective exchange rate. Thus, in the first 10 months of 2004 this rate increased (depreciated) by an average of 4.3% to stand at a level 6% lower than the historical average for the period January 1992 to December 1998 (prior to the 1999 crisis).

As a result of faster economic growth, the employment rate increased slightly, from 48.8% in the first 10 months of 2003 to 49.4% in the same period of 2004. At the same time, the underemployment rate declined. Nevertheless, owing to an increase in the labour-force participation rate, the unemployment rate rose to an average of 11.1% in the first 10 months of 2004.

With respect to the external sector, the balance-of-payments current account, which had started to improve in the last quarter of 2003, continued to strengthen. The balance on this account moved from a deficit of US\$ 233 million in the first half of 2003 to a surplus of US\$ 70.3 million in the same period of 2004. In the first 10 months of 2004 exports were 25.7% higher than they had been in the same period of 2003. The performance of oil sales more than offset the downturn in non-oil exports. Among the non-oil exports that did increase were shrimp (11.2%), after a number of bad years, and fresh flowers (9.5%), while exports of bananas and manufactures diminished. This pattern consolidates the position of crude oil as the country's chief export. Oil sales leapt by 47.1% in terms of volume and 74.3% in terms of value as a result of the hike in the price of crude. The value of imports rose by 16.7%, reflecting higher prices for various products, as well as higher volumes in several categories. In addition, in the first half of 2004 the balance-of-payments financial account deteriorated sharply, from a surplus of US\$ 215.9 million to a deficit of US\$ 268.4 million. This essentially reflected a sudden 50% slump in foreign direct investment (from US\$ 1.0285 billion to US\$ 513 million), which, in turn, was due largely to the completion of the heavy crude oil pipeline. Foreign direct investment in mining and quarrying also declined, albeit slightly. These decreases were observed despite the extremely favourable conditions for petroleum activity: soaring oil prices and excess transport capacity through the above-mentioned pipeline.

Lastly, there was an increase in outflows under the heading of errors and omissions, from US\$ 67.8 million in the first half of 2003 to US\$ 238.9 million in the same period of 2004. The net result of the financial movements described above was a slight increase (US\$ 56.4 million) in freely available reserves in the first half of the year.

Paraguay

In 2004 the Paraguayan economy grew at a rate provisionally estimated at about 2.8%. The country thus completed its second consecutive year of growth, and this positive trend is expected to continue in 2005, with an expansion of about 3.5%. The upturn in the level of economic activity was accompanied by a decline in the inflation rate.

This solid performance by the real sector of the economy has taken place in an orderly macroeconomic environment sustained by significantly healthier fiscal accounts and the prudent management of monetary policy.

The central government's primary surplus at the end of 2004 is estimated at some 1.9% of GDP, which represents a substantial improvement over the figure posted at the end of 2003 (a surplus of 0.9% of GDP). In comparison to their levels in the first 10 months of 2003, tax receipts in the same period of 2004 showed a positive nominal variation of 36.8% and the central government's total expenditure showed an increase of 11.7%.

The higher level of activity and the introduction of administrative and legislative improvements (including a new customs code) decisively influenced the fiscal accounts by leading to robust increases in receipts of taxes on value added (32%), net income and profits (44%) and external trade (17%). These three taxes—together with the fuel tax, receipts of which rose by 51%, reflecting the oil price hike—accounted for almost 90% of the increase in tax revenues.

From the standpoint of the monetary and financial markets, the consolidation of a process of public confidence-building, which began when the current administration took office, had a positive effect on the demand for money. As the expansion of this demand was enough to absorb the increase in the amount of money issued by the central bank, there was a slowdown in the growth of monetary regulation instruments and, in particular, a sharp decline in their yields, from 12.85% per year in late 2003 to 4.28% in October 2004. The driving force behind the expansion of the monetary base

was the upsurge in international reserves, which totalled nearly US\$ 1.2 billion; this was more than double the value recorded in mid-2002, when reserves had reached their lowest ebb (some US\$ 530 million).

However, the fact that this increase in demand has been relatively concentrated in more liquid assets, such as notes and coins and demand deposits, poses a problem in terms of channelling these resources into the financing of productive activity. Although the real downturn in bank credit to the private sector—which had continued for more than three years—has now been halted, there are no clear signs that this trend is reversing itself. This situation undoubtedly constitutes a significant constraint on the economic recovery process.

Central bank intervention in the foreign-exchange market stabilized the value of the guaraní and kept its real parity at an appropriately competitive level. The real effective exchange rate appreciated in the first few months of the year, but this was more than offset by a depreciation that began in June and continued until October, when the real parity of the guaraní was 4% above its level at the end of 2003. In relation to the dollar, the currency depreciated by less than 2% in real terms, but in relation to the currencies of Paraguay's MERCOSUR partners, the real exchange rate increased by somewhat more than 7% in the same period.

The estimated 2004 growth rate is attributable primarily to the performance of goods-producing sectors, especially those that produce agricultural goods. Upturns in livestock activity and in certain crops made up for the negative effects of the weather problems that affected soybean production early in the year, whose repercussions on total GDP are calculated at more than a full percentage point. Industrial activity, driven by the

PARAGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	-1.6	3.8	2.8
Consumer prices	14.6	9.3	2.1 ^b
Real wages	-6.4	-2.0	-3.7 ^c
Money (M1)	4.7	25.7	26.4 ^d
Real effective exchange rate ^e	9.0	5.6	-5.8 ^d
Terms of trade	-3.5	5.0	2.9
Annual average percentages			
Urban unemployment rate	14.7	11.2	...
Central administration overall balance / GDP	-3.0	-0.4	0.2
Nominal deposit rate	12.3	10.2	3.2 ^f
Nominal lending rate	34.3	30.5	22.5 ^f
Millions of dollars			
Exports of goods (f.o.b.) and services	2 426	2 850	3 230
Imports of goods (f.o.b.) and services	2 488	2 869	3 625
Current account	73	146	-223
Capital and financial account	-197	85	432
Overall balance	-124	231	209

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Data as June.

^d Data to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Average from January to September, annualized.

performance of the meat-packing segment, followed the general trend of the agricultural subsector. The performance of the service sector, whose growth is estimated to have fallen short of the overall average, was based essentially on an increase in electricity generation and on more vigorous activity in the areas of commerce and finance, as these activities account for a large proportion of the total.

The cumulative variation in the consumer price index (CPI) reached 1.3% over the first 10 months of the year, as against the 6.9% recorded in the same period

of 2003. The behaviour of overall inflation in the course of the year was influenced by the opposing trends observed in two groups of products: downward pressure from food prices (especially for fresh foods) and upward pressure from fuel prices. For the year as a whole the CPI variation is estimated to have ranged from 2% to 2.3%, while the average of the monthly CPI values posted in 2004 was about 4.3% higher than the corresponding average for 2003.

In the first 10 months of the year exports were up by 28% in relation to their level in the same period of 2003 and by 14% in relation to their level for 2003 as a whole. This buoyancy in external sales can be traced to international price hikes and the maintenance of a high real exchange rate. However, exports were highly concentrated in terms of both the products that make up the export basket and their target markets. These circumstances tend to accentuate the Paraguayan economy's vulnerability.

Imports grew even faster than exports, presumably spurred by the upswing in economic activity. Total external purchases in the first 10 months of 2004 were 40% higher than the figure for the year-earlier period and 17% higher than the figure for the whole of 2003. As a result, in the first 10 months of the year the trade balance registered a deficit of US\$ 756 million, whereas in the same period of 2003 the deficit had stood at US\$ 433 million.

Although no employment data are available for 2004, that year's estimated growth and the prospects for 2005 can be expected to result in a decline in the unemployment rate and a degree of improvement in the country's high poverty indices. In the medium term, however, Paraguay's economy will have to meet a more demanding target, considering that, between now and 2010, it needs to grow by more than 4% a year just to bring per capita GDP back to 1995 levels.

Peru

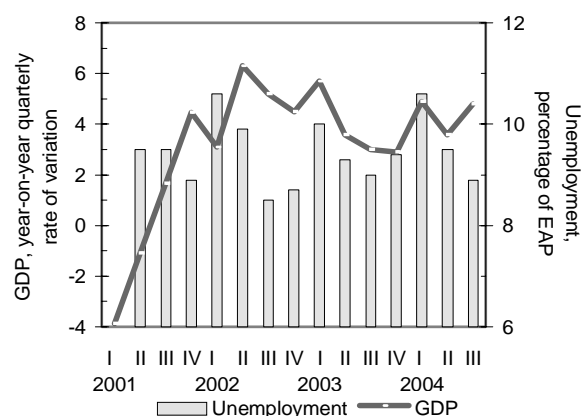
The Peruvian economy grew by 4.6% in 2004, surpassing both its 2003 performance and the expectations that had prevailed early in the year. This outcome was due to extremely favourable external conditions and the macroeconomic stability achieved in recent years. The expansion was led by exports and private investment, which grew by 12.5% and 8.7%, respectively, over the first three quarters. As a result of the export boom, the merchandise trade surplus widened and the balance-of-payments current account deficit narrowed to 0.3% of GDP. Private consumption, the biggest component of overall demand, expanded more moderately (by 3.1%), given that employment increased only slightly and average real income held steady. Inflation slightly overshoot the upper limit of the band set by the central bank, mainly because of the high price of oil.

In 2005 export growth will probably slow down, but private investment, which is still low in historical terms, is expected to pick up and private consumption is likely to expand faster, with the result that GDP growth will again come in at about 4%.

Fiscal policy was slightly countercyclical, given that, in view of the high level of public debt (44.1% of GDP in September), the authorities took advantage of favourable economic conditions to build up the primary surplus (to approximately 1% of GDP for the whole year) and bring down the deficit of the non-financial public sector (from 1.8% of GDP to about 1%). This was made possible mainly by the behaviour of central government revenue, which rose by some 8% in real terms (in the first three quarters) as a result of higher receipts from general sales tax (following a rate increase in August 2003) and income tax, as well as the imposition of a financial transactions tax beginning in March. Public spending grew very moderately in the first six months and, despite an upturn later in the year, declined as a proportion of GDP for 2004 as a whole.

To finance the deficit and outstanding amortization payments, the government resumed the issuance of

PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

bonds on international markets (for a total of US\$ 500 million) in April and floated its first euro-denominated bond issue (for 650 million euros) in October.

The authorities predict that the tax burden will continue to rise in 2005 (to 13.5% of GDP) and that the non-financial public-sector deficit will stand at 1.0% of GDP.

Monetary policy maintained the inflation-targeting system, under which the target was set at 2.5%, within a band of one point in either direction. Around the middle of the year cumulative 12-month inflation exceeded the upper limit of the band; in response to this and to external trends, the authorities raised the benchmark interest rate in August and October by a total of half a point, bringing it to 3.0% in October.

Thanks to macroeconomic stability and the solid performance of the external sector, the local currency strengthened and, between December 2003 and October 2004, the bilateral and multilateral real exchange rates fell by 4.2% and 3.8%, respectively. The massive inflow of foreign exchange contributed to an increase in the monetary base (24% as of late October), even though the authorities intervened by buying dollars and applying a sterilization policy that consisted of issuing certificates of deposit, the total balance of which grew from 4.1 billion to 7.4 billion nuevos soles between December 2003 and October 2004.

Trade policy continued to be geared to improving integration with other markets through measures such as an agreement between the Andean Community and the Southern Common Market (MERCOSUR) and negotiations (in conjunction with Colombia and Ecuador) on a free trade agreement with the United States. On the other hand, temporary safeguards were applied to textiles.

One of the most buoyant sectors was the manufacturing industry, which posted growth of 5.6% during the first three quarters, largely as a result of an increase in textile exports and an upturn in fishmeal production, but also thanks to a rise in domestic-market-oriented production. The mining and hydrocarbons sector continued to benefit from booming external demand, and recorded growth similar to its 2003 rate. Investment in this sector and in construction generated a rise in gross fixed capital formation. Moreover, the Camisea natural gas field came on stream and began to reverse the downturn in hydrocarbons production. The fishing sector recovered from the sharp contraction it had suffered in 2003, with growth of 24% in the first nine months of the year. Over the same period construction, services and the production of electricity, gas and water grew at rates of over 4%. Since the upturn in private consumption was moderate, commerce grew by only 3%, while agriculture declined by 2% as a result of adverse weather conditions.

In the first half of the year the consumer price index (CPI) rose faster on account of higher prices for oil and other commodity imports (such as wheat), along with the impact of the drought on food prices. In July year-on-year inflation reached a peak of 4.6%. Inflation

PERU: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	4.9	3.8	4.6
Consumer prices	1.5	2.5	4.1 ^b
Real wages	4.6	1.6	-1.1 ^c
Money (M1)	13.6	10.6	17.8 ^d
Real effective exchange rate ^e	-0.3	3.6	2.2 ^f
Terms of trade	3.0	3.8	11.6
Annual average percentages			
Urban unemployment rate	9.4	9.4	9.5 ^g
Central government overall balance / GDP	-2.1	-1.8	-1.3
Nominal deposit rate	3.5	3.1	2.4 ^h
Nominal lending rate	20.8	21.0	24.6 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	9 267	10 664	14 157
Imports of goods (f.o.b.) and services	9 946	10 864	12 610
Current account	-1 127	-1 061	-16
Capital and financial account	2 095	1 585	545
Overall balance	968	525	529

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Average from November 2003 to October 2004 with respect to the preceding 12 months.

^d Data to September.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Data to October.

^g Estimate based on data from January to October.

^h Average from January to October, annualized.

subsequently fell to 3.95% in November, and is expected to approach the upper limit of the band set by the monetary authorities (3.5%) towards the end of the year. This downward trend is expected to continue in 2005. In November core inflation stood at 2.9%.

The impact of economic growth on the labour market was muted. In the first nine months of the year formal-sector urban employment grew by 2.4%, which helped to push up the employment rate slightly. However, as labour-force participation also rose, the unemployment rate again showed little change. Although average labour income went up slightly, it lost purchasing power owing to the increase in inflation.

Export value shot up by more than a third, to US\$ 12 billion. Traditional and non-traditional exports posted similar growth. The leading traditional exports were minerals, sales of which soared by about 50% thanks to sharp price hikes and, in the case of some products (such as copper and lead), volume increases. The expansion in non-traditional exports was across the board, with significant upturns in agricultural and fishing products, textiles and chemicals. Favourable trends in the prices of the country's export products offset the rise in the price of petroleum, with the result that the terms of trade improved for the third year running. Imports swelled by 15%, owing mainly to increased purchases of inputs such

as fuel and, to a lesser extent, capital goods for the manufacturing industry. As a result, the merchandise trade balance expanded considerably, and is estimated at about US\$ 2 billion for the year as a whole, compared to US\$ 730 million in 2003. Although the impact of this development on the current account was limited by an increase in profit remittances, the current account deficit nonetheless shrank from 1.7% of GDP to a slightly negative balance. The overall balance therefore closed the year with an estimated surplus of 0.8% of GDP, despite a slight reduction in the financial account surplus

(including errors and omissions). At the end of October international reserves exceeded US\$ 12 billion, as against US\$ 10.2 billion in late 2003.

Public and private external debt declined as a percentage of GDP to stand at 45.4% in September (compared to 49.1% at the end of 2003). Peru's relatively low country-risk rating improved its conditions of access to bond markets, given that the spread on its debt instruments (January-October average) was 368 basis points, down from an average of 429 basis points in 2003.

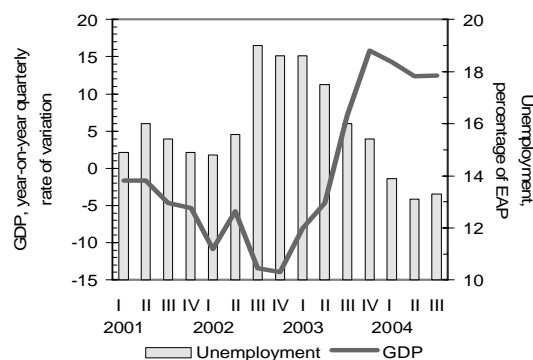
Uruguay

The new administration that will take office in March 2005 as a result of the October 2004 elections, in which it received 50.5% of the vote, will have a parliamentary majority but limited room for manoeuvre in terms of economic policy, which will continue along the same lines in 2005. In conjunction with the national elections, the citizenry also voted (65%) for mandatory State control of drinking-water and sanitation services.

The new administration undertook to devise a package of measures to deal with the urgent social problems besetting the country. In 2004 Uruguay's growth again surpassed the most optimistic expectations, yet some 76,300 of its 3.4 million inhabitants live in indigence; poverty has doubled over the past four years, bringing the poor population to 850,000; and 40% of the country's workers have no social security coverage. The President-elect has announced that his administration's first action will be to adopt a national social emergency plan (costing an estimated US\$ 100 million) aimed at reintegrating drop-outs into the educational system and guaranteeing the entire population a basic level of food security.¹

Economic activity registered solid growth throughout the year, buoyed by favourable regional and international conditions. In contrast to the situation in 2003, growth was driven by both exports and domestic demand, which were up by 18.8% and 15.9%, respectively, in the first nine months of the year in relation to the year-earlier period. The fastest-growing component of domestic demand was gross investment, which swelled by 31.2%, while final consumer spending went up by 14.2% and private consumption, by 16.3%. The higher level of private spending was financed with private savings and a recovery in the credit-card segment, as bank credit has yet to rebound. The upturn was observed in all sectors, with particularly strong growth in manufacturing (25.1%) and in commerce, restaurants and hotels (22.7%). The growth estimate for 2004 stands at about 12%.

URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Growth is predicted to reach about 6% in 2005, since the Uruguayan economy will be hurt by the slowdown in Argentina and the somewhat less favourable international environment (interest-rate hikes and high crude oil prices).

Fiscal policy was eased somewhat in 2004, given the recovery of government revenues as a result of increased economic activity and stricter control of tax evasion. In August the authorities adopted major changes to the tax regime, including reductions in the tax rates applicable to industrial and commercial income (IRIC), agricultural income (IRA), commissions (ICOM) and contributions to social security financing (COFIS), and

¹ Data collected in 1999 showed that 48% of the country's young people between the ages of 15 and 19 had left school.

eliminated the increases in payroll tax (IRP) that had been announced in 2002.

In September 2004 the public sector's primary surplus amounted to 3.5% of GDP, as against 3% in 2003. Noteworthy in this connection was the improvement in the central government's accounts, which ran a surplus equivalent to 1.4% of GDP, after having posted a 0.2% deficit in 2003. This positive change took place at the expense of public enterprises, whose surplus shrank from 3.4% of GDP in 2003 to 2.1% in 2004, mostly because of larger outlays on energy purchases.

In the context of the fifth review under the country's standby arrangement with IMF, completed in October 2004, the authorities undertook to raise the public sector's primary surplus target from 3.3% to 3.4% of GDP; by September this target had, in fact, been met. The overall public-sector balance was equivalent to -1.5% of GDP, which represented an improvement over the -3.1% recorded in 2003 and the target of -2.9% agreed upon with IMF. By the end of September gross public debt had dropped to 96% of GDP.

With respect to fiscal policy, the authorities do not plan to increase the tax burden, but they will have to deal with a number of outstanding issues, including reform of the tax system and of pension funds for police, military and bank personnel, as well as the Large Taxpayer Unit to be set up within the Tax Administration Department.

In the second quarter of 2004, with a view to making monetary policy more contractionary (to achieve the inflation target) and also more flexible, the central bank adopted a target range rather than a precise target figure for the monetary base. The authorities, in turn, made more active use of repo operations (introduced in April) and began to offer forward contracts for the purchase and sale of dollars on the market. In the third quarter the monetary base amounted to 12.848 billion pesos, which was practically in the middle of the target range, and continued to follow a downward trend. The means of payment (M1), in contrast, were up by 8.8% in real terms with respect to the same period of 2003. In October the Banco República began to repay in advance the third tranche of reprogrammed deposits (US\$ 773 million, or 40% of total deposits), which had originally been scheduled for repayment starting in June 2005.

In terms of exchange-rate policy, Uruguay continued to implement a flexible exchange-rate regime. As the monetary authority purchased all the foreign exchange needed for the year during the first six months, the price of the dollar increased until June. Subsequently, lower

URUGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	-12.7	3.0	12.0
Consumer prices	25.9	10.2	8.2 ^b
Real wages	-10.7	-12.5	-0.4 ^c
Money (M1)	-2.2	23.0	20.7 ^d
Real effective exchange rate ^e	23.7	24.1	3.6 ^d
Terms of trade	-2.4	-12.1	0.9
Annual average percentages			
Urban unemployment rate	17.0	16.9	13.0 ^c
Central government overall balance / GDP	-4.9	-4.6	...
Nominal deposit rate	43.8	28.1	...
Nominal lending rate	92.0	121.0	50.3
Millions of dollars			
Exports of goods (f.o.b.) and services	2 693	3 051	3 828
Imports of goods (f.o.b.) and services	2 492	2 707	3 509
Current account	322	52	28
Capital and financial account	-4 236	828	56
Overall balance	-3 914	880	84

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Estimate based on data from January to October.

^d Data to October.

^e A negative rate indicates an appreciation of the currency in real terms.

demand brought the nominal exchange rate down by 6%. Over the first eight months of the year, the country's competitiveness, as measured by its real effective exchange rate, dipped by 6%.

Following the entry into force of its free trade agreement with Mexico, Uruguay signed a reciprocal investment protection agreement with the United States. This agreement covers most sectors of activity, including the financial sector. The Uruguayan government also proposed that the two countries should work out an agreement to avoid double taxation.

In September 12-month inflation returned to single-digit levels. Price variations were negative in October (0.33%) and November (0.26%), with the result that inflation over the 12 months ending in November stood at 8.20%. Given that no public utility rate increases were foreseen for the rest of the year, the authorities probably met their 2004 inflation target of between 7% and 9%. In October wholesale prices of domestically produced goods fell for the third consecutive month (by 0.32%), having accumulated a 6.4% increase since the beginning of the year and a 7.8% increase over the previous 12 months. The average wage index climbed by 10.7% over the 12 months ending in October.

Employment figures also showed positive signs. The faster growth of employment between August and October (when the employment rate stood at 51.2%) reduced the unemployment rate (moving average for August-October) to 12.5%, as against 16.1% in October

2003. This suggests that employment levels are finally responding to the growth in output.

In the external sector, data up to August show that export value in dollars (f.o.b.) rose by 32.8% with respect to the same period of 2003, totalling US\$ 2.121 billion, while import value (c.i.f.) climbed by 40.8%,

reaching US\$ 2.215 billion. Meat, which remained the chief export product in 2004 (24.9% of the total), surged by 65% in current values. Lastly, Uruguay benefited from the upgrading of its credit rating from B- to B by the risk-rating agencies Fitch and Standard & Poor's.

Mexico and Central America



Costa Rica

Costa Rica's real gross domestic product (GDP) is estimated to have grown by 4.1% in 2004, which is 2.3 percentage points lower than the 2003 rate. This slowdown was mainly due to a downturn in external sales of microprocessors produced by the Intel plant. Exports and international tourism nonetheless continued to be the main sources of growth. The country's economy was also hurt by the impact of soaring international prices for oil and certain industrial commodities. These price hikes were largely to blame for the increase in domestic costs and prices (13.3%), the faster depreciation of the colón and the wider trade deficit. Added to this were the uncertainty generated by the delay in the adoption of fiscal reforms, the investment fund crisis and the lack of parliamentary support for the executive branch's initiatives. Moreover, the political and social climate deteriorated in the wake of serious allegations of corruption involving prominent political figures.

Central government finances were kept under control thanks to the containment of expenditure. The fiscal deficit is therefore expected to stay close to its 2003 level of 2.9% of GDP. In the face of strong inflationary pressure and a worsening imbalance in the external sector, monetary policy was tightened in the second half of the year, with the result that credit grew more slowly than in 2003 and interest rates tended to rise. Despite the problems besetting the external sector, the balance-of-payments current account deficit, as a percentage of GDP, will be lower than the 2003 level of 5.5%. One of the reasons for this improvement was the decline in the repatriation of profits and dividends as exports stalled. The merchandise trade deficit widened considerably, however, and there was a dramatic loss of international reserves. According to ECLAC estimates, in 2005 GDP will grow by 3.5% and inflation will subside to 10.5%. In the fiscal sphere, the central government deficit could reach between 3.5% and 4% of GDP, while the balance-of-payments current account deficit will be equivalent to about 4% of GDP.

Under the monetary programme, economic policy was geared towards controlling the fiscal deficit,

reducing the balance-of-payments current account deficit and achieving the inflation target. The central government's deficit was kept under control even though the administration's tax reform proposal has not yet been adopted by the Legislative Assembly, which has been debating it for nearly three years. The deficit was kept in check thanks to a large increase in current revenues as a result of better tax administration and the lingering effects of the Fiscal Contingency Act implemented in 2003. On the expenditure side, wage increases were smaller and public investment in social programmes and infrastructure was trimmed.

In the first half of 2004 policy measures were aimed at creating monetary conditions consistent with a 9% annual increase in prices and a smaller balance-of-payments current account deficit. However, higher inflation and tensions in the external sector prompted the central bank to tighten monetary policy at the end of July. Specifically, it decided to raise the short-term interest rate (from 12.65% to 13.15%), increase the 10% legal minimum reserve requirement by two percentage points (to 11% in September and 12% in October), speed up the devaluation rate (from 15 to 17

céntimos per day) and engage more actively in open-market operations.

Twelve-month inflation stood at 13.3% in November, exceeding the 11% target set in the monetary programme and representing an eight-year high. The factors that produced this outcome included soaring hydrocarbon prices, adjustments in certain public utility charges and higher prices for some products, particularly agricultural goods.

The growth of GDP was based on a 3.9% expansion in exports, including a sharp upswing in international tourism, and a 3% upturn in domestic demand as a result of a 3.1% rise in consumption, which offset a 6.1% decline in gross fixed investment. The best-performing area of the economy was the service sector (up by 5.4%), especially transport, telecommunications (particularly mobile telephones and Internet service) and financial services. Goods production, on the other hand, edged up by a mere 1.8% on account of slowdowns in agriculture (caused by reduced rice and bean production) and in manufacturing (due mainly to lower exports of Intel microprocessors and decreased textile production).

Despite the economy's growth, there was no significant reduction in the open unemployment rate at the national level. It should also be pointed out that adjustments to nominal minimum wages were barely sufficient to offset price increases.

Partial data on the external sector's performance indicate that the balance-of-payments current account posted a deficit of 4.7% of GDP, which was lower than the 5.3% recorded in 2003. The deficit on the merchandise trade balance widened to 8.6% of GDP (compared to 6.5% in 2003). Imports expanded briskly (by 8.2%), while export growth was lacklustre (2.1%). Losses of international reserves amounted to some US\$ 100 million and were attributable to smaller net capital inflows and to the prepayments made on series B Brady bonds (US\$ 214 million).

COSTA RICA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.7	6.4	4.1
Consumer prices	9.7	9.9	13.3 ^b
Real wages ^c	4.0	0.4	-2.6 ^d
Money (M1)	14.4	21.5	11.2 ^e
Real effective exchange rate ^f	1.7	5.8	3.0 ^g
Terms of trade	-1.5	-1.5	-4.7
Annual average percentages			
Urban unemployment rate	6.8	6.7	6.7
Central government overall balance / GDP	-4.3	-2.9	-3.0
Nominal deposit rate	11.6	10.9	10.0 ^h
Nominal lending rate	24.2	23.4	21.1 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	7 140	8 190	8 524
Imports of goods (f.o.b.) and services	7 719	8 483	9 164
Current account	-916	-929	-882
Capital and financial account	1 081	1 270	782
Overall balance	165	341	-100

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Average wages reported by workers covered by social security.

^d Estimate based on data from January to August.

^e Data to November.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Data to October.

^h Average from January to November, annualized.

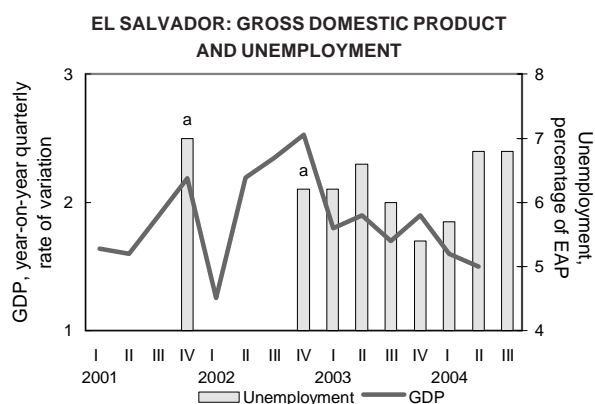
Given the 30% slump in exports of Intel microprocessors, the expansion of external sales was based primarily on exports of other non-traditional products such as medical equipment and pharmaceuticals, in addition to exports of agricultural products, especially coffee, bananas, sugar, pineapples, melons, plants, flowers and foliage. Some of these products benefited from price increases. Import growth, meanwhile, was led by raw materials and intermediate goods, owing to a 31.5% increase in the oil bill and to external purchases by free-zone firms. Imports of capital goods shrank (by 10.8%) in the light of lower investment spending.

El Salvador

In 2004 El Salvador experienced its fifth straight year of meagre GDP growth (1.8%). This rate fell short of the projected growth target (2.3%), with the result that per capita output again remained stagnant. Although domestic demand was boosted by an increase in family remittances (to a sum equivalent to 16.2% of GDP), the contractions observed in external demand (which was down by 3% in the maquila sector) and public investment (-23.7%) had a negative impact on growth in 2004. Nominal deposit and lending rates continued to descend throughout the year, but average annual inflation increased to 4.5% –which was almost two and a half percentage points higher than the preceding year’s rate (2.1%)– because of the hike in international oil prices. The current account deficit was equivalent to 4.5% of GDP and was mainly the result of a 10.8% trade gap.

Projections for 2005 point to GDP growth of about 2.0%, a fiscal deficit of 0.7% of GDP and lower inflation. According to forecasts, the current account deficit will decline as a result of an increase in goods and services exports (generated by the United States-Central America Free Trade Agreement (CAFTA)), lower international oil prices and a further upturn in family remittances. The aim of reducing the public debt, which currently stands at 47.6% of GDP, poses a significant challenge for the coming year.

Fiscal austerity was the main feature of economic policy in 2004. The central government deficit was equivalent to 1.3% of GDP, compared to 2.7% in 2003 (or 3.1%, if social security liabilities are included). Total central government income expanded by 0.3% in real terms. Tax revenues were up by 0.4%, boosted in particular by higher receipts of income tax (2.1%) and VAT (0.5%). Tax receipts should continue to rise, given the fiscal reform carried out at the end of 2004, which included amendments to the tax code and to the laws governing customs matters, VAT and income tax. Non-tax revenues fell by 3.3%, with the result that the national tax burden rose to 12.2% of GDP. Total expenditure was down by 8.7% in real terms, owing in particular to a



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

^a Annual figures.

downturn in capital expenditure (-29.9%), especially real investment (-44.8%), while current expenditure showed a real contraction of 1.2% –notwithstanding a 10.2% increase in debt interest payments– because wages were not increased. Meanwhile, the non-financial public-sector deficit declined from 2.1% of GDP to 0.7% (or

2.5%, if the cost of pensions is included), while total real income was down by 0.2% and expenditure diminished even faster (-7.5%).

A disturbing element of recent economic trends has been the continued high level of public debt, at 40% of GDP; of this total, 28% consists of external debt and 12%, of domestic debt. Total public liabilities up to September 2004, including both the financial and non-financial public sectors, were equivalent to 47.6% of GDP. In 2004 the government issued US\$ 286.4 million in bonds, and in 2005 it plans to issue another US\$ 542 million in order to meet its financing needs.

Nominal interest rates continued to fall, to the point where rates on 180-day deposits became negative in real terms (-1.2%), while rates on loans of up to one year stood at 1.8% in real terms. Nevertheless, bank credit to the private sector declined by 0.5%. The central bank maintained US\$ 1.7358 billion in net international reserves. The monetary aggregate M3 suffered a real contraction of 2.4%, but its main components behaved in different ways: demand deposits increased by 2% in real terms, while savings deposits decreased by 1.8% and foreign-currency deposits dipped slightly. The Superintendency of the Financial System imposed a rule requiring the commercial banking system to maintain liquid assets equivalent to 6% of total deposits. This, together with the liquidity reserve, constitutes a contingency fund of almost US\$ 2 billion.

Average annual inflation rose to 4.5%. Most of the increase (72%) was due to higher international oil prices, which raised transport costs, the price of legumes and vegetables and electric power rates, all of which eroded the competitiveness of exports. The nationwide unemployment rate rose from 6.9% to 7% and, as wages were not increased, the purchasing power of the minimum wage fell by about 4.3%.

Economic activity showed little growth. Two components of overall demand had a negative impact on the economy: a downturn in exports of maquila products and a slide in public investment (-23.7%), as private investment, though sluggish, rose by 1.5% despite the prevalence of low interest rates. As a result, the main engine of economic growth was the expansion of private consumption (3%), which was buoyed by the rising inflow of family remittances. The most notable feature of overall supply was the growth of imports of goods and services (5.4%).

The branches of economic activity that posted the fastest growth were manufacturing (2.4%), mining (2%), agriculture (1.8%), basic services (2.6%) and commerce (1.8%). These advances were offset to a large extent by a drop in construction activity (-3.1%).

EL SALVADOR: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.1	2.0	1.8
Consumer prices	2.8	2.5	5.3 ^b
Money (M1)	-4.1	-2.0	7.4 ^c
Real effective exchange rate ^d	0.1	1.1	-0.3 ^c
Terms of trade	-0.8	-3.9	-2.9
Annual average percentages			
Urban unemployment rate	6.2	6.2	6.3 ^e
Central government overall balance / GDP	-3.1	-2.7	-1.3
Nominal deposit rate	3.4	3.4	3.4 ^f
Nominal lending rate	7.1	6.6	6.3 ^f
Millions of dollars			
Exports of goods (f.o.b.) and services	3 803	3 987	4 079
Imports of goods (f.o.b.) and services	5 914	6 430	6 775
Current account	-412	-734	-714
Capital and financial account	288	1 050	544
Overall balance	-124	316	-170

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Data to October.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Estimate based on data from January to September.

^f Average from January to October, annualized.

The balance-of-payments current account showed a deficit of 4.5% of GDP, which was almost half a percentage point lower than the 2003 figure. Family remittances continued to provide the economy with significant breathing room, as they totalled some US\$ 2.54 billion, exceeding their 2003 level by 20.2%. This was enough to cover approximately 78% of the deficit on the balance of trade in goods and services and on the income balance, and also boosted private consumption and strengthened the domestic market.

CAFTA was the cornerstone of the country's trade policy. This agreement is expected to stimulate exports and investment, especially in non-traditional areas, ethnic products and agriculture.

The modest increase in exports (2.3%) reflected the contraction observed in the manufacturing sector, especially the decline in sales of maquila goods (-3%), which suffered as a result of keener competition from Asian producers and a dearth of incentives to attract maquila enterprises; in fact, the Salvadoran maquila sector is expected to shed a significant number of jobs in the near future. In contrast, exports of non-traditional goods grew by 11%, while those of traditional goods expanded by 18%, boosted by a 22.6% upturn in coffee exports due to higher international prices.

Net inflows of foreign direct investment amounted to US\$ 389 million, much of which was attracted through the sale of shares in the formerly State-owned telecommunications firm.

Guatemala

For the fourth year in a row the Guatemalan economy posted a modest rate of growth (2.6%). External demand was slack and the terms of trade worsened because of the increase in petroleum prices. Family remittances rose to a new annual record of 10.8% of GDP. Together with increased inflows of other types of capital, this triggered a sharp appreciation of the local currency starting in the second quarter. The new government authorities dealt with the ongoing fiscal crisis by drastically cutting public spending, since the changes made to the tax regime in mid-year proved insufficient. As a result, the deficit narrowed from 2.3% to 1.3% of GDP. Year-on-year inflation was 9.2% in November and, with economic growth sluggish, the rate of employment showed no significant change. The balance-of-payments current account deficit was 4.1% of GDP, but the deficit on the balance of trade in goods and services reached a high 13.5% of GDP.

The authorities' projections for 2005 point to GDP growth of 3.2%, inflation of 4% to 6%, a fiscal deficit of 1.8% of GDP and a current account deficit of about 4% of GDP. It is hoped that the government's economic recovery plan will yield results and that investment will be stimulated by Guatemala's removal, in July 2004, from the list of countries and territories that fail to cooperate sufficiently with international efforts to combat money laundering, and also by the entry into force of the United States-Central America Free Trade Agreement (CAFTA).¹ A new standby arrangement is being negotiated with the International Monetary Fund to give impetus to the government's programme.

One of the main problems facing the administration that took office in January 2004 was the sharp deterioration in the fiscal accounts the year before. This was in addition to the increase in the price of petroleum and the appreciation of the quetzal.

The fiscal problems that had carried over from 2003 became worse in early February, when the Constitutional Court decreed a suspension of the tax on commercial and agricultural enterprises (IEMA). Public spending was therefore cut in 2004, mainly in the area of investment. The Congress was presented with six tax reform proposals, four of which it adopted in mid-year. As a result, the government deficit dropped from 2.3% of GDP in 2003 to 1.3% in 2004.

The tax burden declined from 10.3% of GDP in 2003 to 9.7% in 2004 because of the suspension of the tax on commercial and agricultural enterprises, even though changes to the tax regime –chiefly the extraordinary tax imposed temporarily to support the peace agreements (IETAP) and the income tax-generated revenues that partly offset the drop in receipts. The government still faces the challenge of increasing tax revenues to meet its commitments under the peace agreements and to pay for overdue social investments.²

1 The government's economic recovery plan is part of the "Vamos Guatemala" programme, which sets out three priority areas of action: social solidarity, growth and competitiveness ("*Guate Solidaria*", "*Guate Crece*" and "*Guate Compite*").

2 See the message sent by United Nations Secretary-General Kofi Annan to the ceremony marking the closure of the United Nations Mission for the Verification of Human Rights and of Compliance with the Commitments of the Comprehensive Agreement on Human Rights in Guatemala (MINUGUA), Press Release SG/SM/9595/CA/27, 16 November 2004.

Current expenditure dropped by 12.5% in real terms, owing mainly to smaller outlays on goods and services and a decline in current transfers. Capital expenditure was also down in real terms, by 21%, given the late adoption of the public investment programme and uncertainty about how revenues would perform.

The monetary authorities attempted to cope with the rise in international oil prices, their impact on inflation and the appreciation of the exchange rate without undermining the economic recovery. In order to slow the expansion of the money supply, the authorities increased the amount of their open-market operations by 10% in 2004 with respect to 2003, and the government deposited 6.9 billion quetzals in the Bank of Guatemala. Interest rates on 28-day certificates of deposit were raised from 4.5% to 5.6% in June, and the rate on 91-day instruments went from 5.8% to 6.1% in October. The result was that monetary aggregates showed little real variation, with M1 contracting by 2% and M2 expanding by 1.3%. Domestic credit to the private sector went up by 3.5%, while domestic credit to the public sector dropped by 23%.

The quetzal appreciated in real terms from April 2004 onward, driven by a large inflow of financial resources into the economy, mainly in the form of family remittances, short-term capital (16% of GDP) and unrecorded inflows. Guatemala's wider interest-rate spread with respect to its main trading partners and the redemption of foreign currency-denominated treasury bonds in the second quarter were also factors in the appreciation. The central bank bought US\$ 239 million in foreign exchange on the market, authorized the issuance of dollar-denominated certificates of deposit and coordinated bond issues with the Ministry of Public Finance. The government helped to contain the money supply by increasing its deposits with the Bank of Guatemala. Even so, in 2004 the quetzal appreciated by 4.5% over its 2003 value, and by 8.5% with respect to its average value over the last 10 years.

In this context, GDP expanded by 2.6%, driven by domestic demand. Although public consumption fell by 6.2%, private consumption climbed by 3.5% and gross investment, by 8%. Net exports increased by a mere 0.2%. In terms of sectors, upturns were observed in basic services (6.8%), agriculture (2.9%) and industry (2.4%), while construction dropped sharply (11.5%).

In November 2004 the cumulative variation in the consumer price index was 8.6% over the year, as against 5.2% in the same period of 2003. Twelve-month inflation, at 9.2% (5.8% in the 12 months ending in November 2003), exceeded the annual target of 6% established by the Bank of Guatemala, owing in part to higher international prices for petroleum and petroleum products.

GUATEMALA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.2	2.0	2.6
Consumer prices	6.3	5.9	9.2 ^b
Real wages	-0.9	0.2	...
Money (M1)	10.0	13.4	9.0 ^c
Real effective exchange rate ^d	-7.5	-0.6	-1.4 ^c
Terms of trade	-1.0	-2.9	-2.8
Annual average percentages			
Urban unemployment rate	3.1	3.4	...
Central government overall balance / GDP	-1.0	-2.3	-1.3
Nominal deposit rate	7.1	5.2	4.4 ^e
Nominal lending rate	16.9	15.0	13.9 ^e
Millions of dollars			
Exports of goods (f.o.b.) and services	3 964	4 107	4 465
Imports of goods (f.o.b.) and services	6 857	7 302	8 093
Current account	-1 235	-1 051	-1 102
Capital and financial account	1 257	1 600	1 337
Overall balance	22	550	235

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Data to October.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Average from January to September, annualized.

The labour market showed little net variation in 2004, as positive developments in some areas offset the sharp downturn in the construction sector. In comparison to their 2003 levels, real minimum wages rose by 2.8% in agriculture and by 1.2% in the other sectors.

Merchandise exports grew by 9.4% thanks to an upturn in prices. Non-traditional exports were up by 21%, with natural rubber, food products and clothing performing particularly well. Traditional exports climbed by 3%, led by coffee –whose 9% increase was due primarily to higher prices, since the volume exported actually dropped– and bananas, whose export volume rose. In contrast, sugar and cardamom exports declined because of a steep fall in export volumes.

Merchandise imports swelled by 11%. Imports of capital goods (consisting mainly of inputs for agriculture and industry) jumped by 18.5%, while imports of consumer and intermediate goods climbed by 14%. Imports of fuels and lubricants, meanwhile, went up by 11.8%.

The merchandise trade balance posted a deficit of US\$ 3.517 billion, while the income balance remained close to its 2003 level. Current transfers stood at US\$ 2.89 billion. This partially offset the above-mentioned deficits, bringing the deficit on the current account to US\$ 1.1 billion. Inflows into the capital and financial account totalled US\$ 1.34 billion, of which US\$ 330 million came from bonds issued by the government. Reserve assets increased by US\$ 235 million, placing the stock of international reserves at US\$ 3.413 billion in mid-November.

Honduras

The Honduran economy grew by 4.3% as a result of better external conditions and higher domestic demand, which in turn caused a widening of the external deficit. The fiscal deficit narrowed, but inflation stopped falling for the first time in six years (owing mainly to external factors) and the labour-market situation continued to deteriorate.

The signing of a three-year agreement with the International Monetary Fund (IMF) in February and the conclusion of negotiations on the United States-Central America Free Trade Agreement (CAFTA) improved economic expectations and created a more investment-friendly environment. Honduras will probably reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in the first half of 2005. This will enable it to obtain external debt relief of almost US\$ 1 billion and to use those resources to support its poverty reduction strategy. Lastly, in the framework of the Honduras Consultative Group, over US\$ 1.4 billion was pledged to help finance that strategy.

It is possible that economic growth will again exceed 4% in 2005. The economy still faces ongoing risks, however, such as continued high international oil prices and the rise in international interest rates. In the domestic sphere, the pressures that typically arise in an election year could undermine compliance with the IMF agreement, especially in terms of maintaining fiscal discipline.

Thanks to the three fiscal reforms adopted in the preceding biennium, the government was in a better position to carry out the fiscal adjustment called for in the IMF agreement. Although the central government deficit shrank from 5.9% of GDP to 3.5%, the adjustment amounted to no more than 1% of GDP. This was because the full cost of the Financial Strengthening of Agricultural Producers Act (1% of GDP) was imputed to the 2003 fiscal year, even though payments under the Act are to be made over a 10-year period.

Total income swelled from 19.6% to 20.4% of GDP on the strength of increases in direct and indirect tax receipts (of 24% and 14%, respectively) and better oversight of taxpayers. Total expenditure dropped from

25.0% to 23.9% of GDP. Wages stopped rising as a proportion of expenditure, and capital expenditure grew by 8% in real terms. Current saving was positive for the first time in four years.

Although the provisions of the monetary programme were adhered to in the first six months, the hike in international oil prices reversed the downward trend of inflation starting in the second quarter. The central bank responded by raising the level of mandatory investment (reserve requirement) and lowering the cap on borrowing. Given the abundant liquidity in the financial system and the time lag with which monetary policy operates, these measures were not reflected in interest rates or inflation until the end of the year.

Nominal interest rates continued to follow their downward trend of recent years. Lending rates fell from 20.8% to 20.0% and deposit rates, from 8.6% to 8.2%. Credit to the private sector posted a 4% increase in real terms, with a particularly sharp rise (of almost 20%) in foreign-currency loans. The monetary aggregates expanded slightly in real terms.

Four laws concerning the institutional framework, which were envisaged in the IMF programme, were adopted in 2004 and included reforms of the regulations governing the financial system, the central bank, the National Banking and Insurance Commission and the Deposit Insurance Fund (FOSEDE). Further steps were taken to modernize monetary and exchange-rate policy instruments, consolidate the comprehensive oversight of the financial system, enhance the efficiency of the financial safety net and strengthen mechanisms for the prevention of money laundering.

Given that the lempira continued its nominal depreciation, in keeping with the inflation differential, there was practically no variation in the real exchange

rate against the dollar. The central bank used the system of public auctions to absorb the considerable inflows of foreign exchange from exports, maquila activity, tourism and remittances.

As for trade policy, apart from the progress made with regard to CAFTA, some definite steps were taken towards the completion of the Central American Customs Union in terms of liberalizing intra-group trade, operating joint customs houses and adopting a common external tariff. The Central American countries agreed to work with the European Union on an extensive bilateral trade agenda, which is expected to result in the conclusion of a free trade agreement in the near future. Honduras also announced its intention to negotiate a free trade agreement with Taiwan Province of China.

The revival of domestic demand, combined with booming external demand, generated a 4.3% increase in economic activity. Consumption grew faster than output on the strength of its private component, which was bolstered by copious remittances that shot up by almost 30%. Investment continued the recovery begun the preceding year, and gross fixed capital formation is estimated to have swelled by nearly 20%.

Construction was again the most buoyant sector (10%), boosted by public and private projects, mainly in the energy and telecommunications sectors. Agriculture improved its performance, particularly in terms of coffee, bananas, sugar, legumes and vegetables. The growth of manufacturing was due largely to an upturn in the maquila industry. Tourism was the standout among the other sectors, growing by 20%, while mining stalled.

Towards the end of the year consumer prices showed a rate of increase of about 9% –compared to the 6.5% to 7% that had been programmed at the beginning of the year– as a result of soaring international oil prices. The sectors that contributed the most to the increase in prices were transport, education and housing, water, electricity, gas and other fuels.

Minimum wages went up by 9.7% in April, which represented a real decline of 1.6% for the year as a whole. The unemployment rate went from 5.4% in May 2003 to 5.9% twelve months later, while the rate of underemployment more or less held steady, even though the maquila industry added nearly 10,000 new jobs.

HONDURAS: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.6	3.5	4.3
Consumer prices	8.1	6.8	9.1 ^b
Money (M1)	9.2	15.4	12.9 ^c
Real effective exchange rate ^d	-0.8	2.2	2.1 ^e
Terms of trade	-3.0	-4.3	-3.7
Annual average percentages			
Urban unemployment rate	6.1	7.7	8.0 ^f
Central government overall balance / GDP	-5.2	-5.9	-3.5
Nominal deposit rate	13.7	11.5	11.2 ^g
Nominal lending rate	22.7	20.8	20.0 ^g
Millions of dollars			
Exports of goods (f.o.b.) and services	2 511	2 661	2 862
Imports of goods (f.o.b.) and services	3 508	3 821	4 294
Current account	-219	-258	-484
Capital and financial account	282	27	404
Overall balance	64	-231	-81

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Data to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Data as October.

^f Data as May.

^g Average from January to September, annualized.

The balance-of-payments current account deficit widened from 3.8% to 6.6% of GDP. Imports expanded by over 12% and exports, by about 8%. Traditional exports reversed their declines of recent years, posting an 11% upturn thanks to the strong performance of the coffee and banana sectors and to higher prices for certain products. Non-traditional exports continued to rise (5%), while maquila-sector value added was up by 15%. Imports of capital goods soared by 27% and accounted for most of the increase in merchandise imports. The import value of electrical machinery, apparatus and equipment jumped by 40%, followed by base metals and base metal manufactures, which grew by 25%. Imports of consumer goods, raw materials and intermediate goods, on the other hand, grew by about 10%.

The financial account recorded a net inflow of US\$ 400 million. Net foreign investment remained at the level seen in previous years (US\$ 200 million). Net international reserves rose by US\$ 130 million, while the external debt balance increased by about 8%.

Mexico

After three years of sluggish growth, the Mexican economy made a recovery in 2004, owing mainly to increases in external demand and, to a lesser extent, in domestic demand. GDP is estimated to have risen by 4.1%, the highest rate since 2000. Export growth accelerated; upturns in employment, credit and remittances stimulated consumption; and improved expectations spurred investment, which in turn boosted output and employment. Monetary discipline failed to prevent inflation from overshooting the target (3%, within a band of 2% to 4%). This was the result of weather-related factors and the high international prices of certain raw materials and of oil, although the oil price hike strengthened public revenues, thereby facilitating the achievement of the fiscal target. Growth in 2005 is forecast at 3.6% owing to the loss of momentum in the world economy and, especially, in the United States. The price of oil is expected to stabilize at a level below the one observed in 2004, and this will erode the windfall revenues that have bolstered Mexico's public finances in recent years. The government is projecting inflation of 3% and a current account deficit of 2.1% of GDP.

In 2004 economic policy continued to be guided by the principles observed in previous years: fiscal discipline and monetary stringency in a context of exchange-rate flexibility. The 2004 fiscal deficit target of 0.3% of GDP was achieved. Between January and October public-sector revenues were up by 4.7% in real terms in relation to their level in the year-earlier period, on the strength of a 13.2% increase in oil revenues, which represented 35% of the total. Non-oil revenues, on the other hand, edged up by only 0.5% as a result of a 6.1% rise in VAT receipts and a 1.8% decline in income tax receipts. Budgetary expenditure climbed by 3.3%, boosted by higher current expenditure (1.3%) and capital expenditure (14.0%). Non-budgeted expenditure was up by 3.5% and consisted mainly of revenue distributions to the states and financial costs. Although real debt interest payments went down, the financial costs associated with initiatives to support bank debtors and savers increased, as did the additional distributions that

were made to the states when oil revenues exceeded the budgeted amount. Under the fiscal mechanism set up to distribute such revenue, in the period up to October the states received 8.18 billion pesos (about US\$ 723 million) and Petróleos Mexicanos (PEMEX) received 12 billion pesos (about US\$ 1.062 billion). PEMEX will have to use these resources in the framework of new legislation aimed at enhancing transparency in the use of such funds. The public sector's financing needs, which encompass all of its activities, regardless of whether the entities carrying them out are public or private, were equivalent to about 2.6% of GDP, or 3.2% excluding exceptional income such as profits of the Banco de México or privatization proceeds.

For 2005 the proposed Federal Revenue Act projected an average oil price of US\$ 27 per barrel and a fiscal deficit of 0.3% of GDP, but the executive branch's proposal to the Congress pointed to a fiscal deficit of 0.1% of GDP and an oil price of US\$ 23 per barrel; the

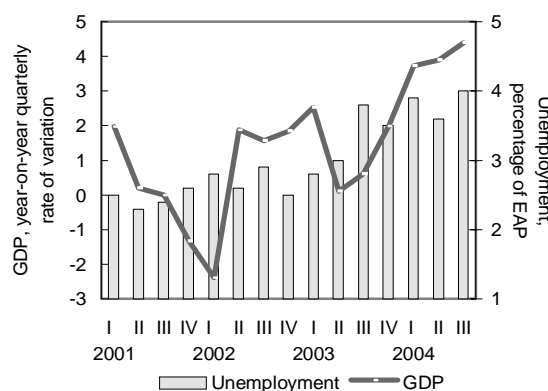
economic policy framework will be based on the latter assumptions. As for the law on expenditure, the Chamber of Deputies amended the executive branch's proposal so extensively that the latter may refuse to endorse it.

In order to keep inflation low in the framework of an exchange-rate regime in which the peso's value against the dollar was allowed to float, the Banco de México continued to apply the *corto* (target level for commercial banks' current account balances at the central bank) and raised it eight times in the course of the year, bringing it from 25 million pesos per day in February to 63 million in November. The interest rate on bank financing therefore climbed from 4.91% in February to 8.07% at the end of November. In addition, financial institutions were ordered to create, in December, a monetary regulation deposit totalling 50 billion pesos (about US\$ 4.386 billion) to complement the *corto*. In 2005, after having used the *corto* for eight years, the Banco de México may replace this instrument with a benchmark interest rate. The monetary base expanded by 9.1% in real terms between October 2003 and October 2004, in a continuation of the remonetization of the economy that had begun in 1995. In September total financing received by the private sector was 1.6% higher, in real terms, than it had been one year earlier. Bank credit increased by 3.7%, while credit granted by non-bank institutions, which supply over 15% of total domestic credit, grew by 20.1%. Consumer loans continued to grow briskly (by 34.6%), boosted in part by financing extended by department stores and car dealers.

Throughout 2004 there were brief episodes of sharp volatility in the foreign-exchange market, mainly as a result of expectations of further interest-rate hikes in the United States. The peso recovered after these episodes, so that the net result was a 12-month nominal depreciation of 2.1% as of late November and a slight real appreciation against the dollar. In early December the net variation in international reserves was US\$ 2.507 billion, which brought the balance to US\$ 60.592 billion; the increase was due to higher oil revenues. The Banco de México continued to slow down the accumulation of international reserves by applying a mechanism created for this purpose, under which its sales of foreign exchange amounted to US\$ 5.722 billion as of early October.

The economic buoyancy that had been in evidence at the end of 2003 continued to gather momentum in 2004, as GDP was 4% higher in the third quarter of 2004 than it had been in the same period of 2003. In the first half of 2004 the year-on-year expansion of external demand reached 12.4%, while that of domestic demand was 3.1%, thanks to an improvement in the employment

MEXICO: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

situation and higher inflows of remittances. Private consumption rose by 4.6% over that period, after having fallen for three consecutive years. Gross fixed capital formation was up by 5.1%, while government consumption retreated by 2.8% after six quarters of positive growth. One factor that contributed to the recovery of fixed capital formation was the increase in external demand, which fostered higher investment in imported and domestically produced machinery and equipment, as well as in construction. Boosted by the economic recovery in the United States, manufacturing grew by 3.9% in the first nine months of 2004, thereby reversing the negative trend of the previous three years. This growth was led by the base metals industry (7.1%); metal products, machinery and equipment (5.6%); other export-related manufacturing (5.8%); and textiles (1.5%). Also worthy of note is the modest recovery, spurred mainly by domestic demand, of the automotive industry (with year-on-year growth of 0.9% in the period January-August), given this segment's importance for output, employment and the generation of foreign exchange. Between January and September the construction industry grew by 5.1% (as against 3.3% in 2003) thanks to housing construction and public works. Agriculture continued to perform well, and the upward trend in basic services was boosted by private consumption and public spending.

Inflation over the 12 months ending in November was 5.4%, which was above the 3% target set by the monetary authorities. The behaviour of inflation was determined mainly by external factors, such as the higher international prices of commodities such as oil, but also by domestic factors. Non-core inflation, at 6.8% in November, outpaced underlying inflation (3.6%) and was due to increases in the prices of agricultural products (especially tomatoes, beef, poultry and eggs, among

MEXICO: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	0.7	1.2	4.1
Consumer prices	5.7	4.0	5.4 ^b
Real wages ^c	2.0	1.3	0.5 ^d
Money (M1)	16.5	14.2	12.3 ^e
Real effective exchange rate ^f	-0.3	11.3	4.6 ^e
Terms of trade	0.5	1.0	2.9
Annual average percentages			
Urban unemployment rate	2.7	3.2	3.8 ^g
Public sector overall balance / GDP	-1.2	-0.6	-0.3
Nominal deposit rate	6.2	5.1	5.3 ^h
Nominal lending rate	8.2	6.9	6.9 ^h
Millions of dollars			
Exports of goods (f.o.b.) and services	173 454	177 551	202 865
Imports of goods (f.o.b.) and services	185 419	187 680	213 977
Current account	-13 792	-8 741	-7 200
Capital and financial account	20 881	18 179	10 200
Overall balance	7 090	9 438	3 000

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

^a Preliminary estimates.

^b Twelve-month variation to November 2004.

^c Manufacturing.

^d Estimate based on the average from January to September.

^e Data to October.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Estimate based on data from January to October.

^h Average from January to October, annualized.

others), administered prices (gasoline, electricity, gas), negotiated prices (transport) and education.

The increased economic activity in 2004 paved the way for an upturn in employment, although the open unemployment rate climbed from 3.2% in January-October 2003 to 3.8% in the same period of 2004. Employment in maquila activity increased (by 3.5% in January-August), but is still below the levels recorded in 2000. Informal employment expanded and job quality declined, as reflected by the higher number of short-term jobs registered with the Mexican Social Security Institute. In the period January-July 2004 labour productivity in manufacturing was up by 5.6% in relation to its level in the year-earlier period and average annual

wages in that sector had increased by 0.5%; maquila productivity slackened (4.1%) even as maquila wages rose (1%); and commerce was the most buoyant sector, with productivity growth of 7.9% and wage increases of 3% over the same period.

Following a three-year standstill, foreign trade rallied impressively in 2004. The year-on-year growth rates for the period January-October were 14.6% for exports and 14.4% for imports. This generated a US\$ 3.92-billion deficit in the merchandise trade balance, which was 9% higher than the deficit recorded in 2003. The upturn was driven by oil and non-oil exports alike. The increase in oil exports (27.9%) reflected high petroleum prices (the price of the Mexican mix rose by 31% between January and October) and an increase in volume (7.8%). Non-oil exports grew by 12.9%. Despite its economic recovery, Mexico continued to lose market share in the United States, mainly to China. As of August 2004 Mexico's share was 10.2% (half a percentage point lower than in 2003), whereas China's was 14.2% (1.3 points higher than the preceding year's level). The faster export growth triggered a rise in imports: between January and October foreign purchases of capital goods were up by 9.8%; those of intermediate goods, by 15.2%; and those of consumer goods, by 14.2%.

The balance-of-payments current account deficit is estimated at US\$ 7.2 billion in 2004, or 1.1% of GDP. Trade in goods and services posted a deficit of US\$ 11.1 billion, in addition to the US\$ 13.1-billion deficit on the income account (which includes net payments of interest and profits). The massive US\$ 17-billion surplus on the current transfers balance (consisting mainly of family remittances) practically offset the payments recorded on the income account and reduced the negative balance of trade in goods and services by US\$ 3.9 billion. Gross foreign investment reached approximately US\$ 16 billion (compared to US\$ 11.247 billion in 2003), including US\$ 4.2 billion from the sale of Bancomer to Banco Bilbao Vizcaya Argentaria (BBVA).

Nicaragua

In 2004 the Nicaraguan economy continued to follow the growth trend that had begun in 2003. Real GDP expanded by 4%, exceeding its 2003 rate by 1.7 percentage points. Higher international prices for petroleum and some industrial commodities, however, had an impact on economic activity and were largely to blame for the rise in inflation, which went from 6.6% in 2003 to 10% in 2004. The country's economic performance also reflected the consequences of the political tensions associated with the municipal elections held in November. In 2005 GDP is expected to show real growth of 3.5%, and inflation will probably come in at about 6%.

Economic policy was consistent with the financial support programme agreed upon with the International Monetary Fund (IMF) in December 2002. The fiscal balance (excluding grants) exhibited a smaller deficit, and this facilitated compliance with the monetary policy targets for inflation and the exchange rate. Although the balance-of-payments current account deficit widened, higher capital inflows helped to boost international reserves.

In 2004, on reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, Nicaragua began to make arrangements with various creditors to formalize the HIPC debt relief for which it had become eligible. By August some 57% of the total amount of debt relief to be provided (US\$ 6.2 billion) had been written off.

The fiscal policy results were a key determinant of the country's macroeconomic performance. The central government's current revenues grew by 15.9% and the tax burden increased to 16.2% of GDP. There was also an upturn in grants, which amounted to 4.7% of GDP. Accordingly, total income went from 21.1% of GDP in 2003 to 21.5% in 2004.

Meanwhile, total expenditure fell from 23.1% of GDP to 21% as a result of a significant decline in interest payments (15.2%). Total expenditure thus showed only a slight increase (2.5%), despite a wage hike, the granting of subsidies to the transport sector, larger allocations to universities and municipalities and higher capital expenditure. Consequently, the fiscal balance (cash basis,

including grants) went from a deficit of 2% of GDP in 2003 to a surplus equivalent to 0.5% of GDP in 2004. The government transferred resources to the central bank in an amount equivalent to 4.7% of GDP. The payment was made out of the proceeds of the sale of the government's stake in the Nicaraguan Telecommunications Company (ENITEL).

In monetary affairs, the central bank maintained its policy of applying daily mini-devaluations consistent with a pre-announced annual devaluation rate to serve as an anchor for inflationary expectations. However, the devaluation rate was lowered from 6% to 5% in order to help bring down inflation, given the extent to which the economy is dollarized and prices are indexed to the exchange rate. At the same time, the central bank used open-market operations to reduce its domestic debt, and this paved the way for an increase in financial intermediation at lower interest rates. The structure of the credit portfolio reveals brisk growth in housing, consumer and business loans.

The 4% increase in GDP was due to both an increase in exports (9.4%) and an upturn in domestic demand (4.6%). The latter variable was influenced by a rise in investment (6.7%), especially public investment, and an increase in private consumption (4.3%) triggered by larger inflows of family remittances, higher real wages and the growth of consumer and housing loans.

On the supply side, the growth of output mainly reflected an upswing in agriculture and higher value added in manufacturing, especially among free-zone firms and in construction and mining. Service activities

also contributed to the economic recovery. The fastest-growing service sectors were financial services, commerce, transport and telecommunications.

Inflation, at 10%, was more than three percentage points higher than it had been in 2003. The faster price increases were due to short-term factors –such as the rises in fuel and transport costs, rate adjustments for certain basic services and a temporary hike in the prices of some agricultural products due to supply factors—rather than to a deterioration in monetary conditions or an increase in domestic expenditure. Preliminary official data show that the country's economic growth has had a favourable impact on employment and on the real average wage. In June the authorities raised the minimum wage by 8.8% in most sectors of activity, except in the central government, where the increase was 10%.

The recovery of economic activity was accompanied by a larger imbalance in the external sector. The current account deficit increased from 21.4% of GDP in 2003 to 23% in 2004. This was due to the substantial widening of the trade deficit, since the deficit on the income account narrowed slightly in view of lower interest payments and a 13.9% rise in family remittances. Higher net capital inflows, including foreign direct investment, made it possible to finance the balance-of-payments current account deficit, boost net international reserves and improve the foreign-exchange backing for the monetary base.

Exports grew by 10.5%, while imports were up by 14.7%. The increase in exports reflected both a recovery in sales of traditional products and the expansion of sales of non-traditional products, as well as strong growth in net exports from companies in the free trade zones (especially maquila firms in the textile industry) and in tourism earnings.

NICARAGUA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	0.9	2.3	4.0
Consumer prices	4.0	6.6	10.1 ^b
Real wages	4.3	2.6	0.2 ^c
Money (M1)	...	...	20.6 ^d
Real effective exchange rate ^e	3.4	4.5	1.9 ^f
Terms of trade	-1.6	-3.4	-1.9
Annual average percentages			
Urban unemployment rate ^g	11.6	10.2	...
Central government overall balance / GDP ^h	-4.1	-3.3	-3.8
Nominal deposit rate	7.8	5.6	4.8 ⁱ
Nominal lending rate	18.4	15.5	13.6 ⁱ
Millions of dollars			
Exports of goods (f.o.b.) and services	907	997	1 102
Imports of goods (f.o.b.) and services	1 953	2 092	2 399
Current account	-870	-860	-991
Capital and financial account	660	638	781
Overall balance	-210	-221	-210

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

^a Preliminary estimates.

^b Twelve-month variation to October 2004.

^c Estimate based on data from January to August.

^d Data to November.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Data to October.

^g Official estimates.

^h Includes grants. Accrual basis.

ⁱ Average from January to October, annualized.

All categories of imports showed substantial growth. There were large increases in external purchases of capital goods (17.5%), owing to the expansion of public and private investment, and in imports of raw materials and intermediate goods (19.7%), which mainly reflected higher purchases of petroleum and petroleum products (32.3%). Purchases of consumer goods expanded considerably (8.3%), boosted by an increase in imports of non-durable goods (10.5%).

Panama

In 2004 the Panamanian economy grew by 6%, posting its best performance in six years. This was made possible by the positive effects of external demand and, to a lesser degree, by fiscal stimuli that boosted domestic demand. Inflation remained low despite soaring oil prices, but unemployment was still high. The State's financial position became weaker, while the external deficit fell to only 0.3% of GDP.

In contrast to the pattern observed in the preceding three years, the traditional mainstays of the country's development –the Panama Canal, the Colón Free Zone and the international banking centre– turned in an exceptional performance. This, together with the rapid expansion of new sectors, including ports, tourism, telecommunications and rail transport, resulted in a high level of economic growth.

As 2004 was an election year, the outgoing administration afforded an additional boost to the economy. The new authorities, who took office in September, were elected by a wide margin, which gave rise to more optimistic economic expectations. The current government inherited a number of challenges, however, such as fragile public finances, a high level of debt, a deficit in the Social Security Fund and high unemployment.

Conditions are expected to remain positive in 2005, with buoyant external demand. The authorities have announced a fiscal adjustment, however, which will slow the expansion of domestic demand, limiting GDP growth to about 4.5%. The interest-rate hike and the high price of oil will have little effect on growth.

One of the first actions taken by the new administration was a reform of tax accounting in favour of a more orthodox system. According to the new calculations, the government's deficit was US\$ 700 million, equivalent to 5.3% of GDP, compared to the 2.2% obtained from calculations using the previous methodology. The authorities therefore announced that in 2004 the deficit would exceed the cap of 2% of GDP stipulated in the Fiscal Responsibility Act.

This imbalance was the consequence of a spending increase of close to 10% in real terms, at a time when income was up by less than 5%. This expenditure

included a 40% hike in investment outlays. The expenditure cuts (totalling US\$ 360 million) that had been announced by the outgoing administration were only partially carried out. In order to deal with the fragile fiscal situation, the new authorities announced a budget for 2005 that would reduce the deficit to 3.6% of GDP. The adjustment measures include a new tax reform, financial restructuring of the Social Security Fund, downsizing of the State payroll and improvements in tax collection.

The Social Security Fund ran an operating deficit for the third consecutive year. Meanwhile, the government increased its debts with its suppliers to more than US\$ 300 million. Public debt rose by 13%, in part because of a US\$ 600-million international bond issue in November, which was intended to pre-finance the 2005 budget. The resources consumed by interest payments amounted to about 20% of total revenues.

In the area of trade policy, negotiations were held with a view to concluding a free trade agreement with the United States, Panama's most significant trading partner. Negotiations on an agreement with Singapore were also opened. Lastly, Panama became a member of the Group of Three, which consists of Colombia, Mexico and the Bolivarian Republic of Venezuela.

The banking sector continued to recover from the problems it had encountered in the preceding biennium, assisted by the improved economic circumstances of its South American customers and by domestic demand. Profits grew by 6% and assets expanded slightly (by 2%) after two years of contraction. In an environment of high liquidity, the quality of assets continued to improve and the proportion of non-performing loans out of the total portfolio diminished from 2.3% to 1.8%. With interest rates falling, the demand for credit rose by 6% after having

declined for two straight years. Specifically, the demand for domestic credit increased by nearly 10%, driven by mortgage and corporate demand, while the demand for external credit continued to fall, albeit more slowly.

The high rate of GDP growth was the result of vigorous external demand. The significant increase in world trade had a positive impact on the international services offered by Panama. Domestic demand, in contrast, grew by slightly more than half the growth rate of GDP, and was led by public and private investment.

The downturn in the manufacturing industry is a cause of concern, as 2004 was the fifth straight year of negative growth. The other sectors posted positive rates, albeit with wide variations between them. Agriculture continued to grow by about 4% despite a contraction in the banana sector. Livestock-raising (poultry, beef and pork) posted good results, as did pineapple, melon and watermelon production. Fishing grew more slowly than in previous years. Construction continued to perform well, but its growth was more modest than in 2003. Trade and tourism increased by about 7%, in part because of the expansion posted by the Colón Free Zone (25%). This upsurge was made possible, after various years of setbacks, by the high growth recorded by the Free Zone's Andean customers, especially petroleum exporters. Port and railway activity benefited from the upturn in world trade, increasing by 25% and 33%, respectively. The same was true of the Panama Canal (10%), whose earnings exceeded the US\$ 1-billion mark for the first time.

As usual, consumer prices showed a low rate of variation (2%), despite the increase in international oil prices. This reflected declines, over the first four months of 2004, in the prices of food and beverages, clothing and footwear and miscellaneous goods and services. At mid-year, however, the wholesale price index showed an increase of 7%, which could push up the consumer price index.

The labour-market situation did not change substantially, notwithstanding the economy's strong growth. Wages showed almost no variation in real terms.

The balance-of-payments current account deficit shrank from 3.4% of GDP in 2003 to 0.3% in 2004. The gap narrowed because the growth of exports (13%) exceeded that of imports (9%). Merchandise exports and imports reversed the downward trend they had exhibited for several years as a result of the contraction in the

PANAMA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	2.1	4.7	6.0
Consumer prices	1.9	1.5	2.5 ^b
Real effective exchange rate ^c	0.0	3.7	2.7 ^d
Terms of trade	-1.0	-4.4	-1.9
Annual average percentages			
Urban unemployment rate ^e	16.5	15.6	...
Non-financial public-sector overall balance / GDP	-2.0	-1.9	-5.0
Nominal deposit rate	5.0	4.0	2.2 ^f
Nominal lending rate	9.2	8.9	8.1 ^f
Millions of dollars			
Exports of goods (f.o.b.) and services	7 567	7 608	8 594
Imports of goods (f.o.b.) and services	7 625	7 437	8 120
Current account	-92	-408	-35
Capital and financial account	152	255	-504
Overall balance	60	-153	-539

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

^a Preliminary estimates.

^b Twelve-month variation to June 2004.

^c A negative rate indicates an appreciation of the currency in real terms.

^d Data to October

^e Includes hidden unemployment.

^f Average from January to August, annualized.

Colón Free Zone. In 2004 total merchandise exports went up by 17%, with increases in both exports from the Colón Free Zone (17%) and "national" exports (15%). Among exports in the latter category, the biggest upturns were seen in non-traditional products such as pineapples, melons and watermelons, and also in tuna, fresh fish, shrimp larvae and cattle. The export value of bananas went down, however, despite higher international prices. Merchandise imports grew by 8% and were also driven largely by the performance of the Colón Free Zone (13%). Other imports expanded by about 5%. The balance of trade in services showed a positive result of US\$ 1.26 billion, in view of strong growth in the Panama Canal, ports and tourism. The income balance, in contrast, posted a deficit of US\$ 780 million.

It is estimated that the financial account recorded a negative balance of US\$ 500 million in 2004, compared to a surplus of US\$ 25 million in 2003. Contributing factors included a drop in foreign direct investment, which went from US\$ 790 million in 2003 to US\$ 470 million in 2004, and a reduction in external deposits in the international banking centre.

The Caribbean



Bahamas

The authorities of the Bahamas estimate that the country's GDP grew by just over 1% in 2004, even though hurricanes Jeanne and Frances hit the country in September, causing losses equivalent to 7% of GDP. The positive growth rate can probably be attributed to increased spending by tourists, whose numbers rose as a result of better economic conditions in the United States and the euro's appreciation against the dollar. For 2005 the authorities are forecasting growth of nearly 3%.

The fiscal deficit's tendency to shrink in 2004 was reversed by the spending increases (11%) and revenue losses that resulted from the hurricanes; the larger deficit was financed through a 30% increase in net domestic credit. The authorities adopted a looser monetary policy aimed at increasing domestic credit in order to stimulate aggregate demand, thereby boosting economic growth. This policy made it possible to cover the budget shortfall.

Inflation rose owing to the higher international price of oil and to price increases stemming from the constraints on aggregate supply that resulted from the hurricanes. Increased spending on health care and medical services also contributed to the overall upturn in prices.

The deficit on the balance-of-payments current account was more than offset by the surplus on the capital and financial account, which also made it possible to increase the stock of international reserves.

Public spending has been boosted by rehabilitation and reconstruction activities. Revenues have dropped on account of the reduction in the tax base for levies on trade and international transactions (65% of total tax revenues) through the granting of tax exemptions for certain imported products. Another factor that will continue to erode revenues is the downturn in the number of visitors in the wake of the hurricanes.

The country's public debt totalled US\$ 2.034 billion in September 2004; of this amount, 14% consisted of external debt.

In order to prevent the emergence of unsustainable balance-of-payments deficits and relieve pressure on the

stock of international reserves, the central bank continued to apply a tight monetary policy in the first seven months of the year. This resulted in an increase in external assets and a consequent rise in bank deposits, which tripled between September 2003 and September 2004.

The expansion of bank deposits was accompanied by a smaller rise in commercial bank loans to the private sector (6%), despite the implementation, starting in August 2004, of a more flexible monetary policy aimed at boosting economic growth. Domestic credit was directed primarily towards meeting the demand for personal loans and loans for the purchase of residential properties.

In these circumstances, the banking system's liquid assets rose by 21% in relation to its liabilities. Excess reserves amounted to 180 million Bahamian dollars at the end of September, which represents a 16% increase over the 2003 figure.

Even though tourism was the sector most badly affected by the hurricanes (with losses estimated at 3% of GDP), the 11% increase in the number of tourists in 2004 was of decisive importance in making up for the setback caused by the ravages of nature. Moreover, a generous amount of resources has been allocated to aid the tourism industry's recovery and growth.

The performance of construction reflected the buoyancy of activities related to the development of hotels, industries and housing, and this sector may have expanded faster than it did in 2003 as a result of reconstruction projects. In the housing segment alone, reconstruction needs are estimated at some US\$ 69 million.

Transport and telecommunications suffered serious losses (US\$ 99 million), as did other sectors linked to tourism (US\$ 104 million). These sectors' growth fell off sharply because of the natural disasters. In the fishing sector, however, the impact was less severe, as losses amounted to US\$ 45 million.

The current account deficit, which was 50% wider than the preceding year's imbalance, was due to increased imports of goods and services for rehabilitation and reconstruction activities and to the rise in international fuel prices. Exports were temporarily weakened not only by reduced demand for tourism services, but also by a decline in the output of the country's leading export products.

The factors that contributed to the capital and financial account surplus included smaller outlays by the banking sector, a downturn in payments on external liabilities and a decline in the flow of resources from real estate sales.

BAHAMAS: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	2.3	0.2	1.3
Consumer prices	1.9	2.3	0.5 ^b
Money (M1)	2.4	5.2	9.5 ^c
	Annual average percentages		
Unemployment rate	6.9	9.1	...
Fiscal balance / GDP	-2.6	-0.6	...
Deposit rate ^d	4.2	4.0	3.8 ^e
Lending rate ^f	11.5	11.3	12.0 ^e
	Millions of dollars		
Current account	-188	-427	...
Capital and financial account	249	538	...
Overall balance	60	111	...

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

^a Preliminary estimates.

^b Twelve-month variation to August 2004.

^c Data to September.

^d Rate on three-month time deposit.

^e Rate in September.

^f Weighted average rate on loans.

Barbados

In 2004 the Barbadian economy recorded its strongest growth (3%) since 1998, thanks mainly to the buoyant performance of tourism-related activities and other service sectors.

This vigorous economic activity was reflected in an increase in the demand for imports of consumer and capital goods. This, in turn, generated higher central government customs revenues, which, together with the limited increase in public expenditure, helped to reduce the fiscal deficit.

The central bank adopted a neutral policy and, despite a decline in the financial system's liquidity, the management of the monetary aggregates did not vary substantially. A contraction in the supply of food products and the rise in international oil prices pushed inflation up slightly.

The overall balance-of-payments out-turn was negative owing to the sharp increase in imports and the loss of export competitiveness. As foreign direct investment inflows, some of which went to the tourism sector, were insufficient to finance this deficit, the authorities had to draw down the stock of international reserves.

In 2005 the Barbadian economy's growth is expected to be between 3% and 3.5%.

The reduction in the government deficit, from 3% in 2003 to a value very close to the fiscal target of 2.5% of GDP in 2004, was due to the expansion of indirect tax receipts as a result of stronger demand for imports (particularly of motor vehicles), which more than made up for a slide in receipts of direct taxes. The latter phenomenon resulted from cuts in the income tax rates applicable to corporations (from 37.5% to 36%) and individuals (from 22.5% to 20% in the case of the basic rate); in addition, the tax base for the individual income tax shrank because the tax exemption threshold was raised.

The growth of public expenditure was outpaced by that of fiscal revenues because of a contraction in capital outlays, which offset the expansion of current expenditure. This expansion was related to increases in transfers and subsidies and, to a lesser extent, in payroll

expenditure. Transfers rose because the resources provided to the Queen Elizabeth Hospital, which is no longer administered directly by the central government, are now included in this category.

The deficit was financed with domestic resources from the central bank. The central government's total debt declined slightly (from 73% of GDP in 2003 to 71% in 2004), thanks to a reduction in the external debt stock from 27% to 25% of GDP over the same period.

The monetary authorities maintained a neutral stance. The financial system recorded a contraction in international reserves during the year, on account of the significant increase in imports and a moderate upturn in deposits.

Credit demand rose by 6% between January and September 2004 because of the faster pace of economic activity. Some of this credit was used for the purchase of real estate and motor vehicles. This helped to increase the loan-deposit ratio, which led to a decline in liquidity.

In this context, commercial banks' demand for treasury bonds slackened, triggering a rise in the yields on these bonds, from 0.64% in January 2004 to 2.14% in September. Nevertheless, interest rates on commercial bank loans remained unchanged.

Agriculture posted negative growth as sugar production declined for the fourth straight year, owing to unfavourable weather conditions. Growth in manufacturing stagnated (at -1% in 2003 and 0.1% in 2004), despite substantial upturns in the chemical, beverage and non-metallic mineral subsectors, since these increases were more than offset by a contraction in the food subsector.

The upswing in the growth of the transport, storage and communications sector (from 1.3% in 2003 to 3.2% in 2004) reflected strong import growth and the liberalization of the telecommunications sector. Construction benefited from remodelling works at the airport and from the building of the Hilton Hotel.

Tourism continued to recover from the negative impact of the events of 11 September 2001. The number of visitors increased by 10% between January and September 2004 (as against 7% in the same period of 2003). The number of cruise-ship passengers rose by 32% as a result of an increase in stopovers. The financial sector performed well (growing by 2% in both 2003 and 2004), notwithstanding a decline in the number of offshore banking institutions (from 14 in 2003 to 2 in 2004).

The employed population expanded from 129,400 in the second quarter of 2003 to 134,600 in the same period of 2004 (a 4% increase). The unemployment rate declined from 11.6% to 9.6% over the same period. The service sector and the transport and communications sector were the main sources of job creation.

The overall balance of payments was negative because the capital and financial account surplus was too small to offset the current account deficit. As a result, the level of international reserves held by the central bank went down.

The current account deficit was due to the negative trade balance, which outweighed the positive performance of the non-factor services account. Merchandise imports were up by 11%, partly because of the rise in international oil prices. Exports, in contrast, dipped by 2% owing to the decline in the amount of

BARBADOS: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	-0.5	2.2	3.0
Consumer prices	0.9	0.3	1.5 ^b
Money (M1)	...	23.4	22.4 ^c
Real effective exchange rate	2.4	3.5	2.5
	Annual average percentages		
Open unemployment rate ^d	10.3	11.1	10.6
Non-financial public-sector overall balance/GDP	-6.3	-3.1	-2.6
Real deposit rate	6.5	0.8	...
Real lending rate	10.1	8.3	...
	Millions of dollars		
Exports of goods (f.o.b.) and services	1 294	1 342	1 002
Imports of goods (f.o.b.) and services	1 450	1 560	1 363
Current account	-171	-211	-333
Capital and financial account	147	398	362
Overall balance	-24	187	29

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

^a Preliminary estimates.

^b Twelve-month variation to July 2004.

^c Data to September.

^d Includes hidden unemployment.

sugar produced and exported and to a deterioration in the international prices of the main traditional exports.

The performance of the capital and financial account reflected foreign direct investment in the tourism sector, public utilities and real estate.

Belize

Belize's robust economic growth in 2004 (7%) was due primarily to strong upturns in tourism (30%), agriculture (12%) and construction (8%), while consumer prices edged up slightly. In the external sphere, external debt servicing payments generated a negative overall balance that was financed with international reserves. Growth in 2005 is predicted to be between 4% and 5%.

The economic expansion was not sufficient to offset the fiscal deficit of 11% of GDP in fiscal year 2003/2004, given that tax receipts fell short of the authorities' projections and expenditure was higher than planned. The fiscal deficit target of 3% of GDP set by the government for fiscal year 2004/2005 is therefore unlikely to be met.¹

Current outlays increased as a result of higher spending on wages and salaries, pensions and interest payments on the public debt. These payments amounted to 11 million Belize dollars (BZ\$) for domestic debt and BZ\$ 77 million for external debt. Capital expenditure, on the other hand, plunged by 43%.

Despite an increase in loans (BZ\$ 19 million), external financing fell short of requirements and net inflows of such financing were negative because an amount of BZ\$ 32 million was paid into the sinking fund.

The central government's domestic debt rose by 4.4%, reaching BZ\$ 270 million, and was financed in part with a 13% increase in central bank loans over the preceding year's level. The external debt stock, on the other hand, shrank by 4.2%, to BZ\$ 1.443 billion.

The monetary base contracted in 2004 as a result of a 32% drop in net external assets, which offset a 20% rise in net domestic credit. Nonetheless, a five-percentage-point reduction in the legal reserve requirement (from 24% in 2003 to 19% in 2004) increased the money multiplier, thus facilitating the growth of the money supply. In the first nine months of the year the narrow money supply increased by 3% (compared to 0.5% in the same period of 2003), while

the broad money supply expanded by 8% (as against 3.7% in the year-earlier period).

The larger money supply resulted in lower interest rates, which boosted the demand for loans for productive activities. Credit was up by 10% in the primary sector, 20% in the secondary sector and 24% in the tertiary sector. As a result, these three sectors received 13%, 28% and 44%, respectively, of total loans granted. Credit to the sugar subsector swelled by 49%, and loans to electricity, gas and water services shot up by 62%. Personal loans, on the other hand, fell off by 9.4%.

Agriculture expanded by 12% in response to good weather conditions, efficiency improvements in production processes and higher international prices for some of the main export products.

The growth of manufacturing (4%) was based essentially on juice production. Construction, which grew by 8.1%, benefited from the liquidity conditions prevailing in the economy.

The performance of tourism reflected a jump in cruise-ship arrivals (66% in the first nine months of the year compared to the same period of 2003), which exceeded the half-million mark. The number of long-stay tourists rose by only 5.4% over the same period.

Inflation was up slightly (just over 3%) owing mainly to the hike in the international price of petroleum. In terms of the components of the consumer price index, the biggest rise was in the provision of basic services. The cost of transport and communications rose by 6%, while beverage and tobacco prices went up by 2.4%.

1 Belize's fiscal year runs from April to March.

The deficit on the overall balance in the first half of 2004 amounted to US\$ 9 million. This imbalance was financed through the drawdown of net international reserves.

The current account balance improved over this period thanks to a smaller deficit on the merchandise trade balance and the satisfactory performance of non-factor services. Exports were hurt by a downturn in the international prices of certain export products, including sugar, but imports declined as well, notwithstanding the rise in petroleum prices. The services account posted higher earnings as a result of the strong expansion of tourism activity, but the deficit on the factor services balance also grew over this period. Despite the improvement in the current account, a deterioration in the surplus on the capital and financial account resulted in a negative overall balance.

BELIZE: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	4.2	4.9	7.0
Consumer prices	2.3	2.6	3.4
Money (M1)	...	1.0	2.0 ^b
	Annual average percentages		
Nationwide total unemployment	10.0	13.0	...
Real deposit rate	4.4	4.8	5.3
Real lending rate	14.2	13.8	13.9
	Millions of dollars		
Current account	-165	-181	...
Capital and financial account	159	146	...
Overall balance	-5	-35	...

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

^a Preliminary estimates.

^b Data to October.

Cuba

In 2004 the growth of Cuba's gross domestic product (3%) picked up speed for the second year running, in adverse conditions created by the worst drought in 40 years and the onslaught of two hurricanes, which seriously affected the production sector's performance. Added to this was a crisis in the national electric power and energy system and the worsening of external difficulties, owing especially to the restrictions on travel to Cuba by Cuban citizens living in the United States and on the sending of family remittances from that country.

GDP is expected to grow by 5% in 2005, buoyed by tourism services and an increase in the production of nickel, oil and gas, although projections also point to a smaller 2004/2005 sugar cane harvest and a further erosion of the terms of trade.

The Cuban economy has been undergoing a process of far-reaching structural reform for over a decade, ever since the collapse of the socialist system in Europe and the disintegration of the Council for Mutual Economic Assistance (CMEA). These events deprived the country of its traditional export markets, sources of imported goods and services and external financing opportunities, all of which had an immediate impact on its external-sector accounts. The new situation forced the authorities to undertake a major restructuring of the economy in order to create conditions for enhancing Cuba's participation in the global economy and to promote the recovery of its production sector, after the severe slump in activity in the early 1990s.

The pillars of this restructuring process have been the opening of the economy to foreign direct investment, the development of the tourism sector, the expansion of mining activities, the legalization of the possession of foreign exchange and the creation of a network of dollar shops to absorb foreign exchange, mainly from family remittances. However, the State has continued to dominate almost all productive activities. Meanwhile, the protracted United States embargo continues to hobble the country's development.

In 2004 the Cuban economy was still suffering from structural problems such as a shortage of foreign exchange, distortions in the relative price system due to the overvaluation of the official exchange rate and the

lack of convertibility, the two-tier monetary and exchange-rate system and market segmentation, the poor performance of the sugar industry and efficiency problems in public entities.

Starting in mid-2003 foreign exchange was concentrated in the hands of the central bank through the establishment of exchange controls and the wider circulation of the convertible Cuban peso (CUC), which became the only means of payment in transactions between Cuban entities that were previously denominated in dollars or other foreign currency.

The shortage of foreign exchange became more acute in early 2004 with the deterioration in the terms of trade brought on by the significant hike in international oil prices, a downturn in FDI inflows, a rise in net factor service payments and cash purchases of food and agricultural products from the United States market, as well as other imports that became necessary when certain industries came to a standstill because of the electricity crisis.

Under new monetary and price measures introduced by the government, in mid-2004 the prices charged at hard-currency shops were raised, and in November the circulation of the United States dollar was prohibited and the convertible peso became the sole legal tender. Since then, the exchange of dollars for convertible pesos has pushed up the level of international reserves considerably, thereby easing the shortage of foreign exchange.

By virtue of this measure, everyone, including foreign visitors, must pay a 10% surcharge on cash purchases of convertible pesos with dollars. This surcharge does not apply to purchases made with other hard currencies. In addition, the convertible peso's

official parity with the United States dollar has remained unchanged. Lastly, there are no restrictions on the population's foreign exchange holdings or on bank deposits.

These measures are limited to monetary matters within the national territory. They do not affect the operations of foreign companies that do business on the island, nor do they limit the use of credit and debit cards, and their negative impact on international tourism has been minimal. Most of Cuba's trade, foreign investment and tourism activity take place with countries members of the European Economic and Monetary Union and the United Kingdom.

The fiscal gap remained virtually the same (3.5% of GDP in 2004, compared to 3.4% in 2003). Current revenues rose by 9.6%, but capital inflows were down by 6.7%.

Tax receipts expanded by 11.6%, with higher revenues from both indirect taxes (17%) and direct taxes (3.7%). The intake from circulation and sales taxes increased by 18% and that from service taxes, by 6.8%. There was also an increase in social security contributions (5.3%) because more workers took part in the programme to improve business practices and the tax rate was raised (from 12% in 2003 to 12.6% in 2004). Profit tax receipts went up by 4.8% thanks to an increase in production. Non-tax revenues rose by 4.3%.

With regard to government spending, capital and current expenditure rose by 15.2% and 10.4%, respectively. Current expenditure included increased outlays on social well-being and assistance (20.5%), education (16%), culture and art (16%) and health (11.9%), under the initiative to strengthen social programmes.

In the production sector, there were upturns in international tourism services (10%), construction (7.2%), mining (4.6%) and government services (4.2%). Electricity, gas and water services, on the other hand, posted a 5.2% decline.

International tourism's 10% expansion was driven by international promotional efforts and an increase in the number of hotel rooms (to 45,000 units, an 8.2% rise); hotel occupancy rates and tourists' average length of stay also increased.

CUBA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	1.2	2.5	3.0
Consumer prices ^b	7.0	5.0	...
Money (M1)	10.3	-4.7	0.1
	Annual average percentages		
Urban unemployment rate	3.3	2.3	2.0
State fiscal balance / GDP	-3.3	-3.4	-3.5
	Millions of dollars^c		
Exports of goods (f.o.b.) and services	4 238	4 855	5 291
Imports of goods (f.o.b.) and services	-4 754	-5 275	-5 434
Current account	-296	-155	-100
Capital and financial account	300	200	500
Overall balance	4	45	400

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

^a Preliminary estimates.

^b Local-currency markets.

^c Calculated using the official rate of 1 peso to the dollar.

Consumer prices in local-currency shops went up, but the increase remained in the single digits (3%). The rise in petroleum prices was passed through to agricultural products and to private own-account labour costs, which are subject to competition, as well as to merchandise sold in hard-currency shops. In the case of regulated markets and basic electricity, gas and water services, however, the increase in costs was not passed on to consumers thanks to budget subsidies.

The balance-of-payments current account deficit declined to 0.3% of GDP in 2004 as a result of a smaller deficit on the balance of trade in goods and services and an increase in net current transfers, which are estimated at about US\$ 1 billion. Net factor service payments rose because of an increase in international interest rates and the repatriation of profits generated by foreign investment.

Despite the significant increase in international petroleum prices, the trade gap narrowed. This was due to the expansion of earnings from services, especially tourism and telecommunications, and to the fact that the growth of exports outpaced that of imports.

Dominican Republic

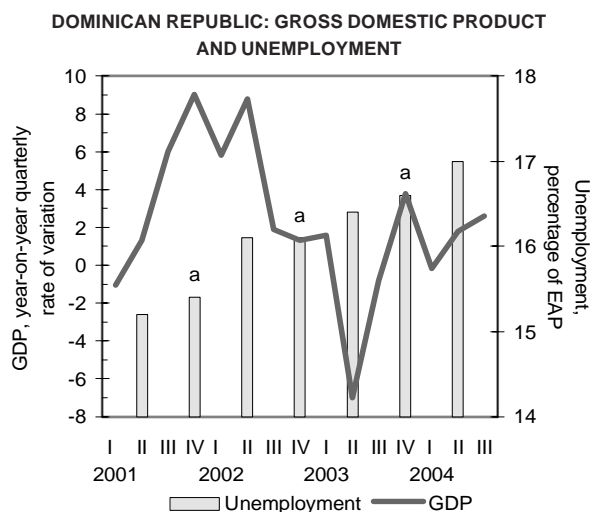
After having slipped by 0.4% in 2003, economic activity in the Dominican Republic expanded by 1.8% in 2004, exceeding the projections made at the beginning of the year. Although business in the free-trade zones stagnated, external demand for tourism services and for national merchandise exports was strong. Moreover, family remittances continued to increase. Domestic demand, however, was limited owing to the lingering effects of the banking crisis experienced in 2003.

Both the exchange rate and prices stopped rising in the second quarter. The review of the standby arrangement which the country had signed with IMF in 2003, the presidential elections held in May and the subsequent change of government in August contributed to a turnaround in economic expectations. By the end of the year the local currency had recouped part of the steep depreciation it had accumulated, the rate of inflation had begun to slow down and the very high interest rates on the central bank's investment certificates had subsided. The external current account recorded a surplus and international reserves expanded. Nevertheless, the non-financial public sector and the central bank posted large deficits, and arrears were accumulated in external debt servicing. Unemployment did not worsen, thanks to the expansion of informal activities, but real wages declined.

The forecast for 2005 points to GDP growth of approximately 2%. The country is expected to sign a new standby arrangement with IMF at the beginning of the year. This should help to strengthen financial stability and reduce inflation considerably, thereby boosting domestic demand.

The new administration has given priority to stabilizing the economy, concluding a new arrangement with IMF and reducing the fiscal deficit. Accordingly, it adjusted public spending and implemented a fiscal reform in September. Strict monetary control was the predominant pattern.

The non-financial public sector ran a deficit of 3% of GDP, in contrast to the 0.2% surplus agreed upon with IMF, while the quasi-fiscal deficit was equivalent to 4% of GDP.



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

^a Annual figures.

The central government deficit, measured on an accrual basis, amounted to 2.7% of GDP, as compared to 3.8% in 2003. Measured on a cash basis, however, the balance showed a surplus of 2.4% of GDP (as against 1% in 2003) due to a series of delays in expenditure. The temporary taxes imposed at the beginning of the year and the tax reform implemented in September raised the central government's real income by 6%. The bulk of this increase came from indirect taxes, especially excise taxes (the rate of the tax on the transfer of goods and services rose from 12% to 16%) and surcharges on foreign trade. Receipts from direct taxes, on the other hand, went down.

Real expenditure diminished by 3.5% as a result of a contraction in public employment and downturns in real wages and debt-servicing payments, but transfers swelled by more than 80% owing to increases in electricity and gas subsidies. Capital outlays also declined. The external debt stood at slightly over US\$ 6.4 billion, exceeding the figure recorded at the end of 2003 by 7.2%. The accumulation of debt-servicing arrears prompted the government to negotiate with the Paris Club. After the review of the country's arrangement with IMF in February, further steps were taken to absorb the excess liquidity created by the central bank's large-scale intervention in the 2003 banking crisis, whose cost amounted to 20.5% of GDP. The issuance of central bank investment certificates jumped by 70% and, in May, the required investment ratio for multi-purpose banks was raised from 5% to 8% and a ceiling was imposed on total loans from the banking system to the public sector.

The interest rate on these investment certificates increased from 35% in late 2003 to 59.7% in June 2004, after which it fell gradually until it reached 29.8% in November. In addition, the authorities extended the terms of these instruments and sought to diversify them by issuing certificates pegged to the consumer price index (CPI), the United States dollar and the rate on United States Treasury notes.

In October money creation was down by almost 9% in real terms with respect to its level in the same month of 2003. Domestic credit was down by 25%, while money and the broader monetary aggregate M2 had contracted by 4% and 13.1%, respectively. There was no significant variation in banks' nominal interest rates as a result of the exchange rate and price turbulence, but both deposit rates and lending rates were negative on average, in real terms.

The country's freely floating exchange rate reached a maximum of 54 pesos to the dollar in February, compared to 37.5 pesos at the end of 2003. Subsequently, once measures were taken to tighten the money supply and the prevailing uncertainty began to be dispelled, the exchange rate declined gradually and, towards the end of the year, stood at about 30 pesos to the dollar.

Export-oriented economic activities were buoyant, while domestic demand continued to flag; specifically, downturns were observed in construction (-4.0%) commerce (-2.7%), financial services (-0.8%) and the electricity, gas and water sector (-21.1%), in which electricity generation continued to be insufficient. On the other hand, there were upturns in agriculture (4.8%), despite the damage caused in September by hurricane Jeanne), mining (3.0%) and manufacturing (2.5%), while communications continued to grow vigorously.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	4.3	-0.4	1.8
Consumer prices	10.5	42.7	46.1 ^b
Money (M1)	13.8	38.6	46.7 ^c
Terms of trade	-0.6	-1.0	-3.2
Annual average percentages			
Urban unemployment rate ^d	16.1	16.6	17.0 ^e
Central government overall balance / GDP	-2.7	-3.8	-2.7
Nominal deposit rate	16.4	20.6	21.1 ^f
Nominal lending rate	21.3	27.8	30.4 ^f
Millions of dollars			
Exports of goods (f.o.b.) and services	8 236	8 875	9 166
Imports of goods (f.o.b.) and services	10 151	9 100	9 261
Current account	-798	865	1 124
Capital and financial account	243	-1 317	-674
Overall balance	-555	-452	450

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

^a Preliminary estimates.

^b Twelve-month variation to October 2004.

^c Data to September.

^d Includes hidden unemployment.

^e Data as April.

^f Average from January to November, annualized.

Twelve-month inflation stood at 35% in December 2004, compared to 42.7% the preceding year, reflecting a definite decline from March onward. Figures for October show that the biggest price increases were in hotels and restaurants (48.1%), food, beverages and tobacco (37.5%) and furniture and accessories (37.4%).

An employment survey conducted in April revealed that the labour-force participation rate had risen to 55.3% and the employment rate, to 45.9%. Open unemployment fell to 5.1%, but broad unemployment increased from 16.4% to 17.0%. Minimum wages were adjusted by 10% in January and 30% in November; in the latter month other wages were adjusted as well. In real terms, the purchasing power of wages declined again in 2004.

The balance-of-payments current account ran a US\$ 1.1-billion surplus (5.9% of GDP), the negative balance of factor payments narrowed and remittances continued to grow. Foreign direct investment exceeded US\$ 450 million, but private capital movements were negative. Despite this, the central bank built up additional international reserves.

The expansion of merchandise exports (4%) was slower than it had been in 2003. External sales of non-free-trade-zone products increased by 27%, owing especially to exports of ferronickel (which accounted for 22% of the total), tobacco and molasses. Exports of

free-trade-zone products contracted by 1.5% owing to the garment sector's reduced competitiveness. At the country's ports, there was an upturn in sales of goods to cruise-ship passengers.

Slack domestic demand limited import growth to just 2%. The value of imports of petroleum and petroleum products grew by 20% as a result of the rise in international prices. Increases were also observed in imports of cast iron and steel products, agricultural

inputs, vegetable fats and oils, certain consumer durables, pharmaceutical products and medicines.

Up to August tourist arrivals totalled 2.7 million people, a 7.1% increase over the number recorded in the same period of 2003. This upturn improved the position of the services account. The contributing factors behind the increase in tourist arrivals included the worldwide economic recovery, the Dominican peso's real depreciation against the dollar and the dollar's loss of value against the euro.

Guyana

The dip in economic activity that Guyana had experienced in 2003 was reversed in 2004. The economy grew by 1.5% (compared to -0.6% in 2003), boosted by improvements in agriculture and by a buoyant construction sector, since the mining sector succeeded only in posting a smaller decline. In 2005 growth is projected to be between 2% and 3%.

The stronger economic performance resulted in a slight upturn in tax receipts. Thanks in part to the implementation of administrative measures, the government had enough resources to finance higher capital expenditure and even to reduce the fiscal deficit (from 7% of GDP in 2003 to 5% in 2004). Increases in aggregate demand and in oil prices on international markets pushed up the rate of inflation.

In the external sector, the balance-of-payments current account position deteriorated, as imports rose more sharply than exports. The increase in imports was due mainly to purchases of materials and equipment for road infrastructure, the expansion of production facilities in the sugar sector and mining activity.

The central government's fiscal deficit diminished, thanks mainly to a nominal increase in current income (36% of GDP) and, to a lesser extent, the containment of increases in current expenditure (33% of GDP), particularly on wages and salaries (12% of GDP). This resulted in a current account surplus (4% of GDP) that was large enough to finance part of the programme of public investment projects. External debt servicing increased slightly to represent 43% of public revenues in 2004 (compared to 42% in 2003) and 15% of exports of goods and non-factor services.

In the sphere of monetary policy, the authorities continued to pursue their traditional objectives of price stability and exchange-rate sustainability. Commercial bank deposits increased in 2004 –with sight deposits rising by 24% and time deposits, by 5%– and exceeded the growth of credit demand (1%), whose level remained almost unchanged despite lower interest rates. The weighted average nominal rate on commercial bank

loans decreased from almost 16% in 2003 to 14% in 2004. As a result of this stagnation, there was a build-up of liquidity in the commercial banking system. In early 2004 the ratio of free reserves to mandatory reserves rose to 64%, and this excess was reinvested in external assets (39%). Narrow money and broad money expanded by 9% and 19%, respectively (as against 8% and 11%, respectively, in 2003).

To complement the macroeconomic stance taken in 2004, the authorities continued to implement a reform programme designed to improve the country's production structure and institutional framework. Efforts were geared mostly towards restructuring the traditional primary sector to enhance its productivity and competitiveness, increase the profitability of investment in physical capital and improve the quality of investment in human capital. The growth of the agricultural sector (6%) reflected increases in the production of sugar (8%) and rice. The latter segment benefited from structural reforms and the higher yields that resulted from an increase in the area under cultivation. The smaller downturn in the mining sector (-9% in 2003 and -5% in 2004) was the net outcome of lower value added in the bauxite sector and higher levels of gold production. Construction benefited from an increase in the government's capital expenditure on infrastructure and housing.

The current account deficit swelled from 12% of GDP in 2003 to 16% in 2004, as the growth of imports outpaced that of exports. The expansion of imports was driven by the rise in international oil prices and an increase in purchases of the materials, equipment and machinery needed for the expansion of production

facilities in the sugar and mining sectors. The upturn in exports reflected higher external sales of gold, rice and sugar (which rose by 9%, 23% and 15%, respectively). The surplus on the capital account was due to disbursements corresponding to the official assistance received by Guyana under the Heavily Indebted Poor Countries (HIPC) Initiative. In 2004 these funds were insufficient to make up for the deficit on the overall balance of payments, which amounted to US\$ 6 million. The shortfall was financed with international reserves from the central bank.

GUYANA: MAIN ECONOMIC INDICATORS			
	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	1.1	-0.6	1.5
Consumer prices	6.1	4.9	5.4
Wages ^b	5.5	5.0	...
Money (M1)	8.5	7.4	16.1 ^c
	Annual average percentages		
Central government overall balance / GDP	-8.0	-7.0	-5.0
Nominal deposit rate	4.3	3.8	3.4 ^d
Nominal lending rate	17.3	16.6	16.6 ^d
	Millions of dollars		
Current account	-154	-84	-119
Capital and financial account	82	74	113
Overall balance	-72	-10	-6

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

^a Preliminary estimates.

^b Public-sector minimum wage.

^c Data to September.

^d Average from January to July.

Haiti

In 2004 the Haitian economy faced a series of political and social upheavals that led to the President's resignation on 29 February, the deployment of a multinational force in the country, the formation of a transitional government and the launching, in June, of the United Nations Stabilization Mission in Haiti (MINUSTAH).

The precarious economic situation seen in previous years was worsened in 2004 by the political and social instability. GDP contracted by 3% and per capita GDP declined for the fifth consecutive year (-4.7%). This slump was partially mitigated by the growth of exports and an increase in current transfers to US\$ 1.031 billion (equivalent to 25% of GDP). These transfers included, in addition to family remittances, international assistance provided in response to the natural disasters (floods) that struck the country in May and September, causing the large-scale loss of human life.

By signing an Interim Cooperation Framework (ICF) with the country's provisional authorities in July 2004, the international donor community and financial institutions undertook to provide US\$ 1 billion in assistance over a two-year period. The high hopes raised by this initiative have yet to be fulfilled, however, as external contributions fell far short of the US\$ 221 million that was to have been supplied in fiscal year 2003/2004.

If the agreed disbursements are made, the prospects for economic recovery in 2005 will be brighter. The transitional government's public works programmes, which are being financed from domestic resources; the signing of a new IMF staff-monitored programme; and an emergency post-conflict assistance programme with the same institution, under which preferential financing will be granted for a total of US\$ 30 million, together with the positive forecasts for the agricultural sector, may be able to slow or even reverse the decline in GDP.

Nonetheless, the toll taken by the natural disasters of May and September has not yet been fully assessed and will probably have a significant negative impact. Another worrisome factor is the high level of violence, especially in the capital city, which is jeopardizing the fragile political and institutional situation, the

implementation of economic and social programmes and the conduct of legislative, municipal and presidential elections in 2005. Should the crisis continue, Haiti's already alarming levels of poverty and deprivation could become still worse.

The transitional government's economic policy focused primarily on restoring some degree of macroeconomic stability. By the end of December 2003 the huge fiscal deficit had already exceeded the level budgeted for the entire fiscal year, prompting the new authorities to cut back public administration expenditure by 5.7% in real terms. Economic activity was at a virtual standstill in February and March, with the result that revenues fell by 7.5%. In September civil-service wages were raised by an average of 33% to make up for losses of purchasing power.

The monetary authorities maintained a tight policy to curb the bouts of inflation experienced in early 2004. Total liquidity in the economy diminished in real terms; M1 and M2 shrank by 16% and 11%, respectively, despite a gradual decline in the benchmark interest rate (the rate on central bank bonds) from 27.8% in April to 7.6% at the end of the year. This reduction did not pass through to commercial banks' nominal lending rates, which held steady (at 33% for local-currency loans) or even rose slightly, in the case of dollar loans (from 12.5% in October 2003 to 14.5% in the final months of the year). This further stifled credit to the private sector, which contracted by 12.2% as the climate of uncertainty discouraged the extension of and demand for such credit.

The gourde rose in value, essentially because of the relative abundance of foreign exchange from remittances. The central bank took advantage of the gourde's appreciation to replenish its reserves, and bought about US\$ 100 million in foreign exchange between April and September. The external debt stock

HAITI: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	-0.3	0.5	-3.0
Consumer prices	14.8	40.4	22.0 ^b
Terms of trade	-1.0	-1.4	-2.8
Money (M1)	19.8	19.5	20.7 ^c
Annual average percentages			
Central government fiscal balance / GDP ^d	-2.5	-2.7	-2.7
Nominal deposit rate	8.2	14.0	12.1 ^e
Nominal lending rate	25.5	30.7	34.3 ^e
Millions of dollars			
Exports of goods (f.o.b.) and services	421	464	506
Imports of goods (f.o.b.) and services	1 232	1 399	1 519
Current account	-49	-42	5
Capital and financial account	-34	31	25
Overall balance	-83	-12	31

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

^a Preliminary estimates.

^b Twelve-month variation to October 2004.

^c Data to September.

^d Overall balance calculated below the line.

^e Average from January to October, annualized.

increased by US\$ 29 million to reach US\$ 1.316 billion, and arrears in servicing payments amounted to US\$ 72 million (as against US\$ 51 million in 2003).

In the prevailing climate of instability, the productive sectors performed poorly. Public investment outlays dropped significantly (by 12%) and private investment declined more moderately, with the result that total investment contracted by 3%. This affected the performance of the construction sector. The increase in remittances softened the impact of the deterioration in purchasing power (the minimum wage contracted by

21% in real terms), but was not sufficient to prevent a 5% decline in consumption. There were severe energy shortages that improved only slightly in the second half of the year, and total thermal and hydroelectric power generation contracted by 15.5%. Consumers were particularly affected by this problem between January and June, as the cumulative decline over this period amounted to nearly 60%.

Inflation was relatively well controlled (22%), despite increases in the international prices of petroleum products. The authorities will probably resort to subsidies of some kind to keep the economic situation from worsening.

The value of exports grew by 12%, owing mainly to a 10% increase in unit values, while sales from maquila activities rose by 4.4%, despite a 7.2% decline in volume. Other products that performed well included mangoes, cocoa and coffee. The value of imports was up by 8.6%, but their physical volume was down by 5%. The terms of trade deteriorated by 3% because of sharp increases in the prices of hydrocarbons (19%) and other imported commodities, including rice (49%), wheat (6%), chicken meat and offal (21%), milk (46%) and edible oils (4%). Legumes were an exception, as their prices went down by 8%.

Remittance inflows were once again the main source of equilibrium in the balance-of-payments current account. External contributions (though meagre) and, in particular, the central bank's foreign exchange purchases helped to reconstitute net international reserves (including commercial banks' mandatory foreign-exchange deposits), which at the end of the fiscal year were equivalent to 42 days' worth of imports.

Jamaica

The Jamaican economy grew by 1.9%, in a slowdown from the 2.3% recorded in 2003, owing to the destructive impact of hurricane Ivan on the southern and south-western parts of the island in early September. Total damage is estimated at US\$ 580 million (8% of GDP); the sectors hardest hit were agriculture, water and electricity, and transport, storage and communications.

Losses in production sectors amounted to 13.375 billion Jamaican dollars (J\$), while losses in social sectors totalled J\$ 12.729 billion. Infrastructure damage was slightly lower (J\$ 7 billion).

Despite the effects of the hurricane, macroeconomic stability was maintained. The government pursued its efforts to strengthen fiscal management, and interest rates continued to fall. The deficit for fiscal year 2004/2005 thus remained close to the target established by the authorities at the beginning of the year (4% of GDP).¹

The inflation rate subsided from 14.1% in 2003 to 12.3% in 2004 (the year-on-year rate in October) as a result of greater exchange-rate stability, which partially offset the effects of the decline in agricultural output, as well as the hike in international oil prices and the resulting increase in transport costs.

The smaller current account deficit (10% of GDP) reflected strong export performance, especially in the first half of the year. The imbalance was easily covered with financial inflows from bond issues and with external inflows associated with the natural disasters. As a result of these inflows, there was an increase in net international reserves. For 2005 GDP growth is projected at 2.2%.

The fiscal deficit shrank from 6% to 4% of GDP (excluding grants) in fiscal year 2004/2005 in relation to the preceding fiscal year, owing in particular to an upturn in tax receipts (from 27% to 28% of GDP) and to the fact that the effects of hurricane Ivan necessitated only a slight increase in total spending (from 34.6% to 35% of GDP in the periods indicated).

Tax revenues reflected the economy's growth in the first eight months of the year and the full application of the package of fiscal measures adopted in 2003. Receipts were eroded very little by the effects of the hurricane, as the areas and activities that suffered damage are not significant contributors.

Current expenditure remained constant as a proportion of GDP (33%), as its main components (interest payments and payroll expenditure) did not change. Capital expenditure as a share of GDP rose from 1.5% in 2003 to 2% in 2004 owing to the reconstruction work.

With respect to wages, the agreement reached between the government and the Jamaica Confederation of Trade Unions on public-sector wage and employment restraint was implemented with effect from 1 April 2004 to 31 March 2006. Interest payments on the domestic debt (which accounts for 75% of total debt) became more moderate owing to the monetary authority's commitment to reducing interest rates. The rise in expenditure in connection with hurricane Ivan will be financed with grants and soft loans.

The stable macroeconomic conditions enabled the Bank of Jamaica to narrow the range of interest rates on its 90-day repurchase instruments (from 18% in 2003 to 14% in 2004), which lowered the cost of domestic debt servicing and open-market operations.

Meanwhile, the commercial banking system's adaptation to the credit expansion policy resulted in a decline in the weighted real interest rate on loans, from 7.1% in 2003 to 6.2% in 2004.

¹ Jamaica's fiscal year runs from April to March.

The nominal exchange rate against the United States dollar depreciated slightly in view of the lower interest rates (from J\$ 59.28 in October 2003 to J\$ 61.18 in October 2004).

Agricultural output (which grew by 4.7% in 2003 and -5% in 2004) was directly affected by the heavy rainfall and floods caused by the hurricane.

The manufacturing sector (-0.8% in 2003 and 4% in 2004) was able to meet higher demand thanks to an improvement in its productivity, with the result that its growth was affected only slightly by the hurricane (the rates posted in the sector were 4.7% before the disaster and 4.2% afterward). Losses in this sector were concentrated in the food processing segment.

Mining performed well (growing by 4.9% in 2003 and 9.1% in 2004) because of favourable external conditions and higher capacity utilization at aluminium and bauxite production plants. Hurricane-related losses were due to temporary interruptions in production processes. The electricity and water sector (4.7% in 2003 and 2.2% in 2004) was affected by electric power outages caused by the hurricane.

The transport, storage and communications sector grew by 2.6% in 2004 (as against 3.6% in 2003) and posted losses attributable to the temporary interruption of freight and passenger traffic, a downturn in traffic volume and higher costs associated with the use of alternative means of transport and communications. Construction activity (1.2% in 2003 and 3.4% in 2004) reflected the implementation of government infrastructure projects and reconstruction activities.

Tourism, which had recovered from the effects of the terrorist attacks of September 2001, was affected by the temporary closure of some hotels owing to the effects of hurricane Ivan.

Temporary constraints on productive activities as a result of the hurricane were most evident in labour-intensive sectors, including the banana segment, which temporarily shed 8,000 jobs. Under the agreement between the government and trade unions, wage growth was limited to less than 3% a year.

The deficit on the current account (12% of GDP in 2003 and 11% in 2004, including the post-hurricane

JAMAICA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	0.9	2.3	1.9
Consumer prices	7.3	14.1	12.3 ^b
Money (M1)	13.5	7.6	18.9 ^c
Real effective exchange rate ^d	0.8	16.1	0.8 ^e
	Annual average percentages		
Urban unemployment rate ^f	15.1	13.1	13.0 ^g
Central government overall balance / GDP	-7.6	-5.9	-4.2
Nominal deposit rate	9.1	8.4	8.1 ^h
Nominal lending rate	26.1	25.1	25.2 ^h
	Millions of dollars		
Current account	-1 119	-761	...
Capital and financial account	883	326	...
Overall balance	-236	-435	...

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

^a Preliminary estimates.

^b Twelve-month variation to October 2004.

^c Data to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Data to October.

^f Includes hidden unemployment.

^g Official estimates.

^h Average from January to October, annualized.

situation) was amply offset by a surplus on the capital and financial account.

The growth of merchandise exports (11%) resulted from the combination of higher international prices for mineral products, an upturn in external demand and the negative effects of the hurricane on agricultural and mining activities. Import growth sped up (to 9%) owing to the reconstruction initiatives, the substitution of imports for lost domestic output and the hike in international oil prices.

The surplus on the non-factor services balance reflected the brisk growth of tourism activity despite the temporary interruption in the flow of visitors. Current transfers increased by 17% as many of the people affected by the hurricane received financial support from relatives living abroad.

The capital and financial account ran a surplus owing to the issuance of over US\$ 250 million in bonds, an increase in financial flows associated with the reconstruction and rehabilitation activities and an upturn in insurance and reinsurance payments.

Suriname

Suriname's economic growth, at 4%, was slower than it had been in 2003 (5.6%). The expansion was based on a 5% upturn in the primary sector (which had grown by 1.1% in 2003) and, in particular, a mining boom. The performance of the country's leading mineral products was boosted by an increase in FDI and higher export prices. The performance of agriculture varied from one segment to another, while construction benefited from projects to expand production capacity in the mining sector, especially the gold subsector.

The fiscal balance deteriorated owing to higher current expenditure and, to a lesser extent, an increase in capital outlays on infrastructure. In the area of monetary policy, the growth of the monetary aggregates was brought into line with that of nominal GDP. This kept liquidity and the exchange rate relatively stable, thereby facilitating a substantial decline in inflation. Slower import growth and strong export performance helped to narrow the external current account deficit.

For 2005 a growth rate of 4.5% is expected.

In 2004 the balance of the central government's fiscal operations was negative (at 56 million Suriname dollars). The significant reduction in the fiscal current account surplus (from 48 million Suriname dollars in 2003 to 16 million in 2004) was due to an increase in the payroll, since interest payments, particularly on the external debt, declined from US\$ 11 million to US\$ 9 million.

The deficit was financed essentially with domestic resources. The external debt stock was down to US\$ 347 million.

In general terms, the aim of monetary policy was to create conditions for reducing inflation from nearly 30% in 2003 to 10% in 2004 and to keep the Suriname dollar stable. The legal reserve requirement continued to be one of the main economic policy instruments. The authorities reduced the reserve requirement for local-currency deposits from 35% to 30% in order to boost the demand for loans. The 5% reduction in the banking system's lending rates as of September 2004 may also

stimulate this demand and, ultimately, private investment as well. In view of the low demand for loans, banks used their assets to invest abroad. Meanwhile, the authorities raised the legal reserve requirement for foreign-currency deposits from 18% to 23% in order to contain the exponential growth that these deposits had shown in 2003 and part of 2004. The exchange rate remained stable throughout 2004 at approximately 2.65 Suriname dollars per United States dollar.

The agricultural sector is in the midst of a recovery process. Banana exports continued to rise, but rice production contracted owing to technical and financial difficulties. Mining expanded on the strength of bauxite, aluminium and gold production. This sector benefited from an increase in foreign investment, favourable international prices and the expansion of production facilities, which had a positive impact on the construction sector. The oil and natural gas subsector performed well in view of higher international prices and the expansion of refining facilities. The growth of manufactures accelerated from 1.5% in 2003 to 2.1% in 2004.

Inflation dropped steeply, from 26% in 2003 to 13% in 2004, owing mainly to exchange-rate stability and despite a moderate increase in transport and communications costs due to an increase in international prices for inputs. The current account deficit fell from 18% of GDP in 2003 to 13% in 2004, as imports lost momentum (because of the slower economic growth) while exports picked up speed.

SURINAME: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	3.0	5.6	4.0
Consumer prices	37.0	26.0	13.0
	Annual average percentages		
Non-financial public-sector fiscal balance / GDP	-7.0	0.2	...
Real deposit rate	5.9	-15.5	...
Real lending rate	17.7	-5.1	...
	Millions of dollars		
Exports of goods (f.o.b.) and services	369	487	...
Imports of goods (f.o.b.) and services	-322	-448	...
Current account	-131	-171	...
Capital and financial account	112	-40	...
Overall balance	-19	-211	...

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

^a Preliminary estimates.

Trinidad and Tobago

The economy of Trinidad and Tobago expanded by 6.2% in 2004, driven by the energy sector, which had been boosted significantly by the inauguration of the Train 3 liquefied natural gas plant the preceding year. The inflation rate rose because of increases in food prices, especially at the beginning of the second half-year, while unemployment continued to trend downward. In the external sector, the overall balance of payments was positive, since the current account surplus –reflecting the effect of higher petroleum prices on exports in general– outweighed the deficit on the capital and financial account.

The economy is expected to grow by 5% to 6% in 2005, boosted mainly by the energy sector and by higher income resulting from the improvement in the terms of trade.

The authorities adopted a prudent fiscal policy stance. As in the preceding fiscal year, the fiscal accounts ran a surplus, largely because higher petroleum prices pushed up tax receipts.

The central bank's decision to lower the reserve requirement for commercial banks facilitated the financial management of fiscal policy. It also paved the way for interest rate cuts designed to stimulate demand for loans and economic growth.

The government posted a surplus in fiscal year 2003/2004, as it had in the preceding period. This was largely a result of higher corporate tax revenues (which account for almost 50% of fiscal income) due, in turn, to the rise in the prices of petroleum and petroleum products. Another factor that contributed to the surplus, albeit to a lesser extent, was the collection of taxes from individuals employed in the 108 firms and businesses in the pay-as-you-earn system.

Revenues from taxes on goods and services transactions (VAT and specific taxes) also rose, thanks to the dynamism of economic activity.

The bulk of expenditure (92%) was accounted for by the higher current expenditure that resulted from an increase in transfer and subsidy payments arising from past-due commitments (subsidies to oil companies, transfers to government enterprises and statutory boards), debt servicing and disbursements for social

programmes. Capital expenditure reflected the launching of the government's public investment programme.

Despite the surplus on the fiscal accounts, the central government's debt stock climbed from 49% to 53% of GDP in fiscal year 2003/2004, as a result of its decision to issue TT\$ 1.16 billion in bonds to sterilize part of the liquidity increase generated by the lowering of the reserve requirement. The government also took advantage of the drop in nominal interest rates to restructure its debt by extending maturities. The stock of external debt declined with the payment of a portion of outstanding obligations.

The intent of monetary policy was expansionary. The repo rate on discounting operations remained unchanged from the year before (5%). When the policy was first implemented, the reserve requirement was lowered by four percentage points (from 18% to 14%). In September 2004 a second phase began, with a further reduction from 14% to 11%.

The expansionary monetary policy enabled the government to finance certain fiscal operations and gave commercial banks manoeuvring room to lower interest rates in order to stimulate demand for credit. The prime rate, which had remained at 9.5% for the first nine months of the year, dropped to 8.75% in October, while nominal demand for loans expanded at rates of over 16%.

The central bank kept a close watch on the monetary aggregates to ensure that they were meeting the needs of the real economy, and accordingly carried out sterilization operations several times in the course of

the year. Narrow and broad money expanded by 6% and 5%, respectively.

In 2004 the authorities introduced a single-price auction system based on the submission of purchase orders prior to the auction for government bonds administered by the central bank. The purpose of the new system is to facilitate the creation of a secondary market for trade in public debt.

The exchange rate remained stable, at TT\$ 6.29 per United States dollar, despite pressures in the exchange market caused by the activities of regional corporations seeking to raise capital on the local bond market.

The energy sector grew by 11% thanks to an increase in natural gas production in the course of the year and despite the slower expansion of activities in the areas of exploration, drilling and refining. However, two subsectors (petrochemicals and natural gas processing) continued to grow apace, at rates of about 15% in both cases.

Agricultural value added declined (-20%), chiefly because of a heavy slump in the sugar sector (-43%) caused by unfavourable weather conditions, technical problems, the poor quality of the sugar cane and labour disputes.

Manufacturing was up from 5.5% in 2003 to 6.6% in 2004, led by food, beverages and tobacco (11%) and assembly industries (11%). Food, beverages and tobacco reflected higher levels of activity among producers of poultry, tobacco and non-alcoholic beverages, while the performance of the assembly industries reflected expansions in construction materials, iron and steel.

Inflation rose slightly, owing mainly to an increase in the prices of food products (10% between August 2003 and August 2004). Underlying inflation (which does not include food prices) was only 2% in that period. The government has taken a number of steps to try to slow these increases, including a zero VAT rate on certain foods and a reduction in the tariff surcharge on chicken and turkey imports from 86% to 40% between October and November.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
Annual growth rates			
Gross domestic product	3.0	4.2	6.2
Consumer prices	4.3	3.0	3.2 ^b
Real wages	3.5	7.6	...
Money (M1)	20.5	-2.0	26.2 ^c
Annual average percentages			
Urban unemployment rate ^d	10.4	10.6	7.8 ^e
Central government overall balance / GDP	0.6	2.7	0.6
Nominal deposit rate	...	2.9	2.5 ^f
Nominal lending rate	...	11.0	9.5 ^f
Millions of dollars			
Current account	76	1 351	919
Capital and financial account	-27	-101	-436
Overall balance	49	334	483

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

^a Preliminary estimates.

^b Twelve-month variation to June 2004.

^c Data to May.

^d Includes hidden unemployment.

^e Second quarter.

^f Average from January to June, annualized.

Unemployment continued to trend downward. The employed population expanded by 2.5%, while the unemployment rate dropped to 10.2% in the first quarter of 2004 and 7.8% in the second (down from 10.6% in 2003).

The balance of payments posted a surplus as a result of a positive current account balance that offset the deficit on the capital and financial account. The current account reflected the positive impact of an increase in the value of exports, which resulted from the rise in the international prices of petroleum and petroleum products. Manufacturing exports also contributed to this surplus, albeit to a lesser degree.

The deficit on the capital and financial account was attributable to payments on external obligations, bond issues and the sustained expansion of Trinidad and Tobago's financial sector into other Caribbean countries in the form of direct investment.

Countries members of the Organisation of Eastern Caribbean States (OECS)¹

The economic recovery that the countries members of OECS had begun to experience in 2002 slowed down in 2004 as a result of the damage inflicted by two natural disasters in the second half of the year. The first was hurricane Ivan, which mainly affected Grenada and, to a lesser extent, Saint Lucia and Saint Vincent and the Grenadines in September 2004. The second was the earthquake that ravaged Dominica at the end of November.

In general, the tourism and agricultural sectors bore the brunt of the devastation caused by hurricane Ivan. Saint Vincent and the Grenadines and Saint Lucia lost 20% and 40% of their banana harvest, respectively, and their hotel and yachting subsectors suffered losses equivalent to 10% of GDP. In Grenada, whose economy was practically destroyed, losses are estimated at more than double the preceding year's nominal GDP, and their effects resulted in downturns in both output and employment. Most of the impact was concentrated in infrastructure, especially housing, given that 89% of the country's total housing stock was damaged, at an estimated cost of 1.4 times the nominal GDP.

Despite the effects of the disasters, the OECS governments were nonetheless able to maintain a prudent fiscal stance characterized by tax measures aimed at increasing fiscal revenues and by the containment of public spending. In the countries hardest hit by the hurricane, however, the fiscal out-turn worsened.

The external deficit posted by the OECS member countries increased because their exports lost competitiveness while the value of their imports rose, given the higher price of oil on international markets. The deficit was financed with official and insurance inflows and with foreign direct investment, part of which was channelled into the development of the tourism sector.

Fiscal performance was uneven from one country to another. The fiscal deficit of Antigua and Barbuda narrowed (from -8.1% of GDP in 2003 to -6.3% in 2004)

as economic growth boosted public revenues. This additional income offset the increase in public spending necessitated by social initiatives involving higher outlays on transfers, unemployment insurance and pensions.

In compliance with the target set in its Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF), Dominica achieved a fiscal deficit of 4% of GDP by reducing tax exemptions and public spending, raising the retirement age and broadening the tax base.

Hurricane Ivan aggravated the fiscal situation in Grenada, whose deficit reached 12% of GDP on account of non-recurrent expenditure and plummeting tax receipts. The government has taken steps to reorient its expenditure and, at the same time, to enhance efficiency.

The government of Saint Kitts and Nevis brought down its deficit (from 7% in 2003 to 6% in 2004) through cutbacks in current expenditure, higher tax receipts as a result of tax hikes, the broadening of the tax base and the elimination of fiscal incentives.

Saint Lucia's fiscal deficit widened because of efforts to shore up aggregate demand by expanding fiscal outlays, particularly capital expenditure. Saint Vincent and the Grenadines also saw its fiscal deficit worsen as a result of higher capital expenditure, despite the adoption of a series of measures to boost tax receipts. These measures included increases in the taxes imposed on airport services, in the surtax on motor vehicles and in fees for travel documents.

¹ The members and associate members of the Organisation of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. All of them except the British Virgin Islands are members of a monetary union governed by the Eastern Caribbean Central Bank.

In most of the States members of OECS, liquidity expanded in 2004 in line with the nominal growth of their respective output figures. At the aggregate level, total monetary liabilities grew by an average of 13% between September 2003 and September 2004. Saint Kitts and Nevis recorded the biggest increase in monetary liquidity (21%), while Dominica posted the smallest (9%).

The faster expansion of liquidity was mainly attributable to a jump in the growth of domestic credit (30%). Construction and public utilities showed the highest increases in demand for commercial bank loans (62% and 50%, respectively), while private demand for credit (50% of the total) was associated with financing for property purchases (housing construction and renovation) and other personal loans.

In a context of favourable macroeconomic conditions, the upward trend in activity in the OECS countries was based on the buoyancy of construction and tourism. Construction benefited from reconstruction and conversion projects, while tourism-related activities bounced back from the effects of the 11 September 2001 events and recorded a significant increase in the number of visitors (both cruise-ship passengers and long-stay tourists). Employment levels showed some improvement as well.

The increase in the OECS countries' aggregate output was due to the impressive economic growth seen in Saint Lucia, Saint Vincent and the Grenadines and Saint Kitts and Nevis. However, it was also affected by the negative repercussions that the natural disasters had on economic activity in Dominica and, especially, in Grenada.

The performance of agriculture reflected unfavourable trends in international commodity prices, adverse weather conditions and the uncertainty surrounding the future of preferential trade agreements. In Grenada, Saint Lucia and Saint Vincent and the Grenadines, weather-related problems sharply reduced the output of bananas, nutmeg and other traditional agricultural products.

Manufactures stalled because of higher production costs and low levels of competitiveness. This sector was also affected by domestic and external bottlenecks in the agricultural sector, which tend to limit growth in the supply of certain manufactures. Nonetheless, industrial output is showing strong signs of recovery in Dominica.

Construction was boosted by the high levels of liquidity in most of the OECS economies, the increase in capital expenditure in some countries and the positive effects of reconstruction and rehabilitation activities.

OECS: MAIN ECONOMIC INDICATORS

	2002	2003	2004 ^a
	Annual growth rates		
Gross domestic product	0.2	3.7	3.0
Consumer prices	3.0	0.6	1.4
	Annual average percentages		
Real deposit rate	2.7	3.0	...
Real lending rate	10.3	10.0	...
	Millions of dollars		
Current account	-576	-648	-719
Capital and financial account	639	...	...
Overall balance	63	...	...

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

^a Preliminary estimates.

Tourism-related activities made a full recovery in most of the OECS countries. According to the most recent available information, the number of visitors increased by 16% in Antigua and Barbuda, 6% in Dominica, 4% in Saint Lucia and 11% in Saint Vincent and the Grenadines. In Grenada, tourism will contract significantly owing to the damage suffered by hotel facilities and the steep reduction (90%) in the number of hotel rooms.

Aggregate inflation climbed from 0.6% in 2003 to 1.4% in 2004, owing mainly to higher international oil prices, the tax measures adopted by most of the member States and the weakness of the United States dollar.

The overall external deficit of the OECS members was equivalent to 22% of GDP and was offset by foreign direct investment inflows (16% of GDP) and, to a lesser extent, capital transfers (6% of GDP) and portfolio investments (2% of GDP).

The current account balance primarily reflected a widening of the merchandise trade deficit. This, in turn, resulted from the import growth propelled by higher international oil prices and by the natural disasters, which triggered larger external purchases of raw materials, inputs and capital goods.

External sales were hobbled by the leading export products' loss of competitiveness and by the natural disasters' adverse effects on export capacity. However, Dominica's exports of manufactures are on the road to recovery.

The services trade balance benefited from the upturn in tourism, even though the sector was temporarily undermined by the damage to tourism infrastructure (especially in Grenada and Dominica) and, on the demand side, by the suspension of international flights and the resulting downturn in the number of long-stay visitors.

Statistical annex



Table A - 1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Annual rates of variation										
Gross domestic product ^b	1.1	3.7	5.2	2.3	0.5	3.7	0.4	-0.5	1.9	5.5
Per capita gross domestic product ^b	-0.6	2.0	3.4	0.6	-1.1	2.1	-1.1	-2.0	0.4	4.0
Consumer prices ^c	26.0	18.6	10.7	10.0	9.7	9.0	6.1	12.2	8.5	7.7 ^d
Percentages										
Urban open unemployment rate ^e	8.7	9.4	8.9	10.0	10.7	10.2	9.9	10.8	10.7	10.0
Total gross external debt / GDP ^f	36.6	35.1	33.7	38.1	42.8	37.5	37.9	42.4	42.9	38.0
Total gross external debt / exports of goods and services	228	215	204	231	219	179	182	179	172	140
Billions of dollars										
Balance of payments										
Current account balance	-37.8	-38.6	-64.4	-88.2	-54.9	-46.7	-52.8	-13.6	8.1	21.8
Merchandise trade balance	3.2	5.2	-13.1	-35.0	-6.8	3.4	-3.9	23.8	43.3	61.9
Export of goods and services, f.o.b.	229.4	257.4	286.7	283.4	299.4	358.9	343.0	346.6	376.3	460.7
Imports of goods and services, f.o.b.	226.2	252.2	299.8	318.4	306.2	355.6	346.9	322.8	333.0	398.8
Services trade balance	-15.5	-15.9	-19.0	-19.0	-17.1	-17.1	-19.2	-14.3	-13.8	-15.0
Income balance	-40.8	-42.7	-47.7	-51.3	-50.4	-53.6	-54.7	-51.2	-55.8	-65.3
Net current transfers	15.2	14.8	15.4	17.0	19.4	20.6	25.0	28.2	34.5	40.3
Capital and financial balance ^g	29.3	63.9	89.2	63.4	42.3	61.2	35.5	-14.5	2.7	-19.4
Net foreign direct investment	25.8	40.3	57.6	63.7	79.3	68.9	64.9	39.2	28.5	37.8
Financial capital ^h	3.5	23.6	31.6	-0.3	-37.0	-7.7	-29.4	-53.7	-25.8	-57.2
Overall balance	-8.5	25.2	24.8	-24.8	-12.6	14.5	-17.2	-28.1	10.8	2.5
Variation in reserve assets ⁱ	-23.1	-26.1	-15.8	9.1	6.3	-6.9	1.0	3.3	-29.5	-9.3
Other financing ^j	31.6	0.9	-9.0	15.7	6.3	-7.7	16.2	24.7	18.7	6.8

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

^a Preliminary figures.

^b Based on official figures converted in dollars at 1995 prices.

^c December-December variation.

^d Twelve-month variation up to November 2004.

^e The data for Brazil and Argentina were adjusted to allow for a change in methodology in 2002 and 2003 respectively.

^f Estimates based on figures denominated in dollars.

^g Includes errors and omissions.

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

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

^j Includes the uses of International Monetary Fund (IMF) credit and loans and exceptional financing.

Table A - 2
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
 (Annual growth rates)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Latin America and the Caribbean	1.1	3.7	5.2	2.3	0.5	3.7	0.4	-0.5	1.9	5.5
Subtotal (20 countries)	1.1	3.8	5.2	2.3	0.5	3.7	0.4	-0.6	1.9	5.5
Argentina	-2.9	5.5	8.0	3.8	-3.4	-0.8	-4.4	-10.8	8.7	8.2
Bolivia	4.7	4.5	4.9	5.0	0.3	2.3	1.6	2.7	2.4	3.8
Brazil	4.2	2.5	3.1	0.2	0.9	3.9	1.3	1.5	0.6	5.2
Chile	9.0	6.9	6.7	3.3	-0.5	4.5	3.5	2.0	3.3	5.8
Colombia	4.9	1.9	3.3	0.8	-3.8	2.4	1.4	2.7	4.1	3.3
Costa Rica	3.9	0.8	5.4	8.3	8.0	1.8	1.2	2.7	6.4	4.1
Cuba	2.3	8.4	2.7	0.2	6.1	6.0	3.0	1.2	2.5	3.0
Ecuador	2.1	3.0	5.2	2.2	-5.7	0.9	5.5	3.8	2.3	6.3
El Salvador	6.2	1.8	4.2	3.8	3.4	2.0	1.7	2.1	2.0	1.8
Guatemala	5.0	3.0	4.4	5.1	3.9	3.4	2.6	2.2	2.0	2.6
Haiti	9.5	5.6	3.2	2.9	2.9	2.0	-0.6	-0.3	0.5	-3.0
Honduras	3.7	3.7	4.9	3.3	-1.5	5.6	2.7	2.6	3.5	4.3
Mexico	-6.1	5.4	6.8	5.1	3.6	6.7	-0.3	0.7	1.2	4.1
Nicaragua	6.0	6.4	3.9	3.5	7.0	4.3	3.0	0.9	2.3	4.0
Panama ^b	1.9	2.7	6.8	7.3	4.0	3.8	0.7	2.1	4.7	6.0
Paraguay	5.7	0.4	3.0	0.8	-1.5	-3.3	2.0	-1.6	3.8	2.8
Peru	8.6	2.5	6.9	-0.6	0.9	2.8	0.1	4.9	3.8	4.6
Dominican Republic	4.7	7.2	8.2	7.4	8.1	7.8	4.0	4.3	-0.4	1.8
Uruguay	-2.4	5.2	5.4	4.4	-3.5	-1.9	-3.6	-12.7	3.0	12.0
Venezuela (Bolivarian Republic of)	5.9	-0.4	7.4	0.3	-5.7	3.8	3.4	-8.9	-9.7	18.0
Subtotal Caribbean	2.6	2.6	2.0	2.7	4.2	4.8	2.3	1.8	3.4	4.3
Antigua and Barbuda	-4.8	6.0	5.5	5.0	4.9	2.6	1.6	2.1	5.8	5.9
Barbados	1.9	2.5	2.6	4.0	3.0	3.1	-2.2	-0.5	2.2	3.0
Belize	0.5	1.7	3.8	3.7	8.8	12.1	5.0	4.2	4.9	7.0
Dominica	1.2	2.9	2.2	3.1	1.3	1.3	-3.3	-5.8	2.5	0.0
Grenada	3.1	3.0	4.3	7.6	7.5	7.3	-3.8	-1.1	4.7	-1.4
Guyana	3.8	7.4	6.8	-2.2	5.0	-2.3	2.3	1.1	-0.6	1.5
Jamaica	2.2	-0.1	-1.8	-0.8	0.6	1.0	1.8	0.9	2.3	1.9
Saint Kitts and Nevis	3.2	5.8	7.2	1.1	3.5	5.6	2.0	0.9	0.1	5.7
Saint Vincent and the Grenadines	7.8	1.2	3.5	5.8	3.6	1.8	0.0	1.3	3.9	5.8
Saint Lucia	2.1	0.8	-0.3	3.0	2.9	0.2	-4.1	0.2	3.7	5.1
Suriname	0.0	5.3	3.3	2.9	-3.5	-1.2	5.0	3.0	5.6	4.0
Trinidad and Tobago	4.2	4.4	4.0	5.3	7.8	9.2	4.3	3.0	4.2	6.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures converted into dollars at constant 1995 prices.

^a Preliminary figures.

^b From 1997 on, estimates are made on the basis of the new country series at constant 1996 prices.

Table A - 3
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT
 (Annual growth rates)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Latin America and the Caribbean	-0.6	2.0	3.4	0.6	-1.1	2.1	-1.1	-2.0	0.4	4.0
Subtotal (20 countries)	-0.6	2.0	3.5	0.6	-1.1	2.1	-1.2	-2.0	0.4	4.0
Argentina	-4.1	4.2	6.8	2.7	-4.4	-1.9	-5.4	-11.7	7.7	7.2
Bolivia	2.3	2.0	2.4	2.5	-2.1	-0.1	-0.7	0.4	0.1	1.5
Brazil	2.6	0.9	1.5	-1.3	-0.6	2.4	-0.2	0.1	-0.9	3.7
Chile	7.2	5.3	5.3	2.0	-1.7	3.2	2.3	0.9	2.2	4.7
Colombia	2.9	0.0	1.4	-1.1	-5.6	0.6	-0.4	0.9	2.4	1.6
Costa Rica	1.4	-1.7	2.8	5.6	5.4	-0.5	-0.9	0.7	4.4	2.2
Cuba	1.8	7.8	2.2	-0.2	5.7	5.6	2.6	0.9	2.2	2.7
Ecuador	0.3	1.3	3.6	0.7	-7.1	-0.6	3.9	2.3	0.9	4.8
El Salvador	4.0	-0.3	2.1	1.6	1.3	0.1	-0.2	0.3	0.2	0.0
Guatemala	2.6	0.7	2.1	2.7	1.5	1.0	0.1	-0.3	-0.5	0.1
Haiti	7.5	3.7	1.3	1.0	1.1	0.2	-2.4	-2.1	-1.3	-4.7
Honduras	0.7	0.8	2.1	0.5	-4.1	2.8	0.1	0.0	0.9	1.8
Mexico	-7.8	3.7	5.1	3.4	2.0	5.1	-1.8	-0.7	-0.2	2.7
Nicaragua	3.5	4.1	1.8	1.5	4.9	2.2	0.9	-1.1	0.2	1.9
Panama ^b	-0.1	0.6	4.7	5.2	2.0	1.8	-1.1	0.2	2.8	4.1
Paraguay	2.9	-2.2	0.4	-1.8	-4.0	-5.7	-0.6	-4.0	1.3	0.3
Peru	6.7	0.7	5.0	-2.3	-0.8	1.2	-1.4	3.3	2.2	3.1
Dominican Republic	2.9	5.3	6.3	5.6	6.3	6.0	2.3	2.6	-2.0	0.2
Uruguay	-3.1	4.4	4.7	3.6	-4.2	-2.6	-4.3	-13.3	2.3	11.2
Venezuela (Bolivarian Republic of)	3.7	-2.4	5.3	-1.6	-7.5	1.9	1.5	-10.5	-11.3	16.0
Subtotal Caribbean	1.8	1.8	1.2	2.0	3.5	4.1	1.6	1.1	2.7	3.6
Antigua and Barbuda	-6.0	4.5	4.0	3.5	3.4	1.1	1.0	1.5	5.2	5.3
Barbados	1.4	2.2	2.3	3.7	2.7	2.8	-2.6	-0.9	1.8	2.6
Belize	-2.2	-0.7	1.3	1.3	6.3	9.5	2.9	2.1	2.7	4.8
Dominica	0.4	2.1	1.4	2.3	0.5	0.5	-3.6	-6.0	2.3	-0.3
Grenada	3.6	3.5	4.8	8.1	8.1	7.9	-3.6	-0.9	5.0	-1.2
Guyana	3.5	6.9	6.2	-2.7	4.5	-2.8	2.0	0.9	-0.8	1.3
Jamaica	1.3	-0.9	-2.6	-1.6	-0.3	0.1	0.9	0.0	1.4	1.0
Saint Kitts and Nevis	1.7	6.8	8.2	2.0	4.5	6.6	2.0	0.9	0.1	5.7
Saint Vincent and the Grenadines	7.1	0.5	2.8	5.1	2.9	1.1	-0.5	0.7	3.4	5.3
Saint Lucia	0.7	0.0	-1.2	2.2	2.0	-0.7	-4.9	-0.6	2.9	4.3
Suriname	-0.4	4.5	2.6	2.1	-4.3	-2.0	4.2	2.2	4.8	3.2
Trinidad and Tobago	3.4	4.0	3.5	4.8	7.4	8.7	3.9	2.7	3.9	5.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures converted into dollars at constant 1995 prices.

^a Preliminary figures.

^b From 1997 on, estimates are made on the basis of the new country series at constant 1996 prices.

Table A - 4
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION
 (Percentages of gross domestic product)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Latin America and the Caribbean	19.2	19.4	20.9	21.1	19.7	19.8	19.2	18.1	17.9	18.8
Argentina	17.9	18.5	20.1	20.7	18.7	17.6	15.6	11.2	14.1	16.3
Bolivia	15.5	16.6	20.2	24.7	20.9	18.6	14.7	15.9	13.2	12.9
Brazil	20.5	20.3	21.5	21.4	19.7	19.8	19.7	18.6	17.6	18.6
Chile	25.2	25.6	26.6	26.2	21.5	22.4	22.4	22.3	22.6	23.4
Colombia	22.4	21.7	20.5	19.1	13.0	12.4	14.0	13.9	15.9	17.1
Costa Rica	19.0	17.3	18.8	21.7	19.3	18.9	19.2	20.0	20.2	18.6
Cuba ^b	12.5	15.6	16.3	16.1	16.3	16.9	16.0	14.7	15.8	15.6
Ecuador	18.8	17.5	17.0	17.3	13.3	14.8	15.7	17.8	17.1	16.5
El Salvador	18.7	16.3	16.9	17.9	17.1	17.5	17.5	17.6	17.6	16.8
Guatemala	14.5	13.7	16.2	18.5	18.8	16.9	16.5	17.0	16.0	17.0
Haiti	26.1	27.6	28.8	27.1	32.6	37.8	37.6	38.4	39.6	38.8
Honduras	24.0	24.6	27.1	29.0	31.3	27.4	24.6	22.6	23.7	27.2
Mexico	16.2	17.9	20.5	21.5	22.3	23.1	21.9	21.6	21.3	21.5
Nicaragua	20.2	21.3	23.0	23.7	30.2	26.6	25.1	24.9	24.2	24.8
Panama	26.0	24.6	24.6	24.6	27.5	29.5	27.1	19.8	22.8	21.8
Paraguay	25.0	24.6	23.7	20.1	17.9	18.3	16.8	16.0	16.5	20.3
Peru	24.1	22.8	24.6	24.4	21.6	19.9	18.3	17.4	17.6	18.0
Dominican Republic	17.9	17.9	19.8	23.8	24.7	24.5	24.2	23.7	20.4	19.8
Uruguay	13.5	14.0	14.5	15.0	14.6	13.0	12.2	9.7	8.3	9.7
Venezuela (Bolivarian Republic of)	16.5	15.3	18.0	17.4	15.4	15.0	16.5	14.1	9.5	11.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures converted into dollars at constant 1995 prices.

^a Preliminary figures.

^b New estimates are not comparable to data in previous publications due to methodological changes made by the country.

Table A - 5
LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT ^a
 (Percentages of gross domestic product)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
1. Gross domestic savings	20.5	20.6	20.7	19.4	19.0	20.1	18.5	19.7	20.1	21.6
2. Factor income	-2.5	-2.4	-2.4	-2.6	-2.9	-2.7	-2.8	-3.1	-3.2	-3.3
3. Current transfers	0.9	0.8	0.8	0.8	1.1	1.0	1.2	1.6	1.8	1.9
4. Gross national savings	19.0	19.1	19.1	17.7	17.2	18.4	17.0	18.2	18.7	20.2
5. External savings ^c	2.3	2.1	3.3	4.3	3.0	2.3	2.7	0.7	-0.3	-1.0
6. Gross capital formation	21.3	21.1	22.3	22.0	20.1	20.8	19.7	18.8	18.4	19.2

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

^a On the basis of coefficients calculated in local currency, converted into current dollars.

^b Preliminary figures.

^c These percentages differ from the figures (with the sign inverted) for the current account balance as a percentage of GDP as shown in table A-7. Here, external saving is calculated on the basis of the countries' national accounts, using balance-of-payment data to estimate figures for those years in which national accounts data is not available.

Table A - 6
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods, f.o.b.			Imports of goods, f.o.b.			Goods balance			Services balance		
	2002	2003	2004 ^d	2002	2003	2004 ^d	2002	2003	2004 ^d	2002	2003	2004 ^d
Latin America and the Caribbean	346 627	376 295	460 675	322 831	333 013	398 801	23 796	43 282	61 874	-14 337	-13 841	-15 018
Argentina	25 709	29 375	34 075	8 473	13 083	20 933	17 236	16 292	13 142	-1 688	-1 546	-2 098
Bolivia	1 299	1 573	2 036	1 639	1 503	1 706	-340	70	330	-177	-174	-189
Brazil	60 362	73 084	95 009	47 240	48 283	62 043	13 121	24 801	32 966	-4 957	-5 100	-4 464
Chile	18 177	21 046	31 569	15 921	18 031	22 358	2 256	3 015	9 211	-656	-767	-565
Colombia	12 316	13 693	16 381	12 077	13 258	15 530	239	435	851	-1 466	-1 550	-1 675
Costa Rica	5 270	6 163	6 294	6 537	7 294	7 895	-1 267	-1 131	-1 601	688	839	961
Ecuador	5 198	6 197	7 684	6 196	6 268	7 271	-998	-71	413	-709	-691	-687
El Salvador	3 021	3 162	3 220	4 892	5 436	5 739	-1 871	-2 274	-2 519	-240	-169	-177
Guatemala	2 819	3 048	3 335	5 791	6 175	6 852	-2 972	-3 127	-3 517	79	-68	-111
Haiti	274	333	374	980	1 116	1 183	-706	-783	-809	-105	-152	-205
Honduras	1 974	2 078	2 242	2 809	3 065	3 464	-836	-987	-1 221	-162	-173	-210
Mexico	160 763	164 922	189 000	168 679	170 546	195 216	-7 916	-5 624	-6 216	-4 048	-4 505	-4 896
Nicaragua	681	748	829	1 618	1 720	1 984	-936	-972	-1 155	-109	-123	-142
Panama	5 315	5 051	5 910	6 352	6 143	6 696	-1 037	-1 092	-786	979	1 263	1 261
Paraguay	1 858	2 260	2 622	2 138	2 521	3 277	-280	-260	-655	219	242	259
Peru	7 723	8 986	12 310	7 417	8 255	9 740	306	731	2 570	-986	-931	-1 024
Dominican Republic	5 165	5 439	5 657	8 838	7 883	8 041	-3 673	-2 444	-2 384	1 757	2 219	2 290
Uruguay	1 922	2 273	2 910	1 874	2 092	2 844	48	182	65	154	163	253
Venezuela (Bolivarian Republic of)	26 781	26 861	39 217	13 360	10 341	16 029	13 421	16 520	23 189	-2 909	-2 616	-3 600

Table A - 6 (continued)

	Trade balance			Income balance			Current transfers balance			Current account balance		
	2002	2003	2004 ^d	2002	2003	2004 ^d	2002	2003	2004 ^d	2002	2003	2004 ^d
Latin America and the Caribbean	9 459	29 441	46 855	-51 235	-55 821	-65 285	28 205	34 482	40 275	-13 571	8 102	21 845
Argentina	15 548	14 746	11 044	-6 498	-7 425	-8 104	576	620	713	9 627	7 941	3 653
Bolivia	-517	-104	141	-205	-302	-352	369	441	437	-352	35	225
Brazil	8 164	19 701	28 502	-18 191	-18 552	-20 619	2 390	2 867	3 211	-7 637	4 016	11 094
Chile	1 600	2 249	8 646	-2 915	-3 280	-6 624	430	438	887	-885	-594	2 908
Colombia	-1 227	-1 115	-824	-2 848	-3 447	-3 944	2 624	3 217	3 502	-1 452	-1 345	-1 267
Costa Rica	-579	-293	-640	-517	-849	-457	181	213	215	-916	-929	-882
Ecuador	-1 707	-763	-274	-1 305	-1 464	-1 458	1 654	1 772	1 860	-1 358	-455	128
El Salvador	-2 111	-2 443	-2 696	-323	-408	-562	2 023	2 117	2 544	-412	-734	-714
Guatemala	-2 893	-3 195	-3 628	-318	-318	-364	1 976	2 462	2 889	-1 235	-1 051	-1 102
Haiti	-811	-935	-1 014	-14	-14	-12	776	907	1 031	-49	-42	5
Honduras	-998	-1 160	-1 432	-190	-190	-203	969	1 092	1 150	-219	-258	-484
Mexico	-11 964	-10 129	-11 113	-12 096	-12 470	-13 132	10 268	13 858	17 045	-13 792	-8 741	-7 200
Nicaragua	-1 046	-1 095	-1 297	-200	-203	-194	377	439	500	-870	-860	-991
Panama	-58	171	475	-284	-820	-788	250	241	277	-92	-408	-35
Paraguay	-61	-18	-395	19	0	-25	116	165	198	73	146	-223
Peru	-680	-200	1 546	-1 491	-2 082	-3 027	1 043	1 221	1 465	-1 127	-1 061	-16
Dominican Republic	-1 915	-225	-94	-1 152	-1 246	-1 257	2 269	2 336	2 476	-798	865	1 124
Uruguay	202	344	319	48	-364	-363	72	72	72	322	52	28
Venezuela (Bolivarian Republic of)	10 512	13 904	19 589	-2 756	-2 387	-3 800	-157	7	-195	7 599	11 524	15 594

Table A - 6 (conclusion)

	Capital and financial balance ^a			Overall balance			Reserve assets (variation) ^b			Other financing ^c		
	2002	2003	2004 ^d	2002	2003	2004 ^d	2002	2003	2004 ^d	2002	2003	2004 ^d
Latin America and the Caribbean	-14 480	2 730	-19 381	-28 050	10 832	2 464	3 317	-29 539	-9 304	24 733	18 706	6 840
Argentina	-25 339	-17 153	-10 853	-15 712	-9 212	-7 200	4 516	-3 581	-3 412	11 196	12 793	10 611
Bolivia	50	42	-227	-302	78	-2	303	-152	45	-1	74	-43
Brazil	-3 542	-289	-6 693	-11 178	3 726	4 401	-302	-8 496	-101	11 480	4 769	...
Chile	1 083	228	-3 065	199	-366	-157	-199	366	157	0	0	...
Colombia	1 590	1 161	2 799	139	-184	1 532	-139	184	-1 532	0	0	...
Costa Rica	1 081	1 270	782	165	341	-100	-165	-341	100	0	0	...
Ecuador	1 230	592	326	-127	136	454	66	-152	-365	62	16	...
El Salvador	288	1 050	544	-124	316	-170	124	-316	170	0	0	...
Guatemala	1 257	1 600	1 337	22	550	235	-22	-550	-235	0	0	...
Haiti	-34	31	25	-83	-12	31	49	25	-45	34	-14	15
Honduras	282	27	404	64	-231	-81	-214	88	-130	151	143	...
Mexico	20 881	18 179	10 200	7 090	9 438	3 000	-7 090	-9 438	-3 000	0	0	...
Nicaragua	660	638	781	-210	-221	-210	-71	-50	-69	281	271	279
Panama	152	255	-504	60	-153	-539	-52	163	544	-8	-10	...
Paraguay	-197	85	432	-124	231	209	84	-301	-209	40	70	...
Peru	2 095	1 585	545	968	525	529	-852	-516	-516	-116	-9	-13
Dominican Republic	243	-1 317	-674	-555	-452	450	527	352	-450	28	100	...
Uruguay	-4 236	828	56	-3 914	880	84	2 328	-1 380	-260	0	500	...
Venezuela (Bolivarian Republic of)	-12 026	-6 081	-15 596	-4 427	5 443	-3	4 427	-5 443	3	0	0	...

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

^a Includes errors and omissions.

^b A minus sign (-) indicates an increase in reserve assets.

^c Includes the use of IMF credit and loans and exceptional financing.

^d Preliminary figures.

Table A - 7
LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS ^a
(Percentages of GDP in current dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	-2.3	-2.1	-3.3	-4.4	-3.1	-2.4	-2.8	-0.8	0.5	1.1
Argentina	-2.0	-2.5	-4.2	-4.9	-4.2	-3.2	-1.5	9.4	6.1	2.5
Bolivia	-4.5	-5.1	-7.0	-7.8	-5.9	-5.3	-3.4	-4.5	0.4	2.7
Brazil	-2.6	-3.0	-3.8	-4.3	-4.7	-4.0	-4.6	-1.7	0.8	1.9
Chile	-2.1	-4.1	-4.4	-4.9	0.1	-1.2	-1.6	-1.3	-0.8	3.3
Colombia	-4.9	-4.8	-5.4	-4.9	0.8	0.9	-1.4	-1.8	-1.7	-1.4
Costa Rica	-3.1	-2.2	-3.7	-3.7	-4.2	-4.4	-4.5	-5.4	-5.3	-4.7
Ecuador	-5.0	-0.3	-1.9	-9.0	5.5	5.8	-3.2	-5.6	-1.7	0.4
El Salvador	-2.8	-1.6	-0.9	-0.8	-1.9	-3.3	-1.1	-2.9	-4.9	-4.5
Guatemala	-3.9	-2.9	-3.6	-5.4	-5.6	-5.4	-6.0	-5.3	-4.2	-4.1
Haiti	-3.2	-4.6	-1.5	-1.0	-1.4	-2.3	-2.8	-1.5	-1.5	0.2
Honduras	-5.1	-8.2	-5.8	-2.8	-4.4	-4.6	-4.7	-3.3	-3.7	-6.5
Mexico	-0.6	-0.8	-1.9	-3.8	-2.9	-3.1	-2.9	-2.1	-1.4	-1.1
Nicaragua	-22.7	-24.9	-24.9	-19.2	-24.8	-20.0	-23.1	-21.7	-20.8	-22.3
Panama	-6.0	-2.2	-5.0	-9.3	-10.1	-5.9	-1.5	-0.8	-3.2	-0.3
Paraguay	-1.1	-4.0	-7.3	-2.0	-2.3	-4.1	-4.1	1.4	2.6	-3.4
Peru	-8.6	-6.5	-5.7	-5.9	-2.8	-2.9	-2.2	-2.0	-1.8	0.0
Dominican Republic	-1.5	-1.6	-1.1	-2.1	-2.5	-5.2	-3.4	-3.7	5.2	6.4
Uruguay	-1.1	-1.1	-1.3	-2.1	-2.4	-2.8	-2.6	2.6	0.5	0.2
Venezuela (Bolivarian Republic of)	2.6	12.6	4.2	-4.6	2.0	9.8	1.6	8.0	13.5	14.7

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

^a These percentages differ from the figures (with opposite sign) for external saving given in table A-5. The current account was calculated using official information from the balance of payments.

^b Preliminary figures.

Table A - 8
LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS, FOB^a
 (Annual growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
1995	21.8	12.4	8.4	12.5	5.1	7.1
1996	12.2	11.8	0.4	11.5	11.9	-0.4
1997	11.4	12.3	-0.9	18.9	22.4	-2.9
1998	-1.2	8.3	-8.7	6.2	9.9	-3.4
1999	5.7	6.9	-1.1	-3.8	-2.4	-1.5
2000	19.9	10.8	8.2	16.1	13.8	2.1
2001	-4.4	2.8	-7.0	-2.4	0.5	-3.0
2002	1.1	1.3	-0.2	-7.0	-7.2	0.3
2003	8.6	4.5	3.9	3.2	0.6	2.6
2004 ^b	22.4	10.8	10.5	19.8	14.4	4.7

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

^a Seventeen Spanish-speaking countries plus Brazil and Haiti.

^b Preliminary figures.

Table A - 9
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, FOB
 (Indices 1997=100)^a

	Value			Volume			Unit value		
	2002	2003	2004 ^b	2002	2003	2004 ^b	2002	2003	2004 ^b
Latin America and the Caribbean	120.9	131.3	160.7	133.4	139.4	154.4	90.6	94.2	104.1
Argentina	97.3	111.1	128.9	114.3	120.3	122.4	85.1	92.4	105.3
Bolivia	111.3	134.9	174.5	128.6	147.7	167.6	86.6	91.3	104.1
Brazil	113.5	137.4	178.6	146.3	169.3	198.3	77.6	81.2	90.1
Chile	101.7	117.8	176.7	130.4	138.6	162.4	78.0	85.0	108.8
Colombia	102.1	113.5	135.8	113.3	118.9	119.5	90.1	95.5	113.6
Costa Rica	124.9	146.0	149.1	151.9	175.9	177.9	82.2	83.0	83.8
Ecuador	97.0	115.6	143.3	107.8	121.2	139.2	90.0	95.3	103.0
El Salvador	123.9	129.8	132.1	139.6	147.6	148.8	88.8	87.9	88.8
Guatemala	108.3	117.1	128.1	130.4	141.1	148.4	83.0	83.0	86.3
Haiti	133.6	162.2	182.1	134.8	160.4	171.5	99.1	101.1	106.2
Honduras	106.3	111.9	120.8	152.5	162.2	168.3	69.7	69.0	71.8
Mexico	145.6	149.3	171.1	148.7	148.1	160.1	97.9	100.8	106.9
Nicaragua	91.5	100.5	111.3	116.9	128.4	138.1	78.2	78.2	80.6
Panama	79.7	75.7	88.6	79.2	76.8	87.3	100.6	98.6	101.5
Paraguay	55.8	67.9	78.8	67.7	76.2	82.6	82.5	89.2	95.4
Peru	113.2	131.7	180.4	156.2	168.3	192.1	72.4	78.2	93.9
Dominican Republic	111.9	117.9	122.6	121.8	125.8	125.2	91.9	93.7	98.0
Uruguay	68.8	81.4	104.2	83.6	108.7	130.1	82.3	74.8	80.1
Venezuela (Bolivarian Republic of)	112.2	112.5	164.3	93.8	81.9	99.6	119.6	137.4	164.9

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

^a The price indexes used take 1995 as a base year; for the purposes of analysis, 1997 is used as the reference year here.

^b Preliminary figures.

Table A - 10
LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, FOB
 (Indices 1997=100) ^a

	Value			Volume			Unit value		
	2002	2003	2004 ^b	2002	2003	2004 ^b	2002	2003	2004 ^b
Latin America and the Caribbean	107.7	111.1	133.0	113.8	114.5	131.0	94.6	97.0	101.5
Argentina	29.7	45.8	73.3	34.4	53.1	79.4	86.3	86.3	92.3
Bolivia	99.7	91.4	103.8	107.3	95.6	103.3	92.9	95.7	100.5
Brazil	78.9	80.7	103.7	87.7	84.4	100.4	90.1	95.6	103.2
Chile	82.5	93.4	115.9	91.1	100.2	116.1	90.6	93.3	99.8
Colombia	82.1	90.2	105.6	93.6	99.8	110.2	87.8	90.4	95.8
Costa Rica	138.6	154.6	167.3	155.4	169.2	172.8	89.1	91.4	96.8
Ecuador	127.3	128.7	149.3	135.8	134.0	148.0	93.7	96.1	100.9
El Salvador	136.6	151.8	160.3	137.4	148.2	150.5	99.4	102.4	106.5
Guatemala	163.5	174.3	193.4	168.4	174.4	180.8	97.1	100.0	107.0
Haiti	175.2	199.4	211.4	164.6	181.0	177.6	106.4	110.2	119.0
Honduras	130.6	142.5	161.1	155.2	163.6	171.1	84.2	87.1	94.1
Mexico	153.6	155.3	177.8	158.5	157.1	174.6	96.9	98.9	101.8
Nicaragua	109.8	116.8	134.7	112.6	115.7	127.1	97.5	100.9	106.0
Panama	86.4	83.5	91.0	84.2	79.5	82.5	102.5	105.1	110.4
Paraguay	51.0	60.1	78.2	50.4	57.7	72.1	101.2	104.3	108.5
Peru	87.2	97.1	114.6	92.8	99.4	109.1	93.9	97.7	105.0
Dominican Republic	133.7	119.3	121.7	146.1	126.5	119.5	91.5	94.3	101.8
Uruguay	53.6	59.8	81.3	62.7	67.6	86.7	85.5	88.5	93.8
Venezuela (Bolivarian Republic of)	89.6	69.3	107.5	93.2	70.7	102.4	96.1	98.1	104.9

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

^a The price indexes used take 1995 as a base year; for the purposes of analysis, 1997 is used as the reference year here.

^b Preliminary figures.

Table A - 11
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS, FOB/FOB
 (Indices 1997=100) ^a

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	97,2	98,0	100,0	94,5	94,8	100,5	96,3	95,8	97,1	102,5
Argentina	91.8	99.6	100.0	95.4	90.4	99.9	99.2	98.6	107.1	114.1
Bolivia	86.5	96.6	100.0	95.1	95.0	96.9	92.8	93.2	95.4	103.6
Brazil	96.4	94.5	100.0	100.0	90.2	87.6	87.2	86.1	84.9	87.3
Chile	120.4	97.2	100.0	88.2	88.6	88.6	82.7	86.1	91.1	109.0
Colombia	95.8	99.4	100.0	91.7	98.3	111.0	104.6	102.6	105.6	118.6
Costa Rica	99.4	94.3	100.0	103.2	102.2	95.2	93.6	92.2	90.8	86.6
Ecuador	89.3	97.9	100.0	89.0	94.9	110.6	93.5	96.0	99.3	102.1
El Salvador	106.2	99.5	100.0	97.5	92.3	87.9	90.0	89.3	85.8	83.4
Guatemala	105.4	92.5	100.0	99.4	91.9	89.3	86.4	85.5	83.1	80.7
Haiti	105.5	95.6	100.0	102.0	100.5	93.0	94.1	93.1	91.8	89.2
Honduras	86.7	80.4	100.0	102.3	95.5	90.0	85.3	82.8	79.2	76.2
Mexico	96.1	98.8	100.0	96.5	98.4	103.2	100.5	101.0	102.0	105.0
Nicaragua	119.3	105.0	100.0	104.2	96.7	92.2	81.5	80.2	77.5	76.0
Panama	96.7	98.0	100.0	99.9	102.4	96.5	99.1	98.1	93.8	92.0
Paraguay	100.1	100.1	100.0	92.5	87.8	84.3	84.5	81.5	85.5	88.0
Peru	96.9	93.5	100.0	86.9	80.7	78.3	74.9	77.1	80.1	89.4
Dominican Republic	98.0	95.8	100.0	101.1	101.9	100.0	101.0	100.4	99.4	96.2
Uruguay	103.8	100.4	100.0	107.0	98.5	89.5	98.7	96.3	84.6	85.4
Venezuela (Bolivarian Republic of)	90.2	104.3	100.0	72.1	96.6	142.0	116.8	124.4	140.2	157.2

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

^a The price indexes used take 1995 as a base year; for the purposes of analysis, 1997 is used as the reference year here.

^b Preliminary figures.

Table A - 12
LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS^a
(Millions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	20 191	22 044	32 559	27 837	-1 807	2	-2 894	-40 981	-34 384	-77 826
Argentina	423	5 195	9 309	10 559	5 678	1 064	-15 947	-20 640	-11 785	-8 346
Bolivia	243	482	447	637	324	182	30	-156	-185	-623
Brazil	19 951	19 397	5 863	7 222	-1 227	4 078	6 777	-10 252	-14 072	-31 612
Chile	-624	1 684	4 362	-162	-3 079	-1 621	-2 022	-1 831	-3 052	-9 689
Colombia	2 927	4 308	3 703	1 763	-2 339	-2 165	-288	-1 258	-2 286	-1 146
Costa Rica	312	2	448	-97	-674	-699	-43	564	421	325
Ecuador	-105	-738	-316	467	-2 715	-2 020	-776	-13	-857	-1 221
El Salvador	343	244	297	231	165	132	-293	-35	642	-18
Guatemala	256	421	653	1 118	696	1 483	1 642	938	1 283	974
Haiti	232	79	85	56	80	19	92	-14	3	28
Honduras	65	92	368	173	528	161	272	243	-20	411
Mexico	-1 464	-9 169	6 073	5 371	2 604	6 194	11 498	8 786	5 709	-2 932
Nicaragua	339	554	749	471	888	573	577	741	706	866
Panama	82	249	718	479	652	4	204	-140	-574	-1 297
Paraguay	262	423	478	189	300	109	237	-138	155	407
Peru	3 064	3 532	3 037	975	-633	-291	310	489	-505	-2 495
Dominican Republic	-455	-527	-593	-453	-352	-85	168	-880	-2 463	-1 931
Uruguay	203	185	486	793	254	672	702	-2 602	964	-131
Venezuela (Bolivarian Republic of)	-5 864	-4 368	-3 606	-1 955	-2 957	-7 792	-6 035	-14 782	-8 468	-19 396

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

^a The net transfer of resources is equal to total net capital inflows minus the income balance (net payments of profits and interests). Total net capital inflows correspond to the capital and financial accounts, plus errors and omissions, and the use of IMF credit and loans and exceptional financing. Negative figures indicate net outward resource transfers.

^b Preliminary figures.

Table A - 13
LATIN AMERICA AND THE CARIBBEAN: TOTAL NET CAPITAL INFLOWS AND NET RESOURCE TRANSFERS
 (Billions of dollars and percentages)

	Total net capital inflows			Net payments of profits and interest ^a	Net resource transfers (5) = (3) - (4)	Exports of goods and services (6)	Net resource transfers as a percentage of exports of goods and services (7) = (5) / (6) (7)
	Autonomous ^b	Non-autonomous ^c	Total				
	(1)	(2)	(3)				
1980	29.2	1.7	30.9	18.9	12.0	106.9	11.3
1981	38.4	1.8	40.1	29.1	11.1	115.6	9.6
1982	3.3	17.2	20.5	38.9	-18.4	105.2	-17.5
1983	-22.3	30.1	7.9	34.5	-26.7	105.4	-25.3
1984	-10.9	23.9	13.0	37.5	-24.5	117.5	-20.8
1985	-16.4	20.3	3.9	35.5	-31.6	112.8	-28.1
1986	-12.4	21.9	9.4	32.7	-23.3	99.2	-23.4
1987	-13.2	25.6	12.4	31.0	-18.6	113.4	-16.4
1988	-19.8	22.8	3.0	34.6	-31.6	130.6	-24.2
1989	-18.8	29.0	10.2	39.0	-28.8	145.8	-19.7
1990	-5.5	21.6	16.1	34.2	-18.1	162.0	-11.2
1991	23.3	11.8	35.1	31.4	3.7	164.2	2.3
1992	48.6	7.5	56.1	30.1	26.1	177.0	14.7
1993	68.4	-1.9	66.4	34.5	32.0	193.5	16.5
1994	41.2	5.8	47.0	36.1	11.0	222.5	4.9
1995	29.3	31.6	61.0	40.8	20.2	265.9	7.6
1996	63.9	0.9	64.8	42.7	22.0	295.0	7.5
1997	89.2	-9.0	80.2	47.7	32.6	327.3	9.9
1998	63.4	15.7	79.1	51.3	27.8	327.1	8.5
1999	42.3	6.3	48.6	50.4	-1.8	343.1	-0.5
2000	61.2	-7.7	53.6	53.6	0.0	408.4	0.0
2001	35.5	16.2	51.8	54.7	-2.9	391.0	-0.7
2002	-14.5	24.7	10.3	51.2	-41.0	393.2	-10.4
2003	2.7	18.7	21.4	55.8	-34.4	425.9	-8.1
2004 ^d	-19.4	6.8	-12.5	65.3	-77.8	514.8	-15.1

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

^a Equal to the income balance.

^b Equal to the capital and financial balance, plus errors and omissions.

^c Includes the use of IMF credit and loans and exceptional financing (includes transactions such as external debt forgiveness and accumulation of arrears).

^d Preliminary figures.

Table A - 14
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL ACCRUED INTEREST TO EXPORTS
 OF GOODS AND SERVICES ^a**
 (Percentages)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	16.7	16.0	15.5	16.8	16.2	14.0	14.7	12.8	11.7	9.8
Argentina	27.7	27.7	28.9	34.4	41.0	38.1	39.4	34.7	28.8	24.8
Bolivia	16.5	14.2	14.8	15.0	15.7	14.3	10.4	19.4	7.1	6.1
Brazil	21.9	25.3	26.0	30.5	31.6	26.5	26.4	21.9	18.8	14.3
Chile	7.3	7.2	7.3	8.2	7.9	8.2	7.7	6.7	5.3	4.4
Colombia	15.6	16.2	18.7	19.8	18.3	16.9	17.1	17.6	15.5	13.9
Costa Rica	5.7	4.8	4.6	3.6	3.2	4.1	5.1	4.1	3.9	3.7
Ecuador	16.9	16.4	15.8	21.1	21.1	19.9	18.5	16.8	15.8	13.0
El Salvador	5.9	6.1	8.2	8.0	8.7	8.6	9.3	9.8	11.2	14.8
Guatemala	3.9	5.0	4.6	4.2	3.7	4.1	5.6	6.2	5.3	5.5
Haiti	14.0	5.4	3.6	2.4	2.4	1.8	2.1	3.2	3.1	2.4
Honduras	13.3	11.3	9.2	8.0	8.6	7.5	6.3	5.7	4.9	5.0
Mexico	13.6	12.6	10.5	9.7	8.7	7.6	8.0	7.5	7.2	6.5
Nicaragua	53.0	40.0	25.1	16.2	17.2	14.8	18.8	15.2	13.3	11.0
Panama	22.5	17.0	15.7	19.0	20.6	20.1	17.6	12.5	11.5	9.9
Paraguay	2.1	2.1	2.4	2.0	3.1	4.7	6.2	5.6	4.1	5.1
Peru	33.8	25.3	19.5	23.7	23.0	21.1	19.2	14.6	12.8	10.7
Dominican Republic	4.6	3.9	3.1	2.8	2.7	2.8	3.0	2.5	3.6	3.5
Uruguay	16.5	15.9	16.6	18.0	20.9	20.6	24.5	24.5	19.4	16.4
Venezuela (Bolivarian Republic of)	16.1	11.2	12.9	14.7	12.6	8.6	9.7	8.5	7.4	5.5

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

^a Includes interest paid (not deducting interest received) and interest due and not paid.

^b Preliminary figures.

Table A - 15
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFIT PAYMENTS
 TO EXPORTS OF GOODS AND SERVICES ^a**
 (Percentages)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	5.5	5.2	6.1	6.4	5.0	5.7	5.1	4.4	5.0	5.6
Argentina	8.5	7.3	8.8	8.9	7.5	9.9	2.9	-1.2	3.1	5.4
Bolivia	2.0	3.0	5.7	6.0	10.9	10.1	11.0	0.0	12.5	12.6
Brazil	5.3	7.6	10.3	11.0	9.3	6.6	7.4	8.5	7.2	7.5
Chile	11.3	9.4	10.0	6.9	7.0	10.9	10.0	10.9	11.6	17.3
Colombia	2.9	4.9	4.0	-0.2	-2.1	4.2	6.2	7.4	10.1	11.2
Costa Rica	2.4	1.8	3.4	5.6	20.9	14.7	8.7	4.9	7.8	3.0
Ecuador	2.8	3.4	3.2	4.6	4.7	4.7	5.9	4.9	5.2	4.3
El Salvador	0.0	0.0	0.0	1.0	3.5	1.6	2.0	2.3	1.9	1.9
Guatemala	3.4	4.6	5.1	3.7	4.3	6.4	4.4	5.7	6.6	6.5
Haiti	2.0	-0.2	0.0	0.0	0.0	0.0	...	...	...	...
Honduras	2.4	3.5	3.2	2.9	2.0	2.8	4.3	4.3	4.1	3.9
Mexico	4.8	3.8	3.1	4.1	2.4	4.0	3.2	1.9	1.9	1.8
Nicaragua	4.3	6.2	5.9	6.2	6.5	6.3	8.2	7.9	7.7	7.3
Panama	5.2	5.5	6.1	7.8	10.1	7.4	7.3	3.7	9.4	8.0
Paraguay	1.3	1.8	3.8	4.3	3.6	3.0	3.6	1.6	1.7	1.5
Peru	12.6	9.3	11.0	2.9	0.2	4.0	1.5	5.2	9.4	12.7
Dominican Republic	10.9	9.8	10.1	11.1	12.1	11.9	13.0	15.2	14.0	13.5
Uruguay	1.5	0.9	0.9	1.4	3.8	2.4	3.0	-9.4	0.3	0.6
Venezuela (Bolivarian Republic of)	2.1	1.7	6.6	11.4	3.9	4.1	6.7	7.0	5.2	3.9

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

^a Includes reinvestment of profits.

^b Preliminary figures.

Table A - 16
LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT^{a b}
(Millions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^c
Latin America and the Caribbean	26 180	40 746	58 745	64 694	80 150	69 939	66 111	40 287	29 499	39 474
Argentina ^d	4 112	5 348	5 507	4 965	22 257	9 517	2 005	1 413	-296	1 800
Bolivia	391	472	728	947	1 008	734	660	674	195	134
Brazil	3 475	11 667	18 608	29 192	26 886	30 498	24 715	14 108	9 894	7 100
Chile	2 205	3 681	3 809	3 144	6 203	873	2 590	1 594	1 587	7 161
Colombia	712	2 784	4 753	2 033	1 392	2 069	2 493	1 258	837	2 240
Costa Rica	331	421	404	608	614	404	445	628	550	585
Ecuador	452	500	724	870	648	720	1 330	1 275	1 555	1 200
El Salvador ^e	38	-7	59	1 103	162	178	289	496	68	370
Guatemala	75	77	84	673	155	230	456	111	116	125
Haiti	7	4	4	11	30	13	4	6	11	6
Honduras	50	91	122	99	237	282	193	176	198	195
Jamaica	81	90	147	287	429	394	525	407	...	...
Mexico ^f	9 526	9 186	12 831	11 897	13 055	16 075	23 147	14 216	9 463	13 500
Nicaragua	89	120	203	218	337	267	150	204	201	261
Panama	223	416	1 299	1 203	864	700	405	78	792	467
Paraguay	98	144	230	336	89	113	79	11	85	80
Peru	2 549	3 488	2 054	1 582	1 812	810	1 070	2 156	1 317	1 332
Dominican Republic	414	97	421	700	1 338	953	1 079	917	310	463
Trinidad and Tobago	299	355	999	730	379	654	685	684	1 009	1 626
Uruguay	157	137	113	155	235	274	314	121	271	230
Venezuela (Bolivarian Republic of)	894	1 676	5 645	3 942	2 018	4 180	3 479	-244	1 338	600

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

^a Refers to direct investment in the reporting economy, minus direct investment abroad by reporting-economy residents (both excluding disinvestment). Includes reinvested profits.

^b In accordance with the fifth edition of the IMF Balance of Payments Manual, all transactions between non-financial direct investment enterprises and their parent companies and affiliates are included in direct investment.

^c Preliminary figures.

^d For 1999, includes the value of the investment by REPSOL in Yacimientos Petrolíferos Fiscales. Part of this amount corresponds to the purchase of shares in the company held by non-residents. In the balance of payments, the value of those shares is reflected as a debit under the portfolio investment item.

^e From 1998 onward the figures are not comparable, since up to 1997 no official records were kept.

^f In 2001, includes the Citigroup investment in Banamex; in 2004 includes investment in Bancomer.

Table A - 17
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES^a
(Millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	54 354	55 410	40 406	43 707	40 255	38 653	24 255	37 906	25 942
Argentina	14 110	15 571	15 931	14 900	13 468	2 711		100	100
Barbados					200	150			
Belize							125	100	-
Bolivia								-	108
Brazil	13 868	15 839	8 380	11 180	12 068	13 010	7 054	19 364	9 481
Chile	2 349	1 800	1 063	1 765	676	1 515	2 694	3 200	1 150
Colombia	2 615	1 605	1 385	1 676	1 622	4 329	695	1 545	1 000
Costa Rica			200	300	250	250	250	490	310
Ecuador		625							
El Salvador				150	50	354	1 352	349	286
Guatemala		150				325	550	300	50
Jamaica	75		250		422	812	300	-	864
Mexico	20 462	15 250	8 914	11 441	9 777	11 016	8 205	7 979	9 574
Panama	125	1 146	325	500	350	1 100	1 030	275	170
Peru	26	450	150				1 000	750	500
Dominican Republic		200				500	600	1 100	-
Trinidad and Tobago				230	250				
Uruguay	100	479	550	350	641	1 006	400	-	350
Venezuela (Bolivarian Republic of)	625	2 295	3 259	1 215	482	1 575		2 354	2 000

Source: International Monetary Fund (IMF), Research Department, Emerging Markets Studies Division.

^a Gross issues. Does not include medium-term euronotes.

^b January-October.

Table A - 18
LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT^a
(Millions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	598 746	626 979	659 204	745 962	750 734	728 111	711 680	704 335	732 570	720 935
Argentina	98 547	110 613	125 052	141 929	145 289	146 575	140 214	134 147	145 583	147 319
Bolivia ^c	4 523	4 366	4 234	4 655	4 574	4 461	4 412	4 300	5 042	4 735 ^d
Brazil	165 447	186 561	208 375	259 496	241 468	236 157	226 067	227 689	235 415	221 384 ^e
Chile	21 736	26 272	29 034	32 591	34 758	37 177	38 032	40 395	41 179	43 931 ^f
Colombia	26 340	31 116	34 409	36 681	36 733	36 131	39 109	37 336	38 193	37 985 ^e
Costa Rica ^c	3 259	2 859	2 640	2 872	3 057	3 151	3 243	3 338	3 753	3 833
Ecuador	13 934	14 586	15 099	16 400	16 282	13 564	14 376	16 236	16 586	16 870 ^f
El Salvador ^c	2 168	2 517	2 689	2 646	2 789	2 831	3 148	3 987	4 717	4 792
Guatemala ^c	2 107	2 075	2 135	2 354	2 412	2 455	2 794	2 988	3 467	3 484
Honduras	4 243	4 121	4 073	4 369	4 691	4 711	4 757	4 922	5 143	5 535
Mexico	165 600	157 200	149 028	160 258	166 381	148 652	144 534	135 380	132 860	132 131 ^g
Nicaragua ^c	10 248	6 094	6 001	6 287	6 549	6 660	6 374	6 363	6 596	5 165
Panama ^c	3 938	5 069	5 051	5 180	5 412	5 604	6 263	6 349	6 502	6 639
Paraguay	1 742	1 801	1 927	2 133	2 697	2 819	2 652	2 866	2 871	2 352 ^d
Peru	33 378	33 805	28 642	29 477	28 704	28 150	27 195	27 840	29 708	29 792 ^f
Dominican Republic	3 999	3 807	3 572	3 546	3 661	3 682	4 177	4 538	5 899	6 400
Uruguay	...	...	...	...	8 261	8 895	8 937	10 548	11 013	10 837 ^g
Venezuela (Bolivarian Republic of)	37 537	34 117	37 242	35 087	37 016	36 437	35 398	35 114	38 043	37 752 ^f

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

^a Includes debt owed to the International Monetary Fund.

^b Preliminary figures.

^c Public external debt.

^d Data to October

^e Data to August.

^f Data to September.

^g Data to June.

Table A - 19
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL DISBURSED EXTERNAL
 DEBT TO EXPORTS OF GOODS AND SERVICES**
 (Percentages)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Latin America and the Caribbean	228	215	204	231	219	179	182	179	172	140
Argentina	395	390	404	455	520	471	453	468	438	381
Bolivia ^b	367	333	299	343	349	303	290	276	269	202
Brazil	314	355	352	442	437	366	335	326	282	207
Chile	112	130	133	161	165	160	170	179	159	118
Colombia	214	236	242	273	263	229	260	263	246	208
Costa Rica ^b	73	59	49	42	37	41	48	47	46	45
Ecuador	268	260	250	328	305	227	255	265	234	196
El Salvador ^b	106	114	92	87	88	77	88	105	118	117
Guatemala ^b	75	74	67	68	69	64	72	75	84	78
Honduras	260	214	186	180	210	189	196	196	193	193
Mexico	185	147	123	124	112	83	84	78	75	65
Nicaragua ^b	1 549	842	666	666	680	604	673	701	661	469
Panama ^b	52	68	60	63	76	72	78	84	85	77
Paraguay	36	41	48	51	93	99	108	118	101	73
Peru	504	464	342	391	374	329	319	300	279	210
Dominican Republic ^b	70	61	51	47	46	41	50	55	66	70
Uruguay	...	...	...	...	233	243	274	392	361	283
Venezuela (Bolivarian Republic of)	181	135	148	183	166	105	126	126	137	94

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

^a Preliminary figures.

^b Public external debt.

Table A - 20
**LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE
 INDICES IN DOLLARS^a**
 (Indices, June 1997=100)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^b
Latin America and the Caribbean	62.9	73.0	91.2	56.4	88.6	75.1	70.5	54.5	92.0	107.8
Argentina	69.1	82.1	96.3	68.9	91.9	68.9	47.7	24.0	54.7	63.2
Brazil	50.5	65.8	79.4	45.5	76.1	69.7	54.1	36.2	73.8	81.6
Chile	93.3	77.3	79.9	55.9	75.7	65.0	61.6	52.5	94.9	102.9
Colombia	77.1	80.5	99.9	56.4	45.1	24.8	31.1	34.1	43.4	74.8
Mexico	66.7	77.4	114.3	70.0	125.7	100.1	112.3	93.7	123.6	156.4
Peru	73.5	74.0	84.3	50.8	61.5	44.4	49.9	65.3	116.8	131.4
Venezuela (Bolivarian Republic of)	31.2	72.3	89.1	42.9	37.5	47.4	37.9	24.6	28.1	47.5

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

^a Year-end values; overall index.

^b Data to October.

Table A - 21
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATES^{a b}
(Index: 2000=100; based on CPI)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 ^c	2004 ^c
Latin America and the Caribbean ^d	107.5	106.1	100.3	98.3	100.3	100.0	99.6	110.8	117.0	117.5
Argentina	113.3	116.5	114.5	110.1	99.8	100.0	95.9	228.1	212.4	219.5
Bolivia	110.8	106.0	103.8	100.0	99.1	100.0	101.4	99.2	108.3	115.5
Brazil	75.8	72.4	71.2	73.6	108.5	100.0	120.1	134.8	135.2	130.7
Chile	100.0	97.6	92.0	94.7	99.3	100.0	112.5	113.4	119.7	112.4
Colombia	88.0	83.0	77.9	83.6	92.2	100.0	104.3	107.5	121.6	111.7
Costa Rica	99.8	100.3	100.8	99.3	101.4	100.0	97.7	99.4	105.1	107.9
Ecuador	66.7	68.2	66.2	65.1	89.2	100.0	70.9	62.8	61.2	63.6
El Salvador	112.8	104.8	102.3	101.9	100.3	100.0	99.7	99.8	100.8	100.5
Guatemala	98.3	94.5	89.5	88.5	98.6	100.0	96.3	89.1	88.5	87.1
Honduras	124.0	126.8	119.4	109.4	104.7	100.0	96.9	96.1	98.3	100.1
Jamaica	139.9	118.9	103.5	99.1	98.7	100.0	101.6	102.4	118.9	119.8
Mexico	151.3	136.0	118.6	118.5	108.2	100.0	94.3	94.0	104.6	108.8
Nicaragua	95.8	98.1	102.1	102.7	103.1	100.0	101.4	104.8	109.5	111.1
Panama	103.1	103.5	103.4	102.5	100.7	100.0	102.8	102.8	106.6	109.1
Paraguay	101.2	98.7	95.1	102.8	97.6	100.0	102.7	112.0	118.2	112.1
Peru	92.8	91.6	91.5	93.3	101.8	100.0	98.0	97.7	101.2	102.9
Uruguay	110.9	111.6	109.3	107.2	98.5	100.0	101.6	125.6	155.9	160.0
Venezuela (Bolivarian Republic of)	150.4	181.7	144.1	117.5	103.2	100.0	95.0	124.6	139.3	142.3

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

^a The index of the real effective exchange rate is the average of two indices: the real exchange rate index for imports and the corresponding index for exports. Both rates are calculated using the nominal exchange rates for each country's main trading partners. These figures are then deflated by variations in the consumer price index in each country and, lastly, weighted according to the share of total imports and exports accounted for by bilateral trade. The trade pattern for 2002 was used to calculate the indices for 2003 and 2004.

^b Annual averages.

^c Preliminary figures. The figures shown for 2004 correspond to the average for January to October.

^d Simple average.

Table A - 22
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Average annual rates)

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Latin America and the Caribbean^b		8.7	9.4	8.9	10.0	10.7	10.2	9.9	10.8	10.7	10.0
Argentina ^c	Urban areas	17.5	17.2	14.9	12.9	14.3	15.1	17.4	19.7	17.3	13.8 ^d
Barbados ^e	Nationwide total	19.7	15.6	14.5	12.3	10.4	9.2	9.9	10.3	11.1	10.6
Bolivia	Departmentals capitals	3.6	3.8	4.4	6.1	7.2	7.5	8.5	8.7	9.5	...
Brazil ^f	Six metropolitan areas	4.6	5.4	5.7	7.6	7.6	7.1	6.2	11.7	12.3	11.5 ^g
Chile	Nationwide total	7.4	6.4	6.1	6.4	9.8	9.2	9.1	9.0	8.5	8.8 ^g
Colombia ^e	13 metropolitan areas ^h	8.8	11.2	12.4	15.3	19.4	17.2	18.2	17.6	16.7	15.5 ^g
Costa Rica	Urban total	5.7	6.6	5.9	5.4	6.2	5.3	5.8	6.8	6.7	6.7
Cuba	Nationwide total	7.9	7.6	7.0	6.6	6.0	5.5	4.1	3.3	2.3	2.0
Ecuador ^e	Cuenca, Guayaquil and Quito ⁱ	7.7	10.4	9.3	11.5	15.1	14.1	10.4	8.6	9.8	11.0 ^g
El Salvador	Urban total	7.0	7.5	7.5	7.6	6.9	6.5	7.0	6.2	6.2	6.3 ^g
Guatemala ^j	Nationwide total	3.9	5.2	5.1	3.8	...	...	...	3.1	3.4	...
Honduras	Urban total	5.6	6.5	5.8	5.2	5.3	...	5.9	6.1	7.7	8.0 ^k
Jamaica ^e	Nationwide total	16.2	16.0	16.5	15.5	15.7	15.5	15.0	15.1	13.1	13.0 ^j
Mexico	Urban areas	6.2	5.5	3.7	3.2	2.5	2.2	2.5	2.7	3.2	3.8 ^g
Nicaragua ⁱ	Nationwide total	16.9	16.0	14.3	13.2	10.7	9.8	10.5	11.6	10.2	...
Panama ^e	Urban total ^l	16.6	16.9	15.5	15.2	14.0	15.2	17.0	16.5	15.6	...
Paraguay	Urban total	5.3	8.2	7.1	6.6	9.4	10.0	10.8	14.7	11.2	...
Peru	Metropolitan Lima	8.2	8.0	9.2	8.5	9.2	8.5	9.3	9.4	9.4	9.5 ^g
Dominican Republic ^e	Nationwide total	15.8	16.5	15.9	14.3	13.8	13.9	15.4	16.1	16.6	17.0 ^m
Trinidad and Tobago ^e	Nationwide total	17.2	16.2	15.0	14.2	13.2	12.2	10.8	10.4	10.6	7.8 ⁿ
Uruguay	Urban total	10.3	11.9	11.5	10.1	11.3	13.6	15.3	17.0	16.9	13.0 ^g
Venezuela (Bolivarian Republic of)	Nationwide total	10.3	11.8	11.4	11.3	15.0	13.9	13.3	15.8	18.0	15.3 ^g

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

^a Preliminary figures.

^b The data for Brazil and Argentina were adjusted to allow for a change in methodology in 2002 and 2003 respectively.

^c A new measurement was used from 2003 on; these data are not comparable with the earlier series.

^d Estimate based on the first half-year.

^e Includes hidden unemployment.

^f A new measurement was used from 2002 on; these data are not comparable with the earlier series.

^g Estimate based on the average from January to October.

^h Up to 1999, seven metropolitan areas.

ⁱ Up to 1998: urban total.

^j Official estimates.

^k Figure for May.

^l Up to 1999, Metropolitan Region.

^m Figure for April.

ⁿ Second quarter.

Table A - 23
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
 (Percentage variations, December-December)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Latin America and the Caribbean^b	26.0	18.6	10.7	10.0	9.7	9.0	6.1	12.2	8.5	7.7
Argentina	1.6	0.1	0.3	0.7	-1.8	-0.7	-1.5	41.0	3.7	5.4
Bahamas	...	1.1	0.8	1.9	1.4	1.0	2.9	1.9	2.3	0.5 ^c
Barbados	...	...	...	...	...	3.8	-0.3	0.9	0.3	1.5 ^d
Bolivia	12.6	7.9	6.7	4.4	3.1	3.4	0.9	2.4	3.9	4.9
Brazil	22.4	9.6	5.2	1.7	8.9	6.0	7.7	12.5	9.3	7.2
Chile	8.2	6.6	6.0	4.7	2.3	4.5	2.6	2.8	1.1	2.5
Colombia	19.5	21.6	17.7	16.7	9.2	8.8	7.6	7.0	6.5	5.8
Costa Rica	...	13.9	11.2	12.4	10.1	10.2	11.0	9.7	9.9	13.3
Cuba	...	...	1.9	2.9	-2.9	-3.0	-0.5	7.0	5.0	...
Ecuador	22.8	25.6	30.7	43.4	60.7	91.0	22.4	9.4	6.1	2.0
El Salvador	11.4	7.4	1.9	4.2	-1.0	4.3	1.4	2.8	2.6	5.3
Grenada	2.1	3.2	0.9	1.2	1.1	3.4	-0.7	2.3	...	...
Guatemala	8.6	10.9	7.1	7.5	4.9	5.1	8.9	6.3	5.9	9.2
Guyana	8.1	4.5	4.2	4.7	8.7	5.8	1.5	6.0	...	...
Haiti	24.8	14.5	15.7	7.4	9.7	19.0	8.1	14.8	40.4	22.0 ^e
Honduras	26.9	25.2	12.7	15.7	11.0	10.1	8.8	8.1	6.8	9.1
Jamaica	25.5	15.8	9.2	7.9	6.8	6.1	8.7	7.3	14.1	12.3 ^e
Mexico	52.0	27.7	15.7	18.6	12.3	9.0	4.4	5.7	4.0	5.4
Nicaragua	10.9	12.1	7.3	18.5	7.2	9.9	4.7	4.0	6.6	10.1 ^e
Panama	0.8	2.3	-0.5	1.4	1.5	0.7	0.0	1.9	1.5	2.5 ^f
Paraguay	10.5	8.2	6.2	14.6	5.4	8.6	8.4	14.6	9.3	2.1
Peru	10.2	11.8	6.5	6.0	3.7	3.7	-0.1	1.5	2.5	4.1
Dominican Republic	9.2	4.0	8.4	7.8	5.1	9.0	4.4	10.5	42.7	46.1 ^e
Saint Vincent and the Grenadines	3.1	3.6	0.8	3.3	-1.8	1.4	-0.2	0.4	2.7	3.8 ^g
Saint Lucia	3.7	-2.3	1.9	3.6	6.1	0.4	0.0	1.4	0.4	4.9 ^f
Trinidad and Tobago	3.8	4.3	3.5	5.6	3.4	5.6	3.2	4.3	3.0	3.2 ^f
Uruguay	35.4	24.3	15.2	8.6	4.2	5.1	3.6	25.9	10.2	8.2
Venezuela (Bolivarian Republic of)	56.6	103.2	37.6	29.9	20.0	13.4	12.3	31.2	27.1	19.5

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

^a Twelve-month variation to November 2004.

^b Does not include Bahamas, Cuba, Grenada, Guyana, Saint Vincent and the Grenadines, Saint Lucia or Trinidad and Tobago.

^c Twelve-month variation to August 2004.

^d Twelve-month variation to July 2004.

^e Twelve-month variation to October 2004.

^f Twelve-month variation to June 2004.

Table A - 24
LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES
(Average annual indices: 1995=100)

	1990	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^a
Argentina ^b	99.1	100.6	100.9	100.9	103.9	106.2	105.5	90.8	89.4	97.5 ^c
Brazil ^d	104.5	107.9	110.8	110.8	105.9	104.8	99.6	97.5	89.0	89.3 ^c
Chile ^e	80.9	104.1	106.6	109.5	112.1	113.7	115.5	117.9	118.9	121.3 ^c
Colombia ^b	88.3	102.3	106.5	106.7	111.4	115.7	115.4	118.5	118.4	119.4 ^f
Costa Rica ^g	89.8	97.9	98.7	104.3	109.2	110.1	111.2	115.7	116.2	113.2 ^c
Mexico ^b	88.1	90.1	89.6	92.1	93.5	99.1	105.7	107.8	109.2	109.7 ^c
Nicaragua	81.8	97.8	97.7	105.0	109.7	111.4	116.2	121.2	124.4	124.7 ^f
Paraguay	87.7	103.1	102.6	100.7	98.6	99.9	101.3	94.8	92.9	89.5 ^h
Peru ⁱ	85.7	95.2	94.5	92.7	90.7	91.4	90.6	94.8	96.3	95.2 ^j
Uruguay	91.7	100.6	100.8	102.7	104.3	102.9	102.7	91.7	80.2	79.9 ^k
Venezuela (Bolivarian Republic of) ^l	138.1	76.7	96.3	101.5	96.8	98.3	100.6	90.5	75.4	72.7 ^c

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

^a Preliminary figures.

^b Manufacturing.

^c Average January-September.

^d Workers covered by social and labour legislation.

^e General index of hourly wages.

^f Average January-August.

^g Average wages declared by workers covered by social security.

^h Data for June.

ⁱ Private-sector workers in Metropolitan Lima. The figure for 2004 refers to labour incomes in the Lima metropolitan area.

^j Average from November 2003 to October 2004 with respect to the preceding 12 months.

^k Estimate based on data for January to October.

^l Private sector.

Table A - 25
LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR DEFICIT (-) OR SURPLUS ^a
 (Percentages of GDP)

	Coverage ^b	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ^c
Latin America and the Caribbean	CG	-1.7	-1.5	-1.3	-2.2	-2.9	-2.7	-3.3	-3.0	-2.8	-2.2
Argentina	NA	-1.9	-2.8	-1.4	-1.8	-3.0	-2.1	-3.8	-0.3	0.3	1.3
	NFPS	-3.3	-1.1	-2.4	-2.3	-3.3	-3.3	-7.8	-1.0	1.6	...
Bolivia	GG	-1.3	-1.7	-3.6	-4.0	-3.4	-3.9	-7.4	-9.0	-7.7	-6.1
	NFPS	-1.8	-1.9	-3.3	-4.7	-3.5	-3.7	-6.9	-9.0	-7.9	...
Brazil	FG ^d	-5.0	-3.7	-3.0	-4.0	-3.3	-1.2	-1.3	-0.3	-1.0	-1.2
	CPS ^d	-	-	-	-7.1	-1.1	-1.2	-1.1	2.6	-2.9	...
Chile	CG ^e	3.1	2.2	2.1	0.4	-2.1	-0.6	-0.5	-1.2	-0.4	1.9
	NFPS	4.4	2.3	1.4	-1.4	-3.3	-1.0	-0.4	-2.5	-1.7	...
Colombia	CNG ^f	-2.1	-3.3	-3.5	-4.7	-5.3	-6.4	-5.4	-5.0	-4.8	-5.6
	NFPS	-0.3	-1.7	-2.8	-3.7	-4.1	-4.0	-4.1	-3.5	-2.7	...
Costa Rica	CG	-3.5	-4.0	-2.9	-2.5	-2.2	-3.0	-2.9	-4.3	-2.9	-3.0
	NFPS ^g	-1.6	-2.5	-0.8	-0.6	-1.7	-1.6	-1.6	-3.9	-2.4	...
Ecuador	CG ^h	-1.4	-2.4	-1.2	-4.1	-2.9	0.1	-0.7	-0.8	-0.9	-1.7
	NFPS ^h	-1.0	-2.7	-2.1	-4.8	-3.9	1.5	0.4	0.6	1.2	...
El Salvador	CG	-0.6	-1.8	-1.1	-2.0	-2.1	-2.3	-3.6	-3.1	-2.7	-1.3
	NFPS	-0.1	-2.5	-1.8	-2.6	-2.8	-3.0	-3.7	-3.3	-1.3	...
Guatemala	CG	-0.5	0.0	-0.8	-2.2	-2.8	-1.8	-1.9	-1.0	-2.3	-1.3
Haiti	CG ⁱ	-4.1	-2.0	-0.6	-1.1	-1.4	-2.2	-2.8	-2.5	-2.7	-2.7
Honduras	CG ^j	-3.1	-3.5	-2.8	-1.2	-4.3	-5.7	-5.9	-5.2	-5.9	-3.5
	NFPS	4.3	-2.5	-1.0	2.9	0.7	-2.3	-2.3	-2.4	-4.0	...
Mexico	CG	-0.6	-0.2	-1.1	-1.4	-1.5	-1.3	-0.7	-1.8	-1.1	...
	PS	0.0	0.0	-0.7	-1.2	-1.1	-1.1	-0.7	-1.2	-0.6	-0.3
Nicaragua	CG ^k	-0.3	-0.9	-0.8	-1.2	-3.8	-5.0	-8.7	-4.1	-3.3	-3.8
	NFPS	-1.5	-2.9	-1.0	0.4	-2.2	-4.5	-6.3	-0.8	-1.4	...
Panama	CG	-1.7	0.2	-0.3	-4.5	-2.0	-1.1	-1.7	-1.9	-2.5	...
	NFPS	3.2	1.7	0.1	-2.3	-0.9	0.7	-0.4	-2.0	-1.9	-5.0
Paraguay	CA	-0.3	-1.1	-1.4	-1.0	-3.6	-4.3	-1.1	-3.0	-0.4	0.7
	NFPS	1.0	0.9	-0.9	0.3	-3.0	-3.7	-0.1	-1.8	1.0	...
Peru	CG	-3.4	-1.4	-0.8	-1.1	-3.1	-2.8	-2.8	-2.1	-1.8	-1.3
	NFPS	-3.1	-1.0	0.2	-0.9	-3.2	-3.2	-2.6	-2.3	-1.9	...
Dominican Republic	CG ^l	0.1	-1.6	-1.6	-1.0	-1.8	-2.1	-2.4	-2.7	-3.8	-2.7
Uruguay	CG	-1.9	-1.8	-1.6	-1.2	-3.9	-3.5	-4.5	-4.9	-4.6	...
	GPS	-1.5	-1.4	-1.4	-0.9	-4.0	-4.1	-4.3	-4.6	-3.2	-3.1
Venezuela (Bolivarian Republic of)	CG	-4.3	0.6	1.9	-3.8	-1.6	-1.6	-4.2	-3.5	-4.3	-3.3
	RPS	-5.7	6.8	3.6	-4.3	0.7	4.3	-4.5	-1.0	0.2	...

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

^a Total income minus total expenditure, expressed in local currency.

^b Abbreviations used: NA = National administration; CA = Central administration; CG = Central government; FG = Federal government; GG = General government; CNG = Central national government; NFPS = Non-financial public sector; PS = Public sector; CPS = Consolidated public sector; GPS = Global public sector; RPS = Reduced public sector.

^c Preliminary figures.

^d Operating balance.

^e Series corresponds to new methodology (accrual basis).

^f These results do not include adjustments for accruals, floating debt or the cost of financial restructuring.

^g Up to 1996, narrowly defined non-financial public sector.

^h In 2003, does not include US\$ 130 million that the Office of the Under-Secretary of the National Treasury de-earmarked from the central government accounts.

ⁱ Overall balance calculated "below the line" (financing).

^j New methodology from 1998 (accrual basis).

^k Includes grants.

^l New methodology from 1999 (accrual basis).



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