2006

Preliminary Overview of the Economies

of Latin America and the Caribbean

United Nations

ECLAC

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

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

The national accounts data presented in this edition of the *Overview* are based on the official figures issued by the countries covered in this report; for purposes of comparison between countries, however, these statistics are expressed in constant 2000 dollars. Thus, in some cases there may be apparent discrepancies with the information issued by individual countries.

Explanatory notes

The following symbols are used in tables in this edition of the *Preliminary Overview*:
Three dots (…) indicate that data are not available or are not separately reported.
A dash (–) indicates that the amount is nil or negligible.
A point (.) is used to indicate decimals.
Use of a hyphen (-) between years (e.g., 2001-2006) indicates reference to the complete period considered, including the beginning and end years.
The word "tons" means metric tons and the word "dollars" means United States dollars, unless otherwise specified.
References to annual rates of growth or variation signify compound annual rates, unless otherwise specified.
Individual figures and percentages in tables do not necessarily add up to the corresponding totals because of rounding.

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Summary

The economic growth rate for 2006 is estimated at 5.3%, which means that the Latin American and Caribbean region will have marked up a third consecutive year of growth at rates of over 4%. Thus, the region has again performed well in comparison with past periods, even though it continues to fall short of other developing regions. With the international environment remaining favourable, the volume of goods and services exports was up by 8.4% for the region as a whole. In addition, higher prices for the region's main export products translated into an improvement in its terms of trade equivalent to over 7%.

As a result of these revenue gains, together with increased remittances from abroad, the rise in national income (7.2%) again exceeded GDP growth. In addition, other factors, such as growing investor and consumer confidence after several years of sustained growth, real interest rates that remained relatively low despite recent hikes in many countries, a stronger increase in public spending, an expansion in total wages driven by rising employment, and a modest recovery in real wages, have helped to turn domestic demand into an increasingly dynamic engine for growth. In fact, domestic demand rose by 7.0%, with gross domestic investment up by 10.5% and consumption by 6.0%.

Public spending rose as a result of more investment in physical and social infrastructure and higher current spending in several countries. Since fiscal revenues climbed even more steeply, however, the prevailing picture is one of bigger primary surpluses (up from 1.7% to 2.1% of GDP as a simple average for the central governments of 19 countries) and narrower overall deficits (from 1.1% to 0.3% of GDP). Alert to changes in international interest rates and to the effects of surging domestic demand and rising fuel prices, many countries' monetary authorities raised their benchmark interest rates, especially in the first half of the year. In most cases, however, as liquidity was in abundant supply, this did not dampen economic activity. Inflation decreased in most of the countries, with the weighted rate coming down from 6.1% in 2005 to 4.8% in 2006. Many countries had to deal with downward pressure on the exchange rate because of the large inflows of foreign exchange generated by stronger export prices or remittances. They took different steps to contain the effects of these inflows but, even so, most local currencies appreciated slightly (3.5% on average).

Fuelled by sustained economic growth, job creation continued apace, especially in the case of waged employment. A half percentage point increase in the employment rate was partially offset by a rise in labour-market participation. As a result, open unemployment continued on the downward trend begun in 2004, albeit more slowly, with a drop of 0.4 percentage points taking the rate to 8.7%. In contrast to the pattern of the last few years, real wages also benefited from increased demand for labour in 2006, and formal-sector wages rose by some 3% as a regional average.

The value of the region's merchandise exports rose by 21% and its imports by 20%. Together with higher transfers (over US$ 9 billion in net terms), this improvement in the merchandise trade balance was more than enough to offset the widening deficit on the factor and non-factor services accounts. Hence, the balance-of-payments current account surplus increased from 1.5% of GDP in 2005 to 1.8% in 2006. The capital and financial account surplus was smaller than it had been the year before, at US$ 230 million. This result reflected external debt-reduction policies, together

with the development of domestic financial markets and the accumulation of assets abroad, all of which played a part in curbing net financial capital flows. The sharp downturn seen in net foreign investment, which owed much to the Brazilian acquisition of a Canadian firm, was also a factor, while capital flows into the region in the form of foreign direct investment were down slightly in comparison to 2005.

These regionwide averages mask sharp differences between and within countries, however. The international environment has, in particular, had very different effects on exporters of high-demand natural resources, especially in South America (together with some petroleum-exporting countries in other subregions), than it has on the other Latin American and Caribbean countries.

In the light of the risks existing in terms of the region's future economic development, particularly the possibility of a swift or more measured cooling of the global economy, many countries in the region have taken steps to reduce their vulnerability by adopting more flexible exchange-rate regimes, paying down foreign debt, restructuring debts in order to shift to longer profiles and fixed rates, building up international reserves, strengthening their fiscal accounts and reducing the dollarization of their financial systems. Be this as it may, there is no doubt that a global economic slowdown would affect the region's growth and the well-being of its population.

Economic expansion is expected to slow slightly in 2007, with the regional GDP growth rate projected at around 4.7%. If these projections are borne out, the region's per capita GDP will show a cumulative gain of some 15%, or 2.8% per year, for 2003-2007.

Regional panorama

Chapter I

Introduction

The Latin American and Caribbean region is expected to post a GDP growth rate of 5.3% for 2006, which translates into a 3.8% rise in per capita GDP. This will be the fourth consecutive year of growth and the third at a rate of over 4%, after the average annual rate of 2.2% recorded between 1980 and 2002. Economic expansion is expected to slow slightly in 2007, with the regional GDP growth rate projected at 4.7%. If these projections are borne out, the region's per capita GDP will show a cumulative gain of some 15% for 2003-2007, which is equivalent to 2.8% per year.

The performance of the Latin American and Caribbean economies has not occurred in isolation, but is instead part of a picture of widespread growth throughout the world economy. And although the region's growth rates are high from a recent historical standpoint, they fall short of the rates being attained by other parts of the developing world. Undeniably, however, this comparison is slanted by sluggish growth in the last few years in the region's two largest economies, Brazil and Mexico, which together represent 60% of the region's GDP.

It is important to note that, thanks to favourable external conditions and the implementation of macroeconomically sustainable domestic policies, the region's economic growth has been accompanied by a rising current account surplus and a gradual strengthening of public accounts. These developments are reducing the region's vulnerability to external shocks, although, as will be discussed later, the situation varies substantially from one country to another.

A. Distinctive features of the region's growth in 2003-2006

The region's economic growth pattern has been buoyed by a very favourable external environment marked not only by the sustained expansion of the world economy and the growing preponderance of China, India and other Asian economies as the driving force of global demand, but also by highly liquid international capital markets.

Table I.1
RATES OF VARIATION IN GROSS DOMESTIC PRODUCT
(Millions of dollars at constant 2000 prices)

Country	2004	2005	2006 [a]	2007 [b]
Latin America and the Caribbean	**5.9**	**4.5**	**5.3**	**4.7**
Latin America	**6.0**	**4.5**	**5.3**	**4.7**
Argentina	9.0	9.2	8.5	7.5
Bolivia	3.9	4.1	4.5	4.0
Brazil	4.9	2.3	2.8	3.5
Chile	6.2	6.3	4.4	5.5
Colombia	4.9	5.2	6.0	5.0
Costa Rica	4.1	5.9	6.8	5.0
Dominican Republic	2.7	9.2	10.0	7.0
Ecuador	7.9	4.7	4.9	4.0
El Salvador	1.8	2.8	3.8	4.0
Guatemala	2.7	3.2	4.6	5.0
Haiti	-3.5	1.8	2.5	3.0
Honduras	5.0	4.1	5.6	5.0
Mexico	4.2	3.0	4.8	3.8
Nicaragua	5.1	4.0	3.7	4.0
Panama	7.5	6.9	7.5	7.0
Paraguay	4.1	2.9	4.0	3.5
Peru	5.2	6.4	7.2	6.0
Uruguay	11.8	6.6	7.3	6.0
Venezuela (Bolivarian Rep. of)	17.9	9.3	10.0	7.0
Caribbean	**3.8**	**4.9**	**6.8**	**5.4**
Antigua and Barbuda	7.2	4.6	11.0	…
Bahamas	1.8	2.7	4.0	…
Barbados	4.8	3.9	3.8	…
Belize	4.6	3.5	2.7	…
Dominica	6.3	3.3	4.0	…
Grenada	-7.4	13.2	7.0	…
Guyana	1.6	-3.0	1.3	…
Jamaica	0.9	1.4	2.6	…
Saint Kitts and Nevis	7.6	5.0	5.0	…
Saint Lucia	5.6	7.7	7.0	…
Saint Vincent and the Grenadines	6.2	1.5	4.0	…
Suriname	7.7	5.7	6.4	…
Trinidad and Tobago	6.4	8.9	12.0	…
Cuba [c]	5.4	11.8	12.5	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Projections.
[c] These data have been supplied by the National Statistical Office of Cuba and are currently being assessed by ECLAC.

1. The impact of improvements in the terms of trade and increased remittances

In 2006, the terms of trade for the region will record an estimated 32.4% gain over the average figure for the 1990s. The improvement amounts to 25% in the last three years (2004-2006) alone, with the upturn being driven mainly by commodity prices, especially for petroleum and metals. As ECLAC has pointed out on other occasions as well,[1] however, this upturn did not take place across the board: the Central American countries' terms of trade have been dragged down by sluggish export prices —which are largely being constrained by Chinese competition in the United States market— and by their position as net oil importers. A number of South American economies, including Uruguay and Paraguay, are also in this position, and it may be supposed that the Caribbean countries, with the exception of Trinidad and Tobago, are facing the same problem, although sufficiently disaggregated data are not available to confirm this.

The terms-of-trade improvement was coupled with an expansion in the volumes of goods and services exports, which have risen by some 9% on average in the last three years. The trend has a slight downward slope, however, and the average for 2005-2006 was therefore just a little over 8%.

Another salient feature of the present set of conditions is the upswing in remittances from emigrant workers. This is an especially significant trend in Central America and Mexico, but it is also taking on greater importance in some South American economies (such as Bolivia, Colombia and Ecuador) and in the Caribbean (Grenada, Guyana and Jamaica). Remittances represented 2.2% of GDP for the region as a whole, but 10.5% for Central America and 2.7% for Mexico, which is more than the latter country receives in the form of foreign investment.

The confluence of mounting trade surpluses with voluminous unrequited transfers is to thank for the balance-of-payments current account surplus that has been accompanying economic growth. This combination is without precedent in the region's history, since past periods of GDP growth have been associated with a gradual deterioration in the current account.

The abundant supply of foreign exchange generated by the region's favourable terms of trade and rising inflows of remittances is putting downward pressure on real exchange rates. The impact this has on the region's competitive position is beginning to be reflected in export volumes, whose growth is slowing, as noted above, although there are differing patterns in this respect that merit further examination.

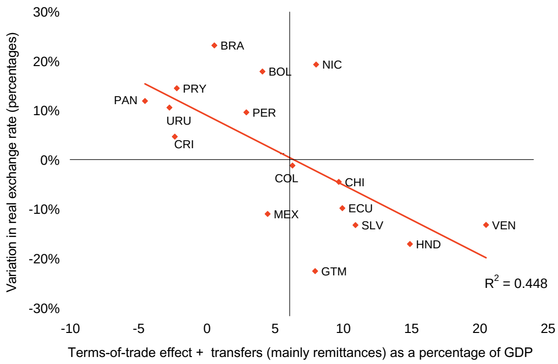
Figure I.1 illustrates the relationship between medium-term exchange-rate trends (based on a comparison of current values with the 1990s average) and the impact on foreign-exchange markets of the combination of better terms of trade (TT) and higher remittances (R) during the past two years. Both variables are given as a percentage of GDP and take the 1990s as a point of reference. The figure shows the Latin American and Caribbean countries distributed according to the values they display for each variable relative to the regional average. The countries of the region tend to be clustered in either the upper left (below-average TT+R effect and a relatively depreciated real exchange rate) or the bottom right (above-average TT+R effect and a relatively appreciated real exchange rate).[2] The first point to note in figure I.1 is that the average TT+R effect is quite high —equivalent to over 5% of GDP— and thus exerts a very strong supply-side pressure on the region's foreign-exchange markets.

[1] See, for example, Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean 2005* (LC/G.2292-P), Santiago, Chile, December 2005; or, *Economic Survey of Latin America and the Caribbean 2005-2006* (LC/G.2314-P), Santiago, Chile, 2006.

[2] Argentina is not included in the figure because of a question of scale, since its real exchange rate depreciated much more than that of the other countries with respect to the 1990s. If it were to be included in the calculations, the corresponding figure would appear at the top of the upper left quadrant.

Figure I.1

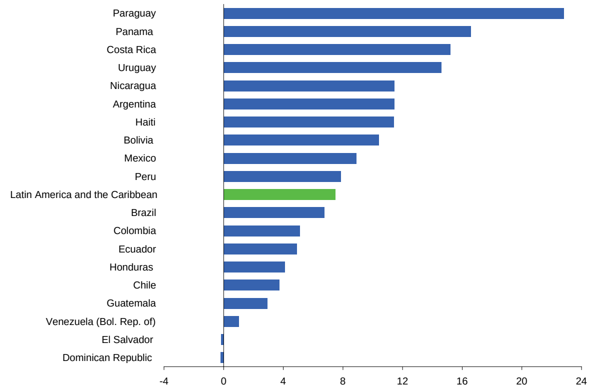
REAL EXCHANGE RATES AND THE COMBINED EFFECT OF IMPROVING TERMS OF TRADE AND INCREASING REMITTANCES, 2005-2006 AVERAGE COMPARED WITH 1990-1999 AVERAGE



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

Figure I.2

MEAN ANNUAL GROWTH IN VOLUME OF GOODS EXPORTS, 2005-2006



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

In other words, the foreign-exchange surplus generated by better terms of trade or increased remittances from migrant workers —or both— tends to push down real exchange rates. Countries whose foreign-exchange markets are subject to less powerful supply-side pressures of this sort can maintain relatively higher real exchange rates. These differences are beginning to be reflected in real export trends. Figure I.2 shows that, with a few exceptions that will be discussed below, all the countries whose exports are expanding at above-average rates are located in the upper left quadrant in figure I.1, while all those with below-average export growth appear in the lower right quadrant.

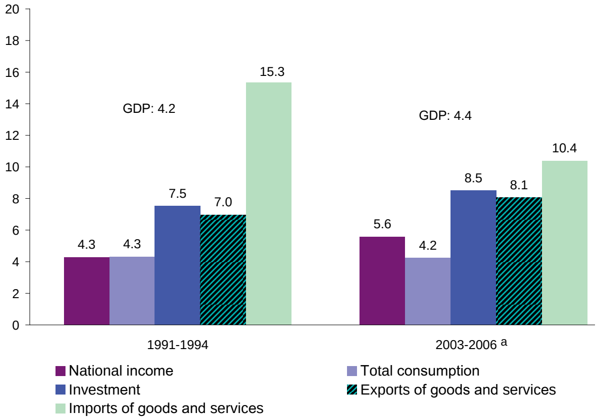
Three countries constitute exceptions to this pattern. The first is Argentina, which has taken a very firm economic policy stance on the exchange rate and would figure in the upper left quadrant if it were to be included in figure I.1. Second, there is Brazil, whose export volumes surged between 2000 and 2005, generating a current account surplus which, combined with certain aspects of monetary policy, has caused the currency to appreciate sharply in the last three years. The third exception is Nicaragua, where the monetary authority has been able to keep the real exchange rate relatively high despite large inflows of foreign exchange in the form of remittances.

2. The pattern of growth in recent years

In national accounts, the difference between GDP and national income is attributable to the combined impact of the terms of trade and remittances, together with outward transfers of rents on factors of production (mostly interest payments on external debt and outward remittances of the profits of foreign corporations). A distinctive aspect of the current situation in the Latin American and Caribbean economies is that the region's income is growing more rapidly than its GDP (7.1% as against 5.9% in 2004, 5.9% compared with 4.5% in 2005 and an estimated 7.2% versus 5.3% in 2006).

A number of interesting characteristics show up in the current growth cycle when the macroeconomic aggregates of the last few years are compared with those for 1991-1994, in which GDP growth was similar. First of all, there is the fact that, although GDP grew at a very similar rate in the two periods (4.2% in the early 1990s and 4.4% in 2003-2006), income has risen much faster in recent years (see figure I.3).

Figure I.3
LATIN AMERICA: TRENDS IN THE MAIN AGGREGATES



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

In addition, the rate of growth in consumption, though rising, still lags behind growth in income, which means that the regional savings rate has been climbing, unlike the pattern in 1991-1994. Furthermore, saving has outpaced investment in the region, resulting in a mounting balance-of-payments current account surplus.

The current growth phase is also characterized by higher growth rates for investment and exports. Goods and services exports have been expanding at close to 8% per year, compared with 7% in the early 1990s. Investment has been the fastest-growing component of demand, with gross capital formation rising by 8.5% on average, which is about one percentage point above the rates recorded in 1991-1994. Lastly, imports climbed at rates well above GDP in both periods, although, notably, import growth relative to income (gross elasticity) has been much lower in recent years than it was in 1991-1994.[3]

In sum, the overall picture stands out from other periods because income is increasing faster than GDP and, in contrast to previous cycles of economic expansion, this phenomenon is being accompanied by a rising domestic savings rate within a context of investment-driven demand. This overall description reflects a more solid and sustainable type of growth than in other periods, although it does mask some major differences across countries within the region.

3. Differences in growth patterns

Growth patterns differ in relation to both the origin and the allocation of the exceptionally large volume of resources that is flowing into the region (owing to increased remittances and improved terms of trade) and opening up a gap between GDP and income growth rates. In Central America and some of the Caribbean countries, the faster growth in income is being driven by remittances from emigrant workers and is being received by the private sector. From the standpoint of income distribution, these resources are going to households, particularly those with relatively lower incomes (i.e., the population segment whose consumption level is the most dependent on current income).[4] This being the case, national saving may be expected to be lower, with consumption acting as the engine of demand.

Conversely, in almost all the South American countries and, to some extent, in Mexico, much of the difference in growth patterns is attributable to the terms-of-trade effect. In the case of countries whose exports come mostly from State-owned corporations, a large proportion of the resources generated by improved terms of trade are absorbed by the public sector; this is generally the case for exports of petroleum and of certain metals, such as copper. Earnings from exports not produced by publicly-owned

3 This is partly due to the liberalization process of the early 1990s, which, together with exchange-rate appreciation, reduced the relative prices of imported products. Estimates conducted by the majority of the countries of the region show that the long-term elasticity of imports with respect to domestic demand is about 1.5 in South America, 1.6 in Central America and 1.8 in Mexico. In all cases, domestic demand was used as the explanatory factor for changes in imports.

4 See Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2005* (LC/G.2288-P), Santiago, Chile, May 2006.

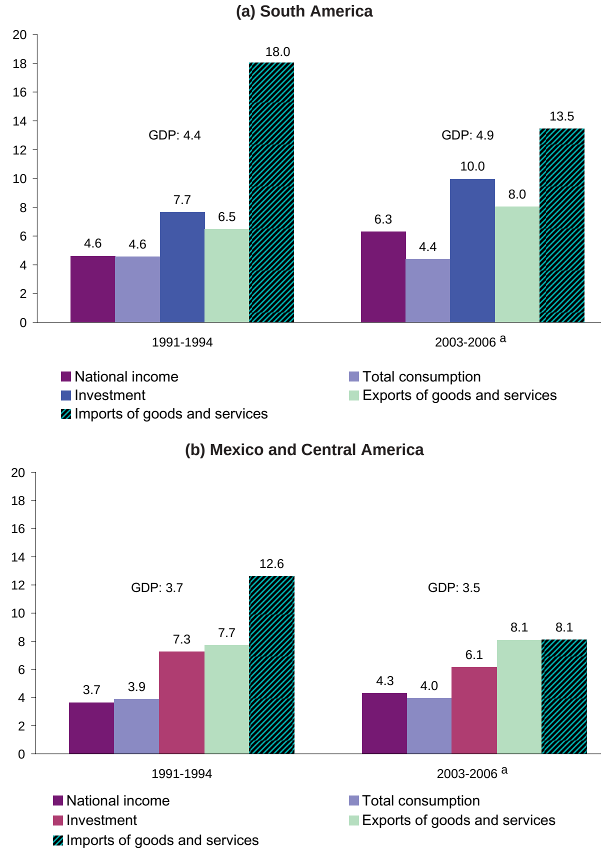
corporations are channelled towards private enterprises, and the State receives a share only through taxation.[5] In both cases saving —by either the public sector or private enterprise— may be expected to rise, and this may make more resources available for financing investment.[6]

Compared with the pattern typically produced by rising remittances, the impact on consumption of higher earnings is smaller and much less direct, since it depends largely on a fiscal policy decision regarding the allocation of public resources (obtained both from the exports of State-owned corporations and from taxes levied on private-sector exports).

Figure I.4 compares trends in the main macroeconomic aggregates by subregion. As has been noted on repeated occasions, although the region as a whole has been generating a growing surplus on the balance-of-payments current account, this is due to developments in the economies of South America, as the current accounts of the Central American countries (and, to a lesser extent, Mexico's) show deficits. These differences are rooted in the origins of the countries' higher incomes. As may be expected in economies that received higher remittance inflows, such as those of Mexico and Central America, consumption growth exceeds that of GDP, and saving rises less than in countries where much of the higher income comes from more favourable terms of trade, in which case corporations (whether public or private) benefit in the first instance. Rising investment is therefore positively and clearly associated with terms-of-trade patterns, and investment consequently rose more in South America than in Mexico and Central America.[7]

Although the two subregions' exports grew at similar rates in 2003-2006, the South American countries' exports showed a stronger expansion than they had in the early 1990s. The fact that this acceleration was not seen in Mexico and Central America has a great deal to do with the competition they face from China on the United States market, whose effect is magnified by exchange-rate appreciation.[8] On the other hand, the South American countries, which are relatively specialized in natural-resource-intensive exports, have benefited from the expansion of their markets towards economies in the Far East. In addition, their exchange rates are lower, on average, than they were in the early 1990s.

Figure I.4
LATIN AMERICA: THE MAIN MACROECONOMIC AGGREGATES, BY SUBREGION



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

The question that arises, then, is whether the patterns of growth observed in the region in recent years can be sustained. When the expansion in resources is driven by migrant workers' remittances, growth depends on an ongoing increase in consumption and this, in turn, is contingent on remittance flows continuing indefinitely. When, on the other hand, the increased earnings come from stronger export prices, there may be a more direct link with investment. In both cases, however, public policy action is needed to compensate for the loss of competitiveness in local production that results from a declining equilibrium

5 In the last few years, many governments have sought to secure a significant share of such resources.
6 Strictly speaking, part of the increase in income may be used to finance higher consumption, especially when the recipients are the owners of small businesses, as in the case of agricultural production units. Be that as it may, these resources are more closely linked to investment.
7 Some of the steepest increases in investment occurred in countries that had experienced sharp contractions in capital formation during crisis periods.
8 Mexican exports picked up in 2006, no doubt as a result of the strong expansion of the United States economy in the first half of the year. High growth rates were also recorded by some Central American countries, especially for agricultural exports.

real exchange rate. Most of the countries in the region are experiencing strong downward pressure on their exchange rates; hence the importance of devising a policy strategy to address this issue (see figure I.1).

Resources to finance such a policy strategy appear easier to mobilize where the increase in revenues stems from an improvement in the terms of trade than when it is fuelled by migrant workers' remittances. Some interesting initiatives are now being developed, however, with a view to channelling a portion of remittance flows towards competitiveness-enhancing infrastructure works.

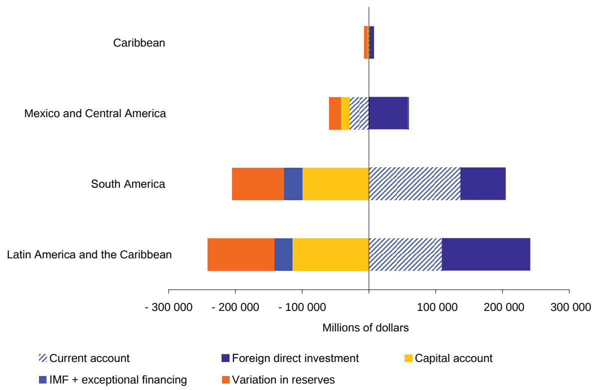
4. Reduced external vulnerability in the region

Another distinctive feature of Latin America's current growth pattern is that it has become significantly less vulnerable to external shocks. First, the shift towards floating exchange rates facilitates adjustment in the event of such shocks. Second, the countries are taking advantage of their more buoyant position to pay down external debt. The external debt burden has also fallen considerably in recent years, both in terms of GDP and as a percentage of regional exports, as a result of the incentive deriving from lower domestic interest rates and of the increased uncertainty associated with more flexible exchange rates. Although some of the countries still carry large external debts, the ratio of total external debt to exports of goods and services is less than half what it was 10 years ago and, when the debt is considered net of international reserves, only around a third of that figure.

In line with what has been happening in other parts of the world, albeit on a smaller scale, the countries of the region have been replenishing their international reserves. The significance of the resulting increase in liquidity and of the countries' healthier debt profile is apparent in the short-term external debt/international reserves ratio, which has been falling sharply. In addition to lower external debt ratios, de-dollarization has also helped to reduce vulnerability to external shocks in several economies in the region, especially in South America.

Here again, there are considerable differences within the region. In South America, resources to pay down debt and build up international reserves have come from the significant balance-of-payments basic surplus generated by the combination of a growing current account surplus and net foreign investment inflows (see figure I.5). The much smaller basic surplus recorded by Mexico and Central America reflects the fact that net FDI inflows exceeded the value of the current account deficit, which was attributable basically to Mexico. In this case, FDI resources were used to finance the current account deficit and increase reserves, although to a much lesser extent than in South America. Debt paydowns were fairly negligible in this subregion.

Figure I.5
LATIN AMERICA AND THE CARIBBEAN: BALANCE-OF-PAYMENTS SOURCES AND USES, 2004-2006



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

The situation in the Caribbean is similar to that of South America, although on a different scale. Here, the current account surplus was accompanied by net FDI inflows and was used to pay off debt and boost reserves. This trend was attributable exclusively to Trinidad and Tobago, however, with the pattern for the rest of the countries being more in keeping with that of the Central American economies.

The more abundant supply of foreign exchange arising from the favourable external climate has, except in the case of Brazil, led to a substantial reduction in the real interest rates of the region's central banks. Falling interest rates have helped to boost economic activity in the last few years and to avoid steeper exchange-rate appreciation, while also acting as an incentive to substitute local-currency debt for foreign-currency obligations; this has been reflected in the balance-of-payments capital account deficit, as noted earlier.

Bearing in mind that inflation is under control in most countries in the region and that the prospect of a slower pace of global economic growth suggests that international interest rates will fall —an expectation which is also implicit in the United States bond market's inverted yield curve— the region's central banks may be expected to use monetary policy as an instrument to keep domestic interest rates low and thus help to sustain real exchange rates.

5. A stronger fiscal position

The countries of the region have been consolidating their fiscal position over the last few years. Macroeconomic conditions have helped to raise fiscal revenues, reflecting both higher levels of economic activity and improved terms of trade. At the same time, and in contrast to the trend seen during other periods of economic expansion, public spending has remained relatively controlled.

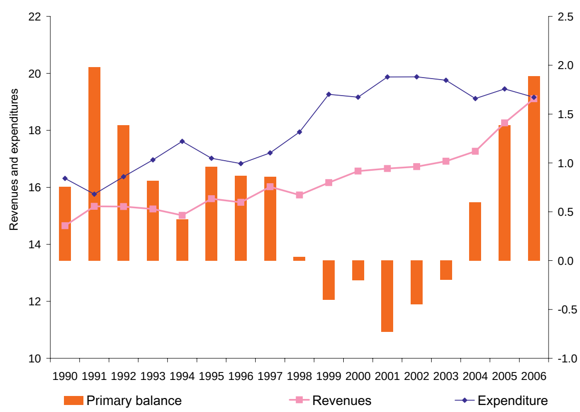
There has been a significant shift in public accounts. The surplus for 2003-2004 resulted from growth in revenues at a time when primary expenditure was declining as a percentage of GDP. Over the last two years, however, primary expenditure has begun to climb, although at a slower rate than income, thus allowing the primary surplus to keep expanding. This situation should be watched carefully, however, because if revenues were to stop rising, then further spending hikes could destabilize the balance on public accounts.

The generation of large primary surpluses has enabled countries to pay down their debts. In tandem with this, external debt restructurings have increased the proportion of fixed-rate debt, secured longer average terms, and raised the percentage of local-currency-denominated liabilities, all of which has also helped to reduce the countries' vulnerability. These repayments and restructurings, combined with the Heavily Indebted Poor Countries (HIPC) Debt Initiative, have resulted in a substantial decrease in public debt as a percentage of GDP.

Figure I.6

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT REVENUES, EXPENDITURE AND PRIMARY BALANCE, 1990-2006

(Simple averages as percentages of GDP)



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

B. The outlook for 2007

International conditions should remain positive for the region in 2007, although less so than in 2006, as global growth is forecast to ease to about 3%. The probable slowdown in the United States economy may be accompanied by a loss of momentum in Japan and in the euro area, albeit on a smaller scale.

The external environment and the performance of the region's economies suggest that the expansion begun four years ago will continue in 2007, although at a somewhat slower rate than in 2006. Regional economic activity should expand by around 4.7%, which will translate into an increase of around 3% in per capita GDP.

Regional GDP is expected to continue to expand despite the global economic slowdown, although perhaps at lower rates than in 2006, in view of the healthy internal macroeconomic situation and the impact of continuing growth on domestic demand. This is a highly auspicious set of conditions for the Latin American and Caribbean region, which has been afflicted more seriously than any other by an extreme degree of macroeconomic volatility that has, in the past, inhibited investment and undermined the countries' ability to achieve sustained growth. Meanwhile, current account trends indicate that the region will maintain relatively high growth rates, with no strong external-sector tensions on the horizon.

Nevertheless, as noted earlier, many factors bear careful watching both from the standpoint of short-term macroeconomic policy and in view of the need for a more clearly delineated development strategy. In particular, beyond reaping the benefits of current international market conditions, the region needs mechanisms to sustain its external competitiveness and to consolidate the countries' efforts to develop policies and instruments that can keep fiscal accounts sustainable and strengthen their potential to counteract business cycle fluctuations.

Chapter II

The international environment

A. Global overview

As noted in the ECLAC report *Economic Survey of Latin America and the Caribbean 2005-2006*, the global economy continued to perform well in 2006, despite an incipient slowdown in a number of developed economies in the second half of the year. World output will expand by around 3.8% in 2006, compared with 3.5% in 2005. For the sixth year running, the rate of growth of the developing economies as a group (6.5%) will be double the rate registered by the developed countries (2.9%).

The world economy will begin to show more obvious signs of losing momentum in late 2006 and early 2007. In fact, many of the developed economies, including Japan, the euro area and the United States, will see their rate of growth slow. The slowing of global expansion could become more evident throughout 2007 and a growth rate of around 3.3% is estimated for the year overall. The global economy appears to be moving gradually and without turbulence into a lower-growth phase; if this continues, the economy should come in for a soft landing and global imbalances should lessen.

Table II.1
WORLD GDP GROWTH RATES, 2003-2007
(Percentages)

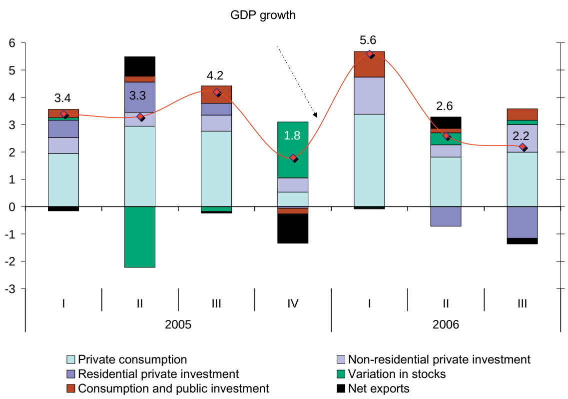
	2003	2004	2005	2006 [a]	2007 [b]
World	**2.7**	**4.0**	**3.5**	**3.8**	**3.3**
Developed countries	**1.9**	**3.0**	**2.5**	**2.9**	**2.4**
United States	2.5	3.9	3.2	3.3	2.6
Euro area	0.8	2.0	1.4	2.5	2.2
Japan	1.8	2.3	2.6	2.8	2.1
Developing countries	**5.2**	**6.9**	**6.4**	**6.5**	**6.0**
Africa	4.7	4.8	5.4	5.6	5.0
Latin America and the Caribbean	2.0	5.9	4.5	5.3	4.7
China	10.0	10.1	10.2	10.2	9.0
East Asia (except China)	4.2	6.2	5.1	5.3	5.0
Transition economies	**7.0**	**7.6**	**6.4**	**7.2**	**6.5**

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

1. The international economic backdrop in 2006

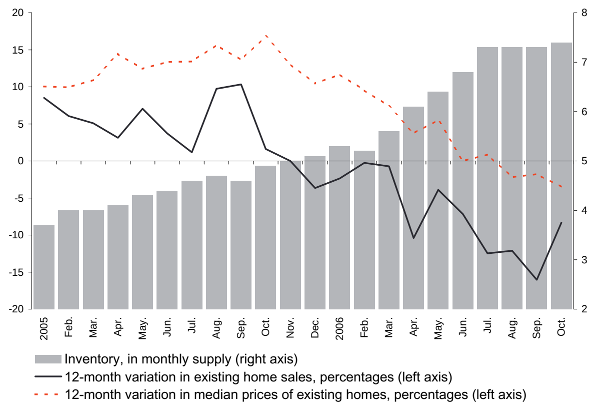
Despite the expected slowdown in the United States, the national accounts have yet to show clear signs that the economy is cooling. In the third quarter of 2006 economic activity was up by 2.2% on the previous quarter in annualized, seasonally-adjusted terms. This figure exceeded projections and was only 0.4 percentage points lower than the second-quarter rate. Although residential investment saw the largest drop in 15 years (18%) in the third quarter of 2006, private consumption and the other components of investment (non-residential) rose by 2.9% and 10.0%, respectively. It should be noted that the construction sector drove much of the United States' economic expansion in 2003-2005 and may now become the trigger for an economic slowdown that has yet to fully kick in. Figure II.1 shows that the negative impact of residential investment on economic growth began to deepen in the second quarter of 2006 and represented over one percentage point in the third. Most United States property market indicators slipped during the year and the number of unsold houses on the market rose (see figure II.2). Against this backdrop, in August property values fell for the first time after 11 years of sustained growth. The United States economy is expected to close 2006 with growth of around 3.3%, which represents an annualized, seasonally-adjusted expansion rate of 2.0% in the fourth quarter.

Figure II.1
UNITED STATES: CONTRIBUTION OF COMPONENTS OF SPENDING TO QUARTERLY GDP GROWTH
(Percentage points)



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

Figure II.2
UNITED STATES: HOUSING MARKET

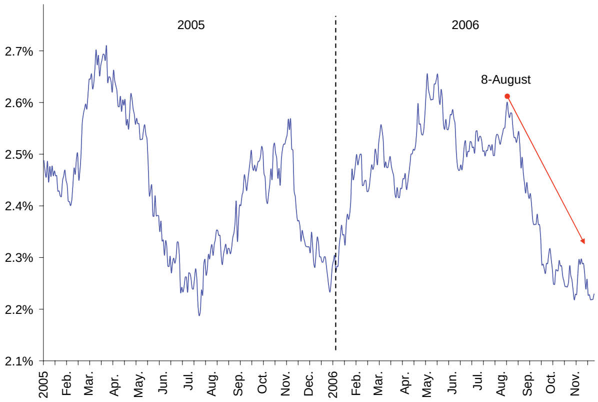


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the National Association of Realtors.

Private consumption remained buoyant in the United States thanks to an oil-price-driven deceleration in consumer prices in the second half of 2006, combined with a labour market that showed the lowest unemployment rate for five years (4.4%). The index of core consumer inflation (which excludes energy and food prices) is still rising, but at a lower rate than the high of 2.9% reached in September. The year-on-year increase in core prices for personal consumption expenditures (in which rentals have less bearing) was 2.4% in September 2006. Although this figure is lower than the high of 2.5% recorded in August 2006, the fact remains that it represents an annual rate of over 2% and is thus a matter of concern for the United States Federal Reserve.

The most recent report issued by the Federal Reserve monetary policy committee contained a warning about the rate of increase in core prices in recent months. However, price inflation is expected to slow more heavily in the future, basically because of the recent drop in fuel prices, added to the lagged effect of the hike in short-term interest rates and lower inflation expectations. This last factor is borne out by break-even inflation (BEI) analysis, which is widely used to measure expectations of inflation based on the performance of the bonds market. This indicator is defined as the difference between the nominal yield on a public bond and the yield on an inflation-indexed security with a similar maturity and represents the expected average rate of inflation up to the maturity of the bonds that will equate the two returns.[1] In early August, coinciding with the start of the drop in oil prices, break-even inflation began to trend downwards, reflecting a lower expectation of inflation (see figure II.3). For the time being, the debt market has yet to produce a massive portfolio shift towards inflation-indexed bonds, which would push up BEI.

Figure II.3
UNITED STATES: BREAK-EVEN INFLATION, 2005-2006
(Percentages)



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

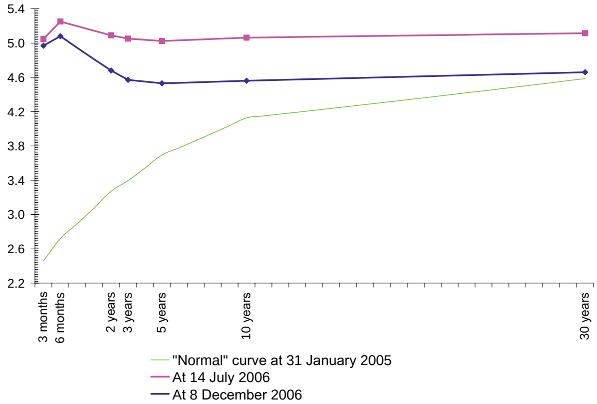
As well as lower expectations of inflation, the markets are anticipating a slowdown in the United States economy. One indication of this is the inversion of the Treasury bond yield curve (see figure II.4). Towards the end of the year the curve's negative slope steepened, which shows that economic agents expect the United States monetary policy stance to loosen as a result of slowing economic activity and lower domestic inflation.

Given the possibility of slacker growth in the United States economy in the coming quarters and lower expectations of inflation, the Federal Reserve is likely to refrain from changing its reference rate (now at 5.25%) until 2007 in order to have a clearer view of how these variables will behave.

Briefly then, in 2007 the United States economy is expected to lose some momentum and turn in a growth rate of around 2.6%. This estimate hinges basically on the sustainability of current levels of consumption, given the drop in prices on the real estate market and the effects that the downturn in the construction sector may have on employment.

Economic growth in the euro area was particularly strong in the first half of the year. In both the first and second

Figure II.4
YIELD CURVE OF UNITED STATES TREASURY BONDS, SELECTED DATES IN 2005 AND 2006



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

quarters of 2006, the economy posted a 0.9% expansion with respect to the previous quarter, in seasonally-adjusted terms. Consumption rose only 0.3% in the second quarter of the year, but investment climbed 2.1%. By contrast, the contribution of net exports decreased mid-year because of a sharp dip in exports of goods and services. With respect to individual countries, the French economy registered a "go-stop-go" pattern of growth, i.e., nil growth in the third quarter after an unexpected jump of 1.2% in the second quarter; while Germany and Italy saw their rate of expansion slow in the second quarter.

The aggregate output of the monetary union will expand by an estimated 2.5% in 2006, more than one percentage point above the 2005 rate. This expansion is projected to slow in 2007, however, owing to the tighter fiscal policy stances adopted in Germany and Italy. All in all, the euro area's growth rate for next year is estimated at somewhere between 2.0% and 2.2%.

In view of the expansion, increased buoyancy and confidence in the euro area, the European Central Bank may continue to hike its reference rates of interest in 2007, despite the incipient slowdown in domestic prices. In October 2006, the harmonized consumer price index showed a year-on-year rise of 1.6%, which was the lowest rate since early 2004. This recent slowing of inflation is exceptional, however, and depends on the developments in oil prices; if these prices rise again, inflation may return to an annual rate of over 2%.

The Japanese economy slowed down in the third quarter of the year, with GDP growth 0.5% up on the previous quarter. Over the same period, private consumption

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[1] BEI may be calculated as (1+Yit)/(1+Rit) –1 , where Y is the nominal yield and R is the real yield on day t for maturity i. For a more detailed analysis of the scope and limitations of this indicator, see B. Sack, *Deriving Inflation Expectations from Nominal and Inflation-Indexed Treasury Yields*, Washington, D.C., Board of Governors of the Federal Reserve System, 2000.

contracted by 0.7%, following an expansion of 0.5% in the second quarter of 2006. In contrast, non-residential investment and exports of goods and services increased in the third quarter by 2.9% and 2.7% respectively. Despite this strong external performance, the two largest export industries in Japan (transport equipment and electronic components) are very dependent on the United States economic cycle, which could result in a moderation of exports in 2007. Imports of goods and services were down by 0.1% in the third quarter after an increase of 1.4% in the previous quarter, a development which is consistent with the decline in private consumption.

The slowdown in the Japanese economy could become more serious as of the last quarter of 2006, when GDP is expected to grow by 0.3% over the third quarter figure, which would mean an annual GDP growth rate of around 2.8%. As already mentioned, a lower growth rate of around 2% is forecast for the Japanese economy in 2007, owing to the possible slowdown in its exports.

The main Asian economies are sustaining their strong growth rates, led by China and India, which in 2006 will post growth rates of close to 10.2% and 7.8%, respectively, powering growth throughout the region. Most of the Asian economies are frontline drivers of world trade, with exports from China and India growing at an annual rate of about 20%. Nevertheless, in 2007 the growth rate in the region could diminish slightly, as a result of the tighter policies being applied in China and the lower rate of world growth.

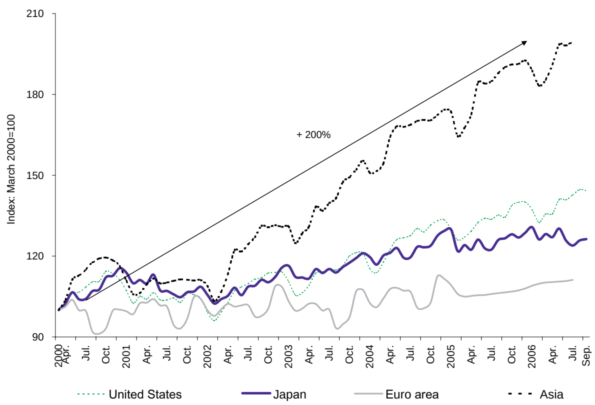
On the currency market, the dollar is continuing to depreciate against the euro and most of the emerging economies' currencies, while it is appreciating in relation to the Japanese yen. This trend is expected to continue in the medium term, although the risk of a more rapid depreciation of the United States currency has increased in view of the growing deficit in that country's current account, which in 2006 will reach 6.5% of GDP. Both the fall in value of the dollar and the loss of momentum of the United States economy would contribute to a gradual reduction in the current account deficit, which, together with the fiscal deficit, puts this country's overall borrowing requirement at over 8.5 percentage points of GDP.

2. The current stage of the economic cycle

In 2006, the global economy achieved a higher-than-expected growth rate despite the volatility of commodity prices. This positive performance was due, on the one hand, to the continuing signs of strength in the United States economy despite the slowdown in the construction sector and, on the other hand, to strong demand in the main Asian economies. There has thus been no sign thus far of the decoupling effect that might accompany a slowing in the United States economy, which enjoyed stronger growth than expected and may even end 2006 with a rate higher than the 2005 figure.[2]

The analysis of the increase in external demand in the largest economies in recent years (see figure II.5) shows a sharp rise in the Asian economies' real imports. The United States has also seen a considerable rise in real imports, particularly since early 2003. Although the rate of growth in imports has slowed in recent months (especially in China and Japan), the developing

Figure II.5
REAL IMPORTS IN SELECTED COUNTRIES AND REGIONS, 2000-2006
(Three-month moving averages)



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

2 The decoupling effect postulates that global economic activity will not be affected by lower growth in the United States economy thanks to the strength of the Asian economies and, to a lesser extent, of the euro area.

Asian economies have continued to enjoy a strong growth rate, although this may diminish marginally in the medium term owing to the impact of slowing global growth.

The global economy is entering a period of lower growth, led by the United States and cushioned by the Asian and European economies in what should amount to a soft landing. This slowing rate of growth in the worldwide economy, together with increased depreciation of the dollar, is likely to reduce the United States' growing external imbalances. Furthermore, the developing world is on a better footing now to deal with a gradual adjustment, thanks to its international reserves and, in many cases, to an improved fiscal situation and a healthier external debt position.

There are still risks which could precipitate the slowdown in the next few quarters. These include a heightened wealth effect which might erode private consumption in the United States, given the fall in real-estate prices.[3] As well, commodity prices, particularly for petroleum, remain tremendously volatile and there are continuing geopolitical tensions in the Middle East, all of which could worsen volatility and dampen the overall confidence of economic agents.[4]

B. Commodity prices

The upward trend in the prices of Latin America's commodity exports, which had begun in 2002, continued in 2006 but the rate of increase was less than in 2005, with the September-to-September figure down from 28.5% to 10.4% and the annual cumulative variation falling from 27.9% to 13%.[5]

The slackening in commodity export prices was influenced by the behaviour of crude-oil prices, with the oil price index declining by 2.8% in the past 12 months, but climbing by 6.3% for the year. Oil price trends on the international market reflected an easing of uncertainty in the Middle East following the end of hostilities in Lebanon in September, and progress in the diplomatic negotiations between the Islamic Republic of Iran and the United States of America concerning the Iranian nuclear programme. This hurricane season of 2006 did not affect oil supplies or refining capacity as it did in 2005. The Trans-Alaska oil pipeline suffered a breakdown in the first quarter of 2006, depriving the market of about 300,000 barrels a day and affecting refineries on the west coast of the United States. The pipeline was repaired and the flow of oil returned to normal as of the third quarter of 2006. In October, the Organization of Petroleum Exporting Countries (OPEC) announced a production cut of 1.2 million barrels a day in order to shore up oil prices, but did not say what mechanism would be used to achieve this. It should be noted that Algeria, the Libyan Arab Jamahiriya and Qatar are exceeding their assigned production quotas, whereas the Bolivarian Republic of Venezuela, Indonesia and Nigeria are producing under quota level.

Of the groups of goods included in the export commodity price index, the strongest growth was shown by the minerals and metals group, whose prices rose by 36.6% over 12 months, compared with 20.9% in 2005. The prices of zinc, nickel and copper rose by 143.5%, 111.7% and 97.1% respectively. The price of copper declined in the third quarter owing to the slowdown in housing construction in the United States, and stocks of copper have risen in comparison with 2005. The price indexes for gold and silver rose by 31.2% and 61.3% over the past 12 months.

Prices for agricultural products also slowed, both over the past 12 months, from 8.2% in 2005 to 7.7% in 2006, and in cumulative terms, from 6.6% to 4.4%. In this category, wheat and maize showed the greatest increase

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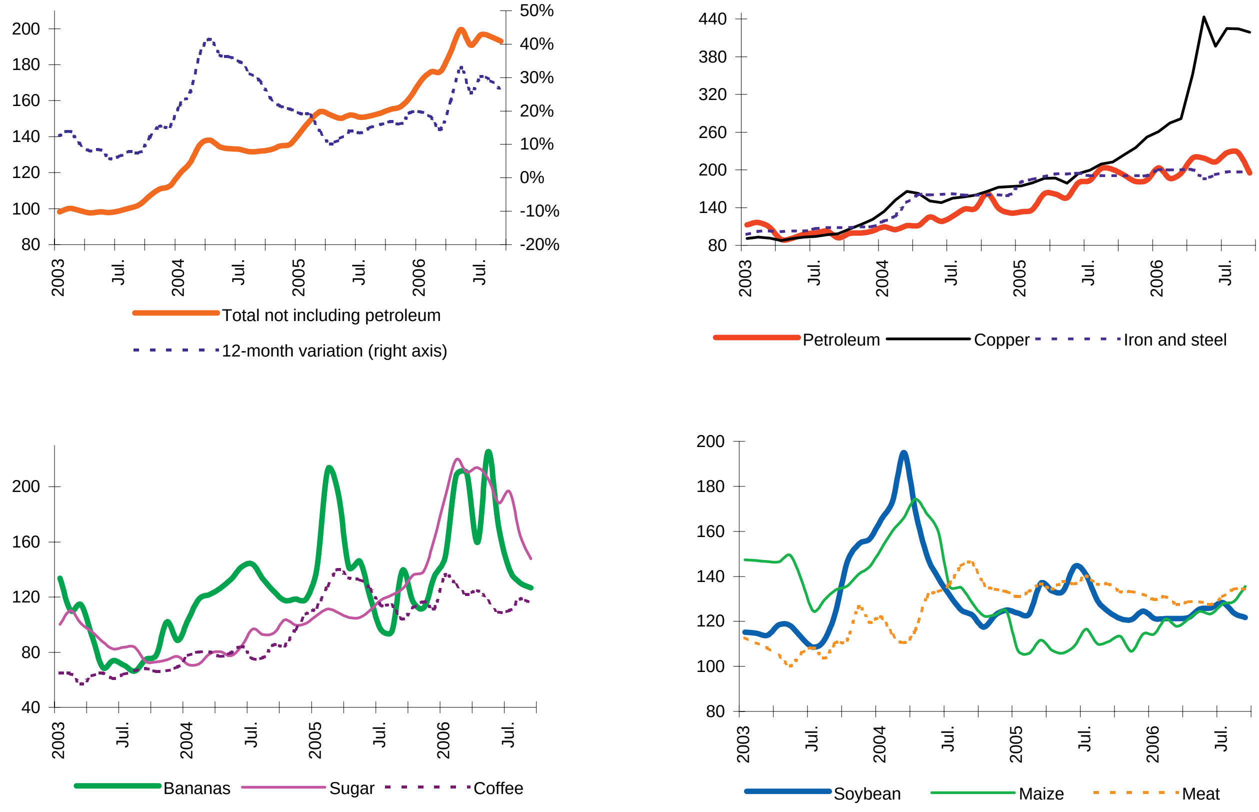
3 This risk could spread to other developed countries which have seen major growth in their real-estate sectors: Australia, Spain and the United Kingdom.

4 The price of crude oil fell from over US$ 78 in August 2006 to about US$ 60 at the end of the year. Nonetheless, the production cut announced by OPEC, the prospect of a cold winter and the conflicts in the Middle East could drive the price up again in the short term.

5 The latest figure available for the export commodity price index is for September. In this section, reference to the past 12 months corresponds to figures for September 2005-September 2006.

in annual terms with 23.8% and 18.4%, respectively. The price rise for wheat was due to a fall in the harvest caused by weather conditions, especially the drought in Australia. High petroleum prices have encouraged the production of alternative fuels such as ethanol, resulting in increased demand for inputs such as maize and sugar. The price of sugar rose by 17.1% in the period from September 2005 to September 2006. Type I coffee, another important product for the region, showed annual and cumulative price rises of 10.8% and 5.4%, respectively, and type II coffee prices were up by 11.8% and 1.2%, respectively. Coffee prices have reflected the declining harvest from Viet Nam, caused by climatic factors and a loss of quality. The fall in coffee prices from 1997 to 2003 was due to a rising supply from Viet Nam, which has become a major producer. It now vies with Colombia for second place and its coffee competes directly with the Brazilian product. The price index for bananas declined by 6.3% from December 2005 to September 2006 and the index for soybean showed a cumulative fall of 2.3% in 2006, but the index for soybean oil rose by 12.1%. Beef prices increased slightly, with a 1.72% rise for the year. Lastly, Chile not only benefited from higher copper prices, but also saw a cumulative rise of 11.2% in the price index for fishmeal.

Figure II.6
LATIN AMERICA AND THE CARIBBEAN: PRICES OF SELECTED EXPORT COMMODITIES, JANUARY 2003-SEPTEMBER 2006
(Index 2000=100) [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Index weighted according to the proportion of each product in the region's exports in 2000.

Chapter III

Macroeconomic policy

A. Fiscal policy

Continuing the tendency of recent years, the region's countries continued to consolidate their fiscal position in 2006. This positive trend in the fiscal accounts and public debt position has meant a continuing reduction in the region's vulnerability, a process that began in 2002.

Nonetheless, upward pressure on spending was a feature of the fiscal situation in the 2005-2006 period, given the substantial rise in revenues for the third year running. In this context, two priorities need to be reconciled: first, the pressing need for the region to increase its social and infrastructure spending to improve investment in physical and human capital and, second, the effort to create greater "fiscal space" to ensure these policies are sustainable over time.

Although much of this growth is due to positive developments in the international economy, fiscal management in a number of countries reflects an interest in pursuing a more solvent macroeconomic policy, as reflected in the management of budget surpluses and public debt.

With the international environment still favourable, the budgets announced for 2007 suggest that primary surpluses will be high by the region's historical standards.

1. The fiscal aggregates

The institutional diversity of public-sector organization in the region's countries makes it difficult to find an indicator that accurately reflects the full range of fiscal situations. Data for central government accounts (in some cases the only information available) will be used to provide an initial overview of fiscal developments, but more aggregate indicators will then be introduced, such as those for the non-financial public sector (NFPS), and box III.1 will give a more detailed analysis of developments in the public finances of subnational governments over the last 10 years.

At the central government level, the fiscal performance of the region had yielded a primary surplus of 2.1% of GDP (measured as a simple average) by the close of 2006, as compared with a surplus of 1.4% in 2005,[1] while the overall deficit (including interest on the public debt) narrowed from 1.1% to 0.3% of GDP.

Table III.1

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS [a]

(Percentages of GDP at current prices)

	Primary balance				Overall balance				Public debt [b]							
									Central government				Non-financial public sector			
	2003	2004	2005	2006 [c]	2003	2004	2005	2006 [c]	2003	2004	2005	2006 [c]	2003	2004	2005	2006 [c]
Latin America and the Caribbean																
Simple average	**-0.2**	**0.5**	**1.4**	**2.1**	**-3.0**	**-2.0**	**-1.1**	**-0.3**	**59.4**	**53.0**	**44.6**	**41.0**	**62.0**	**54.6**	**47.3**	**42.9**
Weighted average	**1.4**	**1.9**	**2.2**	**2.6**	**-1.9**	**-1.0**	**-1.3**	**-0.9**	**45.5**	**42.1**	**34.5**	**32.5**	**57.9**	**53.3**	**43.7**	**40.7**
Argentina [d]	2.1	3.2	2.3	3.0	0.2	2.0	0.4	1.0	138.2	126.4	72.8	63.7	144.8	132.5	78.5	68.6
Bolivia [e]	-5.1	-3.1	0.3	6.2	-7.7	-5.7	-2.3	4.1	84.5	79.1	74.1	67.9	89.5	83.9	78.5	72.1
Brazil [f]	2.5	3.0	2.9	2.5	-2.5	-1.3	-3.5	-4.0	37.2	34.0	34.3	33.7	58.7	54.2	51.7	49.9
Chile	0.7	3.1	5.6	7.9	-0.4	2.1	4.7	7.6	13.1	10.8	7.5	6.3	19.6	16.9	13.3	12.4
Colombia [g]	-0.8	-1.5	-1.3	-1.1	-5.0	-5.5	-4.8	-5.3	50.7	47.0	46.8	45.8	53.9	49.9	46.0	45.2
Costa Rica	1.4	1.4	2.0	1.8	-2.9	-2.7	-2.1	-2.4	41.3	41.1	37.4	33.8	45.6	47.0	42.8	39.0
Ecuador	2.5	1.5	1.8	2.9	-0.4	-1.0	-0.5	0.6	45.8	40.8	36.6	32.4	49.2	43.7	39.4	35.1
El Salvador	-0.8	0.9	1.1	1.9	-2.7	-1.1	-1.0	-0.4	37.2	38.0	37.8	38.2	40.6	40.8	40.9	40.6
Guatemala [h]	-1.1	0.2	-0.3	-0.3	-2.3	-1.0	-1.5	-1.5	18.4	18.8	17.8	17.7	19.4	19.7	18.5	18.3
Haiti	-2.7	-2.7	0.4	1.0	-2.9	-3.3	-0.5	0.2	57.5	46.7	44.0	...	63.5	51.1	47.5	39.5
Honduras	-4.6	-2.0	-1.5	0.3	-5.6	-3.1	-2.6	-1.0	72.0	70.1	53.1	47.3	71.0	70.0	53.3	48.7
Mexico [i]	1.3	1.2	1.3	2.5	-1.1	-1.0	-0.8	0.3	24.2	23.0	22.3	22.3	27.6	25.8	24.1	24.4
Nicaragua	0.3	-0.1	0.1	0.3	-2.8	-2.2	-1.8	-1.6	137.7	99.9	91.9	85.6	138.0	100.0	92.1	85.8
Panama	0.5	-1.2	1.2	1.6	-3.8	-5.4	-3.9	-2.9	66.6	69.4	65.1	61.5	67.0	70.2	66.1	62.2
Paraguay [h]	0.9	2.7	2.0	1.8	-0.4	1.6	0.8	0.8	44.4	38.0	31.4	25.1	46.9	41.7	32.8	26.2
Peru	0.2	0.6	1.1	2.2	-1.7	-1.3	-0.7	0.3	46.8	42.7	39.3	34.1	46.8	42.7	39.3	34.1
Dominican Republic	-3.3	-1.9	0.8	0.2	-5.2	-4.0	-0.7	-1.0	...	...	25.0	22.4	48.7	29.5	30.4	26.0
Uruguay	1.1	2.4	2.7	2.6	-4.6	-2.5	-1.6	-1.8	94.3	74.6	66.3	59.2	100.4	78.9	69.6	62.8
Venezuela (Bol. Rep. of)	0.3	1.8	4.7	3.1	-4.4	-1.9	1.7	1.0	...	...	...	...	46.3	39.1	34.0	24.1

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

[a] Includes social security.

[b] On 31 December each year, applying the average exchange rate for the external debt. Coverage is central government, except in the cases of Panama and the Dominican Republic, where debt coverage is for the non-financial public sector. The figures for the public debt of Paraguay and the Dominican Republic only include external debt.

[c] Preliminary estimates.

[d] National administration.

[e] General government.

[f] Federal government and the central bank.

[g] National central government. The results do not include financial restructuring costs.

[h] Central administration.

[i] Public sector.

[1] As a weighted average, the primary surplus rose from 2.2% of GDP in 2005 to 2.6% of GDP in 2006.

Box III.1

DEVELOPMENTS IN THE FISCAL BALANCE AND PUBLIC DEBT SITUATION OF SUBNATIONAL GOVERNMENTS IN LATIN AMERICA

In recent decades, many of the region's countries have taken steps to reallocate powers and responsibilities between their different levels of government, a process usually known as "decentralization", although strictly speaking it involves processes with varying characteristics.[a] Notwithstanding the considerable institutional heterogeneity that is typical of Latin America,[b] responsibilities have increasingly been devolved from central governments to subnational governments in the past decades. As a result, subnational governments are playing a larger role in the management of public affairs and receiving a larger share of public budgets.[c]

LATIN AMERICA AND THE CARIBBEAN: REVENUE, EXPENDITURE AND PRIMARY BALANCE OF SUBNATIONAL GOVERNMENTS
(Percentages of GDP)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenue										
Argentina	10.7	11.1	11.1	11.4	11.5	11.2	10.4	11.3	12.8	13.4
Bolivia	7.0	6.6	7.2	6.8	6.3	7.8	8.1	7.7	8.5	10.4
Brazil	12.8	19.9	14.8	14.0	13.8	14.0	14.1	13.4	13.6	14.2
Colombia	7.0	7.1	7.2	7.8	7.6	7.8	8.6	9.0	9.2	9.2
Ecuador	2.4	2.6	2.6	2.3	2.8	4.0	3.7	3.7	4.3	…
Mexico	4.8	5.4	6.1	6.6	6.9	7.5	7.5	7.8	7.7	…
Peru	1.9	2.0	2.1	1.9	2.1	2.1	2.1	2.3	2.3	2.5
Expenditure										
Argentina	11.1	11.2	11.7	12.8	12.6	13.5	10.9	10.9	11.8	13.1
Bolivia	6.9	7.1	7.3	7.0	6.4	7.9	7.8	9.6	8.0	8.3
Brazil	13.1	18.3	15.6	14.3	13.8	14.3	14.4	13.6	13.6	14.1
Colombia	7.9	7.7	7.7	8.3	8.2	7.8	8.5	8.7	8.4	9.0
Ecuador	2.5	2.3	2.4	2.4	2.4	3.6	3.8	3.7	4.4	…
Mexico	4.5	5.2	6.0	6.4	6.8	7.5	7.6	7.7	7.6	…
Peru	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.3
Primary balance										
Argentina	-0.1	0.3	-0.3	-0.9	-0.5	-1.5	0.0	0.9	1.4	0.7
Bolivia	0.2	-0.4	0.0	0.1	0.1	0.1	0.5	-1.9	0.7	2.4
Brazil	0.1	-0.7	-0.2	0.2	0.5	0.9	0.8	0.9	1.0	1.1
Colombia	-0.3	-0.1	0.1	0.1	-0.2	0.3	0.4	0.6	1.1	0.4
Ecuador	-0.2	0.3	0.1	-0.1	0.4	0.4	-0.1	0.0	-0.1	…
Mexico	0.3	0.2	0.2	0.2	0.2	0.1	0.0	0.1	0.2	…
Peru	0.1	0.0	0.0	0.1	-0.1	0.1	0.1	0.1	0.2	0.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: Argentina's data are for provinces; Bolivia's for regional governments; Brazil's revenue and expenditure data are for states, while its primary balance data are for states and municipalities; Colombia's data are for departments and municipalities; Mexico's for state governments; and Peru's for local governments.

This growing involvement of intermediate and local governments in the provision of public goods and services means it is important to track their fiscal performance.

In the middle of the last decade, a string of negative fiscal balances at the subnational level had an impact on the consolidated public accounts, translating in Argentina and Brazil (and to a lesser extent Colombia) into a sharp rise in public debt.

In recent years, different factors have combined to generate a major improvement in fiscal balances, allowing local and regional levels of government to play a significant part in the improvement of general government balances and those of the non-financial public sector (NFPS), as described in the main chapter.

In the case of Argentina, increases in transfers and local revenues, combined with relative price changes that brought expenditure down substantially in 2002 and 2003, resulted in historically unprecedented surpluses in those years.[d] Nonetheless, the surplus declined sharply in 2005 and the situation in 2006 is expected to be one of balance.

In the case of Bolivia, the marked improvement in the primary balance is essentially explained by the introduction of the direct tax on hydrocarbons and derivatives (IDH), the collection of which yielded revenues of 3.1 percentage points of GDP in 2005, and the proceeds of which are split between the treasury (42.3% of revenues) and the regional governments (57.7%).

In the case of Brazil, the primary balances of the states and municipalities gradually deteriorated from 1994 to 1998 before starting to improve again in the latter year. That improvement was influenced by different factors: the constraints on their budgets established in bilateral agreements with the federal government, the provisions

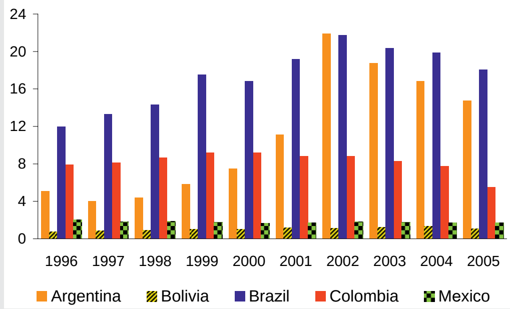
Box III.1 (concluded)

of the fiscal responsibility law, and higher tax revenues,[e] essentially because of the state sales tax on merchandise and services (ICMS).

In Colombia, the positive trend seen in the subnational finances in the 2001-2004 period was the result of two factors: a marked improvement in subnational revenues (primarily because of higher transfers from central government) and greater spending control.

As the following chart shows, this combination of positive results meant a major reduction in the debt to GDP ratio of subnational governments. Nonetheless, subnational government debt in Argentina and Brazil is still between 14% and 18% of GDP, making it a significant part of the total NFPS debt.

LATIN AMERICA AND THE CARIBBEAN (5 COUNTRIES): SUBNATIONAL GOVERNMENT DEBT
(Percentages of GDP)



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

[a] E. Di Gropello and R. Cominetti (eds.), *La descentralización de la educación y la salud. Un análisis comparativo de la experiencia latinoamericana* (LC/L.1132/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1998, presents an initial evaluation of the reallocation of social expenditure functions.

[b] See O. Cetrángolo, “Búsqueda de cohesión social y sostenibilidad fiscal en los procesos de descentralización”, document presented at the international seminar on social cohesión in Latin America and the Caribbean, Panama City, September 2006, for a more detailed examination of institutional heterogeneity and decentralization.

[c] An outline of the fiscal decentralization process in the region can be found in Latin American and Caribbean Institute for Economic and Social Planning (ILPES), “Una evaluación de los procesos de descentralización fiscal”, *Seminarios y conferencias series*, No. 32 (LC/L.1991-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2003.

[d] As O. Cetrángolo and J.P. Jiménez observe in “Política fiscal en Argentina durante el régimen de convertibilidad”, *Gestión pública series*, No. 35 (LC/L.1900-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2003, persistent fiscal imbalances in the provincial accounts were a structural characteristic of the public finances in Argentina during the 1961-2001 period.

[e] See F. Giambiagi and M. Ronci, “Brazilian fiscal institutions: the Cardoso reforms, 1995-2002”, *CEPAL Review*, No. 85 (LC/G.2266-P/E), Santiago, Chile, April 2005 and J.R. Afonso (2004), “Brasil, um caso aparte”, document presented at the XVI Regional Seminar on Fiscal Policy, Santiago, Chile, for a more detailed examination of fiscal trends in the states and municipalities of Brazil.

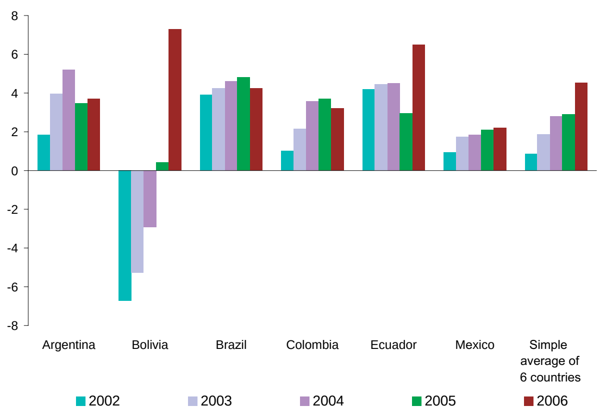
This performance reflects the general improvement in the fiscal accounts of the region’s countries. In 2006, 17 of the 19 countries analysed in table III.1 ran a primary surplus. This was in significant contrast with 2002, when only eight countries had a primary surplus (the figure was 12 in 2003-2004 and 16 in 2005).

It must be stressed, however, that only nine countries have achieved a positive overall balance, and only three of these are countries whose fiscal revenues are not largely the product of rents from non-renewable resources.

As already pointed out, coverage that only includes central government is not wholly representative for certain of the region’s countries that have more decentralized public sectors. Using broader governmental coverage for the region’s more decentralized countries (Argentina, Bolivia, Brazil, Colombia, Ecuador and Mexico), the primary balance of the non-financial public sector rose, on average, from 0.9% of GDP in 2002 to 4.5% in 2006 (see figure III.1).

In the cases of Argentina, Bolivia and Brazil, this difference is primarily accounted for by the fiscal performance of subnational governments,[2] while in the cases of Colombia, Ecuador and Mexico it is due to a combination of the fiscal results of subnational governments and the balances of public-sector enterprises, essentially oil companies.

Figure III.1
LATIN AMERICA (6 COUNTRIES): PRIMARY BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR, 2002-2006
(Percentages of GDP)



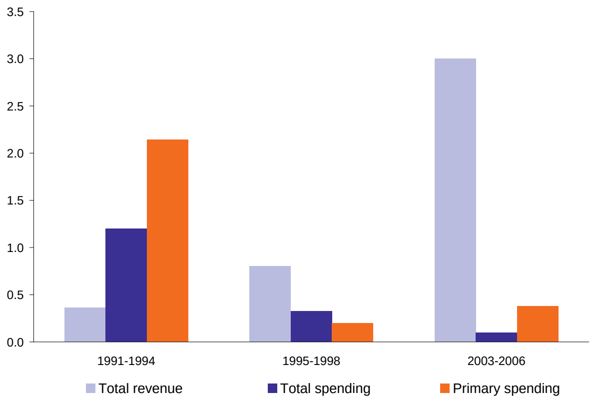
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[2] See box III.1 for more information on subnational finances.

2. The 2003-2006 period

As the fiscal policy chapter of earlier publications has highlighted, fiscal performance in 2003-2006 displays some novel features when compared to other periods of growth (see *Economic Survey of Latin America and the Caribbean, 2005-2006* and figure III.2).

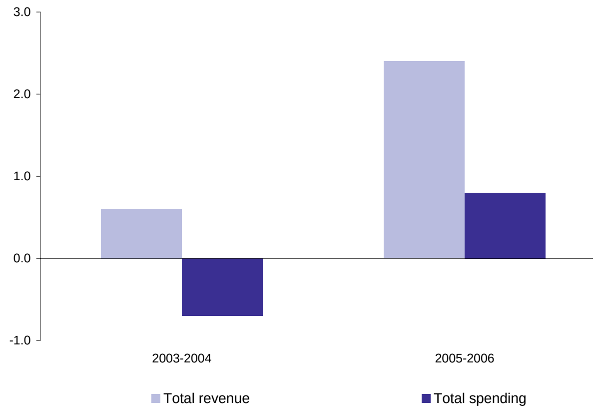
Figure III.2
LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN THE MAIN FISCAL INDICATORS, 1991-1994, 1995-1998, 2003-2006
(Percentage points of GDP)



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

Whereas the fiscal improvement in 2003-2004 was based on higher fiscal revenues and spending below regional output, however, the growth in primary surpluses in 2005-2006 was due to a sharp rise in revenue that more than offset the large increases in public spending of the last two years (see figure III.3).

Figure III.3
LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN CENTRAL GOVERNMENT REVENUES AND SPENDING
(Percentage points of GDP)



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

3. Revenue

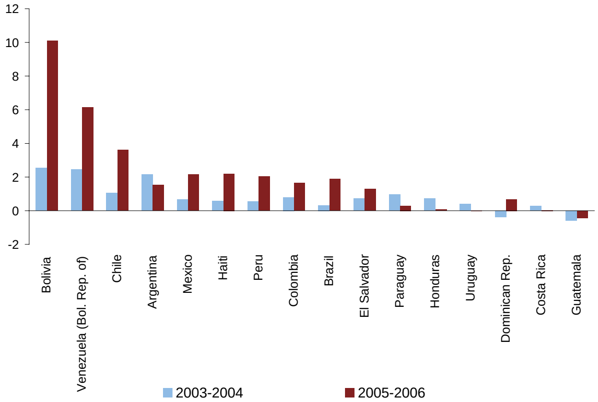
This increase in fiscal revenue in countries throughout the region, with resources increasing by over 1% of GDP in 2006 (which was unprecedented in the 1990-2004 period) for the second year running, was mainly driven by higher revenues in certain of the countries that specialize in non-renewable commodities.

The three countries with the strongest revenue growth in 2005-2006 (Bolivia, Chile and the Bolivarian Republic of Venezuela) happen to be those whose terms of trade have improved the most (see the section on economic activity and investment in chapter IV).

The increase in fiscal resources in these countries is not just the result of higher prices for commodities but also due to the introduction of new tax-raising instruments. Bolivia, Chile and the Bolivarian Republic of Venezuela have created new taxes to extract higher revenues from their non-renewable resources. As a result of these reforms, in combination with positive price movements, tax systems have come to depend more on resources derived from the exploitation of non-renewable commodities.

In Bolivia, improved revenues are mainly due to the approval of the new direct tax on hydrocarbons and derivatives in 2005 (it yielded revenue worth 3.1 points of GDP that year) and the extraordinary profits tax (surtax) on companies engaged in extraction activities, which was decreed in 1994 but levied for the first time in 2005. Also in 2005, Chile created its special tax on operating income from mining activities.

Figure III.4
LATIN AMERICA AND THE CARIBBEAN: TOTAL CENTRAL GOVERNMENT REVENUE, 2003-2006
(Variation in points of GDP)



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

The Bolivarian Republic of Venezuela, meanwhile, has made numerous reforms to its tax structure in recent years: a reduction in the VAT rate and abolition of the corporate asset tax in 2004, an increase in the royalties and revenue tax levied on the oil sector in 2005, the announcement of the creation of a new tax on crude oil extraction (drilling tax) and the suspension of the bank debit tax in early 2006.

Meanwhile, the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement had adverse effects on these countries' tax revenues.[3] To offset this loss, El Salvador, Guatemala and Panama carried out tax reforms which led to revenues rising in 2006. The Dominican Republic has a fiscal reform planned for 2007, while Costa Rica failed to obtain the parliamentary backing needed to pass its planned fiscal reform.

In some cases, overall income was also swelled by non-tax revenues in the form of higher grants (Honduras and Nicaragua) and higher revenues from State enterprises (Mexico and Panama).

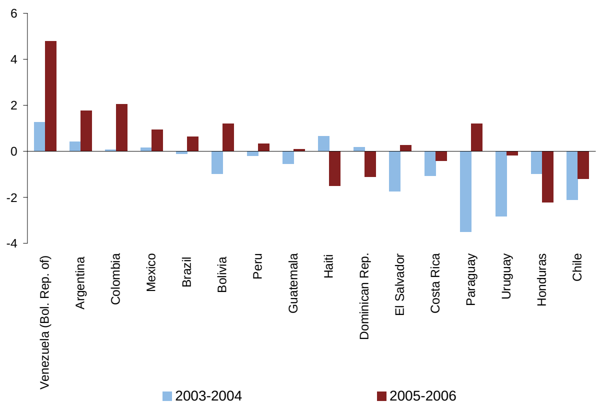
4. Expenditure

Many countries in the region increased their expenditure in 2005-2006 (see figure III.5), but the higher revenue was enough to offset these rising expenditures and a positive fiscal balance was maintained, even though the rate of expenditure growth has increased in the last year (see table III.2).

Current expenditures account for much of these increases although in some cases, such as Argentina, Mexico and the Bolivarian Republic of Venezuela, there has been a substantial recovery in capital expenditure. In the cases of Argentina and Mexico, such expenditure had initially been low.

In 2006, increased revenues were used to meet demands for higher pay; salaries in the Argentine public sector rose by some 10%, for example. It should be noted that the crisis the country went through in the early part of the decade had a greater effect on pay in the public sector than in the private sector, and the former has still not caught up. In January 2006, public-sector employees in El Salvador received their first pay rise since 1998. Real current expenditure rose in Honduras as teachers' pay was raised. In Mexico, some of the extra spending went to payroll costs, which expanded as a result of wage rises in State enterprises. In the Bolivarian Republic of Venezuela, average government pay rose by 29% in the first half of 2006.

Figure III.5
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT PRIMARY SPENDING, 2003-2006
(Variation in points of GDP)



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

3 See Juan Gómez Sabaini, "Evolución y situación tributaria actual en América Latina", Santiago, Chile, September 2005, unpublished; Juan Gómez Sabaini, "La tributación a la renta en el Istmo Centroamericano: Análisis comparativo y agenda de reformas", *Macroeconomía del desarrollo series*, No. 37 (LC/L.2359-P), Santiago, Chile, July 2005; and Juan Alberto Fuentes, Retos de la política fiscal en América Latina (LC/MEX/L.719), Mexico City, ECLAC Subregional Headquarters in Mexico, June 2006, for more information on the loss of tariff revenues in Central America.

Table III.2
LATIN AMERICA AND THE CARIBBEAN (8 COUNTRIES): FISCAL SITUATION, THIRD QUARTER OF 2006
(Percentage variation on the amounts accumulated as to the third quarter)

Country and item	Coverage [a]	III 2004 / III 2003	2004	III 2005 / III 2004	2005	III 2006 / III 2005
Argentina	NFPS					
Income [b]		32.4	28.5	18.4	20.8	25.8
Expenditure [c]		17.0	18.2	26.1	25.1	25.7
Current spending		20.8	21.4	23.5	22.2	19.2
Capital spending		68.1	81.5	65.1	72.7	64.6
Primary spending [c]		20.1	21.1	22.6	22.1	28.3
Bolivia	NFPS					
Income		7.5	6.7	26.5	27.8	48.0
Expenditure		1.3	0.8	9.4	13.9	17.9
Current spending		-8.5	-6.5	10.3	10.8	18.3
Capital spending		41.4	26.6	7.1	21.9	16.8
Primary spending		0.0	-0.2	9.2	14.1	21.5
Brazil	CG [d]					
Income		17.2	17.7	16.0	16.4	12.8
Expenditure [e]		11.9	12.8	26.3	25.5	12.3
Current spending [e]		12.5	14.0	16.7	16.2	15.5
Capital spending		34.0	25.7	18.8	22.0	14.7
Primary spending [e]		17.1	16.7	17.2	17.6	15.3
Colombia	NCG					
Income		12.6	13.5	13.4	13.7	25.0
Expenditure		9.1	11.0	16.2	16.0	14.2
Primary spending		11.4	12.7	21.0	21.4	12.6
Ecuador [f]	NFPS					
Income		16.6	18.3	14.2	11.8	26.4
Expenditure		19.9	13.8	11.2	18.5	17.4
Current spending		18.8	14.8	10.2	19.8	21.2
Capital spending		23.9	10.1	15.1	13.9	3.5
Primary spending		21.8	16.1	13.5	20.6	17.8
México [g h]	PS					
Income		9.6	10.7	8.5	10.0	18.0
Expenditure		7.4	8.7	7.3	9.2	16.5
Current spending		7.2	5.6	8.0	9.9	14.9
Capital spending		8.6	30.0	1.4	5.5	30.9
Primary spending		8.8	9.6	6.8	8.9	17.8
Uruguay	CG					
Income		25.8	21.1	6.6	8.2	14.5
Expenditure		11.8	11.2	3.9	4.4	9.3
Current spending		10.3	9.8	4.2	4.9	9.1
Capital spending		42.2	37.1	-1.7	-2.3	13.0
Primary spending		13.8	13.0	7.4	6.5	10.3
Venezuela (Bolivarian Rep. of) [h]	BCG					
Income		90.0	62.7	91.0	63.9	26.8
Expenditure [i]		70.6	47.8	29.7	43.0	74.6
Current spending		63.2	49.4	34.7	38.6	66.5
Capital spending		85.4	45.7	18.8	63.9	110.3
Primary spending		90.7	52.8	35.1	47.6	87.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The coverage acronyms stand for: BCG: budgetary central government; NFPS: non-financial public sector; CG: central government; NCG: national central government; PS: public sector. [b] Includes figurative contributions. [c] Includes figurative expenditure. [d] Includes federal government and central bank. [e] Includes transfers to states and municipalities. [f] The data for the second half of 2006 only cover April and May. [g] The revenue and expenditure figures do not include off-budget items. [h] The starting values and corresponding variations are calculated from information for the first half of each year. [i] Includes net lending and off-budget expenditure.

In Central America and Mexico, public investment was also driven by reconstruction following the damage done by hurricanes Wilma and Stan in late 2005.

In an effort to make proper use of the surpluses generated, in 2006 both Chile and Mexico created mechanisms to regulate them. In Chile, a fiscal responsibility law was passed in 2006 to regulate the structural balance rule and the management of fiscal assets surplus to the structural balance rule. Two funds were created for this purpose: the Pension Reserve Fund (FRP) and the Economic and Social Stabilization Fund (FEES).[4] As for Mexico, in May 2006 the Federal Budget and Fiscal Responsibility Law was passed to regulate the use of surplus fiscal resources and thereby

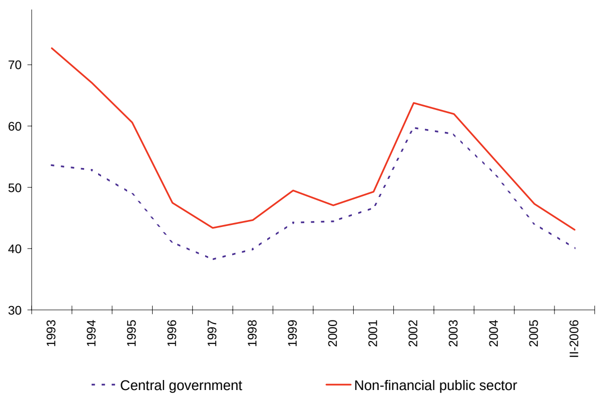
4 The first of these is intended to provide supplementary financing to cover fiscal obligations deriving from the State minimum pension guarantee and is basically funded by a share of the fiscal surplus, capped at 0.5% of GDP. The second will be financed out of the resources of the Copper Compensation Fund (which it replaces) plus resources from fiscal surpluses in excess of 1% of GDP, minus contributions to the FRP, and will be used to finance social spending and public investment.

prevent them from being used for current spending. Equalization funds are accordingly being set up to create a pool of savings that can be used when the oil price drops.[5]

5. The public debt

As earlier versions of this chapter have stressed, this primary balance only partly explains the drop in the public debt to GDP ratio. From a historical perspective, this ratio has ranged from a high of 73% in 1993 to a low of 43% in 1997 and 2006 (see figure III.6). Fiscal performance has been only a secondary factor in this high volatility. Whereas during the 2003-2006 period the ratio between debt and average GDP in the region has altered by some 20.7% of GDP (dropping from 63.8% in 2002 to 43.1% in 2006), the cumulative primary surplus in 2003-2006 was 4.2% of GDP and the cumulative overall balance in that same period was -6.3% of GDP.

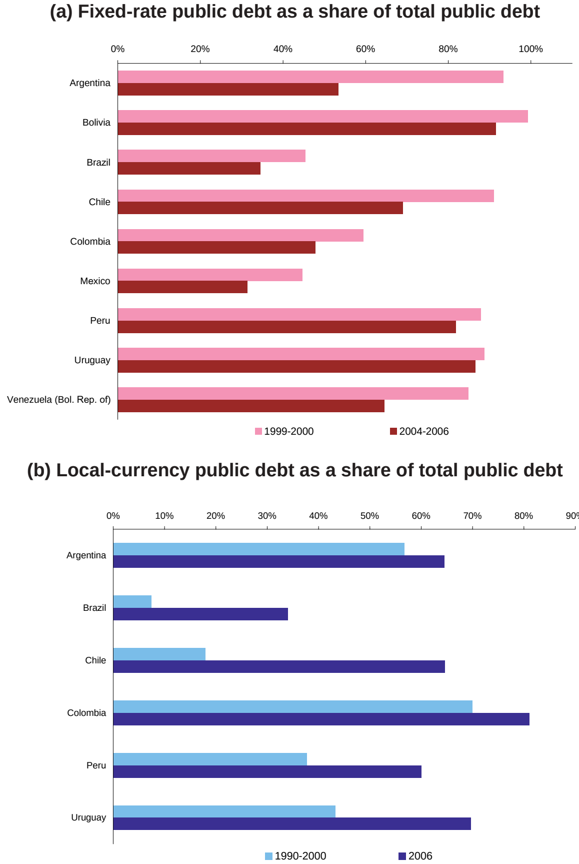
Figure III.6
OUTSTANDING PUBLIC DEBT, BY INSTITUTIONAL COVERAGE, 1993-2006
(Simple average, percentages of GDP)



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

The main factors underlying these variations were large fluctuations in macro variables (exchange rate variations and highly volatile economic activity), debt restructuring and the recognition of contingent liabilities. Consequently, there is a need to track not just the overall debt position but the structure and composition of debt as well (see figure III.7).

Figure III.7
LATIN AMERICA: COMPOSITION OF PUBLIC DEBT, 1990-2000 AND 2004-2006
(Percentages)



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

[5] In a first stage, until these funds have built up adequate reserves, surplus oil revenues will be allocated to the Federal Agencies Revenue Stabilization Fund (FEIEF), the PEMEX Infrastructure Investment Stabilization Fund, the Oil Revenues Stabilization Fund and the infrastructure investment projects of federal agencies. In a second stage, the resources will be used for infrastructure investment, investment in PEMEX, and the pension system. For further details on these initiatives, see Juan Pablo Jiménez and Varinia Tromben, "Fiscal policy and the boom: impact of the price increases for non-renewables in Latin America and the Caribbean", *CEPAL Review*, No. 90 (LC/G.2323-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December 2006, forthcoming.

As has been emphasized, the countries of the region are taking advantage of relatively benign macroeconomic conditions not only to improve the debt composition but also to apply debt management policies that have helped reduce their financial vulnerability.

The Argentine government started formal negotiations to regularize its Paris Club debt, and early in the year it paid off all of its liabilities towards the International Monetary Fund. In November, Uruguay also announced that it was paying off its debt to that organization. Brazil and Mexico reduced their debt and swapped large amounts of foreign-currency debt for local-currency debt. Mexico paid off part of its external debt early, whilst Panama and the Bolivarian Republic of Venezuela repurchased Brady bonds.

Under the Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI), Bolivia, Honduras and Nicaragua have reduced their external public debts by about 30%.

6. Risks and challenges

In the 2003-2006 period, governments have achieved considerable improvements in fiscal and public debt indicators, as fiscal revenues have increased significantly and expenditure management has tamed the expansionary tendency that characterized fiscal policy in other periods of revenue growth.

In the last two years, however, a number of governments have been increasing public spending by more than nominal output. Although fiscal revenues have been rising even more strongly and this has not translated into major imbalances, the question arises as to whether this increase in resources is permanent.

Given that output has increased greatly in some countries during this period and fiscal revenues have been boosted by surging commodity prices, particular prudence is advisable when it comes to increasing public spending, especially in cases where public debt levels are still high (half the countries in the region have a debt level in excess of 40% of GDP).

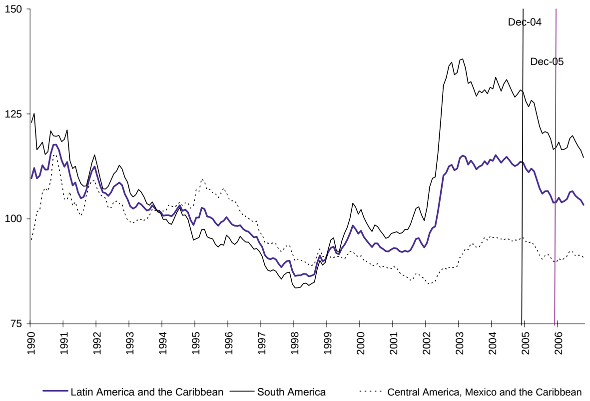
Likewise, in a context of great inequality where public investment in physical and human capital is a necessity and the average tax take is low, efforts to strengthen the fiscal revenue structure need to be given high priority.

B. Exchange-rate policy

1. The situation in the region

In the first 10 months of 2006, the extraregional real effective exchange rate of Latin America and the Caribbean (which excludes trade with other countries in the region) appreciated on average by 3.5%, with effective appreciation occurring in 16 countries during the period. The countries of South America, taken together, recorded an appreciation of 5.1% during the period, while in Central America, Mexico and the Caribbean there was an effective extraregional appreciation of 1.4% over the period. The Dominican Republic experienced a significant depreciation in real terms (10.7%) against the United States dollar during the first 10 months of 2006 in relation to the same period in 2005, following a period of particular strength against that currency in April of the previous year.

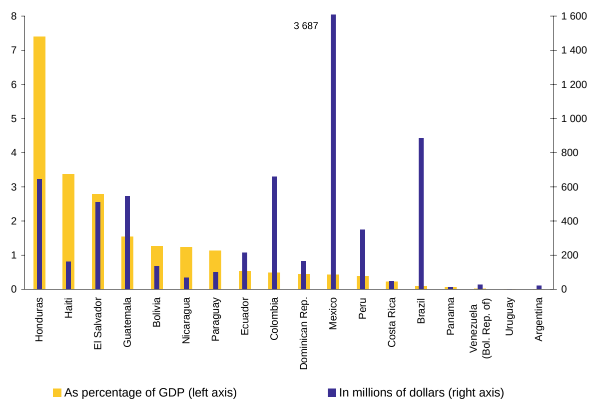
Figure III.8
EXTRAREGIONAL REAL EFFECTIVE EXCHANGE RATE
(Base index: January 1990-December 1999=100)



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

As figure III.9 shows, net current transfers are estimated to have increased by one percentage point of GDP or more in 2006 in Bolivia, El Salvador, Haiti, Honduras, Guatemala, Nicaragua and Paraguay. These increases in current transfers appear to be due primarily to higher remittances from emigrants, although in Bolivia and Haiti official transfers have traditionally accounted for a large share.[6] High and rising levels of current transfers in Central America have contributed to currency appreciation in some countries of the region, such as Guatemala.

Figure III.9
LATIN AMERICA: NET CURRENT TRANSFERS, 2006 [a]

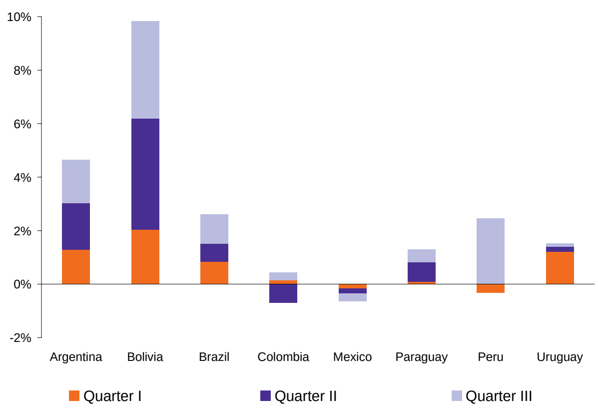


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.

Another factor of interest that has contributed to strengthening the currencies of countries in the region is the improvement in the terms of trade for countries exporting oil and metals in 2006, as in 2005.[7]

Several countries in the region continued to accumulate net international reserves in 2006, as figures III.10 and III.11 show. In particular, figure III.10 charts currency market interventions by the central banks of the South American countries and Mexico, which in general (see table III.3) have more flexible exchange-rate regimes and whose interventions, like those of Brazil and Colombia, have been aimed at influencing the nominal exchange rate. The heavy discretionary interventions of Brazil and Peru (which have inflation targeting schemes) can be clearly observed, as can those of Argentina, where a floor has been set for the value of the dollar. In the case of Bolivia, heavy intervention can be put down to the combination of high gas and ore prices and the country's crawling peg currency regime. In Central America and the Caribbean, as figure III.11 shows, net international reserves rose in the first nine months of 2006 by more than two percentage points of GDP in five countries, headed by Trinidad and Tobago (with an increase equivalent to 10.5 points of GDP). Here, the accumulation of reserves reflects a surge in hydrocarbon exports against the background of a fixed peg exchange-rate regime.

Figure III.10
SOUTH AMERICA AND MEXICO: PURCHASE AND SALE OF FOREIGN CURRENCY BY THE CENTRAL BANK, 2006
(Percentages of GDP) [a]



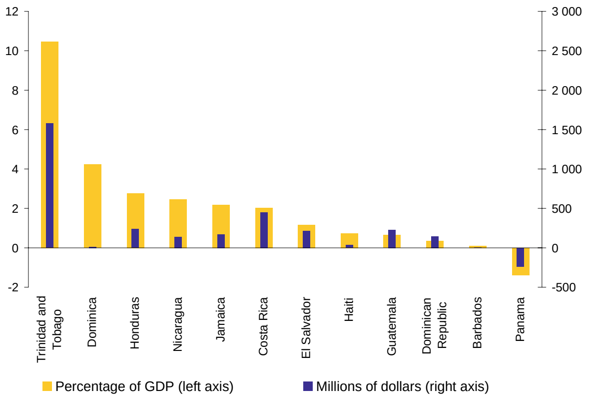
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Excludes: Chile, where there was no intervention during the period; Ecuador, which dollarized in 2000; and the Bolivarian Republic of Venezuela, which maintained an exchange-rate regime with an official exchange rate and currency controls.

6 In the first half of 2006, net official unilateral transfers were about a third of all net current transfers in Bolivia. In the whole of 2005, they accounted for almost 46% of net current transfers.
7 See chapter V.

Figure III.11

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): VARIATIONS IN NET INTERNATIONAL RESERVES, DECEMBER 2005-OCTOBER 2006 [a]

(Percentages of GDP and millions of dollars)



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

[a] Total reserves minus gold minus IMF reserves position. For Haiti, December 2005-June 2006 variation; for Trinidad and Tobago, December 2005-August 2006 variation.

The total effective exchange rate (which includes trade with other countries of Latin America and the Caribbean) of 11 Latin American and Caribbean countries appreciated on average during the first 10 months of 2006 with respect to the year-earlier period. Comparing averages for 2005 and 2006 does not provide an accurate picture of what happened to total effective exchange rates in 2006, however, owing to the currency appreciation that took place in many countries in 2005. When exchange rates in December 2005 and October 2006 are compared, a different picture emerges. This comparison shows that in 2006 most of the countries experienced modest effective depreciations, although with some exceptions. Paraguay (14.2%), the Bolivarian Republic of Venezuela (8.8%) and Brazil (3.7%) recorded the largest effective appreciations, while Chile (5.6%), Nicaragua (4.7%) and Colombia (3.7%) recorded the largest real effective currency depreciations between December 2005 and October 2006. During the period, those countries that trade substantially with Europe saw a tendency for their effective exchange rates to depreciate, partly owing to the real appreciation of the euro against the dollar.

Table III.3

LATIN AMERICA AND THE CARIBBEAN: EXCHANGE RATE REGIMES, SELECTED YEARS [a]

	1998	2002	2005	2006
Dollarization	Panama	Ecuador El Salvador [b] Panama	Ecuador El Salvador [b] Panama	Ecuador El Salvador [b] Panama
Currency board	Antigua and Barbuda [c] Argentina Dominica [c] Grenada [c] Saint Kitts and Nevis [c] Saint Vincent and the Grenadines [c] Saint Lucia [c]	Antigua and Barbuda [c] Dominica [c] Grenada [c] Saint Kitts and Nevis [c] Saint Vincent and the Grenadines [c] Saint Lucia [c]	Antigua and Barbuda [c] Dominica [c] Grenada [c] Saint Kitts and Nevis [c] Saint Vincent and the Grenadines [c] Saint Lucia [c]	Antigua and Barbuda [c] Dominica [c] Grenada [c] Saint Kitts and Nevis [c] Saint Vincent and the Grenadines [c] Saint Lucia [c]
Other fixed parity regimes	Bahamas Barbados Belize El Salvador	Bahamas Barbados Belize Suriname [d]	Bahamas Barbados Belize Trinidad and Tobago [d] Venezuela (Bol. Rep. of) [e]	Bahamas Barbados Belize Trinidad and Tobago [d] Venezuela (Bol. Rep. of) [e]
Crawling pegs and moving bands	Bolivia Chile Colombia Costa Rica Ecuador Honduras Nicaragua Uruguay Venezuela (Bol. Rep. of)	Bolivia Costa Rica Honduras Nicaragua	Bolivia Costa Rica Honduras [f] Nicaragua	Bolivia Costa Rica [g] Honduras [f] Nicaragua
Flexible	Brazil Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname [d] Trinidad and Tobago [d]	Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Trinidad and Tobago [d] Uruguay Venezuela (Bol. Rep. of)	Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname [d] Uruguay	Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname [d] Uruguay

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

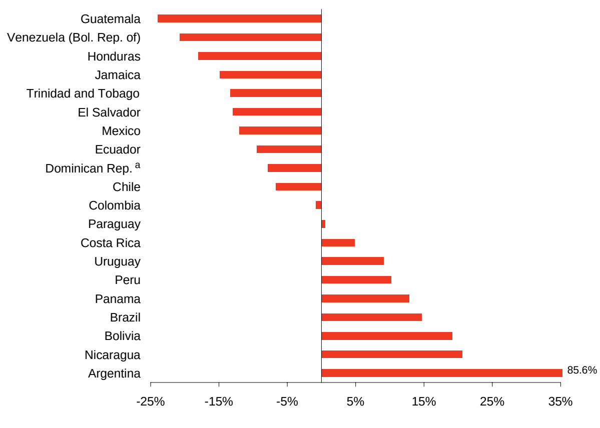
[a] Situation on 31 December each year. [b] The dollar is legal tender. No more colones will be printed but the existing stock will continue to circulate until the two currencies have fully swapped. [c] These countries belong to the Organisation of Eastern Caribbean States (OECS). [d] The currency regime operating de facto in the country is different from the de jure regime shown. [e] The Bolivarian Republic of Venezuela introduced strict currency controls in February 2003, which are still in force, although they have recently been made more flexible. [f] Because the rate of devaluation has been constant (5% since 2003), the IMF has treated the country as part of the crawling peg group since 2004. [g] Costa Rica replaced its crawling peg regime with a moving band scheme on 17 October 2006, as part of a gradual monetary reform that includes eventually floating the exchange rate.

In Paraguay, although some of the effective appreciation can be put down to the country's inflation rate, the nominal appreciation of the guaraní is harder to explain. An answer may perhaps be found in a combination of factors such as rising remittances from emigrants (which appear to be under-recorded in the official data), some capital flows and a natural return of the effective exchange rate from the weakness of earlier years to levels closer to historical averages. The ready availability of hard currency during 2006 is demonstrated by the increase in Paraguay's net international reserves. Currency appreciation in the Bolivarian Republic of Venezuela is due to the fact that the Central Bank of Venezuela has not altered the parity of the bolívar since May 2005, even though the country has higher inflation than its trading partners. The effective appreciation of 3.7% in Brazil over the period stands in contrast to the appreciation of 20.1% recorded between December 2004 and December 2005. Brazil continued to run a very substantial trade surplus in 2006, in a context of high interest rates, and as a result the real appreciated by 6% in nominal terms against the dollar between December 2005 and October 2006, despite a short period of nominal depreciation in May, owing to the volatility in international financial markets referred to earlier, and despite heavy currency market intervention by the central bank and the lifting of the obligation for all currency acquired by exporters to be changed at the central bank.

In Chile, the effective exchange rate appreciated by 12.4% between December 2004 and December 2005. In 2006, despite high international prices for copper, cellulose and fishmeal, which improved the country's terms of trade, reduced interest in emerging market assets among international investors from May onward, in a context of uncertainty about prospects for United States interest rates and growth in the world economy, caused the Chilean peso to depreciate in nominal terms between May and June 2006 and this, along with the real appreciation of the euro against the dollar, accounts for the effective depreciation seen in Chile.[8] Effective depreciation occurred in Nicaragua because the rate of nominal depreciation of the córdoba against the dollar under the crawling peg regime exceeded the inflation rate. The Colombian peso, like the Chilean peso, experienced nominal depreciation between May and June owing to lower demand for emerging market assets, after which it strengthened again, although without returning to its December 2005 level.

If the average level of effective exchange rates in October 2006 is compared with the average level of the 1990s, it transpires that the average extraregional real effective exchange rate of Latin America and the Caribbean in October 2006 was 3.3% weaker than the average for the 1990s. The South American countries as a group recorded a level 14.6% weaker than in that reference period, while the average for Central America, Mexico and the Caribbean was 9.2% stronger. The situation of each country in October 2006 is given in figure III.12, which shows the total effective exchange rate levels of each country in comparison with the average for the 1990s. From this chart it transpires that, in October 2006, Argentina particularly, but also Brazil, Bolivia and Nicaragua, had significantly weaker total effective exchange rates than in the earlier period, while Central American countries (El Salvador, Guatemala and Honduras), the Bolivarian Republic of Venezuela and some Caribbean countries (Jamaica and Trinidad and Tobago) had exchange-rate levels substantially stronger than those of the 1990s. It should be noted that these latter countries with their strengthening effective exchange rates are major energy exporters (Bolivarian Republic of Venezuela and Trinidad and Tobago) or receive large flows of emigrants' remittances, suggesting that at least some of the effective appreciation recorded (especially in the countries of the latter group) may be limited to Dutch-disease-type effects.

Figure III.12
TOTAL EFFECTIVE REAL EXCHANGE RATES
(October 2006 level relative to the 1990-1999 average) [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] For the Dominican Republic, the real exchange rate against the United States dollar was used.

8 The Chilean peso appreciated by 2.4% against the dollar in nominal terms between June and October 2006, but its strength in December 2005 meant that there was a nominal depreciation in 2006.

2. Exchange-rate regimes

The less flexible types of exchange-rate regime, such as crawling pegs, require the central bank to intervene constantly by buying or selling currency to maintain the peg.[9] These interventions affect the volume of liquidity, so that central banks usually sterilize a large part of such intervention. Although in theory it ought to be easy to calculate the cost of sterilized intervention, in Latin America this proves difficult in practice.[10] Even so, there are indications that sterilizing currency interventions in Latin America has proved expensive in some cases.[11] The Central Bank of Costa Rica listed the high cost of currency market intervention as one of the motives for changing its crawling peg exchange-rate regime, since in 2005 it recorded monetary stabilization costs of some 331 million dollars, equivalent to 1.7 percentage points of GDP.

The only reported change in 2006 was in the exchange-rate regime of Costa Rica, which switched from a crawling peg system to a moving band one in October 2006. Since the Central Bank of Costa Rica has expressed an interest in gradually moving away from the currency anchor provided by fixed regimes like the crawling peg in order to have greater flexibility to set the exchange rate, the intervention floor of the currency band will be relaxed less quickly than the ceiling of this band, so that the latter will be progressively widened and the transition to a fully flexible exchange-rate regime thereby facilitated. What has happened in Costa Rica confirms the trend in the region towards the adoption of more flexible exchange-rate regimes. This trend does not just stem from recognition of the impossibility of having an independent monetary policy, a liberalized capital account and a fixed exchange rate (which is known as the “impossible trinity”). Those countries in the region that are subject to major variations in their terms of trade can benefit from a flexible exchange rate that mitigates the impact of shocks, since a flexible exchange rate allows relative prices to adjust more quickly and less expensively (in terms of unemployment) than when the same thing happens through price adjustments. However, the existence of very disparate currency regimes within the subregion means that common shocks such as higher oil prices continue to produce different effects in the countries. This is particularly important in Central America, given the signing of the Dominican Republic-Central America-United States Free Trade Agreement, which has created a number of integration opportunities and challenges for the countries.

C. Monetary policy

Regarding monetary policy, the countries of Latin America can be divided into three groups: those that follow an explicit inflation targeting regime or are currently adopting one, those that set targets for international reserves and domestic credit and, lastly, those that have no monetary policy of their own because their economies are dollarized. The first group includes Brazil, Chile, Colombia, Mexico, Paraguay and Peru, which use an inflation targeting regime, and Costa Rica, Guatemala and Honduras, which have a target range for inflation and may in future adopt an inflation targeting regime. It should be noted that in 2006, as in recent years, the central banks of Latin America have concentrated their efforts on inflation control. The second category includes

9 Another way of intervening in the currency market, employed in Colombia by the Bank of the Republic, is to use derivative instruments such as options.

10 This cost is derived by calculating the costs of intervention minus the revenue it generates for the central bank. The main expense incurred is the cost of the debt employed. If the central bank uses debt issued by itself to intervene in the currency market, the cost it incurs is the interest payable on this debt. If the debt is issued by the central government, on the other hand, the cost incurred is the opportunity cost of this debt (the interest foregone by the central bank). The revenue generated by currency intervention consists of the interest paid on the currency acquired, which is usually deposited in banks abroad or used to purchase United States Treasury bonds or other high-liquidity low-risk external assets.

11 The region’s central banks do not usually keep separate records for the revenues and costs of monetary intervention.

countries that have agreements with the International Monetary Fund, such as Nicaragua and the Dominican Republic, and others that have no formal understanding with that institution, such as Argentina and Bolivia.[12] The monetary programmes of this group of countries prioritize an international reserves target and set maximum limits on domestic credit. The last group includes Ecuador, El Salvador and Panama, which have no monetary policy as such because their economies are dollarized and their interest rates consequently vary with international rates.

In recent years, inflation in the region has been subdued by historical standards. Contributory factors include both central bank concern about inflation and the currency appreciation that has taken place in some Latin American countries. Because inflation has been lower, monetary policy interest rates are at low levels by broad historical standards. In view of vigorous domestic demand and rising international interest rates, many of the region’s central banks have decided to gradually withdraw their monetary stimulus by increasing monetary policy interest rates, although these are still lower than in earlier decades. There now follows an examination of the main monetary policy measures taken in 2006 by some representative countries.

In Peru, the central bank reference rate rose from 3% to 4.5% between December 2005 and May 2006 as domestic demand accelerated in a context of electoral uncertainty while external interest rates rose. The reference rate has remained unchanged since June, as inflation is at the lower end of the target range.

Between May and August 2006, the Board of the Central Bank of Chile increased the monetary policy rate to 5.25%. Since then the monetary authority has chosen to maintain this value because GDP growth in the country has been slower than expected.

In Mexico, the 28-day reference interest rate fell from 8.7% in December 2005 to 7.3% in June 2006, owing to the favourable trend of inflation forecasts. The Governing Council of the Bank of Mexico also stated in November that it did not see the need for any change in monetary conditions, and that it was therefore holding the “corto” (the value of pesos taken out of circulation by the central bank each day to reduce liquidity) at 79 million pesos.

In Brazil, the central bank reduced the nominal SELIC rate from 18.5% to 13.25% in 2006. This reduction was possible because the annualized inflation rate, at 3.2%, was one percentage point lower than the target rate of 4.25%. The performance of inflation was partly attributable to currency appreciation. Despite the reduction, Brazil, along with Mexico, has the highest monetary policy rate in the region in both nominal and real terms. The real SELIC rate is approximately 10%.

In Argentina, the unstated goal of maintaining a dollar peg was adhered to, leading the central bank to intervene in the currency market and thereby generate large amounts of surplus liquidity. To avoid the pressures that growth in the monetary aggregates might have placed upon prices, the monetary authority took a variety of measures that included an increase in reserve requirements (especially for sight deposits) and increased repo placements, leading to a gradual rise in its rates.

In both Costa Rica and Guatemala, central banks mainly concentrated on progressing towards the adoption of an explicit inflation targeting system. In the case of Costa Rica, the one-day deposit interest rate was established as the monetary policy interest rate. Over the course of the year, this was increased by 50 basis points. The central bank has also adopted measures whose ultimate aim is the abandonment of the system of mini-devaluations and the creation of a more flexible currency regime in line with the new monetary policy approach. The Central Bank of Guatemala increased the monetary policy reference rate by 50 basis points owing to the dynamism of domestic demand (which pushed up the inflation forecast) and, to a lesser extent, the rise in oil prices.

In both 2005 and 2006, as is shown by the reports of the monetary authorities of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay and Uruguay, higher oil prices in the international market caused prices to rise by more than some central banks had forecast, especially in those of the region’s countries that are net hydrocarbon importers. Given that this rise is the result of a supply factor and may be temporary, before withdrawing monetary stimulus it would be advisable to review economic activity indicators to avoid aggravating any negative effect on GDP. It should be stressed that the monetary policy of the countries most affected by the oil price rise did not respond to this negative shock.

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[12] Until 2005, Bolivia had an agreement with the International Monetary Fund.

1. Nominal interest rates

In 2006, the highest nominal lending interest rates were those of Brazil, Costa Rica and Haiti. Brazil had a lending rate of approximately 38%, while the rates of Costa Rica and Haiti were in excess of 20%. Seven countries, headed by Argentina and Paraguay, saw an increase in lending rates. Rates fell the most in Brazil and the Dominican Republic: between January 2005 and September 2006, the nominal lending rates of these countries fell from 42.5% to 38.8% and from 31% to 13.3%, respectively. Rates also fell substantially in Uruguay over the same period, from 19.9% to 10.5%. As for deposit rates, the highest were those of Brazil, Costa Rica and Paraguay. These rates increased in 12 countries, with the largest rises being seen in Argentina and Haiti. The sharpest fall was in the Dominican Republic, whose deposit rate decreased from 20.2% in January 2005 to 7.5% in September 2006. Following an outbreak of inflation in the Dominican Republic in 2004, interest rates are now returning to their 2003 levels.

Movements in lending and deposit rates increased the spread between them in just three countries. The largest spreads were in Brazil and Haiti (some 30% and 20%, respectively). Spreads in Latin America and the Caribbean are still high by comparison with developed economies. The regional average in September was 9.5% or, if Brazil is excluded from the sample, 7.9%. This may be due to a number of factors, especially distortions in financial markets resulting from large reserve requirements, along with the inefficiency of the region's banking sector. In Ecuador, El Salvador and Panama, nominal interest rates increased in line with movements in the United States Federal Reserve rate.

2. Monetary aggregates

In 2006, 12-month money-supply growth exceeded that for the same period of 2005 in 11 countries. The largest increases were in Bolivia and the Bolivarian Republic of Venezuela. One factor in the former case was a reduction in the dollarization of the economy, attributable in part to favourable external conditions and the establishment of different reserve requirements for dollar-denominated and boliviano-denominated deposits. Another factor was a narrowing of the spread between dollar sales and purchases, which reduced transaction costs when converting one currency into the other. This has had a major effect on Bolivia's international reserves, which increased by more than 80% and have been the main driver of growth in the monetary base. In the Bolivarian Republic of Venezuela, currency controls in a context of considerable fiscal stimulus financed by higher oil exports resulted in a major increase in liquidity. Peru saw the largest decline in the growth rate of its monetary aggregates in 2006.

3. Bank credit

Bank lending is more important in Latin America than in economies with deep capital markets. The lending recovery that began in 2003 continued in 2006. Total lending in Argentina and Brazil experienced nominal growth rates in excess of 20% between September 2005 and September 2006. Mexico recorded a rate of close to 10% in the same period. As in 2005, the Bolivarian Republic of Venezuela saw the strongest growth in this indicator (72%). This can be put down to the fact that the country has a negative real interest rate in a context where currency controls and lower nominal domestic rates have made it possible to decouple the former from the international rate. Of the different credit types, it was consumer lending that experienced the greatest dynamism. Meanwhile, and by contrast with 2006, mortgage lending in Argentina, Brazil and Mexico increased strongly, by over 10% in the case of Argentina and by over 20% in the case of the other two.

Chapter IV

Domestic performance

A. Economic activity and investment

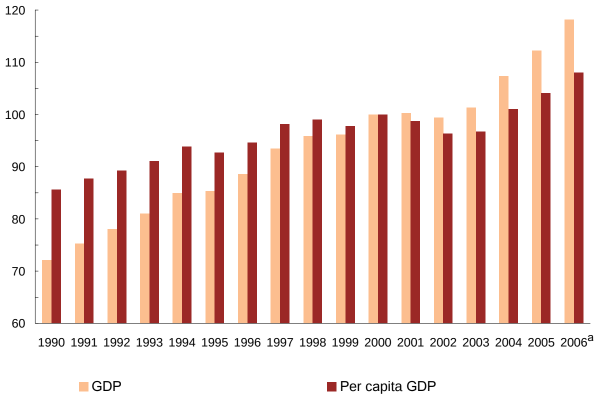
In 2006 economic activity in Latin American and the Caribbean surpassed the forecasts made at the beginning of the year, expanding by 5.3% in regional terms. This translates into a rise in per capita GDP of 3.8%. The region has thus seen four consecutive years of growth, with a cumulative GDP increase of 18.8% (12% for per capita GDP) over the 2002 figure in 2003-2006. Regional economic growth of around 4.7% is projected for 2007.

All the countries posted positive growth rates, in most cases higher than or similar to those of 2005. Chile was the exception, with GDP expansion of 4.4% over the year (down from 6.3% in 2005). The highest rates were posted in the Bolivarian Republic of Venezuela and the Dominican Republic (both 10%), Argentina (8.5%) and Panama (7.5%). Costa Rica, Peru and Uruguay grew at rates of around 7% and Colombia at close to 6%. The lowest figures were for Haiti (2.5%) and Brazil (2.8%). In the rest of the region, GDP growth rates were between 3.5% and 5%.[1] The English- and Dutch-speaking Caribbean countries as a group posted growth of 6.8%.

International economic trends and, in particular, the monetary policy stance of the United States, where interest rates rose less than financial markets had predicted at the beginning of the year, together with increased economic activity in the European Union countries and Japan and the continuing rapid growth of the Asian economies, produced a more favourable situation throughout 2006 than had been forecast at the end of 2005. Thanks to sustained external demand for the region's export commodities, the international prices for these products (especially for metals, minerals and hydrocarbons) remained high or even increased further, thus generating higher earnings for the region's countries, especially in South America. The strong expansion of private credit, together with continuing low interest rates in the countries of the region and improved labour-market indicators, boosted domestic demand.

1 The simple average of GDP growth rates in the Latin American countries was 5.6% and the median was 5% (5.1% and 4.5%, respectively, in 2005).

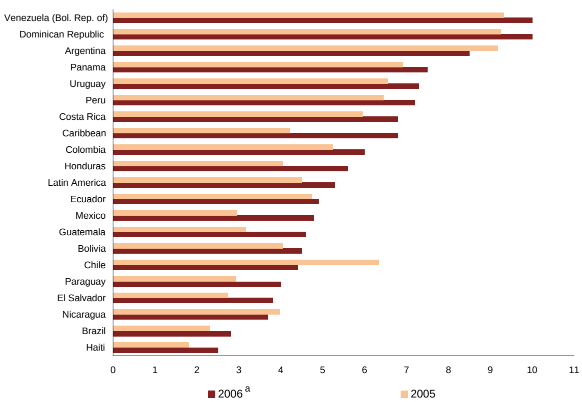
Figure IV.1
LATIN AMERICA AND THE CARIBBEAN: TOTAL AND PER CAPITA GDP
(Index base year: 2000=100; calculated on the basis of constant 2000 dollars)



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

In 2006 all of the countries' economies continued to grow, although in some cases at a slightly lower rate than in 2005. The seasonally-adjusted quarterly GDP growth rates for the region overall show GDP expansion remaining stable at between 1% and 1.5%, albeit with small fluctuations.

Figure IV.2
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES AT CONSTANT PRICES, 2005 AND 2006
(Annual growth rates, in percentages, calculated on the basis of constant 2000 dollars)

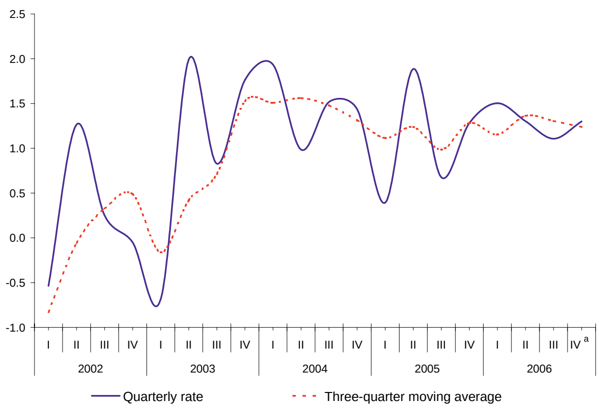


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.

In regional terms, in 2006 the volume of goods and services exports expanded (8.4%) at a higher rate than GDP, as in 2004 and 2005. Sustained external demand for the countries' export commodities, together with higher levels of economic activity and domestic demand for commodities, fuelled intraregional trade in manufactures. The real effective exchange rate has continued to favour exporters in most of the countries, despite the appreciation of some national currencies over the year.

In 2006 domestic demand continued its strong performance of 2004 and 2005, posting an increase of 7.0% (6.2% and 5.5% in 2004 and 2005, respectively), which was driven by a steady rise in gross domestic investment (10.5%) and faster growth in consumption (6%). Some of the factors contributing to the rapid growth in both private consumption and investment were the significant expansion of bank credit to the private sector, thanks to higher domestic-market liquidity, and the maintenance of low lending rates. Although interest rates rose in some countries in 2006, in most they were lower than in 2005, which was a positive factor for both consumption and investment decisions. The appreciation of a number of countries' currencies against the United States dollar in 2005 and 2006 helped to reduce the cost of imported goods, which contributed to the increase in domestic demand. Other factors in the expansion of private consumption (6.3%) were improved labour-market indicators and higher real wages in most countries.

Figure IV.3
LATIN AMERICA: QUARTERLY GDP GROWTH
(Seasonally adjusted percentages calculated on the basis of constant 2000 dollars)



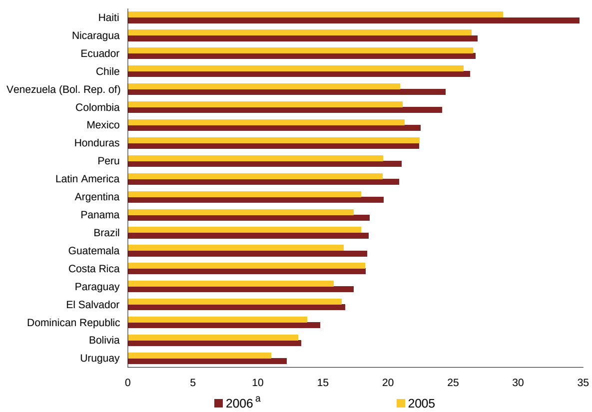
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.

Investment growth in 2006 was largely a reflection of the sustained rise in gross fixed capital formation, which has been the fastest-growing component of demand since 2004, expanding at rates of over 10%. In 2006 it was up by 12.2% (13% and 10.7% in 2004 and 2005, respectively), with cumulative growth of 39.6% in 2004-2006 in relation to the 2003 values. The fastest-growing component of gross fixed capital formation was investment in (mostly imported) machinery and equipment, which was up by 14% in 2006, accumulating a 52.8% rise over the three-year period

2004-2006.[2] Investment in construction also continued to expand in 2006, although at more moderate rates of around 9%. Although part of these increases reflect a return to the investment levels of preceding years, the rapid growth seen in 2005 and 2006 was more than enough to exceed previous highs. The strong performance of the past three years means that gross fixed capital formation, measured as a percentage of GDP, has increased since 2003. Measured in 2000 dollars, this coefficient reached 20.9% in 2006, slightly higher than the figure for 1998 (20.6%); the value posted in 2006 is thus the highest level recorded in 1990-2006.[3] In terms of individual countries, the fastest growth in gross fixed capital formation was seen in Argentina, Bolivarian Republic of Venezuela, Colombia, Dominican Republic, Peru and Uruguay.

The volume of goods and services imports grew by 15.1% in 2006, and net exports consequently had an increasingly negative impact on growth for the third consecutive year. The performance of import volumes in 2006 was consistent with the upward trend this aggregate has shown since 2002. Imports of goods and services grew at an annual rate of 14.1% over the three-year period 2004-2006, after contracting sharply (at constant prices and in regional terms) in 2001-2002 and expanding sluggishly in 2003. As a result of slower average annual growth in

Figure IV.4
LATIN AMERICA: GROSS FIXED CAPITAL FORMATION, 2005 AND 2006
(Percentages of GDP, calculated on the basis of constant 2000 dollars)



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

the volume of goods and services exports (expressed in indices using 2000 as the base year), the level of imports exceeded the level of exports in 2006.

The positive regional performance of the components of demand was reflected in the expansion of various branches of economic activity. Rapid growth in the construction sector was largely responsible for the rise in gross fixed capital formation in countries such as Argentina, Bolivarian Republic of Venezuela, Colombia, Dominican Republic, Mexico, Panama, Peru and Uruguay. In the Caribbean countries, the construction sector also showed a notable increase in activity in 2006, owing to the organization of the Cricket World Cup, which included work on stadium renovation and rebuilding, as well as extension and enhancement of tourist infrastructure.[4] Mining and hydrocarbon production grew more slowly than in 2005, except in Bolivia. Higher domestic demand also boosted industry, partly thanks to higher returns in goods-producing sectors as a result of the devaluations of 2002-2003 (Argentina and Uruguay). The dollar's depreciation in relation to other currencies helped to enhance the competitiveness of manufacturing exports in countries whose currencies are anchored to the United States dollar (Ecuador, El Salvador and Panama). Growth in the agricultural sector, although positive in all countries except Costa Rica and the Dominican Republic, was less than the increase in overall GDP. The transport sector was boosted by the higher level of domestic activity in the countries, and the buoyant international economy also had a positive impact on tourist-related activities. Increased disposable income in a number of Latin American countries, together with the higher overall level of economic activity, fuelled an increase in both recreational and business travel. According to the data available, as of August 2006 the number of tourist arrivals was up by 8.7% in Central America, 8.1% in South America and 5.1% in the Caribbean countries.[5]

One of the traits of the current period of economic growth in Latin America has been the significant increase in gross disposable income, which expanded by 7.2% measured in constant 2000 dollars in 2006 (5.9% and 7.1% in 2005 and 2004, respectively).[6] To a large extent, the increase in this aggregate is due to the impact of the trading gains resulting from the terms-of-trade variation recorded in 2006. For the region as a whole, these gains represented about 3.6% of GDP, a higher figure than in

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2 In terms of value, capital goods imports are growing by over 20% in several of the region's countries, with the exception of Bolivia, Chile, Costa Rica, Nicaragua and Panama.

3 Nevertheless, the investment coefficients posted in the 1990s are still far below those recorded at the end of the 1970s.

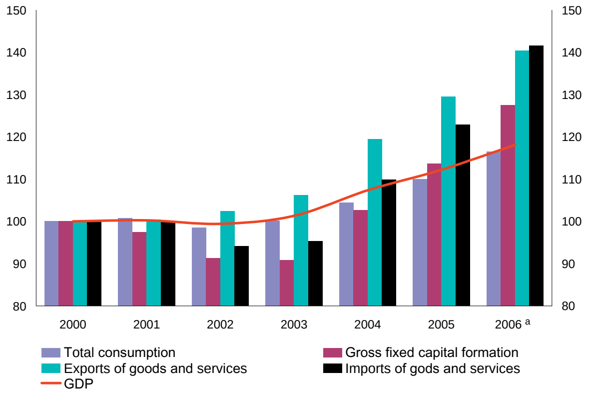
4 Nine countries are to host this event: Antigua and Barbuda, Barbados, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago.

5 World Tourism Organization, *WTO World Tourism Barometer*, vol. 4, No. 3, October 2006.

6 The methodology for calculating national disposable income at constant prices developed by ECLAC is described in the *Economic Survey of Latin America and the Caribbean, 2005-2006*.

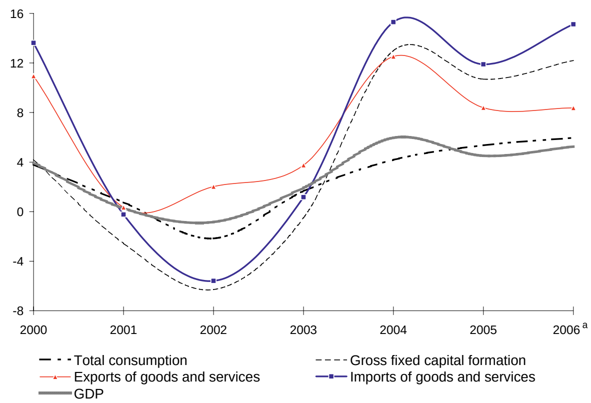
2004 and 2005 (0.4% and 1.7%, respectively). Net factor payments to the rest of the world remained at around 3% of GDP. This reflects the combined effect of lower interest payments on external debt, owing to the decrease in the region's indebtedness to the rest of the world, and the increase in profit and dividend payments to the rest of the world by non-resident enterprises operating in the region. Although in 2006 this component had a negative impact on income for all of the countries, in general the impact was smaller in GDP terms than in 2005. Significant exceptions are the Bolivarian Republic of Venezuela, Chile and Peru, whose payments of profits and dividends to the rest of the world rose. Lastly, the increase in gross national disposable income also reflects rising levels of net current transfers, which were equivalent to 2.2% of GDP in 2006.

Figure IV.5
LATIN AMERICA: GDP AND COMPONENTS OF EXPENDITURE
(Indices, base year: 2000=100, calculated on the basis of constant 2000 dollars)



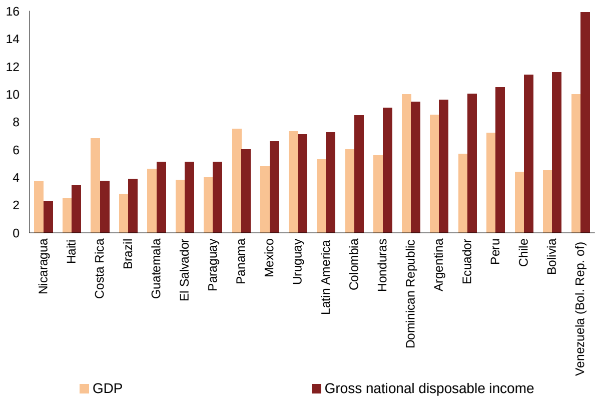
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.

Figure IV.6
LATIN AMERICA: GDP AND COMPONENTS OF EXPENDITURE
(Annual growth rates, in percentages, calculated on the basis of constant 2000 dollars)



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

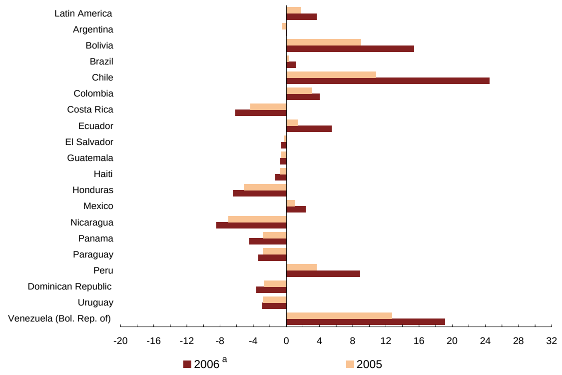
Figure IV.7
LATIN AMERICA: GDP AND GROSS DISPOSABLE NATIONAL INCOME, 2006 [a]
(Annual growth rates, in percentages, calculated on the basis of constant 2000 dollars)



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

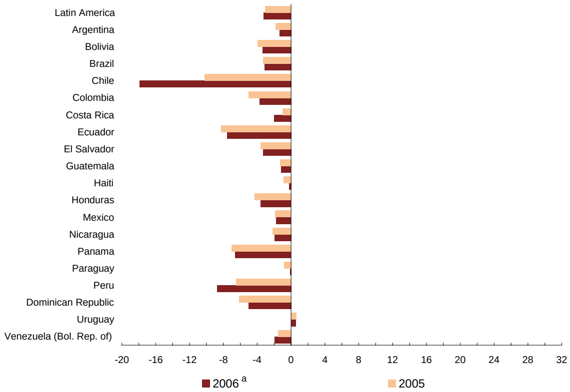
The differentiated effect of the various components may be observed at the country level. In the countries exporting metals, minerals and hydrocarbons (Bolivarian Republic of Venezuela, Bolivia, Chile, Colombia, Ecuador and Peru), gross national disposable income rose significantly, mainly because of the substantially larger trading gain, although in some cases there was also a large increase in the net payment of profits and dividends to the rest of the world (the Bolivarian Republic of Venezuela and Chile). Measured in percentages of GDP, the trading gain rose by close to 20% in the Bolivarian Republic of Venezuela and Chile and by 15% in Bolivia (Chile's net factor payments to the rest of the world were equivalent to 18% of GDP). In the other South American countries, gross disposable national income also rose at rates above GDP growth, although more moderately than in the first group. The situation in the Central American countries was uneven. Despite the erosion of their exports' purchasing power owing to the sharp hike in international prices of oil and fuels (which are significant components of their import basket) and the drop in the international prices of their export commodities, especially agricultural goods, the rapid growth in net current transfers meant that in some countries gross national disposable income nevertheless grew at above-GDP rates (El Salvador, Guatemala and, in particular, Honduras). The other Central American countries continued to receive high levels of net current transfers, but the trading loss in 2006 effectively widened the gap between the growth rates of national income and GDP. In the case of Mexico, the rise in national income was due to both an improvement in the terms of trade and an increase in net current transfers.

Figure IV.8
LATIN AMERICA: TRADING GAIN/LOSS RESULTING FROM VARIATIONS IN THE TERMS OF TRADE
(Percentages of GDP calculated on the basis of constant 2000 dollars)



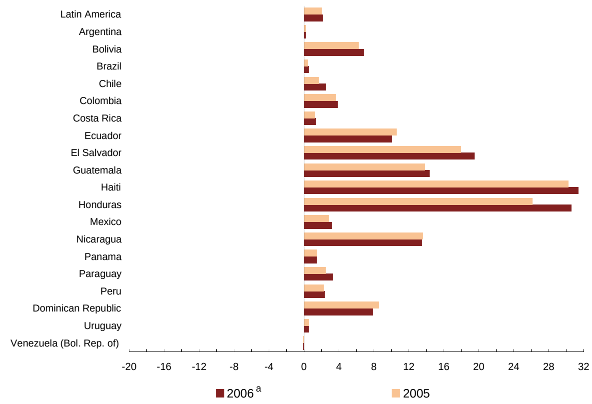
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.

Figure IV.9
LATIN AMERICA: NET FACTOR PAYMENTS TO THE REST OF THE WORLD
(Percentages of GDP calculated on the basis of constant 2000 dollars)



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

Figure IV.10
LATIN AMERICA: NET CURRENT TRANSFERS
(Percentages of GDP calculated on the basis of constant 2000 dollars)



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

Together with the considerable increase in gross national disposable income in Latin America, national saving showed significant growth, both in regional terms and in some countries, reaching 23.6% of GDP at current prices, the highest figure since 1990. As has been the case since 2003, in 2006 external saving was increasingly negative, reaching a level equivalent to 1.8% of GDP. Also as in previous years, in 2006 regional investment was financed entirely from national saving, while the surplus (negative external saving) went to reduce the region's net indebtedness and accumulate reserves and to asset formation abroad by residents. Regional investment as a percentage of GDP stood at 21.7% in 2006; although this is higher than in 2005, it is still below the 1997 value (22.7%), which is the maximum recorded since 1990.

Box IV.1
PUBLIC SAFETY PROBLEMS AND THEIR ECONOMIC COST

The issue of public safety is increasingly prominent on the political, economic and social agendas of the northern Latin American countries. Concern over safety has reached such a point that the report issued in September 2006 by the Pan American Health Organization (PAHO), *La violencia como problema de seguridad humana y salud pública en Centroamérica y República Dominicana*, concludes that violence is taking on epidemic proportions.

The report states that the number of homicides in the six countries of Central America soared from 6,887 in 1998 to 11,085 in 2004 and is continuing to grow. In El Salvador there are 57 homicides per 100,000 inhabitants, the second-highest figure in Latin America, exceeded only by Colombia. These countries are followed, in descending order, by the Bolivarian Republic of Venezuela, Guatemala, Honduras and Mexico. In fact, Latin America figures as the world's most violent region, with a homicide rate of 25 per 100,000 inhabitants, well above the world average of 8.8 per 100,000 inhabitants.[a] Another disturbing fact is the rise in femicide in certain countries or areas. According to the World Health Organization (WHO), the femicide rate in Guatemala is three times as high as the estimated rate for the low- and middle-income countries of the Americas.

The lack of public safety is undeniably a complex and multi-faceted problem that involves various societal stakeholders. The same is true of its causes, which include the lack of economic and employment opportunities, the breakdown of the family owing to migration to developed countries, Box IV.1 (concluded)

the upsurge in gangs (*maras*), links with organized crime, and weak State institutions.

From the economic viewpoint, the poorest sectors of the population are the ones that are most affected by public safety problems, which also act as a strong disincentive to investment and which absorb a large percentage of GDP in the countries concerned. Little research has been conducted on the economic cost of violence, but the studies which do exist indicate that it is considerable. A study by the United Nations Development Programme (UNDP) in El Salvador estimated that in 2003, losses in terms of health, institutional costs, private spending on security, drops in investment and productivity, erosion of consumption and employment, and material losses were equivalent to 11.5% of GDP.

Currently, the main policy objective is to strengthen reactive measures to punish behaviour that seriously undermines coexistence in society. Such measures, however, must be taken in a democratic framework, with clear responsibility in the exercise of control and coercion. There must be an integrated policy of public safety, based on an appropriate consensus, with the status of a State policy, and it must provide for preventive and reactive measures as well as rehabilitation and social reintegration. It must be understood that the ultimate goal of a policy on public safety is to build trust and social coexistence with solidarity, in a virtuous balance between liberty and public safety.[b]

In March 2006, 16 political parties in Guatemala, concerned over the country's public safety crisis, which, among other consequences, was hurting the business climate, signed a political agreement to construct a national public safety system. A bill is now before the Guatemalan parliament which is designed to prevent and combat crime, including organized crime. In El Salvador, despite recent anti-crime programmes —*Mano Dura* ("Tough Hand"), *Súper Mano Dura* ("Ultra-Tough Hand"), *Mano Amiga* ("Friendly Hand") and *Puño de Hierro* ("Iron Fist")— the National Association of Private Enterprise proposed that the government should build a consensus on a comprehensive public safety policy, recalling that a safe environment is crucial in creating a stable society with clear rules. A bill against organized crime and combined offences is currently before the legislative authorities. In Haiti, public safety problems are mainly linked to the current political situation, and the country has been experiencing a series of cyclical outbreaks of violence.

The public safety problem is no longer perceived as simply a domestic issue but is now being viewed as a regional matter. In October 2006, the Heads of State and Government of the member States of the Central American Integration System (SICA) held a special meeting on the issue at which they agreed upon an integrated regional public safety strategy. This is certainly an achievement, but much remains to be done at both the national and regional levels. In the words of Philip Alston, United Nations Special Rapporteur on extrajudicial, summary or arbitrary executions, speaking at a press conference held after his official visit to Guatemala in August 2006, "The real answer lies in an accurate diagnosis and in deciding what kind of society the people of Guatemala really want for themselves".

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

[a] See United Nations Development Programme (UNDP), *Democracy in Latin America*, New York, 2004.

[b] See J. Álvaro Cáliz R., "*Hacia un enfoque progresista de la seguridad ciudadana: situación y desafíos en el caso hondureño*", Tegucigalpa, June 2006.

B. Domestic prices

In 2006 Latin America and the Caribbean posted an inflation rate, in weighted terms, of 4.8% (6.1% in 2005). This indicator has fallen for the fourth consecutive year from the 2002 level of 12.2%. This result owed much to the lower inflation rate of 3% in Brazil, compared to 5.7% in 2005. The rates were also lower than in 2005 in Argentina (down from 12.3% to 10.1%), Chile (from 3.7% to 2.8%), Costa Rica (from 14.1% to 9.1%), the Dominican Republic (from 7.5% to 4.5%), Guatemala (from 8.6% to 5%), Haiti (from 14.8% to 12.3%), Honduras (from 7.7% to 5%) and Panama (from 3.4% to 2%). Only three countries had higher rates in 2006: the Bolivarian Republic of Venezuela (up from 14.4% to 15.8%), Trinidad and Tobago (from 7.2% to 9%) and Uruguay (from 4.9% to 6.5%). The Bolivarian Republic of Venezuela posted the highest rate in the region. The other countries witnessed inflation rates similar to those of 2005.

The behaviour of the consumer price index (CPI) reflected changes in a number of factors. The appreciation of some national currencies in relation to both the United States dollar and the currencies of other trading partners made imported goods cheaper than domestic products (in the case of manufactures) and reduced the impact on domestic prices of higher international commodity prices. Although commodity prices rose overall, price trends were not uniform in 2006: agricultural commodity prices grew more slowly than in 2005, food and beverage prices showed mixed trends (some prices were lower in 2006 than in 2005, while a few continued to increase), and the prices of metals and minerals, petroleum and petroleum products rose sharply in the first half of the year.

Table IV.1

LATIN AMERICA AND THE CARIBBEAN: CONSUMER AND WHOLESALE PRICES AND EXCHANGE RATES

(Percentage variations)

	Variation in consumer prices			Variation in wholesale prices			Variation in exchange rates		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
	December 2004/ December 2003	December 2005/ December 2004	October 2006/ December 2005	December 2004/ December 2003	December 2005/ December 2004	October 2006/ December 2005	December 2004/ December 2003	December 2005/ December 2004	October 2006/ December 2005
Argentina	6.1	12.3	8.0	7.9	10.6	6.4	0.8	1.8	1.9
Bahamas	1.2	1.2	1.6 [a]	…	…	…	0.0	0.0	0.0
Barbados	4.3	7.4	3.8 [b]	…	…	…	0.0	0.0	0.0
Bolivia	4.6	4.9	3.4	…	…	…	3.0	0.0	-0.5
Brazil	7.6	5.7	2.3	14.7	-1.0	3.4	-7.1	-11.8	-8.5
Chile	2.4	3.7	2.6	7.8	3.2	8.5	-4.5	-4.7	2.3
Colombia	5.5	4.9	4.0	4.6	2.1	5.7	-13.9	-5.3	1.4
Costa Rica	13.1	14.1	7.2	20.0	13.1	11.9	0.5	8.3	4.2
Ecuador	1.9	3.1	2.7	4.3	21.6	9.4	0.0	0.0	0.0
El Salvador	5.4	4.3	3.3	13.3	6.9	1.5	0.0	0.0	0.0
Guatemala	9.2	8.6	3.9	…	…	…	-3.2	-1.8	-0.4
Guyana	5.5	8.2	3.4 [a]	…	…	…	2.8	0.3	-0.1 [c]
Haiti	20.2	14.8	9.1 [c]	…	…	…	-12.7	15.5	-7.3 [a]
Honduras	9.2	7.7	3.9	…	…	…	4.9	1.4	0.0
Jamaica	13.7	12.9	5.4	…	…	…	2.0	4.8	3.2
Mexico	5.2	3.3	2.9	8.0	3.4	7.0	-0.5	-4.3	-0.6
Nicaragua	8.9	9.6	7.9	…	…	…	5.0	5.0	4.1
Panama	1.5	3.4	1.5	…	…	…	0.0	0.0	0.0
Paraguay	2.8	9.9	7.5	…	…	…	2.9	-2.1	-11.8
Peru	3.5	1.5	1.4	4.9	3.6	1.3	-5.5	4.5	-6.3
Dominican Republic	28.7	7.4	3.6	…	…	…	-21.4	12.1	-3.1
Suriname	9.1	15.8	1.6 [b]	…	…	…	3.5	0.9	0.2
Trinidad and Tobago	5.6	7.2	8.2	…	…	…	0.0	0.2	-0.3
Uruguay	8.6	4.9	5.9	5.1	-2.2	7.0	-9.1	-8.5	-1.2
Venezuela (Bol. Rep. of)	19.2	14.4	13.4	23.1	14.2	13.1	20.0	11.9	0.0
Latin America and the Caribbean (weighted average)	**7.4**	**6.1**	**3.9**						
Latin America and the Caribbean (unweighted average)	**8.1**	**7.6**	**4.7**	**10.3**	**6.9**	**6.8**	**…**	**…**	**…**

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

[a] June 2006 in relation to December 2005.

[b] July 2006 in relation to December 2005.

[c] September 2006 in relation to December 2005.

In the second half of the year, as oil and fuel prices fell on international markets, prices in the transport segment were adjusted downward in some countries. The fall in international oil and fuel prices was one of the main factors in the moderation of the CPI, especially in Central America and Chile. In some Central American countries (including the Dominican Republic), the authorities decided to directly subsidize domestic fuel prices. Brazil also saw a reduction in domestic prices for transport services (measured by the CPI) in the last months of the year, which may be due to refining plants coming back on stream after maintenance work carried out in the first half of the year.[7] This counteracted the trend observed in these countries in the second half of

7 Although the demand for refined petroleum products in Brazil is covered by national production, when plant maintenance is being carried out the country is obliged to import to supply the domestic market.

2005 and the first half of 2006, which had contributed to higher inflation, notwithstanding the steps taken by some economic authorities to avoid passing on the entire increase in energy and fuel costs to consumer prices. In the Bolivarian Republic of Venezuela, despite price controls imposed by the authorities, inflation was stimulated by the significant increase in private consumption which was buoyed up, in turn, by the considerable rise in public transfers to households, the recovery of real wages, especially in the public sector, and the hefty increase in credit to the private sector. The higher rate of inflation in Trinidad and Tobago was due to the rise in food prices caused by lower domestic production and the higher prices of imported foods. In Uruguay, the drought in the first half of the year, together with domestic supply difficulties for imported products, mainly from Argentina, pushed up food prices.

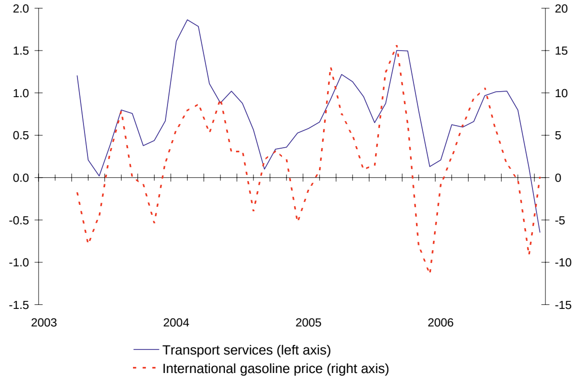
The other available price indices paint a more diversified picture. Wholesale price indices rose more slowly than consumer price indices in Argentina and El Salvador; the two were similar in the Bolivarian Republic of Venezuela and Peru, and the wholesale index outstripped the consumer index in the other countries for which information is available. Chile and Mexico show the greatest differences between the two indices: in Chile, the larger increase in the wholesale price index is mainly due to the rising prices of imported oil, while in Mexico it reflects higher prices for agricultural products and metals and fuels.

Core inflation also showed varying trends: Argentina, Brazil, Chile and almost all the countries of Central America posted a larger increase in core inflation than in the CPI; in Bolivia, Paraguay and Peru, consumer price inflation was lower than core inflation; and in the other countries, the two rates were similar. As a regional aggregate, after the acceleration seen in the first half of the year, the trend in core inflation became much more moderate.[8]

Figure IV.11

LATIN AMERICA: MONTHLY VARIATIONS IN THE PRICE INDEX FOR TRANSPORT SERVICES AND INTERNATIONAL GASOLINE PRICES [a]

(Unweighted three-month moving average, in percentages)



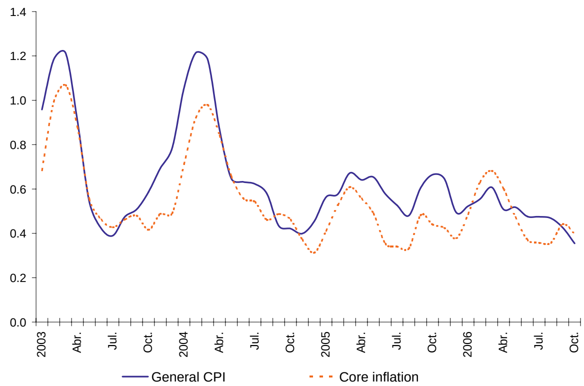
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and the International Monetary Fund (IMF), International Financial Statistics.

[a] The price index refers to the transport and transport resources group, as measured in the countries' consumer price indexes; gasoline refers to Gulf Coast regular unleaded.

Figure IV.12

LATIN AMERICA AND THE CARIBBEAN: MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX AND THE CORE INFLATION INDEX

(Unweighted three-month moving average, in percentages)



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

C. Employment and wages

A third consecutive year of relatively strong economic growth improved the main labour-market indicators. Boosted by strong labour demand, the employment rate rose again, by half a percentage point, to 54.0% of the working-age population (WAP) —the highest rate in 15 years. In contrast to the pattern in 2005, the labour

8 A common methodology was applied, consisting of excluding fuels and derivatives and perishable foods from the consumer price index.

force participation rate resumed its long-term upward trend and rose by 0.2 percentage points to 59.3% of WAP, thereby making up for the previous fall. Thanks to robust job creation, open unemployment declined for the third year running (0.4 percentage points), although by less than the year before because of the rise in labour force participation, and the regional unemployment rate stood at 8.7% of the economically active population. In 17 of 19 countries for which data are available, the unemployment rate fell, and in 11 countries there was an improvement of one percentage point or more. Only Brazil saw a rise in unemployment (see table A-22 of the statistical appendix).

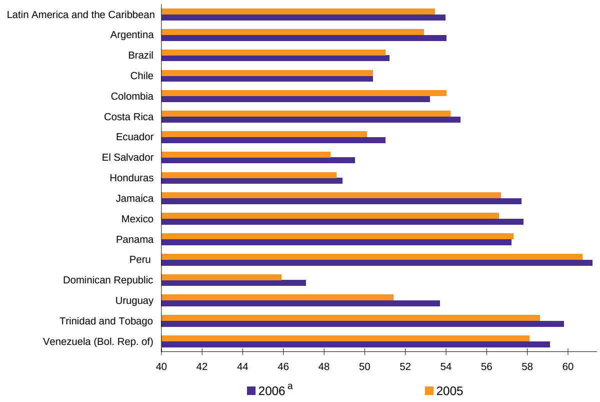
The rise in labour force participation helped to swell the urban workforce by around 2.5% (about 5 million people, compared to about 3.5 million in 2005), so the increase of more than 3% in the number of urban employed (some 5.6 million individuals) brought down the absolute number of unemployed by only about 600,000. On average, about 18 million people were unemployed during the year.

Although the labour force participation rate did not climb throughout the region (but only in 8 of 16 countries with information available), its rise in some of the larger countries —including Argentina, Brazil and Mexico— was enough to push up the regional rate. This rate decreased in the Bolivarian Republic of Venezuela and Colombia, for a third consecutive year in both cases, as well as in Chile and Peru.

In some of the countries in which the participation rate rose, women's participation in the labour force increased rapidly. In the first six months, Argentina's male participation rate rose by 0.3 percentage points, while the female rate rose by 1.3 points. In Mexico, the respective increases were 0.5 and 1.2 percentage points. Although in some countries —Bolivarian Republic of Venezuela, Chile and Panama— both the overall and the female participation rates fell, at the regional level there was a return to the long-term trend of increasing numbers of women entering the labour force.

The employment rate rose virtually across the region and, of 16 countries, only Colombia and Panama posted decreases in this indicator, in both cases because of a sharp contraction in own-account work (see figure IV.13). It is notable that such a large proportion of recent job creation has been in waged employment. In the relatively high economic growth years of 2004 and 2005, the output elasticity of employment was about 0.55 at the regional level, while waged employment elasticity with respect to output was approximately 0.8. In 2006 additional growth of waged employment of close to 4% is likely, suggesting that this high ratio will hold.

Figure IV.13
LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): EMPLOYMENT RATES, 2005 AND 2006



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

The strong expansion of formal employment that began with the recent economic recovery also continued. In the first three quarters of 2006 formal employment rose by a year-on-year average of 8.8% in Argentina, 4.9% in Brazil, 6.4% in Chile, 6.7% in Costa Rica, 6.2% in Mexico, 10.4% in Nicaragua and 6.7% in Peru. Only Panama recorded more modest growth in formal employment, at 2.1% for the first half of the year. [9] Some of the rapid rise in formal job creation was due to new jobs while another part of the increase reflected the formalization of pre-existing informal contractual relations.

While waged employment continued to grow rapidly, own-account work, which (unusually) contracted slightly in the region in 2005, will post a growth rate of close to zero for 2006. In contrast to this recent pattern, own-account work had expanded at an annual rate of 2.6% between 1998 and 2003, showing an elasticity of almost 2.0 in relation to output. It may be supposed that in a low-growth environment this relatively rapid expansion reflected the need to generate income in the neediest households, rather than an attractive option or a preferred alternative to waged work. Consequently, the standstill in the level of own-account work in 2005 and 2006 appears to be an effect of the attraction exerted by rising waged employment.

9 The data refer to the number of wage earners covered by social security systems, except for Panama and Peru, whose data refer to workers in firms over a specific minimum size included in the sample of an employment survey.

The fact that growth in most of the countries has been fuelled increasingly by domestic demand, while the external component has tended to decline, was reflected in the structure of job creation by branch of economic activity. In practically all the countries for which data are available, employment rates in the construction sector were higher than the equivalent rates for the economy as a whole. Employment in the tertiary sector also expanded rapidly. In contrast, employment in manufacturing increased at below-average rates, in a context of growing international competition. In countries such as the Dominican Republic and El Salvador, employment declined owing to contraction in the textiles maquila sector; countries with a more diversified maquila industry performed better, and in Mexico maquila employment rose by 3.5% and accounted for 1.2 million people, although this is still 7% less than in 2000.

As regards the quality of employment, although there are no comparable indicators for the region's countries in 2006, the scattered information available can be used to draw some conclusions. First, consistently with the strong labour demand and the fall in open unemployment in almost all the countries, the visible underemployment rate dropped in all of them for which data are available (Argentina, Colombia, Costa Rica, Ecuador, Honduras, Mexico, Peru and Uruguay) except Brazil, where it rose slightly, and Chile, where it held steady. Second, income indicators suggest that many of the new jobs were low-paying. In Brazil, Colombia, Costa Rica, Ecuador and Peru the percentage of employed persons with income below a certain wage floor (invisible underemployment) rose; only in Honduras and Mexico was there a fall in the percentage of employed persons receiving the minimum wage or less.[10]

When the proportion of wage-earners in total employment increases, the quality of employment tends to improve, because wage-earners have, on average, better job-quality indicators than other categories of workers. The recent steep increase in formal employment should strengthen this turn for the better. In the six main metropolitan areas of Brazil, between 2004 and 2006 (on average for the first 10 months), the proportion of wage-earners covered by social and labour legislation increased from 66% to 68% of all wage-earners and from 47.2% to 49.8% of all employed persons. In Uruguay's urban areas, between 2004 and the first three quarters of 2006, the proportion of employed persons covered by some type of retirement scheme increased from 59.4% to 65.1%. It should be taken into account, however, that the coverage of social protection systems had been eroded in the region in the preceding years. There are also signs of growing labour instability. In Mexico, 62% of the increase in formal employment (covered by the Mexican Social Security Institute) is accounted for by temporary contracts (which were up by 26.2%), and only 38% corresponds to permanent contracts (which increased by 2.8%). The rise in manufacturing employment in Colombia (2.1% in the first nine months of the year) was due exclusively to the increase in seasonal employment (6.7%), whereas the level of permanent employment declined by 1.5%.

Lastly, wages are a key component of employment quality. In 2006 formal-sector wages in the region showed the first real increase of over 2% since 1997 (2.6% as a median, and 3.3% for the weighted average). The economic recovery and rise in employment in most countries of the region over the last few years have had no effect on wages, except in some countries that have been recovering from serious economic crises (Argentina and Uruguay). In 2006, by contrast, the 10 countries with information available posted real wage increases, and in most of them wages rose more than in 2005 (see table A-24 of the statistical appendix). Only Chile and Uruguay saw an increase similar to the previous year's. This is the third year of rising wages in Argentina, where real wages in the formal sector reached their highest average level in the last 15 years. Be this as it may, with the exception of Argentina and Uruguay, real wages did not climb by more than 3%, but this rise, together with strong job creation, contributed to the upswing in household purchasing power and was one of the main engines of economic growth in 2006.

The regional employment rate for 2006, estimated on the basis of information from nine countries, rose substantially in a year-on-year comparison (see figure IV.14). Conversely, the unemployment rate held relatively stable after a seasonal increase in the first quarter, which contrasts with the gradual decline observed in both 2004 and 2005. This development largely reflects the change in the unemployment rate in Brazil, which since June has been higher than for the year-earlier rate. This is due to the reversal of the downward trend in the participation rate, which has shown a year-on-year increase since that same month. The rise in the employment rate had slowed during 2005 as a result of the cooling of the Brazilian economy, which in the fourth quarter of that year reached a standstill compared to the same quarter of 2004. The decline in the rate of job creation continued until mid-

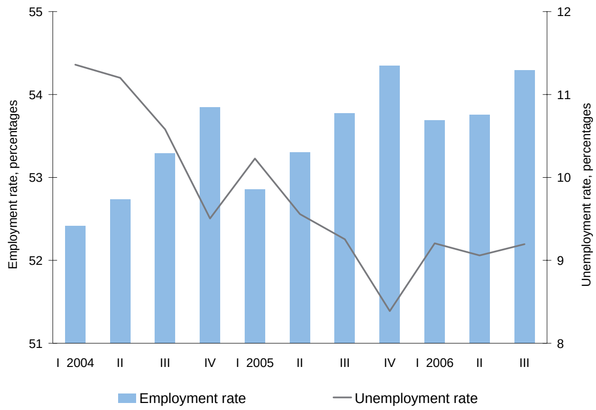
10 This type of information is not available for other countries. The weakness of this indicator is that it relies on a sliding floor such as the minimum wage: if this floor rises the indicator will generally worsen even if the income situation has improved.

2006 but later changed direction; as a result, employment rates again exceeded the year-earlier figures (51.6% in the third quarter, compared to 51.2% in the same period of 2005). The rise in the unemployment rate in Brazil and its stagnation at the regional level in the first three quarters of the year were thus due mostly to the expansion of the workforce.[11]

To conclude, the analysis of employment quality shows uneven results, while in terms of quantity, job creation has reacted rapidly to economic growth, with a notable increase in formal employment. In many countries, however, the urban formal sector accounts for only a minority of the workforce. Accordingly, even with that sector posting high rates of job creation, the increase in formal employment has often been limited in absolute terms and in relation to the population's needs. Additional measures are thus needed to boost the creation of productive jobs.

Figure IV.14

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



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

[11] In a year-on-year comparison, the economically active population of the six main Brazilian metropolitan areas grew by 3.7% in the third quarter of 2006, whereas the average increase for 2005 was only 1.1%.

Chapter V

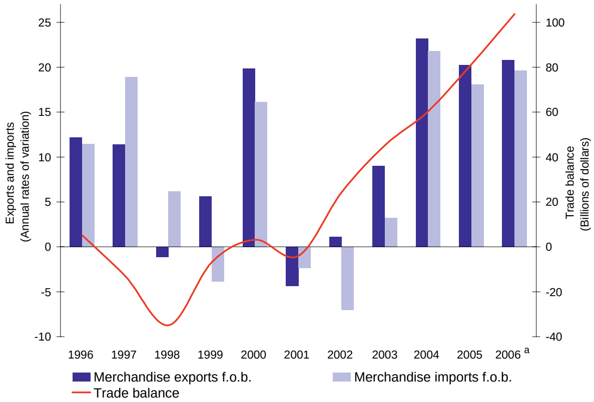
External sector

A. The balance-of-payments current account

1. Trade in goods and services

In 2006, total Latin American merchandise exports plus imports are estimated to have amounted to US$ 1.2 trillion, or the equivalent of 45% of regional GDP, while total trade increased by 20% over the year. Exports were up by 21% and imports, by 20%, figures very similar to those recorded in 2005. In real terms, exports of goods increased by 7.1% and goods imports, by 12.9%. The Latin American merchandise trade surplus is expected to show an increase of US$ 22.4 billion, which is 27% up on the 2005 figure and more than 80% more than in 2004. The region has thus produced a surplus on this account for the fifth year running; in 2006 it stood at US$ 103 billion, or 3.7% of regional GDP. Only eight individual countries (Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Ecuador and Peru) posted a surplus on their merchandise balance, however, which was one fewer than in 2005 (Uruguay). The largest merchandise surplus increases were recorded in Bolivia, Chile, Peru, Ecuador and the Bolivarian Republic of Venezuela (153.2%, 140.6%, 65.1%, 52.1% and 33.8%, respectively). These countries with the fastest-growing external sales are exporters of extractive industry products, which performed well on international markets (see figure V.1).

Figure V.1
LATIN AMERICA AND THE CARIBBEAN: EXTERNAL TRADE, 1996-2006
(Annual rates of variation for exports and imports; trade balance in billions of dollars)



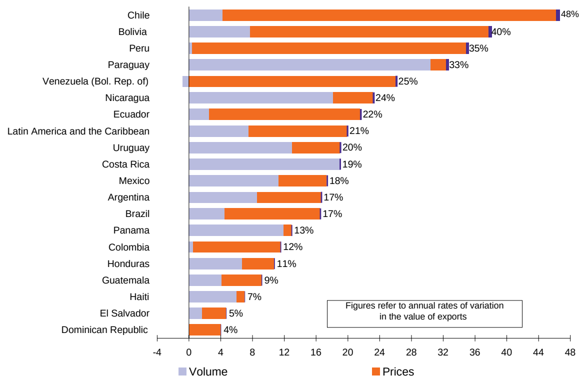
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.

Exports from South America are also predicted to expand in 2006, by 24%. This increase is smaller than those registered in 2004 and 2005, by nine and two percentage points, respectively. Central America's external sales grew by 13.5%, a figure very similar to that observed in 2005, but two percentage points above the 2004 figure. The faster-growing value of South America's exports reflected sharp rises in the prices of oil, natural gas and copper.

Of the 21% increase in the region's exports, 13 percentage points correspond to price variations, while the rest is attributable to growing export volumes. Chile and Bolivia displayed the largest increases in exports (48% and 40%, respectively), followed by Peru (35%) and the Bolivarian Republic of Venezuela (25%). These are precisely the four oil- or mineral-producing countries that experienced the steepest price increases for their export commodities. In the region's three largest economies —Argentina, Brazil and Mexico— export gains of 8%, 12% and 5%, respectively, were attributable to price variations. In terms of export volumes, six countries recorded increases in excess of 10 percentage points: Paraguay, which headed the list with a 15.7% increase, Costa Rica, Nicaragua, Mexico, Panama and Uruguay. All the other countries saw their export volumes increase at rates below the regional average (see figure V.2). Argentina's export volume expanded by 8.6% and Brazil's, by 4.5%.

More detailed examination of the exports of South America's two largest economies shows those of Argentina with a 14% increase between December 2005 and September 2006, compared with a year earlier, owing to growth in exports of industrial manufactures (23%) and agricultural manufactures (14%). Commodity exports, on the other hand, grew by 5%; it will be recalled that soybean prices fell in 2006. Brazil's exports were up 16.3% over the same period, with semi-manufactures climbing by 19% and manufactured goods, by 14.8%, while exports of commodities expanded by 16.3%.

Figure V.2
LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE VARIATION IN MERCHANDISE EXPORTS, f.o.b., BY UNIT PRICE AND VOLUME, 2006 [a]



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

In 2006, the region's imports expanded by 20%, that is, 1.5 percentage points more than in 2005, but two points less than in 2004. Imports were up in all the countries of the region. The Bolivarian Republic of Venezuela, Bolivia, Brazil, Paraguay and Uruguay recorded the largest jumps in goods imports, in percentage terms. Of the 20% increase in regional imports, 4.4 points correspond to price variations, while the rest is attributable to volume. The countries recording the largest expansion in import volumes were Paraguay, the Bolivarian Republic of Venezuela and Uruguay with 34.6%, 27.2%, and 21.6%, respectively.

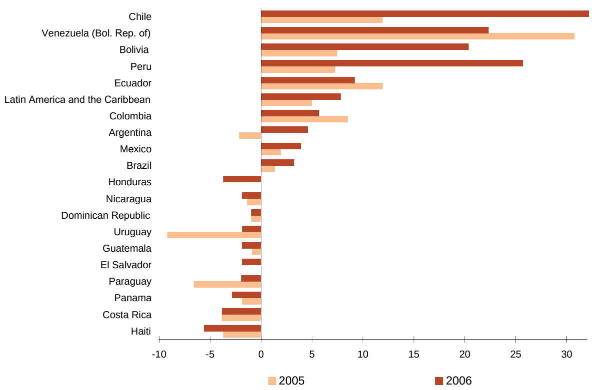
As in the case of exports, the South American countries saw more dynamic import growth (up 24% in 2006) than the Central American economies (up 14%). The difference was even greater in 2004, when the rate was 34% and 15% in the two subregions, respectively. The year 2006 marks the fourth consecutive increase for Latin America's imports. For 2002-2006, Latin America's import figures showed a 78% increase, while GDP rose by 68%. This result largely reflects figures recorded in Brazil, whose ratio of import growth to GDP expansion was 0.9, the lowest in South America. This ratio was below 1.3 in five other countries (Bolivarian Republic of Venezuela, Chile, Dominican Republic, Guatemala and Haiti), while Argentina, Costa Rica and Uruguay recorded the highest values for this indicator (2.7, 1.9 and 2, respectively).

Total exports plus imports of services stood at US$ 173 billion, or 6.2% of regional GDP, representing an expansion of close to US$ 17.5 billion over 2005. Services exports are estimated to have increased by 10%, while imports grew by 12%. The services balance showed a deficit of US$ 21.3 billion (equivalent to 0.8% of GDP), representing a deterioration of US$ 3.3 billion compared with 2005.

2. Terms of trade

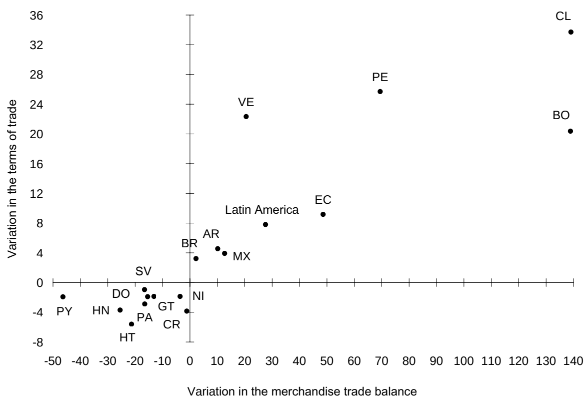
Between 2001 and 2006, Latin America's terms of trade showed a cumulative improvement of 21.1%. Preliminary figures for 2006 indicate that the rise for this year was 7.8%. This amelioration is attributable to a 12.9% increase in the price of exports, while import prices rose by 4.4% (see figure V.3). As in 2005, the price increase was concentrated in the petroleum-, mineral- and metal-exporting countries, with Chile Peru and the Bolivarian Republic of Venezuela recording the largest terms-of-trade gains, at 33.7%, 25.7% and 20.4%, respectively. Meanwhile, net importers of energy products suffered a further downturn, albeit a smaller one than in 2005. There was thus a positive correlation between the terms of trade and the merchandise trade balance. If Uruguay is excluded —since it moved from a surplus in 2005 to a deficit in 2006 and thus recorded a very large percentage variation in its merchandise trade balance— then the correlation between the two variables is 0.73. With Uruguay included, the result is 0.28 (see figure V.4).

Figure V.3
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE
(Percentage variation 2005 and 2006) [a]



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

Figure V.4
LATIN AMERICA: VARIATION IN THE MERCHANDISE TRADE BALANCE AND IN THE TERMS OF TRADE, 2006 [a]
(Percentages)



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

3. The current account as a whole

In 2006, Latin America is expected to record a surplus on its balance-of-payments current account for the fourth consecutive year, in what is an unprecedented achievement for the region. This year's surplus is estimated at US$ 51 billion or 1.8% of regional GDP (see figure V.5). This represents an increase of 43% over 2005 and of 147% with respect to 2004. Eight countries recorded a positive balance on this account: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Ecuador, Haiti and Peru (see figure V.5), with the sharpest increases occurring in

Bolivia, Chile, Ecuador and Peru. Chile's current-account balance moved from US$ 703 million to US$ 5.9 billion, a variation equivalent to 4.2% of GDP; Bolivia's surplus expanded by US$ 670 million, or 6.2% of GDP. The Bolivarian Republic of Venezuela recorded a current-account surplus that was larger by 3.2% of GDP, while Peru and Ecuador recorded improvements equivalent to 1.3% and 0.7% of their respective GDP figures. With the exception of Haiti, all countries with a surplus on this account correspond to the South American subregion. This subregion's current account showed a US$ 60 billion surplus, equivalent to 3.4% of its GDP. In addition, the Central American countries continued to show a deficit, which is expected to be very similar to the 2005 figure.

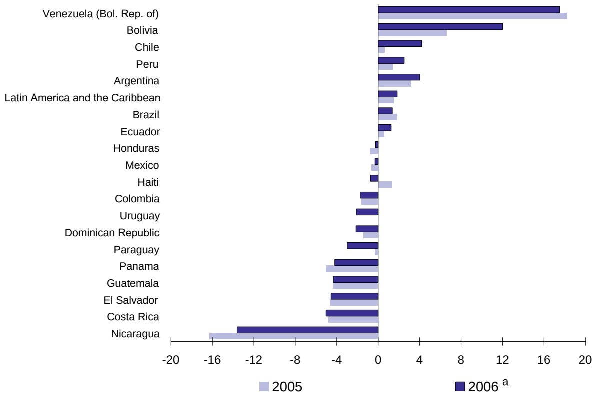
In 2006, the merchandise trade balance exceeded the 2005 figure by US$ 22.4 billion, while the current transfers balance was up by US$ 9.4 billion. The latter reflects an increase in remittances from workers abroad, which have represented significant flows into the region in recent years, the most important beneficiaries being Mexico —which receives more than 40% of incoming transfers— Ecuador and Central America. Such inflows have helped these countries to strengthen their external accounts.

The services and income balances have both continued to show deficits, which have widened by US$ 3.3 billion and US$ 13 billion, respectively (see figure V.6). With respect to the services balance, the non-factor services deficit has widened significantly since 2005, principally as a result of rising maritime freight rates (following the hike in oil prices) and mounting demand for vessels for trade with China. The wider deficit on the income balance is attributable to increased repatriation of profits and dividends. Chile offers an example: in the first half of 2006, outward remittances of profits and interest were 90% higher than in the year-earlier period. Conversely, Argentina improved its interest balance with respect to 2005 thanks to its debt swap operations.

Figure V.5

LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT

(Percentages of GDP in current dollars)



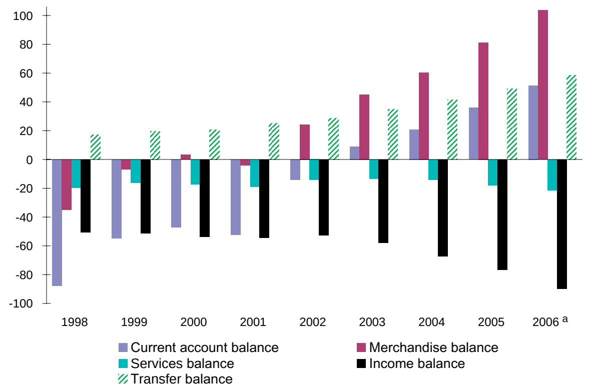
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Preliminary figures.

Figure V.6

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF THE CURRENT ACCOUNT BALANCE, 1998-2006 [a]

(Billions of dollars)



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

[a] Preliminary figures.

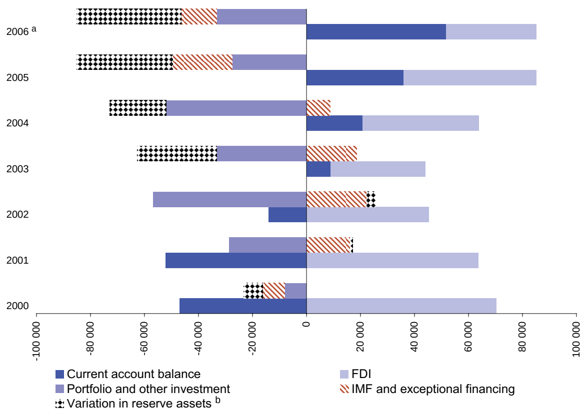
B. Capital movements

In 2006, the capital and financial account[1] of the Latin American and Caribbean region was close to equilibrium, with net flows of financial capital[2] showing a larger negative balance than the previous year (1.2% of GDP). Net foreign direct investment (FDI) was lower than in 2005, representing 1.2% of GDP (see figure V.7).

1 Including errors and omissions.

2 Financial capital flows are defined as the capital and financial balances (including errors and omissions) minus the net flow of foreign direct investment.

Figure V.7
LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF BASIC BALANCE, 2000-2006



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] A negative variation indicates an increase in reserve assets.

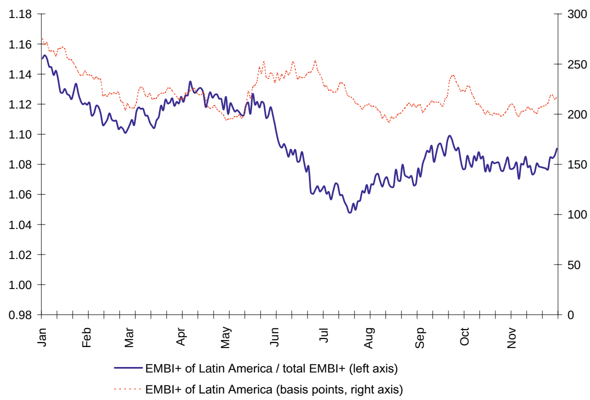
Financial capital flows reflected bond issuance, debt restructuring and external asset formation by the public sector, as well as private-sector financing and investment strategies. Despite rising interest rates in the United States in the first half of the year, international market liquidity continued to drive the positive take-up of financial securities issued by the countries of the region in the international markets. Foreign investors in Latin American and Caribbean markets, on the other hand, benefited from the deeper development and increased openness of domestic markets and the prevalence of high real interest rates (in Brazil for instance) and the nominal appreciation of local currencies.

The region's countries conducted numerous international bond issues in the first four months of the year. They also engaged in a number of debt-restructuring operations, in order to redeem more expensive bonds with shorter maturities and swap external debt securities for local-currency-denominated bonds (as occurred in 2005). The backdrop to all these operations was the strong market liquidity that prevailed since despite the hikes in the benchmark interest rate in the United States, this rate remained low.

The financial markets experienced increased volatility in May due to expectations of higher inflation in the United States and the consequent adoption of a tougher monetary policy stance that would bring about more, and sharper, rises in the interest rate. Although only a temporary disturbance, this pushed up financial risk and led to the suspension of international bond issues and the withdrawal of foreign investors from Latin American markets which, in turn, brought down stock market indexes and caused some countries' currencies to depreciate, especially those that had appreciated most in 2005 (such as Brazil's and Colombia's).

Latin America's country risk measured by the Emerging Markets Bond Index (EMBI+) rose to 239 basis points in May, after having dropped to a record low of 199 basis points in April. During the May episode, Latin America's country risk rose more moderately and underwent a more rapid correction than that of other emerging markets (see figure V.8). The country risk started to trend downwards from the end of June, then rose slightly in the final quarter to stand at 217 basis points in November. Contributing factors to this situation included election periods in some countries of the region and the uncertainty concerning the United States' economic performance and the effect this might have on the world economy. Indeed, this uncertainty had repercussions in all emerging markets.

Figure V.8
EMBI+ INDEX FOR LATIN AMERICA COMPARED WITH TOTAL, 2006



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

Notable among the countries' financial operations in the international markets was Argentina's first issue of international bonds since the moratorium in December 2001. In March, the government issued US$ 500 million Bonar V bonds, as part of an issue plan totalling US$ 1.5 billion. The other two issues (for US$ 500 million dollars each) were conducted in early May and late June. Argentina also issued US$ 500 million in Bonar VII bonds in September and again in December. In addition to these international issues, Argentina sold bonds directly to the Bolivarian Republic of Venezuela in the course of several sales up to November, for an estimated total of over US$ 2 billion. The two countries then issued what has been dubbed as the "Bond of the South" that same month. This bond, for US$ 1 billion, was issued in the Bolivarian Republic of Venezuela, with 50% consisting of Venezuelan principal and interest covered bonds maturing in 2017, 30% of Argentine Boden 2012 bonds and 20% of Boden 2015 bonds (where the latter were sold previously to the Bolivarian Republic of Venezuela).

Another major operation was the international issue of bonds denominated in reais and maturing in 2022. This was the longest maturity Brazil has ever offered on an international bond issue denominated in local currency. The bonds were issued on three occasions: US$ 750 million in September, US$ 300 million in October and US$ 346 million in December. In March, Mexico issued US$ 3.0 billion in 11-year bonds, in what was the country's largest placement in foreign-currency-denominated benchmark bonds to date. The aim was to raise funds in order to retire US$ 2.9 billion in more costly debt bonds. Like Mexico, other countries —including Brazil, Colombia, Ecuador and Uruguay— have engaged in buybacks and other debt-restructuring operations. Up to September, gross international bond issues by Latin America and the Caribbean totalled US$ 30.6 billion, 12% less than during the year-earlier period.

A number of countries have been able to create the domestic market conditions to enable an increasing proportion of public financing to be obtained within the country rather than on international markets. This reflects a downward trend of external debt as a proportion of total public debt. This does not necessarily result in a smaller amount of public debt; nonetheless that is the trend observed in the region.

In fact, domestic markets have registered a higher level of activity, both in terms of public and private issues, and in the development of new indices (such as the IPC CompMx created by the Mexican stock exchange in October), new instruments (such as the Merval indexed bonds introduced by the Buenos Aires stock exchange in September) and new operations (such as the boom in securitization operations in Brazil). The broadening of investment opportunities encouraged foreign investors' participation in the domestic markets as they resumed profit-seeking activities following the risk aversion observed in May, resulting in an influx of capital to the region (see figure V.9).

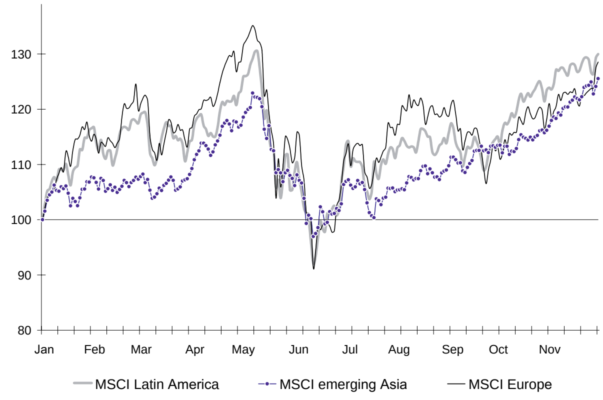
In summary then, as domestic markets develop they become a serious option for public and private financing. In addition, as the number of issues and financial operations in domestic markets increases, so does their magnitude and liquidity, thereby making them more attractive.

In terms of net flows of financial capital, a determining factor in the region's negative balance was asset formation abroad. Although these flows are similar to capital outflows from an accounting point of view, they were basically a "non-inflow" of capital. In 2006, Chile and the Bolivarian Republic of Venezuela were particularly notable for this type of operation. The assets these two countries hold abroad have acquired major proportions and they have been formed following deliberate policy decisions relating to fiscal, foreign-exchange and monetary affairs.

Figure V.9

MORGAN STANLEY CAPITAL INTERNATIONAL INDEX OF EMERGING MARKETS, 2006

(Daily series, index: 2 January 2006=100)



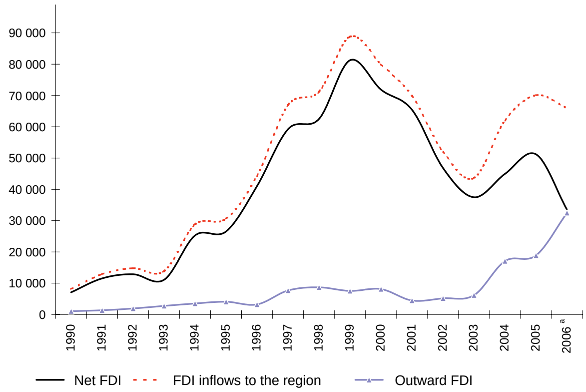
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Bloomberg.

In many cases, domestic financial market activity has been in response to financing strategies for acquisitions, in particular of foreign companies. This has occurred alongside the favourable performance of the region's economy and the expansion of Latin American firms operating in certain sectors (especially those relating to commodities).

As a result, outward direct investment on the part of the region's countries has increased significantly over the past two years. Nonetheless, Latin America and the Caribbean has traditionally been a recipient of FDI and this outward investment has only recently become significant, so the disparity in absolute flows has ensured that net FDI remains positive. In 2006, however, the surge in the region's outward direct investment, combined with a slight drop in FDI received, resulted in a fall in net FDI, which stood at 1.2% of GDP, compared with 2.1% in 2005 (see figure V.10). This pattern of outward investment in 2006 is largely attributable to the acquisition by a Brazilian firm of a Canadian metals company for some US$ 17 billion, while FDI inflows reflected several sales of assets by foreign companies to national companies and the appreciation of the exchange rate.

As a consequence of capital movements throughout the year, the balance on the regional capital and financial account is expected to be close to equilibrium. This, combined with the current-account surplus, once again generated a large build-up of reserves in most of the region's countries (estimated at 1.4% of GDP).

Figure V.10
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT
(Millions of dollars)



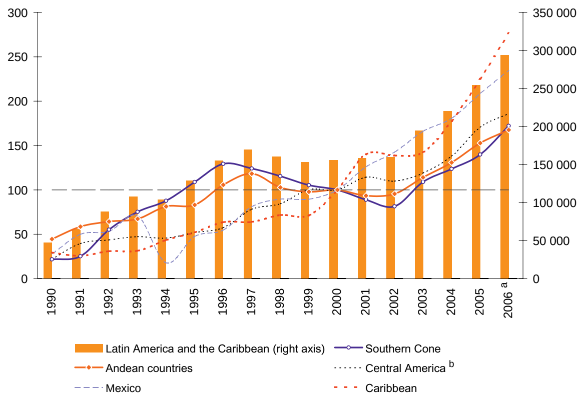
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.

In September, the region's international reserve stock stood at almost US$ 295 billion, which was 16% higher than at the end of 2005 (see figure V.11). For the third consecutive year, the Caribbean's international reserves registered growth in excess of 20%; in 2004 and 2005 it achieved the highest growth rates of all the subregions. The increase was largely attributable to Trinidad and Tobago. Up to September 2006, the Caribbean was posting an international reserves expansion of 23%, which was equalled only by the Southern Cone, which had the highest balance in absolute terms. In other emerging economies, growth of 23% in international reserves was estimated up to September (see figure V.12). China, which holds around 40% of the emerging economies' reserves, recorded a 20% expansion during the same period. These trends continue to represent an important backstop in offsetting the twin deficits of the United States.

Besides the financial operations described above, debt-relief measures and early payments to international organizations have contributed to the external debt result.

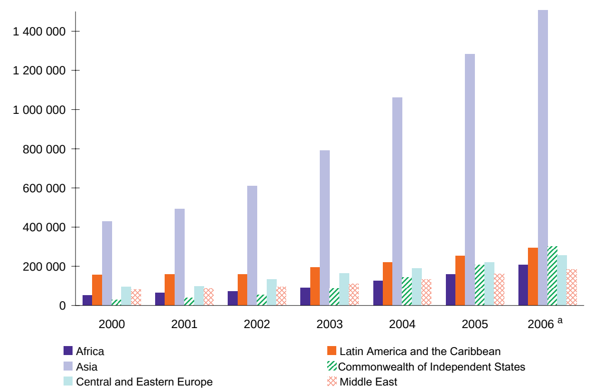
The Multilateral Debt Relief Initiative was approved by IMF in January and by the World Bank in March, and has benefited Bolivia, Guyana, Honduras and Nicaragua. In November, the Inter-American Development Bank (IDB) —the region's largest multilateral creditor— announced the creation of a debt-forgiveness framework for those same countries and Haiti. The mechanism will be defined at a meeting of the Board of Governors to be held in January 2007.[3]

Figure V.11
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES
(Index 2000=100, millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the International Monetary Fund (IMF).
[a] Data up to September.
[b] Includes Haiti and the Dominican Republic.

Figure V.12
INTERNATIONAL RESERVES OF LATIN AMERICA AND OTHER EMERGING MARKETS
(Millions of dollars)



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

[a] Estimates.

Argentina and Brazil settled all their debts with IMF in 2005,[4] and in 2006 Uruguay followed suit and paid off

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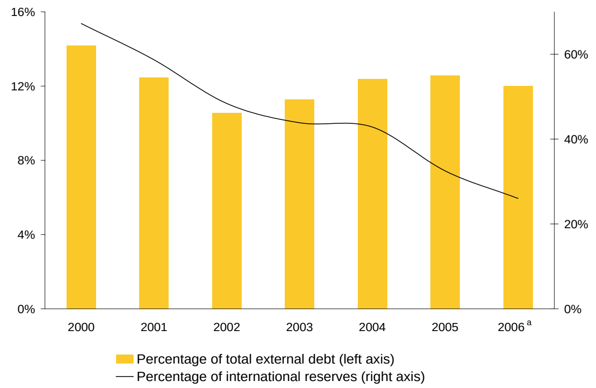
3 Haiti reached the decision point under the heavily indebted poor countries (HIPC) initiative in November, which means the country now qualifies for debt relief under that scheme.

4 Argentina's payment was made effective in January 2006.

its entire debt to the Fund (some US$ 2.4 billion) ahead of time. Uruguay also undertook early payments of its debt to the World Bank and IDB (US$ 420 million), while Mexico paid off US$ 9.0 billion to the same institutions. Brazil settled its debt with the Paris Club (US$ 2.6 billion) in the form of several payments made during the first half of the year.

As a result of these developments, the level of external debt has fallen again, to 24% of GDP in 2006. In addition to reducing the amount of external debt, the countries of the region have made efforts to change their debt structures by diversifying the currencies of denomination (often by swapping external for domestic debt), increasing the proportion of fixed-rate debt and cutting short-term external debt (see figure V.13). With respect to this last point, in 2006 the public sector accounts for a small portion in most of the countries, which means that most of the total is short-term private external debt. This strategy has helped to reduce the region's external vulnerability.

Figure V.13
LATIN AMERICA AND THE CARIBBEAN: SHORT-TERM EXTERNAL DEBT
(Percentages)



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

[a] Estimate.

South America

Argentina

Economic activity expanded considerably for the fourth year in a row, with GDP growth estimated at 8.5% in 2006. All the components of demand grew considerably, but the expansion was even greater in domestic absorption and, particularly, investment. Consumption climbed notably, but in line with GDP, and the domestic saving ratio therefore remained well above levels recorded during the 1990s. Despite a slowdown in the growth of export volumes, the trade balance posted a considerable surplus (similar to that of the previous year) thanks to higher international prices for some products and reduced import elasticity relative to domestic demand. As a result, the balance-of-payments current account was strongly positive once again. Although public expenditure rose sharply, tax receipts were robust enough to generate a primary surplus of over 3% of GDP for the consolidated public sector, despite smaller balances in provincial jurisdictions. Social indicators relating to poverty and indigence continued to improve, again on the strength of rising employment (which outpaced the increase in the labour supply) and higher real wages. The rise in inflation had been a cause of public concern at the beginning of the year, prompting the authorities to monitor prices in sensitive sectors and to intervene in determining price levels in these areas. In fact, the rate of increase in the retail price index slowed, although the consumer price index (CPI) for unregulated items and the GDP implicit price index maintained the same rate of increase as the year before.

In what is clearly still an expansionary macroeconomic context —with projected growth of around 7.5% for 2007— and now that the country has fully recovered from the deep crisis of the early part of this decade, Argentina may be making a transition to a period of sustained growth. In the medium term, this appears to call for measures to consolidate saving, strengthen investment (in aggregate terms and in activities that could create bottlenecks, such as the energy sector) and exports, and establish socially appropriate distribution patterns. Important shorter–term objectives are to align growth in aggregate demand and supply and to maintain the external and fiscal surpluses that have done much to provide economic policymakers with greater manoeuvring room.

During 2006, the implementation of fiscal policy was not subject to any major pressures, thanks to the steady increase in receipts. In the first nine months of the year, the current revenues of the national public sector climbed by just over 23%. Considerable increases were recorded in all tax categories, but particularly in social security contributions, which were over 40% higher owing to the rise in the number of contributors (a proportionally much greater increase than the growth seen in the population and in total employment, which reflects a growing formalization of employment) and wage hikes. This category was the source of almost 16% of total revenues (compared with 13.4% in 2005). The value added tax (VAT) and taxes on profits and assets continued to represent over half of total tax receipts (55%), while taxes on foreign trade contributed 13%. Primary expenditure climbed faster than revenues, however (28%). Public investment rose sharply, as in previous years, and capital expenditure consequently grew by more than 60%. The public-sector primary surplus remained quite hefty, although it was smaller than in 2005, partly owing to smaller surpluses in provincial accounts. The national government's financial balance was thus positive once more. In this context, the government embarked upon formal negotiations to settle its US$ 6.3 billion debt with the Paris Club, having paid off all its debt to the International Monetary Fund (IMF) at the beginning of the year.

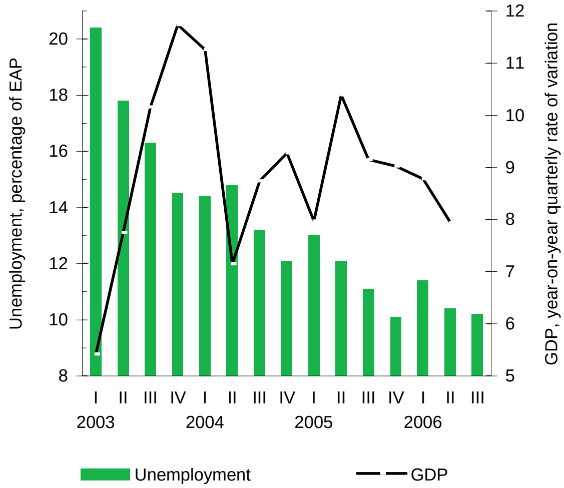
An excess supply of foreign exchange enabled the central bank to regain, in the space of just nine months, the level of international reserves recorded in December 2005 before the settlement of its IMF debt. The expansion of the monetary base resulting from the policy of intervening in the foreign-exchange market and building up reserves was partly sterilized by the central bank's bond issues, the calling in of rediscounts and loans to the government, and the increase in bank reserve requirements. All of the above helped to lower the growth rate of the money supply to below the previous year's rate, although fixed-term deposits were up steeply (by around 30%). At the same time, interest rates on central bank operations gradually rose. Be this as it may, bank credit to the private sector continued to climb sharply, with year-on-year increases of over 40%. Use of the various types of credit instruments rose across the board, but particularly in the consumer loan segment.

The volume of private consumption continued to expand strongly in line with GDP growth. Meanwhile, public consumption stepped up its pace of expansion, which nevertheless remained lower than the growth rate of GDP. Aggregate national saving easily covered investment financing requirement. Buoyant activity in public works projects and private construction, driven by steady demand (which was reflected in property prices), fuelled a strong rise in construction expenditure. Investment in durable equipment also posted considerable, albeit smaller, increases. For the year as a whole, the capital formation ratio at constant prices appears to have been in excess of 21%.

Supply expanded in both the merchandise production and services sectors, while agricultural output declined. The grain harvest was down by almost 7 million tons on the previous season, partly owing to bad weather conditions. This having been said, the 2005/2006 harvest —with its record level of soybean production and smaller harvests of the main cereals— was the second-largest ever in terms of volume. The area under soybean cultivation is expected to expand once again in the 2006/2007 season. Much larger areas will also be sown with maize and sunflower.

With international demand for beef on the rise, the authorities placed priority on supplying the domestic market. This led to price-setting agreements and the establishment

Figure 1
ARGENTINA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

of export restrictions. In the first eight months of 2006, slaughter rates, production and, above all, exports were lower than they had been in the corresponding period in 2005. Although beef consumption continued to rise, these policy measures also resulted in lower cattle prices than in December 2005.

Mining output showed little variation in 2006. Metal mining was up slightly, and this translated into higher exports, while petroleum production dropped. Developments in the hydrocarbon and energy sectors drew public attention to the issues involved in determining contractual provisions (especially with regard to price-setting mechanisms) and to investment performance, in which the public sector is becoming increasingly involved.

In the first 10 months of the year, industrial activity registered a year-on-year increase of 7.6%. This expansion took place across the board, with above-average increases in three main sectors: motor vehicle production (in response to buoyant domestic sales and exports); non-metallic minerals (boosted by construction); and tobacco (due to domestic demand for lower-price cigarettes). The use of installed capacity remained high and stable, suggesting that capacity has been built up through productive investments that have kept pace with increases in output. In the services sector, mobile telephony turned in another noteworthy performance.

Consumer price inflation slowed in 2006, partly owing to the price-setting agreements reached among authorities, producers and traders, as well as measures to discourage exports of staple goods. In the first 10 months of the year, the CPI climbed by 8% (9.8% in 2005). This was mainly attributable to slower growth in goods prices (6.5%), while, driven by sharply rising domestic demand, the prices of services continued to climb at the same rate as before (10.4%). Although there was a free-flowing supply of foreign exchange, a nominal depreciation was recorded against the United States dollar (3% in nine months). Nevertheless, the peso appreciated against that currency in real terms while depreciating by more than 8% against the euro. The real exchange rate with respect to Brazil's currency held steady.

In the third quarter of 2006, the urban employment/population ratio (41.6%) was 0.5 percentage points higher than in the same period in 2005. This paved the way for a drop in the open unemployment rate, which fell by almost one percentage point to 10.2%. Early in the year, the authorities established informal guidelines for pay hikes which were then used in wage negotiations. On average, private-sector wages (for formal and informal employment) rose by almost 15% in the first nine months (more than the 7% increase in retail prices), while public-sector wages climbed by around 10%.

The balance-of-payments current account surplus is expected to stand at around US$ 8.4 billion, which is more than 4% of GDP and almost US$ 2.7 billion higher than in 2005. In the first instance, this reflects an ample merchandise and services trade surplus that remained at much the same level as it was the year before (around 6.2% of GDP) and a smaller deficit on the income account (profits and interest), owing to the public debt restructuring undertaken in 2005, which reduced the amount of interest payments in 2006. The positive balance for capital movements in the non-financial private sector generated an excess supply of foreign exchange, which was offset by a high level of government purchasing. As a result, international reserves stood at over US$ 30.0 billion in November.

Merchandise exports are estimated at over US$ 47.0 billion in 2006, or 17% more than the previous year. This steep increase is due to both higher prices and higher volumes. Export values rose in all the various categories, but especially in manufactures. The lowest growth rate was recorded for exports of fuel and energy products as a result of a sharp drop in volumes, which was nonetheless offset by rising prices. The volume of industrial (agricultural and other) goods exports rose at well above the aggregate rate. The proportion of exports going to MERCOSUR increased (by more than 20% in 10 months), but remained much lower than the figure for the 1990s.

Merchandise imports displayed year-on-year growth of 20% in the first 10 months of the year, mainly due to increases in volume. Purchases of capital goods rose at a rate close to the average, while consumer goods overtook intermediate goods. As in previous years, imports from other MERCOSUR member countries represented a large proportion of the total (37%).

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	9.0	9.2	8.5
Consumer prices	6.1	12.3	10.0 [b]
Average real wage [c]	10.0	6.0	9.4 [d]
Money (M1)	38.0	26.8	25.6 [e]
Real effective exchange rate [f]	4.9	0.2	2.3 [g]
Terms of trade	1.9	-2.1	4.5
	Annual average percentages		
Urban unemployment rate	13.6	11.6	10.4 [d]
National government overall balance/GDP	2.0	0.4	1.0
Nominal deposit rate	2.7	3.9	6.5 [h]
Nominal lending rate	6.8	6.2	8.5 [i]
	Millions of dollars		
Exports of goods and services	39 721	46 343	54 274
Imports of goods and services	27 939	34 916	41 161
Current account	3 446	5 789	8 473
Capital and financial account	-10 398	2 294	4 931
Overall balance	-6 952	8 083	13 404

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 2006.
[c] Manufacturing.
[d] Estimate based on data from January to September.
[e] Year-on-year average variation, January to September.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year average variation, January to October.
[h] Average from January to October, annualized.
[i] Average from January to November, annualized.

Bolivarian Republic of Venezuela

The main trends observed in 2005 continued during 2006. Economic activity rose by 10.2% in the first three quarters of the year driven by increased buoyancy in construction, commerce, communications and financial services. The most rapidly expanding components of demand were gross fixed capital formation (31.6%) and private consumption (17.7%). For the year as a whole, growth is estimated to stand at around 10%. As a result of high oil prices, the current account surplus grew again in 2006, to almost 18% of GDP. In elections held in December 2006, the current President was re-elected for a new term (2007-2013).

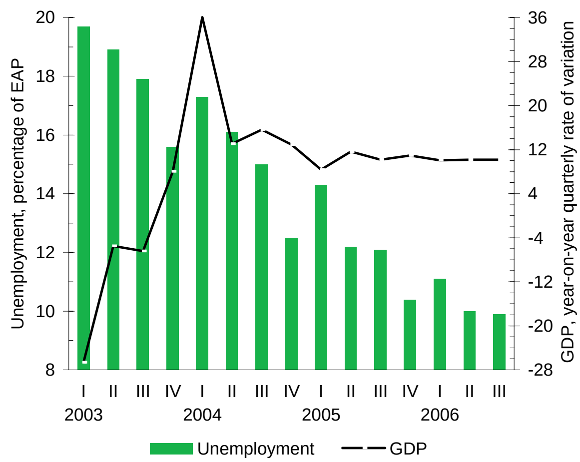
In 2006, there were major changes in regional integration processes involving the Bolivarian Republic of Venezuela. In April, the country announced its intention to leave the Andean Community. In May, it announced its withdrawal from the Group of Three (G-3), which it had formed with Mexico and Colombia, and in July the country formally joined the Southern Common Market (MERCOSUR).

For 2007, the authorities expect GDP growth of between 5% and 6%, average annual inflation of 12% and the maintenance of the exchange rate of 2,150 bolívares to the dollar.

As in 2005, one of the main challenges facing the economic authorities in 2006 was how to handle the significant foreign exchange resources obtained from exports of oil and petroleum products. Together with the significant increase in fiscal expenditure, this has brought about continual rises in domestic liquidity. Up to October 2006, M1 was 52.4% higher than in December 2005.

As for monetary policy, the central bank continued to intervene in the market through absorption measures to offset the constant increases in liquidity. By September 2006, the amount it had issued in certificates of deposit was about the same as the monetary base (1.4 times in July 2006). Up to June 2006, deposits in the banking system had swelled by 22.7%, and bank credit to the private sector was up 20.3% on December 2005. During the year, minimum percentages in the bank loan portfolio continued to be allocated to specific sectors, and the minimum and maximum lending and borrowing rates fixed by the board of governors of the central bank were also maintained.[1] Up to November 2006, the six main commercial banks had an average lending rate of 14.9% and an average deposit rate of 6.6%.

Figure 1
BOLIVARIAN REPUBLIC OF VENEZUELA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Fiscal policy remained expansionary. In the first half of 2006, total public expenditure of the central government, in nominal terms, was 74.6% higher than the first six months of 2005, while revenues were up by 26.8%. This resulted in a negative financial balance of just under 1%, compared with the 1.7% surplus recorded in 2005. Higher expenditure was mainly attributable to an increase in current and capital

[1] A maximum of 28% for lending rates and a minimum of 6.56% for savings deposits and 10% for time deposits.

transfers to public agencies. Changes were made in 2006 to some taxes collected by the government. The tax on bank debits was eliminated in February, while the introduction of a tax on oil extraction (33.3% of crude well-head value) was announced in May, so all oil companies operating in the country had to pay the same royalty rate.

Similarly to 2005, in 2006 the government invested dollars in the purchase of foreign bonds, which were mainly sold to financial institutions in the country.[2] The government also set up foreign exchange funds abroad and has carried out an intense renegotiation programme for its external debt, with a view to obtaining longer terms and lower rates. Domestic debt was also restructured to improve the yield curve for government bonds and, in the first half of 2006, the government repurchased all outstanding Brady bonds for just under US$ 4.4 billion. In November, the Ministry of Finance publicly advertised US$ 1 billion worth of "Southern Bonds".[3]

As for foreign-exchange policy, the authorities maintained the currency regime in existence since 2003 and the same restrictions on capital outflows. The exchange rate remained fixed at 2,150 bolívares to the dollar.

In November 2006, cumulative inflation as measured by the consumer price index (CPI) stood at 14.9% in relation to December 2005. The largest increases were recorded in the prices of food and beverages, restaurants and hotels, and education services —despite price controls for a significant group of products in the CPI basket. The wholesale price index increased by 14.1% (with prices of national products up by 16.2% and those of imported products by 7.6%).

During the first three quarters of 2006, wages (measured by the general wage index) were 22.1% higher than the average recorded in 2005 (17.3% in the private sector and 33.8% in the public sector). The minimum wage was raised by 15% from 1 February. In April, the government decreed an additional rise of 10%, to be effective as from 1 September. The improved economic growth was reflected in falling unemployment, down from 10.4% in December 2005 to 8.9% in October 2006. In terms of the annual average, the unemployment rate was 10.2% in 2006 (January to October), compared with the 2005 figure of 12.2%.

Owing to high oil prices, high growth was recorded in the first three quarters of the year, in the value of merchandise exports (25.6%) and imports (31.3%). The trade surplus continued to swell (US$ 28.323 billion in this period compared with the year-earlier US$ 23.330 billion), and the current-account surplus also expanded from US$ 18.680 billion in the first half of 2005 to US$ 22.884 billion in the first six months of 2006.

Table 1

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	17.9	9.3	10.0
Consumer prices	19.2	14.4	15.8 [b]
Average real wage	0.2	2.6	4.6 [c]
Money (M1)	61.5	50.0	69.0 [d]
Real effective exchange rate [e]	4.5	0.1	-5.0 [d]
Terms of trade	19.6	30.8	22.3
	Annual average percentages		
Unemployment rate	15.3	12.4	9.8 [f]
Central government overall balance/GDP	-1.9	1.7	1.0
Nominal deposit rate	12.6	11.7	10.2 [g]
Nominal lending rate	17.3	15.6	14.5 [g]
	Millions of dollars		
Exports of goods and services	40 766	56 807	70 849
Imports of goods and services	21 502	28 893	36 186
Current account	15 519	25 534	31 293
Capital and financial account	-13 619	-20 077	-27 593
Overall balance	1 900	5 457	3 700

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 2006.
[c] Estimate based on data from January to September.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Estimate based on data from January to October.
[g] Average from January to October, annualized.

Despite considerable foreign-exchange revenues from oil exports, there has been no significant increase in the international reserves of the central bank. At the beginning of November 2006, reserves stood at US$ 34.0 billion, compared with US$ 29.6 billion at the end of 2005. This is mainly attributable to the elimination of the obligation on Petróleos de Venezuela (PDVSA) to sell its foreign exchange to the central bank, and to the latter's US$ 4.2 billion transfer from international reserves to the National Development Fund (FONDEN), following a decision taken by the National Assembly on the basis of a legal reinterpretation.[4] According to declarations from the economic authorities, the resources in this fund reached US$ 17.7 billion in September 2006.

External debt stood at US$ 43.077 billion in the third quarter of 2006 (25.3% of GDP), compared with the US$ 47.233 billion recorded in the fourth quarter of 2005.

2 Argentine government bonds (BODEN12) and bonds from the Government of Ecuador.
3 Combined offer of 15-year bonds worth US$ 500 million from the Government of the Bolivarian Republic of Venezuela and bonds from the Government of Argentina for the same amount (BODEN12 for US$ 300 million and BODEN15 for US$ 200 million).
4 Partial reform of the Central Bank Act, *Gaceta Oficial*, No. 38,232 of 20 July 2005.

Bolivia

In 2006, the Bolivian economy continued to reap the benefits afforded by the external economic situation, which set the stage for price increases for raw materials (particularly metals and hydrocarbons) and a consequent 20.4% improvement in the country's terms of trade. For 2006, economic growth is estimated at 4.5%, inflation at 4.5% and the current account surplus at US$ 1.28 billion (the equivalent of 12% of GDP). Other developments include a major build-up of international reserves, an improved fiscal balance and a US$ 1.735 billion (16.2% of GDP) reduction in the country's external debt. All this took place in a domestic political and institutional environment characterized by dramatic changes. At the beginning of July, elections were held for representatives of the Constituent Assembly, which was established on 6 August. There are also signs that institutional changes are afoot: a supreme decree issued on 1 May permits the nationalization of the hydrocarbons industry, and the new direction being taken by Bolivia's integration strategy has led to the signing of cooperation agreements with Cuba and the Bolivarian Republic of Venezuela.

In terms of fiscal policy, the non-financial public sector (NFPS) posted a 6.4% surplus up to September 2006, compared with the 2.3% deficit recorded in 2005. This improvement is due to the cumulative deposits made by prefectures and municipal governments, which, according to estimates prepared by the Social and Economic Policy Analysis Unit of the Ministry for Development Planning, represent about 70% of the proceeds they have received from the direct tax on hydrocarbons. The 2006 NFPS surplus is expected to come in at 5.2% of GDP, while the general government surplus is estimated at 4.1%. In addition, the external debt shrank by 35.2%, falling from US$ 4.942 billion at the close of 2005 to US$ 3.207 billion as of September 2006.

As for monetary policy, the central bank complied with the established monetary programme, despite the fact that no agreement had been concluded with the International Monetary Fund (IMF). In the first nine months of the year, M1, M2, M3 and M4 all recorded an increase in real terms. Their expansion was absorbed by the money demand fuelled by the economy's expansion and by currency substitution towards the boliviano. The real monetary base expanded by 5.8%, which is mainly attributable to an increase of nearly 60.1% in international reserves. This was partially offset by the reduction in net credit to the public sector that was made as part of the central bank's monetary programme.

The Bolivian economy is expected to have grown 4.5% in 2006, with an expansion of 4.8% recorded in the first half of the year. In the longer term, the country's economic growth may be affected by two risk factors. First, growth in the last three years has been linked to the driving force of external demand, mainly in the extraction sectors, but no repetition of the large price increases seen in 2004 and 2005 is expected for raw materials any time soon. Second, investment has been the slowest-growing component of expenditure, and this investment pattern could undermine the Bolivian economy's potential GDP growth in the future.

Inflation over the past 12 months was 4.7%, which is 0.3 percentage points lower than the figure up to November 2005. Cumulative inflation up to November 2006 was 0.2 percentage points lower than for the year-earlier period. Prices for food and beverages posted the highest increase, outpacing inflation. For tradable goods, cumulative inflation up to November 2006 was 4.8%, while 12-month inflation was 5.5%. These figures were both higher than the equivalent inflation rates for non-tradables, which came in at 3.7% and 4.2%, respectively.

All in all, Bolivia's inflation rate is estimated to have been 4.5% in 2006, which is 0.4 percentage points lower than in 2005. This figure falls within the target band of 3%-5% established by the central bank. In 2005, the unemployment rate was 8.5%. Given the fact that the country's economic growth has been based around extraction industries and is being driven by external demand, the unemployment rate is expected to undergo a moderate reduction in 2006.

The balance-of-payments current account surplus for 2006 is estimated to stand at around US$ 1.28 billion, which is 1.65 times higher than the figure recorded in 2005. The trade balance is expected to weigh in at US$ 1.3 billion. Between January and September 2006, the trade balance came to US$ 1.1 billion, which is US$ 694 million more than it was a year earlier. In the first nine months of 2006, total merchandise exports grew by 50.1%, while imports were up by 20.8%. The activities with the most buoyant external sales were mining and hydrocarbon extraction, which were up by 121.7% and 56.5%, respectively, in relation to January-September 2005. These two sectors' exports represented 65.5% of total external sales. Manufacturing exports rose by 15.8% and amounted to 26.1% of total exports for the first three quarters of 2006. Among the various categories of imports, capital goods displayed the strongest growth (61.1%). In terms of Bolivia's trade balance with individual countries during this period, Brazil posted the largest surplus (US$ 755 million), while Chile recorded the biggest deficit (US$ 120 million). In the medium term, the main risk factors for Bolivia's export sector are associated with hydrocarbon price levels. Short-term risk has been dispelled somewhat by the extension of the United States' regime of preferential treatment for Bolivian exports under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), promulgated in December 2005. This agreement has made it possible for the products of small-scale (and labour-intensive) textile, jewellery and crafts producers to enter the United States market. As for the exchange rate, the boliviano has appreciated 0.37% in the first 10 months of the year. The external sector's performance also paved the way for a build-up of international reserves of almost US$ 1.257 billion (11.8% of GDP) between December 2005 and October 2006, bringing the total balance to a record high of US$ 2.970 billion. International reserves are expected to exceed US$ 3 billion by the end of the year.

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	3.9	4.1	4.5
Consumer prices	4.6	4.9	4.7 [b]
Average real wage	2.9	-3.9	...
Money (M1)	15.7	30.1	46.4 [c]
Real effective exchange rate [d]	7.2	7.4	2.0 [c]
Terms of trade	5.6	7.5	20.4
	Annual average percentages		
Urban unemployment rate	6.2	8.2	...
NFPS overall balance/GDP	-5.5	-2.3	5.2
Nominal deposit rate [e]	2.0	1.7	2.4 [f]
Nominal lending rate [e]	8.2	8.2	7.7 [f]
	Millions of dollars		
Exports of goods and services	2 562	3 280	4 352
Imports of goods and services	2 331	2 872	3 433
Current account	337	619	1 284
Capital and financial account	-265	-126	-184
Overall balance	73	493	1 100

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 2006.
[c] Year-on-year average variation, January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Annual average of rates on transactions in dollars.
[f] Average from January to October, annualized.

Brazil

In 2006 the Brazilian economy grew by around 2.8% while the inflation rate fell to its lowest level since the exchange-rate crisis of 1999. Between January and October 2006, there was a real year-on-year increase in the wage bill of over 6%, and formal employment in the six main metropolitan areas expanded by 3.5% in net terms over the same period.

One factor contributing to this performance was the favourable external situation, thanks to high prices for the country's export commodities. Despite the rise in imports, the increase in the trade surplus contributed to the appreciation of the Brazilian currency, which in turn kept domestic prices stable and allowed a further reduction of nominal interest rates; this led to an expansion of credit, especially consumer credit. Gross fixed capital formation has grown less rapidly than expected under these conditions, although a 6% growth rate is estimated for 2006 (compared to growth of 1.6% in 2005).

In 2006 economic policy continued to be based on a system of inflation targets, a floating exchange-rate regime and an emphasis on fiscal responsibility. The gradual fall in the inflation rate to a cumulative 3.2% for the year up to October (lower than the initial target of 4.25%) made it possible to reduce the benchmark interest rate (Special System of Clearance and Custody (SELIC)) from an annualized 19.5% in September 2005 to 13.25% in November 2006. Nevertheless, the rate of reduction was less than the drop in inflation, which has kept the real interest rate high (about 10% per annum).

Brazil's currency continued to appreciate for the third consecutive year, with a nominal increase in value of 7.7% since December 2005; this is primarily attributable to the net supply of foreign exchange generated by a growing trade surplus, which will amount to about US$ 44 billion. Some of this foreign currency was purchased to build up international reserves, which posted a record level of over US$ 83 billion in November 2006 (equivalent to a rise of US$ 29 billion over the year).

As for fiscal policy, the expansion of federal public spending in the first 10 months of 2006 (15.6% in nominal terms), and especially the payments made for retirement and other pensions by the National Social Security Institute (INSS) (which increased by 19.1% owing to the advance payment in September of half of the annual bonus), have raised questions as to the viability of maintaining the fiscal target of a primary surplus for the non-financial public sector equivalent to 4.25% of GDP. Federal revenues expanded by 12.8% over the same period. The higher growth in public revenues came from taxes (11.1%), especially on business profits, while there was a lower rate of expansion in social contributions (7%). In 2006, one important source of income for the national treasury was the revenues generated by an increase in dividend payments by State enterprises and banks; in fact, federal banks paid out about 6.7 billion reais in such dividends, equivalent to about 0.3% of GDP.

In October 2006, total net public debt was equivalent to 49.5% of GDP, which was a decline from the 51.5% level of December 2005. In 2006 the Brazilian public sector virtually eliminated its net foreign-exchange liabilities. According to estimates for the period up to October, the public sector's external debt was reduced to US$ 74.6 billion, an achievement which, combined with the high level of international reserves and the fact that the authorities have replaced domestic debt securities indexed to the exchange-rate with other securities (mainly fixed-rate securities in local currency), meant that in October 2006 the Brazilian public sector recorded net foreign-currency assets equivalent to 2.1% of GDP. Net domestic debt amounted to 51.6% of GDP in October 2006.

Growth rates for 2006 are expected to amount to 4% in the industrial sector and 2.5% for both agriculture and services. Different industrial subsectors have led the overall sector's growth during different periods. Over the period from January to September 2006, in relation to the year-earlier period, the best performances were in mining (7%) and civil construction (5.4%). Manufacturing grew by 1.4% over the same period.

Manufacturing subsectors have also performed unevenly. Over the year as a whole, growth in the production of durable consumer goods, driven by the rise in the wage bill and consumer credit, is estimated at over 6%, while production of non-durables and semi-durables will have increased by about 3.5%. Output of capital and intermediate goods is expected to expand by around 5% and 2%, respectively.

Agricultural activity has been handicapped by a financial crisis in the sector caused by the excessive debt levels accumulated over past years. This problem has been aggravated by lower profits due to the real's appreciation and lower international prices for the sector's products compared to previous years. In 2006, for the second consecutive year, agriculture expanded by approximately 2.5%. The area under cultivation for the 2005/2006 harvest was 3.4% smaller than in 2004/2005, but thanks to very favourable weather conditions, there was no fall in output. The results have varied considerably across products: significant reductions in cotton, moderate growth in beans, corn and soya, and a strong expansion in coffee and sugar cane.

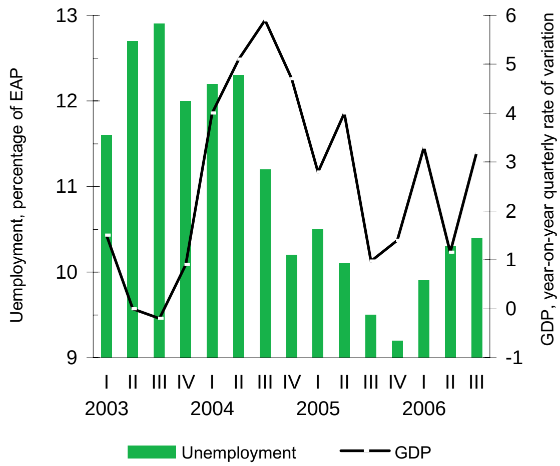
A review of activity levels on the demand side shows that the main factor holding back growth was the external sector; despite the continuation of excellent results for the trade balance, import volumes expanded more rapidly (16.8% for the period from January to October 2006, compared to the year-earlier period) than export volumes (4.7% over the same period).

Growth has been driven mainly by household consumption, which is expected to expand by more than 4% over the year, thanks to higher total wages, the continued growth of credit and the impact of the expansion of income transfer programmes. Credit reached a level equivalent to 33% of GDP. Once again, loans repayable by direct payroll deduction have led to increased levels of personal credit, as they had expanded by 44% by October and accounted for 52% of all personal credit. The family grant ("Bolsa Familia") programme already includes over 11 million families that are considered to be the poorest in the country.

Gross fixed capital formation made a positive contribution to GDP growth (estimated at over 20% of GDP at current prices). Nevertheless, there is still resistance to a significant increase in investment, owing to a number of factors. The most important is the combination of high short-term interest rates —which are declining in nominal terms but not to the same extent in real terms— and uncertainty as to the future direction to be taken by monetary policy in response to the potential effects on prices of an exchange-rate devaluation, which could push up the interest rate again. Growth in public investment continues to be subject to the constraints created by rising levels of current expenditure, the need to meet fiscal targets and difficulties in project implementation that act as operational limitations on the formation of joint ventures.

Between January and October 2006 the average unemployment rate in the country's major metropolitan areas was higher than the year-earlier figure (10.2% versus 9.8%). One of the reasons for this appears to be the labour market's very limited capacity to absorb the larger increase in the economically active population that stemmed primarily from the entry of new job-seekers. Real mean labour income in these cities between January and September was up by 3.2% compared to the corresponding period in 2005.

Figure 1
BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

The balance-of-payments current account posted a cumulative surplus for the period from January to October of US$ 11.7 billion (1.5% of GDP) as the net result of a positive trade balance (US$ 37.9 billion) and a services and income account deficit of US$ 29.8 billion.

Export growth was mainly driven by high prices. Over the first 10 months of 2006 the value of exports grew by 17.3% (4.7% in terms of volume), while imports increased by 25.2% in the same period (16.8% in volume). The fastest-growing export products were semi-manufactures and commodities, as their export value rose by 19.2% and 16.3%, respectively. The performance of exports reflected the impact of the real's appreciation, but the results have varied from one destination market to the next. In real terms, while the real appreciated against the United States dollar by 10.3% over the 12-month period to September, its appreciation against other Latin American currencies amounted to 6.6% for the same period.

The increase in the value of imports for January-October 2006 compared to the corresponding period in 2005 was attributable to the higher level of imports of consumer durables (42.5%) and fuels and lubricants (29.4%). The sharpest increases were in consumer durables (79.8%) and capital goods (26.7%), in terms of import volumes up to September 2006, and in fuel prices (31.8%).

The income account reflected a negative net flow of interest payments amounting to US$ 9.4 billion, which is less than the US$ 11.5 billion recorded for the same period in 2005. Net payments of profits and dividends amounted to a deficit of US$ 12.5 billion, which is much higher than the US$ 9.7 billion deficit for the year-earlier period.

A US$ 9.2 billion net outflow of foreign direct investment (FDI) was registered for the first 10 months of 2006, compared to a net inflow of US$ 10.1 billion for the same period of 2005. This result reflects US$ 22.8 billion in Brazilian investments abroad (much of which corresponded to the acquisition of the Canadian mining company Inco by the Brazilian Companhia Vale do Rio Doce (CVRD) for US$ 13.2 billion) and US$ 12.6 billion (about 1.8% of GDP) in inbound FDI. This means that, for the first time ever, the value of Brazil's outward FDI has exceeded inward FDI. External portfolio investments jumped from US$ 1.8 billion for the period from January to October 2005 to US$ 5.3 billion for the same period of 2006.

In October, the total external debt stood at US$ 174.6 billion (US$ 197.4 billion if inter-firm loans are included), which is higher than the figure for the end of December in 2005 (US$ 169.4 billion) and reflects an increase in external loans to the private sector. Measured as a percentage of the total value of exports, debt servicing was reduced from 55.8% in December 2005 to 49% in October 2006.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.9	2.3	2.8
Consumer prices	7.6	5.7	3.0 [b]
Average real wage [c]	0.7	-0.3	3.4 [d]
Money (M1)	17.4	14.0	14.2 [e]
Real effective exchange rate [f]	-4.8	-18.3	-12.7 [e]
Terms of trade	0.9	1.4	3.2
	Annual average percentages		
Urban unemployment rate	11.5	9.8	10.1 [g]
Central government operating balance/GDP [h]	-1.3	-3.5	-4.0
Nominal deposit rate	8.2	9.4	2.0 [i]
Nominal lending rate	41.1	43.7	40.6 [j]
	Millions of dollars		
Exports of goods and services	109 059	134 403	158 229
Imports of goods and services	80 096	97 801	122 483
Current account	11 679	14 193	13 074
Capital and financial account	-5 073	13 398	11 926
Overall balance	6 607	27 590	25 000

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 2006.
[c] Workers covered by social and labour legislation, private sector.
[d] Estimate based on data from January to September.
[e] Year-on-year average variation, January to October.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Estimate based on data for January to October.
[h] Includes the federal government and the central bank.
[i] Average from January to September, annualized.
[j] Average from January to October, annualized.

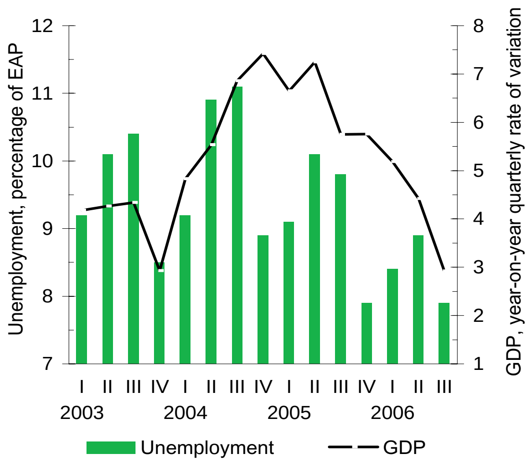
Chile

The growth rate posted for the Chilean economy in 2006 was lower than both the previous year's figure and initial projections. Nevertheless, thanks to policy continuity and a favourable external environment, the macroeconomic situation was stable, unemployment gradually diminished and the government's fiscal position remained sound.

Fiscal policy's continued focus on achieving a structural surplus of 1% of GDP translated into measures for saving the windfall revenues generated by rising international copper and molybdenum prices. In the first half of 2006 central government accounts showed a surplus of 6.2% of GDP, which, combined with the previous years' positive balances, yielded a cumulative surplus of 9.3% of GDP. Public spending rose by 6% in 2006. The budget law for 2007 calls for an increase of 8.9% next year together with a surplus equivalent to 4.4% of GDP.

The central bank continued to curb monetary growth during the first part of the year, but in August decided to suspend any further increases in the monetary policy rate, since domestic activity had expanded more slowly than expected; this trend then carried through to the end of the year. Core inflation was expected to fall within the lower part of the target range (between 2% and 4% annually), as indicators dropped sharply in the closing months of the year, in part because of lower fuel prices in the second semester. Accordingly, after rising from the low of 1.75% recorded in August 2004, the monetary policy rate stabilized at 5.25% in July 2006. Initially, the monetary authorities indicated that the break in the rate's upward trend would be temporary and that further hikes could not be ruled out if the rate of inflation made them necessary. At the end of the year the authorities altered their stance, however, implicitly admitting the possibility of a reduction in the monetary policy rate. This was because lower-than-expected growth meant that production–demand gaps would not be closed until 2007; in addition, inflation expectations were aligned with the target range and, since labour cost trends and the secondary effects from fuel price hikes have been moderate, inflation is under control. In November 2006 the 12-month inflation rate, calculated on the basis of the consumer price index, was 2.1%, while core inflation for the same period stood at 3.1%. Both indicators were trending rapidly downward from the levels observed up to June.

Figure 1
CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

In 2006 the growth rate has been lower than in 2005 (6.3%), and GDP is expected to have expanded by about 4.4%, since growth in domestic demand has slowed sharply, with the 3.9% annual rate in the third quarter of 2006 falling well below the 11.5% recorded a year earlier. In terms of individual components, the drop in demand is due mainly to the slowdown in investment, especially in machinery and equipment, which in the third quarter of 2006 posted an annual expansion of 3%, compared to 48.6% for the same period of 2005. The growth rate for investment in construction and other works slowed from 9.5% in the third quarter of 2005 to an annual 3.3% a year later, while the annual rate of increase in consumption fell from 7.5% in the third quarter of 2005 to 6.4% in the same quarter of 2006. Durable goods consumption recorded a particularly sharp decrease, as it fell from 32.9% to 17.6% during this same period.

These results are due to a number of factors. First, the significant increase in investment during 2005 resulted in a build-up of stocks which was then rapidly reversed in the first part of 2006. Second, investment in construction slowed as a result of late starts on new projects and slower growth in demand for new housing. This last factor, together with slower increase in durables consumption, is attributable to the trend in bank credit, whose rate of expansion decreased in response to gradually rising interest rates and the toughening of conditions attached to corporate and personal loans, including, in the latter case, consumer and mortgage loans. The rise in international fuel prices reduced disposable private income by an estimated 1.5%, thus reinforcing the effect of the factors associated with slackening demand.

In contrast, the external environment remained favourable, and export growth is therefore expected to come in at a similar rate to that of 2005, while import volumes will show a smaller expansion than in that year. This is consistent with the reversal of the 2005 uptrends in investment in machinery and equipment and consumption of durable goods.

On the supply side, increased interruptions in the flow of natural gas from Argentina dampened production in some industries and, in the mining sector, technical difficulties and labour negotiations delayed production and constrained growth.

Employment continued to expand, although the annual growth rate as a moving average for the three months ending in September was 1.4%, which was below the peak annual rate of 5.5% observed in July 2005. This overall trend masks an important change in the structure of employment, however, since waged employment continued to expand steadily at a rate of close to 5%, while own-account employment contracted from mid-2005 onward. As the participation rate also fell, the unemployment rate continued to decline, reaching an average of 8.4% for January-September 2006 —an improvement over the 9.7% recorded for the same period of 2005. Economic forecasts for 2007 and recently reported growth statistics for total employment indicate that unemployment levels should continue to fall, albeit a little more slowly.

The external environment remained positive, partly because of an estimated 34% terms-of-trade gain relative to 2005. The high prices for copper, wood pulp and fishmeal boosted export values to record levels, and export volumes are expected to rise at much the same rate as they did in 2005, in which case the current account is likely to show a surplus of 4.2% of GDP.

Investment levels are also expected to bounce back somewhat, in line with recent indicators showing a rise in project start-ups. With public spending budgeted to expand significantly, GDP growth is forecast at over 5% for 2007. Activity levels are expected to rise in the mining sector, since the technical problems and labour negotiations that hurt production in 2006 are in the process of being resolved.

The external environment will continue to be propitious, although doubts as to the direction to be taken by monetary policy in the United States have yet to be fully dispelled. Meanwhile, the supply of natural gas from Argentina will probably continue to fall short of demand, but, since oil prices are expected to come down from the highs seen in 2006, this may have a smaller impact on industry and households during the year ahead.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	6.2	6.3	4.4
Consumer prices	2.4	3.7	2.1 [b]
Average real wage [c]	1.8	1.9	1.9 [d]
Money (M1)	20.9	14.7	11.7 [e]
Real effective exchange rate [f]	-6.6	-5.0	-6.1 [g]
Terms of trade	21.5	11.9	33.7
	Annual average percentages		
Urban unemployment rate	10.0	9.2	7.9 [h]
Central government overall balance/GDP	2.1	4.7	7.6
Nominal deposit rate	2.4	4.5	5.5 [i]
Nominal lending rate	11.0	13.5	14.7 [i]
	Millions of dollars		
Exports of goods and services	38 278	47 746	67 723
Imports of goods and services	29 771	38 154	44 249
Current account	1 586	703	5 888
Capital and financial account	-1 772	1 013	-5 188
Overall balance	-186	1 716	700

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 2006.
[c] General hourly wage index.
[d] Estimate based on data from January to September.
[e] Year-on-year average variation, January to November.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year average variation, January to October.
[h] Estimate based on data from January to October.
[i] Average from January to November, annualized.

Colombia

Thanks to the continuing rapid increase in domestic demand, the Colombian economy expanded by close to 6% in 2006, thereby completing three consecutive years of growth at rates of over 4%. The sustained rise in consumption and investment has been the determining factor for the growth rate. On the external front, another contributing factor was the good performance of the world economy. The positive economic situation of Colombia is confirmed by the high levels of confidence shown by surveys of expectations for the last few months of the year.

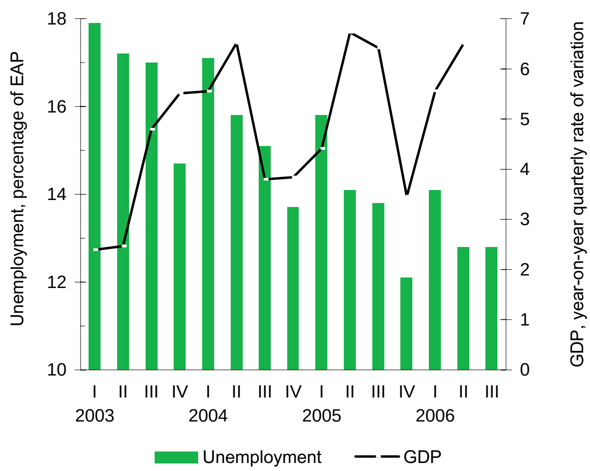
Growth of around 5% is forecast for 2007. The National Development Plan 2006-2010, presented in mid-November projects, average annual growth rates of over 5% for 2007-2010, despite the sharp reduction in oil production and the resulting fall in petroleum exports. Public spending will be sufficient to absorb the additional pressure deriving from the strategy to combat poverty and inequality announced by the government, which calls for priority public spending programmes in several of its agencies.

In fiscal affairs, thanks to the increase of close to one percentage point of GDP in tax receipts and an improved balance in the decentralized sector, the deficit target, initially set at 2% of GDP, was adjusted downward (1.5%). Nevertheless, there is still some risk that the deficit will grow, as although the government is implementing an active fiscal policy, efforts to correct fiscal imbalances are making limited progress. The results will depend on the achievements of the proposed tax reform and strict compliance with the medium-term fiscal policy framework.

In 2006 M1 continued to grow, reaching a cumulative annual variation of 23.9% in September. M3 continued to expand rapidly, although at a lower rate than in previous years. There was a change in the country's monetary policy this year, in the form of higher intervention rates. This is intended to control temporary inflationary pressures which could otherwise make it difficult to achieve the goal of stable long-term prices. As the sources of economic growth were stable, the monetary authority was able to raise the intervention rate by 25 basis points on five occasions, until it reached 7.25% at the end of October.

The credit portfolio continued the rapid growth of the previous two years. The figures show that credit (especially consumer credit, microcredit and the mortgage portfolio) was expanding at real rates of over 25%. The

Figure 1
COLOMBIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

portfolio's quality indicators are satisfactory, although a slight decline has become apparent and the monetary authorities have begun to take action.

In relation to the exchange rate, the peso is still tending to appreciate, despite the intervention policy of the Banco de la República. This has been influenced by the prospect of the sale of State enterprises and a rise in foreign investment in the business sector.

One of the main engines of economic growth has been investment, which has been strengthened by credit expansion and low interest rates, relative to past years, as well as by public infrastructure projects. In 2006 private investment rose by close to 30% and public investment by over 18%. The favourable trends in these components of demand have boosted the investment rate to 25% of GDP. The other demand component that explains the country's good economic performance is consumption of durable goods, which has contributed to growth in private consumption at rates of over 5%.

In 2006 the fastest-growing sectors have been construction, the industrial sector and commerce. Construction posted the highest sectoral growth rate (28.2%) in the second quarter of 2006, thanks to housing construction and other building projects. This rapid growth continued in the second semester, encouraged by the favourable investment climate. At the same time, industrial growth has picked up owing to the rapid expansion of sectors related to construction and transport equipment. In contrast, the slowest-growing areas in 2006 were agriculture and mining. In agriculture there was a fall in short-cycle crop production and, in the mining sector, slower growth of natural gas and nickel production.

The inflation rate for 2006 is expected to stand at around 4.5%, which would be consistent with the target of between 4% and 5%. Despite temporary inflationary pressures in August and September, there were several factors that helped to keep inflation within this range, including low projected adjustments to utility prices, which will probably compensate for rising fuel prices, the continuing average rate of 4% for core inflation and for increases in the price of the food basket, and the greater credibility of monetary policy.

Unemployment is continuing to trend downward, although, in a development that seems to be inconsistent with the various sectors' performance, the rate did rise slightly in August and September. The downward trend in the country's 13 major cities continued (12.8% in the third quarter of 2006, compared to 13.8% in the year-earlier period), while the upward spike in the national indicator reflects growth in unemployment in other municipalities and in rural areas. There is no consensus yet as to whether this is attributable to changes in the labour market or to recent methodological changes in the survey used to measure employment which extended its coverage and altered the data collection process.

Imports of industrial products, which grew at over 20%, were boosted by higher purchases of vehicles and vehicle parts, boilers and machines, fuel and mineral oils, and other products. Other subsectors, such as consumer goods, also benefited from the expansion of household consumption. Export growth was significantly higher than in 2005, thanks mainly to the higher prices of oil and petroleum products, although it was outpaced by imports. The balance-of-payments current account is expected to show a deficit for 2006 of about 1.8% of GDP.

Trade expectations are closely connected to the approval of the free trade agreement between Colombia and the United States by their respective congresses. The agreement is expected to enter into force in mid-2007. If that is the case, higher growth in imports is likely to follow in the wake of greater access to the United States market. In the first part of the year, exports were boosted by the recent extension of the tariff preferences provided for under the Andean Trade Promotion and Drug Eradication Act, which apply to 53% of the country's total exports to the United States.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.9	5.2	6.0
Consumer prices	5.5	4.9	4.3 [b]
Average real wage [c]	1.5	1.0	3.5 [d]
Money (M1)	14.7	17.8	21.4 [e]
Real effective exchange rate [f]	-9.0	-11.4	1.7 [e]
Terms of trade	14.0	8.5	5.7
	Annual average percentages		
Urban unemployment rate [g]	15.4	14.0	13.0 [h]
National central government overall balance/GDP	-5.5	-4.8	-5.3
Nominal deposit rate	7.7	6.9	6.0 [i]
Nominal lending rate	13.1	12.6	11.4 [i]
	Millions of dollars		
Exports of goods and services	19 479	24 393	27 183
Imports of goods and services	19 812	24 901	29 676
Current account	-938	-1 981	-2 359
Capital and financial account	3 479	3 710	2 597
Overall balance	2 541	1 729	239

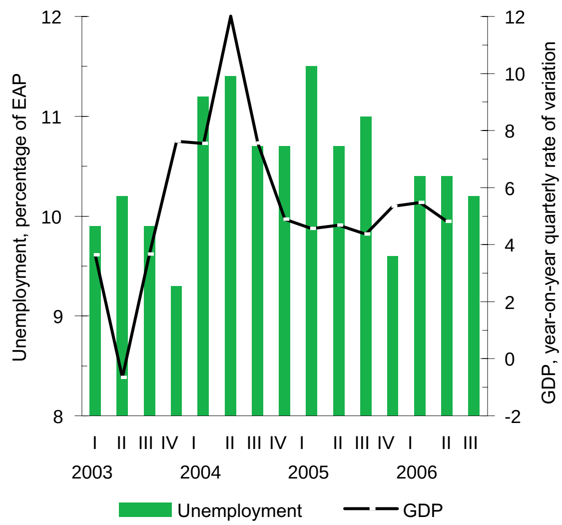
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2006.
[c] Manufacturing-sector workers.
[d] Estimate based on data from January to August.
[e] Year-on-year average variation, January to October.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Includes hidden unemployment.
[h] Estimate based on data from January to October.
[i] Average from January to October, annualized.

Ecuador

Ecuador's economy is expected to grow by 4.9% in 2006, which is similar to the 4.7% recorded in 2005. The economic expansion is mainly attributable to buoyancy in commerce and services, manufacturing and the oil sector. Oil revenues and rising consumption have bumped up fiscal income, which has in turn enabled the country to shrink its registered public debt.[1]

In 2006, the government estimates that the overall surplus of the non-financial public sector (NFPS) will stand at 4.3% of GDP, with an even wider primary surplus of 6.5%. During the first half of 2006, total NFPS revenues rose by 26.4%, while total expenditure increased by 17.4% in nominal terms. Higher prices for the oil exported by Ecuador played an important role in the rise in income: in the first six months of the year, oil export income swelled by 76.8%, although the need to import costly derivatives and subsidize domestic sales meant that no fiscal revenues were generated from the domestic sale of petroleum products. Between 2001 and 2003, domestic sales of these products generated average revenues representing 1.8 percentage points of GDP per year, which demonstrates the high fiscal cost of the current policy to subsidize petroleum products. In terms of NFPS expenditure, the first half of 2006 saw current expenditure rise by 21.2% (particularly purchases of goods and services), while capital expenditure was up only 3.5% in relation to the year-earlier period. As for central government expenditure, an overall surplus of 0.6% of GDP is expected for 2006.

Figure 1
ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

In addition to high oil prices, there were two other contributing factors to the positive fiscal performance in 2006. First, in April 2006 Congress approved a reform to the Hydrocarbons Act stipulating that, when crude prices exceed the level agreed in the contract with each private company, the State will be entitled to 50% of the revenues from those oil exports. Second, in May 2006 the Minister for Energy and Mines announced the termination of the contract between the State and Occidental Petroleum, with the latter's oilfields (Block 15 of the Amazon region and the unified fields of Edén-Yuturi and Limoncocha) now being managed by the temporary administration unit of PETROECUADOR. At the end of October 2006, Congress approved the Act Creating the Ecuadorian Investment Fund for the Energy and Hydrocarbon Sectors (FEISEH). This consists of trust funds financed by the export of oil extracted from Block 15 and the unified fields of Edén-Yuturi and Limoncocha. The resources will be used to: finance operating and investment costs in Block 15; offset the income lost through the Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization

1 This does not include contingent debt such as the US$ 1 billion claim of Occidental Petroleum against the Ecuadorian State following the termination of their contract.

(CEREPS) following termination of the contract with Occidental Petroleum; and boost hydroelectrical generation projects and State investment in hydrocarbons.

The benchmark lending rate varied little between December 2005 and October 2006, reaching 8.6% in the latter month; the deposit rate stood at 4.7%. Ecuador has a dollarized economy with no scope for implementing monetary policy.

Although the increase in the number of loans granted to companies (9.8%) was smaller than the rise in bank assets (12.8%), loans to other resident sectors (such as consumers) were up by 14%. This credit growth has pushed up private consumption during 2006. Banks increased their placements of non-resident bonds (such as United States Treasury Bonds), which stood at US$ 1.605 billion (13.3% of total bank assets) by August 2006 —a nominal increase of 54.2% on December 2005.

In the first half of 2006, GDP increased by 5.1% in relation to the year-earlier period. Growth for 2006 as a whole is expected to be 4.9%, mainly because of the increase in consumption. In the first six months of the year, private household consumption was 7.4% higher than for the same period of 2005, while gross fixed capital formation was slower than the previous year (4.2%). Such growth was spearheaded by services (including commerce) and manufacturing. In the first nine months of 2006, oil extraction was up 2.7%, as activity picked up following the strike that had significantly reduced production back in August 2005. Production was 543,000 barrels per day up to September 2006, with some private companies managing to raise their production. The major challenge for 2006 and 2007 is ensuring that PETROECUADOR maintains levels of production for Block 15 and the unified fields of Edén-Yuturi and Limoncocha, as well as for its other directly operated fields.

The employment situation improved slightly in 2006, on the strength of increased non-oil activity, particularly in the service sector. In the first 10 months of the year, total unemployment averaged 10.3%, which is lower than the 11% recorded for 2005. Open unemployment dropped by 1.4 percentage points, while hidden unemployment climbed. The employment rate edged up slightly from 50.1% in 2005 to 50.7% in 2006. The underemployment rate also rose from 47.3% in 2005 to 48.1% in 2006. Between 2005 and 2006, the minimum wage increased by an average of 3.2% in real terms, thanks to a nominal monthly rise of 10 dollars in a context of low inflation.

Cumulative inflation during the first 11 months of the year was 2.9%, while 12-month inflation up to November 2006 was 3.2%. The real effective exchange rate remained stable during the first 10 months of 2006 in relation to the year-earlier period.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	7.9	4.7	4.9
Consumer prices	1.9	3.1	3.2 [b]
Average real wage	2.4	3.0	3.2
Money (M1)	19.4	24.4	21.2 [c]
Real effective exchange rate [d]	4.3	4.3	0.0 [c]
Terms of trade	1.9	11.9	9.2
	Annual average percentages		
Urban unemployment rate [e]	11.0	10.7	10.1 [f]
Central government overall balance/GDP	-1.0	-0.5	0.6
Nominal deposit rate	4.0	3.8	4.3 [g]
Nominal lending rate	10.2	8.7	8.8 [g]
	Millions of dollars		
Exports of goods and services	8 982	11 439	13 709
Imports of goods and services	9 651	11 784	13 879
Current account	-564	204	503
Capital and financial account	846	470	97
Overall balance	281	674	600

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 2006.
[c] Year-on-year average variation, January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Cuenca, Guayaquil and Quito. Includes hidden unemployment.
[f] Estimates based on data from January to October.
[g] Average from January to October, annualized.

In 2006, the current account surplus is expected to stand at almost US$ 500 million. High oil prices have contributed to the positive performance of the trade balance. Those increases also explain the rise in foreign direct investment (especially in the oil sector), which more than doubled in the first half of the year. Emigrant remittances are also expected to continue to rise during 2006.

During the first nine months of the year, the value of Ecuador's exports grew by 26.7%. Of this growth, 81% is attributable to the rise in exports of petroleum and petroleum products. The value of crude oil exports was up 38.3%, while export volumes increased by only 5.9%. In 2006, the price of Ecuadorian crude averaged US$ 52.7 per barrel, which was 30.5% higher than the US$ 40.4 per barrel recorded in 2005. As for non-oil products, banana exports expanded by 12.4% and shrimp exports by 25.5%. Significant rises were also recorded in vehicle exports, especially to other countries of the Andean Community. Imports grew by 19.7% in the first nine months of 2006 compared with the year-earlier period, thanks to the considerable rise in domestic demand. Imports of fuel and lubricants were up by 61% on the previous year, owing to the high international prices of petroleum products and limited domestic refining capacity.

Paraguay

Estimates show that growth in the Paraguayan economy increased to around 4% in 2006, with livestock and communications once again the most dynamic sectors. Crop-growing activity also trended positively despite being hampered by drought for the third year running. Central government accounts are expected to be in balance, while monetary policy has managed to ease the pace of inflation somewhat, but not enough to keep it around the target of 5%. The nominal exchange rate of the guaraní reflected a sharp appreciation against both the dollar and the real. Up to September, registered import values were up by 73% while registered exports grew by just 13%, which caused the balance of registered trade to deteriorate.

In 2006 the Paraguayan Government signed a new agreement on special drawing rights with the International Monetary Fund (IMF) which entered into force in June and will last until August 2008. Against this backdrop, and following the trend of the last three years, the goal of fiscal policy has been to contain current expenditure and increase tax revenues. To that end, the government froze staff hiring, initially until August, and subsequently until the end of the year. Nonetheless, the 12% increase in the minimum wage decreed in April 2006 will have repercussions on fiscal expenditure. Moreover, the introduction of personal income tax, which was announced for 2006, has been delayed for one year. Central government fiscal accounts are expected to end the year in balance or record a small surplus, similar to the previous year's result.

On the monetary-policy front, the Central Bank of Paraguay maintained the 5% inflation target adopted in early 2005. In November 2006 the consumer price index (CPI) was showing a year-on-year rise of 8.9%, in breach of the ceiling set at 2.5% above the target rate; cumulative inflation to November stood at 9.5%. Exchange-rate appreciation could help to restrain inflation by the end of the year. However, one of the key factors in the trend of the CPI has been the high price of beef, caused by supply shortages on the domestic market in the face of growing external demand.[1] Given this upward price pressure, the authorities decided to import meat from other countries (such as Argentina and Bolivia) to supply the domestic market.

In the first half of the year, the monetary authority continued with the process of raising interest rates on its debt instruments (Monetary Regulation Instruments, IRM), which had started in mid-2005, with a view to containing inflation. Nonetheless, the monetary aggregates M0 and M1 still rose by more than 15% in nominal terms, thereby generating excess liquidity in the market and adding to inflationary pressures in the medium term. The accumulation of international reserves continues to be the main factor driving the expansion of M0, although this has been partially sterilized by issuing IRMs.

The nominal exchange rate reflected a sharp appreciation in 2006: up to October, the cumulative nominal appreciation of the guaraní was 12.5% against the dollar and 5.7% against the real. This would seem to have been caused by large inflows of foreign exchange stemming mainly from foreign meat sales, family remittances, flows from the binational entities (Itaipú and Yaciretá) and capital movements. Foreign-exchange inflows have also resulted in an accumulation of international reserves amounting to US$ 1.547 billion in September, representing a 19.3% increase in relation to December 2005.

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1 External demand has been affected by the reduced supply of meat from Argentina, following domestic restrictions on exports of this product, and from Brazil as a result of foot and mouth disease.

As a consequence of exchange-rate and inflation trends, the guaraní appreciated in real terms by 12.3% (cumulatively to October) in relation to the currencies of Paraguay's trading partners, and this served to fuel import growth.

Economic activity is estimated to have grown faster than in 2005. In the services sector, the strongest performers included communications, thanks to an expansion of cellular telephony; commerce, driven by the growth of imports; and transport, influenced by trade buoyancy and the growth of activities related to meat production. The monthly indicator of economic activity in Paraguay (IMAEP), published by the central bank, shows that the business and household services and general government sectors have also trended positively throughout the year.

In the case of goods, crop output recovered following its 5.8% fall in 2005, even though harvests were damaged by drought for the third consecutive year. Soybean production was down by 4.7%, while cotton output declined by 9.1%. Production of cassava, which is ranked second in terms of total agricultural output, remained virtually flat. The crops that will fuel growth in the agriculture sector include maize (32.5%), rice (23.5%), sugar cane (6%), peanuts (5.9%), sunflower (5.4%) and beans (4.5%).

The livestock sector grew vigorously, driven by robust demand particularly from abroad. As a result, meat production is estimated to have led the industrial sector, although dairy products and machinery and equipment also performed well. IMAEP figures suggest that construction activity grew more slowly, however.

Paraguay's registered trade deficit was displaying an increase up to September 2006, with the growth of imports outpacing exports.[2] Meat exports have grown substantially (83.6%), while exports of soybean and cotton and its by-products have fallen by 20.4% and 27.1%, respectively, reflecting declines in their output. Maquila exports, in contrast, have risen strongly. The fact that imports have been led by machinery and equipment will have positive repercussions on gross fixed capital formation. Nonetheless, a further deterioration in the terms of trade is expected, even though the oil price has fallen on international markets and export prices for Paraguayan meat have risen.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.1	2.9	4.0
Consumer prices	2.8	9.9	8.9 [b]
Average real wage	-2.7	1.1	...
Money (M1)	29.6	22.3	16.7 [c]
Real effective exchange rate [d]	-3.7	9.5	-9.4 [c]
Terms of trade	2.8	-6.6	-1.9
	Annual average percentages		
Urban unemployment rate	10.0	7.6	...
Central administration overall balance/GDP	1.6	0.8	0.8
Nominal deposit rate	5.7	6.1	9.3 [e]
Nominal lending rate	21.2	15.3	16.3 [e]
	Millions of dollars		
Exports of goods and services	3 492	3 927	5 091
Imports of goods and services	3 409	4 098	5 669
Current account	138	-22	-265
Capital and financial account	130	169	545
Overall balance	268	147	280

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 2006.
[c] Year-on-year average variation, January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average from January to July, annualized.

2 Nonetheless, foreign-exchange inflows from meat exports suggest that total exports will be substantially higher than the registered figure.

Peru

The Peruvian economy grew by 7.2% thanks mainly to the strength of domestic demand. The expansion of the world economy led to a new improvement in the terms of trade, resulting in a marked increase in the value of exports, in the trade surplus and in national income, and boosting fiscal accounts significantly. This robust economic growth had a favourable effect on the labour market, while inflation remained within the range forecast by the authorities, closing the year below 2%.

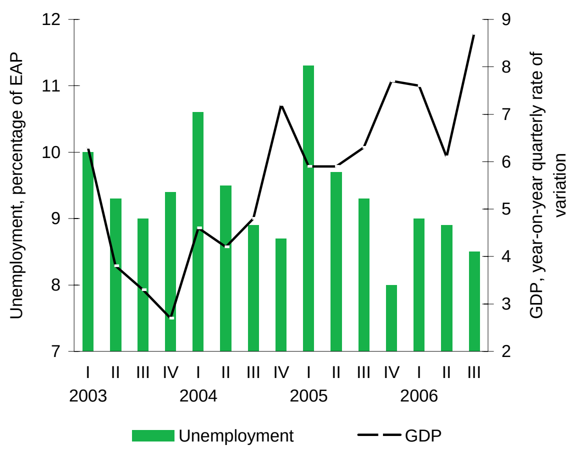
A new government took office in July after closely contested elections. The change did not result in any fundamental alteration of macroeconomic policy although the new authorities announced an increase in public investment and more vigorous anti-poverty measures.

The fiscal results for 2006 showed revenues considerably higher than predicted owing to stronger economic growth and the high prices for mining products which pushed up the tax contributions payable by companies in that sector. For the year as a whole, the authorities estimate that general government revenue will be equivalent to 19.4% of GDP, one percentage point higher than in 2005. With expenditure increasing at a similar rate to GDP growth, the general government primary surplus rose from 1.6% to 2.5% of GDP. Thus, the small non-financial public-sector (NFPS) deficit (0.3% in 2005) was replaced by a surplus (0.6%).

Although not strictly enforced, the macrofiscal rules established in the Fiscal Prudence and Transparency Act helped to contain the increase in expenditure despite the availability of windfall resources. Expenditure switching within the general government budget resulted in an increase in investment from 2.7% to 3.2% of GDP, while current expenditure declined in relative terms from 16.2% to 15.6% of GDP. The new government announced a strategy for a steady increase in capital expenditure to a target of 4.2% of GDP in 2009. The fiscal surplus, together with the nominal exchange-rate appreciation, led to a marked reduction in public debt from 37.8% to 32.8% of GDP.

The authorities are expecting revenues from natural resources to decrease in 2007; thus the NFPS primary surplus should decline to 1.3% of GDP, while the overall balance should be slightly negative, at 0.8%. This deficit would be financed on the domestic market.

Figure 1
PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

With the inflation target set in a range of 1.5% to 3.5%, the authorities faced a more buoyant economy than predicted and rising interest rates on international markets; in response, the benchmark interest rate was raised gradually from 3.0% in December 2005 to 4.5% in May 2006. Subsequently, with inflation within the targeted range and no signs of acceleration, the rate stabilized. Short-term lending rates followed the upward movements in the benchmark rate, but in the context of high liquidity, the rates trended downwards from June onwards and the annual average lending rate (fixed structure) declined by almost one percentage point.

Between late 2005 and the beginning of 2006, the monetary authorities bought local currency to counteract the depreciation triggered by the elections. In the second half-year, the new sol started to appreciate again. The authorities responded by purchasing foreign currency and up to the beginning of November, international reserves increased by US$ 1.7 billion. Even so, between December 2005 and October 2006, the bilateral real and real effective exchange rates declined by 3.6% and 2.1%, respectively.

Favourable economic and financial conditions, together with the improved access to the financial system for the general public, led to a 14.3% year-on-year credit expansion to October. Low inflation and exchange-rate stability helped to promote dedollarization of the financial sector and between December 2005 and October 2006, the proportion of credit in local currency increased from 33.3% to 37.6%.

In April, Peru signed a free trade agreement with the United States, which was approved by the Peruvian parliament in June, although the United States Congress has yet to ratify it. The amplification of the economic complementarity agreement with Chile was also adopted.

Economic activity was brisker, exceeding not only the projections made at the beginning of the year but also the previous year's figure. The most dynamic component of the 7.2% projected growth was gross public and private investment. Boosted by the increase in the wage bill and total credit, private consumption expanded by more than 5%, the highest percentage since 1995. Export volumes of the products that had led the economic recovery in recent years recorded only a slight increase owing to sluggish production of some minerals (copper, tin, zinc, molybdenum) and fishmeal. This is reflected in weak growth in branches of activity linked to mining, hydrocarbons and fisheries, and in the processing of raw materials. Domestic demand had a favourable effect on growth in construction, non-primary manufacturing industry, commerce and other services. While the weaker performance of the components of domestic demand will have a moderating impact on economic growth in 2007, a relatively high growth rate (6%) is once again expected.

Despite strong domestic demand, inflation remained between 1.5% and 2.5%. The factors contributing to this result were the slight exchange-rate appreciation in the second half of the year, measures taken to avoid sharp rises in fuel prices, lack of pressure from labour costs and expectations linked to monetary policy. The fact that wholesale prices rose only slightly more than the consumer price index (CPI) (2.0%, compared with 1.5% in November) would seem to indicate that there is no pressure in terms of lagged inflation. As a result, in 2007 prices are again expected to remain within the inflation target range of 1.5% to 3.5%.

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	5.2	6.4	7.2
Consumer prices	3.5	1.5	1.5 [b]
Average real wage	1.1	-1.9	1.0 [c]
Money (M1)	22.1	29.1	17.5 [d]
Real effective exchange rate [e]	1.5	0.7	2.2 [d]
Terms of trade	8.9	7.3	25.7
	Annual average percentages		
Urban unemployment rate	9.4	9.6	8.5 [f]
Central government overall balance/GDP	-1.3	-0.7	0.3
Nominal deposit rate	2.4	2.7	3.4 [g]
Nominal lending rate	18.7	17.9	17.2 [g]
	Millions of dollars		
Exports of goods and services	14 802	19 625	25 853
Imports of goods and services	12 530	15 200	17 896
Current account	19	1 105	2 292
Capital and financial account	2 306	423	-749
Overall balance	2 325	1 528	1 543

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 2006.
[c] Estimate based on data for June.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Estimate based on data from January to October.
[g] Average from January to November, annualized.

Formal job creation increased at a year-on-year rate of over 6%, reflecting the robust economic growth. The strength of labour demand had a favourable impact on the unemployment rate (down from 9.6% to an estimated 8.5%) and on time-related underemployment. Average labour income recorded a modest real increase of 1%.

While there was no significant increase in the volume of merchandise exports, export earnings increased by over 30% to stand at more than US$ 23 billion, thanks mainly to the higher prices of many of the natural resources exported by Peru but also to the increase in non-traditional exports. The merchandise trade surplus, which also reflected a substantial, albeit somewhat lower, increase in imports, expanded further from 6.6% to 10% of GDP. This increase was partially counterbalanced by higher payments for factor services, but the current-account surplus was greater than the 2005 figure (2.6% and 1.4% of GDP, respectively). The public-sector debt paydown policy contributed to a deficit on the financial account. The overall balance closed with a surplus of 1.8% of GDP, similar to the previous year's figure.

Uruguay

With GDP expansion of 7.3% in 2006, Uruguay continued on the growth path that it had initiated three years earlier, thanks to increases in both external and domestic demand, a stable fiscal situation, a moderate external deficit and inflation of around 6%, which was within the projected range. In this context, the fall in the unemployment rate, together with growing real wages and targeted social policies, contributed to a further decline in the poverty rate.

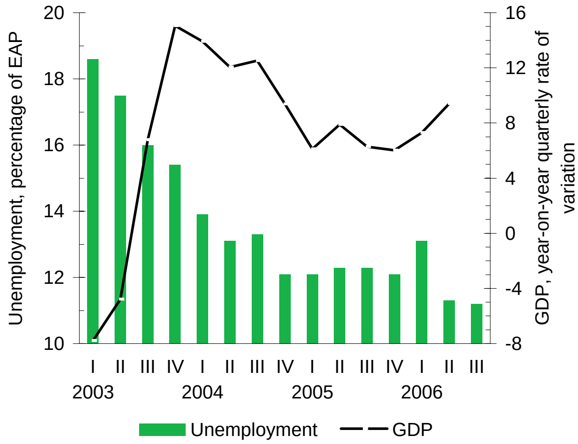
The fiscal situation reflected another increase in collections and a fall in the profits of public enterprises, owing to higher production costs. In the 12 months ending in September, in real terms, fiscal income was 6.8% higher and primary expenditure 2.7% higher, so that the primary fiscal surplus stood at 3.6% of GDP. As interest payments on debt were equivalent to 4.4% of GDP, the consolidated fiscal deficit was 0.8% of GDP.

Restructuring of the external debt continued, with authorities introducing bond issues and buy-back operations in order to reduce the level of maturities due in 2011 and 2015. The government also decided to pay off ahead of schedule its remaining debt with IMF amounting to a total of US$ 1.078 billion. The gross debt/GDP ratio of the non-financial public sector fell to 63%. As of late October, reserve assets stood at about US$ 3.3 billion.

Monetary policy was oriented to the control of aggregates with a view to maintaining price stability. Over the 12 months ending in October 2006, the monetary base expanded by 27.1% in nominal terms and 19.4% in real terms; the means of payment (M1) rose to 26.3% and 18.9% in nominal and real terms, respectively. The consumer price index recorded a variation of 6.2% over the 12 months ending in November, which was within the monetary programme's projected range of between 4.5% and 6.5%.

The total gross credit to the non-financial system increased by 4.1% as a 12-month moving average in June 2006. This is the result of a 31.6% rise in real terms in peso-denominated loans and a 3% decline in loans in foreign-currency. The latter accounts for approximately 80% of total gross credit. In the 12 months ending in September, the one-year deposit rates were an annual 1.7% for dollars and an annual 4% for pesos. The average rate for financial sector loans in dollars and for terms of less than one year was 10.6% in the case of consumer loans for non-housing purposes and 8.4% in the case of business loans. The non-adjustable lending rates for consumer loans in local currency

Figure 1
URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

reached an average of 33% for terms of less than a year while the average was 16.2% for business loans.

The floating regime for the nominal exchange rate was maintained; the local currency depreciated by 1.1% in relation to the United States dollar over the 12 months ending in October 2006. Meanwhile, the overall real effective exchange rate showed a 2.1% appreciation in the 12 months ending in September 2006.

The economic growth rate was over 7%, and reflected production increases across all sectors. The manufacturing industry posted an outstanding performance, with growth of just over double the average rate for the economy. Transport and communications, construction and commerce, restaurants and hotels had annual growth rates in the first half of the year that were higher than 9%. Meanwhile, the electricity, gas and water sector posted a rate of just under 4%, owing to the drought that restricted hydroelectricity production and high oil prices. The agricultural sector grew at an annual rate of close to 3%. The forecast for 2007 is overall expansion of close to 6%.

The external component of demand for goods and services remained stable, while domestic demand continued to grow as household income recovered. Consumption rose by 8% and investment by 35%; public investment was up by 74% and private investment by 14%. Nevertheless, overall investment remained at low levels compared to other countries in the region.

Exports of goods showed a year-on-year increase in dollar terms of 19.5% between January and October, with the main individual destinations being Brazil (13.8%), the United States (13.2%), Argentina (7.5%) and the Russian Federation (6.3%). Imports of goods grew by 26% in dollar terms over the same period and reflected the growing share of the energy component (25% of total imports) and the continued demand for consumer and capital goods. The balance-of-payments current account showed a negative balance in the first half of the year, equivalent to 0.5% in terms of GDP.

The labour market continued to show signs of recovery. During the first three quarters, the employment rate in urban areas rose by 2.3 percentage points compared with the year-earlier period.[1] The impact of this increase on unemployment was moderated by the rise in the labour participation rate. The unemployment rate is expected to fall from 12.2% to 11.6% in 2006. Formal employment also continued to expand, from 63.1% of employed persons in the period from July to September 2005 to 65.3% for the same period of 2006. Labour conditions improved once again and the number of underemployed fell from 18.9% to 13.8% over the same period.

Real average wages rose by 4.4%, while the national minimum wage was adjusted by 20% over the year ending in July 2006 and amounted to approximately US$ 125. In mid-year, the government called for a new round of negotiations in the wage councils, which constitute a tripartite negotiating mechanism for the private sector whose decisions are binding, in order to establish the wage adjustments that will be valid until the end of 2007.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2004	2005	2006[a]
	Annual growth rates		
Gross domestic product	11.8	6.6	7.3
Consumer prices	7.6	4.9	6.2[b]
Average real wage	0.0	4.6	4.3[c]
Money (M1)	22.5	22.4	30.5[d]
Real effective exchange rate[e]	1.0	-9.8	-1.7[d]
Terms of trade	-3.4	-9.2	-1.9
	Annual average percentages		
Urban unemployment rate	13.1	12.2	11.6[c]
Central government overall balance/GDP	-2.5	-1.6	-1.8
Nominal deposit rate	5.5	2.3	1.6[f]
Nominal lending rate	26.0	15.3	10.9[f]
	Millions of dollars		
Exports of goods and services	4 296	5 093	5 840
Imports of goods and services	3 778	4 656	5 790
Current account	43	1	-406
Capital and financial account	263	794	3 648
Overall balance	306	796	3 242

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 2006.
[c] Estimate based on data from January to September.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average from January to October, annualized.

Meanwhile, urban poverty fell again, to reach 27.4% for the first half of 2006, compared to 29.2% at the end of 2005. This situation still has a particular impact on children under 12 years of age, as approximately 50% of them live in poverty. Implementation of the National Social Emergency Plan continued and it reached over 75,000 beneficiary households throughout the country. These households receive a social wage or “citizen’s income” equivalent to about US$ 55 per month. In addition, about 5,000 persons have had access to temporary work, with a wage equivalent to double the social wage; these two benefits may not be combined. In this context, efforts are being made to move forward in establishing mechanisms to help people out of poverty, with activities that include the establishment of productive microenterprises.

[1] An extended household survey was carried out in 2006, with national coverage and monthly data collection. In view of differences in coverage with the previous survey, comparability was maintained by taking the data for towns of 5,000 or more inhabitants throughout the country and comparing the latest monthly figures available with data from the quarter of the previous year centred on the relevant month.

Mexico and Central America

Costa Rica

Growth in the Costa Rican economy accelerated from 5.9% in 2005 to 6.8% in 2006, driven mainly by buoyant exports. Against this backdrop, the open unemployment rate eased from 6.6% to 6.0%, while year-on-year inflation fell by four percentage points to around 10%, which was below the target rate of 11% set by the central bank for 2006.

Despite increased tax revenue and measures to improve the management of public funds, the primary surplus was not large enough to bring about a reduction in the overall central government deficit, which actually widened from 2.1% to 2.4% of GDP. Moreover, stronger economic growth put pressure on the balance of payments, raising the current account deficit to 5.0% of GDP.

According to ECLAC estimates, real GDP growth should be 5% in 2007. On the inflation front, measures adopted to improve the monetary policy transmission mechanism and strategy for attracting deposits, and the replacement of mini-devaluations with an exchange-rate band, are expected to maintain the positive trend seen in the last few months of 2006. The central government deficit will be between 2.5% and 3.0% of GDP, while the balance-of-payments current account deficit is likely to shrink slightly in GDP terms.

Economic growth was unaffected by the uncertainty surrounding the electoral process. In February 2006, former President Óscar Arias Sánchez was re-elected (20 years after last holding that office) and took office in May. Nonetheless, lack of parliamentary support for government initiatives hindered implementation of a number of important economic policy measures, including approval of the tax reform bill and ratification of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).

The central government fiscal deficit remained under control at 2.4% of GDP, despite the failure to get the new tax reform bill through parliament. Current income rose on the buoyancy of the economy and improvements in tax administration. Nonetheless, wage and salary hikes, in conjunction with interest payments, produced an even larger increase in expenditure.

The central bank's key monetary policy goal in 2006 was to reduce inflation, and measures were therefore taken to absorb the liquidity overhang generated the previous year. The monetary policy interest rate was gradually lowered to discourage speculative capital inflows and their subsequent monetization; and new monetary absorption instruments, such as Monetary Stabilization Bonds (BEM), were introduced through an electronic deposit facility.

Nonetheless, the relative stability on the foreign-exchange market, which was achieved through the mini-devaluation policy and opening of the capital account, continued to hinder the effectiveness of monetary policy by fomenting increased money creation and reducing the impact of domestic interest rates on the level of monetary aggregates.

Higher-than-forecast economic growth, together with positive expectations in relation to the country's economic situation, excess liquidity in the financial system and the reduction of interest rates, particularly on home loans, combined to push lending to the private sector beyond the central bank's target. This could cause an increase in the delinquency rate at some future date, particularly if a slowdown occurs in economic activity. Lending was concentrated in construction, tourism, housing and consumption.

As for foreign-exchange policy, in mid-October a decision was taken to replace the system of daily adjustments to the nominal colón/dollar exchange rate with an exchange-rate band. This band was initially set at a narrow range of 3%, but is to be expanded over time. Under this scheme, the central bank will allow the exchange rate to be determined by the market, while reserving the right to intervene if the price of transactions among foreign-exchange intermediaries and between them and the central bank rises above or falls below the intervention rates. The initial value of the buy rate was established at 514.78 colones per dollar and will be raised by 0.06 colones each business day. The initial sell rate was set at 530.22 colones per dollar, rising by 0.14 colones each business day. These parameters can be changed by the board of directors of the central bank as and when prevailing financial and macroeconomic conditions so warrant.

The Costa Rican economy expanded by more than expected (6.8%) in 2006, and the national open unemployment rate fell from 6.6% to 6.0%, mainly owing to robust export growth. At the sector level, there was an increase in value added in manufacturing, in particular reflecting production by firms operating in free trade zones and enterprises exporting primarily to Central America. Activity was also stronger in the construction and agriculture sectors. In addition, telecommunications services (especially mobile telephones and the Internet), international tourism, financial intermediation services, commerce and international business services (production of computer programs, call centres and business assistance centres) continued to post high growth rates.

The introduction of a new method for calculating the consumer price index (CPI) from August onward helped to reduce the reported inflation rate, since the index based on the new shopping basket gives greater weight to transport and less to food and beverages. Thus, the reduction in fuel prices caused a steeper fall in inflation, while higher food prices had less of an impact on the overall CPI. The colón also appreciated in nominal terms.

The balance-of-payments current account posted a deficit of 5.0% of GDP. The shortfall on the income account, reflecting a higher level of repatriated profits and dividends associated with foreign direct investment (FDI), and a widening of the trade gap (10% of GDP) outweighed the net surplus recorded on trade in services. Nonetheless, capital inflows from abroad were sufficient for net monetary reserves to grow by US$ 760 million.

Total FDI flows in 2006 amounted to US$ 1.61 billion, equivalent to 7.4% of GDP, with the property and financial sectors absorbing larger volumes of investment, along with agribusiness, commerce and tourism.

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.1	5.9	6.8
Consumer prices	13.1	14.1	9.4 [b]
Average real wage [c]	-2.6	-1.9	1.2 [d]
Money (M1)	12.5	13.7	20.6 [e]
Real effective exchange rate [f]	3.3	1.4	-0.4 [g]
Terms of trade	-3.8	-3.8	-3.8
	Annual average percentages		
Urban unemployment rate	6.5	6.6	6.0
Central government overall balance/GDP	-2.7	-2.1	-2.4
Nominal deposit rate	10.0	10.4	10.0 [h]
Nominal lending rate	21.2	22.0	21.3 [h]
	Millions of dollars		
Exports of goods and services	8 612	9 721	11 248
Imports of goods and services	9 175	10 740	12 220
Current account	-796	-964	-1 120
Capital and financial account	876	1 358	1 880
Overall balance	80	393	760

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 2006.
[c] Average wages reported by workers covered by social security.
[d] Estimate based on data from January to September.
[e] Year-on-year average variation, January to November.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Year-on-year average variation, January to October.
[h] Average from January to October, annualized.

Goods exports grew overall by 19% in f.o.b. terms. The strongest-growing agricultural products included banana, pineapple and mango; prominent among manufactured exports were integrated circuits, electrical microstructures and components for modular circuits, and exports to the Central American Common Market. Import growth of 15% was concentrated in raw materials and intermediate goods, largely reflecting the country's rising oil bill and foreign purchases by companies operating in its free trade zones.

El Salvador

The Salvadoran economy grew by 3.8% in 2006, to record the largest increase in per capita GDP (2.1%) of the last nine years. Growth was driven by reconstruction work following the damage caused by hurricane Stan and the eruption of the Ilamatepec volcano in 2005, supported by better performances in the agriculture and services sectors. Public and private investment grew on a sustained basis. The large flow of family remittances (18% of GDP) helped to fuel private consumption and ease the impact of rising international oil prices on the current account, which posted a deficit of 4.6% of GDP. The fiscal deficit of the non-financial public sector (NFPS) was 2.9% of GDP, and inflation averaged 3.9%.

Economic growth of 4% is forecast for 2007, with improvements expected in the agriculture, services and construction sectors, thanks to the execution of funds from the Millennium Challenge Account (US$ 461 million in five years). In addition, inflation is expected to be between 3% and 4%, thanks mainly to the stability of international oil prices. The main economic policy goal is to maintain fiscal discipline. Over the next three years, the Government of El Salvador plans to promote other key areas for the country's development in order to make the most of the commercial facilities provided under the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which entered into force in 2006. As a first step, to promote competitiveness and productivity, measures will be taken to attract new investments and improve the business climate; and secondly, the Government will support manufacturing industry through a productive development fund created in October 2006.

The tax burden amounted to 13.4% of GDP in 2006, following the tax reform that made it possible to obtain additional revenue, involving changes in the tax code, the pensions law, the law on banks and the income tax law, supported by more widespread supervision of taxpayers by the Internal Revenue Service and customs. This has made it possible to provide support to over 26,000 extremely poor families from 32 municipalities in the framework of the Solidarity Network programme. Current expenditure grew mainly as a result of public consumption, an increase in net interest payments and pension payments. Subsidies totalling US$ 19 million were provided to transport (eliminated in mid-2006), the consumption of electric energy (US$ 37 million) and liquefied gas (US$ 72 million). These measures, compounded by reconstruction expenses, generated an NFPS deficit of 2.9% of GDP, similar to the 2005 figure. For 2007, the government is expecting fiscal accounts to improve, thanks mainly to the creation in September 2006 of a trust fund to manage the pension system debt, payments of which are expected to shrink from 1.9% to 0.2% of GDP between 2006 and 2007.

The external public debt amounted to US$ 5.577 billion as of September 2006. This reflects bond issues totalling US$ 656.3 million: US$ 617.6 million on international markets and US$ 38.7 million on the domestic market. The domestic public debt, meanwhile, amounted to US$ 2.647 billion. Consequently, the total public debt edged downwards to 44.8% of GDP (0.7% less than in the same period in 2005).

Nominal interest rates rose in 2006, following the rise in international rates. Real interest rates on 180-day deposits increased from -1.2% in 2005 to 0.7% in 2006, while rates on loans with maturities of up to one year rose from 2.1% to 3.8% in the same period. Nonetheless, the stronger economic performance elicited an expansion of bank credit to both the private and public sectors. At year-end the Central Reserve Bank was holding net international reserves of US$ 2.146 billion equivalent to just 4.7 months of goods and services imports, slightly less than 12 months earlier.

The favourable prices for certain agricultural products boosted sector performance in 2006 for the second year running. Reconstruction works (started following the natural disasters that occurred in October 2005), in conjunction with increased demand for housing, fuelled growth in the construction sector (5.4%). There were better performances in the tourism, mining, electricity, financial, and transport and communications sectors, and also in manufacturing industry, which grew by 2.5% in 2006, compared with 1.4% in 2005. Public investment was up by 3.5%, and private investment by 5.6%. All of this contributed to GDP growth of 3.8%.

Annual inflation averaged 3.9%, slightly less than the 2005 figure, thanks to the stabilization of oil prices and a reduction in the cost of gasoline, transport, and food products in the last few months of 2006. On the wages front, there was a 10% increase in the minimum wage paid to workers in the manufacturing, commerce and services sectors, and a 4% rise for maquila workers. In January 2006, public-sector employees received their first pay hike since 1998 (ranging from 3% to 10%). Nonetheless, despite economic growth, the open unemployment rate rose as a result of job losses in the maquila sector.

Despite stronger prices for several agricultural products, including coffee and sugar, the export sector grew by just 4.7% —only slightly above the 2005 figure. Exports of non-traditional goods expanded by 23.2%, while traditional exports grew by 17%, having increased by 40% in the previous year. Maquila production continued to decline (10.5%) in 2006.

Imports were more buoyant and expanded by 12%, with foreign purchases of consumer goods, intermediate goods and capital goods growing by 21%, 18% and 11%, in that order, compared with their 2005 levels. In contrast, maquila imports declined by 10%. The oil bill is estimated to have reached a level of US$ 1.1 billion in 2006, up by US$ 200 million on the 2005 figure.

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	1.8	2.8	3.8
Consumer prices	5.4	4.3	3.9 [b]
Average real wage	-1.4	-4.5	-0.5
Money (M1)	8.5	9.3	14.4 [c]
Real effective exchange rate [d]	0.2	1.4	0.5 [c]
Terms of trade	-1.0	0.0	-1.9
	Annual average percentages		
Urban unemployment rate	6.5	7.3	5.7 [e]
Central government overall balance/GDP	-1.1	-1.0	-0.4
Nominal deposit rate	3.3	3.4	4.3 [f]
Nominal lending rate	6.3	6.9	7.5 [f]
	Millions of dollars		
Exports of goods and services	4 412	4 573	4 832
Imports of goods and services	7 151	7 652	8 463
Current account	-632	-786	-832
Capital and financial account	579	728	961
Overall balance	-53	-59	129

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 2006.
[c] Year-on-year average variation, January 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.

As a result, the current account deficit of the balance of payments represented 4.5% of GDP, similar to the previous year's figure.

The net flow of foreign direct investment was down by 23% on the previous year's figure at US$ 397 million. In contrast, tourism promotion linked to the National Tourism Plan 2014, generated income in excess of US$ 700 million. The economy once again received a considerable boost from additional family remittances (18% more than in 2005) sent home to mitigate the consequences of natural disasters. These foreign exchange inflows (US$ 3.339 billion) supported private consumption and financed 94% of the merchandise trade deficit (18.3% of GDP).

Guatemala

The Guatemalan economy grew by 4.6% in 2006, thanks to burgeoning private consumption fuelled by family remittances (10% of GDP). In October, annual inflation stood at 3.9%. As the deficit on the current account of the balance of payments (4.3% of GDP) was easily financed, it was possible to continue to build up international reserves. For 2007, the authorities project GDP growth of 5.1%, inflation between 4% and 6% and a government deficit of 1.8% of GDP.

Macroeconomic stability provided a favourable backdrop between the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) to enter into force; and this supported the largest inflow of foreign direct investment (FDI) of the last five years. Nonetheless, the oil bill increased once again on the back of higher oil prices.

The government deficit (originally forecast in the budget at 1.8% of GDP) was raised to 2.5%, to allow execution of the rehabilitation and reconstruction programme created to mitigate the damage caused by tropical storm Stan, which had devastated the country in October 2005. Nonetheless, the outturn was similar to the previous year's deficit of 1.5% of GDP, since revenue proved higher than expected and a number of expenses were postponed.

Total revenue grew following the implementation of laws to strengthen tax administration, mainly to combat evasion. In this context, the Fiscal Register of Printing Presses was established, a number of taxation procedures were channelled through bank accounts, and tax administration powers were widened. Steps were also taken to reduce smuggling and tax avoidance. Thanks to these laws and advances in tax administration, government income grew by 7% in real terms, despite a reduction in revenue arising from the tariff cuts mandated by CAFTA-DR. As a consequence, the tax burden rose to 10.2% of GDP in 2006 (compared with 9.6% in 2005). Nonetheless, its low level continues to hamper the execution of social projects.[1]

Total expenditure grew by 7% in real terms, with capital expenses increasing by 9%, reflecting greater execution of physical investment projects and capital transfers to autonomous and decentralized institutions. In addition, resources were allocated in line with the priorities established in the peace agreements.

The external public debt amounted to US$ 3.932 billion, or US$ 200 million more than in 2005. Loan disbursements to the Central Government by the Central American Bank for Economic Integration (CABEI) and the World Bank, were channelled into productive activities.

Monetary policy continued to be aimed at establishing explicit inflation targeting, for which a range of 5%-7% was set for 2006. With a view to reducing inflationary pressures, the authorities raised the monetary-policy interest rate by 0.25 percentage points three times during the year, such that in November the rate stood at 5%. Between January and October, nominal deposit and borrowing rates averaged 4.7% and 12.7%, respectively, while the corresponding real rates were -0.4% and 7.6%.

In addition, to reduce exchange-rate volatility, the Bank of Guatemala purchased US$ 130.5 million on the foreign-exchange market, in keeping with its exchange-rate rule. Government deposits at the Bank of Guatemala were kept above the programmed level, thereby making it possible to mitigate monetization. Despite this support and open-market operations, the broad money supply expanded by 5.5% in real terms, while credit extended to the private sector grew by 6.5%. As a consequence of

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1 The Central American Institute for Fiscal Studies (ICEF) believes the tax burden should be raised to 15% of GDP, since it stood at 10% of GDP in 1995 (according to the new national accounts that will be available in 2007).

the stability of the nominal exchange rate and reduction in domestic inflation, in September the real effective appreciation of the quetzal (3%) eased in comparison with the 2005 figure (7%).

The banking system operated with relatively stable interest rates in 2006, and there was a significant credit expansion, in addition to portfolio quality improvements and a reduction in non-performing assets. In October, Banco del Café (BANCAFÉ) was intervened having failed to fulfil the restructuring programme agreed upon with the authorities, following problems with a subsidiary.[2] This measure had no effect on the rest of the country's banks and financial institutions. Small deposits are protected by the Savings Protection Fund (FOPA).

The economic growth that had begun in 2004 strengthened further, with GDP expanding by 4.6%, the highest rate recorded since 1998, and per capita GDP increasing for the second year running. This performance was assisted by private consumption growth, fuelled by income from family remittances, and the buoyancy of private investment especially in construction. The boom in this sector (29%) was supported by an expansion of credit in real terms. Transport and communications also displayed buoyant growth, along with the banking, insurance and real estate sectors. In contrast, agriculture and manufacturing grew more slowly.

The inflation target for 2006 will be met, since the estimated rate of 5% coincides with the floor of the target range. This result is thanks to the stability of the nominal exchange rate and a good agricultural season, unlike 2005 which was impacted by tropical storm Stan. Although there was no unemployment survey in 2006, the employment rate is likely to have risen on the back of the country's economic growth. The rate of unemployment remains high nonetheless. The minimum wage rose by 5% in real terms.

On the external front, the current account deficit was 4.3% of GDP, similar to the previous year's figure, with the trade gap in goods and non-factor and factor services (15.9% of GDP) being offset by a surplus in current transfers equivalent to 11.6% of GDP.

Merchandise exports grew by 10%, which was less than in 2005, while imports grew by a similar amount (12.5%). Traditional exports were flat. Coffee exports fell by 9% as a result of smaller volumes shipped, with the price unchanged. In contrast, cardamom exports grew as a result of larger shipments, while sugar and oil exports expanded on the back of higher prices. Banana exports were down because of lower prices, despite a larger volume exported. Non-traditional exports expanded by 8%, boosted by sales of rubber, flowers and other products. In contrast, exports of most other non-traditional products declined. External sales to Central American countries remained buoyant, while maquila exports partially recovered.

With regard to imports of intermediate goods, the oil bill increased sharply to account for almost 20% of total purchases. Purchases of inputs destined for the construction sector remained strong, while capital goods imports were led by purchases of machinery and equipment for the manufacturing industry.

Income on the capital and financial account totalled US$ 1.7 billion. Foreign direct investment attained a level of US$ 325 million and was mainly channelled into the communications, commerce, and chemical industry sectors. As the capital inflow more than covered the current account deficit, there was an overall balance-of-payments surplus (US$ 225 million).

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	2.7	3.2	4.6
Consumer prices	9.2	8.6	4.4 [b]
Average real wage	-2.4	-3.9	...
Money (M1)	10.3	14.5	18.6 [c]
Real effective exchange rate [d]	-3.0	-7.1	-3.5 [e]
Terms of trade	-0.9	-0.9	-1.9
	Annual average percentages		
Urban unemployment rate	4.4	...	...
Central administration overall balance/GDP	-1.0	-1.5	-1.5
Nominal deposit rate	4.5	4.6	4.7 [f]
Nominal lending rate	13.8	13.0	12.7 [f]
	Millions of dollars		
Exports of goods and services	4 546	4 939	5 478
Imports of goods and services	8 483	9 547	10 783
Current account	-1 211	-1 387	-1 533
Capital and financial account	1 819	1 642	1 758
Overall balance	609	254	225

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 2006.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Average from January to September, annualized.

2 An offshore subsidiary, Bancafé International Bank, had invested in Refco Capital Markets, a New York stock and bond brokerage firm, which filed for bankruptcy in October 2005.

Honduras

Economic growth accelerated to 5.6% in 2006 —its highest rate since 2000. This performance reflected strong domestic demand fuelled by an increase in family remittances (26% of GDP). Per capita GDP grew for the third year running, while the open urban unemployment rate fell to 5.2% and annual inflation to October dropped to 4.5%. External deficits on the trade account (25.5% of GDP) and in factor payments were comfortably financed, so international reserves continued to expand. Projections for 2007 see GDP growth of around 5% and inflation in a range of 5.5%-6.5%. A new programme is being arranged with the International Monetary Fund through the Policy Support Instrument (PSI), the aim of which is to coordinate macroeconomic and social policies, with an emphasis on poverty reduction.[1]

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) entered into force in a generally favourable macroeconomic climate, and relief on public external debt service began. Nonetheless, the oil bill continued to expand as a result of high oil prices.

In January, Manuel Zelaya took office as President; and in November, the Public Information Transparency and Access Act was passed to improve the workings of public governance.

The government deficit calculated on an accruals basis dropped to 1.0% of GDP from 2.7% in 2005, as a result of higher revenue and a lower level of public investment. Despite the tariff cuts mandated by CAFTA-DR, total income grew by 5.5% in real terms, thanks to increased income-tax receipts, larger revenues from sales taxes generated by more vigorous commercial activity, and an increase in grants. Current expenditure grew by 4.5% in real terms, partly reflecting the teachers' pay award, which will have a greater effect on fiscal accounts in 2007, and the temporary fuel subsidy which amounted to US$ 20 million. In contrast, real capital expenditure declined sharply (25%), given the low rate of execution on investment projects caused by implementation difficulties that are usual in the first year of a government, and problems in the disbursement of external loans. In the case of public enterprises, steps were taken to overcome management problems and address the reduction of capital investments by State-owned enterprises in the electric power (ENEE) and telecommunications (HONDUTEL) sectors.

The external public debt fell to US$ 3.066 billion from its late-2005 level of US$ 4.364 billion —a trend that mainly reflects debt cancellation granted by the World Bank and the IMF under the Multilateral Debt Relief Initiative (MDRI), and to a lesser extent by the Paris Club. As of June, the total relief on external public debt service amounted to US$ 111.6 million, of which US$ 73.6 million will be used to finance expenditure in the poverty reduction strategy.

Within the monetary programme, the central bank set an inflation target for 2006 in a range between 5.5% and 6.5%. The downward trend of inflation allowed the monetary authorities to lower the monetary policy interest rate from 7% at the start of the year to 6% in November. Nonetheless, average lending rates up to November

1 In order to guarantee the external debt forgiveness already approved, the Government would have to make certain commitments and use the corresponding funds to reduce poverty by 24 percentage points within 15 years, within the framework of the poverty reduction strategy.

fluctuated around 11% in real terms while real deposit rates approached 1.5%.

The accumulation of international reserve assets resulted in a higher level of open-market operations to sterilize monetization. As of September, an additional 4.084 billion lempiras in Monetary Absorption Certificates (CAM) had been issued; nonetheless, despite these measures taken by the authorities, money creation was up by 12.4% in real terms, and lending to the private sector had grown by 18.8%. Given the stability of the nominal exchange rate and reduction in domestic inflation, the lempira had appreciated by 2% in real terms to September.

The expansionary output cycle that had begun in 2004 intensified, with GDP growing by 5.6% and per capita GDP expanding by 3.1%. Growth was once again driven by domestic demand, particularly private consumption fuelled by family remittances. Gross fixed capital formation increased by 5.5% thanks to private investment, particularly in machinery and equipment; in contrast, public investment was sharply lower. The fastest growing sectors were agriculture (9%), followed by manufacturing industry, construction and financial services.

The year-on-year variation in consumer prices to November was 4.9%, the smallest increase since 1988. This achievement was assisted by maintenance of the nominal exchange rate, stable basic grain prices and the fuel subsidy in the first half of the year. In addition, the Government launched an international tender process for the purchase of petroleum products in an attempt to reduce the fuel prices paid by consumers.

Although the urban unemployment rate fell to 5.2%, underemployment remained very high, at around 30%. The minimum wage grew by 5% in real terms.

The balance-of-payments current account deficit narrowed to 0.2% of GDP (0.8% in 2005), reflecting two opposing movements: a deficit on goods and non-factor and factor services (29% of GDP) and a surplus on current transfers, mainly family remittances, which offset that deficit almost entirely. Export growth (11%) was similar to the previous year, but imports expanded by 20%. Traditional exports grew by 11% driven by the coffee sector (entirely due to volume increases), lower banana shipments (down by 5%) were offset by better prices. Non-traditional exports grew by 10% as a result of larger shipments of shrimps, melon and, above all, pineapples. Meanwhile, maquila value added rose by 12%.

Imports of raw materials, intermediate products and capital goods increased rapidly (25%), whereas the growth of consumer goods imports moderated to 6%. The first of these categories was affected by the oil bill (24% of total imports), whereas capital goods imports were boosted by a boom in machinery and equipment purchases for industry.

Foreign direct investment amounted to US$ 300 million, broadly in line with the previous year's figure, and was mainly channelled into the communications and transport sectors and maquila enterprises. There was a net outflow of other capital, so the financial account registered a surplus of US$ 232 million. Reserve assets grew by US$ 430 million.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	5.0	4.1	5.6
Consumer prices	9.2	7.7	4.9 [b]
Real minimum wage	0.8	5.8	5.2
Money (M1)	15.2	18.8	22.8 [c]
Real effective exchange rate [d]	1.7	0.0	-1.4 [e]
Terms of trade	-0.9	0.0	-3.7
	Annual average percentages		
Urban unemployment rate	8.0	6.5	5.2 [f]
Central government overall balance/GDP	-3.1	-2.6	-1.0
Nominal deposit rate	11.1	10.9	9.7 [g]
Nominal lending rate	19.9	18.8	17.7 [g]
	Millions of dollars		
Exports of goods and services	3 112	3 427	3 751
Imports of goods and services	4 546	5 165	6 110
Current account	-404	-67	-22
Capital and financial account	777	286	231
Overall balance	373	219	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 November 2006.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Data refer to May.
[g] Average from January to September, annualized.

Mexico

The Mexican economy posted growth of 4.8%, the highest rate since 2000, with all the components of aggregate demand rising strongly. Consumption was up by 6%, investment by 9% and exports by over 10%, driven by the motor vehicle sector which, in turn, powered the largest expansion in employment in six years and helped to narrow the balance-of-payment current account deficit (0.3% of GDP). Domestic demand received impetus from growth in credit to the private sector, migrant remittances and the upturn in employment, although real wages scarcely varied. The high petroleum price helped to keep the fiscal deficit low (0.3% of GDP), despite increased spending on concluding infrastructure works and on the presidential, legislative and state elections held in July. The close-run presidential elections and the difficult period that followed generated only a very slight financial volatility towards mid-year, with no major repercussions on the economy.

In 2007 Mexico's exports are expected to be affected by the slowing of the United States economy. Output growth and employment will slacken, so production growth will be driven by the domestic market, which will continue to be spurred by remittances and credit. GDP will expand by about 3.8%, inflation will come in at around 4% and the fiscal accounts will be close to balance.

The new government faces some broad challenges. In the short term, it must work to soften the impact on the Mexican economy of the United States slowdown, while dealing with competition from China in that market. The main challenges for the medium and long terms are to achieve a higher rate of economic growth and lay the foundations for sustainable economic expansion, increase formal job creation and reduce poverty, marginalization and income inequality. In order to move towards those objectives the government will have to formulate suitable public policies and put in place reforms on antitrust, fiscal, energy and labour affairs, among other matters. The government will need to devise a strategy for the complex task of consensus-building in Congress, which emerged from the legislative elections with a highly pluralistic make-up and showed some difficulty in achieving dialogue during the transition.

For the third year running, fiscal policy benefited from the high price for petroleum on international markets and, as a result, the heavy spending on infrastructure and on the electoral process did not affect the achievement of the fiscal target or the amortization of public debt.

Public revenues rose by 14% in real terms between January and September, owing largely to oil surpluses of over two percentages points of GDP (a price of US$ 36.5 per barrel was estimated at the start of the year, compared with the observed price of US$ 54.5). Oil income rose by 15% and represented 36.7% of all public revenues. Non-petroleum revenues climbed by 13.5%, thanks to increased receipts from value-added tax (VAT), income tax and import duties (15.4%), as well as the revenues of State-owned enterprises (9.3%), especially higher energy sales by the Federal Electricity Commission (CFE) and social security contributions.

The larger revenues underpinned an increase in public spending (12.6% in real terms between January and September), much of which went to personal services. These, in turn, increased 5.4% owing to wage rises in State-owned enterprises. Physical investment rose by 22.8% and represented 16.5% of programmable spending. Operating expenditure, which includes payments corresponding to Projects with a Deferred Impact on Public Expenditure

Recording (PIDIREGAS), as well as health services, education programmes and elections-related outlays, rose by 13.7%.

The public sector borrowing requirement, which encompasses all activities regardless of whether they are implemented by public or private agencies, stood at 0.8% of GDP, thus continuing the downward trend observed in the last few years. Mexico needs to expand its narrow tax base (10% of GDP) and reduce the reliance of its public revenues on oil income.

The federal government bought international reserves to pay maturing external debt to the tune of US$ 12.451 billion. This helped to bring the external debt stock down to 4.9% of GDP in September. Contrasting with debt reduction undertaken by the banking system and other financial institutions, domestic public liabilities increased as they were incurred to replace external debt and came to represent 14.4% of GDP up to September, 1.3 percentage points up on 2005.

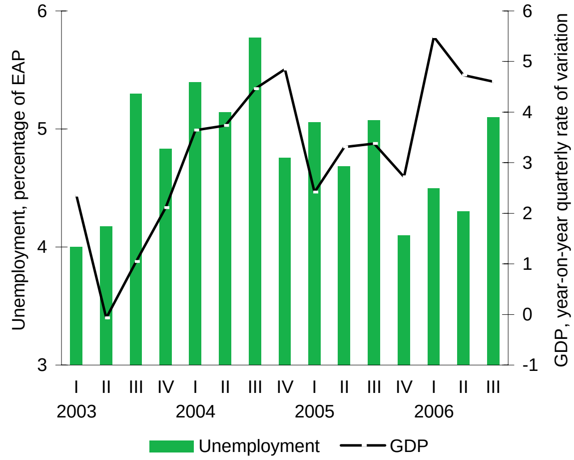
Monetary policy continued to be aimed at keeping inflation at around 3%. Thanks to global financial stability and the control of inflation in the first few months of the year, the "corto" (a compulsory level for commercial bank balances in the central bank) was kept unchanged and the monetary stance was maintained after a slight easing in April 2006, when the central bank set the anchor rate at 7%. The nominal lending rate[1] decreased from 8.6% at the end of 2005 to 7.3% in 2006.

The foreign-exchange market experienced episodes of volatility, caused by expectations of an international liquidity squeeze, combined with the domestic political situation. The dollar exchange rate reached 11.5 pesos before the elections, but returned to its previous levels of around 11 pesos thereafter. The nominal exchange rate was practically unchanged with respect to 2005 (10.9 pesos to the dollar), indicating an insignificant annual variation in the real exchange rate.

The process of remonetization led to a year-on-year expansion of 12.9% in real terms in the monetary base in September. The money stock (M1) expanded at a higher rate (11.7%) than the broad monetary aggregates. This was partly due to the falling opportunity cost of maintaining liquid financial assets. The annual interest rate on 28-day Treasury Certificates came down from 7.88% in January to 7.05% in October. The effects of this drop were seen in a 2.4% drop in residents' bank deposits (a component of M2).

Total financing for the non-bank private sector was up by 16.2% in real year-on-year terms in September 2006. The fastest-growing segments were mortgage and consumer loans, which surged by 75% and 46%, respectively. Corporate credit rose by 15.6%, mainly in the sectors of services and construction.

Figure 1
MEXICO: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

The Banco de México continued to use the mechanism for slowing the accumulation of international reserves and US$ 6.886 billion were sold up to mid-November. The reserve stock registered a net variation of US$ 74 million and reached US$ 68.595 billion. This result also reflected the Ministry of Finance and Public Credit's above-mentioned purchase of US$ 12.451 billion to prepay external debt.

The economy expanded by 4.9% between January and September and the annual figure is expected to be 4.8%. Gross fixed capital formation expanded strongly in the public and the private sector alike, thanks in part to reconstruction work to repair damage caused by Hurricanes Wilma and Stan in the south-east of Mexico at the end of 2005.

The expansion of production was driven by manufacturing and services, which posted growth rates of 5.3% and 5.1%, respectively, between January and September. Activity in metal products, machinery and equipment rose by 12.3%, powered mainly by goods linked to external demand, such as motor vehicles and motor vehicle parts, machinery and electronic equipment, and optical and medical apparatuses. The other branches of activity all expanded, except textiles, which registered a contraction of 2.6%.

[1] Refers to the cost of corporate borrowing, represented by the yield on corporate bonds issued on the money market.

The expansion in the motor vehicle industry was the result of the manufacture of new models, following large investments by vehicle assembly firms to modernize and build up productive capacity. From January to October vehicle production increased 28%, driven by exports, which were up 37% and contrasted with the 4% growth rate in production for the domestic market.

Growth in services was due to factors such as spending on communications during the electoral process, the expansion of telecommunications and an upturn in consumption and investment in tourist areas in the south-east of the country following Hurricanes Wilma and Stan. The expansion of manufactures, construction and consumption was reflected in increased activity in banking services, rentals and financial intermediation.

The impetus created by export growth and motor vehicle production helped to boost job creation, although the nationwide open unemployment rate barely came down, standing at 3.6% of the economically active population (EAP) between January and September 2006. The underemployed represented 8.2% of the EAP and 11.4 million people (26.8% of the employed population) were in informal employment. Formal job creation amounted to around 800,000 posts (according to the number of new registrations with the Mexican Social Security Institute), which was one of the highest figures since 1998 and represented an increase of 7%.

In the first three quarters inflation held steady within the range set by the monetary authority, with moderate fluctuations in the prices of fruit and vegetables and adjustments to administered prices at the start of the year. The rise in the prices of milk, premium gasoline and diesel as of November 2006 is likely to place inflation above 4% at the end of the year.

Despite signs of slacker demand in the United States market, external trade expanded at rates not seen since 2000. From January to September the value of merchandise exports climbed by 20%, reflecting both petroleum and non-petroleum exports (33.8% and 17.5%, respectively). As far as imports (up 17.9%) are concerned, intermediate and capital goods rose at similar rates (around 17%) reflecting, in the latter case, investment by the motor vehicle industry in 2005-2006. Rising private spending drove consumer goods imports (23.5%).

The performance of the external sector was associated with the increase (for the first time since 2002) in the share accounted for by Mexican exports in the United States' total imports, from 10.1% in January-September 2005 to 10.6% a year later. China's percentage share of the United States import market increased from 14.3% to 14.8% in the same period.

The volume of incoming family remittances has multiplied five-fold in the last 10 years. Up to September 2006 remittances represented US$ 17.443 billion and are projected to end the year at around US$ 24.0 billion, or 20% more than in 2005. Foreign direct investment is estimated at US$ 17.0 billion. The balance-of-payments current account deficit will have reached 0.3% of GDP at the end of 2006.

Table 1

MEXICO: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.2	3.0	4.8
Consumer prices	5.2	3.3	4.1 [b]
Average real wage [c]	0.2	-0.1	0.8 [d]
Money (M1)	13.9	11.2	15.5 [e]
Real effective exchange rate [f]	4.7	-3.1	-0.3 [e]
Terms of trade	2.9	1.9	3.9
	Annual average percentages		
Urban unemployment rate	5.3	4.7	4.6 [g]
Public sector overall balance/GDP	-1.0	-0.8	0.3
Nominal deposit rate	5.4	7.6	6.1 [h]
Nominal lending rate	7.2	9.9	7.7 [i]
	Millions of dollars		
Exports of goods and services	201 954	230 299	268 701
Imports of goods and services	215 372	242 599	282 223
Current account	-6 682	-5 039	-2 651
Capital and financial account	10 740	12 203	3 151
Overall balance	4 058	7 164	500

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 2006.
[c] Manufacturing industry.
[d] Estimate based on data from January to September.
[e] Year-on-year average variation, January 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 November, annualized.
[i] Average from January to May, annualized.

Nicaragua

Economic growth in Nicaragua slowed slightly from 4.0% in 2005 to 3.7% in 2006, owing to the reduced buoyancy of domestic demand (although this was partly offset by a strong increase in exports). The uncertainty caused by growing political tensions in a situation dominated by the presidential election in November was not conducive to private-sector consumption or investment. The country's economic performance was also affected by hikes in the international prices of oil and some industrial commodities, which resulted in a deterioration in the terms of trade (-1.9%), an energy crisis and an inflation rate of 9.1% for 2006.

The framework for economic policy was the financial support programme agreed with the International Monetary Fund (IMF) since December 2002. The fiscal deficit of the non-financial public sector (NFPS) after grants (1.1% of GDP) remained at much the same level, which made it easier to achieve monetary policy objectives. The balance-of-payments current-account deficit (14.2% of GDP) shrank by almost two percentage points. Greater net capital inflows were sufficient to finance the external imbalance and boost net international reserves. Also in 2006, the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI) made it possible to reduce external public debt from 109% of GDP to 86%, while debt servicing fell to just 5% of the value of exports.

Former President Daniel Ortega won the presidential elections and indicated that he would continue to implement recent economic policy with a view to consolidating the achievements made to date in terms of stability. He also announced that the authorities had contacted IMF with a view to presenting the government's economic programme and opening negotiations for a new agreement.

The results of fiscal policy were a key factor in economic performance. Thanks to the implementation of the Fiscal Equity Act and improvements in administrative efficiency, total central government revenues exceeded expectations. This combined with higher grants to finance the increase in expenditure (1.6% of GDP), which was caused by the demands of health and education workers, higher capital expenditure, the elections, increased public security and the urban public transport subsidy in Managua. Against that backdrop, the deficit after grants (1.6% of GDP) shrank slightly. As in 2005, uncertainty surrounding the election process and the associated low demand for public bonds made it difficult to use domestic financing.

The main aims of monetary policy were to build up international reserves, strengthen domestic and exchange-rate stability, and improve certain vulnerability indicators such as coverage of the monetary base and of imports. As a precautionary measure and to ensure it achieved its objectives in an electoral year, the central bank raised the legal reserve requirement from 16.25% to 19.25% in June. This was also designed to reduce the effects of the US$ 100 million or so that had come into circulation following the redemption or payment of compensation bonds, bills and other government paper, and to contain the expansion of credit and protect international reserves (which are key in maintaining confidence in the exchange-rate regime).

Export growth and the availability of external financial resources facilitated a build-up of international reserves without a loss of liquidity. This deepened the financial system as deposits and credit played a more important role in economic activity. At the same time, interest rates rose in line with higher international rates. The structure of the loan portfolio showed buoyant consumer credit, especially in the form of credit cards, mortgages and business loans.

The central bank maintained the exchange-rate policy of daily mini-devaluations consistent with a pre-announced annual devaluation rate (5%) to serve as an anchor for inflationary expectations. In the area of structural reforms, amendments to the Tax Code were approved.

Real production growth slowed from 4.0% to 3.7%. This was mainly due to the impact of the political uncertainty on investment and consumption decisions in the private sector and to high international oil prices, which affected the structure of production costs, caused breaks in electricity supply, raised domestic prices and cut disposable income. In contrast, strong growth in the world economy, particularly in the United States and the countries of the Central American Common Market (CACM) boosted external demand for the country's goods and services. This, combined with the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), contributed to the surge in exports. Other aspects of performance included wage increases, the credit boom, the hike in family remittances and the positive performance of the tourism sector.

Inflation is estimated to have stood at 9.1% in 2006, slightly lower than the previous year. The figure is nonetheless high, and this due to oil prices and the direct pressure they exert on domestic prices for fuel, electricity and transport.

In the external sector, the current-account deficit went from 16.3% in 2005 to 14.2% in 2006, thanks to the significant increase in current transfers (15.2% of GDP) —especially family remittances. The trade balance deficit (27.1% of GDP) is expected to expand slightly, while the income account deficit should remain about the same. Higher net capital inflows served to finance the current account deficit and build up net international reserves. Foreign direct investment (FDI) stood at US$ 290 million (5.4% of GDP), the highest level recorded since 1999. These resources were mainly channelled into free-trade zones and tourism.

Merchandise exports grew by 24%, and imports by 14.7%. The increase in exports was due to a good harvest and improved prices for some of the main traditional exports, such as gold, sugar, coffee and meat. Net exports were also buoyant from free-trade zones, especially maquila textile products. The rise in imports was in turn due to the significant rise in the oil bill and increased external purchases of consumer goods.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	5.1	4.0	3.7
Consumer prices	8.9	9.6	9.1 [b]
Average real wage	-2.2	0.2	1.8 [c]
Money (M1)	24.2	24.5	20.7 [d]
Real effective exchange rate [e]	1.9	-0.5	-0.3 [d]
Terms of trade	-1.9	-1.4	-1.9
	Annual average percentages		
Urban unemployment rate	9.3	7.0	...
Central government overall balance/GDP	-2.2	-1.8	-1.6
Nominal deposit rate	4.7	4.0	4.8 [f]
Nominal lending rate	13.5	12.1	11.5 [f]
	Millions of dollars		
Exports of goods and services	1 651	1 861	2 273
Imports of goods and services	2 827	3 292	3 738
Current account	-696	-800	-764
Capital and financial account	594	794	823
Overall balance	-102	-6	59

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 2006.
[c] Estimate based on data from January to September.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average from January to October, annualized.

Panama

The Panamanian economy grew rapidly (7.5%) in 2006 for the third consecutive year, thanks to burgeoning external demand generated by the vigorous expansion in the world economy, supported by increasingly strong domestic demand. The fiscal and external deficits (2.0% and 4.2% of GDP, respectively) were less than those recorded in 2005. Inflation dropped below 2%, back into its normal range, while nationwide unemployment fell by more than one percentage point to 8.6%. For 2007, GDP growth is expected to remain at around 7%, with domestic factors compensating for weakening external demand —given the forecasts for a slowdown in the world economy. In addition, improvements are expected in the labour market, together with a reduction in the fiscal deficit (1.5%) and low inflation (around 2%).

The key event in 2006 was the approval given in a plebiscite for an expansion of the Panama Canal. This project envisages the construction of a third set of locks allowing larger vessels to pass through the canal as from 2014. The estimated cost of the works is US$ 5.3 billion.

The fiscal outcome for the year was better than expected. The deficit of the non-financial public sector (NFPS) decreased from 2.5% to 2.0% of GDP, while the central government shortfall narrowed from 3.9% to 2.9%. Tax revenue was up by about 20%, thanks to buoyant economic activity and the effects of the fiscal and social security reforms of 2005. Revenues from non-recurring taxes also rose, following an agreement signed between the government and a port enterprise, and as a result of revenue generated by the Panama Canal Authority (US$ 105 million).

Fiscal expenditure grew strongly (13%), although by less than revenue (16%), reflecting the substantial increase in subsidies to the electric power sector and higher payments to service the floating debt. Although capital spending was up by a quarter, it was impossible to implement all the measures contained in the investment programme. Lastly, the "PanamaCompra" programme was launched to facilitate government procurement and promote transparency, efficiency and accountability in government accounts.

Up to September, the public debt had grown by US$ 400 million, but it is estimated to have decreased from 66.3% to 63.1% of GDP by year-end thanks to strong economic growth. The government continued to manage the public debt proactively in 2006, with a view to obtaining investment grade for its sovereign debt. Between November 2005 and January 2006, the external debt was restructured to extend maturities and reduce interest payments in an operation worth US$ 2.34 billion. In the middle of the year, the outstanding balance of Brady bonds (US$ 350 million) was repaid in advance; as these bonds represented the last vestiges of the country's debt default, their elimination has a profound symbolic significance.

Bank assets grew by 8%, reflecting favourable conditions among the leading external customers and the prosperous domestic situation. The soundness of the Panamanian market was backed by the purchase of the country's largest bank, Primer Banco del Istmo, by Hong-Kong Shanghai Bank Corporation (HSBC) for US$ 1.7 billion. This would seem to herald the start of a new phase in the consolidation of the banking sector regionwide.

The lending portfolio had expanded by roughly 18.7% until September, thanks to growth in its external component (26%). The fastest-growing categories of domestic credit were mortgage and consumer loans. As nominal interest rates remained broadly unchanged, lower inflation meant that real rates increased slightly.

The goal of trade policy was to strengthen the policy of opening markets for Panamanian products through free trade agreements. In particular, negotiations were resumed for free trade treaties with Costa Rica, Guatemala, Honduras and Nicaragua, which had been at a standstill for several years; negotiations for a free-trade agreement with Chile were resumed and completed; and the trade agreement with Singapore was ratified. The start of negotiations between the Central American countries, Panama and the European Union was also announced, with a view to reaching an association arrangement that would include a free trade agreement. Negotiations with the United States, on the other hand, came to a halt.

GDP growth of 7.5% reflected a favourable international situation and increases in employment and credit levels. Investment was particularly buoyant (15%), fuelled by a real estate boom —the fastest-growing sector was construction (25%). The construction of luxury tower blocks (with up to 100 storeys) in Panama City and residential tourism in several parts of the country are shifting the dynamic of the sector away from its reliance on domestic demand, since most of the buyers are foreigners. The mining sector also put in a strong performance as the supplier of construction inputs. Growth in manufacturing broadly matched the 2005 figure (3.0%), while agriculture reported better results, boosted by strong performances by products such as pineapple and watermelon, bovine livestock and bananas —the latter for the first time in several years. In contrast, the fisheries sector slipped back. Transport, particularly air and rail, posted positive figures as did the financial sector. Revenue from the Panama Canal was up by about 20%, more as a result of higher tolls than larger volumes transported. Trade also expanded significantly, largely thanks to the Colón Free Zone.

Inflation dropped back to normal levels in 2006, falling from 2.9% to 2% as an annual average, despite higher international oil prices. Food products, clothing and footwear, and health care were sectors that helped to ease price increases. Minimum wages were raised by 8% as from April, the first increase for three years. The rapid growth of the economy allowed the national unemployment rate to fall from 9.8% to 8.6%.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	7.5	6.9	7.5
Consumer prices	1.5	3.4	2.0 [b]
Real minimum wage	0.9	-3.0	3.6
Money (M1)	14.2	10.3	18.6 [c]
Real effective exchange rate [d]	5.0	2.4	0.9 [e]
Terms of trade	-1.9	-1.9	-2.9
	Annual average percentages		
Unemployment rate [f]	11.8	9.8	8.6
NFPS overall balance/GDP	-4.9	-2.5	2.0
Nominal deposit rate	2.2	2.7	3.6 [g]
Nominal lending rate	8.2	8.2	8.1 [g]
	Millions of dollars		
Exports of goods and services	8 817	10 736	12 351
Imports of goods and services	9 077	10 636	12 143
Current account	-1 061	-782	-716
Capital and financial account	666	1 456	616
Overall balance	-395	675	-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 2006.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Average from January to October, annualized.

The balance-of-payments deficit narrowed from 5.3% to 4.2% of GDP. Goods exports grew by 13%, thanks mainly to exports of non-traditional products such as watermelon and pineapple, and re-exports from the Colón Free Zone. Imports were substantially higher (20%) especially consumer goods and intermediate products. The surplus on trade in services increased by US$ 370 million, reflecting higher earnings from transport and tourism.

The financial account posted a surplus of US$ 615 million, largely as a result of foreign direct investment flows totalling US$ 2.5 billion, a record for the country. This amount is equivalent to 15% of GDP, and mainly reflects the sale of Panama's largest bank.

The Caribbean

Bahamas

The Bahamian economy grew by an estimated 4% in 2006, the highest rate in seven years. The country is experiencing a boom, after having successfully survived the ravages of the early years of the current decade, which dealt a blow to its two engines of growth: tourism and international financial services. Tourism was severely affected by the fall-out from the terrorist attacks of 11 September 2001 and financial services suffered from the fight against money-laundering, undertaken by the Organisation for Economic Co-operation and Development (OECD). Investment in tourist projects amounted to US$ 12.6 billion, not including the construction of high-cost residences. Personal banking services, wealth management and financial security for international investors benefited from a series of legislative reforms introduced in recent years, which are geared to modernizing both the regulations and the products, in order to enable the Bahamas to maintain a leadership position among low-tax jurisdictions.

Economic policy sought to bring the fiscal deficit down from 3.4% of GDP in 2002-2003 to below 2% in 2006 and close to 1% in 2008-2009. Consequently, the public debt, which stands at practically 40% of GDP, will fall to the desired level of 30% over the medium term, thereby guaranteeing stable growth and resistence to external shocks. In addition to other economic policies, the government expects to prepare a proposal for the introduction of a national medical insurance scheme, since there is no such system at present.

The budget for fiscal year 2006-2007 envisages a 14% increase in expenditure, including a rise in a reserve for debt repayment.[1] The budget gives priority, first and foremost, to security personnel (administration of justice and the police) and, second, to job creation and the provision of public services in education, housing and health. The higher tax collection is more than enough to offset the increase in expenditure. Fiscal revenue depends almost exclusively on import tariffs as well as stamp tax on financial and legal transactions. There are no income, company, capital or inheritance taxes. Higher-than-forecast revenues in the first quarter of the 2006-2007 budget, which covers the period July to September 2006, resulted in a 1.8% surplus on the current account, which enabled authorities to pay off the debt and balance their fiscal accounts.

The central bank closely monitors trends in external reserves, but has not modified its principal monetary policy instruments. Interest rates have remained stable for over a year. On the other hand, the credit increase was reflected in an increase in imports, which strengthened the fiscal situation, but worsened the balance-of-payments current account.

Bolstered by the boom in construction of residential as well as tourist projects, economic activity expanded strongly. According to information on mortgage loans, as of mid-2006, construction recorded 10% growth over the figure for the same period in 2005. Foremost among the tourist projects is the construction of the third phase of the Atlantis complex, which involves an investment in excess of US$ 1 billion. The government's policy objective is to establish in each of the inhabited islands an "anchor tourism project" around which development

[1] The fiscal year runs from July to June.

will be structured. Several of these projects contemplate investments that exceed US $ 1 billion and have already had an impact on the economy as a result of the real-estate transactions and legal and design services they entail.

Up to September 2006, visitor arrivals were down by 3.5%, owing to a decline in cruise-ship passengers, the category of tourist that contributes least to the local economy. Nevertheless, since the number of long-stay visitors increased (1.1%), as did tourist spending per person, a positive outcome is expected at the close of the year.

As regards international financial services, a sector estimated to account for 20% of economic activity, the number of banks and trust companies licensed to operate in the Bahamas increased from 249 in January 2006 to 256 in June of the same year. Tax revenue from licences to international corporations rose by 15% in 2006.

Prices varied only marginally. To August, 12-month inflation was 2.5%, practically the same as in the previous year, despite sharp rises in gasoline prices and electricity rates. Curiously enough, transport and communications rates declined. According to the annual labour survey, the unemployment rate fell from 10.2% in 2005 to 7.6% in 2006. The number of employed persons increased by 7,500 and the labour force by 3,000.

In 2006, the country's external accounts reflected the impact of large-scale investment projects. The surplus on the overall balance is expected to disappear almost entirely and the current account deficit is slated to increase. The deficit to June 2006 exceeded the figure recorded in 2005. In 2006, merchandise imports expanded and the surplus on the services account is expected to decline, reflecting corporate services contracted abroad. In addition, a surplus is projected on the capital account as a result of the sharp increase in foreign direct investment (FDI). By June 2006, FDI had already exceeded the amount of inflows in 2005. At the end of June, international reserves were equivalent to 18 weeks of merchandise imports, compared with 23 weeks in the previous year. Bearing in mind the 50% statutory requirement for liabilities in local currency, the amount of uncommitted reserves was US$ 16 million less than that recorded in 2005.

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	1.8	2.7	4.0
Consumer prices	1.9	1.2	2.5 [b]
Money (M1)	23.3	16.8	4.5 [c]
	Annual average percentages		
Unemployment rate [d]	10.2	10.2	7.6
Central government overall balance/GDP	-2.5	-1.9	...
Nominal deposit rate	3.8	3.2	3.3 [e]
Nominal lending rate	11.2	10.3	10.0 [e]
	Millions of dollars		
Exports of goods and services	2 722	3 004	2 804 [f]
Imports of goods and services	3 136	3 508	3 407 [f]
Current account	-305	-582	-703 [f]
Capital and financial account	489	493	768 [f]
Overall balance	184	-89	65 [f]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to August 2006.
[c] Year-on-year average variation, January to September.
[d] Includes hidden unemployment.
[e] Average from January to September, annualized.
[f] Data refer to first semester.

Barbados

In 2006, the Barbadian economy recorded 3.8% growth, almost the same rate as in 2005. In an attempt to moderate domestic demand, economic policy was geared towards improving the balance-of-payments position and containing inflation, which flared up in the second half of 2005. Thus, fiscal incentives and monetary restraint measures were applied and a further move was made towards liberalization of the exchange-control system.

Higher inflows from tourism are expected in 2007, owing to increased tourist arrivals because of the holding of the Cricket World Cup. This should contribute significantly to economic growth (4.2%) and a strengthening of the external accounts.

At the end of 2006, the fiscal deficit will be equivalent to 2.8% of GDP, which represents an improvement with respect to 2005 (3.9% of GDP). This deficit reflects expenditure on Cricket World Cup activities and the greater weight of the central government debt.

At the beginning of 2006, stronger fiscal adjustment measures were implemented. In the first six months of the year, receipts expanded significantly, which translated into a surplus on the current account as opposed to the deficit recorded in the same period in 2005. At the end of September, the current account again showed a deficit (B$ 74.2 million), albeit a smaller one than in 2005 (B$ 141 million). Fiscal revenue expanded, owing mainly to the higher tax receipts from international finance companies. Personal income tax also increased and revenue from property tax was up, following changes in assessment and the expansion of the tax base.

Expenditure rose by 4.7% in the first nine months of 2006, showing a certain moderation with respect to the same period in the previous year, when the increase was 11.1%.

In order to deal with the rise in energy costs, the government introduced a series of incentives to promote the use of more efficient technologies. For example, tax incentives were applied for the import and use of vehicles powered by diesel fuel, as well as the use of more efficient refrigeration systems and fluorescent lighting. In addition, a public-sector energy conservation programme was launched.

Another important fiscal measure for 2006 was the decision to increase the levy on extraregional imports, known as the cess, from 3% to 6%. This was done to protect domestic manufacturers and raise funds to finance the creation of a new export promotions entity. The cess is expected to be removed by April 2007.

The government continued its practice of borrowing on the domestic market in order to avoid further deterioration in the external accounts. Even though net borrowing overall was down by B$ 48 million compared with the previous year, net lending by the central bank to the government increased by B$ 128 million.

The tight monetary policy applied in 2005 was maintained in 2006 and appeared to be achieving its objective. The growth of credit to the private sector was 7.1% in 2006 compared with 15% recorded in the same period in 2005. Interest rates trended upwards in the first six months of 2006. Consequently, deposits in the banking system grew by a higher rate than in 2005.

Steps were taken towards greater liberalization of the exchange-control system. Residents who earn foreign exchange can now hold foreign currency accounts up to B$ 20,000 without prior authorization. Commercial banks are now entirely free to provide foreign exchange to residents wishing to travel within the Caribbean Community (CARICOM).

The sectors which contributed the most to economic growth were tourism, construction, manufacturing and financial services. Tourism picked up in the first three quarters of 2006 as value added rose by 1.9% after falling by 3.1% in 2005. Stay-over visitors increased by 4.0%. There were also significant increases in cruise ship arrivals, compared with the previous year.

For the second year in a row, construction was boosted by infrastructure spending in preparation for the Cricket World Cup. At 2.8%, growth in manufacturing was lower than the rate recorded in 2005 and was fuelled mainly by increases in the output of non-metallic mineral products and chemicals. Financial services received a strong boost with the registration of over 224 new international business companies in the first two quarters, six more than in the corresponding period in 2005.

Inflation continued to be a major concern as prices soared (7.7% in the 12 months to July 2006). This was partly due to high energy prices, which have continued to take a toll on the economy. With the decline in oil prices, inflation is expected to moderate.

The first three months of 2006 saw unemployment decline to 8.1%, down from 9.9% in March 2005. The labour force participation rate fell, however, from 68.9% to 67.3% (1.6 percentage points) during the same period.

The balance-of-payments current account deteriorated during the first half of 2006. For the year as a whole, however, the external current account deficit is expected to decline slightly to 11.7% of GDP, compared to 11.9% of GDP in 2005. This improvement could be attributed to the effects of the temporary increase in tariffs on extraregional imports. Increased spending on imports of fuel and capital goods, together with increased debt service payments, led to a decline in the net international reserves of the monetary authorities.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.8	3.9	3.8
Consumer prices	4.3	7.4	7.7 [b]
Money (M1)	22.1	6.8	7.1 [c]
Real effective exchange rate [d]	4.0	-1.3	-3.4 [e]
	Annual average percentages		
Unemployment rate [f]	9.8	9.1	8.1 [g]
NFPS overall balance/GDP	-2.2	-4.0	...
Nominal deposit rate	3.0	3.8	5.0 [h]
Nominal lending rate	7.4	8.5	10.0 [h]
	Millions of dollars		
Exports of goods and services	1 517	1 736	1 810
Imports of goods and services	1 820	2 080	2 172
Current account	-337	-411	-410
Capital and financial account	180	343	369
Overall balance	-157	-68	-41

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to July 2006.
[c] Year-on-year average variation, January to August.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to July.
[f] Includes hidden unemployment.
[g] Data refer to March.
[h] Average from January to August, annualized.

Belize

According to the most recent official estimate, economic growth of 2.7% is expected for Belize in 2006.[1] GDP in the first half of 2006 was only 0.9% higher than in the first half of 2005, but the quarterly calculations do not include new oil production and are based on partial information in the tourist sector. The high growth rates of the period from 2001 to 2004, which were accompanied by a sharp increase in external debt, were not sustainable. In addition to incurring direct debt to finance reconstruction work after the passage of several hurricanes, the government had to absorb the debts of state enterprises and privatized public utility companies. Adjustment had begun in 2005, with public spending cuts and tax increases giving rise to more moderate growth (3.5%). At the same time, a successful international bond issue improved the management of external accounts, but a general strike weakened the government's position and revenue collection diminished.

In 2006 there was virtually no access to new international capital and the government encountered great difficulty with debt servicing, despite the primary surplus achieved by maintaining and extending the fiscal adjustment measures which it had begun to apply in the previous year. At times, international reserves were less than the equivalent of one month of imports. Solidarity-based assistance, first from Taiwan province of China and then from the Government of the Bolivarian Republic of Venezuela, helped Belize to avoid having to suspend payments. In August, the government announced that it would seek cooperation from private creditors for debt restructuring, as it would not be possible to comply with the 2007 payments schedule; negotiations are expected to begin before the end of the year. Economic activity continued to grow slowly, thanks to the onset of oil production, demand for tourist services and high prices for agricultural exports.

Fiscal policy was mainly oriented to tackling the high level of public debt. Spending, especially capital spending, grew more slowly and a series of measures was adopted to make revenue collection more efficient. In July a new 9% general sales tax was established, one percentage point higher than the tax it replaced. The primary surplus is expected to rise from 1.3% in 2005 to 3% in 2006 as a percentage of GDP. The global deficit will probably stand at 3.3% of GDP in 2006, compared to deficits of over 10% a few years previously and close to 6% in 2004 and 2005. The fiscal adjustment was not backed by a loan from the International Monetary Fund, but assistance in the form of policy-based lending is being requested from the Inter-American Development Bank and the Caribbean Development Bank.

Monetary policy was intended to temper demand, in order to slow imports and reduce the balance-of-payments current-account deficit. The legal reserve requirement was raised twice, by one percentage point each time. The commercial banking system reacted as expected, offering foreign currency to the central bank. The central bank also acquired treasury bills in order to resell them to the commercial banks and thereby have more control over liquidity. Domestic credit fell slightly as a percentage of GDP.

As for foreign-exchange policy, the fixed parity of two Belize dollars for one United States dollar was maintained, but the central bank gave greater facilities to tourist service providers in terms of accounts in foreign

1 Government of Belize, *Economic and Financial Update*, August 2006.

currency. The authorities understand that devaluation of the Belize dollar would not help to solve the problem of debt payment. It would not benefit tourism, as it would bring prices down but also destabilize society, thereby increasing insecurity. Nor would it contribute significantly to improving the competitiveness of sugar or bananas, among other commodities. A recent mission from the International Monetary Fund also concluded that Belize does not have an urgent problem in terms of price competitiveness.

Fiscal and monetary contraction was reflected in the modest economic performance. One notable exception was the beginning of oil production at Spanish Lookout by Belize Natural Energy Ltd. Electricity production increased by 27% thanks to the commissioning of the hydroelectric plant in Chalillo. The completion of the dam meant a drop in construction activity. Primary production showed varying results: output of sugar cane increased, while citrus fruits and banana production fell. Price trends, however, were favourable in these subsectors.

Consumer prices showed an upward trend, influenced by fuel prices. The 12-month variation to August 2006 was 4.9%, which is much higher than usual in Belize. An open unemployment rate of 9.4% is estimated for April 2006, which is much lower than the 11% of the previous year. This result is due in part to a reduction in the labour participation rate, from 59.4% to 57.6%, and in part to the creation of some 4,000 new jobs.

External accounts benefited from the favourable sugar and citrus prices, in addition to the beginning of oil exports, which amounted to US$ 60 million, or 15% of total exports in the first half of the year. Crude was sold to Central America, significantly expanding trade relations with that subregion. The value of external sales of goods increased by almost 30% in the first half of 2006, compared to the same period in the previous year. Income from tourist services also showed a positive trend and remittances increased. Nevertheless, the balance-of-payments current account deficit continued to be high. In view of the fact that almost no new international loans were disbursed, the net inflow to the financial account declined sharply, which led the government to meet with creditors to restructure the debt.

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.6	3.5	2.7
Consumer prices	3.1	3.7	4.9
Money (M1)	4.1	7.4	9.5 [b]
	Annual average percentages		
Unemployment rate [c]	11.6	11.0	9.4 [d]
Central government overall balance/GDP	3.1	24.3	16.1
Nominal deposit rate	5.2	5.4	5.8 [e]
Nominal lending rate	13.9	14.3	14.2 [e]
	Millions of dollars		
Exports of goods and services	542	620	681
Imports of goods and services	629	716	758
Current account	-150	-152	-144
Capital and financial account	119	170	117
Overall balance	-31	18	-26

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Year-on-year average variation, January to August.
[c] Includes hidden unemployment.
[d] Data refer to April.
[e] Data for February, annualized.

Cuba

Data provided by the National Bureau of Statistics show that the Cuban economy continued to grow strongly in 2006 (12.5% as compared to 11.8% in 2005), fuelled by a burgeoning external sector and more widely available foreign exchange. This result was assisted by the expansion of trading relations with the Bolivarian Republic of Venezuela and China; and, once again, a substantial increase in the sale of professional services abroad, particularly health care, and larger exports of nickel and medicines. In contrast, foreign-exchange earnings from international tourism grew more slowly. The robust growth rate also reflected a substantial increase in construction investment. Although sugar exports were down in volume terms, improved terms of trade and the larger volume of nickel sales helped to generate a trade surplus in goods and services. Earnings from medicine exports were another contributory factor. Surpluses on the current and capital accounts allowed for an increase in international reserves and a slight reduction in the balance of outstanding debt, which also improved its maturity profile.

The fiscal deficit narrowed to 3.4% of GDP, compared to 4.2% in 2005; but monetary liquidity increased (6%) despite an increase in retail sales. Inflation gathered pace somewhat, rising to 5.5% from 4.2% in the previous year.

No new economic reform measures were introduced in 2006, and economic policy continued to focus on combating corruption, strengthening electricity services, reviving the transport sector, making progress with programmes to improve housing and living standards, and expansion of social programmes. Progress was also made in terms of control and centralization of foreign currency, better control of foreign trade and budgetary resources, and supply improvements in the distribution system for regulated goods, mainly in the electrical appliance and services sectors.

The budget deficit narrowed to 3.4% of GDP as revenues rose faster (35.5%) than expenditure (31.9%). Tax revenues increased, while non-tax income declined. The former included higher revenue from indirect taxes, such as taxes on circulation and on sales and services. The direct taxes generating the most revenue included those levied on profits and labour-force use, and social security contributions. Nonetheless, personal income taxes declined because of the restrictions placed on own-account work. Expenditure on public health, education and sports grew significantly.

Monetary policy continued to focus on consolidating measures implemented earlier, such as de-dollarization of the domestic economy, exchange-rate stability and centralized use of foreign exchange. Wage and pension increases in 2005 helped to fuel retail sales and increase liquidity in the hands of the population. No changes in interest rates or the nominal exchange rate were reported during the year: the official exchange rate remained pegged at one Cuban peso to the dollar, while the commercial rate was held at 24 Cuban pesos per dollar.

Financial relations between Cuba and two Swiss banks, UBS and Credit Suisse, were broken off following pressure from the Government of the United States as part of a tightening of the economic embargo, whose direct and indirect damage since 1959 is officially estimated at US$ 86 billion.

Aggregate supply grew as a result of a substantial increase in imports of goods and services, including larger purchases of foreign capital and intermediate goods, although consumer goods also grew significantly. On the demand side, expansion was driven more by domestic demand than the external sector, while investment grew faster than consumption, and household spending outpaced government consumption.

At the sector level, construction grew strongly (30%) for the fourth straight year, thanks to the completion of 100,000 homes following a long period in which housing construciton had been flat. Another contributory factor was the completion of substantial civil works in the health and education sectors, and the development of tourist infrastructure.

The agriculture sector declined again (-7%) despite abundant rainfall and the absence of hurricanes. This reflected lower levels of crop farming activity, both sugar and otherwise, while livestock activity recovered on the back of higher production of milk, eggs, pigmeat and chicken. Output of rice and bananas also expanded, while citrus fruit production declined.

Mining grew by just 1.5% after two years in the doldrums, with the extraction of nickel, petroleum, gas and, in particular, construction materials all increasing.

Following several years of stagnation, manufacturing industry grew by 2% despite the reduced sugar harvest; chemicals, oil refining and medicines all recorded higher levels of activity.

Among basic utilities, production increased in the electricity, gas and water sectors. The programme to modernize the national electric power system was boosted, and power outages were significantly reduced.

Community, social and personal services again performed strongly, while transport, storage and communications, commerce and financial services all expanded more modestly.

The slow growth of tourist services in 2006 reflects greater competition from other Caribbean destinations, shortcomings in hotel and extra-hotel services and a revaluation of the convertible peso. Health tourism fell back sharply, since patients are being treated by Cuban health-care staff in their own countries.

Inflation (5.5%) picked up as a result of price rises among various products and services on the formal market, such as eggs, rice, coffee, electricity and inter-provincial transport fares. There were no wage increases; and the unemployment rate held steady at 1.9%, unchanged from its level in the previous two-year period.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product [b]	5.4	11.8	12.5
Consumer prices [c]	2.9	4.2	5.5
	Annual average percentages		
Urban unemployment rate	1.9	1.9	1.9
State fiscal balance/GDP	-3.5	-4.2	...
	Millions of dollars [d]		
Exports of goods and services	5 630	7 200	10 443
Imports of goods and services	5 838	7 963	10 352
Current account	116	7	141
Capital and financial account	800	500	500
Overall balance	916	507	641

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Figures provided by the National Statistical Office of Cuba and undergoing assessment by ECLAC.
[c] Local-currency markets.
[d] Calculated using the official rate of 1 peso to the dollar.

The balance of payments recorded a surplus on the current and capital accounts, and international reserves expanded. The trade account was in surplus as a result of exports of goods and services growing faster (45%) than imports (30%). Merchandise exports were up by 27% and foreign goods purchases by 30%. Exports of generic and biotechnological medicines moved up to second place behind nickel.

The merchandise terms of trade improved thanks to a rise in the international prices of nickel and sugar, despite higher foreign prices for oil and food products.

Exports of services grew by 53% —mainly professional services provided to other countries— while tourism growth was sluggish. Family remittances fell back sharply in the wake of restrictions imposed by the Government of the United States.

Net factor service payments increased because of interest payments on the external debt and profit repatriation by foreign firms established on the island.

Dominican Republic

At the end of 2006, the economy of the Dominican Republic had chalked up five consecutive quarters of growth in double digits. For the year as a whole, overall growth is estimated at 10%. Investment spending has now replaced consumption as the driving force behind such growth. Another particular characteristic is that the expansion has occurred mainly on the back of goods production activities, and to a lesser extent on the strength of service sectors. Despite higher international oil prices, inflation is expected to fall to 4.5%. In 2007, economic growth is predicted to be more subdued, at around 7%. Also, the fiscal reform being debated in Congress is expected to increase the government's tax revenue by about 1.5% of GDP for the following year.

Public spending policy was clearly expansionary. In an electoral year, one of the most buoyant components was current expenditure. Subsidies to the energy sector (electricity and liquefied petroleum gas) resulted in larger transfers, which represented the equivalent of almost 1% of GDP. At the same time, capital expenditure and the payment of financial liabilities rocketed during the year. At the end of the third quarter, central government investment was 71% higher than the year-earlier period, and amounted to almost 7% of GDP. Spending on public works, mainly channelled into the construction of the metro in Santo Domingo, was the determining factor behind the above-mentioned expansion. In the same period, external debt-servicing rose sharply: by 66% for interest payments and 158% for capital payments.

Fiscal revenues, on the other hand, were lower than expected. Despite the increase in selective consumption taxes (on beer and cigarettes), tax revenues did not generate the projected amount of resources. Furthermore, the anticipated elimination of the import tax (known as "banking commission") planned under the Dominican Republic-Central America-United States Free Trade Agreement, meant that, up to October, income from that source was 64% lower than in the year-earlier period. This source's contribution to tax revenues therefore fell from 12.4% to 3.9%. Despite growth in total central government income, the fiscal target of an overall surplus of 300 million Dominican pesos set at the beginning of the year will thus not be reached in 2006. A central government deficit equivalent to 1% of GDP is expected.

In 2006, the central bank maintained its strategy of controlling inflation. This strategy made it possible to achieve an inflation rate below the 6% to 8% band fixed in the agreement concluded with the International Monetary Fund early in the year and set out in the monetary programme. Open-market operations remained the main instrument of monetary policy. The policy of issuing certificates was in keeping with the economy's liquidity requirements and satisfied the demand for money arising from economic performance.

The increase in the central bank's balance of certificates did not involve any rises in interest payments. The lower financial cost of outstanding securities, resulting from successive reductions in their interest rates, facilitated a fresh decrease in the quasi-fiscal deficit from 3% of GDP at the end of 2005 to 2.6% by late 2006.

Achieving economic targets contributed to maintaining a stable foreign-exchange market. Above and beyond variations in the demand for foreign exchange (especially towards the end of the third quarter), the exchange rate remained fairly stable, which promoted higher capital inflows to the economy. In nominal terms, in October the Dominican peso experienced a 1.4% depreciation against the United States dollar compared with December 2005, while in real terms a slight appreciation of 0.1% was observed.

Growth in productive activity was buoyant throughout the year, with the growth rate stepping up in the second quarter. The main activities that contributed to aggregate GDP growth were the manufacturing, agricultural and construction sectors, both in terms of their high rate of activity and their large share in total GDP. Commerce and communications also made a significant contribution to the overall growth rate.

Production in free zones declined once more in 2006, as the aggregate value of textiles shrank again. Petroleum refining showed an upturn in the third quarter, after posting negative growth up to June.

Cumulative inflation between January and September stood at 3.5%, which means it should close the year at around 4.5%. The general growth rate of domestic prices was determined by the impact of international oil prices. Without that factor, inflation would be 2.7% for the whole of 2006. This demonstrates the low level of growth of domestic prices.

The rise in output had an effect on the labour market. The open unemployment rate fell for the first time in three years, to come in at half a percentage point lower than in 2005. The weighted average of nominal minimum wages in the public and private sectors remained at the same levels as in 2005, when the nominal increase was about 30%.

At the end of the third quarter, the balance-of-payments current account posted a deficit of 1.6% of GDP, which is consistent with greater demand for imported goods in the light of the higher economic growth rate.

During the first nine months of the year, merchandise exports showed slow growth due to the fall of just under 6% in the value of exports from free zones (which make up 70% of the total). Non-maquila exports, on the other hand, soared (35.4%, mainly thanks to higher volumes and prices for exports of ferronickel). Growth in imports was entirely attributable to demand from the non-maquila sector of the economy. The most buoyant import goods in 2006 were raw materials, whose cumulative value up to September was 25% higher than the previous year. This is substantially different from 2005, when consumer goods were the fastest growing sector of merchandise imports. In the first three quarters of 2006, the oil bill was 25% higher than the year-earlier period, and represented 11.7% of total imports (compared with 10.7% in 2005).

Thanks to family remittances, net current transfers maintained their upward trend, and up to September amounted to 13% more than in the same period the previous year. At the same time, the balance-of-payments capital and financial account posted a positive balance, which was mainly due to the significant rise in foreign direct investment (18.8%), which was mainly channelled into the tourism sector and new projects in free zones.

At the end of the third quarter, international reserves had swelled significantly. By then, net available resources (US$ 959 million) were 28% higher than the minimum agreed with IMF for the entire year. In September, gross international reserves amounted to US$ 1.988 billion.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	2.7	9.2	10.0
Consumer prices	28.7	7.4	5.2 [b]
Real minimum wage	-15.0	18.7	-7.0
Money (M1)	46.5	10.1	15.8 [c]
Terms of trade	-1.2	-1.0	-1.0
	Annual average percentages		
Urban unemployment rate [d]	18.4	18.0	16.4 [e]
Central government overall balance/GDP	-4.0	-0.7	-1.0
Nominal deposit rate	21.1	12.7	10.3 [f]
Nominal lending rate	30.3	21.4	16.3 [f]
	Millions of dollars		
Exports of goods and services	9 440	10 056	10 537
Imports of goods and services	9 101	11 333	12 393
Current account	1 047	-500	-807
Capital and financial account	-868	1 205	957
Overall balance	179	705	150

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 2006.
[c] Year-on-year average variation, January to November.
[d] Includes hidden unemployment.
[e] Data refer to April.
[f] Average from January to October, annualized.

Guyana

The economy grew by only 1.3% in 2006 following the 3% contraction recorded in 2005, which was caused by the impact of the floods. Contrary to all predictions, the August elections took place in an atmosphere of calm, which eased political tensions and restored confidence among stakeholders. The central government's fiscal position deteriorated, reflecting higher election-year spending and capital outlays on preparations for the 2007 Cricket World Cup. Debt relief within the framework of the multilateral debt reduction initiative helped to increase the overall balance-of-payments surplus, despite the increased current-account deficit.

Fiscal policy was directed towards strengthening tax administration, in particular the collections systems, and tax reform. This included establishing the legal and administrative system to cater for the introduction of value added tax (VAT) in January 2007. With respect to outlays, the multi-year agreement for increases in teachers' salaries will introduce an element of stability and reduce budget vulnerability to unforeseen salary rises in this sector.

Nevertheless, the overall fiscal deficit widened by more than 35% to approximately 13% of GDP. Revenues grew by a remarkable 9.6% thanks to improved assessment methods and more effective tax and tariff administration. Expenditure rose more sharply, however (20.6%). Above all, capital expenditure linked to the renewal and expansion of infrastructure ahead of the Cricket World Cup increased significantly. Debt forgiveness within the framework of the multilateral initiative provided some compensation. The government is seeking substantial relief from the Inter-American Development Bank, the country's foremost creditor.

The Bank of Guyana raised the benchmark 91-day treasury bill by 11 basis points during the first half of the year, in order to mop up local currency and manage liquidity within the banking system, as well as to trigger an increase in interest rates. This measure was aimed at reducing the risk of inflation and other risks linked to depreciation of the local currency. However, it had little impact as the principal lending rate remained unchanged and the average lending rate actually dropped by 66 basis points.

Broad money was up 14.1% as of the end of the third quarter of 2006, compared with the same quarter of 2005. Credit to the private sector increased by 13%, maintaining the recovery from 2005. There was an expansion in credit for productive activity in manufacturing and agriculture.

The net international assets of the banking system rose sharply during the year. Commercial banks' net foreign assets grew by almost 6%, reflecting increased investments abroad for portfolio diversification and more favourable returns in some instances. The central bank's net foreign assets expanded substantially owing to reduced foreign liabilities following debt relief. With these developments, international reserves cover more than three months' imports of goods and non-factor services.

Economic activity picked up slightly (1.3%) in 2006, driven by construction and personal services. Growth in construction (4.5%) was buoyed by public investments in infrastructure, including roads and bridges, and the building of social housing in the context of an urban renewal programme. Work also continued on the stadium for the Cricket World Cup and accommodation for visitors to this event. Nevertheless, shortages of cement and higher costs for labour and other inputs put a damper on the sector's performance.

Agricultural growth was very sluggish (0.4%) owing to the impact of further floods in February 2006. Sugar production was up by 5.1% and rice by 8.1%. Manufacturing maintained steady growth of 2%, reflecting increased production of pharmaceuticals, paints and fabrics. The increase in the production of alcoholic beverages was partly counterbalanced by a fall in non-alcoholic beverages. Mining output contracted by 15.5% following the closure of the Omai gold mine in 2005, which was only partially offset by increased output of diamonds. The forestry and fisheries sectors posted growth rates of 4% and 1%, respectively. Ironically, shrimp production decreased significantly at a time when Guyana had just secured a lucrative market for this product in the United States.

Inflation diminished to 5.3% in the 12 months to September 2006, compared with 8.2% en 2005. Food shortages abated somewhat and, though high, oil prices moderated in the latter part of the year.

Public-sector employment contracted in 2006 following a 5.4% cut in staff by the State-owned Guyana Sugar Corporation (GUYSUCO) as part of its restructuring initiative. Public-sector wages increased in line with the 7% rise granted in December 2005. Private-sector wages were also expected to improve as a result of the demand for labour in the construction sector.

The overall balance of payments improved in 2006 with the surplus increasing by almost 15%. Net capital inflows (including errors and omissions) showed robust growth of 67%, although the current account deficit widened by 70% owing mainly to higher imports and a marginal decline in exports.

On the merchandise account, imports of intermediate and capital goods registered a strong increase associated with new and ongoing public- and private-sector projects. On the export side, earnings from sugar and rice increased thanks to higher prices, although export volumes actually declined. Bauxite receipts were up, owing to higher export volumes and an 11.3% rise in prices.

Growth in tourist receipts thanks to the Cricket World Cup and improved productivity in sugar and rice linked to competitiveness measures should contribute to a stronger balance-of-payments position in 2007.

Table 1

GUYANA : MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	1.6	-3.0	1.3
Consumer prices	5.5	8.2	5.3 [b]
Money (M1)	19.6	10.2	11.5 [c]
	Annual average percentages		
Central government overall balance/GDP	-6.9	-14.2	...
Nominal deposit rate	3.4	3.4	3.3 [d]
Nominal lending rate	16.6	15.1	15.0 [d]
	Millions of dollars		
Exports of goods and services	748	706	694
Imports of goods and services	852	990	1 100
Current account	-70	-150	-255
Capital and financial account	27	158	264
Overall balance	-43	8	9

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

[a] Preliminary estimates.

[b] Twelve-month variation to July 2006.

[c] Year-on-year average variation, January to October.

[d] Average from January to September, annualized.

Haiti

In 2006 the Haitian economy recorded positive GDP growth (2.5%) for the second year running, driven by favourable, albeit modest, trends in both aggregate supply and aggregate demand. The construction and manufacturing sectors both showed signs of recovery, as did investment and consumption. In the external sector, imports and exports both continued to strengthen; the fiscal deficit narrowed to 0.3% of GDP, and inflation was 11.8%. Trends in the energy sector and in terms of job creation were less certain, however.

The municipal elections held on 3 December 2006 concluded the process of establishing national and local authorities that began in February with the presidential and legislative elections. Institutions and bodies are now in place at all levels. Nonetheless, the volatility that still persists in the political and social arenas could damage the emerging stability and undermine reconstruction efforts.

The new Government's record for its first seven months shows a set of positive economic and political signals, in which the clear renewal of external cooperation is playing a key role. In addition, the adoption of general policy guidelines (agreed in July 2006 at the International Conference for Haiti's Economic and Social Development) together with the country's eligibility for the Heavily Indebted Poor Countries (HIPC) Debt Initiative (decision point) and the Poverty Reduction and Growth Facility (PRGF) are also events that will affect its economic development.

GDP growth of around 4% is forecast for 2007. Approval by the World Bank and the International Monetary Fund (IMF) of Haiti's eligibility for the HIPC Debt Initiative and PRGF will provide the authorities with immediate funds amounting to US$ 42 million. With regard to the poverty-reduction conditionalities of the HIPC Debt Initiative, the authorities have committed to a set of programmes and policies to reduce poverty as set out in the interim version of the Poverty Reduction Strategy Paper. The results obtained from reductions in both the level of outstanding debt and its service will depend largely on progress over the next three years and the preparation of a final document expected for late 2007.

Although the International Conference for Haiti's Economic and Social Development, held on 29 and 30 November 2006 in Madrid, did not provide substantial fresh financial resources, it did strengthen the framework of cooperation between the country's authorities and the international community in their joint search for improved national leadership, especially in terms of coordination. In that regard, Haiti has recently been chosen by the European Union to pilot a new common programming strategy with its member countries.

The new Government's economic policy maintained the guidelines laid down in the interim period, largely because of ongoing agreements with IMF and the World Bank. The fact that Haiti has attained the decision point in the HIPC Debt Initiative means that additional funds will be available from the PRGF (US$ 109.5 million over the next three years).

For the first time in the last three decades, public finances generated a primary surplus (0.4% of GDP), thanks to a strong performance on the income side (8.3% growth in real terms) and a cut (-4.1%) in expenditure, despite a significant increase in capital spending (17.5%). Rather than reflecting a deliberate policy, the fact that programmed expenditures are being underexecuted is indicative of limited absorption capacity and delays in executing public works because of disagreements regarding protocols with the donor community.

Although the authorities have kept monetary policy tight with the aim of maintaining the downward trend in inflation, recent signs have suggested greater concern for economic revival, such as a slight reduction in the interest rate on bonds issued by the Banque de la République d'Haïti (BRH). Real lending rates in the commercial banking sector remain high (11.6%), however, while real returns on deposits are negative (-7.3%).

There have been worrying developments in the national financial system such as the recent crisis of the country's third commercial bank (Société Caraïbéenne de Banque S.A., Socabank), which was intervened by BRH in September 2006. Against this, there have also been positive signs such as a degree of restructuring of the banking sector following the takeover by Société Générale Haïtienne de Banque S.A. (Sogebank) —leader of the national financial system in asset terms— of Banque de Promotion Commerciale et Industrielle S.A. (Promobank), another national financial institution.

The significant real reduction in the level of net domestic credit (-13.7%) reflected contractions in both of its components: public (-16.4%) and private (-11.3%). Net international reserves at the BRH amounted to US$ 126 million, considerably above forecast. The central bank intervened on the foreign- exchange market with purchases totalling US$ 65 million during the year, nearly half of this between April and May 2006.

Thanks to the substantial flow of foreign exchange in the form of remittances and external cooperation, the Haitian currency appreciated significantly in fiscal 2006, by 9.1% in nominal terms and 16.9% in real terms. Net disbursements for debt service totalled US$ 25 million, reversing the negative trend of the last four years.

Output growth of 2.5% in 2006 allowed for an increase in per capita GDP (0.7%) for the first time in five years. Maquila enterprises were showing signs of revival (export volumes were up by 29%), as were the construction industry (7%) and commerce. Nonetheless, a downturn in the electric power sector (28%) had an adverse effect on various productive sectors, while agriculture again showed some momentum, albeit less than in 2005.

Inflation was three percentage points lower, despite the major effect of the rise in international oil prices on domestic prices. The real minimum wage fell by 12% —a cumulative decline of 50% over the last three years— while the outlook for employment remained generally gloomy, except for unskilled labour where temporary jobs in highway infrastructure works and various services have been created under labour-intensive programmes sponsored by the Government and by non-governmental organizations.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	-3.5	1.8	2.5
Consumer prices	20.2	14.8	11.8 [b]
Real minimum wage	-14.7	-13.2	-12.0
Money (M1)	13.2	14.7	12.0 [c]
Terms of trade	-2.8	-3.7	-5.6
	Annual average percentages		
Central government overall balance/GDP [d]	-3.3	-0.5	0.2
Nominal deposit rate	10.9	3.5	6.0 [e]
Nominal lending rate	34.1	27.1	28.6 [e]
	Millions of dollars		
Exports of goods and services	510	597	655
Imports of goods and services	1 547	1 760	2 096
Current account	-56	55	-36
Capital and financial account	91	-4	124
Overall balance	35	51	88

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 2006.
[c] Year-on-year average variation, January to September.
[d] Overall balance calculated below the line.
[e] Average from January to October, annualized.

The current account deficit on the balance of payments came in at US$ 35.8 million (equivalent to 0.8% of GDP), with current transfers (remittances and grants) of US$ 1.4 billion offsetting the trade deficit. The capital account produced a surplus of US$ 124 million (including errors and omissions), despite capital flight totalling US$ 64 million, thanks to an unprecedented level of foreign direct investment (US$ 46 million) and net resource transfers to the authorities.

Exports grew modestly in nominal terms (7%) and only covered 45% of the trade deficit (US$ 1.441 billion). Imports grew strongly (20%) partly owing to the economic recovery, but mainly because of a 3.7% deterioration in terms of trade caused by increases in the prices of hydrocarbons and certain food products on international markets.

Jamaica

Jamaica's economic performance improved with respect to the previous year (2.6% in 2006, up from 1.4% in 2005), with the upturn led by agriculture and tourism. Mining slowed and construction and manufacturing stagnated. Favourable growth prospects, the decline in the inflation rate and rising capital inflows allowed the Bank of Jamaica to lower interest rates and shorten its maturity structures. This led to a decrease in the yield on treasury bills, which eased the burden of interest payments on public debt. The external sector performed well, since the capital and financial account surplus more than offset the current account deficit and the stock of net international reserves therefore increased.

The main objective of Jamaica's economic policy is to reduce the public debt stock, which is an obstacle to growth and development. The containment of current and, especially, capital expenditure in the early months of the year underpinned the government's efforts to narrow the fiscal deficit (from 3.3% in fiscal year 2005-2006 to 2.4% for 2006-2007).[1] Achieving this goal requires expenditure restraint and, to a lesser degree, measures to broaden the tax base and improve tax administration. In the first six months of the fiscal year the government remained on track towards its target, with the fiscal gap at 1.2% of GDP. This was mainly thanks to expenditure control efforts, since fiscal revenues fell below target.

Expenditure trends were attributable to the reduction of capital spending and, to a lesser extent, of current expenditure, reflecting lower-than-expected wage payments. In May, the government signed an agreement with the Jamaica Confederation of Trade Unions with a view to controlling the expansion of the wage bill for 2006-2008. Revenues reflected delays in pension-fund tax payments and a decrease in consumption tax receipts owing to the closure of the country's only cigarette factory. The delay in disbursements of grants from the European Union was also a contributing factor.

The deficit was financed from domestic sources. External debt obligations were serviced through the issue of a Eurobond. The debt stock rose from US$ 842 billion to US$ 884 billion between January and August 2006.

The Bank of Jamaica adopted a conservative monetary policy in the first quarter of the year and switched to an expansionary stance thereafter. The factors prompting the change of course included favourable international conditions, rising international reserves and exchange-rate stability (the exchange rate depreciated by 5% between September 2005 and the same month in 2006), as well as a tight fiscal policy, the economic upswing and the fall in the rate of inflation.

In April the monetary authorities shortened open-market instrument maturities and cut interest rates. The central bank eliminated 280- and 365-day instruments and turned its focus to shorter-term paper (with maturities of 30 to 180 days). It reduced interest rates by 650 and 700 basis points, respectively, on 30- and 180-day instruments between April and September. This was reflected in a reduction in the rates on treasury bills (690 basis points from March to September 2006), which reduced the cost of servicing domestic debt towards late 2006.

The decline in the central bank's key rates did not lower the cost of credit and thus failed to stimulate demand for loans. Personal loans constituted the largest component of private credit (46% of the total).

1 Fiscal year 2005-2006 runs from 1 April 2005 to 31 March 2006.

The pace of economic activity rose with respect to 2005, led mainly by agriculture and tourism. The performance of agriculture (down 7.3% in 2005 and up 14% in 2006) reflected the sector's recovery following the damage caused by natural disasters the year before. The improvement was most visible in traditional export products including bananas, coffee and citrus. Mining slackened its pace of growth slightly with respect to the previous year (2.8% in 2005 and 2.5% in 2006). The sector benefited from rising external demand, but the positive effects of increased capacity in bauxite plants were partly offset by technical difficulties in alumina refineries.

Manufacturing contracted by 1.3% in 2006 (after shrinking by 1% in 2005), reflecting the closure of Jamaica's only cigarette factory and the decline in cement supply in the first two quarters. Construction (7% in 2005 and -2.0% in 2006) reflected the cement shortage, which caused postponements and delays in infrastructure projects. Tourism saw a strong upswing of 14% in 2006, as a result of favourable international conditions, improved marketing efforts and the hosting of leisure events.

The rate of inflation trended downwards to reach single-digit levels (12.9% and 5.8% in 2005 and 2006), thanks to moderate price rises for food products, lower international oil prices and exchange-rate stability. Food and drink was the most influential component in prices (69% of the total), followed by housing and other home expenditures (14% of the total). The rate of unemployment fell slightly, reflecting the overall performance of the economy.

The balance of payments posted an overall surplus, since the current account deficit was more than offset by the capital and financial account surplus. As a result, the stock of net international reserves rose by US$ 240 million.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	0.9	1.4	2.6
Consumer prices	13.7	12.9	5.8 [b]
Money (M1)	19.0	15.7	14.3 [c]
Real effective exchange rate [d]	-1.4	-7.6	0.2 [e]
	Annual average percentages		
Unemployment rate [f]	11.7	11.3	11.2 [g]
Central government overall balance/GDP	-4.8	-3.3	...
Nominal deposit rate	6.7	5.9	5.3 [h]
Nominal lending rate	25.1	23.2	22.1 [h]
	Millions of dollars		
Exports of goods and services	3 899	4 095	4 447
Imports of goods and services	5 272	6 077	6 570
Current account	-509	-1 079	-1 117
Capital and financial account	1 203	1 308	1 357
Overall balance	694	229	240

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 2006.
[c] Year-on-year average variation, January to August.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Estimate based on data from January to July.
[h] Average from January to September, annualized.

The increased current account deficit (US$ 1.117 billion in 2006 compared with US$ 1.079 billion in 2005) was attributable to a large rise in merchandise imports (16%) which cancelled out the gains in exports of traditional goods and growth in the tourist sector. The capital and financial account surplus reflected the rise in private capital flows (US$ 674 million in 2006, up from US$ 582 million in 2005), mainly to the tourism sector, and the resources generated by an international bond issue.

Suriname

Average growth of the Surinamese economy since 2003 has exceeded 6% per year. The estimate for 2006 is for 6.4% growth, while a 5.3% expansion is forecast for 2007. This significant expansion is due to the favourable international context and robust demand for gold, alumina and petroleum, its three main exports. Political stability has contributed to an increase in foreign investment, while fiscal restraint and monetary expansion have boosted domestic demand. Per capita GDP is expected to exceed US$ 4,000, more than double the level recorded at the beginning of the decade, helped by the real appreciation of the Suriname dollar (SR$).[1]

President Venetiaan completed the first full year of his third term in 2006, and in August the National Assembly approved the 2006-2011 five-year plan. Several decisive economic policy initiatives, such as the public-sector reform and sectoral development programmes, are being implemented within the framework of projects conducted jointly with the Inter-American Development Bank or bilateral cooperation with the Government of the Netherlands.

According to estimates, a fiscal surplus equivalent to 1.4% of GDP will be recorded in 2006 (compared with a deficit of 1.3% of GDP in 2005), since government revenue outstripped expenditure. Tax contributions by primary product exporters were up thanks to high prices on international markets. The government benefited from the transfer of windfall profits earned by the central bank in past financial years, which had been pending. Receipts from excise taxes on tobacco and non-alcoholic beverages also increased.

Expenditure was much lower than projected. The only item that pushed up expenditure was the compensatory bonus for fuel prices awarded to civil servants since the end of 2005.

The Government has taken advantage of these circumstances to relieve the burden on the public debt. Domestic debt increased nominally owing to higher issues of treasury bonds, among other factors. Practically no new external debt was contracted, however, and the authorities made efforts to solve the problem of arrears. An agreement was reached with the Italian insurance company Servici Assicurativi del Commercio Estero (SACE) in September 2006 for the forgiveness of the interest and half of the principal of a longstanding loan. This negotiation is expected to pave the way for the solution of other outstanding international loans and improving access to the international capital market. Overall, public debt diminished from almost 40% of GDP to 36%, while external debt declined from 22% to 20%.

There was practically no change in the exchange-rate policy and the rate remained at between SR$ 2.7 and SR$ 2.8 to the United States dollar. The monetary authorities adopted a more expansionary policy. The interest rate on treasury bonds and the rate paid for the reserve requirement in local currency fell from 12.5% to 10%. In turn, the reserve requirement was reduced from 30% to 27%. The portion of the reserve requirement that can be met with mortgage loans was raised from 7% to 8%. The maximum value of such mortgage loans increased from SR$ 70,000 to SR$ 100,000. As a result, the commercial banks were able to reduce the interest rates and increase the flow of credit to the public.

Growth in output was driven by exports of primary products. Bauxite production was up by 20% following investments in the new mine at Kaaimangrassie. Meanwhile, the Rosebel gold mine processed 31 tons of gold ore, 40% more than in the previous year.

[1] Inflation was close to 10% and the rate of the local currency against the United States dollar remained fixed.

According to projections by the National Planning Office, the most buoyant sectors after mining are construction and transport. The latter has benefited from the progressive liberalization of air transport. According to preliminary estimates, the agricultural sector also expanded. Rice production, an important activity for employment creation, expanded by 22%.

Heavy rains in central and southern regions of the country in May caused several rivers to overflow their banks. Such high water levels had not been seen since 1949. Almost 200 indigenous and Maroon communities in the interior of the country were flooded out. More than 30,000 people (6% of the population) were affected. Since the communities in question are for the most part self-sufficient and scarcely participate in the monetary and formal economy of the country, the disaster did not have any impact on GDP, except in the budding tourism sector. Substantial assistance from abroad was received in the form of emergency food aid and resources for reconstruction work on almost 30 damaged schools.

Prices varied by 5.6% between October 2005 and October 2006. This represented a return to a more stable trend after the rapid inflation in 2005 (15.8%).

Curiously, unemployment rose from 8.4% in 2005 to 11% in 2006. This trend may be attributable to two factors: in the first place, the redefinition of the labour survey, based on the 2004 population census, could mean that the time series is no longer compatible. Second, the floods in the interior of the country may have led inhabitants of self-sufficient communities to seek work in the city in order to earn money for food.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	7.7	5.7	6.4
Consumer prices	9.3	15.8	5.6 [b]
Money (M1)	13.4	18.3	13.8 [c]
	Annual average percentages		
Central government overall balance/GDP	-0.8	-2.1	...
Nominal deposit rate	8.3	8.0	6.8 [d]
Nominal lending rate	20.4	18.1	15.8 [d]
	Millions of dollars		
Exports of goods and services	1 012	1 416	1 820
Imports of goods and services	974	1 541	1 795
Current account	-59	-144	72
Capital and financial account	90	163	-2
Overall balance	32	19	70

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 2006.
[c] Year-on-year average variation, January to September.
[d] Average from January to September, annualized.

The balance of payments shows a sharp expansion in alumina and gold exports and a considerably lower increase in imports, which resulted in a surplus on the current account for the first time in five years. The figure for the capital account balance corresponds almost exactly to the total of errors and omissions but with the opposite sign. The central bank's net international reserves strengthened and stood at 2.6 months of import cover in September 2006, compared with 1.6 months in September 2005.

Trinidad and Tobago

The Trinidad and Tobago economy will register 12% growth in 2006. This is the twelfth consecutive year of economic expansion and the second year of double digit growth in the past five years. The main driving force continues to be the energy sector, which recorded 16.9% growth in exploration and production of oil and natural gas and a 37.4% increase in refining of these products.

The economic policy combines fiscal expansion and a tight monetary policy, with the latter aimed primarily at counteracting the effects of the former. In fiscal year 2005/2006, total expenditure plus net lending was 39% higher than in the preceding year.[1] Tax rates were reduced for individuals and corporations and tax receipts from individuals contracted by 1 billion Trinidad and Tobago dollars (TT$). However, receipts from non-energy companies increased by 27%, while receipts from the energy sector expanded by 64%.

The sharp increase in outlays was due to transfers to State enterprises, higher petroleum subsidies and loans to CARICOM neighbours. Transfers increased from TT$ 13.3 billion in fiscal year 2004/2005 to TT$ 20.7 billion in fiscal year 2005/2006. Financing for higher education doubled with the introduction of a policy for free tertiary education. Capital expenditure soared by approximately 73%, from TT$ 3 billion to TT$ 5.25 billion. This figure includes expenditure of TT$ 3.2 billion from the Infrastructure Development Fund.

Despite the large increases in spending, windfall intakes of revenues still made it possible for the central government to register an overall surplus equivalent to 3.3% of GDP. The stock of public-sector debt also fell to 32.6% of GDP. External public-sector debt declined from TT$ 1.2 billion to TT$ 1.1 billion.

The overall positive fiscal picture led to an upgrade in the country's foreign currency bond rating from Baa2 to Baa1 by Moody's Investor Services in July. During fiscal year 2006/2007, the central government is expected to increase its domestic borrowing partly in an attempt to stimulate the local capital market.

In its continued effort to sterilize the excessive liquidity in the system, the central bank adopted a tighter monetary policy stance. Initially, the focus was on the repo rate, which moved from 6.25% to 8% in the first nine months of the year with steady increases every month except April. At the same time, commercial banks raised their lending rates without effecting corresponding increases in deposit rates, thus creating a wider interest rate spread. Interest rates on mortgages and consumer loans held steady. This was perhaps reflective of greater competition in these segments of the market.

The failure of the increases in the repo rate to moderate the credit expansion was recognized by mid-year. Hence, various other measures were introduced to soak up the excess liquidity. These included: (i) a requirement that commercial banks deposit TT$ 500 million into an interest-bearing account at the central bank for one year; (ii) the introduction of a secondary reserve requirement of 2% of prescribed liabilities; and (iii) an increase in the open market limit of government borrowing from TT$ 8 billion to TT$ 15 billion.

The exchange rate remained fairly stable, as it had for the past eight years. This was due, in no small part, to interventions by the central bank. For the period January to October 2006, the bank injected over US$ 1.1 billion into the market.

The economy grew by 8.0% in 2005 and is expected to record 12.0% growth in 2006. Given the continued buoyancy in oil prices and increased production and refining, growth of about 8% is predicted for 2007.

Manufacturing grew by 11.6% in 2005 and is expected to end 2006 with a growth rate of 11.8%. The sector is

[1] The fiscal year runs from October to September.

expected to receive a boost from the Cricket World Cup in 2007 as other CARICOM States increase their demand for products from Trinidad and Tobago. Agricultural production showed mixed results in 2006. Output of rice, tomatoes and citrus increased significantly over the previous year. On the other hand, there were sharp declines in other categories, which resulted in very high retail price increases for vegetables (69%). Growth in the construction sector is estimated at 14.5%, driven by the government's involvement in several large projects including the Waterfront Project and the Brian Lara multi-purpose complex.

Towards the end of the year, annualized inflation was 10%, significantly overshooting the announced target of 5%. The annualized increase in retail food prices up to September was 27%. The government plans to introduce a number of initiatives to bring inflation down from 7% in 2007 to 5% in 2008.

Given the buoyancy of the economy, wage increases in the non-energy sector have thus far been fairly moderate, averaging between 3% and 5% per year for contracts negotiated in 2005. Available data for the booming construction sector, however, show that wages for both skilled and unskilled labour have risen by from 50% to 100%.

Unemployment rates fell to their lowest ever levels during 2006. This has resulted in fairly tight labour market conditions. The main areas of job growth were in the services sector, followed by distribution and finance. For the first six months of the year, 14,500 new jobs were created. The unemployment rate dipped to 6.8% in the first four months but had risen to 7.2% by the last quarter.

The external accounts strengthened significantly during 2006 compared with the previous year. There were increases in both energy and non-energy exports. For the first six months of the year, energy exports almost doubled. Total exports increased by 46% (to US$ 6.5 billion), while imports increased by 22%. This contributed to a current account surplus of US$ 3.3 billion in the first half of the year.

On the other hand, there was a major increase in outflows from the capital account from US$ 1.2 billion to US$ 2.1 billion. This continues the trend that emerged in the past two to three years as domestic agents increased their foreign assets.

Net international reserves increased to US$ 5.2 billion, representing over nine months of import cover. The outlook for 2007 is for a continued strong positive showing on the country's external accounts.

Table 1

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	6.4	8.9	12.0
Consumer prices	5.6	7.2	9.6 [b]
Money (M1)	8.1	23.5	27.2 [c]
Real effective exchange rate [d]	1.5	-1.5	-3.3 [e]
	Annual average percentages		
Unemployment rate [f]	8.4	8.0	6.8 [g]
Central government overall balance/GDP [h]	2.5	5.5	...
Nominal deposit rate	2.4	1.7	2.4 [i]
	9.4	9.1	9.7 [j]
	Millions of dollars		
Exports of goods and services	7 335	10 573	6 500 [k]
Imports of goods and services	5 155	6 099	2 960 [k]
Current account	1 782	3 972	3 318 [k]
Capital and financial account	-1 054	-2 079	-2 069 [k]
Overall balance	728	1 893	1 249 [k]

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 2006.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Estimate based on data from January to June.
[h] Includes interest.
[i] Average from January to August, annualized.
[j] Average from January to September, annualized.
[k] Data refer to first semester.

Organization of Eastern Caribbean States (OECS)

Economic growth in the OECS member countries is estimated to have risen by around 6.8% in 2006, compared with 5.7% in 2005. This performance was boosted especially by demand for tourist services and construction activities relating to preparations for the Cricket World Cup 2007.

The broad aim of economic policy in 2006 has been to strengthen the fiscal accounts in order to reduce public debt to sustainable levels and continue the structural transformation of the economies to foster competitiveness.[1]

The fiscal deficit widened by over 74% with respect to the 2005 figure. Current revenue posted a strong upturn (14%), propelled by gains in both tax and non-tax revenues (15% and 12%, respectively). Notably, proceeds from taxes on income and profits registered growth of 17%, mostly because of the reintroduction of personal income tax in Antigua and Barbuda. Receipts from taxes on domestic goods and services transactions rose, thanks to the introduction of value added tax (VAT) in Dominica and windfall proceeds from land sales in Saint Kitts and Nevis and Anguilla. VAT was introduced in Dominica in March 2006 at a rate of 15%, replacing a number of taxes including those on consumption and sales.

Current spending was up by over 7% in 2006. This was associated mainly with wage rises in Anguilla and Saint Lucia and higher interest payments on domestic debt contracted with the local banking system to fund public investment projects. Domestic interest payments increased sharply in Saint Kitts and Nevis, reflecting borrowing to fund severance payments to former workers upon the closure of the sugar industry.

The capital expenditure programme remains the greatest challenge to fiscal consolidation within the monetary union. In the first quarter of 2006, capital expenditure posted growth of over 52%. The subregion has undertaken an ambitious programme to build stadiums and infrastructure works for the Cricket World Cup 2007. This has revealed installed capacity constraints and supply shortages in some countries, pushing up project costs.

The fiscal stance and debt sustainability have become issues of major concern in the OECS member countries, some of which are among the most highly indebted in the world. Governments undertook countercyclical fiscal spending in the slow-growth period that followed the terrorist attacks of 11 September 2001 in the United States.

Monetary conditions have eased somewhat in 2006, with banks offering more favourable terms and conditions for credit. A 15% expansion in domestic credit in the first quarter of 2006 was driven mainly by housing construction. All the countries registered growth in private-sector credit, especially for tourism projects reflecting increased business confidence. The OECS authorities have attempted to improve the regulatory framework, including creditors' rights and bankruptcy procedures, in order to boost bank lending for productive activities.

Driven by the upsurge in economic activity, broad money expanded by 9.4%, the biggest increase in five years. The highest growth rate (17%) was in foreign-currency deposits, reflecting inflows of foreign direct investment for tourism and construction projects, especially in Anguilla, Antigua and Barbuda and Saint Kitts and Nevis.

The banking sector's net international assets contracted by 1.7%, on account of a 15.9% cut in net foreign assets by commercial banks in order to finance domestic lending to the private and public sectors.

The growth impetus of 2005 continued in 2006, driven by construction (up by 14%), tourism, agriculture and services, and particularly wholesale and retail trade. Public-sector activities centred on preparations for the Cricket World Cup 2007, especially the construction of cricket stadiums and improvements to roads, ports and sanitation infrastructure. Meanwhile, private-sector investment went into hotels and villas to expand room capacity.

1 The closure of the sugar industry in Saint Kitts and Nevis in 2005 was a key plank of the structural change process in the region.

Tourism strengthened in 2006, with a 2.3% increase in long-stay visitors in the first half of the year, thanks to the reopening of some hotels in Grenada, strong marketing and additional airline capacity from some tourist markets. The sector also benefited from improved price competitiveness linked to the depreciation of the United States dollar against the euro.

Agricultural output rose slightly in 2006, fuelled mainly by the recovery of banana production in Saint Lucia following the end of the leaf spot infestation of 2005, as well as favourable weather conditions. Banana production increased in all the banana-producing countries, except Saint Vincent and the Grenadines where output declined by about 1%, reflecting continued productivity problems. In Grenada, production of cocoa, nutmeg and mace expanded. Conversely, agricultural output plummeted in Saint Kitts and Nevis following the closure of the sugar industry in 2005. Manufacturing activity picked up in the wake of stronger demand associated with overall economic growth, with higher output of beer, rice and animal feed, electronic components and paper board.

The rate of inflation increased as a result of high international fuel prices, higher prices of food and building materials, including cement, and tight labour-market conditions in the construction sector.

Unemployment is estimated to have declined in the subregion, consistent with the robust growth in activity, particularly in the construction and tourism sectors. Wages increased significantly in Anguilla and Saint Lucia.

The balance of payments is expected to post a small surplus in 2006, as larger inflows on the services and capital accounts offset a widening merchandise deficit. Imports expanded in 2006, reflecting the spike in petroleum prices and the high import propensity observed during boom periods. Exports expanded more slowly, with the increase in banana exports (4.8%) offset by the drop in sugar exports from Saint Kitts and Nevis.

Gross travel receipts increased by 6% during the first semester, which includes the active winter tourist season. Foreign direct investment expanded, as a result of the construction of hotels and holiday villas. Official grants were down on the previous year, when Grenada had received additional funds for reconstruction after hurricane damage. External interest payments remained relatively stable in 2006.

Table 1
OECS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	4.1	5.7	6.8
Consumer prices	1.7	4.2	…
	Annual average percentages		
Central government overall balance/GDP	-3.4	2.7	...
	Millions of dollars		
Exports of goods and services	1 803	1 882	1 995
Imports of goods and services	2 308	2 562	2 854
Current account	- 553	- 747	- 960
Capital and financial account	667	723	962
Overall balance	115	- 24	1

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

Statistical appendix

Table A-1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
	Annual rates of variation									
Gross domestic product [b]	5.5	2.6	0.4	3.9	0.3	-0.8	2.0	5.9	4.5	5.3
Per capita gross domestic product [b]	3.8	0.9	-1.2	2.3	-1.3	-2.3	0.5	4.4	3.0	3.8
Consumer prices [c]	10.7	10.0	9.7	9.0	6.1	12.2	8.5	7.4	6.1	4.8
	Percentages									
Urban open unemployment rate [d]	9.3	10.3	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.7
Total gross external debt / GDP [e]	33.6	36.5	42.2	36.9	38.3	42.4	42.2	37.0	27.1	24.0
Total gross external debt / exports of goods and services	198	216	211	172	181	178	168	138	101	83
	Millions of dollars									
Balance of payments										
Current account balance	-64 331	-87 697	-54 757	-47 001	-52 229	-13 989	9 004	20 775	35 873	51 294
Merchandise trade balance	-13 134	-34 872	-6 790	3 159	-4 003	24 254	45 179	60 313	81 239	103 646
Export of goods, f.o.b.	286 680	283 453	299 364	358 718	343 235	347 142	378 472	466 311	560 629	677 170
Imports of goods, f.o.b.	299 813	318 324	306 155	355 559	347 238	322 888	333 293	405 998	479 391	573 524
Services trade balance	-18 974	-19 548	-16 187	-17 112	-19 038	-14 205	-13 298	-13 922	-17 973	-21 308
Income balance	-47 595	-50 331	-51 181	-53 716	-54 351	-52 570	-57 770	-67 103	-76 623	-89 704
Net current transfers	15 371	17 053	19 401	20 669	25 163	28 532	34 892	41 487	49 231	58 660
Capital and financial balance [f]	89 132	68 594	42 413	62 243	35 057	-11 571	1 877	-8 827	21 736	534
Net foreign direct investment	57 599	60 999	79 923	70 308	63 659	45 213	35 114	43 149	49 206	33 483
Financial capital [g]	31 534	7 596	-37 510	-8 066	-28 602	-56 784	-33 237	-51 977	-27 470	-32 949
Overall balance	24 801	-19 103	-12 344	15 242	-17 172	-25 560	10 881	11 947	57 609	51 828
Variation in reserve assets [h]	-15 800	10 045	6 248	-7 084	1 000	3 140	-29 445	-20 801	-35 509	-38 631
Other financing [i]	-9 001	9 057	6 096	-8 158	16 173	22 420	18 564	8 854	-22 101	-13 198

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on official figures expressed in constant 2000 dollars.
[c] December-December variation.
[d] The data for Argentina and Brazil have been adjusted to allow for changes in methodology in 2003 and 2002 respectively.
[e] Estimates based on figures denominated in dollars at current prices.
[f] Includes errors and omissions.
[g] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[h] A minus sign (-) indicates an increase in reserve assets.
[i] Includes the use of IMF credit and loans and exceptional financing.

Table A-2

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
Latin America and the Caribbean	**5.5**	**2.6**	**0.4**	**3.9**	**0.3**	**-0.8**	**2.0**	**5.9**	**4.5**	**5.3**
Latin America	**5.5**	**2.5**	**0.3**	**4.0**	**0.3**	**-0.8**	**1.9**	**6.0**	**4.5**	**5.3**
Argentina	8.1	3.9	-3.4	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5
Bolivia	5.0	5.0	0.4	2.5	1.7	2.5	2.9	3.9	4.1	4.5
Brazil	3.3	0.1	0.8	4.4	1.3	1.9	0.5	4.9	2.3	2.8
Chile	6.6	3.2	-0.8	4.5	3.4	2.2	3.9	6.2	6.3	4.4
Colombia	3.4	0.6	-4.2	2.9	1.5	1.9	3.9	4.9	5.2	6.0
Costa Rica	5.6	8.4	8.2	1.8	1.1	2.9	6.4	4.1	5.9	6.8
Cuba	2.7	0.2	6.3	6.1	3.0	1.5	2.9	4.5	…	…
Cuba [b]	...	...	...	...	3.0	1.8	3.8	5.4	11.8	12.5
Dominican Republic	8.1	8.3	6.1	7.9	2.3	5.0	-0.4	2.7	9.2	10.0
Ecuador	4.1	2.1	-6.3	2.8	5.3	4.2	3.6	7.9	4.7	4.9
El Salvador	4.2	3.7	3.4	2.2	1.7	2.3	2.3	1.8	2.8	3.8
Guatemala	4.4	5.0	3.8	3.6	2.3	2.2	2.1	2.7	3.2	4.6
Haiti	2.7	2.2	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.5
Honduras	5.0	2.9	-1.9	5.7	2.6	2.7	3.5	5.0	4.1	5.6
Mexico	6.8	5.0	3.8	6.6	0.0	0.8	1.4	4.2	3.0	4.8
Nicaragua	4.0	3.7	7.0	4.1	3.0	0.8	2.5	5.1	4.0	3.7
Panama	6.4	7.4	4.0	2.7	0.6	2.2	4.2	7.5	6.9	7.5
Paraguay	3.0	0.6	-1.5	-3.3	2.1	0.0	3.8	4.1	2.9	4.0
Peru	6.9	-0.7	0.9	3.0	0.2	5.2	3.9	5.2	6.4	7.2
Uruguay	5.0	4.5	-2.8	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.3
Venezuela (Bolivarian Republic of)	6.4	0.3	-6.0	3.7	3.4	-8.9	-7.7	17.9	9.3	10.0
Caribbean	**3.5**	**4.1**	**3.9**	**3.4**	**1.9**	**3.3**	**5.8**	**3.8**	**4.9**	**6.8**
Antigua and Barbuda	4.9	4.4	4.1	1.5	2.2	2.5	5.2	7.2	4.6	11.0
Bahamas	4.9	6.8	4.0	1.9	0.8	2.3	1.4	1.8	2.7	4.0
Barbados	4.6	6.2	0.5	2.2	-2.6	0.5	1.9	4.8	3.9	3.8
Belize	3.6	3.7	8.7	12.9	4.9	5.1	9.3	4.6	3.5	2.7
Dominica	2.5	3.2	0.6	0.6	-3.6	-4.2	2.2	6.3	3.3	4.0
Grenada	5.4	8.2	7.0	7.0	-4.9	1.5	7.5	-7.4	13.2	7.0
Guyana	6.2	-1.7	3.8	-1.4	2.3	1.1	-0.7	1.6	-3.0	1.3
Jamaica	-1.0	-1.2	1.0	0.7	1.5	1.1	2.3	0.9	1.4	2.6
Saint Kitts and Nevis	7.4	0.9	3.6	4.3	2.0	1.1	0.5	7.6	5.0	5.0
Saint Lucia	-1.0	6.4	2.4	-0.2	-5.1	3.1	4.1	5.6	7.7	7.0
Saint Vincent and the Grenadines	2.9	5.2	4.4	1.8	1.0	3.7	3.2	6.2	1.5	4.0
Suriname	2.2	3.1	-2.4	4.0	5.9	1.9	6.1	7.7	5.7	6.4
Trinidad and Tobago	7.7	8.1	8.0	6.9	4.2	6.9	12.6	6.4	8.9	12.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

[a] Preliminary figures.

[b] These data have been supplied by the National Statistical Office of Cuba and are currently being assessed by ECLAC.

Table A-3
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
Latin America and the Caribbean	**3.8**	**0.9**	**-1.2**	**2.3**	**-1.3**	**-2.3**	**0.5**	**4.4**	**3.0**	**3.8**
Latin America	**3.8**	**0.9**	**-1.3**	**2.3**	**-1.3**	**-2.3**	**0.4**	**4.4**	**3.0**	**3.8**
Argentina	6.9	2.7	-4.4	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4
Bolivia	2.5	2.5	-1.9	0.1	-0.6	0.2	0.7	1.6	1.8	2.3
Brazil	1.7	-1.4	-0.7	2.8	-0.2	0.5	-0.9	3.4	0.9	1.4
Chile	5.1	1.9	-2.0	3.2	2.2	1.0	2.8	5.0	5.2	3.3
Colombia	1.5	-1.3	-6.0	1.1	-0.3	0.2	2.1	3.2	3.5	4.3
Costa Rica	2.9	5.7	5.7	-0.5	-1.0	0.9	4.4	2.2	4.1	4.9
Cuba	2.3	-0.3	5.9	5.7	2.6	1.2	2.6	4.2	…	…
Cuba [b]	...	...	...	...	2.6	1.5	3.5	5.1	11.6	12.5
Dominican Republic	6.3	6.4	4.3	6.1	0.6	3.3	-2.0	1.1	7.6	8.3
Ecuador	2.4	0.6	-7.6	1.3	3.8	2.8	2.1	6.4	3.3	3.4
El Salvador	2.1	1.6	1.4	0.2	-0.2	0.4	0.5	0.0	1.0	2.1
Guatemala	2.0	2.6	1.5	1.2	-0.1	-0.2	-0.4	0.2	0.6	2.0
Haiti	0.8	0.3	0.8	-1.0	-2.8	-2.1	-1.4	-5.2	0.0	0.7
Honduras	2.1	0.1	-4.5	3.0	0.0	0.1	0.9	2.5	1.6	3.2
Mexico	5.0	3.3	2.1	5.0	-1.5	-0.7	0.0	2.7	1.6	3.4
Nicaragua	1.9	1.7	4.9	2.0	0.9	-1.3	0.5	3.1	1.9	1.7
Panama	4.3	5.3	2.0	0.8	-1.3	0.4	2.3	5.6	5.1	5.7
Paraguay	0.3	-2.0	-4.0	-5.8	-0.5	-2.5	1.3	1.6	0.5	1.6
Peru	5.0	-2.3	-0.8	1.3	-1.3	3.6	2.4	3.7	4.9	5.7
Uruguay	4.3	3.8	-3.6	-2.2	-4.1	-11.7	1.5	11.0	5.9	6.6
Venezuela (Bolivarian Republic of)	4.3	-1.6	-7.8	1.8	1.5	-10.5	-9.3	15.8	7.5	8.2
Caribbean	**2.7**	**3.3**	**3.2**	**2.7**	**1.2**	**2.7**	**5.3**	**3.3**	**4.4**	**6.3**
Antigua and Barbuda	2.8	2.4	2.3	-0.2	0.7	1.2	4.0	6.0	3.4	9.7
Bahamas	3.3	5.2	2.5	0.4	-0.6	0.8	0.1	0.4	1.4	2.6
Barbados	4.3	5.9	0.2	2.0	-2.9	0.2	1.6	4.6	3.6	3.5
Belize	1.0	1.2	6.2	10.3	2.6	2.8	7.0	2.5	1.4	0.7
Dominica	1.6	2.4	0.0	0.1	-3.9	-4.3	2.0	6.0	2.8	3.2
Grenada	4.8	7.7	6.6	6.7	-5.1	1.4	7.3	-7.7	12.5	5.9
Guyana	5.9	-2.0	3.5	-1.7	2.0	0.9	-0.8	1.4	-3.1	1.2
Jamaica	-1.8	-2.0	0.2	0.0	0.9	0.6	1.8	0.5	1.0	2.2
Saint Kitts and Nevis	7.5	0.9	3.4	3.8	1.2	0.1	-0.7	6.3	3.7	3.8
Saint Lucia	-1.9	5.5	1.6	-1.0	-5.9	2.2	3.2	4.7	6.8	6.1
Saint Vincent and the Grenadines	2.3	4.6	3.9	1.3	0.5	3.2	2.6	5.6	1.0	3.5
Suriname	1.3	2.1	-3.3	3.1	5.1	1.2	5.4	7.0	5.0	5.8
Trinidad and Tobago	7.2	7.7	7.7	6.5	3.8	6.5	12.3	6.1	8.6	11.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.
[a] Preliminary figures.
[b] These data have been supplied by the National Statistical Office of Cuba and are currently being assessed by ECLAC.

Table A-4

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION

(Percentages of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
Latin America and the Caribbean	**20.2**	**20.6**	**19.3**	**19.3**	**18.8**	**17.7**	**17.3**	**18.5**	**19.6**	**20.9**
Argentina	18.6	19.1	17.2	16.2	14.3	10.2	12.9	15.9	17.9	19.6
Bolivia	19.4	23.9	20.1	17.9	13.8	16.0	13.9	13.2	13.1	13.3
Brazil	21.0	20.9	19.3	19.3	19.2	18.1	17.1	18.0	17.9	18.5
Chile	24.5	24.2	20.0	20.7	20.9	20.8	21.2	22.2	25.8	26.3
Colombia	20.7	19.3	13.2	12.6	13.4	14.5	16.1	17.7	21.1	24.6
Costa Rica	17.8	20.6	18.3	17.8	18.0	18.7	18.8	18.0	18.2	18.2
Cuba	12.0	12.5	12.5	12.9	12.1	10.9	9.9	10.1	…	…
Cuba [b]	...	...	...	11.8	11.1	9.9	8.9	9.1	9.7	...
Dominican Republic	18.1	22.7	19.4	20.7	19.5	19.5	14.7	13.4	13.8	14.8
Ecuador	23.9	24.3	18.8	20.5	24.0	27.4	26.4	25.7	26.5	26.7
El Salvador	16.2	17.2	16.4	16.9	16.9	17.1	17.1	15.9	16.4	16.7
Guatemala	16.1	18.0	18.3	16.1	16.0	16.4	15.3	15.2	16.6	18.4
Haiti	20.4	19.3	23.3	27.3	27.3	28.0	28.8	28.9	28.8	34.7
Honduras	25.7	27.6	29.9	26.1	23.5	21.6	22.3	25.3	22.4	22.4
Mexico	18.8	19.7	20.5	21.4	20.2	19.9	19.7	20.3	21.3	22.5
Nicaragua	26.7	27.6	35.0	29.9	27.4	25.5	25.0	25.8	26.4	26.8
Panama	20.6	22.0	23.5	21.2	15.7	14.4	17.1	17.4	17.3	18.6
Paraguay	22.6	19.2	17.1	17.5	16.1	15.0	15.5	15.6	15.8	17.3
Peru	25.0	24.9	21.9	20.2	18.5	17.4	17.8	18.4	19.6	21.0
Uruguay	15.3	15.8	14.9	13.2	12.4	9.4	8.1	9.5	11.0	12.2
Venezuela (Bolivarian Republic of)	22.5	23.6	21.2	21.0	23.1	20.7	14.2	17.2	20.9	24.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

[a] Preliminary figures.

[b] These data have been supplied by the National Statistical Office of Cuba and are currently being assessed by ECLAC.

Table A-5

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT [a]

(Percentages of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
1. Domestic saving	21.1	19.8	19.4	20.6	19.0	20.1	21.2	23.4	23.6	24.7
2. Net factor income	-2.4	-2.5	-2.9	-2.8	-2.9	-3.2	-3.3	-3.4	-3.2	-3.2
3. Net transfers	0.8	0.9	1.1	1.1	1.3	1.7	2.0	2.1	2.0	2.1
4. Gross national saving	19.5	18.1	17.6	18.9	17.4	18.7	19.8	22.1	22.5	23.6
5. External saving [c]	3.2	4.4	3.1	2.4	2.8	0.8	-0.5	-1.0	-1.5	-1.8
6. Gross domestic investment	22.7	22.5	20.7	21.3	20.2	19.5	19.3	21.0	21.0	21.7

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

[a] Based on coefficients calculated in local currency and converted into current dollars.

[b] Preliminary figures.

[c] These figures (with the opposite sign) are the same as those given for the current account balance in table A-7.

Table A-6
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods, f.o.b.			Imports of goods, f.o.b.			Goods balance, f.o.b.			Services balance		
	2004	2005	2006 [d]	2004	2005	2006 [d]	2004	2005	2006 [d]	2004	2005	2006 [d]
Latin America and the Caribbean	**466 311**	**560 629**	**677 170**	**405 998**	**479 391**	**573 524**	**60 313**	**81 239**	**103 646**	**-13 922**	**-17 973**	**-21 308**
Argentina	34 576	40 106	47 040	21 311	27 302	32 937	13 265	12 805	14 103	-1 482	-1 378	-990
Bolivia	2 146	2 791	3 908	1 725	2 341	2 833	421	450	1 075	-190	-42	-155
Brazil	96 475	118 308	138 421	62 835	73 560	92 686	33 641	44 748	45 735	-4 678	-8 146	-9 989
Chile	32 215	40 574	60 049	23 020	30 394	35 713	9 195	10 180	24 336	-689	-588	-862
Colombia	17 224	21 729	24 240	15 878	20 134	24 788	1 346	1 595	-549	-1 679	-2 103	-1 945
Costa Rica	6 370	7 100	8 445	7 791	9 230	10 600	-1 421	-2 131	-2 156	857	1 111	1 184
Dominican Republic	5 936	6 146	6 392	7 888	9 876	10 864	-1 952	-3 731	-4 472	2 291	2 454	2 616
Ecuador	7 968	10 427	12 721	7 684	9 698	11 637	284	729	1 084	-954	-1 074	-1 253
El Salvador	3 337	3 432	3 594	5 999	6 440	7 151	-2 662	-3 008	-3 557	-78	-72	-74
Guatemala	3 368	3 701	4 046	7 189	8 070	9 077	-3 822	-4 370	-5 031	-116	-239	-275
Haiti	378	459	491	1 210	1 308	1 571	-833	-850	-1 080	-203	-313	-361
Honduras	2 393	2 648	2 938	3 677	4 188	5 005	-1 284	-1 540	-2 067	-150	-198	-292
Mexico	187 999	214 233	252 795	196 810	221 820	259 529	-8 811	-7 587	-6 734	-4 607	-4 713	-6 788
Nicaragua	1 365	1 552	1 925	2 440	2 865	3 287	-1 075	-1 314	-1 363	-101	-117	-102
Panama	6 078	7 591	8 578	7 617	8 907	10 154	-1 538	-1 316	-1 576	1 278	1 415	1 785
Paraguay	2 863	3 266	4 343	3 108	3 758	5 261	-245	-492	-918	328	322	340
Peru	12 809	17 336	23 404	9 805	12 076	14 491	3 004	5 260	8 913	-732	-834	-955
Uruguay	3 145	3 758	4 500	2 992	3 730	4 900	153	28	-400	365	409	450
Venezuela (Bolivarian Rep. of)	39 668	55 473	69 341	17 021	23 693	31 038	22 647	31 780	38 303	-3 383	-3 866	-3 641

Table A-6 (continued)

	Trade balance			Income balance			Current transfers balance			Current account balance		
	2004	2005	2006 [d]	2004	2005	2006 [d]	2004	2005	2006 [d]	2004	2005	2006 [d]
Latin America and the Caribbean	**46 391**	**63 265**	**82 338**	**-67 103**	**-76 623**	**-89 704**	**41 487**	**49 231**	**58 660**	**20 775**	**35 873**	**51 294**
Argentina	11 783	11 426	13 113	-8 928	-6 207	-5 233	591	570	593	3 446	5 789	8 473
Bolivia	231	408	919	-385	-373	-355	491	584	720	337	619	1 284
Brazil	28 963	36 602	35 745	-20 520	-25 967	-27 116	3 236	3 558	4 445	11 679	14 193	13 074
Chile	8 507	9 591	23 474	-7 999	-10 624	-20 500	1 079	1 735	2 914	1 586	703	5 888
Colombia	-333	-507	-2 494	-4 332	-5 563	-4 615	3 727	4 089	4 750	-938	-1 981	-2 359
Costa Rica	-564	-1 020	-972	-444	-215	-468	212	270	319	-796	-964	-1 120
Dominican Republic	339	-1 277	-1 857	-1 819	-1 957	-1 850	2 528	2 734	2 900	1 047	-500	-807
Ecuador	-670	-345	-170	-1 919	-1 957	-2 048	2 025	2 506	2 720	-564	204	503
El Salvador	-2 739	-3 080	-3 632	-460	-571	-576	2 568	2 865	3 376	-632	-786	-832
Guatemala	-3 937	-4 608	-5 305	-318	-337	-331	3 045	3 558	4 103	-1 211	-1 387	-1 533
Haiti	-1 036	-1 162	-1 441	-12	-37	-11	993	1 254	1 417	-56	55	-36
Honduras	-1 434	-1 738	-2 358	-359	-331	-310	1 389	2 002	2 647	-404	-67	-22
Mexico	-13 418	-12 300	-13 522	-10 308	-13 223	-13 300	17 044	20 484	24 171	-6 682	-5 039	-2 651
Nicaragua	-1 177	-1 431	-1 464	-192	-119	-120	673	750	820	-696	-800	-764
Panama	-260	99	209	-1 021	-1 124	-1 180	220	243	256	-1 061	-782	-716
Paraguay	83	-171	-578	-139	-74	-10	194	223	323	138	-22	-265
Peru	2 273	4 426	7 958	-3 686	-5 076	-7 772	1 433	1 755	2 106	19	1 105	2 292
Uruguay	518	437	50	-588	-585	-608	113	149	152	43	1	-406
Venezuela (Bolivarian Rep. of)	19 264	27 914	34 663	-3 673	-2 281	-3 300	-72	-99	-70	15 519	25 534	31 293

Table A-6 (concluded)

	Capital and financial balance [a]			Overall balance			Reserve assets (variation) [b]			Other financing [c]		
	2004	2005	2006 [d]	2004	2005	2006 [d]	2004	2005	2006 [d]	2004	2005	2006 [d]
Latin America and the Caribbean	**-8 827**	**21 736**	**534**	**11 947**	**57 609**	**51 828**	**-20 801**	**-35 509**	**-38 631**	**8 854**	**-22 101**	**-13 198**
Argentina	-10 398	2 294	4 931	-6 952	8 083	13 404	-5 319	-8 857	-2 500	12 271	774	-10 904
Bolivia	-265	-126	-184	73	493	1 100	-157	-504	-1 100	85	11	0
Brazil	-5 073	13 398	11 926	6 607	27 590	25 000	-2 244	-4 319	-25 000	-4 363	-23 271	0
Chile	-1 772	1 013	-5 188	-186	1 716	700	186	-1 716	-700	0	0	0
Colombia	3 479	3 710	2 597	2 541	1 729	239	-2 541	-1 729	-239	0	0	0
Costa Rica	876	1 358	1 880	80	393	760	-80	-393	-760	0	0	0
Dominican Republic	-868	1 205	957	179	705	150	-542	-1 109	-150	363	404	0
Ecuador	846	470	97	281	674	600	-277	-710	-600	-4	35	0
El Salvador	579	728	961	-53	-59	129	53	59	-129	0	0	0
Guatemala	1 819	1 642	1 758	609	254	225	-609	-254	-225	0	0	0
Haiti	91	-4	124	35	51	88	-50	-22	-102	15	-29	14
Honduras	777	286	231	373	219	210	-504	-372	-430	131	154	220
Mexico	10 740	12 203	3 151	4 058	7 164	500	-4 058	-7 164	-500	0	0	0
Nicaragua	594	794	823	-102	-6	59	-169	-46	-166	271	52	107
Panama	666	1 456	616	-395	675	-100	396	-521	100	-1	-154	0
Paraguay	130	169	545	268	147	280	-179	-146	-280	-89	-1	0
Peru	2 306	423	-749	2 325	1 528	1 543	-2 351	-1 628	-1 600	26	100	57
Uruguay	263	794	3 648	306	796	3 242	-454	-620	-550	149	-175	-2 692
Venezuela (Bolivarian Rep. of)	-13 619	-20 077	-27 593	1 900	5 457	3 700	-1 900	-5 457	-3 700	0	0	0

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

[a] Includes errors and omissions.

[b] A minus sign (-) indicates an increase in reserve assets.

[c] Includes the use of IMF credit and loans and exceptional financing.

[d] Preliminary figures.

Table A-7

LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS [a]

(Percentages of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**-3.2**	**-4.4**	**-3.1**	**-2.4**	**-2.8**	**-0.8**	**0.5**	**1.0**	**1.5**	**1.8**
Argentina	-4.1	-4.8	-4.2	-3.2	-1.4	8.5	6.2	2.3	3.2	4.0
Bolivia	-7.0	-7.8	-5.9	-5.3	-3.4	-4.5	0.9	3.9	6.6	12.0
Brazil	-3.8	-4.2	-4.7	-4.0	-4.6	-1.7	0.8	1.9	1.8	1.4
Chile	-4.4	-4.9	0.1	-1.2	-1.6	-0.9	-1.3	1.7	0.6	4.2
Colombia	-5.4	-4.9	0.8	0.9	-1.3	-1.7	-1.2	-1.0	-1.6	-1.7
Costa Rica	-3.7	-3.7	-4.1	-4.3	-3.7	-5.1	-5.0	-4.3	-4.8	-5.0
Dominican Republic	-0.9	-1.7	-2.0	-4.4	-3.0	-3.2	5.3	4.8	-1.4	-2.1
Ecuador	-1.9	-9.0	5.5	5.8	-2.9	-5.1	-1.5	-1.7	0.6	1.3
El Salvador	-0.9	-0.8	-1.9	-3.3	-1.1	-2.8	-4.7	-4.0	-4.6	-4.6
Guatemala	-3.6	-5.4	-5.6	-5.4	-6.0	-5.3	-4.2	-4.4	-4.4	-4.3
Haiti	-1.5	-1.0	-1.4	-3.0	-3.8	-2.8	-1.6	-1.5	1.3	-0.7
Honduras	-5.8	-2.8	-4.4	-3.9	-4.7	-3.6	-3.7	-5.4	-0.8	-0.2
Mexico	-1.9	-3.8	-2.9	-3.2	-2.9	-2.2	-1.4	-1.0	-0.7	-0.3
Nicaragua	-24.8	-19.2	-24.8	-21.3	-19.4	-17.3	-15.9	-15.5	-16.3	-13.6
Panama	-5.0	-9.3	-10.1	-5.8	-1.4	-0.8	-3.9	-7.5	-5.0	-4.2
Paraguay	-7.3	-2.0	-2.3	-2.3	-4.1	1.8	2.3	2.0	-0.3	-3.0
Peru	-5.7	-5.9	-2.8	-2.9	-2.1	-1.9	-1.5	0.0	1.4	2.5
Uruguay	-1.3	-2.1	-2.4	-2.8	-2.7	3.1	-0.5	0.3	0.0	-2.1
Venezuela (Bolivarian Republic of)	4.3	-4.9	2.2	10.1	1.6	8.2	14.1	14.1	18.2	17.5

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

[a] These figures (with the opposite sign) are the same as those given for external saving in table A-5.

[b] Preliminary figures.

Table A-8
LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS, f.o.b. [a]
(Annual growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
1997	11.4	11.3	0.1	18.9	21.6	-2.2
1998	-1.1	7.3	-7.9	6.2	10.9	-4.2
1999	5.6	6.5	-0.8	-3.8	0.3	-4.1
2000	19.8	11.2	7.7	16.1	14.1	1.8
2001	-4.3	2.5	-6.6	-2.3	0.7	-3.0
2002	1.1	1.0	0.1	-7.0	-6.8	-0.2
2003	9.0	3.9	4.9	3.2	0.5	2.7
2004	23.2	10.0	12.0	21.8	14.5	6.4
2005	20.2	7.7	11.7	18.1	11.0	6.4
2006 [a]	20.8	7.5	12.4	19.6	14.8	4.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and data from the International Monetary Fund (IMF).
[a] Preliminary figures.

Table A-9
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, f.o.b.
(Indices 2000=100)

	Value			Volume			Unit value		
	2004	2005	2006 [a]	2004	2005	2006 [a]	2004	2005	2006 [a]
Latin America and the Caribbean	**130.0**	**156.3**	**188.8**	**118.3**	**127.4**	**137.0**	**109.9**	**122.7**	**137.8**
Argentina	131.3	152.3	178.6	118.2	135.1	146.7	111.0	112.7	121.7
Bolivia	172.2	224.0	313.6	151.9	171.8	185.0	113.4	130.4	169.5
Brazil	175.1	214.8	251.3	163.8	178.5	186.5	106.9	120.3	134.7
Chile	167.7	211.2	312.6	134.4	138.8	144.6	124.8	152.2	216.1
Colombia	125.5	158.4	176.6	110.0	120.7	121.3	114.1	131.2	145.7
Costa Rica	109.6	122.1	145.3	115.7	129.0	153.4	94.7	94.7	94.7
Dominican Republic	103.5	107.1	111.4	100.5	100.0	100.0	103.0	107.1	111.4
Ecuador	155.1	203.0	247.6	159.5	171.1	175.4	97.2	118.6	141.2
El Salvador	112.6	115.8	121.3	113.6	111.3	113.2	99.1	104.0	107.2
Guatemala	109.3	120.1	131.3	110.2	112.2	116.8	99.1	107.1	112.4
Haiti	113.9	138.3	148.1	108.0	126.2	133.8	105.4	109.6	110.7
Honduras	118.9	131.6	146.1	142.7	144.8	154.5	83.4	90.9	94.5
Mexico	113.2	129.0	152.2	105.1	112.0	124.7	107.6	115.2	122.1
Nicaragua	155.0	176.2	218.5	171.6	179.8	212.4	90.3	98.0	102.9
Panama	104.1	130.0	146.9	103.3	125.3	140.2	100.8	103.8	104.8
Paraguay	122.9	140.2	186.5	113.9	131.2	171.1	107.9	106.9	109.0
Peru	184.2	249.3	336.5	152.4	174.8	175.4	120.9	142.6	191.8
Uruguay	131.9	157.6	188.8	127.7	148.5	167.7	103.3	106.2	112.6
Venezuela (Bolivarian Republic of)	118.3	165.4	206.8	92.6	95.2	94.5	127.8	173.8	218.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and data from the International Monetary Fund (IMF).
[a] Preliminary figures.

Table A-10

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, f.o.b.

(Indices 2000=100)

	Value			Volume			Unit value		
	2004	2005	2006[a]	2004	2005	2006[a]	2004	2005	2006[a]
Latin America and the Caribbean	**114.2**	**134.8**	**161.3**	**107.9**	**119.8**	**137.5**	**105.8**	**112.5**	**117.3**
Argentina	89.2	114.3	137.9	87.7	108.4	126.6	101.7	105.5	108.9
Bolivia	107.1	145.4	175.9	98.3	124.7	139.7	109.0	116.6	125.9
Brazil	112.6	131.9	166.2	103.1	108.7	126.3	109.3	121.3	131.6
Chile	134.7	177.8	209.0	134.8	163.3	180.7	99.9	108.9	115.7
Colombia	143.2	181.6	223.5	136.2	162.9	191.0	105.1	111.5	117.0
Costa Rica	129.3	153.2	176.0	125.5	142.9	157.9	103.1	107.2	111.5
Dominican Republic	83.2	104.2	114.6	78.1	93.2	97.6	106.5	111.8	117.4
Ecuador	205.3	259.1	310.9	193.1	223.6	246.2	106.3	115.9	126.3
El Salvador	127.6	136.9	152.1	124.5	127.3	134.7	102.4	107.5	112.9
Guatemala	151.6	170.2	191.4	140.9	145.1	152.6	107.6	117.3	125.5
Haiti	111.4	120.4	144.6	101.4	101.5	114.0	109.8	118.6	126.9
Honduras	137.7	156.9	187.5	144.0	150.4	166.5	95.7	104.3	112.6
Mexico	112.8	127.1	148.8	106.5	114.4	131.2	105.9	111.2	113.4
Nicaragua	135.4	159.1	182.5	123.7	132.1	141.6	109.5	120.4	128.9
Panama	109.1	127.6	145.4	103.2	115.0	126.0	105.7	111.0	115.4
Paraguay	108.5	131.1	183.6	104.8	119.5	160.9	103.5	109.7	114.1
Peru	133.1	163.9	196.7	122.6	137.3	154.0	108.6	119.4	127.8
Uruguay	90.4	112.6	148.0	87.4	96.3	117.1	103.4	117.0	126.4
Venezuela (Bolivarian Republic of)	100.9	140.5	184.0	93.3	124.8	158.8	108.2	112.5	115.9

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

[a] Preliminary figures.

Table A-11

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS, f.o.b./f.o.b.

(Indices 2000=100) [a]

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006[a]
Latin America and the Caribbean	**95.0**	**91.3**	**94.5**	**100.0**	**96.3**	**96.6**	**98.6**	**103.9**	**109.0**	**117.5**
Argentina	102.2	96.6	90.9	100.0	99.3	98.7	107.2	109.2	106.9	111.8
Bolivia	107.9	102.0	97.1	100.0	95.8	96.2	98.5	104.1	111.8	134.6
Brazil	113.6	111.9	97.0	100.0	99.6	98.4	97.0	97.9	99.2	102.4
Chile	94.5	91.0	94.2	100.0	93.3	97.2	102.8	124.9	139.8	186.9
Colombia	93.3	81.2	87.2	100.0	94.2	92.5	95.2	108.5	117.7	124.5
Costa Rica	125.9	117.5	106.9	100.0	98.4	96.9	95.5	91.9	88.3	84.9
Dominican Republic	106.1	108.0	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9
Ecuador	89.1	75.8	89.1	100.0	84.6	86.8	89.8	91.5	102.4	111.8
El Salvador	95.0	95.8	99.6	100.0	102.5	101.6	97.7	96.8	96.8	94.9
Guatemala	97.9	115.3	101.9	100.0	96.7	95.8	93.0	92.1	91.3	89.6
Haiti	101.4	107.6	104.2	100.0	101.2	100.2	98.7	96.0	92.4	87.3
Honduras	125.5	108.9	107.5	100.0	94.8	92.0	88.0	87.2	87.2	83.9
Mexico	89.5	90.6	99.3	100.0	97.4	97.9	98.8	101.6	103.6	107.6
Nicaragua	82.0	79.6	95.3	100.0	88.4	87.0	84.1	82.5	81.4	79.8
Panama	103.9	104.7	104.6	100.0	102.7	101.6	97.2	95.3	93.5	90.8
Paraguay	106.2	108.0	101.7	100.0	100.2	96.7	101.4	104.3	97.4	95.5
Peru	115.5	103.4	100.8	100.0	95.6	98.4	102.2	111.3	119.4	150.1
Uruguay	102.9	104.4	95.9	100.0	104.0	102.6	103.5	99.9	90.7	89.1
Venezuela (Bolivarian Republic of)	70.1	51.2	66.1	100.0	82.2	87.6	98.7	118.1	154.4	188.9

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

[a] Preliminary figures.

Table A-12

LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS [a]

(Millions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**32 537**	**27 321**	**-2 672**	**368**	**-3 122**	**-41 722**	**-37 329**	**-67 076**	**-76 987**	**-102 367**
Argentina	9 286	10 513	5 639	1 030	-16 030	-20 723	-12 457	-7 054	-3 139	-11 206
Bolivia	447	637	324	182	30	-156	-226	-565	-488	-539
Brazil	5 863	7 257	-1 336	4 077	6 778	-10 252	-14 234	-29 955	-35 841	-15 190
Chile	4 362	-162	-3 079	-1 621	-2 022	-1 985	-4 010	-9 771	-9 611	-25 688
Colombia	3 703	1 763	-2 338	-2 177	-302	-1 371	-2 608	-853	-1 853	-2 018
Costa Rica	448	-97	-691	-714	-63	580	443	432	1 143	1 413
Dominican Republic	-593	-453	-352	-85	168	-880	-2 787	-2 324	-348	-893
Ecuador	-316	467	-2 715	-2 020	-817	-100	-951	-1 078	-1 451	-1 950
El Salvador	297	231	165	132	-293	-42	595	119	156	385
Guatemala	653	1 118	696	1 494	1 642	938	1 271	1 501	1 305	1 427
Haiti	85	56	80	45	129	26	5	94	-70	126
Honduras	368	173	528	218	280	258	-86	549	108	142
Mexico	6 073	4 865	1 691	6 491	11 498	8 502	5 960	433	-1 020	-10 149
Nicaragua	749	471	888	620	446	583	529	672	727	811
Panama	718	479	652	3	202	-39	-506	-356	179	-564
Paraguay	478	189	287	-30	237	-134	168	-98	94	535
Peru	3 037	975	-633	-213	319	457	-694	-1 354	-4 553	-8 464
Uruguay	486	793	480	728	707	-2 601	948	-176	34	348
Venezuela (Bolivarian Republic of)	-3 606	-1 955	-2 957	-7 792	-6 031	-14 785	-8 690	-17 292	-22 358	-30 893

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

[a] The net transfer of resources is equal to total net capital inflows minus the income balance (net payments of profits and interest). Total net capital inflows correspond to the capital and financial accounts, plus errors and omissions, loans and the use of IMF credit and exceptional financing. Negative figures indicate net outward resource transfers.

[b] Preliminary figures.

Table A-13

LATIN AMERICA AND THE CARIBBEAN: TOTAL NET CAPITAL INFLOWS AND NET RESOURCE TRANSFERS [a]

(Billions of dollars and percentages)

	Total net capital inflows			Balance on income account [b]	Net resource transfers	Exports of goods and services	Net resource transfers as a percentage of exports of goods and services
	Autonomous [c]	Non-autonomous [d]	Total				
	(1)	(2)	(3)	(4)	(5) = (3) - (4) (5)	(6)	(7) = (5) / (6) (7)
1980	29.2	1.7	30.9	-18.9	12.0	106.9	11.3
1981	38.4	1.8	40.1	-29.1	11.1	115.6	9.6
1982	3.3	17.2	20.5	-38.9	-18.4	105.2	-17.5
1983	-22.3	30.1	7.9	34.5	42.4	105.4	40.2
1984	-10.9	23.9	13.0	-37.5	-24.5	117.5	-20.8
1985	-16.4	20.3	3.9	-35.5	-31.6	112.8	-28.1
1986	-12.4	21.9	9.4	-32.7	-23.3	99.2	-23.4
1987	-13.2	25.6	12.4	-31.0	-18.6	113.4	-16.4
1988	-19.8	22.8	3.0	-34.6	-31.6	130.6	-24.2
1989	-18.8	29.0	10.2	-39.0	-28.8	145.8	-19.7
1990	-5.5	21.6	16.1	-34.2	-18.1	162.0	-11.2
1991	23.3	11.8	35.1	-31.4	3.7	164.2	2.3
1992	48.1	7.9	56.0	-30.0	26.1	177.5	14.7
1993	68.6	-1.9	66.6	-34.5	32.1	194.1	16.5
1994	41.3	5.8	47.1	-35.9	11.2	223.0	5.0
1995	29.3	31.6	60.9	-40.7	20.2	265.9	7.6
1996	63.9	0.9	64.7	-42.7	22.1	295.1	7.5
1997	89.1	-9.0	80.1	-47.6	32.5	327.4	9.9
1998	68.6	9.1	77.7	-50.3	27.3	327.4	8.3
1999	42.4	6.1	48.5	-51.2	-2.7	343.1	-0.8
2000	62.2	-8.2	54.1	-53.7	0.4	408.2	0.1
2001	35.1	16.2	51.2	-54.4	-3.1	391.4	-0.8
2002	-11.6	22.4	10.8	-52.6	-41.7	394.2	-10.6
2003	1.9	18.6	20.4	-57.8	-37.3	429.0	-8.7
2004	-8.8	8.9	0.0	-67.1	-67.1	524.5	-12.8
2005	21.7	-22.1	-0.4	-76.6	-77.0	629.3	-12.2
2006 [e]	0.5	-13.2	-12.7	-89.7	-102.4	752.9	-13.6

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

[a] Includes information for 19 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.

[b] Corresponds to net payments of profits and interest.

[c] Includes errors and omissions.

[d] Includes loans and the use of IMF credit and exceptional financing, which includes transactions such as external debt forgiveness and accumulation of arrears.

[e] Preliminary figures.

Table A-14

LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL ACCRUED INTEREST TO EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**18.6**	**20.0**	**19.1**	**14.1**	**14.4**	**12.6**	**11.6**	**9.4**	**9.8**	**4.2**
Argentina	28.6	34.3	40.8	37.9	39.4	35.6	29.0	24.6	14.2	9.8
Bolivia	14.8	15.0	15.7	14.3	10.4	7.6	6.8	6.3	6.6	…
Brazil	26.0	28.1	31.6	26.5	26.4	21.9	18.9	15.3	13.4	12.6
Chile	7.3	8.2	7.9	8.2	7.7	5.5	4.0	3.5	25.7	…
Colombia	22.2	19.1	15.2	16.8	17.1	17.6	15.3	12.8	12.0	9.9
Costa Rica	4.6	3.6	3.2	4.1	4.0	3.0	3.0	2.6	2.7	2.6
Dominican Republic	3.1	2.8	2.7	2.8	3.0	3.4	3.6	5.0	5.2	…
Ecuador	15.8	21.1	21.1	19.9	18.3	16.7	15.3	13.7	10.9	9.9
El Salvador	8.2	8.0	8.7	8.6	9.3	9.8	11.1	11.1	11.9	14.1
Guatemala	4.6	4.2	3.7	4.7	5.6	6.2	5.3	5.5	6.1	6.7
Haiti	3.6	2.4	2.4	1.8	2.1	3.2	3.0	2.3	6.2	1.7
Honduras	9.2	8.0	8.6	7.3	6.5	5.7	4.9	3.8	3.5	2.7
Mexico	17.9	18.8	16.0	7.6	7.4	6.9	6.6	5.6	5.3	…
Nicaragua	25.1	16.2	17.2	14.8	15.9	12.1	9.2	7.4	3.2	3.3
Panama	15.7	19.0	20.6	20.1	17.6	13.6	11.6	9.6	10.7	0.0
Paraguay	2.4	2.0	3.1	5.3	6.2	4.7	4.2	3.2	2.8	…
Peru	29.3	25.3	21.1	23.5	18.8	17.7	20.6	8.6	6.1	…
Uruguay	16.6	18.0	20.9	20.6	24.5	24.5	20.2	17.3	17.1	15.2
Venezuela (Bolivarian Republic of)	12.9	14.7	12.6	8.6	9.7	8.2	7.6	4.8	4.9	…

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

[a] Includes interest paid (without deducting interest received) and interest due but not paid.

[b] Preliminary figures.

Table A-15

LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFIT PAYMENTS TO EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**3.0**	**2.8**	**2.3**	**5.4**	**5.1**	**4.6**	**5.4**	**6.5**	**5.9**	**…**
Argentina	8.8	8.8	7.5	9.9	2.5	0.4	3.1	6.4	7.9	8.0
Bolivia	5.7	6.0	10.9	10.1	11.0	11.8	11.9	11.4	7.9	…
Brazil	10.3	10.2	9.3	6.6	7.4	8.5	7.2	6.3	8.2	8.4
Chile	10.0	6.9	7.0	10.9	10.0	10.8	17.3	21.0	…	…
Colombia	0.6	0.6	1.0	4.3	6.2	7.5	9.7	12.8	15.1	13.3
Costa Rica	3.4	5.6	20.9	14.7	8.3	4.9	7.9	3.8	1.7	4.9
Dominican Republic	10.1	11.1	12.1	11.9	13.0	14.0	15.6	17.6	18.1	…
Ecuador	3.2	4.6	4.7	4.7	5.9	4.9	5.9	8.0	6.9	5.9
El Salvador	...	1.0	3.5	1.6	2.0	2.3	2.1	1.9	4.1	1.9
Guatemala	5.1	3.7	4.3	5.8	4.4	5.7	6.6	5.2	5.7	5.7
Honduras	3.2	2.9	2.0	2.8	4.3	4.3	6.5	9.3	9.1	8.7
Mexico	-4.3	-4.6	-4.2	3.3	3.2	2.2	2.0	1.8	2.6	…
Nicaragua	5.9	6.2	6.5	6.3	6.9	6.3	5.9	4.8	4.4	3.7
Panama	6.1	7.8	10.1	7.2	7.1	2.6	8.6	10.9	9.7	…
Paraguay	3.8	4.3	3.6	2.9	3.6	1.6	2.2	5.5	4.0	…
Peru	1.0	1.1	1.9	1.7	2.0	2.0	2.2	15.6	20.2	…
Uruguay	0.9	1.4	2.0	2.4	3.1	-11.7	3.6	5.1	5.5	5.7
Venezuela (Bolivarian Republic of)	6.6	11.4	3.9	4.1	6.7	6.9	6.7	8.0	6.4	…

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

[a] Includes reinvestment of profits.

[b] Preliminary figures.

Table A-16

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT [a]

(Millions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**57 599**	**60 999**	**79 923**	**70 308**	**63 659**	**45 213**	**35 114**	**43 149**	**49 206**	**33 483**
Argentina [c]	5 507	4 965	22 257	9 517	2 005	2 776	878	3 832	3 579	869
Bolivia	728	947	1 008	734	703	674	195	63	-280	100
Brazil	18 608	26 002	26 888	30 498	24 715	14 108	9 894	8 339	12 550	-6 858
Chile	3 809	3 144	6 203	873	2 590	2 207	2 701	5 646	4 764	6 600
Colombia	4 753	2 033	1 392	2 069	2 509	1 283	820	2 975	5 751	3 949
Costa Rica	404	608	614	400	451	625	548	733	904	1 611
Dominican Republic	421	700	1 338	953	1 079	917	613	909	1 023	1 050
Ecuador	724	870	648	720	1 330	1 275	1 555	1 160	1 646	2 899
El Salvador [d]	59	1 103	162	178	289	496	123	430	300	222
Guatemala	84	673	155	230	456	111	131	155	208	325
Haiti	4	11	30	13	4	6	14	6	10	46
Honduras	122	99	237	282	193	176	247	325	272	299
Mexico [e]	12 831	12 409	13 631	17 588	21 800	18 154	14 003	14 509	12 460	17 300
Nicaragua	203	218	337	267	150	204	201	250	241	290
Panama	1 299	1 203	864	624	467	99	771	1 004	1 027	2 500
Paraguay	230	336	89	98	78	12	22	38	58	90
Peru	2 054	1 582	1 812	810	1 070	2 156	1 275	1 599	2 579	3 500
Uruguay	113	155	238	274	291	180	401	315	715	1 193
Venezuela (Bolivarian Republic of)	5 645	3 942	2 018	4 180	3 479	-244	722	864	1 400	-2 500

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

[a] Refers to direct invesment in the reporting economy, minus direct investment abroad by reporting-economy residents. Includes reinvested profits.

[b] Preliminary figures.

[c] For 1999, includes the value of the investment by REPSOL in Yacimientos Petrolíferos Fiscales. Part of this amount corresponds to the purchase of shares in the company held by non-residents. In the balance of payments, the value of those shares is reflected as a debit under the portfolio investment item.

[d] From 1998 onward the figures are not comparable, since up to 1997 no official records were kept.

[e] For 2001, includes the value of the investment by Citigroup in BANAMEX; for 2004, includes investment in Bancomer.

Table A-17

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES [a]

(Millions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005 [b]	2006 [c]
Latin America and the Caribbean	**55 635**	**40 406**	**44 107**	**40 255**	**38 503**	**20 208**	**37 906**	**36 383**	**45 054**	**30 097**
Argentina	15 571	15 931	14 900	13 468	2 711		100	200	540	2 826
Barbados				200	150				325	150
Belize						125	100			
Bolivia								108		
Brazil	15 839	8 380	11 180	12 068	13 010	6 857	19 364	11 603	15 334	11 292
Chile	1 800	1 063	1 765	676	1 515	1 694	3 200	2 350	1 000	562
Colombia	1 605	1 385	1 676	1 622	4 329	695	1 545	1 545	2 435	2 709
Costa Rica		200	300	250	250	250	490	310		
Dominican Republic	200				500		600		160	425
Ecuador	625								650	
El Salvador			150	50	354	1 252	349	286	375	925
Grenada						100				
Guatemala	150				325		300	380		
Jamaica	225	250		422	812	300		814	1 050	730
Mexico	15 250	8 914	11 441	9 777	11 016	6 505	7 979	13 312	11 703	5 589
Panama	1 146	325	500	350	1 100	1 030	275	770	1 530	1 776
Paraguay			400							
Peru	450	150				1 000	1 250	1 305	2 675	613
Trinidad and Tobago			230	250					100	500
Uruguay	479	550	350	641	856	400		350	1 062	1 900
Venezuela (Bolivarian Republic of)	2 295	3 259	1 215	482	1 575		2 354	3 050	6 115	100

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and data from the International Monetary Fund (IMF), Merrill-Lynch and J.P. Morgan.

[a] Includes sovereign, bank and corporate bonds.

[b] Not including US$ 584 million issued by the Andean Development Corporation (CAF) and US$ 200 million issued by the Central American Bank for Economic Integration (BCIE).

[c] Data to the third quarter. Not including US$ 250 million issued by the Andean Development Corporation (CAF) and US$ 250 million issued by the Latin American Reserve Fund (FLAR).

Table A-18

LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT [a]

(Millions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**680 332**	**742 694**	**762 267**	**738 237**	**744 560**	**733 062**	**757 775**	**761 344**	**656 130**	**632 849**
Latin America	**672 392**	**734 519**	**754 311**	**729 168**	**734 317**	**722 355**	**746 880**	**749 502**	**644 066**	**622 973**
Argentina	129 964	147 634	152 563	155 015	166 272	156 748	164 645	171 115	113 518	106 812
Bolivia [c]	4 532	4 659	4 574	4 460	4 497	4 400	5 142	5 045	4 942	4 673
Brazil	199 998	223 792	225 610	216 921	209 934	210 711	214 930	201 373	169 450	156 661
Chile	29 034	32 591	34 758	37 177	38 527	40 504	43 067	43 517	45 014	47 604
Colombia	34 409	36 681	36 733	36 130	39 101	37 329	38 012	39 445	38 350	37 209
Costa Rica [c]	2 640	2 872	3 057	3 151	3 175	3 281	3 733	3 884	3 626	3 611
Cuba [c]	10 146	11 209	11 078	10 961	10 893	10 900	11 300	12 000	…	…
Dominican Republic	3 572	3 546	3 661	3 682	4 177	4 536	5 987	6 380	6 756	7 021
Ecuador	15 015	16 221	15 902	13 216	14 376	16 236	16 756	17 211	17 237	16 900
El Salvador [c]	2 689	2 646	2 789	2 831	3 148	3 987	4 717	4 778	4 976	5 418
Guatemala [c]	2 135	2 368	2 631	2 644	2 925	3 119	3 467	3 844	3 723	4 063
Haiti [c]	1 025	1 104	1 162	1 170	1 189	1 212	1 287	1 316	1 335	1 375
Honduras	4 073	4 369	4 691	4 711	4 757	4 922	5 242	5 912	5 082	4 912
Mexico	149 028	160 258	166 381	148 652	144 526	134 979	132 271	130 922	127 089	130 946
Nicaragua [c]	6 001	6 287	6 549	6 660	6 374	6 363	6 596	5 391	5 348	5 336
Panama [c]	5 051	5 349	5 568	5 604	6 263	6 349	6 504	7 219	7 580	7 914
Paraguay	2 029	2 235	2 741	2 869	2 653	2 900	2 952	2 894	2 761	…
Peru	28 864	30 142	28 586	27 981	27 196	27 873	29 587	31 117	28 605	27 933
Uruguay [d]	4 945	5 467	8 261	8 895	8 937	10 548	11 013	11 593	11 441	11 464
Venezuela (Bolivarian Republic of)	37 242	35 087	37 016	36 437	35 398	35 460	39 672	44 546	47 233	43 120
Caribbean	**7 939**	**8 175**	**7 956**	**9 069**	**10 242**	**10 708**	**10 895**	**11 841**	**12 064**	**9 876**
Antigua and Barbuda [c]	347	395	398	391	405	434	494	527	313	…
Bahamas [c]	335	323	338	349	328	310	363	343	335	289
Barbados [c]	382	391	436	578	746	733	738	788	874	755
Belize [c]	...	230	254	430	486	577	754	851	933	922
Dominica [c]	89	91	132	150	175	202	219	207	208	…
Grenada [c]	101	103	113	137	153	260	278	330	400	…
Guyana [c]	1 513	1 507	1 211	1 193	1 197	1 247	1 085	1 071	1 094	1 082
Jamaica [c]	3 278	3 306	3 024	3 375	4 146	4 348	4 192	5 120	5 372	5 608
Saint Kitts and Nevis [c]	106	124	152	162	216	261	315	304	284	…
Saint Lucia [c]	134	134	152	170	204	246	324	344	350	…
Saint Vincent and the Grenadines	89	101	160	163	171	171	199	223	237	…
Suriname [c]	...	...	...	291	349	371	382	383	382	…
Trinidad and Tobago [c]	1 565	1 471	1 585	1 680	1 666	1 549	1 553	1 351	1 281	1 221

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

[a] Total gross external debt includes debt owed to the International Monetary Fund.

[b] Preliminary figures to June.

[c] Public external debt.

[d] For 1997 and 1998, figures refer to public external debt. From 1999 onwards, figures refer to total external debt.

Table A-19

LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL GROSS EXTERNAL DEBT[a] TO EXPORTS OF GOODS AND SERVICES

(Percentages)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**198**	**216**	**211**	**172**	**181**	**178**	**168**	**138**	**101**	**83**
Latin America	**203**	**222**	**217**	**177**	**186**	**181**	**172**	**141**	**103**	**83**
Argentina	420	473	546	496	533	538	479	431	245	197
Bolivia [c]	321	344	349	303	296	283	262	197	151	107
Brazil	338	381	409	336	311	301	257	185	126	99
Chile	133	161	165	160	172	179	162	114	94	70
Colombia	242	273	263	229	260	263	242	203	157	137
Costa Rica [c]	49	42	37	41	46	46	46	45	37	32
Cuba [c]	255	271	257	229	260	282	243	213	…	…
Dominican Republic	51	47	46	41	50	55	67	68	67	67
Ecuador	248	324	298	221	253	264	229	192	150	123
El Salvador [c]	92	87	88	77	88	105	115	108	109	112
Guatemala [c]	67	68	76	69	75	79	84	85	75	74
Haiti [c]	270	230	219	232	267	288	275	258	223	210
Honduras	186	180	210	189	196	196	195	190	148	131
Mexico	123	124	112	83	84	78	75	65	55	49
Nicaragua [c]	666	666	680	604	570	557	505	327	287	235
Panama [c]	60	65	78	72	78	84	86	82	71	64
Paraguay	51	54	95	98	109	120	108	83	70	54
Peru	345	400	372	330	321	302	274	210	146	108
Uruguay [d]	117	132	238	243	274	392	357	270	225	196
Venezuela (Bolivarian Republic of)	148	183	166	105	126	128	141	109	83	61
Caribbean	**68**	**68**	**61**	**57**	**69**	**73**	**65**	**61**	**53**	**53**
Antigua and Barbuda [c]	78	85	84	84	91	102	107	99	55	51
Bahamas [c]	18	17	15	12	15	12	15	13	11	10
Barbados [c]	31	30	33	42	56	57	52	52	50	42
Belize [c]	...	70	62	99	112	119	143	157	151	135
Dominica [c]	65	60	84	104	144	163	185	159	164	160
Grenada [c]	73	62	52	58	77	151	155	169	268	239
Guyana [c]	204	219	180	177	181	187	155	143	155	156
Jamaica [c]	96	98	87	94	124	135	119	131	131	126
Saint Kitts and Nevis [c]	76	85	104	108	141	170	191	158	135	128
Saint Lucia [c]	37	34	42	45	62	77	83	74	71	70
Saint Vincent and the Grenadines	60	64	91	91	97	96	115	121	117	108
Suriname [c]	...	...	...	48	69	65	55	38	27	21
Trinidad and Tobago [c]	52	50	46	35	34	34	26	18	14	17

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

[a] Total gross external debt includes debt owed to the International Monetary Fund.

[b] Estimates.

[c] Public external debt.

[d] For 1997 and 1998, figures refer to public external debt. From 1999 onwards, figures refer to total external debt.

Table A-20

LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES IN DOLLARS [a]

(Indices, December 2000=100)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [b]
Latin America and the Caribbean	**121.5**	**75.1**	**118.0**	**100.0**	**93.9**	**72.6**	**122.5**	**168.6**	**242.7**	**303.2**
Argentina	139.7	100.0	133.3	100.0	69.1	34.8	79.4	97.4	140.3	181.8
Brazil	113.9	65.4	109.2	100.0	77.7	51.9	105.9	141.8	212.7	267.1
Chile	122.9	86.0	116.4	100.0	94.8	80.7	145.9	176.9	202.4	233.8
Colombia	402.3	227.0	181.5	100.0	125.1	137.3	174.7	376.4	783.0	801.4
Mexico	114.2	69.9	125.6	100.0	112.2	93.6	123.5	182.8	262.7	331.9
Peru	189.9	114.5	138.5	100.0	112.3	146.9	263.1	294.9	366.1	613.1
Venezuela (Bolivarian Republic of)	187.8	90.5	79.0	100.0	79.9	51.8	59.2	88.9	69.4	105.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Finance Corporation (IFC).

[a] Year-end values; overall index.

[b] Figures up to October.

Table A-21

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATES [a]

(Index: 2000=100, deflated by CPI)

	1997	1998	1999	2000	2001	2002	2003	2004 [b]	2005 [b]	2006 [b c]
Latin America and the Caribbean [d]	**97.5**	**94.5**	**100.8**	**100.1**	**99.9**	**117.4**	**125.7**	**126.0**	**119.1**	**115.6**
Argentina	112.7	108.8	99.6	100.0	95.6	225.3	204.9	214.9	215.4	220.0
Bolivia	103.9	98.5	98.6	100.0	101.0	95.4	104.2	111.6	119.9	122.1
Brazil	69.9	72.3	108.2	100.0	120.1	132.1	131.0	124.7	101.8	90.6
Chile	90.8	92.5	98.3	100.0	111.3	109.1	114.6	107.0	101.7	97.1
Colombia	78.0	83.2	91.6	100.0	104.0	105.5	119.2	108.4	96.0	98.1
Costa Rica	101.1	99.8	101.8	100.0	97.0	97.4	103.4	106.8	108.4	108.2
Ecuador	64.8	64.7	89.2	100.0	70.9	61.8	60.2	62.8	65.6	65.7
El Salvador	104.0	101.9	100.4	100.0	99.6	99.6	100.1	100.3	101.7	102.1
Guatemala	88.3	88.1	98.7	100.0	95.7	88.5	88.6	86.0	79.9	77.5
Honduras	119.0	108.8	104.5	100.0	97.1	96.9	98.4	100.0	100.1	98.9
Jamaica	100.7	96.0	97.7	100.0	101.6	101.1	115.9	114.3	105.6	106.2
Mexico	119.9	119.1	108.9	100.0	93.5	92.9	104.5	109.4	106.1	106.5
Nicaragua	101.2	101.3	101.9	100.0	101.1	103.1	106.8	108.9	108.4	108.2
Panama	102.5	100.1	100.7	100.0	102.9	100.8	101.9	107.0	109.6	110.7
Paraguay	93.3	99.2	96.7	100.0	102.6	106.4	112.5	108.3	118.7	107.9
Peru	90.7	91.7	101.5	100.0	97.8	95.6	99.8	101.3	102.0	103.5
Uruguay	108.5	107.0	98.3	100.0	101.2	118.3	150.4	152.0	137.0	135.6
Venezuela (Bolivarian Republic of)	141.8	116.6	102.6	100.0	95.2	125.0	137.2	143.3	143.5	136.8

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

[a] Annual averages. A country's overall real effective exhange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by each partner's share in the country's total trade flows in terms of exports and imports. A currency depreciates in effective real terms when this index rises and appreciates when it falls.

[b] Preliminary figures, provisionally weighted by trade in 2003.

[c] January-October average.

[d] Simple average of the extraregional real effective exchange rate for 18 countries.

Table A-22

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
Latin America and the Caribbean [b]		**9.3**	**10.3**	**11.0**	**10.4**	**10.2**	**11.0**	**11.0**	**10.3**	**9.1**	**8.7**
Argentina [c]	Urban areas	14.9	12.9	14.3	15.1	17.4	19.7	17.3	13.6	11.6	10.4 [d]
Barbados [e]	Nationwide total	14.5	12.3	10.4	9.2	9.9	10.3	11.0	9.8	9.1	8.1 [f]
Belize [e]	Nationwide total	12.7	14.3	12.8	11.1	9.1	10.0	12.9	11.6	11.0	9.4 [g]
Bolivia	Urban total [h]	4.4	6.1	7.2	7.5	8.5	8.7	9.2	6.2	8.2	...
Brazil [i]	Six metropolitan areas	5.7	7.6	7.6	7.1	6.2	11.7	12.3	11.5	9.8	10.1 [j]
Chile [k]	Nationwide total	6.1	6.4	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.9 [j]
Colombia [e]	13 metropolitan areas [l]	12.4	15.3	19.4	17.2	18.2	17.6	16.7	15.4	14.0	13.0 [j]
Costa Rica	Urban total	5.9	5.4	6.2	5.3	5.8	6.8	6.7	6.7	6.9	6.0
Cuba	Nationwide total	7.0	6.6	6.3	5.5	4.1	3.3	2.3	1.9	1.9	1.9
Dominican Republic [e]	Nationwide total	16.0	14.4	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.4 [g]
Ecuador [e]	Cuenca, Guayaquil and Quito [m]	9.3	11.5	14.4	14.1	10.4	8.6	9.8	11.0	10.7	10.1 [j]
El Salvador	Urban total	7.5	7.6	6.9	6.5	7.0	6.2	6.2	6.5	7.3	5.7 [d]
Guatemala	Urban total	...	...	...	...	...	5.4	5.2	4.4	...	...
Honduras	Urban total	5.8	5.2	5.3	...	5.9	6.1	7.6	8.0	6.5	5.2 [n]
Jamaica [e]	Nationwide total	16.5	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3	11.2 [o]
Mexico	Urban areas	5.4	4.7	3.7	3.4	3.6	3.9	4.6	5.3	4.7	4.6 [j]
Nicaragua	Urban total [p]	14.3	13.2	10.7	7.8	11.3	11.6	10.2	9.3	7.0	...
Panama [e]	Urban total [q]	15.4	15.5	13.6	15.2	17.0	16.5	15.9	14.1	12.1	10.4
Paraguay	Urban total	7.1	6.6	9.4	10.0	10.8	14.7	11.2	10.0	7.6	...
Peru	Metropolitan Lima	9.2	8.5	9.2	8.5	9.3	9.4	9.4	9.4	9.6	8.5 [j]
Trinidad and Tobago [e]	Nationwide total	15.0	14.2	13.2	12.2	10.8	10.4	10.5	8.4	8.0	6.8 [o]
Uruguay	Urban total	11.5	10.1	11.3	13.6	15.3	17.0	16.9	13.1	12.2	11.6 [d]
Venezuela (Bolivarian Republic of)	Nationwide total	11.4	11.3	15.0	13.9	13.3	15.8	18.0	15.3	12.4	9.8 [j]

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

[a] Preliminary figures.
[b] The data for Argentina and Brazil have been adjusted to allow for changes in methodology in 2003 and 2002 respectively.
[c] New measurements have been used from 2003 on; these data are not comparable with the preceding series.
[d] Estimate based on data from January to September.
[e] Includes hidden unemployment.
[f] Figure for March.
[g] Figure for April.
[h] Up to 1999, the figures refer to departamental capitals.
[i] New measurements have been used from 2002 on; these data are not comparable with the preceding series.
[j] Estimate based on data from January to October.
[k] From 1998 onward, the data have been spliced with those of the sample used since 2006.
[l] Up to 1999, the figures refer to seven metropolitan areas.
[m] Up to 1999, the figures refer to the total for urban areas.
[n] Figure for May.
[o] Estimate based on data from January to June.
[p] Up to 1999, the figures refer to nationwide totals.
[q] Up to 1999, the figures refer to the metropolitan region.

Table A-23
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variations, December-December)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
Latin America and the Caribbean [b]	**10.7**	**10.0**	**9.7**	**9.0**	**6.1**	**12.2**	**8.5**	**7.4**	**6.1**	**4.8**
Antigua and Barbuda	...	...	...	...	...	2.5	1.8	2.8	2.5	…
Argentina	0.3	0.7	-1.8	-0.7	-1.5	41.0	3.7	6.1	12.3	10.0
Bahamas	0.8	1.9	1.4	1.0	2.9	1.9	2.4	1.9	1.2	2.5 [c]
Barbados	3.6	1.7	2.9	3.8	-0.3	0.9	0.3	4.3	7.4	7.7 [d]
Bolivia	6.7	4.4	3.1	3.4	0.9	2.4	3.9	4.6	4.9	4.7
Brazil	5.2	1.7	8.9	6.0	7.7	12.5	9.3	7.6	5.7	3.0
Chile	6.0	4.7	2.3	4.5	2.6	2.8	1.1	2.4	3.7	2.1
Colombia	17.7	16.7	9.2	8.8	7.6	7.0	6.5	5.5	4.9	4.3
Costa Rica	11.2	12.4	10.1	10.2	11.0	9.7	9.9	13.1	14.1	9.4
Cuba	1.9	2.9	-2.9	-3.0	-0.5	7.0	-1.0	2.9	4.2	5.5
Dominica	2.3	1.4	0.0	1.1	1.1	-1.2	2.8	0.8	2.7	3.6 [f]
Dominican Republic	8.4	7.8	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.2
Ecuador	30.6	43.4	60.7	91.0	22.4	9.3	6.1	1.9	3.1	3.2
El Salvador	1.9	4.2	-1.0	4.3	1.4	2.8	2.5	5.4	4.3	3.9
Grenada	0.9	1.2	1.1	3.4	-0.7	-0.4	1.1	2.5	5.8	…
Guatemala	7.1	7.5	4.9	5.1	8.9	6.3	5.9	9.2	8.6	4.4
Guyana	4.2	4.7	8.7	5.8	1.5	6.0	5.0	5.5	8.2	5.3 [d]
Haiti	15.7	7.4	9.7	19.0	8.1	14.8	40.4	20.2	14.8	11.8 [e]
Honduras	12.8	15.7	10.9	10.1	8.8	8.1	6.8	9.2	7.7	4.9
Jamaica	9.2	7.9	6.8	6.1	8.7	7.3	14.1	13.7	12.9	5.8 [e]
Mexico	15.7	18.6	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.1
Nicaragua	7.3	18.5	7.2	9.9	4.7	4.0	6.6	8.9	9.6	9.1
Panama	-0.5	1.4	1.5	0.7	0.0	1.9	1.5	1.5	3.4	2.0
Paraguay	6.2	14.6	5.4	8.6	8.4	14.6	9.3	2.8	9.9	8.9
Peru	6.5	6.0	3.7	3.7	-0.1	1.5	2.5	3.5	1.5	1.5
Saint Kitts and Nevis	11.3	0.9	3.2	...	...	1.7	3.1	1.7	7.2	…
Saint Lucia	1.9	3.6	6.1	0.4	0.0	-0.7	0.5	3.5	6.7	…
Saint Vincent and the Grenadines	0.8	3.3	-1.8	1.4	-0.2	2.4	2.2	1.7	3.9	2.5 [c]
Suriname	17.4	22.9	112.9	76.1	4.9	28.4	14.0	9.3	15.8	5.6 [e]
Trinidad and Tobago	3.5	5.6	3.4	5.6	3.2	4.3	3.0	5.6	7.2	9.6
Uruguay	15.2	8.6	4.2	5.1	3.6	25.9	10.2	7.6	4.9	6.2
Venezuela (Bolivarian Republic of)	37.6	29.9	20.0	13.4	12.3	31.2	27.1	19.2	14.4	15.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Twelve-month variation up to November 2006.
[b] The only English-speaking Caribbean countries included under this heading are Barbados, Jamaica and Trinidad and Tobago. In addition, the figures for 2005 and 2006 do not include Cuba.
[c] Twelve-month variation up to August 2006.
[d] Twelve-month variation up to July 2006.
[e] Twelve-month variation up to October 2006.
[f] Twelve-month variation up to September 2006.

Table A-24

LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES

(Average annual indices: 2000=100)

	1990	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [a]
Argentina [b]	94.7	95.0	95.0	97.8	100.0	99.5	85.9	83.9	92.2	97.7	106.9 [c]
Brazil [d]	103.0	105.7	105.8	101.1	100.0	95.1	93.1	84.9	85.5	85.2	88.1 [c]
Chile [e]	91.6	93.8	96.3	98.6	100.0	101.7	103.7	104.6	106.5	108.5	110.6 [c]
Colombia [b]	88.4	92.1	92.2	96.3	100.0	99.7	103.5	103.5	105.1	106.1	109.8 [f]
Costa Rica [g]	88.9	89.7	94.7	99.2	100.0	101.0	105.1	105.5	102.8	100.8	102.0 [c]
Mexico [b]	90.9	90.4	92.9	94.3	100.0	106.7	108.7	110.1	110.4	110.3	111.2 [c]
Nicaragua [g]	89.2	92.5	96.2	100.0	100.0	101.0	104.5	106.5	104.2	104.5	106.3 [c]
Paraguay	103.2	102.7	100.8	98.7	100.0	101.4	94.9	93.0	90.5	91.5	...
Peru [h]	104.2	103.4	101.3	99.3	100.0	99.1	103.7	105.3	106.5	104.4	105.4 [i]
Uruguay	97.8	98.0	99.7	101.3	100.0	99.7	89.0	77.9	77.9	81.5	85.0 [c]
Venezuela (Bolivarian Rep. of)	76.1	95.6	100.8	96.1	100.0	106.9	95.1	78.4	78.6	80.7	84.4 [c]

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

[a] Preliminary figures.

[b] Manufacturing.

[c] Estimate based on data from January to September.

[d] Workers covered by social and labour legislation. Private sector only from 2003 onwards.

[e] General index of hourly wages.

[f] Estimate based on data from January to August.

[g] Average wages declared by workers covered by social security.

[h] Private-sector manual workers in the Lima metropolitan area.

[i] Estimate based on the data for June.

Table A-25

LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR DEFICIT (-) OR SURPLUS [a]

(Percentages of GDP)

	Coverage [b]	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [c]
Latin America and the Caribbean [d]	**CG**	**-1.2**	**-2.3**	**-3.1**	**-2.7**	**-3.3**	**-3.2**	**-2.9**	**-1.9**	**-1.2**	**-0.3**
Argentina	NA	-1.4	-1.8	-3.1	-2.1	-4.0	-0.6	0.2	2.0	0.4	1.0
	NFPS	-1.5	-2.4	-4.5	-3.3	-7.0	-0.8	1.6	3.5	…	…
Bolivia	GG	-3.0	-3.3	-3.6	-4.6	-7.0	-8.0	-7.1	-5.4	-3.5	4.1
	NFPS	-3.3	-4.7	-3.5	-3.7	-6.8	-8.8	-7.9	-5.5	-2.3	5.2
Brazil	CG [e f]	-2.6	-5.4	-6.8	-3.1	-3.7	-6.4	-2.5	-1.3	-3.5	-4.0
	CPS [f]	…	-7.5	-5.8	-3.6	-3.6	-4.6	-5.1	-2.7	-3.3	...
Chile	CG	2.0	0.4	-2.1	-0.6	-0.5	-1.2	-0.4	2.1	4.7	7.6
	NFPS	1.4	-1.4	-3.3	-1.0	-0.4	-2.5	-1.3	3.3	…	…
Colombia	CNG [g]	-3.7	-4.8	-6.1	-5.4	-5.3	-4.9	-5.0	-5.5	-4.8	-5.3
	NFPS	-2.8	-3.7	-4.1	-4.0	-4.1	-3.5	-2.6	-0.9	-0.3	...
Costa Rica	CG	-2.9	-2.5	-2.2	-3.0	-2.9	-4.3	-2.9	-2.7	-2.1	-2.4
	NFPS	-0.8	-0.6	-1.7	-1.6	-1.6	-3.9	-2.4	-2.0	-0.4	...
Dominican Republic	CG	-1.6	-1.0	-1.8	-2.1	-2.4	-2.7	-5.2	-4.0	-0.7	-1.0
Ecuador	CG [h]	-1.2	-4.1	-2.9	0.1	-1.0	-0.7	-0.4	-1.0	-0.5	0.6
	NFPS [h]	-2.1	-5.2	-4.9	1.4	0.0	0.8	1.6	1.9	0.7	4.3
El Salvador	CG	-1.1	-2.0	-2.1	-2.3	-3.6	-3.1	-2.7	-1.1	-1.0	-0.4
	NFPS	-1.8	-2.6	-2.8	-3.0	-3.6	-3.3	-2.1	-0.6	-1.1	0.0
Guatemala	CA	-0.8	-2.2	-2.8	-1.8	-1.9	-1.0	-2.3	-1.0	-1.5	-1.5
Haiti	CG	-0.6	-1.2	-2.2	-2.3	-2.2	-2.7	-2.9	-3.3	-0.5	0.2
Honduras	CG	-2.5	-1.1	-3.6	-4.9	-5.3	-4.8	-5.6	-3.1	-2.6	-1.0
	NFPS	-1.0	2.9	4.1	3.7	3.3	-1.8	-4.2	-1.7	-0.3	...
Mexico	CG [i]	-1.1	-1.4	-1.6	-1.3	-0.7	-1.8	-1.1	-1.0	-0.8	0.3
	PS	-0.7	-1.2	-1.1	-1.1	-0.7	-1.2	-0.6	-1.0	-0.8	0.3
Nicaragua	CG	-0.8	-1.1	-3.3	-4.8	-7.3	-2.5	-2.8	-2.2	-1.8	-1.6
	NFPS	-1.0	0.4	-2.2	-4.5	-6.2	-1.9	-2.3	-1.3	-0.9	-1.1
Panama	CG	-0.3	-4.2	-2.0	-1.1	-1.7	-1.9	-3.8	-5.4	-3.9	-2.9
	NFPS	0.1	-2.3	-0.9	0.7	-0.4	-2.0	-4.8	-4.9	-2.5	2.0
Paraguay	CA	-1.6	-1.1	-3.8	-4.6	-1.2	-3.2	-0.4	1.6	0.8	0.8
	NFPS	-1.0	0.4	-3.1	-4.0	-0.1	-1.9	1.1	2.3	1.5	...
Peru	CG	-0.8	-1.1	-3.1	-2.8	-2.8	-2.1	-1.7	-1.3	-0.7	0.3
	NFPS	0.1	-1.0	-3.2	-3.4	-2.4	-2.2	-1.7	-1.0	-0.3	...
Uruguay	CG	-1.6	-1.2	-3.9	-3.5	-4.5	-4.9	-4.6	-2.5	-1.6	-1.8
	NFPS [j]	-0.9	-0.5	-3.8	-3.7	-4.0	-3.8	-2.8	-0.8	-0.3	...
Venezuela (Bolivarian Rep. of)	CG	2.0	-4.0	-1.7	-1.7	-4.4	-4.0	-4.4	-1.9	1.7	1.0
	RPS	3.7	-4.5	0.7	4.4	-4.6	-1.0	0.2	…	…	…

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

[a] Total income minus total expenditure, expressed in local currency.

[b] Abbreviations used: CA = Central administration; CG = Central government; CNG = Central national government; CPS = Consolidated public sector; GG = General government; NA = National administration; NFPS = Non-financial public sector; PS = Public sector; RPS = Narrowly defined public sector.

[c] Preliminary figures.

[d] Simple average.

[e] Includes the federal government and the central bank.

[f] Nominal balance.

[g] These results do not include adjustments for accruals, floating debt or the cost of financial restructuring.

[h] In 2003, does not include US$ 130 million that the Office of the Under-Secretary of the National Treasury de-earmarked from central government accounts.

[i] Includes the federal government and social security.

[j] Does not include departmental governments.