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United Nations

ECLAC

Economic Commission for Latin America and the Caribbean

PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN 1998

REGIONAL PANORAMA

In 1998 the Latin American and Caribbean countries had to deal with an extremely high degree of volatility in international finance and trade. Considering the strength of the negative external shocks, the region's economies performed reasonably well. This volatility is still in evidence, however, and many of these shocks have a delayed effect. Consequently, the situation at the close of 1998 and the outlook for 1999 remain highly problematic.

The average growth rate was down sharply from 5.2% in 1997 to 2.3% in 1998, but even so the rate was higher than the figure for the world economy as a whole, which is estimated at less than 2%. These figures are annual averages, however, and therefore do not reflect the intensification of economic problems that occurred later in the year. The typical pattern was high growth rates during the first six months,

(continued on page 3 ➡)

Latin America and the Caribbean: variation of total gross domestic product and per capita gross domestic product (Percentages based on values at 1995 prices)

	Average annual rate				Annual growth rates			
	1981-1990 ^{b/}		1991-1998		1997		1998 ^{a/}	
	GDP	GDP/ per cap.	GDP	GDP/ per cap.	GDP	GDP/ per cap.	GDP	GDP/ per cap.
Latin Am. and the Caribbean^{b/}	1.0	-1.0	3.3	1.7	5.2	3.5	2.3	0.7
Subtotal (19 countries)^{b/}	1.0	-1.0	3.3	1.7	5.2	3.5	2.3	0.7
Argentina	-0.7	-2.1	5.2	4.4	8.4	7.0	4.0	2.8
Bolivia	0.2	-1.9	3.7	1.8	4.2	1.8	4.5	2.1
Brazil	1.3	-0.7	2.7	1.2	3.0	1.6	0.5	-0.8
Chile	3.0	1.3	6.9	5.7	7.1	5.6	4.0	2.4
Colombia	3.7	1.6	3.3	0.7	3.0	1.1	2.0	-0.1
Costa Rica	2.2	-0.6	3.1	0.7	3.7	1.1	5.5	2.9
Cuba ^{d/}	3.7	2.8	-3.2	-3.6	2.5	2.0	1.5	1.1
Ecuador	1.7	-0.9	2.9	0.8	3.3	1.2	1.0	-1.0
El Salvador	-0.4	-1.4	4.3	2.4	4.0	1.9	3.5	1.4
Guatemala	0.9	-1.6	3.6	1.5	4.1	1.4	4.5	2.0
Haiti	-0.5	-2.4	-2.1	-4.4	1.1	-0.8	3.0	1.0
Honduras	2.4	-0.8	3.1	0.5	4.3	1.4	3.0	0.0
Mexico	1.8	-0.3	2.5	1.3	7.0	5.2	4.5	2.9
Nicaragua	-1.5	-3.9	2.3	-1.0	5.0	2.1	3.5	0.8
Panamá	1.4	-0.7	4.3	2.9	4.4	2.7	3.5	1.8
Paraguay	3.0	0.0	2.4	-0.3	2.6	-0.1	0.0	-2.7
Peru	-1.2	-3.3	5.3	3.6	7.4	5.5	1.0	-0.8
Dominican Republic	2.4	0.2	4.1	3.1	8.2	6.4	7.0	5.3
Uruguay	0.0	-0.6	3.3	2.9	5.1	4.4	2.5	1.8
Venezuela	-0.7	-3.2	2.3	0.0	5.1	2.9	-1.0	-3.0
Subtotal for Caribbean	0.1	-0.9	1.6	0.7	2.0	0.4	1.2	0.4

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.

Note: Totals and subtotals, where appropriate, do not include those countries for which no information is given.

^{a/}Preliminary estimates. ^{b/}Calculated on the basis of constant 1995 prices. ^{c/}Does not include Cuba.

^{d/}Calculated on the basis of constant national currency.

THE LATIN AMERICAN ECONOMY IN 1998

JOSÉ ANTONIO OCAMPO

The past year will be remembered as one of the most fraught for the world economy in the last half-century. The financial crisis which began in Asia in mid-1997 spread, and came close to unleashing a catastrophe of enormous proportions. Fortunately, this was avoided by expansionist measures taken by industrialized countries and emergency loans given to developing countries in difficulties. Such actions, of course, should continue. But deep reforms are also needed in the world's financial architecture, aimed at reducing the instability of capital markets and, above all, moving towards a system better able to prevent such crises coming about in the first place.

Faced with such an adverse scenario, national economic authorities showed great determination to face the crisis and create confidence - perhaps more so than at any time in the region's economic history. Given the magnitude of the shocks, performance this year was reasonable, as this edition of "ECLAC Notes" makes clear. But an important lesson of 1998 is that, despite the structural reforms carried out over the course of the decade, little has been achieved in terms of reducing external vulnerability. In fact, the monetary, fiscal and exchange-rate measures taken may well have increased, rather than eased, the impact of events abroad on production. During the past year, the authorities of the region generally opted for significantly increased interest rates, backed by somewhat more moderate


fiscal adjustment, in order to avoid pressure on exchange rates. There is no doubt that this had a favorable effect on inflation and avoided the chaotic processes of exchange-rate adjustment undergone by some Asian countries 1997 and Russia in August 1998. However, this method of macroeconomic management has also tended to exacerbate the slowdown of

Given the magnitude of the shocks, performance this year was reasonable. But an important lesson of 1998 is that, despite the structural reforms carried out over the course of the decade, little has been achieved in terms of reducing external vulnerability.

growth, hold back the expansion and diversification of exports, and weaken the region's financial systems - although, thanks to previous measures, most of these continue to be strong.

This kind of management makes more sense in economies like Argentina, where the stabilization of inflation has depended on a pegged

exchange rate, but can be costly as a general rule. Orderly devaluations, like those during the year in Mexico, Colombia, Chile (with brief interruptions in this latter case) and even Brazil, may be more advisable, especially after a continuous period of revaluation in real terms, like that experienced by most Latin American economies this decade.

1998 also left a perhaps unprecedented legacy of meteorological disasters: first the El Niño phenomenon, then the hurricanes which struck several Caribbean and Central American countries so severely. The devastation left by hurricane Mitch in Honduras and Nicaragua was especially shocking. Beyond the need for international aid and new debt relief for the countries affected, events such as these alert us to the importance of creating more effective means of handling catastrophes and preventing damage. Among these must be steps to avoid environmental devastation like that perpetrated for decades in the region, and which, according to surveys carried out so far, exacerbated the scale of the damage. 

The author is the Executive Secretary of ECLAC.



owing to the inertia of the 1997 economic expansion, followed by very slow growth, or even contractions, during the last two quarters.

Employment figures followed a similar path, with the regional unemployment rate holding fairly steady during the first half of the year, but climbing during the second. The region's strongest performance was in inflation, which has leveled off at around 10% during the past two years. The current account deficit widened substantially, jumping from US\$ 64 billion in 1997 to US\$ 84 billion in 1998, coinciding with a drop in capital inflows from US\$ 80 billion to US\$ 62 billion. Thanks to the region's high level of international reserves, however, its overall US\$ 22 billion balance-of-payments deficit (most of which was accounted for by Brazil) was covered. At the same time, it is important to note that long-term capital inflows were nearly as high as their 1997 record level; it was short-term flows that fell.

The types of problems that were experienced in 1998, and their implications, differed significantly across subregions. South America was especially hard hit. In most cases, with the important exception of Brazil, these countries' export prices fell sharply. On the financial side, a number of South American countries (especially Brazil, Argentina and Chile) have well-developed stock markets, providing a vulnerable flank for international volatility. In addition, the spillover from the troubled Brazilian economy has been especially problematic in the Southern Cone.

In contrast, Mexico and Central America were able to take

advantage of the booming United States' economy to increase the volume of their exports to that country. Although various Central American and Caribbean countries sustained severe damage as a result of hurricanes in the closing months of the year, the brunt of the storms' economic impact will not be felt until later.

All this demonstrates that, even though the region weathered the international crisis fairly well, the depth of the problems facing it should not be underestimated. The region's external vulnerability, about which ECLAC has expressed increasing concern in recent years, continues to manifest itself in both the trade and financial spheres.

Governments also face difficult macroeconomic decisions, obliged to choose between raising interest rates, in order to protect exchange rates and guard against any inflationary setbacks, and devaluing the currency in order to maintain international competitiveness. The first option slows the growth of output and employment, while the second heightens the risk of inflation, adds to the external debt-service burden and may drive down real wages. So far, most Governments have chosen the first option.

Projections for 1999 suggest that the difficulties of the second semester of 1998 are likely to continue, at least into the first half of the year. ECLAC estimates that annual growth will be only around 1%, while inflation should stay in single digits in the majority of the countries. The accuracy of these estimates will depend to a great extent on events in the international economy, which are, of course, difficult to project in today's volatile economic climate.



MACROECONOMIC POLICY

The general trend of macroeconomic policy in 1998 has been towards renewed austerity in response, on the one hand, to the Asian and

Russian crises and, on the other, to worsening terms of trade. Faced with investors' doubts about risk in emerging markets, Latin American Governments (with only a few exceptions) decided to give priority to exchange-rate stability, while markets showed less willingness to finance external deficits.



Fiscal deficits widen

Despite more cautious policies, the average (unweighted) fiscal deficit for the region increased by one percentage point to 2.4% of GDP (see figure 1), the highest so far this decade, owing to the decline in current revenue that resulted from slower growth. The reduction in tax revenues was accentuated by a slump in commodity prices, especially petroleum (Ecuador, Mexico, Trinidad and Tobago, Venezuela) and metals (Chile, Jamaica). At the same time, expenditure increased owing to higher interest rates (Brazil), increased social budgets and higher public-sector wages, extraordinary expenditure made necessary by natural disasters, and social security reforms (Bolivia, Uruguay).

In response, several countries (Argentina, Brazil, Colombia, El Salvador and Venezuela) raised taxes and bolstered their tax collection efforts. As part of a more widespread reaction, many Governments also began to make adjustments on the expenditure side, although they avoided cuts in social spending. Nevertheless, these efforts failed to hold down overall spending enough to compensate for lower revenue, and in most cases fiscal policy failed to play a useful role in cooling domestic demand or in controlling rising external deficits.

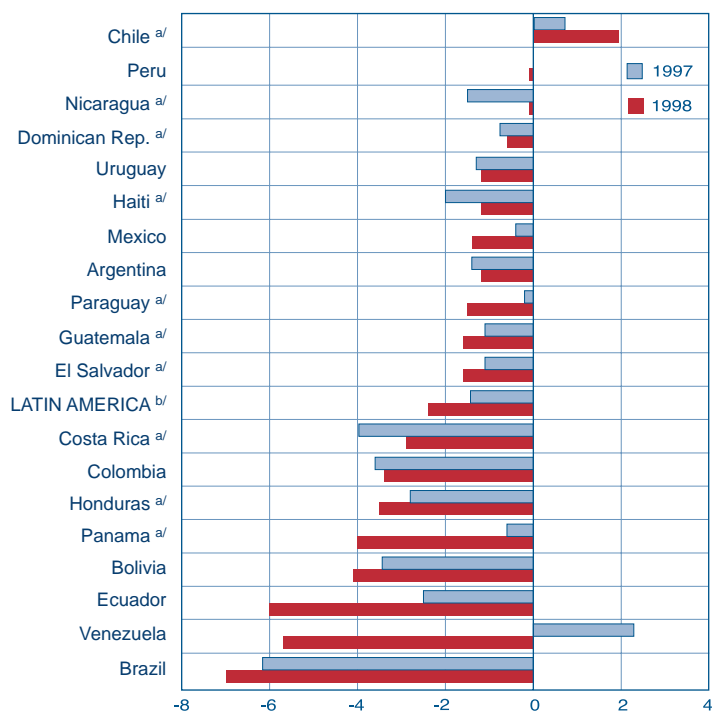


Monetary policy is substantially tightened

Under these circumstances, most of the burden of adjustment fell on monetary policy. The real growth rate of M1 fell to almost zero in June and July 1998, and turned negative thereafter. In several countries, the drop in the real money supply reached two digits (see figure 2).

In terms of the regional average, the year-on-year rise of nominal interest rates reached double-digit levels by the third quarter of the year. Interest-rate hikes for lending were higher than the increases in rates on deposits. Real deposit rates started to climb in April owing to seasonal inflationary factors. As of year's end, average

Figure 1
Latin America and the Caribbean:
Financial standing of the public sector
 (Percentages of GDP)



Source: ECLAC, on the basis of official figures.

^{a/} Central government.

^{b/} Simple average.

solvency were also taken into account in defining acceptable rates of devaluation, as previous episodes of sustained inflows of external capital and local currency appreciation have left many debtors heavily exposed to exchange-rate risk. Another objective in limiting nominal devaluations was to guard against inflationary setbacks. This was an especially important motivation in countries that had recently suffered from bouts of high inflation (Brazil, Venezuela).

In these instances, monetary authorities drew on their reserves to forestall excessive devaluations and hiked interest rates to ward off capital flight. In some cases, especially in Brazil, this policy has had two very serious consequences: extremely high interest rates and a loss of reserves. In order to avoid having to modify its exchange-rate regime, Brazil had to request an international rescue package coordinated by the International Monetary Fund (see box 1). Nevertheless, several countries have revised their exchange-rate policies to accommodate currency devaluations, either by altering the floatation band or by increasing the rate of pre-announced devaluations under crawling-peg regimes.

The greater control gained over inflation, and the increased nominal devaluation rate, put an end to the tendency towards appreciation which the average real exchange rate has exhibited for much of the 1990s. In the third quarter of 1998, there were even some signs of a small depreciation, although substantial differences remained between countries (see figure 3).

real deposit rates stood at 10%; in some countries, such as Brazil, they were much higher.

Overall, monetary policy was successful in cooling down the region's economies and in preserving the value of local currencies. However, as a consequence of an exclusive reliance by Governments on monetary instruments in their quest for equilibrium, financial costs have reached new highs that may jeopardize future growth prospects. Some countries were hit by banking crises (Ecuador, Paraguay), while others faced greater difficulties than expected in sorting out the consequences of such crises in the past (Jamaica, Mexico).

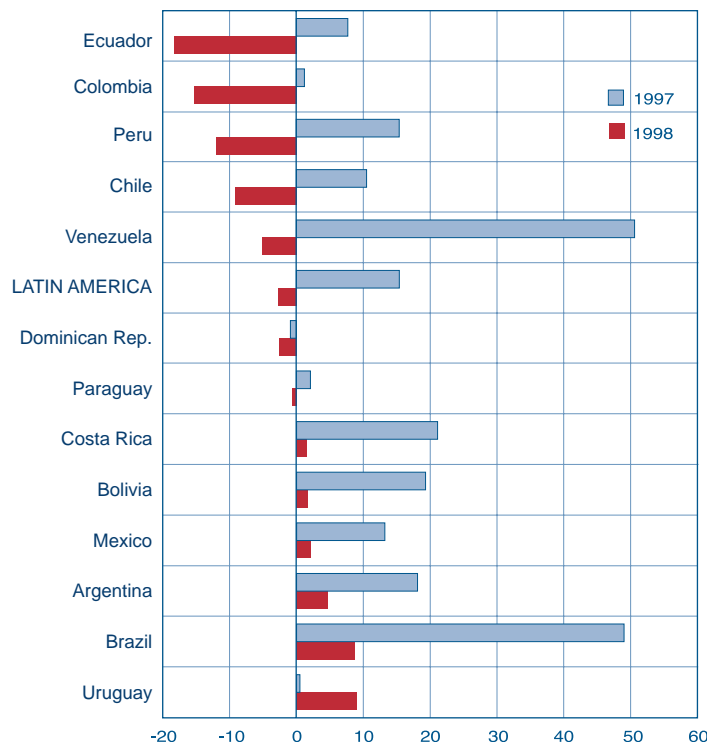


Exchange-rate policy becomes controversial

With the tightening of international and domestic credit markets, and the resulting slowdown in most economies of the region, the issue of exchange-rate policy became increasingly contentious. Subjects of debate included the exchange-rate regime itself, its use in stabilization programmes, and consistency in the management of semi-flexible systems.

Mounting external deficits drove up the net demand for hard currencies. In general, however, economic authorities did not allow the market to fix parity rates, for fear that the climate of widespread uncertainty in international markets might degenerate into uncontrollable devaluations. Financial stability and domestic

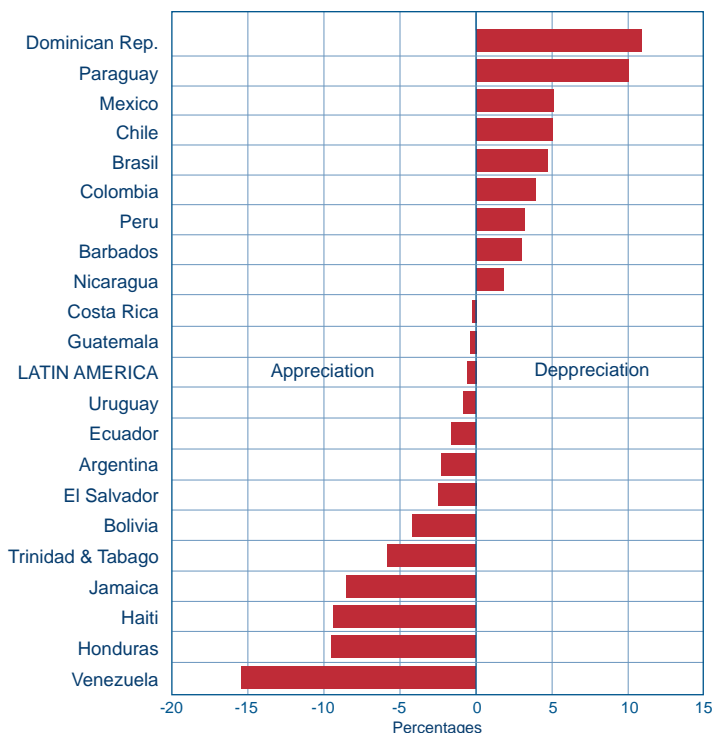
Figure 2
Latin America and the Caribbean: Money supply (M1)
 (Real 12-month rates of variation^{a/})



Source: ECLAC, on the basis of official figures.

^{a/} Most recent period for which data are available; figures deflated by the consumer price index.

Figure 3
Latin America and the Caribbean: Real exchange rates
 (Variation, October 1997-October 1998)



Source: ECLAC, on the basis of official figures.

Reforms move forward despite the troubled economic situation

The economic situation did not seriously affect structural reform programmes. A record US\$ 40 billion in assets were privatized during the year; Brazil accounted for 90% of this figure, with much of it being represented by the sale of the national telephone company. A number of the region's smaller economies, including those of Central America, were also very active in this area. The privatization and concession process encompassed a wide range of sectors, from telecommunications to public utilities and postal services. There were also reforms in the labour market, the civil service and pension systems, the latter being of particular significance in Argentina and Paraguay.

Trade reforms also moved ahead, even in countries troubled by mounting external deficits. Chile, for example, decided to lower its external tariffs in an effort to reach an across-the-board rate of 6% within the next five years, while the Central American countries proceeded with their calendar for reducing their level of external protection. On the other hand, labour and employers' organizations reacted to the steep slide in international prices for some products with demands for protection against outside competition, while the adoption of protectionist measures by Argentina and Brazil in sectors such as sugar and motor vehicles impaired trade relations. The issue of whether or not Caribbean banana exports should have special

Box 1

THE INTERNATIONAL CRISIS AS REFLECTED IN THE BRAZILIAN ECONOMY

In August 1998, when Russia suspended payments on its external public debt, the impact of the resulting uncertainty on the Brazilian economy was immediate. Foreign capital fled the country and Brazil found itself without access to new lines of international financing. Between August and October, the country's international reserves fell by US\$ 27.8 billion to US\$ 41.5 billion.

Measures taken by the central bank included doing away with administrative restrictions on foreign capital and lowering to zero the income tax rate on short-term fixed-interest operations for non-resident investors. To contain the fiscal deficit, the federal Government announced spending cuts and set a target of 5 billion reais for its 1998 primary balance. Finally, the central bank increased interest rates drastically.

However, the São Paulo stock exchange dropped nearly 40% in September, outgoing profit remittances totalled US\$ 1.9 billion and the outflow of foreign exchange amounted to US\$ 11 billion. External financial markets closed their doors to Brazil.

The outcome of the elections held in early October, and the unveiling of a fiscal package towards the end of the month, helped restore calm. In November the country signed an agreement with the International Monetary Fund for a US\$ 41 billion financial assistance package put together by the Fund, the World Bank and the Bank for International Settlements, subject to certain conditions of fiscal discipline.

access to the European market continued to divide the countries of the region, despite the reduction made in the Caribbean producers' quota.

Despite these sources of friction, the four trade groups in the region (Mercosur, the Andean Community, the Caribbean Community and the Central American Common Market) continued to make headway with the implementation of their integration agreements. Special emphasis was placed on finding ways to promote convergence among these groups, with Mercosur and the Andean Community taking the lead. Progress made in this respect, however, is still quite limited. As part of another initiative in this field, negotiations were begun at the second Summit of the Americas, held in Santiago, Chile, in April 1998, on a broader, hemisphere-wide agreement, with a view to the establishment of the Free Trade Area of the Americas (FTAA) by the year 2005. ✧



DOMESTIC ECONOMIC PERFORMANCE

Regional growth slows down

The strong expansion in the level of activity seen in Latin American and Caribbean countries during 1997 – one of the highest growth rates in recent decades – slowed down quite abruptly in 1998. The average rate of GDP growth for 1998 is estimated at around 2.3%, more than a full percentage point lower than the average for the 1990s. Output per capita should grow by around 0.7%, putting it nearly 15% above where it was at the beginning of the decade. Because of its size, the Brazilian economy's sluggish growth rate (under 1%) strongly influenced the regional average. Even if Brazil is factored out of the calculations, however, the slowdown still appears quite sharp, with the rate falling from 6.6% in 1997 to 3.5% in 1998.

This slowdown in the overall level of activity was due to results in thirteen countries, especially Argentina, Peru and Venezuela. Costa Rica was the one country to buck the trend, with a 5% growth rate that was second only to the Dominican Republic's 7%. Quite high growth rates (between 4% and 5%) were reported by nine countries and another three had rates of between 2% and 3%.

The downswing in the region's economies was more serious than the above figures suggest because in many countries it deepened as the year progressed. As the international financial crisis began to make itself felt, expansion of output began to flag, coming to a virtual standstill in the final months of the year. The downturn in the terms of trade also affected national incomes, which edged up by just a little more than 1%.

Investment was a stimulus for growth in most countries, since it outpaced GDP. Most investment growth came from the private sector, with foreign direct investment (FDI) playing a key role. Consumption expanded at much the same rate as total output, but export volumes were considerably lower than in the past. The volume of imports also grew more slowly than before, but continued to outdistance the rate for exports.

The unfavourable conditions were reflected more clearly in industrial activity, with major falls in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.

Economic activity in a number of countries was adversely affected by El Niño. In the closing months of 1998 Central America and the Caribbean were hit by two hurricanes that caused an enormous amount of destruction (see box 2).



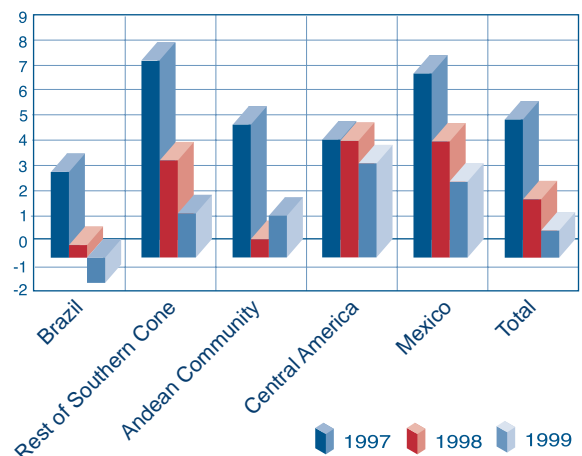
The outlook for 1999 is problematic

Economic growth in the region is expected to weaken further in 1999, as a result of continuing international economic crisis and the impact of the adjustment policies that the countries have begun to implement in order to cope with it. Export prices will remain low for several more months at least, hurting the region's balance of payments and fiscal accounts. This will make it necessary to continue with adjustment measures, constraining economic activity

further. In some Central American and Caribbean countries, these factors will be compounded by the effects of adverse weather conditions during the second half of 1998.

Consequently, the new year is starting out under a cloud, with a number of economies in recession and no signs of any imminent turnaround. The region's overall growth rate is projected at just over 1%, with a rate of more than 5% being registered by only one country and actual decreases in the level of activity in three of the 19 economies considered. In Brazil, the region's largest economy, GDP may shrink by 1%, and a contraction in Venezuela's GDP is also expected owing to the low level of oil prices. Honduras is also expected to see a slump in economic activity, as it was hit the hardest by Hurricane Mitch (see figure 4).

Figure 4
Latin America and the Caribbean:
GDP Projections for 1999
(Percentages)



Source: ECLAC, Statistics and Economic Projections Division.



Inflation stabilizes

In 1998, the rate for the 12 months to November was 10.2%, the lowest in nearly 50 years. Of the 19 countries considered, 11 had single-digit inflation rates. Only Ecuador, Nicaragua and Paraguay had significant increases. (see figure 5).

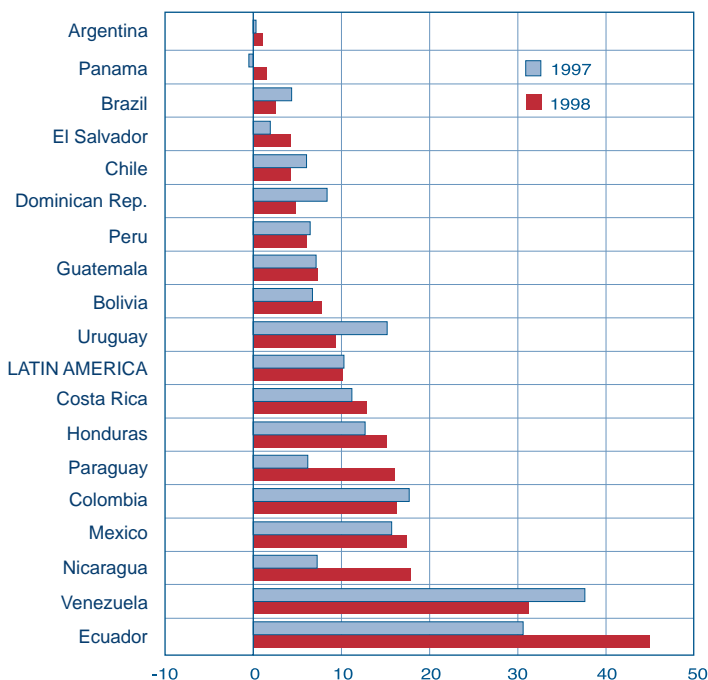
Argentina maintained its record as best performer, with near-zero inflation. Brazil consolidated its control over price increases with inflation of only 3%. The biggest advances occurred in the Dominican Republic, Haiti and Uruguay. Currency devaluations were the primary cause of inflation in a number of countries (Ecuador, Nicaragua and Paraguay).



Labour markets suffer a reverse

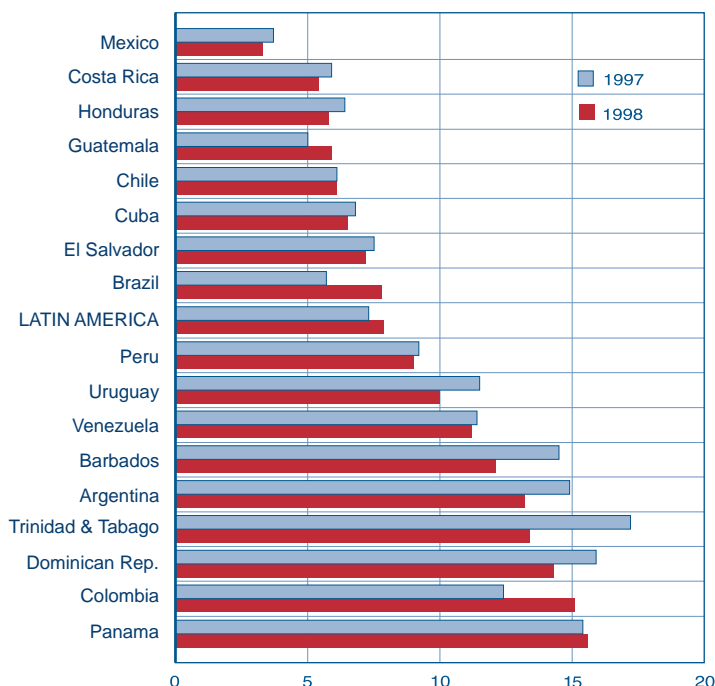
The slower rate of economic growth in 1998 translated into higher unemployment, which rose from 7.3% on average for the

Figure 5
Latin America and the Caribbean:
Consumer prices
(12-month rates of variation^{a/})



Source: ECLAC, on the basis of official figures.
^{a/} Most recent period for which data are available.

Figure 6
Latin America and the Caribbean:
Urban unemployment
(Average annual rate)



Source: ECLAC, on the basis of official figures.

region in 1997 to 7.9% in 1998. This increase was primarily due to the worsening situation of labour markets in Brazil and Colombia. In contrast, thanks to a relatively rapid pace of growth –even if slower than the year before in almost all cases– annual average unemployment in most of the countries in the region was stationary or even fell. Sizeable reductions in joblessness were reported in Argentina, Barbados, Dominican Republic, Mexico, Nicaragua, Trinidad and Tobago, and Uruguay (see figure 6).

In the second half of the year, the demand for labour weakened in various parts of the formal sector that were hurt by external

problems and by adjustment measures. In some of the countries ravaged by natural disasters, jobs were lost in agriculture. Most countries saw a reduction in manufacturing employment. As a result, job creation was generally concentrated in informal and precarious activities. In some countries, however, such as Mexico, economic buoyancy did lead to the creation of a significant number of formal-sector jobs.

Real wages in the formal sector stagnated or fell slightly in most countries. Only Chile and Uruguay registered increases of more than 1%. ❌



THE EXTERNAL SECTOR

The current account deficit continues to widen

The combined effects of international financial crisis and a series of climactic disasters were reflected in the deteriorating position of the external sector in most countries. As a result, the trend towards widening current account deficits intensified. The aggregate regional deficit rose from 2% of GDP in 1996 to over 3% in 1997, and topped 4% in 1998, although the latter percentage was skewed upward by the devaluation of many currencies and the consequent lowering of the value of GDP measured in dollars. Current account deficits were close to the re-

gional average in the three largest economies (Argentina, Brazil and Mexico), but reached levels around or above 7% of GDP in Chile and Andean countries other than Venezuela (see the third table in the statistical appendix).

This increased current-account deficit for Latin America and the Caribbean was due to a marked deterioration in the trade balance, given that factor services did not change much. Although profit remittances continued to expand, interest payments increased little, owing to the stability of international interest rates. In contrast to the previous year, the region had to resort to international reserves and compensatory capital, to the amount of nearly US\$ 22 billion, in order to finance the current account deficit. This was particularly

true in the cases of Brazil, Chile and Venezuela, and somewhat less so for Colombia and Peru. However, some countries did increase reserves, notably Argentina.

Although the trend towards deteriorating current accounts and trade balances continued, the reasons changed radically from previous years. Then the import-export gap resulted from a surge in imports, but in 1998 it was due chiefly to a weakness in exports.

Exports slacken

The value of regional merchandise exports declined for the first time in twelve years. The contraction of over 1% compared to the previous year was due to a sharp drop in prices, which was only partially offset by a growth in export volumes.

The unit value of the region's exports declined by more than 8% on average. This reflected a sharp drop in commodity prices in world markets, heavily influenced by the financial crisis that erupted in Asia during the second half of 1997. Prices of raw materials, both mining and agricultural, were particularly affected. The price index average elaborated by ECLAC for the first three quarters of 1998 shows a decline with respect to the previous year of 15% in prices of minerals and tropical beverages, and more than 10% in the prices of foods and agricultural raw materials. Moreover, during the fourth quarter the prices of many products, particularly petroleum and copper, continued to drop.

Oil prices halved between October 1997 and December 1998, falling to their lowest level in twelve years. This explains why Venezuela suffered the region's worst fall in export unit values (26%). Ecuador, Chile and Peru suffered declines of between 13% and 14%, with the latter two countries being hard hit by dropping metal prices, particularly for copper. In Colombia and Paraguay, losses were around 10%, while some other countries experienced smaller but still substantial declines. In Central America, export unit values either dropped slightly or held stable. Caribbean countries were variously affected: Trinidad and Tobago suffered losses in its exports of hydrocarbons and petrochemical products that may amount to 2% of GDP, while Guyana and Jamaica were hurt by lower bauxite prices.

Most countries were able to make up to some extent for the drop in prices by expanding export volumes. Reduced demand for imports in the Asian economies seriously dampened export sales for Chile and Peru in particular. Another factor was the economic slowdown in some other countries, such as Brazil, which is an important market for many Latin American exporters. The good performance of the United States economy, by contrast, benefited Mexico in particular as a member of the North American Free Trade Agreement (NAFTA).

Preliminary figures suggest that exports of manufactures were the best performers in a number of countries of the region and helped to soften the impact of declines in primary commodities, which make up the bulk of the region's exports. These differing trends are consistent with indications that exports to other markets within the region, except Brazil, again grew more rapidly than exports to the rest of the world.



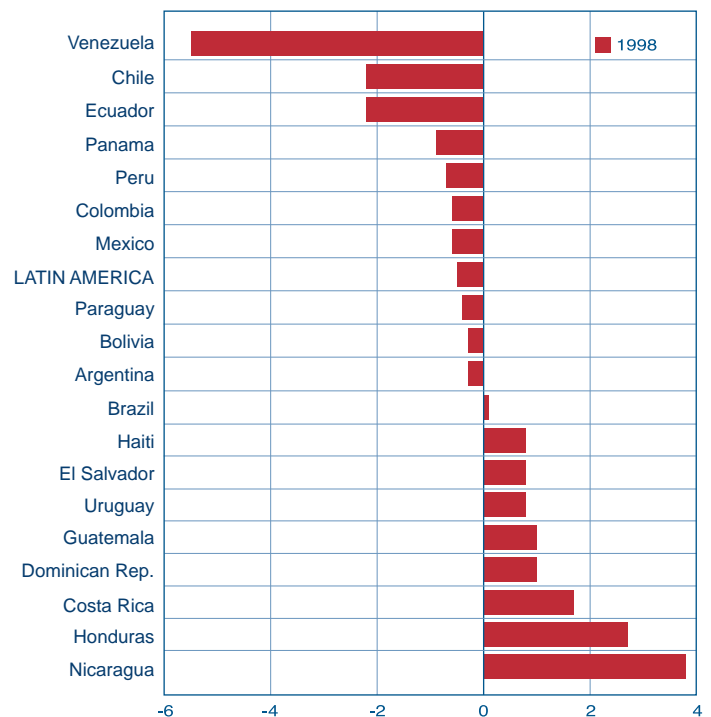
Imports slow down and terms of trade worsen

Imports slowed down throughout the region as domestic demand weakened and many currencies underwent real depreciation for the first time in several years. The most drastic adjustment occurred in Brazil. There, as in the other large economies, the flow of imports remained heavy during the early months of the year, but gradually slackened as the domestic economic situation deteriorated. Growth in import volume for the region as a whole was 11%, considerably less than half the figure for the year before, but similar to that for 1996.

In value terms, the reduction was even greater, as prices of imported products fell significantly throughout the region. One factor was the worldwide decline in the prices of manufactures, reflecting lower raw materials prices and more intense competition after the devaluation of Asian currencies. At the same time, petroleum and other raw material imports became cheaper. As a result, the region's import bill only increased by around 6%, after two years of strong expansion. Currency savings were especially significant in purchases of oil and gas; most of the petroleum-importing countries for which information is available paid between 20% and 40% less than the previous year for oil and gas.

The slackening pace of imports was due in part to greater difficulty in financing them, owing to constraints on external borrowing and slower growth of the purchasing power of exports.

Figure 7
Latin America and the Caribbean:
Terms of trade gains and losses
(Percentages of GDP)



Source: ECLAC, on the basis of official figures.

The latter expanded by only a little over 3% in the region as a whole, owing to a combination of weak growth in export volumes and deterioration in the terms of trade.

The decline in the region's terms of trade, however, was only 4%, thanks to considerably cheaper import prices. While roughly half the countries, particularly those of Central America, found that lower prices for their exports were more than offset by lower prices for the products they imported, for the remainder, particularly Venezuela, the terms of trade deteriorated (see figure 7).

The net aggregate effect of the variation in the terms of trade for the region as a whole was negative and amounted to over US\$ 10 billion, equal to nearly half the international reserves lost by the region in 1998, and half a percentage point of the region's GDP for the year.



Capital inflows moderate

The impact of the international financial crisis on capital flows to Latin America, already seen in some countries of the region in the fourth quarter of 1997, was felt more broadly in 1998. This was especially so from August onward, as the region began to experience the effects of the devaluation of the rouble and Russia's unilateral debt moratorium. In 1998, Latin America received only US\$ 62 billion, compared with US\$ 80 billion in 1997 (as a percentage of GDP, a decline from 4.2% to 3.2%).

A large proportion of external financing in 1998 continued to take the form of medium- and long-term funds, especially foreign direct investment. In several countries, lending from multilateral organizations took on greater importance, including some important loan commitments for disbursement in 1999. On the other hand, there were outflows of short-term capital and sharp declines in stock market investment in most of the region's largest economies. This occurred between August and October 1998, when substantial short-term capital flight occurred, especially from Brazil.

Net foreign direct investment inflows to the region remained close to the extraordinary level of US\$ 57 billion achieved in 1997. In nine Latin American countries, such investment again financed over half the balance-of-payments current account deficit. Brazil received a record US\$ 22.5 billion, much of it from the privatization of the telecommunications system (Telebras).

Bond issues in the first half of 1998 amounted to US\$ 28 billion in gross terms, a figure similar to that recorded in the first half of 1997. The cost of external financing did not increase significantly during the first half (see figure 8). Towards the end of August, however, costs in the secondary market rose considerably to nearly 15% per annum, and only partially reversed course during the closing months of the year. As a result, Governments and companies in the region placed no new bond issues between August and October 1998. It was not until November that the region's first major bond issue since the international crisis of August was placed, by the Government of Argentina, for US\$ 1 billion.

Bank credit to the region rose by only 5% in the first half of 1998, and loans were concentrated entirely in the first quarter. Since

Box 2

THE IMPACT OF NATURAL DISASTERS ON THE REGION'S ECONOMY

The El Niño phenomenon

The region's latest bout with El Niño, which began in 1997, included both floods and droughts, and caused an estimated US\$ 15 billion in damage and production losses. In the Andean subregion alone (Bolivia, Colombia, Ecuador, Peru and Venezuela), damage is estimated at US\$ 7.5 billion. Income and living standards were severely damaged for large groups of people, especially among the poorest.

El Niño did a great deal of damage in the fishery and agricultural sectors due to flooding in extensive coastal areas of Peru and Ecuador in 1997 and 1998. In several areas of Argentina, Chile, Brazil and Paraguay, housing, social infrastructure and production facilities were destroyed and production levels fell substantially in manufacturing, commerce, mining and tourism.

There was widespread drought in Colombia, Venezuela, Mexico, the Central American nations, several Caribbean States and some South American countries, hitting the agricultural sector worst of all. Drought also affected hydroelectric power output and caused fires, resulting in the loss of large tracts of forest land and other environmental damage.

Hurricanes

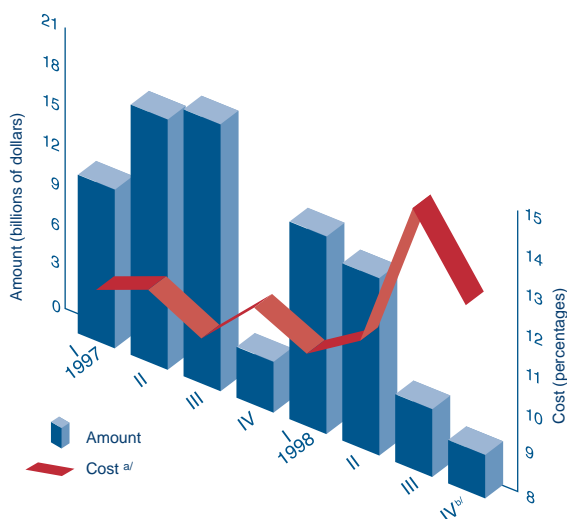
As it swept through the Antilles, Puerto Rico, the Dominican Republic, Haiti and Cuba, Hurricane Georges caused heavy damage (estimated at US\$ 1.35 billion in the Dominican Republic and US\$ 400 million in Saint Kitts and Nevis).

Central America was hit by Hurricane Mitch, one of the most destructive of this century, which left behind a trail of death and destruction which has yet to be evaluated. Honduras was the hardest-hit country: nearly 6,000 people died and another 300,000 lost their homes, means of livelihood and jobs. In Nicaragua, 19% of the population was affected. Although the damage was less severe in Guatemala and El Salvador, the repercussions were significant because the destruction took place in highly vulnerable areas.

Damage sustained by the region's infrastructure is considerable, interrupting trade flows between the countries concerned. Generation and distribution of electrical power have also been impaired, as have drinking water and sanitation services, and industrial and service sectors. Damage to agriculture is estimated at over US\$ 2.3 billion.

Preliminary estimates put direct and indirect losses at over US\$ 7 billion, including replacement costs. Nearly 68% of the damage is concentrated in Honduras and another 17% in Nicaragua. The international community has adopted measures to assist in rebuilding the subregion and is extending over US\$ 6 billion in soft loans. Some creditor countries have also offered to forgive portions of these nations' external debts.

Figure 8
Latin America and the Caribbean:
International bond issues

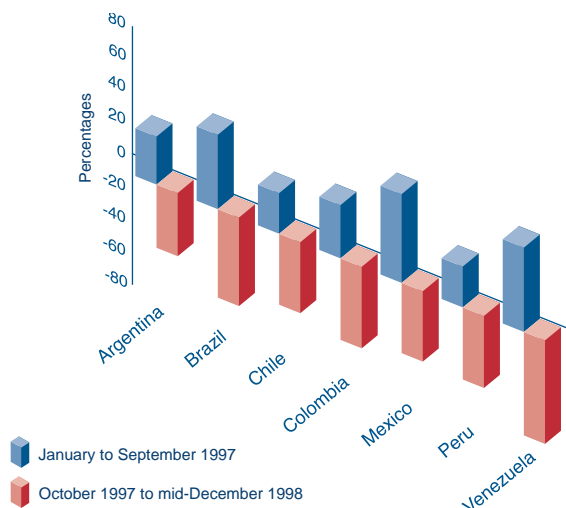


Source: ECLAC, on the basis of official figures and data provided by the World Bank and the International Monetary Fund.

^{a/} The sum of the average spread on the bond issues plus the yields on long-term United States Treasury bonds.

^{b/} October to 4 December.

Figure 9
Latin America and the Caribbean:
Variation in stock exchange indexes
(Variation in indexes expressed in dollars)



Source: ECLAC, on the basis of figures from the International Finance Corporation.

the eruption of the Asian crisis in October 1997, syndicated loans have at times been the only external credit option open to some Latin American countries. Moreover, they have offered better credit terms than bonds. However, syndicated financing has been very selective, available only to a few Governments and companies in the region. Supplier credit, on the other hand, which makes up the greater portion of short-term debt in most of the economies, has continued to be granted as usual.

The international financial crisis depressed stock market prices; between October 1997 and mid-September 1998 all the region's stock exchanges registered declines. During the same period, the regional index fell by a cumulative 50%, after several years of gains. Although the regional index of stock prices began to recover from mid-September, by mid-December it had still not risen above its level at the beginning of 1996 (see figure 9). Thus, foreign investment in stock market assets was one of the flow components most heavily affected during 1998; by September, it had dropped off by US\$ 10 billion in the countries for which information is available. One item of stock market investment, issues of American

Depository Receipts (ADRs), which had reached US\$ 5 billion in 1997, amounted to practically nothing in 1998.



The pace of growth of the external debt quickens

In 1998 the region's external debt expanded to some US\$ 700 billion, growing by 7% in nominal terms - faster than in the previous two years and similar to the rate in 1995. Expansion was not evenly spread, however, and was largely attributable to greater external debt in a few countries, chiefly Argentina, Brazil and Chile. In Chile, the increase was due to greater private sector borrowing, whereas in Argentina the growth of the public sector's external debt was the key factor.

For the first time in the 1990s, the indicators of the region's external debt burden reflected a turn for the worse, chiefly because of the stagnation in exports of goods and services. For example, the ratio of accrued interest to exports of goods and services rose from 14.5% to 15.5%, and the ratio of the external debt to exports of goods and services rose from 193% to 207%. 🖐

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The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the landmarks in the region's history. The symbols are engraved on the outside walls of the conference rooms at ECLAC headquarters in Santiago, Chile.



STATISTICAL APPENDIX

Latin America and the Caribbean: Money supply (M1) Real annual variation (deflated by the consumer price index)

	1994	1995	1996	1997	Last 12 months available in:	
					1997	1998
Simple average	3.7	-2.4	3.1	19.7	15.4 ^{b/}	-4.2 ^{b/}
Argentina	8.7	-0.4	11.2	8.2	18.1 ^{b/}	4.7 ^{b/}
Bolivia	22.9	9.6	2.3	8.4	19.3 ^{b/}	1.7 ^{b/}
Brazil	-99.9	1.2	-4.1	53.5	49.0 ^{b/}	8.8 ^{b/}
Chile	-10.9	6.1	-13.5	86.7	10.5 ^{c/}	-9.2 ^{c/}
Colombia	-0.2	0.1	-4.3	3.8	5.1 ^{d/}	-12.0 ^{d/}
Costa Rica	9.4	-18.7	3.1	28.8	29.6 ^{c/}	-1.0 ^{c/}
Ecuador	8.2	-8.2	7.8	-0.7	2.0 ^{c/}	-19.7 ^{c/}
El Salvador	1.2	-6.3	9.4	-3.8	...	...
Guatemala	33.3	2.6	1.8	22.6	...	...
Honduras	6.2	-6.7	1.6	18.7	...	...
Mexico	-5.6	-32.6	9.3	13.9	15.3 ^{c/}	-1.5 ^{c/}
Nicaragua	19.6	1.6	12.3	25.1	...	...
Paraguay	11.9	9.5	-5.6	7.2	4.2	-8.2
Peru	37.0	11.9	5.6	9.6	15.4 ^{c/}	-12.0 ^{c/}
Dominican Rep.	-10.5	7.1	21.7	13.4	-9.1 ^{c/}	-4.6 ^{c/}
Uruguay	-3.1	-2.7	1.6	5.4	0.2 ^{d/}	9.0 ^{d/}
Venezuela	34.6	-15.1	-7.2	33.4	43.6 ^{d/}	-13.8 ^{d/}

Source: ECLAC, on the basis of official figures.
^{a/} Preliminary figures.
^{b/} To September.
^{c/} To October.
^{d/} To August.

Latin America and the Caribbean: Public-Sector deficit (-) or surplus at current prices

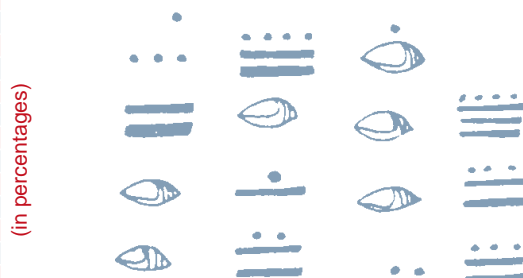
Country	Coverage	1991	1992	1993	1994	1995 ^{b/}	1996	1997	1998
Argentina	NNFPS	-1.6	-0.1	1.4	-0.2	-0.6	-1.8	-1.4	-1.2
Bolivia	NFPS	-4.3	-4.4	-6.1	-3.0	-1.8	-2.0	-3.4	-4.1
Brazil	NFPS ^{c/}	...	...	...	...	-7.4	-5.9	-6.2	-7.0
Brazil	NFPS ^{d/}	-0.2	-1.8	-0.8	1.1	-4.9	-3.9	-4.4	-6.8
Chile	CG	1.5	2.3	2.0	1.7	2.6	2.3	1.9	0.7
Colombia	NFPS	0.0	-0.1	0.3	2.6	-0.5	-2.0	-3.6	-3.4
Costa Rica	CG	-3.1	-1.9	-1.9	-6.9	-4.4	-5.2	-4.0	-2.9
Ecuador	NFPS	-1.0	-1.7	-0.4	-0.2	-1.5	-3.1	-2.5	-5.1
El Salvador	CG	-3.2	-2.1	-1.5	-0.8	-0.5	-2.0	-1.1	-1.6
Guatemala	CG	-0.1	-0.5	-1.5	-1.4	-0.7	-0.1	-1.1	-1.6
Haiti	CG	-0.3	-4.4	-3.3	-3.3	-4.8	-1.6	-2.0	-1.2
Honduras	CG	-3.3	-4.9	-9.9	-7.0	-4.2	-3.8	-2.8	-3.5
Mexico	NFPS	-0.4	1.6	0.7	-0.3	-0.2	-0.1	-0.4	-1.4
Nicaragua	CG	4.1	-3.4	0.0	-5.1	-0.5	-1.5	-1.5	-0.1
Panama	CG	-2.5	-1.3	0.5	-0.7	0.7	-1.7	-0.6	-4.0
Paraguay	CG	0.8	-1.4	-0.7	1.0	-0.3	-0.8	-0.2	-1.5
Peru	NFPS ^{e/}	-0.9	-1.5	-1.2	3.0	-0.1	-1.0	0.0	-0.1
Dominican Rep.	CG	3.2	3.6	0.2	-0.8	0.6	-0.4	0.8	-0.6
Uruguay	NFPS	1.3	1.5	-0.8	-2.5	-1.3	-1.2	-1.3	-1.2
Venezuela	Cg	-2.2	-5.9	-1.3	-13.8	-6.9	7.6	2.3	-5.7
Average		-0.6	-1.4	-1.3	-1.9	-1.7	-1.3	-1.4	-2.4

(Percentages of GDP)

Source: ECLAC, on the basis of official figures
 Note: Abbreviations used: CG= Central government.
 NFPS= Non-financial public sector. NNFPS= National non-financial public sector (does not include provinces or municipalities).
^{a/} Calculated on the basis of figures in local currents at current prices.
^{b/} Preliminary estimates.
^{c/} Refers to nominal financial result.
^{d/} Refers to operational financial result.
^{e/} The data through 1995 include income due to privatization.

Latin America and the Caribbean: Ratio between the current account balance and GDP

	1990-1994	1995	1996	1997	1998 ^{a/}
Latin America and the Caribbean	-2.2	-2.1	-2.0	-3.3	-4.1
Argentina	-1.2	-1.0	-1.3	-2.9	-3.6
Bolivia	-5.1	-4.9	-5.6	-9.1	-9.7
Brazil	0.0	-2.6	-3.1	-4.3	-4.2
Chile	-2.6	-2.1	-5.2	-5.3	-6.7
Colombia	0.0	-5.4	-5.8	-6.0	-6.5
Costa Rica	-5.4	-3.4	-1.2	-3.5	-3.6
Ecuador	-3.8	-4.1	0.6	-3.8	-8.5
El Salvador	-3.1	-3.4	-1.0	0.8	-1.8
Guatemala	-4.7	-3.5	-2.5	-3.1	-3.7
Haiti	-1.9	-1.6	-2.7	-2.5	-3.2
Honduras	-8.4	-4.5	-4.6	-4.0	-5.4
Mexico	-5.4	-0.5	-0.7	-1.8	-3.6
Panama	-1.1	-3.4	-2.0	-3.6	-6.7
Paraguay	-6.4	-4.1	-3.3	-6.5	-2.6
Peru	-4.7	-7.3	-5.9	-5.2	-6.4
Dominican Rep.	-4.4	-0.8	-1.8	-1.5	-3.2
Uruguay	-0.4	-1.2	-1.2	-1.6	-2.1
Venezuela	3.0	2.6	12.7	5.4	-1.5



Source: ECLAC, on the basis of official figures.
^{a/} Preliminary estimates.



1 CEPALINDEX:
Documentos del sistema CEPAL/ECLAC system documents, LC/G.2041, Spanish and English. This two-volume publication contains an index of the most important publications and documents describing the thinking, work and activities of ECLAC over the past 50 years. Published to mark ECLAC's fiftieth anniversary.

2 Empresas transnacionales: procesos de reestructuración industrial y políticas económicas en América Latina, Spanish only. Analyses transnational corporations and their role in

restructuring production in the region. Based on studies in seven countries: Argentina, Brazil, Colombia, Costa Rica, Chile, the Dominican Republic and Mexico. Published jointly by ECLAC and Alianza Editorial de Buenos Aires. Available in bookshops or directly from Alianza Editorial, Av. Córdoba 2064, 1120 Buenos Aires, Argentina; phone/fax (54) 372 7609/373 2614/814/4296.

3 Evolución del gasto público social en América Latina: 1980-1995. Cuadernos de la CEPAL No. 80. LC/G.1949-P, Spanish only. Presents an updated database on social spending for a group of 18 Latin American countries, revealing a clear trend towards growth in the first half of the 1990s, especially in social security and, to a lesser extent, health. US\$ 8.

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JANUARY	EVENTS	VENUE
6	Seminar-workshop on "The labour market and human resources management in nursing: metropolitan areas" . Ministry of Public Health/Dept of Sociology, Catholic University of Chile/PAHO/ECLAC.	Santiago, Chile.
11 - 15	Seminar-workshop on formulation of information projects (CLADES).	Santiago, Chile.
25 - 28	Eleventh regional seminar on fiscal policy and additional workshops on subnational public finance and evaluating public expenditure management in the health sector. ECLAC/IMF/World Bank/IDB, sponsored by the Ministry of Finance and co-sponsored by the Institute of Applied Economic Research of the Ministry of Planning and Budget of Brazil (IPEA).	Brasilia, Brasil
—	Press conference to present the Demographic Bulletin of CELADE , including estimates and projections for urban and rural populations.	Santiago, Chile.
FEBRUARY		
15	Subregional workshop to disseminate population information via the Internet (CELADE).	Sn. Jose, Costa Rica
MARCH		
—	Meeting of Directors of Statistics of the Americas.	Santiago, Chile.
—	Meeting of experts of the automotive cluster entitled "Industrial restructuring, innovation and international competitiveness in Latin America" , ECLAC/IDRC project.	Santiago, Chile.
MAY		
12 - 14	Second symposium on transport regulation and control in Latin America , ECLAC/Executive Group for the Integration of Transportation Policies (GEIPOT).	Brasilia, Brazil
JUNE		
—	Meeting of experts to assess trends and progress in the area of water legislation in the region.	Caracas, Venezuela

