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.

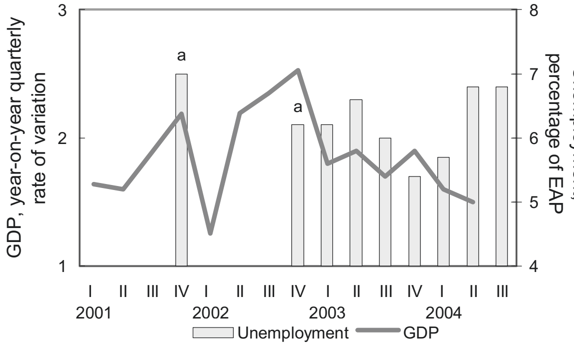
[h] Average from January to November, annualized.

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.

EL SALVADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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 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%.

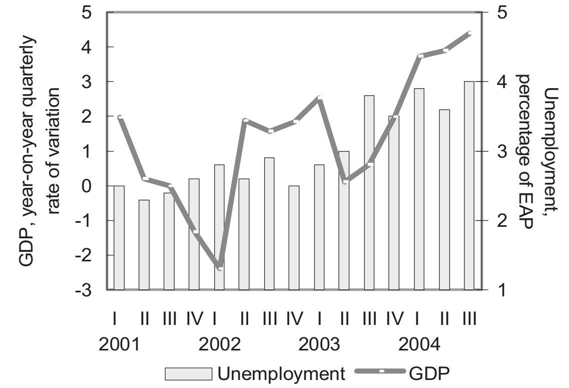
Mexico

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

MEXICO: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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 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 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.

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.

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.