

2006-2007



Economic Survey

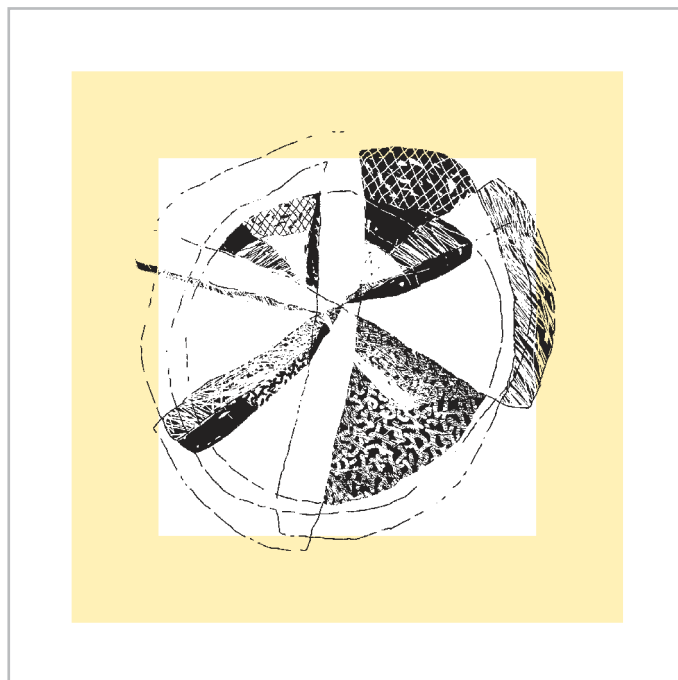
OF LATIN AMERICA
AND THE CARIBBEAN



UNITED NATIONS

ECLAC

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AND THE CARIBBEAN**



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The *Economic Survey of Latin America and the Caribbean* is issued annually by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC). This 2006-2007 edition was prepared under the supervision of Osvaldo Kacef, Officer-in-Charge of the Division; Jürgen Weller was responsible for its overall coordination.

In the preparation of this edition, the Economic Development Division was assisted by the Statistics and Economic Projections Division, the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), the Division of International Trade and Integration, the ECLAC subregional headquarters in Mexico City and Port of Spain and the country offices of the Commission in Bogotá, Brasilia, Buenos Aires and Montevideo.

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Notes

The following symbols have been used in the tables shown in the Survey:

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

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

A full stop (.) is used to indicate decimals.

The word "dollars" refers to United States dollars unless otherwise specified.

United Nations Publication

ISBN: 978-92-1-121640-0

ISSN printed version: 0257-2184 ISSN online version: 1681-0384 - CD-ROM: 1811-6191

LC/G.2338-P

Sales No.: E.07.II.G.2

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Printed in Santiago, Chile

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Foreword

ECLAC has been publishing the *Economic Survey* for 59 years now. The first edition of this report was drawn up under the Executive Secretary's supervision at the behest of the Commission, which requested that "an economic survey of Latin America" be prepared. That document was the new Economic Commission's first contribution to an understanding of the region's development process. The *Survey* thus embodies the Commission's fulfilment of one of the specific purposes for which it was created by undertaking or sponsoring "the collection, evaluation and dissemination of ... economic, technological and statistical information ..." ¹ on the region. In fact, the former Director of the Central Bank of Argentina, Raúl Prebisch, arrived in Santiago as a consultant to work on the 1948 edition of the *Economic Survey*. Ever since then, the *Survey* has served as a witness and as a leading actor in the economic development of Latin America and the Caribbean.

This flagship publication of ECLAC, which Alberto Hirschman once described as the "Latin American manifest," (Bielschowsky, 1998), is one of the most frequently quoted reports of its kind in the region. As the sixtieth anniversary of the *Economic Survey for Latin America and the Caribbean*

approaches, it has been restructured with a view to making it even more useful for its readers. In a reformulation that harks back to the early editions of the *Survey*, from now on the analysis of the current economic situation that is a customary part of this publication will be supplemented by an additional section. The studies making up this new section will deal with a significant issue relevant to the region's economic development and will provide analyses extending beyond the scope of an examination of current trends. It is hoped that this new addition will contribute to "the long and difficult task of preparing a complete and fully documented study of economic conditions". ² Its aim is to provide further inputs for the economic debate concerning means of promoting a rapid, sustainable growth process capable of creating conditions conducive to an improvement in the living conditions of the Latin American and Caribbean population.

This change also accommodates the recent evolution of the *Survey's* "sister publication," the *Preliminary Overview of the Economies of Latin America and the Caribbean*, which is published at the close of each year. Thanks to the growing availability of information, together with a major effort to analyse and synthesize the relevant data,

¹ Economic and Social Council resolution 106(VI) of 25 February 1948.

² Letter of transmittal accompanying the 1948 edition of the *Economic Survey*, September 1949.

the *Preliminary Overview* has gradually become a more detailed, indepth examination of the economic situation in the region. Consequently, the *Overview* now furnishes much of the information that the *Economic Survey* has traditionally provided.

The first chapter of this fifty-ninth edition, entitled “Regional overview,” surveys the main economic events and developments of 2006 and the first half of 2007 in the light of the region’s recent economic performance. This chapter is supplemented by a statistical appendix that is considerably more extensive than those of previous editions.

The next three chapters describe various aspects of the region’s economic growth dynamics. Chapter II explores the relationships among investment, saving and growth in the past few decades. Chapter III looks at economic growth patterns and, more specifically, transitions from one pattern to another and the role that factors such as investment, saving and productivity play in those transitions. Chapter IV addresses a number of the issues involved in

the current debate about the problems and characteristics of economic growth in Latin America and the Caribbean based on the points raised at a workshop on the subject held in June 2007.

The following section presents an analysis of the economic situation in the countries of Latin America and the Caribbean in 2006 and the first half of 2007. These individual country reports include statistical tables that illustrate trends in a number of the main economic indicators. As in the preceding edition of the *Economic Survey*, these reports, along with the statistical appendix, are contained in the CD-ROM that accompanies the printed publication and are also available on the ECLAC web portal (www.eclac.org). The tables provided in the statistical appendix provide ready access to data for recent years and facilitate the creation of spreadsheets. The CD-ROM also contains the electronic version of the chapters appearing in the printed publication.

The statistical information presented in this publication reflects the data available as of 30 June 2007.

Executive summary

Against the backdrop of an extraordinary performance on the part of the world economy, which is enjoying solid, widespread growth, the Latin American and Caribbean countries are currently going through extremely favourable economic times. Almost all of the countries of the region have been growing steadily since 2003. In 2006, the region posted a growth rate of 5.6%, and ECLAC projections point to GDP growth of 5.0% for 2007 and 4.6% in 2008. If these projections are borne out, the region's per capita GDP will have risen by 20.6% (over 3% per year, on average) by the time it completes its sixth consecutive year of growth.

During 2006 a further deepening was observed in two trends associated with this growth phase that have set it apart from previous growth spells in the region: the surplus on the balance-of-payments current account and the positive primary balance posted by the public sector.

The current account surplus is largely attributable to an improvement in the region's terms of trade, which have risen by the equivalent of 3.4% of GDP. This trend is, by and large, confined to the South American countries, however, as neither the Central American nations nor most of the Caribbean countries have seen any upturn in their relative export prices.

The primary surplus recorded in 2005 and 2006 reflects an increase in fiscal revenues that has more than outweighed the expansion of public expenditure. This represents a departure from the preceding years, when spending levels had risen less, on average, than GDP. The countries that have witnessed the sharpest upswing

in fiscal revenues are the same ones whose terms of trade have improved the most. In a majority of the countries, the increase in spending has been almost entirely accounted for by rising current expenditures (which were up by 0.4% of GDP), while capital outlays have remained nearly constant (up by 0.1% of GDP).

The generation of hefty primary surpluses, debt restructurings, the HIPC Initiative and the appreciation of the countries' currencies against the dollar have all played a role in reducing the public debt relative to GDP. At the central government level, the simple average for this ratio fell from 43.9% in 2005 to 37.0% in 2006. In addition, the countries of the region have been taking advantage of these favourable macroeconomic conditions to implement active liability management policies that have helped them to diminish their financial vulnerability.

Another hallmark of the current growth phase is that, as a result of the combination of fairly low international interest rates, better terms of trade and large flows of remittances, the expansion of national income at constant prices is outpacing GDP growth. Since national income is also climbing faster than consumption levels, the region's rising national savings rates are providing financing for a higher level of investment.

As in 2004 and 2005, in 2006 the volume of exports of goods and services for the region as a whole expanded more swiftly (7.3%) than GDP. In addition to the unremitting external demand for the region's raw material exports, the pace of economic activity and domestic demand in the Latin American and Caribbean

countries have spurred intraregional trade in manufactures. The volume of imports of goods and services surged by 14.2% and therefore outstripped the growth of exports for the third year in a row. The 3% reduction (appreciation) in the Latin American and Caribbean region's average real effective exchange rate relative to the rest of the world in 2006 may have been a contributing factor in this connection. South America witnessed a sharper appreciation than the regional average, which came to 4.6% in 2006, while, on average, the currencies of the Central American nations, Caribbean countries and Mexico appreciated very slightly (1%).

Internal demand performed well in 2006 (7.1%), as it had in 2004 and 2005 as well, thanks to stronger growth in gross fixed capital formation (13.4%) and, to a lesser extent, in consumption (6%). Gross fixed capital formation amounted to the equivalent of 20% of GDP in 2006. This is the highest figure to be recorded in 1990-2006, although it still falls short of the peak levels of the 1970s.

The steady rise in the level of economic activity was reflected in an improvement in labour-market indicators. Not only did the unemployment rate slip from 9.1% in 2005 to 8.6% in 2006 (the projected rate for 2007 is 8.3%), but job quality also rose, as is demonstrated by the increasing percentage of total employment that is accounted for by formal wage employment. After several years during which wage hikes had been held back, first, by a very sluggish labour market and, then, by the fact that the impact of stronger labour demand was concentrated in the number of jobs rather than wage levels, in 2006 average real wages in the formal sector rose by over 2% at the regional level for the first time since 1997. (The weighted average increase was 2.8%, but the median of national rates of wage increases was 1.9%.) The approximately 3% expansion in employment, the upward adjustment of real wages and the strong growth of credit all played a part in the fairly sharp rise in household consumption.

The weighted average inflation rate for Latin America and the Caribbean was 5% in 2006 (down from 6.1% in 2005). As a simple average, the region's rate of inflation fell from 7.3% in 2005 to 6.4% in 2006. This result fits in with the downward trend observed in this indicator since 2002, when the regional rate was 12.2%.

With the level of economic activity climbing steadily in most of the countries and expectations of higher inflation as a consequence of strong commodity (and especially energy) prices, as well as a measure of concern about the possibility of overheating, most of the countries' central banks followed a strategy involving a gradually less expansive monetary stance. Brazil and, to a lesser extent, Mexico were the most notable exceptions to this rule, however. Nonetheless, real interest rates remained fairly low in relation to their historical levels.

During 2006 the Latin American and Caribbean region continued to reinforce its net external liability position and reduce its vulnerability both by diminishing its liabilities and raising its level of reserve assets. The surplus on the basic balance, which amounted to 2.6% of GDP, reflected a current account surplus equivalent to 1.6% of GDP and some US\$ 30 billion in net FDI. This helped the region to continue paying down its external debt and building up its reserves. In fact, its greater domestic savings capacity and improved fiscal accounts, as well as the more favourable conditions seen on international financial markets in recent years and the domestic policy incentives generated by the downward adjustment of domestic interest rates and the greater uncertainty associated with more flexible exchange-rate regimes, have led to a striking reduction in the region's external debt burden, whether measured in terms of GDP (in 2006 it shrank from 26% to 22%) or in terms of regional exports (from 101% to 84%). In addition, in a trend that mirrors (although on a smaller scale) what is happening in other parts of the world, the countries of the region have expanded their international reserves by nearly US\$ 50 billion.

The more buoyant financial conditions generated by the liquidity of international capital markets have also enabled the countries to improve their debt profiles with longer maturities and lower rates while at the same time increasing the share of their obligations that are denominated in local currencies. Their vulnerability to external shocks has also declined, thanks to the fact that a number of the region's economies, particularly in South America, are less dollarized than they used to be.

Not all the countries of the region have been able to capitalize upon the favourable external environment to the same extent, however. The export prices of the Central American countries and many Caribbean nations, in particular, have not improved, and the trends in their terms of trade and current accounts have therefore been less positive, although some of these countries did receive hefty inflows in the form of remittances. In addition, gross national income and investment have been more sluggish in these countries, they have been registering fiscal deficits, and their external positions are often more vulnerable than those of the South American countries in terms of their levels of international reserves and external debt.

Trends in the international economy and the relative strength of the region's economies provide grounds for cautious optimism about the near future. The region's growth rate for 2007 is projected at 5.0%, and it is likely to maintain its current account surplus. Investment continues to be the component of demand that is doing the most to drive growth, and although private consumption is making a steady recovery, it is expected to grow less than national income in 2007 once again, which means that national savings rates should rise further. Net exports

will once again be negative, however, as a consequence of the slackening growth of total exports and rising imports, which are being spurred by brisker economic activity and lower real exchange rates. Another promising development is the declining unemployment rate, which is expected to slip to 8.3% for 2007, a level similar to the rates recorded in the early 1990s. On the other hand, although the simple average inflation rate for the region has been stable in the early months of 2007, it has been picking up in a number of countries, and the pressure coming from both the demand and supply sides could signal a more widespread upturn in inflation within the region.

Although the characteristics of the present growth phase compare favourably with those of earlier growth spells, they also pose some dilemmas for economic policymakers that may not only influence short-term economic trends but could also have an impact on the shape of each country's production profile.

More specifically, excess supply on currency markets has exerted downward pressure on the countries' real exchange rates, with the strength of that pressure varying from one nation to the next. As a result, their real exchange rates have been appreciating steadily in the early months of 2007. This is particularly the case in the South American economies and is beginning to be a cause of some concern as exports begin to lose momentum. If real exchange-rate trends come to be seen as a problem in the short run, economic authorities may be forced to choose between sacrificing some degree of monetary independence and putting up with some degree of exchange-rate appreciation. The problem may be mitigated to some extent, depending on the central banks' ability to use open market operations to sterilize the expansion of the money supply associated with the decision to maintain the real exchange rate at a given level. This might, however, simply shift the problem into the future by generating a quasi-fiscal deficit that will have to be dealt with sooner or later.

Fiscal policy can also be used to help stabilize the exchange rate either through the adoption of countercyclical measures or through the establishment of stabilization funds. It becomes easier to make use of these types of tools when the public sector is a major commodity producer and exporter.

In 2003-2006, the Latin American and Caribbean countries' public accounts reflected a steep rise in revenues and an initially prudent approach to the management of public expenditure which later began to give way to an accelerating upswing in outlays. This poses a range of problems, starting with the procyclical pattern of spending, which tends to amplify fluctuations in the business cycle rather than smoothing them out. In addition, in many cases the increase in spending has occurred in response to higher revenues which are, in turn, largely derived

from climbing export prices. Since these types of price trends may be short-lived, this situation may give rise to a financing problem. Furthermore, higher levels of public spending may, directly or indirectly, put added downward pressure on the real exchange rate.

This is why ECLAC has repeatedly advocated the formation of a fiscal covenant by the governments of the region which would allow them to make legitimate increases in expenditures without scrapping the effort they have been making to balance public accounts on a sustainable basis. This will also entail taking a more prudent policy approach during the upswing of the business cycle by delinking revenues from expenditures or by lowering the public debt. The primary task that the region has before it in this area is thus the development of institutions capable of consolidating acyclical fiscal policies.

Finally, the countries of the region need to concern themselves with the increasing incorporation of knowledge into the production structure. In order to accomplish this, they need to boost investment in physical and human capital and achieve gains in total factor productivity in order to enable the region to position itself successfully in the world arena and consolidate a sustainable growth process.

As a means of contributing to this debate, this year's edition of the *Economic Survey* not only examines the economic situation in 2006 and 2007 and explores the economic policy challenges that it raises, but also offers a study on the features and dynamics of the region's economic growth over a longer time span (1960-2002), with special attention to its linkages with investment and saving. Based on the literature on the subject and the use of various empirical methods to analyse the available data on six large and medium-sized countries in the region, this study demonstrates the importance of fixed investment as the chief source of economic growth. Nonetheless, total factor productivity is what accounts for the differences among the various countries' growth rates. Labour's contribution to this aggregate varies considerably from one country to the next, with skilled human capital exerting a stronger influence than manpower in general.

Investment in machinery and equipment is the component of fixed investment that contributes the most to economic growth, and private investment has a greater growth effect than public investment. In fact, the mutual causality that has been found to exist between private investment and economic growth contributes to a deeper understanding of the vicious and virtuous circles that have taken shape throughout the region's economic history.

Other elements that make a significant contribution to economic growth include price stability, success in keeping the external debt under control and—in line with the importance of skilled human capital discussed

earlier— education. Secondary education, in particular, made a valuable contribution to economic growth in the 1960s and 1970s, but its influence began to decline in the 1980s and has diminished further since then as the coverage of this level of education steadily expands. This trend attests to the mounting importance of higher education and other forms of instruction and training that promote the dynamic adoption of new technologies and, through them, gains in total factor productivity and economic growth.

An analysis of nine countries in the region corroborates the positive correlation between national saving, on the one hand, and economic growth, public saving and financial deepening, on the other, as well as the negative association between national and external saving. This negative relationship is attributable to the crowding out of the former by the latter, which limits the impact of any increase in external saving on investment. Be this as it may, a clear-cut form of causality between saving and growth cannot be established, and the available information appears to point to the existence of mutual causalities which may flow in one or the other direction depending on the specific constraints found in each case.

A positive relationship between national saving and inflation was also identified. This is interpreted as being a sign of the presence of precautionary saving behaviour. It is possible, however, that this is not a linear relationship, since, when inflation is high, saving as well as investment and growth tend to decline. The study did not find any significant correlations between national saving and interest rates, the terms of trade, trade openness, income distribution, per capita GDP or the dependency rate (youth and older adults as a percentage of the working-age population). The conclusion drawn from these findings is that a high national savings rate appears to be a necessary condition for rapid economic growth, but that neither it nor a high investment rate is a sufficient one.

These general conclusions mask a wide variety of specific conditions, however. Chapter III is devoted to an analysis of the differing situations existing in eight countries of the region in terms of economic growth rates, investment, national saving and external saving, along with the co-movements in these variables registered in these countries. This analysis demonstrates that the characteristics of a number of growth spells that have occurred in the region cannot be interpreted on the basis of general econometric studies or economic theories.

Although a high rate of investment is necessary to maintain a rapid pace of economic growth, growth accelerations often precede rising investment rates, while in many other cases, a steep drop in the growth rate has preceded a downturn in investment. Moreover, not all investment accelerations give rise to higher growth rates.

By the same token, and despite the close correlation between national saving and investment, not all growth accelerations have been accompanied by an increase in the national savings rate, since there have been times when higher growth has been underpinned by rising external savings levels. In some instances, such upturns in external saving have led to higher investment, but in others, they have fuelled consumption instead. The crowding-out of national saving by external saving has been more marked when external saving is on the rise, whereas the negative correlation between the two has been weaker when external saving is on the decline.

Accelerations or decelerations in growth, investment and external savings rates often occur simultaneously in the countries of the region. This is probably a reflection of their economic interdependence and of the fact that they are subject to many of the same repercussions from extraregional processes. National savings rates, in contrast, are mainly a function of processes that are specific to the countries concerned.

In conclusion, no common or constant pattern can be discerned in terms of the co-occurrence or sequencing of variations in economic growth, investment, national savings and external savings rates. Because of the interaction between shared factors and specifically national factors, these patterns vary across countries and over time. Consequently, the application of general theories or econometric findings can lead to erroneous interpretations of growth processes and to oversimplifications that can impair the formulation of successful growth-promoting policies for the region.

The fourth chapter of this year's *Survey* looks at a number of recent analyses of the region's growth process and its bottlenecks, including possible reasons why total factor productivity has risen so slowly and why countries have had so much difficulty in finding their way back to a growth path in the aftermath of economic crises. The chapter concludes with brief analyses of recent growth spells in Argentina, Brazil, Mexico and the Central American and Caribbean countries in which it pinpoints some of the specific factors interfering with the attainment of higher and sustained economic growth rates in each country and subregion.

Chapter I

Regional overview

A. Highlights of recent trends in the economies of Latin America and the Caribbean

Conditions in the Latin American and Caribbean economies have been highly favourable, and this has been reflected in the sustained growth of nearly every country in the region since 2003. In 2006, the region posted a growth rate of 5.6%, and ECLAC is projecting GDP growth of 5.0% for 2007 and 4.6% for 2008. If these projections are borne out, the region will have registered a cumulative increase of 20.6% in per capita GDP (somewhat over 3% per year) by the time it completes its sixth consecutive year of growth in what appears to be turning into the strongest (and longest) growth spell since 1980.

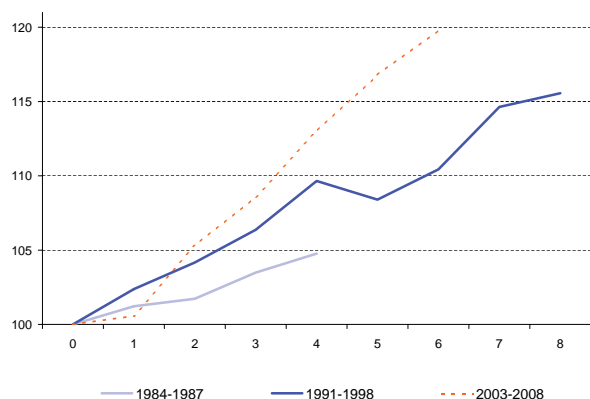
As noted in earlier editions of the *Economic Survey*, this growth period is unusual not only in quantitative terms (i.e., its scale and duration), but also in various qualitative dimensions having to do with the stability of key macroeconomic variables both in the region as a whole and in almost all the individual countries within it. In fact, during these years, growth has been accompanied, at the aggregate level, by surpluses in both the balance-of-payments current account and in the public sector's primary balance.

The current account surplus is chiefly attributable to the upswing in the terms of trade seen mainly in the South American countries. In addition, very large foreign-exchange inflows in the form of emigrant

workers' remittances are being received by Mexico, by some countries in the Caribbean and South America (such as Ecuador and Colombia) and by various Central American nations.

Unlike what has customarily occurred during past periods of economic growth, public expenditure has not followed the widespread upturn in fiscal revenues, at least during the early years of this present growth phase. The way in which public accounts have been managed in recent years has resulted in an increase in the primary surplus and the virtual elimination of the global deficit. This, in turn, has paved the way for a significant reduction in public debt levels, as will be discussed in greater detail below.

Figure I.1
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP
(Year prior to the first year of growth=100)



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

During recent years, the countries of the region have also strengthened their external positions. The factors that have made this possible include not only the above-mentioned improvement in their current accounts but also the liquidity of international capital markets. Although the countries' balance-of-payments capital and financial accounts are still not registering a positive inflow (net of foreign direct investment), these conditions have been reflected in declining levels of country risk.

The question arises as to why net financial flows to Latin America and the Caribbean are negative at a time of such abundant liquidity. First of all, low domestic interest rates and the greater uncertainty associated with the flexible exchange-rate regimes now in use have spurred borrowing on local financial markets. In addition, an analysis encompassing both the real and financial sectors of the economy suggests that domestic demand has not grown enough, given the countries' present export volumes and terms of trade, to generate a foreign-exchange shortage that would then have to be covered with external resources. Consequently, it may be argued that investment has not been high enough to attract larger capital inflows to finance it and that this is what has prevented the region from posting higher growth rates than those seen in recent years.

This relatively abundant supply of foreign exchange has been reflected, first of all, in rising international reserves and declining levels of net external borrowing. The behaviour of public accounts has also been a contributing factor in this last regard. In addition, better financial conditions have allowed the countries to improve their debt profiles in terms of both maturities and interest rates while at the same time increasing the relative share of local-currency debt.

Another conspicuous aspect of this growth phase is that, owing to the combination of lower international interest rates, better terms of trade and higher remittances, national income (measured at constant prices) has been growing faster than GDP. Since the growth of national income has also been systematically outstripping the expansion of consumption, the resulting increase in national saving has made it possible to finance increasingly higher investment levels. Consequently, the ratio of gross capital formation to GDP is at its highest level of the last 25 years, although still below the peak levels reached in the 1970s.

The continuing increase in economic activity has also led to an improvement in labour-market indicators. The unemployment rate, for example, is down from 9.1% in 2005 to 8.6% in 2006 (and is projected to slip to 8.3% for 2007). Job quality is also improving, as demonstrated by the expanding proportion of the increase in total jobs represented by formal wage employment.

Table I.1
GDP GROWTH RATES
(Percentages based on figures expressed in millions of dollars at constant 2000 prices)

Country	2004	2005	2006 ^a	2007 ^b	2008 ^b
Latin America and the Caribbean	6.2	4.6	5.6	5.0	4.6
Latin America	6.2	4.6	5.5	5.0	4.6
South America	7.4	5.3	5.8	5.7	4.9
Central America and Mexico	4.1	3.2	5.1	3.6	4.0
Argentina	9.0	9.2	8.5	7.5	5.5
Bolivia	4.2	4.1	4.6	4.2	5.0
Brazil	5.7	2.9	3.7	4.5	4.5
Chile	6.0	5.7	4.0	6.0	5.0
Colombia	4.9	5.2	6.8	6.8	5.5
Costa Rica	4.3	5.9	7.9	6.0	5.5
Ecuador	7.9	4.7	4.1	3.5	3.5
El Salvador	1.8	2.8	4.2	4.5	4.0
Guatemala	3.2	3.2	4.6	5.0	4.5
Haiti	-3.5	1.8	2.3	3.5	3.5
Honduras	5.0	4.1	6.0	5.5	5.0
Mexico	4.2	3.0	4.8	3.2	3.7
Nicaragua	5.3	4.0	3.7	4.3	4.0
Panama	7.5	6.9	8.1	8.5	7.5
Paraguay	4.1	2.9	4.2	4.0	3.5
Peru	5.2	6.4	8.0	7.3	6.0
Dominican Republic	2.7	9.2	10.7	7.5	6.0
Uruguay	11.8	6.6	7.0	5.2	4.5
Venezuela (Bolivarian Rep. of)	18.3	9.3	10.3	6.8	4.5
Caribbean	4.7	4.7	7.3	5.5	5.1
Bahamas	1.8	2.7	6.0	4.5	...
Barbados	4.8	4.1	3.8	4.0	...
Belize	4.6	3.5	5.8	2.5	...
Guyana	1.6	-2.0	4.7	5.0	...
Jamaica	1.0	1.4	2.5	3.0	...
Suriname	7.7	5.6	5.8	5.0	...
Trinidad and Tobago	8.8	8.0	12.0	8.0	...
Eastern Caribbean Currency Union (UMCO)	5.1	6.1	7.1	5.5	...
Cuba ^c	5.4	11.8	12.5	...	...

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

^a Preliminary figures.

^b Projections.

^c Data supplied by the National Statistics Office of Cuba.

B. The international environment

The favourable conditions being experienced by Latin America and the Caribbean in recent years have been set against the backdrop of an extraordinarily strong performance by the world economy, which has been enjoying solid, widespread growth. In 2006, the world economy grew by 4%, with 96 out of a total of 159 countries surveyed reporting per capita GDP growth rates above 3%.¹ Of these countries, 63 are developing economies, and 13 of the latter are within the Latin American and Caribbean region. Global growth is expected to slow to 3.4% in 2007, principally as a consequence of the tendency exhibited by the United States' GDP. As the year progresses, however, it is becoming increasingly apparent that the slowdown seems to be tapering off and that the second half of 2007 will therefore be better than the first. As a result, the global economic growth rate for 2008 is projected at 3.8%.

Among the developed nations, one of the most significant factors is the slowing of United States GDP growth from 3.3% in 2006 to an estimated 2.1% in 2007. This economy's weakness in 2007 is attributed to the problems that have arisen in the mortgage market and the high level of household debt (measured as a percentage of household consumption), which has underpinned growth in the United States in recent years. Although exports have strengthened in relative terms, the deficit that the United States is running on its external accounts remains very high and continues to have the potential to exert downward pressure on the dollar.

In the euro area, a growth rate of 2.5% is expected for 2007, which is slightly lower than the 2.7% rate posted in 2006. Exports and investment continue to be the main driving forces for the expansion of demand, but private consumption is beginning to make a strong recovery. The German economy has been particularly strong, with a growth rate of 2.8% in 2006, to be followed by a projected rate of about 2.5% in 2007. This slight slowdown will probably be evident in all the rest of the European economies as well.

Japan's economy is turning in a solid performance and is expected to grow by 2.1% in 2007, thus maintaining a pace quite similar to what was seen in 2006, when it grew by 2.2%. In fact, the economy has been expanding steadily since 2003, with an average annual growth rate for this period of 2.5%. Although the external sector continues to be the economy's major engine of growth, investment has also been a pillar of growth in recent years and is expected to remain strong. In addition, the improvement seen in the country's labour markets is expected to have a positive impact on household consumption.

As usual, the Chinese economy's behaviour makes it stand out among the developing countries, with a growth rate of 10.7% in 2006. Its rate of expansion is expected to remain at very high levels, although slightly lower, at 10.1%, for 2007. This forward momentum is powered by exports as well as by the country's enormous and vigorous domestic market, which is an increasingly important one for exports from other Asian countries and developing nations in general, including those of Latin America.

The other large developing country that is conspicuous for its economic performance is India, which posted a growth rate of 9.0% in 2006. This economy's pace of expansion is expected to slow in 2007 as a consequence of its already high levels of installed-capacity use and inflationary pressures, which have prompted the authorities to tighten up their monetary policy. Given these circumstances, the Indian economy is projected to grow by 8.4% in 2007.

Generally speaking, the currently favourable economic situation is expected to spread throughout other parts of the developing world, such as Africa, the Middle East, South and East Asia, the transition economies of Eastern Europe and the nations of the Commonwealth of Independent States that were once part of the Soviet Union. In many instances, the countries concerned are major producers and/or exporters of commodities, especially petroleum.

¹ See United Nations, *World Economic Situation and Prospects 2007. Update as of mid-2007*, New York, May 2007.

C. A nearly unprecedented combination of events

1. The external environment and the current account

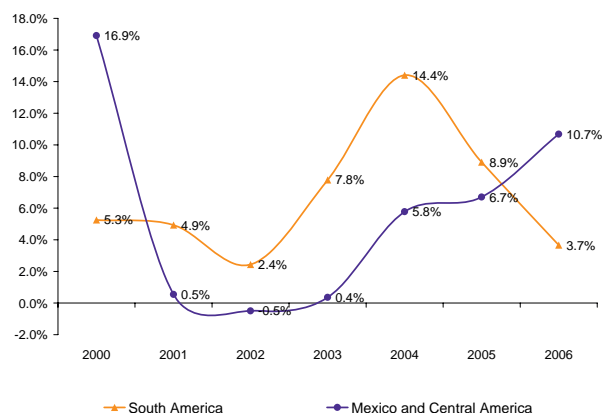
The region's growth has been fuelled by a highly favourable external environment. Factors that have combined to create that environment include the steady expansion of the world economy, China's and India's increasing importance in world demand, and international capital markets' high levels of liquidity. These trends have driven up export volumes and improved the region's terms of trade, thereby helping to boost its trade surpluses.

Export volumes have climbed by nearly 7.4%, on average, in the last two years and may rise by a similar rate in 2007. South America's export growth (measured in 2000 dollars) has slowed considerably, however, falling from 14.4% in 2004 to 8.9% in 2005 and then to 3.7% in 2006 (see figure I.2). In contrast, Mexico's and the Central American nations' export growth (measured at constant prices) in Mexico and Central America, has climbed from 5.8% in 2004 to 6.7% in 2005 and to 10.7% in 2006.² The information available for the first half of 2007 appears to indicate that the results will be more even across the various subregions this year, with South America's exports rising more swiftly and export growth in Mexico and Central America moderating its pace.

In contrast, bolstered by an upswing in economic activity and a significant appreciation of the countries' currencies, imports have been growing at an annual rate of 13% in real terms (19% per annum for South America), and the pace of growth picked up further between 2005 and 2006. A relevant fact to be noted here is that, as shown by a number of studies, most of the Latin American countries' imports have an income elasticity in the long run greater than 1.³

In 2006, the region's terms of trade were 31% higher than their average for the 1990s. If the comparison is based on the average for the last three years (2004-2006), however, then the improvement amounts to 24%. Commodity prices (especially petroleum and metal prices) were the most important contributing factor in this connection.

Figure I.2
LATIN AMERICA: GROWTH RATE FOR EXPORTS OF GOODS,
BY SUBREGION, 2000-2006
(2000 dollars)



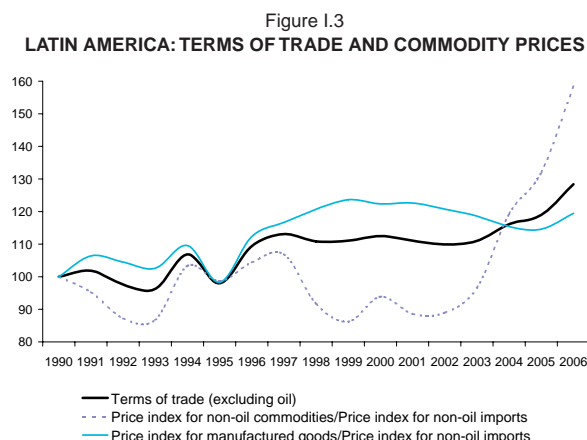
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

As may be seen in figure I.3, the improvement in the region's terms of trade has clearly been driven by price trends for the commodities included in Latin America's export basket. As this figure also shows, the terms of trade

² In 2006 Mexico posted a strikingly sharp increase in its exports of manufactures and, within this category, of products from the mining and metals sector, automotive industry, and food and beverage industry, as well as of data processing equipment.

³ See, among others, Senhadji (1998) and Bello and Pineda (2007). Using real GDP as a measurement of income and the real exchange rate as a measurement of prices, this last study calculated the income elasticity of imports as ranging from 0.67 in Peru to 2.54 in Uruguay. When the real GDP-to-exports ratio was used as a measurement of income (while also controlling for the real exchange rate), income elasticity ranged from 0.65 in Peru to 3.09 in Uruguay. In the first case, only one country had an elasticity below unity, while in the other case, two countries did (Peru and Honduras).

have been less volatile than commodity prices, at least since 1990, thanks to the smoothing effect of trends for the other products (especially manufactures) making up the region's export basket. The terms of trade reflect a strong positive trend since 1990, but this is not the case of the price index for non-energy commodities, where a clear-cut trend has taken shape only during the last few years of the period under analysis.

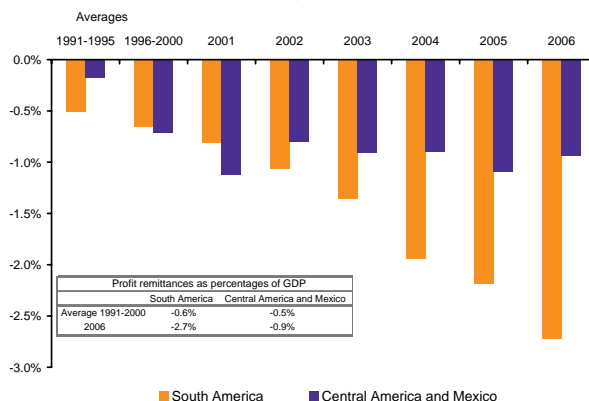


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Changes in the terms of trade worked against the interests⁴ of the oil-importing Central American and Caribbean countries (with Trinidad and Tobago and Suriname being the exceptions), but many of these countries, along with Mexico, are the recipients of hefty inflows of remittances from emigrant workers. These remittances amounted to 2.2% of GDP for the region as a whole, but they totalled 11.1% of Central America's GDP and 2.8% of Mexico's, which is greater than the percentage of GDP that the latter receives in the form of foreign direct investment (FDI). For the three Caribbean countries that receive large inflows of such remittances, these funds represent, on average, nearly 6% of GDP.

Another characteristic feature of the trend in the balance-of-payments current account in the past few years has been a sizeable increase in foreign firms' profit remittances to their parent companies, especially in the case of South America (see figure I.4). This circumstance is associated with the rising prices of some commodities and the fact that, in many cases, operations involving the extraction of natural resources are carried out by foreign enterprises.

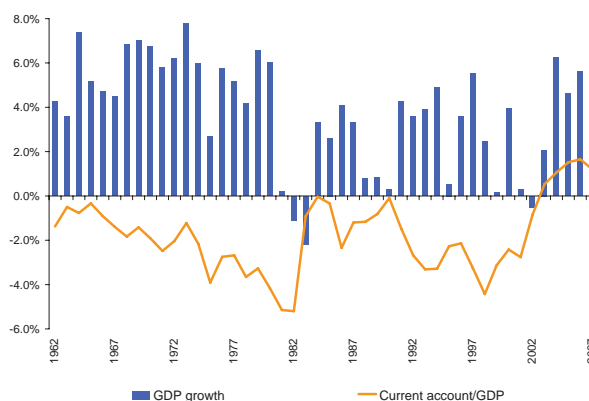
Figure 1.4
PROFIT REMITTANCES
(Percentages of GDP)



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

The combination of trade surpluses and unrequited transfers (i.e., payments not offset by higher payments to factors of production held by non-residents) is what has generated the surplus on the balance-of-payments current account which has accompanied the region's growth since 2003. In the past, periods of GDP growth have been associated not only with current account deficits, but also with a progressive deterioration in that account. The last four years have been the only time that the region has posted a current account surplus at least since the 1960s. Furthermore, there has never been another period in which the region has grown at this swift a pace while at the same time witnessing an improvement in its external accounts, even though they are still showing deficits.

Figure 1.5
GROWTH AND THE CURRENT ACCOUNT BALANCE, 1962-2007



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

⁴ No price indices for the Caribbean countries' exports and imports are available but, since, taken as a group, they are net oil importers, it can be assumed that, if a measure of their terms of trade did exist, it would reflect a deterioration similar to the one experienced by Central America.

2. GDP, income and demand components

In 2006, as in 2004 and 2005, the increase in the region's disposable gross national income (dGNI) (7.3%) outpaced GDP growth. One of the main factors driving dGNI has been the significantly stronger terms-of-trade effect, which amounted to the equivalent of 3.4% of the region's GDP during the year. At the country level, the various components have had differing impacts. Exporters of metals, minerals and hydrocarbons (Bolivarian Republic of Venezuela, Bolivia, Chile, Colombia, Ecuador and Peru) benefited from a sizeable increase in dGNI, mainly as a result of the increase in the terms-of-trade effect, although in some cases there was also a considerable upswing in net payments of profits and dividends to the rest of the world (Bolivarian Republic of Venezuela and Chile). In the other South American countries, the expansion of dGNI also outdistanced GDP growth, although by a smaller margin. The situation in Central America varied across countries, since, in some cases, dGNI still outstripped GDP growth, despite the decline in the purchasing power of exports, thanks to the increase in remittances from emigrant workers (Guatemala, El Salvador and especially Honduras). In Mexico, the expansion of national income was the outcome of both the increased terms-of-trade effect and a higher level of net current transfers from abroad.

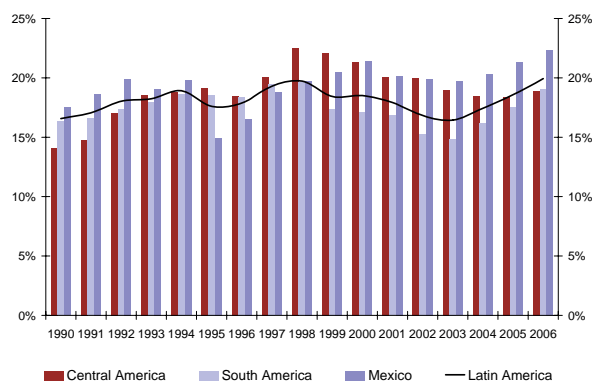
The volume of exports of goods and services grew (7.3%) faster than GDP in 2006, as had also been the case in 2004 and 2005. In addition to the continuing external demand for the Latin America and Caribbean countries' raw material exports, the region's levels of economic activity and internal demand both rose, thereby boosting intraregional trade in manufactures. Given these circumstances, the volume of goods and services imports climbed by 14.2%, and the growth contribution of net exports was therefore negative for the third year in a row. The situation is expected to be much the same in 2007, as export growth is expected to come in at much the same level as in 2006 and, as in the past few years, to be coupled with a larger increase in import volumes.

Internal demand in the region rose by 7.1% in 2006, thereby further improving upon its positive performance in 2005 and 2004 (5.5% and 6.2%, respectively). This expansion was driven by the gathering pace of gross fixed capital formation (13.4%) and, to a lesser extent, by rising consumption (6%), which was spurred by a strong increase in bank lending to the private sector. This subject will be discussed at greater length in a later section.

Since 2004 gross fixed capital formation has been the fastest-growing component of demand, building up a

cumulative increase of 42.2% in 2004-2006 over its 2003 level. Its dynamism has been fuelled not only by the buoyancy of construction, but also by the strength of investment in mainly imported machinery and equipment (with increases of 31% and 60% during those years, respectively). Gross fixed capital formation in 2006 amounted to 20% of GDP—a record high for 1990-2006 (see figure I.6).

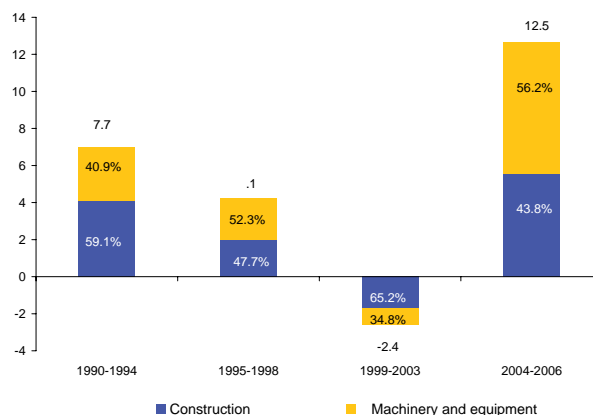
Figure I.6
GROSS FIXED CAPITAL FORMATION
(Percentages of GDP at 2000 prices)



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

Gross fixed investment has risen at an annual rate of over 12% for the last three years, and investment in machinery and equipment has made a greater contribution (over 56%) to gross capital formation than at any other time since 1990 (see figure I.7).

Figure I.7
CONTRIBUTION TO INCREASES IN INVESTMENT



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

Given the increase in the region's dGNI and despite the considerable upturn in consumption, national saving surged yet again in a number of countries, rising to the equivalent of 21.9% of GDP at current prices for the region as a whole, which was its largest increase

since 1990. Meanwhile, external saving continued on the downward trend that emerged in 2003, falling to 1.7% of GDP. As in the preceding years, in 2006 regional investment was therefore financed entirely by national saving.

3. Labour market, wages and prices

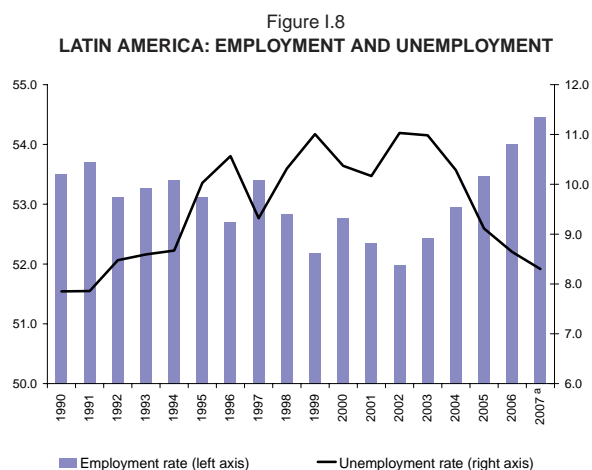
The economy's growth pushed up the demand for labour, and this was reflected in a significant rate of formal job creation. The recovery of employment that began in 2003 thus continued with an annual increase of 2.0 percentage points. This rebound was led by wage-employment creation, which has been rising at a rate of 3.7% per annum.

Unlike what had occurred in 2005, the labour participation rate climbed (by 0.2 percentage points) in 2006, and job creation's impact on the unemployment rate was therefore less striking: the unemployment rate thus fell by 0.5 percentage points to 8.6%, which was well under the 1.2-point reduction recorded in 2005. Since 2003 the cumulative decrease in the unemployment rate has come to 2.4 percentage points, thereby helping to bring the rate back down to where it stood in the first half of the 1990s.

The trends seen in 2006 (rising employment and participation rates, falling unemployment, increasing real wages) have carried over into the first half of 2007, but the increase in the labour participation rate has picked up its pace further. As a result, although the year-on-year growth rate in employment held at 0.5 percentage points (for nine reporting countries), the decrease in unemployment is slowing. Consequently, the decline in the jobless rate for the region as a whole is expected to be fairly small: from 8.8% in the first half of 2006 to 8.5% for the first half of 2007. For the year as a whole, the decrease in unemployment is also projected to be relatively limited (from 8.6% to 8.3%) (see figure I.8).

The number of employed persons in urban areas is estimated to have risen by nearly 6 million (roughly 2.9%) in 2006. The increase was quite widespread, with 15 out of 19 countries reporting higher employment rates. The number of employed persons was up by approximately 2.9%, but the increase was very uneven across different

categories of employment. The 4.1% upturn in wage employment accounted for 89% of new job creation in 2006 in what constituted a continuation of the strong performance turned in by this sector for the past two years. Over the last three years, the GDP elasticity of wage employment (0.74) has been higher than it has been in the case of total employment (0.53).



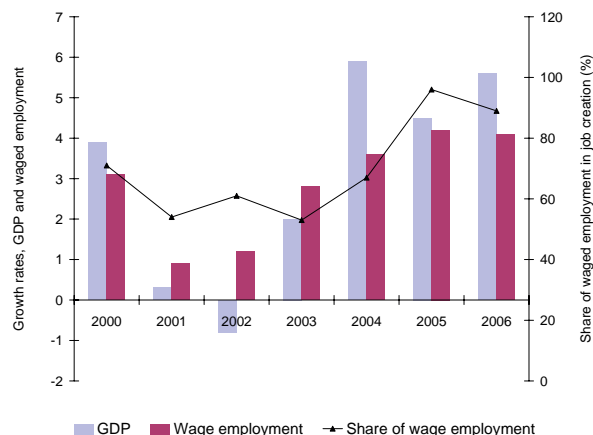
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Projection.

All the various measurements of employment formality/informality indicate that the economic reactivation of the last few years has brought about an increase in formal employment in both absolute and relative terms. More specifically, the increase in the number of wage earners holding employment contracts that provide them with social security coverage indicates that the creation of these types of jobs has been highly responsive to expanding labour demand in some countries.⁵

⁵ Part of this increase may be attributable to the formalization of pre-existing jobs. In addition, although the evidence is scanty, the expansion of formal employment may be coupled with an increase in jobs based on short-term contracts.

Figure I.9
WAGE EMPLOYMENT, 2000-2006



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

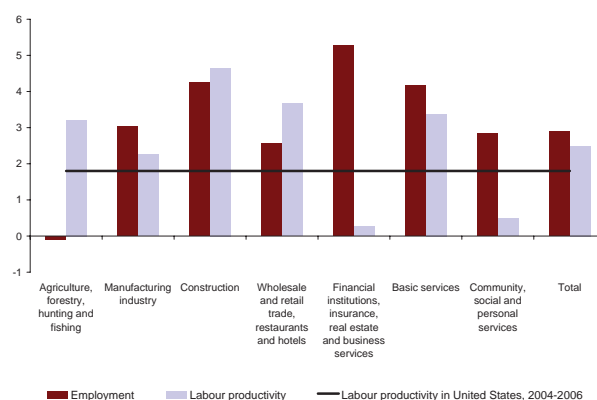
When job creation is disaggregated by branch of economic activity, it becomes clear that certain sectors benefited from the reactivation of demand in many countries. This was particularly the case for the construction industry (6.2%). In contrast to what occurred in 2004 and 2005, employment in manufacturing rose only slightly (1.5%) owing, among other factors, to this sector's weakness in Brazil. Financial services, real estate and business services once again had one of the highest job creation rates (5.0%) and expanded very rapidly in some of the region's large and medium-sized countries, such as Argentina, Brazil, Colombia and Mexico. Other tertiary-sector industries (commerce, restaurants and hotels; basic services; and community, social and personal services) grew at rates close to their averages for the past 10 years.⁶

In 2004-2006, average labour productivity rose at an average annual rate of 2.5%, thereby outpacing the growth of this variable in the United States economy during those years (1.8%). This has enabled the region to recover a small part of the ground it had lost in terms of productivity. Commerce and goods-producing sectors saw above-average productivity gains, which also bodes well for the region's efforts to boost its competitiveness.

After several years in which wage increases had been curbed, first, by the region's sluggish labour market and, then, by the fact that its growing demand for labour was primarily reflected in job creation rather than higher wages, in 2006 (for the first time since 1997) real average formal-sector wages climbed by more than 2% at the regional level (2.8% as a

weighted average, although the median for the countries' wage hikes was only 1.9%). Argentina, the Bolivarian Republic of Venezuela, Brazil, Colombia and Uruguay all posted increases of over 3%, while Chile, Costa Rica, Nicaragua and Peru recorded smaller positive adjustments. Real wages were stagnant in Mexico and Paraguay and fell in Bolivia and Guatemala. Taking the period 2004-2006 as a whole, the weighted average annual increase in real wages amounted to 1.5%. In most of the countries for which information was available, real formal-sector wages appear to have remained on their upward trend in early 2007, with year-on-year real wage hikes in Argentina, Brazil, Chile and Uruguay of close to 3% or more.

Figure I.10
LATIN AMERICA AND THE CARIBBEAN: ANNUAL INCREASES IN EMPLOYMENT AND LABOUR PRODUCTIVITY, 2004-2006



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

Latin America and the Caribbean posted an inflation rate of 5% for 2006 (6.1% for 2005). As a simple average, regional inflation slipped from 7.3% in 2005 to 6.4% in 2006. This constitutes a continuation of the downward trend observed in this indicator since 2002, when it stood at 12.2%. The figure for 2006 is largely a reflection of the steep reduction in Brazil's inflation rate (from 5.7% to 3%). Inflation also waned in a number of other countries, but in the Bolivarian Republic of Venezuela, El Salvador, Mexico, Nicaragua, Paraguay and Uruguay, the rate for 2006 was higher than it had been in 2005. The English-speaking Caribbean countries turned in a very mixed performance, with inflation climbing in Trinidad and Tobago in 2006 (from 7.2% to 9.1%) as a result of rising food prices, but dropping in Jamaica (from 12.9% to 5.8%) thanks to weakening transport prices.

⁶ Recent employment trends in the tertiary sector suggest that its job creation rate is the net result of an upswing in formal employment and a relative reduction in the types of informal jobs that are common in these industries.

Exchange-rate trends softened the impact that higher international prices for agricultural commodities, raw materials, industrial inputs and food had on domestic price levels. Another factor that helped rein in the increase in the consumer price index (CPI) in the second half of 2006 was the downturn in international petroleum and fuel prices, which led to downward adjustments in the prices for these products in a number of the region's countries

in the final months of the year. The upswing in service prices also slowed in relation to the rate of increase for 2005 in most of the countries.

As of May 2007, the simple average of 12-month inflation rates in the region eased to 6.2%, whereas the weighted average climbed to 5.1%. In a majority of the countries, indices of core inflation are rising more slowly than the overall CPI.

4. External assets and liabilities and the region's macroeconomic vulnerability

In 2006 the Latin American and Caribbean region continued to strengthen its net external liabilities position by cutting back on its payment obligations and building up its reserve assets, thus reducing its vulnerability. The basic surplus came to 2.6% of GDP thanks to a heftier current account surplus (1.6% of GDP) and net FDI inflows amounting to some US\$ 30 billion.

The region's small surplus on the capital and financial account in 2006 (0.4% of GDP) was slightly below the 2005 figure because, although the net outflow of financial capital was smaller than the year before (0.6% of GDP in 2006 versus 1.2% in 2005), net FDI inflows were lower than in 2005 (1% of GDP in 2006 versus 2% in 2005). Another robust surplus on the basic balance is expected in 2007, although it will be somewhat smaller than in 2006.

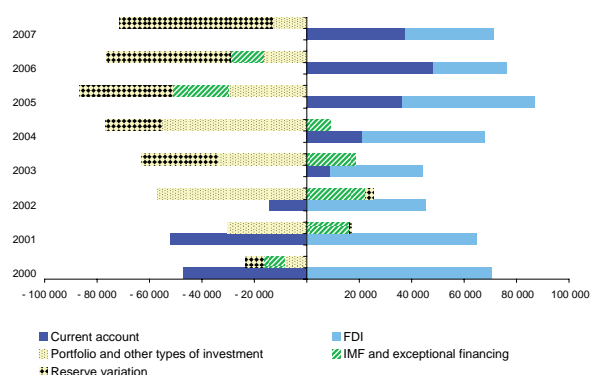
The region's FDI inflows were up by 2%, rising to some US\$ 72 billion, but the region's large volume of outward direct investment (approximately US\$ 42 billion) drove down net FDI inflows by 43% in 2006. Although this was mainly a result of events in Brazil, a number of other countries also registered increases in outward direct investment (Argentina, the Bolivarian Republic of Venezuela and Chile).⁷

The basic surplus, in conjunction with the incentives associated with reductions in domestic interest rates and more flexible exchange rates, have helped to bring about a sizeable reduction in the external debt burden in recent years both in terms of GDP and when measured relative to exports.⁸ Although external debt levels remain high in some countries, particularly in the Caribbean, the ratio of

the external debt to exports of goods and services is less than half what it was 10 years ago when the total debt is counted and is only about one third of what it was if the ratio is computed using the debt net of international reserves.

In line with a trend seen in other parts of the world, the countries of the region have been building up their international reserves, albeit less so than some other regions. As shown in figure I.11, in 2006 and 2007 the countries of the region have been increasing their reserves more swiftly than before as a consequence of the open market operations being undertaken by some of their central banks (especially in Brazil and Argentina) because of their concern about the level of the real exchange rate.

Figure I.11
LATIN AMERICA AND THE CARIBBEAN: BASIC BALANCE
(Millions of dollars)



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

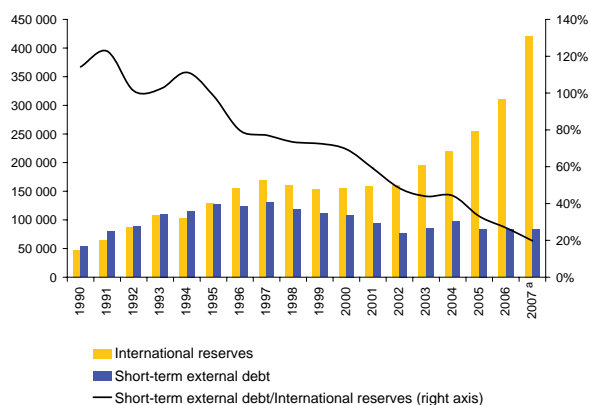
^a Projection.

⁷ As in other developing countries, outward foreign direct investment by Latin American and Caribbean firms is a recent development that is based on the operations of a fairly small groups of companies often referred to as "trans-Latins". See ECLAC (2007).

⁸ In both cases, however, the performance of the variables represented by the denominators for these ratios has also been noteworthy.

The impact of this increase in liquidity, together with an improved debt profile, becomes clear when the ratio of short-term external debt to international reserves, which has been falling quite sharply, is calculated (see figure I.12). In addition to reducing its external debt ratios, the region has scaled back its vulnerability to external shocks, thanks to the decrease in a number of its economies' degree of dollarization; this is particularly true in South America in such countries as Bolivia and Peru, for example.

Figure I.12
LATIN AMERICA AND THE CARIBBEAN: SHORT-TERM EXTERNAL DEBT AND INTERNATIONAL RESERVES
(Millions of dollars and percentages)



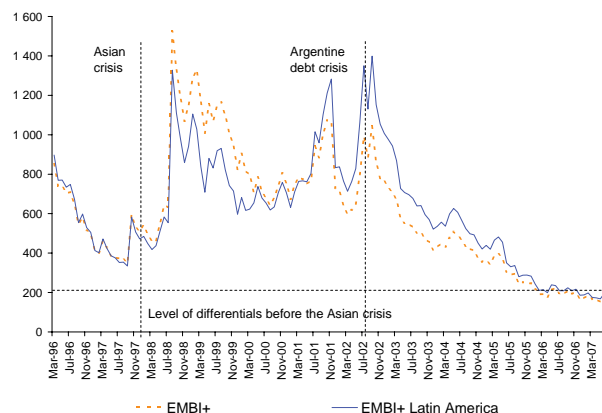
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Projection.

International financial markets' awareness of this improvement in Latin America's position has been reflected not only in the adjustment of sovereign-risk indicators but also in various countries' improved debt ratings.⁹ As a result, even though some events have shaken international financial markets¹⁰ and despite the deteriorating situation in the United States' subprime mortgage market, the region's country-risk levels, as measured by the Emerging Markets Bond Index Plus (EMBI+), have fallen to all-time lows (168 basis points as of the end of May 2007, after having

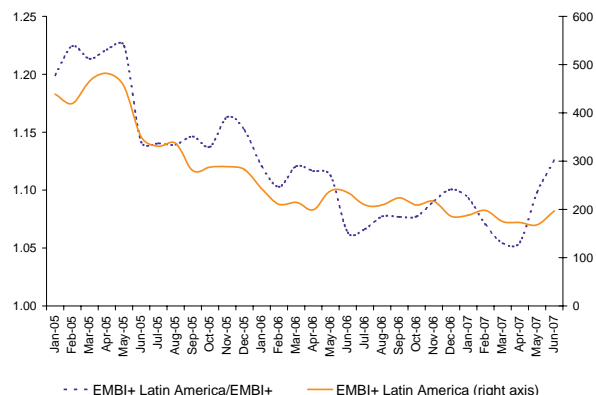
closed out 2006 at 186 basis points). In addition, overall, the Latin American and Caribbean region has been less affected by such episodes and has bounced back more rapidly than other emerging-economy regions.

Figure I.13
INTEREST RATES SPREADS AS MEASURED BY EMBI+



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

Figure I.14
EMBI+ INDEX FOR LATIN AMERICA COMPARED WITH THE TOTAL EMBI+
(Monthly series in basis points and quotients)



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

⁹ Standard and Poor's has raised the long-term foreign-currency risk ratings for a number of countries in 2006 and early 2007: Argentina (B in March and B+ in October 2006), Belize (B in February 2007, following an external debt restructuring), Brazil (BB in March 2006 and BB+ in May 2007), Chile (A in March 2006), Colombia (BB+ in April 2007), Guatemala (BB in July 2006), Paraguay (B in June 2007), Peru (BB+ in November 2006), Suriname (B in December 2006) and Uruguay (B+ in September 2006). In a departure from this trend, Ecuador's risk rating was downgraded in January 2007 (CCC) and Grenada's was lowered in April (CCC+).

¹⁰ In May 2006, debt positions were liquidated by a number of emerging economies as the level of risk aversion rose in response to expectations of higher inflation in the United States and the tightening up of monetary policy that ensued. In late February and early March 2007, another disturbance was generated by China's announcement that it was adjusting its economic policy to curb the ascent of its asset prices. The news caused the Shanghai stock exchange index to plunge by nearly 9%.

D. The contribution of macroeconomic policy

1. Fiscal policy

In line with what has been happening in recent years, the region's fiscal accounts improved in 2006. Its overall accounts are virtually balanced, and the simple average of the countries' primary surpluses rose once again. These positive trends in fiscal accounts and the public debt have allowed the region to continue on the path of reduced vulnerability on which it embarked in 2003.

At the central government level, the region's fiscal performance enabled it to post a primary surplus (simple average) of 2.1% of GDP for 2006, compared to a 1.4% surplus in 2005. The overall deficit (including public debt interest payments) shrank from 1.2% to 0.2% of GDP. This performance is underpinned by a widespread increase in fiscal revenues (2.3% of GDP between 2003 and 2006) and flat expenditure levels in terms of GDP (with a variation of -0.2% of GDP between those years). Whereas the improvement in fiscal accounts in 2003-2004 was based on an upturn in revenues and a cutback in spending levels relative to GDP, however, in 2005-2006 the expansion of primary surpluses has been made possible by a steep increase in revenues which has more than offset the growth of public spending in the last two years.

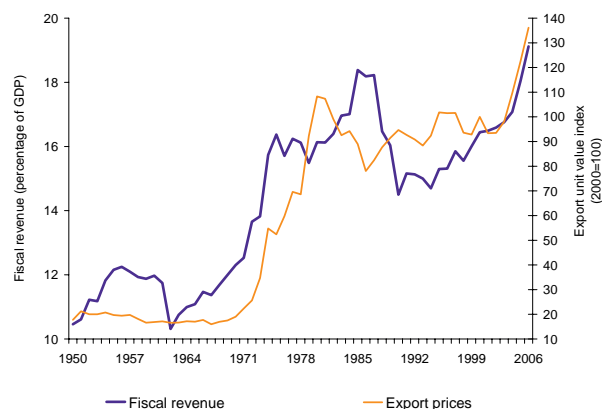
The countries whose fiscal revenues have risen the most are the ones whose terms of trade have improved the most. As shown in figure I.15, as a consequence of the region's high degree of specialization and the considerable share of total exports represented by commodities, the level of fiscal revenues is highly sensitive to export prices, especially in the case of exports by State enterprises.

Tax receipts (which, when added to social contributions, equal over 80% of total fiscal revenues on average, although this figure varies considerably across countries) have risen once again in terms of GDP. Receipts from general taxes on goods and services have increased the most, climbing by 0.5% of GDP and thereby further exacerbating the overall tax structure's concentration in this type of tax.

As noted earlier, public expenditure was up again, rising by 0.1% of GDP (from 19.2% in 2005 to 19.3% in 2006). Almost all of this increase was in current spending (0.4% of GDP), while capital outlays have remained nearly constant (-0.1% of GDP). Although a number of countries in the region are taking steps to raise their

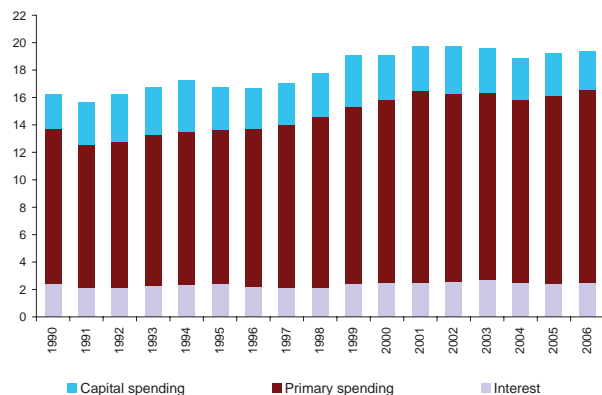
capital expenditure levels, the trend in current expenditure leaves little room for an increase in public investment, which is currently at very low levels. In addition, some countries are having difficulties in this respect because their expenditure execution capacity is quite limited, especially at the subnational level.

Figure I.15
LATIN AMERICA: FISCAL REVENUES AND EXPORT PRICES



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

Figure I.16
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF CENTRAL GOVERNMENT EXPENDITURE
(Simple averages as percentages of GDP)

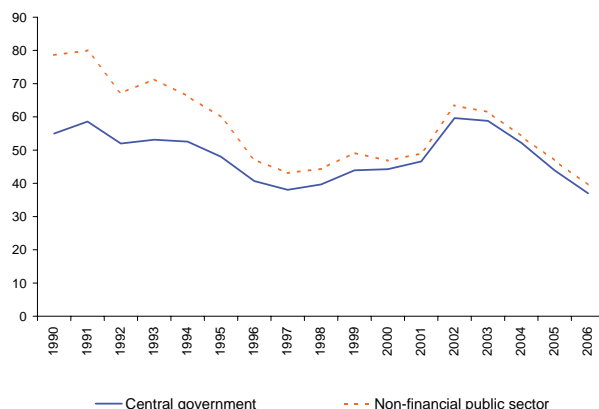


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The growth rate of expenditure has been accelerating quite rapidly over the past few years. In real terms, primary expenditure has jumped by an average of 5.9% in 2003, 10.9% in 2004, 10% in 2005 and 12.1% in 2006. Although the available data as of July 2007 is quite preliminary, some countries' current expenditure levels during the early part of 2007 appear to be continuing to follow this steep upward trend.

As discussed in detail in earlier editions of the *Survey*, the generation of large primary surpluses, debt restructurings, the Heavily Indebted Poor Countries (HIPC) Initiative and the appreciation of the countries' currencies against the dollar are all factors that have helped to reduce the public debt-to-GDP ratio, which, at the central government level, fell from a simple average of 43.9% of GDP in 2005 to 37.0% in 2006. In addition, the countries of the region are taking advantage of the present favourable macroeconomic conditions to implement active liability-management policies that have helped to reduce their financial vulnerability.

Figure I.17
TRENDS IN PUBLIC DEBT BALANCES, BY INSTITUTIONAL
COVERAGE, 1990-2006
(Simple averages as percentages of GDP)



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

2. Monetary and exchange-rate policy

Generally speaking, the common thread running through the strategies adopted by most central banks in 2006 was a gradual tightening of their monetary policy stance in view of the steadily rising level of economic activity in most countries and expectations of higher inflation as a consequence of strong commodity (and especially energy) prices. In some cases, there was also a measure of concern about the possibility of overheating in some economies. Brazil and, to a lesser extent, Mexico, were exceptions to this general picture, however.

In countries that have adopted inflation targeting schemes, inflation has remained low and under control, although the various strategies adopted by the countries' central banks differ in a number of interesting ways. In the region's two largest economies (Brazil y Mexico), the monetary policy rate remained on the downward trend that first appeared in mid-2005 throughout 2006 as policymakers sought to bolster these two economies' growth rates, which have been below the regional average. In both cases, the monthly inflation rate hovered between levels equivalent to 3%-4% per annum throughout the year. Nonetheless, in Brazil's case, real interest rates remained very high, standing at around 10% at the close of the year. In early 2007, Brazil's central bank was still gradually lowering the monetary policy rate and is expected to continue to do so throughout the year.

In Peru, the central bank began to raise interest rates when the pace of inflation began to pick up slightly in late 2005 and early 2006, but it suspended further hikes once inflationary pressures started to subside. These pressures eased so much, in fact, that at year's end the rate of price increases had fallen below the floor of the central bank's target band. No changes were made in monetary policy in the early months of 2007.

In Chile, the authorities appear to have kept rates in alignment with the United States federal funds rate since 2004, regardless of where observed inflation stands relative to the target band. Nonetheless, during early 2006 the inflation rate was invariably close to the band's ceiling, and Chile's central bank stopped raising interest rates in the second half of the year when the monthly inflation rate began to move closer to the floor of the band. Late in the second quarter of 2007, the central bank began to raise the monetary policy rate again, and the possibility that it may continue to do so in the second half of the year cannot be ruled out.

In Colombia, meanwhile, although the inflation rate hovered in the middle of the target band, the central bank began to hike interest rates in May 2006 in the midst of concern that the upswing in the growth rate might be a sign that the economy could be overheating. The Banco de la República has continued to raise interest rates in the early 2007.

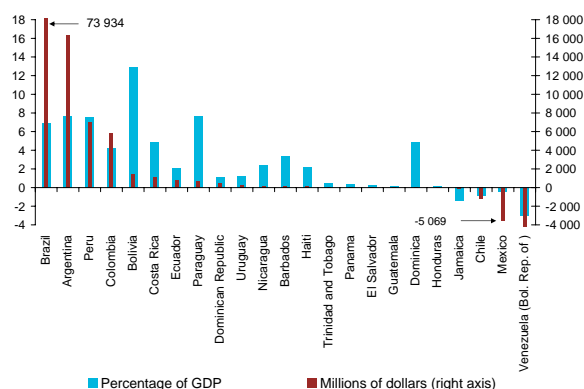
In general, the region's strong economic growth and the external sector's favourable performance have translated into an improvement in bank credit in conjunction with higher transaction levels and greater confidence. These factors have also led to an increase in international reserves and, consequently, in the monetary base which many of the countries' central banks have tended to counteract via open-market operations. This has been the case in Argentina, Bolivia and Paraguay, but such measures are also being taken by some of the countries that use inflation targeting schemes, such as Brazil, Colombia and Peru. The Bolivarian Republic of Venezuela has also made a great deal of use of various instruments for soaking up liquidity, together with increases in bank reserve requirements, although in this case the aim was neither to defend the exchange rate nor to build up international reserves.

In Central America, liquidity levels have been fairly closed associated with balance-of-payments results and with monetary policymakers' decisions to intervene in the market, as well as with their ability to sterilize the monetary effect of such actions. In the Caribbean countries as well, monetary policy has been heavily influenced by balance-of-payments trends and fiscal policy. Given the widespread improvement in macroeconomic conditions, in most cases the authorities have tended to tighten up their monetary policy positions.

In 2006 commercial and industrial bank lending, together with consumer credit and mortgages, rebounded further in most of the countries for which information is available, thereby continuing the recovery in total credit that began in 2003. The countries posting the sharpest increases were the Bolivarian Republic of Venezuela (63.3%), Argentina (38.5%) and Mexico (20%). In the case of the Bolivarian Republic of Venezuela, the upswing has been coupled with negative real interest rates. Of the countries surveyed, Ecuador is the only one to have witnessed a downswing in total credit (2.3%). In the Caribbean, lending to the private sector has climbed considerably, in line with the subregion's sustained economic growth.

Although they continue to apply policies based on the use of inflation targeting, concern about the level of the real exchange rate prompted monetary authorities in Brazil, Colombia and Peru to intervene in the market. As mentioned earlier, policymakers in Argentina, Bolivia and Paraguay also engaged in a significant level of operations in the currency market.

Figure I.18
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN NET
INTERNATIONAL RESERVES, MAY 2006-MAY 2007^{a,b}
(Percentages of GDP and millions of dollars)



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

^a Total gold reserves minus IMF reserve position.

^b For Barbados, Honduras and Nicaragua: annual variation to April; for Dominica and Trinidad and Tobago: annual variation to March; for Jamaica: variation to February; for Haiti and Panama: annual variation to January.

On average, in 2006 the Latin American and Caribbean region's real effective exchange rate declined (appreciated) by 3% relative to the rest of the world. As in 2005, the appreciation of the South American countries' currencies (4.6% in 2006) was above the regional average, whereas Central America, the Caribbean and Mexico registered a very small appreciation (an average of 1%).

Between December 2006 and May 2007 the appreciation of the region's currencies (as measured against the real effective exchange rate for the rest of the world) has continued. This increase in value has amounted to 1.1% and, as in 2006, has been significantly greater in South America (1.9%) than it has been in Central America, Mexico and the Caribbean, taken as a whole (0.1%). During this period, the real effective exchange rates of 11 countries have fallen (appreciated) relative to the rest of the world while the other 7 countries' currencies have depreciated.

Despite vigorous central-bank intervention, in the first five months of 2007 Brazil's and Colombia's real exchange rates appreciated by 6.5% and 12.5%, respectively. The difficulty that countries in the region are having in maintaining their real parities is a source of concern in view of the slowdown in exports and increasing growth of imports, especially in South America.

E. Major differences across subregions and countries

Although growth has been virtually across the board, with practically no country being left out of the picture, not all the countries have been affected in the same way by prevailing external conditions. One factor is that some of the South American economies were overtaken by crises early in the decade, and their high growth rates are therefore partially

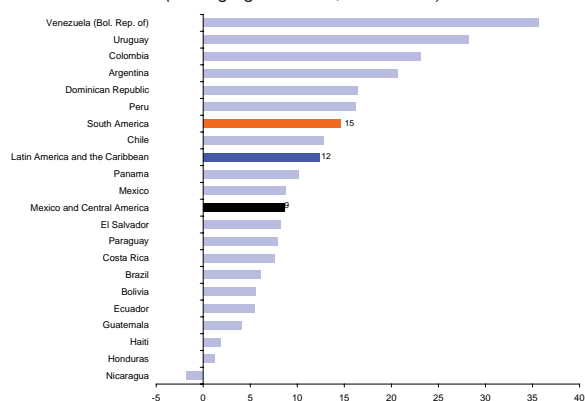
a reflection of their recovery from those slumps. Be this as it may, the South American countries have systematically grown faster than the Central American nations and Mexico. This is partly because the former are the ones that are seeing strong improvements in their external accounts due, in large measure, to their position as commodity exporters.

1. Demand

The differences observed among the region's economies have also been reflected in the behaviour of the fastest-growing components of demand in recent years: investment and exports. Capital formation has clearly grown faster in South America, where it has been spurred by the considerably improvement in these countries' terms of trade.

with the reactivation of the past few years, but also to the fact that some countries are recovering from crisis situations that had such a negative impact on capital formation that the corresponding ratios, although on the rise, are still low. These differences may also be partially due to a methodological problem stemming from the choice of the base year for calculations at constant prices, which is why coefficients based on estimates at 2000 prices and coefficients calculated on the basis of current prices are given.¹¹

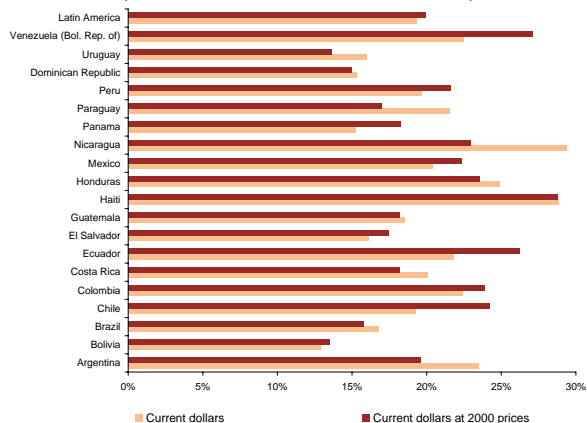
Figure I.19
GROSS CAPITAL FORMATION IN 2000 DOLLARS
(Average growth rate, 2005-2006)



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

Sizeable differences are also to be seen in the countries' investment-to-GDP ratios (see figure I.20). This dispersion is attributable not only to the differing dynamics associated

Figure I.20
LATIN AMERICA: GROSS FIXED CAPITAL FORMATION AS A
PERCENTAGE OF GDP
(Constant 2000 dollars and current dollars)



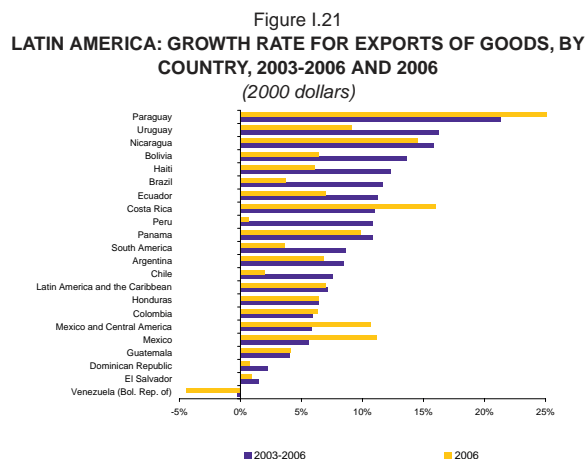
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

¹¹ In view of the large imported component of investment, it is to be expected that the value of the investment/GDP coefficient will be correlated with the real exchange rate. Periods during which real exchange rates are high will be associated with high coefficients, since relative investment prices will be high in comparison to other prices in the economy. By the same token, when the exchange rate is low, the coefficient will also tend to be lower. This type of bias may account for the differences between the values at constant prices shown in the figure and the figures reported by the countries in their national accounts.

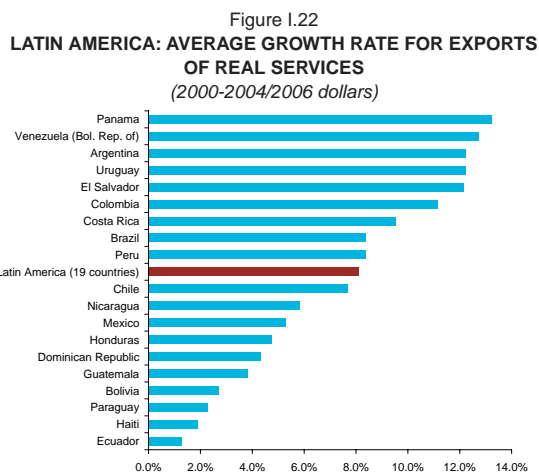
An analysis of trends in export volumes during the region’s current growth phase shows that the South American countries have posted the strongest increases, with its 8.4% average annual growth rate for 2003-2006 standing well above the 5.8% rate for this variable recorded for Mexico and Central America. These averages mask the varying trends observed in the last few years, however (see section A.3).

Finally, some of the countries’ real service exports have been exhibiting noteworthy growth trends. First of all, the

average increase in these external sales has been similar or even slightly greater than the rate for goods. In Central America, for instance, in addition to the more widely known cases of Costa Rica and Panama, El Salvador has also posted a rate above the regional average. Various South American countries have also posted notable growth rates, including Argentina, the Bolivarian Republic of Venezuela, Colombia and Uruguay, all of which have seen their real service exports rise by over 10% per annum, on average.¹²



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

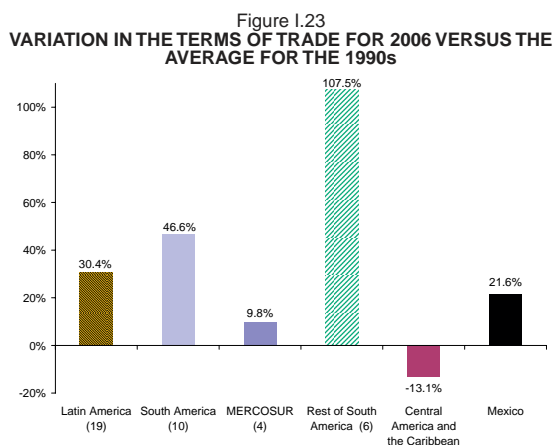


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

2. Terms of trade and the current account

The South American countries have seen the biggest improvement in their terms of trade, marking up an increase of 46.7% between the average for the 1990s and 2006. The rise has been especially striking for countries specializing in exports of petroleum and other energy products and metals (which are grouped under the heading “Rest of South America” in figure I.23), whose terms of trade in 2006 were more than twice as high as the 1990s average. Mexico has also enjoyed an upswing in this indicator, although on a smaller scale (22% in the same period). In the MERCOSUR countries, the changes taking place on international commodity markets have been reflected in expanding export volumes more than in improvements in the terms of trade. The situation for the Central American countries is quite different, since these nations are net oil importers and compete with China on the United States market. Their terms of trade have deteriorated by 13.1% (measured between the average for the 1990s and 2006) and,

what is more, their export growth rate, measured against the rate for the 1990s, has slumped in real terms.



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

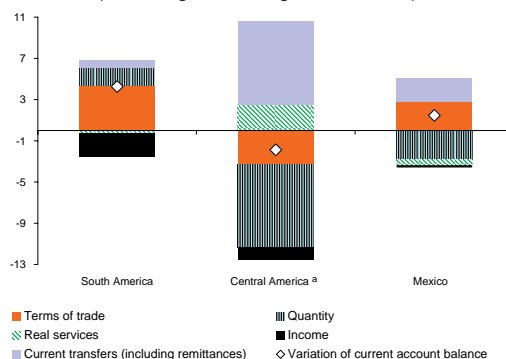
¹² This subject is analysed in depth in the forthcoming 2006-2007 edition of *Latin America and the Caribbean in the World Economy*.

Figure I.24a illustrates the effects of these trends in terms of the countries' GDPs by providing disaggregated information on the changes registered in their current accounts between the 1990s and 2006. South America's current account balance improved by nearly 4.5% of GDP thanks to the combined effect of improvements in the terms of trade equivalent to 4% of GDP and in the trade balance (in real terms) equivalent to 2.2% of GDP. The Bolivarian Republic of Venezuela and Chile have registered the greatest improvement in their terms of trade. In the cases of Chile and Peru, the upturn in this variable has been partially offset, however, by higher payments for factors of production held by non-residents. Argentina, Bolivia, Brazil, Peru and Uruguay have posted the largest increases in export volumes. It is interesting to note that in a number of South American countries (Bolivia, Colombia, Ecuador and Paraguay), remittances from emigrant workers are beginning to become increasingly significant (see figure I.24b).

In Central America, meanwhile, the current account balance reflected a deterioration of 3% of GDP—despite an increase in remittances amounting to 7.8% of GDP—owing to the subregion's worsening terms of trade (equivalent to 3% of GDP), the downturn in its real trade balance (equivalent to 7.4% of GDP) and other factors. Figure I.24c illustrates the magnitude of remittances in El Salvador, Guatemala, Haiti, Honduras and Nicaragua, as well as the significance of real services in Costa Rica, the Dominican Republic and Panama. Mexico witnessed an improvement in its current account equivalent to around 1.3% of GDP as the deterioration in the trade balance in real terms (3.1% of GDP) was not steep enough to entirely counteract the positive impacts of the terms-of-trade effect (2.9% of GDP), the upturn in remittances (2.2% of GDP) and other factors.

As noted earlier, the region has been posting increasingly large surpluses on its current account. This positive balance is concentrated in a relatively small number of countries, however. In 2004, only 8 out of 19 countries in Latin America posted a surplus, while in 2005 and 2006, just 7 countries did so.¹³ In most of the countries that ran deficits, however, these shortfalls were smaller than foreign-exchange inflows in the form of FDI, which are more stable than other types of capital flows. Be that as it may, when the basic (rather than current account) balance is analysed, the results indicate that the region as a whole recorded a surplus equivalent to 2.6% of GDP in 2006 and that the number of individual countries running surpluses rose to 15.

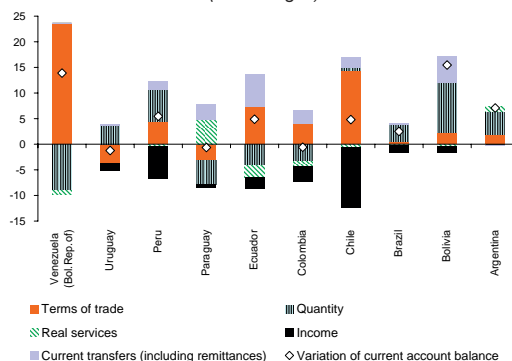
Figure I.24a
DECOMPOSITION OF THE VARIATION IN THE CURRENT ACCOUNT BETWEEN THE 1990s AVERAGE AND 2006
(Percentages of average GDP in 2006)



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

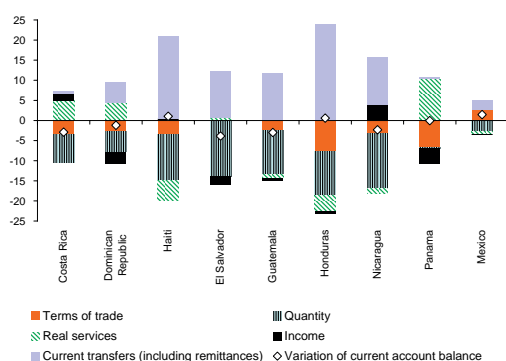
^a Includes Haiti and the Dominican Republic.

Figure I.24b
SOUTH AMERICA: DECOMPOSITION OF THE VARIATION IN THE CURRENT ACCOUNT BETWEEN THE 1990s AVERAGE AND 2006
(Percentages)



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

Figure I.24c
CENTRAL AMERICA AND MEXICO: DECOMPOSITION OF THE VARIATION IN THE CURRENT ACCOUNT BETWEEN THE 1990s AVERAGE AND 2006



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

¹³ In fact, three countries (Argentina, the Bolivarian Republic of Venezuela and Brazil) account for almost the entire current account surplus reported by the region. These three nations have all grown more slowly than the regional average thus far this decade, but the Bolivarian Republic of Venezuela has seen a stronger improvement in its terms of trade than any other country in the region, while Argentina's and Brazil's export volumes have soared in recent years.

3. Fiscal balance

The widespread improvement in public accounts also conceals a number of divergent trends (see table I.2). For example, although most of the countries have increased their primary surpluses, the Bolivarian Republic of Venezuela, Brazil, the Dominican Republic, Guatemala,

Haiti, Mexico and Paraguay have registered smaller ones. With a reduction equivalent to 2.5% of GDP, the Bolivarian Republic of Venezuela is the only country whose primary surplus has shrunk by a significant amount, however.

Table I.2
LATIN AMERICA (CENTRAL GOVERNMENT): VARIATION OF FISCAL AGGREGATES, 2005-2006
(Percentages of GDP)

	Primary balance	Overall balance	Revenue	Total spending	Current spending	Capital spending	Interest	Primary spending
Argentina	0.4	0.6	0.7	0.1	-0.5	0.6	-0.2	0.3
Bolivia	3.3	3.7	2.9	-0.7	0.3	-1.1	-0.4	-0.4
Brazil ^a	-0.4	0.1	0.6	0.4	0.2	0.2	-0.5	0.9
Chile	3.1	3.2	2.3	-0.9	-0.9	-0.1	-0.1	-0.8
Colombia	1.9	1.2	1.5	0.3	0.2	0.2	0.7	-0.4
Costa Rica	0.8	1.0	0.6	-0.4	-0.3	-0.1	-0.3	-0.1
Ecuador ^b	0.2	0.3	0.3	0.1	0.1	-0.1	0.0	0.1
El Salvador	0.8	0.6	0.9	0.2	0.2	0.1	0.2	0.0
Guatemala	-0.2	-0.2	0.7	1.0	0.3	0.7	0.0	1.0
Haiti	0.4	0.6	-0.3	-0.7	-0.6	-0.2	-0.2	-0.5
Honduras	1.2	1.3	0.7	-0.6	0.9	-1.5	0.0	-0.5
Mexico	-0.9	-0.9	0.0	0.9	0.6	0.3	0.0	0.9
Nicaragua	1.8	1.9	1.3	-0.6	1.4	-2.0	-0.1	-0.5
Panama	3.2	4.1	3.5	0.1	0.0	0.1	-0.2	0.3
Paraguay	-0.5	-0.3	0.5	0.8	0.6	0.2	-0.2	1.0
Peru	2.1	2.1	1.5	-0.6	-0.7	0.1	-0.1	-0.5
Dominican Republic ^c	-0.4	-0.4	0.2	0.0	0.1	-0.1	0.0	0.0
Uruguay	0.5	0.6	0.1	-0.5	-0.6	0.1	-0.1	-0.4
Venezuela (Bol.Rep.of)	-2.5	-1.6	2.4	4.0	3.1	0.9	-0.9	4.9
Simple average for Latin America and the Caribbean	0.8	0.9	1.1	0.2	0.2	-0.1	-0.1	0.3

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

^a Variations in the primary and overall balances include adjustments and statistical discrepancies.

^b Variations in the primary and overall balances do not include non-executed spending reallocated to central government.

^c Variations in the primary and overall balances include residual items and other transfer payments.

An expansion of the primary surplus by more than the equivalent of 1% of GDP was posted by Bolivia, Chile, Colombia, Honduras, Nicaragua, Panama and Peru, while Bolivia, Chile and Panama registered upswings of over 3% of GDP. With the exception of Colombia, the increase in this surplus was attributable to higher revenues and lower spending levels (in terms of GDP), with the increase in the former being more than twice as great as the reduction in the latter.

All the countries in the region except Haiti have boosted their fiscal revenues (measured as a percentage of GDP) relative to 2005. In a number of countries (Argentina, Bolivarian Republic of Venezuela, Brazil, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Panama and Paraguay) public expenditure also rose in relation to GDP, although the increase was a minor one except in the case of the Bolivarian Republic of Venezuela, where outlays climbed by 4% of GDP.

Some of the concerns of governments in the region have to do with low tax yields, the tax structure and the level of public investment. To tackle these problems, some governments undertook a series of fiscal reforms over the past year and reforms in various spheres since the beginning of 2007. In Brazil, the Growth Acceleration Programme (PAC) introduced by the federal government in January 2007 is designed primarily to boost investment and includes two long-term fiscal regulations that have a direct impact on more than one third of total primary federal spending, the purpose being to provide for growth in capital expenditure in the public budget. In Colombia, a gradual reduction in the income-tax rate was approved together with an increase in exemptions for reinvested earnings; at the same time, the temporary wealth tax

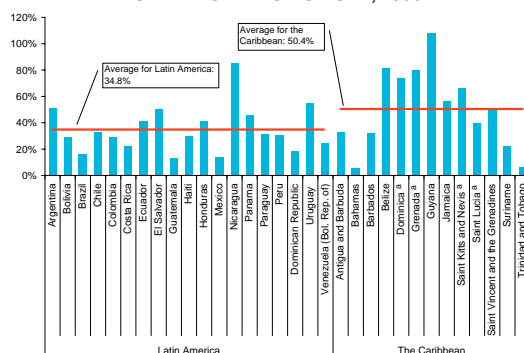
and the tax on financial movements remained in force. In Mexico, the federal government presented a public finance reform proposal to Congress in mid-June 2007, consisting basically of measures designed to avoid tax evasion, improve management of expenditure at both the federal and subnational levels and establish a new tax on businesses (the flat-rate business contribution (CETU)), set at a flat rate of 19%. Lastly, a tax system reform, scheduled to come into force in July 2007 in Uruguay, provides for the institution of a two-tier personal income-tax system, the standardization of employers' social security contributions for all branches of activity, the elimination of some national taxes and the reduction and application across the board of the value added tax.

4. External debt and dollarization

Despite the fact that vulnerability has diminished generally, some cases of high indebtedness persist. While the external debt/GDP ratio has been falling considerably as a result of the payments made by many countries out of the surpluses on their current accounts, it remains relatively high in some countries, especially among those in the Caribbean.

In addition, in some countries, the degree of dollarization of the financial systems in the region remains high in some countries, with rates of over 60% in some cases. Consequently, while the overall vulnerability of the countries has diminished, there are several cases where it may continue to be cause for concern.

Figure I.25
LATIN AMERICA AND THE CARIBBEAN: TOTAL EXTERNAL DEBT AS A PERCENTAGE OF GDP, 2006



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

^a 2005 values.

F. The outlook, threats and challenges for the region in the short term

The performance of the international economy and the relative robustness of the economies in the region are grounds for cautious optimism with regard to the short-term outlook. As indicated at the outset, the forecast for 2007 is for growth of close to 4.8% and if this is borne out, 2008 will be the sixth consecutive year of growth and the fifth

in which the rate has been above 4%, which implies an increase in per capita GDP of at least 3% per year.

The continuity of the growth process initiated in 2003 has gone hand in hand with the improvement in some key indicators in the real sector of the economy, but also with some warning signs as regards the movement in variables

that are no less important. First, the current account surplus, the principal distinctive feature of this growth phase, is expected to be maintained in 2007.

Investment continues to be the strongest component of demand and although private consumption is picking up steadily, in 2007, it is expected to rise less than national income which implies a further increase in saving at this level. Conversely, net exports will again be negative as a result of the slowdown in the expansion in exports and high growth rates for imports, the latter being stimulated by the higher level of activity and the lower (appreciated) real exchange rate.

The fall in the unemployment rate also augurs well for the region. This rate is projected to stand at 8.3% in 2007, close to the level in the 1990s prior to the financial crises that broke out in South-East Asia and had such devastating effects on labour markets in Latin America and the Caribbean. Moreover, it is interesting to note that this decline in the unemployment rate comes at a time when job quality has been improving, and these two factors, combined with the growth recorded in the economies, are having a positive influence on poverty indicators.

Separate and apart from the risks associated with world economic trends and which, as will be shown

below, are relatively limited in the short term, the main warning signals are the difficulties observed in the area of economic policy. The first of these is the real exchange-rate appreciation, which has been affecting some South American countries in particular and is starting to cause concern owing to the significant loss of momentum in their export sector.

In addition, the overall public accounts position has been improving to the point where it was virtually in balance in 2006. In fact, this was due to the dramatic increase in fiscal revenues, while expenditure showed an overall increase that exceeds nominal GDP growth. The partial information available indicates that, in the first part of 2007, this situation recurred; while this does not pose a problem in the short term, it casts doubts on the sustainability of the improvement in the fiscal situation.

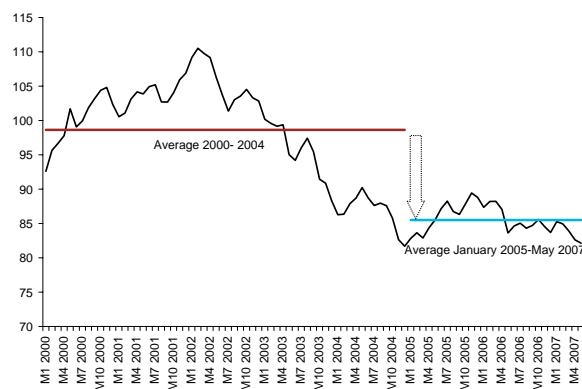
A similar pattern is occurring with inflation: although, as a simple regional average, it abated in 2006 and into the first few months of 2007, it has been shooting up in several countries. This coincides with the emergence of the demand-side pressures referred to above, as well as supply pressures (due to the rise in food prices), which could lead to a widespread increase in inflation in the region.

1. The external context and overall disequilibria

The overall risks associated with the United States balance-of-payments current-account deficit have been compounded recently by the threat of the possible impact that a fall in property prices on the real estate market in the United States could have on household consumption, the main engine of demand in that economy.

Although an accentuation of those disequilibria could have an adverse effect on the economies of the region, it does not seem likely that the international context will be an obstacle to the continuity of the expansionary phase being experienced in Latin America and the Caribbean, at least not in the short term. First, while there are disequilibria, they have not worsened. The United States current-account deficit has remained steady at 6.5% of GDP. Furthermore, the exchange-rate adjustments have already been initiated, at least in part, and the comparison of the average 2000-2004 value with the average for the past year and a half reveals a real depreciation of the dollar of more than 12%, which has not had any traumatic effects on international financial markets (see figure I.26).¹⁴

Figure I.26
UNITED STATES: REAL EFFECTIVE EXCHANGE RATE
(Base year 2000=100)



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

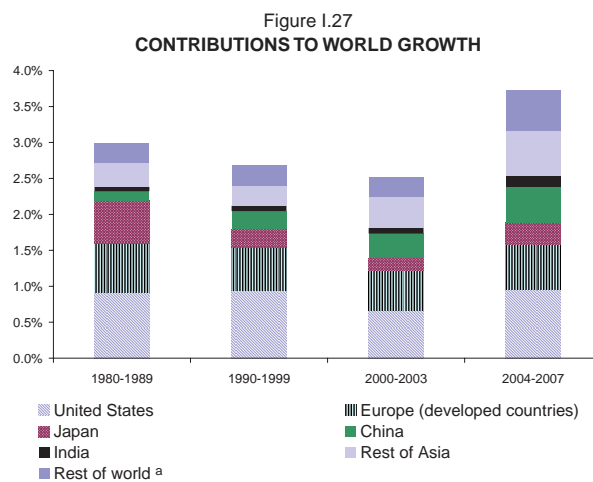
¹⁴ The depreciation of the dollar should help to reduce the disequilibria, although these are greater in the Asian economies, where exchange-rate correction is slighter, which raises the spectre of an increase in protectionism.

Furthermore, no one knows for certain what will be the magnitude and scope of the reduction in domestic demand in the United States economy. Theoretically, if the prime concern has to do with the way in which the real estate market and macroeconomic conditions in general evolve (and those of the labour market, in particular, have remained stable), then the fall in property prices may be expected to have a relatively limited impact. Moreover, if the decline in demand affects primarily non-tradable goods, as has occurred up to the present, then the trend in United States imports suggest that the repercussions on the global economy will be more limited or slower.

On the other hand, a gradual and limited slowdown in the United States economy could be a positive development, since, if the growth rate observed in Europe and Japan over the last few months remains unchanged and the Asian economies and, above all China, continue to expand at an accelerated pace, this could herald an orderly adjustment of the world economy.

In fact, amid a moderate slowdown in the United States economy, such as has been observed since the second half of 2006, the performance of the world economy has shown a relative strength which has enabled it to continue to grow. The greater diversification of trade links, due

especially to the growing importance of China, India and other Asian economies in trade and in world output has helped to make this happen.¹⁵ Thus, as already indicated, the more likely scenario is that of a limited slowdown in 2007 and a gradual recovery, which would start in the second half of 2007 and extend into 2008.



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

^a Africa, Latin America and the Caribbean, New Zealand and Australia.

2. Economic policy dilemmas

Improvements in the terms of trade, demand for some of the region's export products, the amount of resources from emigrant remittances and external liquidity are all positive factors for a region that has found it extremely difficult to consolidate a steady process of economic growth, mainly as a result of the recurrent scarcity of foreign exchange. However, this situation poses some economic-policy dilemmas that not only affect economic performance in the short term but may also determine the production profile of individual countries.

A relative abundance of foreign exchange tends to reduce real short-term equilibrium exchange rates, which then affect the market exchange rate at a pace and intensity that depend on the level of flexibility within the

exchange-rate policy. This may result in an equilibrium exchange rate that, while generating income for some sectors (probably producers of resource-based goods), at the same time significantly reduces the profitability of other sectors by preventing them from competing in international markets (as may be the case for much of the manufacturing sector). This situation, which echoes what the literature describes as "Dutch disease", can restrict growth if the disadvantaged sector has characteristics that make it an important one (such as more buoyant productivity, productive linkages, economies of scale or externalities). The challenges this poses for economic policy include issues relating to short-term macroeconomic stability and the formulation of a development strategy.

¹⁵ Figure I.27 shows the contributions of the different countries and regions in 2000 dollars. If the calculation were expressed in terms of the purchasing power parity in dollars, the United States' share would be smaller and China's and India's would be greater.

3. Monetary and exchange-rate policy

Excess supply in the exchange market has pushed down real exchange rates to varying degrees depending on the country. This gave rise to widespread concern that prompted the monetary authorities to intervene in exchange markets to prop up the exchange rate. That did not prevent the currencies of some countries from appreciating significantly over the past three years (see figure I.28).

Unlike what happened in the 1990s, the pressure on the region's exchange markets is not the result of hefty capital inflows, but rather is mainly attributable to higher prices for some commodities exported by the region or to increased emigrant remittances. This means that economic policy has less room for manoeuvre in terms of controlling the situation by imposing restrictions on capital inflows, for instance.

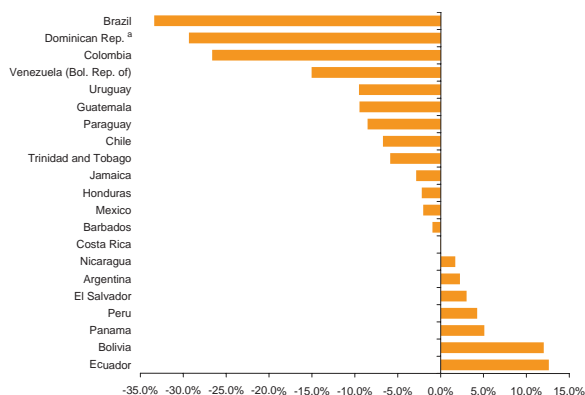
In theory, concern over currency appreciation could force the economic authorities to choose between the level of monetary independence they are willing to sacrifice, and the level of currency appreciation they are willing to tolerate. Depending on the sterilization capacity of central banks, the problem could be alleviated through open-market operations, with monetary expansion resulting from the decision to maintain a given real exchange rate. This does not remove the problem, but simply delays it by generating a quasi-fiscal deficit that will have to be tackled in the years to come.

In practice, the problem is very difficult to resolve. In their attempts to solve it, countries have incurred varying costs, with a range of results. Examples include Brazil, where the central bank purchased foreign exchange to

maintain the exchange rate. The authorities paid a high price in terms of the interest rate on the absorption certificates, in order to protect the monetary programme. However, the Brazilian real appreciated despite their best efforts. In Colombia, a similar outcome was recorded. In Argentina, on the other hand, the central bank also purchased foreign exchange, but achieved a better result as regards exchange-rate stability. This had a high cost, however, in terms of the capacity to manage monetary policy.

Figure I.28
LATIN AMERICA AND THE CARIBBEAN: EFFECTIVE
EXCHANGE RATE

(Variation: June 2007 versus 2004 average)^a



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

^a The figure for the Dominican Republic corresponds to its currency's real exchange rate against the United States dollar.

4. Fiscal policy

The relative boom in the region has an impact on fiscal policy, although the impact depends on both the origin and the appropriation of the non-recurrent receipts (higher remittances or improved terms of trade), flowing into the economy.

In Central America and in some Caribbean countries, higher national revenues are due to emigrant remittances, and are absorbed by the private sector. In contrast, in almost all South American countries and Mexico, most of the difference is attributable to the terms-of-trade effect. In countries where State enterprises are responsible

for most exports, a high proportion of the resources from the improved terms of trade is absorbed by the public sector. This tends to be the case for exports of petroleum and some metals, including copper. In the case of products not exported by public enterprises, the resources are received by private enterprises, while the State receives a small proportion through taxation. In the last two cases, higher revenues are expected to result in greater public-sector or private-sector saving, which may increase the availability of resources to finance investment.

Compared with the situation created by higher remittances, higher revenues have a smaller and probably less direct effect on consumption. This is because the use of public resources is a decision made as part of fiscal policy. This confers on fiscal policy a greater capacity for stabilization, and the potential to transform those resources into higher investment spending on either infrastructure or human capital.

Above and beyond this distinction, there has been widespread fiscal consolidation throughout the region, although the levels vary from country to country. This consolidation is reflected in a narrower overall fiscal deficit, a primary surplus and reduced external vulnerability resulting from lower levels of public debt. Although such consolidation is an unprecedented achievement, it also raises questions about its sustainability in the medium and long term.

In the period 2003-2006, the performance of the public accounts in Latin America and the Caribbean has been characterized by a surge in fiscal revenues and a careful management of public spending initially, although this is giving way to an increasing expansion of outlays.

This creates several problems, including the procyclical nature of expenditure, which tends to aggravate rather than ease the fluctuations inherent in the business cycle. In addition, expenditure often expands on the basis of fiscal resources swelled by higher export prices. This could become difficult to finance if the price rise is temporary. Also, higher public spending may directly or indirectly apply additional downward pressure on the real exchange rate.

This is why ECLAC has insisted on the need for governments to establish fiscal covenants to enable them to satisfy legitimate needs for increased expenditure without sacrificing efforts to achieve a sustainable balance within their public accounts.

There is a need to implement more cautious policies during the expansionary phase of the business cycle, either by keeping patterns of expenditure separate from changes in income, or by reducing the level of public debt. The main challenge facing the region is therefore to build institutions that foster the consolidation of an acyclical fiscal policy.

5. Competitiveness beyond the short term

As described above, the challenge to prolong the current economic boom and provide a solid base for present growth levels implies some serious economic-policy dilemmas, not only in terms of monetary and exchange-rate policy, but also in terms of the management of public accounts.

In this sense, one of the main potential contributions of macroeconomic policy in the short term is the reduction of countries' chronic real volatility, which discourages investment and determines the capacity to achieve and sustain the growth rates needed if the region is to continue improving its social indicators.

Above and beyond the aforementioned problems of evaluation, investment levels in the region are undeniably low, both compared with the past and in comparison with

other economies at similar stages of development. This is due to a number of factors, not least the problem of macroeconomic volatility.

A longer-term view highlights the need to diversify both the region's productive structure and the destination markets for its exports. This diversification strategy must aim at incorporating knowledge into the productive structure, which means that innovation in the broad sense and the training of human resources are key factors. This prospect also underlines the need to lay the foundations for increased investment in physical and human capital and higher total factor productivity, with a view to successfully positioning the region on the international stage and consolidating a sustainable process of growth.

Chapter II

Investment, saving and growth in Latin America: analytical and policy issues ¹

A. Background

Under a new outward-looking approach to the promotion of development, Latin America has seen a modest recovery in growth and investment during the 1990s and early 2000s. This recovery comes in the wake of the stabilization efforts and reforms that followed the 1980s debt crisis. While the region's growth performance has not yet reached the rates achieved in the 1960s and 1970s and remains well below the rates being posted by Asia, the Middle East and Eastern Europe, the reactivation has nonetheless aroused greater interest in the factors that contribute to economic growth in the region and, in particular, in the role played by investment as a source of economic growth.

In this context, investment becomes a variable of major importance, and investment determinants and dynamics are crucial to an understanding of the economic growth process. In order to support and consolidate growth, it is also a critical vehicle for the creation of productive capacities and the generation of knowledge spillovers and new technologies. At the same time, ensuring adequate

national savings rates is important because foreign saving can be volatile and lead to sudden stops that force countries to make costly macroeconomic adjustments which may eventually trigger growth crises. With few exceptions, low national savings rates have obliged Latin American countries to depend on foreign saving to finance investment and growth. The increased volatility

¹ This chapter is based on more extensive research commissioned by ECLAC (Gutiérrez, 2005 and 2007a).

of international capital flows and the external financing conditions prevailing during this new era of globalization have compounded the challenges involved in enhancing investment and growth prospects.²

Disagreement persists about the role of investment and saving in the growth process. Various authors have concluded that investment has been the main factor driving economic growth (Young, 1994), and some of them have stressed the influence of specific categories of investment, as well as the differing roles of private and public investment (De Long and Summers, 1991 and 1993; Kahn and Kumar, 1997; Kahn and Reinhart, 1990; Servén and Solimano, 1992a and 1992b; and Greene and Villanueva, 1991). Other economists have acknowledged the important part played by fixed investment but have argued that productivity has been the engine that has marked the difference between fast and slow growth experiences (Blomstrom, Lipsey and Zejan, 1996; Harberger, 1996 and 1998; Klenow and Rodriguez-Clare, 1997b; Elias, 1992; and Solimano and Soto, 2004).

Influential research on the subject of saving was produced in connection with two symposiums organized by the Inter-American Development Bank (IDB) and the

World Bank in 1998-1999. The World Bank research, which examined saving worldwide, was disseminated through the *World Economic Review* and the *Review of Economics and Statistics* in 2000. The IDB research focused on saving in Latin America and was published in an IDB book edited by Reinhart (1999). In both cases the work used data from the mid-1960s to the mid-1990s.³

The role assigned to investment and saving in economic growth is relevant to growth theory and policymaking. Should countries focus on increasing investment rates through, for example, massive investment programmes in order to accelerate the pace of economic growth? What types of investments are the most effective in raising growth rates? What is the role played by productivity? Do investment and growth reinforce each other? Are national and public savings policies important for Latin America's economic growth? What are the roles played by economic policies as contributing factors to investment, saving and growth? Are there clear relationships of causality and reinforcement between investment and growth and between saving and growth? These are some of the key policy issues addressed in this study.

B. Stylized facts about investment, saving and growth

A comparison of data on investment, saving and growth across regions since 1990 shows that Latin American countries have continued to exhibit low savings and investment rates together with slow and volatile growth (see figure II.1 and table II.1).

Low investment rates. Latin American nations, as most other developing countries, are subject to foreign credit constraints that have made investment highly dependent on national saving. Although investment is also financed with foreign saving, the latter's contribution to total saving has been modest (below 3% of GDP in 1990-2003). Low investment levels have acted as a constraint on growth, especially since gross capital formation is a main source

of productivity and economic growth in the region (see, for example, Haussmann, Rodrik and Velasco, 2004; Gutiérrez, 2005; and Solimano, 2006). In fact, investment rates in Latin America have been at the bottom of the distribution when compared to other regions.

Low national savings rates. The Latin American and Caribbean region was the only one that exhibited lower savings rates in the early 2000s than in the second half of the 1990s (see table II.1), with the gap in national savings rates between Latin America and East Asia widening from about 18 percentage points in 1990-1994 to about 20 points in 2000-2003. Low national saving has been a major constraint on investment and

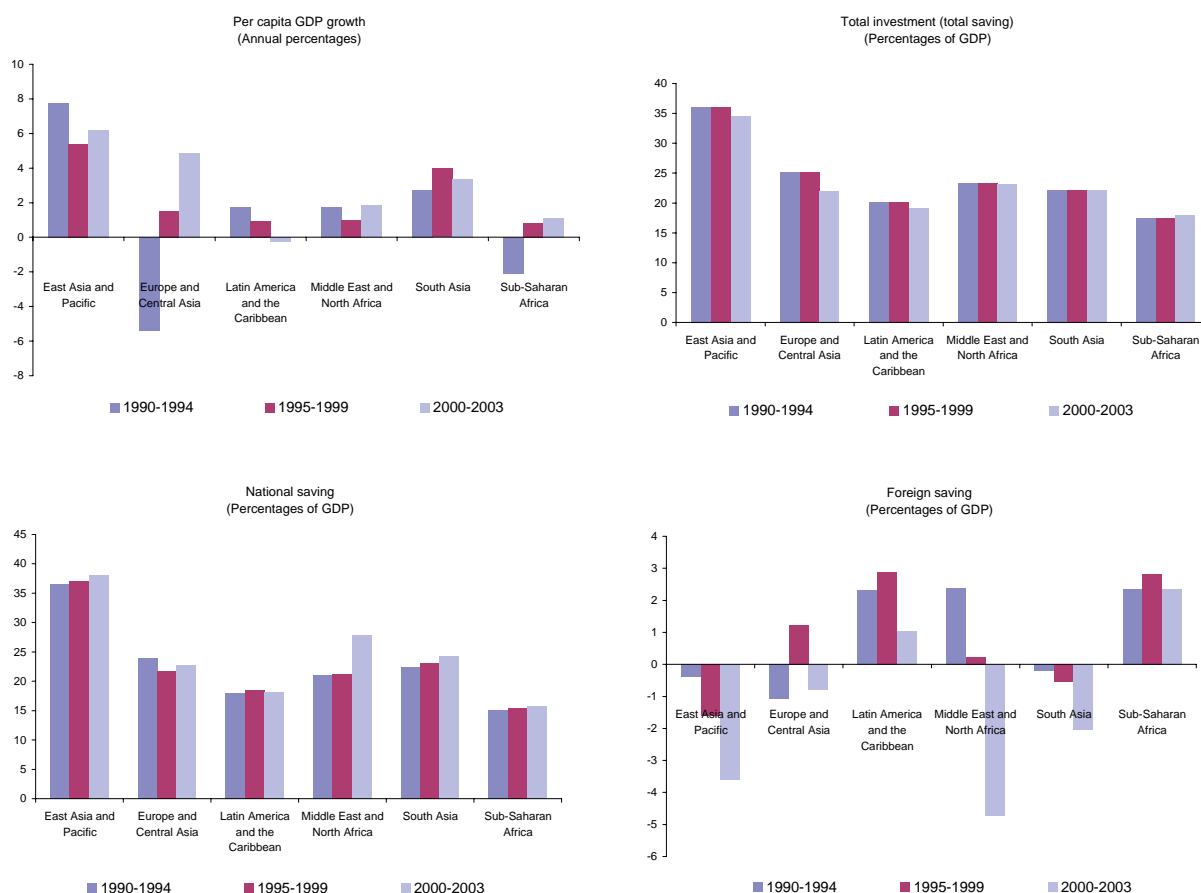
² Evidence of a high correlation between domestic investment and domestic saving in this new era of globalization also indicates that financial markets are not more integrated today than they were during the "first wave of globalization" (from the second half of the 1800s up to the First World War). A change did occur, however, between the two periods in terms of the composition of capital flows. In particular, an increase has been seen in short-term relative to long-term capital flows during the current globalization wave (Solimano and Gutiérrez, 2006).

³ See also Schmidt-Hebbel, Servén, and Solimano (1996) for a comprehensive survey on research on saving, which summarizes the literature prior to the IDB and World Bank research papers mentioned above.

growth, given the high correlation between national saving and investment in a context of imperfect capital movements (see, for example, Gavin, Haussmann and Talvi, 1997; Loayza, Schmidt-Hebbel and Servén, 2000; Loayza and others, 2000; and Solimano and Gutiérrez, 2006). Public saving can serve as a mechanism for spurring national saving, since the empirical evidence shows that an increase in public saving is less than

fully offset by a concomitant decline in private saving. Low national saving has also heightened the region's vulnerability to swings in foreign capital flows, as foreign saving is more volatile than national saving. Workers' remittances help to attenuate the volatility of foreign saving because they are less affected by changes in international capital markets than other forms of foreign financing are.

Figure II.1
INVESTMENT, SAVING AND GROWTH: A COMPARISON ACROSS WORLD REGIONS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the World Bank, World Development Indicators (WDI) database.

Low growth rates. The region's average per capita growth rate fell from 1.7% in 1990-1994 to less than 1% in 1995-1999 and then to below 0% in 2000-2003. On average, growth has therefore been below the rates of the 1960s and second half of the 1970s. In East Asia, by contrast, the average growth rate was above 5% during

the whole of 1990-2003 and accelerated in 2000-2003. Low national saving has been mirrored by low investment, given the close association between the two variables, and this has limited the scope for productivity and economic growth (see also Haussmann, Rodrik and Velasco, 2004; and Solimano, 2006).

Table II.1
SAVING: DESCRIPTIVE INDICATORS, BY WORLD REGION

	Total saving			National saving			Foreign saving			Per capita GDP growth		
	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003
East Asia and Pacific												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	36.12	35.43	34.54	36.49	37.02	38.12	-0.37	-1.59	-3.58	7.74	5.41	6.20
Median	34.52	36.31	34.23	35.48	36.97	37.89	-0.53	-1.84	-3.66	9.29	5.65	6.27
Standard deviation	2.96	3.12	2.46	1.90	1.14	2.75	1.57	2.42	0.38	2.50	2.86	0.91
Variance coefficient	0.09	0.09	0.07	0.05	0.03	0.07	-2.94	-1.32	-0.10	0.27	0.51	0.14
Minimum	33.54	31.69	31.95	34.88	35.25	35.04	-1.94	-4.31	-3.92	3.84	0.94	5.02
Maximum	39.90	38.76	37.75	39.24	38.15	41.68	2.20	0.88	-3.09	9.50	8.25	7.23
Europe and Central Asia												
Observations	5	5	4	1	5	4	1	5	4	5	5	4
Mean	25.14	22.99	22.01	23.94	21.78	22.80	-1.06	1.21	-0.79	-5.38	1.54	4.88
Median	25.33	23.78	21.87	23.94	22.02	22.62	-1.06	1.61	-0.82	-6.31	1.61	5.52
Standard deviation	1.70	1.42	0.44	...	1.29	1.21	...	1.69	0.98	2.19	1.22	2.00
Variance coefficient	0.07	0.06	0.02	...	0.06	0.05	...	1.05	-1.19	-0.35	0.76	0.36
Minimum	22.87	21.08	21.66	23.94	20.25	21.70	-1.06	-1.38	-1.67	-7.43	0.41	1.98
Maximum	27.14	24.15	22.65	23.94	23.43	24.25	-1.06	3.06	0.17	-2.39	3.42	6.53
Latin America and the Caribbean												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	20.21	21.31	19.19	17.89	18.42	18.17	2.32	2.89	1.02	1.72	0.94	-0.23
Median	20.13	20.92	19.15	17.75	18.84	18.48	2.78	2.68	1.07	2.12	0.99	-0.56
Standard deviation	0.74	0.86	1.21	0.78	0.82	0.95	1.32	1.18	1.94	1.77	2.19	2.04
Variance coefficient	0.04	0.04	0.06	0.04	0.04	0.05	0.48	0.44	1.81	0.83	2.21	-3.66
Minimum	19.39	20.36	17.88	17.21	17.38	16.84	0.22	1.77	-0.95	-1.32	-1.22	-2.27
Maximum	21.19	22.36	20.59	19.17	19.15	18.87	3.47	4.69	2.90	3.11	3.93	2.45
Middle East and North Africa												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	23.41	21.47	23.12	21.03	21.24	27.85	2.39	0.23	-4.73	1.75	1.01	1.85
Median	23.58	21.57	22.86	20.44	20.86	27.18	2.54	-1.03	-4.62	2.15	1.41	1.48
Standard deviation	1.18	1.32	1.20	1.98	1.89	1.88	1.76	2.12	0.98	2.14	1.11	1.41
Minimum	21.89	19.83	22.10	19.10	18.62	26.44	-0.14	-1.48	-5.95	-0.99	-0.20	0.73
Maximum	25.08	23.42	24.67	23.31	23.13	30.62	4.62	2.87	-3.73	3.85	2.23	3.70
South Asia												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	22.13	22.49	22.16	22.34	23.02	24.19	-0.21	-0.53	-2.03	2.75	3.98	3.38
Median	22.66	22.01	22.06	21.87	23.14	24.19	-0.48	-0.42	-1.93	3.44	4.50	2.71
Standard deviation	0.90	1.55	0.51	0.98	1.46	0.70	0.91	0.34	0.55	1.82	1.11	1.58
Variance coefficient	0.04	0.07	0.02	0.04	0.06	0.03	-1.90	-0.82	-0.29	0.53	0.25	0.58
Minimum	21.08	21.16	21.68	21.56	21.58	23.54	-1.17	-1.12	-2.79	-0.21	2.24	2.37
Maximum	22.86	25.04	22.86	23.83	25.27	24.86	1.23	-0.24	-1.48	4.58	4.92	5.74
Sub-Saharan Africa												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	17.40	18.22	18.05	15.05	15.39	15.71	2.35	2.83	2.35	-2.07	0.83	1.11
Median	17.40	18.24	18.04	15.13	15.32	15.55	2.77	2.75	2.32	-2.09	0.82	0.97
Standard deviation	0.67	0.43	0.71	1.46	1.79	0.71	1.21	1.93	0.50	1.25	0.92	0.37
Variance coefficient	0.04	0.02	0.04	0.10	0.12	0.05	0.44	0.70	0.21	-0.60	1.12	0.38
Minimum	16.37	17.71	17.28	13.55	13.77	15.11	0.81	-0.04	1.80	-3.85	-0.07	0.83
Maximum	18.14	18.88	18.86	16.60	18.29	16.61	3.76	5.11	2.94	-0.38	2.26	1.64

Source: World Bank, World Development Indicators (WDI) database.

C. The contribution to growth made by physical capital: growth accounting

Growth accounting provides a way of measuring the contribution of capital formation to real GDP growth. The growth accounting approach has both advantages and disadvantages compared to the regression approach for measuring the contributions of the three broad categories of sources of growth (capital, labour and total factor productivity (TFP)) (Barro, 1999; Klenow-Rodriguez-Clare, 1997a and 1997b; Pack, 1994; Easterly, 2001; and Easterly and Levine, 2001).

The method's advantages include the fact that it overcomes three main problems present in the regression approach: (a) changes in capital and labour are usually endogenous to TFP; (b) if changes in capital and labour are measured with errors, the regression coefficients will be inconsistent estimates of the shares of capital and labour (this problem is aggravated when capital stock is not adjusted by "utilization" of capital stock); and (c) regression estimates usually assume no variations in

factor shares or TFP through time or across countries. The main limitation of growth accounting stems from the use of factor prices to estimate factor contributions to real GDP growth, as deviations between factor prices and marginal products are then included in measured TFP (the residual

in growth accounting). As long as we interpret TFP as a broad measure of “real cost reductions,” however, those deviations may be considered as correctly forming part of the residual when it is broadly interpreted as a measure of economy-wide real cost reductions.

1. Methodology

In the traditional growth accounting method, capital stock series are customarily generated using the series on gross capital formation at constant prices for each country. Here, however, the wage bill has been decomposed into payments made to “raw labour” and those made to “human capital”. A proxy is used for the remuneration of raw labour to deflate the wage bill and obtain the two separate labour components. This innovation will be referred to here as the “traditional modified growth accounting” (TMGA) method.

An additional innovation, which will be designated the “extended growth accounting” (EGA) method, consists of deflating the gross capital formation series at current prices by the GDP deflator and adjusting the capital series to reflect the “utilization” of physical capital; this notion of “invested” physical capital is in line with capital theory, as the capital stock series are expressed in the same GDP basket units as GDP at constant prices. In both approaches, data on annual factor shares were also used to better capture the changing contributions of capital and labour to annual growth (see Gutiérrez, 2005, for additional information about these methods).⁴

In the EGA, the physical capital series is further expressed in terms of “GDP baskets”. The growth accounting interpretation of this alternative K^* series is associated with capital theory: K^* units of capital are invested to obtain GDP, with both expressed in the same units (GDP

baskets). In addition, the physical capital series is adjusted to reflect the notion of “utilized” physical capital (a vector of “rates of utilization”), which is approximated by the ratios of actual GDP to potential GDP. For the purposes of this study, potential GDP is defined as a centered seven-year moving average of actual GDP.⁵

The characteristics of these two growth accounting methodologies may be summarized as follows:

- Traditional modified growth accounting (TMGA) method: (a) the wage bill is decomposed into its raw labour and quality (or human capital upgrade) components; and (b) the physical capital stock series are generated using the gross fixed capital formation series at constant prices (in local currency). Thus, the TMGA modifies the traditional growth accounting method by splitting the labour contribution into the portion that is attributable to raw labour and the portion accounted for by its quality or human capital component.
- Extended growth accounting (EGA) method: (a) the wage bill is decomposed into its raw labour and quality (or human capital) components; and (b) the physical capital stock series are generated using the gross fixed capital formation series at current prices (in local currency), deflated by the GDP deflator, and adjusted to reflect the actual utilization of physical capital.

⁴ The total labour share displays sizeable variations across time and countries. The ranges for the period 1960-2002 are: Argentina (40% - 60%), Bolivarian Republic of Venezuela (44% - 75%), Brazil (60% - 80%), Chile (60% - 65%), Colombia (50% - 67%) and Mexico (36% - 60%). Data on shares were obtained from Hoffman (2000) and ECLAC national account statistics. The labour share has been adjusted to include own-account workers. The capital share (1-total labour share) assimilates to the national accounts concept of physical capital (which excludes land and other non-reproducible or intangible assets).

⁵ A similar procedure is used in Loayza and Soto (2002) based on Baxter’s and King’s work on business cycles (1999).

2. Main results

These two growth accounting methodologies (TMGA and EGA) were applied over the period from 1960 to 2002 to a sample of six Latin American countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia and Mexico. These are the largest economies in the region and produce about 90% of its total GDP (WDI database, 2004). The selection of countries was guided by the availability and quality of raw data.

Tables II.2 and II.3 summarize the results of the growth accounting exercises. Table II.2 shows the result yielded by the use of the TMGA method, and table II.3 gives the results for the EGA. The trends and structures of the growth sources are similar under the two approaches, which is comforting in the sense that the main analytical observations and conclusions will not depend on which methodology was used.

Table II.2
TRADITIONAL MODIFIED GROWTH ACCOUNTING (TMGA) METHOD ^a

Country	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985	1986-1990	1991-1995	1996-2002	1961-2002
Argentina									
GDP growth	3.99	4.02	3.12	2.96	-2.43	-0.33	6.70	-0.28	2.22
Capital contribution	2.19	1.77	2.17	2.22	1.31	0.40	0.80	1.37	1.53
Share of GDP growth	54.93	44.09	69.47	75.21	54.07	119.03	11.94	482.39	68.98
Raw labour contribution	0.39	0.39	0.24	0.24	0.06	0.04	-0.06	0.28	0.20
Share of GDP growth	9.66	9.65	7.79	7.98	2.43	13.43	-0.97	96.85	8.83
Human capital contribution	0.44	0.50	0.30	0.25	0.05	0.04	-0.09	0.25	0.22
Share of GDP growth	10.96	12.56	9.75	8.41	1.94	12.22	-1.33	87.15	9.82
Total factor productivity	0.98	1.35	0.41	0.25	-3.85	-0.82	6.05	-2.18	0.27
Share of GDP growth	24.45	33.70	13.00	8.40	-158.44	-244.69	90.35	-766.39	12.37
Brazil									
GDP growth	4.58	7.80	10.32	6.70	1.20	2.09	3.16	2.03	4.73
Capital contribution	1.02	1.46	3.00	3.22	1.72	1.31	0.72	0.86	1.66
Share of GDP growth	22.21	18.71	29.10	48.07	143.41	62.43	22.68	42.30	35.11
Raw labour contribution	0.52	0.52	0.82	0.88	0.64	0.66	0.61	0.47	0.64
Share of GDP growth	11.44	6.63	7.92	13.06	53.49	31.74	19.23	23.00	13.50
Human capital contribution	1.56	1.38	1.62	1.52	1.04	1.03	0.91	0.66	1.21
Share of GDP growth	33.95	17.67	15.73	22.71	86.37	49.21	28.78	32.32	25.63
Total factor productivity	1.48	4.44	4.87	1.08	-2.20	-0.91	0.93	0.05	1.22
Share of GDP growth	32.41	56.99	47.25	16.16	-183.27	-43.38	29.31	2.39	25.76
Chile									
GDP growth	3.69	4.60	-1.12	7.28	1.14	6.75	8.71	3.84	4.36
Capital contribution	1.31	1.18	0.86	0.29	0.69	1.06	2.16	2.63	1.27
Share of GDP growth	35.49	25.72	76.76	4.00	60.31	15.64	24.80	68.59	29.19
Raw labour contribution	0.30	0.29	0.38	0.39	0.37	0.92	0.65	0.49	0.47
Share of GDP growth	8.11	6.25	33.90	5.33	32.11	13.63	7.49	12.76	10.85
Human capital contribution	0.57	0.57	0.80	0.81	0.72	1.69	1.11	0.79	0.88
Share of GDP growth	15.35	12.42	71.57	11.18	62.54	24.99	12.71	20.55	20.21
Total factor productivity	1.51	2.56	-3.17	5.79	-0.63	3.09	4.79	-0.07	1.73
Share of GDP growth	41.04	55.61	-282.23	79.49	-54.96	45.74	55.01	-1.89	39.75
Colombia									
GDP growth	4.65	5.88	5.67	5.38	2.25	4.95	4.14	1.12	4.25
Capital contribution	2.07	1.58	1.98	1.95	2.28	1.86	1.94	1.36	1.88
Share of GDP growth	44.59	26.91	34.94	36.21	101.23	37.52	46.85	121.51	44.11
Raw labour contribution	0.50	0.50	0.64	0.69	0.42	0.58	0.41	0.16	0.49
Share of GDP growth	10.79	8.47	11.22	12.73	18.64	11.76	9.85	14.17	11.42
Human capital contribution	1.13	1.31	1.60	1.46	0.81	0.98	0.62	0.31	1.03
Share of GDP growth	24.31	22.30	28.23	27.09	35.84	19.79	14.94	27.33	24.12
Total factor productivity	0.94	2.49	1.45	1.29	-1.25	1.53	1.17	-0.70	0.87
Share of GDP growth	20.30	42.32	25.62	23.97	-55.71	30.94	28.36	-63.01	20.35
Mexico									
GDP growth	7.25	6.26	6.27	7.14	2.03	1.72	1.61	3.96	4.53
Capital contribution	4.05	4.33	3.67	3.09	3.11	1.69	2.57	2.11	3.08
Share of GDP growth	55.91	69.14	58.55	43.27	153.01	98.12	159.59	53.35	67.94
Raw labour contribution	0.47	0.46	0.68	0.71	0.47	0.48	0.50	0.72	0.56
Share of GDP growth	6.54	7.33	10.83	9.91	23.09	27.69	31.26	18.28	12.40
Human capital contribution	0.79	0.86	1.43	1.53	0.78	0.51	0.40	0.65	0.87
Share of GDP growth	10.86	13.82	22.76	21.36	38.43	29.59	24.64	16.46	19.16
Total factor productivity	1.93	0.61	0.49	1.82	-2.33	-0.95	-1.86	0.47	0.02
Share of GDP growth	26.69	9.72	7.85	25.46	-114.54	-55.39	-115.49	11.91	0.51
Venezuela (Bolivarian Rep. of)									
GDP growth	6.18	4.02	2.97	2.54	-0.91	2.76	3.53	-0.37	2.59
Capital contribution	1.80	2.09	2.12	3.68	1.36	0.76	0.94	0.62	1.67
Share of GDP growth	29.19	51.91	71.53	145.21	149.29	27.52	26.48	166.24	64.54
Raw labour contribution	0.62	0.62	0.89	0.95	0.48	0.48	0.72	0.48	0.66
Share of GDP growth	10.03	15.51	30.14	37.39	53.15	17.48	20.38	128.23	25.34
Human capital contribution	1.91	1.72	2.08	1.79	0.76	0.63	0.81	0.56	1.28
Share of GDP growth	30.90	42.85	69.95	70.45	83.75	22.94	22.80	149.92	49.49
Total factor productivity	1.85	-0.41	-2.13	-3.88	-3.52	0.89	1.07	-2.02	-1.02
Share of GDP growth	29.88	-10.27	-71.62	-153.05	-386.19	32.07	30.34	-544.39	-39.37

Source: Information from the World Bank, *World Development Indicators* database, and United Nations Statistical Office.

^a Capital stock series generated using the series of gross capital formation at constant prices but unadjusted by rates of utilization of capital. The wage bill is decomposed into its raw labour and quality (or human capital) components. Based on GDP and gross fixed capital formation at constant prices in local currency.

Table II.3
EXTENDED GROWTH ACCOUNTING (EGA) METHOD ^a

Country	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985	1986-1990	1991-1995	1996-2002	1961-2002
Argentina									
GDP growth	3.99	4.02	3.12	2.96	-2.43	-0.33	6.70	-0.28	2.22
Capital contribution	2.47	1.50	2.19	3.47	-0.31	-0.33	1.80	0.41	1.40
Share of GDP growth	61.86	37.34	70.28	117.26	-12.74	-99.91	26.84	142.73	63.09
Raw labour contribution	0.39	0.39	0.24	0.24	0.06	0.04	-0.06	0.28	0.20
Share of GDP growth	9.66	9.64	7.79	7.98	2.43	13.43	-0.97	96.85	8.83
Human capital contribution	0.44	0.50	0.30	0.25	0.05	0.04	-0.09	0.25	0.22
Share of GDP growth	10.96	12.56	9.75	8.41	1.94	12.22	-1.33	87.15	9.82
Total factor productivity	0.70	1.62	0.38	-0.99	-2.23	-0.09	5.06	-1.21	0.41
Share of GDP growth	17.52	40.45	12.19	-33.65	-91.63	-25.74	75.45	-426.73	18.27
Brazil									
GDP growth	4.58	7.80	10.32	6.70	1.20	2.09	3.16	2.03	4.73
Capital contribution	0.93	1.37	3.31	4.03	1.37	1.81	1.40	1.37	1.95
Share of GDP growth	20.29	17.59	32.14	60.10	114.63	86.35	44.30	67.46	41.17
Raw labour contribution	0.52	0.52	0.82	0.88	0.64	0.66	0.61	0.47	0.64
Share of GDP growth	11.44	6.63	7.92	13.06	53.49	31.74	19.23	23.00	13.50
Human capital contribution	1.56	1.38	1.62	1.52	1.04	1.03	0.91	0.66	1.21
Share of GDP growth	33.95	17.67	15.73	22.71	86.37	49.21	28.78	32.32	25.63
Total factor productivity	1.57	4.53	4.56	0.28	-1.85	-1.41	0.24	-0.46	0.93
Share of GDP growth	34.33	58.10	44.22	4.13	-154.49	-67.30	7.69	-22.77	19.70
Chile									
GDP growth	3.69	4.60	-1.12	7.28	1.14	6.75	8.71	3.84	4.36
Capital contribution	1.13	1.75	0.62	2.52	0.08	1.57	2.78	2.82	1.66
Share of GDP growth	30.62	38.01	55.07	34.57	6.77	23.21	31.89	73.54	38.00
Raw labour contribution	0.30	0.29	0.38	0.39	0.37	0.92	0.65	0.49	0.47
Share of GDP growth	8.11	6.25	33.90	5.33	32.11	13.63	7.49	12.76	10.85
Human capital contribution	0.57	0.57	0.80	0.81	0.72	1.69	1.11	0.79	0.88
Share of GDP growth	15.35	12.42	71.57	11.18	62.54	24.99	12.71	20.55	20.21
Total factor productivity	1.69	1.99	-2.92	3.56	-0.02	2.58	4.18	-0.26	1.35
Share of GDP growth	45.91	43.32	-260.53	48.92	-1.42	38.17	47.92	-6.84	30.94
Colombia									
GDP growth	4.65	5.88	5.67	5.38	2.25	4.95	4.14	1.12	4.25
Capital contribution	1.85	1.64	1.61	1.99	1.76	2.30	2.32	1.66	1.89
Share of GDP growth	39.79	27.93	28.44	36.99	78.20	46.60	55.97	148.85	44.48
Raw labour contribution	0.50	0.50	0.64	0.69	0.42	0.58	0.41	0.16	0.49
Share of GDP growth	10.79	8.47	11.22	12.73	18.64	11.76	9.85	14.17	11.42
Human capital contribution	1.13	1.31	1.60	1.46	0.81	0.98	0.62	0.31	1.03
Share of GDP growth	24.31	22.30	28.23	27.09	35.84	19.79	14.94	27.33	24.12
Total factor productivity	1.17	2.43	1.82	1.25	-0.73	1.08	0.80	-1.01	0.85
Share of GDP growth	25.11	41.30	32.11	23.19	-32.69	21.85	19.24	-90.35	19.98
Mexico									
GDP growth	7.25	6.26	6.27	7.14	2.03	1.72	1.61	3.96	4.53
Capital contribution	3.94	4.08	3.56	3.57	3.25	1.86	1.58	3.27	3.14
Share of GDP growth	54.41	65.21	56.76	50.02	160.09	108.19	98.22	82.53	69.31
Raw labour contribution	0.47	0.46	0.68	0.71	0.47	0.48	0.50	0.72	0.56
Share of GDP growth	6.54	7.33	10.83	9.91	23.09	27.69	31.26	18.28	12.40
Human capital contribution	0.79	0.86	1.43	1.53	0.78	0.51	0.40	0.65	0.87
Share of GDP growth	10.86	13.82	22.76	21.36	38.43	29.59	24.64	16.46	19.16
Total factor productivity	2.04	0.85	0.61	1.34	-2.47	-1.13	-0.87	-0.68	-0.04
Share of GDP growth	28.19	13.65	9.65	18.71	-121.61	-65.46	-54.12	-17.27	-0.86
Venezuela (Bolivarian Rep. of)									
GDP growth	6.18	4.02	2.97	2.54	-0.91	2.76	3.53	-0.37	2.59
Capital contribution	2.29	2.61	2.14	4.17	0.57	0.84	1.39	0.23	1.78
Share of GDP growth	37.05	65.04	72.05	164.18	62.82	30.47	39.43	62.95	68.78
Raw labour contribution	0.62	0.62	0.89	0.95	0.48	0.48	0.72	0.48	0.66
Share of GDP growth	10.03	15.51	30.14	37.39	53.15	17.48	20.38	128.23	25.34
Human capital contribution	1.91	1.72	2.08	1.79	0.76	0.63	0.81	0.56	1.28
Share of GDP growth	30.90	42.85	69.95	70.45	83.75	22.94	22.80	149.92	49.49
Total factor productivity	1.36	-0.94	-2.14	-4.37	-2.73	0.80	0.61	-1.64	-1.13
Share of GDP growth	22.01	-23.40	-72.14	-172.02	-299.71	29.12	17.39	-441.11	-43.61

Source: Information from World Bank, *World Development Indicators* database, and United Nations Statistical Office.

^a Capital stock series adjusted by rates of utilization of capital using the series of gross capital formation at current prices (deflated by the GDP deflator). The wage bill is decomposed into its raw labour and quality (or human capital) components. Based on GDP at constant prices, local currency and gross fixed capital formation at current prices in local currency.

At first sight, the results shown in tables II.2 and II.3 appear to indicate that physical capital has been the leading source of growth for all six countries throughout the period considered (1960-2002), although the impact, in terms of average shares of capital contribution to GDP

growth, has varied somewhat across time and countries (see figure II.2). Further examination of the growth process, however, leads to the conclusion that other growth sources, particularly TFP, have marked the difference between faster and slower growth episodes.

Figure II.2
SOURCE OF GROWTH FOR LATIN AMERICAN COUNTRIES CALCULATED USING TMGA AND EGA METHODS ^a

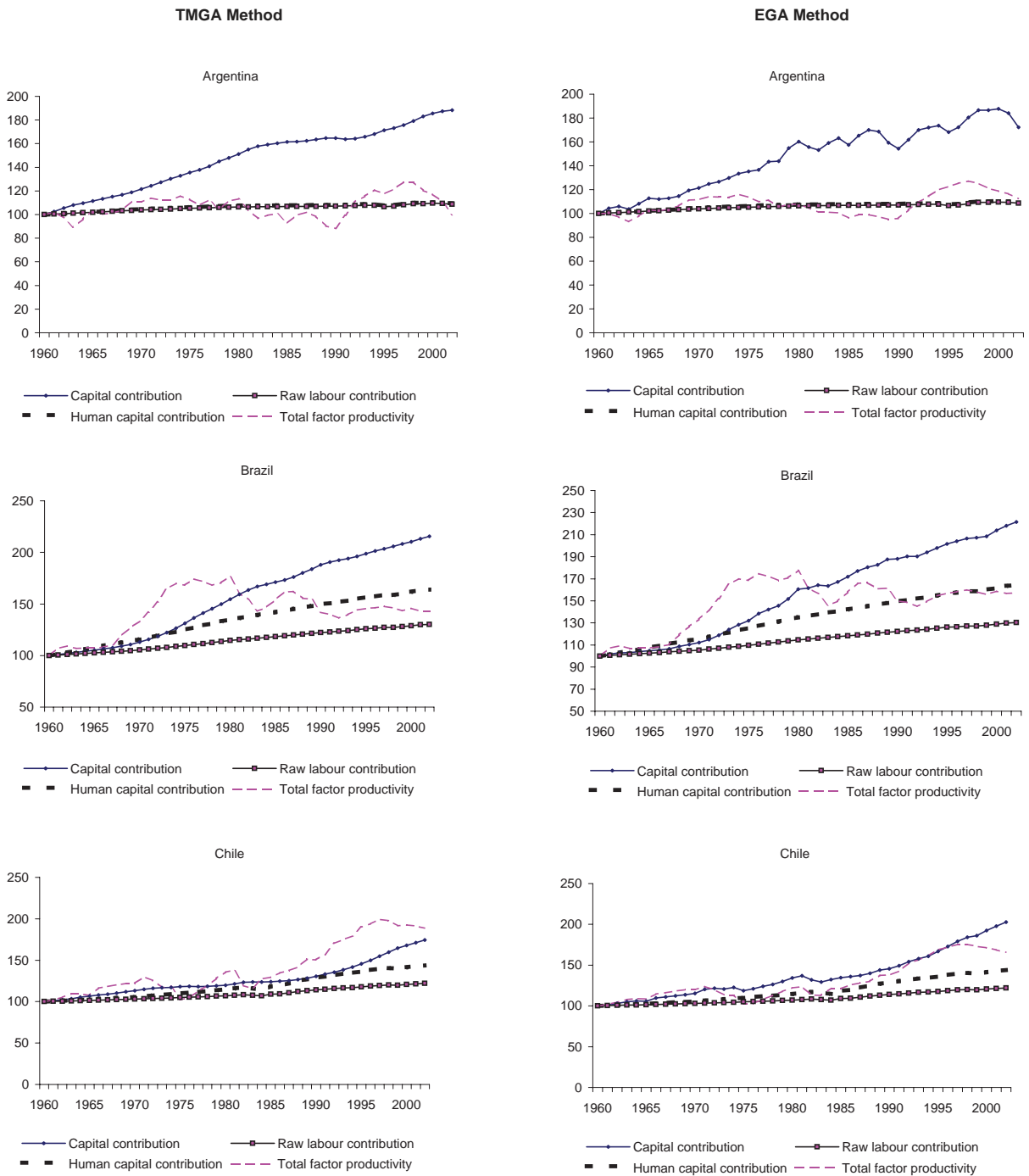
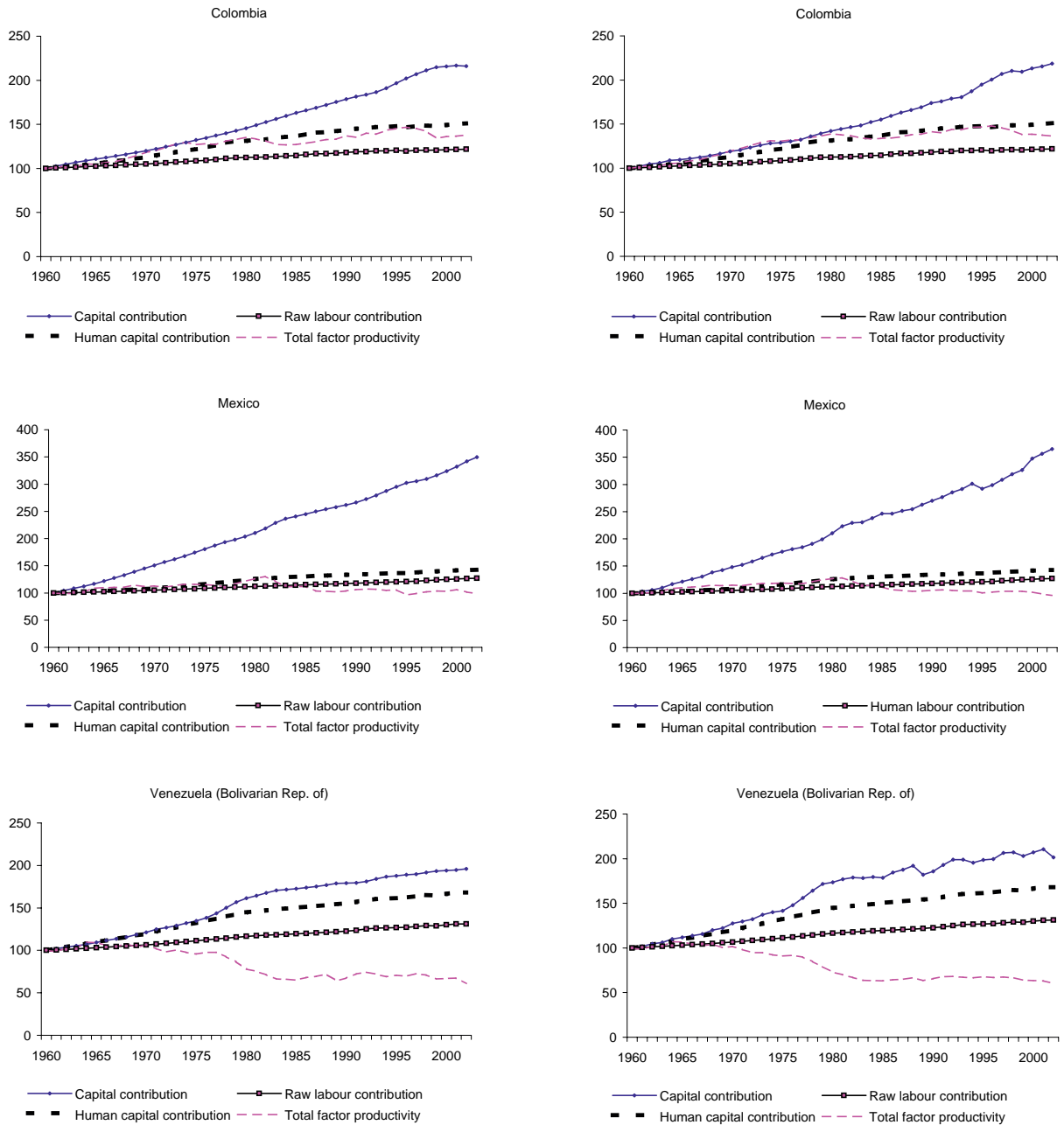


Figure II.2 (concluded)



Source: World Bank, World Development Indicators (WDI) database.

^a Traditional modified growth accounting (TMGA) method, left-hand column. Extended growth accounting (EGA) method, right-hand column.

3. Observations regarding the growth accounting results

Observation 1: Physical capital has played an important role in the growth process, but the other growth sources have made the difference between better and worse growth experiences.

Physical capital contributed about 60%-70% to cumulative GDP growth in 1960-2002 in Argentina, the Bolivarian Republic of Venezuela and Mexico. Growth performance did not have a direct correlation with physical capital contributions, however. Large capital contributions were associated with both strong and weak growth performances across countries and subperiods. In Brazil, Chile and Colombia, real GDP growth was less dependent on physical capital. The shares of physical capital contributions to GDP growth fluctuated between 30% and 45% for these countries, which is about half the size of the shares registered for the countries whose growth is more dependent on capital.

Observation 2: Labour played a mixed role in the growth process, helping to drive growth in the fastest-growth countries but not in the slowest-growth countries. The human capital component has played a more important role than the raw labour component has.

The role of labour as a source of growth has been mixed, but it has not marked the difference between high-growth and low-growth experiences. The human capital component has had a more significant impact than raw labour. It can also be seen that labour has contributed more to growth than physical capital has on many occasions across time and countries.

Observation 3: Total factor productivity (TFP) was the main source that marked the difference between better and worse growth experiences.

For the set of six countries as a whole, while record-high contributions from physical capital have co-existed with negative or low GDP growth in all of the faster growing countries in terms of the 1960-2002 period as a whole (Brazil, Chile, Colombia and Mexico), the growth contribution of TFP was the largest in the best and worse growth years and outstripped other growth sources' contributions (see tables II.1 and II.2 and figures II.1 and II.2). The leading role of TFP is also evident in Argentina and the Bolivarian Republic of Venezuela. TFP has marked the difference between the high and low real GDP growth years. Argentina witnessed a modest upturn in TFP growth in the early 1990s, but this trend has been reversed since 1997 in tandem with a declining GDP growth trend. The situation in the Bolivarian

Republic of Venezuela has been even worse, inasmuch as the TFP contribution never really took off and has been declining since the early 1970s. This country's poor growth performance has been only partly attenuated by positive direct contributions from human capital.

Additional evidence of the importance of TFP in Latin America's growth process is furnished by the exercises summarized in table II.4 (based on the results derived from the TMGA method) and table II.5 (based on the results obtained using the EGA method).

The best 10 and the worst 10 growth rates were selected from the panel of all annual growth rates (across countries and years) in each of the following four decades: 1961-1970, 1971-1980, 1981-1990 and 1991-2002. Tables II.4 and II.5 show the means and medians for growth rates, physical capital contributions and TFP contributions. The tables also show the differences in the means and medians between the 10 highest- and 10 lowest-growth events (see the last two rows) and the ratios of the differences in the means and medians between the contributions of physical capital and real GDP growth and between the contributions of TFP and real GDP growth. These last columns show the relative impact of physical capital and TFP in terms of the differences between the 10 highest-growth and the 10 lowest-growth episodes.

The results shown in the last columns of tables 4 and 5 indicate that TFP accounts for between 76% and 95% of the differences in the means when the TMGA method is used and between 49% and 70% when the EGA method is employed. In terms of the medians, TFP accounts for between 81% and 100% of the GDP growth differences when calculations are performed using the TMGA method and between 50% and 79% with the EGA method.

Similar evidence about the primary role played by TFP in accounting for fast-growth episodes has been provided by a number of recent studies (see Klenow and Rodriguez-Clare, 1997b, Easterly, 2001, and Easterly and Levine, 2001, for a global analysis; Easterly and Pack, 2001, for Africa; Elias, 1990 and 1992, Fajnzylber and Lederman, 1999, and Loayza, Fajnzylber and Calderón, 2004, for Latin America; and Harberger, 1996 and 1998, for East Asia, Latin America, and the United States and Mexican manufacturing sectors). In a more recent study, Solimano and Soto (2004) also showed that TFP was the main determinant of GDP growth for a sample of 12 Latin American countries in the period 1960-2000.⁶

⁶ Solimano and Soto (2006) concluded that most of GDP growth is the result of changes in the efficiency and rate of utilization in the use of capital and labour (TFP).

Table II.4

HIGH AND LOW REAL GDP GROWTH RATES: DIFFERENTIAL IMPACTS OF TOTAL FACTOR PRODUCTIVITY AND CAPITAL (TMGA METHOD)

	GDP growth				TFP contribution				Ratio of differences			
	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002
10 highest												
GDP growth rates												
Mean	10.43	10.34	7.87	9.51	5.11	4.81	4.96	6.26				
Median	10.20	9.74	7.91	8.93	4.99	4.09	4.94	5.42				
10 lowest												
GDP growth rates												
Mean	0.45	-2.44	-6.13	-5.04	-2.95	-4.87	-8.38	-6.18				
Median	0.79	-1.42	-5.32	-4.31	-2.65	-5.37	-8.31	-5.64				
Difference in means	9.97	12.78	14.00	14.55	8.07	9.69	13.33	12.44	0.81	0.76	0.95	0.86
Difference in medians	9.41	11.16	13.23	13.23	7.64	9.45	13.24	11.06	0.81	0.85	1.00	0.84
	GDP growth				Capital contribution				Ratio of differences			
	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002
10 highest												
GDP growth rates												
Mean	10.43	10.34	7.87	9.51	1.98	2.85	0.99	1.57				
Median	10.20	9.74	7.91	8.93	1.55	2.84	0.82	1.76				
10 lowest												
GDP growth rates												
Mean	0.45	-2.44	-6.13	-5.04	1.84	2.04	1.61	1.57				
Median	0.79	-1.42	-5.32	-4.31	1.95	1.89	1.36	1.55				
Difference in means	9.97	12.78	14.00	14.55	0.14	0.81	-0.62	0.00	0.01	0.06	-0.04	0.00
Difference in medians	9.41	11.16	13.23	13.23	-0.40	0.95	-0.54	0.21	-0.04	0.08	-0.04	0.02

Source: World Bank, World Development Indicators (WDI) database, and United Nations Statistical Office.

Table II.5

HIGH AND LOW REAL GDP GROWTH RATES: DIFFERENTIAL IMPACTS OF TOTAL FACTOR PRODUCTIVITY AND CAPITAL (EGA METHOD)

	GDP growth				TFP contribution				Ratio of differences			
	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002
10 highest												
GDP growth rates												
Mean	10.43	10.34	7.87	9.51	5.20	4.46	2.94	4.73				
Median	10.20	9.74	7.91	8.93	5.26	4.41	2.41	4.54				
10 lowest												
GDP growth rates												
Mean	0.45	-2.44	-6.13	-5.04	-1.74	-4.71	-4.45	-2.39				
Median	0.79	-1.42	-5.32	-4.31	-1.45	-4.41	-4.26	-3.33				
Difference in means	9.97	12.78	14.00	14.55	6.94	9.16	7.39	7.12	0.70	0.72	0.53	0.49
Difference in medians	9.41	11.16	13.23	13.23	6.71	8.82	6.67	7.87	0.71	0.79	0.50	0.59
	GDP growth				Capital contribution				Ratio of differences			
	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002	1961-1970	1971-1980	1981-1990	1991-2002
10 highest												
GDP growth rates												
Mean	10.43	10.34	7.87	9.51	3.78	4.56	3.01	3.78				
Median	10.20	9.74	7.91	8.93	3.92	4.46	2.90	3.75				
10 lowest												
GDP growth rates												
Mean	0.45	-2.44	-6.13	-5.04	0.54	0.86	-2.31	-2.22				
Median	0.79	-1.42	-5.32	-4.31	1.28	1.11	-2.42	-1.99				
Difference in means	9.97	12.78	14.00	14.55	3.24	3.69	5.33	6.00	0.33	0.29	0.38	0.41
Difference in medians	9.41	11.16	13.23	13.23	2.64	3.35	5.32	5.74	0.28	0.30	0.40	0.43

Source: World Bank, World Development Indicators (WDI) database, and United Nations Statistical Office.

D. The contributions to growth made by investment in machinery and equipment, investment in construction, and economic policies: a regression analysis

Key quantitative studies have emphasized the importance of machinery investment in augmenting the role of physical capital and labour in the growth process. Ever since the industrial revolution, machinery investment has played a vital part, both directly, as a production factor, and indirectly, as a means of acquiring and transmitting technological improvements across and within countries. De Long and Summers (1991 and 1993) found evidence of high social returns on investments in machinery and characterized this factor as being of primary importance in boosting productivity growth (proxied by per capita GDP). Their conclusions indicate that fast-growing countries enjoy favourable supply conditions for machinery investment and that developing countries have benefited as much as richer economies have from the technologies embodied in machinery.

Economic policies also have a very strong influence on economy-wide productivity and on economic growth, as they shape the framework for the allocation and use of production factors and decision-making by economic agents. The contributions of physical capital and labour to economic growth will depend on the quality of the economic framework. Price stability has become an important factor in boosting growth because the irreversibility of many investments makes investment decisions highly sensitive to the inflation outlook and to the associated level of uncertainty about relative price trends (see Pyndick and Solimano, 1993). The size of the government apparatus has also been shown to influence growth because an increase in fiscal vulnerability can have an adverse impact on economic prospects and economic stability and because public spending may crowd out private saving and investment. Economic instability and uncertainty about economic prospects have been shown to be major factors in discouraging investment. Based on a review of the literature, Schmidt-Hebbel, Servén and Solimano (1996a and 1996b) concluded that investment

is a necessary but not sufficient condition for growth and that human capital, technological innovation and appropriate policies are also required in order for sustained high growth to occur. Evidence about the significance of education as a contributing factor to growth has also been provided in other seminal studies (see, for example, Barro and Lee, 1994), since education facilitates the adoption of modern technologies embodied in new machinery and equipment, as well as creating other positive externalities (see Lucas, 1988).

Table II.6 presents evidence regarding the kinds of impacts that total fixed investment, investment in machinery and equipment, and investment in construction have on per capita GDP growth. The approach employed in arriving at these results is similar to the one used in calculating endogenous growth estimates for a number of highly influential studies (see, for example, Barro and Lee, 1994; De Long and Summers, 1991 and 1993; Klenow and Rodríguez-Clare, 1997b; and Loayza, Fajnzylber and Calderón, 2004).⁷ Regression estimates for aggregate fixed investment were included to enrich the conclusions reached in section C.3. The impact on per capita GDP growth of fixed investment and its composition by type of asset was tested in combination with a number of key policy variables. The variables used were: (i) inflation, as measured by the annual percentage change in the consumer price index (a measure of the degree of price stability which is also related to the consistency of macroeconomic policies); (ii) trade openness, measured as the percentage share of trade in GDP (degree of trade protection); (iii) government consumption, measured as a percentage of GDP (size of the government sector and policies that assign different roles to that sector in the economy); (iv) external debt, measured as a percentage of GDP (macroeconomic policies leading to different levels of external debt exposure); (v) foreign direct investment (FDI), as a percentage of GDP (policies influencing the degree of capital openness,

⁷ Solimano and Soto (1994) use the growth rates of TFP (computed using growth accounting) for a panel of 12 Latin American countries for the period 1960-2002 as the dependent variable instead of per capita GDP growth. They found evidence, however, of a "striking similarity" between changes in TFP and changes in per capita GDP or GDP per working-age person. The two approaches should yield similar results as long as the regression estimates takes account of fixed investment as an additional control variable.

as well as regulations affecting FDI); (vi) infrastructure, represented by the number of telephone lines per capita (policies assigning different priorities to the development of infrastructure); and (vii) education, measured by the ratio of gross secondary-school enrolment to the population of the corresponding age group (education policies and the

priorities assigned to extending the coverage of education). These variables are referred to as policy-related variables because they reflect or are the result of economic policies.⁸ Table II.6 presents the best four regressions obtained after experimenting with several different combinations of alternative dependent variables.⁹

Table II.6
PER CAPITA GDP GROWTH DETERMINANTS: TOTAL INVESTMENT, INVESTMENT IN MACHINERY AND EQUIPMENT, AND INVESTMENT IN CONSTRUCTION. FIXED-EFFECTS ESTIMATES FOR GROWTH OF REAL PER CAPITA GDP ($\ln y_t - \ln y_{t-1}$)^{a,b}
(Five-year averages: 1960-2002. Number of observations: 48)

	(1)	(2)	(3)	(4)	(5)	(6)
Investment rate (% GDP)	0.0046*** (2.70)	0.0037** (2.43)	0.004*** (3.10)	0.0035*** (2.69)		
Machinery and equipment rate (% GDP)					0.0074*** (3.66)	0.0071*** (3.65)
Construction rate (% GDP)						
Inflation (annual %)			-0.00003* (-1.83)	-0.00005** (-2.52)		
Openness (exports+imports) (% GDP)			0.0007 (1.63)			
Government consumption (% GDP)			-0.0034*** (-3.05)	-0.003** (-2.50)		
External debt (% GDP)			-0.0005* (-1.83)			
Foreign direct investment (% GDP)			-0.0037 (-0.95)			
Infrastructure (telephone lines per capita)			0.0217 (1.43)			
Education (secondary enrolment ratio)			0.0007* (1.72)	0.0008*** (3.01)		
Population growth (%)	-0.0129 (-1.18)				-0.0046 (-0.51)	
Per capita GDP (value at start of each subperiod)	-0.06*** (-3.02)	-0.041*** (-3.86)	-0.1331*** (-4.19)	-0.0671*** (-3.62)	-48*** (-2.89)	-0.042*** (-4.29)
R sq	0.41	0.38	0.78	0.57	0.43	0.43
F stat	3.32	3.45	5.37	4.98	3.75	4.29

Source: World Bank, World Development Indicators (WDI) database, and United Nations Statistical Office.

^a Sample: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia and Mexico.

^b t-statistics in parentheses; (*): statistical significance at the 10% level; (**): 5% level; and (***): 1% level. Fixed effects; corrected for heteroscedasticity.

⁸ High-inflation episodes have generally been associated with more expansionary monetary and fiscal policies. A large share of government consumption in GDP often reflects fiscal policies that have assigned the government a greater role in the growth process. A larger share of trade in GDP frequently reflects commercial policies that have reduced trade barriers. Larger shares of FDI and of infrastructure in GDP generally reflect policies that have deregulated FDI and have promoted more aggressive privatization programmes (including concessions). Changes in the coverage of secondary-school enrolment often reflect the strength of education policies, although as discussed elsewhere in this chapter, existing education variables are imperfect yardsticks of human capital formation, as measurements of education levels do not account for quality or for on-the-job training.

⁹ Some additional variables were also examined, such as the fiscal balance and the current account balance (both as percentages of GDP), but the series were short, truncated or of questionable reliability. More disaggregated fixed investment data from Penn World Table 5.6 were examined, but the series were also truncated, and reliable documentation explaining the data sources could not be obtained. National accounts data from the United Nations and national sources in Latin America do not include information on fixed investment in the relevant countries that is disaggregated any further than the broad categories of "machinery and equipment" and "construction".

Initial per capita GDP (values as at the initial year of each subperiod) was also included to account for conditional convergence, which has been reported as being an important factor in other growth studies (see, for example, Barro and Lee, 1994; and Loayza, Fajnzylber and Calderón, 2004). Panel data for the six Latin American countries making up the sample for the period 1960-2002 were used. Five-year averages were employed in calculating the estimates shown in table II.6 to reduce the effect of short-term fluctuations in a total of 48 observations. Panel data were used in running ordinary least squares (OLS) regressions with country fixed effects which were corrected for heteroscedasticity, as needed.¹⁰ National accounts data at constant prices in local currency were used, and variables were expressed as shares of GDP.¹¹ *Observations 4* through 6 were arrived at on the basis of these regression results.

Observation 4: Key factors affecting per capita GDP growth in Latin America have included: (i) investment, (ii) inflation performance, (iii) the size of the government sector, (iv) the level of external debt and (v) education.

Confirming the findings of section C.3, the regression analysis showed that investment was a crucial source of growth in Latin America in 1960-2002. Key policy variables such as the following have also had a major influence in this respect: inflation, the level of government consumption, the size of the external debt in terms of GDP and education (using the secondary-school enrolment ratio as a proxy). The most significant policy-related variables in relation to per capita GDP growth were found to be inflation and the size of the government sector, however. Other equations (not shown) were tried out that included such variables as FDI and infrastructure (measured by per capita telephone lines), but the resulting coefficients were not significant at the 1% level.

The findings have been interpreted as indicating that, while fixed investment has been important for growth in Latin America, key economic policy variables (mainly those that induce price stability, a low level of external debt, a relatively small government sector and an expansion of educational coverage) helped make the difference between fast- and slow-growth experiences. Population growth appears to have had a slight negative

effect. These results are also consistent with other evidence about conditional convergence (see, for example, Barro, 1993; and Loayza, Fajnzylber and Calderón, 2004).¹²

Observation 5: The contribution of investment in machinery and equipment to per capita GDP growth is greater than the contribution made by investment in construction. When combined with some key policy-related variables (inflation, the share of government consumption in GDP, the size of the external debt in terms of GDP and education), this variable thus provides a more satisfactory overall explanation for per capita GDP growth.

Table II.6 also shows the regression estimates for fixed investment, broken down into the categories of machinery/equipment and construction. The results indicate that fixed investment in the form of machinery and equipment has a proportionally greater growth impact than overall investment does (see equations 1 through 4 versus equations 5 through 11). Investment in construction was found to be a non-significant factor in accounting for per capita GDP growth when considering the entire period from 1960 to 2002 (see regressions 7, 8, and 9). The results provide evidence that the social returns of machinery investments are higher than those of investments in construction. Machinery (and equipment) investments embody new technologies that are updated on a more dynamic basis and spread more rapidly to different activities and sectors. In particular, imported machinery provides an effective vehicle for the acquisition of modern technologies. Buildings and other types of structures, on the other hand, last longer, and their direct and indirect impacts on production processes are less flexible than are those of machinery and equipment.

The economic policy variables that turned out to be the most influential when combined with machinery and equipment investments were inflation and government consumption (see equations 9, 10 and 11). The significance of education, in contrast, declined when combined with investment in machinery and equipment. As new investment in this category is combined with upgraded labour, it is possible that the investment variable is capturing the impact of education.

Observation 6: Human capital as measured by secondary education appears to have been a key

¹⁰ White's diagonal test was applied and proved to be robust to observation-specific heteroscedasticity in the residuals.

¹¹ In Gutierrez (2005) a structural analysis (Chow tests) was applied for three types of breaks: 1960-1980/1981-1990/1991-2002; (2) 1960-1980/1981-2002; and (3) 1986-1990/1991-2002. The results of the annual estimates for the entire period 1960-2002 generally confirm the results obtained using five-year averages.

¹² Per capita GDP growth on the right side of the equations has been computed as the first difference in natural log terms between consecutive periods ($\ln y_t - \ln y_{t-1}$). Thus, a 3% rate is measured as 0.03. This is important for an appropriate interpretation of the estimated coefficients and the derived elasticities.

contributing factor to productivity growth in the first half of the period under consideration but then lost significance after the 1980s.

Table II.6 presents evidence that education has been an important contributing factor to growth. In three of the five equations in which education was included, its coefficient was significant, at least at the 10% level (see equations 3, 4, 9 and 11 in table II.6). Education's effect on growth declines somewhat in significance in equations where it is combined with machinery and equipment investment rather than total investment (see equation 10 as compared to equation 3). As newer machinery and equipment requires increased training and skills, part of the education effect could be being captured by investment in machinery and equipment. Testing this hypothesis would, however, require an assessment of the educational requirements associated with the various types and vintages of machinery and equipment. The available data on education (WDI database, 2002; and Barro and Lee, 2004 and 1993) are not adjusted for quality, however, and provide indicators covering a timespan of just five years.

The quality component can be expected to strengthen the stock of education and therefore its impact on growth. This effect is evident in the increasing demand for new skills and innovation capacity for application in more efficient and competitive production processes and in the use of the more recent technologies incorporated in new machinery and equipment.¹³

Observations regarding the structural analysis developed by Gutiérrez (2005) provide evidence that secondary education was an important contributing factor to per capita GDP growth during the 1960s and 1970s but that its significance gradually waned in the 1980s and then weakened further in the 1990s and 2000s. As more and more of the population of secondary-school age enrolls, the margin for additional enrolment shrinks. This suggests that first-generation educational policies should be gradually replaced by a second generation of policies that increasingly focus on strengthening the effectiveness of the stock of education capital. Quality seems to be at the centre of successful international experiences such as those of many Asian countries.

E. The contributions to growth made by private and public investment: a regression analysis

The literature has provided evidence regarding the effects of private and public investment on economic growth (Easterly and Rebelo, 1993; Greene and Villanueva, 1991; Khan and Reinhart, 1990; and Schmidt-Hebbel, Servén and Solimano, 1996a). Some degree of consensus prevails as to the differential growth impact of private and public investment, which will depend on the macroeconomic framework and on the extent of complementarities or substitutability existing between public and private investment. When public investment complements private investment, it increases the latter's social returns in terms of economic growth. Public investment in education and infrastructure exhibits strong complementarities with private investment and therefore has positive economic-growth effects. When public investment substitutes for private investment, however,

it reduces aggregate investment returns and economic growth. Thus, it is not only the level of total investment that matters for growth, but also the existence of a suitable mix of private and public investment.

The evidence presented in this chapter shows that sound public policies can enhance private investment's positive impact on growth and leads to the following observation regarding the investment/growth process in Latin America in 1960-2002:

Observation 7: Private investment's contribution to growth has been strongly positive. Public investment's contribution has not been very significant. Price stability appears to be a leading policy-related factor in strengthening the contribution of private investment to economic growth.

¹³ The data on gross enrolment in secondary education (ratios of total secondary-school enrolment to the population of secondary-school age) were obtained from the *World Development Indicators* (WDI) database 2004. See also Gutiérrez, 2005 (appendix A) for a description of relevant variables and sources. Series measuring the quality of secondary education should provide insights into the impact of education on growth. This is a line of statistical work that would enrich future research on the subject.

Table II.7 shows the results for a selected number of estimated OLS equations for per capita GDP growth in relation to private investment, public investment and a set of key policy variables. As in the previous estimates, per capita GDP growth has been approximated by the first differences of the natural logs of per capita GDP. The relevant data were available only for the period 1970-2002 at current prices in local currencies; three-year averages were used. The only available investment series which are disaggregated into private and public investment are those compiled by the International Finance Corporation (IFC) and the World Bank. These series are available for 1970 onward and are at current prices only. United Nations national accounts data

contain longer historical series, but these series are for central and general governments only and therefore do not cover public enterprises. The periods for which averages were computed for the relevant variables were shortened from five years to three years in order to compensate for the shortness of the estimation period. As for the estimates shown in table II.7, similar results were obtained for the entire period (1970-2002) when three-year averages (62 observations) and annual data (178 observations) were used. This provides further substantiation for Observation 7. Estimates using annual data that incorporated the structural break analysis are included in the more extensive research work done by Gutiérrez (2005).

Table II.7
PER CAPITA GDP GROWTH DETERMINANTS: PRIVATE AND PUBLIC INVESTMENT.
FIXED-EFFECTS ESTIMATES FOR GROWTH OF REAL PER CAPITA GDP^a
(Three-year averages: 1970-2002. Number of observations: 62)

	(1)	(2)	(3)	(4)	(5)
Private investment (% GDP)	0.0032 (1.62)	0.00417 * (1.82)	0.0042 * (1.95)	0.0038 * (1.75)	0.0036 * (1.77)
Public investment (% GDP)		0.0024 (0.92)	0.0024 (0.91)	0.0017 (0.63)	0.0022 (0.88)
Inflation (annual %)			-0.00002*** -2.70	-0.00002*** (2.60)	-0.00003** -2.46
Government consumption (% GDP)					-0.0030 ** (-2.28)
External debt (% GDP)				-0.0290 (-0.93)	
Per capita GDP (value at start of each subperiod)	-0.0004 *** (-3.01)	-0.0004 *** -3.32	-0.0004 *** (-3.23)	-0.0044 *** (-2.94)	-0.0005 *** (73.46)
R sq	0.24	0.26	0.34	0.36	0.41
F stat	2.44	2.34	2.78	2.62	3.20

Source: World Bank, World Development Indicators (WDI) database.

^a t-statistics in parenthesis; (*): statistical significance at the 10% level; (**): 5% level; and (***): 1% level. Fixed effects; corrected for heteroscedasticity.

The estimates for 1970-2002 show that private investment was a major driving force of per capita GDP growth, with public investment playing a negligible role. Government consumption also appears to have had little significance. Inflation was significant at the 1% level in explaining growth and improved the explanatory power of the equations when combined with private investment.

The results point to the importance of appropriate economic policies in encouraging private investment and growth. Countries that have promoted private investment and have reinforced price stability, thus reducing the associated vulnerabilities and uncertainties caused by high inflation, have enjoyed faster per capita GDP growth. Thus, Chile, Colombia and Mexico have performed better, while Argentina and the Bolivarian Republic of Venezuela suffered from stronger price instabilities in 1970-2002. This discouraged both private investment and economic

growth, since such instabilities heighten an economy's exposure to vicious cycles and make it more difficult to apply countercyclical fiscal policies.

Observation 8: The mutual causality existing between private investment and economic growth may foster the formation of virtuous and vicious cycles involving these two phenomena.

Table II.8 presents estimates for private investment rates (expressed as percentages of GDP based on data at current prices) in 1970-2002 calculated using the same econometric approach as was employed in arriving at the previous estimates (panel OLS estimates with fixed country effects). The equations shown in table II.8 were selected from a much larger set of estimates (in terms of explanatory power and the economic and statistical significance of control variables). Annual estimates and a structural break analysis (see Gutiérrez, 2005) also, in general, provided corroboration for Observation 8.

Table II.8
PRIVATE INVESTMENT DETERMINANTS. FIXED-EFFECTS ESTIMATES FOR GROWTH OF REAL PER CAPITA GDP^a
(Three-year averages: 1970-2002. Number of observations: 62)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public investment rate (% GDP)	-0.2363*	-0.2330**	-0.2035				
	(-1.83)	(-2.14)	(-1.52)				
Per capita GDP growth (%)		26.43***	34.04***	26.50***	35.42***		
		(3.07)	(3.31)	(3.044)	(3.70)		
Foreign direct investment (% GDP)	0.9010***	0.9608***		1.0758***		1.014***	
	(4.29)	(5.71)		(6.79)		(4.94)	
Infrastructure (telephone lines per capita)			2.5217***		2.8867***		2.2830***
			(3.49)		(4.88)		(3.61)
R sq	0.65	0.71	0.67	0.71	0.67	0.65	0.57
F stat	14.05	16.26	13.11	19.02	15.80	17.01	12.23

Source: World Bank, World Development Indicators (WDI) database.

^a t-statistics in parenthesis; (*): statistical significance at the 10% level; (**): 5% level; and (***): 1% level. Fixed effects; corrected for heteroscedasticity.

The results indicate that per capita GDP growth has been a highly significant contributing factor to increases in private investment rates (at the 1% level) (see equations 2 through 5). When combined with Observation 7, the estimates suggest a mutual causality between private investment and growth which paves the way for the emergence of both virtuous and vicious cycles. An increase (decrease) in private investment induces an acceleration (decline) of per capita GDP growth, which in turn triggers an upswing (downturn) in private investment. This mutual causality between investment and growth has also been found in a number of previous studies.

Servén and Solimano (1992a and 1992b) have detected a positively correlated cyclical interaction between private investment and growth in the 1980s and early 1990s. These authors suggest the possibility of using public investment to attenuate the mutually reinforcing phase of both private investment and economic growth at times of economic contraction, as well as of supporting growth/stability factors to stimulate private investment and induce a virtuous cycle of recovery and growth. They go on to note that growth recoveries took longer when, in the declining phase of the cycle, public investment was cut back too sharply and when uncertainty about the policy framework delayed the reactivation of growth and private investment.

The evidence also suggests that the type of public policy package that is used has a strong influence on economic growth, in addition to the level of (private and public) investment. As in the case of the Bolivarian Republic of

Venezuela in 1991-2002, high public investment does not guarantee an acceleration of economic growth. The evidence gathered for this study shows up a negative correlation between private and public investment for the 1970-2002 period as a whole, suggesting that public investment, rather than private investment, was crowded out. The evidence also appears to indicate that FDI and infrastructure (see equations 4 through 7) helped to drive private investment during this period, but the results are inconclusive when combined with the structural analysis (see Gutiérrez, 2005).

The results for FDI could be interpreted as indicating that FDI did not contribute directly to private investment. It may have contributed indirectly, however, through the attraction of new technologies. More specific research is therefore needed before more precise conclusions can be drawn regarding the interactions between FDI and private investment in Latin America. Interesting research on this subject has however, been conducted by Lim (2001), Borensztein, de Gregorio and Lee (1998) and Olofsdotter (1998).¹⁴ The same type of qualification applies to infrastructure and private investment, given the sensitivity of the association between these two variables. In a case study on investment and reforms in Latin America, Moguillansky and Bielschowsky (2000) provide a detailed structural analysis of the incidence of infrastructure investments on economic growth in eight Latin American countries in 1960-2000. Calderón and Servén (2004) have studied the role of infrastructure in Latin America in 1980-2001 in more detail.¹⁵

¹⁴ Lim's (2001) survey of the literature provides substantial support for the existence of positive spillovers from FDI but also shows that there is no consensus as to the causality of FDI in relation to economic growth. Borensztein and others have found that the level of human capital helps to determine the level of ability that exists for the adoption of foreign technologies and that FDI may crowd out domestic investment. Olofsdotter has found evidence that the beneficial effects of FDI depend on institutional capacity, which varies across countries.

¹⁵ Moguillansky and Bielschowsky have studied eight countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. In their study, they analysed the effects of structural reforms on investment decisions in the 1990s. Their examination of macroeconomic, sectoral and microeconomic aspects indicates that weak institutions and regulations have limited the benefits derived from the privatization of investments in infrastructure (including concessions). Calderón and Servén (2004) show that Latin America lags behind international standards in terms of the quantity and quality of infrastructure and that infrastructure investment has fallen in Latin America owing to the retrenchment of public investment and the limited response of the private sector. They also note considerable disparities across countries.

F. Saving determinants

National savings and growth rates in Latin America have remained low in the 1990s and 2000s despite the progress of stabilization and reform efforts following the recovery from the “lost decade” of the 1980s. The average national savings rate for the region as a whole has not surpassed the rather modest levels (20%-23%) observed in the 1960s and 1970s, and the gap between Latin America’s rates and those of more developed regions and East Asia has continued to widen. Investment rates and per capita GDP growth have mirrored the disappointing results exhibited by national saving.

This section¹⁶ furthers the research on saving in two main directions. First of all, it extends the analysis of saving to include the more recent period of 1990-2003 (most of the previous research has been based on data covering the years up to about the mid-1990s). Second, it examines the causality among saving, investment and growth, an area that has gone uncovered in most previous research on saving in Latin America. The research done in this area is based on a representative sample of nine Latin American countries (three large, three medium-sized and three small economies, measured in terms of GDP in 2000 dollars). The countries selected for this purpose were: Argentina, Brazil, Mexico (large); Colombia, Chile, Peru (medium-sized); and Costa Rica, Ecuador and El Salvador (small). The selection of countries was guided by the availability and quality of raw data. Table II.9 provides the main descriptive indicators for these countries since the 1990s. As shown in the table, national saving was the main source of investment financing, sharp differences existed in savings rates across countries, and foreign saving exhibited greater volatility both across time and when compared to national saving.

The research on saving has identified several key factors associated with low and high national savings rates (see tables II.10 and II.11). A relative degree of consensus is to be noted in the literature as to the existence of a positive association among national (and private) saving, income levels and growth rates,¹⁷ macroeconomic stability, the level of foreign borrowing constraints and the size of the working-age population. A consensus has also emerged

regarding the presence of a partial negative offset between public and private saving and, consequently, of a positive correlation between public and national saving (evidence of partial Ricardian equivalence).

No consensus has been reached, however, regarding the association between (national and private) saving and financial development (generally measured by the degree of monetization and credit-to-GDP ratios), saving and domestic real interest rates, or saving and the distribution of income (and wealth). The association between saving and membership in a private pension system is also controversial, as it depends largely on fiscal policy developments and consumers’ reactions. A move to a private funded pension system opens the way for the creation of institutional investors that can help to boost the availability of financial savings in domestic capital markets, but government budget trends and consumers’ attitudes are key factors in terms of national (and private) saving (Schmidt-Hebbel, 1998).

Saving and income. A positive association between national saving and current income levels is observed both in time series and cross-section data (micro and aggregate), as saving (as a percentage of GDP) rises with the level of per capita income. The evidence points to an inverted U relationship between saving and the level of per capita income (Masson, Bayoumi and Samiei, 1998). It has become an accepted stylized fact that savings rates rise during the initial stages of development (although not at very low per capita income levels) and decline as countries reach higher per capita income levels and more mature stages of development (see Ogaki, Ostry and Reinhart, 1995). In low-income countries that are closer to subsistence levels, it is to be expected that most income will be channelled to consumption (with little income being left over for saving). Higher income levels make it possible to save more, but the size of the effect declines as income rises. Along much the same lines, a decline in investment and growth opportunities, an ageing population and lower fertility rates are features that tend to be observed in countries approaching higher per capita income levels.

¹⁶ This section is based on Gutiérrez (2007a).

¹⁷ Since, in developing countries, GDP and national income are usually quite highly correlated, empirical estimates use the level and growth of GDP as a proxy for the level and growth of national income, in large part because GDP series are generally more readily available and of better quality than national income data.

Table II.9
SAVING: DESCRIPTIVE INDICATORS FOR SELECTED LATIN AMERICAN COUNTRIES

	Total saving			National saving			Foreign saving			Per capita GDP growth		
	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003
Argentina												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	16.87	18.67	14.36	14.89	15.11	16.88	1.97	3.56	-2.51	5.64	1.20	-2.65
Median	16.70	18.08	14.65	15.61	15.18	16.85	3.06	4.19	-2.05	4.75	2.83	-3.46
Standard deviation	2.62	0.92	1.80	1.19	0.80	4.58	2.54	1.22	5.76	6.00	5.07	8.20
Variance coefficient	0.16	0.05	0.12	0.08	0.05	0.27	0.83	0.29	-2.81	1.26	1.79	-2.37
Minimum	14.00	17.94	11.96	13.56	13.80	12.77	-2.05	2.02	-9.08	-3.43	-4.29	-11.66
Maximum	19.94	19.93	16.19	16.04	15.91	21.04	4.33	4.86	3.14	11.47	7.00	7.97
Brazil												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	20.37	21.25	20.12	19.83	17.51	17.80	0.55	3.75	2.32	-0.11	0.88	0.59
Median	20.17	21.12	20.58	20.09	17.10	17.88	0.87	3.44	2.76	-0.32	1.32	0.32
Standard deviation	1.21	0.70	1.71	1.06	1.18	0.91	0.98	0.81	2.46	4.16	1.65	1.90
Variance coefficient	0.06	0.03	0.08	0.05	0.07	0.05	1.12	0.23	0.89	-12.82	1.25	6.01
Minimum	18.93	20.43	17.77	18.66	16.35	16.76	-1.16	2.82	-0.68	-5.89	-1.18	-1.39
Maximum	22.15	22.29	21.54	21.27	19.47	18.67	1.25	4.76	4.44	4.38	2.77	3.13
Chile												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	24.41	25.73	22.32	21.80	21.79	21.05	2.62	3.95	1.28	5.55	4.16	1.92
Median	24.10	26.88	22.21	21.49	21.55	20.81	2.32	5.31	1.15	5.23	5.86	1.81
Standard deviation	1.48	2.54	1.45	0.96	1.26	1.74	1.93	2.88	0.57	3.15	4.33	0.90
Variance coefficient	0.06	0.09	0.07	0.04	0.06	0.08	0.83	0.54	0.49	0.60	0.74	0.50
Minimum	22.55	21.34	20.69	20.94	20.57	19.20	0.29	0.02	0.82	1.92	-2.43	0.97
Maximum	26.50	27.43	24.18	23.23	23.93	23.36	5.56	6.86	1.99	10.41	8.95	3.07
Colombia												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	19.60	20.30	14.83	20.03	14.65	14.19	-0.43	5.64	0.64	2.30	-0.51	0.76
Median	18.50	20.92	15.17	19.18	13.46	14.04	-1.68	7.03	1.13	3.01	0.10	0.61
Standard deviation	3.90	4.73	0.76	2.23	2.33	0.59	5.35	3.43	1.34	1.82	3.47	1.15
Variance coefficient	0.21	0.23	0.05	0.12	0.17	0.04	-3.18	0.49	1.19	0.60	35.50	1.89
Minimum	15.95	12.88	13.69	17.86	12.81	13.65	-7.11	-0.47	-1.34	0.30	-5.96	-0.38
Maximum	25.54	25.80	15.29	23.06	18.53	15.03	6.36	7.47	1.64	3.98	3.17	2.20
Costa Rica												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	21.28	17.99	19.96	15.13	13.47	13.85	6.16	4.52	6.11	2.83	3.21	1.25
Median	20.24	18.08	20.31	14.70	13.28	13.96	5.35	4.80	6.34	2.43	3.39	0.40
Standard deviation	3.55	1.69	2.17	2.60	1.46	1.14	1.37	0.79	1.28	2.85	3.07	2.49
Variance coefficient	0.18	0.09	0.11	0.18	0.11	0.08	0.26	0.16	0.20	1.17	0.91	6.23
Minimum	17.94	15.96	17.01	12.90	11.98	12.50	5.04	3.59	4.51	-0.38	-1.20	-0.60
Maximum	27.31	20.54	22.23	19.49	15.27	14.99	7.83	5.27	7.24	6.47	6.14	4.81
Ecuador												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	20.09	20.54	25.29	14.52	18.49	23.40	5.57	2.05	1.89	0.67	-1.00	1.92
Median	20.43	21.46	26.66	14.82	19.50	23.05	5.50	1.80	3.61	0.36	0.38	1.54
Standard deviation	1.47	3.83	3.58	2.24	1.69	1.81	2.72	5.20	5.19	2.03	3.91	1.11
Variance coefficient	0.07	0.18	0.13	0.15	0.09	0.08	0.49	2.88	1.44	5.56	10.16	0.72
Minimum	18.24	14.73	20.11	11.24	16.64	21.69	2.03	-5.27	-5.70	-1.80	-7.80	1.08
Maximum	21.87	25.27	27.72	16.83	19.99	25.81	9.67	8.61	6.03	2.88	2.20	3.52
Mexico												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	22.50	23.28	21.37	17.04	21.24	18.87	5.45	2.04	2.50	1.96	1.34	0.67
Median	23.14	23.42	20.96	16.55	20.45	18.40	5.86	1.99	2.61	2.30	3.45	-0.43
Standard deviation	1.07	2.23	1.68	2.35	1.83	1.06	1.69	1.41	0.81	1.14	5.22	2.99
Variance coefficient	0.05	0.10	0.08	0.14	0.09	0.06	0.29	0.71	0.31	0.50	1.51	-6.89
Minimum	21.00	19.78	19.83	14.70	19.19	18.21	2.87	0.60	1.50	0.11	-7.81	-1.54
Maximum	23.33	25.82	23.73	20.27	23.84	20.45	7.02	3.86	3.29	3.10	5.22	5.07
Peru												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	18.53	23.36	19.13	13.79	17.74	17.25	4.74	5.62	1.88	0.82	1.78	1.38
Median	17.31	23.57	18.80	13.30	17.42	17.33	5.23	5.89	1.73	0.18	0.55	1.78
Standard deviation	2.33	1.27	0.76	2.95	0.81	0.36	2.77	1.46	0.58	6.52	3.73	1.97
Variance coefficient	0.13	0.05	0.04	0.22	0.05	0.02	0.53	0.25	0.34	36.68	6.83	1.10
Min	16.48	21.48	18.64	9.88	16.95	16.77	0.09	3.51	1.36	-6.97	-2.31	-1.32
Maximum	22.25	24.83	20.26	17.02	19.03	17.58	7.41	7.41	2.69	10.57	6.40	3.28
El Salvador												
Observations	5	5	4	5	5	4	5	5	4	5	5	4
Mean	17.23	16.85	16.60	15.75	16.03	14.84	1.49	0.82	1.76	3.81	1.87	0.31
Median	18.53	16.44	16.59	16.96	16.21	14.62	1.57	0.93	2.16	3.76	1.88	0.30
Standard deviation	2.49	2.23	0.27	3.50	1.32	1.68	1.11	1.54	1.84	1.56	1.58	0.30
Variance coefficient	0.13	0.14	0.02	0.21	0.08	0.11	0.70	1.65	0.85	0.42	0.84	0.99
Minimum	13.86	14.81	16.30	11.36	14.53	13.28	0.24	-1.40	-0.55	1.66	-0.44	0.02
Maximum	19.80	20.32	16.93	19.31	17.82	16.85	2.63	2.51	3.27	5.45	3.99	0.63

Source: World Bank, World Development Indicators (WDI) database.

Table II.10
NATIONAL SAVING DETERMINANTS

Variable category	Specific variable	Expected sign	Empirical findings
Income	Terms of trade: actual	0 or +	+ (1)
	Growth rate: actual	Ambiguous	+ (1, 2, 3, 4)
	Per capita GDP	Ambiguous	+ (1, 4)
Rates of return	Interest rate	Ambiguous	
Uncertainty	Inflation or other measures of macroeconomic instability	Ambiguous	-(1)
Foreign borrowing constraints	Capital flows / FDI	-	-(1)
Fiscal policy	Public saving	+	+(2)
	Public surplus	+	+(3)
Demographics	Old- and/or young-age population dependency	-	-(4)
Income and wealth distribution	Income concentration	+	+/- (4)
	Gini coefficient	+	+(4)

Study	Sample	Estimation
1. Gavin, M.; Hausmann, R.; Talvi, E. (1997). "Saving Behavior in Latin America: Overview and Policy Issues", Inter-American Development Bank, <i>Research Department Working Paper</i> , No. R-346.	6 East Asian countries, 20 Latin American countries	Panel: GLS
2. Jappelli, T. and Pagano, M. (1996). "The Determinants of Savings: Lessons From Italy". Inter-American Development Bank, <i>Research Department Working Paper</i> , No. R-313.	G-10 countries (1960-1994)	Panel: OLS
3. Jappelli, T. and Pagano, M. (1995). "Saving, Growth, and Liquidity Constraints", <i>Quarterly Journal of Economics</i> , No. 109: 83-109.	22 OECD countries, 8 non-OECD countries (1960-1987)	Panel: OLS, IV
4. Schmidt-Hebbel, K. and L. Servén (2000). "Does Income Inequality Raise Aggregate Saving?" <i>Journal of Development Economics</i> , No. 61: 417-46.	20 industrial countries, 62 developing countries (1965-1994; 5-year averages)	Panel: OLS, GMM

Source: World Bank, World Development Indicators (WDI) database.

Note: IV - instrumental variables; OLS - ordinary least squares; GLS - generalized least squares; GMM - generalized method of moments.

There is also a wealth of evidence regarding the positive association between saving and growth (see Carrol and Weil, 1994; Edwards, 1996; and Loayza, Schmidt-Hebbel, and Servén, 2000; and Loayza and others, 2000). The permanent income theory implies that consumption is determined by permanent (long-run) income, implying that saving follows current (transitory) growth. The life-cycle model, first developed by Franco Modigliani, argues that productivity growth makes the

working young richer than the old and that the young will be saving more than the old are dissaving. Aggregate income growth would then follow from increases in the lifetime profiles for succeeding generations.¹⁸ In turn, habit formation in consumption is a factor that helps to rationalize the positive correlation between saving and growth. Carroll and Weil (1994) have argued that people adjust consumption habits slowly, which makes saving positively related to current growth of income.

¹⁸ In more extensive models of consumer behaviour, the relationship is theoretically ambiguous (Carroll and Weil, 1994).

Table II.11
PRIVATE SAVINGS DETERMINANTS

Variable category	Specific variable	Expected sign	Empirical findings
Persistence	Lagged private savings rate	Ambiguous	+(6, 2)
Income	Income level		
	Actual	0 or +	+ (3, 9, 5, 1, 2) 0 (1, 7)
	Temporary/permanent	+ / 0 or +	0 / 0 (2)
	Terms of trade		
	Actual	0 or +	+ (9, 1, 7, 2)
	Temporary/permanent	+ / 0 or +	+ / + (2)
	Growth rate: actual	Ambiguous	+ (9, 5, 2) 0 (1, 1, 7)
Rates of return	Real interest rate	Ambiguous	-(2) 0 (3, 5, 1, 7) + (9, 10)
Uncertainty	Variance of innovations to savings determinants	+	
	Inflation or other measures of macroeconomic instability	Ambiguous	-(1) 0 (3, 9, 5, 7), + (2, 2)
	Measures of political instability	+	
Domestic borrowing constraints	Private credit flows	-	+ (5) -(2)
	Broad money flows	-	
	Income	-	
Foreign borrowing constraints	Foreign lending	-	
	Capital flows / FDI	-	-(2, 6, 10)
	Current account deficit	-	-(3, 9, 5, 2)
Financial depth	Private or domestic credit stocks	Ambiguous	-(1)
Fiscal policy	Money stocks	Ambiguous	+ (3, 5, 1) 0 (2)
	Public saving	-	-(2, 3, 5, 6, 2, 10)
	Public surplus	-	-(9, 1, 7) 0 (1)
	Public consumption	Ambiguous	-(9, 7)
Pension system	Pay-as-you-go pension transfers	0 or -	-(5, 1, 1)
	Mandatory fully funded pension contributions	0 or +	+ (1)
Demographics	Fully funded pension assets	Ambiguous	0 / + (1)
	Old- and/or young-age dependency	-	-(9, 5, 1, 2) 0 (1, 7)
	Urbanization	Ambiguous	-(5, 2)
Distribution of income and wealth	Income concentration	Ambiguous	0 (5)
	Wealth concentration	Ambiguous	
	Capital income share		

Study	Sample	Estimation
1. Bailliu, J. and H. Reisen (1998): "Do Funded Pensions Contribute to Higher Savings? A Cross-Country Analysis", <i>OECD Development Centre Working Paper</i> , No. 130, Paris.	11 OECD and non-OECD countries (1982-1993)	Panel: OLS, IV
2. Cardenas, M., and Escobar, A. (1997): "Determinants of Savings in Colombia: 1924-1994". Inter-American Development Bank, Research Department, <i>Working Paper R-310</i> .	Colombia (1965-1994)	VAR
3. Corbo, V. and Schmidt-Hebbel, K. (1991). "Public Policies and Saving in Developing Countries". <i>Journal of Development Economics</i> , vol. 36 (1): 89-115.	13 developing countries (1980-1987)	Panel: OLS
4. Dayal-Ghulati, A. and C. Thimann (1997): "Saving in Southeast Asia and Latin America Compared: Searching for Policy Lessons", <i>IMF Working Paper WP/97/110</i> .	5 South-East Asian countries, 9 Latin American countries (1970-1995)	Panel: OLS
5. Edwards, S. (1996). "Why are Latin America's savings rates so low? An international comparative analysis". <i>Journal of Development Economics</i> , vol. 51 (1) 5-44.	36 countries (1970-1992)	Panel: IV
6. Gonzales, E.; Levano, C; and LLontop, P.: "Determinantes del Ahorro Interno y Ajuste Estructural en el Perú, 1990-1995. Inter-American Development Bank, Research Department, <i>Working Paper R-327</i> .	Peru (1950-1994)	VAR
7. Haque, N.U., M.H. Pesaran, and S. Sharma (1999): "Neglected Heterogeneity and Dynamics in Cross-Country Savings Regressions", IMF Working Paper, International Monetary Fund, Washington, DC, May.	20 OECD countries (1972-1993)	Panel: OLS, GLS
8. Loayza N., Schmidt-Hebbel K., Serven L. (2000). "What Drives Private Saving Across the World?", <i>Review of Economics and Statistics</i> , MIT Press, vol. 82 (2), pages 165-181.	150 countries (1950-1994)	Panel: GMM-IV
9. Masson, P.; Bayoumi, T. and Samiei, H. (1998): "International Evidence on the Determinants of Private Saving", <i>World Bank Economic Review</i> , vol. 12 (3): 483-501.	21 industrial countries (1971-1993), 40 developing countries (1982-1993)	Panel: OLS, GLS, IV
10. Vergara, Rodrigo (2001): "Determinantes del ahorro privado en Chile", in Morande Felipe, Vergara, Rodrigo (eds.) "Análisis empírico del ahorro en Chile", Serie Banca Central, Análisis y Políticas Económicas. vol. 1. Banco Central de Chile.	Chile (1988 - 2000)	OLS

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *World Development Indicators* (WDI) database.

Note: IV - instrumental variables; OLS - ordinary least squares; GLS - generalized least squares; GMM - generalized method of moments; VAR - vector autoregression.

Foreign credit constraints. The relevant theory says that one of the purposes of borrowing is to allow people to smooth consumption in the event of shocks. However, consumption will follow current income more closely at low income levels because credit constraints are more binding at those levels. In contrast, at higher income levels, consumption is expected to follow permanent (or expected) income more closely. Foreign credit restrictions are more influential in the case of low-income and financially distressed middle-income countries; in those cases, consumption can be expected to adjust more to shocks, as smoothing is more difficult. In the presence of foreign borrowing constraints, additional foreign saving is likely to lead to higher consumption and, *ceteris paribus*, lower national saving. There is evidence of a negative relationship between national and foreign saving, with the offsetting effect ranging between 50% and 70% (see Schmidt-Hebbel and Servén, 1999).

Financial development, domestic credit constraints and interest rates. The research on financial development suggests that financial variables' effect on national saving is ambiguous. Deeper financial markets and strengthened prudential regulation of financial institutions help to enhance saving (and investment) opportunities by offering a wider variety of financial instruments to channel savings and by providing more security (in the case of effective regulation) to investors. However, financial development is also often associated with an increased availability of credit for consumption, which relaxes domestic liquidity constraints, and saving may therefore be discouraged as more credit (particularly for consumption) becomes available.¹⁹

Theoretically, the association between interest rates and saving is also ambiguous (income and substitution effects may work in opposite directions). The income effect produced by higher interest rates may be positive or negative depending on whether the saver is a net wealth holder or a net debtor. The (positive) income effect of an increase in interest rates for a net wealth holder may move in the opposite direction from a substitution effect that induces a cut in current consumption (substituting for future consumption).

The empirical evidence on the effects of interest rates on saving has proven to be inconclusive (see Schmidt-Hebbel and Servén, 1999). Some authors have explored the sensitivity of saving to the rate of interest as a function of income levels. Ogaki, Ostry and Reinhart (1995)

provide evidence that saving is more responsive to rates of return at higher income levels. At lower income levels, people cannot smooth consumption over time. At higher income levels, it is possible to both save and dissave. Thus, according to this study, the intertemporal elasticity of substitution between present and future consumption varies with the level of wealth. The conclusion reached by these authors is that the savings rate and its sensitivity to the interest rate are a rising function of income.

Macroeconomic uncertainty. Macroeconomic uncertainty is expected to have an ambiguous effect on saving. According to the literature, an important reason to save is the precautionary motive, since people will save more at times of uncertainty in order to prepare for the possibility of difficult times ahead. One such source of uncertainty is macroeconomic in nature. This factor can be reflected in high and erratic inflation, exchange-rate volatility, boom-bust cycles and instability in the financial system, which introduce uncertainty into the anticipation and appropriability of future cash flows and the opportunity cost of funds. One response to these uncertainties is capital flight. Uncertainty also discourages savers, as the returns on their savings and the prospects for recovering them both decline (Edwards, 1996; and Taylor, 1996 and 1999).²⁰

High inflation has been closely associated with macroeconomic instability, financial crises and other events that have depressed growth and saving. The relationship appears to be non-linear, however. The effects of low-to-moderate inflation on saving are bound to be very different from the impact of high or even explosive inflation of the type that destroys countries' payments and banking systems and, along with them, financial savings. The classic example is the hyperinflation seen in Germany in 1923, although there are also more recent cases, such as Argentina's bout of hyperinflation in the late 1980s and Brazil's in the early 1990s. The banking crisis that broke out in 2001-2002 in Argentina following the abandonment of the currency board that it had adopted in 1991 is yet another example. During that crisis, people (mainly from the middle class) who believed in the system—and thus had bank deposits—witnessed the loss of a good part of their financial savings.

Fiscal policy. Fiscal policy has been found to be of key importance in building up national saving, especially in developing countries. Within this policy area, one

¹⁹ It is highly probable that the interaction of these two effects modifies the way in which financial development influences saving (Piles and Reinhart, 1999).

²⁰ Precautionary motives may help to explain the positive association between saving and consumption by young consumers (who expect positive but uncertain future income growth) and the positive savings rates of retired people (Loayza, Schmidt-Hebbel and Servén, 2000; and Loayza and others, 2000).

specific factor that has been shown to affect the level of national saving rates is the size of a country's fiscal deficit or surplus. Small fiscal deficits or surpluses contribute to national saving, as complete Ricardian equivalence has been refuted empirically (i.e., an increase in public saving is not fully offset by a decline in private saving). This effect is stronger in developing countries subject to subsistence consumption and liquidity constraints (see Corbo and Schmidt-Hebbel, 1991). The evidence confirms the partial offset between government and private saving, with an offset coefficient in the 40%-70% range. This means that 1% of additional government saving (in terms of GDP) adds the equivalent of about 0.5% of GDP to national saving. Another factor is the impact that the level of taxation has on other variables that affect saving, such as interest rates and corporate dividends.

Demographics. The age structure of the population is another determinant of national saving. According to the life-cycle hypothesis, a larger working-age population relative to the older population (or young dependent family members) helps to raise national savings rates. The working young are net savers, while retired older persons often have negative savings. In economies with higher proportions of working-age populations, national savings rates will therefore be higher than in ageing economies with a larger proportion of older people in their populations. Studies using cross-country data have been more successful in confirming the negative effect of high dependency ratios (measured on the basis of the share of the population below 15 or above 65 years of age) on saving, probably because demographic variables change so slowly (Masson, Bayoumi and Samiei, 1998). The conclusions of some microeconomic studies conflict with these findings at country levels, which may be at least partially accounted for by the aggregation of cohorts of different ages in the macro studies. Bequests may also be a factor in reducing aggregate saving even if the old do not dissave (Carroll and Weil, 1994; and Deaton and Paxson, 2000). The bulk of the literature on the subject tends to support the argument that a negative correlation exists between high age-dependency ratios

and national savings levels, thus corroborating the theory and empirical evidence.

Additional factors. Richer people are expected to save a larger proportion of their incomes than poor people (saving is, in a way, a superior good). Some formulations make saving dependent upon *functional* income distribution (Nicholas Kaldor, for example, assumed that capitalists have a higher propensity to save than workers do), whereas others establish a link between *personal* income distribution and saving. While, for the most part, the empirical literature based on cross-section microdata suggests that a positive relationship exists between personal income inequality and overall personal saving, the evidence on this issue is more mixed at the aggregate country level. Empirical studies such as those conducted by Schmidt-Hebbel and Servén (1998 and 2000) indicate that cross-country data do not reveal a strong association between personal income distribution and aggregate saving. These authors show that this relationship holds for samples of developing and developed countries and that it is robust to alternative savings measures, income distribution indicators and functional forms.

The more recent political economy literature emphasizes that regressive income distributions are a contributing factor to political instability and that, through this channel, they may depress both growth and saving. Lower growth plays a role in reducing savings rates via the growth-saving link, but political instability may also discourage saving because of the uncertainty it creates about the outlook for savers.

The terms-of-trade effect, which is viewed as a transitory deviation of national income from its trend, is another factor that has been frequently examined in the literature. The permanent income school of thought built from Milton Friedman's consumption hypothesis would therefore argue that most of the additional income resulting from a terms-of-trade improvement would be saved. The implied relaxation of foreign credit constraints would work against that effect, however. Thus, the evidence on the terms of trade's impact on national saving is inconclusive.

1. Estimation

Regression analyses were employed to obtain empirical evidence about key factors associated with national saving using panel data for the nine Latin American countries in

the sample used for the period 1990-2003. As previously noted, most of the evidence has been based on data covering the years up to around the mid-1990s.

In order to examine a wide variety of saving determinants, estimates were calculated for reduced-form linear specifications rather than a specific model.²¹ The stylized facts and selected research findings summarized in tables 10 and 11 were used to select the control variables. Panel regressions were then run using three methods: pool OLS, fixed effects and random effects. Table II.12 presents the results for the selected equations; the regressions that yielded the most suitable econometric results are highlighted. Hausman and Breusch-Pagan tests were employed to support the selected equations.²²

The dependent variable used in the regressions is the national savings rate. The independent variables include per capita GDP growth, GDP, foreign saving (current account balance with opposite sign), government balance (central or general government balance, whichever appears in the International Monetary Fund's publication *International Financial Statistics*), the annual inflation rate, the real deposit interest rate, the aggregate money supply (both M2 (current deposits plus saving deposits) and M3 (M2 plus other financial instruments considered proxies for money)), the terms of trade (the price of goods exports relative to the price of goods imports), openness (proportion of exports plus imports in total

GDP in dollars), the Gini index of income distribution, the dependency ratio (proportion of the total population represented by persons below 15 or above 64 years of age) and FDI inflows. Most of the data were obtained from the *World Development Indicators* published by the World Bank and were then updated on the basis of national sources. Panels ranging from 99 to 128 observations were generated.

Three types of specifications based on pooled OLS, fixed-effects and random-effects models were used.²³ The OLS pooled basic model ignores the panel structure of the data, treating observations as being serially uncorrelated for a given country. In the fixed-effects model, the individual intercepts are free to take any value, whereas, in the random model, the individual effects become part of the error term. The fixed- and random-effects models take advantage of the panel structure and correct for the potential systematic tendencies of the error terms across countries. The fixed-effects model considered in this study has constant slopes and intercepts that differ across countries. In the random model, the intercepts take the form of a random variable with a mean value and a random error that is country-specific and constant over time.²⁴ The fixed- and random-effects models were also tested for heteroscedasticity and residual autocorrelation.

2. Results

The main results obtained from these estimates are reported in table II.12. The evidence verified a positive association between saving and growth (growth of per capita GDP) (see equations 3, 5, 6, 7, 8 and 9). As countries grow faster, their savings rates rise. Various equations were tried out in order to decompose GDP growth into its transitory and its expected or permanent components. A three-year moving average was used as a proxy for the expected component, and transitory growth was obtained

as the difference between the actual and expected transitory components. The conclusions did not change as regards the positive association between growth and saving, but this positive association became significant only for the expected component (see equations 10 and 12). Carroll and Weil (2004) rationalize a similar finding by arguing that people adjust consumption habits slowly, which makes saving positively related to the current growth of income (even if it is expected) (see also Carroll, 1994).

²¹ Mutual causality is likely to be present in the interaction between saving and growth, however.

²² Consideration was given to the possibility of working with dynamic panel and co-integration techniques, but this option was ultimately ruled out because of the small relative size of the panel.

²³ While the fixed-effects model cannot estimate a coefficient on any time-variant regressor, in the random model, the individual effects become part of the error terms, which may be exposed to bias due to correlations between the errors and the regressors.

²⁴ The error term μ_i has a mean value of zero and a variance of σ_{μ} . For μ_i to be properly specified, it must be orthogonal to the individual effects.

Table II.12
NATIONAL SAVING ESTIMATES ^a

	Regression 1			Regression 2			Regression 3			Regression 4			Regression 5			Regression 6		
	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random
Per capita GDP growth	0.1204 (1.50)	0.0977 (1.51)	0.1002 (1.56)				0.1617** (2.09)	0.1544** (2.30)	0.1510** (2.31)	0.0357 (0.49)	0.1349 (1.90)	0.0357 (0.49)	0.1587** (2.56)	0.1900* (3.11)	0.1587** (2.56)	0.2035* (3.48)	0.2129* (3.46)	0.2035* (3.48)
ln_per capita GDP (constant US dollars)	0.283 (0.52)	-1.2508 (0.51)	-0.1328 (0.10)				-0.7488 (0.97)	-9.7579** (2.50)	-5.4264 (1.86)	0.0374 (0.05)	-10.8773* (2.66)	0.0374 (0.05)	0.2442 (0.42)	0.1418 (0.04)	0.2442 (0.42)	0.0282 (0.05)	0.3299 (0.08)	0.0282 (0.05)
Foreign saving				-0.4193* (4.92)	-0.4566* (6.74)	-0.4540* (6.77)							-0.5210* (7.07)	-0.4773* (6.01)	-0.5210* (7.07)	-0.5267* (7.32)	-0.5011* (6.23)	-0.5267* (7.32)
Inflation_ma																		
Inflation_tr																		
Per capita GDP growth_tr																		
Per capita GDP growth_ma																		
ln_per capita GDP (constant US dollars) (t-1)																		
Population aged 1-14							-0.3203 (1.81)	-1.7217 (1.12)	-0.4612 (1.88)	-1.0022* (4.40)	-0.8553** (2.46)	-1.0022* (4.40)	-0.7319* (3.84)	-0.7274** (2.45)	-0.7319* (3.84)	-0.3626 (1.68)	-0.5381 (1.73)	-0.3626 (1.68)
Population aged 65 or over							-0.3796 (1.08)	0 (0.29)	0.3513 (3.89)	-1.6284* (3.89)	0.3335 (0.18)	-1.6284* (3.89)	-1.5805* (4.60)	-1.9206 (1.16)	-1.5805* (4.60)	-0.8874** (2.34)	-1.8722 (1.11)	-0.8874** (2.34)
M2							0.064 (1.57)	-0.1016 (1.29)	-0.0802 (1.09)	-0.0615 (1.34)	-0.0342 (0.38)	-0.0615 (1.34)	0.0275 (0.69)	-0.0245 (0.32)	0.0275 (0.69)	0.0808** (2.10)	0.0961 (1.22)	0.0808** (2.10)
M3							0.0429 (1.37)	0.1455* (3.06)	0.1269* (2.83)	0.0835* (2.75)	0.1213** (2.19)	0.0835* (2.75)	0.0384 (1.49)	0.0869 (1.83)	0.0384 (1.49)	0.03 (1.22)	0.0432 (0.92)	0.03 (1.22)
Inflation							0.0005 (1.37)	0.0002 (0.53)	0.0003 (0.85)	0.0011* (3.28)	0.0008 (1.94)	0.0011* (3.28)	0.0009* (3.16)	0.0005 (1.37)	0.0009* (3.16)	0.0008* (3.35)	0.0007** (2.04)	0.0008* (3.35)
Government balance										0.8130* (6.37)	0.5076* (2.96)	0.8130* (6.37)	0.7194* (6.82)	0.4041* (2.75)	0.7194* (6.82)	0.6551* (6.69)	0.4960* (3.21)	0.6551* (6.69)
Gini coefficient_ma																0.1477** (2.49)	0.0032 (0.04)	0.1477** (2.49)
Terms of trade																		
Openness																		
Population aged 15-64										-1.2804 (0.73)								
FDI																		
Number of observations	126	126	126	126	126	126	126	126	126	110	110	110	110	110	110	99	99	99
R sq	0.0218	0.0216	0.0198	0.1633	0.2815	0.2815	0.1881	0.1874	0.1779	0.4205	0.2675	0.1795	0.6137	0.474	0.4460	0.6933	0.5055	0.4746
F stat	1.25	1.74	-	24.21	45.46	-	3.91	3.62	-	9.16	4.25	-	17.65	9.21	-	19.9	8.18	-
Wald (Chi²)	-	-	2.43	-	-	45.82	-	-	22.6	-	-	73.28	-	-	158.89	-	-	198.95
Hausman (Chi²)	-	-	0.33	-	-	0.08	-	-	-	-	-	-	-	-	34.2(*)	-	-	6.15 (*)
BP (Chi²)	-	-	121.5	-	-	183.31	-	-	84.4	-	-	5.21	-	-	3.46	-	-	0.03

Table II.12 (concluded)

	Regression 7			Regression 8			Regression 9			Regression 10			Regression 11			Regression 12		
	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random
Per capita GDP growth	0.2054*	0.2160*	0.2160*	0.2067*	0.2268*	0.2067*	0.2107*	0.2177*	0.2107*									
	(3.50)	(3.50)	(3.50)	(3.51)	(3.64)	(3.51)	(3.63)	(3.49)	(3.63)									
In_per capita GDP (constant US dollars)	0.0893	-1.0928	-1.0928	0.0149	1.1573	0.0149	0.0855	2.1447	0.0855									
	(0.15)	(0.26)	(0.26)	(0.03)	(0.29)	(0.03)	(0.15)	(0.52)	(0.15)									
Foreign saving	-0.5344*	-0.4989*	-0.4989*	-0.5226*	-0.5080*	-0.5226*	-0.5394*	-0.4846*	-0.5394*									
	(7.30)	(6.19)	(6.19)	(7.20)	(6.32)	(7.20)	(7.50)	(5.90)	(7.50)									
Inflation_ma													-0.0006	-0.0006	-0.0006	-0.0003	-0.0005	-0.0004
													(0.91)	(1.19)	(1.19)	(0.47)	(0.88)	(0.84)
Inflation_tr													0.001	0.0011	0.0011	0.0011	0.0012**	0.0012**
													(1.40)	(1.93)	(1.93)	(1.44)	(2.07)	(2.04)
Per capita GDP growth_tr										-0.0027	0.0209	0.0118				0.0547	0.0741	0.0719
										(0.02)	(0.22)	(0.13)				(0.45)	(0.78)	(0.75)
Per capita GDP growth_ma										0.2535**	0.2671**	0.2428**				0.2342	0.1773	0.1844
										(2.12)	(2.36)	(2.42)				(1.96)	(1.75)	(1.82)
In_per capita GDP (constant US dollars) (t-1)										0.0357	1.7727	0.5168						
										(0.06)	(0.62)	(0.34)						
Population aged 1-14	-0.3269	1.1273	1.1273	-0.4177	-0.7089**	-0.4177	-0.4202	-0.5743	-0.4202									
	(1.47)	(0.74)	(0.74)	(1.78)	(2.10)	(1.78)	(1.82)	(1.63)	(1.82)									
Population aged 65 or over	-0.8554**			-0.9680**	-2.2369	-0.9680**	-1.1070*	-2.6682	-1.1070*									
	(2.23)			(2.40)	(1.31)	(2.40)	(2.75)	(1.53)	(2.75)									
M2	0.0786**	0.0975	0.0975	0.0758	0.0757	0.0758	0.0877**	0.0828	0.0877**									
	(2.03)	(1.23)	(1.23)	(1.92)	(0.94)	(1.92)	(2.23)	(1.03)	(2.23)									
M3	0.0299	0.0454	0.0454	0.0322	0.0456	0.0322	0.0426	0.0372	0.0426									
	(1.21)	(0.96)	(0.96)	(1.29)	(0.97)	(1.29)	(1.70)	(0.79)	(1.70)									
Inflation	0.0009*	0.0007**	0.0007**	0.0009*	0.0007**	0.0009*	0.0008*	0.0007	0.0008*									
	(3.38)	(2.10)	(2.10)	(3.39)	(1.99)	(3.39)	(2.98)	(1.85)	(2.98)									
Government balance	0.6408*	0.4937*	0.4937*	0.6690*	0.4986*	0.6690*	0.6887*	0.4751*	0.6887*									
	(6.37)	(3.19)	(3.19)	(6.64)	(3.24)	(6.64)	(6.90)	(3.07)	(6.90)									
Gini coefficient_ma	0.1501**	-0.0019	-0.0019	0.1347**	0.0121	0.1347**	0.1036	0.0012	0.1036									
	(2.52)	(0.02)	(0.02)	(2.13)	(0.13)	(2.13)	(1.62)	(0.01)	(1.62)									
Terms of trade				-0.0107	-0.0298	-0.0107	-0.0106	-0.0325	-0.0106									
				(0.61)	(1.28)	(0.61)	(0.61)	(1.40)	(0.61)									
Openness							-0.0227	0.053	-0.0227									
							(1.96)	(1.26)	(1.96)									
Population aged 15-64		1.61	1.61															
		(0.93)	(0.93)															
FDI	0.07	0.12	0.12															
	(0.65)	(0.96)	(0.96)															
Number of observations	99	99	99	99	99	99	99	99	99	117	117	117	126	126	126	126	126	126
R sq	0.6948	0.5112	0.5112	0.6946	0.5156	0.4819	0.7076	0.5253	0.4795	0.0387	0.0547	0.0529	0.0172	0.0335	0.0335	0.0502	0.0661	0.0661
F stat	18.01	7.51	-	17.99	7.54	-	17.35	7.19	-	1.52	2.02	-	1.08	1.99	-	1.6	2	-
Wald (Chi²)	-	-	198.06	-	-	197.91	-	-	208.17	-	-	6.06	-	-	4	-	-	8.14
Hausman (Chi²)	-	45.01 (*)	-	-	20.51 (*)	-	-	13.13 (*)	-	-	0.28	-	-	0.01	-	-	0.9068	-
BP (Chi²)	-	-	0.05	-	-	0.2	-	-	0.54	-	-	137.86	-	-	129.75	-	-	128.55

^a Absolute value of t-statistics in parentheses. (*): significant at 1%; (**) significant at 5%.

The evidence gathered for this chapter does not support a correlation between saving and the level of income (per capita GDP), since the richer countries have not saved more than the poorer countries in our sample. Argentina's per capita GDP, measured in 2000 dollars, has been above the per capita GDP levels recorded for Brazil, Chile and Ecuador, but its national savings rates have been, on average, below those of these three countries. It is likely that the "development" effect on saving takes longer to make itself felt and that it could therefore not be captured in these estimates. Across regions, Latin America and the Caribbean have posted higher per capita GDP levels than Asia but lower national savings rates (Gutiérrez, 2007a, table 2). Although the evidence provided by larger samples and longer time periods points to a positive association between income levels and national savings rates (see tables II.10 and II.11), the estimates calculated for this study do not confirm this observation for the period 1990-2003 in Latin America. Richer countries (and regions) in per capita GDP terms have not saved more (or invested more) than poorer countries (or regions).

This body of evidence also confirms a partial negative association between national and foreign saving, with the latter depressing the former (see equations 2, 5, 6, 7, 8 and 9). This partial offset implies that approximately one half of foreign saving is channelled into investment and one half into consumption.

A positive association was also found to exist between financial-sector development as measured by M3 (as a percentage of GDP) and national savings rates (see equations 3 through 9). The potential negative effect of relaxing domestic credit constraints through financial development seems to be outweighed by the positive effects resulting from financial depth (enhancement of saving opportunities and strengthened financial sophistication and supervision).

In addition, a positive association between inflation and national saving was identified. When inflation is used as a measurement of macroeconomic uncertainty, the result suggests that a precautionary motive overshadows the negative influence that inflation has on macroeconomic stability and saving. Estimates were used that decomposed the annual rate of inflation into its transitory and expected components, but the conclusions did not change regarding the positive sign of the inflation coefficient (see equations 11 and 12).²⁵ As previously indicated, it is likely that the relationship between national saving and inflation is non-

linear and that, at very high inflation rates, the association becomes negative.

Fiscal policy as measured by the government balance (as reported by IMF in *International Financial Statistics*) exhibits a positive association with national saving. The estimates confirm the rejection of a full Ricardian equivalence found in the literature. Lower offsetting coefficients were obtained here than in other research studies, however (between 20% and 50%, compared to the coefficient of about 50% found in other studies) (see equations 3 through 9). This finding implies that fiscal policy can become an effective instrument for raising national saving.

This study did not confirm the negative association between age dependency ratios and national saving found in other research, however (see tables II.10 and II.11). It is likely that the fact that the panel used here was smaller than those used in other studies that tested this factor influenced the results. In point of fact, Masson, Bayoumi and Samiei (1998) have shown that the results will depend on the sample size, frequency and estimation technique.

Among the other factors associated with national saving, only the inequality of income distribution (measured by the Gini index) was found to have a statistically significant positive influence on national saving (see equations 6 and 7). In the case of the dependency ratio, testing over a longer time period with a broader sample would probably be required to reach more solid conclusions. As previously indicated, inequality could become a source of social conflicts and economic instability that would curb growth and saving. Using panel data for 1965-1994 for a larger sample of countries across various regions, Schmidt-Hebbel and Servén (2000) found no evidence of any systematic effect of income inequality on national saving (see also Edwards, 1996). No evidence of an association between either the terms of trade or openness and saving was identified for 1990-2004. The sample of Latin American countries includes both "winners" and "losers" in relation to the terms-of-trade changes generated by oil and other commodity price trends (Ecuador and Colombia are net oil exporters, while Chile and Costa Rica are net importers). In a study including both industrialized and developing countries for the period 1971-1993, Masson, Bayoumi and Samiei (1998) found that in the 1990s the terms of trade had a significantly positive impact only on industrialized countries.

²⁵ A three-year moving average was generated to serve as a proxy for expected inflation, and the transitory component was then obtained as the difference between the actual and expected inflation components.

G. National saving and growth

Empirical evidence has pointed to a positive correlation between national saving and growth, especially for developing countries.²⁶ The evidence on the association between GDP growth and foreign saving is mixed, however, since there have been episodes in which high growth has been combined with relatively low foreign savings rates (e.g., some East Asian economies) and others in which low growth has been coupled with high foreign savings rates (e.g., low-income countries in Africa and Latin America that receive sizeable amounts of foreign aid).²⁷

To further examine the association between national saving and growth of per capita GDP, the averages and

medians of the 10 highest and 10 lowest annual growth rates for the countries studied here were calculated for the following three subperiods: 1990-1994, 1995-1999 and 2000-2003.²⁸ Then, for each subperiod, the means and medians for the total savings rates, national savings rates and foreign savings rates associated with the highest and lowest growth rates, respectively, were calculated. The results are reported in table II.13 for the nine Latin American countries in the sample and for the other world regions. A similar procedure was used in section C to measure the impact of investment on growth.

Table II.13
HIGH AND LOW PER CAPITA GDP GROWTH RATES: TOTAL SAVING, NATIONAL SAVING AND FOREIGN SAVING

	GDP growth			Total saving			National saving			Foreign saving		
	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003
Latin America ^a												
10 highest GDP growth rates												
Mean	7.66	6.07	3.74	20.47	22.97	20.57	17.28	18.53	18.78	3.19	4.44	1.79
Median	6.32	5.93	3.20	20.56	24.44	20.88	16.99	18.22	18.95	2.69	5.08	1.79
10 lowest GDP growth rates												
Mean	-2.38	-3.82	-2.48	18.43	18.51	17.32	16.15	16.22	15.87	2.27	2.28	1.45
Median	-1.92	-3.19	-1.36	18.59	18.87	17.39	16.13	16.13	15.45	1.64	2.90	2.04
Difference in means	10.03	9.90	6.22	2.04	4.47	3.25	1.12	2.31	2.91	0.92	2.16	0.34
Difference in medians	8.24	9.12	4.56	1.97	5.57	3.49	0.86	2.09	3.50	1.05	2.19	-0.25
East Asia and Pacific ^b												
10 highest GDP growth rates												
Mean	8.98	7.77	6.40	37.85	35.74	33.01	34.64	32.55	36.22	3.21	3.19	-3.21
Median	7.91	7.54	6.21	39.60	38.90	32.20	34.82	35.53	35.46	3.53	4.11	-2.26
10 lowest GDP growth rates												
Mean	-3.19	-6.28	1.23	25.21	20.20	22.21	21.82	23.74	26.72	3.40	-3.54	-4.51
Median	-2.35	-2.43	1.70	24.07	19.38	22.21	19.51	23.51	27.49	3.88	-3.60	-4.78
Difference in means	12.17	14.06	5.16	12.63	15.54	10.81	12.82	8.81	9.51	-0.19	6.73	1.30
Difference in medians	10.26	9.97	4.51	15.53	19.52	9.99	15.30	12.02	7.97	-0.34	7.71	2.52

²⁶ The evidence also shows that investment and national saving are positively related; this reflects the existence of foreign borrowing constraints.

²⁷ See Gutiérrez (2005) for Latin America in 1990-2003.

²⁸ The last subperiod extends up to 2003, as some country data for 2004 were not yet available at the time this information was compiled.

Table II.13 (concluded)

	GDP growth			Total saving			National saving			Foreign saving		
	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003	1990-1994	1995-1999	2000-2003
Europe and Central Asia ^c												
10 highest												
GDP growth rates												
Mean	3.94	6.29	6.48	21.04	24.77	21.64	19.60	19.28	18.18	1.44	5.50	3.46
Median	3.76	5.96	6.26	23.02	24.69	21.49	20.89	19.71	19.72	0.65	3.46	2.67
10 lowest GDP growth rates												
Mean	-9.34	-5.34	0.67	22.86	19.59	22.89	18.02	13.24	18.81	4.84	6.36	4.09
Median	-7.38	-5.72	1.89	22.04	21.76	22.34	17.82	13.26	18.46	4.81	7.30	4.72
Difference in means	13.28	11.63	5.81	-1.82	5.18	-1.26	1.58	6.04	-0.63	-3.40	-0.86	-0.63
Difference in medians	11.14	11.68	4.36	0.99	2.94	-0.85	3.07	6.44	1.26	-4.16	-3.84	-2.04
Middle East and North Africa ^d												
10 highest												
GDP growth rates												
Mean	12.50	5.27	4.24	25.78	24.69	24.13	12.99	18.85	31.74	12.79	5.84	-7.61
Median	8.86	4.38	3.86	25.90	22.01	21.15	14.01	19.31	30.17	10.71	1.31	-4.86
10 lowest GDP growth rates												
Mean	-3.74	-2.74	-0.90	22.96	21.34	18.99	17.78	18.69	19.85	5.18	2.64	-0.86
Median	-2.61	-2.30	-1.25	22.83	20.91	18.94	18.23	19.20	23.43	6.74	1.85	-5.40
Difference in means	16.25	8.01	5.14	2.82	3.35	5.14	-4.79	0.16	11.89	7.61	3.19	-6.74
Difference in medians	11.46	6.69	5.10	3.07	1.10	2.21	-4.22	0.11	6.74	3.97	-0.54	0.54
South Asia ^e												
10 highest												
GDP growth rates												
Mean	4.97	5.77	4.33	26.50	28.36	31.61	21.31	30.20	28.83	5.19	-1.84	2.79
Median	5.18	5.42	3.86	23.72	28.29	24.92	21.63	28.03	27.84	5.32	-0.37	-1.14
10 lowest GDP growth rates												
Mean	0.98	1.30	0.46	23.82	22.82	21.81	17.41	22.17	26.35	6.41	0.65	-4.55
Median	1.24	1.60	0.89	20.76	19.74	22.75	18.07	20.46	24.28	3.16	0.14	-5.67
Difference in means	4.00	4.47	3.87	2.67	5.54	9.81	3.89	8.03	2.47	-1.22	-2.49	7.33
Difference in medians	3.94	3.82	2.97	2.96	8.55	2.17	3.56	7.56	3.56	2.16	-0.51	4.53
Sub-Saharan Africa ^f												
10 highest												
GDP growth rates												
Mean	6.62	6.51	4.23	24.26	25.72	20.41	20.42	20.17	17.20	3.84	5.55	3.21
Median	5.41	4.80	3.91	26.48	26.59	18.87	20.57	22.96	15.09	2.88	3.17	4.43
10 lowest GDP growth rates												
Mean	-6.99	-3.49	-3.26	16.75	15.22	17.62	11.04	12.56	11.52	5.71	2.67	6.11
Median	-7.00	-2.16	-2.59	15.54	16.02	15.34	10.46	14.12	13.45	2.52	1.56	5.08
Difference in means	13.61	10.00	7.49	7.51	10.49	2.78	9.39	7.61	5.68	-1.87	2.88	-2.90
Difference in medians	12.40	6.96	6.50	10.95	10.57	3.53	10.11	8.84	1.63	0.36	1.61	-0.65

Source: Original calculations.

^a Based on a sample of nine countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico and Peru.

^b Based on a sample of nine countries: Cambodia, China, Fiji, Indonesia, Malaysia, Mongolia, Philippines, Thailand and Viet Nam.

^c Based on a sample of nine countries: Bulgaria, Czech Republic, Hungary, Kyrgyz Republic, Moldova, Poland, Romania, Tajikistan and Turkey.

^d Based on a sample of nine countries: Egypt, Iran, Jordan, Lebanon, Morocco, Oman, Saudi Arabia, Syria and Yemen.

^e Based on a sample of seven countries: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

^f Based on a sample of nine countries: Burundi, Ethiopia, Gabon, Guinea, Kenya, Malawi, Mauritius, the Seychelles and Tanzania.

The results shown in table II.13 indicate that the national savings rates associated with the highest-growth episodes are higher than those prevailing in the lowest-growth episodes. This observation holds for the Latin American sample and for other world regions. The results for total saving (which is equal to total investment) and foreign saving are mixed, however. In Latin America, the highest-growth episodes are associated with higher total savings (investment) rates than those associated with the lowest-growth episodes. In other regions, the association is not clear. Nonetheless, the means and medians of the

total saving rates are higher in the highest- than in the lowest-growth episodes in all regions, except in Europe and Central Asia, where the results vary. As for foreign saving, there is no clear pattern of association for either Latin America or for other world regions, since some of the highest-growth episodes were found to co-exist with lower foreign savings rates than those present in some of lowest-growth episodes. In summary, high national saving seems to be required for high growth, but high investment or high foreign saving does not guarantee high growth.²⁹

H. Conclusions and policy implications

The study provides evidence regarding the contribution of investment to economic growth in Latin America in the period 1960-2002 and concerning the determinants of saving and the association with growth.

Growth accounting estimates provided evidence as to the primary role played by total factor productivity (TFP) in explaining the difference between fast and slow growth experiences, with physical capital playing a secondary role in the growth of the six largest Latin American countries in 1960-2002. The conclusions drawn from this evidence are, first, that aggregate fixed investment is a main source of growth but does not, in and of itself, explain the difference between fast-growth and slow-growth countries and, second, that TFP is actually the factor that accounts for that differential. It was also found that machinery and equipment are the component of fixed investment that contributes the most to per capita GDP growth, with investment in construction playing a secondary role. The stability analysis confirmed the significance of total fixed investment and of machinery and equipment investment as contributing factors to per capita GDP growth that provide a valuable channel for the transmission of technological improvements. Although investment in construction showed little significance (t-values) as a contributing factor to per capita GDP growth in 1960-2002, a slight positive impact developed after the 1980s. The main policy-related variables that contributed to growth were: low inflation, a limited size of government, a low level of external debt, and education.

Inflation, a proxy for price stability, displayed the most consistent significance in 1960-2002, however.

The evidence gathered in this chapter also shows that secondary education was an important force in contributing to per capita GDP growth during the 1960s and 1970s but that its role declined in the 1980s and was further reduced in the 1990s and 2000s as the coverage of secondary education increased. The evidence suggests that education policies should incorporate new ways of expanding the human capital stock, including improvements in the quality of all types of education and the provision of other forms of training that will facilitate the dynamic adoption of new technologies.

The chapter provides evidence that private investment had a strong positive impact on growth, while public investment played a negligible role in 1960-1980. The study also detected mutual causality between growth and private investment, which contributes to an understanding of how vicious and virtuous cycles are formed in Latin America. The evidence suggests that a pre-condition for the use of active countercyclical public investment policies is the presence of a stable macroeconomic framework (chiefly price stability). No conclusive evidence was found regarding the impact of FDI and infrastructure on private investment or growth in Latin America. Specific case-by-case observations seem to be required to gauge the specific influence of these two variables.

The study found that the main results for the 1970s, 1980s and early 1990s regarding the factors associated

²⁹ Further evidence on these links are presented by Gutiérrez (2005) and by Solimano and Gutiérrez (2006).

with national saving hold true for the period 1990-2003 as well. These results include the observations that national saving was positively associated with growth, government saving and financial depth but was negatively associated with foreign saving.

No evidence was discovered of an association between national saving and the level of income (per capita GDP), dependency ratios, domestic interest rates, terms of trade or income distribution. The relatively smaller size of the panel used for this study (which was restricted to nine Latin American countries) may explain the lack of correlation found in the cases of income levels and dependency ratios.

The absence of a correlation between national saving and interest rates, terms of trade or income distribution is in line with the ambiguous evidence discussed in the literature.

A positive relationship was found to exist between national saving and inflation. This relationship has also been identified in other studies, where it has been rationalized as a precautionary savings motive. In this study, however,

it has been determined that this correlation is likely to be non-linear. Inflation has declined substantially in the region in the 1990s and 2000s. However, in periods of very high inflation, as in the 1980s, growth, investment and saving have all fallen.

Compelling evidence was uncovered of a strong positive relationship between national saving and growth, but no evidence indicating that growth “causes” national saving was found. The evidence suggests that mutual causality is most likely to develop between national saving and growth on a case-by-case basis. In the presence of productivity constraints, growth will drive saving (by boosting investment returns), as distortions affecting productivity gains will make additional saving relatively ineffective in accelerating growth. In the presence of investment financing constraints, saving will drive growth, as the alleviation of borrowing constraints will increase the level of financing required to raise investment. Sustained growth therefore appears to call for rising productivity and national saving.

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Chapter III

Economic growth in Latin America and the Caribbean: growth transitions rather than steady states

A. Introduction

Recent evidence on economic growth indicates that growth fluctuations at frequencies of a decade or so are at the centre of the Latin American countries' growth story. Growth in Latin America in particular and in developing countries in general is an irregular and highly volatile process in which a given country may experience several different growth transitions or growth spells (accelerations and decelerations). Steady growth around a well-defined, stable trend is clearly not a good description of the actual growth experience of Latin American countries. In this context, investment has played an important role as a source of growth, while national saving has been the main source of investment financing. Foreign saving has played a secondary role and has generally been substituted for national saving, rather than augmenting the total amount of savings available in Latin America. The high volatility and vulnerability to external swings exhibited by foreign capital have made foreign saving an unstable source of investment financing.

This study on Latin America helps to provide a statistical framework for analysing the growth story of Latin America, which is a story of frequent growth transitions rather than steady growth around a long-run trend. The focus here is on growth transitions and on the role played by investment and by national and foreign saving during growth transitions. Transitions affecting investment and national and foreign savings rates are identified, as

are common and country-specific transitions, based on comparisons of a sample group of eight Latin American countries with the Latin American and Caribbean region as a whole for the period 1960-2005. The Hodrick-Prescott (HP) filter was used to identify acceleration, deceleration and stable episodes for four data series and for each of the selected countries and the entire Latin American and Caribbean region.

Growth transitions in the region were compared with transitions in the United States, in 15 high-income countries of the Organisation for Economic Co-operation and Development (OECD) and in the East Asia and Pacific region. The United States, as the largest single developed economy, has historically had the closest economic links with Latin America and the Caribbean, while the richer OECD countries have also maintained important trade and financial ties with the Latin America and the Caribbean region. The East Asia and Pacific region, in turn, has become a standard of reference for Latin America and the Caribbean in terms of economic growth and development.

Measured probabilities were derived for leads and lags in investment, national saving and foreign saving in terms of growth transitions, leads and lags in national and foreign saving in terms of investment, and leads and lags in foreign saving in terms of national saving. Measured

probabilities for common and country-specific transitions (before and after the 1990s) were also derived. Granger causality tests were applied to all the various pairwise combinations for the series of per capita GDP growth, investment rates, national savings rates and foreign savings rates for the Latin American and Caribbean region in the aggregate and for the eight individual countries making up the sample used for this study.

This research also helps to demonstrate that some growth episodes are not well captured by standard growth theories and econometric work developed and based on different economic contexts and time periods.¹ Key observations are provided about growth transitions and the differential behaviour of investment, national saving and foreign saving during growth transitions in Latin America. The study confirms some general conclusions reached in the literature but provides evidence that raises doubts about others.

B. Growth transitions: background

Empirical work on economic growth has been strongly influenced by the Solow supply-driven model (1950s), which was developed to explain growth in the United States in the first half of the twentieth century. Under this model, the long-run (steady-state) growth of per capita income is determined by the rate of technological change. Subsequent econometric analysis based on large panels of data across time and countries (Barro, 1991) and the endogenous growth models developed since the mid-1980s (Lucas, 1988; and Romer, 1986) assign a crucial role to investment in explaining long-run growth as a vehicle for technological progress.

The recent literature on economic growth has gone beyond standard theories and econometric approaches to focus on understanding growth transitions and case-by-case differences in growth experiences. This work has gained momentum amid the disappointing experiences of some Latin American countries that have followed macroeconomic policy advice that draws heavily on generalizations and simplifications of standard theories and econometric results (see Easterly, 2001 and 2006; Rodrik, 2005b; and Stiglitz, 2003 and 2006).

The empirical relevance of *growth transitions* is highlighted by the fact that a typical developing country

tends to shift between different growth regimes over time rather than growing steadily around a stable trend, which is more typical of developed economies. Growth in Latin America is characterized by high volatility and a low correlation between current and past growth rates (low time persistence) (see Hakura, 2007; Sahay and Goyal, 2006; and Solimano and Gutiérrez, 2006).

The literature on growth transitions has sought to explain how some key economic policies and structures may influence the duration of growth spells (Berg, Ostry and Zettelmeyer, 2006). Hausmann, Pritchett and Rodrik (2004), who examine the relationship between growth acceleration episodes and key binding constraints affecting economic growth, argue that growth accelerations are fairly frequent events. Hausmann, Rodrik and Velasco (2004) have proposed a framework for identifying key binding constraints related to investment and saving that affect economic growth. They contend that an understanding of these differences can contribute to a more effective formulation of pro-growth policy priorities (see also Rodrik, 2004 and 2005a). In this context, investment, saving and growth will be stimulated as new opportunities open up.

¹ For further discussion of the foundations for the case approach to economic growth and to economic policy in general, see Easterly (2001 and 2006) and Stiglitz (2003 and 2006).

This chapter is in line with the recent literature focusing on growth transitions. Such transitions (including growth accelerations, growth decelerations and episodes of stable

growth rates) are examined in terms of their relationships with investment, national saving and foreign saving, as well as co-movements in common and country-specific transitions.

C. Methodological approach

The study is based on data on per capita GDP growth, investment and national and foreign savings rates for eight selected countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. The sample contains large, medium-sized and small economies that are representative of the diversity found in Latin America. The selection of countries took into account the availability and reliability of data on growth, investment and saving.

Data were compiled for four series corresponding to the entire Latin American and the Caribbean region

for purposes of comparison with the selected countries. Data on per capita GDP growth for the United States, 15 high-income OECD economies, and the East Asia and Pacific region were used to compare these countries' and groupings' trends and co-movements with those of Latin America and the Caribbean. The World Development Indicators (WDI) database of the World Bank and the International Financial Statistics (IFS) database of the International Monetary Fund (IMF) were used for these purposes.

1. Growth transitions: accelerations, decelerations and stable periods

To identify growth accelerations and decelerations, the series on per capita GDP growth, investment rates, and national and foreign savings rates were run through the Hodrick and Prescott (HP) filter.² The HP filter is a method for obtaining a smooth estimate of the long-term trend component of a series. This two-sided linear filter computes the smoothed series m_t of a given series y_t by minimizing the variance of y_t around m_t , subject to a penalty that constrains the second difference of m_t . The HP filter chooses a complete sequence $m_1 \dots m_T$ to minimize:

$$\sum_{t=1}^T (y_t - m_t)^2 + \lambda \sum_{t=2}^{(T-1)} [(m_{t+1} - m_t) - (m_t - m_{t-1})]^2$$

where the penalty parameter λ controls the smoothness of the series m_t : the larger the λ , the smoother the m_t . When $\lambda \rightarrow \infty$, m_t approaches a linear trend. Hodrick and Prescott (1997) suggested the use of $\lambda = 100$ for annual

data (cycles of about 20 years for smoothing) as it provides a better fit with the growth story of the United States economy. Given the higher degree of volatility observed in the growth series for Latin America, in this case a λ of 7 (cycles of about 10 years for smoothing) was felt to be the most appropriate choice for reflecting the growth pattern of Latin American countries (see Maravall and del Río, 2001).

The HP filter was applied to the original series. For the per capita GDP series, however, the HP filter was first used on the original series in level terms, i.e., the per capita GDP (in constant 2000 dollars) series, and the HP-filtered per capita GDP growth rate was then derived from the results. Moving averages calculated over 3- and 5-year periods were also tried, with differenced moving averages being obtained from the differentials between the original and lagged moving average series (using various lags). These alternatives were discarded, however, as the derived series were highly volatile, were contaminated by lagged data and, as a result, provided questionable

² This method was first used in a working paper (circulated in the early 1980s and published in 1997) in which Hodrick and Prescott analysed postwar business cycles in the United States (Hodrick and Prescott, 1997).

information about the starting and ending years of the various growth spells.

The study distinguishes three types of transitions: acceleration, deceleration and stable episodes. Accelerations (decelerations) are defined as episodes in which the HP-filtered series displays a persistently increasing (decreasing) trend for at least three years. When the HP-filtered series exhibits consecutive years of mixed trends, the periods are identified as stable episodes. In other words, a stable episode is a period in which the series exhibits no clear trend.

Common acceleration, deceleration and stable periods for per capita GDP growth, investment, national saving and foreign saving were identified for each of the eight countries in the sample and for the Latin American and Caribbean region as a whole. For purposes of comparison with Latin America and the Caribbean, growth transitions and common growth transitions were calculated for the United States, 15 high-income OECD countries and the East Asia and Pacific region. All the results are reported in appendix A.

2. Granger causality

The Granger causality test examines the degree of significance in the statistical order of precedence between two time series. Thus, the test does not reveal a “causal” relation in a strict sense, but rather signals “causality” by determining that order of precedence. Saying that series x “Granger-causes” series y signifies that y ’s behaviour can be explained in part by x ’s lags.³

Application of a pairwise Granger causality test consists of running bivariate regressions of the form:

$$y_t = a_0 - a_1 y_{t-1} - \dots - a_k y_{t-k} - b_1 x_{t-1} - \dots - b_k x_{t-k} - e_t$$

$$x_t = a_0 + a_1 x_{t-1} + \dots + a_k x_{t-k} + b_1 y_{t-1} + \dots + b_k y_{t-k} + u_t$$

The reported *F-statistics* are the Wald statistics for each equation for the joint hypothesis $b_1 = b_2 = \dots = b_k = 0$.

The pairwise Granger causality test examines causality for both equations and therefore tests causality in both directions. Whenever the test is significant at the 1%, 5% or 10% level, then the null hypothesis is rejected and the existence of “Granger causality” is accepted.

A suite of Granger tests consisting of all pairwise combinations of per capita GDP growth, investment (proxied by total gross capital formation rates), national saving and foreign saving series for the Latin American and Caribbean region and for the eight countries in the sample were performed. Granger tests were applied to the HP-filtered series using three lags to extract more rigorous statistical conclusions regarding the relationships existing among the four variables examined for the entire story of growth transitions in 1960-2004.⁴ All the results are reported in appendix A.

3. Measured probabilities

Two sets of measured probabilities were generated using the database on growth transitions compiled for this study. The first set measures the probabilities that investment, national savings and foreign savings rates lead or lag per capita GDP growth; that national or foreign saving lead or lag investment; and that foreign saving leads or lags national saving. The second set provides an estimate

of the probability of common growth transitions. These measures help to gauge, for example, the probability of a growth transition being led or lagged by an acceleration of investment and the probability of a growth deceleration being the result of a common deceleration (i.e., one affecting all Latin American and Caribbean countries). All the results are reported in appendix A.

³ Granger-causality between two series is found to exist when the test provides statistical evidence to reject the null hypothesis. The null hypothesis in the Granger test is that “ x does not Granger-cause y ”. When statistical evidence for rejecting the null hypothesis is present, it means that “ x Granger-causes y ”.

⁴ Pairwise Granger causality tests were applied to original series and HP-filtered series using 3, 5, 8, and 10 lags. These results are not reported because they do not add any further insights to the reported conclusions.

D. Growth transitions, investment and saving in Latin America (1960-2005)

The literature on economic growth assigns key roles to investment and saving as the main factors driving economic growth, especially during growth transitions. In the Solow model, the savings rate is exogenous and equal to actual investment. Savings and investment rates play a role only in the transitions between steady states, but not in the determination of long-run growth. The model predicts that high- and low-saving/investment economies experiencing the same extent of technological progress will not differ in their long-run per capita growth

rates, but this conclusion is contradicted by most of the empirical evidence. The evidence has also confirmed the important role of investment as a key contributing factor to growth in the long run and during growth transitions (Barro, 1991; Lucas, 1988; Romer, 1986; and Hausmann, Rodrik and Velasco, 2004). Saving is the financing counterpart of investment, and the evidence points to a high correlation between national saving and growth (Feldstein and Horioka, 1980; and Bordo and Flandreau, 2003).⁵

1. Growth trends and general patterns

The 1960-2005 period exhibits a slight downward trend in growth for Latin America and the Caribbean starting in the early 1960s, a pronounced deceleration during the 1970s and early 1980s, a less pronounced acceleration from the mid-1980s until the mid-1990s, and no clear trend after the mid-1990s (see figure A.1). A different long-term pattern is observed in East Asia and the Pacific (see figure A.2), which experienced a continuous upward long-term growth trend during the entire period. The United States exhibits a slight decline in long-term per capita growth, but it is less pronounced than the downtrend seen in Latin America and the Caribbean. The 15 high-income OECD countries used in this study displayed a declining long-run trend which became somewhat flatter after the 1980s.

Of the eight selected Latin American countries, Chile is the only one that exhibits an upward long-run trend in per capita GDP growth. The other seven countries show either a nearly flat or a slightly declining long-run trend. Although the frequency of growth transitions (growth spells) is not higher for the Latin American and Caribbean region or for most of the selected countries than it is for the United States or for East Asia and the Pacific, their transitions' amplitude and duration are much greater.

The results for all the growth transitions (both positive and negative growth spells) indicate that growth leads investment in about 56% of all growth accelerations and 43% of all growth decelerations. National saving and growth are about equally distributed in terms of leads and lags. Foreign saving lags growth in about 33% of growth accelerations and 57% of growth decelerations. The results also show that national saving leads investment in about 44% of investment accelerations and 26% of investment decelerations. Foreign saving also leads national saving in about 42% of national saving accelerations and 43% of decelerations (see table A.5).

More than 60% of the total years encompassed by accelerations and decelerations of per capita GDP growth and investment rates experienced by Argentina, Brazil, Colombia, Costa Rica and Peru also occurred at the regional level. This implies that the majority of these growth transitions resulted either from forces generated outside the Latin American and Caribbean region or from the influence of large countries within the region (intra-regional contagion effects). Countries that have been more isolated or "protected" from contagion include Chile (50% of growth acceleration years in common with the region as a whole), Mexico (25% of growth acceleration years and

⁵ The breakdown of investment between the public and private sectors and between machinery and construction has a bearing on growth, but the breakdown of saving between the public and private sectors also matters (Solimano and Gutiérrez, 2006).

35% of growth deceleration years in common) and Peru (50% of growth deceleration years in common).

The results thus suggest that the majority of growth and investment transitions in Latin America have been “common” in the sense that they match up with transitions at the aggregate regional level. National saving and, to

a lesser extent, foreign saving, in contrast, have mainly been country-specific. The national savings rate has moved more independently across countries, especially during periods of deceleration in national savings rates. The results also trace out a general pattern of substitution of foreign saving for national saving.

2. Characteristics of growth transitions

(a) Frequency

- (i) Latin America’s growth story is one of frequent and large fluctuations in growth regimes, and the region’s growth transition episodes have increased in frequency since the 1980s. This observation holds for the region as a whole as well as for most of the individual countries in the sample. Growth accelerations or decelerations have dominated the region’s growth story in 1960-2005, with very few stable periods being observed (see table A.1).
- (ii) Stable growth episodes are rather infrequent events not only in Latin America and the Caribbean but also in the United States, OECD and the East Asia and Pacific region. Colombia is an exception to the rule, as it has witnessed three stable episodes (the longest being from 1989 to 1994), compared to just one or none for other Latin American countries.
- (iii) The frequency of growth accelerations and decelerations is illustrated by the fact that the Latin American and Caribbean region, taken as a whole, experienced a total of eight growth transitions in 1960-2005: four accelerations, two decelerations and two stable periods. Of the eight observed growth transitions, five took place in 1980-2005 (three accelerations, one deceleration and one stable episode).
- (iv) The story is similar at the level of individual countries. Growth transitions (mostly either accelerations or decelerations) have been concentrated in the years after the 1970s, with the most frequent number of growth transitions during this subperiod being observed in Brazil (6), Mexico (6) and Peru (6). The lowest frequencies are observed in Chile (4) and Venezuela (3), although the transitions in the latter were of a much longer amplitude than those of Chile.

(b) Amplitude

- (i) The amplitudes of growth accelerations and decelerations (distance between peaks and troughs, comparing growth rates in the first and last years of a growth transition or spell) in Latin America and the Caribbean are much longer than they are in the United States or East Asia and the Pacific, while the latter region exhibits shorter amplitudes than does the United States. The amplitudes of growth transitions have increased in the United States since the 1980s and in East Asia and the Pacific since the 1990s, however.
- (ii) Amplitudes in Latin America and the Caribbean have remained long since the 1980s. Although they have declined slightly for the Latin American and Caribbean region in the aggregate, longer amplitudes have been found for Argentina, the Bolivarian Republic of Venezuela, Chile, Mexico and Peru.
- (iii) The longest growth transition amplitudes for the region as a whole are observed in the 1972-1983 deceleration spell (from +3.8% to -1.8%) and the 1984-1994 acceleration spell (from -1.8% to +1.8), which was briefly interrupted by a stable period in 1987-1989.
- (iv) An extended period of growth acceleration during the 1960s was led by Brazil (Brazil’s golden age of industrialization). Growth accelerations were also observed in the 1960s, though less pronounced, in Argentina, Colombia and Costa Rica. That decade marked the most dynamic period in the import-substitution industrialization model adopted after the Second World War, in which national output was heavily protected from import competition.
- (v) An extended period of growth deceleration was observed starting in the 1970s that lasted until about the mid-1980s for the region as a whole.

The Bolivarian Republic of Venezuela and Mexico managed to escape this general trend, however. Mexico's growth accelerated during the first and second oil shocks of the early and late 1970s, however, whereas Venezuela's growth accelerated only during the first oil shock.

The 1970s marked the death throes of the industrialization model, which came to an end with the 1980s debt crisis. The 1970s was also a decade that saw two oil shocks (1973-1974 and 1979-1980) and two major hikes in external interest rates (1973-1974 and 1978-1981). In addition, the United States experienced growth decelerations in the early 1970 and late 1980s that had negative contagion effects on Latin America and the Caribbean. The early 1980s was a time of external debt defaults across the region, debt restructurings, and balance-of-payments and fiscal adjustments.

- (vi) From the mid-1980s until roughly the mid-1990s, an extended period of growth acceleration was seen in the region (interrupted, as noted earlier, by a brief stable period in 1987-1989) amid economic reforms and benign external conditions (falling external interest rates, a recovery of primary commodity prices and massive inflows of foreign capital and foreign direct investment). Growth accelerations were led by Chile, followed by the Bolivarian Republic of Venezuela, Colombia and Costa Rica. Argentina's, Brazil's and Peru's growth accelerated in the late 1980s, while Mexico's did not until the second half of the 1990s.
- (vii) From 1994 to 2001 the region exhibited a period of growth deceleration followed by a growth acceleration after 2002. The growth rates posted by the region as a whole after the 1980s have never reached or surpassed the peak rate recorded in the early 1970s (3.8% at its height in 1971). Since the 1990s, the region has proven to be vulnerable to a series of external contagion shocks of a type not seen in the 1960s or 1970s as a consequence of financial-sector reforms and capital-account liberalizations that heighten the contagion effect of foreign events.
- (viii) At the level of individual countries, the longest growth acceleration/deceleration cycles have been observed in: (1) Argentina, which experienced a deceleration from 1969 to 1982 (from +3.6 to -2%) that was briefly interrupted by a stable period in 1977-1979 and an acceleration in 1989-1993 (from -1.7% to +4.6%), as well as a deceleration in 1994-2001 (from +4.6% to -2.6%); (2) Brazil,

which underwent an acceleration in 1965-1972 (from +0.6 to +8.6%) and a deceleration in 1973-1982 (from +8.6% to -0.8%); (3) Chile, which witnessed an acceleration in 1974-1978 (from -2.5 to +3.7%), an acceleration in 1983-1992 (from -0.6% to +6.7%), and a deceleration in 1993-2000 (from +6.7% to +1.7%); Colombia, which recorded a deceleration in 1972-1982 (from +3.9% to +0.4%) that was briefly interrupted by a stable period in 1976-1978, and a deceleration in 1988-1999 (from +2.4% to -1%), which was broken by a stable episode involving a slight declining trend in 1989-1994; Costa Rica, which registered a deceleration in 1972-1982 (from +4.5% to -2.8%) and an acceleration in 1983-1992 (from -2.8% to +3%); Mexico, which experienced a deceleration in 1980-1985 (from +4.5% to -1.6%); Peru, which witnessed a deceleration in 1990-1995 (from -5.4% to 4.2%); and the Bolivarian Republic of Venezuela, whose economic deceleration in 1976-1982 (from +0.8% to -4.5%) was followed by an acceleration in 1983-1991 (from -4.5% to +1.6%) and then a fresh deceleration in 1992-2001 (from +1.6% to -2.5).

(c) Duration

- (i) Growth spells have been longer in Latin America and the Caribbean than in the United States, OECD or East Asia and the Pacific. The longest growth spells for the region as a whole were observed in 1964-1971 (a 7-year acceleration), 1972-1983 (an 11-year deceleration) and 1995-2001 (a 6-year deceleration).
- (ii) The longest growth spells have occurred in Costa Rica (a 10-year deceleration in 1972-1982), Brazil (a 9-year deceleration in 1973-1982), Chile (a 9-year acceleration in 1983-1992) and the Bolivarian Republic of Venezuela (a 6-year deceleration in 1976-1982). However, if brief periods of growth rate stability are discounted, then the longest decelerations have occurred in Peru from 1962 to 1989 (27 years), the Bolivarian Republic of Venezuela from 1962-1982 (20 years) and Argentina from 1968 to 1982 (14 years).

(d) Common and country-specific growth transitions

- (i) A comparison of growth spells for each of the eight countries in the sample and for the Latin American and Caribbean region as a whole points

up several common accelerations, decelerations and stable periods in 1960-2005. These data constitute evidence of common events in the entire region, but they also illustrate contagion effects in some of the larger countries. Country-specific growth transitions not found in the region as a whole have been longer in the case of Mexico (growth accelerations, decelerations or stable periods). In all of the other seven countries in the sample, growth transitions in 1960-2005 have mainly been associated with common episodes (more than 50% of individual-country growth transitions have coincided with such episodes at the regionwide level).

- (ii) Common acceleration and deceleration episodes in terms of national and foreign savings rates have been quite frequent in the cases of Argentina, Brazil, Chile and Colombia, with correlations of more than 60% with the region as a whole in most cases. Common episodes have been less frequent for the Bolivarian Republic of Venezuela, Costa Rica, Mexico and Peru (correlations below 50% in most cases). The correlations for national saving are also lower during decelerations than during accelerations of the national saving rate.
- (iii) The increase in the probability of common growth transitions observed after the 1990s (except in the case of Colombia) is an indication of heightened interdependence during this new wave of globalization.⁶ The frequency of common foreign savings accelerations rose after the 1990s for Argentina, Chile, Colombia, Mexico and Peru. Common foreign saving decelerations increased after the 1990s for the Bolivarian Republic of Venezuela, Brazil, Colombia and Peru (for different views on this issue, see Aiolfi, Catao and Timmermann, 2006; Hakura, 2007; Prasad, Rajan and Subramanian, 2006; and Sahay and Goyal, 2006).
- (iv) About half of all the relevant growth transitions are common to Latin America and the United States, which is an indication of the strong influence that the United States economy has had on the region, although important exceptions are to be observed in the second halves of the 1960s and 1980s. In both of these periods, the United States exhibited growth decelerations while Latin America and the Caribbean were experiencing accelerations (mainly as a consequence of Brazil's performance

in the first of these periods and of the results achieved by most Latin American countries (except Peru) during the second as they pursued stabilization efforts and succeeded in making a partial recovery from the early 1980s debt crisis (see also Aiolfi, Catao and Timmermann, 2006; and Hakura, 2007).

(e) Investment and growth

The role played by investment in growth transitions is bound to be influential, since it is of critical importance as a vehicle for the creation of productive capacities, knowledge spillovers and new technologies. A reform process can also trigger short-term productivity gains that lead to faster initial growth in economies that are starting from high, distorted levels (Solimano and Gutiérrez, 2006). The composition of investment (in terms of machinery and equipment/construction and private/public investment) has an impact on growth (Solimano and Gutiérrez, 2006). In part, this is because the "irreversible" character of physical-investment decisions implies that there is a high "value of waiting" in investment decisions (Servén and Solimano, 1993). Hausmann, Pritchett and Rodrik (2004) also provide evidence that growth accelerations have been accompanied by an increase in investment.

The crucial importance of investment during growth transitions is confirmed by the evidence gathered for this chapter, as most growth transitions have been, at some point, supported by accelerated investment (higher investment rates). In most cases, growth accelerates or decelerates before investment, as growth leads investment in about 56% of all growth accelerations and 43% of all decelerations. Growth can accelerate before investment when unutilized capacity is available, which seems to be the general case in Latin America and the Caribbean. This situation also reflects the fact that growth accelerations often follow upon a deceleration.

Although growth needs to be sustained by higher investment rates, an initial impulse from investment is not required in order for growth to accelerate. Growth accelerations can be preceded by falling or stable investment rates, and not all investment accelerations are accompanied or followed by growth accelerations. Growth may also decelerate while the investment rate is rising. Investment in construction and public investment

⁶ During the second half of the 1880s and until the First World War, the world economy experienced a first wave of globalization. In today's global capital markets, however, capital flows and foreign investment aim for risk sharing and diversification instead of long-term financing to build infrastructure and housing, as was the case in the pre-1914 world (Solimano and Gutiérrez, 2006).

have proven to be less effective in promoting growth in Latin America than elsewhere (see Gutiérrez 2005; and Solimano and Gutiérrez, 2006).

There have also been several growth accelerations that have been accompanied by accelerations of investment rates which extend beyond the end of the relevant growth acceleration episode, as well as several growth decelerations that have been accompanied by decelerations of investment rates which also have extended beyond the end of the corresponding growth deceleration. This is valid for the Latin American and Caribbean region as a whole and for several episodes in the selected countries. The “irreversibility” of investment helps to underpin this observation. In such cases, investment reacts after accelerated growth episodes have led to full (or nearly full) utilization of installed capacity, which in many cases takes between three and four years. When growth decelerates, investment also decelerates but with a lag, and the physical capital capacity that was built during the investment acceleration, if not destroyed, becomes available for the next round of growth acceleration.

A number of other cases of co-movements between investment and growth were also observed, however. These episodes suggest that investment is required but does not guarantee higher growth and that growth can accelerate even without an initial impulse from higher investment. These observations include the following: (i) growth accelerations preceded by an acceleration of investment rates (Latin America and the Caribbean, 1990-1994; the Bolivarian Republic of Venezuela, 1972-1975 and 1988-1991; Chile, 1975-1979; Colombia, 1966-1971; and Mexico, 1961-1964, 1976-1979); (ii) growth accelerations preceded by stable or decelerating investment rates (Latin America 1964-1971, 1984-1986 and 2002-2005; Argentina 1961-1965, 1989-1993 and 2002-2005; Bolivarian Republic of Venezuela, 1983-1991 and 2002-2005; Brazil, 1965-1972, 1983-1986, 1991-1995 and 2003-2005; Chile, 1983-1992 and 2001-2005; Colombia, 1984-1988 and 2000-2005; Costa Rica, 1961-1971; Mexico, 1986-1991 and 1995-1998; and Peru, 1969-1973, 1990-1995 and 2001-2005); (iii) accelerations of investment rates followed by decelerations of growth (Colombia, 1977-1982 and 1991-1999); (iv) prolonged accelerations of investment rates accompanied by growth decelerations (the Bolivarian Republic of Venezuela, 1960-1971 and 1992-2001; Costa Rica, 1972-1981; Mexico 1960-1970; and Peru, 1973-1981); (v) growth and investment rates that accelerate or decelerate simultaneously (Latin America and the

Caribbean, 1964-1971; Chile 1968-1972); (vi) protracted growth decelerations accompanied by accelerations of investment rates (Argentina, 1970-1977 and 1994-1996); and (vii) long stable periods accompanied by an acceleration of investment rates (Chile, 1961-1967).

The HP-filtered Granger test results show causality in both directions between investment and growth for the Latin American and Caribbean region in the aggregate (at 1% significance, see table A.4). This suggests a mutual reinforcement between growth and investment; in some cases, lifting constraints on investment may trigger a more rapid pace of growth while, in other cases, an acceleration of growth may improve investment sentiment (and expected returns) and encourage additional investments (for more on this subject, see Hausmann, Rodrik and Velasco, 2004; and Gutiérrez, 2005). The possibility of mutual causality is confirmed by the diversity observed in the individual countries' results. In the cases of the Bolivarian Republic of Venezuela, Brazil, Chile and Peru, the results are similar to those obtained for the region in the aggregate, as causality in both directions was highly significant in most cases (at the 1% level). For Argentina, growth caused investment; for Costa Rica, investment caused growth; for Colombia and Mexico, the results showed no direct causality in either direction. The results also suggest that growth can accelerate without an initial investment impulse and that the composition and quality of investment has an impact in terms of growth (see Gutierrez, 2005; and Solimano and Gutierrez, 2006).

(f) National saving and growth

Theories and evidence about the links between saving and current growth have been founded upon the permanent income hypothesis of Milton Friedman and the life-cycle model of Franco Modigliani. The former states that consumption is determined by permanent (long-run) income, implying that saving follows current (transitory) growth. The latter argues that productivity growth makes the working young population richer than the old, with the young saving more than the old are dissaving. It also implies that aggregate income growth would follow from an increase in the lifetime profiles of succeeding generations.⁷ In the Keynesian school of thought, saving is endogenously determined by interactions between income and consumption. Higher current growth generates higher incomes, which lead, in turn, to higher saving (as the propensity to consume

⁷ The terms-of-trade effect is viewed as a transitory deviation of national income from its trend. According to Milton Friedman's consumption hypothesis, the additional income resulting from transitory improvements in countries' terms of trade would mostly be saved. In more extensive models of consumer behaviour, the relationship is theoretically ambiguous (Carroll and Weil, 1994).

out of income is less than one). Carroll and Weil (1994) argue that habit formation in consumption is a factor that helps to rationalize the positive correlation between saving and current growth. They also provide evidence that growth Granger-causes saving, although this finding has been questioned by some authors (Attanasio, Picci and Scorcu, 2000; Gutierrez, 2007).

The evidence on growth transitions gathered in this chapter includes information on several cases in which growth accelerations and decelerations have, at some point, been accompanied or followed by accelerations in national savings rates. This evidence thus corroborates the findings presented in the literature about the relationship between these two variables, with growth driving up national saving or higher national saving helping to finance higher investment and higher growth.

Growth does not necessarily generate higher national saving, however. Growth accelerations may be consumption-oriented. If this is the case, they will be reflected in a rising current-account deficit financed by foreign capital flows (foreign savings). In such a case, foreign saving would then substitute for national saving, and growth would be coupled with falling national savings rates. The results obtained in this study for all growth transitions (positive and negative growth spells) show that national saving and growth are about equally distributed in terms of leads and lags (see table A.5).

Several cases have also been observed, however, that suggest that growth may accelerate (decelerate) without an increase (decrease) in national savings rates and that higher (lower) national savings rates do not necessarily translate into an acceleration (deceleration) of growth. For policy purposes, these cases suggest that some growth transitions may be primarily oriented towards consumption (reducing national saving) and that, in such cases, national savings policies may not necessarily translate into higher growth. Examples of this combination of circumstances include: (i) stable national savings rates over a lengthy period of time, coupled with growth accelerations and decelerations (Latin America in 1989-2000 and Mexico in 1980-1984); (ii) a long-standing deceleration of national savings rates combined with a mixture of growth stability, acceleration and deceleration (Argentina in 1976-1999); (iii) a growth deceleration in conjunction with an acceleration of national saving (Latin America in 1972-1976, Colombia in 1972-1975, Costa Rica in 2000-2003 and Peru in 1996-1999); and (iv) growth accelerations accompanied by decelerations in national savings rates (Brazil in 1991-1995, Chile in 1977-1979, Costa Rica in 1988-1992 and Mexico in 1986-1991).

The HP-filtered Granger results show mutual causality between national saving and growth for the Latin American and Caribbean region as a whole (significant at 10%), as

was also the case for investment and growth. This indicates that, generally speaking, growth and national saving “go together” (as do growth and investment), although this is not always the case. These mutually reinforcing elements have also been documented in the literature (see, for example, Attanasio, Picci and Scorcu, 2000; Hausmann, Rodrik and Velasco, 2005; and Gutiérrez, 2007). This finding suggests that the removal of restrictions on national saving will stimulate investment and growth, but it also indicates that an acceleration of growth will stimulate saving (see also Carroll and Weil, 2004; Schmidt-Hebbel and Servén 1999; and Solimano and Gutiérrez, 2006). The results for the selected countries also suggest that causality may run in both directions, although the pattern is not uniform. For Argentina, for example, there is no causality in either direction. For Chile, Colombia, Costa Rica and Peru, however, causality does run in both directions, although it is stronger in the case of growth causing national saving (significant at 1%). For the Bolivarian Republic of Venezuela, Brazil and Mexico, growth Granger-causes national saving.

(g) Foreign saving and growth

Although investment has primarily been financed with national saving in Latin America and, for that matter, most developing countries, foreign saving (the financing counterpart of the current-account deficit, most of which is in the form of capital inflows) has, at several points in the region’s history, served as an important source of investment financing. Foreign saving has been highly volatile, however, and has tended to be a substitute for national saving, thereby fuelling consumption booms and current-account crises. The evidence on the association between growth and foreign saving is mixed. There are cases of high growth with relatively low foreign savings rates (East Asian economies) as well as cases of low-growth episodes combined with high foreign savings rates (low-income countries in Africa and Latin America that receive sizeable levels of foreign aid) (see Prasad, Rajan and Subramanian, 2006; Schmidt-Hebbel and Servén, 1999; Solimano and Gutiérrez, 2006; and Gutierrez, 2007). The results for all the growth transitions (positive and negative growth spells) show that foreign saving lags behind growth in about 33% of growth accelerations and 57% of growth decelerations (see table A.5).

The results also show that foreign saving and growth display more diverse relationships during growth transitions than national saving and growth do. Episodes in which growth accelerations (decelerations) are coupled with foreign savings rate accelerations and decelerations have been observed for the Latin American and Caribbean region and for individual countries, but the presence

of several cases in which the results vary considerably points to a more unstable relationship between growth and foreign saving. These cases include the following: (i) stable foreign savings rates over lengthy periods of time coexisting with growth accelerations and decelerations (Latin America in 1967-1977); (ii) rising foreign savings rates combined with growth decelerations (Latin America in 1995-1998, Argentina in 1980-1982 and 1995-1997, the Bolivarian Republic of Venezuela in 1976-1978, Brazil in 1978-1980 and 1996-1999, Chile in 1980-1982, Costa Rica in 2000-2003, and Peru in 1981-1983 and 1986-1988); and (iii) decelerations in foreign savings rates in conjunction with growth accelerations (Latin America in 2002-2005, Argentina in 2002-2004, the Bolivarian Republic of Venezuela in 1972-1974 and 2002-2004, Brazil in 2003-2005, Chile in 1983-1990 and 2001-2005, Colombia in 1984-1998 and 2000-2005, Costa Rica in 1983-1986 and 1990-1992, Mexico in 1995-1997 and Peru in 2001-2005).

The HP-filtered Granger results for Latin America and the individual countries show the presence of mutual causality between foreign savings and growth, suggesting a reinforcing relation between the highly observed volatility of capital flows and the high volatility of growth in the region (see also Prasad, Rajan and Subramanian, 2006; and Sahay and Goyal, 2006). For Argentina, Peru and Mexico, causality runs in both sense. For Brazil, growth Granger-causes foreign saving. For Costa Rica, foreign saving Granger-causes growth. For Colombia and the Bolivarian Republic of Venezuela, the results show no causality in either direction.

(h) Investment and national saving

The literature offers evidence of a relationship not only between investment and growth but also between investment and national saving (Bordo and Flandreau, 2003; Feldstein and Horioka, 1980; and Taylor, 1996 and 1999). The corresponding empirical studies have uncovered a high and significant correlation between investment and national saving both in time series and in cross-country data, which contradicts the predictions of perfect capital mobility theory and provides grounds for the claim that “home biases” are to be found in the saving-investment process.

The evidence on growth transitions compiled for this chapter shows that, in several instances, investment accelerations (decelerations) have been accompanied at some point by accelerations (decelerations) in national savings rates, thus corroborating the general evidence of a high correlation between these two variables. Accelerations in investment have also been financed with rising foreign saving (and shrinking national saving), however, as the

substitution of foreign saving for national saving can give rise to a mix involving a larger component of foreign saving and a smaller one of national saving that makes a higher rate of investment growth possible. The overall results show that national saving leads investment in about 44% of all investment accelerations and in approximately 26% of investment decelerations.

Several cases involving varying types of relationships were also identified, however, such as: (i) stable national savings rates combined with accelerations in investment rates (Latin America in 1989-1997, Chile in 1993-1995); (ii) stable national savings rates coupled with falling investment rates (Mexico in 1981-1984, Peru in 2000-2002); (iii) higher national savings rates in conjunction with falling investment (Latin America in 2001-2003, Argentina in 2000-2002, Brazil in 2000-2005, Colombia in 1972-1976 and 1984-1990); (iv) falling national savings rates and rising investment rates (Argentina in 1991-1996, the Bolivarian Republic of Venezuela in 1985-1987, Brazil in 1993-1996, Chile in 1977-1979, Colombia in 1978-1982 and 1992-1995, Costa Rica in 1977-1979, Mexico in 1987-1991); and (v) accelerations in national savings rates in combination with stable investment rates (Bolivarian Republic of Venezuela in 2000-2004, Costa Rica in 1982-1987, Mexico in 2003-2005, Peru in 2003-2005).

The HP-filtered Granger results show no causality between investment and national saving for the Latin American and Caribbean region as a whole or for Argentina. Causality in both directions was found for Brazil, Chile, Costa Rica, Mexico and Peru. In the case of Colombia, causality runs from investment to national saving. This behaviour is, in part, explained by the empirical evidence of partial substitution between national and foreign saving, since investment accelerations may at some point be financed by foreign saving as a substitute for national saving, even though a closer correlation between national saving and investment will eventually emerge.

(i) Investment and foreign saving

Although foreign saving, in combination with national saving, does help to finance investment, the literature points to the existence of a partial offset between the two types of saving owing to the co-movements of these two variables (partial Ricardian equivalence). In other words, foreign saving tends to substitute (partially) for national saving (see Schmidt-Hebbel and Servén, 1999; Solimano and Gutiérrez, 2006; and Gutiérrez, 2007a). It is therefore to be expected that increases in foreign saving will make a partial contribution to the financing of investment. The literature does not, however, suggest what basis there might be for causality between foreign saving and investment. Accelerations in investment have

been financed with rising foreign saving and shrinking national saving during periods of booming capital inflows. The overall results also show that foreign saving leads national saving in about 28% of investment accelerations and around 33% of investment decelerations.

A wide variety of different types of cases were observed: (i) stable foreign savings rates coupled with accelerating investment rates (Latin America in 1987-1997); (ii) falling foreign savings rates combined with rising investment rates (Latin America in 1985-1988, Bolivarian Republic of Venezuela in 1970-1974 and 1994-1996, Brazil in 1985-1989, Chile in 1984-1990, Colombia in 2002-2005, Mexico in 1995-1997 and Peru in 1977-1979); (iii) rising foreign savings rates accompanied by falling investment rates (Argentina in 1978-1982, Brazil in 1978-1980, Chile in 1980-1982 and Peru in 1982-1988); and (iv) falling foreign saving in conjunction with stable investment rates (Costa Rica in 1982-1987 and Mexico in 2003-2005).

The HP-filtered Granger results show a diverse array of results which do not support a finding of any clear causality between these two variables. In fact, the results show no causality for the Latin America and Caribbean region as a whole or for Chile. For Argentina, Colombia and Costa Rica, foreign saving has Granger-caused investment. For Brazil and Peru, investment has Granger-caused foreign saving. For Mexico and the Bolivarian Republic of Venezuela, causality ran in both directions.

(j) National and foreign saving

The body of empirical evidence corroborates the existence of a partial Ricardian offset between national and foreign saving (between 50% and 70) (Gutiérrez, 2007; and Schmidt-Hebbel and Servén, 1999). Thus, a growing current-account deficit would be financed by capital inflows (an increase in foreign saving), which help to finance investment but, at the same time, drive down national saving, thereby stimulating consumption.

Capital inflows could also be driven by a reduction of national saving and/or a rise in investment. The overall results show that foreign saving leads national saving in about 42% of national saving accelerations and 41% of its decelerations (see table A.5).

There have been several cases in which national savings rates have risen or while foreign savings rates for the region as a whole have been stable or falling too. The individual countries in the sample, however, display a more general pattern of substitution between these two types of saving. Moreover, there are only a few cases in which both national and foreign savings rates have risen simultaneously (Bolivarian Republic of Venezuela in 1997-1998, Chile in 1975-1976, Costa Rica in 2000-2004 and Peru in 1980-1981 and 1992-1995). This evidence suggests that substitutability between national and foreign saving is greater in the presence of net capital inflows than net capital outflows. It seems easier to maintain or reduce national saving in periods when external foreign credit constraints are more relaxed than to increase national saving in periods of tighter external financing conditions (a reduction of foreign saving associated with lower growth would, at the same time, depress national saving). This also implies that foreign capital has a more damaging effect on investment and growth when it flows out than the positive effects it has on investment and growth when it flows in. Thus, the crowding out of national saving by foreign saving seems to be biased on the positive side (when foreign saving is rising).

The HP-filtered Granger results for the entire region and for the Bolivarian Republic of Venezuela show no causality between national and foreign saving. For Argentina, Brazil, Colombia and Costa Rica, causality ran in both directions. For Chile, Mexico and Peru, national saving Granger-caused foreign saving. These results indicate that, although there is a general pattern of substitution between national and foreign saving, there is no a general pattern of causality or precedence between the two series, suggesting that these two variables tend to move simultaneously in opposite directions.

E. Final remarks and policy issues

The growth story of Latin America has been one of frequent growth transitions rather than steady growth around a long-run trend. For the purposes of this analysis, a statistical framework for identifying growth transitions was developed, and probabilities of leads and lags related to

co-movements among per capita GDP growth, investment, and national and foreign savings rates were derived. Granger causality tests were also applied with a view to arriving at general observations about co-movements among the pairwise combinations of the series of GDP per capita

growth, investment rates, national savings rates and foreign savings rates. The period 1960-2005 was surveyed for a sample of eight Latin American countries and the Latin American and Caribbean region in the aggregate.

The research conducted for this study helps to shape a statistical framework for the examination of growth transitions and to demonstrate that several growth episodes in Latin America have not been well captured by standard theories or econometric work based on various types of situations. Common growth spells (accelerations, deceleration, and stable periods) have also been identified, and growth transitions in Latin American countries and in the Latin American and Caribbean region as a whole have been compared with transitions in the United States and in East Asia and the Pacific.

Key observations are made about growth transitions and about the relationships among investment, national saving, foreign saving and growth. More specifically, evidence is provided that demonstrates the following points:

- (i) Although growth needs to be sustained by higher investment rates, an initial impulse from investment is not required in order for growth to accelerate. It is not always the case that investment leads growth, since growth may also accelerate as a result of improved consumer confidence, productivity-driven economic reforms or idle capital stock. Growth leads investment in about 55% of the acceleration transitions and in roughly 43% of decelerations. Growth accelerations may also be preceded by falling or stable investment rates, as occurred in Argentina in 2002-2005 and Chile in 1983-1992.
- (ii) Not all investment accelerations are accompanied or followed by growth accelerations. Growth may decelerate while the investment rate is rising (e.g., Colombia in 1991-1999 and Peru in 1973-1981). Investment in construction or public investment has proved to be less effective in the Latin American and Caribbean region (see Gutiérrez, 2005; Solimano and Gutiérrez, 2006).
- (iii) Although the evidence has shown that high growth needs to be sustained by high national savings rates, it is not always the case that growth accelerations are accompanied by rising national savings rates; the latter may also decline. Growth does not necessarily generate higher national saving either (e.g., Brazil in 1991-1995 and Mexico in 1986-1991). Growth accelerations may be oriented towards consumption, and when this occurs it is reflected in a mounting current-account deficit financed by foreign capital inflows (foreign saving). When foreign saving is a substitute for national saving, then growth may occur in the presence of falling national savings rates.
- (iv) The high correlation between national saving and investment does not mean that national saving must necessarily rise in order to finance investment. Accelerations in investment have also been financed by rising foreign saving (while national saving has shrunk, as occurred in Argentina in 1991-1996 and in Chile in 1977-1979). As noted earlier, the substitution of foreign saving for national saving can make it possible to achieve higher investment growth based on a combination of higher foreign saving and lower national saving.
- (v) Foreign saving does not, in most cases, add to total saving (equal to investment), and the crowding out of national saving by foreign saving seems to be positively biased (being stronger when foreign saving is rising). The instances in which investment and foreign saving precede each other is approximately the same: between 20% and 30% of accelerations and decelerations.
- (vi) Episodes in which rising foreign savings rates have been combined with falling investment have been identified (e.g., Argentina in 1978-1982 and Chile in 1980-1982), as well as episodes of rising foreign saving with declining growth (e.g., Bolivarian Republic of Venezuela in 1976-1978, Brazil in 1996-1999 and Peru in 1981-1983). Consumption-oriented accelerations of foreign saving reflect a strong substitution of foreign saving for national saving and a net reduction in national saving (and a rise in consumption). These situations constitute cases in which national saving has been more than fully crowded-out by foreign saving. Episodes of rising foreign saving (and falling national saving) and declining growth are worse in the sense that they signal profound imbalances which, in many cases, are caused by growing fiscal deficits.
- (vii) Common transitions for the Latin American and Caribbean region as a whole are more likely to be observed for GDP growth and investment (more than 50% of the accelerations and more than 40% of the decelerations). Country-specific transitions are found more frequently in the case of national saving. Foreign saving co-movements are to be observed in about 50% of the cases in the Latin American and Caribbean region. The probability of common growth and foreign saving transitions was found to increase after the 1990s, which is interpreted as an indication of increased growth volatility during this new wave of globalization.

The results of this analysis show no common pattern of co-occurrence or precedence in relation to growth, investment, national saving and foreign saving, which suggests that co-movements among these variables depend on the particular circumstances existing in each country. The interaction between common and country-specific factors gives rise to variations in co-movements and causality relationships across time and countries. The application of general theoretical considerations or econometric results may therefore give rise to misleading interpretations of growth processes and oversimplification in the design of growth policies in the region.

The diversity of the causality results across countries for growth, investment, and national and foreign saving suggests that growth is the result of forces whose dynamic and motion are continuously changing through time and that are strongly influenced by the economic and social framework in which they interact. Key forces in the growth process include investment, national saving and foreign saving, but different growth sources (such as improvements in human capital, discoveries, better economic policies, pro-growth reforms or positive political and social events) are required to improve investor and consumer sentiment and set those forces into motion in a way that will give rise to a virtuous circle with growth (Solimano and Gutiérrez, 2006).

Appendix

Table A.1
GROWTH TRANSITIONS (SUMMARY), 1960-2005

World regions	United States: per capita GDP growth rate		OECD countries: per capita GDP growth rate		East Asia and the Pacific: per capita GDP growth rate		Latin America and the Caribbean: per capita GDP growth rate	
Accelerations	1961-1965	(2.96)	1961-1966	(4.22)	1961-1965	(-0.25)	1964-1971	(2.97)
	1971-1972	(2.08)	1976-1977	(2.39)	1968-1970	(4.73)	1984-1986	(-0.37)
	1975-1977	(2.23)	1982-1987	(2.54)	1975-1978	(4.63)	1990-1994	(1.31)
	1982-1985	(2.42)	1994-1998	(1.97)	1982-1983	(5.89)	2002-2005	(1.09)
	1992-1997	(1.95)	2003-2005	(1.72)	1990-1994	(7.77)		
Decelerations	2003-2005	(2.07)			2000-2005	(6.95)		
	1966-1970	(2.54)	1967-1975	(3.41)	1966-1967	(4.28)	1972-1983	(1.77)
	1973-1974	(2.00)	1978-1981	(1.91)	1971-1974	(4.44)	1995-2001	(1.00)
	1978-1981	(1.62)	1988-1993	(2.09)	1995-1999	(6.27)		
	1986-1991	(2.04)	1999-2002	(1.77)				
Stability	1998-2002	(2.03)						
					1979-1981	(5.52)	1961-1963	(1.83)
				1984-1989	(6.33)	1987-1989	(0.05)	
Latin America and the Caribbean	Per capita GDP growth (annual %)		Gross capital formation (% of GDP)		National saving (% of GDP)		Foreign saving (% of GDP)	
Accelerations	1964-1971	(2.97)	1964-1977	(21.83)	1967-1976	(19.78)	1978-1980	(3.24)
	1984-1986	(-0.37)	1986-1997	(20.61)	1985-1988	(19.08)	1989-1998	(2.34)
	1990-1994	(1.31)	2004-2005	(20.03)	2001-2005	(20.01)		
	2002-2005	(1.09)						
Decelerations	1972-1983	(1.77)	1960-1963	(20.10)	1977-1984	(19.82)	1981-1988	(1.64)
	1995-2001	(1.00)	1978-1985	(22.00)			1999-2005	(0.79)
			1998-2003	(20.57)				
Stability	1961-1963	(1.83)			1989-2000	(18.50)	1967-1977	(2.34)
	1987-1989	(0.05)						
Argentina								
Accelerations	1961-1969	(2.22)	1967-1977	(24.36)	2000-2004	(18.07)	1976-1982	(1.11)
	1989-1993	(2.45)	1991-1996	(17.77)			1991-1997	(2.72)
	2002-2005	(1.13)	2003-2004	(16.05)				
Decelerations	1970-1976	(1.50)	1960-1962	(23.65)	1976-1999	(18.37)	1983-1990	(1.97)
	1980-1983	(-1.51)	1978-1990	(20.74)			1998-2004	(-0.69)
	1994-2001	(0.66)	1997-2002	(16.83)				
Stability	1977-1979	(0.30)	1963-1965	(21.31)				
	1984-1988	(-1.68)						
Brazil								
Accelerations	1965-1972	(5.59)	1967-1975	(21.98)	1984-1989	(19.66)	1978-1980	(4.43)
	1983-1986	(1.08)	1985-1989	(20.59)	2000-2005	(19.44)	1992-1999	(2.28)
	1991-1995	(0.82)	1993-1996	(21.21)				
	2003-2005	(0.97)						
Decelerations	1961-1964	(0.97)	1960-1966	(19.58)	1975-1983	(18.13)	1975-1977	(4.49)
	1973-1982	(3.27)	1976-1984	(21.39)	1990-1999	(19.37)	1981-1989	(1.66)
	1987-1990	(0.06)	1990-1992	(21.05)			2000-2005	(0.95)
	1996-1999	(0.99)	1997-2005	(20.64)				
Stability	2000-2002	(0.57)					1990-1991	(-0.28)
Chile								
Accelerations	1975-1979	(1.65)	1963-1967	(18.09)	1975-1976	(13.79)	1975-1982	(6.43)
	1983-1992	(4.26)	1973-1979	(18.23)	1984-1992	(16.99)	1991-1996	(3.00)
	2001-2005	(2.72)	1984-1995	(22.42)	2002-2005	(22.01)		
			2004-2005	(21.99)				
Decelerations	1968-1974	(-0.15)	1968-1972	(17.49)	1977-1983	(10.08)	1983-1990	(5.35)
	1980-1982	(0.91)	1980-1983	(16.72)	1997-2001	(21.52)	1997-2005	(1.28)
	1993-2000	(4.15)	1996-2003	(23.69)				
Stability	1961-1967	(2.10)	1960-1962	(17.22)	1993-1996	(22.73)		

Table A.1 (concluded)

	Per capita GDP growth (annual %)		Gross capital formation (% of GDP)		National saving (% of GDP)		Foreign saving (% of GDP)	
Colombia								
Accelerations	1966-1971	(3.04)	1965-1969	(19.40)	1972-1977	(17.64)	1968-1970	(3.47)
	1984-1988	(1.83)	1977-1982	(19.05)	1984-1991	(18.10)	1978-1983	(2.74)
	2000-2005	(0.92)	1991-1995	(20.95)	2001-2005	(16.80)	1991-1996	(1.96)
			2002-2005	(16.92)				
Decelerations	1972-1975	(3.30)	1960-1964	(19.14)	1968-1971	(16.76)	1971-1977	(1.25)
	1979-1983	(1.08)	1970-1976	(18.94)	1978-1983	(16.53)	1984-1990	(1.03)
	1995-1999	(0.11)	1983-1990	(18.96)	1992-2000	(17.12)	1997-2005	(1.53)
			1996-2001	(17.89)				
Stability	1961-1965	(1.56)						
	1976-1978	(2.68)						
	1989-1994	(2.22)						
Costa Rica								
Accelerations	1961-1971	(3.31)	1965-1981	(22.59)	1980-1987	(17.56)	1977-1980	(11.34)
	1983-1992	(1.34)	1998-2005	(18.87)	2000-2004	(15.67)	1987-1989	(4.70)
							1997-2004	(4.36)
Decelerations	1972-1982	(1.45)	1988-1997	(21.07)	1977-1979	(13.83)	1981-1986	(7.79)
	1993-1996	(2.50)			1988-1999	(16.53)	1990-1996	(3.98)
	2000-2003	(1.77)						
Stability	1997-1999	(2.49)	1960-1964	(18.31)				
	2004-2005	(2.12)	1982-1987	(25.40)				
Mexico								
Accelerations	1961-1964	(4.11)	1960-1980	(21.02)	1994-1998	(19.82)	1986-1992	(2.12)
	1971-1972	(2.78)	1987-1991	(21.80)	2003-2005	(20.18)		
	1976-1979	(3.99)	1995-1998	(23.23)				
	1986-1991	(0.20)						
	1995-1998	(1.65)						
Decelerations	1965-1970	(3.26)	1981-1986	(22.05)	1985-1993	(19.51)	1979-1985	(1.91)
	1980-1985	(0.47)	1999-2002	(22.50)	1999-2002	(20.02)	1993-1997	(3.67)
	1992-1994	(0.83)					2001-2005	(1.63)
	1999-2003	(1.75)						
Stability	1973-1975	(2.99)	1992-1994	(22.36)	1979-1984	(21.66)	1998-2000	(2.69)
	2004-2005	(1.37)	2003-2005	(21.38)				
Peru								
Accelerations	1969-1973	(1.53)	1973-1981	(23.29)	1977-1981	(21.97)	1980-1988	(4.56)
	1984-1985	(-0.93)	1992-1997	(21.55)	1992-1999	(15.83)	1992-1995	(6.41)
	1990-1995	(0.31)			2003-2005	(18.45)		
	2001-2005	(2.12)						
Decelerations	1961-1968	(2.53)	1960-1972	(31.25)	1982-1991	(17.52)	1977-1979	(2.22)
	1974-1977	(0.83)	1982-1991	(22.98)			1989-1991	(6.41)
	1981-1983	(-1.46)	1998-2005	(19.92)			1996-2005	(2.85)
	1986-1989	(-3.06)						
	1996-2000	(1.66)						
Stability	1978-1980	(-0.14)			2000-2002	(17.48)		
Venezuela (Bolivarian Rep. of)								
Accelerations	1972-1975	(0.54)	1960-1977	(28.33)	1970-1975	(35.81)	1975-1978	(-0.83)
	1983-1991	(-0.60)	1985-1987	(20.08)	1989-1990	(20.35)	1984-1987	(-1.36)
	2002-2005	(0.04)	1991-1999	(20.95)	1993-2004	(27.50)	1991-1993	(-1.98)
						1997-1998	(-3.30)	
Decelerations	1964-1971	(0.83)	1978-1984	(27.08)	1976-1988	(27.24)	1970-1974	(-3.14)
	1976-1982	(-2.20)	1988-1990	(18.55)	1991-1992	(19.78)	1979-1983	(-1.29)
	1992-2001	(-0.90)	2000-2004	(22.38)			1988-1990	(-1.75)
							1994-1996	(-3.20)
						1999-2004	(-7.82)	
Stability	1961-1963	(2.34)						

Figure A.1
**LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP GROWTH, GROSS CAPITAL FORMATION
 AND NATIONAL AND FOREIGN SAVING**

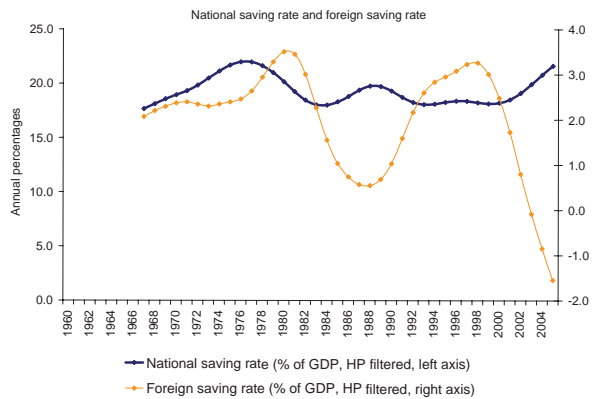
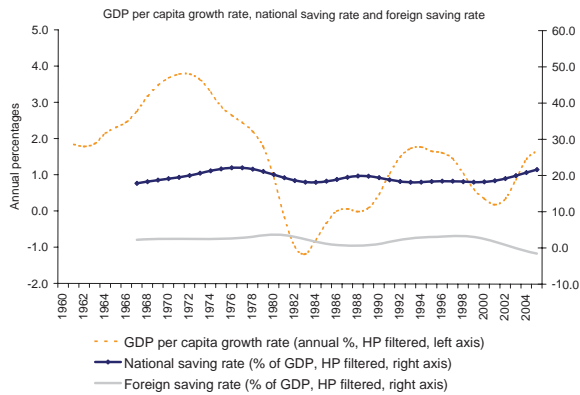
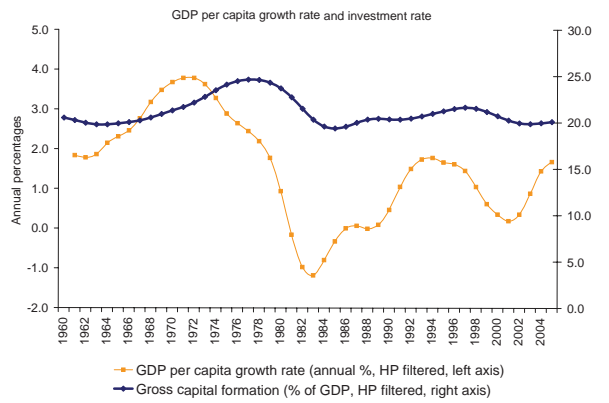
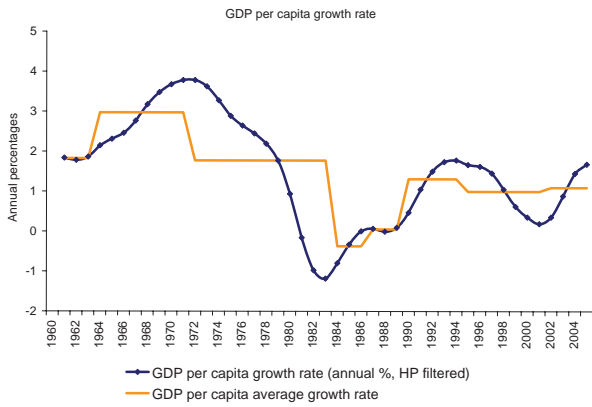


Table A.2
LATIN AMERICA AND THE CARIBBEAN: ACCELERATIONS AND DECELERATIONS SUMMARY

Year	Per capita GDP growth (annual %)	Gross capital formation (% of GDP)	National saving (% of GDP)	Foreign saving (% of GDP)
1960		D		
1961	S	D		
1962	S	D		
1963	S	D		
1964	A	A		
1965	A	A		
1966	A	A		
1967	A	A	A	S
1968	A	A	A	S
1969	A	A	A	S
1970	A	A	A	S
1971	A	A	A	S
1972	D	A	A	S
1973	D	A	A	S
1974	D	A	A	S
1975	D	A	A	S
1976	D	A	A	S
1977	D	A	D	S
1978	D	D	D	A
1979	D	D	D	A
1980	D	D	D	A
1981	D	D	D	D
1982	D	D	D	D
1983	D	D	D	D
1984	A	D	D	D
1985	A	D	A	D
1986	A	A	A	D
1987	S	A	A	D
1988	S	A	A	D
1989	S	A	S	A
1990	A	A	S	A
1991	A	A	S	A
1992	A	A	S	A
1993	A	A	S	A
1994	A	A	S	A
1995	D	A	S	A
1996	D	A	S	A
1997	D	A	S	A
1998	D	D	S	A
1999	D	D	S	D
2000	D	D	S	D
2001	D	D	A	D
2002	A	D	A	D
2003	A	D	A	D
2004	A	A	A	D
2005	A	A	A	D

Note: The HP filter was applied to all series; A = Acceleration; D = Deceleration; S = Stability.

Figure A.2
UNITED STATES, OECD, EAST ASIA AND PACIFIC: GDP PER CAPITA GROWTH RATE, AVERAGE GROWTH RATE PER SPELL, AND COMOVEMENTS WITH LATIN AMERICA AND CARIBBEAN GDP PER CAPITA GROWTH RATE

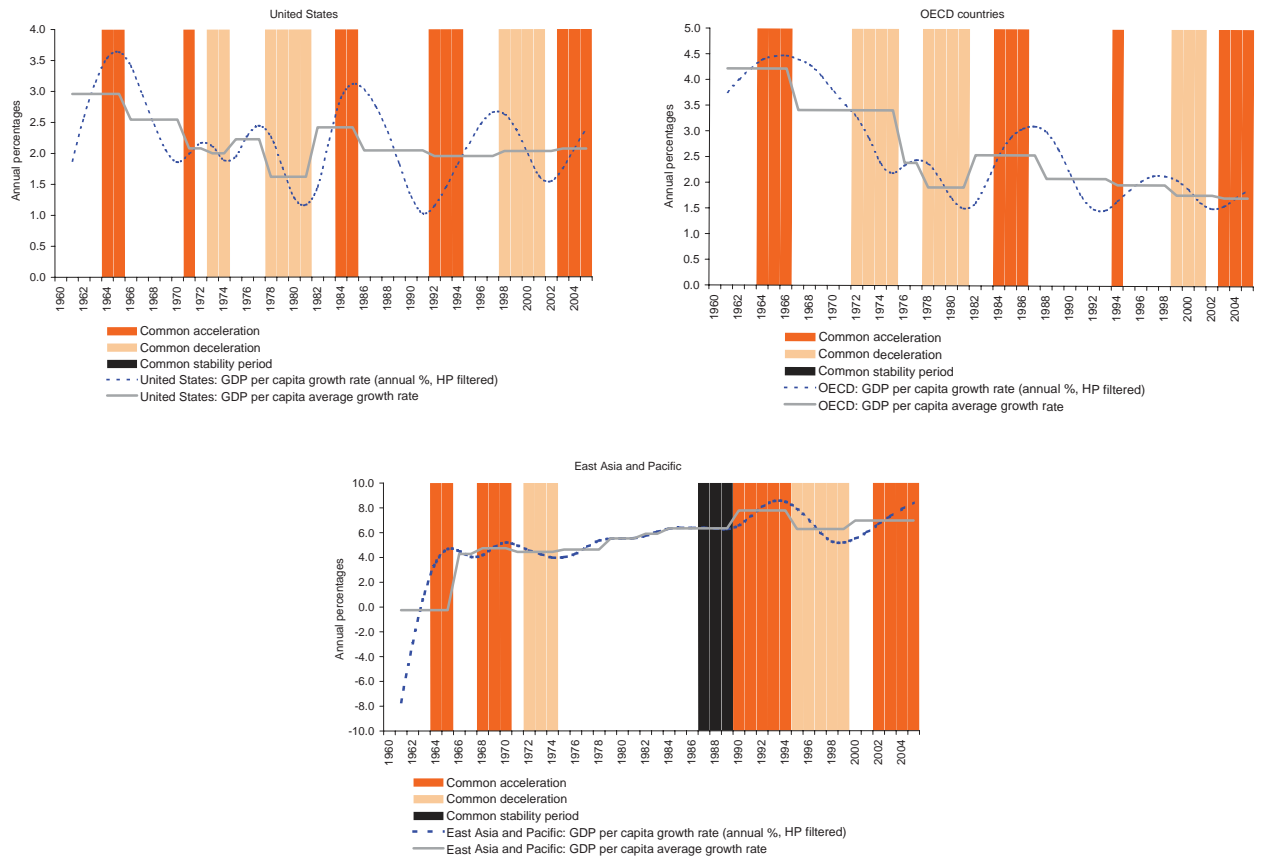


Table A.3
REGIONAL BEHAVIOUR: ACCELERATIONS AND DECELERATIONS SUMMARY

Year	United States: per capita GDP growth (annual %)	OECD: per capita GDP growth (annual %)	East Asia and the Pacific: per capita GDP growth (annual %)	Latin America and the Caribbean: per capita GDP growth (annual %)
1960				
1961	A	A	A	S
1962	A	A	A	S
1963	A	A	A	S
1964	A	A	A	A
1965	A	A	A	A
1966	D	A	D	A
1967	D	D	D	A
1968	D	D	A	A
1969	D	D	A	A
1970	D	D	A	A
1971	A	D	D	A
1972	A	D	D	D
1973	D	D	D	D
1974	D	D	D	D
1975	A	D	A	D
1976	A	A	A	D
1977	A	A	A	D
1978	D	D	A	D
1979	D	D	S	D
1980	D	D	S	D
1981	D	D	S	D
1982	A	A	A	D
1983	A	A	A	D
1984	A	A	S	A
1985	A	A	S	A
1986	D	A	S	A
1987	D	A	S	S
1988	D	D	S	S
1989	D	D	S	S
1990	D	D	A	A
1991	D	D	A	A
1992	A	D	A	A
1993	A	D	A	A
1994	A	A	A	A
1995	A	A	D	D
1996	A	A	D	D
1997	A	A	D	D
1998	D	A	D	D
1999	D	D	D	D
2000	D	D	A	D
2001	D	D	A	D
2002	D	D	A	A
2003	A	A	A	A
2004	A	A	A	A
2005	A	A	A	A

Note: The HP filter was applied to all series; A = Acceleration; D = Deceleration; S = Stability.

Table A.4
LATIN AMERICA AND THE CARIBBEAN: GRANGER CAUSALITY TESTS

Year	Series definitions				
Pairwise Granger causality tests Sample: 1960 2005 Lags: 3	GDP: Per capita GDP growth (annual %, HP-filtered)				
	INV: Gross capital formation (% of GDP, HP-filtered)				
	FS : Foreign saving (% of GDP, HP-filtered)				
	NS : National saving (% of GDP, HP-filtered)				
Null hypothesis	Obs	F-statistic	Probability		Conclusion
INV does not Granger-cause GDP	42	11.0421	3.00E-05	*	At 1% significance level, INV Granger-causes GDP
GDP does not Granger-cause INV		12.784	8.50E-06	*	At 1% significance level, GDP Granger-causes INV
NS does not Granger-cause GDP	36	2.77042	0.0594	***	At 10% significance level, NS Granger-causes GDP
GDP does not Granger-cause NS		2.7165	0.06288	***	At 10% significance level, GDP Granger-causes NS
FS does not Granger-cause GDP	36	6.32135	0.00197	*	At 1% significance level, FS Granger-causes GDP
GDP does not Granger-cause FS		4.48089	0.01056	**	At 5% significance level, GDP Granger-causes FS
NS does not Granger-cause INV	36	0.49009	0.69188		NS does not Granger-cause INV
INV does not Granger-cause NS		0.68415	0.56897		INV does not Granger-cause NS
FS does not Granger-cause INV	36	0.7571	0.5273		FS does not Granger-cause INV
INV does not Granger-cause FS		0.60115	0.61947		INV does not Granger-cause FS
FS does not Granger-cause NS	36	0.92564	0.4408		FS does not Granger-cause NS
NS does not Granger-cause FS		0.59704	0.62206		NS does not Granger-cause FS

Note: Significance level: (*) 1%, (**) 5%, (***) 10%.

Table A.5
LATIN AMERICA: PROBABILITY OF LEADS AND LAGS AMONG GROWTH, INVESTMENT AND SAVING

	Probability of leads and lags on growth										
	Total growth transitions	Investment rate			National savings rate			Foreign savings rate			
		Lead	Contemporaneous	Lag	Lead	Contemporaneous	Lag	Lead	Contemporaneous	Lag	
All countries											
Accelerations	27	14.8%	3.7%	55.6%	29.6%	7.4%	25.9%	14.8%	7.4%	33.3%	
Decelerations	28	21.4%	10.7%	42.9%	17.9%	14.3%	17.9%	10.7%	7.1%	57.1%	
Stationary	13	0.0%	7.7%	7.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
	Probability of leads and lags on investment						Probability of leads and lags on national saving				
	Total investment transition	National saving rate			Foreign savings rate			Total national saving	Foreign saving rate		
		Lead	Contemporaneous	Lag	Lead	Contemporaneous	Lag		Lead	Contemporaneous	Lag
All countries											
Accelerations	25	44.0%	12.0%	8.0%	20.0%	16.0%	28.0%	19	42.1%	10.5%	21.1%
Decelerations	27	25.9%	14.8%	11.1%	33.3%	3.7%	18.5%	17	41.2%	5.9%	29.4%
Stationary	8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2	0.0%	0.0%	0.0%

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Chapter IV

Reflections of economic growth in Latin America and the Caribbean

A. Introduction

In recent years, ECLAC has published several studies and organized two seminars on economic growth in Latin America and the Caribbean. In the first seminar, held in 2003, Solimano and Soto (2006) presented stylized facts revealing that the economic growth of Latin American countries has been very uneven and volatile. Since 1980, growth has slowed and there have been significant differences in the relative performance of the region's countries.¹ Also presented at the seminar was a series of regional studies analysing the economic growth of each country. In other studies commissioned by ECLAC, Gutiérrez (2005) provided data on the impact of investment and other variables on growth, and went on to analyse the determining factors of the level of savings and how this ties in with economic growth (Gutiérrez, 2007b).²

The second seminar was held in 2007.³ This chapter aims to outline some of the main features of the studies presented at that seminar that are in the process of being published. The main theme of the seminar was the poor performance of Latin American and Caribbean countries in terms of growth. Restuccia (2007) analyses the different distortions present within Latin American economies. Rodríguez (2007) uses

the concept of poverty traps to explain low growth in the region, while Gutiérrez (2007a) analyses the characteristics of countries' highly volatile economic growth. The seminar was also presented with five case studies examining various aspects of growth in the region's three main economies: Argentina, Brazil and Mexico; a study on Central America; and another on Caribbean countries.

¹ Solimano (2006) includes a selection of the studies analysed at the seminar "Latin American Growth: Why so Slow?" held on 4 and 5 December 2003 at the ECLAC headquarters in Santiago, Chile.

² See chapters II and III.

³ The regional seminar "Economic Growth in Latin America" was held on 14 and 15 June 2007 at the ECLAC headquarters [online] <http://www.eclac.cl/de/>.

B. Economic growth in Latin America

Latin America's economic growth over the last 50 years compared to that of other regions is an issue of major interest for those who study the economics of development. According to the figures available, in 1960 the per worker GDP in an average Latin American country was one third that of the United States, half that of the average western European country and 2.4 times that of the average Asian country. In 2000, these figures had dropped to 0.25, 0.3 and 0.7, respectively. The countries with the slowest relative growth were Argentina, the Bolivarian Republic of Venezuela, Bolivia and Peru (Duarte and Restuccia, 2006).

Studies by Restuccia (2007) and Rodríguez (2007) have attempted to empirically determine the causes of the relative stagnation of Latin America. According to Restuccia (2007), the reason for the gap in economic growth between Latin America and the United States lies in differences in terms of total factor productivity.⁴ In a paper presented at the 2004 seminar, Solimano and Soto (2006) use a sample of 12 Latin American countries to conclude that differences in the accumulation of capital and labour factors do not seem substantial enough to explain the growth differences among Latin American countries.⁵ The authors attribute these differences to patterns of total factor productivity, although they do not develop a specific theory on the subject. Restuccia (2007) formally presents the stylized fact and uses the Restuccia and Rogerson (2007) model to explain why this variable can perform differently across countries and what quantitative effects this has on economic growth.⁶

Restuccia (2007) uses a unisectoral model to claim that Latin American countries have low and stagnated productivity compared with the United States in the agriculture, manufacturing and service sectors, and that Latin America's low labour productivity is due not to specific sectoral distortions or policies, but to a widespread phenomenon throughout the economy. In countries that have closed the productivity gap with the United States,

such as Japan, Republic of Korea and Singapore, such processes have involved major relative increases in sectoral productivity (especially in agriculture and industry).

As already stated, Restuccia (2007) uses a model from Restuccia and Rogerson (2007) that attempts to explain why total factor productivity may vary from country to country. The author presents a framework for analysing the distortions from institutions and policies that then result in a faulty allocation of factors among producers with different levels of productivity.⁷ According to Restuccia, Latin America's low relative productivity is based on distortions such as barriers to entry into the formal market, competition and trade. This explanation echoes that put forward by Machinea and Kacef (2006), who partly attribute the region's low relative growth (even now that some problems are beginning to be overcome) to the need for a set of reforms. The specific reforms required depend on each country, but reforms are urgently needed throughout the region. These could include reforms of the regulations that hamper the functioning of some markets, such as difficulties in setting up businesses and enforcing contracts and the lack of clear incentives (or presence of obstacles) for private-sector participation in key sectors, as well as the limited development of capital and financial markets and the absence of a human resource training strategy.

Rodríguez (2007) explains the poor economic growth of Latin American countries using the idea of poverty traps. The idea of self-reinforcing equilibriums that cause a vicious circle of underdevelopment is common among structuralist thinkers, especially Prebisch (1949) (see also Nurkse, 1953, and Myrdal, 1957). More recently, Sachs (2005) reused this idea to state that poverty traps are essential to understanding why African countries remain poor. Rodríguez (2007) argues that this concept may help to understand the lack of economic growth in Latin America, and not only in the context of the poorest countries.

⁴ The Latin American countries considered by Restuccia (2007) were Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay. Data correspond to 1960-2005.

⁵ The 12 countries are Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Peru and Uruguay.

⁶ See appendix.

⁷ This model has also been used by Hsieh and Klenow (2006), Bartelsman, Haltiwanger and Scarpetta (2006) and Alfaro, Charlton and Kanczuk (2007) in empirical applications for the study of productivity differences among economies.

An understanding of poverty traps in Latin American countries can be enhanced by reference to the following:

- (a) The duration of growth collapses, when per capita GDP displays negative growth in relation to its peak level.
- (b) The time it takes for an economy to react to shocks (Rodríguez and Shelton, 2007).

In terms of the first point, Hausmann, Rodríguez and Wagner (2006) studied international data to demonstrate that no developed economy had reached its peak level of per capita GDP before the year 2000, although this had happened in 61 of the 116 developing countries (53%) in the sample. Of these 61 developing countries, 26 had reached their record level of per capita GDP prior to 1980. In Latin America and the Caribbean, 15 economies posted their highest-ever levels of per capita GDP before 2000. Also, the duration of the growth collapses, measured by the number of years taken to recover pre-crisis levels of per capita GDP, is 2.5 years in industrialized countries, compared with 6.9 years in Latin American countries. Furthermore, in Latin American countries the average ratio between per capita GDP prior to crises and the minimum level was five times higher than in industrialized countries, which reveals that the distribution, duration and depth of recession vary considerably among regions.

According to Hausmann, Rodríguez and Wagner (2006), the main variables that explain growth collapses are what they call “open forest”, in addition to a dummy variable to capture the effect of being an oil producer on the estimation. The “open forest” variable is a measure of

export flexibility and reflects the density of non-produced products close to those products currently produced. In other words, it refers to the potential for generating backward and forward linkages on the basis of the goods a country produces.⁸ The closeness between two products is determined by the empirical frequency of similarity between them.

Rodríguez considers this variable important as many growth collapses are related to a loss of export capacity and the appearance of specialization traps. These traps may explain why an economy goes from one equilibrium to another less desirable one where it stays at the onset of a crisis. In an economy producing two types of goods, such as manufactures involving specialized human capital and primary goods using natural resources and specialized human capital, the specialization trap may arise when an initial shock to natural resources encourages the economy to specialize in primary goods. When the shock subsides, the economy loses the human capital specialized in producing primary goods, and the potential for recovering that human capital will depend on that economy’s “open forest”, i.e. the closeness between primary goods and manufactures. This is particularly important for industrial policy.

Economic performance in the region has been extremely volatile and uneven. Gutiérrez (2007a) analyses the differences between eight countries in terms of economic growth, investment, national savings and external savings, as well as any comovements. The author shows that the characteristics of several growth episodes in the region cannot be appropriately interpreted using conventional econometric studies and theories.⁹

C. Regional studies

1. Argentina

Coremberg (2007) et al. observed that the macroeconomic experience of Argentina displays sharp cyclical fluctuations, as well as large variations in trend growth rates. Between 1950 and 2006, the Argentine economy grew at an annual rate of 2.5% (1% per capita). Total investment rates at

current prices averaged around 20% and peaked in the early 1970s, at times during the 1960s and in the more recent past, while low points were reached in periods of hyperinflation and during the crisis at the beginning of the current decade. Up until the 1990s, variations in

⁸ See Hausmann and Klinger, 2006.

⁹ See chapter 3.

aggregate saving and investment were similar, with the exception of some brief episodes. External savings swelled considerably during the 1990s, while savings rates and the current-account balance were also impressive in the last few years. Investment rates at constant prices have oscillated wildly from levels well below 20% in the 1950, 1980s and during the crisis earlier this decade, to peaks of around 25%. These patterns resulted in dramatic shifts in the capital-to-output ratio, which was particularly high during the 1970s and 1980s.

Although econometric analyses of savings and investment trends show up some simple systematic patterns, there were also many cases of effects linked to specific episodes measured using dummy variables that considerably altered the statistical significance of the explanatory variables depending on whether they were included or excluded. The rate of investment at current prices displayed an elastic variation relative to GDP growth, as well as large negative ratios to periods of hyperinflation and macroeconomic crisis. In addition to the dependence on variations in output, the estimated function for the total savings rate showed indications of distributive effects (with a negative ratio to real wages and a positive ratio to the real exchange rate). Here also, the result was affected by the inclusion of dummy variables. In terms of investment volumes, there were lagged output effects and a negative response to the capital-to-output ratio (a variable that was included for its significance of analysis, above and beyond questions of endogeneity). There were also statistically significant dummy variables: positive ones for the 1960s and 1970s and negative for the 2001-2002 crisis.

Aside from the regular features that characterized the period as a whole, investment scale, composition and incentives did perform differently in specific periods. The above-mentioned study considered some of the main projects carried out over time and identified some striking patterns.

For instance, in the period of high investment at the beginning of the 1960s, the most emblematic projects

were linked to import substitution in the following sectors: transport materials (automobile industry), chemical and petrochemical production, as well as extraction of petroleum and derivatives, all with a high level of participation by foreign enterprises. Subsequently, during the 1970s and into the early 1980s, major public projects were carried out in areas such as water supply and the generation of hydroelectricity and nuclear electricity. This period was also characterized by a series of capital-intensive industrial projects implemented by financial groups of national capital, and influenced by sectoral and geographical development programmes. Investment was channelled into sectors producing commonly used intermediate goods such as the paper, chemical, iron and steel and cement industries. These developments were in response to the considerable increase in the aggregate capital-to-output ratio. During the 1990s, investment concentrated on recently concessioned and privatized public services, with lower aggregate capital intensity. In a new wave of foreign direct investment that was used to purchase existing companies, the main sectors involved were telecommunications, thermal electricity generation, gas and petroleum extraction and mining.

The Argentine economy has experienced several surges in investment, interspersed with periods of lower accumulation. The lack of a clear investment trend has been due to changes in the incentives used as a basis for various investment decisions. Depending on the case in hand, the emphasis has been on import substitution in a protected market, the use of fiscal aid in capital-intensive projects, public investment or expected profitability in favourable regulatory frameworks governing service sectors with various unsatisfied needs. Changes in these incentives had much to do with economic policy, and also reflected shifts in opinion about the roadmap for growth and investment opportunities. The study paves the way for subsequent research on the dynamics of these incentive systems and the effects of the resulting investment pattern on aggregate growth and its sectoral and factoral characteristics.

2. Brazil

Although average GDP growth in Brazil was 7.5% between the end of World War II and 1980, since the late 1980s the average GDP growth rate has been around 2.5%. This difference has often been attributed to unfavourable external conditions.

In the last four years, however, Brazil has enjoyed positive external conditions that have produced surpluses in the current account and the overall balance, whereas average growth between 2003 and 2006 was still only 3.4%. This small increase in GDP went hand in hand with limited

productivity growth and a low investment ratio. Various explanations have been put forward for these results, five of which are discussed by Castelar and Bonelli (2007).¹⁰

The first explanation relates to the high cost of investment. On average, the investment deflator has been above the GDP deflator since the 1980s. However, the increase in the ratio between price of investment and price of output was more due to a lowering of the latter than an increase in the former. Nevertheless, the empirical evidence points to a negative relationship between the deflators' ratio and the level of income per capita.

Given that the cost of investment alone does not explain low growth, the second explanation is related to the country's low savings ratio compared with the rest of Latin America and other middle-income countries. Having said that, Brazil has had easy access to external saving for the last four years, unlike in previous periods. Indeed, the country has been exporting savings since 2003, the year in which the current account first posted a surplus. Domestic saving also climbed over the same period, although average public saving has posted negative figures since the mid-1990s.

The third explanation put forward by Castelar and Bonelli (2007) is based on the nature of the fiscal adjustment. Public consumption as a percentage of GDP went from 10% up to the mid-1980s to 20% from the mid-1990s. To cover such spending without being able to increase public debt, the tax burden climbed by 11 points to stand at 35% of GDP. In addition to creating various economic distortions, a heavy tax burden harms high-productivity firms that are competing with companies that pay less tax as they have lower levels of productivity.

The fourth explanation is insufficient public investment in infrastructure. Despite the country's high tax burden,

the State has a low level of investment. A breakdown of public investment reveals that the bulk is channelled into the oil sector. However, several infrastructure indicators (including access to electricity, drinking water and basic sanitation) show that Brazil is above average for Latin America and the Caribbean and middle-income countries. Infrastructure does therefore not seem to be a direct constraint at present, although the lack of an ongoing infrastructure maintenance and improvement strategy could be a cause for concern in the future.

Lastly, Castelar and Bonelli (2007) associate low growth in recent years with an unfavourable business environment. According to the World Bank, high borrowing costs, labour laws, corruption and crime are among the main obstacles to growth as perceived by business leaders. There is also a perception of low legal certainty that calls into question the protection afforded to property rights, which is often the determining factor in private-sector investment decisions.

Overall, recent positive macroeconomic indicators, such as a reduced and improved external debt profile, lower inflation and a fall in interest rates, suggest that the growth rate may pick up speed in the near future. Nevertheless, many of the improved indicators are due to the favourable external context, which has contributed to a hefty current-account surplus but which has not been used to improve the fiscal adjustment. This is indeed the main bottleneck in speeding up the growth rate of the economy, which continues to display a high public-debt-to-GDP ratio, a considerable tax burden, rising public spending and a low rate of investment. It is also vital to make progress in promoting the protection of property rights and improving the business climate.

3. Mexico

García-Verdú (2007) defines Mexico as a middle-ranking country in terms of demographic transition¹¹ and the accumulation of human capital. The author analyses the country's economic growth between 1950 and 2005, with emphasis on the contribution made to real productivity per worker of: (i) demographics, meaning changes in the population and its age structure; and (ii) human capital

accumulation, including increases in educational attainment and in life expectancy at birth.

The analysis by García-Verdú (2007) covers five sub-periods and the patterns of five key macroeconomic variables: (i) growth rate of real GDP per worker, (ii) volatility of real GDP, (iii) inflation, (iv) the fiscal balance, and (v) the current-account balance.

¹⁰ Machinea and Kacef (2006), for example, associate Brazil's recent growth performance with problems of macroeconomic policy and an excessive tax burden.

¹¹ This consists of successive changes from high birth and mortality rates, to high birth rates and low mortality rates, and eventually to low birth and mortality rates.

Period/variable	Real GDP growth per worker	Volatility of real GDP	Inflation	Fiscal balance	Current-account balance
1950-1970 Stabilizing development	High	Low	Low and stable, with a fixed exchange rate	Moderate deficit	Moderate deficit
1971-1982 Shared development model and Alliance for Production	High	Low	High and rising with a fixed exchange rate	High and rising deficit	Moderate but rising deficit
1983-1987 First structural adjustment programmes (Programme of Economic Reorganization (PIRE) and Programme for Reactivation and Growth (PAC))	Negative	High	Volatile and rapidly rising, with managed exchange rate	High but narrowing deficit	Moderate and volatile surplus
1988-1994 Adjustment programme Economic Solidarity Pact	Low	Moderate	High but rapidly falling, with fixed exchange rate	Moderate deficit	High and rising deficit
1995-2005 Governments of Zedillo and Fox	Moderate	Moderate and falling	Moderate and falling, with flexible exchange rate	Moderate deficit	Moderate deficit

Source: R. García-Verdú, "Demographics, human capital, and economic growth in Mexico: 1950-2005", World Bank, 2007, unpublished.

According to this classification, the most similar periods are those of 1950-1970 and 1995-2005. This might suggest that the economy functions in cycles of 50 years, except for the fact that: (i) the real GDP growth rate per worker was significantly higher in the period 1950-1970; (ii) the exchange-rate regimes were different; and (iii) the economy became more open during the process of trade liberalization. Two growth accounting exercises were conducted: one using per capita GDP (as in most studies) and another using GDP per worker.¹²

As Mexico has undergone major demographic changes in terms of a rise in population and a shift in age structure, and is halfway through demographic transition (with high birth rates and low mortality rates), the country has recorded a gradual process of population ageing. This involves a period of falling dependency ratios, that is the proportion of the population aged from 0 to 14 or 65 and above, in relation to the population aged 15 to 64. This situation promotes economic growth, as during a time there will be a large generation of people entering the labour force, while the younger generation not contributing to production

remains small. This has been called the "demographic dividend", which represents an opportunity for growth that disappears as the population aged 65 and above begins to increase. In the case of Mexico, the dependency ratio dropped in the period 1970-2000, with projections suggesting that it will continue to fall until 2020 in line with the reduction in the younger population.

According to the results of the growth accounting exercise carried out by García-Verdú (2007) (see appendix), physical capital, human capital and total factor productivity each contribute around a third of the observed growth in real GDP. This showed that the contribution of physical capital is far smaller than suggested by previous studies (see Elías, 1992). As for human capital, uneducated workers and those who have completed primary education make a negative contribution to real GDP growth, which is more than offset by the contribution of workers who have completed secondary and higher education. The results emphasize the potential impact on growth of education and social policies that affect demographic composition.

4. Central American countries

Macías, Meredith and Vladkova (2007) state that, although Central America has made major progress in terms of macroeconomic stability and in continuing with regional

and global integration, the subregion's countries have not taken advantage of trade liberalization to improve economic growth and the well-being of the population.¹³

¹² Most theories of economic growth are formulated to explain patterns in output per worker or average productivity per worker. However, authors who have written about growth have tended to analyse per capita GDP more than GDP per worker, due to the scarcity of data available on the latter. This inconsistency is especially relevant when the employed population has characteristics that differ from the total population.

¹³ Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua.

The growth of real GDP during the period 1960-1979 was the highest recorded in the subregion for 50 years, averaging 5.7% in the 1960s and 5.3% in the 1970s. Between 1980 and 1989, growth plummeted to an average of just 1.2%, due to the impact of external shocks. There was a subsequent recovery in output, with growth rates of 4.4% for the period 1990-1999 and 3.4% in 2000-2005, although levels did not rival those reached in the 1960s and 1970s. Despite the upturn observed since 1990, only two countries (Costa Rica and the Dominican Republic) have higher per capita GDP than at the end of the 1970s.

For the period 1960-2005, the growth accounting exercise carried out by Macías, Meredith and Vladkova (2007) indicated that total factor productivity did not have a significant effect on GDP. Decade on decade, however, total factor productivity was the main determining factor of changes in GDP growth, with positive contributions recorded in the periods 1961-1970 and 1991-2000, negative contributions in the periods 1981-1990 and 2001-2005, and zero contribution between 1971 and 1980.

The same authors point out that the export-to-output ratio remains relatively constant in Central America, unlike emerging economies in Asia and Central and Eastern Europe, where the ratio has climbed significantly. In an attempt to explain why Central America has not benefited more from the high level of trade openness and the favourable external context, the authors compared countries' GDP growth by carrying out multiple regressions involving variables such as inflation, education, government consumption, growth of trading partners, trade openness and investment, as well as three indices capturing the effect of institutions.

The first measure of the quality of institutions is the governance indicator of Kaufman, Kraay and Mastruzzi (2003), which itself is made up of two indicators. The first considers government effectiveness, control of corruption, political instability and violence, accountability and rule of law. The second refers to aspects of business transactions such as regulatory quality and rule of law. The third indicator uses the International Country Risk Guide (ICRG) to measure political risk.

The results of the regressions carried out by Macías, Meredith and Vladkova (2007) demonstrate that all institution-related ratios are significant. The signs of the ratios of other variables are as projected, despite the fact that the growth of trading partners, degree of trade openness and inflation are not statistically significant. The results are interpreted as follows: institutions directly affect the trade environment and, even ignoring the effect that institutions may have on the level of investment, the ratios for institution-related variables remain highly significant. Furthermore, there is some evidence that the benefits of trade openness are linked with the quality of the institutional framework.

Macías, Meredith and Vladkova (2007) conclude by pointing out that the last 15 years have seen increased growth rates in Central American countries. However, this has not been sufficient for reducing poverty and income inequality. The fall in productivity in the period 2000-2005 casts doubt on the sustainability of the growth achieved. Lastly, according to the authors, the regulatory framework of institutions may explain why Central America has been unable to make the most of the opportunities provided by increasing trade liberalization and the favourable external context.

5. Caribbean countries

Pérez Caldentey (2007) uses a consistent stock-flow model to explain the growth pattern of countries of the Caribbean Community (CARICOM). The author shows that low GDP growth and the fiscal and current-account deficits during the 1990s may be attributable to the link between fiscal policy and external sector performance. In particular, according to the model, the external sector is the main constraint on these economies, and the functioning of fiscal policy is determined by that sector's performance.

In the 1990s, CARICOM countries tended to post very low growth rates, stagnated investment, widening deficits on the current and fiscal accounts and hikes in debt stocks. While rising fiscal expenditure had a positive

impact on domestic demand, the current-account deficit offset this effect and limited growth.

The author defines the following two indicators: (a) a fiscal indicator provided by the growth rate of fiscal expenditure relative to the income elasticity of tax receipts, and (b) an external indicator consisting of the export growth rate relative to the income elasticity of imports. On average during the period 1990-2005, most CARICOM countries posted a higher increase in the first than the second indicator, which suggests the simultaneous appearance of deficits in the fiscal and current accounts. This in turn leads to growth that is unsustainable as it goes hand in hand with a process of debt accumulation.

The performance of the fiscal indicator is mainly dependent on the increase in public spending, as receipts remained constant in most countries. Expansionary fiscal policies were accompanied by a worsening of current-account balances due to poor export performance. The external sector therefore constitutes a major constraint on effective fiscal policy, and a binding constraint on the long-term growth of these countries.

The stock-flow model is used for a situation in which the rate of change in stocks is zero (steady state) or in which stock variation is allowed (out of steady state). The steady-state model only analyses flows, whereas the “out of steady state” model analyses the interaction between flows and stocks. The latter model shows the basic reason why the external-sector deficit limits the effect of expanding aggregate demand on growth. The current-account deficits strip the economy of the assets that may be created by expanding demand. When more assets are stripped than created, this leads to low economic growth.

The analysis shows that the factors that disrupt economic growth also push up debt levels. The accumulation of debt therefore results not only from public-sector

disequilibria, but also from the interaction between different parts of the economy (including the private sector).

This analysis has major implications for economic policy. The main point is that fiscal policy management cannot be separated from external-sector performance. What is more, fiscal policy can be a determining factor in increasing growth through aggregate demand, only as and when permitted by the external sector. Counter-cyclical fiscal policies may therefore fail to give positive results if they aggravate external constraint in the face of an external shock.

What is also made clear is that an increase in external public debt cannot be considered solely from a fiscal perspective. Such increases in external public debt are not due to government expenditure rising more than its revenues, but rather to an increase in public spending in excess of that permitted by the external sector.

Lastly, it should be pointed out that, according to the analysis, asset creation is key to economic growth. In this sense, increasing saving may promote growth only if it results in a higher level of domestic assets. The level and composition of savings are therefore equally important in determining their contribution to economic growth.

Appendix

To explain trends in per capita GDP in Latin America compared with other regions, Restuccia (2007) begins by defining the stylized facts of the phenomenon and examining per capita GDP, per worker GDP and sectoral labour productivity. The point of comparison used is the United States economy, which posts high GDP per worker and stable growth rates.

A country's per capita GDP (Y/L) can be broken down into hours worked (n), the employment-to-population ratio (E/L) and per worker GDP:

$$\frac{Y}{L} = \frac{Y}{n} * \frac{E}{L} * n \quad (1)$$

It should be pointed out that, for any two countries (i and j), the GDP of i relative to that of j can be expressed as follows:

$$\frac{(Y/L)_i}{(Y/L)_j} = \frac{(Y/nE)_i}{(Y/nE)_j} * \frac{(E/L)_i}{(E/L)_j} * \frac{n_i}{n_j} \quad (2)$$

Comparing the GDP of each Latin American with that of the United States and analysing each of those factors shows that:

- Hours worked do not appear to be a determining factor in the relative differences in per capita GDP, as Latin American countries work on average 8% more than in the United States.
- The employment-to-population ratio relative to the United States is around 0.75, which may explain almost a fifth of the difference in GDP per worker.
- The variable that seems to explain the differences in per capita GDP is GDP per worker (in 80% of cases).

Given the importance of GDP per hour worked and the fact that hours worked are shown not to be determining factors in differences in per capita GDP among countries,

GDP per worker is broken down into three factors: physical-capital-to-GDP ratio (K/Y), human capital per worker (h) and total factor productivity (A). The breakdown is carried out using a Cobb-Douglas production function intensively formulated following Klenow and Rodríguez-Clare (1997).¹⁴ GDP per worker of country i relative to country j can therefore be written as:

$$\frac{(Y/E)_i}{(Y/E)_j} = \left(\frac{A_i}{A_j} \right)^{\frac{1}{1-\alpha}} * \left(\frac{K/Y}_i}{(K/Y)_j} \right)^{\frac{\alpha}{1-\alpha}} * \frac{h_i}{h_j} \quad (3)$$

In terms of the capital-to-output ratio, Restuccia (2007) finds no systematic differences among countries, and therefore discounts this factor when explaining differences in GDP per worker relative to the United States. In this sense, empirical evidence shows that the major differences in schooling between the United States and Latin American countries should probably be expressed in differences in economic growth.

In the literature on human capital, a commonly used functional form establishes a linear log relationship between this variable and income.¹⁵

$$\log(h) = c_h + \gamma \log(Y/E) \quad (4)$$

Using this functional form in the above-mentioned production function, and excluding the capital-to-output factor, the difference in per capita GDP between two countries can be written as follows:

$$\frac{(Y/E)_i}{(Y/E)_j} = \left(\frac{A_i}{A_j} \right)^{\frac{1}{(1-\alpha)(1-\gamma)}} \quad (5)$$

Differences in the accumulation of physical capital and human capital amplify differences in total factor productivity among countries. This amplification mechanism is significant because the differences in total factor productivity to explain

¹⁴ The specific form of this production function is:

$$\frac{Y}{E} = A^{\frac{1}{1-\alpha}} * \left(\frac{K}{Y} \right)^{\frac{\alpha}{1-\alpha}} * h$$

¹⁵ For a formal development of the link between human capital and income among countries, see Erosa, Koreshkova and Restuccia (2007).

differences between per capita GDP in the United States and any Latin American country are smaller.

García-Verdú (2007) uses a similar framework to Restuccia (2007) to conduct a growth accounting exercise. Taking logarithms in (1) and differentiating gives the following growth rate equation:

$$g_Y = g_{YE} + g_E - g_L \quad (6)$$

Indeed, favourable demographic conditions owing to a low dependency ratio (expressed by g_L and higher g_E) have helped real per capita GDP to grow once more, despite a lack of significant growth in GDP per worker.

García-Verdú (2007) also carries out growth accounting exercises with the following modifications: (i) concentrating on real GDP per worker rather than real GDP per capita; (ii) considering the contribution of human capital to real GDP growth by incorporating workers' level of schooling (uneducated, primary education, secondary education and higher education); and (iii) combining new time series with data on the contribution of previously identified factors (García-Verdú, 2006).

With a view to introducing heterogeneity in terms of education and the labour factor, García-Verdú (2007) modifies the Cobb-Douglas production function used by Restuccia (2007) as follows:

$$Y = AK^\alpha * HC_1^{\beta_1} * HC_2^{\beta_2} * HC_3^{\beta_3} * HC_4^{\beta_4} \quad (7)$$

Using logarithms and differentiating

$$g_Y = g_A + g_K + g_{HC1} + g_{HC2} + g_{HC3} + g_{HC4} \quad (8)$$

Where α is the share of GDP paid to capital, HC_i is the human capital stock corresponding to educational attainment level i , and β_i is the share of GDP paid to human capital¹⁶ of educational attainment level i , where the educational attainment level i can be: (i) no schooling;

(ii) completed primary; (iii) completed secondary; or (iv) completed tertiary, such that:

$$E = HC_{1,t} + HC_{2,t} + HC_{3,t} + HC_{4,t} \quad (9)$$

To analyse the significance of changes in population structure, García-Verdú (2007) uses equation (1) excluding hours worked. In that case, real GDP per capita can be expressed as the product of real GDP per worker and ratio of the employed population to the total population. The behaviour of the ratio of the employed population to the total population is far from constant over the period 1950-2005. In fact, it is very similar to the inverse of the dependency ratio. This implies that per capita GDP and GDP per worker differ throughout the period as follows: (i) GDP per worker grew faster than per capita GDP between 1950 and 1973; (ii) the former fell more sharply between 1981 and 1995; and (iii) the former grew more slowly than the latter between 1995 and 2006.

To measure the stock of physical capital, García-Verdú (2007) uses the perpetual inventory method, assuming a 5% annual depreciation rate and a steady state level of capital in 1950. According to an earlier study by García-Verdú, $\alpha = 0.4$ and $\beta_i = 0.6$. To obtain the proportion of GDP paid to human capital according to level of education, it is assumed that: (i) workers with completed secondary education earn the average wage in the economy; (ii) workers with no schooling earn 20% of the average wage in the economy; (iii) workers with completed primary education earn 50% of the average wage in the economy; and (iv) workers with completed tertiary education earn 200% of the average wage in the economy. These assumptions were then combined with the observed number of workers by each education level as a share of total employment in order to obtain their share in the total wage bill. The average shares over the period 1950-2006 were: $\beta_1=7.8\%$, $\beta_2=27.8\%$, $\beta_3=13.7\%$ y $\beta_4=10.6\%$.

¹⁶ β_i is equal to $1 - \alpha$.



South America

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Argentina

1. General trends

The Argentine economy continued to grow briskly in 2006. In fact, GDP increased by 8.5%, while aggregate economic activity expanded by 8.1% in the first quarter of 2007. This represents a marked recovery by the economy in the five-year interval since 2002, in which the absence of external constraints or public borrowing restrictions is a rare occurrence in Argentina.

The surge in consumption contributed heavily to the rise in domestic demand, while the domestic savings rate and the investment-to-GDP ratio at constant prices were the highest in the series that began in 1993. In 2006, investment in durable production equipment reached an all-time high, although it fell slightly as a share of GDP. There was also a major increase in production capacity, especially in the manufacturing sector. The capital-output ratio fell to levels similar to those in the previous decade's growth period. The continuing rapid-growth phase pointed to the consistency of spending and supply-capacity trends.

In a context of rising labour demand, the unemployment rate was below 10% in the final months of 2006, and the urban employment rate showed a year-on-year rise of nearly one percentage point that brought it to a record level. Within this growth scenario, real wages increased by an average of 8.4%. Thanks to the combined impact of trends in employment and wages, poverty and indigence rates—although still high—were reduced somewhat.

The inflation rate, which stood at 9.8%, was lower in 2006 than it had been the previous year. With the structure of relative prices still in a transitional phase, while domestic expenditure increased sharply and the prices of tradable goods climbed, a pattern of moderate rises in the various price indices gradually set in as the recovery progressed. Monthly inflation rate variations became a topic of public and government debate. This prompted the authorities to negotiate agreements to directly influence price formation and the application of taxes and subsidies, in particular to curb public-service

price adjustments and to redirect some of the exportable supply into the domestic market. In the first few months of 2007 a debate arose regarding the methodological criteria used in computing the consumer price index, whose rate of increase was slowing.

In 2006, there was a surge in the value of exports as a result of rises in both prices and volumes. The increase in imports was less elastic relative to the increase in domestic activity. There continued to be a large trade surplus (US\$ 14 billion) of similar proportions to the previous year. The current-account balance was more than US\$ 8 billion in the black (3.7% of GDP), which, added to capital movements in the non-financial private sector, generated a hefty supply of foreign exchange. The central bank took action to absorb this surplus in order to build up reserves and avert currency appreciation, while steadily stepping up bond issues to sterilize the corresponding monetary effects.

In 2006, public accounts showed a cash-based primary surplus of 3.5% of GDP. Although this surplus was a little lower than in 2005, it was, once again, quite large in historical terms and, if measured on an accrual basis and in terms of GDP, was actually higher than it had been the year before. There was a significant increase in tax receipts, in excess of the rise in nominal GDP. Primary spending, to which investments made a growing contribution, followed revenue trends until the end of 2006, when there was an upswing that continued into the first few months of 2007. In 2006, the primary surplus of the provinces declined to around 0.4% of GDP.

2. Economic policy

Macroeconomic policy management was characterized by a continuing primary surplus in the national public sector, a build-up of international reserves linked with the nominal rise in the exchange rate and measures designed to influence inflation levels. In the first few months of 2007, public accounts continued to show a substantial surplus because of the steep rise in tax receipts. By contrast, primary spending again expanded more than revenues, largely owing to social security expenditure and transfers to the provinces. The central bank continued to build up reserves in order to conduct major sterilization operations within a context of gradually rising benchmark interest rates. In January 2007 the government agreed to pay the arrears of close to US\$ 1 billion on its outstanding debt with the Spanish government.

(a) Fiscal policy

In 2006, growth in the national public sector's current resources outpaced the rise in GDP. Tax receipts rose by 25.8% and the tax burden reached a record level of 23.2% of GDP. This continued in the first few months of 2007, in addition to significant rises in all tax categories in 2006. Value-added, profit and wealth taxes continued to account for a little over half of tax receipts (55.2%), while the share of revenues brought in by social security contributions increased from 13.4% to 15.7%. Once again, taxes on foreign trade and financial transactions contributed around 13% and 8%, respectively.

The large increase in social security contributions (44.6%) stemmed from rises in the taxable wage, not only as a result of wage adjustment and the inclusion of sums not formerly considered as gainful, but also of a rise in the number of contributors. The growth in nominal consumption led to an increase in VAT receipts for the government (27.8%), while higher profit-tax receipts (19.9%) were partly attributable to a rise in the threshold of income subject to tax and in allowable personal income tax deductions. In addition, increased bank transactions led to rises in the tax on credit and debit (23.9%). The rise in the nominal exchange rate and in trade in goods pushed up taxes on foreign trade (22.5%), especially on imports (32.7%).

Spending by the non-financial public sector increased more than the growth in revenues. Primary spending rose by 26.8% in 2006, with an upswing in the last quarter of 2006

and the first few months of 2007. This trend, where primary spending swelled to 20.6% of GDP in 2006 (compared with 20.1% in the previous year), was fuelled by higher payroll costs (26.3%) and social security benefits (29.3%) arising from a greater number of benefit payouts and more numerous beneficiaries as a result of pension entitlements given to people who had not completed the contribution period. Once again, capital expenditure climbed steeply (64.5%) to around 2.5% of GDP. Fund transfers to the provinces (under revenue-sharing arrangements) and to the private sector (in the form of energy and transport subsidies and family allowances) continued to rise at the previous rate of around 20%.

In 2006, the public sector primary surplus stood at slightly above 23 billion pesos, representing a 17.8% increase over the previous year. The central government's financial balance showed a surplus of 11.6 billion pesos (23.4%), whereas the primary surplus of the provinces trended downwards owing to a strong upswing in expenditure.

The government issued securities to cover its capital payments. Much of the demand for this government paper came from pension funds, trust funds and the Government of the Bolivarian Republic of Venezuela, which received around half of the issues denominated in foreign currency. In the fourth quarter the government issued debt securities to cover its borrowing needs for 2007. In September 2006, the public debt stood at US\$ 130 billion, representing around 65% of GDP (nearly nine points less than in 2005).

(b) Monetary policy

In 2006, the monetary base expanded by 37.6% in nominal terms, partly owing to a change in regulations on the minimum cash reserve, which significantly increased other banks' deposits held at the central bank (110.5%), while the money supply grew slightly more than nominal GDP (22.1%). Bank liquidity remained high throughout the year.

Even though the country paid off its debt with the International Monetary Fund (IMF), its international reserves increased by around US\$ 4 billion, rising to over US\$ 32 billion by the end of 2006. The central bank continued to purchase foreign exchange in the first few months of 2007, and intervention in the foreign-exchange market

was once again the main factor of growth in the monetary base. Sterilization mechanisms included the debt security issues of the central bank (whose capital stock stood at 57 billion pesos in April 2007), the recovery of discount loans granted during the financial crisis, the reserve policy and public-sector transactions (albeit to a lesser degree than in 2005). The monetary authority provided for gradual increases in the interest rates charged in swap operations, leading to a cumulative rise in deposit rates of 1.25 points and in lending rates of 2.25 points over the year. In early 2007, further increases pushed up the band for seven-day swap rates to 6.5% and 8.5%, respectively.

M3 (M1 plus interest-bearing deposits of the private sector) rose by 21.2% during 2006, thus matching the pace of nominal GDP. Private-sector deposits increased by 20.2% but, while there was a strong contraction (by a little over one third) in inflation-adjusted deposits, total fixed-term deposits with pre-set nominal interest rates

rose by 46.3%. Public-sector deposits increased by 30.9%, exceeding the growth rate in total deposits.

Private-sector credit increased by 38.3%, equivalent to more than 10% of GDP. Although an increase was seen in various types of transactions, consumer loans once again rose the most. By contrast, credit to the public sector fell (-11.1%). In the final few months of 2006, nominal yields on 30-day deposits stood at around 7% (more than two points higher than in the previous year), while average rates on advances and discounts fluctuated between 13% and 17%.

Public bond-market prices continued to trend upward. The country risk premium relative to similar bonds in the United States, calculated according to the J.P. Morgan Emerging Markets Bond Index (EMBI), fell by 288 basis points in 2006, whereas the price of GDP-indexed bonds rose sharply. Share prices rose again, this time by 32.2%, over the year.

3. The main variables

(a) Economic activity

Economic activity continued to expand at a rapid pace. In the last quarter of 2006, GDP exceeded the present cycle's 1998 peak by 18%. Domestic absorption played an important part: consumption contributed 5.7 percentage points to GDP growth, while investment contributed 3.7 points. The considerable increase in consumption (7.3%) trailed behind GDP growth, however, and the domestic-savings-to-GDP ratio at constant prices therefore increased to 22.8%.

Investment soared by 18.7%. Construction and durable production equipment were up by similar amounts, and the highest rise was in imported goods (23.9%). Expenditure on durable equipment almost attained the record highs of the previous decade as a proportion of GDP at constant prices (8.3% over the year and 9% in the last quarter of 2006). Given the variation in relative prices after the convertibility regime ended, the ratio between GDP and domestic saving (28.6%), total investment (23.5%) and durable equipment (8.7%) was the highest in the series that began in 1993.

In a context of widespread expansion, the goods-producing sectors once again grew faster than services (by 8.8% and 8%, respectively), although the gap between the two sectors' growth rates narrowed. In the goods-

producing sector, construction and manufacturing turned in the highest growth (8.9%), while the agricultural and the mining and minerals sectors edged up by 1.5% and 1.9%. In the service sector, the strongest performers were financial intermediation (up by 22%) and transport and communications (13.5%).

Even though the area under crops shrank very slightly (-1.6%), grain production fell by a little over 7 million tons (-8.6%) in the 2005/2006 growing season compared with the previous season. Poor weather conditions led to a decrease in the cereal harvest that was only partially offset by higher oilseed production. Thanks to stable international prices, both the area under cultivation and output expanded in the 2006/2007 growing season. Record harvests were reported, especially in the case of maize.

Even though beef production was encouraged by comparatively high international prices, there was a decline in the number of animals slaughtered (-6%), in meat production (-3.1%) and in export volumes and values (-26.7% and -7.4% respectively). Domestic consumption climbed steadily to 63.4 kilos per capita, although this was still less than in the 1990s. In a context of export restrictions and heavier government intervention in the market, livestock prices remained stable, whereas consumer prices rose (3.3%), although by much less than overall price levels. The government extended export quotas until

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	3.9	-3.4	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5
Per capita gross domestic product	2.7	-4.4	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.7	2.5	-1.7	1.1	-2.3	6.9	-1.5	11.1	2.6
Mining	-3.8	-3.3	6.7	4.7	-3.7	3.7	-0.4	-0.2	1.9
Manufacturing	1.8	-7.9	-3.8	-7.4	-11.0	16.0	12.0	7.5	8.9
Electricity, gas and water	7.6	3.6	6.6	1.1	-3.0	6.9	6.5	5.0	5.0
Construction	8.7	-7.9	-9.3	-11.6	-33.4	34.4	29.4	20.4	18.6
Wholesale and retail commerce, restaurants and hotels	3.4	-6.9	-2.4	-7.8	-16.8	11.7	12.4	9.5	7.8
Transport, storage and communications	8.9	-1.3	1.7	-4.6	-7.9	8.2	13.4	14.8	13.5
Financial institutions, insurance, real estate and business services	7.0	-0.5	1.3	-4.4	-9.6	-1.1	2.2	7.1	8.1
Community, social and personal services	1.5	1.9	1.7	-0.1	-3.3	2.8	4.4	5.6	5.4
Gross domestic product, by type of expenditure									
Consumption	3.5	-1.3	-0.5	-5.2	-12.8	7.0	8.3	8.5	7.3
General government	3.4	2.6	0.6	-2.1	-5.1	1.5	2.7	6.1	5.2
Private	3.5	-2.0	-0.7	-5.7	-14.4	8.2	9.5	8.9	7.7
Gross domestic investment	6.5	-12.6	-6.8	-15.7	-36.4	38.2	34.4	22.7	18.7
Exports (goods and services)	10.6	-1.3	2.7	2.7	3.1	6.0	8.1	13.5	7.4
Imports (goods and services)	8.4	-11.3	-0.2	-13.9	-50.1	37.6	40.1	20.1	15.2
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	21.0	17.9	17.5	15.6	11.0	14.6	19.0	20.9	23.0
National saving	16.2	13.7	14.4	14.2	19.5	20.8	21.0	23.9	26.8
External saving	4.8	4.2	3.2	1.4	-8.5	-6.2	-2.1	-3.1	-3.8
Millions of dollars									
Balance of payments									
Current account balance	-14 482	-11 943	-8 981	-3 780	8 767	8 140	3 219	5 690	7 998
Goods balance	-3 097	-795	2 452	7 385	17 178	16 805	13 265	13 087	13 872
Exports, f.o.b.	26 434	23 309	26 341	26 543	25 651	29 939	34 576	40 387	46 456
Imports, f.o.b.	29 531	24 103	23 889	19 158	8 473	13 134	21 311	27 300	32 585
Services trade balance	-4 444	-4 111	-4 284	-3 863	-1 460	-1 193	-1 328	-1 205	-934
Income balance	-7 405	-7 490	-7 548	-7 727	-7 491	-7 975	-9 282	-6 730	-5 456
Net current transfers	464	453	399	424	540	504	564	539	516
Capital and financial balance ^d	18 572	13 955	7 804	-17 679	-22 158	-17 177	-10 171	2 404	6 482
Net foreign direct investment	4 965	22 257	9 517	2 005	2 776	878	3 449	3 954	3 418
Financial capital ^e	13 607	-8 302	-1 713	-19 684	-24 934	-18 056	-13 620	-1 550	3 063
Overall balance	4 090	2 013	-1 176	-21 459	-13 391	-9 037	-6 952	8 094	14 480
Variation in reserve assets ^f	-3 436	-1 186	403	12 083	4 516	-3 581	-5 319	-8 857	-3 530
Other financing ^g	-654	-826	773	9 376	8 876	12 618	12 271	763	-10 950
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	108.8	99.6	100.0	95.6	225.3	204.9	214.9	215.3	219.8
Terms of trade for goods (index: 2000=100)	96.6	90.9	100.0	99.3	98.7	107.2	109.2	106.9	113.0
Net resource transfer (billions of dollars)	10.5	5.6	1.0	-16.0	-20.8	-12.5	-7.2	-3.6	-9.9
Total gross external debt (billions of dollars)	148	153	155	166	157	165	171	114	109
Net profits and interest (percentage of exports) ⁱ	-23.7	-26.7	-24.1	-24.8	-25.7	-23.2	-23.3	-14.4	-10.1
Average annual rates									
Employment									
Labour force participation rate ^j	42.2	42.6	42.6	42.5	42.4	45.7	45.9	45.7	...
Open unemployment rate ^k	12.9	14.3	15.1	17.4	19.7	17.3	13.6	11.6	10.2
Visible underemployment rate ^k	15.5	16.7	17.1	18.9	24.0	20.7	17.5	14.2	12.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	0.7	-1.8	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8
Variation in wholesale prices (December-December)	-6.3	1.2	2.4	-3.4	113.7	2.0	7.9	10.6	7.2
Variation in nominal exchange rate (December-December)	0.0	0.0	-0.2	0.2	236.0	-12.8	1.4	2.0	1.0
Variation in average real wage	0.0	2.9	2.3	-0.8	-13.9	-1.9	10.0	6.1	8.6
Nominal deposit rate ^l	7.6	8.3	8.5	16.3	39.3	10.5	2.7	3.9	6.5
Nominal lending rate ^m	10.6	11.0	11.1	26.5	53.0	19.1	6.8	6.2	8.6

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central national administrationⁿ									
Total income	13.8	14.1	15.2	14.3	14.2	16.1	16.3	16.7	17.4
Current income	13.7	14.0	15.0	14.2	14.1	16.1	16.2	16.5	17.3
Tax income	3.0	4.4	6.7	7.8	6.7	5.9	5.8	5.1	3.9
Capital income	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.2	0.2
Total expenditure	15.5	17.1	17.3	18.3	14.8	15.9	14.4	16.3	16.5
Current expenditure	14.2	15.8	16.3	17.4	14.1	15.1	12.9	14.3	13.8
Interest	2.2	2.9	3.4	4.0	2.1	1.9	1.3	1.9	1.7
Capital expenditure	1.3	1.3	1.1	0.9	0.7	0.8	1.5	2.0	2.6
Primary balance	0.5	-0.2	1.3	0.0	1.5	2.1	3.2	2.3	2.7
Overall balance	-1.8	-3.1	-2.1	-4.0	-0.6	0.2	2.0	0.4	1.0
National government public debt^o									
Domestic	10.4	13.9	16.4	22.3	52.8	59.4	52.7	38.3	37.5
External	27.1	29.1	28.6	31.5	93.0	78.8	73.8	34.5	26.0
Money and credit^p									
Domestic credit ^q	26.3	29.9	31.0	33.2	41.1	36.8	32.1	26.3	20.0
To the public sector	10.2	11.4	12.2	16.3	42.5	39.8	36.3	30.6	22.7
To the private sector	22.7	25.0	24.2	23.0	16.7	11.5	9.6	10.0	11.1
Others	-6.6	-6.6	-5.4	-6.2	-18.2	-14.5	-13.8	-14.3	-13.9
Liquidity (M3)	25.0	28.4	29.2	29.0	20.6	21.4	21.9	22.7	22.8
Currency outside banks and local-currency deposits (M2)	12.7	13.3	12.9	11.5	18.7	20.5	20.4	21.1	20.7
Foreign-currency deposits	12.3	15.0	16.3	17.5	1.9	0.9	1.4	1.7	2.0

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1993 prices. ^c Based on figures in local currency expressed in dollars at current prices. Gross domestic investment does not include changes in stocks. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the total population in urban areas. ^k Percentage of the economically active population, urban areas. ^l Fixed-term deposits, all maturities. ^m 30-day loans to leading firms. ⁿ Accrual basis. ^o As from 2005, this does not include unswapped debt. The 2006 figure corresponds to the third-quarter balance. ^p The monetary figures are annual averages. ^q Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

2007 and announced its intention to expand supply by changing regulations and concluding agreements with producers.

While natural gas output remained unchanged, crude oil extraction fell for the fifth year in a row. In the face of a steady increase in demand, the supply of natural gas (which represents a considerable proportion of the energy matrix) was maintained by purchasing extra supplies from Bolivia, limiting exports to Chile and occasionally cutting gas supplies to corporate customers. Supply and investment trends in hydrocarbons and energy continued to be a subject of public debate, and as of mid-2007 natural gas and electricity supply constraints were beginning to be felt.

Strong domestic consumption and greater external demand continued to drive industrial activity. In 2006, major contributions to the growth of the sector as a whole (8.3%) were made by the automotive industry (which added 2.7 points to aggregate growth), the food industry (1.5 points) and the chemical industry (1.1 points). This upswing in output was achieved with only a slight rise

in the use of installed capacity, indicating that potential supply has expanded considerably, in tandem with rising sales volumes.

Levels of construction activity in both private construction and public works reached record levels in 2006. A downturn began to be seen in the last quarter of the year, however, which carried over into the early months of 2007.

(b) Prices, wages and employment

The consumer price index (CPI) rose by 9.8% in 2006, which was 2.5 points less than the previous year's increase, and this slowdown in inflation continued in the first few months of 2007. The 2006 trend was influenced by a reduction of nearly two points in the aggregate price index, which does not include seasonal items or regulated goods (10.2%), while seasonal items continued to climb sharply (18.3%). Increases in some tradable goods influenced the general index, but a particularly steep rise was seen in private services (15.7%), probably as a result

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	8.0	10.4	9.2	9.0	8.8	7.7	8.8	8.6	8.0	...
Goods exports, f.o.b. (millions of dollars)	8 446	10 705	10 916	10 285	9 907	11 943	12 089	12 520	11 011	...
Goods imports, c.i.f. (millions of dollars)	5 966	7 580	7 443	7 700	7 371	8 229	9 304	9 247	9 159	...
International reserve assets (millions of dollars) ^c	20 339	23 052	25 614	28 077	21 549	25 490	28 048	32 037	36 849	43 157
Real effective exchange rate (index: 2000=100) ^d	217.2	213.9	213.0	216.9	220.3	220.4	219.6	216.4	215.7	219.0
Unemployment rate	13.0	12.1	11.1	10.1	11.4	10.4	10.2	8.7	9.8	...
Consumer prices (12-month percentage variation)	9.1	9.0	10.3	12.3	11.1	11.0	10.4	9.8	9.1	8.9
Average nominal exchange rate (pesos per dollar)	2.93	2.89	2.89	2.98	3.06	3.07	3.09	3.08	3.10	3.08
Average real wage (variation from same quarter of preceding year)	1.8	2.8	9.2	10.2	7.9	8.6	11.2	7.4	8.6	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	2.9	3.7	4.3	4.8	5.7	6.6	6.9	6.9	7.2	7.0
Lending rate ^f	5.5	6.0	6.4	6.7	7.5	8.3	9.3	9.5	9.2	8.7
Interbank rate ^g	2.3	3.4	4.7	5.5	6.7	6.7	7.3	7.5	7.0	7.4
Sovereign bond spread (basis points)	5 393.1	462.3	349.1	503.7	344.4	385.0	342.0	216.0	204.0	325.0
Stock price index (in dollars, December 2000=100)	336.0	328.1	406.7	370.3	432.0	410.6	392.8	501.6	504.5	525.7
Domestic credit (variation from same quarter of preceding year) ^h	0.2	-3.8	-5.6	-9.4	-9.5	-5.7	-4.0	2.3	1.2	-1.7 ⁱ
Non-performing loans as a percentage of total credit ^j	7.6	6.3	5.3	3.9	3.9	3.0	2.7	2.6	2.3	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1993 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Fixed-term deposits, all maturities. ^f 30-day loans to leading firms. ^g Buenos Aires interbank offered rate (BAIBOR). ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Data to April. ^j Refers to total credit extended by the banking system.

of strong domestic demand. Consumer prices for public services were virtually unchanged (0.5%).

The rate of increase in wholesale prices also slowed (from 10.7% in 2005 to 7.1% in 2006). Price rises for imported goods (8.2%) and domestically produced manufactures (7%) were higher than the price increases recorded for primary products (5.8%), which were influenced by oil prices.

The authorities' concern over the country's external competitiveness was reflected in the 6% nominal increase in the price of the United States dollar in 2006 brought about by a policy of intervening in the market to buy this currency. International currency trends led to a real depreciation (2%) of the Argentine peso against the basket of currencies representing the country's main trading partners.

Real wages of formal private-sector workers continued to rise in 2006 (9% between extremes) and now stand nearly 20% above the levels of late 2001. Following two years of slight variations, real wages in the public sector

and informal private sector staged a recovery (rising by 6% and 10%, respectively), although they were still below pre-2002 levels. In general, the collective bargaining agreements concluded in the first few months of 2007 led to increases for the formal private sector that outstripped price rises.

At the end of 2006, the urban employment-to-population ratio reached a record high of 42.1%. Even though the unemployment rate (8.7% in the fourth quarter) declined less sharply than in previous years, it was the lowest to be recorded since the early 1990s. If persons who are actively seeking employment and for whom State employment programmes are their main source of gainful employment were to be defined as unemployed, then the unemployment rate would rise to 9.3%. State employment programmes had the least impact they have had since they were first implemented in 2002, but, despite high unemployment rates, worker shortages were reported in some labour market segments.

(c) The external sector

In 2006, the current account surplus exceeded US\$ 8 billion. This amounts to a 43% increase, although the figure would drop to 25% in year-on-year terms if the impact of the debt swap were discounted.¹ Leaving aside this effect, most of the surplus was attributable to an increase of over US\$ 1.2 billion in the trade surplus (goods and services) and to a US\$ 1.4 billion reduction in interest obligations, although the latter was partially offset by higher net remittances of profits and dividends. The large reduction seen in the deficit in real services was attributable to steadily growing revenues in the tourism and business services sectors.

The capital and financial account posted a deficit of US\$ 5.6 billion, which was mainly a reflection of the decision to pay off US\$ 9.5 billion in government borrowings from IMF. The public sector also made net payments to other international organizations and large payments on GDP-linked obligations issued as part of its debt swaps. The non-financial private sector received net revenues of US\$ 1.4 billion, which was substantially less than in 2005, even though the balance of the errors and omissions account increased by almost US\$ 1 billion. A

fairly minor decrease in inflows of foreign direct investment brought the total down to US\$ 4.8 billion.

In 2006, merchandise exports expanded by 15.4% to US\$ 46.4 billion, with prices and volumes contributing to this result in equal measure. Manufactures grew faster in volume terms than did primary goods, but price rises for the two categories were similar. Sales of industrial manufactures increased by 24% in value terms and sales of manufactures of agricultural origin rose by 16%, thereby outpacing commodity sales (11%). In spite of the steep rise in fuel and energy prices, the sharp drop in volumes helped to keep increases low (6%). The strong upswing in exports to Brazil (29%) led to a 2.2% increase in the percentage of total exports going to MERCOSUR countries (21.3% in 2006). The contribution of total exports to North American Free Trade Agreement (NAFTA) signatory countries declined.

Goods imports continued to grow vigorously (19%), rising to more than US\$ 32 billion. The increase, which was spread among the various categories, stemmed mainly from an expansion in volumes purchased (16%) and, to a far smaller extent, to prices (3%). From a geographical standpoint, MERCOSUR lost approximately one point of its share of Argentina's total imports (37.1% in 2006), while the share of China and East Asia expanded.

¹ Up until the debt-swap operation, the balance-of-payments figures included the total interest owed on government debts in default since 2001. As from the second quarter of 2005, the figures take into account interest on the regularized debt, excluding interest on securities not included in the swap.

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Bolivarian Republic of Venezuela

1. General trends

In 2005, the Bolivarian Republic of Venezuela recorded GDP growth of 10.3%, driven by buoyancy in non-oil activities (11.7%). With the exception of the petroleum sector (-1.9%), all branches of economic activity registered rises, with the highest rates being observed in construction (32.1%), financial services (39.2%), communications (23.2%) and commerce (19.9%). On the demand side, the components that showed the strongest growth rates were investment (30%), chiefly public investment in infrastructure, and private consumption (18.8%). In the first quarter of 2007 the economy expanded by 8.8% over the same quarter of the preceding year. Although still high, this rate of growth represents a slowdown in economic activity.

The economy's expansion was fuelled by a sharp upswing in national income resulting from highly favourable terms of trade, which, in turn, reflected rising international prices for petroleum. Higher national revenues, combined with an augmented tax-take, helped to considerably swell fiscal receipts, enabling the authorities to increase spending and maintain or key up their social action programmes. These programmes, which are known as "missions", target mainly poor or extremely poor sectors and focus primarily on the areas of health, education, employment and food distribution. Increased fiscal expenditures, together with climbing private demand and a tighter supply of goods, led to a break in the downward trend of inflation that had been in place since 2002; in December 2006 the CPI marked up a 17% increase over the figure registered 12 months earlier. Expectations of a surge in inflation prompted

the authorities to put in place a programme to combat inflation in February 2007. This programme includes the implementation of fiscal and monetary measures and the enforcement of tighter price controls, together with penalties for non-compliance.

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 MERCOSUR. On 30 April 2007, the government announced its intention to withdraw from IMF and the World Bank.

GDP growth of 6%-7% is expected for 2007, with the exchange rate remaining at 2,150 bolívares to the dollar and the average inflation target for the year at 12%.

2. Economic policy

The president was re-elected for a new term of office (2007-2013) in elections held in December 2006. In February 2007 the executive branch promulgated an enabling bill, which conferred special powers on the president, allowing him to legislate by decree in a number of areas for the following 18 months. In the first few months of 2007 the government thus announced and implemented several policy measures which have affected the way the economy functions.

In January, the government announced the nationalization of two public utility companies, *Electricidad de Caracas S.A. (EDC)* and *Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV)*. It also acted on its declared intention not to renew, in May, the operating licence of a long-established television channel. As of 1 May, the four strategic partnerships operating in the Orinoco oil belt became State-controlled enterprises and *Petróleos de Venezuela, S.A. (PDVSA)* assumed a controlling stake.

The Venezuelan government has continued to supply oil to a number of countries at below-market prices in the framework of the Bolivarian Alternative for Latin America and the Caribbean (ALBA), the PETROCARIBE Energy Cooperation Agreement and individual agreements signed with several countries. It has also piloted the creation of the Bank of the South (*Banco del Sur*), a multilateral lending institution for the region which is to be financed with resources from Latin American countries.

(a) Fiscal policy

Fiscal policy remained expansionary in 2006. The central government's total expenditure expanded by 49.3% over its 2005 level, with both current and capital components rising (49.8% and 49.7%, respectively). This increase was driven by transfers to public agencies. Revenues were up by 40.1%, reflecting expansion of oil revenues (52.4%). As a result, the fiscal surplus of 1.7% of GDP registered in 2005 dropped to zero

in 2006. The government made changes to the tax regime throughout the year. The tax on bank debits was eliminated in February, a tax on crude oil extraction (33.3% of the well-head value) was announced in May and, as of January 2007, the rate of income tax levied on strategic partnerships operating in the Orinoco oil belt was raised to 50%. The NFPS fiscal balances for 2004, 2005 and 2006, which were published in 2007, show a sharp swing from a surplus of 4.1% in 2005 to a deficit of 1.5% in 2006; these figures are chiefly the result of larger increases in spending (from 33.4% of GDP in 2005 to 39% in 2006). Revenues hovered around 37.9% of GDP in both years.

In 2006, as in 2005, the government used dollars to invest in foreign bonds (most of which were sold to local financial institutions)¹ and set up foreign-exchange funds abroad, as well as pursuing an ambitious programme to reschedule foreign debts with a view to obtaining longer terms and lower rates. In the first half of 2006, the government repurchased all its outstanding Brady bonds for almost US\$ 4.4 billion. In November, the Ministry of Finance publicly advertised US\$ 1 billion worth of "Southern Bonds".² It also continued to restructure domestic debt during the year.

As part of the programme to counter inflation, in February 2007 the government decreed a cut in the VAT rate, from 14% to 9%, to take place in two stages: a first reduction from 14% to 11% effective as of 1 March 2007 and a second from 11% to 9% to take effect on 1 July. In addition, on 15 March the VAT was eliminated for a number of foods, and its rate was reduced for food transport services. One result of these measures is that fiscal revenues from the oil industry will account for a larger proportion of the central government's total revenues.

In order to soften the impact of swelling liquidity on the domestic market and ease pressure on the exchange rate in the parallel market, the authorities issued two bonds in the early months of 2007: US\$ 1.5 billion in the "Southern Bond II"³ and US\$ 7.5 billion in PDVSA bonds.

¹ Argentine government bonds (BODEN12) and Ecuadorian government bonds.

² 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 (US\$ 300 million in BODEN12 and US\$ 200 million in BODEN15).

³ Half of the Southern Bond II are Argentine bonds (BODEN 15) and the rest are fixed-interest bonds (TIFs) and principal and interest-covered bonds (TICCs) issued by the Venezuelan government.

(b) Monetary policy

One of the main challenges facing the economic authorities in recent years has been how to handle its significant foreign-exchange earnings from exports of petroleum. Together with the considerable increase in fiscal expenditure, this has brought about continual rises in domestic liquidity. In 2006, the cumulative expansion of liquidity amounted to 83% measured by M1 and 69.3% measured by M2.

In view of this strong growth in monetary aggregates and of the inflation figures, the main objective of the Central Bank of Venezuela (BCV) has been to offset these increases in liquidity by intervening in the market. Its use of various measures to soak up liquidity intensified in the second quarter of 2006. During the year, BCV issued certificates of deposit in amounts that exceeded the monetary base (by 40% in July). A number of other steps have also been taken which have had varying effects on trends in base money.

In mid-2006, the central bank announced a reserve requirement of 30% for new deposits taken by banks after 14 July and the maintenance of a 15% reserve requirement for monies held up to that date. This translated into a considerable expansion in central bank deposits and in the monetary base, with the result that certificates of deposit decreased as a proportion of that base to around 80%. The sharp rise in liquidity was linked to a lower rate of growth in international reserves, owing to the measures the authorities took to limit the build-up of those reserves in the central bank and the decision to transfer some of them to the National Development Fund (FONDEN). According to the central bank's statements of assets and monetary base statistics, between September 2005 and April 2007 BCV transferred some US\$ 15 billion to FONDEN.

The central bank's assets and liabilities position and balance statements have been affected by the increase in the number of kinds of transactions the institution carries out and the higher sums involved, as well as by changes in rules and policies regarding the treatment of such items as foreign exchange, amounts earmarked for FONDEN and the derivation of foreign-exchange earnings. This complex set of measures resulted in a negative operating balance between January and August 2006 and in difficulties in interpreting or placing a value on certain balance-sheet items.

In December 2006, deposits in the banking system had marked up a 68% increase and bank lending to the private sector was up by 67.5%, both in relation to December 2005. During the year, the minimum percentages of the

bank loan portfolio to be allocated to specific sectors were maintained, and the six main commercial banks offered annual average lending and borrowing rates of 14.64% and 6.81%, respectively. Between January and April 2007, lending rates rose to an average of 15.6% and deposit rates remained around 6.6%.

The combined impact of sharply rising domestic liquidity throughout 2006, strong growth in domestic demand, constraints on the domestic supply of goods—with shortages in a number of mass consumption items—and the increase in the parallel exchange rate pushed up the prices of goods and services, and the reduction of inflation therefore became a core objective for the authorities.

As part of the effort to combat inflation, the authorities announced a monetary conversion plan to be implemented on 1 January 2008, whereby three zeros will be removed from the monetary unit. The new currency unit will be called the “bolívar fuerte”, or strong bolivar, and will take the symbol “Bs.F.”. All prices and values will be expressed in the renamed currency, which the authorities hope will keep relative prices stable. There will be a transition period of six months during which both currencies will be treated as legal tender.

(c) Exchange-rate policy

In 2006 the authorities maintained the currency regime that has been in place since 2003 and the same restrictions on capital outflows. The exchange rate remained fixed at 2,150 bolivares to the dollar. The larger amounts of foreign exchange made available through the Foreign Exchange Administration Commission (CADIVI) and the establishment of limits on the amount of foreign-currency credit that credit-card holders may use kept the rate of exchange on the parallel market at around 20%⁴ above the official rate in the first semester of the year. In the latter months of 2006, however, this spread widened considerably, and the parallel-market exchange rate rose to 58% above the official rate; by January 2007 the gap was 100%. In order to make more foreign exchange available, in the first quarter of 2007 CADIVI increased the total amount of dollars for imports by around 20% and the government raised the limit on dollar-denominated expenses incurred abroad on private credit cards from US\$ 4,000 to US\$ 5,000 per year. As a result of these measures, the difference between the two exchange rates narrowed to 77%.

⁴ Using as a reference the exchange rate implicit in the price ratio deriving from transactions involving CANTV equity traded in the Bolivarian Republic of Venezuela and the corresponding American Depository Receipts (ADRs) traded on the New York Stock Exchange.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	0.3	-6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3
Per capita gross domestic product	-1.6	-7.7	1.8	1.5	-10.5	-9.4	16.2	8.5	8.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.5	1.9	6.5	2.0	-0.8	-1.3	4.4	...	...
Mining	0.6	-6.4	2.4	2.6	-12.9	-0.3	9.6	...	...
Manufacturing	-1.7	-7.3	4.8	0.3	-13.7	-7.4	23.9	9.5	10.4
Electricity, gas and water	0.5	-2.2	4.7	4.8	-8.7	11.2	8.5	8.6	6.2
Construction	1.4	-17.4	4.0	13.5	-8.4	-39.5	25.1	23.1	32.1
Wholesale and retail commerce, restaurants and hotels	-1.3	-5.3	4.8	4.2	-12.4	-9.8	28.1	21.6	19.9 ^c
Transport, storage and communications	-0.1	-7.5	7.6	2.8	-4.4	-6.5	18.7	16.6	17.7
Financial institutions, insurance, real estate and business services	0.6	-6.7	0.5	3.4	-3.1	-3.3	15.9	13.4	15.9
Community, social and personal services	-0.4	-3.9	2.2	2.4	-0.2	3.4	10.6	8.0	7.4
Gross domestic product, by type of expenditure									
Consumption	0.8	-2.9	4.6	6.2	-6.2	-2.3	15.2	16.0	16.5
General government	-3.1	-7.5	4.2	6.9	-2.5	5.7	14.2	9.4	7.4
Private	1.8	-1.7	4.7	6.0	-7.1	-4.3	15.4	17.7	18.8
Gross domestic investment	4.4	-10.6	6.7	13.6	-34.0	-35.5	91.3	27.4	29.9
Exports (goods and services)	3.5	-11.0	5.8	-3.5	-4.0	-9.9	13.1	4.1	-4.2
Imports (goods and services)	11.3	-9.3	12.4	14.1	-25.2	-20.9	57.7	36.3	31.4
Percentages of GDP									
Investment and saving^d									
Gross domestic investment	30.7	26.5	24.2	27.5	21.2	15.2	21.8	22.6	24.7
National saving	25.8	28.7	34.3	29.1	29.3	29.3	35.6	40.2	39.6
External saving	4.9	-2.2	-10.1	-1.6	-8.2	-14.1	-13.8	-17.6	-14.9
Millions of dollars									
Balance of payments									
Current account balance	-4 432	2 112	11 853	1 983	7 599	11 796	15 519	25 534	27 167
Goods balance	952	6 471	16 664	7 456	13 421	16 747	22 647	31 780	32 984
Exports, f.o.b.	17 707	20 963	33 529	26 667	26 781	27 230	39 668	55 473	65 210
Imports, f.o.b.	16 755	14 492	16 865	19 211	13 360	10 483	17 021	23 693	32 226
Services trade balance	-2 649	-2 839	-3 253	-3 305	-2 909	-2 634	-3 383	-3 866	-4 259
Income balance	-2 534	-1 453	-1 388	-2 020	-2 756	-2 337	-3 673	-2 281	-1 512
Net current transfers	-201	-67	-170	-148	-157	20	-72	-99	-46
Capital and financial balance ^e	1 027	-1 054	-5 895	-3 814	-12 029	-6 342	-13 364	-20 110	-22 431
Net foreign direct investment	3 942	2 018	4 180	3 479	-244	722	864	1 400	-2 632
Financial capital ^f	-2 915	-3 072	-10 075	-7 293	-11 785	-7 064	-14 228	-21 510	-19 799
Overall balance	-3 405	1 058	5 958	-1 831	-4 430	5 454	2 155	5 424	4 736
Variation in reserve assets ^g	3 853	-608	-5 449	2 028	4 430	-5 454	-2 155	-5 424	-4 736
Other financing ^h	-448	-450	-509	-197	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ⁱ	116.6	102.6	100.0	95.2	125.0	137.2	143.3	143.4	136.5
Terms of trade for goods (index: 2000=100)	51.2	66.1	100.0	82.2	87.6	98.7	118.1	154.4	184.4
Net resource transfer (percentage of GDP)	-2.1	-3.0	-6.7	-4.9	-15.9	-10.4	-15.2	-15.5	-13.2
Total gross external debt (millions of dollars)	35 087	37 016	36 437	35 398	35 460	40 456	43 679	45 486	44 184
Net profits and interest (percentage of exports) ^j	-13.2	-6.5	-4.0	-7.2	-9.9	-8.3	-9.0	-4.0	-2.3
Average annual rates									
Employment									
Labour force participation rate ^k	65.1	66.3	64.6	66.5	68.7	69.2	68.5	66.3	65.4
Open unemployment rate ^l	11.3	15.0	13.9	13.3	15.8	18.0	15.3	12.4	10.0
Informal sector ^m	49.8	52.4	53.0	50.3	51.0	52.6	49.8	47.3	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	29.9	20.0	13.4	12.3	31.2	27.1	19.2	14.4	17.0
Variation in wholesale prices (December-December)	23.3	13.6	15.8	10.2	49.4	48.4	23.1	14.2	15.9
Variation in nominal exchange rate (December-December)	12.0	14.9	7.8	8.3	83.3	15.1	20.0	12.0	0.0
Variation in average real wage	5.4	-4.6	4.0	6.9	-11.0	-17.6	0.2	2.6	5.1
Nominal deposit rate ⁿ	36.2	20.6	14.9	14.7	28.8	17.2	12.6	11.7	10.1
Nominal lending rate ^o	45.3	31.3	24.5	24.8	38.4	25.7	17.3	15.6	14.6

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central government									
Total income	17.4	18.0	20.2	20.8	22.2	23.4	24.0	27.7	30.0
Current income	17.4	18.0	20.2	20.8	22.2	23.4	24.0	27.7	30.0
Tax income	12.2	13.0	12.9	11.4	10.6	11.3	12.7	15.3	15.8
Capital income	0.0	0.0	-	-	-	0.0	-	0.0	0.0
Total expenditure ^p	21.4	19.8	21.8	25.1	26.1	27.8	25.9	26.0	30.0
Current expenditure	16.7	16.4	17.5	19.3	19.1	20.8	19.6	19.1	22.2
Interest	2.6	2.8	2.5	2.9	4.6	4.7	3.7	3.0	2.1
Capital expenditure	4.0	3.0	3.3	4.4	5.1	5.5	5.0	5.8	6.7
Primary balance	-1.4	1.0	0.9	-1.5	0.6	0.3	1.8	4.6	2.1
Overall balance	-4.0	-1.7	-1.7	-4.4	-4.0	-4.4	-1.9	1.6	0.0
Public debt									
Domestic	29.4	29.3	26.8	30.4	42.4	46.3	38.1	32.9	24.3
External	5.0	6.4	9.0	12.4	15.1	17.8	14.0	11.1	9.3
Overall	24.4	22.9	17.8	18.0	27.3	28.4	24.2	21.8	15.0
Money and credit^q									
Domestic credit ^r	15.2	14.5	13.1	14.3	13.4	14.6	15.0	16.8	20.8
To the public sector	1.5	1.9	2.7	3.1	3.3	3.5	4.0	3.5	3.7
To the private sector	11.2	10.2	9.1	10.1	9.0	7.3	7.4	9.2	11.2
Others	2.5	2.4	1.3	1.1	1.1	3.8	3.6	4.0	5.9
Liquidity (M3)	18.3	18.2	16.8	17.4	15.1	17.1	16.7	17.9	22.4

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1997 prices. ^c As of 2004 does not include restaurant and hotel activities, which are included in total GDP. ^d Based on figures in local currency expressed in dollars at current prices. ^e Includes errors and omissions. ^f Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^g A minus sign (-) denotes an increase in reserves. ^h Includes the use of IMF credit and loans and exceptional financing. ⁱ Annual average, weighted by the value of goods exports and imports. ^j Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^k Economically active population as a percentage of the working-age population, nationwide total. ^l Percentage of the economically active population, nationwide total. ^m Population employed in the informal sector as a percentage of the employed population. ⁿ 90-day deposits. ^o Average lending rate of the country's six major commercial and universal banks. ^p Includes extraordinary expenditure and net lending. ^q The monetary figures are annual averages. ^r Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

3. The main variables

(a) Economic activity

In the first quarter of 2006, GDP showed a year-on-year increase of 8.8%, driven by strong domestic demand: private consumption was up by 19% and gross fixed capital formation by 27%. Activity in the petroleum sector was down by 5.6%. The most buoyant sectors were construction (26.5%), commerce and financial services (both 20.8%).

(b) Prices, wages and employment

Despite the maintenance of price controls, in 2006 the CPI jumped by 17% (14.4% in 2005), fuelled by rising prices for agricultural goods (33.9%) and fishery products (32.5%). The wholesale price index showed a

15.9% increase between December 2005 and December 2006 (producer prices rose by 18% for domestically produced goods and by 9.2% for imported goods). Despite negative inflation in March, which was essentially due to a cut in the VAT rate, between January and May 2007 the CPI marked up a cumulative increase of 5.9% over the figure for December 2006 (the index of core inflation rose by 8.9% in this period). The wholesale price index climbed by 7.2% in the same period (8.1% for domestically produced goods and 4.3% for imported ones).

In terms of annual averages, the rate of unemployment was 10% in 2006 and 10.1% in the first four months of 2007, while informality was around 45%. As an annual average, the general wage index rose by 19.3% in 2006 (private-sector wages by 15.1% and public-sector wages by 29.6%). On 1 February 2006 the minimum wage was

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	8.4	11.7	10.2	10.9	9.8	9.4	10.1	11.8	8.8	...
Goods exports, f.o.b. (millions of dollars)	11 540	13 452	15 588	14 893	15 534	18 332	16 945	14 399	13 679	...
Goods imports, f.o.b. (millions of dollars)	5 182	5 828	6 240	6 443	6 205	7 854	8 510	9 657	9 108	...
International reserve assets (millions of dollars) ^c	24 932	28 071	29 942	29 636	31 358	31 169	34 330	36 672	31 520	24 424
Real effective exchange rate (index: 2000=100) ^d	137.5	149.1	145.4	141.7	140.6	139.4	132.1	126.9	123.3	123.0
Unemployment rate	14.3	12.2	12.1	10.4	11.1	10.0	10.1	8.9	10.5	8.4
Consumer prices (12-month percentage variation)	15.8	15.9	16.0	14.4	10.3	11.8	15.3	17.0	20.5	19.4
Average nominal exchange rate (bolívares per dollar)	1 918	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147
Average real wage (variation from same quarter of preceding year)	3.5	3.5	1.6	1.7	7.1	5.5	5.4	2.4	-5.9	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	12.8	11.9	10.9	11.0	10.3	10.1	10.1	10.0	10.1	10.1
Lending rate ^f	16.3	15.7	15.5	14.9	14.8	14.1	14.6	15.1	15.4	16.0 ^g
Interbank rate ^h	1.1	3.5	2.3	3.6	4.0	4.8	5.9	5.8	3.7	7.4
Sovereign bond spread (basis points) ⁱ	459.4	465.8	308.7	318.4	190.2	228.0	233.0	182.0	206.0	341.0
Stock price index (national index to end of period, 31 December 2000 = 100)	424.6	316.4	304.3	298.8	452.5	450.5	518.6	765.3	717.1	581.6
Domestic credit (variation from same quarter of preceding year) ^j	63.4	60.9	61.6	55.4	48.7	51.4	106.3	...	...	...
Non-performing loans as a percentage of total credit ^k	1.6	1.5	1.3	1.1	1.3	1.2	1.3	1.1	1.1	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1997 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e 90-day deposits. ^f Average lending rate of the country's six major commercial and universal banks. ^g Data to May. ^h Monetary policy reference rate. ⁱ Measured by J.P.Morgan's EMBI+ index. ^j Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^k Refers to total credit extended by the banking system.

raised by 15% and in April the government decreed an additional increase of 10% applicable as of 1 September; then, on 1 May 2007, a further rise of 20% took effect. Despite the succession of hikes in the minimum wage since 2003, private-sector wages continue to show negative growth in real terms.

(c) The external sector

In 2006, merchandise exports climbed by 18%, reflecting a combination of rising international prices for petroleum (22%)⁵ and a decline of 9% in non-petroleum exports. Goods imports were up by 36% (consumer goods by 35%, intermediate goods by 30% and capital goods, mainly for State oil enterprises and private firms in the non-petroleum segment, by 46%). The surplus on the

current account was larger than in 2005 but declined as a percentage of GDP, from 18.2% in 2005 to 14.9% in 2006. In the first quarter of 2007, the balance of payments recorded a significantly smaller current account surplus than in the year-earlier period (US\$ 3.662 billion compared to US\$ 7.004 billion) as a result of the decline in merchandise exports (-11.9%) and the continued buoyancy of goods imports, which were up by 46.8% in that quarter.

Net foreign direct investment showed an outflow of US\$ 2.632 billion in 2006. Rather than a real outflow of resources from the country, however, this reflected the repatriation of the profits of foreign oil companies operating in the Orinoco oil belt. These revenues had been withheld because PDVSA had not published its financial statements, which had prevented the distribution of profits among the partners of the consortiums operating in the area.

⁵ In 2006, the annual average price for the Venezuelan basket of crude rose by 22.6% over the average for 2005. The average price registered in January-May 2007 was 5% lower (US\$ 53.60 per barrel) than the average price for 2006.

International reserves in the central bank increased during 2006 to reach US\$ 37.44 billion in December, before gradually declining in the first five months of 2007 to stand at US\$ 24.407 billion in May.⁶ This decline reflected the transfer of US\$ 6.7 billion from international reserves to FONDEN, withdrawals for the acquisition of

CANTV and EDC, and the purchase of foreign exchange by PDVSA. In the first quarter of 2007, the country's external debt amounted to US\$ 45.974 billion (25% of GDP), compared with US\$ 44.184 billion in the fourth quarter of 2006. Public debt accounts for 68% of this total and private debt, 32%.

⁶ Includes US\$ 784 million corresponding to the Macroeconomic Stabilization Fund (FEM).

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Bolivia

1. General trends

In 2006, in keeping with the two preceding years, the Bolivian economy recorded favourable performances in several sectors. GDP grew by 4.6 %, the non-financial public sector (NFPS) showed a surplus of 4.5 GDP percentage points, and the balance of payments closed with a surplus of US\$ 1.516 billion, US\$ 1.012 billion above its 2005 value. The current account posted a surplus of US\$ 1.319 billion. The balance of payments surplus generated an increase in net international reserves of US\$ 1.464 billion, to an unprecedented high of US\$ 3.178 billion. The external debt dropped US\$ 1.707 billion and the inflation rate stood at 4.95%.

GDP growth in 2006 was 0.5 percentage points higher than in the preceding year; 1.7 percentage points above average GDP growth for the current decade and 0.7% above that of the 1990s. Per capita GDP also rose for the fifth consecutive year.

The US\$ 1.054 billion merchandise trade surplus had a strong influence on the balance of payments, thanks to an external context characterized by a strong

upswing in raw material prices, especially minerals and hydrocarbons, which began in 2003. The trade balance in 2006 reflected a surplus for the third year running, quadrupling the 2004 figure.

Official estimates project economic growth at around 5% for 2007, with a similar rate of inflation. However, widespread devastation caused by floods at the beginning of the year has prompted ECLAC to estimate the growth rate at 4.5%.

2. Economic policy

Bolivia's economic policy framework was marked by institutional change, a tendency towards nationalization of the economy, and a modification of the country's integration strategy. In July 2006, elections were held to appoint representatives to the Constituent Assembly, which began meeting on 6 August. Neither the opposition nor the ruling party obtained the qualified majority of two thirds. As of July 2007, the Assembly had not completed

the drafting of a new Constitution. The most significant measure in terms of nationalization was adopted on 1 May 2006, with the nationalization of the hydrocarbons sector through the Heroes of Chaco decree. The new integration strategy has led to the signing of cooperation agreements in several areas with Cuba and the Bolivarian Republic of Venezuela, in the context of the Bolivarian Alternative for the Latin America and the Caribbean (ALBA).

(a) Fiscal policy

The NFPS balance swung from a deficit of 2.3% of GDP in 2005 to a 4.5% surplus in 2006. This is unprecedented in Bolivia's fiscal accounts, which have a historical tendency towards deficits.

Broken down by different levels of government, these results show the national treasury with a surplus of 2.4% whilst the prefectures and municipal governments had positive balances of 0.7% and 1.2% of GDP, respectively. State enterprises enjoyed a surplus of 1.3% of GDP as against the 1.3% deficit reported by other government bodies.

The 47% increase in 2006 fiscal revenues—from 10.95% to 15.4% of GDP—was largely due to receipts from the petroleum and gas sector, essentially derived from the direct hydrocarbons tax (IDH), the special tax on hydrocarbons and derivatives (IEHD), and royalties.¹ This was the first full year of fiscal revenues collected from both the direct tax and the new royalties decreed in the first half of 2005.² Higher prices for gas were reflected not only in an increase in revenues from those taxes, but also in the US\$ 36 million boost in receipts from the tax on windfall profits, a 43.9% increase over 2005.

Some 42.3% of the proceeds from the direct hydrocarbons tax is earmarked for the Treasury and assigned to predetermined expenditures, and the balance is distributed among the departments.³ The fiscal surplus of prefectures and municipal governments is related to delays in public spending, brought about by the obligation for these bodies to submit projects in order to make use of the greater part of the revenues transferred.⁴ As a result, the distribution mechanism could be causing certain departments to show a surplus for the fiscal year. In fact, 21.7% of the department revenues assigned is divided equally between the three petroleum-producing departments—Beni, Santa Cruz and Tarija—, 54.2% is distributed among the other departments, and the remainder is used to balance out differences between the departments. The allocations are not made on the basis of population density, which makes for large variations in terms of the resources per capita received by each department.

In September 2006, the government decreed that all vehicles imported illegally into the country must be registered. The tax is substantially higher for cars that run on

diesel, a fuel that is not produced in Bolivia, to encourage switching to vehicles using natural gas or petrol.

In 2006, NFPS expenditure excluding pensions rose 1.6 GDP percentage points; current expenditure went up 1.3 percentage points and capital expenditure climbed 0.3 percentage points. Items listed under current expenditure as goods and services registered the greatest increase, 3.9% of GDP, mainly owing to the increase in disbursements of the company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) to finance their greater involvement in the domestic marketing of hydrocarbons.

Among other institutional changes occurring in Bolivia, YPFB was directly responsible for financing one aspect of social policy in 2006 out of the proceeds arising from the nationalization decree, through the Juancito Pinto bond, aimed at providing an incentive both for primary school registration and for completion of the school year. By means of this bond, the family of each school-age child enrolled in any of the first five years of primary school is granted 100 bolivianos on registration and the same amount at the end of the school year. The bond was approved in October 2006 and paid out in full in December, benefiting the families of over a million schoolchildren.

As for wage policy in the non-financial public sector, a decree in May announced a reduction in the representation allowances for the heads of all three branches of government and in the salaries of the highest-paid public employees. In addition, workers in the health and education sectors, considered by the Government to be essential for Bolivia's development, were granted a 7% rise in pay. In January 2006, in accordance with transparency policies, it was decided that reserve fund expenditure would be frozen. That expenditure was then transferred to a budgetary reserve item, allowing better control over transfers to other budget items. Under the Government's austerity policy, the number of top public sector executive posts was reduced from 162 to 158. As a result of these measures, spending on personal services dropped by 0.7 GDP percentage points.

The domestic public sector deficit climbed 12.1% in 2006 to US\$ 2.223 billion. A rise was announced in lending of both AFP bonds and C bonds used by the Treasury to improve liquidity. The stock of C bonds dropped by US\$ 70.9 million to US\$ 15.1 million, as a

¹ These taxes, combined with equities, represent 87% of fiscal revenues from hydrocarbons.

² The structure of taxes and royalties was modified by virtue of Act No. 3058 of 17 May 2005. All oil and gas fields must pay a direct hydrocarbons tax equivalent to 32% of the value of their production, a 6% national royalty and a 12% government royalty.

³ See Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary overview of the economies of Latin America and the Caribbean 2006* (LC/G.2327-P/I), Santiago, Chile, December 2006. United Nations Publication, Sale N°: E.06.II.G.141.

⁴ According to the official estimates of the Social and Economic Policy Analysis Unit of the Ministry for Development Planning (UDAPE), deposits represented 73% and 36% of the assignments from the direct hydrocarbons tax to municipal governments and departments, respectively.

result of the solid fiscal situation of the public sector in 2006. The external public debt shrank from 52.8% of GDP to 30.6% of GDP as a result of debt cancellations by the International Monetary Fund (IMF) amounting to US\$ 233 million, by the World Bank for US\$ 1.511 billion and by the Japanese Government for US\$ 63 million. Of the outstanding debt, 50% is held by the Inter-American Development Bank (IDB), and will be partially condoned during 2007 in the framework of the Heavily Indebted Poor Countries (HIPC) Debt Initiative. In 2006, Bolivia took on the country's first short-term external public debt since the 1980s, for the sum of US\$ 31 million, with *Petróleos de Venezuela, S.A. (PDVSA)*. Bolivia has two bond issues in the works: the first with the Bolivarian Republic of Venezuela along the same lines as the Venezuelan-Argentine arrangement, for a sum not exceeding US\$ 500 million, and the second an issue of ALBA bonds in which all the signatory countries to ALBA will be involved, for an as yet unspecified amount.

(b) Monetary policy

One of the basic objectives of the Central Bank of Bolivia is to keep the inflation rate low and stable. Until March 2006, the country's economic programme operated under an IMF agreement on special drawing rights. In April 2006 a domestic financial package was arranged between the Central Bank and the Ministry of Finance under the same conditions as the IMF agreement. This includes establishing a ceiling on net domestic credit expansion, a minimum increase in the level of net international reserves and a lower limit on the net reduction of credit to the NFPS by the Central Bank. In 2006, thanks to a favourable international context, all the quantitative objectives of the package were met comfortably. For example, US\$ 1.464 billion in international reserves were accumulated during the year, compared to the anticipated minimum of US\$ 100 million. The programme had anticipated a maximum deficit of 3.4% of GDP for the NFPS and—as already mentioned—a surplus of 4.5% of GDP was achieved.

With the accumulation of international reserves fuelling an expansion of monetary aggregates, the Central Bank had to step up liquidity absorption through its open market operations. In 2006, the amount of such operations soared by 171%, from Bs 710.1 million at the close of 2005 to Bs 1.923 billion in 2006. This trend continued into 2007, with the rate of growth of open market operations over the 12 months to March reaching 182%. The favourable fiscal position has given rise to a strong expansion in public sector deposits with the Central Bank, which ballooned from Bs 688.1 million at the end of 2005 to Bs 6,146,700,000 at the end of 2006. In the first quarter of 2007 they rose by a further Bs 2.227 billion. The upsurge in these deposits is

linked to state and municipal government surpluses. The central bank's efforts to absorb liquidity were not very far-reaching, owing to the level of net credit to the public sector. Monetary pressures would increase if this trend were to be reversed, as would the cost of monetary policy. Moreover, with the abundance of liquidity, central bank credit to the banking system slowed by Bs 56 million or 2.7% in 2006. In the first quarter of 2007 this trend has become more marked in comparison with the same period in 2006, with a drop in central bank credit to banks of 5.4%.

In 2006 the monetary base grew by 43.3% and the substitution of the dollar for the boliviano continued. Monetary liquidity expanded in real terms, M1 by 36.2% and M2 by 45.6%. Savings deposits expanded by 84.8% and time deposits by 112.3%. In contrast M3, which includes deposits in foreign currencies, went up 11.7% in real terms, and foreign-currency deposits by 3.1%.

(c) Exchange-rate policy

The central bank maintained the same crawling-peg exchange-rate regime that it has operated since the second half of the 1980s, based on small non-preannounced depreciations or appreciations of the boliviano against the dollar. The policy objective is to maintain a competitive real exchange rate without overstepping target levels of inflation. In 2006 the nominal exchange rate against the dollar was relatively stable, reporting a 0.5% appreciation. The variations in 2007 have been similar, with nominal exchange rate appreciation to May 2007 at 0.8%. The real exchange rate held relatively steady in 2006, experiencing a one-off depreciation of 2.3%. This result reflects the workings of the real intraregional exchange rate, since the extraregional exchange rate registered a 2.5% appreciation. In the period from April 2006 to April 2007 the real exchange rate did not vary, whilst the real exchange rate excluding the Latin American countries appreciated by 2.3%.

(d) Other policies

In March 2006, the Government announced the Dignity Tariff decree in the electricity sector, consisting of a 25% subsidy on normal prices for household clients of companies in the national electricity distribution network, to be financed by the companies themselves. In the area of land tenure, a law was enacted in November 2006 aimed at changing the focus of agrarian reform. This law provides for the expropriation of unproductive units for public purposes benefiting indigenous communities. In the telecommunications sector, in April 2007 a decree was passed whereby shares in the private operator *Empresa Nacional de Telecomunicaciones (ENTEL)* held by pension fund managers were transferred to the State.

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	5.0	0.4	2.5	1.7	2.5	2.7	4.2	4.0	4.6
Per capita gross domestic product	2.5	-1.9	0.1	-0.6	0.2	0.4	1.9	1.8	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-4.4	2.6	3.4	3.5	0.4	8.7	0.2	4.8	4.5
Mining	5.5	-4.6	6.4	-1.5	2.5	5.0	9.4	13.0	4.4
Manufacturing	2.5	2.9	1.8	2.7	0.3	3.8	5.6	2.7	8.1
Electricity, gas and water	2.4	4.6	1.9	0.7	2.2	2.9	3.1	2.6	3.5
Construction	35.7	-16.9	-4.1	-7.0	16.2	-23.7	2.2	2.6	4.5
Wholesale and retail commerce, restaurants and hotels	2.0	0.8	3.6	1.1	2.0	1.8	3.5	2.1	3.1
Transport, storage and communications	7.1	-0.8	2.4	3.0	4.3	3.9	4.0	2.8	4.2
Financial institutions, insurance, real estate and business services	12.5	13.3	-0.6	0.2	-3.1	-3.3	-1.5	0.4	6.0
Community, social and personal services	3.6	2.9	2.4	2.6	3.0	2.9	3.3	3.0	3.3
Gross domestic product, by type of expenditure									
Consumption	5.1	2.8	2.3	1.5	2.2	2.1	2.9	2.8	3.8
General government	3.8	3.2	2.1	2.9	3.5	3.6	3.1	3.4	3.3
Private	5.2	2.8	2.3	1.3	2.0	1.9	2.9	2.7	3.9
Gross domestic investment	28.5	-18.8	-7.4	-17.5	17.9	-12.8	-11.8	24.8	-3.8
Exports (goods and services)	6.5	-12.8	15.0	8.4	5.7	12.2	16.6	9.9	9.6
Imports (goods and services)	22.3	-17.1	4.7	-5.0	13.1	0.9	5.5	15.4	4.2
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	23.6	18.8	18.1	14.3	16.3	13.2	11.0	13.8	12.1
National saving	15.8	12.9	12.8	10.9	11.8	14.2	14.9	20.5	23.9
External saving	7.8	5.9	5.3	3.4	4.5	-0.9	-3.8	-6.7	-11.9
Millions of dollars									
Balance of payments									
Current account balance	-666	-488	-446	-274	-352	76	337	634	1 326
Goods balance	-656	-488	-364	-295	-340	100	421	457	1 054
Exports, f.o.b.	1 104	1 051	1 246	1 285	1 299	1 598	2 146	2 791	3 863
Imports, f.o.b.	1 760	1 539	1 610	1 580	1 639	1 497	1 725	2 334	2 809
Services trade balance	-189	-190	-244	-164	-177	-187	-190	-42	-194
Income balance	-162	-196	-225	-211	-205	-303	-385	-364	-357
Net current transfers	341	386	387	396	369	465	491	584	822
Capital and financial balance ^d	791	515	407	238	9	-137	-265	-141	192
Net foreign direct investment	947	1 008	734	703	674	195	63	-280	237
Financial capital ^e	-156	-493	-327	-465	-665	-332	-328	138	-45
Overall balance	125	27	-39	-36	-343	-62	73	493	1 518
Variation in reserve assets ^f	-133	-32	39	33	303	-152	-157	-504	-1 518
Other financing ^g	8	5	1	3	40	214	85	11	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	98.5	98.6	100.0	101.0	95.4	104.1	111.6	119.9	122.0
Terms of trade for goods (index: 2000=100)	102.0	97.1	100.0	95.8	96.2	98.5	104.1	111.8	134.6
Net resource transfer (percentage of GDP)	7.5	3.9	2.2	0.4	-2.0	-2.8	-6.4	-5.2	-1.5
Gross external public debt (millions of dollars)	4 659	4 574	4 460	4 497	4 400	5 142	5 045	4 947	3 279
Net profits and interest (percentage of exports) ⁱ	-11.9	-15.0	-15.3	-13.9	-13.2	-15.4	-15.0	-11.1	-8.3
Average annual rates									
Employment									
Labour force participation rate ^j	49.5	55.9	56.1	60.6	58.0	60.4	58.6	...	...
Open unemployment rate ^k	6.1	7.2	7.5	8.5	8.7	9.2	6.2	8.2	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.4	3.1	3.4	0.9	2.4	3.9	4.6	4.9	4.9
Variation in nominal exchange rate (December-December)	5.6	4.8	7.4	7.2	9.8	4.2	3.1	-0.5	-0.1
Variation in real minimum wage	16.1	7.6	2.9	10.8	4.7	0.8	-4.2	-5.1	4.5
Nominal deposit rate ^l	...	...	...	...	2.7	1.8	2.0	1.7	2.4
Nominal lending rate ^l	...	...	...	13.7	10.9	9.1	8.2	8.2	7.8

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sector									
Total income	31.3	32.6	33.7	30.5	27.7	28.9	27.5	32.1	40.1
Current income	29.9	30.8	31.5	28.1	25.5	26.0	25.0	29.9	38.2
Tax income	18.8	17.9	18.6	17.9	17.7	17.8	20.5	25.4	29.9
Capital income	1.4	1.8	2.2	2.4	2.3	2.9	2.5	2.2	1.9
Total expenditure	35.9	36.1	37.4	37.3	36.5	36.8	33.0	34.4	35.6
Current expenditure	28.9	28.9	30.3	28.9	28.1	28.7	23.9	24.2	25.1
Interest	1.4	1.6	1.8	2.1	2.1	2.6	2.6	2.7	1.8
Capital expenditure	7.0	7.1	7.1	8.4	8.4	8.1	9.1	10.2	10.5
Primary balance	-3.2	-1.9	-1.9	-4.7	-6.7	-5.3	-2.9	0.4	6.4
Overall balance	-4.7	-3.5	-3.7	-6.8	-8.8	-7.9	-5.5	-2.3	4.6
Public debt^m									
Domestic ⁿ	13.8	16.7	19.4	26.0	28.7	30.7	31.6	31.4	29.0
External	46.4	47.5	46.4	50.7	51.5	58.8	52.3	47.8	26.9
Money and credit^o									
Domestic credit ^p	68.4	73.7	70.1	67.2	64.8	62.6	56.8	53.2	44.0
To the public sector	11.1	10.7	10.8	12.5	14.1	15.5	15.0	14.1	9.4
To the private sector	57.3	63.0	59.3	54.7	50.7	47.1	41.9	39.1	34.6
Liquidity (M3)	48.9	51.0	49.1	50.7	47.1	45.4	40.1	40.4	37.8
Currency outside banks and local-currency deposits (M2)	7.3	6.7	6.2	6.4	6.3	6.7	7.1	9.0	11.7
Foreign-currency deposits ^q	41.7	44.3	42.9	44.3	40.8	38.7	33.0	31.4	26.1

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, urban total; 1998, departmental capital cities. ^k Percentage of the economically active population, urban total; 1998, departmental capital cities. ^l Bank operations (61-90 days), in dollars. ^m Public and publicly guaranteed private debt is not included. ⁿ Domestic debt refers to central government debt. ^o The monetary figures are annual averages. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^q Refers to demand and time deposits, savings banks and other obligations of the banking sector to the private sector.

3. The main variables

(a) Economic activity

The sectors registering growth rates higher than that of GDP were manufacturing (8.1%), financial institutions, insurance, real estate and business services (6.0%), and crude oil and natural gas (4.8%). These activities had a 1.33%, 0.67% and 0.33% impact on GDP growth, respectively. In the manufacturing sector, textile performance was noteworthy, whilst the growth of associated credit played the most significant role in the performance of financial institutions. Textile activity benefited from preferential tariff treatment under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). Likewise, the agricultural, livestock, hunting, forestry and fishing sector expanded by 4.53%, contributing 0.7 percentage points to GDP growth.

On the demand side, total general government consumption grew by 3.3% and total private consumption

for households by 3.9%. The growth in government consumption was very similar to that of 2005, whilst household consumption grew 1.1 percentage points over the preceding year. Investment climbed 7.1%, an increase of three percentage points over 2005. The upsurge in investment had its origins in the increase in government investment. The national budget forecasts growth for the Bolivian economy at 5% for 2007. However, flooding at the beginning of this year associated with the El Niño phenomenon, mainly in the departments of Beni and Santa Cruz, make it unlikely that this target will be achieved. An ECLAC mission assessed the damage and loss caused by the natural disaster at US\$ 443 million, mainly in the agricultural and livestock sectors and in road infrastructure. The gross impact on GDP growth rates is estimated at 0.8 percentage points.

Table 2
BOLIVIA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	4.8	4.1	3.5	3.9	4.7	4.2	4.0	5.0	...	...
Goods exports, f.o.b. (millions of dollars)	544	669	745	777	864	1 002	1 139	1 064	961	...
Goods imports, c.i.f. (millions of dollars)	495	562	620	666	661	744	663	756	747	...
International reserve assets (millions of dollars) ^c	1 171	1 287	1 498	1 798	2 029	2 489	2 898	3 193	3 547	3 888
Real effective exchange rate (index: 2000=100) ^d	117.7	119.9	121.0	120.9	121.6	122.5	122.0	122.3	121.3	124.8
Consumer prices (12-month percentage variation)	5.7	6.4	5.5	4.9	3.7	3.5	4.3	4.9	7.2	6.6
Average nominal exchange rate (bolivianos per dollar)	8.06	8.09	8.07	8.02	8.00	8.00	7.99	8.00	8.00	7.96
Nominal interest rates (annualized percentages)										
Deposit rate ^e	1.7	1.6	1.6	2.1	2.2	2.2	2.8	2.5	2.5	2.4
Lending rate ^e	8.5	7.6	8.6	8.1	7.5	7.7	7.7	8.5	8.3	8.0 ^f
Interbank rate ^g	1.9	3.6	4.1	4.2	4.1	4.7	4.9	4.9	3.8	3.8 ^f
Domestic credit (variation from same quarter of preceding year) ^h	1.1	3.1	2.6	1.8	(4.0)	(4.2)	(2.4)	(1.7)	5.3	...
Non-performing loans as a percentage of total credit ⁱ	16.8	14.7	14.9	12.4	13.3	13.0	11.2	9.6	9.9	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Bank operations (61-90 days); three-month average, in dollars. ^f Data to May. ^g Repurchase rate, in dollars. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Refers to total credit extended by the banking system.

(b) Prices, wages and employment

Prices rose by 4.95% in 2006, a level which was very similar to the 2005 figure and fell within the Central Bank's target band of 3%-5%. Food and beverages reflected the greatest hikes on the consumer price index at 6.8%, and household furnishings and equipment at 5.9%. Core inflation dipped one percentage point, from 4.2% to 3.2%. In 2007, inflation has exceeded the projected range. Cumulative inflation to May stood at 2.8%, 1.4 percentage points higher than the figure for the same period in 2006. Annualized inflation to May 2007 was 6.4%, 1.9 percentage points higher than in May 2006. This was largely due to the contraction in supply and to the instability caused in the food markets by the aforementioned weather phenomena, the elimination of flour subsidies and the resulting impact on the price of bread and other food products, and the growing pressure of demand in the Bolivian economy. Inflation in 2007 is expected to close at around 5%.

Unlike 2005 and 2006, the rate of unemployment is expected to decline in 2007 since both manufacturing and agriculture, both of which are significant for their impact

on job creation, were among the sectors reporting the highest growth. However, there are no official statistics available to confirm this assumption.

(c) The external sector

The performance of the external sector is largely linked to the 20.4% improvement in the terms of trade derived from the boom in the international prices of minerals and hydrocarbons. In 2006, the balance of payments posted a surplus of US\$ 1.516 billion, US\$ 1.012 billion higher than in 2005. Disaggregated into individual external accounts, the results show that the current account closed with a surplus of US\$ 1.319 billion, US\$ 623 million higher than in 2005. The capital account reported a balance similar to that of 2005.

The merchandise trade balance yielded a surplus of US\$ 1.054 billion, representing a 130.6% increase on the balance for 2005. Dynamic merchandise exports generated a rise of US\$ 1.071 billion in absolute terms, of which 50.7% and 36.7% are related to hydrocarbon and mineral extraction, respectively. The deficit on the services trade balance widened by almost US\$ 151 million.

Private current transfers, including remittances, grew by US\$ 251 million.

In keeping with the balance of payments results, net international reserves registered a rise of US\$ 1.464 billion or 85.4% in relative terms, to an unprecedented total of US\$ 3.178 billion.

In the first quarter of 2007, the balance-of-payments of the Bolivian economy posted a surplus which was reflected in the expansion of net international reserves by US\$ 355 million,

US\$ 55 million higher than the increase for the same period in 2006. The current account balance once again yielded the highest surplus, US\$ 246 million, whilst the capital account posted a positive balance of US\$ 46 million. Merchandise exports posted a similar balance to that of the first quarter of 2006. Export sales of minerals soared by 48.3% and agriculture, livestock, hunting, forestry and fishing by 0.45%, whilst manufacturing and hydrocarbons exports slipped by 3.89% and 1.96%, respectively.

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Brazil

1. General trends

The Brazilian economy increased its growth rate during 2006 and the first few months of 2007. Although the country is growing more slowly than the average for the region and other emerging economies, its economy has nonetheless expanded for 15 consecutive quarters. GDP rose by 3.7% in 2006, with an increase of around 4.5% expected in 2007. In 2006, cumulative inflation fell to 3.1%, while external indicators also showed favourable results. The value of merchandise exports climbed by 16% and merchandise imports by 24%, which resulted in a wide trade surplus (US\$ 46.0 billion). International reserves stood at US\$ 143.0 billion in June 2007, which is the equivalent of 81% of total external debt (US\$ 176.0 billion in March 2007). Real wages increased for the second year in a row in 2006 (4.0%), while the fiscal balance posted a primary surplus for the seventh year running (3.9% of GDP in 2006). Net public debt shrank to 45% of GDP.¹

Factors contributing to this performance included the favourable external situation and the consolidation of the domestic market. In terms of the world economy, 2006 saw a continuation of good prices for the country's main export products, as well as increased access to international financial markets. During 2006, the unit value index for merchandise exports rose by 12.5%, but the expansion of GDP was mainly offset by the low and volatile investment rate and the smaller contribution made by the external sector. In terms of volume, exports expanded by less (3.3%), while imports shot up (16.1%). Although the external sector made a positive contribution to growth between 2001 and

2005, this figure was negative at almost -1% in 2006. The investment rate as a percentage of GDP remained at around 16.1% between 2003 and 2006, whereupon the figure rose to 16.8% despite increased gross fixed capital formation (9.2% in 2004, 3.6% in 2005 and 8.7% in 2006). Such volatile investment rates could be due to high real interest rates (although the central bank has recently been applying a policy of gradually reducing the monetary policy rate), which might be combining with the appreciation of the Brazilian real to affect certain investments in tradable goods. Another factor could be the uncertainty surrounding public investment projects and sectoral policies.

¹ In March 2007, the Brazilian Geographical and Statistical Institute (IBGE) published the new series of national accounts of Brazil for the period 2000-2005. These measurements use 2000 as a reference year and involve new methodologies for calculating the value of some services and the government sector. For 2000, the new calculations give a GDP for 2000 that is 11% higher than the GDP calculated using the previous methodology. Furthermore, the growth rates of GDP are also higher than those published previously. For a detailed description of the new methodology and results of calculation, see the Brazilian Geographical and Statistical Institute (IBGE), "Sistema de Contas Nacionais - Brasil 2000-2005" [online] <http://www.ibge.gov.br/home/estatistica/economia/contasnacionais/referencia2000/2005/default.shtm>.

The trends observed in 2006 have continued into 2007. Results from the first quarter confirm an upturn in gross fixed investment, which expanded by 7.2% to represent 17.2% of GDP. During 2007, investment is expected to rise on the back of the government's commitment to reviving its investments and increased confidence in the expansion of the domestic market (even the construction sector). In the first three months of 2007, the unit value index for merchandise exports was up 9.2% on the year-earlier period. Net inflows of foreign direct investment (FDI) stood at US\$ 8.5 billion in the first quarter, which was 10 times higher than for the same period in 2006.

In the domestic context, consumption continued to rise, with family consumption expanding by 4.3% in

2006 and 6% in the first quarter of 2007, and government consumption rising by 3.6% in 2006 and 4% in the first three months of this year. Increased consumption has mainly been financed through credit, which grew by 21% between March 2006 and March 2007, on the strength of lower interest rates and longer maturities. In the public sector, there has been a hike in the government's current expenditure, which is mainly attributable to higher social security payments and other expenditure relating to personnel and maintenance.

On the demand side, the growth of GDP in 2007 may be due to the favourable combination of falling interest rates, higher credit, an increased wage bill and greater public investment associated with the Growth Acceleration Programme (PAC) (see below).

2. Economic policy

In recent months, the government has focused on ways of stepping up the rate of growth while maintaining fundamentals such as the inflation target, fiscal responsibility and the floating exchange-rate regime that have characterized economic policy since 1999.

In January 2007, the federal government announced the adoption of the Growth Acceleration Programme (PAC), which covers the period 2007 to 2010. The idea behind the Programme is that the low growth rate of investment has much more to do with infrastructure and residential construction than with low investment in machinery and equipment.² Implementation of the Programme involves the following five areas: (i) investment in logistics, energy, social and urban infrastructure; (ii) increased credit; (iii) improved investment conditions to boost the use of private resources; (iv) selective reduction of taxes and streamlining of the country's tax structure; and (v) long-term fiscal policies aimed at providing macroeconomic consistency and sustainability for all the above-mentioned

measures. Planned investment represents 503.0 billion reais, over half of which will be channelled into energy, and more specifically the oil sector (which receives more than a third of investment), electricity and renewable fuels. Another priority sector is housing, which will receive 21.1% of the planned investment. The logistics sector (highways, airports and ports) will absorb almost 11% of the total.

(a) Fiscal policy

In 2006, the primary surplus target was 3.8% of GDP, and the actual surplus came in sufficiently close at 3.9% of GDP.³ This was mainly attributable to non-recurrent federal government revenues that corresponded to, inter alia, the payment of dividends by banks and federal enterprises (around 0.5% of GDP). The government also began to receive profits from investment carried out as part of the pilot programme on public investment.⁴ The primary surplus target for the public sector in 2007 is 3.8%

² In 2006, gross fixed capital formation as a percentage of GDP was 16.8%, which was similar to the figure recorded in 2000. In the construction sector, this percentage has dropped from 8.3% in 2000 to 7.1% in 2005, while for the machinery and equipment sector the proportion rose from 7.2% to 7.9% in the same period.

³ Under the previous series of national accounts, the primary surplus target was 4.25% of GDP, and the actual surplus came in at 4.32% of GDP.

⁴ The pilot programme on public investment was launched in 2005, with the aim of improving the quality and efficiency of public spending. Expenditure related to this programme can be discounted from the primary result target of the federal government, thanks to the high fiscal profitability expected from the implementation of the investment projects involved.

of GDP. In the first quarter of 2007, which was generally favourable to public receipts, the primary surplus was 4.6% of GDP, compared with 4.9% of GDP for the year-earlier period. However, the figures for 2006 and 2007 might be affected by the fact that the Ministry of Finance has authorized subnational governments to increase their level of borrowing, rather than maintaining a surplus of almost 1% of GDP.

In addition to investment projects, the proposed Growth Acceleration Programme also provides for two long-term fiscal measures. The first, which has already become law, refers to future increases in the minimum wage, which is used as the basis for pension payments, social benefits and social welfare programmes. According to the law, between 2008 and 2011 annual increases must correspond to the sum of the growth rate of GDP from two years previously, and the variation in the national consumer price index from the previous year.⁵ The other proposed measure, which is still being debated by Congress, would cap the annual increase in the federal government's expenditure on personnel (including retirement and other pensions) by linking it to the variation in the extended national consumer price index plus 1.5%. The rule would be applied for 10 years from 2007, with the exception being those wage agreements signed during 2006. It is hoped that these two measures, which will directly affect more than a third of primary federal expenditure, will cap the increase in investment expenditure without impacting the primary surplus or requiring new increases in the level of tax collection.

(b) Monetary policy

Monetary policy remained focused on ensuring compliance with the 4.5% inflation target. Despite the gradual reduction in the benchmark interest rate (Special System of Clearance and Custody (SELIC)) from September 2005, the real annual interest rate has remained at around the 10% mark, despite the fact that the interest rate and inflation expectations came in under target. In September 2005, the annual SELIC rate was 19.75%, and has gradually fallen since then, to stand at 13.25% in late 2006 and 12% in May 2007. The central bank has long been concerned about the economy's supply capacity (including increased access to imports) to satisfy the increase in domestic demand.

Monetary aggregates continued to swell considerably (with the monetary base up by 19.6% and the money

supply up by 17.2% in 2006). Total aggregates (M4) expanded for the second consecutive year by an annual rate of about 19%. This increased liquidity was the result of purchases of international reserves in 2006 and the first quarter of 2007 (US\$ 55.7 billion in 15 months), which were partly neutralized by the fiscal balance and the effect of increased public debt pushed up by high interest rates. Credit expanded by a total of 21% in 2006, which was similar to the rise in 2005. Growth in personal loans, in contrast, slowed from 37% in 2005 to 25% in 2006, while the growth rate of business loans rose from 18% to 22% over the same period. Loans repayable by direct payroll deduction have also seen their growth slump from over 80% in 2005 to 52% in 2006. Their growth rate slowed to 47% between March 2006 and March 2007, by which time they represented 55.4% of all personal loans.

In 2006 net public sector debt shrank by almost 1.5% of GDP to 45%, mainly as a result of higher international reserves, that now are more than 1% of GDP higher than the external debt of the public sector. Domestic debt represents 47% of GDP, and is significantly affected by higher interest, although increased confidence in the reduction of domestic debt has enabled maturities to be extended and the use of exchange-rate indexed bonds to be reduced. In March 2007, the average bond maturity was 32 months, compared with 27 months in December 2005. Also, fixed-rate bonds now represent more of the total debt (37.3%), which is higher than the 36.2% that corresponds to SELIC-indexed bonds. At the end of 2002, bonds indexed to the exchange rate and the SELIC rate accounted for 75.4% of total debt. In March of that year, those same bonds had represented just under 38%, of which only 1% corresponded to indexed bonds.

(c) Exchange-rate policy

After rising to almost four reals in 2002, the exchange rate against the United States dollar stood at less than two reals in June 2007. The local currency appreciated by 9.9% in 2006, and then by as much as 10.3% up to June 2007. In real terms, the currency depreciated by 6.7% against the dollar and by 2.1% against a basket of currencies between April 2006 and April 2007.

The balance-of-payments situation, the abundant supply of international resources, and the attractiveness of financial operations in reals due to the spread between domestic and external interest rates have resulted in hefty inflows of foreign exchange. Another contributing factor

⁵ The increase of the minimum wage in year t will correspond to the sum of the variation in the national consumer price index in year $t-1$ and the growth rate of GDP in year $t-2$.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	0.0	0.3	4.3	1.3	2.7	1.1	5.7	2.9	3.7
Per capita gross domestic product	-1.5	-1.2	2.8	-0.2	1.2	-0.3	4.2	1.5	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.4	6.5	2.7	6.1	6.6	5.8	2.3	1.0	4.1
Mining	3.6	-4.4	9.1	2.2	11.6	4.7	4.3	9.8	6.0
Manufacturing	-4.8	-1.9	5.7	0.7	2.4	1.9	8.5	1.1	1.6
Electricity, gas and water	1.2	0.5	4.2	-6.2	2.9	4.0	8.4	5.0	3.6
Construction	1.1	-2.9	2.0	-2.1	-2.2	3.3	6.6	1.2	4.6
Wholesale and retail commerce, restaurants and hotels	-1.9	-2.2	4.5	0.0	0.0	-0.5	7.5	3.5	4.8
Transport, storage and communications	3.6	2.8	10.1	3.6	6.7	3.6	5.7	4.3	2.8
Financial institutions, insurance, real estate and business services	1.2	1.6	3.4	3.3	3.7	0.5	3.8	5.5	5.4
Community, social and personal services	2.3	2.6	2.3	0.7	4.2	1.5	5.0	1.8	2.9
Gross domestic product, by type of expenditure									
Consumption	0.2	0.7	3.0	1.2	2.6	-0.3	3.9	4.1	4.2
General government	3.2	1.7	-0.2	2.7	4.7	1.2	4.1	1.9	3.6
Private	-0.6	0.3	3.9	0.7	1.8	-0.7	3.8	4.7	4.3
Gross fixed capital formation	-0.3	-8.2	5.0	0.4	-5.2	-4.6	9.1	3.6	8.7
Exports (goods and services)	4.9	5.7	12.9	10.0	7.4	10.4	15.3	10.1	4.6
Imports (goods and services)	-0.1	-15.1	10.8	1.5	-11.9	-1.6	14.4	9.3	18.1
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	17.0	16.4	18.3	18.0	16.2	15.8	17.1	16.0	16.8
National saving	13.1	12.1	14.5	13.8	14.7	16.5	18.9	17.6	18.0
External saving	4.0	4.3	3.8	4.2	1.5	-0.8	-1.8	-1.6	-1.3
Millions of dollars									
Balance of payments									
Current account balance	-33 416	-25 335	-24 225	-23 215	-7 637	4 177	11 679	13 985	13 528
Goods balance	-6 575	-1 199	-698	2 650	13 121	24 794	33 641	44 703	46 074
Exports, f.o.b.	51 140	48 011	55 086	58 223	60 362	73 084	96 475	118 308	137 470
Imports, f.o.b.	57 714	49 210	55 783	55 572	47 240	48 290	62 835	73 606	91 396
Services trade balance	-10 111	-6 977	-7 162	-7 759	-4 957	-4 931	-4 678	-8 309	-9 408
Income balance	-18 189	-18 848	-17 886	-19 743	-18 191	-18 552	-20 520	-25 967	-27 444
Net current transfers	1 458	1 689	1 521	1 638	2 390	2 867	3 236	3 558	4 306
Capital and financial balance ^d	16 118	8 530	32 286	19 764	-3 542	-451	-5 073	13 606	17 041
Net foreign direct investment	26 002	26 888	30 498	24 715	14 108	9 894	8 339	12 550	-8 469
Financial capital ^e	-9 884	-18 358	1 788	-4 951	-17 650	-10 345	-13 412	1 056	25 510
Overall balance	-17 298	-16 805	8 061	-3 450	-11 178	3 726	6 607	27 590	30 569
Variation in reserve assets ^f	7 970	7 822	2 262	-3 307	-302	-8 496	-2 244	-4 319	-30 569
Other financing ^g	9 328	8 983	-10 323	6 757	11 480	4 769	-4 363	-23 271	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	72.3	108.2	100.0	120.1	132.1	131.0	124.7	101.8	90.6
Terms of trade for goods (index: 2000=100)	111.9	97.0	100.0	99.6	98.4	97.0	97.9	99.2	103.8
Net resource transfer (percentage of GDP)	0.9	-0.2	0.6	1.2	-2.0	-2.6	-4.5	-4.0	-1.0
Total gross external debt (millions of dollars)	224	226	217	210	211	215	201	169	173
Net profits and interest (percentage of exports) ⁱ	-30.8	-34.1	-27.7	-29.2	-26.0	-22.2	-18.8	-19.3	-17.5
Average annual rates									
Employment									
Labour force participation rate ^j	58.2	57.1	58.0	56.4	55.1	57.1	57.2	56.6	56.9
Open unemployment rate ^k	7.6	7.6	7.1	6.2	11.7	12.3	11.5	9.8	10.0
Visible underemployment rate ^k	...	...	...	...	4.1	5.0	4.6	3.7	4.1
Annual percentages									
Prices									
Variation in consumer prices (December-December)	1.7	8.9	6.0	7.7	12.5	9.3	7.6	5.7	3.1
Variation in wholesale prices (IPA-DI) (December-December) ^l	1.5	28.9	12.1	11.9	35.4	6.3	14.7	-1.0	4.3
Variation in nominal exchange rate (December-December)	8.3	48.9	8.4	18.5	53.2	-18.3	-8.1	-12.1	-8.6
Variation in average real wage	0.1	-4.5	-1.1	-4.9	-2.1	-8.8	0.7	-0.3	3.5
Nominal deposit rate ^m	14.5	12.3	8.4	8.6	9.2	11.1	8.1	9.2	8.3
Nominal lending rate ⁿ	68.3	64.8	41.9	41.1	44.4	49.8	41.1	43.7	40.0

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central government^o									
Total income ^p	15.8	16.4	16.5	17.2	17.9	17.4	18.1	18.8	19.4
Tax income ^q	14.4	15.6	15.8	16.4	17.4	16.9	17.4	18.3	18.6
Total expenditure	20.6	22.8	19.4	20.7	23.7	19.7	19.5	22.2	22.6
Interest ^r	5.6	8.3	4.7	5.1	8.0	4.6	3.9	5.8	5.3
Primary balance ^r	0.5	2.1	1.7	1.7	2.2	2.3	2.7	2.6	2.2
Overall balance ^s	-5.0	-6.2	-2.9	-3.4	-5.9	-2.3	-1.2	-3.2	-3.1
Central government public debt									
Domestic	23.6	29.7	29.9	31.6	37.9	34.0	31.0	30.9	31.7
External ^t	19.7	21.9	22.7	23.7	24.6	24.6	24.5	28.7	33.7
	4.0	7.8	7.2	7.9	13.4	9.4	6.4	2.2	-2.0
Money and credit^u									
Domestic credit ^v	47.4	63.4	64.9	67.6	68.0	69.8	69.6	71.6	79.0
To the public sector	16.4	32.4	33.9	35.7	37.1	39.7	40.0	38.9	38.1
To the private sector	30.9	30.6	30.6	31.6	30.6	30.0	29.6	32.6	38.1
Others	-	0.4	0.4	0.3	0.3	0.2	0.1	-	-
Liquidity (M3)									
Currency outside banks and local-currency deposits (M2)	25.1	24.4	22.6	22.3	23.6	23.0	22.5	24.2	25.9

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

^a Preliminary figures. ^b Index based on the previous year's prices in local currency. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; six metropolitan areas. ^k Percentage of the economically active population; six metropolitan areas. ^l IPA-DI: wholesale price index (acronym in Portuguese). ^m Certificates of deposit. ⁿ Pre-set corporate rate. ^o Includes federal government and the central bank. ^p Refers to cash income, equivalent to total income less transfers to states and municipalities. ^q Gross tax revenues. ^r Based on the "below-the-line" criterion. Central Bank of Brazil. ^s Includes methodological adjustment and statistical discrepancy. ^t Refers to net public external debt. ^u The monetary figures are annual averages. ^v Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

was the elimination of the tax on the purchase and sale of federal public bonds for foreign investors in February 2006. The central bank purchased international reserves in an attempt to reduce the effects of this inflow of foreign exchange, but with limited success. In June 2007, the

central bank announced a series of accounting measures, including stricter rules on the capital adequacy ratio for financial institutions and their foreign-exchange transactions, with a view to curbing the increase in their speculative operations on the spot and futures markets.

3. The main variables

(a) Economic activity

GDP is expected to grow by almost 4.5% in 2007, which is higher than the 2.9% recorded in 2005 and the 3.7% in 2006. Growth is expected in all sectors, especially those related to the domestic market (services in particular). Agriculture is expected to expand by 4.5% in 2007, in a continuation of the recovery process that began in 2006 (when agriculture expanded by 4.1%, following a mere 1% expansion in 2005). In the first quarter of 2007,

agriculture increased by 2.1%, compared with a 2.7% decline during the year-earlier period.

Compared with the first quarter of 2006, the services sector grew by 4.6% in the first three months of 2007, thanks to a buoyant domestic market. Within the services sector, particularly good performances were turned in by information technology services, the financial system and commerce, which all grew by more than 6%. Mining (4.1%) and public utility services (3.9%) also expanded during the period in question.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	2.8	2.8	3.1	3.1	4.1	1.5	4.5	4.8	4.4	5.4
Goods exports, f.o.b. (millions of dollars)	24 451	29 226	33 042	31 589	29 387	31 513	39 811	36 758	33 919	39 212
Goods imports, c.i.f. (millions of dollars)	16 152	17 880	20 068	19 501	20 130	21 394	25 217	24 608	25 237	27 339
International reserve assets (millions of dollars) ^c	61 960	59 885	57 008	53 800	59 824	62 670	73 393	85 839	109 531	147 101
Real effective exchange rate (index: 2000=100) ^d	113.6	103.9	97.6	92.1	89.6	91.2	91.4	90.5	88.7	85.0
Urban unemployment rate	10.5	10.1	9.5	9.2	9.9	10.3	10.4	9.2	9.8	10.0
Consumer prices (12-month percentage variation)	7.5	7.3	6.0	5.7	5.3	4.0	3.7	3.1	3.0	3.7
Average nominal exchange rate (reais per dollar)	2.67	2.48	2.34	2.25	2.19	2.18	2.17	2.15	2.11	1.98
Average real wage (variation from same quarter of preceding year)	-1.5	-1.9	0.6	1.3	1.9	5.1	2.9	4.3	3.4	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	8.5	9.4	9.9	8.9	8.3	8.2	8.6	8.2	8.2	8.1
Lending rate ^f	43.0	44.4	44.2	43.0	42.6	41.0	39.1	37.4	36.8	35.5 ^g
Interbank interest rate ^h	18.4	19.5	19.6	18.7	17.2	15.7	14.6	13.5	12.9	12.4 ^g
Sovereign bond spread (basis points) ⁱ	458.3	414.3	344.6	311.1	234.6	254.0	233.0	192.0	167.0	160.0
Stock price index (national index to end of period, 31 December 2000 = 100)	174.4	164.2	207.0	219.2	248.7	240.1	238.9	291.5	300.2	356.5
Domestic credit (variation from same quarter of preceding year) ^j	13.3	12.8	14.8	17.4	17.5	18.7	20.2	21.5	19.8	20.1 ^g
Non-performing loans as a percentage of total credit ^k	3.7	3.5	4.1	4.2	4.6	4.7	5.1	5.0	4.9	...

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

^a Preliminary figures. ^b Index based on the previous year's prices in local currency. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Interest rate on savings. ^f Pre-set corporate rate. ^g Data to May. ^h SELIC (Special System for Settlement and Custody) rate. ⁱ Measured by J.P.Morgan's EMBI+ index. ^j Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^k Refers to total credit extended by the financial system.

Manufacturing remained the weakest performer, despite 2.8% growth in the first quarter of 2007 compared with the year-earlier period. This pattern reflects the trends of the two previous years: in the 2005-2006 biennium, the average annual growth rate of GDP was 3.3% while manufacturing value added climbed by an annual average of only 1.4%.

The main cause of this is the reduced competitiveness of the manufacturing industry following currency appreciation, and also competition from imported products. The clearest manifestation is the considerable slowdown in the growth of manufacturing exports, whose volumes rose by 19.2% in 2004, 9.3% in 2005 and 3.3% in 2006. Import volumes, on the other hand, climbed by 16% in 2006 and by 23.3% in the first quarter of 2007 compared with the year-earlier period.

The implication of the above is that the supply of domestically manufactured goods has failed to keep up with demand. In other words, the supply of manufactured goods has shifted abroad, thereby slowing the expansion

of domestic GDP. Idle capacity in the manufacturing industry suggests that the problem is not exclusively one of insufficient supply, but also one of reduced competitiveness in some manufacturing subsectors.

(b) Prices, wages and employment

Consumer price variation was 3.1% in 2006, and is expected to be 3.6% in 2007 (with 4% estimated for 2008), according to a survey of the main market agents carried out by the central bank. Inflation fell for the fourth year running and came in on target for the fifth time since the target range was first set in 1999. The results for 2006 were partly attributable to the appreciation of the local currency, which has limited the impact of high international commodity prices (for petroleum and food, among others) on domestic prices. In addition, administered prices, especially for energy and telecommunications services, accounted for a smaller proportion of the total (4.3% in 2006 compared with 9.0% in 2005).

In the first five months of 2007, cumulative inflation stood at 1.79%, which was similar to the 1.75% recorded in the year-earlier period, while the 3.18% variation between May 2006 and May 2007 remained below the target of 4.5%. Expectations for 2007 and 2008 are positive as there is little chance of a depreciation of the Brazilian real and price increases for food and services are predicted to remain small.

Employment rose in 2006 thanks to the creation of 520,000 new jobs. The increase was observed in the economy's most buoyant sectors: services (4.0%) and commerce (2.9%) and, to a lesser extent, manufacturing (2.0%). The proportion of formal sector employment continued to expand, albeit more slowly. The highest rate of formal employment in the monthly employment survey (54.3%) was recorded in April 2007. In 2006, the average employment rate was 10%, which is slightly higher than the 9.8% observed in 2005. In May 2007, the unemployment rate stood at 10.1% for the third month running, and this downward rigidity could be attributable to the increase in the number of jobseekers following an upturn in economic activity.

(c) The external sector

Brazil's external accounts continued to perform well, continuing the trend that was first observed in 2004. In 2006, the balance of payments posted a surplus of US\$ 30.6 billion, while the trade surplus amounted to a record US\$ 46.1 billion. Merchandise exports totalled US\$ 137.5 billion (16.2% more than in 2005), while merchandise imports represented US\$ 91.4 billion (24.3% higher than the previous year). In the first four months of 2007, the value of exports was US\$ 46.5 billion, while the value of imports stood at US\$ 33.5 billion. The resulting surplus of almost US\$ 13.0 billion was 5.4% wider than the one posted in the year-earlier period. The growth rate of exports (18.5% between January and April, compared with the same period in 2006) was lower than the rise in imports (24.6% in the first four months of the year).

Export growth continued to be spearheaded by the increase in prices (9.4% in the first four months of 2007, in relation to the same period in 2006) rather than the rise in volumes (8.3%). Export buoyancy was mainly based on commodities (which posted volume increases of 19.4% and price hikes of 8.5%) and semi-manufactures (prices up by 18.4% and volume by 2.8% between January and April 2006, in comparison with the previous year). In terms of imports, there was yet another upturn in the

volume traded (up 22.1% on the year-earlier period) and a 2.2% variation in prices.

The surge in imports is a reflection of the recovery in domestic activity and currency appreciation. Imports of all types of merchandise expanded, as volumes swelled considerably. More specifically, the first four months of 2007 compared with the same period of 2006 saw higher imports of consumer durables (50.3% increase in volume and 0.9% rise in prices), capital goods (volumes up by 32.0% and prices down by 4.4%), consumer non-durables (volume growth of 27.2% and price reductions of 9.0%) and fuel (15.2% more volume and prices 2.8% lower).

Current transactions posted a surplus of US\$ 13.5 billion in 2006, which represents almost 1.24% of GDP. In the first quarter of 2007, the surplus stood at US\$ 1.69 billion, compared with US\$ 1.57 billion during the year-earlier period.

The income balance improved slightly in the first three months of 2007, with a deficit of US\$ 5.8 billion, which was smaller than the US\$ 6.9 billion deficit accumulated between January and March 2006. Net interest payments resulted in a deficit of US\$ 3.4 billion, which was wider than the US\$ 2.7 billion deficit from the year-earlier period. Net profit remittances fell to give a deficit of US\$ 3.1 billion, compared with the US\$ 3.6 billion deficit registered between January and March 2006.

In the first quarter of 2007, the capital and financial account surplus of US\$ 21.9 billion was over five times wider than the US\$ 4.0 billion surplus recorded in the year-earlier period. This was partially due to increases in: net foreign direct investment (from US\$ 826 million to US\$ 8.5 billion), portfolio investment (from US\$ 6.6 billion to US\$ 9.3 billion) and other investment (which went from a deficit of US\$ 3.6 billion to a surplus of US\$ 4.0 billion). As a percentage of GDP, foreign direct investment swelled from 1.56% during January-March 2006 to 2.59% of GDP in the first quarter of 2007.

Total external debt, which stood at US\$ 172.4 billion at the end of December 2006, edged up to US\$ 175.9 billion in March 2007, primarily due to a rise in the short-term debt of the private sector and the non-financial public sector. There has been a considerable improvement in the country's external indicators, with a comparison between the end of 2002 and March 2007 revealing a debt-servicing-to-export ratio that has fallen from 82.7% to 41.9%; a debt-interest-to-export ratio down from 23.6% to 10.6%; a fall in the total-debt-to-GDP ratio from 41.8% to 16.1%; and a rise in the ratio between international reserves and short-term debt from 64.6% to 231.2%.

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Chile

1. General trends

In a year that saw the new government take up office in March, the country's economy expanded by 4.0% in 2006, which was lower than the figures from the previous two years and initial projections. This was due to declining private and public investment, falling government consumption and the larger proportion of imports within private consumption.

Against a backdrop of reduced economic buoyancy and lower fuel prices, inflation dropped to 2.6%. The labour-market situation improved thanks to a surge in formal employment, moderate increases in real wages and a fall in the unemployment rate from 9.2% to 7.7%.

Generally speaking, the external environment remained favourable for Chile, and this was reflected in good prices for its exports and smaller-than-expected increases in the prices of its import products. As a result, the current account posted a surplus of 3.5% of GDP.

In early 2007, the balance of risks seemed more favourable than expected at the beginning of 2006. More specifically, the slowdown in the United States occurred in an orderly and gradual manner, and its effects on other economies (Chile's export markets) were minimal. There were no significant rises predicted in the Federal Reserve interest rate, as any increases

seem to have been put on hold. The economies of China and other countries important for Chile's foreign trade remained buoyant, which boded well for continuingly high export prices. At the same time, oil prices fell during the second half of 2006, as both supply and certain geopolitical risk factors settled down somewhat. Although supply problems with gas from Argentina did materialize, this had only moderate effects. On the domestic level, the technical and labour issues that had hurt mining production in the previous year have now been resolved.

In this context, and with inflation under control, the central bank decided to reduce the monetary policy rate by 25 basis points to 5% in January 2007. This, combined with a public budget based on an 8.9% projected rise in expenditure and signs of a gradual recovery of investment, points to GDP growth of almost 6% for 2007.

2. Economic policy

(a) Fiscal policy

The government, which took office in March 2006, continued to apply a fiscal policy focused on achieving a structural surplus of 1% of GDP, with the target set to become 0.5% from 2008. Mainly as a result of high copper

and molybdenum prices, fiscal revenues swelled from 23.7% to 25.9% of GDP, while expenditure fell from 19.1% of GDP to 18.2%. As a result, the actual surplus stood at 7.7% of GDP. Unlike in other cases, however, higher copper prices are not resulting, *pari passu*, in an equivalent rise in public spending. In fact, a large proportion of such

income is saved in funds set up to stabilize expenditure and prefinance pension liabilities. As a result, the policy framework is becoming less procyclical, thereby reducing the negative impact of external fluctuations.

The budget for 2007 provides for an 8.9% rise in public spending, which is expected to be one of the main determining factors in the increase in economic activity during the year.

Following the scheduled redemption of pension recognition bonds, repurchase of sovereign bonds issued on the international market and advance debt payments to the central bank and multilateral agencies, central government debt fell from 7.5% of GDP in 2005 to 5.3% of GDP in 2006. Thanks to the accumulation of assets, the treasury posted a creditor position equivalent to 7% of GDP.

The policy of issuing nominal and indexed bonds to maintain the domestic market yield curve and develop the local capital market was suspended in 2006 but reintroduced in 2007. The equivalent of US\$ 700 million was then issued on the national market. No bonds have been issued on the external market since January 2004.

(b) Monetary and exchange-rate policy

The central bank continued to implement a monetary policy aimed at maintaining annual inflation at around 3% (within a range of 1% on either side) over the next two years. In the first half of 2006, the central bank took action to rein in monetary stimulus, and established a monetary policy rate of 5.25% at a time when the indicators of underlying inflation were showing signs of rising beyond the target range. From August 2006, increases in the monetary policy rate were temporarily suspended amidst signs of lower-than-expected growth, a smaller narrowing of production-demand gaps, indicators of a slower increase in unit labour costs and fuel prices, and inflation expected to be in the middle of the target range. In January 2007, in the light of the above-mentioned improvement in the balance of risks, the central bank reduced the monetary policy rate to 5%. Given that more recent data point to the economic upturn being greater than expected, and with inflation under control, the monetary policy rate is not expected to fall. Indeed, increases should not be ruled out in the second half of the year.

Along with the above monetary policy, the central bank is implementing a freely floating exchange rate, in a context of relatively high integration of local and international markets. As a result, the exchange rate is influenced by many variables that determine the country's external liquidity. The peso has appreciated as the value of the United States dollar dropped against other reserve currencies, in a context of low sovereign

risk and improved terms of trade. This trend has recently intensified as expectations of a lower monetary policy rate disappeared. For this reason, and given the need to increase sales of dollars in order to finance higher public spending, downward pressure on the foreign-exchange market is expected to continue. Those sectors facing strong foreign competition and some export sectors are also expected to ask the central bank to intervene in what they see as an excessive appreciation of the peso.

In aggregate terms, there has been relative stability in various nominal exchange-rate indices during the past two years, following the uncertainties that affected the regional and worldwide economy and in 2003 pushed the exchange rate up to its record level for the decade. The real effective exchange rate, which takes account of exchange-rate and price variations in Chile's main trading partners, posted an average appreciation of 4.2% in 2006 compared with the average in 2005, while the bilateral exchange rate recorded a 5.3% appreciation. Nonetheless, according to the central bank, the variables that affect the balance of payments suggest that the real exchange rate is fairly close to its equilibrium rate.

That is not to say that, in disaggregated terms, some sectors have not been harmed by the appreciation of the peso. The real exchange rate, which affects imports of intermediate and consumer goods, appreciated by more than the aggregate rate in real terms. From another perspective, the relative price of import substitutes fell by around 15% between 2005 and 2006, which is apparently attributable to increased international trade integration and, in particular, greater market penetration of imports from China.

(c) Other policies

Congress approved the second reform of the capital market, aimed at modernizing its operations, improving access to credit for small and medium-sized enterprises and stimulating the development of venture capital. A series of tax incentives was also adopted to boost business innovation. In response to low levels of investment during 2006, the government submitted a bill to Congress concerning the use of tax incentives to increase investment. That initiative will probably be supplemented by mechanisms to help small and medium-sized enterprises overcome the difficulties of paying tax and social security arrears while fulfilling their other financial commitments, as these factors may affect their production capacity and level of solvency.

In other matters, 2007 was also witness to parliamentary debates on two major undertakings: a pensions reform aimed at improving solidarity within the system, and the modernization of the education system to improve

quality (especially in schools attended by pupils from low-income families).

The implementation phase for a new public transport system for Santiago was launched in 2007. The system

has faced many problems, and the potential effects on economic activity remain unclear. The authorities hope to overcome most of the problems during the course of the year.

3. The main variables

(a) Economic activity

In 2006, the Chilean economy expanded by 4.0%, compared with 5.7% in 2005. Aggregate demand was determined by three main factors. First, there has been a slowdown in the pace of both public and private investment. Lower private investment was mostly attributable to the considerable inventory accumulation during the previous year and the smaller demand for new housing in the face of rising interest rates and harsher credit conditions. As the new government took over, there were some late starts on infrastructure projects and a slower implementation of the investment budget, although this situation was turned around in the fourth quarter. Second, government consumption also lost some momentum, consistently expanding by less than the growth in GDP. Third, although growth in private consumption remained buoyant, there was a striking and surprising change in its composition. This consisted of a rise in the proportion of imported components, as prices dropped thanks to a lower real exchange rate (which affects imported consumer goods). As a result, the import substitution sectors that produce consumer goods have faced stiff foreign competition which, along with higher energy costs compared with previous years, explains why GDP has only grown by 4% despite a 6% rise in domestic demand. On the supply side, those factors combined with unexpected technical restrictions on the production capacity of mining and fishing, which were reflected in a slower growth rate for exports in real terms.

In the first quarter of 2007, economic activity indicators displayed faster growth than expected, which has led to an upwards revision of the growth projections for the year (which are now in the upper portion of the 5% to 6% range). In March, the monthly indicator of economic activity increased by 6.5%, which is higher than the original estimate and comes on the heels of increases in excess of 5% during the three previous months. The industrial sales index is showing signs of increased buoyancy.

(b) Prices, wages and employment

At the beginning of 2006, inflation was slightly above the ceiling of the target band set as part of monetary policy. In the second half of the year, however, inflation followed a downward trend, in keeping with low fuel prices, the gradual narrowing of the production-demand gap and the positive performance of unit labour costs. As a result, the year closed with a twelve-month variation in the consumer price index (CPI) of 2.6%, while trend inflation indicators and expectations pointed to inflation being under control and in the middle of the target range.

In the first five months of 2007, the CPI continued to reflect inflation that was in keeping with the target set as part of monetary policy, with a 12-month variation of less than 3% and reductions in underlying inflation.

Wage patterns were also in keeping with the inflation target, with a moderate but steady slowdown in growth during 2006. In 12 months, the general hourly wage index rose by 5.4% in nominal terms, or 2% in real terms. Unit labour costs, which displayed an upward trend in early 2006, posted slower growth as productivity rose. Trend indicators suggest that these costs will remain consistent with inflation targets during 2007. Wages have maintained an upward trend of almost 2% per year in real terms.

Total employment expanded by 1.6% in 2006, compared with the average in 2005. Following a considerable increase in the workforce and unemployment of 9.2% in 2005, a subsequent reduction in the workforce resulted in an unemployment rate of 7.7% during 2006. The increase in employment was accompanied by major changes in employment structure and quality: in 2006 waged employment benefited from improved labour conditions and expanded by 4.5%, while declines were recorded in other categories (such as jobs not protected by labour laws and unpaid labour).

There has been a consolidation of the moderately downward trend in unemployment, with a seasonally adjusted unemployment rate of 7.1% in March 2007.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	3.2	-0.8	4.5	3.4	2.2	3.9	6.0	5.7	4.0
Per capita gross domestic product	1.9	-2.0	3.2	2.2	1.0	2.8	4.9	4.6	2.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.3	0.8	6.6	7.5	6.8	2.6	10.5	5.7	3.5
Mining	8.3	10.6	3.2	5.7	-4.2	5.5	5.0	-1.5	0.1
Manufacturing	-2.3	-0.5	4.9	0.6	1.9	3.3	7.2	6.4	2.5
Electricity, gas and water	4.4	-4.7	9.5	1.5	3.3	4.3	3.7	5.2	7.4
Construction	1.9	-9.9	-0.7	4.1	2.5	4.3	3.2	10.8	3.9
Wholesale and retail commerce, restaurants and hotels	3.5	-4.4	4.4	2.6	0.9	4.9	6.7	8.1	5.2
Transport, storage and communications	6.6	0.8	8.6	7.4	5.3	5.8	5.6	6.4	6.1
Financial institutions, insurance, real estate and business services	5.0	0.5	4.0	3.0	2.8	2.8	6.9	6.5	4.7
Community, social and personal services	3.4	3.0	2.3	2.1	2.2	2.1	2.6	3.2	3.4
Gross domestic product, by type of expenditure									
Consumption	4.3	-0.4	3.6	2.9	2.5	4.0	6.8	7.5	6.6
General government	2.2	2.7	3.0	2.9	3.1	2.4	6.1	5.3	3.6
Private	4.7	-1.0	3.7	2.9	2.4	4.2	7.0	7.9	7.1
Gross domestic investment	2.2	-20.1	14.0	0.8	2.2	7.8	9.8	23.0	4.4
Exports (goods and services)	5.2	7.3	5.1	7.2	1.6	6.5	11.7	3.5	4.2
Imports (goods and services)	6.7	-9.5	10.1	4.1	2.3	9.7	16.9	17.7	9.4
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	25.8	20.0	21.1	21.1	20.7	21.1	20.1	22.4	20.4
National saving	20.9	20.1	19.9	19.5	19.8	20.1	22.2	23.5	24.0
External saving	4.9	-0.1	1.2	1.6	0.9	1.1	-2.2	-1.1	-3.6
Millions of dollars									
Balance of payments									
Current account balance	-3 918	99	-898	-1 100	-580	-779	2 074	1 315	5 256
Goods balance	-2 040	2 427	2 119	1 844	2 386	3 723	9 585	10 805	22 213
Exports, f.o.b.	16 323	17 162	19 210	18 272	18 180	21 664	32 520	41 297	58 116
Imports, f.o.b.	18 363	14 735	17 091	16 428	15 794	17 941	22 935	30 492	35 903
Services trade balance	-452	-737	-719	-844	-701	-618	-746	-636	-922
Income balance	-1 889	-2 233	-2 856	-2 526	-2 847	-4 489	-7 837	-10 645	-19 392
Net current transfers	462	643	558	427	583	605	1 072	1 791	3 356
Capital and financial balance ^d	1 727	-846	1 234	504	862	413	-2 260	442	-3 245
Net foreign direct investment	3 144	6 203	873	2 590	2 207	2 701	5 610	4 751	5 256
Financial capital ^e	-1 417	-7 049	361	-2 086	-1 345	-2 288	-7 870	-4 309	-8 501
Overall balance	-2 191	-747	337	-596	282	-366	-186	1 757	2 011
Variation in reserve assets ^f	2 191	747	-337	596	-282	366	186	-1 757	-2 011
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	92.5	98.3	100.0	111.3	109.1	114.6	107.0	101.6	97.0
Terms of trade for goods (index: 2000=100)	91.0	94.2	100.0	93.3	97.2	102.8	124.9	139.8	183.7
Net resource transfer (millions of dollars)	-162	-3 079	-1 621	-2 022	-1 985	-4 076	-10 097	-10 203	-22 637
Total gross external debt (millions of dollars)	32 591	34 758	37 177	38 527	40 504	43 067	43 517	44 934	47 695
Net profits and interest (percentage of exports) ^h	-9.3	-10.6	-12.3	-11.3	-12.6	-16.8	-20.3	-22.0	-29.6
Average annual rates									
Employment									
Labour force participation rate ⁱ	54.5	54.8	54.4	53.9	53.7	54.4	55.0	55.6	54.8
Open unemployment rate ^j	6.4	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.7
Visible underemployment rate ^j	4.3	5.5	6.1	7.1	6.2	6.5	8.4	8.5	8.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.7	2.3	4.5	2.6	2.8	1.1	2.4	3.7	2.6
Variation in wholesale prices (December-December)	0.3	13.5	7.9	3.1	10.4	-1.0	7.8	3.2	7.9
Variation in nominal exchange rate (December-December)	7.6	11.9	8.4	15.2	8.9	-17.7	-6.2	-7.9	4.2
Variation in average real wage	2.7	2.4	1.4	1.7	2.0	0.9	1.8	1.9	1.9
Nominal deposit rate ^k	16.3	8.9	8.7	6.5	4.1	3.2	2.4	4.5	5.5
Nominal lending rate ^k	27.4	17.6	18.7	16.7	14.4	13.0	11.0	13.5	14.4

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Total central government^l									
Income	21.1	20.4	21.6	21.7	21.1	20.7	22.0	23.7	26.0
Tax income	16.4	15.7	16.5	16.5	16.6	15.9	15.6	16.8	17.1
Expenditure	20.7	22.5	22.3	22.2	22.3	21.2	19.9	19.1	18.2
Interests	1.2	1.3	1.2	1.2	1.2	1.1	1.0	0.8	0.7
Primary balance	1.6	-0.9	0.6	0.7	-0.1	0.7	3.1	5.4	8.4
Overall balance	0.4	-2.1	-0.7	-0.5	-1.2	-0.5	2.1	4.5	7.7
Central government public debt ^m	12.5	13.8	13.6	14.9	15.7	13.0	10.7	7.2	5.3
Domestic	1.5	1.4	10.0	10.4	9.9	7.5	5.9	4.0	2.4
External	11.0	12.4	3.6	4.5	5.7	5.5	4.7	3.3	2.9
Money and creditⁿ									
Domestic credit ^o	58.6	60.7	60.7	61.5	60.5	58.0	56.1	55.3	52.7
To the public sector	-2.6	-2.4	-1.7	-2.7	-3.5	-3.6	-2.1	-3.4	-6.7
To the private sector	61.1	63.1	62.4	64.1	63.9	61.6	58.2	58.8	59.4
Liquidity (M3)	45.4	50.0	49.8	51.4	52.5	49.3	46.2	48.1	49.3
Currency outside banks and local-currency deposits (M2)	43.1	46.0	45.4	46.2	46.6	43.8	41.2	43.6	44.8
Foreign-currency deposits	2.3	3.9	4.3	5.3	5.9	5.6	5.0	4.5	4.5

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

^a Preliminary figures. ^b Up to 2002, based on figures in local currency at constant 1996 prices. From 2003 onward, based on figures in local currency at constant 2003 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Annual average, weighted by the value of merchandise exports and imports. ^h Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ⁱ Economically active population as a percentage of the working-age population; nationwide total. ^j Percentage of the economically active population; nationwide total. ^k Non-adjustable 90-360 day operations. ^l Reflects the new accounting methodology set out in the 2001 IMF manual. ^m Does not include public and publicly guaranteed debt. ⁿ The monetary figures are annual averages. ^o Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

(c) The external sector

The value of exports swelled by 40.7% to stand at US\$ 58.116 billion, while the value of imports rose by 17.4% to reach US\$ 35.903 billion. The trade balance posted a surplus of US\$ 22.213 billion, while the current account surplus came in at US\$ 5.3 billion (or 3.5% of GDP). In the first few months of 2007, the growth rate of export values was higher than in the previous year, which was partly attributable to higher international prices for copper, pulp and fishmeal. Import buoyancy has been similar to levels observed in 2006. Up to April 2007, the cumulative trade balance for the year was US\$ 9.1 billion, while the balance of payments turned in a cumulative

deficit of US\$ 2.075 billion. The international reserves of the central bank, which stood at US\$ 19.4 billion in December 2006, fell to US\$ 17.5 billion in April. This appears to be due to seasonal factors, since December is the time when banks increase their deposits with the central bank to comply with technical reserve requirements.

In summary, the macroeconomic situation looks more promising in 2007 than the previous year, since most economic activity indicators show growth that exceeds original expectations, in a context of low and controlled inflation. The risk situation also looks positive. The main factors of uncertainty are external fuel prices, especially for gasoline, and the recent announcements of longer cuts in the supply of natural gas from Argentina.

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	6.3	7.3	5.2	4.2	5.0	4.0	2.6	4.3	5.8	...
Goods exports, f.o.b. (millions of dollars)	9 468	10 174	10 177	11 478	13 621	15 139	15 679	13 677	16 697	18 070
Goods imports, c.i.f. (millions of dollars)	7 272	7 929	8 670	8 864	9 012	9 378	10 003	10 017	10 090	11 211
International reserve assets (millions of dollars) ^c	15 380	16 643	15 651	16 963	15 971	17 570	17 547	19 429	15 390	17 897
Real effective exchange rate (index: 2000=100) ^d	106.7	106.2	99.6	94.0	95.6	96.8	98.7	98.1	101.3	100.1
Unemployment rate	9.1	10.1	9.8	7.9	8.4	8.9	7.9	6.0	6.7	6.9
Consumer prices (12-month percentage variation)	2.4	2.7	4.0	3.7	4.0	3.9	2.8	2.6	2.6	3.2
Average nominal exchange rate (pesos per dollar)	579	581	552	526	527	527	539	529	541	527
Average real wage (variation from same quarter of preceding year)	1.2	1.8	2.2	2.3	1.5	1.6	1.7	3.0	3.4	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	3.6	4.4	4.5	5.6	5.3	5.5	5.5	5.6	5.4	5.5
Lending rate ^e	12.2	13.8	14.2	13.9	15.0	14.6	14.2	14.0	14.0	13.4
Interbank rate ^f	2.6	3.2	3.7	4.4	4.6	5.0	5.2	5.3	5.1	5.1
Stock price index (national index to end of period, 31 December 2000 = 100)	180.9	189.7	198.5	181.2	201.2	196.1	210.3	248.4	270.1	320.0
Domestic credit (variation from same quarter of preceding year) ^g	12.7	13.1	12.8	13.0	12.8	8.5	8.7	8.4	12.5	17.4 ^h
Non-performing loans as a percentage of total credit ⁱ	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.7	0.8	0.8 ⁱ

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

^a Preliminary figures. ^b Based on figures in local currency at constant 2003 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Non-readjustable 90-360 day operations. ^f Overnight. ^g Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^h Data to May. ⁱ Refers to total credit extended by the banking system. ^j Data to April.

Colombia

1. General trends

The 6.8% growth rate observed in 2006 exceeded the expectations of the economic authorities and leading analysts alike. Buoyant domestic demand (consumer spending and investment) continued to drive growth and the good pace of economic activity improved the fiscal indicators. The central bank raised its intervention rate a number of times from April onwards to curb rising demand. The consumer price index rose 4.5%, thus keeping inflation on target. Unemployment rose in the second semester of the year despite the high economic growth rate. In the area of foreign trade, exports and imports continued to register high growth rates, as did flows of FDI.

Thus far in 2007 the economy has maintained its momentum, although a number of factors point to a slight slowdown for the year overall. First, the measures adopted by the economic authorities to curb rising inflation and the Colombian peso's significant appreciation could dampen domestic demand. Second, low first-quarter growth in the

United States economy, which absorbs 40% of Colombia's exports, could affect exports. A final factor is the delicate political situation surrounding the prosecution of several congress members and former public officials over their links with illegal armed groups. ECLAC expects robust growth of around 5.8% for 2007.

2. Economic policy

The economic policy deployed in recent years has restored consumer and investor confidence in the national economy and this contributed significantly to its excellent performance in 2006. Although the prevailing context of international liquidity has certainly helped, credit for the steady increase in investment rates in the past three years accrues mainly to domestic policy. The reforms made as regards pensions, the stock market and legal and tax stability since 2005 have helped to create an investment-friendly climate. In the monetary sphere, low interest rates have boosted credit, generating a beneficial knock-on effect on a number of sectors, principally construction. The authorities have taken steps to curb excess liquidity

in order to avoid missing inflation targets. As regards trade, the finalization of negotiations for the free trade agreement with the United States further strengthened investor confidence.

(a) Fiscal policy

In 2006, the fiscal accounts continued on a positive footing on the back of higher tax receipts. As a result of greater economic growth, the consolidated public sector deficit was 0.8% of GDP and the NFPS deficit was 1%, both under the targets set in the 2006 medium-term fiscal policy framework.

The national central government deficit came in at 4.1% of GDP, which was well within the target set in the 2006 financial plan and smaller than the 2005 deficit. This improved fiscal performance stemmed from a 21% rise in tax receipts stoked, in turn, by the upturn in economic activity and in imports in particular. Income tax and foreign VAT made the largest contribution to tax receipts. Total revenues increased by 22.7%, or 1.5% of GDP. Expenditure rose by 16.3%, representing a rise from 20.9% of GDP in 2005 to 21.6% in 2006. Investment and interest were the fastest-growing categories of expenditure in 2006 (38% and 35.2%, respectively), as a result of higher domestic interest payments and spending on road maintenance and upgrading programmes and on bridge construction and other civil engineering projects.

The latest revision of the government's financial plan shows a consolidated public sector deficit of around 1.3% of GDP for 2007. The national central government deficit is expected to be 3.9% of GDP. This should be offset by a surplus in the decentralized sector (social security, national and local corporations and regional and local governments), despite the slowdown in the performance of ECOPETROL and other national corporations and of the local and regional public sector. The ECOPETROL deficit is likely to increase as the corporation expands its oil exploration and oilfield development efforts. The firm is expected to increase its investment to around US\$ 2 billion, far outstripping its US\$ 692 million average for 2000–2006. Local government deficits will reflect the spending increases that have occurred broadly in all administrations this past year. The national government expects to make fewer domestic debt issues than originally forecast, owing to a shrinking deficit and to income from the previous year's privatizations.

Since interest and pension payments, together with transfers to subnational governments for the provision of basic social services, absorb virtually all the tax receipts, it will be difficult to reduce the fiscal deficit any further. In the first semester of this year the procedure for transfers was changed, with the approval of a constitutional reform amending the 1991 regulation that had linked transfers to the national government's current revenue. A rule was adopted to guarantee funding for local governments without deepening the structural imbalance of central government finances.

On the income side, in late 2005 the Minister for Finance and Public Credit tabled a draft tax reform designed to thoroughly overhaul the country's finances which, however, failed to attract the necessary political

backing. In 2006, the legislature approved a gradual reduction in the income tax rate, together with an increase in exemptions on reinvested profits and the maintenance of the temporary wealth tax and the financial transactions tax. Efforts to simplify the different VAT rates did not prosper; on the contrary, a further rate was added. These measures represented the fifteenth partial reform since 1990 of a complex taxation structure whose efficiency and fairness have been called into question.

(b) Monetary policy

In April 2006, the central bank embarked on an effort to check monetary expansion by raising its intervention rates in order to curb rising aggregate domestic demand and avoid missing short- and long-term inflation targets. The 4.5% target figure for 2006 was met and a long-term target of between 2% and 4% is envisaged. Up until May 2007, the bank had raised the intervention rate by 25 basis point on 11 separate occasions, taking it to 8.75%. The aim was to shunt the hike in the intervention rate through to market rates and thereby curb expansion in credit and aggregate demand, as well as inflationary pressures. By late 2006, market rates were reflecting these rises only partially and unevenly, perhaps as a result of the continuing high liquidity in the markets. In 2006, the annual average nominal rate on deposits was 6.3%, compared with 7.0% in 2005, while the nominal lending rate was 12.9% as an annual average, compared with 14.5% the previous year.¹ In the second semester of 2006, rates for domestic public debt securities dropped and stabilized somewhat. Underpinning the higher value of debt securities and of the general index of Colombia's main stock exchange (Bolsa de Valores de Colombia) was the sound performance of the United States economy, which increased confidence in international markets, world prices for raw materials and global liquidity.

In 2006, the money supply (M1) rose by 20.4%, while broad money (M3) increased by 18.2%, much the same as had occurred in 2005. In the financial system, commercial credit increased by an annual rate of 22.9% and consumer credit, by 42.5%.

The central bank continued to raise intervention rates in early 2007 in order to achieve the inflation target of 4% with half a percentage point tolerance in either direction. In response to an upturn in inflation and to exchange rate trends,

¹ In December 2006, the nominal deposit and lending rates were 6.8% and 13% respectively, compared with 6.3% and 13.3% in the same month of 2005.

the monetary authority also took a number of quicker-acting measures. It introduced a marginal reserve requirement of between 5% and 27% of total deposits, reintroduced the obligation to deposit the equivalent of 40% of the value of public and private foreign loans and set a cap to limit the leverage of derivatives transactions by intermediaries in the foreign exchange market to 500% of their regulatory capital. Later, the government also enforced a deposit requirement for portfolio investments from abroad.

In the first quarter of 2007, growth in the monetary base accelerated to 22.8% and that of broad money supply to 19.7%, whereas the rate for M1 fell to 18.1%. The increase in intervention rates has been reflected commensurately in the interbank rate thus far in 2007. In the 12-month interval to April 2007, nominal deposit and lending rates rose from annual averages of 6.3% and 12.9% in 2006 to 6.7% and 13.0% respectively. Most of these rises occurred in March, which may indicate that intervention policy was beginning to be passed through to market rates more quickly.

(c) Exchange-rate policy

Following a short-lived depreciation in the second quarter of 2006, the peso resumed the upward trend it has shown since 2005. Some of the factors behind this continued increase were the favourable international business cycle, which contributed to higher export earnings, sustained growth in FDI and excess liquidity in international markets, which fuelled demand for debt securities from emerging markets such as Colombia's. A possible link between fiscal management and the appreciation of the peso is also under discussion, as Colombia still has a high level of public debt and its necessary external borrowing accentuates the currency's tendency to appreciate. The annual exchange rate was 2,358 pesos per United States dollar. As an annual average, the peso depreciated by a nominal 1.6%, appreciating in real terms by 2.8% against the dollar and by 0.6% against a basket of currencies of the country's main trading partners.

In 2007 the peso consolidated its upward trend and the exchange rate fell to less than 2,000 pesos to the dollar. The factors fuelling the appreciation include the large supply of foreign currency generated in the domestic market to cater for debt issues by national corporations such as ECOPETROL, Empresa Colombiana de Gas (ECOGAS), Almacenes Éxito, ISAGEN and the recently sold Acerías Paz del Río. Foreign remittances and external credit have also contributed to the influx of capital. The central bank has maintained its policy of discretionary quantitative interventions in the foreign exchange market in order to control the peso's appreciation but, although it bought more than US\$ 4.5 billion in the first four months of the year, the exchange rate fell by 5.7% in that time.

(d) Trade policy

After completing negotiations for the free trade agreement with the United States in February 2006, the national government is keen to continue negotiating new agreements. Colombia is close to concluding negotiations for an agreement with El Salvador, Guatemala and Honduras, while agreements with Canada, the European Free Trade Association (EFTA) and the European Union are in the pipeline.

The United States Congress postponed approval of the agreement with Colombia. Added to the familiar requirement to renegotiate aspects concerning the intellectual property of medicinal products and various labour issues, there is now a requirement to clarify and prevent impunity in the matter of violence by paramilitaries against human rights defenders and trade unionists in Colombia.

In addition, in an effort to lock into higher rates of economic growth, the Colombian government has created forums in which the public and private sectors can work together to improve areas that influence the country's competitiveness and to consolidate trade strategies for increasing the export supply.

3. The main variables

(a) Economic activity

In 2006, the economy grew by 6.8% on the back of rapid growth in domestic demand (9.9%), fuelled, in turn, by investment and consumer spending. Stimulated by still-low interest rates, investment rose by 26.9%,

spearheaded by investment in machinery and equipment. Consumer spending increased by 6.7% as a result of increased income, readily available credit and liquidity and stakeholder confidence. Government spending rose by 2.1%. In the external sector, both traditional and non-traditional exports performed well. Imports also rose by

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	0.6	-4.2	2.9	1.5	1.9	3.9	4.9	4.7	6.8
Per capita gross domestic product	-1.1	-5.8	1.3	-0.1	0.4	2.3	3.3	3.3	5.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.0	0.0	3.8	-0.4	0.1	2.7	2.0	1.9	3.1
Mining	15.6	18.5	-10.3	-6.1	-0.5	y13.7	2.7	2.1	0.6
Manufacturing	-0.3	-8.4	11.7	1.5	2.6	4.6	7.4	2.8	10.8
Electricity, gas and water	1.8	-4.2	0.9	3.0	0.8	2.2	2.8	5.0	3.0
Construction	-7.2	-27.0	-3.9	3.9	12.4	13.3	12.4	11.8	14.4
Wholesale and retail commerce, restaurants and hotels	-1.5	-15.7	7.5	2.9	1.8	5.4	7.3	8.8	10.7
Transport, storage and communications	2.5	-1.9	1.5	4.0	2.4	2.9	6.2	4.7	9.4
Financial institutions, insurance, real estate and business services	-1.3	-4.9	-1.0	2.2	2.3	5.7	4.8	3.6	1.4
Community, social and personal services	1.8	3.3	0.6	0.7	-0.3	-0.2	1.4	3.9	2.2
Gross domestic product, by type of expenditure									
Consumption	-0.1	-3.2	1.4	2.3	2.2	1.7	4.8	4.9	5.6
General government	2.1	3.6	-0.3	-0.2	-2.0	-1.2	-0.9	4.3	2.1
Private	-0.8	-5.4	2.0	3.1	3.5	2.6	6.5	5.0	6.6
Gross domestic investment	-6.3	-38.6	12.3	1.9	9.9	14.7	9.9	24.8	26.9
Exports (goods and services)	7.4	5.9	6.1	2.4	-5.0	5.7	10.0	7.0	7.8
Imports (goods and services)	-3.9	-24.7	6.0	6.8	1.7	4.7	19.8	19.9	21.3
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	19.7	12.9	13.7	14.3	15.3	17.2	19.2	20.8	23.4
National saving	14.8	13.7	14.6	12.9	13.6	16.0	18.3	19.2	21.3
External saving	4.9	-0.8	-0.9	1.3	1.7	1.2	0.9	1.5	2.1
Millions of dollars									
Balance of payments									
Current account balance	-4 858	671	764	-1 089	-1 358	-974	-909	-1 881	-3 061
Goods balance	-2 450	1 775	2 633	579	239	555	1 346	1 595	322
Exports, f.o.b.	11 480	12 037	13 722	12 848	12 316	13 812	17 224	21 729	25 181
Imports, f.o.b.	13 930	10 262	11 090	12 269	12 077	13 258	15 878	20 134	24 859
Services trade balance	-1 461	-1 204	-1 259	-1 412	-1 435	-1 439	-1 680	-2 102	-2 119
Income balance	-1 697	-1 355	-2 283	-2 610	-2 867	-3 398	-4 299	-5 456	-6 007
Net current transfers	750	1 455	1 673	2 354	2 706	3 309	3 724	4 082	4 743
Capital and financial balance ^d	3 460	-983	106	2 308	1 496	790	3 450	3 610	3 083
Net foreign direct investment	2 033	1 392	2 069	2 509	1 283	820	2 941	5 578	5 365
Financial capital ^e	1 427	-2 375	-1 963	-201	213	-30	508	-1 968	-2 281
Overall balance	-1 398	-312	870	1 218	138	-184	2 541	1 729	23
Variation in reserve assets ^f	1 398	312	-870	-1 218	-138	184	-2 541	-1 729	-23
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	83.2	91.6	100.0	104.0	105.5	119.2	108.4	96.0	98.1
Terms of trade for goods (index: 2000=100)	81.2	87.2	100.0	94.2	92.5	95.2	102.3	111.0	115.2
Net resource transfer (millions of dollars)	1 763	-2 338	-2 177	-302	-1 371	-2 608	-850	-1 846	-2 923
Total gross external debt (millions of dollars)	36 682	36 733	36 130	39 097	37 325	38 008	39 442	38 456	40 039
Net profits and interest (percentage of exports) ^h	-12.6	-9.7	-14.5	-17.4	-20.2	-21.6	-22.1	-22.4	-21.0
Average annual rates									
Employment									
Labour force participation rate ⁱ	62.2	63.1	63.5	64.2	64.2	64.5	62.9	62.7	61.1
Open unemployment rate ^{j,k}	15.3	19.4	17.3	18.2	17.6	16.7	15.4	13.9	13.0
Visible underemployment rate ^j	...	...	14.2	16.3	16.8	15.3	15.2	13.8	11.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	16.7	9.2	8.8	7.6	7.0	6.5	5.5	4.9	4.5
Variation in producer prices (December-December)	13.5	12.7	11.0	6.9	9.3	5.7	4.6	2.1	5.5
Variation in nominal exchange rate (December-December)	19.7	20.8	19.4	1.9	25.9	-3.0	-15.3	-2.9	-2.0
Variation in average real wage	0.2	4.4	3.9	-0.3	3.6	-0.2	1.3	1.2	3.2
Nominal deposit rate ^l	32.6	21.3	12.1	12.4	8.9	7.8	7.8	7.0	6.2
Nominal lending rate ^m	44.5	29.4	18.8	20.7	16.3	15.2	15.1	14.6	12.9

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sectorⁿ									
Total income	30.5	33.9	33.7	35.1	34.7	35.4	37.0	35.2	35.9
Current income	28.3	32.9	33.2	35.1	34.7	35.4	37.0	35.2	35.9
Tax income	18.0	16.2	16.0	17.4	17.4	17.7	18.5	19.6	20.7
Capital income	2.2	0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	34.2	38.0	37.6	39.2	38.2	38.0	38.0	35.5	36.9
Current expenditure	24.8	29.6	29.4	30.6	30.0	30.0	30.4	29.8	30.3
Interest	4.6	3.7	4.3	4.8	4.5	4.7	4.4	4.0	4.6
Capital expenditure	9.4	8.3	8.2	8.5	8.1	8.0	7.6	5.7	6.6
Primary balance	0.9	-0.3	0.4	0.7	1.0	2.1	3.5	3.6	3.6
Overall balance	-3.7	-4.1	-4.0	-4.1	-3.5	-2.6	-0.9	-0.3	-1.0
Non-financial public sector debt									
Domestic	11.9	17.1	20.4	21.6	26.2	25.1	26.0	27.1	25.0
External	17.0	21.7	23.5	27.1	30.5	28.9	23.4	18.7	18.0
Money and credit^o									
Domestic credit ^p	...	...	36.4	33.5	32.1	32.5	32.1	32.5	33.1
To the public sector	...	...	7.5	8.7	9.2	10.3	10.6	10.7	8.9
To the private sector	35.4	33.8	26.7	24.2	23.0	22.2	21.6	21.8	24.2
Liquidity (M3)	38.6	38.0	34.0	33.8	33.9	33.5	34.1	35.9	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Annual average, weighted by the value of goods exports and imports. ^h Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ⁱ Economically active population as a percentage of the working-age population, thirteen cities; up to 1999, seven cities. ^j Percentage of the economically active population, thirteen cities; up to 1999, seven cities. ^k Includes hidden unemployment. ^l 90-day fixed-term certificates of deposit for banks and corporations. ^m Actual total system-wide rate. ⁿ Total expenditures and balances include net lending. ^o The monetary figures are annual averages. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

a significant 21.3% in real terms; in particular, imports of consumer and capital goods were up by 32.5% and 21.7% respectively. The fastest-growing sectors in 2006 were construction (14.4%), manufacturing (10.8%) and trade (10.7%), while the most sluggish were mining and financial institutions. The agricultural sector bounced back from a poor performance in the first semester to post an overall annual growth rate of 3.1%.

The outlook for 2007 is good, although growth is expected to be down on 2006, owing to a possible economic slowdown in the United States, the country's principal trading partner, and to a moderate reduction in oil and coal prices. Inflationary pressures early in the year could pose a threat if they undermine stakeholder confidence and macroeconomic stability. Consumer spending and investment are expected to retain the momentum they gathered in the latter quarters of 2006. The Colombian authorities expect growth of close to 5.0%, while ECLAC forecasts a figure of around 5.8%.

(b) Prices, wages and employment

In 2006 central bank met its inflation target, which that year was 4.5% with half a percentage point tolerance

in either direction, for the third consecutive year. At the end of the year, the cumulative rise in the consumer price index was 4.5%, below the 4.9% registered in 2005. Price inflation slacked significantly during the first semester, but upward pressures developed in the second, especially for the prices of foodstuffs and regulated goods. The oil price rise triggered increases in other prices in Colombia and worldwide.

The public and private sectors both acknowledge that it will be extremely difficult to meet the 2007 inflation target of 4% with half-percentage-point margin on each side because of the uptrend in the prices of foodstuffs and regulated goods that was already apparent in the first semester.

The unemployment rate began to rise slightly in August 2006, which triggered some controversy in Colombia. In late 2006, the nationwide average unemployment rate was 12.0%, compared with 11.8% a year earlier, whereas the urban rate (13 metropolitan areas) was 13.0%, compared with 13.9% in 2005. The employment rate dropped from 52.9% in 2005 to 51.3% in 2006.

During the first semester of 2007 unemployment fell slightly. The government has devised mechanisms to curb dismissals and this could add to the upward pressure on

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	4.8	6.9	5.9	1.6	5.4	6.4	7.6	7.8	8.2	...
Goods exports, f.o.b. (millions of dollars)	4 632	5 562	5 442	5 554	5 454	6 083	6 349	6 504	6 116	...
Goods imports, c.i.f. (millions of dollars)	4 560	5 406	5 580	5 658	5 653	6 376	6 849	7 284	7 390	...
International reserve assets (millions of dollars) ^c	12 784	13 731	14 941	14 957	15 157	14 465	15 017	15 440	18 997	19 999
Real effective exchange rate (index: 2000=100) ^d	98.4	96.5	95.2	93.9	93.0	101.0	100.5	95.4	91.1	83.2
Unemployment rate	15.8	14.1	13.8	12.1	14.1	12.8	12.8	12.3	13.3	11.6
Consumer prices (12-month percentage variation)	5.0	4.8	5.0	4.9	4.1	3.9	4.6	4.5	5.8	6.0
Average nominal exchange rate (pesos per dollar)	2 354	2 340	2 307	2 284	2 264	2 439	2 429	2 302	2 220	2 023
Average real wage (variation from same quarter of preceding year)	0.5	1.2	0.0	1.3	2.8	2.8	4.0	3.2	0.6	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	7.5	7.2	7.0	6.4	6.1	6.0	6.3	6.5	7.0	7.5
Lending rate ^f	15.1	14.8	14.8	13.6	13.5	12.5	12.8	12.9	13.4	14.6 ^g
Interbank rate ^h	6.6	6.5	6.4	5.6	5.9	6.2	6.6	7.2	7.8	8.5
Sovereign bond spread (basis points) ⁱ	395.9	332.0	236.2	238.3	173.9	239.0	200.0	161.0	157.0	119.0
Stock price index (national index to end of period, 31 December 2000 = 100) ^j	581	694	864	1 187	1 385	956	1 155	1 393	1 334	1 328
Domestic credit (variation from same quarter of preceding year) ^k	11.2	9.7	11.7	13.9	11.9	17.8	13.8	9.4	16.3	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e 90-day fixed-term certificates of deposit for banks and corporations. ^f Actual total system-wide rate. ^g Data to May. ^h Repo rate. ⁱ Measured by J.P. Morgan's EMBI+ index. ^j The figures up to 2000 are based on the Bogota Stock Exchange Index (IBB). ^k Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

the peso. Nevertheless, unless currency appreciation eases up, it is likely to hurt employment in export companies.

(c) The external sector

In 2006 the current account deficit came in at around 2.1% of GDP, up on the previous year's figure of 1.5%. Exports continued to expand apace (15.1% in 2006), largely owing to high export commodity prices, albeit not as strongly as in the two previous years because of a slight deterioration in the terms of trade and weaker demand from the United States domestic market. Traditional exports rose by 13.9% in 2006, led by oil and petroleum products, ferronickel and coal. Non-traditional exports posted a 16.2% upturn, thanks to brisk foreign sales of industrial products. The main export destinations in 2006 were the Bolivarian Republic of Venezuela, the United States and Ecuador, although sales of non-traditional products to the United

States slowed. Imports rose by 23.4% compared with the previous year, driven mainly by purchases of intermediate goods (raw materials for industry) and capital goods, which reflected rapid growth in investment and industrial activity during the year.

The income account registered a deterioration associated with the increased flows of FDI, because these led to outflows in the form of profits and dividends, which were, however, offset by inflows of remittances. The capital and financial account registered a US\$ 2,687-million surplus as a result of FDI going mainly to the mining and telecommunications sectors.

In early 2007, the strong currency appreciation began to take its toll on exports. Imports continued to increase as a result of buoyant investment. The central bank has forecast an average current account deficit of 3% of GDP up to 2011, although high international reserve levels (in excess of US\$ 19 billion) lessen the country's vulnerability on that front.

Ecuador

1. General trends

Ecuador's economy grew by 4.1% in 2006, as compared to the 4.9% growth rate recorded in 2005. Unemployment fell and the employment rate rose on the strength of the buoyant performances turned in by sectors employing a large workforce, such as services (including commerce). Annual inflation remained low at 2.9%, while exchange-rate competitiveness was buoyed by a depreciation of the United States dollar against the currencies of Ecuador's trading partners.

The fiscal situation improved, as the rise in income of the non-financial public sector (NFPS) exceeded the increase in expenditure, thereby boosting the primary and overall surpluses. Higher oil prices resulted in windfall fiscal revenues, which brought down the level of the external and domestic public debt in nominal terms. In addition to economic growth, this was also reflected in a notable reduction in the debt-to-GDP ratio.

In 2006, the banking sector's acquisition of assets abroad (bonds and deposits) and the change from incoming to outgoing net capital flows for portfolio investment caused a deterioration in the balance-of-payments financial

account. Reserves shrank as a result, despite the significant improvement in the current account following a rise in petroleum exports.

Following the elections in November 2006, the new government took office in January 2007 and announced plans to increase the role of the State in the economy. In April 2007, a referendum approved a decision to hold elections for a constituent assembly. Growth of 3.5% is expected for 2007, with a slowdown in the oil industry and buoyant performances in services and in manufacturing geared to domestic demand.

2. Economic policy

In 2007, the government announced its intention to increase the role of the State in the economy. Measures proposed by the authorities include reducing the proportion of tax revenues accounted for by VAT and increasing the share represented by special consumption taxes and taxes on profits. In terms of expenditure, more resources would be channelled into investment, and health and education

spending would rise, both in terms of budget allocation and as a proportion of GDP.

Following the six-month extension of the preferential tariffs under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) granted by the United States in December 2006, the new government has concentrated on ways of maintaining such tariffs in the future. However,

the government has suspended negotiations for a free trade agreement with the United States, unlike its Andean Community trading partners Colombia and Peru.

(a) Fiscal policy

In 2006, the primary surplus of the non-financial public sector (NFPS) widened to 5.5% of GDP (from 2.9% in 2005), while the overall surplus swelled to 3.3% of GDP (0.7% in 2005). Fiscal performance was determined by the 23.1% increase in NFPS revenues, which exceeded the 11.8% rise in disbursements. Total NFPS expenditure as a percentage of GDP remained constant at 24.3%, while revenues rose from 25.1% of GDP in 2005 to 27.5% in 2006. The central government results also posted an improvement, albeit on a smaller scale: the primary surplus broadened from 1.8% of GDP in 2005 to 2.5% in 2006, and its overall deficit narrowed from 0.5% of GDP in 2005 to 0.2% in 2006.

The year 2006 saw yet another rise in the State's windfall oil revenues. This was due to higher oil prices and income from the Block 15 oilfield, which has been run by the State since May 2006 following the termination of the contract with Occidental Petroleum. Given the fact that domestic sale prices for petroleum derivatives have been frozen since 2003, and with current international prices so high, domestic sales generated no fiscal revenues in 2006. In terms of public spending, outlays for wages climbed by 8.8% during 2006 to represent 31.8% of total NFPS expenditure (or 7.7% of GDP). Gross fixed capital formation in the NFPS increased by just US\$ 82 million (or by 4.5%), which is the equivalent of 0.2% of GDP. By way of comparison, NFPS expenditure on wages expanded by three times more, by 0.6% of GDP.

The country's public debt shrank in nominal terms. In 2006, external debt fell by 5.9% to US\$ 10.215 billion (25% of GDP), while domestic debt dropped by 11.1%, to US\$ 3.277 billion (8% of GDP). Although external debt repayments were lower than disbursements during the first quarter, the former exceeded the latter in the other three quarters of the year. As a result, net repayments amounted to US\$ 702 million (1.7% of GDP) in 2006.¹ As for domestic debt, repayments surpassed disbursements by US\$ 409 million (the equivalent of 1% of GDP) in 2006. Based on an economic growth rate of 4.1%, the total debt-to-GDP ratio fell from 39.8% of GDP in 2005 to 33% in 2006.

October 2006 saw the enactment of the Act Creating the Ecuadorian Investment Fund for the Energy and Hydrocarbon Sectors (FEISEH), which was then regulated in March 2007. The Fund contains resources from the exploitation of Block 15 and the unified fields of Edén-Yuturi and Limoncocha and is used to: finance the operating costs of PETROECUADOR in those oilfields; compensate the Treasury (US\$ 145 million per year) and the Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization (CEREPS) (with 27% of FEISEH income) for the income lost due to the termination of the contract with Occidental Petroleum; finance investment projects in the hydrocarbons and hydroelectricity generation sectors; and finance (using US\$ 70 million) the national system of microfinances, through the creation of a commerce trust and a guarantee fund. The remainder is accumulated in the Saving and Contingency Fund.² The government hopes that the Investment Fund for the Energy and Hydrocarbon Sectors (FEISEH) may help to increase investment in the oil sector (including in the Esmeraldas refinery) and in hydroelectricity generation.

The new economic plan includes a projected rise in public spending. In March 2007 for instance, the government declared a state of emergency in the health system, which will now make it easier to increase expenditure in that sector.

(b) Monetary policy

Between 2005 and 2006, lending and deposit interest rates both increased, with the latter rising by less than the former. The benchmark deposit rate climbed from 4.3% in December 2005 to 4.9% in December 2006, while the benchmark lending rate went up from 9% to 9.9%. This pattern, associated with the hike in international interest rates, resulted in a wider banking spread. In June 2007, Congress approved the bill for the regulation of the maximum cost of credit. The law has resulted in, *inter alia*, a segmentation of lending, with a different maximum interest rate (including the cost of the relevant bank commission) for each segment.

In 2006, the banking sector's assets swelled by 20.3%. An analysis of their composition reveals three main features. First, banks hold a high proportion of their assets abroad and in liquid form (23.2% in 2006).

¹ As a result of variations in the exchange rates of currencies in which the country's external debt is held, this debt swelled by US\$ 67 million.

² This fund was created by the act reforming the Fiscal Transparency, Stabilization and Responsibility Law.

These assets tend to be held as bonds (including United States Treasury Bonds), currency and deposits, probably as a backup in case of negative events. Second, banking institutions have continued to decrease the proportion of assets held in Ecuadorian government bonds: from an average of 4.7% in 2003 to 1.6% in 2006. Third, 2006 saw a consolidation of the upward trend in loans to non-company resident sectors, especially consumer loans. Such loans increased steadily from 19.6% of total assets in January 2005 to 24.4% in December 2006. This constitutes a nominal increase of 76.1%, compared with a 41.8% rise in total assets. All three trends (high preference for liquidity abroad, limited interest in government bonds and an increasing proportion of non-company resident loans in the credit portfolio) continued into the first quarter of 2007.

(c) Other policies

In 2006, the average total effective real exchange rate was slightly higher (1.1%) than in 2005 (i.e., a depreciation), similar to the level of 1994 and 2.2% higher than in 1998 (the year preceding the most recent crisis). This was mainly a reflection of the United States dollar's depreciation in relation to the currencies of some of Ecuador's other trading partners such as Brazil, the Russian Federation and Chile, as well as lower inflation in the currencies of other partners such as the Bolivarian Republic of Venezuela. This was in spite of the appreciation of the dollar against the Japanese yen. Ecuador recorded real bilateral depreciations in relation to the currencies of Brazil (12.7%), the Russian Federation (10.9%) and the Bolivarian Republic of Venezuela (7.2%), and an 8.1% real appreciation in relation to the currency of Japan.

3. The main variables

(a) Economic activity

The country's GDP grew by 4.1% in 2006, which was lower than the 4.7% recorded in 2005. This performance was mainly attributable to the decline in investment during the second half of the year. The main contributors to economic growth were the services and manufacturing sectors, while oil extraction expanded by only 0.8%. On the demand side, household consumption rose by 6.8%, while gross fixed capital formation and exports increased by a mere 2.9%. The small rise in exports was in contrast with the 7.4% growth observed in 2005.

Projected growth for 2007 is 3.5%. Services and manufacturing for the domestic market are expected to remain buoyant. In contrast, the production of the State-owned PETROECUADOR is likely to continue falling, with no significant increase forecast in private crude extraction either.

In 2006, crude oil extraction rose by only 0.8%, which was less than the increase in domestic demand for petroleum derivatives. On 15 May 2006, the government terminated the petroleum concession contract with Occidental Petroleum, and the fields previously operated by the latter (Block 15, Edén-Yuturi and Limoncocha) are now managed by the State enterprise PETROECUADOR. Since then, crude extraction by Petroproducción (the company's upstream subsidiary) has dropped every month from a daily average

of 291 barrels in June 2006 to 253.2 barrels in March 2007. The cause of this steady decline is twofold. First, management problems have hampered investment that would have averted the natural decline in production as the oilfields' reserves get used up. By way of example, in June 2007 PETROECUADOR held US\$ 152 million in non-performing loans. Second, there have been various incidents involving local people (including strikes, oilfield sit-ins, sabotage of facilities and stolen materials) in the extraction areas, with the problems also affecting several private companies.

(b) Prices, wages and employment

Inflation was 2.9% between December 2005 and December 2006, which is slightly lower than during the year-earlier period and only just higher than inflation in the United States (2.5%). This is important because the United States dollar is legal tender in Ecuador. Cumulative inflation during the first four months of 2007 was 0.5%, while the figure for April 2006 to April 2007 was 1.4%.

During 2006 and early 2007, there was a continuation of the downward trend in unemployment seen in 2005, as a result of a buoyant performance in the services and manufacturing sectors (which both employ a large workforce). The average unemployment rate fell from 10.7% in 2005 to 10.1% in 2006, with a figure of 10%

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	2.1	-6.3	2.8	5.3	4.2	3.6	7.9	4.7	4.3
Per capita gross domestic product	0.6	-7.6	1.3	3.8	2.8	2.1	6.4	3.3	2.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-3.0	9.1	-0.1	3.6	5.4	5.6	1.9	5.7	2.1
Mining	-1.6	1.4	8.0	1.1	-2.5	6.0	25.6	0.9	1.8
Manufacturing	8.3	-23.5	-32.4	11.6	6.3	3.7	-10.5	10.3	11.6
Electricity, gas and water	8.5	23.0	2.6	0.6	8.2	1.2	-3.9	-3.9	4.3
Construction	-0.2	-24.9	18.3	19.7	20.0	-0.7	4.0	3.0	5.1
Wholesale and retail commerce, restaurants and hotels	1.1	-11.3	3.8	4.8	2.2	3.5	3.2	5.5	4.6
Transport, storage and communications	9.4	-0.3	7.7	1.9	1.2	4.3	4.4	8.2	4.7
Financial institutions, insurance, real estate and business services	-5.0	-20.6	2.3	3.6	7.9	2.7	6.1	7.6	8.0
Community, social and personal services	5.1	-1.3	5.8	0.4	-0.4	2.3	2.7	2.5	2.1
Gross domestic product, by type of expenditure									
Consumption	3.6	-6.8	3.9	5.8	6.3	4.7	4.5	6.1	5.3
General government	-2.2	-5.5	4.7	-0.6	4.3	1.4	3.6	3.4	3.6
Private	4.5	-7.0	3.8	6.8	6.6	5.2	4.6	6.4	5.5
Gross domestic investment	14.2	-49.4	29.0	45.0	21.6	-14.8	12.0	10.0	6.7
Exports (goods and services)	-5.1	7.8	-1.0	-0.8	-0.8	9.6	15.8	7.4	4.9
Imports (goods and services)	7.0	-29.5	15.8	24.8	16.7	-3.9	11.1	13.5	8.3
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	25.3	14.7	20.1	24.3	26.5	21.5	23.4	24.3	23.9
National saving	16.2	20.2	25.9	21.3	21.3	20.0	21.7	25.0	27.4
External saving	9.0	-5.5	-5.8	2.9	5.1	1.5	1.7	-0.7	-3.5
Millions of dollars									
Balance of payments									
Current account balance	-2 099	918	921	-624	-1 271	-422	-559	270	1 433
Goods balance	-1 132	1 588	1 395	-356	-902	80	284	729	1 721
Exports, f.o.b.	4 326	4 615	5 137	4 821	5 258	6 446	7 968	10 427	13 052
Imports, f.o.b.	5 458	3 028	3 743	5 178	6 160	6 366	7 684	9 698	11 332
Services trade balance	-563	-451	-420	-572	-716	-744	-954	-1 129	-1 347
Income balance	-1 171	-1 308	-1 405	-1 335	-1 305	-1 528	-1 919	-1 965	-1 990
Net current transfers	767	1 090	1 352	1 639	1 652	1 769	2 030	2 635	3 049
Capital and financial balance ^d	1 314	-1 862	-6 618	394	1 144	558	840	396	-1 564
Net foreign direct investment	870	648	720	1 330	1 275	1 555	1 160	1 646	2 087
Financial capital ^e	444	-2 511	-7 338	-936	-132	-997	-320	-1 250	-3 651
Overall balance	-784	-944	-5 697	-230	-127	136	281	666	-131
Variation in reserve assets ^f	461	489	-307	106	66	-152	-277	-710	124
Other financing ^g	324	455	6 004	124	62	17	-4	43	7
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	64.7	89.2	100.0	70.9	61.8	60.2	62.8	65.4	65.9
Terms of trade for goods (index: 2000=100)	75.8	89.1	100.0	84.6	86.8	89.8	91.5	102.4	109.9
Net resource transfer (millions of dollars)	467	-2 715	-2 020	-817	-100	-953	-1 084	-1 525	-3 546
Total gross external debt (millions of dollars)	16 221	15 902	13 216	14 376	16 236	16 756	17 211	17 237	16 977
Net profits and interest (percentage of exports) ⁱ	-23.4	-24.5	-23.5	-23.5	-21.2	-20.9	-21.4	-17.2	-14.2
Average annual rates									
Employment									
Labour force participation rate ^j	58.4	60.0	56.8	55.6	54.1	53.8	55.8	56.1	56.8
Unemployment rate ^k	11.5	15.1	14.1	10.4	8.6	9.8	11.0	10.7	10.1
Visible underemployment rate ^l	15.1	17.9	16.1	12.6	10.2	9.8	8.1	7.3	6.3
Annual percentages									
Prices									
Variation in consumer prices (December-December)	43.4	60.7	91.0	22.4	9.3	6.1	1.9	3.1	2.9
Variation in producer prices (December-December)	...	186.9	64.9	-5.6	17.7	4.5	4.3	21.6	7.2
Variation in nominal exchange rate (December-December) ^m	53.6	191.3	26.6	0.0	0.0	0.0	0.0	0.0	0.0
Variation in minimum urban wage	-7.2	-10.7	-3.6	11.5	0.9	6.1	2.4	3.0	3.3
Nominal deposit rate ⁿ	...	...	8.2	6.6	5.1	5.3	4.0	3.8	4.4
Nominal lending rate ⁿ	...	...	15.2	15.5	14.1	12.6	10.2	8.7	8.9

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sector									
Total income	17.3	21.1	25.9	23.3	25.5	24.1	25.1	25.1	27.5
Tax income	8.4	8.8	10.6	11.8	11.8	10.9	10.7	11.6	11.9
Total expenditure ^o	22.1	25.0	24.4	23.3	24.7	23.0	23.0	24.3	24.3
Current expenditure	17.2	19.0	19.4	16.7	18.4	17.9	18.0	19.3	19.5
Interest	4.2	7.1	6.6	4.7	3.4	2.9	2.4	2.2	2.2
Capital expenditure	5.0	6.0	5.0	6.6	6.4	5.1	4.9	5.0	4.8
Primary balance ^p	-0.9	2.2	8.1	4.7	4.2	4.4	4.5	2.9	5.5
Overall balance ^p	-5.2	-4.9	1.5	0.0	0.8	1.6	2.1	0.7	3.3
Non-financial public sector debt									
Domestic ^q	62.5	94.0	81.7	62.7	54.3	49.2	43.7	39.4	32.7
External	11.1	18.1	17.8	13.2	11.1	10.5	10.7	10.1	8.0
	51.4	75.9	63.9	49.5	43.2	38.6	33.0	29.3	24.6
Money and credit^r									
Domestic credit ^s	...	...	...	26.5	21.9	16.8	15.8	16.1	15.7
To the public sector	...	...	...	-0.1	-0.2	-1.9	-2.9	-4.8	-6.3
To the private sector	...	...	...	26.6	22.1	18.7	18.8	20.8	22.0
Liquidity (M2)	...	22.6	23.5	22.0	22.7	19.1	19.5	21.0	22.8

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

^a Preliminary figures. ^b Based on figures in local currency at constant 2000 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, three cities; 1998, urban total. ^k Percentage of the economically active population, three cities; 1998, urban total. Includes hidden unemployment. ^l Percentage of the economically active population, three cities; 1998, urban total. ^m In January 2000, the country adopted the United States dollar as its official currency. ⁿ Reference rate in dollars, monthly average. ^o Accrual basis. ^p For 1998 and 1999, the primary and overall balance include "strengthening" and "Staff cutbacks". In 2003 and 2006 have not been deducted US\$ 130 million and US\$ 28 million which were de-earmarked from the central government accounts by the Office of the Under-Secretary for the Treasury. ^q Refers to the central government. ^r The monetary figures are annual averages. ^s Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. As of 2000, includes net credit extended by the Central Bank of Ecuador and the National Finance Corporation.

for the first four months of 2007. Unemployment fell despite a 0.7 percentage point rise in the overall labour participation rate, as the employment rate climbed by 0.9 percentage points. The real average wage was 3.3% higher in 2006 than in 2005. In the first four months of 2007, real average wages were 4.3% higher than in the year-earlier period.

According to quality indicators, employment structure remained basically the same, as visible underemployment dropped in line with unemployment, while other forms of underemployment represented a larger proportion of the total. As a result, the proportion of underemployed people as a percentage of the total employed population slipped slightly from 53.0% to 52.9%.

(c) The external sector

In 2006, for the first time in several years, the balance of payments showed a drop in reserves, and a financial shortfall of US\$ 131 million. This was the result of many factors.

First, the current account balance improved by 430%, going from a US\$ 270 million surplus in 2005 to

a US\$ 1.433 billion surplus in 2006. This was primarily the result of the US\$ 992 million increase in the balance of goods, and the US\$ 414 million increase in current transfers. The balance of services deficit widened by US\$ 218 million, while annuities paid remained high but mainly unchanged.

The financial account recorded net capital outflows of US\$ 1.678 billion in 2006, which was in sharp contrast with the net inflows of US\$ 628 million observed in 2005. This US\$ 2.306 billion difference is due to two reasons. First, net portfolio investment went from capital inflows of US\$ 593 million in 2005 to capital outflows of US\$ 743 million 2006. This was mainly attributable to the exchange of United States debt for cash by Ecuadorian banks. Second, the amount of currency and deposit placements abroad (US\$ 3.733 billion or 9.1% of GDP in 2006) was almost double the US\$ 1.907 billion worth of placements made in 2005 (also in the form of bank operations). The US\$ 441 million rise in foreign direct investment (from US\$ 1.646 billion in 2005 to US\$ 2.087 billion in 2006) failed to offset these outflows.

The value of exports climbed by 25.3% in 2006. The 28.5% rise in exports of crude oil and petroleum

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	4.5	4.7	4.7	5.0	5.6	4.5	4.0	2.2	...	...
Goods exports, f.o.b. (millions of dollars)	2 222	2 474	2 685	2 720	3 030	3 323	3 267	3 109	2 801	...
Goods imports, c.i.f. (millions of dollars)	2 354	2 532	2 513	2 887	2 717	2 938	3 232	3 227	3 145	...
International reserve assets (millions of dollars) ^c	1 387	1 586	1 968	2 147	2 351	2 264	2 854	2 023	2 182	3 204
Real effective exchange rate (index: 2000=100) ^d	65.9	65.5	65.5	64.7	65.3	65.9	66.5	66.7	67.6	70.0
Unemployment rate	11.5	10.7	11.0	9.6	10.4	10.4	10.2	9.6	10.0	9.7
Consumer prices (12-month percentage variation)	0.9	2.1	2.9	3.1	4.2	2.8	3.2	2.9	1.5	1.8
Average nominal exchange rate (sucres per dollar) ^e	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Nominal interest rates (annualized percentages)										
Deposit rate ^f	3.6	3.7	3.9	4.1	4.3	4.3	4.4	4.7	5.1	5.1
Lending rate ^f	8.4	9.2	8.8	8.5	8.7	8.7	8.9	9.2	9.4	9.9 ^g
Interbank interest rate ^h	1.0	1.2	1.7	2.0	2.2	2.3	2.8	2.7	2.4	2.5
Sovereign bond spread (basis points) ⁱ	660	808	634	669	524	519	608	920	650	711
Stock price index (national index to end of period, 31 December 2000=100)	234	244	263	272	293	336	320	353	369	354
Domestic credit (variation from same quarter of preceding year) ^j	15.1	14.8	13.1	14.7	10.5	6.1	10.3	14.7	26.6	17.5 ^g
Non-performing loans as a percentage of total credit ^k	15.7	14.2	13.7	12.6	12.8	11.8	11.1	10.4	10.5	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 2000 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e In January 2000, the country adopted the United States dollar as its official currency. ^f Reference rate in dollars, monthly average. ^g Data to May. ^h Interbank market, weighted average. ⁱ Measured by J.P. Morgan's EMBI+ index. ^j Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^k Refers to total credit extended by the banking system.

derivatives was responsible for 65.5% of the increase. The volume of oil exports expanded by 3.8%, while the price of crude climbed by 23.7%. Among non-oil exports, impressive performances were turned in by exports of vehicles (up by 106% to represent 6.8% of the total increase) banana (up by 11.9% to account for 5% of the increase) and shrimp (up by 27.3% to represent 4.9% of the total increase).

Oil exports are expected to perform well in 2007, as prices of crude should remain steady during the year. However, there are doubts about whether PETROECUADOR has the capacity to increase extraction. During the first three months of 2007, the volume of oil exports was 18.1% lower than in the first quarter of 2006. This combined with a slight fall in the average price of crude oil to bring down the value of exports by 20.5%.

As for imports, their value rose by 17.3% in 2006. Two thirds of the increase was due to higher imports of fuel, lubricants and raw materials. As in 2005, external purchases of fuel and lubricants rose not only owing to the increase in petroleum derivatives, but also because the limited refining capacity of PETROECUADOR means that the country has to import petroleum derivatives to meet domestic demand for such products. Imports of consumer goods were up by 10.6% during 2006. Although imports of capital goods swelled by 10.7%, two thirds of the increase were attributable to purchases of transport material, while imports of industrial capital goods rose by a mere 5% and those of agricultural goods by just 0.1%. In the first three months of 2007, external purchases climbed by 12.6%, with a considerable slowdown in imports of consumer goods.

Paraguay

1. General trends

The Paraguayan economy's expansion by 4.2% in 2006 was driven by the service sector, which registered an exceptionally high growth rate of 6.3%. The agricultural sector recorded a moderate upturn of 0.6% in what turned out to be the third consecutive year of drought. The livestock sector expanded by 9%, with meat exports soaring by 67% as a consequence of an outbreak of foot-and-mouth disease in Brazil and the restrictions placed on Argentine meat exports. The current account showed a deficit of around 2% of GDP despite these results, but the capital and financial account¹ reflected substantial inflows of foreign exchange into the country which resulted in a 13% appreciation of the guaraní against the United States dollar. Inflation rebounded considerably in the last three months to close the year at 12.5%, mainly due to supply constraints in the fruit and vegetable sector.

2. Economic policy

(a) Fiscal policy

The central government closed out 2006 with a slight surplus (0.5% of GDP). This was the third year in a row in which fiscal accounts showed a positive balance, and a similar result is expected in 2007. Fiscal policy outcomes have been bolstered by the Administrative Restructuring and Fiscal Reform Act of 2004, which established a schedule of fiscal measures for the administration of public revenues and expenditures, some of which are still in the process of being implemented.²

The primary balance for 2006 amounted to 1.5% of GDP, reflecting a 4.3% drop in interest payments thanks to lower interest on domestic debt. Nevertheless, the domestic debt balance at the close of 2006 was up by almost 18%, mainly as a result of bond issues in May and December.

This reduction in interest payments helped to curb current expenditure, which thus rose by no more than 14.8% (compared to 15.9% in 2005) even though spending on personal services was up by 17.6% despite a freeze on recruitment and appointments to public institutions. The

¹ Including errors and omissions.

² See a synthesis of the measures incorporated into this Act in Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean 2003-2004* (LC/G.2255-P/I), Santiago, Chile, 2004.

2007 General Budget Law maintained this freeze, but new appointments were authorized in the first two months.

The 2007 budget also makes provision for the sale of up to a maximum of 667.120 billion guaraníes (approximately US\$ 130 million) in treasury bonds. If this ceiling is reached, the country will have sold double the amount it placed in 2006.

Part of the proceeds from the 2006 bond issues was used to fund the Development Finance Agency (AFD) which received a transfer of 100 billion guaraníes (approximately US\$ 20 million). This transfer boosted capital expenditure by 16.7% (4.3% of GDP), but its share in total spending was not significantly affected. The behaviour of this item of expenditure over the past decade has been extremely volatile and has been strongly influenced by specific events rather than being the result of a coherent public investment policy. One of the reasons for this is that these expenditures are more flexible than current items and are therefore more liable to reflect temporary adjustments.

The number of taxpayers registered with the Office of the Under-Secretary of State for Taxation increased by 17.8% in 2006, but receipts from taxes on net income and profits rose by only around 1%. Value added tax (VAT) revenues were up by 17.3% thanks to the expansion of commerce. Revenues from taxes on external trade climbed by 13%. Receipts from the excise tax on fuel rose by 7.4% as the prices of petroleum and petroleum products subsided somewhat. These four taxes accounted for 88% of fiscal revenues in 2006, slightly less than the 91% average registered since 1995.

In 2006, the introduction of the personal income tax was postponed until 2007. The legal provisions for its implementation were passed in December and entered into force on 1 January 2007. In its first year of application, this tax will be levied at a rate of 10% on taxpayers whose annual income is more than 120 times the minimum wage (or 10 times the monthly minimum wage) and of 8% on taxpayers whose annual income is equal to or below that threshold. In the second year, the threshold will be lowered to 108 times the minimum wage; thereafter it will be gradually lowered until reaching 36 times the minimum wage.

In addition, in 2007 the IRPC —an income tax on one-person companies with an annual income of up to 100 million guaraníes (approximately US\$ 20,000)— was introduced to replace the consolidated tax (*tributo único*). This 10% single-rate tax does not exempt taxpayers

from VAT, although a simplified system for its payment is planned.

As for non-tax revenues, the contractual income of the Itaipú and Yacyretá binational entities was up by 14%. In addition to these earnings, the binational entities bring funds into the country which are then used to finance social expenditures not provided or accounted for in the national budget. In 2006, total inflows of foreign exchange generated by the binational entities rose by 51%, and inflows registered under the heading of administrative expenditure (which includes the social programmes financed by these entities) jumped by almost 200%. These capital flows represented 14.5% of the monetary base at the close of the year and may therefore have contributed to the monetary impulse and stepped up the pressure for an appreciation of the local currency.

(b) Monetary policy

For the last two years, Paraguay's monetary policymakers have been using benchmarks for the inflation rate. The year-on-year target for the increase in the consumer price index (CPI) for the metropolitan area of Asunción is set at 5%, with a margin of 2.5 percentage points on either side. This approach is an introduction to a system of inflation targeting, sharing the dual objective of increasing the credibility and transparency of monetary policy and anchoring the inflation expectations of economic agents.

The central bank set the interest rate on its 35-day instruments of monetary regulation (IMRs) as the policy rate, but in practice it has used the entire interest-rate curve for these instruments to signal the market about its monetary policy intentions.

Lending and deposit rates in the banking system have generally stayed in step with the rise in IMR rates observed since mid-2005.³ Interest rates on sight deposits, which have been virtually zero since late 2004, have been the exception to this rule. This type of deposit has represented, on average, around 80% of total deposits since January 2004, and the effect of the low rate of return on these instruments, both for account holders and for banks' financial balances, has therefore been extensive. Despite the prominence of sight deposits, the use of certificates of deposit has increased rapidly in the last two years; this was especially true in 2006, when the rush to take advantage of their higher yield resulted in a year-on-year average increase of 45%.

³ Unless otherwise indicated, this analysis refers to interest rates on local-currency deposits and loans.

Lending operations have also reacted to the rise in IMR rates, with the growth rate of such operations slipping from 29% in 2005 to 21% in 2006, on average.⁴ Foreign-currency lending has behaved more erratically. The sharp appreciation of the guaraní against the United States dollar observed since early 2006 has helped to boost total foreign-currency loans, which surged in March 2007, marking up a year-on-year growth rate of 35% in dollar terms (14% in guaraníes). This pace was then maintained during the two succeeding months. Due to expectations of a smaller appreciation of the guaraní in 2007, this aggregate should stabilize in the course of the year. Private-sector foreign-currency deposits rose by about 20% in the first four months of 2007, following an average increase of 11% in 2006. Nevertheless, in February 2007, this aggregate (when measured in guaraníes) was surpassed by local-currency deposits for the first time ever.

The expansion of the amount of notes and coins in circulation (M0) began to accelerate in the second quarter of 2005 and has since then averaged a year-on-year nominal growth rate of 17% (7% in real terms). This has led to an increase in the monetary base, whose main growth factor has been the upswing in net external assets generated by the strong build-up of international reserves. The build-up has been partially sterilized through IMR issues, which are the main contraction factor for the monetary base. In December 2006, the balance on these instruments represented 70% of total base money.

The behaviour of M0 and deposits has contributed to the rapid growth of monetary aggregates (from M1 to M3) over the past three years, although there has been a marked decline in the rate. This downtrend was interrupted in May 2006, however.

In March 2007, following a change in its board of directors, the central bank intervened extensively in the foreign-exchange market in order to slow the appreciation of the guaraní against the United States dollar. In order to sterilize these interventions, additional IMRs were issued, and the balance of these instruments showed a year-on-year increase of 42%. Nevertheless, there was a significant increase in monetary aggregates: M0 registered a year-on-year expansion of 22% (15% in real terms), while M1 grew by 27% (21% in real terms), M2 by 25% (18% in real terms) and M3 by 15% (9% in real terms).

The new board of the central bank also decided to launch competitive IMR auctions, which led to a significant drop in interest rates. Average interest rates decreased from 11% in February to 8% in March, with short-term interest rates (60-90 days) falling from 10.8% to 5.7% and longer-term rates (546-728 days) from 12.5% to

11.5%. As a result, the yield curve for those securities steepened. From mid-April onward, IMRs were issued at benchmark rates on Mondays, Wednesdays and Fridays, and interest rates declined further, slipping to an average of 4% in April and May.

The new board of directors has also been looking into the possibility of creating a futures market, which could provide a way of helping to blunt the impact of exchange-rate fluctuations and control liquidity through interbank swaps. The fact that production activity does not absorb all the liquidity in the system can build up inflationary pressures in the future, and this risk needs to be taken into account in monetary policymaking.

(c) Exchange-rate policy

The central bank intervened heavily in the foreign-exchange market in March and April 2007 and succeeded in stabilizing the exchange rate at around 5,000 guaraníes to the United States dollar. In March, the central bank bought US\$ 159 million in net terms, which was equivalent to 60% of net purchases for the whole of 2006. In addition to these interventions, it also raised the daily limit on the amount of foreign exchange that banks are allowed to buy and sell.

The central bank's expectation is that lower IMR interest rates and the introduction of a futures market will ease exchange-rate pressures and thus reduce the need to intervene in the foreign exchange market.

(d) Other policies

The Development Finance Agency (AFD) was created by a law passed in 2005 to perform second-tier banking functions and began operations in July 2006. Its function is to provide medium- and long-term credit, particularly to the production sector. It is also gradually moving into the mortgage segment, where it is offering loans for up to 20 years. The National Development Bank, which is due to take on first-tier banking functions, is still in the midst of an internal restructuring process.

The 2007 national budget authorizes AFD to issue up to 155.8 billion guaraníes (approximately US\$ 31 million) in government-guaranteed bonds. In addition, the institution expects to obtain long-term financing from *Petróleos de Venezuela S.A.*, the National Bank for Economic and Social Development of Venezuela (BANDES) and the Inter-American Development Bank, as well as through the allocation of additional funds still awaiting congressional approval.

⁴ Refers to loans made by the banking system to the private sector.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	0.6	-1.5	-3.3	2.1	0.0	3.8	4.1	2.9	4.2
Per capita gross domestic product	-1.6	-3.6	-5.3	0.0	-2.0	1.8	2.1	0.9	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.2	1.3	-7.0	11.6	4.2	8.0	3.9	-0.1	2.8
Mining	-3.8	-0.4	-5.2	-8.3	-9.1	15.6	2.7	7.8	-2.2
Manufacturing	-0.2	-0.5	-2.2	-0.7	-1.4	0.7	3.3	2.7	2.6
Electricity, gas and water	1.9	1.7	1.9	1.9	1.1	4.6	3.6	2.8	9.5
Construction	-0.7	-5.8	-7.8	-1.4	-8.9	14.4	2.1	4.5	-5.2
Wholesale and retail commerce, restaurants and hotels	1.5	-6.0	-3.7	0.0	-1.6	5.5	5.1	2.4	5.9
Transport, storage and communications	2.2	1.3	1.4	2.1	2.0	0.7	9.6	7.2	11.1
Financial institutions, insurance, real estate and business services	-1.9	0.6	-0.7	1.2	0.8	-4.9	2.1	4.0	5.2
Community, social and personal services	0.9	0.8	-0.4	-5.1	-1.1	0.2	3.1	5.9	4.2
Gross domestic product, by type of expenditure									
Consumption	-1.1	-1.1	-4.7	1.4	-6.7	2.4	4.6	4.0	6.6
General government	1.1	-0.8	-2.6	-8.6	-3.2	-2.0	6.0	5.0	2.7
Private	-1.3	-1.1	-5.0	2.6	-7.1	2.9	4.4	3.9	7.0
Gross domestic investment	-14.4	-14.1	-9.1	11.0	-13.7	8.5	11.9	-12.1	8.9
Exports (goods and services)	5.8	-25.5	8.0	-9.6	15.9	4.4	1.8	8.6	10.0
Imports (goods and services)	-4.5	-26.2	0.9	-6.1	-6.2	3.6	6.2	3.6	17.0
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	22.7	20.8	18.8	18.7	18.7	19.9	20.8	19.6	20.4
National saving	20.7	18.5	16.5	14.6	20.5	22.2	22.8	20.0	18.4
External saving	2.0	2.3	2.3	4.1	-1.8	-2.3	-2.0	-0.4	2.0
Millions of dollars									
Balance of payments									
Current account balance	-160	-165	-163	-266	93	125	139	33	-180
Goods balance	-393	-441	-537	-614	-280	-276	-244	-462	-935
Exports, f.o.b.	3 549	2 312	2 329	1 890	1 858	2 170	2 861	3 352	4 838
Imports, f.o.b.	3 942	2 753	2 866	2 504	2 138	2 446	3 105	3 814	5 772
Services trade balance	50	82	175	165	214	245	327	349	383
Income balance	6	18	22	16	43	-8	-138	-78	-14
Net current transfers	177	175	177	167	116	165	194	224	386
Capital and financial balance ^d	177	-148	-181	217	-217	101	125	110	556
Net foreign direct investment	336	89	98	78	12	22	32	68	161
Financial capital ^e	-160	-237	-280	138	-229	80	94	42	394
Overall balance	17	-313	-344	-50	-124	227	264	143	376
Variation in reserve assets ^f	-23	-104	215	45	84	-301	-179	-146	-387
Other financing ^g	7	418	129	5	40	75	-85	3	11
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	99.2	96.7	100.0	102.6	106.4	112.5	108.3	118.6	107.8
Terms of trade for goods (index: 2000=100)	108.0	101.7	100.0	100.2	96.7	101.4	104.3	97.4	95.5
Net resource transfer (millions of dollars)	189	287	-30	237	-134	168	-97	35	553
Total gross external debt (millions of dollars)	2 189	2 767	3 054	2 922	3 038	3 133	3 087	2 855	2 856
Net profits and interest (percentage of exports) ⁱ	0.1	0.6	0.8	0.6	1.8	-0.3	-4.0	-1.9	-0.2
Average annual rates									
Employment									
Labour force participation rate ^j	57.9	57.3	63.7	59.2	61.2	59.8	63.4	61.8	60.1
Open unemployment rate ^k	6.6	9.4	10.0	10.8	14.7	11.2	10.0	7.6	8.3
Visible underemployment rate ^k	6.0	5.8	9.1	8.3	9.5	8.8	8.3	7.5	5.8
Annual percentages									
Prices									
Variation in consumer prices (December-December)	14.6	5.4	8.6	8.4	14.6	9.3	2.8	9.9	12.5
Variation in nominal exchange rate (December-December)	27.9	16.9	6.9	30.7	47.2	-15.8	3.6	-1.2	-13.0
Variation in average real wage	23.8	16.8	6.5	32.1	49.7	-13.8	2.9	-1.2	-13.2
Nominal deposit rate ^l	...	20.3	15.4	16.0	21.7	15.5	5.7	6.1	9.8
Nominal lending rate ^m	30.5	30.2	26.8	28.3	34.3	30.5	21.2	15.3	16.6

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sector									
Total income	33.6	33.0	34.4	35.7	32.7	31.9	33.9	34.8	35.6
Current income	32.9	32.2	33.1	35.0	32.6	31.8	33.9	34.7	35.5
Capital income	0.7	0.8	1.2	0.8	0.1	0.0	0.1	0.1	0.1
Total expenditure ⁿ	33.2	36.1	38.4	35.9	34.6	30.8	31.6	33.3	33.2
Current expenditure	24.5	23.6	30.5	29.3	28.9	26.2	26.6	28.3	28.2
Capital expenditure	8.7	12.5	7.9	6.5	5.8	4.9	5.2	4.9	5.1
Overall balance	0.4	-3.1	-4.0	-0.1	-1.9	1.1	2.3	1.5	2.4
Non-financial public sector debt									
Domestic	23.5	33.5	35.3	44.0	63.0	46.9	41.7	32.8	25.8
External	3.2	3.3	4.1	6.4	8.2	5.0	4.1	3.0	3.1
External	20.3	30.2	31.2	37.6	54.8	42.0	37.6	29.8	22.7
Money and credit^o									
Domestic credit ^p	10.7	5.7	5.0	6.6	7.8	7.7	5.5	4.8	4.0
To the public sector	5.3	1.1	0.8	2.7	4.2	4.2	2.6	2.2	1.7
To the banking sector	5.3	4.6	4.2	3.9	3.6	3.4	3.0	2.6	2.3
Liquidity (M3)	27.9	28.6	30.5	31.5	29.5	27.5	25.9	25.8	25.1
Currency outside banks and local-currency deposits (M2)	14.7	13.5	13.9	13.5	12.3	11.8	12.6	13.7	14.1
Foreign-currency deposits	13.2	15.1	16.7	18.0	17.2	15.7	13.4	12.1	11.0

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Percentage of the economically active population; urban total. ^l Weighted average of effective interest rates on time deposits. ^m Weighted average of effective interest rates on loans, excluding overdrafts and credit cards. ⁿ Includes net lending. ^o The monetary figures are annual averages. ^p Refers to net credit to the public and banking sectors granted by the Central Bank of Paraguay.

Following an external audit of public companies carried out in 2006, the Supervisory Council for State Enterprises was created in December to oversee the management of the country's main public corporations.⁵ One of its main tasks is to introduce results-based

management in each of these corporations. To this end, it created specific indicators for use in monitoring and evaluating their management performance. The possibility of allowing the entry of private capital is still under study, however.

3. The main variables

(a) Economic activity

Economic activity in Paraguay was up by 4.2% in 2006, following growth of 2.9% in 2005, when drought conditions hurt the agricultural sector, which contracted by 5.4%. In 2006, although these weather conditions

were still causing significant losses, the sector was able to achieve a growth rate of 0.6%.

A good harvest is forecast in 2007 for the main crops, especially soybeans, maize, cassava, sugar cane, wheat, beans, peanuts, sunflowers and rice. The cotton harvest is expected to decline by around 42%, however,

⁵ The public corporations under consideration are the National Electricity Administration (ANDE), National Cement Industry (INC), Petróleos Paraguayos (PETROPAR), Sanitary Services Enterprise of Paraguay (ESSAP), Paraguay Communications Company (COPACO), the National Civil Aeronautics Directorate (DINAC), the National Shipping and Ports Administration (ANNP), and the Paraguayan Railways (FEPASA).

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	3.8	3.6	4.8	-0.4	6.3	7.2	5.2	-0.9	...	...
Goods exports, f.o.b. (millions of dollars) ^c	447	424	425	391	451	475	538	442	671	...
Goods imports, f.o.b. (millions of dollars) ^c	612	688	855	1 096	1 126	1 244	1 356	1 528	1 566	...
International reserve assets (millions of dollars) ^d	1 189	1 273	1 275	1 297	1 354	1 462	1 546	1 703	1 903	...
Real effective exchange rate (index: 2000=100) ^e	120.7	119.5	117.4	116.8	114.0	108.0	104.1	98.5	95.9	97.2
Consumer prices (12-month percentage variation)	4.4	6.1	7.6	9.9	11.6	8.4	8.3	12.5	5.6	6.8
Average nominal exchange rate (guaraníes per dollar)	6 290	6 231	6 056	6 127	6 044	5 689	5 449	5 360	5 171	5 060
Nominal interest rates (annualized percentages)										
Deposit rate ^f	2.1	5.8	8.0	8.7	8.5	9.3	11.1	10.4	10.3	5.5
Lending rate ^g	15.6	15.7	15.2	14.7	15.5	16.9	16.8	17.0	17.6	14.4 ^h
Domestic credit (variation from same quarter of preceding year) ⁱ	15.0	5.1	8.4	13.3	10.6	17.5	17.5	9.4	12.9	14.1 ⁱ
Non-performing loans as a percentage of total credit ^k	10.3	10.0	8.7	6.5	5.5	5.7	5.5	3.3	2.9	3.0 ^h

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Refers to registered trade only. ^d Including gold.

^e Quarterly average, weighted by the value of goods exports and imports. ^f Weighted average of effective interest rates on time deposits.

^g Weighted average of effective interest rates on loans, excluding overdrafts and credit cards. ^h Data to April. ⁱ Refers to total credit granted by the banking sector to the private sector. ^j Data to May. ^k Refers to total credit extended by the banking system.

owing to problems with seed distribution. Soybean output is expected to swell by around 65%, which has been reflected in exports.

In 2006, the livestock sector grew by 9%, following a 15% expansion in 2005. Activities associated with meat have benefited from the emergence of new export markets for these products, particularly the Russian Federation. Meat production rose by 17.9% in 2005 and by 12% in 2006. In 2007, a slowdown is expected in both the livestock sector and meat production due, among other factors, to Brazil's resumption of exports to certain markets.

Along with the expansion of the livestock sector, the output of dairy products also registered significant growth (10%). In the manufacturing sector, the production of machinery and equipment was up by 22%. This, together with the noteworthy upswing in imports of capital goods, was a major factor in the 8.9% increase in gross capital formation. The manufacturing sector as a whole registered growth of 2.6%.

Construction slumped by 5.2% as a consequence of problems with cement supplies. Now that this situation has returned to normal, activity in the sector is expected to pick up in 2007.

The outcome of all the above was that the production of goods grew by 2% in 2006. A 6.3% rate of expansion

was posted for the services sector, where growth was driven by the 14% upswing in the communications industry (which received large inflows of FDI), a 9.5% increase in the electricity and water industry (thanks to stronger private consumption and industrial activity), an 8.5% rise in activity in transport (which benefited from the expansion in trade) and the 6.2% upturn in commerce. Financial services (6.6%), business services (6.5%) and household services (6%) also reflected the overall rise in the level of production activity.

Private consumption climbed by 7%, but this rate of increase was outdistanced by growth in gross capital formation and exports (10%). Imports rose by 17%.

In 2007, it is estimated that the Paraguayan economy will once more grow by approximately 4% and that its expansion will again be driven by the services sector but also in part by the considerable increase in activity in the agricultural sector.

(b) Prices, wages and employment

The CPI showed a variation of 12.5% in 2006, thus exceeding the 2.5% margin above the 5% benchmark rate. Supply constraints affecting various items of fresh agricultural produce had a significant impact on these results

in the last quarter of the year. Core inflation (which does not include the prices of fruit and vegetables) was 7%. In general, food prices, especially in the cases of meat and vegetables, rose the most steeply during the year.

In January 2007 these constraints eased. This had a deflationary influence on prices in the first quarter of the year, as did falling prices for meat and fuels (and related goods and services). In June, a year-on-year inflation rate of 6.8% was registered. The country is expected to close out the year with an inflation rate close to the upper limit of the central bank's reference band.

The legal minimum wage was raised by 12% in April 2006 and has remained unchanged since then. Rising inflation towards the end of the year has resulted, therefore, in a loss of purchasing power.

Despite the upturn in economic activity, the open urban unemployment rate is estimated to have climbed from 7.6% in 2005 to close to 8% in 2006.

The exchange rate fell considerably in 2006 as a result of hefty foreign-currency inflows. The guaraní presented an average nominal appreciation against the United States dollar of 8.8%, while the December-December variation was 13%. The guaraní registered an average nominal appreciation of 1.8% against the Brazilian real and of 13.5% against the Argentine peso, which was reinforced by Argentina's control of its exchange rate against the dollar. As a result of the nominal appreciation and the inflation registered in 2006, the real effective exchange rate had appreciated by 18.4% at the close of the year (the average appreciation was 12.4%). This outcome added to the deficit on the current account. In 2007, a less significant appreciation is projected, although a falling exchange rate should help to keep inflation under control by contributing to more moderate prices for tradable goods.

(c) The external sector

In 2006, a deficit of approximately 2% of GDP was posted on Paraguay's balance-of-payments current account. This outcome was largely a consequence of the strong growth of imports, which climbed by 51%. The machinery and equipment sector, which marked up a 100% increase over the year before, witnessed the

sharpest increase in imports. Registered imports of durable consumer goods rose by 110% owing to a surge in motor vehicle imports.

Exports also jumped by an extraordinary 46%, driven by the boom in registered meat exports, which soared by 67% overall. Exports of soybeans and cotton, in contrast, were down by 22% and 15%, respectively.

The opening of new export markets for Paraguay, such as those of the Russian Federation and Chile, as a result of the outbreak of foot-and-mouth disease in Brazil and the export restrictions in place in Argentina, had a strong impact on meat exports. However, the restoration of some Brazilian states' status as "foot-and-mouth-free zones with vaccination" and the significant quotas of Brazilian meat that enter the Russian Federation market duty free have hurt Paraguay's registered beef exports, which, up to May, had fallen by 19% compared to the same period of the year before.

The expansion in soybean production, in contrast, had a positive impact on registered exports of this product, which, up to May, had soared by 119% compared to the corresponding period of 2006. In addition, soybean prices posted a year-on-year rise of around 30% in the first five months of the year.

Net current transfers ballooned by about 74% as a result of the increase in emigrants' remittances. Positive current-account flows were not sufficient, however, to close the deficit. Foreign-exchange inflows recorded in the financial account, which yielded a surplus of around 6% of GDP, therefore put considerable pressure on the exchange rate. This was attributable to hefty FDI inflows, which swelled by 86% and were mainly directed to the telecommunications, agriculture and livestock sectors, and to the redemption of, or returns on, assets held abroad.

These flows resulted in a build-up of international reserves totalling nearly 4% of GDP. The stock of international reserves amounted to US\$ 1.703 billion at the close of the year, which was 31% more than the year before. In March and April 2007, this balance had grown by 40% and 52%, respectively, in year-on-year terms, in line with the central bank's operations on the foreign-exchange market.

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Peru

1. General trends

The Peruvian economy grew by 8.0% in 2006. Cumulative growth for the past five years stood at 32%, resulting in a 23% rise in per capita GDP. The unusually favourable external environment, particularly the high prices of the country's main exports, led to high surpluses on the trade balance and the balance-of-payments current account. High fiscal revenue created a surplus equivalent to 2.1% of GDP in the non-financial public sector. This, together with strong inflows of foreign exchange, lessened external vulnerability thanks to reduced debt and increased international reserves. Low inflation (1.1% in late 2006) and a nominal exchange-rate appreciation promoted the dedollarization of the financial system. Unlike that of previous years, economic growth was largely based on domestic demand, which showed its greatest expansion in 10 years, stimulated by considerable job creation and strong private investment.

In mid-2006, following an election campaign which temporarily increased the volatility of the foreign-exchange and financial markets, the second government under President García took office. The main components of economic policy remained unchanged, but the authorities announced a significant increase in public investment and the adoption of measures to strengthen the impact of social and production policies in the regions and population groups affected by poverty.

The favourable external climate, buoyant economic growth, stable prices and strong job creation continued in the first half of 2007. Predictions for the year as a whole call for growth of above 7% and inflation remaining within the target range of 1% to 3%, which is lower than the previous year's target (1.5% to 3.5%). The figures for the fiscal balance and the balance-of-payments current account are expected to remain positive, but less so than in 2006.

2. Economic policy

Thanks to the favourable external climate, the government's economic policies continued to reduce the vulnerabilities affecting the Peruvian economy, including the heavy public debt and the dollarization of the financial system. The authorities continued with the

system of inflation targets and intervened on the open foreign-exchange market. A free trade agreement was negotiated with the United States—and approved on the Peruvian side—in order to increase and diversify exports.

In January 2007, a two-year precautionary stand-by arrangement was signed with the International Monetary Fund. Among other elements, the agreement emphasizes the broadening of the tax base, improved efficiency in public investment, an active approach to external debt management, combating poverty and strengthening the financial sector.

(a) Fiscal policy

The steep upswing in revenue from 2005 onwards as a result of high prices for natural resources, rapid economic growth and measures to tighten up tax collection and broaden the tax base led to a fiscal performance which was much better than expected. In particular, central government revenue in 2006 amounted to 17.4% of GDP, as against 15.8% in 2005 and the 15.5% initially forecast. The increase in tax receipts was mostly due to income tax, whose contribution rose from 4.3% to 6.0% of GDP. This was to a great extent due to tax revenue from mining companies.

Disbursements were limited by the Law on Fiscal Responsibility and Transparency, which restricts increases in public spending and contains specific provisions for pre-election periods. The new government modified the long-term direction of fiscal policy as defined in the multi-year programme, focusing on increasing current-account saving (higher receipts and lower current expenditure) and greater capital spending, which is expected to rise from 2.9% of GDP in 2005 to 4.4% in 2009. New funds were approved for an “investment shock” in the second half of 2006, and 18.6% of the 2007 budget was allocated to investment spending, compared with 14.4% in 2006. To facilitate this increased investment, the Law on Fiscal Responsibility and Transparency was amended, exempting capital expenditure from the 3% limit on real annual increases in public spending. The increase in public investment will continue to be restricted by the goal of a deficit of no more than 1% of GDP.

In the second half of 2006 and in early 2007 the adjustment issues usual with a new government, together with management problems in the regions and municipalities, obstructed the execution of a number of works projects. As a result, capital spending in 2006 remained relatively stable in GDP terms and total central government spending fell from 16.5% of GDP in 2005 to 16.0% in 2006, the primary central government balance rose from 1.1% to 3.2% of GDP and the overall central government balance improved from a deficit of 0.7% of GDP to a 1.4% surplus. The non-financial public sector went from a deficit of 0.3% of GDP in 2005 to a 2.1% surplus in 2006. Thus, fiscal policy played an countercyclical role and the public debt, whose nominal amount was relatively stable, fell

from 37.7% of GDP in late 2005 to 32.7% of GDP in late 2006 thanks to strong economic growth and a nominal appreciation of the new sol. To reduce vulnerability in relation to the public debt, internal debt as a proportion of total debt was increased and —by means of a bond swap and repurchase operation in February 2007 for a total of about US\$ 2.3 billion— the debt profile was softened and the proportion of variable-rate external debt was reduced. In mid-2007 the member countries of the Paris Club accepted the government’s proposal to prepay part of its debts.

In 2007, the authorities are endeavouring to improve the management of public investment. A fall in revenue in GDP terms is expected, owing to lower tariffs on a number of capital goods and the reduction of the excise tax on fuels imposed in 2006 to limit the impact of high world oil prices. With a marked increase expected in spending, particularly capital spending, the authorities are forecasting equilibrium in the non-financial public sector for 2007. Nonetheless, in view of the growth of revenue and the restrictions on spending in the first months of the year, a fiscal surplus can once again be expected, albeit smaller than in 2006.

(b) Monetary and exchange-rate policy

The authorities continued the system of inflation targets, mostly by means of central bank lending and borrowing rates. Beginning December 2005, from an initial rate of 3.0%, a series of interest-rate hikes were implemented in response to rising international rates, a moderate upturn in inflation, strong economic growth and a pre-election climate which resulted in greater volatility in the foreign-exchange market. After increasing the benchmark rate to 4.5% in May 2006, the authorities held it steady for the rest of the year and in early 2007 in response to falling inflation and reduced foreign-exchange volatility. In early 2007, in order to strengthen confidence in the national currency and promote the dedollarization of the financial system, the central value for the inflation target was lowered from 2.5% to 2.0%, retaining the one-point range above and below the central value.

In addition to raising interest rates, beginning in late 2005, the authorities began to sell dollars in order to stabilize the new sol, which was in danger of depreciation during the election period. Owing to favourable expectations resulting from the presidential election, the new sol resumed its earlier trend of nominal appreciation of the bilateral exchange rate, and the Central Reserve Bank of Peru began to buy dollars again. This was reflected in increases of US\$ 3.168 billion in net international reserves in 2006 and US\$ 2.429 billion to April 2007, bringing the total up to more than US\$ 19.7 billion. To

sterilize the impact of these purchases, the authorities resumed the issue of deposit certificates, the volume of which increased by almost 10 billion new soles between July 2006 and mid-May 2007.

The outcome of the opposing exchange-rate trends in 2006 was an 0.5% increase in the annual average of the real exchange rate against the dollar and a 1.7% rise against trading-partner currencies as a whole. In late 2006 it showed a real appreciation of 5.0% against the dollar and of 1.0% in terms of the multilateral exchange rate, compared with the December 2005 figures. In the early part of 2007, the national currency continued to appreciate against the dollar in nominal terms, but owing to low inflation in the country and the appreciation of other currencies, the bilateral and effective real exchange rates remained relatively stable.

Demand for credit strengthened markedly, with a year-on-year increase in the financial-sector credit to the private sector of 9.7% as of December 2006 and 14.2% as at March 2007. Reflecting the growing dedollarization of the financial system, the proportion of credit in national currency rose from 33.4% in late 2005 to 39.5% 12 months later and to 40.9% in March 2007. The banks' consumer loans and credit to microenterprises showed the fastest growth, with volume increases of 32% and 23% and borrower numbers of 22% and 15%, respectively, from December 2005 to December 2006.

Aside from the strong upswing of the economy, the growth of credit was also boosted by falling interest

rates (average fixed rates), down from 17.9% in 2005 to 17.1% in 2006 and 16.8% in the first four months of 2007, reflecting intensifying competition among financial institutions which have survived the impact of the crisis of 1998-1999 and are seeking to extend their services to new clients. Dollar interest rates reflected trends in international rates, rising from 9.8% in 2005 to 10.5% in 2006 and remaining unchanged in the first four months of 2007. The level of bad debts in the banking sector continued to decline, from 2.1% in December 2005 to 1.6% 12 months later.

(c) Other policies

Negotiations were completed in 2006 for a free trade agreement with the United States which was ratified by the Peruvian Congress in mid-year. While that agreement awaited ratification by the United States Congress, the application of the Andean Trade Promotion and Drug Eradication Act was extended. A final decision on the free trade agreement is expected in the second half of 2007.

A broadening of the economic complementarity agreement with Chile was also agreed and trade negotiations continued with Mexico and Singapore. In December, in order to strengthen trade integration, tariffs on 2,900 items of capital goods were reduced.

To promote private investment, a law to eliminate excessive costs, red tape and restrictions was passed in April 2007.

3. The main variables

(a) Economic activity

In 2006, the Peruvian economy grew by 8.0%, a rate which exceeded expectations, well above the 2005 figure of 6.4%. The growth rate of internal demand rose, with both consumption (6.6%) and gross fixed investment (19.0%) achieving their greatest expansion since 1995. Private consumption was boosted by high levels of job creation, moderate wage rises and the expansion of consumer credit. Gross fixed investment showed high growth rates in both the private (20.1%) and public sectors (13.0%), although the share of the two sectors in GDP (16.8% and 2.8%, respectively, at current prices) is still lower than that needed for sustained high growth.

Export growth slowed to 1.0% after having achieved a yearly level of almost 10% in real terms from 2000 to

2005. This slowdown was mostly due to a fall in external sales of fishmeal owing to marine resource protection measures, and also to the weak growth in gold, zinc, molybdenum and copper exports which resulted from the exhaustion of a number of mines and the fact that no major new operations were opened. The swelling growth of imports (12.4% at constant prices) meant that, for the first time since 1995, the net contribution of exports to GDP growth was negative.

Fisheries and mining were the lowest-growth sectors, whereas all other branches of activity grew by over 6%. Particularly strong were construction (14.7%) and commerce (12.1%), reflecting the strong expansion of domestic demand.

Economic growth of above 7% is forecast for 2007, once again driven by domestic demand, and the growth

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	-0.7	0.9	3.0	0.2	5.2	3.9	5.2	6.4	8.0
Per capita gross domestic product	-2.1	-0.5	1.6	-1.1	3.9	2.7	4.0	5.2	6.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.3	11.0	6.8	-0.1	6.1	1.2	3.2	4.6	6.9
Mining	3.7	13.1	2.4	9.9	12.0	5.4	5.2	8.1	1.0
Manufacturing	-3.5	-0.7	5.8	0.7	5.9	3.2	7.4	6.5	6.6
Electricity, gas and water	6.2	3.0	3.2	1.6	5.5	4.2	4.6	5.3	6.9
Construction	0.6	-10.5	-6.5	-6.5	7.9	4.3	4.7	8.4	14.7
Wholesale and retail commerce, restaurants and hotels	-2.6	-0.6	3.4	0.7	3.6	3.3	5.5	5.2	11.3
Transport, storage and communications	-1.0	2.1	2.6	-0.4	3.7	4.9	6.4	8.5	...
Financial institutions, insurance, real estate and business services	0.5	-0.9	2.3	-1.2	5.0	4.1	3.9	6.5	...
Community, social and personal services	0.4	3.9	1.7	0.0	3.8	4.8	3.9	5.4	8.2
Gross domestic product, by type of expenditure									
Consumption	-0.5	0.0	3.6	1.2	4.1	3.3	3.5	5.2	5.8
General government	2.5	3.5	3.1	-0.9	0.2	3.8	4.1	9.2	8.7
Private	-0.9	-0.4	3.7	1.5	4.6	3.2	3.5	4.7	5.4
Gross domestic investment	-2.3	-13.6	-2.7	-7.7	5.8	3.9	7.9	7.2	29.7
Exports (goods and services)	5.6	7.6	8.0	7.4	6.9	6.3	14.7	13.9	1.0
Imports (goods and services)	2.3	-15.2	3.8	2.7	2.8	3.6	10.6	9.9	12.4
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	23.6	21.1	20.2	18.7	18.9	18.7	18.8	18.5	21.4
National saving	17.8	18.4	17.2	16.4	16.9	17.1	18.9	19.9	24.0
External saving	5.9	2.7	2.9	2.3	2.0	1.6	0.0	-1.4	-2.6
Millions of dollars									
Balance of payments									
Current account balance	-3 321	-1 390	-1 556	-1 217	-1 117	-958	19	1 105	2 456
Goods balance	-2 437	-655	-411	-195	292	853	3 004	5 260	8 853
Exports, f.o.b.	5 757	6 088	6 955	7 026	7 714	9 091	12 809	17 336	23 750
Imports, f.o.b.	8 194	6 743	7 366	7 221	7 422	8 238	9 805	12 076	14 897
Services trade balance	-657	-588	-735	-963	-994	-900	-732	-834	-932
Income balance	-1 204	-1 112	-1 410	-1 101	-1 457	-2 144	-3 686	-5 076	-7 649
Net current transfers	977	966	999	1 042	1 041	1 233	1 433	1 755	2 184
Capital and financial balance ^d	2 080	553	1 415	1 640	2 085	1 482	2 397	265	727
Net foreign direct investment	1 582	1 812	810	1 070	2 156	1 275	1 599	2 579	3 467
Financial capital ^e	498	-1 259	605	571	-71	207	798	-2 313	-2 740
Overall balance	-1 241	-836	-142	423	968	525	2 417	1 371	3 183
Variation in reserve assets ^f	1 142	979	440	-275	-852	-516	-2 443	-1 471	-3 210
Other financing ^g	99	-143	-298	-148	-116	-9	26	100	27
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	91.7	101.5	100.0	97.8	95.6	99.8	101.3	101.9	103.5
Terms of trade for goods (index: 2000=100)	103.4	100.8	100.0	95.6	98.4	102.2	111.3	119.4	151.1
Net resource transfer (millions of dollars)	975	-701	-293	391	512	-670	-1 262	-4 711	-6 895
Total gross external debt (millions of dollars)	30 142	28 586	27 981	27 195	27 872	29 587	31 244	28 657	28 332
Net profits and interest (percentage of exports) ⁱ	-16.0	-14.4	-16.6	-13.0	-15.9	-19.8	-24.9	-25.9	-29.2
Average annual rates									
Employment									
Labour force participation rate ^j	65.4	66.9	64.4	66.7	68.4	67.4	68.1	67.1	67.4
Open unemployment rate ^k	8.5	9.2	8.5	9.3	9.4	9.4	9.4	9.6	8.5
Visible underemployment rate ^k	12.5	12.5	12.3	12.8	11.8	9.8	9.6	9.5	9.4
Annual percentages									
Prices									
Variation in consumer prices (December-December)	6.0	3.7	3.7	-0.1	1.5	2.5	3.5	1.5	1.1
Variation in wholesale prices (December-December)	6.5	5.5	3.8	-2.2	1.7	2.0	4.9	3.6	1.3
Variation in nominal exchange rate (December-December)	15.3	11.1	0.5	-2.3	2.1	-1.5	-5.3	4.3	-6.6
Variation in average real wage	-2.0	-2.0	0.8	-0.9	4.6	1.6	1.1	-1.9	1.2
Nominal deposit rate ^l	...	...	...	...	3.5	2.9	2.4	2.7	3.4
Nominal lending rate ^l	...	...	...	...	22.3	20.2	18.7	17.9	17.1

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
General government									
Total income	16.1	14.9	15.2	14.5	14.4	14.9	15.0	15.8	17.4
Current income	15.8	14.6	14.9	14.3	14.2	14.8	14.9	15.7	17.2
Tax income	13.9	12.7	12.2	12.4	12.0	12.8	13.1	13.6	14.9
Capital income	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Total expenditure	17.2	18.1	18.0	17.3	16.5	16.7	16.2	16.5	15.9
Current expenditure	13.8	14.7	15.1	15.0	14.6	14.8	14.4	14.7	13.9
Interest	1.9	2.1	2.2	2.1	2.0	2.0	1.8	1.8	1.8
Capital expenditure	3.4	3.4	2.8	2.2	2.0	1.9	1.8	1.9	2.0
Primary balance	0.7	-1.0	-0.6	-0.6	-0.2	0.2	0.6	1.1	3.2
Overall balance	-1.1	-3.1	-2.8	-2.8	-2.1	-1.7	-1.3	-0.7	1.4
Central government public debt									
Domestic	5.9	8.9	8.8	9.6	9.2	10.4	8.0	9.0	7.9
External	37.2	39.2	36.4	34.5	36.3	36.9	33.8	29.2	23.0
Money and credit^m									
Domestic credit ⁿ	13.7	14.8	14.9	14.7	13.4	12.7	12.2	12.1	12.7
To the public sector	-9.8	-9.3	-7.1	-5.6	-4.7	-4.4	-4.1	-4.4	-3.1
To the private sector	30.2	33.2	31.7	30.8	29.4	28.2	26.5	25.9	25.9
Others	-6.7	-9.0	-9.8	-10.5	-11.3	-11.1	-10.1	-9.5	-10.2
Liquidity (M3)	23.2	25.1	24.9	25.3	25.2	24.3	22.7	23.2	21.9
Currency outside banks and local-currency deposits (M2)	7.6	7.3	7.3	7.6	8.4	8.7	9.1	10.7	9.9
Foreign-currency deposits	15.6	17.8	17.6	17.7	16.8	15.6	13.5	12.5	12.0

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, Lima metropolitan area; 1996-2000, urban total. ^k Percentage of the economically active population, Lima metropolitan area. ^l Fix-weighted average interest rate. ^m The monetary figures are annual averages. ⁿ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

rate of export volume should recover somewhat, buoyed by the “Sierra exportadora” programme, with which the government is endeavouring to integrate producers in poor areas into productive structures which generate greater value added.

(b) Prices, wages and employment

The authorities were watching prices with some concern in the first half of 2006, when a set of supply problems with a number of foodstuffs and fuels pushed the consumer price index (CPI) upwards by close to 3% year-on-year in April of that year. Rising world fuel prices were cushioned by a cut in the excise tax on fuels and by the use of the fuel price stabilization fund.

The subsequent normalization of agricultural supply and the fall in petroleum prices, together with the nominal appreciation of the new sol against the dollar and strong competition in retail trade, brought about a fall in the CPI between April and December. As a result, inflation stood at 1.1% in late 2006, below the range provided for in monetary policies for the year (1.5% to 3.5%). In early 2007, the moderate monthly increases

in the CPI compared with the relatively high inflation in early 2006 led to another fall in year-on-year inflation. Nonetheless, cumulative inflation to May 2007 stood at 1.3%, and with soaring domestic demand, the upswing in world oil prices and the low figure for comparison for the second semester, it is likely that in the last six months of 2007 the inflation rate will lie within the range selected for the year.

The strength of economic growth was reflected in labour demand, with formal employment up 7.3%, which had a considerable effect on the labour market. The employment rate in the Lima metropolitan area rose from 60.7% to 61.8% of the working-age population. Although the labour-force participation rate also increased, job creation was sufficient to cut the unemployment rate from 9.6% to 8.5%, the lowest since 2000. Wages reacted moderately to demand, with an average rise of 1.2% for the year.

Job creation remained strong in early 2007 but improved job opportunities led to a marked upswing in labour supply, which in turn pushed the unemployment rate up from 9.1% in the first four months of 2006 to 9.5% in the same period in 2007.

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	5.9	5.9	6.3	7.7	8.0	6.5	9.2	8.5	7.5	...
Goods exports, f.o.b. (millions of dollars)	3 749	4 035	4 555	5 029	4 640	5 825	6 559	6 777	5 647	...
Goods imports, c.i.f. (millions of dollars)	2 660	3 006	3 162	3 254	3 383	3 635	3 674	4 175	4 225	...
International reserve assets (millions of dollars) ^c	13 576	13 835	13 714	14 120	14 494	14 452	15 198	17 328	18 456	21 555
Real effective exchange rate (index: 2000=100) ^d	100.9	100.4	101.2	105.1	103.5	103.6	103.4	104.0	104.1	105.6
Unemployment rate	11.3	9.7	9.3	8.0	9.0	8.9	8.5	7.4	9.8	8.3
Consumer prices (12-month percentage variation)	1.9	1.5	1.1	1.5	2.5	1.8	2.0	1.1	0.2	1.5
Average nominal exchange rate (new soles per dollar)	3.26	3.26	3.27	3.39	3.34	3.29	3.24	3.22	3.19	3.17
Average real wage (variation from same quarter of preceding year)	...	0.9	...	-4.7	...	0.8	...	1.6	...	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	2.7	2.7	2.7	2.8	3.0	3.5	3.5	3.5	3.5	3.5
Lending rate ^e	18.5	18.2	17.8	17.2	17.1	17.3	17.2	17.0	16.8	16.7 ^f
Interbank interest rate	2.9	3.0	3.0	3.1	3.8	4.5	4.5	4.5	4.5	4.5 ^f
Sovereign bond spread (basis points) ^g	239.0	206.4	138.4	205.6	187.5	169.0	171.0	118.0	129.0	117.0
Stock price index (national index to end of period, 31 December 2000 = 100)	344	334	420	397	490	675	860	1 066	1 420	1 851
Domestic credit (variation from same quarter of preceding year) ^h	0.4	5.4	11.6	18.9	27.7	20.3	15.8	20.9	35.0	39.8 ^f
Non-performing loans as a percentage of total credit ⁱ	3.6	3.0	2.7	2.1	2.1	2.0	1.9	1.6	1.6	1.7 ^j

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Fix-weighted average interest rate. ^f Data to May. ^g Measured by J.P. Morgan's EMBI+ index. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Refers to total credit extended by full-service banks. ^j Data to April.

(c) The external sector

In 2006, the balance of trade in goods attained its largest surplus since 1979 (9.6% of GDP) thanks, mostly, to the favourable trends in the prices of many of the country's exports (such as fishmeal, copper, tin, gold, silver, lead and zinc), leading for the fifth consecutive year to an improvement in the terms of trade, which reached 26.2%. The favourable external situation was mostly conducive to traditional exports (41.9%) but non-traditional exports also soared (23.2%). In comparison with the growth of exports (37.0%) the rise in imports was somewhat lower, at 23.4%, yet they represented the highest percentage of GDP since 1982. All the components of the country's imports swelled strongly, but capital goods showed the highest growth rate (35.4%), reflecting the rise in investments.

While the negative balances for non-factor services and current transfers were fairly constant as percentages of GDP, the factor services deficit rose from 6.4% to 8.1% of GDP, mainly owing to increased profit transfers by mining

companies. Even so, the current account showed a surplus for the third consecutive year and the size of the surplus swelled from 1.4% of GDP in 2005 to 2.6% in 2006.

The financial account recorded a slight surplus of 0.2% of GDP, mainly because of an upturn in foreign direct investment (US\$ 3.388 billion in 2006 compared with US\$ 2.548 billion in 2005). This was partly counteracted by the policy of reducing the public sector's external debt, which brought it down from 28.1% to 23.5% GDP. All the components of private-sector financial flows (long- and short-term, including errors and omissions) became more negative, as a result of which private-sector external debt dipped from 8.0% to 6.7% of GDP. The overall balance-of-payment surplus of 2.9% of GDP enabled the central bank to boost international reserves.

Lower surpluses on the goods account and current account are expected for 2007 because the growth of imports is accelerating whereas export growth is flagging, mostly because natural-resource prices are not rising as fast as in 2006.

Uruguay

1. General trends

In 2006, the Uruguayan economy continued to expand, recording 7.0% GDP growth with the manufacturing industry, construction, transport and communications and the agricultural sector all putting in a strong performance. Domestic demand was strong, buoyed up by investment. Inflation rose slightly to stand at 6.4%, while the fiscal position improved and the fiscal deficit contracted to 0.6% of GDP. Reflecting the more robust economic activity as well as the rise in oil prices, imports expanded sharply, causing the merchandise trade deficit to widen, but the growing financial flows were more than sufficient to offset the resulting balance-of-payments current-account deficit.

A 2.5% rise in the employment rate resulted in a 0.8 percentage-point decrease in unemployment, bringing it to an annual average of 11.4%. The proportion of poor people declined by four percentage points over the year to the current figure of 25.2% of the urban population, while indigence levels were halved, from 3.4% in 2005 to 1.7% in 2006. This improvement was due basically to the combined effect of social programmes, the increase in employment and the increase in the real wage.

The economic authorities maintained their broad policy objectives, which were to revive public investment, boost government social spending and restructure the

debt, which included the early write-off of debt with the International Monetary Fund (IMF).

For 2007, GDP growth of around 5.2% is predicted against a backdrop of stable or slightly favourable terms of trade, due to trends in commodity prices on the world market and to the fact that oil prices have stabilized somewhat. Inflation is expected to be close to the ceiling of the target range set by the authorities of between 4.5% and 6.5%. The primary fiscal surplus should reach 4.0% of GDP by the end of the year, while the global deficit should be equivalent to 0.5% of output.

2. Economic policy

(a) Fiscal policy

In 2006, the non-financial public-sector (NFPS) balance yielded a primary surplus of 4.1% of GDP and a global deficit of 0.4%, as a result of debt servicing, which

represented 4.4% of GDP. Central government revenues increased by 8% in real terms over the year compared with the previous year, while expenditure was up by 5%. Fiscal revenues expanded in line with the expansionary phase of the business cycle; the greater economic activity

and improved tax management resulted in higher receipts. Revenues of the Social Security Bank rose by 12% in real terms, while that of the Tax Administration Department rose by 10%.

The breakdown of expenditure shows a 5% rise in real terms in current primary expenditure with non-wage expenditure accounting for a significant proportion (2.1 percentage points). This item increased by 12% over the 2005 figure following the implementation of the National Social Emergency Plan (PANES). Following this by order of magnitude were staff wages, which increased from 5.8% over the year and accounted for 1.1 percentage points. Public investment expanded by 13.1%—with a substantial increase (24%) in the amount channelled into public corporations—and accounted for 0.7 of a percentage point of the growth in primary expenditure.

In 2006, bond issues and redemptions continued on the international market, resulting in significant debt restructuring. Thus, in terms of their share of total gross debt, bonds increased from 54% in 2005 to 79% in 2006, while the share of international loans shrank from 43% to 20% in the same period.

The trend in the gross public debt, together with the upturn in economic activity, meant that the ratio of this debt to GDP declined from 70% to 63%.

A tax reform designed to increase efficiency and equity will come into force in July 2007. The main features of this reform are: the establishment of a dual personal income tax system, the standardization of employer social security contributions for all sectors of activity, the elimination of some national taxes, the reduction of VAT and its extension to all goods and services.

(b) Monetary policy

In 2006, the monetary authorities pursued their policy of containing inflation within a preset range (between 4.5% and 6.5%) by controlling the principal monetary aggregates. The same range was maintained for 2007, while a nominal expansion in the narrow money supply (M1) was agreed (around 9% per year) with effect from the second quarter 2007.

The monetary base expanded in real terms by 3.4% in 2006, to stand at 4.7% of GDP. One of the instruments used to expand the money supply was the net purchase of foreign exchange by the central bank for a total of US\$ 572 million.

The average annual rate for local currency deposits was 2.2% per year in 2006, half a percentage point lower than in 2005. The average rate for foreign

currency deposits was slightly lower at 1.9%. Annual lending rates in local currency averaged 25.7%, some seven percentage points below the previous year's rate. Lending rates in foreign currency grew by just over half a percentage point compared with 2005 to average 7.7% in 2006.

Local currency deposits continued to rise. In 2006, they expanded by 14.8% in real terms to stand at 15.1% of total deposits. Foreign currency deposits increased by 2.0% in real terms in the same period and accounted for 84.9% of total deposits in the banking system at the end of 2006. Local currency loans increased by 7% in real terms during 2006, while foreign currency loans were up by 5%.

(c) Exchange-rate policy

The exchange rate was allowed to continue to float in a market in which foreign currency purchases by the public sector accounted for a substantial proportion of total purchases. In 2006, the Uruguayan peso appreciated by 3.4% in nominal terms against the dollar, which as an annual average resulted in a real appreciation of 4.7% against the dollar, while the real effective exchange rate recorded a decline of just 0.7%, due largely to the appreciation of the Brazilian *real*.

(d) Other policies

In order to improve the business and investment climate and simplify access to the different promotion systems, a unit for support of development and investment in the private sector was established at the end of 2006 within the Ministry of Economic Affairs and Finance. For its part, the Ministry of Industry, Energy and Mining launched a programme to increase the competitiveness of small and medium-sized enterprises by generating new networks and clusters and promoting existing ones.

The installation of the seat of the MERCOSUR Parliament in Montevideo in May 2007 was a further step towards the country's international integration. In addition, the authorities signed a framework agreement on trade and investment with the United States and set up a bipartite commission with that country to deal with relevant issues.

Trade policy continues to be one of the Government's main focuses in 2006 and 2007. Efforts to expand exports to extraregional markets will be stepped up in order to improve the region's trade performance. A strategic unit is to be set up in the Ministry of Foreign Affairs in 2008 in order to deepen trade relations with the rest of the world.

3. The main variables

(a) Economic activity

The country's sound economic growth in 2006 was attributable to the robust performance of all sectors of the economy, especially manufacturing, which expanded by 8.4% and accounted for as much as 1.6 percentage points of growth in output. Next in order of importance were transport and communications (up 12% and accounting for 1.5 percentage points of the rise in GDP), commerce, restaurants and hotels (up 8.5% and accounting for 1.0 percentage point), agriculture (up 8.3% and 1.0 percentage point), and construction (up 14% and 0.3 of a percentage point). The remaining sectors combined expanded by 4.2% in 2006, and accounted for 1.5 percentage points. The electricity, gas and water sector was the only one that contracted over the year owing to problems in electricity generation due to the shortage of water supplying the hydroelectric stations and the rise in oil prices.

Almost all branches of industry performed well in 2006. The most dynamic subsectors were food and beverages (up 11.8%), wood and wood products (16.0%), chemicals (13.9%), non-metallic minerals (14.6%), machinery and equipment (19.2%) and transport equipment (34.9%).

The higher production figures were due primarily to the increase in domestic demand, which grew by 10% over the previous year, while exports increased by 7.7%. Investment was the most buoyant component, expanding by 24.7%. Gross fixed capital formation was up by 32.0%, hence the investment rate in the economy rose to 16.4% of GDP, compared with 13.2% in 2005.

(b) Prices, wages and employment

The CPI rose by 6.4% in 2006, following a 4.9% increase in 2005. The item that showed the sharpest rise was food and beverages (9.1%), as unfavourable weather conditions caused a shortage of fruits, hence a 58% escalation in prices. Next by order of magnitude were increases in the cost of medical care (8.4%) and

education (8.0%). Wholesale prices were up by 8.2% in 2006, owing to increases in the prices of agricultural and industrial goods.

In the first few months of 2007, the annualized inflation rate stood at approximately 8%, as food shortages became more acute. The Monetary Policy Committee of the Uruguay Central Bank therefore decided to lower the annual target for monetary expansion from 15% to 9%, as mentioned above.

The labour market picked up with a 2.5 percentage-point rise in the employment rate to an annual average of 53.9% in 2006, up from 51.4% in 2005.¹ The labour force participation rate of the working-age population increased from 58.5% in 2005 to 60.9% in 2006. The two processes combined to trigger a 0.8 percentage-point decrease in the average unemployment rate, from 12.2% in 2005 to 11.4% in 2006.

The real wage reflected a 4.3% cumulative rise in 2006, similar to the increase recorded the previous year, with a stronger improvement in private-sector wages (5.0%) than in those of the public sector (3.2%). The cumulative recovery in the real wage in the last three years was 11%, which means that this indicator is still 16% below the 1998 level.

(c) The external sector

The overall balance-of-payments figure stood at US\$ 2.396 billion in 2006, while reserve assets varied by US\$ 15 million. The balance-of-payments current account showed a deficit of US\$ 457 million, (equivalent to 2.4% of GDP), which was more than offset by a capital and financial surplus of US\$ 2.853 billion. This surplus consisted of a financial investment of US\$ 1.476 billion and a record FDI figure of US\$ 1.377 billion.

The merchandise trade balance showed a US\$ 474 million deficit, partly offset by a positive balance in services in the order of US\$ 361 million. The negative balance of the trade balance was due to the sharp increase in imports, resulting from the greater economic activity and the higher oil bill.

¹ Although the coverage of the National Household Survey has been extended to the entire urban and rural population, for purposes of comparison with the previous year, the figures quoted relate to urban localities with at least 5,000 inhabitants.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	4.5	-2.8	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.0
Per capita gross domestic product	3.9	-3.4	-1.8	-3.6	-11.0	2.2	11.9	6.6	6.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.2	-7.5	-3.0	-7.1	5.1	10.6	10.6	4.6	8.3
Mining	29.4	-5.8	-8.8	-5.2	-37.6	14.1	7.2	4.4	15.0
Manufacturing	2.3	-8.4	-2.1	-7.6	-13.9	4.7	20.8	10.1	8.4
Electricity, gas and water	11.5	-0.1	5.0	1.7	-0.6	-7.4	1.8	5.8	-1.5
Construction	9.8	8.9	-11.1	-8.7	-22.0	-7.1	7.5	4.2	14.0
Wholesale and retail commerce, restaurants and hotels	2.4	-3.4	-5.3	-3.2	-24.5	-1.0	21.3	10.1	8.5
Transport, storage and communications	4.5	3.7	1.5	0.3	-9.1	3.1	11.5	11.1	12.0
Financial institutions, insurance, real estate and business services	6.8	6.4	2.2	1.7	-0.9	-5.3	-1.7	-3.5	1.9
Community, social and personal services	2.7	-0.5	-0.6	-2.3	-3.3	0.7	3.2	1.4	1.5
Gross domestic product, by type of expenditure									
Consumption	6.4	-1.3	-1.4	-2.1	-15.9	1.1	9.5	2.8	8.6
General government	4.0	0.6	-0.3	-2.9	-9.3	-4.8	2.5	0.0	3.5
Private	6.8	-1.5	-1.6	-2.0	-16.9	2.0	10.6	3.2	9.3
Gross domestic investment	12.1	-9.8	-13.0	-9.1	-34.5	18.0	22.0	12.7	24.7
Exports (goods and services)	0.3	-7.4	6.4	-9.1	-10.3	4.2	30.4	16.3	7.7
Imports (goods and services)	7.6	-5.8	0.1	-7.1	-27.9	5.8	26.8	10.1	16.0
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	15.9	15.1	14.0	13.8	11.5	12.6	13.1	13.1	16.4
National saving	13.7	12.7	11.1	11.1	14.6	11.8	13.1	13.4	14.0
External saving	2.1	2.4	2.8	2.7	-3.1	0.8	0.0	-0.3	2.4
Millions of dollars									
Balance of payments									
Current account balance	-476	-502	-566	-498	382	-87	3	42	-457
Goods balance	-772	-896	-927	-775	48	183	153	21	-474
Exports, f.o.b.	2 829	2 291	2 384	2 139	1 922	2 281	3 145	3 774	4 389
Imports, f.o.b.	3 601	3 186	3 311	2 915	1 874	2 098	2 992	3 753	4 863
Services trade balance	436	377	394	316	153	135	325	372	361
Income balance	-198	-34	-60	-68	108	-488	-588	-494	-470
Net current transfers	59	50	28	30	72	83	113	144	126
Capital and financial balance ^d	831	675	733	775	-4 314	1 048	302	753	2 853
Net foreign direct investment	155	238	274	291	180	401	315	811	1 377
Financial capital ^e	676	437	459	484	-4 494	647	-12	-58	1 476
Overall balance	355	173	166	277	-3 932	961	306	796	2 396
Variation in reserve assets ^f	-515	-11	-166	-278	2 328	-1 380	-454	-620	15
Other financing ^g	160	-162	0	0	1 604	420	149	-175	-2 411
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	107.0	98.3	100.0	101.2	118.3	150.4	151.9	137.0	135.6
Terms of trade for goods (index: 2000=100)	104.4	95.9	100.0	104.0	102.6	103.5	99.9	90.7	88.7
Net resource transfer (millions of dollars)	792.8	479.7	672.4	707.3	-2601.7	979.1	-136.8	83.9	-28.6
Total gross external debt (millions of dollars) ⁱ	5 467	8 261	8 895	8 937	10 548	11 013	11 593	11 418	10 558
Net profits and interest (percentage of exports) ^j	-4.8	-1.0	-1.6	-2.1	4.0	-16.0	-13.8	-9.7	-8.3
Average annual rates									
Employment									
Labour force participation rate ^k	60.5	59.3	59.6	60.6	59.1	58.1	58.5	58.5	60.9
Open unemployment rate ^l	10.1	11.3	13.6	15.3	17.0	16.9	13.1	12.2	11.4
Visible underemployment rate ^l	...	...	11.9	15.3	18.4	19.3	15.8	17.1	13.6
Annual percentages									
Prices									
Variation in consumer prices (December-December)	8.6	4.2	5.1	3.6	25.9	10.2	7.6	4.9	6.4
Variation in producer prices, local products (December-December)	3.3	-0.3	9.5	3.8	64.6	20.5	5.1	-2.2	8.2
Variation in nominal exchange rate (December-December)	8.5	7.4	7.5	15.4	89.9	7.0	-9.9	-8.9	1.5
Variation in average real wage	1.8	1.6	-1.3	-0.3	-10.7	-12.5	0.0	4.6	4.3
Nominal deposit rate ^m	16.6	17.1	14.7	18.6	61.7	28.4	5.5	2.3	1.7
Nominal lending rate ⁿ	38.4	39.0	32.1	38.1	116.4	56.6	26.0	15.3	10.7

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central government^o									
Total income	19.5	20.9	20.3	20.8	21.2	21.4	21.6	21.8	21.9
Tax income	16.1	17.2	16.9	17.4	17.6	18.6	18.5	18.7	19.3
Total expenditure	20.7	24.8	23.9	25.3	26.1	26.0	24.1	23.5	22.9
Current expenditure	18.5	22.2	22.0	23.4	24.7	24.7	22.6	22.1	21.5
Interest	1.3	1.8	2.1	2.5	4.1	5.6	4.9	4.4	4.3
Capital expenditure	2.2	2.6	1.9	1.8	1.4	1.3	1.5	1.4	1.4
Primary balance	0.2	-2.1	-1.5	-2.0	-0.8	1.0	2.4	2.8	3.3
Overall balance	-1.2	-3.9	-3.5	-4.5	-4.9	-4.6	-2.5	-1.6	-1.0
Non-financial public sector debt	28.6	30.9	35.9	46.7	106.0	100.4	78.9	70.4	62.6
Domestic	4.6	7.7	8.6	15.6	25.4	18.8	15.2	15.0	14.0
External	24.0	23.2	27.3	31.1	80.6	81.6	63.7	55.3	48.6
Money and credit^p									
Domestic credit ^q	...	...	...	45.2	50.1	38.0	23.7	16.0	14.4
To the public sector	...	...	...	6.8	8.9	18.1	13.8	9.0	5.3
To the private sector	...	...	...	67.9	73.6	51.4	35.6	27.4	24.5
Others	...	...	...	-29.5	-32.4	-31.6	-25.7	-20.4	-15.4
Liquidity (M3) ^r	39.6	52.8	69.6	81.7	84.9	76.0	72.0	59.9	55.6
Currency outside banks and local-currency deposits (M2) ^r	10.9	11.1	11.3	11.0	8.6	8.2	8.1	9.0	10.2
Foreign-currency deposits ^r	28.7	41.8	58.4	70.7	76.3	67.8	63.8	50.9	45.4

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1983 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ As of 1999, the figures refer to the new official series for the total debt and are not comparable with the previous figures. Figures include the private sector and do not include memorandum items on external liabilities and assets. ^j Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^k Economically active population as a percentage of the working-age population, urban total. ^l Percentage of the economically active population, urban total. ^m Average rate for fixed-term deposits for six months or less. ⁿ One-year non-readjustable cash loans in local currency to households. ^o As of 1999 the accounting methodology was changed. ^p The monetary figures are annual averages. ^q Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^r Up to 2000, the source used was IMF. As of 2001 the source was the Central Bank of Uruguay.

Measured in dollars and on an f.o.b. basis, external sales grew by 16.3% in 2006. The principal items were beef exports—which increased by 26.5% in dollar terms over the 2005 figure—leather and leather products (20.4%), rice (9%), textiles (5.9%) and dairy products (5.0%). Exports may be broken down by geographical destination as follows: MERCOSUR (24%), North American Free Trade Agreement (NAFTA) (18%), European Union (17%), rest of the Americas (11%) and rest of world (30%).

The principal destination countries were Brazil (14.7%), United States (13.2%) and Argentina (7.6%).

Lastly, merchandise imports grew considerably in 2006 (23.1%). Intermediate inputs were up by 23.9% in the year, accounting for 16.3 percentage points of the increase in total imports. Consumer and capital goods expanded by 21.6% and 20.8%, and represented 4.0 percentage points and 2.8 percentage points of total imports, respectively.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	6.3	7.5	5.7	6.9	6.7	8.0	7.2	6.2	6.7	...
Goods exports, f.o.b. (millions of dollars)	714	901	883	920	839	1 045	1 047	1 021	918	...
Goods imports, c.i.f. (millions of dollars)	915	902	990	1 072	1 127	1 140	1 235	1 272	1 151	...
International reserve assets (millions of dollars) ^c	2 095	2 525	2 543	3 078	3 116	3 506	3 211	3 091	3 458	3 686
Real effective exchange rate (index: 2000=100) ^d	140.8	138.3	136.4	132.3	136.1	136.2	134.8	137.2	137.4	137.1
Urban unemployment rate	12.1	12.3	12.3	12.1	13.1	11.3	11.2	10.0	10.4	10.1
Consumer prices (12-month percentage variation)	5.5	4.1	3.9	4.9	6.5	6.7	6.6	6.4	7.4	8.0
Average nominal exchange rate (pesos per dollar)	25.33	24.72	24.32	23.53	24.18	23.93	23.89	24.08	24.30	23.95
Average real wage (variation from same quarter of preceding year)	4.6	4.4	4.8	4.6	5.4	5.3	3.3	3.6	5.1	...
Nominal interest rates (annualized percentages)										
Deposit rate	...	...	...	...	1.6	1.7	1.7	1.7	1.7	2.0
Lending rate ^e	18.7	16.2	13.7	12.6	11.6	10.5	10.7	10.0	9.5	10.2 ^f
Interbank rate	...	...	...	...	0.7	2.1	2.2	1.4	1.3	3.0
Sovereign bond spread (basis points) ^g	429.0	400.0	295.0	286.0	221.0	302.0	241.0	176.0	172.0	147.0
Domestic credit (variation from same quarter of preceding year) ^h	-28.7	-31.9	-17.3	-14.5	-17.8	-5.8	9.6	55.1	22.9	10.4 ⁱ
Non-performing loans as a percentage of total credit ^j	20.8	19.8	20.7	19.2	20.4	19.2	18.6	19.1	19.7	20.0 ⁱ

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1983 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e One-year non-readjustable cash loans in local currency to households. ^f Data to May. ^g Measured by J.P.Morgan's EMBI+ index. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Data to April. ^j Refers to total credit extended by commercial and private banks and commercial establishments.



Mexico and Central America

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Costa Rica

1. General trends

After a hiatus of 20 years, former President Oscar Arias Sánchez was re-elected to the presidency of Costa Rica in February 2006 and took office in May. Despite the uncertainty typical of any electoral process and change in administration, the country's growth dynamic and macroeconomic stability were unaffected.

The economy gathered momentum, growing by 7.9% in 2006, compared with 5.9% in 2005. This was due primarily to the sharp increase in exports (12.6%) and gross fixed investment (9.3%). Per capita GDP rose by 5.7%. National disposable income—a more appropriate indicator for measuring the resources that may be used to finance domestic expenditure—expanded by 6.6% and was equivalent to 90% of GDP as a result of the losses generated by the worsening terms of trade.

The deficit of the narrowly-defined global public sector shrank from 2.3% to 0.4% of GDP, the lowest level since the crisis of the early 1980s, while major changes were introduced in the monetary and exchange-rate policies. The crawling peg mini-devaluations were replaced in October 2006 by a crawling band system designed to enhance the effectiveness of monetary policy.

One of the greatest achievements in 2006 was the reduction in the rate of inflation, which fell to 9.4%, its lowest level since 1993, thanks to the attenuation of the impact of external and internal shocks, stronger fiscal discipline and the slower devaluation of the colon against the United States dollar.

The balance-of-payments current-account deficit remained constant at 4.9% of GDP. The inflow of external financial resources, including foreign direct investment (FDI), financed the current-account deficit and contributed to the increase in international monetary reserves.

Lack of parliamentary support for the initiatives of the executive has hindered the adoption of some important economic policy measures, including fiscal reform and the ratification of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR). In May 2007, the Supreme Court of Elections decided to organize a referendum on the issue in October.

According to the 2007-2008 macroeconomic programme of the Central Bank of Costa Rica, output will grow by 5%, while inflation will stand at 8%. The overall consolidated deficit of the narrowly defined public sector is estimated to rise to 2.3% of GDP, while the balance-of-payments current account deficit, as a percentage of GDP, will be similar to the 2006 figure.

2. Economic policy

The new government's economic priorities are to strengthen linkages with the world economy, solve fiscal constraints and effectively combat poverty and inequality. At the same time,

the monetary and exchange-rate policies will gradually be adjusted in an effort to slash inflation. By the same token, authorities envisage capitalizing the Central Bank.

(a) Fiscal policy

In 2006, the deficit of the narrowly defined global public sector diminished from 2.3% to 0.4% of GDP. All components contributed to this positive result: the central government, the rest of the non-financial public sector (NFPS) and the Central Bank. The fiscal deficit has been decreasing since 2003. Maintaining fiscal equilibrium nevertheless remains one of the main challenges facing the Costa Rican authorities, especially bearing in mind the high amount of debt payments, pensions and specific disbursements provided for under the Constitution and the law.

Thanks to higher revenues and a tighter rein on expenditure, the central government deficit declined from 2.1% of GDP to 1.1%. This deficit was financed primarily through the issue of new domestic bonded debt.

Current revenue, as a percentage of GDP, increased from 13.8% to 14.5%. This increase was due mainly to the economic acceleration, growth in imports and better tax control, which helped to reduce tax evasion. Revenues from customs duties (26.3%), general domestic sales tax (26.9%) and income tax (21.6%) showed the sharpest increases. Total expenditure diminished slightly from 16.0% to 15.5% of GDP. This was due to the more limited increase in capital expenditure (5.7%), since current expenditure continued to rise sharply (16.3%), reflecting increases in the wage bill, interest on public debt, transfers to the special fund for higher public education at university level and pensions.

The net result of the rest of the NFPS also improved with respect to the previous year. The surplus recorded (1.8% of GDP) is due to the sounder financial position of both the Costa Rican Electricity Institute and the Costa Rican Social Security Fund, which more than compensated for the deterioration in the finances of the Costa Rican Oil Refinery (RECOPE) and the Costa Rican Water Supply and Sanitation Institute (ICAA).

Although the active monetary management designed to deal with the volumes of foreign capital flooding into the country implies high financial costs, the Central Bank deficit diminished slightly in GDP terms (1.2%). An interesting point to note in connection with this change in the structure of the balance is that interest-yielding assets were equal to cost-bearing liabilities. These two variables had been gradually getting closer mainly as a result of the partial capitalizations by the government, the profits associated with the redemption of the external debt, and seigniorage.

In 2006, the public debt, measured in GDP terms, was reduced by over three percentage points with respect to the previous year, thanks mainly to the reduction in central government debt. Nevertheless, the debt/GDP ratio remained high (51.3%).

(b) Monetary and exchange-rate policy

Curbing inflation was the principal objective of the central bank's monetary policy in 2006, although a number of factors continued to limit its effectiveness. Instability in the demand for money, influenced by financial innovation and high capital mobility, made it difficult for the central bank to control total liquidity in the economy. The preannounced daily exchange-rate adjustment system, which is similar in effect to a fixed-rate regime, combined with the free movement of external capital, implied that primary money creation occurred, not just through expansion of internal assets in the central bank, but also through changes in the foreign-exchange market. In fact, in addition to influencing consumer and investor decisions, interest-rate increases based on central-bank monetary policy stimulated capital inflows, whose monetization diminished the contractionary effect expected following the increase in the interest rate. The Central Bank of Costa Rica has had to deal with the "impossible trinity" of economic theory, according to which a central bank cannot, in a context of free movement of capital, have an active monetary policy and, at the same time, control of the exchange rate.

In these circumstances, the authorities decided, on the one hand, to initiate the transition from control of monetary aggregates to a monetary policy based on inflation targets and, on the other, to adopt a more flexible exchange-rate regime. This decision was based on the favourable macroeconomic juncture, of which the main features are the relatively high level of net international reserves, fiscal discipline and the stability of the financial system.

The short-term (30-day) investment system interest rate, which had been used as the monetary policy rate, was replaced by the one-day deposit facility in order to stem the inflow of speculative capital and its resulting monetization. New monetary absorption instruments, such as monetary stabilization bonds, were introduced and an electronic deposit facility was set up for this purpose.

In mid-October 2006, the authorities decided to replace the daily exchange-rate adjustment system (consisting, at the time, in a daily 13-centavo adjustment in the nominal exchange rate of the colón against the United States dollar) by exchange-rate bands with a moderate initial width (3%) to be expanded over time to allow greater flexibility. Initially, it was established that the floor of the band would move up by 6 centavos per day, while the ceiling would increase by 14 centavos. However, the abundance of dollars on the market kept the intervention exchange rate stuck to the floor of the band and forced the Central Bank to intervene systematically

on the wholesale currency market. In January 2007, the monetary authorities therefore agreed to set the purchasing rate (the floor), for an undertermined period of time, at 519.16 colones and to reduce the daily increase in the intervention selling rate (the ceiling) to 11 centavos. At the same time, the yield on central bank short-term investment instruments diminished. While the measures adopted are expected to stem capital inflows and the supply of dollars, the colón continued to appreciate in the first quarter of 2007 (1%).

The principal monetary indicators grew at relatively high rates in 2006 owing mainly to the monetization generated by the build-up of international reserves. The higher-than-expected expansion, the favourable outlook for the economy, the excess liquidity in the financial system and the downward trend in interest rates, especially for housing loans, led to an expansion of credit to the private sector (27.7%), above the target established by the Central Bank. Loans were concentrated in the construction sector, tourism, consumption and commerce.

(c) Trade policy

In 2006, actions were stepped up to consolidate and improve access for exports to significant markets through new trade agreements and better use of existing agreements. In particular, measures were taken to launch negotiations for an association agreement with the European Union, to reactivate negotiations on the free trade agreement with Panama and to make headway with the process of Central American integration.

Costa Rica has an open investment regime but with some important exceptions. In some sectors, restrictions continue to apply and the State holds the monopoly over certain key services that suffer from certain inefficiencies. These services include the import, refining and distribution of oil and oil products; insurance; railways, maritime ports and airports, electricity, and telecommunications. Several restrictions would be eliminated by the application of CAFTA-DR, which Costa Rica has signed but not yet ratified.

3. The main variables

(a) Economic activity

In 2006, the Costa Rican economy grew by 7.9%, a high rate when compared with the 2005 figure (5.9%) and with the annual growth rate of the country's potential output, which is estimated at 4.3%. The output gap has been a pattern since June 2005 and tends to confirm the presence of excess demand, which could generate inflationary pressures. For the time being, however, such pressures have not been particularly evident, since some of the overexpenditure has been absorbed by imports and growth in consumption was below GDP growth.

On the expenditure side, the vibrancy of the economy was linked to the increase in external demand (12.6%) and the surge in domestic demand (8.4%), stimulated by the expansion in gross domestic investment.

The stronger domestic demand reflected the increase in private consumption, especially of imported goods, as well as the expansion in gross fixed capital formation. The rise in private consumption was due to the increase in real terms in family income, the decline in local currency lending and deposit rates and the rally in consumer confidence in the national economy. The growth in fixed capital investment stems mainly from the construction boom

(especially in the housing sector) and the performance of the manufacturing industry.

Of particular note at the sectoral level was the increase in value added in the manufacturing industry (12.5%), attributable mainly to the production of companies operating in the free zones and companies that export mainly to the rest of Central America. The construction sector expanded by 14.8% and the agricultural sector also performed well (up by 10.6%). High growth was again recorded in telecommunications (especially cellular telephony and Internet), international tourism, financial intermediation, commerce and international corporate services (production of software and call and corporate-assistance centres).

In the first quarter of 2007, the monthly index of economic activity showed a deceleration in interannual growth in production due mainly to the downturn suffered by some manufactured and agricultural products, such as coffee, pineapple and melon. Companies situated in the free zones, especially high technology electronics firms, recorded slower growth in their external sales. This trend seems to be due to cyclical factors, since various companies are concentrating their activities on the launch of new products which will come out on the market in

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	8.4	8.2	1.8	1.1	2.9	6.4	4.3	5.9	7.9
Per capita gross domestic product	5.7	-0.5	-1.0	-1.0	0.9	4.4	2.4	4.0	6.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.2	4.5	0.7	1.4	-3.3	7.4	0.7	3.8	10.6
Mining	9.2	-6.1	6.3	6.4	-3.1	4.2	7.7	7.0	23.5
Manufacturing	11.4	24.7	-2.9	-9.1	3.4	8.4	4.0	10.8	12.5
Electricity, gas and water	8.7	6.2	35.1	14.4	-1.5	4.8	6.3	-0.4	14.8
Construction	17.4	-1.6	-17.8	4.1	5.3	5.8	4.0	4.8	6.3
Wholesale and retail commerce, restaurants and hotels	8.5	2.4	1.5	1.9	1.6	3.4	3.9	4.1	4.5
Transport, storage and communications	8.1	6.9	10.2	9.3	12.0	13.7	12.2	10.1	9.0
Financial institutions, insurance, real estate and business services	4.7	7.6	8.1	6.8	4.7	7.1	6.7	5.0	6.3
Community, social and personal services	4.6	3.0	2.6	2.0	3.0	3.0	1.4	3.0	2.1
Gross domestic product, by type of expenditure									
Consumption	5.0	2.1	1.1	1.4	3.0	2.8	2.8	3.2	5.2
General government	2.2	1.8	1.4	3.6	2.2	-0.2	1.3	0.1	2.0
Private	5.4	2.2	1.0	1.1	3.2	3.2	3.1	3.6	5.6
Gross domestic investment	26.3	-15.6	-1.5	30.3	9.3	-4.2	11.1	13.9	17.7
Exports (goods and services)	26.7	21.3	-0.3	-9.4	3.8	12.0	8.1	12.7	12.6
Imports (goods and services)	25.2	0.4	-2.6	1.1	6.9	1.0	9.0	12.5	13.6
Percentages of GDP									
Investment and saving ^c									
Gross domestic investment	20.5	17.1	16.9	20.3	22.6	20.6	23.0	25.2	27.6
National saving	16.8	13.0	12.6	16.6	17.5	15.6	18.8	20.4	22.7
External saving	3.7	4.1	4.3	3.7	5.1	5.0	4.3	4.9	4.9
Millions of dollars									
Balance of payments									
Current account balance	-521	-650	-691	-603	-857	-880	-796	-971	-1 077
Goods balance	-399	580	-210	-820	-1 278	-1 089	-1 421	-2 142	-2 604
Exports, f.o.b.	5 538	6 576	5 813	4 923	5 270	6 163	6 370	7 100	8 238
Imports, f.o.b.	5 937	5 996	6 024	5 743	6 548	7 252	7 791	9 242	10 842
Services trade balance	234	487	679	746	685	776	857	1 116	1 215
Income balance	-469	-1 822	-1 252	-679	-440	-776	-444	-215	1
Net current transfers	113	104	93	151	175	209	212	270	310
Capital and financial balance ^d	16	879	539	616	1 020	1 219	876	1 364	2 111
Net foreign direct investment	608	614	400	451	625	548	733	904	1 340
Financial capital ^e	-592	265	138	165	395	671	143	460	771
Overall balance	-504	229	-152	13	163	339	80	393	1 034
Variation in reserve assets ^f	150	-489	152	-13	-163	-339	-80	-393	-1 034
Other financing ^g	355	251	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	99.8	101.8	100.0	97.0	97.3	103.3	106.8	108.3	108.2
Terms of trade for goods (index: 2000=100)	117.5	106.9	100.0	98.4	96.9	95.5	91.9	88.3	85.8
Net resource transfer (millones de dólares)	-97	-691	-714	-63	580	443	432	1 150	2 112
Gross external public debt (millions of dollars)	3 402	3 641	3 748	3 883	4 118	4 621	4 979	4 979	4 995
Net profits and interest (percentage of exports) ⁱ	-6.8	-22.1	-16.1	-9.9	-6.2	-9.5	-5.2	-2.2	0.0
Average annual rates									
Employment									
Labour force participation rate ^j	55.3	54.8	53.6	55.8	55.4	55.5	54.4	56.8	56.6
Open unemployment rate ^k	5.4	6.2	5.3	5.8	6.8	6.7	6.7	6.9	6.0
Visible underemployment rate ^k	13.5	14.0	10.5	11.3	12.3	15.2	14.4	14.6	13.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	12.4	10.1	10.2	11.0	9.7	9.9	13.1	14.1	9.4
Variation in industrial producer prices (December-December)	8.8	11.3	10.2	8.6	8.4	11.0	17.7	12.1	13.7
Variation in nominal exchange rate (December-December)	10.9	9.8	6.9	7.2	11.0	10.6	9.5	8.3	4.1
Variation in average real wage	5.6	4.7	0.8	1.0	4.1	0.4	-2.6	-1.9	1.6
Nominal deposit rate ^l	...	17.8	15.3	13.4	14.0	12.6	11.5	12.1	11.4
Nominal lending rate ^m	...	29.8	28.1	26.7	26.8	26.2	23.4	24.0	22.7

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sector									
Total income	24.0	23.0	23.5	25.5	24.7	25.0	24.4	25.2	26.3
Current income	24.2	22.6	24.0	24.8	24.8	24.7	24.4	25.2	26.3
Tax income	12.8	12.2	12.6	13.5	13.6	13.9	13.9	14.2	14.9
Capital income	-0.2	0.4	-0.5	0.7	-0.1	0.4	0.0	0.0	0.0
Total expenditure ⁿ	24.6	24.7	25.0	27.1	28.6	27.4	26.4	25.6	24.9
Current expenditure	20.0	19.8	20.6	22.2	23.3	22.8	22.3	21.8	21.3
Interest	3.2	3.7	3.6	4.0	4.3	4.3	4.1	4.2	3.9
Capital expenditure	4.6	4.9	4.4	4.8	5.2	4.5	4.1	3.8	3.6
Primary balance	2.6	2.0	2.0	2.4	0.4	1.9	2.1	3.8	5.3
Overall balance	-0.6	-1.7	-1.6	-1.6	-3.9	-2.4	-2.0	-0.4	1.4
Non-financial public sector debt									
Domestic	...	...	41.8	43.2	45.1	45.6	46.9	42.9	39.5
External	...	...	14.9	15.2	16.4	18.6	19.3	17.3	16.1
Money and credit^o									
Domestic credit ^p	26.4	26.2	26.7	24.7	27.0	29.3	31.7	33.2	33.5
To the public sector	11.6	10.0	8.3	3.9	3.7	5.3	7.1	7.2	5.4
To the private sector	14.8	16.2	18.3	20.7	23.1	23.8	24.2	25.5	27.5
Other	-	-	0.1	0.1	0.1	0.2	0.3	0.5	0.7
Liquidity (M3)	27.9	27.9	30.3	31.4	32.8	33.9	37.8	40.2	41.4
Currency outside banks and local-currency deposits (M2)	17.1	16.5	17.9	17.8	17.8	18.6	19.2	19.6	20.9
Foreign-currency deposits	10.9	11.4	12.3	13.6	14.9	15.4	18.6	20.6	20.5

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1991 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Percentage of the economically active population; nationwide total. ^l 90-day deposits at State-owned banks. ^m Rate on loans to industry from State-owned banks. ⁿ Includes net lending. ^o The monetary figures are annual averages. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

the course of the year. On the other hand, the moderate growth in inflation and the slide in interest rates triggered an increase in domestic spending, pushing up the demand for loans in certain sectors—such as construction—which continued to show robust growth.

(b) Prices, wages and employment

The CPI-based inflation rate stood at 9.4%, well below the target set in the monetary programme (11%) and the lowest level recorded since 1993. The methodology used to calculate the CPI was changed in August and is now based on a new basket which attributes a higher weighting to transport and a lower one to food and beverages. Thus, the reduction in fuel prices has led to a sharper slowdown in inflation and the rise in food prices has had less of an impact on the variation in the CPI. In addition, this indicator reflects the effect of fiscal discipline and the slower nominal annual depreciation of the colón.

The sharp expansion of the economy had a positive effect on the labour market. The 3% rise in employment meant that the national open unemployment rate diminished from 6.6% to 6.0%. At the same time, the real average

wage increased by 1.6%. Moreover, adjustments over the year boosted real minimum wages (1.7%). All of this has affected the number of households affected by poverty, which, in percentage terms, declined from 21.2% to 20.2%.

(c) The external sector

In 2006, the balance-of-payments current-account deficit as a percentage of GDP was similar to the previous year's (4.9%) owing mainly to the widening of the trade deficit. The deterioration in the terms of trade, caused by the higher prices for hydrocarbons and other raw materials, was counterbalanced by an increase in external sales that avoided a larger external deficit. The merchandise deficit (11.7% of GDP) was partly offset by the net surplus of the services account owing mainly to the favourable performance of the tourism sector, on-line information processing services and business support services. Financial resources from abroad have boosted net monetary reserves by US\$ 800 million to US\$ 3.115 billion, equivalent to 14.1% of GDP or 4.6 months' imports. For a small, open economy like Costa

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	3.1	5.7	9.1	5.8	9.5	8.8	7.0	7.5	6.1	...
Goods exports, f.o.b. (millions of dollars)	1 596	1 853	1 791	1 787	1 988	2 076	2 061	2 075	2 255	2 438
Goods imports, c.i.f. (millions of dollars)	2 140	2 411	2 546	2 714	2 711	2 843	2 965	3 027	3 002	3 012
International reserve assets (millions of dollars) ^c	2 105	2 194	2 373	2 313	2 766	2 614	2 765	3 115	3 492	3 734
Real effective exchange rate (index: 2000=100) ^d	109.1	108.6	108.3	107.2	107.2	108.6	108.6	107.8	106.8	107.0
Consumer prices (12-month percentage variation)	13.6	13.8	13.4	14.1	12.2	12.4	11.2	9.4	9.2	8.8
Average nominal exchange rate (colones per dollar)	464	473	483	492	501	509	517	518	519	519
Average real wage (variation from same quarter of preceding year)	-1.0	-2.4	-1.2	-3.1	1.3	1.0	0.7	3.4	0.9	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	11.7	12.3	12.3	12.1	12.4	11.6	11.2	10.4	8.7	6.9
Lending rate ^f	23.6	24.0	24.3	24.0	23.7	23.0	22.5	21.5	19.8	17.4 ^g
Interbank interest rate ^h	7.2	6.2	7.3	7.4	7.4	9.1	9.7	9.2	7.2	5.8 ^g
Domestic credit (variation from same quarter of preceding year) ⁱ	32.1	20.0	19.1	19.4	20.0	21.0	21.4	19.3	20.2	19.4 ^g
Non-performing loans as a percentage of total credit ^j	1.7	1.5	1.6	1.4	1.4	1.5	1.6	1.4	1.4	1.4 ^k

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1991 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e 90-day deposits at State-owned banks. ^f Rate on loans to industry from State-owned banks. ^g Data to May. ^h Average reference rate, calculated by the Central Bank of Costa Rica. ⁱ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^j Refers to total credit extended by the financial system. ^k Data to April.

Rica, however, the level of the current-account deficit continues to be a source of vulnerability in the face of possible external shocks, such as the worsening terms of trade or rising interest rates.

FDI inflows rose to US\$ 1.436 billion, or 6.5% of GDP. These were channelled mainly towards the real estate sector (25%), reflecting a boom in housing and land purchases by non-residents. The share of the financial system increased significantly (23%) with the acquisition of the Interfin Financial Group by Scotiabank. The development of new infrastructure projects in coastal areas and the expansion of existing tourism infrastructure account for the tourism sector's contribution (10%).

Merchandise exports were up by 16.8%. The products that showed the most robust growth were traditional products (11.3% of total external sales), thanks to the strong increase in banana exports (30.8%), and non-traditional agricultural products (pineapple, flowers, foliage and ornamental plants). The most dynamic industrial exports were integrated circuits, electrical microstructures and parts for modular circuits, medical equipment and pharmaceutical products. Exports to the Central American Common Market (CACM) were also buoyant. Raw materials and intermediate goods accounted for the bulk of the 17.5% increase in imports, owing mainly to the rise in the oil bill and external purchases of firms located in the free zones.

El Salvador

1. General trends

Real GDP in El Salvador grew by 4.2% in 2006, resulting in the largest increase in per capita GDP (2.6%) for nine years. Such buoyancy was due to a rise in investment (10.8%) and an impressive performance in agriculture and services. This in turn helped to bring down unemployment to 6.6%. Nevertheless, this growth rate was below the average for Latin America.

Inflows of family remittances (18% of GDP) once more served to fuel private consumption and ease the impact of rising international oil prices on the balance-of-payments current account, which posted a deficit of 4.6% of GDP. The fiscal deficit of the non-financial public sector (NFPS) stood at 1.1% of GDP, while annual inflation came in at 4.9%. By December 2006, the balance of net international reserves had swelled by 17.5%.

Although the government estimates economic growth of around 5% for 2007 (on the strength of buoyancy in

agriculture, services, tourism and construction), first-quarterly results and the slowdown in the United States (the country's main trading partner) point to a more modest expansion. The authorities estimate inflation of between 3% and 4%. The main economic policy goal is to maintain fiscal discipline, and the fiscal deficit is therefore expected to narrow slightly. Similarly, the current account deficit is also predicted to shrink, mainly thanks to hefty inflows of remittances. Foreign direct investment (FDI), meanwhile, is expected to rise on the back of the sale of banking assets.

2. Economic policy

In view of the absence of monetary and exchange-rate policy since dollarization in 2001, the main feature of economic policy was the successful implementation of the 2005 tax reform, which included changes in the tax code, the law on banks and the income tax law.

(a) Fiscal policy

The NFPS deficit amounted to 1.1% of GDP (including grants of 0.2% of GDP), which was 1.9 percentage points less than in 2005. This change is due to the creation of a trust fund to manage the pension system. The fund is run

by the Multisectoral Investment Bank, and was set up to issue pension liability certificates that are then purchased by pension fund administrators for a term of 25 years. The State would therefore be postponing the payment of around US\$ 349 million in debt (1.9% of GDP). As a result of this and the elimination of the transport subsidy, the NFPS deficit is expected to stand at 0.6% of GDP in 2007 (not including grants).

In 2006, central government receipts increased for the second year running. Tax revenues surpassed those from the year-earlier period by around US\$ 344 million (1.9% of GDP). Expanding the tax base to

include much of the informal sector, cross-checking information and introducing tax monitoring plans increased the tax burden to 13.9% of GDP (before refunds —0.5% of GDP—), which is almost a whole percentage point higher than the previous year. The target for 2007 is 14.2% of GDP.

Income tax displayed a real growth rate of 12.1%, followed by VAT (11.6%) and property transfer tax (8.6%). In contrast, contributions to the Road Maintenance Fund fell by 0.9% as a result of lower fuel consumption. Non-tax revenues were up by 21.2%. Overall, current revenues grew by 12.3% in real terms.

Total expenditure swelled by 5.5% in real terms (an increase of 1.5 percentage points of GDP). Current expenditure rose by 5.2%, mainly owing to the interest on debt, transfers and wages. To mitigate the negative impact of rising prices for petroleum and its derivatives, subsidies totalling US\$ 159.8 million (0.9% of GDP) were provided for public transport and consumption of electricity and liquefied gas. Investment expenditure increased by 7.9%. The central government deficit therefore narrowed from 1% of GDP in 2005 to 0.4% of GDP in 2006, while the deficit for the rest of the NFPS widened.

External public debt expanded by US\$ 717 million to stand at US\$ 5.693 billion. In 2006, the State issued bonds worth US\$ 664 million, with US\$ 625 million issued on international markets. Domestic public debt, meanwhile, shrank slightly to US\$ 2.667 billion. As a proportion of GDP, total public debt remained at around the 45% level, while the debt of the NFPS represented 40% of GDP.

A lack of consensus means that no new reforms are expected in 2007. Congress has been divided since no party achieved a qualified majority in the mid-term parliamentary elections held in March 2006.

(b) Financial policy

Nominal interest rates rose in 2006. Despite the increase in inflation, this pushed up real interest rates. On average, real interest rates on 180-day deposits stood at 0.3%, following two years of negative figures. Meanwhile, average annual real interest rates for one-year loans went from 2.1% in 2005 to 3.4% in 2006. Net domestic credit to the private sector swelled by 6% in real terms, while credit to the public sector declined by 57%. By December 2006, there had been no change in the level of non-performing loans as a percentage of total credit, although the implicit interest-rate spread did edge up slightly. Furthermore, net international reserves amounted to US\$ 2.559 billion (17.5% more than in 2005), which is the equivalent of over five months

of goods and services imports. Up to April 2007, both lending and borrowing interest rates remained unchanged in real terms.

Since the end of 2006 and early 2007, the regional integration of the financial system has been gaining ground in El Salvador. Citigroup acquired Grupo Cuscatlán (one of the main players in Central America and the second largest in El Salvador) and Grupo Financiero Uno (fifth in the country). The Hong Kong and Shanghai Banking Corporation (HSBC) purchased 97% of the shares in the Banco Salvadoreño, as well as 95% of the conglomerate Inversiones Financieras Bancosal (IFB). In May 2007, Bancolombia's purchase of 89.15% of the shares of Banagrícola was completed, thereby consolidating the presence of foreign banking in El Salvador.

(c) Other policies

Following the government's adoption of the general tourism law in December 2005, incentives and facilities offered to private investors were the driving force behind various tourist development projects. In 2006, earnings from tourism totalled US\$ 862.3 million (4.6% of GDP), which means they were up by 34% compared with 2005, partly thanks to promotion activities being stepped up by the Ministry of Tourism. Earnings from tourism exceeded flows of foreign direct investment (FDI) for the fourth year running, and also surpassed the combined income from coffee, sugar and shrimp exports and maquila value added. The number of tourists was higher than the target established in the National Tourism Plan. In addition, a US\$ 7 million tourism promotion fund was set up and began to operate in 2007 under the country brand slogan "El Salvador impresionante" ("El Salvador impressive"). In the first quarter of 2007, income from tourism amounted to US\$ 199.3 million, which is 11% higher than for the year-earlier period.

In 2006, the Solidarity Network programme continued to be successfully implemented, with the aim of reducing extreme poverty among the families of 100 municipalities. Over 24,000 families have received education and health vouchers, 22,900 adults and young people have been provided with literacy training, around US\$ 24 million has been invested in infrastructure, and 12,400 families have benefited from training, inputs and participation in productive projects. In 2007, 15 new municipalities (21,840 families) will be included in the programme, which will also benefit from a US\$ 17 million investment in infrastructure.

Given the country's security problems and the importance of this issue for all heads of government

in Central America,¹ President Saca has implemented various crime-reduction programmes. These should help to improve the business climate in the country. In 2007, special courts were set up to deal with organized crime and the National Crime Prevention Plan was presented.

In July 2006, the National Energy Council was set up, and in May 2007 the authorities presented the national energy policy, which aims to extend coverage and ensure a reasonably priced supply of energy with minimal negative impact on the environment.

3. The main variables

(a) Economic activity

The economy grew by 4.2% in real terms during 2006, mainly driven by gross fixed investment (up by 10.8%). This was spearheaded by a rise in private investment (11.8%), while public investment expanded by only 3.5%. Investment in machinery (15.1%) and construction (4.2%) was more buoyant than in 2005. On the domestic demand side, economic growth was boosted by remittances, which served to fuel private consumption (4.9%). In 2006, goods and services exports increased by 7.0%, while the corresponding imports increased by 9.3%.

According to government estimates, GDP growth may be due to a significant rise in total factor productivity (TFP) (1.6%) and increases in terms of workforce (1.5%) and capital (1.1%). In 2007, TFP is expected to grow by 2.3%, with GDP predicted to rise by 5%. To make this growth sustainable, however, would require greater investment in production and human capital.

In 2006, the agricultural sector expanded by 7.1% on the strength of increased basic grain production and rising international prices for coffee and sugar. In terms of products for domestic consumption, beans increased at their highest rate since 1999 (39%). The forestry, hunting and fishing sector expanded by 6.5%, while milk production rose by over 10% for the second year running. These trends are expected to continue in 2007, bringing growth in the agricultural sector to 6%.

Basic services climbed by 5%. Within this sector, electricity generation increased for the third consecutive year (this time by 16%). Total electricity consumption (up by 7.2%) remained as buoyant as in the previous year. "Other services", which includes

financial services, commerce, restaurants and hotels, expanded by 3.7%.

Growth in mining repeated the performance seen in 2005, with an increase of 4.9% in 2006. The construction sector expanded by 5.5%, owing to higher private investment and the reconstruction costs following the damage caused by hurricane Stan and the eruption of the Ilamatepec volcano in October 2005. In 2007, the sector will benefit from the use of resources from the Millennium Challenge Account (US\$ 461 million over five years) for the construction of the northern longitudinal highway.

Manufacturing production expanded by 3.2%. However, the maquila sector (which accounted for 11.4% of manufacturing in 2006) continued its downward trend for the third year running declining by 2%.

The country's economic activity, as measured by the economic activity index, registered annual growth of 3.9% in the first quarter of 2007, which was lower than the 4.8% recorded in the year-earlier period.

(b) Prices, wages and employment

Annual inflation edged up from 4.3% in 2005 to 4.9% in 2006, thus exceeding the target range of between 3% and 4%. This was attributable to high petroleum prices, which in turn pushed up the prices of intermediate inputs for production and transport. It should be pointed out that the negative impact of higher prices was partially offset by subsidies provided for public transport and the consumption of electricity and liquefied gas.

As oil prices fall, the government expects inflation to follow suit and stand between 3% and 4%. Up to April 2007, however, annual inflation came in at 4.4%.

¹ See the declaration on security adopted at the extraordinary meeting of heads of State and government of the member countries of the Secretariat for Central American Economic Integration (SICA), Honduras, 3 October 2006.

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	3.7	3.4	2.2	1.7	2.3	2.3	1.8	2.8	4.2
Per capita gross domestic product	1.7	1.4	0.2	-0.2	0.4	0.5	0.0	1.0	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.7	7.7	-3.1	-2.6	0.4	0.9	3.0	5.8	7.1
Mining	5.3	0.4	-4.7	11.7	5.5	3.5	-16.0	3.5	4.9
Manufacturing	6.6	3.7	4.1	4.0	2.9	2.2	0.9	1.4	3.2
Electricity, gas and water	6.1	2.7	-2.3	4.7	7.3	4.4	3.3	3.1	4.5
Construction	8.5	-1.8	-3.4	9.6	6.7	3.2	-11.4	3.4	5.5
Wholesale and retail commerce, restaurants and hotels	4.0	2.0	3.6	1.9	1.5	2.7	2.4	1.6	4.8
Transport, storage and communications	4.2	9.5	6.1	4.3	5.0	3.4	5.4	4.3	5.0
Financial institutions, insurance, real estate and business services	3.7	3.0	3.0	-0.8	2.7	2.6	2.5	2.9	3.0
Community, social and personal services	1.2	1.0	1.1	-0.3	-0.6	0.5	1.8	1.7	2.4
Gross domestic product, by type of expenditure									
Consumption	2.4	3.4	3.7	3.2	1.5	1.9	2.7	2.5	4.9
General government	2.5	0.4	0.9	4.6	0.1	-0.3	1.9	1.7	2.6
Private	2.4	3.7	3.9	3.1	1.6	2.1	2.8	2.6	5.1
Gross domestic investment	22.8	-4.0	2.7	5.1	-2.7	7.8	-4.5	2.6	10.8
Exports (goods and services)	6.2	7.1	16.8	-0.2	6.0	4.7	6.6	0.4	7.0
Imports (goods and services)	9.2	2.7	14.5	4.2	1.5	4.8	4.3	0.8	9.3
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	17.6	16.4	16.9	16.7	16.4	17.0	16.0	15.4	16.1
National saving	16.8	14.5	13.6	15.6	13.6	12.3	12.0	10.8	11.5
External saving	0.8	1.9	3.3	1.1	2.8	4.7	4.0	4.6	4.6
Millions of dollars									
Balance of payments									
Current account balance	-91	-239	-431	-150	-405	-702	-632	-786	-855
Goods balance	-1 306	-1 356	-1 740	-1 933	-1 865	-2 287	-2 662	-3 008	-3 689
Exports, f.o.b.	2 460	2 534	2 963	2 892	3 020	3 153	3 337	3 432	3 567
Imports, f.o.b.	3 765	3 890	4 703	4 824	4 885	5 439	5 999	6 440	7 257
Services trade balance	-149	-183	-235	-250	-240	-107	-78	-72	19
Income balance	-163	-282	-253	-266	-323	-423	-460	-571	-519
Net current transfers	1 527	1 582	1 797	2 298	2 023	2 114	2 568	2 865	3 335
Capital and financial balance ^d	394	447	385	-27	282	1 019	579	728	926
Net foreign direct investment	1 103	162	178	289	496	123	430	300	254
Financial capital ^e	-709	285	207	-316	-214	895	150	427	673
Overall balance	303	208	-46	-178	-124	316	-52	-59	71
Variation in reserve assets ^f	-303	-208	46	178	124	-316	53	59	-72
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	101.9	100.4	100.0	99.6	99.5	100.0	100.2	101.6	102.0
Terms of trade for goods (index: 2000=100)	95.8	99.6	100.0	102.5	101.6	97.7	96.8	96.8	95.5
Net resource transfer (millions of dollars)	231.0	164.9	131.9	-293.1	-41.8	595.4	119.2	156.2	407.3
Gross external debt (millions of dollars) ^h	2 646	2 789	2 831	3 148	3 987	7 917	8 211	8 642	9 305
Net profits and interest (percentage of exports) ⁱ	-5.3	-8.9	-6.9	-7.4	-8.5	-10.3	-10.4	-12.5	-10.2
Average annual rates									
Employment									
Labour force participation rate ^j	53.5	52.6	52.2	53.3	51.2	53.4	51.7	52.4	52.6
Open unemployment rate ^k	7.5	7.0	6.7	7.0	6.2	6.9	6.8	7.8	6.6
Visible underemployment rate ^l	3.5	3.9	3.7	3.8	4.3	4.8	4.5	6.2	4.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.2	-1.0	4.3	1.4	2.8	2.5	5.4	4.3	4.9
Variation in real minimum wage	3.3	2.4	-2.2	-3.6	-1.8	2.1	-1.4	-4.5	-0.7
Nominal deposit rate ^m	...	...	6.5	5.5	3.4	3.4	3.3	3.4	4.4
Nominal lending rate ⁿ	...	...	10.7	9.6	7.1	6.6	6.3	6.9	7.5

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sector									
Total income ^o	14.9	15.0	15.8	14.9	15.5	16.2	16.3	16.4	17.4
Current income	14.8	14.7	14.9	14.4	14.7	15.7	15.9	16.1	17.2
Tax income	10.1	10.2	10.2	10.5	11.2	11.5	11.5	12.6	13.4
Capital income	0.0	0.0	0.1	0.0	0.5	0.0	0.0	0.0	0.0
Total expenditure ^p	17.6	17.8	18.8	18.5	18.8	18.3	16.9	17.5	18.5
Current expenditure	13.8	14.6	15.5	14.0	13.9	14.6	14.6	14.7	15.4
Interest	1.5	1.4	1.5	1.4	1.7	2.0	2.1	2.2	2.4
Capital expenditure	3.8	3.2	3.3	4.5	4.9	3.7	2.3	2.8	3.1
Primary balance	-1.2	-1.4	-1.5	-2.2	-1.6	0.0	1.5	1.1	1.4
Overall balance	-2.6	-2.8	-3.0	-3.6	-3.3	-2.1	-0.6	-1.1	-1.1
Non-financial public sector debt	...	28.3	30.0	33.6	38.3	40.6	40.8	40.9	39.8
Domestic	...	7.2	9.6	11.7	11.1	11.0	11.8	12.7	10.7
External	...	21.1	20.4	21.9	27.2	29.6	28.9	28.2	29.1
Money and credit^q									
Domestic credit ^r	...	...	...	...	39.1	40.0	41.2	40.3	40.7
To the public sector	...	...	...	...	-1.1	-0.5	1.0	0.8	0.0
To the private sector	...	...	...	...	40.2	40.5	40.2	39.6	40.8
Liquidity (M3)	44.3	44.7	45.1	43.9	41.9	39.9	38.4	36.2	36.2

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Annual average, weighted by the value of goods exports and imports. ^h Figures up to 2002 refer to public external debt. From 2003 onward, figures refer to total external debt. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Unemployed as a percentage of the economically active population; nationwide total. ^l Underemployed as a percentage of the economically active population; urban total. ^m Reference rate for deposits of up to 180 days in the financial system. ⁿ Reference rate for 1-year loans in the financial system. ^o Includes grants. ^p Includes net lending. ^q The monetary figures are annual averages. ^r Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

In January 2006, public-sector employees received their first pay rise since 1998 (US\$ 40 million for increases of between 3% and 10% depending on level of pay). Meanwhile, there was a 10% increase in the minimum wage paid to workers in the manufacturing, commerce and service sectors, and a 4% rise for maquila workers. This, combined with a half percentage point fall in unemployment (to 6.6%), resulted in a slight upturn in families' purchasing power.

(c) The external sector

In 2006, merchandise exports expanded only slightly (3.7%). This performance was partly due to an 11.7% decline in maquila exports (which make up 46% of total exports), a sector that has been facing stiff competition for many years. On the other hand, there was a recovery in the prices of some agricultural exports, such as coffee (up by 15.3%) and sugar (up by 7.7%). Meanwhile, traditional exports climbed by 12.8%.

Sugar exports benefited from the Dominican Republic—Central America—United States Free Trade Agreement (CAFTA-DR), as the export quota to the United States market doubled and demand increased for the production of biofuels such as ethanol. Since the entry into force of

the Agreement on 1 March 2006, exports to the United States have grown by 68%, not including maquila products. Including maquila products in the calculation of exports to the United States gives a decline of almost 2.5%, which is in keeping with the downward trend resulting from the elimination of the Multifibre Arrangement. Furthermore, imports from the United States were up by 17%, which means that El Salvador maintained its trade deficit with that country.

There was a 23.1% rise in the value of non-traditional exports, thanks to an increase of over 30% in diesel, fruit juices, soap and organic preparations and bed, table and kitchen linen. Export services (travel, transport, etc.) were up by 31.8%.

Merchandise exports to the rest of Central America (29.2% of total exports) climbed by 12.4%, while exports to the rest of the world (70.8% of total exports) increased by only 0.5%. As of April 2007, the export sector had registered growth of 5.4%.

The value of merchandise imports grew by 11.6%. Of this, almost 53% was due to imports of intermediate and capital goods, 32% to consumer goods and the remaining 15% to maquila inputs. The highest growth rates were recorded in intermediate and capital goods (20% each), mainly as a result of high prices for petroleum and its

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	2.3	3.0	3.4	3.6	4.4	4.3	4.1	3.9	4.0	...
Goods exports, f.o.b. (millions of dollars)	821	919	865	784	909	904	895	807	963	...
Goods imports, c.i.f. (millions of dollars)	1 542	1 759	2 327	1 696	1 777	1 930	1 941	1 943	2 003	...
International reserve assets (millions of dollars) ^c	1 705	2 036	1 753	1 833	1 768	2 015	2 020	1 908	1 911	2 144
Real effective exchange rate (index: 2000=100) ^d	101.5	101.6	102.1	101.4	102.1	102.3	101.8	102.0	101.3	103.1
Consumer prices (12-month percentage variation)	4.7	4.3	4.4	4.3	4.0	4.4	4.2	4.9	5.1	3.7
Average nominal exchange rate (colones per dollar)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Nominal interest rates (annualized percentages)										
Deposit rate ^e	3.2	3.4	3.4	3.7	4.1	4.2	4.6	4.7	4.9	4.9
Lending rate ^f	6.9	6.8	6.9	6.9	7.6	7.4	7.5	7.6	7.8	7.8 ^g
Interbank rate	...	5.8	4.5	5.3	...	6.0	...	...	...	...
Domestic credit (variation from same quarter of preceding year) ^h	7.0	-1.1	5.3	11.6	11.2	13.8	12.2	8.1	7.6	...
Non-performing loans as a percentage of total credit ⁱ	2.5	2.1	2.2	2.0	1.9	2.1	2.1	2.0	2.1	2.2 ^j

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Reference rate for deposits of up to 180 days in the financial system. ^f Reference rate for 1-year loans in the financial system. ^g Data to May. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Refers to total credit extended by the banking system. ^j Data to April.

derivatives. In 2006, the country's oil bill hovered around the US\$ 1.2 billion mark, which is the equivalent of 6.5% of GDP and 21.4% of total imports of goods and services. Meanwhile, imports of services (transports, travel, etc.) increased by 22.4%. The overall result of these and other factors was that the terms of trade worsened for the fifth year in a row (down by 0.9%). Furthermore, in 2006 the bilateral real exchange rate with the United States dollar continued to appreciate (by 0.8% compared with 2005). This was entirely due to higher inflation in El Salvador compared with the United States.² In April 2007, the growth rate of merchandise imports stood at 13.9%, and the trade gap is therefore expected to widen.

The economy once again benefited from a rise in family remittances (17.2%), which totalled US\$ 3.3157 billion. Remittances fuelled private consumption and covered almost 90% of the goods and services trade gap.

These trends combined to produce a balance-of-payments current account deficit of 4.6% of GDP.

In May 2007, the country obtained its fifth extension of Temporary Protection Status (TPS), which will enable nearly 220,000 Salvadoran people to work legally in the United States until March 2009. Although massive inflows of remittances are expected to continue in 2007, the expected growth rate of 10% is lower than the average of 16.5% recorded over the last three years; this is due to the slowdown of the United States economy. Up to April 2007, US\$ 1.113 billion was received in remittances, which is 8% more than in the year-earlier period.

The financial account posted a positive balance of US\$ 1.018 billion, which was US\$ 295 million higher than in 2005. This was because the flow of portfolio investment liabilities increased by US\$ 629 million, while foreign direct investment (FDI) amounted to US\$ 204 million.

² The real exchange rate is the nominal exchange rate deflated by the ratio of El Salvador's inflation index to that of the United States.

Guatemala

1. General trends

The Guatemalan economy grew by 4.9% in 2006, the best performance since 1998. Growth was driven by burgeoning private consumption fuelled by family remittances (12% of GDP). Inflation was down to 5.8% (8.6% in 2005), the fiscal deficit widened slightly (1.9% of GDP) and the balance-of-payments current account deficit remained unchanged at 5.1% of GDP. Despite the wide trade deficit (17.6% of GDP), international reserves continued to swell thanks to significant receipts from abroad.

The year saw the entry into force of the Dominican Republic—Central America—United States Free Trade Agreement (CAFTA-DR) and interventions in two banks (one in October 2006 and another in January 2007). The actions of the authorities successfully averted a banking crisis, and there were only temporary repercussions for the confidence of economic agents in the financial system.

For 2007, the authorities predict GDP growth of 5.2%, on the strength of new public works, an inflation

target range of between 4% and 6% and a central government deficit of 2.3% of GDP. With a slightly more expansionary fiscal policy, and despite a restrictive monetary policy, it will be a challenge to meet the target inflation range set. Given the climate of public insecurity, there is a consensus within society that a better national security system should be created.¹ In May, the electoral campaigns began for the presidential elections to be held in September.

2. Economic policy

(a) Fiscal policy

The central government deficit represented 1.9% of GDP (1.7% in 2005). The budget included allocations for implementing the reconstruction programme following the tropical storm Stan.

Revenues were affected by the application of the law to strengthen tax administration, the main aim of which

is to combat tax evasion. In this context, a 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 advances in tax administration, government income grew by 11% in real terms. The main contributing factors to this result were income tax, VAT and the tax on the

¹ In March 2006, the 16 parties of the permanent forum of political parties signed an agreement to build a national security system in Guatemala.

consumption of petroleum and its derivatives, despite a reduction in revenue arising from the tariff cuts mandated by CAFTA-DR. As a consequence, the tax burden rose to 11.8% of GDP (11.2% in 2005). Nonetheless, its low level continued to hamper the implementation of social projects.²

Total expenditure grew by 11.8% in real terms. Current expenditure increased by 8%, especially in terms of goods and services expenditure. Capital expenditure, on the other hand, expanded by 19.5%. Capital expenditure picked up to stand at 5.3% of GDP, recovering from the decline of the previous biennium. The main increase was in physical investment (38%), resulting from higher rates of implementation of projects, some related to repairing damage caused by the climatic events of 2005. To a lesser degree, there were increases in capital transfers to autonomous and decentralized institutions and the resources were allocated in line with the priorities established in the peace agreements.

In the first four months of 2007, real total income rose by 8.6%, but real total expenditure continued to grow at the same rate as in 2006.

External public debt stood at US\$ 3.958 billion, or 13.1% of GDP, as in 2005. Loan disbursements by the Central American Bank for Economic Integration (CABEI) and the World Bank were channelled into productive activities.

(b) Monetary and exchange-rate policy

As in 2005, monetary policy continued the approach of establishing explicit inflation targeting, for which a range of 5%-7% was set in 2006. The legal framework for the explicit inflation target policy has improved, as it now includes provisions to increase the transparency of the decisions of the monetary authorities and to enhance monetary stabilization operations.

Monetary policy was supported by fiscal policy, as government deposits at the Bank of Guatemala were kept above the set level, thereby making it possible to mitigate monetization. Although the operations of Banco del Café (BANCAFÉ) were suspended in October 2006,³ the impact on the money and foreign-exchange market was minimal.

However, at the end of 2006 and the beginning of 2007, there was an unmet increase in the public demand for cash, which led to a temporary shortage of banknotes.

With a view to curbing the inflationary expectations of economic agents, the authorities raised the monetary-policy interest rate (rate on 7-day deposit certificates) by 0.25 percentage points in April, June and July 2006, such that the rate stood at 5%. In 2007, the monetary-policy interest rate stood at 5.5% in May. During 2006, the average nominal borrowing rate was 4.7% (real rate -1.8%), while the average nominal lending rate was 12.8% (real rate 5.8%). In 2005, the real rates had been even lower: -3.6% and 4.8%, respectively. The level of financial intermediation remained high, at around 8 percentage points.

To reduce exchange-rate volatility, the Bank of Guatemala purchased US\$ 130.5 million on the foreign-exchange market in 2006. The Bank's sterilization measures continued with monetary stabilization operations in local currency. The weighted average interest rate went from 6.4% to 6.7%, due to a higher benchmark interest rate and the longer terms for bids. The monetary authorities reduced the frequency of auctions and, in July, replaced the 91-day auctions with 182-day auctions, in order to defer liquidity to the medium term. At the end of 2006, the balance of monetary stabilization operations decreased by 7% in real terms. Also in real terms, money supply (M3) expanded by 11%, while credit to the private sector increased by 22%, with both of those figures being above the range set in the monetary programme. In the first few months of 2007, credit in local currency to the private sector declined, while credit in dollars remained buoyant due to the lower financial cost involved.

In the light of the stable nominal exchange rate and the fall in domestic inflation during 2006, the real effective appreciation of the quetzal was 3%. With regard to the average of the five-year period 2001-2005, this appreciation was 12%.

In October 2005, the assets of Bancafé International Bank (an offshore subsidiary⁴ of Banco del Café (BANCAFÉ)) were affected by the freezing of a US\$ 201 million investment⁵ in Refco Capital Markets. This New York stock and bond brokerage firm filed for bankruptcy

² ECLAC and the Central American Institute for Fiscal Studies (ICEF) have often pointed to the need to increase the tax burden, which is one of the lowest in the region.

³ The law on Banks and financial groups establishes a framework for those banks that put the functioning of the country's financial system at risk to withdraw from the system in an orderly way.

⁴ In July 2005, investment in offshore entities by 11 banks represented 25% of the total assets of the banking system.

⁵ Refco Capital Markets, with this investment as a guarantee, granted a US\$ 155 million loan to an enterprise linked with BIB. The operation was not recorded in the financial records.

in the United States. The Superintendency of Banks then notified the authorities of Bancafé that they must fulfil a restructuring programme. As the Bank failed to comply, the monetary authorities had its activities suspended in October 2006.

A small bank was intervened in January 2007, when deposit-taking operations were found to have been illegally carried out through other enterprises, without being included on the bank's financial records.

The Savings Protection Fund (FOPA) used 1.96 billion quetzales (US\$ 255 million) to compensate those who had made deposits with the above-mentioned banks. To help cover these emergency outlays, FOPA requested 360 million quetzales in financial assistance from the Fiduciary Fund for Bank Capitalization. During 2007, it will probably prove difficult to control liquidity due to the resources injected into the system, and it will also be more difficult to curb inflationary pressure.

The strength of the economy and the authorities' commitment to answering for the deposits made with intervened banks were key factors in avoiding a systemic banking crisis. However, the authorities must make it a priority to strengthen and improve banking regulation and supervision—which is considered lax, even by some bankers—by establishing sensible limits on the type and amount of investment in offshore entities and on loans to associated enterprises. Furthermore, improvements should be made in the information provided to savers on the use made of their investments, with a view to pointing out the higher risks involved in offshore entities and also providing information on bank solvency.

With the exception of the above-mentioned banks, the national banking system operated with stable interest

rates, and there was a credit expansion, in addition to improvements in portfolio quality and a reduction in non-performing assets (those that generate no financial income). Since October 2006, several banking mergers have taken place in response to the strategy of national banks to strengthen their position within the banking system by increasing their solvency. Non-performing loans and arrears as a percentage of total loans fell from 6.1% in 2005 to 5.9% in 2006, in comparison with the Central American average of 5%.

(c) Trade policy

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) entered into force in July 2006. The Agreement is an opportunity for export diversification and the entry of new foreign investment. March 2006 saw the approval of a free trade agreement with Taiwan province of China, and a Partial Scope Trade Agreement between Belize and Guatemala was signed in July.

With a view to beginning negotiations for the Association Agreement between the European Union and Central America in 2007, a joint assessment exercise of the Central American Customs Union was carried out in 2006 to determine the level of integration achieved by the region. In late 2006, guidelines for the negotiation process were also approved. In June 2006, Guatemala, El Salvador and Honduras began negotiations for a free trade agreement with Colombia, and negotiations were also relaunched with Panama. In May 2007, Guatemala, Honduras, Nicaragua and El Salvador began negotiations for a free trade agreement with countries of the Caribbean Community (CARICOM).

3. The main variables

(a) Economic activity⁶

Per capita GDP rose for the third year running, this time by 2.3%, which outstripped the cumulative growth rate of 1.5% for 2004-2005. The main determining factor in this performance was investment in construction (22%)

and external demand (up by 5%). Private consumption (which represents 91% of total consumption) grew at a similar rate to 2005 (4.5%), on the strength of rising family remittances. Government consumption increased by around 6% due to higher spending on health and education.

⁶ Corresponds to new estimates in constant 2001 quetzales compiled using the 1993 system of national accounts. According to these new series, in 2001, GDP using the 1958 basis was overestimated by 12.2%.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	5.0	3.8	3.6	2.3	3.9	2.5	3.2	3.5	4.9
Per capita gross domestic product	2.6	1.5	1.2	-0.1	1.3	0.0	0.6	0.9	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.7	2.1	2.6	1.2	5.4	2.5	4.2	2.1	2.0
Mining	21.0	-1.9	-8.5	0.8	16.0	-6.0	-11.9	-3.2	-0.9
Manufacturing	3.6	2.5	1.9	1.1	1.1	2.5	4.9	2.8	3.4
Electricity, gas and water	5.8	11.0	17.4	-3.0	5.1	4.9	3.6	2.7	2.5
Construction	9.3	7.8	-18.3	12.2	15.4	-3.7	-8.9	6.1	21.4
Wholesale and retail commerce, restaurants and hotels	5.3	3.2	4.1	2.7	2.0	1.5	3.1	3.2	3.7
Transport, storage and communications	7.5	6.8	7.6	6.8	7.8	10.0	15.4	11.3	13.9
Financial institutions, insurance, real estate and business services	5.9	4.6	3.1	0.3	4.2	4.4	3.8	3.7	3.9
Community, social and personal services	4.1	4.7	4.6	3.5	2.2	-2.2	-3.4	3.9	4.9
Gross domestic product, by type of expenditure									
Consumption	5.1	3.7	4.2	4.0	3.0	3.3	2.8	4.2	4.6
General government	9.7	5.2	10.4	5.4	-0.1	-1.5	-6.6	3.4	6.3
Private	4.6	3.6	3.5	3.8	3.4	3.9	3.9	4.3	4.5
Gross domestic investment	36.3	-0.4	2.5	6.4	8.6	-0.8	4.3	-1.3	2.6
Exports (goods and services)	2.4	4.6	3.8	-4.0	0.7	-0.5	8.2	-2.1	4.8
Imports (goods and services)	24.5	0.7	6.0	6.9	2.0	0.5	5.7	-0.6	3.7
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	20.2	20.9	20.1	19.7	20.6	20.3	20.8	19.7	21.0
National saving	14.1	14.6	14.0	13.0	14.6	15.6	15.8	14.6	16.0
External saving	6.0	6.3	6.1	6.7	5.9	4.7	5.1	5.1	5.0
Millions of dollars									
Balance of payments									
Current account balance	-1 039	-1 026	-1 049	-1 253	-1 235	-1 039	-1 211	-1 387	-1 533
Goods balance	-1 409	-1 445	-1 660	-2 282	-2 972	-3 116	-3 822	-4 368	-5 029
Exports, f.o.b.	2 847	2 781	3 082	2 860	2 819	3 060	3 368	3 701	4 046
Imports, f.o.b.	4 256	4 226	4 742	5 142	5 791	6 176	7 189	8 068	9 075
Services trade balance	-152	-91	-48	117	79	-68	-116	-241	-253
Income balance	-184	-205	-209	-84	-318	-318	-318	-336	-355
Net current transfers	705	715	868	997	1 976	2 462	3 045	3 558	4 103
Capital and financial balance ^d	1 275	901	1 703	1 727	1 257	1 589	1 819	1 641	1 812
Net foreign direct investment	673	155	230	456	111	131	155	208	325
Financial capital ^e	602	746	1 474	1 271	1 146	1 458	1 665	1 433	1 487
Overall balance	235	-125	654	474	22	550	609	254	279
Variation in reserve assets ^f	-263	125	-654	-474	-22	-550	-609	-254	-279
Other financing ^g	28	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	88.1	98.7	100.0	95.7	88.5	88.6	85.9	79.9	77.5
Terms of trade for goods (index: 2000=100)	115.3	101.9	100.0	96.7	95.8	93.0	92.1	91.3	89.6
Net resource transfer (millions of dollars)	1 118	696	1 494	1 642	938	1 271	1 501	1 305	1 457
Gross external public debt (millions of dollars)	2 368	2 631	2 644	2 925	3 119	3 467	3 844	3 723	3 958
Net profits and interest (percentage of exports) ⁱ	-2.4	-2.4	-1.8	-2.1	-3.2	-3.0	-2.3	-6.1	1.0
Average annual rates									
Employment									
Labour force participation rate ^j	...	...	...	...	61.5	61.4	56.1	...	...
Open unemployment rate ^k	...	...	...	...	5.4	5.2	4.4	...	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.5	4.9	5.1	8.9	6.3	5.9	9.2	8.6	5.8
Variation in nominal exchange rate (December-December)	7.6	14.0	0.7	2.5	-2.9	5.0	-3.3	-2.0	0.3
Variation in average real wage	3.6	5.8	3.8	0.5	-0.9	0.4	-2.2	-4.0	-1.1
Nominal deposit rate ^l	5.4	7.9	10.2	8.8	7.1	5.2	4.5	4.6	4.7
Nominal lending rate ^m	16.5	19.4	20.9	19.0	16.9	15.0	13.8	13.0	12.8

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central administration									
Total income	11.6	12.4	12.3	12.4	12.8	12.5	12.3	12.0	12.7
Current income	11.5	12.4	12.3	12.4	12.8	12.5	12.3	11.9	12.7
Tax income	10.5	11.1	11.2	10.8	11.9	11.7	11.5	11.2	11.8
Capital income	0.1	-	-	-	-	-	-	-	0.0
Total expenditure	14.0	15.5	14.3	14.5	13.9	15.1	13.4	13.7	14.6
Current expenditure	8.9	9.7	10.2	10.3	9.7	10.1	9.2	9.1	9.4
Interest	1.2	1.5	1.4	1.6	1.4	1.3	1.4	1.4	1.4
Capital expenditure	5.1	5.8	4.1	4.2	4.2	5.1	4.3	4.6	5.3
Primary balance	-1.2	-1.7	-0.6	-0.6	0.3	-1.3	0.3	-0.3	-0.6
Overall balance	-2.4	-3.2	-2.0	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9
Central administration debt									
Domestic	16.4	19.7	19.0	20.2	18.4	20.9	21.4	20.7	21.6
External	5.7	6.5	6.5	6.3	5.0	6.3	6.7	7.9	8.8
Overall	10.7	13.2	12.5	13.9	13.3	14.6	14.7	12.8	12.8
Money and creditⁿ									
Domestic credit ^o	...	...	15.8	16.2	15.5	15.0	14.7	15.3	18.2
To the public sector	...	...	-2.2	-2.0	-2.7	-2.9	-2.8	-3.1	-2.7
To the private sector	...	...	16.7	16.9	17.1	17.1	17.0	17.9	20.3
Others	...	...	1.3	1.3	1.1	0.8	0.6	0.5	0.6
Liquidity (M3)	25.5	25.7	27.4	29.5	29.8	31.1	31.6	32.8	34.6
Currency outside banks and local-currency deposits (M2)	25.6	25.7	26.7	28.2	28.1	28.7	28.3	29.0	30.6
Foreign-currency deposits	-0.1	-0.1	0.7	1.3	1.7	2.4	3.3	3.7	4.0

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

^a Preliminary figures. ^b Up to 2000, based on figures in local currency at constant 1958 prices. From 2001 onward, based on figures in local currency at constant 2001 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Percentage of the economically active population; nationwide total. ^l Average rate for deposits in the banking system. ^m Average rate for loans in the banking system. ⁿ The monetary figures are annual averages. ^o Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

All productive sectors posted positive growth except for mining. Construction, transport and communications, and banking and insurance were the most buoyant sectors. Construction turned in an impressive performance (21%), which was spearheaded by the private sector following a recovery in 2005. The transport and communications sector also remained buoyant (14%). Nonetheless, growth in agriculture and manufacturing remained insufficient. Agriculture expanded by 2%, with production of basic grains up by 5% and coffee up by 2%. However, there was a decline in the production of banana and cardamom (3%) and in sugar cane production (-8%). Agriculture is feeling the effects of a lack of investment and an appreciation of the quetzal in recent years.

Manufacturing expanded by 3.4%, which was a higher growth rate than in 2005. Commerce grew by 3.7%, partly thanks to the boom in the consumption of imported goods fuelled by inflows of family remittances.

(b) Prices, wages and employment

In 2006, inflation stood at 5.8%, which was considerably lower than the 8.6% recorded in 2005. Falling oil prices since August, a stable nominal exchange rate and a crop

year with no climate problems all contributed to the reduction. The absence of adverse weather conditions also halved the variation in food prices (12.4% in 2005). Between January and May 2007, inflation fell to 5.5% despite the rise in oil prices observed since February.

Real minimum wages rose by 3.2% during 2006. In January 2007, a 5% adjustment was applied to nominal wages. No employment survey was carried out in 2006. Although formal employment was up by 2.4%, underemployment and informality remained high. In 2004, official estimates suggested that 75.4% of the employed population were working informally, although some of these people earn a good income and have no incentive to switch to the formal sector.

(c) The external sector

The deficit in goods and services remained chronically wide in 2006 (17.6% of GDP), while net payments of profits and interest stayed stable (1.1% of GDP). The trade deficit was offset by the surplus of current transfers (13.6% of GDP). As a result, the current account deficit of 5.1% was similar to that recorded in the biennium 2004-2005.

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars)	1 293	1 455	1 392	1 241	1 385	1 422	1 693	1 526	1 712	...
Goods imports, c.i.f. (millions of dollars)	1 971	2 249	2 223	2 369	2 735	2 955	3 099	3 129	3 165	...
International reserve assets (millions of dollars) ^b	3 664	3 738	3 815	3 783	4 116	4 062	4 031	4 061	4 250	4 392
Real effective exchange rate (index: 2000=100) ^c	81,7	80,2	79,3	78,4	77,9	77,4	77,2	77,1	76,8	77,5
Consumer prices (12-month percentage variation)	9,5	8,8	9,4	8,6	7,3	7,6	5,7	5,8	7,0	5,3
Average nominal exchange rate (quetzals per dollar)	7,71	7,61	7,61	7,64	7,62	7,60	7,59	7,61	7,69	7,66
Nominal interest rates (annualized percentages)										
Deposit rate ^d	4,6	4,6	4,6	4,6	4,6	4,7	4,7	4,8	4,9	4,9
Lending rate ^e	13,5	13,0	12,9	12,7	12,7	12,7	12,7	12,9	12,9	12,8 ^f
Domestic credit (variation from same quarter of preceding year) ^g	10,4	16,3	21,2	29,2	25,9	37,7	38,6	34,4	...	...
Non-performing loans as a percentage of total credit ^h	6,9	6,2	6,1	5,1	6,1	5,9	5,4	5,5	5,3	5,5 ⁱ

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

^a Preliminary figures. ^b Including gold. ^c Quarterly average, weighted by the value of goods exports and imports. ^d Average rate for deposits in the banking system. ^e Average rate for loans by the banking system. ^f Data to May. ^g Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^h Refers to total credit extended by the banking system. ⁱ Data to April.

Growth in merchandise exports (9.3%) and imports (12.5%) was similar to the average rise observed between 2003 and 2005. Moderate export growth and the increase in imports have been influenced by the appreciation of the quetzal in real terms during the last five years. Traditional exports expanded by 5.5% in 2006. Higher external sales of sugar (20%), cardamom (9%) and banana (2%) were mainly due to increased unit values. Oil exports expanded by 13%, with higher prices more than compensating a fall in volume (10%). Exports of coffee declined by 4.5% as a result of smaller volumes shipped, as the price remained unchanged.

Non-traditional exports expanded at a higher rate of 7.5%, boosted by sales of rubber, shrimp, fish and lobster, fruit and foodstuffs. However, other non-traditional products declined. In the case of clothing (-34%), this was partly due to the termination of the Multifibre Arrangement, and also the result of Asian competition. This sector was very dynamic in the previous three-year period, while vegetables and pulses varied considerably (-19%), partially owing to price volatility. External sales to Central America continued to climb (15%), while maquila exports (4%) recovered slightly following a fall in 2005 (-27%).

As of March 2007, exports had been boosted by a significant increase in non-traditional products in terms of volumes shipped. In contrast, prices for sugar and banana plummeted, as did prices for coffee and

petroleum, although to a lesser extent. In terms of sales of non-traditional products, positive performances were turned in by fruit (volumes shipped) and minerals (as a result of prices).

Imports of capital goods expanded by 19% (12% in 2005). This bodes well for a good investment performance during 2007. Purchases for agriculture recovered above and beyond the decline of 2005, while imports for industry, telecommunications and construction expanded by 21%. Imports of intermediate goods were marked by a slower rate of increase in the oil bill, which nonetheless represented a high proportion of total imports (19%).

Non-factor services posted a deficit of US\$ 253 million, which was similar to 2005 levels. Contributing factors to this result included higher payments for transport and other services, including tourism. Revenues from tourism (US\$ 973 million) continued the upward trend of the last decade, while the number of tourists (1.5 million) was 14% higher than in 2005.

The income balance increased by 5.6% in line with GDP growth. There were net payments of profits worth US\$ 210 million and net payments of interest for US\$ 161 million.

Current transfers, mainly in the form of family remittances, helped to offset the deficit in factor and non-factor services. In 2006, family remittances accounted for US\$ 3.609 billion, with an annual variation of 21% (17%

in 2005), which is the equivalent of two thirds of total exports. In the first four months of 2007, annual growth in remittances slowed slightly to 13%. This growth rate will probably be in single figures by the end of the year as a result of unemployment and lower wages among immigrants working in the troubled construction sector in the United States.

Income on the capital and financial account totalled US\$ 1.812 billion. Foreign direct investment (FDI) amounted

to US\$ 325 million, which is the largest inflow of the last five years. FDI was channelled into the communications, commerce and chemical industry sectors. As net capital inflows more than covered the current account deficit, there was an overall balance-of-payments surplus of US\$ 279 million. In March 2007, international reserves represented almost five months of imports of goods and services. Lastly, levels of FDI are expected to reach US\$ 500 million.

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Honduras

1. General trends

Economic growth accelerated from 4.1% in 2005 to 6% in 2006 —its highest rate since 1993. This buoyant performance reflected rises in investment and private consumption fuelled by significant inflows of family remittances (which represent 26% of GDP). Per capita GDP rose for the third year running, while the nationwide unemployment rate dropped to 3.3%, although underemployment remained high (29.9%). Twelve-month inflation fell to 5.3%, compared with 7.7% in 2005. In the external sector, the trade deficit reached 26% of GDP (21% in 2005). Given that the trade and income deficits were financed using current transfers, the current-account deficit was relatively small (1.9% of GDP).

Within a generally favourable macroeconomic environment, April saw the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and a continued reduction of external debt, thanks to the Multilateral Debt Relief Initiative (MDRI). Nonetheless, the oil bill continued to rise on the back of high prices for petroleum and derivatives, while management problems persisted in public enterprises in the energy and telecommunications sectors.

Projections for 2007 point to GDP growth of between 5.5% and 6%, an inflation target ranging from 5% to 6%

and a government deficit of 2.5% of GDP. In February 2007, the country concluded with IMF the Poverty Reduction and Growth Facility (PRGF). July saw the launch of the Policy Support Instrument (PSI),¹ the aim of which is to coordinate macroeconomic and social policies, with an emphasis on poverty reduction. In 2003, 68.5% of households were living in poverty.² Social violence and the lack of public safety have become two of the main obstacles to building citizenship. The urban centres of Distrito Central and San Pedro Sula have the highest incidence of crime.³

2. Economic policy

In contrast with the situation in 2005, fiscal policy helped monetary policy to maintain stability, as fiscal expenditure declined considerably. Significant amounts

of external public debt were cancelled, although debt servicing relief will be rolled out during a period of up to 40 years.

¹ See International Monetary Fund, "The Policy Support Instrument" [online] <http://www.imf.org/external/np/exr/facts/psi.htm>.

² See Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2006* (LC/G.2326-P), Santiago, Chile, February 2007, chapter 1. United Nations publication, Sales No.E.06.II.G.133.

³ United Nations Development Programme (UNDP), *Honduras Human Development Report, 2006* [online] http://www.undp.un.hn/pub_indh_2006.htm.

(a) Fiscal policy

The overall central government deficit dropped to 1.3% of GDP from 2.6% in 2005, as a result of higher receipts and lower capital and social expenditure.

Despite the tariff cuts mandated by CAFTA-DR, total revenues grew by 9.5% in real terms. Current income was up 8% and tax revenues rose by 12%, while non-tax revenues fell by 22%. Proceeds from direct taxation turned in the best performance (up 19%), owing to higher receipts from income tax and despite lower receipts from the tax on property and net assets. Revenue from indirect taxes was up by 9%, as tax on general sales, carbonated drinks and cigarettes sustained an overall increase of 15%. However, average receipts from taxes on items such as beer and petroleum derivatives stood still. Import revenues swelled by 3%, as the above-mentioned tariff cuts were offset by increased economic activity. The decline in non-tax revenues was tempered by the rise in transfers (grants). Contributing factors to higher tax revenues include the expanded tax base, electronic payment systems and audit procedures.

Total expenditure grew by 3.3% in real terms, as the increase in current expenditure (11%) more than offset the 25% fall in capital expenditure. The rise in current expenditure was partly a reflection of the teachers' pay award; the wage bill (as a percentage of GDP) rose from 9.5% in 2005 to 9.7% in 2006. Wages will have a greater effect on the 2007 fiscal accounts, with a wage policy that does not seem sustainable in the medium term. Another contributing factor to higher current expenditure was the fuel subsidy, which amounted to 500 million lempiras. Real capital expenditure declined sharply, 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. The significant reduction in capital transfers also contributed to this result.

Steps were taken to overcome financial management problems and address the reduction of capital investments by State-owned enterprises in the electricity (ENEE) and telecommunications (HONDUTEL) sectors. ENEE chalked up financial losses of 2.3 billion lempiras per year in the period 2003-2005, while loss of electricity due to fraud and illegal connections amounted to 25% of total losses in 2006.⁴

The external public debt fell to US\$ 3.011 billion from its 2005 level of US\$ 4.364 billion, mainly thanks to debt cancellation granted by the World Bank (US\$ 1.063 billion) and IMF under the Multilateral Debt Relief Initiative (MDRI) (US\$ 122 million). Liabilities were also reduced thanks to debt cancellation by the Paris Club. In 2006, the total relief on external public debt service amounted to US\$ 211 million, of which US\$ 125 million had been allocated to finance expenditure in the poverty reduction strategy. Following the redrafting of the law on the poverty reduction strategy in 2004, 70% of the relief originally committed to poverty reduction was used to finance projects from previous financial years and current expenditure up to 2006.⁵ This brought the resources used for the poverty reduction strategy in 2006 to US\$ 37 million. In March 2007, the US\$ 1.2 billion public debt cancellation by IDB in the framework of the Multilateral Debt Relief Initiative (MDRI) took effect.

(b) Monetary and exchange-rate policy

The initial inflation target set by the central bank for 2006 was between 5.5% and 6.5%, which was subsequently lowered by half a percentage point. The target range for 2007 was set at between 5% and 6%, which will be difficult to meet if prices for petroleum and maize remain high. In the second half of the year, the monetary policy interest rate is thus likely to rise, thereby reversing the reduction observed in 2006.

The fall in inflation allowed the monetary authorities to lower the monetary policy interest rate from 6.75% to 6.5% in April and to 6% in September. Average lending rates fluctuated around 11% in real terms, while real borrowing rates stood at 1.5%.

The central bank continued to issue bonds in local currency to moderate the rise in liquidity that had resulted from significant inflows of foreign exchange. The annual increase in demand for these bonds was 6.2%, compared with 10.5% in 2005. This was partly due to their reduced yield rates, which were in turn attributable to a lower benchmark interest rate. The abundant liquidity in the financial system was reflected in a greater use of permanent investment and credit facilities.⁶ Temporary repurchase agreements were also concluded for 5.615 billion lempiras worth of government securities in 2006.

⁴ See World Bank, "Honduras: temas y opciones del sector energía", *Informe final*, 27 April 2007.

⁵ See *Presentación ERP al Congreso Nacional* (Ministry of Finance) at <http://www.sefin.gob.hn/erp.html>.

⁶ Instruments that financial institutions use to manage liquidity by making short-term deposits in the central bank with an interest rate linked to the monetary policy interest rate.

The monetary base swelled by 14% in real terms, as a result of the above-mentioned operations, variations in international reserves and public-sector deposits. The increased liquidity in the economy was a major boon to lending to the private sector (up by 21%).

Indicators of solvency, asset quality and profitability of the banking system all improved in 2006. Non-performing loans and arrears as a percentage of total loans fell from 8.6% in 2005 to 7.1% in 2006 (compared with a regional average of 5%).

Despite high levels of receipts from abroad, monetary policy successfully avoided a significant appreciation of the lempira. The exchange rate remained at 18.9 lempiras to the dollar in 2006 and experienced a slight annual appreciation in real terms (1%). The first quarter of 2007 saw a 2% appreciation as the exchange-rate value of the lempira remained stable while domestic inflation rose.

3. The main variables

(a) Economic activity

The expansionary cycle that had begun in 2004 intensified, with the economy growing by 6% in 2006 and per capita GDP expanding for the third year in a row (by 3.9%).

In an environment of abundant liquidity and low interest rates, growth was driven by domestic demand (up by 9%). Consumption grew quickly (8%), with private consumption fuelled by increasing family remittances. Private investment rose by 20%, which more than compensated the decline registered in 2005, while public investment dropped by 16% as government projects were postponed. External demand swelled by 4.8% following a slowdown in 2005.

All sectors, except construction, displayed healthy growth in 2006. One of the most dynamic was the banking and insurance sector, with growth of 11% thanks to the surge in lending to the private sector. Other sectors that contributed to growth were agriculture and mining. Two thirds of the agricultural expansion was due to a recovery in coffee growing, following the introduction of a mass production programme in the light of improved international prices. Mining also benefited from high prices, especially for zinc. Construction expanded by a

(c) Trade policy

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) entered into force in April 2006. Although the Agreement is an opportunity for export diversification and the entry of new foreign investment, it also carries some risk if machinery and equipment are not modernized to face increasing foreign competition.

In December 2006, guidelines were approved for negotiations to begin on the Association Agreement between the European Union and Central America from mid-2007. Honduras signed a free trade agreement with Panama and another with Taiwan province of China in the first half of 2007. The country is also in negotiations for a free trade agreement with Colombia, El Salvador and Guatemala, and trade negotiations are also under way with the Caribbean Community (CARICOM).

mere 2.5%, as delays in public works projects were only partially offset by buoyant private construction.

In the first quarter of 2007, the monthly index of economic activity⁷ rose by 7.9% on the back of booming private construction and the banking and insurance sector.

(b) Prices, wages and employment

Twelve-month inflation was 5.3% in 2006, which is the lowest level since 1988. This performance was facilitated by a stable nominal exchange rate and steady basic grain prices. In the first half of the year, another factor keeping prices in check was the fuel subsidy, while the second six months saw slower growth in oil prices. In May 2007, twelve-month inflation stood at 6.1%, due to increasing oil and maize prices from the end of 2006.

Nationwide open unemployment dropped from 4.5% in 2005 to 3.3% in 2006, while hidden underemployment fell from 33.1% in 2005 to 29.9% in 2006. The average daily minimum wage rose by 11% in January 2006, to give a monthly wage of US\$ 127 compared with the Latin American average of US\$ 206. During 2006, real minimum wages increased by 5.1%. In January 2007, the minimum wage rose by a further 11%.

⁷ This represents only 74% of GDP.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
	Annual growth rates^b								
Gross domestic product	2.9	-1.9	5.7	2.6	2.7	3.5	5.0	4.1	6.0
Per capita gross domestic product	0.7	-3.9	3.6	0.5	0.6	1.4	3.0	2.0	3.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-1.9	-8.5	11.7	-0.5	4.9	2.6	7.0	-0.3	8.1
Mining	3.7	5.4	1.7	-0.8	4.2	3.2	-2.3	4.0	7.7
Manufacturing	3.4	2.6	5.5	5.2	3.8	3.7	4.1	5.1	4.9
Electricity, gas and water	4.9	2.1	10.6	-1.8	5.6	10.1	6.4	12.8	7.3
Construction	5.3	10.5	1.5	-5.2	-14.2	13.8	-1.2	3.7	2.4
Wholesale and retail commerce, restaurants and hotels	3.1	0.7	3.7	3.0	2.9	3.1	4.7	4.9	5.7
Transport, storage and communications	2.7	1.7	5.0	5.3	3.5	3.7	5.3	6.3	5.8
Financial institutions, insurance, real estate and business services	7.2	0.8	2.6	3.4	2.8	2.7	3.7	6.8	8.1
Community, social and personal services	3.4	-0.9	10.5	11.0	6.9	1.3	6.2	5.3	6.8
Gross domestic product, by type of expenditure									
Consumption	5.7	0.4	7.9	5.3	4.8	3.4	4.3	7.6	8.0
General government	15.4	9.8	15.7	12.1	0.5	0.8	3.4	9.3	7.7
Private	4.5	-0.9	6.8	4.3	5.5	3.8	4.5	7.4	8.0
Gross domestic investment	1.9	8.1	-2.8	-3.8	-5.8	6.8	13.4	-3.0	12.4
Exports (goods and services)	1.6	-11.2	7.3	3.2	4.9	5.3	11.0	8.3	4.8
Imports (goods and services)	7.5	4.3	3.8	4.0	2.4	7.3	14.7	9.9	13.5
	Percentages of GDP								
Investment and saving^c									
Gross domestic investment	30.9	34.7	30.7	29.6	25.6	26.6	30.3	30.1	32.9
National saving	28.1	30.2	26.7	24.8	22.0	22.6	24.3	28.7	31.0
External saving	2.8	4.4	4.0	4.7	3.6	4.1	6.0	1.3	1.9
	Millions of dollars								
Balance of payments									
Current account balance	-148	-241	-243	-303	-237	-282	-456	-113	-179
Goods balance	-323	-753	-669	-834	-829	-945	-1256	-1489	-1993
Exports, f.o.b.	2048	1756	2012	1935	1977	2090	2421	2750	3043
Imports, f.o.b.	2371	2510	2680	2769	2806	3035	3677	4239	5037
Services trade balance	-70	-28	-188	-228	-184	-185	-214	-262	-417
Income balance	-204	-155	-133	-170	-193	-258	-359	-340	-287
Net current transfers	449	696	747	929	969	1106	1374	1979	2518
Capital and financial balance ^d	-8	53	189	302	301	55	829	330	450
Net foreign direct investment	99	237	282	193	176	247	325	372	385
Financial capital ^e	-107	-185	-93	109	125	-192	504	-42	65
Overall balance	-155	-188	-54	0	64	-227	373	217	271
Variation in reserve assets ^f	-230	-442	-119	-147	-214	88	-504	-372	-387
Other financing ^g	385	630	173	148	150	139	131	155	116
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	108.8	104.5	100.0	97.1	96.9	98.4	100.0	100.0	98.9
Terms of trade for goods (index: 2000=100)	108.9	107.5	100.0	94.8	92.0	88.0	87.2	87.2	83.2
Net resource transfer (millions of dollars)	173	528	228	280	258	-64	601	145	279
Gross external debt (millions of dollars)	4 369	4 691	4 711	4 757	4 922	5 242	5 912	5 082	3 832
Net profits and interest (percentage of exports) ⁱ	-8.4	-7.0	-5.3	-7.0	-7.7	-9.6	-11.6	-9.7	-7.6
	Average annual rates								
Employment									
Labour force participation rate ^j	52.9	55.7	...	52.5	51.7	50.0	50.6	50.9	50.7
Open unemployment rate ^k	3.5	3.5	...	4.1	3.9	5.3	5.9	4.5	3.3
Visible underemployment rate ^k	2.2	2.6	...	4.0	4.9	6.3	7.1	7.4	5.6
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	15.7	10.9	10.1	8.8	8.1	6.8	9.2	7.7	5.3
Variation in nominal exchange rate (December-December)	5.8	4.6	3.4	4.6	7.1	4.8	5.0	1.5	0.0
Variation in real minimum wage	1.8	-3.0	3.1	2.5	2.1	8.6	0.8	5.8	5.1
Nominal deposit rate ^l	18.6	19.4	15.9	14.5	13.7	11.5	11.1	10.9	9.3
Nominal lending rate ^m	30.6	30.2	26.8	23.8	22.7	20.8	19.9	18.8	17.4

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
	Percentages of GDP								
Central government									
Total income ⁿ	19.3	20.0	18.7	19.9	19.4	19.6	20.3	20.5	21.2
Current income	18.7	19.4	17.7	18.2	18.3	18.5	19.2	19.1	19.5
Tax income	17.0	17.7	16.4	16.2	15.9	16.3	17.1	16.9	17.9
Capital income	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.0
Total expenditure ^o	20.4	23.6	23.7	25.1	24.2	25.0	23.1	23.1	22.5
Current expenditure	14.3	15.5	16.4	17.4	18.0	19.0	17.2	17.8	18.8
Interest ^p	2.8	2.2	1.6	1.1	1.0	1.0	1.0	1.0	1.0
Capital expenditure ^o	5.8	7.8	7.3	7.6	6.2	6.0	6.0	5.2	3.8
Primary balance	1.7	-1.4	-3.3	-4.2	-3.7	-4.6	-2.0	-1.5	-0.3
Overall balance	-1.1	-3.6	-4.9	-5.3	-4.8	-5.6	-3.1	-2.6	-1.3
Public sector debt									
Domestic	...	...	66.3	64.5	66.3	72.0	70.1	52.0	33.6
External	...	...	4.3	4.6	4.6	7.5	5.4	4.4	3.9
Overall	...	...	62.0	59.9	61.6	64.5	64.7	47.6	29.8
Money and credit^q									
Domestic credit ^r	...	...	...	...	27.0	28.7	30.5	29.6	33.8
To the public sector	...	...	...	...	-11.8	-9.9	-8.0	-9.1	-8.8
To the private sector	...	...	...	...	38.8	38.6	38.5	38.7	42.6
Liquidity (M3)	...	...	...	...	27.0	28.7	30.5	29.6	33.8
Currency outside banks and local-currency deposits (M2)	...	...	...	...	-11.8	-9.9	-8.0	-9.1	-8.8
Foreign-currency deposits	...	...	...	...	38.8	38.6	38.5	38.7	42.6

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1978 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Percentage of the economically active population; nationwide total. ^l Weighted average rate on time deposits. ^m Weighted average rate on loans. ⁿ Includes grants and recovery of interest. ^o Includes net lending. ^p Central bank figures consider interest on public debt on an accrual basis. ^q The monetary figures are annual averages. ^r Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

(c) The external sector

The balance-of-payments current account deficit stood at 1.9% of GDP (1.4% in 2005), reflecting two opposing movements: a deficit on goods and non-factor and factor services (29.3% of GDP) and a surplus on current transfers (27.1% of GDP), mainly family remittances, which offset that deficit almost entirely.

Merchandise export growth of around 11% was slower than the 14% observed the previous year. Only 6.4 percentage points of the growth in export values corresponded to an increase in volume. This slowdown is partly due to an uncompetitive real exchange rate. Imports, on the other hand, continued to grow by around 19%. The terms of trade declined by more than 4%, thereby continuing the downward trend of the current decade. In the first quarter of 2007, imports continued to soar while exports stood still.

For the third consecutive year, the growth of merchandise exports was driven by buoyant sales of traditional products (19% growth in 2006). Coffee, bananas, zinc, wood and sugar (in that order) were the five main contributors to the total value of exports. A particularly strong performance was turned in by exports of zinc (up

by 133%, almost entirely thanks to price effects) and coffee (up by 21%, exclusively due to volume). External sales of banana stagnated, with volumes reduced by the effects of the tropical storm Beta in late 2005.

Non-traditional exports grew by 7% in 2006. There was a considerable rise in shrimp sales (18%), while lobster sales were down for the second year in a row due to lower export volumes. The value added recorded by the maquila industry came to US\$ 1.062 billion. The maquila sector grew by 9.6% in 2006, which was lower than the average growth rate of 16.5% recorded during the period 2003-2005. The maquila industry has felt the effects of competition from Asian countries and the appreciation of the lempira. In 2006, Honduras exported 143.5 million dozens of garments to the United States market, which is 4% less than in 2005 according to the Honduran Manufacturing Industry Association.

Merchandise imports continued their steady expansion of recent years, and they accounted for 60% of GDP in 2006 (compared with 47% in 2003). This is partly due to the hefty oil bill resulting from higher prices for petroleum and its derivatives. In four years, the oil bill has doubled to represent 11.8% of GDP in 2006. Another contributing factor is the strong rise in imports of consumer goods,

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars) ^b	448	504	374	390	507	538	442	442	519	...
Goods imports, c.i.f. (millions of dollars)	1 010	1 143	1 148	1 237	1 177	1 350	1 381	1 510	1 539	...
International reserve assets (millions of dollars) ^c	2 068	2 161	2 179	2 330	2 569	2 704	2 572	2 633	2 637	...
Real effective exchange rate (index: 2000=100) ^d	101.3	100.4	99.3	99.0	98.8	99.1	98.9	98.2	97.3	97.8
Consumer prices (12-month percentage variation)	9.5	9.0	9.3	7.7	6.2	5.7	4.5	5.3	6.3	6.2
Average nominal exchange rate (lempiras per dollar)	18.71	18.84	18.86	18.88	18.89	18.90	18.90	18.90	18.90	18.90
Nominal interest rates (annualized percentages)										
Deposit rate ^e	11.0	11.0	10.9	10.8	10.6	9.8	8.8	8.1	7.8	7.6
Lending rate ^f	19.3	19.0	18.6	18.5	18.3	17.8	17.1	16.6	17.0	16.7 ^g
Interbank interest rate	7.5	7.5	7.5	7.2	6.9	5.5	5.2	5.6	5.3	5.3 ^h
Domestic credit (variation from same quarter of preceding year) ⁱ	9.3	9.9	13.5	21.2	22.9	26.4	30.9	32.7	41.3	41.3 ^h
Non-performing loans as a percentage of total credit ^j	8.6	8.1	8.1	7.4	7.4	7.3	6.8	5.4	6.0 ^g	... ^k

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

^a Preliminary figures. ^b Does not include maquila activities. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Weighted average rate on time deposits. ^f Weighted average rate on loans. ^g Data to April. ^h Data to May. ⁱ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^j Refers to total credit extended by the banking system. ^k Data to February.

driven by family remittances. Imports of raw materials were also buoyant, with construction materials benefiting from the boom in private construction. Imports of capital goods picked up following the decline in 2005, thanks to a surge in machinery and equipment purchases for agriculture and transport.

Non-factor services posted a deficit of US\$ 417 million, which was 59% wider than in 2005. This was attributable to higher payments for transport and other services, not including tourism. In 2006, income from tourism was at similar levels to 2005. Even though the number of visitors was up by 5% compared with 2005, spending per visitor dropped from US\$ 690 to US\$ 660, owing to a reduction in the number of visitors from outside Central America. Nevertheless, the outlook for the tourist industry remains positive. In November 2006, the Law of a Free Zone for Tourism in the Department of Bay Islands was adopted. This initiative will allow for the introduction of tax- and duty-free goods and services into the area.

The income balance fell for the second year running, this time from US\$ 340 million in 2005 to US\$ 287 million in 2006. There were net profit remittances of US\$ 353 million and net interest payments of US\$ 58.5 million, with the remainder of the balance corresponding to employee wages.

The US\$ 53 million reduction in factor payments was due to interest payments. Between 2005 and 2006, interest payments fell by US\$ 11.8 million due to cancellation of

the external debt, but also because the country received US\$ 73.5 million more in interest payments. As for profit remittances from foreign enterprises, they increased by US\$ 32 million between 2005 and 2006.

Current transfers (mainly in the form of family remittances) helped to offset the factor and non-factor services deficit. In 2006, family remittances amounted to US\$ 2.414 billion, with annual growth of 35% (56% in 2005). In the first four months of 2007, the growth rate slowed to 16%, and income from family remittances in 2007 is expected to be similar to that of 2006. This is the result of factors such as unemployment and lower salaries among Honduran emigrants working in the troubled construction industry of the United States. In 2006, family remittances represented the equivalent of 62% of total external sales.

Net inflows to the capital and financial account stood at US\$ 450 million (US\$ 330 million in 2005), as a result of the upturn in financial capital (from a negative result of US\$ 42 million in 2005 to a positive figure of US\$ 65 million in 2006). Foreign direct investment (FDI) amounted to US\$ 385 million 2006, which is similar to the year-earlier period. FDI was mainly channelled into the communications and transport sectors and maquila enterprises. International reserves swelled for the third year running, this time by US\$ 387 million. Given the extraordinary financing of US\$ 116 million, the overall balance closed at US\$ 271 million.

Mexico

1. General trends

The Mexican economy posted growth of 4.8%, with all the components of aggregate demand rising strongly in the first three quarters, although this trend weakened towards the end of the year. Consumption was up by 5.1%, fixed investment by 10% and exports by 11.1%, all driven by the motor vehicle sector, which contributed to the largest expansion in employment in the last six years and helped to narrow the balance-of-payments current account deficit (0.2% of GDP).

Domestic demand received impetus from growth in credit to the private sector, migrant remittances and the upturn in employment. The high petroleum price contributed to the fiscal surplus (0.1% of GDP), despite increased spending on infrastructure works and on the presidential, legislative and state elections. The close presidential elections and the difficult period that followed generated only a minor financial volatility towards mid-year, with no major repercussions on economic activity or the real exchange rate.

The gradual slowdown that began to be felt as the year progressed carried over into 2007, owing to slacker

growth in the United States' economy. At 2.6%, GDP growth in the first quarter of 2007 fell well short of the 5.5% recorded a year earlier. For the year overall, GDP growth will be about 3% and will be driven by domestic demand, which will continue to be spurred by remittances and credit. Inflation will come in at around 4% and the fiscal accounts will be close to balance. In the last few months, concern has mounted over law and order, particularly owing to organized crime, in certain parts of the country and the economic authorities have singled this out as a factor that could limit investment and constrain economic growth.

2. Economic policy

(a) Fiscal policy

The fiscal position benefited from the high price for petroleum and the public sector posted a surplus equivalent to 0.1% of GDP. Public revenues rose by 12.1% in real terms and contributed 24.7% of output, thanks to an increase in tax receipts (especially VAT and income tax) and larger revenues from petroleum and from non-petroleum agencies and enterprises. Non-oil tax revenues were up by 13.1% and represented 41% of public income. Petroleum revenues rose

by 14.3% and accounted for 38% of public income, which was the highest proportion since 1987. In 2006 Mexico's oil mix fetched an average price of US\$ 53.10 per barrel, or US\$ 21.60 more than the figure projected at the start of the year. The national budget for 2007 was based on a price per barrel of US\$ 42.50. Although the wider economy is not particularly dependent on oil, the fiscal position is. Hence, Mexico needs to reduce the reliance of its public revenues on oil income, in a way that is consistent with the objective of widening its narrow tax base (9.7% of GDP).

The higher-than-expected revenues facilitated a 11.1% real increase in public spending, which was 15% higher than envisaged. Much of this spending went to personal services, which increased 5.5% owing, in turn, to wage rises in State-owned enterprises. Physical investment rose by 12.6% and went mainly to the electricity and educational services sectors, hydraulic infrastructure and the provision of resources to states and municipalities. Operating expenditure, which includes payments corresponding to long-term production infrastructure projects, as well as health services, education programmes and election-related outlays, rose by 12.1%.

Two notable developments took place with regard to tax legislation: (i) the entry into force of a new tax regime for the State oil company, PEMEX, aimed at reducing the firm's tax burden so as to free up resources for investment in exploration and development; and (ii) approval of a law on budget and fiscal responsibility, which provides for measures aimed at reaching a fiscal balance and contains a formula for determining the price of oil for budgetary purposes, as well as rules for the allocation of surplus income. The law also establishes adjustment mechanisms in the event that either the oil- or non-oil component of income drops below the budgeted level and provides deadlines for the approval of the annual fiscal budget, which must be concluded no later than 20 October each year.

Tax receipts should continue to rise in 2007 as a result of amendments to income tax and VAT provisions in the federal revenue law. On the spending side, changes to the legislation governing the Social Security and Social Service Institute for State Workers (ISSSTE) will lead to an increase in State outlays on staff costs. Together, the rise in spending and the simultaneous drops in the oil price and the rate of economic activity could push public finances into the red, which, under the law on budget and fiscal responsibility, would oblige the authorities to adjust spending in order to avoid slipping further into deficit thereby accentuating the economic slowdown. A procyclical sequence such as this occurred in 2006, when strong growth in public spending helped to spur the expansion of output.

(b) Monetary policy

Monetary policy continued to be aimed at keeping inflation at around 3%. One of the two main instruments of monetary policy is the "corto" (a compulsory level of commercial bank balances in the central bank), which was last raised to 79 million pesos per day in March 2005. The other instrument is the setting of minimum rates of interest, which the Banco de México uses to send clear signals to the markets on its desired monetary position. Thanks

to global financial stability and the control of inflation in the first few months of the year, the "corto" was kept unchanged and the monetary stance was maintained after a slight easing between January and April 2006, when the central bank set the anchor rate at 7%. In April 2007 this rate was raised to 7.25% to counteract inflationary pressure which could, in principle, worsen the slowdown in production, although the nominal benchmark lending rate decreased from 8.6% at the end of 2005 to 7.5% in 2006, where it remained in the first quarter of 2007, in keeping with the broad framework of monetary policy.

The money supply swelled by 12.4% in real terms, while cash outside banks increased by 11.6%. This, like other variables seen previously, is evidence of the effects of the remonetization process. The decline in interest rates starting in the second half of 2005 helped to fuel expansion of M1 and other monetary aggregates, and this effect continued up to mid-2007. Financial saving by residents (M2) registered double-digit growth, associated mainly with investment in government securities. Saving by non-residents (M3) grew even more strongly (28.5% in 2006 and 13.9% in the first quarter of 2007) and was channelled mainly into long-term government securities.

Credit continued to be widely available from commercial banks and other lending institutions in 2006. Such financing expanded by 18.4% in real terms; within this category, consumer lending was the fastest-growing, with an increase of 33.3%. Mortgage lending was up by 11.9%, fuelled by commercial banks and non-bank agencies and by the resumption of State home-finance loans to workers, through the National Housing Fund for Workers Institute (Instituto del Fondo Nacional de la Vivienda para los Trabajadores) and the Housing Fund (Fondo de la Vivienda). Corporate lending expanded by 20.1% in 2006, but represented only 4.3% of total commercial bank lending and 0.6% of GDP. Most of these loans went to services and commerce and the majority of small firms lacked access to credit. The commercial banks' non-performing loans index rose to reach 5% at the start of 2007.

(c) Exchange-rate policy

Mexico's foreign-exchange policy has been based on a floating exchange-rate regime since the end of 1994. The foreign-exchange market experienced periods of volatility in 2006, associated to some extent with the domestic political context. Before the elections, the exchange rate reached 11.5 pesos to the dollar, but returned to its previous levels of around 11 pesos afterwards. In 2006 the nominal rate remained practically unchanged from the 2005 average (10.9 pesos to the dollar), but in the early months of 2007 it registered some episodes of volatility and depreciation that

took it to over 11 pesos to the dollar. In real terms, the peso appreciated by 0.4% against the dollar in 2006, owing to demand for pesos driven by remittances, foreign investment and hydrocarbons exports. The peso registered a cumulative appreciation of around 5% between 2005 and mid-2007.

The Banco de México continued to take measures to reduce the build-up of international reserves. In 2006 it auctioned US\$ 8.062 billion, or an average of US\$ 32

million daily. In 2006 international reserves were down by US\$ 989 million and the balance stood at US\$ 67.680 billion at the end of the year. Reflecting the drop in these reserves, the average sum auctioned daily in 2007 has decreased to US\$ 23 million and the level in May was close to US\$ 70 billion. As in 2006, international reserves will build up more slowly than in previous years because of the slowdown in exports.

3. The main variables

(a) Economic activity

Economic growth was spurred by increases in both domestic and external demand (5.4%, the highest figure since 2000, and 11.1%, respectively). Total consumption increased by 5.1%. Unlike in previous years, public consumption grew faster than private (6% and 5%, respectively), owing to spending incurred by the previous administration, including elections-related expenditures. Private consumption benefited from the availability of commercial bank funds, an upturn in employment, a real rise in wages and remittances from emigrants. In 2007 private consumption will continue to fuel the economy, although less powerfully than in 2006, with GDP growing by around 3% over the year.

Gross fixed capital formation posted the highest rate of expansion for six years (10%) and represented close to 22% of GDP. Public investment reflected efforts to conclude infrastructure and reconstruction work after the damage caused by Hurricanes Wilma and Stan in late 2005. Much of the growth in private investment came from the restructuring of productive capacity, especially in the motor vehicle sector, which fuelled imports of capital goods. Investment in construction was up by 6.9%, led by activities in the housing sector. With regard to external demand, exports of goods and services posted an upturn in the first half of 2006, but slowed in the second half of the year and up to mid-2007.

After contracting in 2005, agriculture expanded by 4.8% in 2006 (the highest figure since 1990) thanks to favourable weather conditions, especially in the spring-summer season. By contrast, in the early months of 2007 the sector's performance was somewhat less dynamic.

The construction sector turned in its highest growth rate since 1997, thanks to the building of housing, schools, offices and plants, as well as infrastructure works. Like other branches of activity, in late 2006 the sector entered a slowdown that has lasted throughout 2007, with a decline of 2.1% at the end of the first quarter.

Manufacturing returned the highest growth rate for six years (4.7%), as a result of activities driven by external demand (automobiles and autoparts, machinery and electronic apparatus and optical and medical equipment), whose combined output went up by 10% in 2006. The automobile sector expanded significantly (albeit decreasingly as the year went on) owing to investment in modernizing production lines and making new models, mainly for export to the United States. The number of units manufactured for export jumped 27.9%, while those made for the domestic market rose by 4.1%. Domestic sales of motor vehicles increased by 0.7%, after a decline of 3.3% in 2005.

The export sectors driving manufacturing began to gradually lose momentum in the second half of the year and posted a sharp 3.1% drop in the first quarter of 2007 as external demand shrank. This, together with the loss of buoyancy in the food and beverages segment, contributed to the manufacturing industry's 0.1% contraction in the first quarter of 2007. The textile and timber industries also continued to show a downward trend.

The expansion of services was led by transport, storage and communications (9.1%), followed by banking and financial services (8.5% and 5.4%, respectively). The performance of services was influenced by growth in the rest of the economy and by spending on communications associated with the 2006 elections, as well as the expansion of telecommunications, the upturn in consumption and investment in hotels in the country's south-east.

(b) Prices, wages and employment

Inflation trended downwards in the first quarter of 2006 and then began to climb in August, which translated into an average of 4.1% for the year overall, slightly above the target set by the Banco de México. Price movements reflected the weather conditions affecting the subindex of agricultural products and rising prices for metals and

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
	Annual growth rates^b								
Gross domestic product	4.9	3.9	6.6	-0.2	0.8	1.4	4.2	2.8	4.8
Per capita gross domestic product	3.1	2.2	5.2	-1.2	0.0	0.6	3.4	1.9	3.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.8	3.6	0.6	3.5	0.1	3.1	3.5	-2.1	4.8
Mining	2.7	-2.1	3.8	1.5	0.4	3.7	3.4	2.1	2.2
Manufacturing	7.4	4.2	6.9	-3.8	-0.7	-1.3	4.0	1.4	4.7
Electricity, gas and water	1.9	15.8	3.0	2.3	1.0	1.5	2.8	1.7	5.0
Construction	4.2	5.0	4.2	-5.7	2.1	3.3	6.1	3.3	6.9
Wholesale and retail commerce, restaurants and hotels	5.6	3.1	12.2	-1.2	0.0	1.5	5.5	2.7	3.7
Transport, storage and communications	6.7	7.8	9.1	3.8	1.8	5.0	9.2	7.1	9.1
Financial institutions, insurance, real estate and business services	4.6	3.6	5.5	4.5	4.2	3.9	3.9	5.8	5.4
Community, social and personal services	2.9	2.1	2.9	-0.3	0.9	-0.6	0.6	1.8	2.8
Gross domestic product, by type of expenditure									
Consumption	5.0	4.4	7.4	1.9	1.4	2.1	3.6	4.6	5.1
General government	2.3	4.7	2.4	-2.0	-0.3	0.8	-0.4	0.4	6.0
Private	5.4	4.3	8.2	2.5	1.6	2.2	4.1	5.1	5.0
Gross fixed capital formation	10.3	7.7	11.4	-5.6	-0.6	0.4	7.5	7.6	10.0
Exports (goods and services)	12.2	12.3	16.3	-3.6	1.4	2.7	11.6	7.1	11.1
Imports (goods and services)	16.6	14.1	21.5	-1.6	1.5	0.7	11.6	8.6	12.2
	Percentages of GDP								
Investment and saving^c									
Gross domestic investment	24.3	23.5	23.8	20.8	20.6	20.5	22.0	21.8	21.9
National saving	20.5	20.6	20.6	18.0	18.4	19.1	21.1	21.1	21.7
External saving	3.8	2.9	3.2	2.8	2.2	1.4	1.0	0.6	0.2
	Millions of dollars								
Balance of payments									
Current account balance	-15 993	-13 949	-18 683	-17 683	-14 109	-8 820	-6 691	-4 908	-1 853
Goods balance	-7 834	-5 613	-8 337	-9 617	-7 633	-5 779	-8 811	-7 587	-6 133
Exports, f.o.b.	117 539	136 362	166 121	158 780	161 046	164 766	187 999	214 233	249 997
Imports, f.o.b.	125 373	141 975	174 458	168 396	168 679	170 546	196 810	221 820	256 130
Services trade balance	-905	-1 799	-2 323	-3 558	-4 048	-4 601	-4 607	-4 713	-6 027
Income balance	-13 266	-12 851	-15 017	-13 847	-12 696	-12 298	-10 316	-13 093	-13 161
Net current transfers	6 012	6 313	6 994	9 338	10 268	13 858	17 044	20 484	23 468
Capital and financial balance ^d	19 203	18 226	25 793	25 008	21 198	18 258	10 749	12 073	850
Net foreign direct investment	12 409	13 712	17 789	23 045	18 472	14 087	17 964	13 262	13 279
Financial capital ^e	6 794	4 514	8 004	1 963	2 726	4 172	-7 215	-1 189	-12 429
Overall balance	3 210	4 277	7 110	7 325	7 090	9 438	4 058	7 164	-1 003
Variation in reserve assets ^f	-2 138	-592	-2 824	-7 325	-7 090	-9 438	-4 058	-7 164	1 003
Other financing ^g	-1 072	-3 685	-4 286	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	119.1	108.9	100.0	93.5	92.9	104.5	109.4	106.0	106.4
Terms of trade for goods (index: 2000=100)	90.6	99.3	100.0	97.4	97.9	98.8	101.6	103.6	104.1
Net resource transfer (billions of dollars)	4.9	1.7	6.5	11.2	8.5	6.0	0.4	-1.0	-12.3
Total gross external debt (billions of dollars)	160	166	149	145	135	132	131	128	117
Net profits and interest (percentage of exports) ⁱ	-10.3	-8.7	-8.4	-8.1	-7.3	-6.9	-5.1	-5.7	-4.9
	Average annual rates								
Employment									
Labour force participation rate ^j	59.1	58.3	58.7	58.1	57.8	58.3	58.9	59.5	60.7
Open unemployment rate ^k	4.7	3.7	3.4	3.6	3.9	4.6	5.3	4.7	4.6
Visible underemployment rate ^k	...	...	...	...	...	...	...	7.5	6.9
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	18.6	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.1
Variation in the national producer price index (December-December)	17.5	12.5	6.4	1.3	9.2	6.8	8.0	3.4	7.3
Variation in nominal exchange rate (December-December)	22.9	-4.0	1.2	-4.8	13.2	8.3	-0.7	-4.6	1.7
Variation in average real wage	2.8	1.5	6.0	6.7	1.9	1.4	0.3	-0.3	0.4
Nominal deposit rate ^l	22.4	20.9	14.6	11.0	6.2	5.1	5.4	7.6	6.1
Nominal lending rate ^m	26.4	23.7	16.9	12.8	8.2	6.9	7.2	9.9	7.5

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Public sector									
Total income	20.4	20.8	21.6	21.9	22.1	23.2	23.0	23.3	24.7
Tax income	3.7	3.3	5.2	4.9	4.2	5.3	6.5	7.2	7.3
Total expenditure ⁿ	21.6	22.0	22.7	22.6	23.3	23.9	23.2	23.4	24.6
Current expenditure	12.4	12.5	13.0	13.3	13.8	14.6	13.6	14.0	14.5
Interest ^o	2.6	3.1	2.6	2.6	2.1	2.3	2.1	2.2	2.3
Capital expenditure	3.1	2.8	2.7	2.6	3.2	3.0	3.5	3.4	3.7
Primary balance	1.7	2.5	2.6	2.6	1.7	2.1	2.5	2.4	2.9
Overall balance ^p	-1.2	-1.1	-1.1	-0.7	-1.2	-0.6	-0.2	-0.1	0.1
Public-sector debt	34.2	31.0	27.7	26.5	28.1	28.6	26.9	25.3	25.5
Domestic ^q	10.6	11.9	13.0	13.8	15.2	15.8	15.3	16.0	19.0
External	23.7	19.1	14.7	12.6	13.0	12.9	11.6	9.2	6.5
Money and credit^r									
Domestic credit ^s	47.0	44.1	41.4	40.9	40.1	39.1	36.1	34.8	34.4
To the public sector	12.5	11.6	11.3	11.3	11.4	11.5	10.3	10.3	9.0
To the private sector	22.2	19.0	16.7	16.3	14.1	14.9	14.0	14.6	16.4
Others	12.4	13.5	13.4	13.3	14.6	12.4	11.5	9.8	9.1
Liquidity (M3)	38.1	40.2	40.1	43.4	45.4	46.1	46.4	49.0	51.4
Currency outside banks and local-currency deposits (M2)	36.8	38.8	38.7	42.0	43.8	44.7	45.0	47.6	49.8
Foreign-currency deposits	1.3	1.4	1.4	1.5	1.6	1.4	1.4	1.4	1.6

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1993 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, urban areas. ^k Percentage of the economically active population, urban areas. ^l Cost of term deposits in local currency in the multibanking system. ^m Lending rate published by IMF. ⁿ Includes non-budgeted expenditure. ^o Corresponds to interest, fees and expenditures of the public-sector. ^p Includes the non-budgetary balance. ^q Federal government domestic debt. ^r The monetary figures are annual averages. ^s Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

petroleum on international markets. The increase in the prices of sugar, tortillas, milk and gasoline in the second semester was an influential factor that continued to affect price stability in 2007.

Core inflation¹ reached 3.6% in 2006, which was largely a reflection of higher prices for building materials. The price of processed foods was strongly influenced by increases of 13.8% in the price of tortillas and 31.9% in the price of sugar. Non-core inflation (5%)² reflected higher prices for crop-farming products (tomatoes and onions) and for poultry and eggs, driven in the latter case by a hike in the price of maize.

Up to May 2007 inflation registered an increase of 3.9% in annualized terms, which was the result of a steady climb in the prices of imported maize and other grains, including both bioenergy crops and foods for animal consumption.³ All this led to high prices for meat in the first half of the year, which pushed up inflation in general.

The buoyancy in exports and in motor vehicle production helped to boost job creation. Nevertheless the nationwide rate of open unemployment remained practically unchanged from its 2005 level, at an average of 3.6% of the economically active population (EAP) for the year as a whole. The slowdown in economic growth in the first semester of 2007 pushed this rate up to 4%, however. Almost 12 million people, or the equivalent of 26.9% of the employed population, now work in the informal sector.

A noteworthy feature of job creation in 2006 was the increase in the number of workers registered with the Mexican Social Security Institute (IMSS)—to 13.7 million in 2006 and 14.3 million in the first quarter of 2007—in a continuation of a trend that has been in evidence since 2005. Also of note is the fact that seasonal workers have become the fastest-growing category among formal workers and now account for almost 20% of IMSS affiliates. Services

¹ Core inflation covers merchandise (processed food, beverages and tobacco) and services (housing and others).

² Non-core inflation covers agricultural products (fruits and vegetables, meat and eggs); controlled goods and services; and education.

³ In the case of maize tortillas, for the first time since the end of the 1980s, the government was forced to broker the signature of an agreement between the maize sellers and the tortilla manufacturers in order to ensure a sufficient supply at the maximum prices allowed.

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	2.4	3.2	3.1	2.5	5.5	4.9	4.5	4.3	2.6	...
Goods exports, f.o.b. (millions of dollars)	46 895	53 977	54 183	59 178	58 852	63 813	63 160	64 171	60 142	67 770
Goods imports, f.o.b. (millions of dollars)	48 772	54 655	55 871	62 521	58 119	63 965	65 783	68 263	62 782	70 172
International reserve assets (millions of dollars) ^c	64 110	65 602	69 981	74 110	76 024	84 945	83 454	76 330	75 851	...
Real effective exchange rate (index: 2000=100) ^d	108.9	106.9	104.7	103.5	102.1	110.1	107.5	104.8	105.8	107.1
Unemployment rate	5.1	4.7	5.1	4.1	4.5	4.3	5.1	4.7	5.1	4.5
Consumer prices (12-month percentage variation)	4.4	4.3	3.5	3.3	3.4	3.2	4.1	4.1	4.2	4.0
Average nominal exchange rate (pesos per dollar)	11.18	10.96	10.72	10.71	10.60	11.18	10.95	10.89	11.02	10.88
Average real wage (variation from same quarter of preceding year)	-0.1	-0.1	-0.7	0.2	0.7	0.7	1.0	-1.0	0.1	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	7.2	7.9	8.0	7.4	6.6	6.1	5.8	5.8	5.8	5.9
Lending rate ^f	9.4	10.0	10.1	10.1	7.9	7.3	7.3	7.4	7.4	7.3 ^g
Interbank rate	9.4	10.0	9.9	9.1	8.0	7.4	7.3	7.3	7.4	7.6
Sovereign bond spread (basis points) ^h	179.5	168.3	136.3	126.4	126.6	138.0	121.0	98.0	97.0	95.0
Stock price index (national index to end of period, 31 December 2000 = 100)	224.3	238.6	285.2	315.0	341.0	338.8	388.1	467.9	508.6	551.1
Domestic credit (variation from same quarter of preceding year) ⁱ	3.3	5.5	4.3	3.8	8.6	7.7	8.6	15.6	11.2	11.6 ^g
Non-performing loans as a percentage of total credit ^j	2.4	2.3	2.0	1.8	1.7	1.8	...	...	...	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1993 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Cost of term deposits in local currency in the multibanking system. ^f Lending rate published by IMF. ^g Data to April. ^h Measured by J.P.Morgan's EMBI+ index. ⁱ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^j Refers to total credit extended by the multibanking system.

and construction continue to be the strongest generators of formal employment, with growth rates of 6.6% and 8.3%, respectively. Manufacturing employment was up by 4.1% after three straight years of contraction, while the number of workers employed in the maquila industry rose by 2.9%, the smallest increase since the sector began to regain ground in 2004.

Labour productivity in the manufacturing sector rose by 3.5% in 2006 (1.4 percentage points less than in 2005) but this indicator has been declining in recent months in the context of the slowdown observed since the second semester of 2006. Real average wages rose 0.4% in 2006 and the combination of the two factors translated into a 3.0% decline in unit labour costs. With production slowing, in February 2007 manufacturing productivity posted a contraction of 1.4%, while real average wages stood still and the unit labour costs rose 1.6%.

(c) The external sector

External trade exhibited a buoyancy not seen since 2000. This performance was driven by petroleum exports, boosted by high oil prices, the upturn in exports of automobiles and autoparts and the restructuring of large segments of productive capacity, which drove demand for imported goods, especially capital goods. As regards the current account, remittances continued to rise, although more slowly owing to the loss of momentum in the United States' economy; this slowdown was felt particularly strongly in the construction sector, which employs many of Mexico's emigrants.

The balance-of-payments registered one of the smallest current account deficits since 1995, both in absolute terms and as a percentage of GDP (US\$ 1.853 billion and 0.2% of GDP), thanks to inflows of foreign-exchange earnings from

petroleum and migrant remittances. Both exports and imports surged by over 16% in the first three quarters of 2006, but this rate began to fall in the fourth quarter and continued to decrease up to mid-2007, to reach less than 10%.

The deficit on the goods trade balance decreased from US\$ 7.587 billion in 2005 to US\$ 6.133 billion in 2006. This reduction was the result of a widening of the deficit on the non-petroleum balance, from less than US\$ 30 billion to over US\$ 33 billion, or almost 4% of GDP, offset by an increase in the surplus generated by trade in petroleum, which rose from just over US\$ 22 billion to US\$ 27 billion.⁴

The value of goods exports rose by 16.7% in 2006, owing mainly to sales of oil, which were up by 22.4% and represented 15.6% of the total, while manufacturing exports rose 15.8% and represented 81.1%. Worthy of note among these was the strong growth registered in the exports by the mining and metallurgy sector (73.3%), the motor vehicle industry (21.2%) and the sectors of foods and beverages (21%) and motor vehicle parts and accessories (18.3%). In the first quarter of 2007 good exports declined by 2.2%, steepening the trend that began in the last quarter of 2006.

Imports expanded at a slightly lower rate than exports (15.5%), reflecting a similar growth rate for imports of manufactures (15.1%), which account for 89% of external purchases. The largest jump was seen in consumer

goods (17.3%), followed by capital goods (16.4%) and intermediate goods (15%). In 2007 import growth has slowed considerably.

The transfers account, which consists mainly of remittances sent by Mexicans residing abroad, continued to perform well, with a balance of US\$ 23.468 billion in 2006, representing an expansion of 14.6%. Although this was a lower rate than in 2005, remittances exceeded both the oil trade surplus and net FDI which, as it happened, decreased sharply in the first few months of 2007.

The financial account registered a surplus of US\$ 378 million, which was the lowest for 17 years, owing mainly to smaller portfolio investment flows than the previous year's combined with higher public sector borrowing. FDI was US\$ 19.037 billion, which was slightly less than the amount recorded in 2005 (US\$ 19.736 billion). Outward direct investment behaved in a similar fashion, since it was 11% down on the previous year at US\$ 5.758 billion. As a result, net foreign investment varied little from the 2005 figure and came in at US\$ 13.279 billion. FDI in Mexico came from the United States (64% of the total), the Netherlands (7.9%), France (4.8%) and the United Kingdom (15.4%), while Mexican investment went mainly to Latin America. In 2007 gross FDI inflows are expected to be about US\$ 16 billion.

⁴ Petroleum imports consist of gasoline, gasoil and liquefied petroleum gas.

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Nicaragua

1. General trends

Economic growth slowed slightly in 2006: GDP expanded by 3.7%, as exports rose and domestic demand lost some of its momentum.

Economic performance was affected by the uncertainty surrounding the elections that led to the swearing in of President Ortega and his administration. Also, hikes in international oil prices aggravated the problems of the energy sector and worsened the terms of trade. The low level of rainfall caused by the “El Niño” phenomenon had adverse effects on crop production and contributed to high inflation (9.4% compared with 9.6% in 2005).

The nationwide open unemployment rate fell from 5.6% in 2005 to 5.2% in 2006, while real wages rose by 3.6%, led by increases for public sector workers. However, levels of underemployment and participation in the informal market remained high (33.3% and 63.3%, respectively).

The framework for economic policy was the programme agreed with IMF in December 2002. The fiscal deficit (not including grants) narrowed from 4.5% to 3.6%, thereby facilitating the achievement of monetary policy objectives. The balance-of-payments current-account deficit (16.1% of GDP) widened by almost one percentage point, mainly due to the larger merchandise trade gap.

However, greater net capital inflows were sufficient to finance the external imbalance and boost net international reserves. Also, the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI) made it possible to reduce external public debt from 110% of GDP to 85%, while debt servicing fell to just 6% of the value of exports. This improved the perception of country risk on the part of international investors.

According to the central bank, GDP will grow by 4.2% in 2007. This is higher than the 3.3% average growth rate recorded over the last five years. Despite

the prospect of slower economic and trade expansion for the country’s main trading partners, the external environment remains generally favourable to Nicaraguan exports. The positive effects on trade and investment resulting from the entry into force of the Dominican Republic—Central America—United States Free Trade Agreement (CAFTA-DR) are also significant in this regard. These factors are expected to combine with an upturn in domestic demand thanks to productive credit and an upswing in investment. The economic growth rate could be increased if the country adopts a tax reform seeking to reduce the high levels of tax exemptions. The central bank predicts that inflation will fall by over two percentage points (to 7%), as the pressures of imported inflation and exchange-rate depreciation (5%) should be offset by a narrower fiscal deficit, austerity and increased efficiency in terms of public spending, and a sensible wage policy. In the external sector, the current-account deficit is expected to remain more or less constant (16% of GDP). Although the growth rate of family remittances is expected to slow down, they will remain key in maintaining economic stability. Loans on concessional terms and resources that have become available following the cancellation of external debt and foreign direct investment (FDI) will be used to finance the balance-of-payments current-account deficit and to build up net international reserves.

The new administration intends to consolidate the achievements made to date in terms of macroeconomic stability, improve the investment climate and begin arrangements to ensure the continuity of external financing. In this context, the government began negotiations for a new three-year agreement with IMF.

2. Economic policy

The main aims of monetary policy were to ensure macroeconomic stability, promote economic growth and step up the economic reforms agreed with IMF. Stability and the increase in international reserves were considered essential in strengthening confidence in the exchange-rate regime, which in turn had significant effects on price setting. At the same time, the situation was conducive to a stable local currency and normal internal and external payments. Furthermore, improvements were recorded in certain vulnerability indicators, such as coverage of the monetary base and of imports. Fiscal policy was designed to support the implementation of monetary policy objectives. Thus, reserves swelled thanks to measures adopted to narrow the deficit and greater external financing.

The new administration showed its support for macroeconomic stability as a means of reducing poverty, rather than merely an end in itself. This stability, along with the promotion of a business environment conducive to national and foreign investment and a new direction in Nicaragua's foreign relations, is considered essential if the country is to increase exports, generate jobs and raise income levels. Using a productive and non-welfare-based approach, economic policy will focus on social affairs, with a view to reducing poverty. For this purpose, the authorities will devise a medium-term growth strategy centred on investment in economic and social infrastructure, especially in terms of human capital.

It should, however, be pointed out that several factors will limit the new government's room for manoeuvre. These include the country's high dependency on international economic aid and cooperation, the elevated level of domestic public debt and extensive dollarization of the economy.

(a) Fiscal policy

The results of fiscal policy were a key factor in macroeconomic performance during 2006. Not including grants, the fiscal deficit of the non-financial public sector (NFPS) narrowed from 4.5% to 3.6%, thereby facilitating the achievement of monetary policy objectives.

The central government's fiscal deficit (before grants) shrank from 5.2% of GDP to 3.9%. Current revenues expanded by 19.1%, while the tax burden stood at 19.2% of GDP. The rise in grants from 3.4% to 3.9% of GDP contributed to the increase of almost one percentage point in the participation of total revenues within GDP (22.7%). Customs duties, income tax, VAT and the tax

on petroleum derivatives accounted for 88.5% of total tax revenues. At the same time, the contribution of these taxes to GDP went from 16.6% in 2005 to 17.2% in 2006. The level of receipts was influenced by improved tax administration. This involved measures to systematize fiscal control plans, follow-up late payers and streamline registration and collection procedures for contributors, as well as the entry into force of the tax code. Customs procedures were also simplified, and an electronic payment system set up.

Total expenditure as a percentage of GDP remained practically unchanged (22.7%), while current expenditure (15.4%) rose by almost two percentage points. This rise was mainly due to the wage demands of health and education workers, the elections, increased public security and the urban public transport subsidy in Managua. Capital expenditure, on the other hand, dropped from 9.4% of GDP to 7.2%. The main causes of the underexecution of the investment programme were delays in the tendering process, lack of execution capacity, legal disputes and the late approval of budgetary reform.

The government transferred a sum the equivalent of 1.4% of GDP to the central bank, thereby improving its financial situation. As in 2005, uncertainty surrounding the election process and the associated low demand for public bonds made it difficult to use domestic financing.

(b) Monetary policy

The main aims of monetary policy were to build up international reserves and strengthen the exchange-rate regime and the financial system. As a precautionary measure, in June the central bank increased the legal reserve requirement from 16.25% to 19.25% for two reasons: to mitigate 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. In order to increase the efficiency of open-market operations, the terms of the debt instruments used were also diversified.

To avoid the adverse effects of greater deposit volatility due to the elections, the central bank set up a special liquidity credit line and arranged a contingency line with the Central American Bank for Economic Integration (CABEI). However, such intervention was not necessary, as the US\$ 100 million reduction in deposits in the days leading up to and following the elections of 5 November

was smaller than during previous elections, with deposits gradually recovering once the election period was over.

At the end of the year, most monetary aggregates had expanded by less than in 2005. As a result, the growth rate of broad money fell from 10% in 2005 to 8.9% in 2006. This slowdown, along with a stronger preference for high-liquidity (mainly transferable) deposits, is thought to be the result of the uncertainty surrounding the electoral process. In addition, interest rates edged up: the borrowing rate stood at 5.96% (in line with rising international rates and an expected fall in deposits) and the lending rate (not including credit cards and overdrafts) was 11.24%, mainly as a result of the banks' decision to maintain the level of intermediation in the face of rising borrowing rates and the increase in the legal reserve requirement.

Increased foreign borrowing and the resources from the redemption of public bonds more than offset the effects of the higher reserve requirement. These factors enabled the banking system to increase its level of credit (31%). The structure of the loan portfolio shows the buoyancy of consumer loans (especially in the areas of credit cards) and loans for commerce, housing, as well as for the agricultural and manufacturing sectors.

(c) Exchange-rate policy

In 2006, 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. This resulted in a 1.4% appreciation of the real bilateral exchange rate with the United States dollar.

(d) Trade policy

The Dominican-Republic-Central America-United States Free Trade Agreement (CAFTA-DR) entered into force in April 2006. This Agreement and the one signed with Mexico in 1998 guarantee preferential access for about 70% of Nicaragua's exports.

From July 2006, tariffs were lowered on 18% of imports from Mexico, with total elimination on most products expected by July 2007.

As part of its trade strategy, Nicaragua signed and ratified a free trade agreement with Taiwan Province of China. Trade negotiations were reopened or stepped up with Canada, Chile and Panama. Arrangements were made to begin negotiations for an Association Agreement between the European Union and Central America, while actions were also implemented to speed up the process of Central American customs integration.

In 2007, the new government signed up for the integration and cooperation project known as the Bolivarian Alternative for Latin America and the Caribbean (ALBA), which brings together the Bolivarian Republic of Venezuela, Bolivia and Cuba. Besides cooperation in the energy sector, the ALBA project includes resources for infrastructure, health, agricultural development and residential construction in the case of Nicaragua.

3. The main variables

(a) Economic activity

Real production growth slowed from 4.3% in 2005 to 3.7% in 2006. This resulted in an increase in per capita GDP of only 1.7%. The slowdown was the result of reduced buoyancy in domestic demand (up by a mere 2.8%), which in turn was due to a decline in public investment that was only partly offset by an increase in —especially public— consumption. The climate of uncertainty surrounding the elections had a moderating effect on the increases in gross fixed capital formation (from 10.1% in 2005 to 4.7% in 2006) and in private-sector consumption (from 3.5% to 3.3%). The export sector, on the other hand, turned in a healthy performance (with growth of 10.5%).

High international oil prices affected the structure of production costs, caused electricity supply cuts, pushed up domestic prices and brought down disposable income. Other determining factors in the modest expansion of domestic demand included underexecution of the public investment programme and supply problems for agricultural products, owing to the "El Niño" phenomenon. In contrast, growth in the world economy and in particular the United States and the countries that make up the Central American Common Market (CACM) fuelled external demand for Nicaragua's goods and services. This, combined with the entry into force of CAFTA-DR, contributed to the surge in exports. Family remittances also expanded considerably, and the tourism sector turned in a strong performance.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	3.7	7.0	4.1	3.0	0.8	2.5	5.3	4.3	3.7
Per capita gross domestic product	1.9	5.2	2.4	1.5	-0.6	1.2	4.0	3.0	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.4	6.0	12.1	2.7	-0.3	1.9	5.7	3.9	4.2
Mining	36.2	18.4	-15.5	13.6	5.6	-10.6	20.0	-9.9	-5.0
Manufacturing	-0.3	7.0	4.3	5.9	2.1	2.4	9.0	6.5	5.3
Electricity, gas and water	11.0	0.0	8.9	8.3	1.4	5.1	4.4	4.2	1.5
Construction	-1.4	36.4	-1.0	2.1	-13.3	2.7	12.1	7.0	-8.0
Wholesale and retail commerce, restaurants and hotels	7.2	9.4	1.7	1.6	3.3	1.4	4.6	4.3	4.5
Transport, storage and communications	6.5	8.3	0.9	3.7	2.7	9.7	4.8	3.4	3.7
Financial institutions, insurance, real estate and business services	8.4	7.6	5.1	3.9	2.3	6.8	7.2	3.1	5.4
Community, social and personal services	2.6	4.5	2.3	5.1	2.0	2.4	2.2	3.6	4.4
Gross domestic product, by type of expenditure									
Consumption	4.7	6.1	5.2	4.1	3.6	2.1	2.1	3.3	3.7
General government	4.4	2.2	1.9	-0.1	-1.0	5.0	3.5	1.8	5.9
Private	4.7	6.8	5.8	4.8	4.4	1.7	1.9	3.5	3.3
Gross domestic investment	4.3	27.1	-16.8	-8.4	-7.1	-1.0	10.7	5.6	-0.5
Exports (goods and services)	5.8	12.4	12.5	7.3	-3.5	9.2	17.1	9.5	10.5
Imports (goods and services)	7.2	21.1	-4.7	0.7	-0.1	3.5	8.2	6.2	6.1
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	31.0	38.4	31.0	28.2	26.1	25.9	27.1	29.4	29.4
National saving	11.8	13.5	10.9	8.9	7.0	7.6	11.6	13.1	13.3
External saving	19.2	24.8	20.1	19.3	19.1	18.3	15.5	16.3	16.1
Millions of dollars									
Balance of payments									
Current account balance	-687	-928	-842	-805	-744	-663	-657	-745	-855
Goods balance	-749	-1 071	-921	-910	-939	-971	-1 088	-1 302	-1 444
Exports, f.o.b.	761	749	881	895	914	1 056	1 369	1 654	1 978
Imports, f.o.b.	1 510	1 820	1 802	1 805	1 853	2 027	2 457	2 956	3 422
Services trade balance	-84	-120	-129	-141	-130	-119	-123	-140	-141
Income balance	-185	-197	-202	-240	-206	-198	-201	-127	-124
Net current transfers	331	460	410	486	530	625	755	824	856
Capital and financial balance ^d	285	533	644	542	531	454	546	748	875
Net foreign direct investment	218	337	267	150	204	201	250	241	282
Financial capital ^e	66	196	377	392	328	252	296	507	593
Overall balance	-402	-395	-198	-263	-213	-210	-111	3	21
Variation in reserve assets ^f	30	-157	16	110	-69	-55	-160	-60	-132
Other financing ^g	372	552	182	153	282	265	271	56	111
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	101.1	101.9	100.0	101.1	103.3	107.0	108.9	108.1	107.9
Terms of trade for goods (index: 2000=100)	79.6	95.3	100.0	88.4	87.0	84.1	82.5	81.4	79.4
Net resource transfer (millions of dollars)	471	888	624	455	607	520	616	678	862
Gross external public debt (millions of dollars)	6 287	6 549	6 660	6 374	6 363	6 596	5 391	5 348	4 527
Net profits and interest (percentages of exports) ⁱ	-19.6	-20.4	-18.3	-21.5	-18.1	-15.1	-12.1	-6.5	-5.4
Average annual rates									
Employment									
Labour force participation rate ^j	...	...	...	...	...	53.7	53.1	53.8	52.4
Open unemployment rate ^k	13.2	10.7	7.8	11.3	11.6	10.2	9.3	7.0	7.0
Annual percentages									
Prices									
Variation in consumer prices (December-December)	...	...	...	...	3.9	6.5	9.3	9.6	9.4
Variation in nominal exchange rate (December-December)	12.0	10.3	6.0	6.0	6.0	6.0	5.0	5.0	5.0
Variation in average real wage	4.0	4.0	0.0	1.0	3.5	1.9	-2.2	0.2	1.4
Nominal deposit rate ^l	...	11.8	10.8	11.6	7.8	5.6	4.7	4.0	4.9
Nominal lending rate ^m	...	17.6	18.1	18.6	18.3	15.5	13.5	12.1	11.6

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Non-financial public sector									
Total income ⁿ	24.3	25.9	24.0	23.0	24.3	26.6	28.9	29.7	31.6
Tax income	17.9	17.9	18.1	13.4	14.2	15.9	16.6	17.6	18.3
Total expenditure	23.9	28.1	28.5	29.6	26.3	28.9	30.3	30.6	30.9
Interest	3.2	2.0	2.2	2.2	2.2	3.1	2.1	2.0	1.8
Primary balance	3.7	-0.3	-2.3	-4.4	0.3	0.8	0.8	1.0	2.5
Overall balance	0.4	-2.2	-4.5	-6.6	-1.9	-2.3	-1.4	-0.9	0.7
Non-financial public sector debt									
Domestic	...	...	...	...	21.5	22.5	21.5	21.2	19.3
External	125.4	120.2	114.7	111.3	112.6	115.5	79.3	71.9	51.4
Money and credit^o									
Domestic credit ^p	...	...	...	78.0	77.2	77.3	69.2	64.9	59.1
To the public sector	...	...	...	74.7	72.4	67.1	56.6	48.1	41.2
To the private sector	...	...	...	17.7	17.8	20.2	21.9	25.1	29.3
Others	...	...	...	-14.4	-13.0	-9.9	-9.2	-8.2	-11.5
Liquidity (M3)	33.5	35.8	36.2	35.7	38.0	38.8	38.9	39.3	38.3
Currency outside banks and local-currency deposits (M2)									
	12.3	13.0	12.9	12.0	12.0	11.5	12.4	12.7	12.2
Foreign-currency deposits	21.2	22.9	23.3	23.6	26.0	27.3	26.6	26.6	26.1

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Percentage of the economically active population, urban total. Up to 1999 the figures refer to the nationwide total. ^l Weighted average rate on 30-day deposits. ^m Weighted average rate on short-term loans. ⁿ Includes grants. ^o The monetary figures are end-of-period stocks. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

Economic growth was mainly driven by the financial sector, the manufacturing industry and commerce. In 2006, production soared among enterprises in free-trade zones (37.4%). However, value added slowed or declined in construction, mining and fishing.

(b) Prices, wages and employment

Year-on-year inflation (9.4%) was practically the same as in the previous year. The general rise in prices was linked to the rise in international oil prices, which put direct pressure on domestic fuel, electricity and transport prices. Another determining factor in the price increases were the supply problems caused by “El Niño”. A smaller fiscal deficit and exchange-rate appreciation, on the other hand, had the opposite effect.

Economic growth was reflected in the labour market. According to the results of the household survey, nationwide open unemployment dropped for the third year running, this time from 5.6% in November 2005 to 5.2% a year later (while the rate remained at 7.0% in urban areas). Real average wages rose by 3.6%, while official minimum wages were adjusted in March. Government workers saw the largest pay increases, while those who benefited the

most in the private sector were technical and professional workers. Despite such adjustments, however, the average official minimum wage covered only 52.8% of the cost of the basket of staple goods.

(c) The external sector

In the external sector, the current-account deficit widened from 15.3% of GDP in 2005 to 16.1% in 2006. This was due to the broadening of the merchandise trade deficit (27.2% of GDP), as the service and income account deficits remained constant. In contrast, current transfers (16.1% of GDP) continued to soar. These mainly took the form of family remittances, which represented 12.4% of GDP and covered 77% of the current-account deficit. Higher net capital inflows served to cover the current account deficit and consolidate net international reserves, while foreign direct investment (FDI) amounted to US\$ 280 million (5.3% of GDP). Investments in the financial sector played a major part, with the majority acquisition of the Banco de Finanzas by the Panamanian group ASSA, as did investments in free-trade zones and the country’s energy and industrial sectors.

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars)	221	219	216	210	246	279	245	257	306	...
Goods imports, c.i. f. (millions of dollars)	613	676	651	684	693	749	759	788	731	...
International reserve assets (millions of dollars) ^b	642	622	631	730	789	837	868	924	896	1 009
Real effective exchange rate (index: 2000=100) ^c	111.6	108.0	106.3	106.4	108.2	106.6	108.1	110.8	110.7	110.8
Consumer prices (12-month percentage variation)	8.4	9.7	10.8	9.6	10.9	10.8	8.3	10.2	9.0	9.0
Average nominal exchange rate (córdobas per dollar)	16.22	16.32	16.37	16.52	17.08	17.16	17.35	17.85	18.11	18.33
Average real wage (variation from same quarter of preceding year)	-1.1	-0.1	0.3	1.6	3.4	0.7	1.4	0.1	-1.9	...
Nominal interest rates (annualized percentages)										
Deposit rate ^d	3.9	3.9	4.0	4.3	4.6	4.8	4.9	5.2	5.7	5.8
Lending rate ^e	13.0	12.9	11.7	10.8	12.6	9.4	12.3	12.1	12.7	13.1 ^f
Interbank rate	40.3	39.6	39.8	41.7	43.5	39.4	36.7	40.3	44.0	44.0 ^f
Domestic credit (variation from same quarter of preceding year) ^g	5.0	11.6	7.8	8.0	2.5	1.3	6.8	6.5	14.1	...
Non-performing loans as a percentage of total credit ^h	2.3	2.2	2.3	2.0	2.0	2.4	2.4	2.4	2.4	...

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

^a Preliminary figures. ^b Including gold. ^c Quarterly average, weighted by the value of goods exports and imports. ^d Weighted average rate on 30-day deposits. ^e Weighted average rate on short-term loans. ^f Data to May. ^g Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^h Refers to total credit extended by the banking system.

Merchandise exports f.o.b expanded by 19.5%, while imports were up by 15.7%. Exports increased thanks to the positive crop cycle and improved international prices for some of the main traditional export products, such as coffee (59.4%), meat (23.4%) and gold (39.4%). Net exports from free-trade zones were also buoyant, especially in terms of maquila textiles. Generally speaking, the country's textile and clothing industry has competed successfully at the international level following the termination of the Multifibre Arrangement. In recent years, the country has been promoting the creation of free-trade zones (by means

of tariff concessions and tax credits), which have benefited the manufacturing sector. At the same time, Nicaragua is the region's only country to have secured preferential treatment for textiles and clothing (related to the use of textile inputs) as part of the CAFTA-DR negotiations. Furthermore, the World Trade Organization (WTO) has extended the tax benefits of free-trade zones for investors by an additional 15 years for Nicaragua in comparison with other countries.

The rise in imports was the result of a hike in the oil bill (24.9%) and increased external purchases of consumer goods (15.6%), especially non-durables.

Panama

1. General trends

In 2006 the Panamanian economy grew rapidly for the third consecutive year. GDP rose by 8.1% (6.9% in 2005) while per capita GDP expanded by 6.3% during the year and 17% over the last three years. Favourable international conditions boosted exports of goods and services, while domestic demand remained very buoyant, bolstered by the abundance of credit. The public sector posted a surplus, and the balance-of-payments deficit was halved. Open unemployment continued to fall, and real wages edged up slightly, in part because of the moderating inflation.

The main events in terms of economic policy were progress in rehabilitating public finances, the restructuring of the external debt and, above all, the referendum vote in favour of widening the Panama Canal. This removed the obstacles in the way of large investments to be made between 2008 and 2012 in the Canal, which is a highly profitable State enterprise that plays a key role in world trade. This bodes well for economic growth in the medium term.

Economic growth continued to be spearheaded by export services (Panama Canal, the international banking centre, the Colón Free Zone, ports and tourism) and construction. Foreign direct investment (FDI) reached unprecedented levels with the sale of the country's main private bank, which signalled the growing interest of international investors in the country's major investment projects and its economic upswing. Besides its positive

effects, the upturn in investment also created tensions in Panama's physical infrastructure and labour market, which in turn considerably pushed up the price of urban land.

In the first quarter of 2007, GDP expanded by 9.4%, and is expected to rise by more than 8% over the year as a whole. Exports remained extremely buoyant, while increases in employment and banking liquidity continued to promote domestic demand. Open unemployment dropped to 5.3% in March. Fiscal revenues are on the rise, while fiscal discipline is expected to be maintained and the annual deficit is estimated to come in at around 1% of GDP. Although the authorities hope to see lower annual inflation (a rate of 1.5%), in May prices climbed by 3.4% owing to continually high international prices combined with a supply shortfall and higher costs for certain local products.

2. Economic policy

Progress made in terms of the rehabilitation of public finances, transparency, improvements in the public debt profile and bilateral trade negotiations was partly based on the positive results of the 2005 fiscal reforms and the high rate of

economic growth. There was an increase in subsidies for the construction of low-cost housing and for fuels, which helped curb inflationary pressures, and targeted subsidy programmes were also introduced for the poorest families.

(a) Fiscal policy

The non-financial public sector (NFPS) turned around its finances from a deficit of 2.5% of GDP in 2005 to a surplus of 0.5% of GDP in 2006, a level that had not been seen in over a decade and that far exceeded original projections. The positive primary balance (excluding debt interest payments) recorded for the second consecutive year easily covered the level of capital expenditure. Contributing factors to this result included the central government surplus of 0.2% of GDP and increased surpluses posted by public enterprises and non-consolidated agencies.

The current revenues of the central government soared by 31.6% in real terms. This was due to increased receipts from direct taxes (led by income tax) and indirect taxes (based on higher taxes on personal property transfers). Non-tax revenues were fuelled by higher-than-expected income from, inter alia, the Panama Canal Authority, the National Bank of Panama and the Maritime Authority. Non-recurring income was also recorded from capital gains tax, following the sale of the private bank Primer Banco del Istmo to the Hong Kong Shanghai Bank Corporation (HSBC).

Such hefty revenues made it possible to increase total central government expenditure by 8.3% in real terms, contrasting with the curbed spending of the previous year. The 8% rise in current outlays was partly attributable to higher transfers for the urban transport subsidy, consumption of electricity and liquefied gas and preferential interest rates for mortgages, as well as support for decentralized institutions. Wages grew by 3.1%, while operating costs dropped slightly. Debt interest payments climbed moderately, mainly as a result of domestic liabilities.

The 10.1% rise in capital expenditure in real terms was used to revive physical investment, which had declined considerably in 2005. Resources were increased for the education sector, public works, the Ministry of the Presidency and the Ministry of Economic Affairs and Finance. In addition, social spending (on education, health, employment, social security and community services and housing) was 25% higher than in 2005, representing 35.6% of total expenditure. The Social Investment Fund was used to implement programmes involving rural electrification, nutrition, assistance for marginalized communities and social community development.

Total public debt edged up slightly (1.9%) to stand at US\$ 10.452 billion, but as a proportion of GDP it fell from 66% in 2005 to 61.1% owing to high GDP growth. External liabilities increased by US\$ 208 million, and amounted to US\$ 7.788 billion or 45.5% of GDP. In late 2005 and early 2006, a US\$ 1.062 billion restructuring operation was carried out through the exchange of old global bonds for new bonds, extending maturities from 12 to 16 years

and lowering the interest rate. The outstanding balance of Brady bonds (US\$ 359 million) was repaid, marking the end of an era in the country's history of debt.

The aim of these measures was to reduce borrowing requirements over the next few years, with a view to facilitating the management of external financing required for the widening of the Panama Canal, as well as to bring down country risk. In May 2007, Standard & Poor's raised the country's debt rating from stable to positive.

(b) The international banking centre and credit policy

In 2006, liquidity remained high in the international banking centre, where consolidated assets rose by 16.8% to stand at an unprecedented US\$ 45.101 billion (a figure 2.6 times higher than GDP). The country's national banking system and international banks continued to expand their operations, although the growth rate for international banking has tailed off.

Deposit-taking in the national banking system was up by 17.4%, with more buoyant activity in deposits by foreign nationals, including foreign banks. The placement of loans for the domestic market rose by 12.2%, a rate similar to that in 2005, to a total of 16.479 billion balboas, equivalent to 92% of GDP. External lending increased by 18.1%. Housing construction, commerce and personal consumption continued to lead demand for credit. Spurred by sustained housing demand, mortgage lending rose by 14.6% —compared with 19.6% in 2005— and credit for shopping-centre and hotel construction grew even faster. Against a favourable economic background, lending for household consumption was equivalent to 43% of GDP and showed strong growth, boosted by the expansion of personal loans, credit cards and financing for the purchase of new vehicles, the main indicator of growth in consumption. The commerce sector obtained total financing 7% higher than in 2005, mainly owing to expanding operations in the Colón Free Zone.

The country's banking system continued to show signs of low credit risk: a non-performing portfolio of 1.35% of credit and capital adequacy of about 16%. Investments by the international banking centre, mainly on international markets, also swelled strongly (18%), exceeding the US\$ 7.1 billion level.

The domestic banking sector's average interest rate edged up slightly, in harmony with trends in the principal world financial centres. The deposit rate stood at 3.83% compared with 2.70% in 2005, but the benchmark lending rate (one-year commercial loans) remained practically unchanged at 8.1%. In real terms, deposit rates rose from a negative figure of 0.15% to a positive level of 1.33%, and commercial lending rates went up from 5.34% to

5.60%. Foreign banks implemented larger increases in both deposit and lending rates in accordance with their parent companies' policies. There was no change to the policy of subsidizing mortgage rates in the framework of the preferential interest rate law, and the benchmark mortgage rate stood at 7%.

(c) Trade policy

Completing the bilateral trade negotiations which were under way was among the government's priorities. In December, two years of talks for a free-trade agreement

with the United States came to an end, although the two countries' Congresses have yet to ratify the instrument. The importance of the agreement lies in the fact that the preferences granted under the Caribbean Basin Initiative will expire in 2008. Negotiations were also completed with Chile and Honduras, and approval of the resulting treaties is pending. Talks continued with Costa Rica, Guatemala and Nicaragua, and the negotiations with Mexico, which had made considerable progress, were resumed. The start of negotiations between the Central American countries, Panama and the European Union is expected in the second half of 2007.

3. The main variables

(a) Economic activity

In 2006, thanks to strong recent growth, the country's per capita GDP exceeded US\$ 5,000 (at current prices). All sectors posted positive results and, for the second consecutive year, external and internal demand contributed equally to GDP growth. As a result, aggregate supply reflected a substantial rise in imports (15.3% in real terms), which made up 42% of supply.

The transport, storage and communications sector, the emblem of the Panamanian economy, swelled by 13% in 2006. There was growth in vessel traffic through the canal, in the services provided to ships, in cargo movements in the port sector and in goods transport via the interoceanic railway. Air transport also expanded, thanks to increases in the number of aircraft and in the number of destinations served by the national airline.

Telecommunications posted growth of 16%, boosted by mobile telephones, international calling and Internet services. The hotel and restaurant sector grew by 12.5% as a result of higher numbers of foreign tourists and rising hotel capacity and per capita spending. Lively domestic demand strengthened retail trade (13.7%) and consumption was encouraged by increases in employment and the total wage bill and by credit expansion. The 8% rise in wholesale trade was helped by expanding operations in the Colón Free Zone.

The upswing in construction (17.4%) was caused by the building of luxury housing, especially in high-rise blocks located in the Bay of Panama and intended for external demand; investments by foreign nationals in the country's interior, including rural areas, and the

building of housing for middle- and low-income groups. There were also works projects in hotels, ports and public infrastructure, including the resumption of work to clean up the waters of the Bay. The construction upturn led to a sharp increase in consumption of cement and other inputs and caused a perceptible upswing in land values in a number of urban areas.

The performance of other productive sectors was moderate. Agriculture barely edged up by 2.3%. There was a large increase in the production of tropical fruit for export, but cereals and vegetables performed poorly. In the area of livestock, poultry output strengthened but pork production was down. In fisheries, rising fuel prices led to a fall in catches. Manufacturing posted 5.1% growth, supported by the production of construction materials and other intermediate inputs, but output of foodstuffs rose by only 3.6%. Value added in the electric-power sector was up 3.6%, increasingly boosted by thermal energy generation, with higher demand from the commerce and industry sectors.

(b) Prices, wages and employment

Average inflation fell to 2.5% in 2006, compared with 2.9% in 2005. Nonetheless, for the third consecutive year the rise in consumer prices was higher than usual (about 1%), owing to higher world market prices. Wholesale prices were up 6.1%, compared with 5.7% in 2005, because of rising prices for many imports. Particularly notable were fuel price rises, but industrial inputs, machinery and foodstuffs were also more expensive.

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	7.4	4.0	2.7	0.6	2.2	4.2	7.5	6.9	8.1
Per capita gross domestic product	5.3	2.0	0.8	-1.3	0.4	2.3	5.6	5.1	6.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.6	1.8	9.6	6.5	3.3	9.3	1.4	3.3	2.3
Mining	26.1	23.9	-10.6	-4.1	18.1	35.4	12.5	0.1	16.2
Manufacturing	2.2	1.1	-7.2	-6.3	-2.6	-3.4	2.1	3.0	5.1
Electricity, gas and water	-2.5	12.0	9.3	-4.7	6.9	1.4	6.1	5.0	3.6
Construction	11.9	36.0	1.3	-21.8	-7.1	32.5	13.9	1.0	17.4
Wholesale and retail commerce, restaurants and hotels	6.8	-3.9	3.8	3.7	-0.9	2.4	11.9	8.7	11.5
Transport, storage and communications	14.6	6.7	12.5	2.5	2.0	10.9	14.9	11.2	13.0
Financial institutions, insurance, real estate and business services	7.8	5.8	5.9	-0.5	-0.2	0.5	3.3	9.9	7.7
Community, social and personal services	4.2	3.7	-0.4	3.9	4.5	1.8	3.3	0.8	3.2
Gross domestic product, by type of expenditure									
Consumption	16.1	0.6	0.2	3.9	7.3	7.3	3.9	7.2	8.8
General government	4.7	1.5	1.8	8.1	9.1	0.4	1.9	4.8	3.2
Private	18.5	0.4	-0.1	3.1	6.9	8.7	4.3	7.6	9.8
Gross domestic investment	10.9	3.5	-9.2	-24.2	-5.4	19.0	9.9	2.8	15.6
Exports (goods and services)	-0.9	-12.4	18.5	0.3	-2.5	-10.1	18.5	11.6	12.4
Imports (goods and services)	7.8	-14.7	10.3	-4.3	0.7	-3.5	14.4	10.8	15.3
	7.3	3.9	2.7	0.6	2.2	4.2	7.5	6.9	8.1
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	27.2	25.8	24.1	17.6	15.7	19.0	18.8	18.3	16.6
National saving	17.9	15.7	18.4	16.2	15.0	15.1	11.4	13.3	14.4
External saving	9.3	10.1	5.8	1.4	0.8	3.9	7.5	5.0	2.2
Millions of dollars									
Balance of payments									
Current account balance	-1 016	-1 159	-673	-170	-96	-503	-1 061	-782	-378
Goods balance	-1 296	-1 340	-1 143	-696	-1 035	-1 202	-1 538	-1 316	-1 801
Exports, f.o.b.	6 332	5 288	5 839	5 992	5 315	5 072	6 078	7 591	8 509
Imports, f.o.b.	7 627	6 628	6 981	6 689	6 350	6 274	7 617	8 907	10 310
Services trade balance	638	701	854	890	968	1 195	1 278	1 415	2 210
Income balance	-517	-691	-560	-590	-272	-742	-1 021	-1 124	-1 045
Net current transfers	159	171	177	226	244	246	220	243	258
Capital and financial balance ^d	911	1 350	595	803	242	236	666	1 456	554
Net foreign direct investment	1 203	864	624	467	99	771	1 004	1 027	2 560
Financial capital ^e	-292	485	-29	336	143	-535	-338	429	-2 006
Overall balance	-105	191	-77	633	146	-267	-395	675	176
Variation in reserve assets ^f	20	-185	109	-622	-138	267	396	-521	-166
Other financing ^g	85	-7	-32	-11	-8	1	-1	-154	-10
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	100.1	100.7	100.0	102.9	101.2	103.2	108.4	110.6	111.8
Terms of trade for goods (index: 2000=100)	104.7	104.6	100.0	102.7	101.6	97.2	95.3	93.5	90.8
Net resource transfer (millions of dollars)	479	652	3	202	-39	-506	-356	179	-501
Gross external public debt (millions of dollars)	5 349	5 568	5 604	6 263	6 349	6 504	7 219	7 580	7 788
Net profits and interest (percentage of exports) ⁱ	-6.3	-9.7	-7.2	-7.4	-3.6	-9.8	-11.6	-10.5	-8.4
Average annual rates									
Employment									
Labour force participation rate ^j	62.2	61.2	59.9	60.5	62.6	62.8	63.5	63.5	62.6
Unemployment rate ^k	13.6	11.8	13.5	14.0	13.5	13.1	11.8	9.8	8.6
Annual percentages									
Prices									
Variation in consumer prices (December-December)	1.4	1.5	0.7	0.0	1.9	1.5	1.5	3.4	2.2
Variation in real minimum wage	2.7	3.4	3.8	7.0	-1.2	0.7	0.9	-3.0	3.5
Nominal deposit rate ^l	6.8	6.9	7.1	6.8	5.0	4.0	2.2	2.7	3.8
Nominal lending rate ^m	9.9	10.1	10.3	10.6	9.2	8.9	8.2	8.2	8.1

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central government									
Total income ⁿ	16.2	17.0	18.2	17.7	16.8	15.4	14.4	15.2	18.6
Current income	15.6	16.9	18.1	17.2	16.1	15.2	14.3	15.1	18.5
Tax income	10.1	10.6	9.6	8.8	8.6	8.7	8.5	8.7	10.3
Capital income	0.0	0.0	0.0	0.5	0.7	0.3	0.1	0.0	0.1
Total expenditure	20.4	19.0	19.3	19.4	18.8	19.2	19.8	18.3	18.4
Current expenditure	16.4	15.6	16.9	16.7	16.1	16.1	16.6	15.9	15.9
Interest	2.9	3.5	4.2	4.2	4.1	4.3	4.2	4.4	4.2
Capital expenditure	3.9	3.4	2.4	2.7	2.7	3.1	3.2	2.5	2.5
Primary balance	-1.3	1.6	3.1	2.6	2.2	0.5	-1.2	1.2	4.5
Overall balance ^o	-4.2	-2.0	-1.1	-1.7	-1.9	-3.8	-5.4	-3.9	0.2
Central government debt									
Domestic	62.0	66.0	65.5	70.1	69.0	66.6	69.6	65.1	60.4
External	15.9	18.4	18.0	17.7	17.7	16.7	18.9	16.8	15.1
Overall	46.1	47.6	47.5	52.4	51.3	49.9	50.6	48.3	45.4
Money and credit^p									
Domestic credit ^q	70.1	82.0	92.5	95.6	92.7	87.3	86.5	85.8	88.0
To the public sector	-7.6	-7.7	-7.3	-9.7	-6.9	-5.0	-1.5	-2.7	-2.8
To the private sector	77.7	89.7	99.8	105.3	99.1	86.2	82.5	82.5	84.5
Liquidity (M3)	61.0	65.8	70.2	75.3	76.3	73.3	72.2	69.8	72.4

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1996 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Percentage of the economically active population; nationwide total. Includes hidden unemployment. ^l Six-month deposits in the local banking system. ^m One- to five-year loans for commercial activities in the local banking system. ⁿ Includes grants. ^o The overall balance for 2005 includes an adjustment for compensation to bondholders amounting to 111.6 million balboas. ^p The monetary figures are annual averages. ^q Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

In the first few months of 2007 there were sharp price rises for housing, water, electric power and gas, and rents and maintenance charges, as a result of which the CPI was up 3.4% in May. Although fuel prices fell by 0.5% from March 2006 to March 2007 and public-transport subsidies held back fare increases, there were price rises in a number of areas such as new vehicles, beef, fish, cereals, vegetable fats and sugar.

An August 2006 household survey showed employment up 1.9% compared with 5.8% in 2005, while unemployment declined to 8.6% of the economically active population from 9.8% in 2005. The most significant fall was in open unemployment, with a smaller decrease in hidden unemployment. The sectors creating the greatest numbers of formal jobs were restaurants and hotels, wholesale commerce, manufacturing and retail commerce. Employment also grew in construction and banking. Jobs in the public sector rose by 3.3%, especially in central government.

Average wages increased considerably in most of the following sectors: restaurants and hotels (4%), retail trade (8.1%), wholesale trade (3.4%), other services (5.6%) and manufacturing (1.6%). In real terms, wages in the above sectors taken as a whole increased by 2.3%.

Public-sector wages averaged a 0.9% increase, which in real terms meant a 1.6% fall. There were some shortages of skilled labour in specific sectors.

(c) The external sector

The increased surplus on the services account was more than enough to finance the deficit on the merchandise trade balance. The income balance remained high but the balance-of-payments current account deficit (US\$ 378 billion) was cut by half, from 5% to 2.2% of GDP. FDI more than doubled, to US\$ 2.56 billion, mostly owing to the sale of the Primer Banco del Istmo to the international conglomerate HSBC, which brought about a positive balance on the financial account.

Goods and services exports rose by 15.6% to US\$ 12.413 billion. The strongest growth was in services exports (24.2%), stimulated by rising revenue from the Panama Canal which was mostly due to higher charges; tourism income of almost US\$ 1 billion; and the significant upturn in international banking operations.

As for merchandise trade, re-exports from the Colón Free Zone expanded by 11.6% (compared with 23.6%

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	7.7	7.7	4.5	5.2	8.3	7.9	8.1	8.2	9.4	...
International reserve assets (millions of dollars) ^c	1 039	1 139	894	1 211	1 193	1 272	975	1 335	...	...
Real effective exchange rate (index: 2000=100) ^d	110.9	110.7	110.7	109.9	111.1	111.5	112.7	112.7	113.0	113.9
Consumer prices (12-month percentage variation)	3.0	2.4	3.5	3.4	2.0	3.2	1.6	2.2	3.2	3.7
Nominal interest rates (annualized percentages)										
Deposit rate ^e	2.6	2.7	2.8	2.7	3.1	3.5	4.0	4.7	4.9	4.8
Lending rate ^f	8.5	8.3	8.1	8.0	8.2	8.1	8.0	8.1	8.3	8.3 ^g
Interbank rate ^h	2.7	3.0	3.3	3.6	3.9	...	...	...	...	...
Sovereign bond spread (basis points) ⁱ	314	278	221	246	186	223	193	148	154	130
Domestic credit (variation from same quarter of preceding year) ^j	6.9	7.6	8.9	9.0	13.6	13.4	14.3	11.2	10.9 ^k	...
Non-performing loans as a percentage of total credit ^l	3.8	3.5	3.4	2.7	2.6	2.5	2.5	2.4	...	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1996 prices. ^c Including gold. ^d Quarterly average, weighted by the value of goods exports and imports. ^e Six-month deposits in the local banking system. ^f One-year loans for commercial activities in the local banking system. ^g Data to May. ^h 30-day rate. ⁱ Measured by J.P.Morgan's EMBI+ index. ^j Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^k Data to February. ^l Refers to total credit extended by the multibanking system.

in 2005) to stand at US\$ 7.042 billion. Those sales were boosted by sustained demand from the Bolivarian Republic of Venezuela, Colombia, the Dominican Republic, Ecuador and Guatemala, which absorbed half of the total. The Free Zone's imports were higher than the previous year in anticipation of the upward trend in sales.

National exports continued to soar (14.4%) to US\$ 1.467 billion. Exports of tropical fruit such as melons, pineapples and watermelons have soared in value terms, rising fivefold in the past four years. There were also increases in exports of bananas and various manufactures such as fishmeal, medicines and cardboard cartons. Exports of marine products (refrigerated fish, shrimps and lobsters), on the other hand, had a bad year because of the falling catch and lower profitability owing to rising fuel costs; also down were sales of sugar-cane *aguardiente* and sugar.

For the third consecutive year, growth of goods and services imports was high (12.9%), reaching a total of US\$ 12.004 billion. In addition to the considerable amounts of goods purchased by the Colón Free Zone, there was an upturn in imports for the national market. In contrast,

external purchases of non-factor services fell by 2% because the spending of Panamanian tourists outside the country was stalled, and external purchases of financial services were down. Strong domestic demand required growing imports of merchandise (totalling US\$ 4.472 billion), both consumer goods (petrol and diesel fuel, domestic appliances, semi-durables and non-durables), raw materials (mostly for construction and manufacturing) and machinery and equipment (for the construction and transport sector and telecommunications).

Trade with the other countries of Central America continued to rise: the growth of Panamanian exports was in two-digit figures for the second consecutive year, while imports returned to their 2001 level.

In the first quarter of 2007, favourable trends continued for goods and services exports. Traffic on the Canal continued to swell, as did goods movements in the ports; international tourism, after rising by 21.6% in the period from January to April, is expected to surpass the 2006 total easily. High receipts from customs duties suggest that imports continued to rise in the first four months of the year, reflecting rapid economic growth.



The Caribbean

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Bahamas

1. General trends

Economic growth in the Bahamas rose to 3.4% in 2006, the highest figure in the past seven years, with tourism as the main engine of that growth. Visitor numbers have declined slightly (1%) but demand for real estate from non-residents and investment in hotel complexes boosted construction, which grew by 25%. Higher tax receipts from increased imports and real-estate transactions helped to improve fiscal accounts. Spending rose by almost one percentage point of GDP, for reasons which included preparations for the general election in April 2007, but revenue increased more, by 1.5 points of GDP. Liquidity increased, particularly credit to the private sector, but inflation remained low, close to the United States price index. The balance-of-payments current account deficit almost doubled, and although the surplus on the financial account expanded owing to very strong external capital inflows, it was not enough to make up for the current-account deficit. Net international reserves diminished.

Despite stronger economic growth, the opposition party won the elections in April 2007. The new government

is following the same basic economic orientation, and forecast growth for 2007 stands at 4.5%.

2. Economic policy

(a) Fiscal policy

The fiscal deficit dipped from 1.9% of GDP in 2005 to 1.2% in 2006, a small step toward achieving the goal of reducing the public debt to 30% of GDP in the medium term.

In accordance with the policy of keeping taxation low, no new taxes were created in 2006. The efficiency of tax collection improved, however, resulting in an unexpectedly high increase in receipts. The new Tax Compliance Unit has resolved a number of loopholes, while the various tax collection agencies have adopted new electronic systems. Tax receipts increased by 1.6 points

of GDP, to 18.4%. Half that amount was derived from taxes on external trade, the collection of which increases in response to growth in imports; in second place were receipts from the stamp tax, which soared upwards on the back of real-estate transactions for the development of tourism projects.

The new government announced plans to simplify the tariff schedule and combine it with the stamp tax on imports. Studies were undertaken to that end, and the change is expected to be made in 2008-2009. Considering its importance for attracting foreign investment, the government has stated that it will maintain the policy of not taxing income.

Table 1
THE BAHAMAS: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	6.8	4.0	1.9	0.8	2.3	1.4	1.8	2.7	3.4
Per capita gross domestic product	5.2	2.5	0.5	-0.6	0.9	0.2	0.6	1.5	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.4	-6.8	8.8	-6.9	20.7	-4.8	-11.7	-9.3	...
Mining	-1.2	-22.3	11.6	3.4	0.2	13.5	3.8	15.8	...
Manufacturing	-4.0	-0.6	7.4	13.0	2.2	-0.6	-3.2	5.2	...
Electricity, gas and water	11.3	2.4	0.2	11.3	3.6	5.7	2.4	4.3	...
Construction	21.2	8.3	13.3	-13.3	6.2	2.5	-7.4	6.2	...
Wholesale and retail commerce, restaurants and hotels	8.2	11.4	-3.4	4.9	-8.7	3.1	-0.3	2.7	...
Transport, storage and communications	12.4	0.7	10.4	-5.3	3.8	1.0	0.6	-0.3	...
Financial institutions, insurance, real estate and business services	10.7	9.1	5.4	3.1	1.1	3.8	4.0	3.5	...
Community, social and personal services	-0.6	-0.9	-7.4	-3.4	4.7	9.4	1.3	3.5	...
Gross domestic product, by type of expenditure									
Consumption	8.6	5.1	1.3	4.4	-1.0	3.3	1.9	0.7	...
General government	-0.8	-1.8	-4.9	3.8	9.1	4.9	1.2	2.7	...
Private	10.5	6.3	2.3	4.5	-2.6	3.0	2.0	0.3	...
Gross domestic investment	19.9	-0.4	13.6	-7.4	-0.2	-0.2	1.5	3.0	...
Exports (goods and services)	0.3	7.0	5.2	-5.7	7.7	-1.2	10.7	6.2	...
Imports (goods and services)	12.1	6.1	10.4	-4.6	-1.0	2.1	6.2	4.4	...
Millions of dollars									
Balance of payments									
Current account balance	-949	-198	-442	-594	-423	-472	-305	-815	-1 578
Goods balance	-1 357	-1 151	-1 334	-1 340	-1 327	-1 331	-1 428	-1 810	-1 932
Exports, f.o.b.	363	462	576	423	422	427	477	590	692
Imports, f.o.b.	1 720	1 613	1 910	1 764	1 749	1 757	1 905	2 399	2 624
Services trade balance	569	874	955	835	1 046	962	1 013	1 112	520
Income balance	-195	-127	-141	-199	-184	-153	-141	-203	-218
Net current transfers	34	206	78	110	42	49	251	85	52
Capital and financial balance ^c	1 068	263	381	564	484	583	489	726	1 499
Net foreign direct investment	165	149	250	192	209	247	443	564	706
Financial capital ^d	903	114	130	372	275	336	46	163	793
Overall balance	119	65	-61	-30	61	111	184	-89	-79
Variation in reserve assets ^e	-119	-65	62	30	-61	-111	-184	89	79
Other financing ^f	0	0	0	1	0	0	0	0	0
Other external-sector indicators									
Net resource transfer (millions of dollars)	873	136	240	366	300	431	348	523	1 281
Gross external public debt (millions of dollars)	338	355	350	328	309	363	343	335	331
Net profits and interest (percentage of exports) ^g	-10.2	-5.6	-5.5	-8.9	-7.4	-6.1	-5.2	-6.6	-7.0
Average annual rates									
Employment									
Unemployment rate ^h	7.8	7.8	...	6.9	9.1	10.8	10.2	10.2	7.6
Annual percentages									
Prices									
Variation in consumer prices (December-December)	1.9	1.4	1.0	2.9	1.9	2.4	1.9	1.2	2.3
Nominal deposit rate ⁱ	...	...	...	...	...	3.9	3.8	3.2	3.4
Nominal lending rate ^j	...	...	...	...	...	12.0	11.2	10.3	10.0
Percentages of GDP									
Central government^k									
Total income	18.8	19.8	19.1	16.7	16.7	17.2	17.0	19.1	20.6
Current income	18.8	19.8	19.1	16.7	16.7	16.9	16.7	18.8	20.6
Tax income	17.0	18.1	17.1	15.0	15.1	15.1	15.1	16.8	18.4
Capital income ^l	-	-	-	-	-	0.3	0.3	0.2	0.1
Total expenditure	19.7	19.8	18.6	19.5	19.4	19.5	19.4	20.9	21.8
Current expenditure	17.4	17.4	16.9	17.5	17.9	18.1	18.0	19.0	19.5
Interest	2.3	2.0	1.8	2.0	1.9	2.1	2.0	2.1	2.1
Capital expenditure	2.2	2.4	1.7	2.0	1.6	1.5	1.5	1.9	2.3
Primary balance	1.4	2.0	2.3	-0.8	-0.8	-0.3	-0.5	0.2	0.9
Overall balance	-0.9	0.0	0.5	-2.8	-2.7	-2.4	-2.5	-1.9	-1.2
Public external debt	7.9	7.6	7.0	6.4	5.7	6.6	6.1	5.7	5.3
Money and credit^m									
Domestic credit	82.6	82.8	83.9	86.6	91.1	87.3	92.0	95.2	98.8
To the public sector	14.2	14.6	13.9	13.8	16.3	15.1	16.4	16.3	15.7
To the private sector	68.4	68.2	70.0	73.0	74.9	72.2	74.2	78.9	83.1
Liquidity (M3)	63.2	65.4	67.9	71.2	71.1	71.3	75.3	79.5	80.6
Currency outside banks and local-currency deposits (M2)	62.0	64.2	66.5	69.4	69.3	69.4	73.4	77.2	78.3
Foreign-currency deposits	1.2	1.2	1.4	1.8	1.8	1.9	1.9	2.2	2.3

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1991 prices. ^c Includes errors and omissions. ^d Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^e A minus sign (-) denotes an increase in reserves. ^f Includes the use of IMF credit and loans and exceptional financing. ^g Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^h Percentage of the economically active population; nationwide total. Includes hidden unemployment. ⁱ Deposit rate, weighted average. ^j Lending and overdraft rate, weighted average. ^k From 1998 to 2003, figures refers to fiscal years. ^l Includes grants. ^m The monetary figures are annual averages.

Overall spending rose by 0.9 points of GDP to stand at 21.8%. There were significant increases in transfers to non-profit organizations in the security, health and education sectors. As for current expenditure, public hospitals are the largest item. The rise was proportionally greater for capital spending (from 1.9% to 2.3% of GDP), owing to an increase in infrastructure projects such as the desalination plant and a new electric power generating plant. Land acquisitions for road construction also contributed to higher capital spending.

The fiscal deficit was financed mostly through a rise in the national debt, which remained at about 46% of GDP, putting into perspective the ambitious goal of reducing that deficit to 30% of GDP in the medium term. The debts of public-sector corporations, equivalent to more than half the total, increased by 28.4%, mostly as a result of a bond issued by the electric power company. Unusually, this bond was issued partly in foreign currency.

The new government is making plans for a current surplus, which would be the first since 2000. The main goal of fiscal policy is cutting public debt.

(b) Monetary and exchange-rate policy

The central bank's Monetary Policy Committee kept a close watch on the effects of rising domestic credit, the evolution of liquidity and the quality of loans, but the discount rate remained unchanged. The sharp rise in net domestic credit, led by personal loans, boosted demand for import products, and this helped to increase tax receipts. Liquidity in the system trended downwards, and this was reflected in a rise in the interest rate on deposits. The lending rate, however, was unchanged as a result of intense competition in the market. The monetary authority resorted to moral persuasion to convince commercial banks of the need to be cautious with credit supply and to comply scrupulously with prudential standards and capital requirements. The central bank worked closely with the stock exchange to deepen the local capital market and make it more efficient, and took measures to modernize the payments system.

3. The main variables

(a) Economic activity

Tourism-related investments contributed to the rise in construction, which boosted the country's economy in 2006 (25.2%). The number of tourists was slightly down (1%) because of a 7% decline in cruise ship arrivals. The country's main cruise destinations, the islands of Grand Bahama, New Providence and the Family Islands, suffered the same decline. The new requirement for United States nationals, who now have to show their passports after a trip to the Caribbean, has not helped to stimulate the sector. Most United States nationals have no passport, and many of them, particularly students during the spring break, opted for cruise ships whose ports of call did not involve that requirement (Puerto Rico and the United States Virgin Islands).

The contraction in 2006 has not changed the government's goal of increasing the number of visitors by 40% to reach 7 million tourist arrivals per year by 2010. More important for the country's economy, however, is the number of visitors who arrive by air, because they stay overnight in the islands and their spending is greater. Arrivals by air were up by 0.5% in 2006 in comparison with 2005.

This segment is expected to grow quickly, as indicated by the expansion in construction. The main construction

project was phase 3 of the Atlantis complex on Paradise Island, which will add 600 rooms to the existing 2,317. Operated by Kerzner International Ltd, a company registered on the New York Stock Exchange, the complex is considered the largest hotel in Latin America and the Caribbean. A group of investors headed by Sol Kerzner, the South African hotel magnate and president of the corporation, bought the shares for over US\$ 3 billion, the region's largest foreign direct investment transaction in 2006.

A number of other large-scale hotel projects are under construction or preparation. The most significant are the Ritz-Carlton project on Rose Island, worth US\$ 750 million; the South Ocean Golf and Beach Resort, in the capital Nassau, worth US\$ 1 billion, and the Baha Mar project, worth US\$ 2.4 billion, which aims to consolidate the major hotels of Cable Beach into a single large complex. The first phase of the Baha Mar project will be completed in 2011.

(b) Prices, wages and employment

The retail price index rose by 2.3% in 2006, half a percentage point more than in 2005. This reflects mostly the impact on the country's economy of rising import costs, especially for fuels. The segments which climbed

the fastest were food and beverages (5%) and furniture (2%). Housing, the segment that has the highest weighting, rose by 1.7%, an improvement over the 2005 figure of 2.8%. There were falls in the prices of communications, education and entertainment.

Unemployment in the Bahamas fell sharply from a stable figure of 10.2% to 7.6% in 2006, mostly owing to hotel project construction. The work on the Atlantis project, which employs 5% of the country's workforce, and projects such as the Albany Golf and Beach Club complex, made up of golf courses and private residences and owned by Tiger Woods and Ernie Els, cut unemployment on the island of New Providence to 6.6%, an unprecedented figure which led the government to announce that full employment had been achieved. The island of Grand Bahama has the highest unemployment rate. This seems to be due to the numbers of demotivated workers, who respond to surveys saying that they are able to work and have no jobs, but do not seek employment because they expect to be unsuccessful.

The increasing levels of economic activity and employment boosted the average household income from 38,900 Bahamas dollars in 2005 to 43,420 in 2006, an increase of over 10%.

(c) The external sector

The overall balance of payments was negative and international reserves fell for the second consecutive year. This result was due to the doubling of the current account deficit, which the higher surplus on the capital and financial account could not make up for.

Rising oil prices, demand for imports for construction, and rising consumer demand impacted negatively on the balance-of-payments current account. The deficit worsened from US\$ 815 million in 2005 to US\$ 1.578 billion in 2006. The deficit on the goods account widened by 6.7% despite rising exports. The surplus on the services account was cut by half, particularly owing to services related to the design and execution of major works projects. Imports of construction services were five times the 2005 level. Net travel receipts declined slightly (2.5%). It is assumed that this services account figure is exceptional and that in 2007 the account will return to its usual levels.

The surplus on the capital and financial account was more than double that of 2005 owing to income from direct and portfolio investment.

Barbados

1. General trends

The GDP of Barbados grew for the fifth consecutive year since the recession of 2001, this time by 3.8%. As in the previous year, growth in 2006 was boosted by the domestic economy, with both construction and basic services showing growth of almost 7%, while traditional export sectors such as tourism and manufacturing stagnated. The imbalance between growth in sectors that cater to the external and domestic markets is worrisome, particularly because the economy of Barbados operates under a fixed exchange rate regime whose sustainability depends on international reserves and therefore on its capacity to generate or attract foreign exchange. The planned removal of exchange controls in 2007, part of the gradual integration of the CARICOM Single Market and Economy (CSME), will accentuate the need to stimulate the foreign exchange-generating sectors. The National Strategic Plan of Barbados 2006-2025 lays out strategies to enhance competitiveness and strengthen the brand image of Barbados in world markets.

Economic policy since 2005 has been geared toward containing the fiscal and external deficits by means of contractionary policies. In 2006, the fiscal deficit was 1.5% of GDP and the balance-of-payments current account deficit stood at 8.4% of GDP. Inflation fell to 5.6% compared with a 12-year high of 7.4% in 2005. The unemployment rate

was the lowest in 16 years (8.7%), and net international reserves increased to US\$ 931 million as of December 2006, although they have not yet returned to their 2003 level.

Growth for 2007 was projected at 4% taking into account the fact that the boost from the Cricket World Cup did not live up to expectations.

2. Economic policy

(a) Fiscal policy

The central government deficit was 1.2% of GDP in the fiscal year 2006-2007,¹ while the consolidated non-financial public sector deficit was 1.8% of GDP

for the calendar year 2006. Both figures were within the government's target ceiling of 2.5% of GDP.

From April 2006 to March 2007, the central government collected current revenue of 2.186 billion Barbados dollars (BDS\$), a 2% increase on the previous fiscal year. Economic

¹ In this section, percentage variations will refer to the difference between the fiscal years 2005/2006 and 2006/2007, unless otherwise stated. The fiscal year runs from April to March.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	6.2	0.5	2.3	-4.6	0.7	1.9	4.8	4.1	3.8
Per capita gross domestic product	5.7	0.1	1.8	-5.0	0.3	1.6	4.4	3.7	3.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-13.3	9.5	3.7	-9.5	-4.2	-4.0	-7.3	8.0	-5.7
Mining	47.5	9.2	-8.4	8.0	6.4	-16.0	9.5	8.7	-3.0
Manufacturing	3.4	-2.4	-0.5	-30.9	1.0	-1.6	2.1	2.1	1.1
Electricity, gas and water	9.1	5.0	0.0	-4.5	3.6	2.9	1.8	-0.5	9.5
Construction	16.9	10.0	1.1	6.8	7.7	0.6	2.8	13.4	6.9
Wholesale and retail commerce, restaurants and hotels	9.5	-4.6	4.8	-4.4	-0.6	5.3	7.5	1.9	3.7
Transport, storage and communications	6.7	4.3	0.9	0.1	-3.0	3.0	5.3	4.9	5.3
Community, social and personal services ^c	4.3	1.9	1.3	-0.6	1.5	0.7	4.9	4.1	4.3
Millions of dollars									
Balance of payments									
Current account balance	-63	-148	-146	-111	-168	-170	-337	-385	-289
Goods balance	-651	-714	-744	-681	-702	-801	-971	-1 085	-1 001
Exports, f.o.b.	270	275	286	271	253	264	293	379	461
Imports, f.o.b.	921	989	1 030	952	955	1 066	1 264	1 464	1 462
Services trade balance	591	571	603	570	550	647	668	777	854
Income balance	-56	-71	-82	-93	-102	-107	-122	-172	-228
Net current transfers	52	66	78	93	86	92	88	95	86
Capital and financial balance ^d	57	184	323	333	144	237	180	317	333
Net foreign direct investment	15	16	18	17	17	58	-16	53	0
Financial capital ^e	42	168	305	316	127	179	196	264	333
Overall balance	-6	36	178	222	-24	67	-157	-68	44
Variation in reserve assets ^f	6	-37	-178	-223	24	-68	157	68	-44
Other financing ^g	1	1	1	1	1	1	1	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	100.6	100.9	100.0	98.4	100.1	104.5	108.7	107.3	104.7
Net resource transfer (millions of dollars)	2	114	241	241	42	131	58	145	105
Gross external public debt (millions of dollars)	444	479	611	774	756	761	816	899	1 047
Net profits and interest (percentage of exports) ⁱ	-4.3	-5.5	-6.0	-7.0	-7.9	-7.5	-8.0	-9.4	-11.1
Average annual rates									
Employment									
Labour force participation rate ^j	67.8	67.8	68.6	69.5	68.4	69.2	69.5	69.6	67.9
Unemployment rate ^k	12.3	10.4	9.2	9.9	10.3	11	9.8	9.1	8.7
Annual percentages									
Prices									
Variation in consumer prices (December-December) (annual average)	1.7	2.9	3.8	-0.3	0.9	0.3	4.3	7.4	5.6
Nominal deposit rate	...	...	...	...	...	2.8	3.0	3.8	5.0
Nominal lending rate	...	...	...	...	...	7.6	7.4	8.5	10.0
Percentages of GDP									
Non-financial public sector									
Total income	32.5	31.4	32.9	34.2	34.6	34.5	33.6	33.0	40.1
Tax income	30.1	29.7	30.7	32.0	32.0	32.3	32.2	30.9	38.3
Total expenditure ^l	33.3	33.8	34.4	37.7	40.9	37.2	35.8	37.2	41.9
Current expenditure	28.1	28.4	29.0	31.6	33.7	32.2	32.0	32.0	35.8
Interest	4.3	4.6	4.6	5.4	5.4	5.0	4.8	4.7	5.7
Capital expenditure	5.4	5.3	5.4	5.8	7.2	5.0	3.8	3.8	4.7
Primary balance	3.5	2.2	3.1	1.9	-1.0	2.3	2.6	0.5	3.9
Overall balance	-0.8	-2.4	-1.5	-3.5	-6.4	-2.7	-2.2	-4.2	-1.8
Central government external debt	18.7	19.3	23.9	30.3	30.5	28.2	28.9	29.9	32.2
Money and credit^m									
Domestic credit	...	...	...	...	...	68.1	72.6	80.3	80.9
To the public sector	...	...	...	...	...	17.5	20.4	20.6	16.6
To the private sector	...	...	...	...	...	50.6	52.2	59.7	64.3
Liquidity (M3)	81.9	87.1	87.4	95.2	110.3	110.6	121.3	121.3	123.9
Currency outside banks and local-currency deposits (M2)	75.0	79.2	80.7	88.1	101.3	100.7	110.5	111.1	112.3
Foreign-currency deposits	6.9	7.8	6.7	7.1	9.0	9.9	10.8	10.2	11.7

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1974 prices. ^c Includes financial institutions, insurance, real estate and business services. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population. ^k Percentage of the economically active population. Includes hidden unemployment. ^l Includes net lending. ^m The monetary figures are annual averages.

growth led to an increase in receipts from the income and profits tax (11.3%). Despite the reduction in the corporate tax rate from 40% to 25% in 2006, corporation tax revenues rose by 20% as International Business Companies (IBC) reported increased profits. In 2006, 60% of receipts from corporate taxation came from companies in that category, compared with 51% in 2005.

Income tax receipts declined by 2%, reflecting the reforms which have been put into place. The basic tax rate was cut from 25% to 20%, the exempt bracket was broadened from BDS\$ 20,000 to BDS\$ 22,500 and the marginal tariff was reduced from 40% to 35%. Despite the fall from 0.65% to 0.45% in the rate of tax on the ownership of real property valued between US\$ 175,000 and US\$ 425,000, effective receipts increased by 10% as a result of property revaluations, improved compliance and a broadening of the tax base. Tax receipts from external trade rose by 2% but receipts from goods and services in general fell by 4.5% owing to falling consumer demand which resulted from the contraction of domestic credit.

Central government current expenditure, including amortization, increased by 3.8% in nominal terms to US\$ 1.179 billion, reflecting a considerable drop in spending in GDP terms. Spending on wages was slightly up (0.3%) despite a 2% increase due to cost-of-living adjustments. There were sharper increases in goods and service purchases (7.9%) for materials for the Coastal Infrastructure Programme, road maintenance, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Barbados Drug Service. Current transfers were 3.5% higher because of increased allocations to the Barbados Defence Force in anticipation of the Cricket World Cup, the subsidization of the airline LIAT (Leeward Islands Air Transport) which is structurally unprofitable but essential for transport and tourism between the islands; and increased transfers to the University of the West Indies and the Queen Elizabeth Hospital.

Decreases in capital spending (3.2%) and in capital formation (6.1%) were recorded for the fiscal year for the central government despite preparations for the Cricket World Cup.

Interest payments on external debt climbed by 15% in the latest fiscal year because of debt accumulation, particularly a bond issue in 2005. Another issue generated US\$ 65 million in 2006, partly covering the fiscal deficit for that year. Most of the deficit for 2006 was made up by

sales of bonds to the National Insurance Scheme, private non-banking entities and the central bank. The government also sold some shares in the Insurance Corporation of Barbados Ltd.

(b) Monetary and exchange-rate policy

The restrictive monetary policy stance adopted by the central bank in late 2005 was maintained in 2006 in order to contain the external deficit and protect net international reserves in a fixed exchange rate environment.

The money supply contracted by 1% compared with the two-figure growth between 2002 and 2004, and the M2/GDP ratio continued the decline which began in 2003. The expansion of domestic credit slowed from 16.5% in 2005 to 9.6% in 2006, owing to slower growth of credit to the non-financial private sector and a contraction in credit to the public sector.

The central bank's usual monetary instruments are the minimum deposit rate, reserve requirements and moral suasion. A combination of all three was used in 2006 to restrain growth of credit and liquidity.

In March 2006 the central bank increased from 10% to 12% the discount rate payable on its temporary advances to commercial banks. In December, it raised the minimum deposit rate from 4.75% to 5.25%, after having stepped it up in four stages from 2.25% in March 2005 to 4.25% in October 2006. The last increase was followed by an announcement that the minimum deposit rate would be aligned to the United States federal funds rate in order to prevent capital flight due to real interest rate differentials. The expected effect of this series of hikes was to cause commercial banks to raise lending rates. Although competition among financial institutions may have reduced the effectiveness of the interest rate rise, the rate did indeed go up in 2006 in relation to 2005: the prime lending rate as at December 2006 was about three percentage points higher than in January 2005 and average mortgage rates climbed to 8% at the end of 2006 from 6.3% in early 2005.

In April 2006, as a result of the gradual liberalization of the capital account to promote greater economic integration within CSME, it became necessary to create a new reserve requirement of 6% of foreign currency deposits. Thus, total average reserves held by commercial banks with the Central Bank rose by 46% over the year.

3. The main variables

(a) Economic activity

For the third consecutive year, growth in real GDP was mainly driven by the services sectors. Basic services expanded by an average of 6.5%, and the growth of other services was 4%, mainly because of strong domestic demand; this was stimulated by rising disposable incomes made possible by the easy availability of credit and reform of personal income taxes.

While demand in the construction sector was spurred by the easing of the land tax and by public-sector works, construction was also driven by strong demand by non-residents for property in Barbados. Increased competition among commercial banks since 2005 has brought a surge in mortgage loans for private dwellings and in loans to non-residents. Growth in the demand for construction will have spill-over effects in other sectors of the economy, notably electricity, gas and water as well as the quarrying of building materials. The 3.1% contraction in mining and quarrying in 2006 may be heralding a slowdown in growth in the construction sector for 2007. External demand for residential property in Barbados could benefit in the future from regional growth and the increased intraregional mobility associated with the CSME.

The international business and financial services sector expanded in 2006, as reflected by the issue of 537 licences compared with 428 in 2005. This expansion followed the conclusion of new double taxation agreements with other countries in 2005² and the fall from 2.5% to 1% in corporate tax for international business companies, international banks and limited-liability companies.

Growth in tradeable goods and services sectors was weaker than in 2005. The performance of the sugar industry was poor (0.1%), reflecting its transition to a sugar-cane-based ethanol industry as part of the current "sugar adaptation strategy". Barbados is an increasingly mature tourism market, but the non-sugar agriculture and manufacturing sectors have yet to be fully developed, given the internal and external constraints affecting them.

The manufacturing sector grew by only 1.1% in 2006. The government's protectionist policy for the sector (competing imports are faced with a 60% surcharge) seems to have had little impact and is expected to be phased out by 2008.

Real tourism output grew by 1.6% in 2006 after a contraction of 2.2% in 2005. Long-stay tourist arrivals grew by 3%, offsetting the 6.3% fall in cruise passenger arrivals. Nonetheless, the steep drop in cruise-ship arrivals in the past two years appears to have bottomed out. Itinerary adjustments on the part of cruise companies owing to high fuel costs continued in 2006, and fewer cruises offered Barbados as a destination. Prospects for tourism in early 2007 were good, with the holding of two major sports events on the island: the World Golf Championships (December 2006) and the final of the Cricket World Cup (April 2007).

(b) Prices, wages and employment

Prices rose by 5.6% in 2006, 1.5 percentage points less than in 2005. Factors behind the increases were rising oil prices in the first half of the year, the increase in the levy on extraregional imports, known as the cess, in 2006 from 3% to 6%, as well as rising aggregate demand for goods and services fuelled by an 18% expansion of private credit. Price increases are projected to moderate in 2007 with a tightening of monetary policy, more stable oil prices and the removal of the cess.

Wage increases were negotiated in December 2006 for a two-year period beginning in April 2006, between the government and the National Union of Public Workers, representing 10,000 of the 28,000 government employees (20% of the employed labour force). A 7.5% increase was backdated to April 2006 with a further 2.5% payable as from April 2007, with no cost-of-living adjustment. Public-service pensioners were awarded a 6.67% increase for the next two years. Given that payments will be effected in 2007, it is expected that this will impact on the fiscal deficit for that year. The nominal wage increase of 10%, however, falls short of the combined inflation rates for 2006 and 2007, which should stand at 13%.

Unemployment in 2006 was at its lowest in 16 years at 8.7%, with a lower rate for men (7.7%) than for women (9.8%). Reports indicate that in the first 3 quarters of 2006, job creation occurred in tourism, construction and utilities sectors while losses were recorded in manufacturing, government services and the finance, insurance and business services sectors.

² Austria and the Netherlands.

(c) The external sector

The overall balance of payments showed a US\$ 44 million surplus in 2006 compared with a deficit of US\$ 68 million in the previous year. The change was due to a narrowing of the current account deficit, owing to a strong rise in the services account surplus and the reduced deficit on the goods account, and an expansion of net capital and financial inflows (16.5%).

The fall in the current account deficit from 12.4% to 8.4% of GDP within a year can be partly explained by the continued tightening of monetary policy as well as the increased cess on extraregional imports in 2006. Given that extraregional imports make up 76% of the total, the cess had a significant demand-reducing impact. As a result, goods imports stalled in 2006, contrasting with 15.8% growth in 2005. Unsurprisingly, the slowdown in imports came from consumer and intermediate goods, whereas capital goods imports grew by 13.2%, led by infrastructure development on the island. Goods exports, on the other hand, showed healthy growth (21.9%) thanks to exports of electronic components (transistors to the United States market), a 7.3% upswing in receipts from sales of chemicals owing to rising unit prices caused by

higher input costs, and very strong growth (40%) in the miscellaneous export sector, with exports of orthopaedic appliances, machinery and transport equipment, metallic structures and metal containers.

Receipts from travel services, mostly tourism, were up 9% and those from government services increased by 21.8%, reflecting expansion in the international business and financial services sector.

The current account deficit of US\$ 289 million was financed by a surplus of US\$ 333 million on the capital and financial account, the largest ever recorded in Barbados. Net private capital inflows totalled US\$ 146.9 million on account of proceeds from international real-estate transactions and lower amortization payments by the private sector, whereas net long-term public capital inflows amounted to US\$ 67.4 million thanks to the success of a 2035 bond to finance preparations for the Cricket World Cup. Over the past seven years the government has increasingly resorted to external borrowing in order to finance current account deficits and relieve pressures on the foreign exchange reserves in the face of a pegged exchange rate.

In 2007, the removal of the cess and of the surcharge on imports to protect locally-produced goods is expected to push the merchandise trade deficit upward.

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Belize

1. General trends

The Government of Belize has calculated GDP growth at 5.8% for 2006; this includes a 3.3 percentage point contribution from oil drilling activities which started that same year.¹ Demand for tourism services and the high prices brought by agricultural exports stimulated the performance of the economy, but construction and manufactures contracted. The external debt, which had a fairly short maturity profile, was restructured through new bond issues with terms up to 2029.

The fiscal problems underlying the adjustment initiated in 2005 were the result of a period of high growth during which foreign borrowing was used to finance reconstruction in the aftermath of devastating hurricanes that hit the country early in the decade. Although the economic and political context was further complicated by financial problems in State enterprises and with State-guaranteed loans, the situation was handled sensibly and transparently.² The committee investigating the bankruptcy

of the Development Finance Corporation (DFC) met from August 2006 to March 2007, and the proceedings were transmitted live throughout. The favourable external environment and petroleum exploitation both helped to moderate the tax burden and the pressure on the balance of payments towards the end of the year. Economic activity is predicted to be less buoyant in 2007, with GDP growth of only 2%. Fiscal policy will continue to focus on controlling the deficit.

2. Economic policy

(a) Fiscal policy

The overall fiscal deficit narrowed from 4.3% of GDP in 2005 to 1.7% in 2006.³ Achieving this involved building up a primary surplus of 4% of GDP in 2006. The surplus is in sharp contrast with the primary deficit of 5% of GDP in 2003, and demonstrates the scale of the fiscal adjustment measures applied over the last three years.

The primary surplus is mainly the result of tax revenues increasing by half a percentage point of GDP

and the fall in current expenditure (0.7 percentage points, not including interest payments), given that capital expenditure had already dropped to a minimum during the two previous years.

Tax receipts swelled thanks to the introduction of the general sales tax (GST) in July 2006, which has a wider tax base than the tax it replaced. Increased receipts from the general sales tax offset lower revenues from taxes on international commerce resulting from changes in the calculation of consumer prices for petroleum derivatives.⁴

¹ In Belize, real economic growth is calculated based on the production and price structures of the year 2000. The authorities decided to value the oil produced from 2006 onward against current prices for that same year.

² The budget presentation for fiscal year 2007/2008 was aptly titled "Facing, Fixing, Moving Ahead".

³ Calculated on the basis of data for the fiscal year from April to March.

⁴ To avoid a hike in fuel prices following the introduction of the general sales tax, fuel prices were made less dependent on a specific import tax (revenue replacement duty). Revenues from import duties declined as a result.

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	3.7	8.7	12.9	4.9	5.1	9.3	4.6	3.5	5.8
Per capita gross domestic product	1.0	5.9	10.1	2.3	2.6	6.8	2.2	1.2	3.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.4	10.7	11.5	-0.4	0.5	38.9	9.5	3.1	-5.7
Mining	3.0	7.4	23.3	3.3	-5.4	0.0	5.7	2.2	764.2
Manufacturing	-3.8	6.5	23.0	-0.6	1.5	-0.5	12.3	0.2	-2.0
Electricity, gas and water	1.6	7.9	9.8	0.3	2.7	8.5	-1.5	-0.6	34.6
Construction	-2.3	16.6	38.9	1.3	3.7	-17.8	4.5	-3.3	-2.9
Commerce, restaurants and hotels	8.7	9.8	12.1	8.4	3.7	3.8	1.6	5.3	5.8
Transport and communications	5.2	11.4	13.1	11.9	11.3	8.6	5.0	7.8	5.2
Financial institutions and insurance	3.5	13.1	17.4	6.2	17.7	16.9	5.5	11.5	3.9
Other services	3.5	1.2	4.4	4.2	3.9	5.8	2.3	1.4	0.6
Gross domestic product, by type of expenditure									
Consumption	5.9	6.8	7.9	9.1	7.6	3.5	-0.3	-1.4	...
General government	2.1	-2.4	7.0	6.1	13.1	5.3	-0.9	2.9	...
Private	6.7	8.6	8.1	9.7	6.7	3.2	-0.1	-2.2	...
Gross domestic investment	-1.4	34.7	45.1	-16.4	0.5	-10.8	-1.0	-0.5	...
Exports (goods and services)	5.1	13.0	8.7	4.0	8.7	13.0	4.1	11.4	...
Imports (goods and services)	10.4	24.6	20.1	-0.8	2.6	2.1	-7.5	6.2	...
Millions of dollars									
Balance of payments									
Current account balance	-60	-73	-162	-184	-166	-176	-156	-160	-30
Goods balance	-105	-114	-197	-209	-187	-207	-173	-231	-185
Exports, f.o.b.	186	262	282	269	310	316	307	325	427
Imports, f.o.b.	291	376	478	478	497	522	481	556	612
Services trade balance	41	44	30	43	44	70	88	134	200
Income balance	-32	-40	-53	-67	-69	-85	-117	-114	-118
Net current transfers	36	38	58	48	47	46	46	51	74
Capital and financial balance ^c	46	98	213	181	160	146	125	179	62
Net foreign direct investment	13	54	23	61	25	-11	111	126	72
Financial capital ^d	33	44	190	120	135	158	13	53	-10
Overall balance	-14	25	52	-3	-5	-30	-31	18	33
Variation in reserve assets ^e	14	-27	-52	3	5	30	31	-18	-33
Other external-sector indicators									
Net resource transfer (millions of dollars)	14	60	161	115	91	61	8	65	-56
Gross external public debt (millions of dollars)	233	255	431	495	652	822	913	970	985
Net profits and interest (percentage of exports) ^f	-9.8	-9.8	-12.2	-15.3	-14.1	-16.1	-21.5	-18.5	-15.2
Average annual rates									
Employment									
Unemployment rate ^g	14.3	12.8	11.1	9.1	10.0	12.9	11.6	11.0	9.4
Annual percentages									
Prices									
Variation in consumer prices (December-December)	-0.8	-1.2	0.6	1.1	2.3	2.6	3.1	3.7	4.3
Nominal deposit rate ^h	6.4	5.8	5.4	4.4	4.3	4.8	5.2	5.4	5.8
Nominal lending rate ⁱ	16.5	16.3	16.0	15.5	14.8	14.4	13.9	14.2	14.2
Percentages of GDP									
Central government^j									
Total income ^k	26.0	29.5	26.1	27.7	30.4	22.8	24.3	24.2	25.1
Current income	21.9	23.0	20.4	26.2	28.9	21.6	21.4	23.0	23.5
Tax income	19.7	17.4	17.8	23.9	26.5	19.0	19.4	20.6	21.4
Capital income	4.1	6.4	5.7	0.7	0.2	0.9	1.3	0.3	0.4
Total expenditure	27.7	32.9	31.8	39.3	34.0	31.9	30.7	31.0	27.0
Current expenditure	19.2	19.9	17.9	30.6	26.9	20.0	22.5	25.3	22.8
Interest	1.8	2.1	2.5	10.1	6.3	4.0	5.8	6.7	5.9
Capital expenditure	8.5	13.1	14.0	8.7	7.2	11.9	8.2	5.7	4.2
Primary balance	0.1	-1.4	-3.2	-1.5	2.8	-5.0	-0.5	-0.1	4.1
Overall balance	-1.7	-3.5	-5.7	-11.6	-3.6	-9.0	-6.3	-6.8	-1.8
Total public debt	...	...	...	68.8	79.1	96.2	99.7	99.8	92.9
Domestic	...	...	...	9.9	9.2	13.0	13.2	12.6	12.3
External	33.4	34.6	51.6	56.8	69.9	83.2	86.5	87.3	80.7
Money and credit^l									
Domestic credit	49.4	51.9	49.6	50.8	53.6	53.8	59.1	58.3	61.3
To the public sector	8.0	8.8	9.7	9.3	8.3	4.8	10.2	5.9	9.4
To the private sector	41.5	43.1	39.9	41.5	45.3	49.0	51.7	52.4	51.9
Liquidity (M3)	53.7	54.9	53.9	58.0	57.0	56.0	55.2	58.6	57.7

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

^a Preliminary figures. ^b Based on figures in local currency at constant 2000 prices. ^c Includes errors and omissions. ^d Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^e A minus sign (-) denotes an increase in reserves. ^f Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^g Percentage of the economically active population. ^h Nationwide total. ⁱ Rate for savings. ^j Weighted average rate for loans. ^k Up to 2000, revenue, expenditure and balance figures correspond to calendar years. ^l Includes external grants. ^m The monetary figures are annual averages.

In 2007, tax receipts will be boosted by the introduction of royalty payments for the oil industry.

In 2007, the Tax Reform Committee met to consider, *inter alia*, an amendment to the excise tax on alcoholic beverages and tobacco, which the authorities claim was encouraging smuggling. The government also decided to eliminate the import tax on gasoline, and instead to tax gasoline by a fixed sum per gallon, so that any fluctuations in international oil prices are passed directly on to the consumer.

Expenditure was contained thanks to a restriction on public wage increases and the freezing of debt servicing following the announcement of a restructuring offer.

For fiscal year 2007-2008, expenditure is expected to drop in the wake of debt restructuring. In terms of current expenditure, wages are expected to rise in line with the new performance evaluation system, and purchases of goods and services are predicted to increase, in the light of higher basic service charges and the need to carry out delayed maintenance work. For the first time in several years, capital expenditure will also edge up to meet priorities in terms of education, health and infrastructure.

A large part of the fiscal deficit was covered by non-project loans, which are not included in programmed capital expenditures. This included policy-based lending from the Inter-American Development Bank (US\$ 25 million) and the Caribbean Development Bank (US\$ 25 million), as well as loans from Taiwan province of China and the Bolivarian Republic of Venezuela. New bonds were issued to help guarantee the debts of the Development Finance Corporation (DFC). Total public debt shrank by almost seven percentage points of GDP. Its main component is external public debt, which dropped to 80.7% of GDP.

In February 2007, the government announced the end of its offer to exchange its short- and medium-term foreign commercial debt for 2029 bonds. This new issue was worth US\$ 546.8 million in nominal terms, and resulted in the restructuring of 98.1% of the debt. The operation had been painstakingly prepared with the advice of a United States consultancy firm, and involved identifying and subsequently negotiating with the main creditors. The fact that the Creditors' Committee for the country's foreign trade debt was made up almost entirely of financial institutions from the English-speaking Caribbean (with most headquartered in Trinidad and Tobago) contributed to the successful outcome of negotiations.

(b) Monetary and exchange-rate policy

Broad money (M3) swelled although credit to the public sector remained steady. The driving forces behind

the rise were the doubling of net foreign assets in the banking system, and the strong increase (13%) of net domestic credit to the private sector.

Monetary policy sought to cap the rise in local currency liquidity, in order to curb demand for foreign exchange and support the fiscal adjustment policy objective of meeting the country's external obligations. January 2006 saw the implementation of the International Banking Act, which clearly distinguishes between the deposits of non-residents and domestic deposits, and avoids artificial rises in liquidity. Also in early 2006, the legal reserve requirement was raised by 1%. In September, there was a further 1% increase in the requirement for cash deposits and a secondary reserve requirement.

Monetary policy failed to curb aggregate demand. The positive results in terms of exports of goods and services—combined with foreign receipts in the form of investments, loans and transfers—created a high level of liquidity in the banking system, thereby minimizing the effectiveness of monetary policy interventions. The average weighted interest rate on loans even dropped slightly, while the deposit rate rose. This resulted in a smaller banking spread. Although half of the increase in credit to the private sector took the form of personal loans, the number of loans also increased to companies in the real estate, commerce, transport and professional service sectors.

As for foreign-exchange policy, the fixed parity of two Belize dollars for one United States dollar was maintained. Given the prevailing circumstances, maintaining exchange-rate parity was a significant outcome of monetary and fiscal policy.

(c) Other policies

The crisis that overtook the Development Finance Corporation prompted a review of the country's structural policies. In July 2005, the Corporation owed debts of US\$ 215 million to the Belize Mortgage Company, the social security system, the government and the Caribbean Development Bank. It also had a loan portfolio of its own worth US\$ 162 million, half of which was in arrears. The institution's new authorities restructured the institution, and the resulting downsizing of the scope of the Corporation's activities has made it necessary to introduce a new assistance mechanism for micro-, small and medium-sized enterprises in the production sector. The government has requested advice from the Caribbean Development Bank in this connection.

3. The main variables

(a) Economic activity

Economic growth in the non-oil sector, as measured by indicators that are comparable with the series based on the production structure and prices for 2000, amounted to 2.5% and was driven by a sharp upswing in the output of electricity, strong demand for some tourism-related services, especially commerce, transport and communications. Agriculture expanded slightly, but fisheries, construction and manufacturing contracted.

The most striking feature of economic activity, however, was the beginning of commercial oil exploitation and, by including this sector in calculations of GDP for 2006, the authorities arrived at an economic growth rate of 5.8%. Small-scale exploration and production activities had been carried out since 1956, but it was not until 2004 that Belize Natural Energy Limited (a local private company) joined forces with the United States exploration enterprise West Bay Exploration Co. and found commercial quantities of hydrocarbons. The reserve is known to contain 44 million barrels. Export production began in early 2006, with 716,000 barrels of the 811,000 total barrels produced over the year destined for external sales. Their value was the equivalent of 11% of the country's total merchandise production.

Agricultural activity increased by a modest 1.4%, despite good international prices for most export products. Sugarcane and sugar production rose (by 26% and 11%, respectively) while citrus production fell (-19%). Shrimp fishing plummeted by more than 10%, as a result of Asian competition in the United States market.

Tourism reported mixed results. The number of visitors arriving by land increased by 13%, as a result of increasingly better communication links with Mexico and Guatemala. Despite being a small sector, yacht tourism turned in the country's most dynamic performance during 2006. In contrast, the number of cruise ships and cruise passengers fell, following a restructuring of the main companies' routes and the lack of suitable docks in Belize. Plans to build a dock, as part of a joint project between the port authority and Carnival Corporation (the sector's main international enterprise), have suffered setbacks due to disagreements between the parties involved.

(b) Prices, wages and employment

The consumer price index climbed by 4.3% between December 2005 and December 2006, which is the highest

growth rate observed since 1997. The main price increases were recorded in the transport and communications sector, as well as in rentals, fuel and energy, all of which was mostly due to the introduction of the general sales tax and higher oil prices.

The labour force survey, which is carried out every April, showed that unemployment had dropped from 11% in 2005 to 9.4% in 2006. Most of the new jobs were created in tourism-related services.

The 2007-2008 budget is expected to include a slight increase in public wages as a result of the new performance evaluation system.

(c) The external sector

The balance of payments turned in an overall surplus of US\$ 33 million, as the small current-account deficit was amply offset by a surplus in the capital and financial account.

The current-account deficit was much smaller than in 2005, and indeed the smallest for 10 years, which reflects the degree of adjustment in the country's economy. The balance of goods and services even posted a surplus, mainly thanks to higher merchandise exports and lower imports of services.

Exports performed well thanks to the initiation of oil exports, good prices for agricultural exports, an increase in sugar quotas for the United States and European markets, the strong demand for tourism-related services and rising sales from the free-trade zone.

Merchandise imports increased in value (10%) owing to the effect of oil prices. In contrast, service imports declined (-5%), mainly as a result of a slump in business services.

The deficit on the income account widened as a consequence of the level of interest payments and payments of dividends on direct and portfolio investments. The transfers account continued to post a structural surplus.

Following an impressive performance in the last three years, foreign direct investment (FDI) led an improvement in the financial account which made up for the small current-account deficit. The overall result is reflected in the expansion of net international reserves, which were sufficient to cover the equivalent of 2.2 months of imports by the end of 2006.

Cuba

1. General trends

According to information from the National Statistical Office, the Cuban economy expanded by 12.5% in 2006, which was similar to the figure for per capita GDP growth, owing to the standstill in population numbers during the year. The fiscal deficit was equivalent to 3.2% of GDP, one percentage point smaller than in 2005. The inflation figure to December was two percentage points higher than for 2005, at 5.7%. Open unemployment remained low, registering 1.9%, the same rate as in 2005.

The national accounts show an increase of a mere 1.1% in the volume of goods and services exports, which stood in contrast to 2005, when exports were the main drivers of growth with an expansion of 45.9%. Domestic demand, therefore, appears to have played a predominant role in 2006, thanks to public investment and private consumption. The second of these rose sharply, largely as a result of wage and pension rises at the end of 2005.

The fastest-growing branches of activity were construction and commerce. In contrast, in a number of key sectors growth slackened (manufacturing) or turned negative (agriculture). Certain products faced supply constraints, which pushed up domestic prices.

The government estimates a growth rate of 10% for 2007, reflecting a jump of some 22% in investment (mainly in construction), an 8% rise in the volume of goods and services exports and a drop of 1% in the volume of goods and services imported. The government will continue to restructure the energy sector in the course of the year, aiming to make more rational use of resources. There will be a strong drive in residential construction and efforts will be made to revitalize the agricultural sector. The authorities hope to step up and strengthen bilateral relations with the Bolivarian Republic of Venezuela and the People's Republic of China.

2. Economic policy

In 2006 the government maintained the economic policy adopted in 2004 to reduce the disequilibria that had built up in the 1990s as a result of the severe economic adjustment following the break with the Eastern European countries (after the dismantling of the Soviet Union and the transformation of the socialist economies into market economies). Another objective

was to consolidate the recent changes in monetary and exchange-rate policy.

(a) Fiscal policy

The overall balance showed a deficit equivalent to 3.2% of GDP. This was one GDP percentage point less

than in 2005 and brought the fiscal deficit nearer to the target of around 3% of GDP. The deficit was financed entirely through money creation.

Income increased by 19.7% in real terms, owing mainly to a 25.2% rise in the tax take due, in turn, to a jump of 46.6% in the collection of indirect taxes, especially those on circulation and on sales and services. This last tax provided the largest proportion of tax income, representing 26.7% of GDP and 44.6% of total revenues.

By contrast, income from direct taxes declined by a slight 1.1% in real terms, since the drop in the take from profit and personal income taxes exceeded the rise in receipts from other direct taxes.

Non-tax revenues expanded by a mere 5.4% in real terms. The item “other non-tax income”—which includes price differentials arising in external trade, other business contributions and net external income—registered a rise of 17.3%, however. In the last few years this segment has risen at dizzying rates and its contribution to output has more than doubled, from 4.6% of GDP in 2003 to 9.6% in 2006. Capital revenues also recorded a strong climb of 34%, but are still not very significant at 1.7% of GDP.

Expenditure rose by 17.1% in real terms, largely thanks to a strong 55% rise in capital spending, from 6.6% of GDP in 2005 to 9.4% in 2006, which reflected the government’s policy to eliminate the obstacles facing the Cuban economy.

The variation in current spending was much smaller, at 12.3% in real terms. Staff costs (wages) were up by 12.3%, as a result of wage rises implemented in 2005. The wage base expanded from the equivalent of 12.5% of GDP in 2003 to 17.7% in 2006. This was the outcome of the wage reform begun in 2005 which, among other aims, was designed to tie remuneration more closely to outcomes and to introduce some financial incentives in order to boost labour productivity.

In contrast, transfers to the business and cooperative sector slipped back, with a reduction in compensation for losses of one percentage point of GDP. The amount entered under other subsidies and transfers increased, however, also by one GDP percentage point. The economic authorities are making changes as regards subsidies, in order to direct them at individuals and households instead of particular products.

Owing to the rise in fiscal income and expenditure, the proportion of the economy accounted for by the State continued to rise in relation to GDP, in keeping with the recent trend. Fiscal income rose from 54.7% of GDP in

2005 to 59.9% in 2006, which was 14 percentage points higher than the 2004 figure, while spending went from 58.9% of GDP in 2005 to 63.1% in 2006 which was, in turn, 14 percentage points up compared to 2002.

The external debt agreements Cuba has signed with the Bolivarian Republic of Venezuela and the People’s Republic of China in the last two years have become increasingly significant to the country. Cuba has also arrived at bilateral arrangements with a number of countries lately, thereby opening up other possible sources of credit. After debt rescheduling, Cuba now maintains payments arrears only with the Paris Club. In these circumstances, public debt amounted to 7,793,700,000 pesos, which represented an increase of 32.1% with respect to 2005. This was largely a reflection of an increase in official debt (41.5%). Medium- and long-term debt continued to account for the bulk of the total (75%).¹

(b) Monetary policy

En 2006 efforts continued to reduce monetary duality and move towards unification in the framework of the reform begun in 2004. Measures to centralize and heighten the efficiency of currency operations continued to be improved and deepened. The United States dollar was prohibited as a means of payment between Cuban firms.

The Central Bank of Cuba continued to use the legal deposit and credit controls, as well as interest rates, to administer liquidity. As has been the case for several years now, the interest rate spread was structured in such a way as to encourage saving in Cuban pesos.

Time deposits rose by 19.5% in nominal terms. In the absence of other financial savings instruments, part of the wage and pension increases of 2005 and 2006 was invested in time deposit certificates. Meanwhile, sight deposits registered a decrease of 5%.

Only non-convertible Cuban pesos are reported in the monetary aggregates. M1 shrank by 7.8% in real terms, from 32.9% of GDP in 2005 to 27.7% in 2006. The contraction in M2 was not so sharp, at 3%, but the variations recorded in monetary aggregates overall were much smaller than in 2005, when M1 was up by 22.1% and M2 by 28%.

There were no major changes in the financial system in 2006. It still comprises eight commercial Cuban banks, which offer an increasing range of services, 17 offices representing foreign banks and a number of jointly local- and foreign-owned financial institutions. A Cuban-Venezuelan mixed bank, which will broaden the

¹ These data refer to “active debt”, a term used to refer to financial and commercial transactions whose balance reflects new financing obtained and payments made. It does not include debt outstanding since 1986 (7,591,700,000 pesos). Of this amount, 60.2% represents official debt owed to the Paris Club.

range of financial services between the two countries, also opened for business.

After two revaluations (both of 8%) of the convertible Cuban peso in 2005, no further changes were made to exchange-rate policy in 2006. The average unofficial exchange rate (the non-convertible peso) appreciated by 1.23%, moving from 24.3 pesos to the dollar in 2005 to 24 in 2006.²

(c) Trade policy

Trade policy continued to be directed towards forging closer links with Latin American countries, especially the Bolivarian Republic of Venezuela, in the context of a type of integration conceived as going beyond commercial affairs to include a social component. An important scheme in this regard is the Bolivarian Alternative for Latin America and the Caribbean (ALBA), which Bolivia

joined in 2006 and Nicaragua in 2007. Cuba also signed the People's Trade Agreement in 2006.

Imports from the Bolivarian Republic of Venezuela and Bolivia have been made 100% tariff-free within ALBA, and progress is expected to be made as regards Nicaragua in 2007. This facilitated exports to Cuba by small and medium-sized Venezuelan firms, which account for 10% of the value of that country's exports to Cuba. In 2006 the two countries embarked upon a joint scheme to refurbish the Cienfuegos refinery, which should be completed in late 2007.

With a view to boosting mutual trade, Cuba and the members of MERCOSUR signed a partial economic complementarity agreement in 2006. Cuba's trade with the countries of the bloc is worth around US\$ 400 million at present and this amount is expected to expand considerably in the next few years.

3. The main variables

(a) Economic activity

In 2006, the authorities reported GDP growth of 12.5%, which was a higher rate than the official figure for 2005 (11.8%). Per capita GDP behaved similarly to overall GDP in 2006, owing to the standstill in population numbers.

Unlike what happened in 2005, in 2006 economic expansion was driven basically by buoyant domestic demand, which climbed by 16.6%. In 2005 the volume of goods and services exports helped to boost economic growth with a jump of 45.9%, but in 2006 this volume rose by a meagre 1.1%. This, combined with a strong increase in imports, which were up by 20.6%, caused the external sector's contribution to growth to become negative.

Investment was the fastest-growing component of demand (22.2%). Despite this high rate of growth, however, investment was equivalent to only 13.1% of GDP. A proportionally larger investment effort will be needed in order to achieve strong, steady output growth in the future. Total consumption was up by 15.8%, led by private consumption (20.7%) which, in turn, was driven largely by the rise in wages and pensions in 2005 and 2006.

The most dynamic branches of activity were construction (37.7%) and commerce and restaurants (22.6%). By contrast, after a contraction of 11.6% in 2005, agriculture, hunting, forestry and fishing again turned in a poor performance in 2006, decreasing by 6%. The authorities have attributed this state of affairs to productivity problems and to the fact that the sector is still recovering from the effects of drought and three hurricanes which hit the country in 2005. Sugar cane, tubers, vegetables, legumes and fruit all registered downturns despite good weather conditions. Tobacco and cereals turned in a positive performance, as did the livestock sector (except beef). Manufacturing expanded only by 1.9%, owing to a decline in the production of sugar and nickel.

(b) Prices, wages and employment

Measured by the CPI for December to December, inflation rose by 5.7% in 2006, which was two percentage points higher than the year-on-year rate at December 2005. This increase reflected pressures generated by wage and pension hikes in a context of shortages of certain products. However, since the State sets the prices of a

² The convertible peso's official exchange rate is 1 to 1 with the United States dollar.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	0.2	6.3	6.1	3.0	1.8	3.8	5.4	11.8	12.5
Per capita gross domestic product	-0.2	6.0	5.8	2.7	1.6	3.6	5.2	11.7	12.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-14.1	11.6	9.1	0.9	-2.5	2.4	0.2	-11.6	-6.0
Mining	-11.7	2.7	33.2	-3.5	12.4	1.8	-4.7	0.1	1.9
Manufacturing	-8.1	7.2	5.1	-0.6	0.2	-2.0	2.5	1.2	1.9
Electricity, gas and water	3.7	8.1	12.8	1.1	2.4	3.1	-2.5	-1.6	3.4
Construction	-2.6	7.5	8.4	-5.3	-2.4	4.4	10.0	18.9	37.7
Wholesale and retail commerce, restaurants and hotels	5.8	0.7	7.6	4.4	2.0	5.0	0.7	4.8	22.6
Transport, storage and communications	15.6	17.6	5.0	8.4	0.0	2.7	4.8	8.2	9.2
Financial institutions, insurance, real estate and business services	5.1	12.7	0.9	5.4	1.2	0.2	4.9	1.0	4.6
Community, social and personal services	0.2	4.7	3.5	4.5	4.2	6.8	11.3	28.0	10.6
Gross domestic product, by type of expenditure									
Consumption	1.5	5.1	2.3	3.4	3.1	6.3	3.4	4.9	15.8
General government	0.1	5.2	2.9	2.7	4.8	6.6	6.8	12.5	8.5
Private	1.9	5.1	2.1	3.8	2.1	6.2	1.5	0.4	20.7
Gross domestic investment	-11.0	0.5	11.3	0.8	-10.8	-9.6	13.5	35.4	22.2
Exports (goods and services)	5.8	12.8	14.1	-3.6	-3.8	5.8	19.0	45.9	1.1
Imports (goods and services)	1.4	2.4	-0.2	-3.8	-7.3	12.1	13.0	25.4	20.6
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	14.3	12.9	13.5	12.3	10.1	9.4	9.3	...	...
National saving	12.6	11.1	11.1	10.4	9.2	9.0	9.8	...	...
External saving	1.7	1.8	2.5	1.9	0.9	0.4	-0.5	...	...
Millions of dollars									
Balance of payments									
Current account balance	-392	-462	-696	-605	-343	20	116	-154	...
Goods balance	-2 689	-2 909	-3 120	-2 847	-2 388	-2 574	-2 918	-5 164	-6 269
Exports, f.o.b.	1 540	1 456	1 675	1 622	1 422	1 671	2 180	1 999	2 685
Imports, f.o.b.	4 229	4 365	4 796	4 469	3 810	4 245	5 098	7 163	8 954
Services trade balance	1 932	2 163	2 306	1 931	1 825	2 329	2 710	4 240	...
Income balance	-449	-514	-622	-502	-600	-650	-650	-200	...
Net current transfers	813	799	740	813	820	915	974	970	...
Capital and financial balance ^d	409	485	805	595	300	200	800	500	...
Overall balance	17	23	109	-11	-43	220	916	346	...
Variation in reserve assets ^e	-17	-23	-109	11	43	-220	-916	-346	...
Other external-sector indicators									
Official exchange rate (pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Average unofficial exchange rate (pesos per dollar)	21.00	20.00	21.00	26.00	26.00	26.00	26.00	24.30	24.00
Terms of trade (annual growth rates)	-4.2	-14.6	-4.1	14.0	-7.9	15.2	10.2	-2.6	23.8
Total gross external debt (millions of dollars) ^f	11 209	11 078	10 961	10 893	10 900	11 300	12 000	...	...
Average annual rates									
Employment									
Unemployment rate ^g	6.6	6.3	5.5	4.1	3.3	2.3	1.9	1.9	1.9
Annual percentages									
Prices									
Variation in consumer prices ^h (December-December)	2.9	-2.9	-3.0	-0.5	7.0	-1.0	3.0	3.7	5.7
Percentages of GDPⁱ									
Public sector									
Total income	52.6	51.3	45.6	44.5	44.9	45.4	45.8	54.7	59.9
Current income	50.5	49.6	44.6	43.7	43.8	45.3	45.7	54.0	59.1
Tax income	38.9	40.3	34.8	33.7	34.1	35.1	34.0	38.7	44.3
Capital income	2.1	1.7	1.0	0.8	1.1	1.2	1.0	1.4	1.7
Total expenditure	54.9	53.7	47.7	46.7	47.6	48.2	49.3	58.9	63.1
Current expenditure	48.3	45.8	42.3	40.8	42.2	42.8	43.7	52.3	53.7
Capital expenditure	6.6	7.9	5.4	5.9	5.4	5.4	5.6	6.6	9.4
Overall balance	-2.4	-2.3	-2.1	-2.2	-2.8	-2.8	-3.5	-4.2	-3.2
Liquidity									
Currency outside banks	...	...	15.5	18.9	19.2	17.2	18.0	21.1	18.1
Money (M1)	...	...	32.2	33.7	33.7	29.7	29.1	32.9	27.7
Liquidity (M2)	...	...	34.4	36.6	37.8	35.0	35.4	42.7	37.9

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

^a Preliminary figures. ^b On the basis of figures in national currency at constant 1997 prices. Data not comparable as of 2001 owing to changes in the methodology. ^c On the basis of national currency expressed in dollars at current prices, without including the new calculations carried out by the National Statistical office (ONE) of Cuba for the period 2000-2006. ^d Includes errors and omissions. ^e A minus sign (-) denotes an increase in reserves. ^f Calculated using the official exchange rate of 1 peso to the dollar. ^g Economically active population as a percentage of the working-age population; nationwide total. ^h Local-currency markets. ⁱ As of the year 2000, the GDP data used were from the new calculation performed by the National Statistical Office (ONE) of Cuba.

large proportion of goods and the markets are strongly segmented, these figures do not necessarily constitute an accurate reflection of relative shortage or abundance in the market.

The effects of several measures implemented in the framework of wage reform in 2005—especially the 125% rise in the minimum wage—began to be felt in 2006. The increase in wages, pensions and benefits amounted to 4,260,900,000 pesos (8% of GDP) and benefited 5.1 million people. The unemployment rate remained virtually unchanged at a low 1.9%.

(c) The external sector

The balance-of-payments current account registered a downturn in 2006, since it posted a deficit of 239.7 million pesos, in contrast to the surplus of 154 million pesos the year before. The merchandise trade deficit widened to 6,355,400,000 pesos, which was more than enough to offset the larger net surplus on the services account (6.456 million pesos), as well as an increase in net current transfers and a narrowing of the deficit on the income account.

According to information provided by the authorities, in 2006 Cuba's terms of trade posted an upturn of almost 24%, after the deterioration seen in 2005. Merchandise exports were 34.5% up on the previous year in terms of value and by 7.5% in terms of average volume. Some key products such as nickel and sugar benefited from improvements in international prices, so that exports of these products rose in value even though export volumes stood still or declined. Exports of fish and shellfish decreased in value owing to a drop in prices. Conversely, higher export volumes of tobacco compensated for the lower prices being fetched by the product. Export volumes of citrus and preserved fruit shrank by a third, owing to the poor performance of agriculture, but the citrus sector

benefited from higher prices, which were more than enough to counteract the volume effect.

Medicines continued to render an extraordinary performance and the value of exports rose by 92% in 2006, doubling the value registered in 2005. This mainly reflects the export of new products (vaccines), especially to developing countries, stemming from a broader effort to diversify Cuba's exports in terms of both products and destinations.

The People's Republic of China has become Cuba's second largest trading partner after the Bolivarian Republic of Venezuela. In 2006 trade with China doubled to some US\$ 1.8 billion. China's share in Cuban merchandise trade went from 10.3% in 2005 to 14.9% in 2006, while the Bolivarian Republic of Venezuela's stood at 20.6% (US\$ 2.6 billion).

The value of merchandise imports rose by 25%. The largest increase was registered in capital goods (50.8%), thanks to imports associated with the energy restructuring programme. Imports of generators were up by 117.9% and of machinery and electrical apparatus and devices by 128.2%. Imports of consumer goods also increased by a considerable 27.3%, led by foods (wheat flour, preserved meat, preserved fruits and vegetables) and furniture. The smallest variation, of 17.4%, was posted by intermediate goods.

In 2006, tourism revenues amounted to US\$ 2.056 billion, which represented a decline of 0.7% with respect to 2005, caused by a drop in the number of foreign visitors. There was a notable decline in the number of Venezuelan citizens travelling to Cuba for health reasons, since the *Barrio Adentro* ("Into the Neighbourhood") and *Operación Milagro* ("Operation Miracle") programmes being conducted in the Bolivarian Republic of Venezuela had helped to reduce the need for such trips to the island.

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Dominican Republic

1. General trends

In 2006, the economy of the Dominican Republic posted considerable growth. Annual GDP growth was 10.7%, the highest rate in 19 years. Employment expanded by 4.8%, more than double the previous year's figures. Despite higher international oil prices, inflation fell again and stood at 5%. However, the public-sector deficit widened to 3.7% of GDP and the trade deficit broadened to 15.1% of GDP.

The expansion was driven by the buoyancy of domestic demand (11.1%). For 2007, the authorities project more moderate growth of between 6% and 7%, although production trends from the first half of the year suggest that the actual figure might be higher. Despite the inflation target of 5.5% being slightly higher than for 2006, the objective is unlikely to be met as cumulative inflation for the first five months of the year was almost 4%.

The implementation of the structural reform programme suffered some setbacks in 2006, although

the parliamentary majority achieved following the May elections did enable significant progress to be made towards the end of the year, especially in fiscal matters. The campaigns for the presidential elections may slow down the pace of reform in 2007. The Dominican Republic —Central America— United States Free Trade Agreement (CAFTA-DR) finally entered into force in March 2007, and this has generated many positive expectations about its potential effects on the economy.

2. Economic policy

Economic policy was implemented in accordance with the guidelines set out in the agreement concluded with IMF. Deviations in the fiscal sphere during the year were offset by achievements in terms of monetary policy.

(a) Fiscal policy

The target of a balanced budget was not achieved for 2006. The non-financial public sector deficit stood at 1.2% of GDP. The quasi-fiscal deficit, which had formed in the wake of the financial crisis, was 2.5% of GDP (slightly narrower than the level recorded the previous year). As a result, the fiscal year closed with a consolidated public-sector deficit of 3.7% of GDP.

Total central government revenues swelled by 14.7% in real terms. As in the previous year, the increase was mainly due to tax revenues, especially from indirect taxes. Tax revenues in 2006 were nonetheless 4% less than projected, largely as a result of a reduction in taxes on foreign trade. The anticipated elimination of the import tax under the Dominican Republic —Central America— United States Free Trade Agreement (CAFTA-DR) slashed income from that source by 29% compared with the previous year, while its contribution to tax revenues fell from 25.5% in 2005 to 15.1% in 2006.

Total public expenditure was highly buoyant in 2006, surging by 12.8% in real terms. The expansion was the result of factors such as the local and parliamentary

elections held in May, the construction of a metro system in Santo Domingo and energy subsidies (for electricity and liquefied petroleum gas). The election process also boosted growth in components of current expenditure such as non-personal services (especially basic services and social welfare programmes), for which outlays rose by 34% in real terms. The construction of a metro system in Santo Domingo bolstered fixed public investment, whose main component —construction— expanded by an impressive 54.4% in 2006. Subsidies to the energy sector caused current transfers to swell to 43% of total current expenditure.

Another item of expenditure that recorded a significant expansion was debt interest payments, whose real value increased by one third. Almost three quarters (73%) of the item total corresponded to external debt.

In December, Congress adopted a tax amendment bill, some of the aims of which were to increase tax on the consumption of cigarettes and alcoholic beverages (including beer) and introduce a 16% tax on general insurance services. These amendments are expected to push up the government's tax revenues by 1.5% of GDP in 2007. The targets in the 2007 fiscal programme include a primary surplus of around 2.3% of GDP for the consolidated public sector. In addition, the 2007 budget features measures to restrict transfers and capital expenditure.

(b) Monetary policy

Monetary policy continued to be managed as in the previous biennium. Inflation was reduced to the lower edge of the range agreed with IMF in the Letter of Intent for 2006. The weighted rate of interest on zero-coupon certificates fell to 10.0% in December 2006 (compared with 14.7% in the year-earlier period), while the interest rate on certificates sold directly to the public dropped to 14% (compared with 17% in 2005). Lower financial costs narrowed the quasi-fiscal deficit to 2.5% of GDP (compared with 2.9% at the end of 2005). Net international reserves in the central bank swelled by 17.6%, thereby far exceeding the minimum target set in the monetary programme.

In 2006, the lower interest rates on the central bank's monetary instruments brought down bank rates to their lowest levels since they were liberalized in 1991. In

December 2006, deposit and lending interest rates of multi-purpose banks averaged 16.4% and 7.7%, respectively, which were 3.7 and 4 percentage points lower than 12 months previously. Despite this, the level of intermediation of multi-purpose banks was a little higher in December (8.7%) than one year earlier (8.5%).

Money supply (M1) grew by 4.8% in real terms. In keeping with the buoyant domestic market, cash held by the public was the fastest growing component (9.3%) of money supply. Liquidity in local currency (M2) and broad liquidity (M3, including deposits in dollars) only grew by 2% in real terms.

Total financing by commercial banks in 2006 rose by 10.1% in real terms, to reach its highest level of the last five years. More than four fifths of loans were granted to the private sector. Of these, 73.2% were channelled into productive activities, especially construction (for which bank financing grew by 75.5% in real terms) and manufacturing (up by 35.6%). Credit for construction and manufacturing made up 40% of the effective increase in loans to the private sector.

(c) Exchange-rate policy

Achieving monetary targets contributed to stability on the exchange market. Above and beyond the cyclical variations in the exchange market (especially towards the end of the third quarter), the exchange rate remained stable, thereby encouraging capital inflows into the economy.

Within the free currency float system, in nominal terms the exchange rate of the Dominican peso during 2006 remained similar to levels recorded in the last two months of the previous year. This resulted in an average depreciation against the dollar of 10% in nominal terms and 5.5% in real terms.

(d) Other policies

In August 2006, a number of legislative changes were introduced to bring the country's legal system into line with the CAFTA-DR requirements in terms of intellectual property, copyright and brand protection, matching sanitary and phytosanitary provisions with those laid down by the World Trade Organization (WTO), and eliminating charges on import cost, insurance and freight.

3. The main variables

(a) Economic activity

The impressive economic growth of 2006 (10.7%) resulted in a hefty 9.1% annual increase in per capita GDP. The economic buoyancy is continuing into 2007, and growth in the first quarter was 9.1% higher than in the year-earlier period.

Unlike in 2005, buoyancy was driven by domestic demand, which in turn was based on higher spending on investment (19.4%). Despite the increase, the investment to GDP ratio of 17.8% remained lower than the 21.6% recorded in 2000. Consumption was up by 9.5%, and external demand for goods and services rose by 5.2%.

With the exception of free zones, practically all productive activities contributed to overall economic growth in 2006. The value added of agricultural production turned in its best performance since 2001, with an increase of 9.9%. By the end of 2006, the agricultural production index was 16% higher than the level seen prior to the 2003 crisis. Unlike in 2005, all sectors of agriculture played a part in the expansion: livestock production, fishing and, above all, export crops and those destined for the domestic market. Contributing factors to agriculture's positive performance included the policy of incentives, financing and technical assistance for small- and medium-scale producers offered by the government (especially through the Basic Food Production Programme (PROABA)) and the Banco Agrícola. The amount of financing granted by the Banco Agrícola in 2006 posted a real annual increase of 20.3%. The portfolio of production loans for national councils of coffee, cocoa and the dairy industry also expanded.

The positive performance of the agricultural sector carried on in the first few months of 2007. From January to March, agricultural value added rose by 5.1%.

Overall manufacturing output increased more slowly in 2006 than in the previous year (4.5% compared with 7.9%). In the non-maquila manufacturing sector, whose annual value added rose by 7.4%, positive performances were turned in by food processing and milling, as well as by certain branches linked to construction and public works, such as cement production. This boom is largely thanks to domestic demand from consumption and investment. The sector has been slowing down in the first few months of 2007.

Output from free zones declined severely (by 8.3%) in 2006, as an even larger annual slump was recorded in textile manufacturing (down 18.4% compared with a

decrease of 5.4% in 2005). In the first quarter of 2007, the value added of free zones and the textile industry plummeted by 12.2% and 17.6%, respectively. These figures point to the negative impact that the opening of the United States market to other exporters has had on the country's textile export industry. The elimination of the Multifibre Arrangement has increased competition from other manufacturers (especially Asian ones) in the United States market. These competitors have been pushing out several Central American producers. As a result, the share of the Dominican Republic in free-zone textile exports to the United States dropped by 16% in 2005 and 19.1% in 2006.

In 2006, construction displayed one of the highest growth rates (22.9%, almost twice the national average). This was the result of the central government expanding public works by increasing expenditure on that item by nearly 30% in real terms. Most investment was linked to the construction of a metro system in Santo Domingo and road building in the rest of the country. The construction boom was also fuelled by a considerable rise in mortgage lending on the part of the financial system. By the end of 2006, the real value of the mortgage loan portfolio of commercial, mortgage and development banks was 74% higher than one year previously. In the first quarter of 2007, loans from multi-purpose banks to the construction sector were up by 86.8% on the year-earlier period.

Output from basic services, which accounts for 22% of GDP, also surged (12%). The output of the transport and storage sector and that of the energy and water sector both underwent a relatively significant expansion (of 8.3% and 7.2%, respectively). As in previous years, however, the communications sector turned in the most dynamic performance. With an annual growth rate of 26.1%, the communications sector was bolstered by the growing demand for telephone services, which in turn requires the constant expansion of service networks. In 2007, communications value added continued to soar, with the sector up by 20.7% in the first quarter.

The performance of the hotels, bars and restaurants sector was less buoyant than in the previous year (5.5% in 2006 compared with 9.2% in 2005). Although the increase in the number of foreign visitors was higher than the rise in 2005, tourism revenues posted a lower annual growth rate. One contributing factor to this situation was the combined effect of the 5.4% increase in room capacity and a 0.9% dip in the hotel occupancy rate. In the first quarter of 2007, the outlook for tourism improved, with

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	8.3	6.1	7.9	2.3	5.0	-0.4	2.7	9.2	10.7
Per capita gross domestic product	6.4	4.3	6.1	0.6	3.3	-2.0	1.1	7.6	9.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.7	1.3	4.0	9.4	2.7	3.3	2.4	7.4	9.9
Mining	-15.4	-0.4	12.0	-19.7	-2.6	8.0	6.0	-1.7	9.3
Manufacturing	7.1	7.0	6.6	-1.2	5.0	-0.4	2.0	7.9	4.5
Electricity, gas and water	8.3	6.5	3.9	15.1	6.7	-7.5	-16.4	3.6	7.2
Construction	18.4	12.0	-2.7	-3.6	5.8	-12.5	-6.5	6.8	22.9
Wholesale and retail commerce, restaurants and hotels	3.7	5.3	6.8	0.0	3.8	3.2	3.2	12.6	9.0
Transport, storage and communications	16.4	15.5	12.8	11.1	13.2	4.9	11.6	18.7	19.8
Financial institutions, insurance, real estate and business services	4.1	6.2	4.1	14.8	4.9	-3.9	-0.2	3.2	9.8
Community, social and personal services	6.5	1.3	2.9	6.1	2.8	3.0	3.1	2.7	6.5
Gross domestic product, by type of expenditure									
Consumption	8.2	5.4	8.7	5.7	4.4	-3.3	1.1	11.7	9.5
General government	9.2	3.4	4.6	8.7	8.4	-2.2	-5.3	11.9	10.7
Private	8.1	5.5	8.9	5.6	4.2	-3.3	1.4	11.7	9.5
Gross domestic investment	43.2	-0.9	7.3	-10.6	9.0	-30.2	-4.7	14.5	19.4
Exports (goods and services)	7.3	5.2	9.7	-5.3	2.5	6.9	3.1	4.9	5.2
Imports (goods and services)	21.5	0.9	10.3	-4.5	3.7	-13.1	-2.4	11.6	6.5
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	24.0	22.7	23.5	19.9	21.1	15.8	17.0	15.0	17.3
National saving	22.3	20.7	19.1	16.9	17.9	21.1	21.8	13.6	15.2
External saving	1.7	2.0	4.4	3.0	3.2	-5.3	-4.8	1.4	2.0
Millions of dollars									
Balance of payments									
Current account balance	-338	-429	-1 026	-741	-798	1 036	1 047	-478	-786
Goods balance	-2 617	-2 904	-3 742	-3 503	-3 673	-2 156	-1 952	-3 725	-4 750
Exports, f.o.b.	4 981	5 137	5 737	5 276	5 165	5 471	5 936	6 145	6 440
Imports, f.o.b.	7 597	8 041	9 479	8 779	8 838	7 627	7 888	9 869	11 190
Services trade balance	1 182	1 602	1 854	1 826	1 757	2 249	2 291	2 447	2 666
Income balance	-890	-975	-1 041	-1 092	-1 152	-1 393	-1 819	-1 897	-1 735
Net current transfers	1 987	1 848	1 902	2 028	2 269	2 336	2 528	2 697	3 033
Capital and financial balance ^d	350	581	978	1 256	243	-1 583	-868	1 183	1 057
Net foreign direct investment	700	1 338	953	1 079	917	613	909	1 023	1 183
Financial capital ^e	-350	-757	25	177	-674	-2 196	-1 777	160	-126
Overall balance	11	151	-48	515	-555	-546	179	705	271
Variation in reserve assets ^f	-98	-194	70	-519	527	358	-542	-1 109	-319
Other financing ^g	87	42	-22	4	28	189	363	404	48
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	108.0	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9
Net resource transfer (millions of dollars)	-453	-352	-85	168	-881	-2 787	-2 324	-310	-630
Total gross external debt (millions of dollars) ^h	3 546	3 661	3 679	4 176	4 536	5 987	6 380	6 755	7 266
Net profits and interest (percentage of exports) ⁱ	-11.9	-12.2	-11.6	-13.0	-14.0	-15.6	-19.3	-18.9	-16.3
Average annual rates									
Employment									
Labour force participation rate ^j	52.6	53.5	55.2	54.3	55.1	54.7	56.3	55.9	56.0
Open unemployment rate ^k	14.4	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.2
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.8	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.0
Variation in nominal exchange rate (December-December)	10.4	2.2	-0.3	1.1	23.0	79.3	-20.7	20.9	-3.4
Variation in real minimum wage	7.5	-1.1	-0.4	5.7	-0.5	-9.2	-15.0	18.7	-7.1
Nominal deposit rate ^l	17.0	15.4	18.6	16.1	16.4	20.6	21.1	12.7	9.8
Nominal lending rate ^m	23.5	22.2	23.6	20.0	21.3	27.8	30.3	21.4	15.7

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Percentages of GDP									
Central government									
Total income ⁿ	12.7	12.9	13.5	14.5	14.5	13.5	13.9	15.1	15.3
Current income	12.5	12.8	13.3	14.3	14.3	13.3	13.8	14.9	15.0
Tax income	12.0	12.2	12.5	13.8	13.6	12.4	12.8	14.1	14.9
Capital income	0.1	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0
Total expenditure	13.0	14.3	13.2	15.5	16.0	16.4	16.6	16.2	16.2
Current expenditure	9.2	10.0	9.9	10.3	10.4	10.4	12.4	12.2	12.3
Interest	0.6	0.6	0.7	0.7	1.1	1.6	1.8	1.3	1.3
Capital expenditure	3.7	4.3	3.2	5.1	5.6	6.0	4.2	4.0	3.9
Primary balance	-0.2	-0.9	-1.0	-1.3	-1.3	-2.7	-1.6	0.6	0.3
Overall balance ^o	-0.8	-1.5	-1.7	-2.1	-2.3	-4.4	-3.4	-0.6	-1.0
Public-sector debt									
Domestic	18.2	17.3	18.0	19.7	23.0	40.8	25.1	25.7	22.5
External ^h	18.2	17.3	16.0	17.2	20.7	37.1	21.7	22.5	19.5
Money and credit^p									
Domestic credit ^q	22.9	26.1	29.0	32.4	34.7	35.5	27.1	28.3	30.1
To the public sector	1.5	2.1	2.8	2.9	3.2	3.1	2.5	7.1	9.9
To the private sector	21.4	24.0	26.2	29.5	31.5	32.4	24.6	21.2	20.2
Liquidity (M3)	20.4	22.5	23.3	25.2	26.7	29.9	26.2	25.3	23.3
Currency outside banks and local-currency deposits (M2)	20.0	22.1	23.1	25.2	26.7	29.9	26.2	25.3	23.3
Foreign-currency deposits	0.4	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1991 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Public and guaranteed private external debt. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, nationwide total. ^k Percentage of the economically active population, nationwide total. ^l 90-day certificates of deposit. ^m Average of the benchmark rate. ⁿ Includes grants. ^o Includes "Residual" and "Other payments (transfers)" ^p The monetary figures are annual averages. ^q Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

a 7% increase in output, an occupancy rate of 87.2% (the highest rate compared to year-earlier periods) and tourist revenues up by 4.9%.

The financial sector boomed in 2006, posting a growth rate of 22.4%. Financing of the economy climbed significantly, in keeping with the general buoyancy of productive activities. Loans from multi-purpose banks (the most important financial subsector) were up by 15.6% on 2005.

Following the above-mentioned trends, commerce also performed well. Output rose by 11.7% in 2006 as the result not only of high levels of economic activity, but also thanks to the renewal of bank financing, which climbed significantly (12.9%) after falling by 2.2% in 2005. Another major determining factor was the notable rise in personal consumer loans, the value of which was up by 44% in real terms. Commerce remains driven in 2007, with value added increasing by 17.2% in real terms.

(b) Prices, wages and employment

The 5% annual rate of inflation was lower than in 2005, and was at the lower limit of the target range set in

the monetary programme and the agreement concluded with IMF. The groups of products and services that had the largest effect on the overall rise in prices were food, beverages and tobacco; housing; transport; and education. These four categories together accounted for 75.8% of the annual variation in the consumer price index (CPI).

The impressive economic growth promoted a continued improvement in general labour-market conditions. The open unemployment rate (4.9%) reached its lowest level since 2000, and the broad unemployment rate was the lowest in four years. Total employment grew by 4.8%, which was much more than double the growth rate of the previous year (2.1%). The productive sectors that made the largest contribution to the overall rise in employment were agriculture (22.3% of the total increase), construction (16.8%) and other services (37.6%).

The nominal minimum wage remained at the level observed in 2005, the year that saw a nominal increase of 30%. In real terms, the minimum wage fell by an average of 7% in 2006.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	4.3	7.2	11.1	12.9	12.1	11.3	...	...	...	...
Goods exports, f.o.b. (millions of dollars)	1 426	1 584	1 576	1 559	1 493	1 618	1 687	1 641	...	...
Goods imports, f.o.b. (millions of dollars)	1 617	1 821	2 029	1 900	1 862	2 101	2 378	2 404	...	...
International reserve assets (millions of dollars) ^c	1 272	1 525	1 557	1 929	1 927	2 099	2 076	2 251	2 547	2 705
Consumer prices (12-month percentage variation)	4.3	-1.0	4.2	7.4	8.3	10.3	4.7	5.0	5.5	5.9
Average nominal exchange rate (pesos per dollar)	36.32	38.20	41.43	42.16	42.20	39.45	38.59	38.29	38.08	36.64
Nominal interest rates (annualized percentages)										
Deposit rate ^d	19.3	10.5	8.8	12.3	12.1	11.3	8.4	7.5	7.7	7.3
Lending rate ^e	28.7	21.8	18.2	17.1	17.7	16.9	15.4	12.8	13.1	11.8 ^f
Interbank rate	19.3	9.5	9.5	12.0	11.9	11.5	9.8	9.2	9.1	8.4 ^f
Domestic credit (variation from same quarter of preceding year) ^g	...	...	...	25.4	31.6	23.1	22.2	38.9	40.2 ^h	...
Non-performing loans as a percentage of total credit ⁱ	6.4	7.3	6.8	6.2	6.5	6.4	5.9	4.8	5.5	5.6 ⁱ

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1991 prices. ^c Including gold. ^d 90-day certificates of deposit. ^e Average of the benchmark rate. ^f Data to May. ^g Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^h Data to February. ⁱ Refers to total credit extended by the consolidated financial system. ^j Data to April.

(c) The external sector

The balance-of-payments current account deficit stood at 2.5% of GDP. This figure was within the target range agreed with IMF and is in keeping with the growth rate of the economy. The trade deficit widened by US\$ 1.026 billion to reach just over 15% of GDP. The import demand inherent in the economic expansion resulted in a current-account deficit of 1.1% of GDP during the first quarter of 2007.

Merchandise exports displayed slow growth (4.8%), due to the 5.1% decline in the value of exports from free zones (which make up 70% of total exports). Non-maquila exports, on the other hand, swelled by 38.6%, especially in the case of ferronickel. The 13.4% rise in imports was also driven by demand from the non-maquila sector. Unlike in 2005 (when imports of consumer goods were high), the best performance of 2006 was turned in by the raw materials subsector, which goes hand in hand with the expansion of productive activity. The import value of petroleum and its derivatives increased by 13.7%.

Non-maquila exports have remained buoyant in 2007, with a 50.3% increase in value recorded between

January and March. Meanwhile, exports from free zones continued their downward trend with a decline of 8.6%. Increased domestic demand pushed up the value of non-maquila imports by 30% during the period in question, which was in contrast with a 12.8% drop in free-zone imports.

Family remittances amounted to US\$ 2.748 billion 2006 (13.1% more than in the previous year). These remittances maintained the upward trend in net current transfers, which represented 12.5% more than in 2005. Family remittances continued to expand in the first few months of 2007. Between January and March, they accounted for 91% of current transfers and their value was 9.3% higher than in the preceding year.

The balance-of-payments capital and financial account displayed a positive balance, mainly thanks to the higher annual inflows (15.7%) of foreign direct investment (FDI). The bulk of FDI was channelled into tourism projects and free zones. In the first quarter of 2007, FDI inflows were 18.5% higher than in the year-earlier period.

International reserves swelled considerably in 2006. The central bank's net reserves stood at US\$ 1.7878 billion at the close of the year.

Guyana

1. General trends

Following its contraction in 2005, the Guyana economy achieved significant growth (4.7%), driven mainly by the construction and agriculture sectors. Gasoline subsidies helped to curb inflation. Various infrastructure works, notably those undertaken in preparation for the Cricket World Cup, resulted in some level of fiscal expansion, although fiscal savings were also achieved thanks to the Multilateral Debt Relief Initiative (MDRI).

The authorities adopted a predominantly tight monetary policy in an effort to mop up excess liquidity in the banking system. The increase in effective demand was reflected in a deterioration in the balance-of-payments current account (20.1% of GDP in 2006, compared with 19.1% in 2005), which was offset by capital—in particular FDI—inflows, to yield an overall surplus of US\$ 45 million.

Projections are for growth of 5% in 2007, based on an expected increase in sugar production and transport and communications services (10%). Mining output should stabilize following a slump in recent years, while construction should return to its normal growth rate following a two-year boom. The impetus for growth will

come mainly from private activity and should help to reduce the fiscal deficit to 10% of GDP. An overall balance-of-payments surplus is also projected thanks to higher FDI inflows targeting the mining, telecommunications and forestry sectors and to the reduction in debt payments following the implementation of the Multilateral Debt Relief Initiative.

The 2006 general elections were relatively peaceful and the aftermath was not marred by the instability of previous elections. Thanks to a revival of private investor confidence, FDI inflows and domestic investment were buoyant, reflecting a relatively stable policy, greater security and deeper economic reforms.

2. Economic policy

Economic policy sought to strengthen fiscal accounts further and maintain price and exchange-rate stability in order to boost growth; the restructuring of commodity sectors to enhance productivity and competitiveness also contributed to this objective. The economic recovery was also reflected in greater freedom to implement tourism-related infrastructure projects and to ease monetary policy in order to increase credit for private-sector production activities.

(a) Fiscal policy

In 2006, the central government fiscal deficit, expressed as a percentage of GDP, decreased by just over one percentage point to 11.5% compared with 12.6% in 2005; this was due mainly to the increase in total revenue, which was more than enough to offset the rise in expenditure.

The fiscal current account continued to reflect prudence, moving from a small deficit in 2005 to a surplus equivalent

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	-1.7	3.8	-1.4	2.3	1.1	-0.7	1.6	-2.0	4.7
Per capita gross domestic product	-1.5	4.0	-1.3	2.2	1.0	-0.9	1.4	-2.0	4.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.7	15.9	-9.0	3.4	3.4	-2.3	2.8	4.5	5.5
Mining	2.7	-8.4	5.9	4.2	-6.9	-8.7	-6.5	-17.8	-22.3
Manufacturing ^c	-8.7	15.5	-13.9	2.5	10.9	-0.5	2.5	-47.0	4.0
Construction	4.7	-10.0	6.6	2.0	-3.9	5.6	4.1	9.4	12.0
Wholesale and retail commerce, restaurants and hotels	5.3	-8.0	5.2	0.5	-0.9	-2.6	1.9	39.8	10.1
Transport, storage and communications	-3.1	2.1	7.1	5.4	4.5	4.9	3.6	9.4	10.0
Financial institutions, insurance, real estate and business services	3.8	0.0	3.6	-3.5	-0.8	1.6	1.0	-20.1	7.9
Community, social and personal services	0.7	1.2	4.6	0.7	-0.8	1.1	1.2	3.2	3.4
Millions of dollars									
Balance of payments									
Current account balance	-102	-78	-115	-134	-111	-91	-70	-158	-181
Goods balance	-54	-25	-80	-94	-68	-59	-58	-233	-284
Exports, f.o.b.	547	525	505	490	495	513	589	551	601
Imports, f.o.b.	601	550	585	584	563	572	647	784	885
Services trade balance	-32	-31	-24	-20	-24	-20	-47	-53	-114
Income balance	-60	-61	-58	-64	-59	-52	-39	-39	-43
Net current transfers	44	39	47	44	40	40	74	167	259
Capital and financial balance ^d	89	100	156	160	125	100	27	166	226
Net foreign direct investment	44	46	67	56	44	26	30	77	100
Financial capital ^e	45	54	88	104	82	74	-3	89	126
Overall balance	-13	22	40	26	15	10	-43	8	45
Variation in reserve assets ^f	23	-11	-24	-10	-6	0	32	-24	-62
Other financing ^g	-10	-10	-16	-16	-9	-9	12	16	17
Other external-sector indicators									
Net resource transfer (millions of dollars)	20	29	81	81	58	39	-1	143	200
Gross external public debt (millions of dollars)	1 516	1 210	1 193	1 197	1 247	1 085	1 071	1 096	921
Net profits and interest (percentage of exports) ^h	-8.7	-9.1	-8.6	-9.6	-8.8	-7.5	-5.3	-5.6	-6.1
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.7	8.7	5.8	1.5	6.0	5.0	5.5	8.2	4.2
Variation in nominal exchange rate (December-December)	14.0	10.2	2.4	2.6	1.2	2.0	2.2	0.2	1.1
Nominal deposit rate ⁱ	7.1	8.1	7.3	6.7	4.3	3.8	3.4	3.4	3.3
Nominal lending rate ^j	17.0	17.1	17.2	17.3	17.3	16.6	16.6	15.1	14.9
Percentages of GDP									
Central government									
Total income	35,4	33,3	39,6	39,2	40,5	37,3	39,5	41,3	44,3
Current income	30,7	29,8	31,8	31,1	32,2	31,5	33,0	34,0	34,6
Tax income	28,6	26,9	29,1	28,3	29,5	28,8	30,8	32,1	32,4
Capital income ^k	4,8	3,5	7,8	8,2	8,2	5,8	6,5	7,3	9,7
Total expenditure	40,1	35,7	46,1	44,8	43,6	44,4	44,4	53,9	56,2
Current expenditure	28,0	25,7	33,0	32,5	32,2	32,4	30,0	32,6	33,1
Interest	9,7	6,0	9,5	5,9	5,2	4,1	2,9	2,6	2,5
Capital expenditure	12,1	10,0	13,1	12,4	11,4	12,0	14,3	21,3	23,2
Net capital expenditure	5,1	3,5	3,0	0,3	2,0	-3,0	-2,0	-9,9	-9,4
Overall balance	-4,6	-2,5	-6,5	-5,6	-3,1	-7,1	-4,8	-12,6	-11,5
Public sector external debt	229	193	178	181	186	155	142	143	108
Money and credit^l									
Domestic credit	29.6	19.3	19.2	19.5	21.0	17.5	23.9	24.1	24.0
To the public sector	-13.1	-21.6	-19.9	-18.1	-15.9	-9.2	-0.6	-2.0	-5.8
To the private sector	48.0	45.1	44.9	43.3	42.4	33.7	30.9	31.8	34.3
Others	-5.3	-4.2	-5.8	-5.7	-5.4	-7.0	-6.4	-5.7	-4.5
Liquidity (M3)	56.8	58.5	56.7	59.7	62.9	66.4	66.2	58.8	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1988 prices. ^c Includes electricity, gas and water. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ⁱ Small savings rate. ^j Weighted average prime rate. ^k Includes external grants. ^l The monetary figures are end-of-the-year stocks.

to 1.5% of GDP in 2006. The recovery in economic activity, supported by improved tax administration and collections by the Guyana Revenue Authority, boosted current revenue by one percentage point of GDP.

Current expenditure diminished by one percentage point of GDP following the implementation of the Multilateral Debt Relief Initiative and a substantial reduction in interest payments due to the cessation of payments on the matured bonds of the Guyana Mining Enterprise Limited (GUYMINE). Interest payments on public debt were practically halved to 2.5% of GDP. In addition, the 5% wage increase awarded to civil servants represented a small increase in the real wage. The government concluded a multi-year wage agreement with the teachers' union, which augurs well for wage restraint. Higher fuel costs and increased material and equipment costs led to a rise in central government expenditure on goods and services.

Construction works in preparation for the Cricket World Cup resulted in a 19% expansion in capital expenditure in absolute terms. A number of crucial infrastructure investments have been made that could boost domestic investment and FDI. These include the upgrade of the international airport, bridges and road network, completion of the four-lane highway linking Georgetown with the airport, and sea-defence works. The Skeldon sugar modernization project, which includes capacity improvements, should contribute to the sector's competitiveness when it comes fully on stream in 2008. External debt relief (equivalent to 1.8% of GDP) provided under the Multilateral Debt Relief Initiative has helped to alleviate fiscal constraints.

The write-off of US\$ 254 million of external debt under this Initiative strengthened the public debt control policy, which is aimed at achieving more sustainable growth. The external debt was reduced from 143% to 108% of GDP and debt servicing fell to US\$ 22 million (8.3%). The negotiation of debt relief from the Inter-American Development Bank (IDB), the country's most important creditor, is expected to yield positive results.

Following the fiscal expansion in 2006, the government intends to tighten policy in 2007, the target being to reduce the overall deficit to 10% of GDP, from 13.4% in 2006. Capital spending is expected to decrease owing to lower transfers to the Skeldon project of the Guyana Sugar Corporation Inc. (GUYSUCO). Tax collections should be boosted by the introduction of the value added tax (VAT) in January 2007. Despite some teething problems, the VAT returns for the first quarter of 2007 were quite satisfactory at 75% to 80% of the projected amount.

(b) Monetary and exchange-rate policy

High liquidity in the banking system determined the main thrust of monetary policy in 2006; excess

liquid assets were 67% above the reserve requirement, reflecting the banks' preference for short-term assets, especially treasury bills. In this environment, monetary policy was geared towards liquidity management designed to maintain price and exchange-rate stability and increase credit to the private sector in order to boost productive activity. The overall aim was to avoid the high liquidity being channelled towards unproductive imports, which could have an adverse effect on external accounts and growth.

In line with these policies and with the strong economic upturn, credit to the private sector increased by almost 18%. Robust growth in credit to mining and manufacturing was reflected in an improved performance in these two sectors. Buoyed by strong demand for accommodation for Cricket World Cup spectators and for housing generally, credit to the real estate sector increased by 20% in 2006. The public sector continued to be a net depositor in the banking system, in line with the government's policy of fiscal consolidation.

The expansion in broad money to 15%, more than double the 2005 level, was due to a significant increase in the demand for cash and demand and saving deposits. Both public- and private-sector deposits soared following the economic expansion, with business recovery marked by almost 20% growth in their deposits.

The build-up of liquidity in the banking sector led to a decline in average commercial interest rates. The weighted average lending rate declined by 38 basis points to 13.1%, while the weighted average small savings rate fell by 19 basis points to 3.2%. However, the prime lending rate remained unchanged. The movements of commercial bank interest rates reflect in part the limited response to monetary policy, as the benchmark 91-day treasury bill rate increased by 42 basis points to 4.2%, but did not lead to the expected rise in bank rates owing to the excess liquidity position. This calls into question the effectiveness of market-based instruments of monetary policy in shallow, imperfectly competitive markets, such as Guyana.

Higher oil prices and strong demand for construction materials and capital goods led to higher demand for foreign exchange during the year, which pushed up the exchange rate by 1.1%.

The net foreign assets of the banking system grew sharply (31%), reflecting increases at both the Bank of Guyana and commercial banks. The accumulation of foreign assets at the Bank of Guyana is attributable to debt relief under the Multilateral Debt Relief Initiative, while the commercial banks' build-up reflects lower interest rates and limited domestic investment opportunities, leading to investments overseas.

3. The main variables

(a) Economic activity

The economic recovery in 2006 encompassed all sectors, except mining. Agriculture rebounded by 5.5% following the 13.7% contraction in output caused by the floods in 2005. Rice output was up by 12.4%, while sugar production increased by 5.5%. The agricultural sector was bolstered by government subsidies for transport and support under the competitiveness programme sponsored by the European Union. In spite of an improved performance, sugar output fell short of its target owing to flooding in the early part of 2006 and low productivity in some fields stemming from inadequate management. Forecasts for 2007 are for higher production in sugar (up 9.8%), rice, forestry and livestock.

The manufacturing sector experienced a turnaround with growth of 4% compared with a decline of 47% in 2005. In the liquid pharmaceuticals sector, small businesses that benefited from technical and financial support expanded their installed capacity.

The value added in mining diminished by a further 22.3% in 2006 with declines in the output of bauxite, gold and diamonds. Bauxite production fell by 12%, following a slump in prices due to China's participation in the refractory-grade bauxite market (refractory "A"-grade super calcined bauxite (RASC)). Gold declarations fell by 23%, reflecting the continued impact of the closure of OMAI Gold Mines in 2005 and the inability of small producers to match former levels of production. Diamond output also contracted as some producers shifted to gold in the latter part of the year. Mining output is expected to record 3.6% growth in 2007.

Construction activity picked up by 12% in 2006 compared with 9.4% in 2005. Growth in public-sector investment at over 90% outstripped private investment for the first time since 1990 and reflected major infrastructure upgrades and modernization. Public construction projects included the Guyana National Stadium, highways and the low-income housing programme. Fuelled by expectations of strong returns from the Cricket World Cup, private construction expanded sharply and included hotel and other categories of accommodation. The tapering off of these works in 2007 will be reflected in a slowdown in construction activity (5%) during the year.

(b) Prices, wages and employment

Inflation, based on the Georgetown Consumer Price Index, declined to 4.2% in 2006, down from 8.2% in 2005.

Shortages of agricultural products following the floods in the early part of the year and higher prices for inputs for producers resulted in an increase in food prices (5.1%), but lower housing costs resulting from increased supply following the construction boom of 2006, together with reduced education and transport and communications costs, helped to contain inflation. According to projections for 2007, the increase in the money supply, coupled with high international prices, will push inflation up to 5.2%.

A 5% public-sector wage and pension rise, retroactive to 1 January 2006, was awarded in December 2006 and represented a marginal increase in real wages. This brought the public-sector minimum wage to US\$ 128 per month.

As part of the measures designed to consolidate and streamline the public sector, employment in the sector was reduced by 5.8% in 2006 compared with 1.7% in 2005. Employment in GUYSUCO contracted by 9.8% in line with efforts to improve cost efficiency. However, employment in central government increased by 3.1%. Substantial growth in employment in the construction sector was partly counterbalanced by the loss of 541 jobs due to the closure of the Omai bauxite mine. To ease the impact on these workers, the government provided a monthly stipend of G\$ 25,000 for two months together with allowances for retraining.

(c) The external sector

The overall balance of payments strengthened in 2006, with the surplus expanding sharply to reach US\$ 45 million or 5% of GDP. This performance reflected a marked improvement in the capital account, which more than offset the current-account deficit. This boosted international reserves at the Bank of Guyana by US\$ 26.6 million to US\$ 278 million, the equivalent of three months' worth of imports of goods and non-factor services.

Encouraged by the recovery in activity and improved security, foreign investors injected US\$ 100 million of FDI into the economy (an increase of over 30%). These inflows were concentrated in forestry activity, mining and telecommunications (especially cellular telephones and Internet access). The capital account has also benefited from government loans, grants and external debt relief.

The structural relationship between growth and imports was again demonstrated in 2006, with the upturn in activity fuelling demand for imports; this led to a deterioration in the current account, in spite of the improved export performance. Soaring fuel prices and

the surge in imports to meet the demand generated by investment projects resulted in an import bill equivalent to 100% of GDP (up 12.9% on the 2005 level). Household consumption was also up, supported by an increase in remittance inflows.

Exports, which included all the major commodities, were up by 9.1%. Sugar export receipts increased by 16% to US\$ 137 million, owing to higher volumes and a 12% rise in export prices. Rice and timber also performed well, thanks to larger volumes and buoyant prices, while gold receipts increased despite the lower export volume.

The services account deficit more than doubled to US\$ 114 million. Net factor service payments rose sharply since debt service payments were up in spite of debt relief; non-factor service outflows increased owing to the high cost of freight and stronger demand for travel and transportation services.

A sharp increase in workers' remittances led to a 55% rise in current transfers, which are crucial as income for households. The overall balance on the goods and services accounts resulted in a widened current account deficit of US\$ 181 million, the equivalent of 20.5% of GDP.

A favourable balance-of-payments result is expected once again in 2007. The current account deficit should narrow to 18% of GDP, following a contraction in imports for public works projects. Tourism receipts will probably be below the expectations fuelled by the Cricket World Cup. The capital account will continue to show a positive balance with net inflows of around US\$ 235 million. In addition, this account will benefit from further debt relief as well as from FDI inflows into mining, telecommunications and forestry. As a result, an overall balance of payments surplus is projected in the order of US\$ 41 million or 4.2% of GDP.

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Haiti

1. General trends

In 2006, the Haitian economy again experienced positive GDP growth (2.3%) and a drop in inflation to 10.2% for the 12-month period to December 2006 (down from 14.8% in the previous year). Steps taken to restructure public finances resulted in fiscal equilibrium without monetary financing from the central bank and the economy benefited from the inflow of current transfers to the tune of US\$ 1.382 billion, or the equivalent of 29% of GDP.

With institutions returning to normal following the presidential, legislative and municipal elections in 2006, public management was conducted in a climate of greater confidence regarding the outlook for the short and medium term, which facilitated the implementation of a set of initiatives. These included the holding of the International Conference for Haiti's Economic and Social Development in July 2006 and the launch of new plans and programmes —such as the Poverty Reduction Strategy Paper— designed to establish guidelines for sustainable development over the coming years. However, given the numerous challenges that the country has faced and continues to face, it would be premature to assume that this fragile stability can be the basis for development. The most crucial challenges are the demands by civil society for justice and greater security, the need to revive the economy following ten long years of stagnation (1996-2006) (in which GDP growth averaged less than 1.1% per year and per capita GDP contracted by 0.6%), lack of progress in employment and social protection and the grinding poverty affecting much of the population.

In fiscal year 2007, GDP growth is expected to recover to around 3.5%, although slightly lower than the government's original forecast (4%). This difference is due, among other things, to the insecurity experienced in the final quarter of 2006 and the uncertainty regarding the fulfilment of international cooperation commitments and agreements and new debt-forgiveness initiatives. Nevertheless, the surge in external cooperation and its effect on investment, together with the flow of remittances, will facilitate the economic recovery. In addition, the moderation of international hydrocarbon prices (and subsequent reduction in the import bill) and the improvement in the prices of Haiti's main exports (coffee and cocoa) are expected to boost GDP growth.

In terms of economic policy, one of the government's priorities in 2007 will undoubtedly be to complete the Poverty Reduction Strategy Paper in order to benefit as soon as possible from debt relief and other programmes. In recent months, there has been an upsurge in the number of boat people seeking to migrate to the United States and neighbouring islands, often with tragic losses, as well as in the constant migratory flows to the Dominican Republic.

2. Economic policy

The government's economic policy sought to move from stabilization to reactivation and the main points were summed up in the letter of intent presented by the new

administration to the International Monetary Fund (IMF) in November 2006. This paved the way for the signing of a Poverty Reduction and Growth Facility (in an amount

of US\$ 109.5 million) for the period 2007-2009, which replaces the Emergency Post-Conflict Assistance (EPCA) Programme, which had been in force since January 2005. This facility, Haiti's formal inclusion in the Heavily Indebted Poor Countries (HIPC) Initiative, upon reaching the decision point, and the above-mentioned Poverty Reduction Strategy Paper will be the main frames of reference for economic policy in the coming years.

(a) Fiscal policy

Accounts for fiscal year 2006 (including grants) recorded a primary surplus of 0.8% of GDP and a balanced overall outturn.¹ In real terms, total revenues were up by 3.3% thanks to improvements in some of the most representative items, import duties and indirect taxes (VAT), and despite the 5.9% decline in revenue from income tax and a 46% reduction in direct budgetary contributions (grants) from international cooperation agencies.

Total expenditure declined by 2.3% in real terms, owing to the decline in both current expenditure (down 1.5%) and public investment (down 8.7%). This trend was in keeping with the climate of uncertainty that prevailed over the year; the authorities' prime concern at this time was to restructure public finances while proceeding with extreme caution.

The medium-term fiscal programme for 2007-2009 seeks, on the one hand, to raise tax collections—mainly by applying tighter controls, reducing tax evasion and combating smuggling—and, on the other, to increase capital investment and social expenditure without resorting to central bank financing. The aim is to consolidate the favourable results of 2006 and jump-start the economy, leaving behind the procyclical policies applied recently, especially those that restrict monetary growth and credit expansion.

Preliminary figures for the period October 2006-March 2007 point to a 19.5% increase in revenues, which surpasses the original target. There is actually a surplus with respect to expenditure: total outlays fell by 2.5% in real terms and current outlays declined by 6.3%, despite the 13% rise in wages, attributable to the nominal 17% increase in civil servants' salaries awarded in December 2006. Subsidies and interest payments both contracted, the first by 36% and the second by 34%. Capital investments expanded by 26% in real terms, the main projects being the construction of highways and the remodelling of the Port-au-Prince airport.

In May 2007, the Ministry of Finance and Economy requested the parliament to rectify the expenditure budget in order to bring public disbursements in line with the

projected increase in fiscal receipts and grants. These adjustments are designed to compensate for the restrictive fiscal policy as well as for the insufficient capacity for implementation, which was reflected in the fact that scarcely 18% of total expenditure budgeted for fiscal year 2007 had reportedly been used up in March. In the remaining months, there should be a substantial increase in current and capital expenditure within the maximum deficit agreed with IMF of 1.3% of GDP (excluding grants and international cooperation programmes executed by official entities).

The fiscal authorities face a number of challenges: a low tax burden, equivalent to 11% of GDP, which relies heavily on indirect taxation and on import duties on petroleum derivatives (15% of current revenue); a low tax base, due to the high degree of informality in the labour market, and the dependence on external funds, which are used to finance 64% of total outlays and 91% of capital expenditure.

(b) Monetary policy

In accordance with the guidelines of the central bank (Banque de la République d'Haïti), in 2006—and to some extent in the current fiscal year—monetary policy was geared towards bringing down inflation by containing the monetary base and credit. The nominal monetary base grew by 14.8%, but the increase was just 0.5% in real terms. Net domestic credit shrank by 9.9% in real terms, affecting loans to both the public and private sector. The preferred instruments for liquidity control were foreign currency purchases by the central bank, which amounted to US\$ 64.8 million, central bank bond issues and the legal reserve ratio.

While the monetary policy stance has carried over into 2007, some degree of flexibility has been observed recently. Thus, the interest rate on 91-day bonds—the benchmark for interbank rates—was reduced from 17.8% in December to 14.5% in May. Bank lending rates remained stable, however, at 13% in the case of loans in dollars, and at a much higher rate, 33.6%, for loans in gourdes.

Domestic credit still shows no sign of recovery: between February 2006 and February 2007, it contracted by 9.6% in real terms owing to a sharp fall (29.2%) in loans to the public sector and a 0.2% decline in loans to the private sector.

The deterioration in certain financial sector indicators, observed in 2006, seems to have been halted; the arrears rate stood at 13.6% in 2006 and at 11.7% in March

¹ Fiscal year 2006 covered the period October 2005-September 2006.

2007. In February, after lengthy bankruptcy proceedings, the commercial bank Socabank was formally taken over by another local bank —Banque Nationale de Crédit— following the central bank's intervention in the rehabilitation process.

(c) Exchange-rate policy

The more ready availability of foreign exchange in the local economy, thanks to remittances and external cooperation, facilitated the build-up of net international reserves in excess of those agreed with IMF and fuelled a real appreciation of the gourde against the dollar of 9.3% in 2006 and 16.6% in fiscal year 2007. One of the key factors in this development was the rise in domestic prices. The reduction in external debt servicing in 2007 and the higher projections for net disbursements will reinforce this trend.

The movement in the exchange rate up to March 2007 suggests that the national currency will continue to appreciate in both real and nominal terms during the year. Consequently, the average annual exchange rate in 2007 should be around 38 gourdes to the dollar, considerably lower than the level contemplated in the government's agreement with IMF (42 gourdes). In March, central bank reserves stood at US\$ 215 million not including the foreign currency deposits in commercial banks. Foreign exchange purchases by the central bank, which amounted to US\$ 65 million in October 2006-March 2007, contributed to this result.

The dollarization of the Haitian economy continues, reflected in the fact that foreign currency deposits account for 43% of M3. In order to counter the spread of this phenomenon to commercial transactions, in March, the Ministry of Commerce and Industry ruled that prices of goods and services must be denominated in local currency.

3. The main variables

The 2.3% expansion in GDP in 2006 was reflected in a 0.7% growth in per capita GDP. The prolonged stagnation of the economy remains cause for concern, especially in terms of the country's poverty indicators.

(a) Economic activity

During 2006, the political and electoral situation and the uncertainty that prevailed up to the middle of the year hindered any further recovery and only a few sectors performed really well. These include transport, storage and communications (4.5%) —thanks to the growth of the cellular telephone subsector— and, to a lesser extent, commerce (3%) and financial services (2.0%).

Meanwhile, the performance of the electricity sector, which resulted in a 28% fall in power generation, was the main factor in a sharp contraction (22%) in the basic services category.

Manufactures grew by just 2.3%, as the main activities under this heading —the food industry (47% of total) and the maquila industry (21%)— increased only slightly: by 2.3% and 1%, respectively.

Agriculture expanded by 1.7%, which was insufficient to meet the needs of the rural population (58% of total) and the island's main cities, where the problem of marginalization has been spreading. In 2006, import volumes of the main agricultural products expanded considerably, as demonstrated by

the increase in imports of rice (14.5%), pulses (56.7%) and chicken (34.4%). This trend is due to undersupply on the national market and the appreciation of the gourde. The new government has given priority to the agricultural sector through projects geared to expand domestic supply.

Expectations of a better performance by the construction sector in 2006 based on public works were not borne out and growth of just 2.9% was recorded. This was due to delays in the disbursement of international funding owing to the slow competitive tendering process, local contractors' limited performance capacity and the insufficient management capacity of public entities. Only 12% of the credit allocated to the ministry was executed. The upturn in the sector in the first quarter of 2007 (3.6%) and in public-sector capital expenditure (26% in real terms) could counter this trend. However, only 4% of budget allocations to the sector had been executed by March. During the remaining months, the completion of a public works project and the start-up of others, including the remodelling of the Port-au-Prince airport and road construction, were expected to boost capital investment.

Estimates of GDP by type of expenditure in 2007 point to GDP growth of around 3.5%, underpinned by a slight recovery in consumption (1.1%), investment (2.9%) and exports (1.8%). Imports, however, are expected to decline by 0.2%.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	2.2	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3
Per capita gross domestic product	0.3	0.9	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.2	-2.8	-3.6	0.9	-3.7	0.2	-4.8	2.6	1.7
Mining	9.5	6.8	6.1	-4.9	2.2	0.7	-5.0	4.5	7.1
Manufacturing	0.3	-3.0	-0.5	0.1	1.6	0.4	-2.5	1.6	2.3
Electricity, gas and water	-2.8	-3.6	-9.2	-27.1	2.0	3.3	11.1	7.1	-22.7
Construction	11.2	10.4	8.3	0.7	1.0	1.9	-2.7	3.0	2.9
Wholesale and retail commerce, restaurants and hotels	3.1	4.0	4.5	0.4	2.9	0.6	-6.4	1.4	3.0
Transport, storage and communications	7.1	17.0	12.5	2.2	-0.2	1.6	0.8	3.2	4.5
Financial institutions, insurance, real estate and business services	5.9	3.2	4.4	-0.7	-1.5	0.2	-0.8	1.3	2.0
Community, social and personal services	1.3	-0.1	-1.6	-2.6	1.1	-1.4	-3.2	1.6	1.5
Gross domestic product, by type of expenditure									
Consumption	3.1	8.4	14.8	-1.6	-1.2	0.9	-3.7	2.2	3.9
General government	1.1	0.2	1.3	...	...	...	...	...	...
Private	3.4	9.4	16.3	8.1	-1.2	0.9	-3.7	2.2	3.9
Gross domestic investment	-3.2	24.0	18.3	-1.2	2.6	3.1	-3.2	1.4	2.2
Exports (goods and services)	23.3	16.5	6.3	-2.2	-2.1	7.1	9.8	3.4	3.1
Imports (goods and services)	6.6	22.7	29.3	-2.1	-1.2	3.2	-1.1	2.6	4.6
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	26.0	27.7	27.3	25.9	25.1	30.7	27.3	27.4	28.9
National saving	25.0	26.3	24.3	22.0	22.3	29.1	25.8	28.7	28.9
External saving	1.0	1.4	3.0	3.8	2.8	1.6	1.5	-1.3	0.0
Millions of dollars									
Balance of payments									
Current account balance	-38	-59	-111	-134	-89	-45	-56	55	2
Goods balance	-341	-677	-755	-750	-706	-783	-833	-850	-1 052
Exports, f.o.b.	299	341	332	305	274	333	378	459	496
Imports, f.o.b.	641	1 018	1 087	1 055	980	1 116	1 210	1 308	1 548
Services trade balance	-201	-43	-108	-124	-123	-166	-203	-313	-336
Income balance	-12	-13	-9	-9	-14	-14	-12	-37	7
Net current transfers	516	674	761	750	754	918	993	1 254	1 382
Capital and financial balance ^d	73	80	64	131	8	37	91	-4	95
Net foreign direct investment	11	30	13	4	6	14	6	26	160
Financial capital ^e	62	50	51	127	3	23	85	-30	-65
Overall balance	34	21	-47	-2	-81	-8	35	51	97
Variation in reserve assets ^f	-29	-34	57	-5	49	25	-50	-22	-112
Other financing ^g	-5	12	-10	7	32	-17	15	-29	15
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	107.6	104.2	100.0	101.2	100.2	98.7	96.0	92.4	88.9
Net resource transfer (millions of dollars)	56	80	45	129	26	5	94	-70	117
Gross external public debt (millions of dollars)	1 104	1 162	1 170	1 189	1 229	1 316	1 376	1 335	1 484
Net profits and interest (percentage of exports) ^h	-2.4	-2.4	-1.8	-2.1	-3.2	-3.0	-2.3	-6.1	1.0
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.4	9.7	19.0	8.1	14.8	40.4	20.2	14.8	10.2
Variation in nominal exchange rate (December-December)	-2.6	10.9	23.8	14.7	40.0	11.2	-10.0	17.1	-10.8
Variation in average real wage	-11.3	-7.9	-11.9	-11.6	-8.9	33.5	-14.7	-13.2	-12.0
Nominal deposit rate ⁱ	13.1	7.4	11.8	13.6	8.2	14.0	10.9	3.5	6.0
Nominal lending rate ^j	23.5	22.9	25.1	28.6	25.5	30.7	34.1	27.1	29.5
Percentages of GDP									
Central government									
Total income ^k	9.6	9.2	8.2	7.8	8.3	8.9	8.9	10.8	10.7
Current income	8.5	9.1	8.0	7.4	8.2	8.8	8.9	9.7	10.0
Tax income	8.3	8.8	7.9	7.4	8.2	8.8	8.9	9.7	10.0
Total expenditure	10.8	11.4	10.5	10.0	11.0	12.0	12.0	11.5	10.7
Current expenditure	8.8	9.3	8.1	8.2	9.0	8.7	9.2	10.2	9.7
Interest	0.7	0.8	0.5	0.3	0.1	0.4	0.7	1.0	0.8
Capital expenditure	2.0	2.1	2.4	1.8	2.0	3.3	2.8	1.2	1.1
Primary balance	-0.5	-1.4	-1.8	-1.9	-2.6	-2.7	-2.4	0.4	0.8
Overall balance	-1.2	-2.2	-2.3	-2.2	-2.7	-3.1	-3.1	-0.6	-0.0

Table 1 (concluded)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Central government debt	36.6	38.6	43.8	46.2	60.2	57.5	46.7	44.1	35.1
Domestic	11.1	12.1	13.6	14.8	17.4	17.2	14.8	13.5	10.7
External	25.5	26.5	30.2	31.5	42.7	40.4	31.8	30.6	24.4
Money and credit^l									
Domestic credit ^m	23.4	24.1	26.6	28.0	30.0	31.0	29.6	26.6	23.7
To the public sector	9.0	9.9	11.5	13.4	14.9	15.0	14.6	12.4	10.3
To the private sector	14.4	14.2	15.2	14.7	15.2	15.9	15.1	14.2	13.4
Liquidity (M3)	29.7	30.8	34.8	36.1	37.8	41.2	40.9	38.7	36.4
Currency outside banks and local-currency deposits (M2)	22.8	22.9	24.0	24.2	24.4	24.6	24.4	22.6	20.7
Foreign-currency deposits	7.0	7.9	10.7	11.9	13.3	16.6	16.5	16.0	15.6

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1986-1987 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ⁱ Average of highest and lowest rates on time deposits, commercial banks. ^j Average of highest and lowest lending rates, commercial banks. ^k Includes grants. ^l The monetary figures are annual averages. ^m Refers to net credit extended to the public and private sectors by the monetary authority and deposit banks.

(b) Prices, wages and employment

In keeping with official monetary policy, inflation stood at 10.2% in 2006, almost five percentage points lower than in 2005. The economic authorities forecast a continuation of this trend in 2007, with prices (September-September) expected to vary by 9%. The 12-month inflation figure to April was 8%, reflecting the decline in international oil prices up to January 2007 and demand restraint.

While the minimum wage showed a 12% decline in purchasing power, it should be noted that in the case of civil servants, the nominal wage adjustment of 17% awarded in December 2006 meant a recovery in real wages.

The low rate of job creation continues to be one of the most urgent challenges for the Haitian economy, even during growth phases. The prospect of a substantial improvement in employment in the short term seems dim, although public works projects and the Social Appeasement Programme contemplate boosting labour demand as a source of income generation and poverty reduction.

(c) The external sector

In 2006, the balance of payments showed a current-account surplus of US\$ 1.6 million. Net remittance flows (US\$ 1 billion) and grants (US\$ 380 million) were sufficient to offset the trade deficit, which was largely attributable to a deterioration in the terms of trade.

In 2007, a further decline in the terms of trade is expected. The reduction in hydrocarbon prices and the full entry into force of the PETROCARIBE energy cooperation agreement, which Haiti signed with the

Bolivarian Republic of Venezuela, together with the stronger performance by maquila exports (22%) and by the country's major agricultural exports (mangoes, cocoa and coffee), will be insufficient to offset the almost 20% projected increase in the price of the basket of food imports. The concentration by destination and origin and the limited diversification of Haiti's foreign trade, as well as the excessive weighting of primary products are factors that make the country extremely vulnerable in the face of external shocks.

In 2006, foreign direct investment amounted to an unprecedented US\$ 160 million. It is unlikely that flows of this magnitude will be repeated in 2007, although tourism is a new and promising target sector for FDI inflows.

The external debt balance of US\$ 1.484 billion in 2006 will be exceeded slightly in 2007, but significant reductions should be recorded in debt-service payments. Haiti's inclusion in the HIPC group in November 2006 afforded access to various restructuring and debt-forgiveness mechanisms of international finance institutions.

In December 2006, the Paris Club creditors approved the restructuring of US\$ 199 million of Haiti's debt with member countries of the group. This included the consolidation of US\$ 69.2 million, that is, the immediate write-off of US\$ 7.2 million in debt and the rescheduling of US\$ 62 million. The deadline for loan repayments and interest due on the remaining US\$ 130 million was 30 June 2007.

In March 2007, the Inter-American Development Bank (IDB) approved an interim debt-forgiveness programme for Haiti in an amount of US\$ 20 million and around 2009, the country could benefit from full debt forgiveness

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2005				2006 ^a				2007 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars)	104	129	119	119	106	132	137	...	...	...
Goods imports, c.i. f. (millions of dollars)	340	345	360	367	364	420	384	...	...	...
International reserve assets (millions of dollars) ^b	113	90	107	133	144	169	178	253	...	...
Consumer prices (12-month percentage variation)	17.2	13.4	14.2	14.8	16.6	13.0	12.3	10.2	8.0	9.1
Average nominal exchange rate (gourdes per dollar)	36.32	38.20	41.43	42.16	42.20	39.45	38.59	38.29	38.08	36.64
Nominal interest rates (annualized percentages)										
Deposit rate ^c	3.0	2.5	3.6	4.8	6.0	5.3	6.6	6.1	5.8	6.2
Lending rate ^d	31.8	27.5	24.1	25.0	24.8	31.0	29.0	33.1	34.1	34.1 ^e
Domestic credit (variation from same quarter of preceding year) ^f	2.6	11.4	10.9	14.9	10.4	5.4	1.0	-0.4	-2.1	-2.0 ^e
Non-performing loans as a percentage of total credit ^g	10.3	9.6	12.4	12.2	...	...	...	...	...	...

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

^a Preliminary figures. ^b Including gold. ^c Average of highest and lowest rates on time deposits, commercial banks. ^d Average of highest and lowest lending rates, commercial banks. ^e Data to May. ^f Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^g Refers to total credit extended by the financial system.

for US\$ 525 million; meanwhile, it should receive up to US\$ 50 million in the form of annual grants.

In both cases, the measures are accompanied by a set of conditions, in particular the submission of a

Poverty Reduction Strategy Paper, the fulfilment of the criteria agreed with IMF under the Poverty Reduction and Growth Facility for 2007-2009 and compliance with certain restrictions on new debt.

Jamaica

1. General trends

Jamaica's economy expanded by 2.5% in 2006 which, although a modest performance, was the best for 11 years. The growth was driven by good macroeconomic conditions, including a drop in the inflation rate to 5.8% (the first single-digit record since 2002), falling interest rates and a rise in net international reserves. The economic expansion reflected the recovery in agriculture (15%) and a strong performance from tourism-related services, such as transport and communications (4.6%) and commerce, restaurants and hotels (3.9%).

In 2006 economic policy was guided by the medium-term macroeconomic framework and the second memorandum of understanding (MOU II) between the central government and the Jamaica Confederation of Trade Unions.¹ Policymaking was directed at creating an enabling macroeconomic environment by means of inflation targeting, interest rate reduction and containment of public spending. The monetary authority lowered the 30- and 180-day benchmark interest rates and inflation dropped to half its previous rate, more than meeting the target of between 9% and 10%. Monetary policy was loosened with the lifting of the secondary reserve requirement which had been applicable to commercial banks since 2002, and lending to the private sector rose.

Imports were up by 19%, owing mainly to the rise in oil prices, and this was a factor in the widening current-

account deficit on the balance of payments, despite a strong increase in goods exports and an improvement in the services balance. The deficit was offset by foreign direct investment, however, leading to an overall surplus and an increase in net international reserves.

In 2007, economic growth is forecast to come in at between 3% and 3.3% of GDP, reflecting changes in most of the sectors of production and a balanced public budget for fiscal year 2007-2008. The fiscal balance should help to lower interest rates and boost lending to the private sector. The fiscal target is based on the premise of maintenance of the terms of MOU II and the government's ability to contain spending. The monetary authority expects inflation to remain within single digits and economic expansion will be driven by growth in domestic investment in tourism-related activities and infrastructure development.

2. Economic policy

The targets set in the context of the medium-term framework were an inflation rate of between 9% and 11%, GDP growth of 3%-4% and a fiscal deficit of 2.5%

of GDP. The authorities also aimed to maintain the debt-to-GDP ratio at 118.5% and achieve a primary surplus of between 10% and 11%. Even though economic trends

¹ The medium-term macroeconomic framework covers the period from fiscal year 2004-2005 to fiscal year 2007-2008. The fiscal year runs from 1 April to 31 March of the following year. The second memorandum of understanding was signed in May 2006 and places a 20% cap on public sector wage rises over the period 2006-2008.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	-1.2	1.0	0.7	1.5	1.1	2.3	0.9	1.4	2.5
Per capita gross domestic product	-2.0	0.2	-0.1	0.8	0.4	1.5	0.3	0.8	1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.4	2.1	-12.5	6.3	-7.0	4.8	-8.9	-7.3	15.0
Mining	1.8	0.1	-1.0	2.6	3.3	4.9	2.6	2.8	1.7
Manufacturing	-4.8	-1.9	0.6	0.8	-0.9	-0.9	3.0	-1.0	-2.2
Electricity, gas and water	6.3	4.6	2.2	0.7	4.6	4.7	-0.1	4.1	3.4
Construction	-6.6	-1.5	0.7	2.3	2.6	1.5	5.0	7.0	-2.2
Wholesale and retail commerce, restaurants and hotels ^c	-1.3	-0.5	1.2	0.0	0.1	1.0	1.3	1.1	3.9
Transport, storage and communications	6.4	6.8	6.5	5.1	6.2	3.6	0.9	1.2	4.6
Financial institutions, insurance, real estate and business services	-3.6	3.6	1.9	-4.8	4.0	3.3	0.3	1.0	2.2
Community, social and personal services ^c	1.0	0.7	1.5	-0.2	0.5	2.3	2.0	1.6	0.7
Millions of dollars									
Balance of payments									
Current account balance	-334	-216	-367	-759	-1 074	-773	-509	-1 009	-1 097
Goods balance	-1 131	-1 187	-1 442	-1 618	-1 871	-1 943	-1 945	-2 581	-2 945
Exports, f.o.b.	1 613	1 499	1 563	1 454	1 309	1 386	1 602	1 664	2 117
Imports, f.o.b.	2 744	2 686	3 004	3 073	3 180	3 328	3 546	4 246	5 062
Services trade balance	477	655	603	383	315	552	572	670	802
Income balance	-308	-333	-350	-438	-605	-571	-583	-676	-681
Net current transfers	628	647	821	914	1 087	1 189	1 446	1 578	1 727
Capital and financial balance ^d	378	80	886	1 624	832	342	1 203	1 238	1 327
Net foreign direct investment	287	429	394	525	407	604	542	582	...
Financial capital ^e	91	-349	492	1 099	425	-263	661	656	...
Overall balance	44	-136	518	865	-242	-432	694	229	230
Variation in reserve assets ^f	-27	155	-499	-847	261	448	-686	-228	-230
Other financing ^g	-17	-19	-19	-18	-19	-16	-8	-1	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^h	96.0	97.7	100.0	101.6	101.1	115.9	114.3	105.6	106.1
Net resource transfer (millions of dollars)	53	-271	517	1 168	208	-246	612	561	646
Gross external public debt (millions of dollars)	3 306	3 024	3 375	4 146	4 348	4 192	5 120	5 376	5 796
Net profits and interest (percentage of exports) ⁱ	-9.1	-9.6	-9.8	-13.1	-18.8	-16.2	-14.9	-16.5	-14.0
Average annual rates									
Employment									
Labour force participation rate ^j	65.6	64.5	63.3	63.0	63.6	64.4	64.3	63.9	64.7
Unemployment rate ^k	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3	10.3
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.9	6.8	6.1	8.7	7.3	14.1	13.7	12.9	5.8
Variation in nominal exchange rate (December-December)	2.7	11.4	8.7	4.8	6.9	18.9	2.1	5.5	4.1
Nominal deposit rate ^l	12.9	11.8	10.5	9.4	9.1	8.3	6.7	5.9	5.3
Nominal lending rate ^l	42.1	36.8	32.9	29.4	26.1	25.1	25.1	23.2	22.0
Percentages of GDP									
Central government									
Total income ^m	26.2	30.1	29.8	27.5	28.6	31.7	32.0	30.9	32.2
Current income	25.7	27.8	28.8	26.2	26.7	30.1	30.1	29.3	31.5
Tax income	23.7	25.1	25.7	24.3	25.1	27.7	27.9	26.9	28.7
Capital income	0.2	2.0	0.5	0.8	1.6	1.5	1.1	1.4	0.5
Total expenditure ⁿ	33.0	34.2	30.7	33.2	36.3	37.8	36.9	34.3	37.9
Current expenditure	29.9	30.8	28.2	30.5	34.4	36.6	34.9	31.8	34.3
Interest	12.2	13.8	12.7	13.7	15.1	18.6	17.2	14.6	14.9
Capital expenditure	2.7	3.0	2.8	2.7	1.9	1.2	2.1	2.6	3.6
Primary balance	5.4	9.7	11.7	7.9	7.4	12.5	12.2	11.1	9.3
Overall balance	-6.8	-4.2	-0.9	-5.7	-7.8	-6.1	-4.9	-3.5	-5.6
Public sector external debt	85.2	97.5	98.1	130.2	136.9	139.6	140.6	134.7	135.3
Domestic	42.5	58.4	55.3	79.1	85.6	88.4	82.6	79.4	78.7
External	42.7	39.1	42.8	51.1	51.3	51.2	58.0	55.3	56.6
Money and credit^o									
Domestic credit ^p	...	42.4	39.2	39.9	40.5	46.5	41.0	39.9	...
To the public sector	...	35.7	32.7	32.9	30.6	34.0	26.9	24.4	...
To the private sector	...	8.8	8.6	9.3	11.4	14.4	15.3	16.2	...
Others	...	-2.0	-2.1	-2.3	-1.5	-1.9	-1.2	-0.7	...
Liquidity (M3)	...	39.8	39.2	39.1	40.2	38.8	39.2	38.1	...
Currency outside banks and local-currency deposits (M2)	...	31.0	29.7	29.3	29.1	26.0	26.2	26.1	...
Foreign-currency deposits	...	8.8	9.5	9.8	11.1	12.8	12.9	12.1	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1996 prices. ^c Restaurants and hotels are included in community, social and personal services. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of goods exports and imports. ⁱ Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population. ^k Percentage of the economically active population. Includes hidden unemployment. Nationwide total. ^l Average rates. ^m Includes grants. ⁿ Includes statistical discrepancy. ^o The monetary figures are end-of-the-year stocks. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

deviated from the targets for growth, the fiscal gap and debt-to-GDP ratio, the authorities adopted a looser policy stance in 2006.

(a) Fiscal policy

In fiscal year 2006-2007 the central government generated a deficit of 5.6% of GDP, compared with 3.5% in 2005. This deficit was larger than the budgeted figure of 4.2% of GDP, reflecting lower revenues and higher-than-budgeted expenditure. Expenditure grew by 3.6 GDP points to reach levels not seen since 2003, cancelling out the spending containment achieved in 2005. Revenues and grants, though higher than the year before by 1.3% of GDP, did not suffice to accommodate expenditure growth.

The spending surge was mainly a reflection of current outlays. Payments of interest and wages were the main items driving this result. The deficit was financed by means of local-market borrowing, which translated into a more voluminous issue of debt instruments than planned.

Jamaica's public debt stock increased to US\$ 925.8 billion in the first nine months of the fiscal year. This represented 133.2 % of GDP and an increase of 9.3% and reflected increases in both external and domestic debt. Over this period domestic debt was equivalent to 77.2% of GDP and external debt, 56%. The huge debt burden impacts greatly on the amount of resources available for non-debt expenditure.

The increased domestic debt was the result of a bond offer with a variable rate of interest, which raised the variable rate component of the total debt in comparison with the previous year. In addition, the maturity structure of the debt was lengthened, thus reducing refinancing risks.

On the external side, the increased debt was the result of a rise in government-guaranteed debt, owing to a US\$ 200-million issue of Eurobonds. The external debt is composed mainly of long-term, fixed-rate instruments, however.

Future debt management strategy will focus on diversifying the portfolio, minimizing interest-rate risk, lengthening and smoothing the maturity profile of the debt and building an efficient market for government securities.

(b) Monetary and exchange-rate policy

The monetary authority pursued a looser policy regime in 2006 as the Bank of Jamaica eased monetary policy on several occasions. The foreign-exchange market was supported by central bank interventions and remained relatively stable. For example, the average nominal monthly exchange rate for December 2006 was 67.02 Jamaican dollars (J\$) per US\$ 1.00 compared with J\$ 64.67 per US\$ 1.00 for December 2005, which represented a nominal currency depreciation of 3.6%.

At the end of 2006, the monetary base—the Bank of Jamaica's primary operating target—was up by one GDP percentage point, which was entirely due to an increase in net international reserves. Net domestic credit contracted, as a result of a 5.5% decrease in lending to the public sector, while lending to the private sector was up by 2.8%.

The accumulation of external reserves was attributable to the decline in oil prices in the last quarter of the year, which reduced the impact of fuel imports on the demand for United States dollars. There were also significant foreign exchange inflows from tourism, remittances and foreign direct investment.

The tight monetary policy stance was eased in the second quarter of the year and, as a consequence, interest rates tended to move downwards. Commercial banks' deposit rates decreased, as did building societies' mortgage rates. In addition, the financial sector registered growth of 2.2%, stemming partly from the lifting in May of the secondary reserve requirement imposed since 2002 by the Bank of Jamaica. There was also increased mortgage activity as the National Housing Trust increased the upper limit on loans to contributors.

The goals of the monetary authority continued to be a stable foreign exchange market and the accumulation of international reserves. The assets of the Bank of Jamaica rose to US\$ 272.8 billion at the end of 2006, which was a 10.3% increase over 2005. This asset growth reflected the expansion of both external and local assets. Bonds and other long term securities accounted for 70% of the increase in foreign assets.

3. The main variables

(a) Economic activity

All the sectors classified under services grew, but agriculture, forestry, fishing and mining were the only branches of goods-producing activity to show an expansion.

The agricultural sector rebounded from the 7.3% decline registered in 2005 to expand by 15.8% in 2006. Banana production tripled and coffee production was up by 50%; nevertheless, neither regained the level seen four years earlier. Products for the domestic market reflected a similar position. Fishing, which expanded by 50%, was

the only segment to strongly outperform its historical trends. Agriculture, forestry and fishing benefited from improved weather conditions. One third of Jamaica's economic growth in 2006 corresponded to the upturn in agriculture, which contributed 5.9% of GDP.

The manufacturing sector continued to underperform with a downturn of 2.2% in 2006, after a drop of 1.0% in 2005. A significant decline was registered in the production of cigarettes,² cement and paint. As a result, the contribution of manufacturing to total GDP fell from 13.3% in 2005 to 12.7% in 2006. The exception was the manufacture of petroleum products, with gasoline and diesel more than doubling the previous year's output.

The mining sector grew by 1.7% in 2006. Installed capacity expanded in the bauxite and alumina segment, but labour disputes and weather conditions constrained growth in 2006. The quarrying segment also showed an improved performance.

The construction sector posted a decline of 2.2% in activity in 2006, after a 7.0% surge had made it one of the engines of growth in 2005. The sector's greatest difficulty during the year was the shortage of cement, due to quality control problems experienced by the country's only cement manufacturer. This shortage affected employment as a number of construction sites were forced to a standstill. Steps were taken to make up for the cement shortfall by importing, but this took time and the matter was not resolved until the second semester.

Hotels, restaurants and clubs (12.3%) was one of the two fastest-growing branches of activity, driven by increased tourist arrivals (15.3%). The numbers of air and cruise-ship passengers increased over the period, as did average expenditure per visitor. The transport and communications segment also expanded (4.6%), with the main contributor being increased cargo movement due to rising imports of petroleum, cement and steel and increased exports of bauxite and sugar.

(b) Prices, wages and employment

The inflation rate fell significantly to 5.8% in 2006, compared with 12.9% in 2005. The factors holding down price increases were the expanding supply of agricultural commodities, which lowered the price of some food items, and, towards the end of the year, a slower rate of increase in international petroleum prices. The consumer price index (CPI) rose in all three regions —Kingston Metropolitan Area, other towns and rural areas— but by less than it had done in 2005. For example, the CPI for Kingston rose by 5.6%, while for other towns and rural areas the rates were

7.0% and 5.2%, respectively. The corresponding figures for 2005 were 12.5%, 12.9% and 13.4%, respectively. A breakdown of the overall CPI shows that the largest increases occurred in the categories of fuels (8.1%), housing (9.0%) and food and beverages (5.8%).

A survey conducted by the Jamaica Employers' Federation on pay and benefits found that, on average, wages rose by 7.9% in 2005 and 9.2% in 2006, with an increase of 10% in the modal wage. The highest mean salary was paid in the utilities sector and the lowest in education. The estimated public sector wage rise for 2006-2007 was 17.7%. Wage increases in the public sector are governed by MOU II, which aims to moderate excessive wage increases. The national minimum wage, which is now reviewed annually, was increased by 16.7% to J\$ 2,800.00 per week or J\$70 per hour.

The labour force expanded by 3.5%, with males representing the larger percentage (57.6%). The male labour force increased in number by 17,200 and the female labour force by 20,700. The majority of new jobs were created in the services sector.

The number of unemployed declined, with a drop in the unemployment rate from 11.3% in 2005 to 10.3% in 2006. The male unemployment rate decreased from 7.6% in 2005 to 7.0% in 2006, while the drop for female workers was from 15.8% to 14.5%.

(c) The external sector

In 2006 the balance of payments yielded an overall surplus for the third year running, matching the 2005 amount of US\$ 230 million. The current account deficit widened by US\$ 87 million to US\$ 1.097 billion, or the equivalent of 10.3% of GDP. The deterioration was attributable chiefly to the larger deficit on the merchandise trade account, owing to higher prices for imported goods such as oil. The goods trade deficit rose by US\$ 363.5 million as a result of a 19.2% surge in import spending, which a robust 27.2% rise in export earnings was not enough to offset. The current account deficit was by far the largest for the last five years. Net outflows from the income account were US\$ 4.8 million over the 2005 figure, owing to voluminous outflows of investment earnings.

The deficits were only partially offset by higher surpluses on the current transfers account, the increase in tourist services and alumina exports. The balance on the services account expanded by US\$ 132 million, driven largely by earnings from travel, which is the largest item on that account. Travel receipts increased

² No cigarettes were manufactured in 2006.

from US\$ 1.3 billion in 2005 to US\$ 1.6 billion in 2006, thanks to both increased numbers of tourists and higher expenditure per visitor. Net current transfers reflected a large and growing surplus, thanks to a 9.4% increase in remittances from Jamaicans living abroad, which amounted to US\$ 1.6 billion.

The current account deficit was easily offset by the surplus on the capital and financial account. The country's net international reserves expanded to US\$ 2.318 billion at the end of 2006. Gross reserves at the end of December were equivalent to four months of imports of goods and non-factor services.

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Suriname

1. General trends

The economy of Suriname has been improving steadily, with sustained growth since 2000. GDP was up 5.8% in 2006 and inflation fell to 4.7%, showing that the abolition of the petrol subsidy in September 2005 did not have a lasting impact on inflation. This positive situation resulted from prudent monetary and fiscal policies together with favourable commodity prices, particularly for crude oil. The debt to output ratio fell, and part of the overdue debt was restructured. As a result, Standard & Poor upgraded the country's sovereign debt for the first time, with ratings of B+ and B for bonds in local and foreign currencies, respectively, with a positive outlook.

Mining, which grew by over 60% over the previous three years and by 18% in 2006, remained the main engine of economic expansion. There were upturns in construction, transport and commerce. The rest of the economy remains relatively listless. The country's President stated that the government would implement measures, such as the sustainable reallocation of State resources, to help the whole economy advance towards a more satisfactory performance.

Reforming the political system is a central plank in the government's strategy, but the necessary political support is very difficult to muster with an eight-party coalition in power. Weak institutions remain a serious obstacle to sustainable development.

Rising commodity prices boosted tax receipts, but there are still structural problems in many agricultural

subsectors. Among other things, the crucial rice sector was hit by unexpected rainfall in early 2007, highlighting once again the poor state of productive infrastructure in the Nickerie area.

The authorities continued to apply restrictive monetary policies to strengthen the national currency and prevent further dollarization of the economy. Changes were made to reserve requirements in order to stimulate housing construction.

The balance of payments showed an overall surplus thanks to the growing positive balance on the current account, on the back of climbing commodity exports and moderation in imports.

The economic boom is expected to continue in 2007 with a growth rate of 5.3%, based on the strong expansion of mining and construction.

2. Economic policy

(a) Fiscal policy

In 2006, a fiscal surplus (2.8% of GDP) was achieved for the first time since 2003. This was the result of a

reduction in spending from 35.4% of GDP in 2005 to 31.7% in 2006, and of continuing growth in revenue.

Fiscal revenue remained mostly at the mercy of fluctuating world commodity prices. In 2006, the State

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	3.1	-2.4	4.0	5.9	1.9	6.1	7.7	5.6	5.8
Per capita gross domestic product	2.0	-3.4	3.0	5.0	1.1	5.3	7.0	4.9	5.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.4	4.4	5.9	11.4	-3.9	4.3	1.5	-0.3	0.0
Mining	6.5	5.5	-8.8	25.0	-8.6	0.0	31.2	15.6	17.8
Manufacturing	2.1	-9.0	58.8	13.3	-3.6	5.6	9.5	4.8	0.7
Electricity, gas and water	7.1	-5.6	-7.7	2.1	10.3	-1.7	9.2	7.8	7.6
Construction	16.6	-14.8	-11.8	4.5	0.6	17.0	10.1	10.5	10.3
Wholesale and retail commerce, restaurants and hotels	2.2	-5.6	-15.7	-14.5	8.4	32.2	6.0	6.4	6.4
Transport, storage and communications	5.6	1.8	25.0	28.7	12.6	-0.4	14.0	10.7	10.8
Financial institutions, insurance, real estate and business services	1.8	-1.7	2.9	0.2	5.4	3.5	1.6	2.6	2.4
Community, social and personal services	3.1	0.0	2.0	2.0	1.1	0.2	1.3	2.0	1.7
Millions of dollars									
Balance of payments									
Current account balance	-155	-29	-34	-116	-60	-141	-137	-144	115
Goods balance	-27	44	13	16	52	-30	42	22	161
Exports, f.o.b.	350	342	514	449	529	639	782	1 212	1 174
Imports, f.o.b.	377	298	501	434	477	669	740	1 189	1 013
Services trade balance	-125	-72	-115	-115	-128	-133	-130	-148	-31
Income balance	-1	0	-2	-80	-44	-49	-63	-40	-52
Net current transfers	-2	-2	69	63	59	71	14	22	36
Capital and financial balance ^c	163	25	33	203	62	140	175	168	-21
Net foreign direct investment	9	-62	-148	-27	-74	-76	-37	28	-163
Financial capital ^d	154	86	181	230	136	216	212	140	142
Overall balance	8	-4	-1	87	2	-1	38	24	94
Variation in reserve assets ^e	-8	4	1	-87	-2	1	-38	-24	-94
Other external-sector indicators									
Net resource transfer (millions of dollars)	163	25	31	123	18	91	112	127	-73
Total gross external public debt (millions of dollars)	...	...	291	350	371	382	382	371	389
Net profits and interest (percentage of exports) ^f	-0.1	0.1	-0.2	-15.7	-7.7	-7.0	-6.8	-2.9	-3.7
Average annual rates									
Employment									
Unemployment rate ^g	11.0	12.0	14.0	14.0	10.0	7.0	8.4	11.2	12.1
Annual percentages									
Prices									
Variation in consumer prices (December-December)	22.9	112.9	76.1	4.9	28.4	14.0	9.3	15.8	4.7
Variation in nominal exchange rate (December-December)	0.0	146.3	120.6	0.0	15.4	4.4	3.8	1.1	0.0
Nominal deposit rate ^h	16.0	15.6	15.5	11.9	9.0	8.3	8.3	8.0	6.7
Nominal lending rate ⁱ	27.1	27.4	29.0	25.7	22.2	21.0	20.4	18.1	15.7
Percentages of GDP									
Central government									
Total income	...	...	...	42.6	30.7	31.6	32.4	34.6	34.5
Current income	...	...	...	39.2	29.4	30.0	30.7	32.5	33.9
Tax income	...	...	...	34.1	24.2	25.2	25.2	25.9	26.8
Capital income	...	...	...	16.0	10.5	10.6	12.0	13.3	13.1
Total expenditure	...	...	...	42.2	35.7	30.7	33.3	35.4	31.7
Current expenditure	...	...	...	35.6	32.2	27.3	28.8	29.5	28.3
Interest	...	...	...	2.3	2.7	2.3	1.9	2.3	2.1
Capital expenditure	...	...	...	5.7	3.3	3.1	4.4	5.9	3.3
Primary balance	...	...	...	2.7	-2.4	3.1	1.0	1.6	4.9
Overall balance	...	...	...	0.4	-5.0	0.8	-0.9	-0.8	2.8
Public sector debt	...	...	...	55.3	48.7	42.5	41.5	38.9	...
Domestic	...	...	...	7.8	13.9	12.1	15.2	15.6	...
External	...	...	37.5	52.6	38.8	34.0	29.7	25.0	22.4
Money and credit^j									
Domestic credit	24.2	26.5	25.2	22.9	19.8	24.3	24.5	26.3	...
To the public sector ^k	5.3	11.7	15.7	15.6	8.1	9.5	8.3	8.4	...
To the private sector	18.9	14.7	9.4	7.2	11.6	14.7	15.9	17.8	...
Others	0.0	0.1	0.0	0.0	0.0	0.1	0.3	0.2	...
Money (M1)	...	...	68.2	65.0	55.8	51.0	56.0	53.9	...
Currency outside banks and local-currency deposits (M2)	...	...	43.4	39.6	34.1	27.1	28.5	28.3	...
Foreign-currency deposits	...	...	24.9	25.4	21.7	23.9	27.5	25.7	...

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

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices (1998: guilders; 1999-2006: Suriname dollars, new currency in circulation since January 2004). ^c Includes errors and omissions. ^d Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^e A minus sign (-) denotes an increase in reserves. ^f Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^g Percentage of the economically-active population, nationwide total. ^h Deposit rate published by IMF. ⁱ Lending rate published by IMF. ^j The monetary figures are end-of-the-year stocks. ^k Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

Oil Company of Suriname (Staatsolie) contributed over US\$ 100 million to the treasury, almost 17% of total fiscal revenue and 25% more than the previous year's amount. The transfer to the government of profits earned by the central bank in past financial years also contributed to the improvement in non-tax revenues. There were also increases in direct and indirect tax revenue, the latter owing to tax hikes on tobacco and cigarettes.

The establishment of a mineral resource stabilization fund remained a subject of debate in 2006. The prolonged and wide fluctuations of fiscal revenue from taxes on mining and ore-processing companies has been a matter of great concern, since it may lead to an imbalance between revenue and expenditure and destabilize public spending. In early 2007, fiscal resources from petroleum were allocated to minor investments in the education sector. A stabilization fund could ensure that such transfers were made in a more transparent and structured manner. It would also help to moderate the pressure that public expenditure exerts on effective demand.

The Decentralization and Local Government Strengthening Programme has made considerable advances. Five pilot districts have been identified and will be able to collect a proportion of the corresponding taxes.

The containment of all areas of public spending boosted the current surplus from 3.0% to 5.6% of GDP. In late 2005, the prices of all petroleum products on the domestic market were liberalized through the abolition of a subsidy. The number of central government employees rose by 2.9% in 2006; the implementation of the public sector reform programme has been difficult and many of the measures provided for remain pending. The increased number of public servants did not solve the problem of deficient application of government projects, plans and programmes.¹ Public investment fell short of budgeted amounts, falling from 3.1% of GDP in 2005 to 2.3% of GDP in 2006.

Total public debt as a percentage of GDP continued its downward trend as a result of economic growth and increased use of foreign-exchange revenue to service and restructure external debt. This achievement was reflected in an improved Standard & Poor's rating.

The government also managed to reduce domestic public debt, staying within the legal ceiling of 15% of GDP. In mid-2006, 70% of that debt was short-term and the main creditors were the central bank (49%), commercial banks (27%) and other private agents. Modifications to the ceilings for both external and internal public debt are being considered.

(b) Monetary and exchange-rate policy

Monetary policies remained prudent, with particular attention to the management of liquidity, controlling money creation by regulating domestic credit. The main objective was to maintain a stable exchange rate and low inflation, but no target was stated.

Monetary policy towards commercial banking became a little more flexible. In view of the favourable macroeconomic trends, the legal reserve requirement for local-currency deposits was cut from 30% in 2005 to 27% in 2006. Since 9% of the reserve (8% in 2005) can be used for financing long-term mortgage loans for social housing, the real reserve requirement was equivalent to 18%. As a result, commercial banks lowered their lending rates. The reserve requirement for foreign-currency deposits remained at 33.3%.

The growth of the money supply (M2) was slower than in the previous year. Nonetheless, the M2/GDP ratio was estimated at 26.8% in 2006, significantly higher than the 2005 figure of 24.4%. This increase appears to be sustainable because it was mostly due to net capital inflows resulting from higher commodity exports. Domestic credit to the public sector declined, owing to the strengthening of fiscal accounts.

The country's economy remains highly dollarized, with foreign-currency credit outstripping credit in local currency. Foreign-currency deposits by residents rose by 23.9% from US\$ 384.1 million in 2005 to US\$ 475.9 million in 2006. Lending in foreign currency also increased much more in 2006 than in 2005 (36.4% as against 14.6%) and also rose much faster than local-currency lending in the same year (20.3%). The increased demand for foreign-exchange loans was mostly motivated by the difference in interest rates for loans in Suriname dollars on the one hand and those for loans in United States dollars and euros on the other, given the stability of the exchange rate.

Responding to growing confidence in the country's monetary orientation, inflation forecasts fell and commercial banks cut interest rates in local currency. The weighted average lending rate declined from 16.3% in 2005 to 15.3% in 2006, while the deposit rate fell from 6.7% to 6.6%. The unequal rates of change show that commercial banks have reduced the spread, which suggests that the system is seeing a decline in the costs and risks of financial intermediation.

The nominal exchange rate has remained unchanged over the past three years. Nonetheless, pressure from rising import prices and growing foreign-exchange inflows suggest a real exchange rate appreciation which could be harmful for non-mineral exports.

¹ In the first half of 2006, only 18% of the spending budgeted in the annual development plan had been executed.

(c) Other policies

The government is planning a broad programme of structural policies to improve the competitiveness of productive sectors.

In 2006, it sought to privatize a number of flagging public-sector companies—in sectors such as rice, banana and aviation— seeking to maximize the benefits for the country. Negotiations for the sale of the state timber corporation Bruynzeel Suriname Houtmaatschappij (BSH) were broken off because the government saw the planned transaction as unprofitable. A new agency to centralize privatization processes, CEPRIS, has been proposed. A broad sectoral programme has been set up in the area of agriculture to improve competitiveness and environmental sustainability, provide reasonable incomes for agricultural workers and ensure food security for the country.

As for improvements to productive infrastructure, work has begun to equip the ports of Nieuwe Haven, in Paramaribo, and Nickerie, in the rice-producing region, for container traffic. Also, the Ministry of Trade and Industry has acquired land for the creation of export processing zones and industrial estates.

The following measures have been implemented in order to optimize energy use: the state energy corporation has begun purchasing electric power from the Suriname Aluminum Company (Suralco); electric power distribution stations in the capital have been upgraded and the power cable network has been extended in various rural areas; and an electric power generating station has been built for the state petroleum company Staatsolie, to increase capacity and meet the growing demand for electric power in the capital and its suburbs.

3. The main variables

(a) Economic activity

GDP growth in 2006 stood at 5.8%, mainly boosted by the mining, transport and communications and construction sectors, which grew by 17.8%, 10.8% and 10.3%, respectively. Petroleum, gold and alumina prices remained very high. Technical problems prevented any increase in alumina output and production actually fell by 1.5%, but petroleum output expanded by 11.6% thanks to the start of operations at the new Calcutta oilfield, and gold output was up by 4.6% despite labour problems at the mine in early 2006.

There was no growth in agricultural output, owing to infrastructure problems combined with weather phenomena. The estimated 8% growth of rice production in the first half of the year could not make up for the lost ground of earlier years. Rising prices for fuels and fertilizers, among other essential inputs, made it impossible for the sector to overcome the debts inherited from years of mismanagement. Rice production was also hurt by the incidence of the *pyricularia grisea* fungus and the low water level in the Nanni swamp, whose water is used for irrigation. The European Union technical assistance programme which began in March 2006, together with a donation of 3 million euros, will give a new lease of life to the rice subsector, which is vital for the employment and nutrition of the population.

Owing to fluctuations in world prices, the incidence of pests, weather phenomena and the low productivity of the state-owned corporation, banana production was very unstable. A 7% fall in the third quarter was followed by a 62% rise in the fourth quarter as a result of changes in European Union import quota policies. The privatization of the state corporation should enable it to return to a level of competitiveness sufficient to compete in the world market.

Tourism, particularly ecotourism, was hurt by the floods in the country's interior in May 2006. Most of the establishments affected have recovered thanks to government aid. The fact that cruise ships have begun calling at Paramaribo is encouraging for the tourism sector.

(b) Prices, wages and employment

Despite steep rises in the rates of a number of indirect taxes such as the levy on tobacco, the monetary policy designed to contain the growth of aggregate demand succeeded in holding back price rises, which were significantly lower than in 2005. Inflation fell from 15.8% in 2005 to 4.7% in 2006.

The government reached an agreement with the public employees' union on a 10% wage increase in two 5% steps, the first in late 2006 and the second in early 2007. Real wages had been declining since 2003, but that

wage deal and the bonus to compensate the rise in petrol prices in 2005 had a positive effect on average wages, whose purchasing power rose by 2.7% in 2006.

Unemployment is estimated to have risen by 12.1% despite the expansion of economic activity.

(c) The external sector

The balance of payments recorded an overall surplus with an increase in net international reserves for the third consecutive year; the reserves were equivalent to just over two months' imports.

The balance shows a considerable current-account improvement, with a surplus of US\$ 114.6 million

owing to a significant fall in goods imports and higher remittances. The cut in imports appears to be entirely due to fluctuations in foreign investment projects.

The financial account showed a heavy deficit of US\$ 263 million, owing to the outflow of US\$ 163 million under the heading of direct investments abroad. These flows relate mostly to capital movements from mining companies' subsidiaries in Suriname to their parent companies.

Suriname was able to completely pay off or restructure its entire bilateral debts with Germany, Italy and Japan, which was an improvement for its external debt situation. There remain, however, a number of overdue debts, on which negotiations are being held.

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Trinidad and Tobago

1. General trends

Trinidad and Tobago's impressive economic growth reached 12% in 2006. The main driving force continues to be the energy sector, which includes oil, natural gas and related products. Growth in the energy sector followed the positive trend of recent years and, thanks to its contribution to tax receipts, financed a considerable increase in public spending. This in turn gave rise to rapid growth in the construction and manufacturing sectors.

Economic policy was characterized by fiscal expansion and monetary policy efforts to curb the rise in aggregate demand. In 2006, total fiscal revenues soared to 33.6% of GDP and expenditures to 27.1%. In consequence, a fiscal surplus was recorded for the fourth year running (6.5% of GDP). Higher receipts were mainly due to the continued increase in income from the energy sector, but also to the general surge in economic activity related to the tax reforms of fiscal year 2005/2006, which involved cuts in income tax.

Given the increase in fiscal expenditure, monetary policy focused on controlling excess liquidity. The repurchase rate rose from 6.25% to 8% in 2006, with little effect. Commercial banks were asked to deposit 1.5 billion Trinidad and Tobago dollars (TT\$) in an interest-bearing account at the central bank. On three occasions, seven- and eight-year bonds were issued with interest rates of 7.8% and 8%. Take-up was higher than expected, and

the central bank captured and sterilized almost TT\$ 2.4 billion (nearly US\$ 400 million). These measures changed the upward trend of the consumer price index, which had exceeded 10% in the 12-month period from October 2005 to October 2006. Twelve-month inflation up to April 2007 was down to 8.4%.

Despite monetary tightening, the country's economy maintained a high growth rate. The main short-term risk is overheating, as shown by its inflation and employment figures. In the medium and long terms, there is a risk that the upturn in public investment may result in lower investment quality and that the economy's heavy dependence on the energy sector might make it more vulnerable to external shocks. The energy sector's contribution to GDP (at current prices) went from 26% in 2003 to 45% in 2006.

GDP growth in 2007 is projected to stand at 8% as a result of the continued increase in gas and oil production.

2. Economic policy

(a) Fiscal policy

In 2006, the country's fiscal surplus stood at 6.5% of GDP. Receipts continued to rise (to 33.6% of GDP), as did expenditures, which rose by 1.2 percentage points to 27.1% of GDP.

The rise in expenditure has been made possible by the persistent increase in economic activity and the greater revenues from the oil and gas sectors, which are benefiting from higher international prices and are taxed according to a special regime. The average price of oil was US\$ 66 over the year, but the Henry Hub spot gas

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	8.1	8.0	6.9	4.2	7.9	14.4	8.8	8.0	12.0
Per capita gross domestic product	7.6	7.6	6.5	3.8	7.6	14.0	8.4	7.6	11.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.2	2.3	-2.4	8.7	8.7	-15.3	-25.3	9.7	-0.6
Mining ^c	8.9	21.6	12.5	5.6	13.5	31.4	8.2	8.4	20.6
Manufacturing	11.5	-7.2	6.0	9.8	3.8	12.2	8.6	11.6	11.8
Electricity, gas and water	6.7	0.3	5.5	4.1	8.7	5.3	3.2	6.2	2.1
Construction ^d	14.2	6.0	7.6	10.3	-5.1	23.4	12.6	15.6	14.5
Wholesale and retail commerce, restaurants and hotels	7.4	8.7	5.4	-2.5	1.4	1.8	3.6	6.3	3.1
Transport, storage and communications	15.6	0.8	8.9	7.7	9.6	5.4	1.9	9.4	4.0
Financial institutions, insurance, real estate and business services	-0.4	11.7	12.4	0.8	11.5	7.3	21.7	9.9	7.5
Community, social and personal services	3.6	-3.3	-4.3	-0.4	4.3	2.8	0.5	1.6	1.3
Millions of dollars									
Balance of payments									
Current account balance	-644	31	544	416	76	985	1 623	2 741	3 318
Goods balance	-741	64	969	718	238	1 293	1 509	2 648	3 232
Exports, f.o.b.	2 258	2 816	4 290	4 304	3 920	5 205	6 403	8 373	6 500
Imports, f.o.b.	2 999	2 752	3 322	3 586	3 682	3 912	4 894	5 725	3 268
Services trade balance	416	329	166	204	264	314	512	596	308
Income balance	-341	-400	-629	-539	-480	-681	-450	-554	-223
Net current transfers	22	38	38	33	55	59	53	53	0
Capital and financial balance ^e	724	131	-103	86	39	-576	-889	-848	-2 069
Net foreign direct investment	730	379	654	685	684	1 034	600	599	599
Financial capital ^f	-6	-248	-757	-599	-645	-1 609	-1 489	-1 447	-2 668
Overall balance	80	162	441	502	116	409	734	1 893	1 249
Variation in reserve assets ^g	-76	-162	-441	-502	-116	-409	-734	-1 893	-1 249
Other financing ^h	-4	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ⁱ	105.3	102.2	100.0	94.5	91.1	91.8	93.2	91.7	88.9
Net resource transfer (millions of dollars)	378	-268	-732	-453	-440	-1 257	-1 339	-1 403	-2 292
Gross external public debt (millions of dollars)	1 471	1 585	1 680	1 666	1 549	1 553	1 364	1 329	1 261
Net profits and interest (percentage of exports) ^j	-11.6	-11.7	-13.0	-11.1	-10.5	-11.6	-6.1	-6.0	-3.4
Average annual rates									
Employment									
Labour force participation rate ^k	...	60.8	61.2	60.7	60.9	61.6	63.0	63.7	63.9
Unemployment rate ^l	14.2	13.2	12.2	10.8	10.4	10.5	8.4	8.0	6.2
Annual percentages									
Prices									
Variation in consumer prices (December-December)	5.6	3.4	5.6	3.2	4.3	3.0	5.6	7.2	9.1
Variation in nominal exchange rate (December-December)	-0.3	0.3	1.0	-2.2	1.0	-0.2	1.1	1.0	-1.0
Nominal deposit rate ^m	5.4	5.3	5.3	5.3	3.5	2.9	2.4	2.4	2.4
Nominal lending rate ^m	17.0	17.1	16.5	15.6	13.4	11.0	9.4	9.1	10.2
Percentages of GDP									
Central government									
Total income	...	22.6	25.4	24.4	24.6	23.7	25.8	31.2	33.6
Current income	...	22.4	25.3	24.3	24.6	23.7	25.8	31.2	33.6
Tax income ⁿ	...	15.7	14.9	15.5	15.8	13.5	14.7	14.5	13.4
Capital income	...	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total expenditure	...	25.8	23.8	24.5	25.3	22.3	24.0	25.9	27.1
Current expenditure	...	24.6	21.4	22.9	24.1	21.2	21.9	23.0	23.2
Interest	...	5.5	4.7	4.0	4.3	3.5	3.0	2.7	2.2
Capital expenditure and net lending	...	1.2	2.4	1.6	1.2	1.1	2.0	2.9	4.0
Primary balance	...	2.3	6.3	4.0	3.7	4.9	4.9	7.9	8.7
Overall balance	...	-3.2	1.6	-0.1	-0.6	1.4	1.9	5.3	6.5
Public sector external debt	24.3	23.3	20.6	18.9	17.2	13.8	10.8	8.8	6.9
Money and credit^o									
Domestic credit ^p	37.7	36.5	28.6	25.1	26.6	21.6	18.5	14.8	7.8
To the public sector	8.3	7.9	0.6	-2.5	-2.0	-2.5	-7.0	-10.0	-17.0
To the private sector	29.5	28.6	28.0	27.6	28.6	24.0	25.6	24.8	24.8
Liquidity (M3)	42.7	39.7	34.6	36.3	39.6	32.7	32.1	32.6	33.0
Currency outside banks and local-currency deposits (M2)	32.4	30.2	25.8	26.8	30.0	25.3	23.8	24.6	25.6
Foreign-currency deposits	10.3	9.5	8.8	9.5	9.7	7.4	8.3	8.0	7.4

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

^a Preliminary figures. ^b Based on figures in local currency at constant 2000 prices. ^c Refers only to the oil industry. ^d Includes quarrying. ^e Includes errors and omissions. ^f Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^g A minus sign (-) denotes an increase in reserves. ^h Includes the use of IMF credit and loans and exceptional financing. ⁱ Annual average, weighted by the value of goods exports and imports. ^j Refers to net income balance as a percentage of exports of goods and services as shown on the balance of payments. ^k Economically active population as a percentage of the working-age population. Nationwide total. ^l Percentage of the economically active population. Includes hidden unemployment. Nationwide total. ^m Weighted average. ⁿ Refers to tax revenue from the non-petroleum sector. ^o The monetary figures are annual averages. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

price on the United States market was 29% lower than the average of the previous year. The volume of gas production, which is not price elastic in the short term, climbed considerably.

Fiscal expansion is largely associated with the activities of about 100 State-owned enterprises, such as the Urban Development Corporation of Trinidad and Tobago Ltd. (UDeCOTT),¹ which carries out the country's main urban construction works. The value of UDeCOTT assets rose from TT\$ 2.5 billion in 2005 to TT\$ 4.2 billion in 2006.

To improve the sustainability of the growth model, the government created the Heritage and Stabilization Fund based on the interim Revenue Stabilization Fund. The new fund will receive 60% of non-recurring receipts when the prices of energy products exceed levels provided for in the budget. When receipts are 10% lower than budgeted, on the other hand, the government may withdraw up to 60% of the difference from the fund, up to a certain ceiling. The budget price is determined on the basis of the 11-year moving average of prices recorded by international agencies. In 2006, the government deposited US\$ 500 million (3% of GDP) in the fund, thereby bringing the balance to around US\$ 1.5 billion. The authorities still have to finalize the regulatory framework governing the use of the fund, as well as appointing the team responsible for its operation.

(b) Monetary and exchange-rate policy

Monetary policy was mainly focused on containing the excess liquidity generated by public investment in order to rein in rising prices. The means used to achieve this in the first half of 2006 included raising the discount rate for repo operations by 1.75 percentage points to

8% in September, in line with the United States Federal Reserve rate. This increase did not have the desired effect on the level of liquidity or on consumer prices, however.

More direct instruments were then employed, including open-market operations such as the sale of foreign exchange and the issue of treasury bonds to sterilize funds. The legal reserve requirement was also raised, and commercial banks were asked to deposit funds in an interest-bearing account at the central bank. The magnitude of these operations was stepped up over the course of the year.

The most effective means of absorbing liquidity was the central bank's sale of foreign exchange on the market. In 2006, the central bank sold almost US\$ 1.5 billion, more than double the amount sold in the year-earlier period. The absorption of liquidity had the effect of pushing up interest rates. The rate on treasury bonds climbed by an average of 55 basis points during 2006 and early 2007. Rates on mortgage loans from commercial banks rose by between 25 and 125 basis points. The lending rate posted faster growth than the borrowing rate, which increased the level of intermediation from 7 points to 7.8 points; this suggests greater perceived risk or higher operational costs.

Tighter monetary policy had varying effects on bank lending. Growth in consumer loans ground to a halt, while loans to production sectors rose sharply. This development is a positive one in terms of sustaining growth in the medium term.

The increase in monetary aggregates also slowed during the course of the year as a result of monetary policy. Annual growth in broad money (M2) fell from 29.8% (April 2005-March 2006) to 10.6% (April 2006-March 2007).

3. The main variables

(a) Economic activity

Trinidad and Tobago turned in an impressive economic performance during 2006. GDP expanded by 12%, which is the second-highest figure in over a decade of elevated growth rates. The driving force behind this growth was

the energy sector, which expanded by 20.6% in real terms during 2006, while non-energy sectors chalked up increases of 6.5%. This was also the first full year of operations for module 4 of Atlantic LNG Company's liquid natural gas plant in Point Fortin. Production of natural gas reached a record 4.1 billion cubic feet per day in August 2006.

¹ Government-owned private limited-liability company.

However, exploration activity was more limited than predicted. A major project of British Petroleum of Trinidad and Tobago (BPTT), Ibis Deep, failed, and the sector's main enterprises showed no interest in its exploration rights during the two rounds of tenders.

Construction and manufacturing (not including refinery activities, which were up by 37.4%) continue to outperform the rest of the economy, with growth rates of 14.5% and 11.8%, respectively, in 2006. Construction was boosted by projects involving public buildings, the rehabilitation of infrastructure and industrial zones being developed by the government. The considerable expansion is attributable to the steps taken to bolster processing activities in the petroleum chain as part of the government policy to refrain from exporting unprocessed raw materials.

Petrochemical activity was considerably buoyant (15.9% in 2006), while that sector's exports were up by 8.6%. The growth rates for fertilizer and methanol production were equal to or above those from the year-earlier period. By the third quarter of 2006, steel production volumes were already equal to the figures for the whole of 2005, and almost the same was true of cement production. Given that domestic sales for these products did not rise, it can be assumed that the additional production was in response to demand from other Caribbean countries.

Agriculture continued to turn in a mediocre performance and now contributes less than 1% of GDP. During the past four years, over 10,000 agricultural jobs have disappeared. Although there was a slight upturn in the production of raw sugar (mainly used in rum production), refined sugar production plummeted. Cocoa production was half that of the previous year's volumes, and coffee production was virtually nil. Production of citrus fruit, tomatoes and rice were satisfactory. The agricultural sector has been hard hit by the structural transformation of the economy, and it will have to innovate and reinvent itself to ensure its survival.

The financial sector's contribution to GDP is 14%, with higher growth projected following the government's decision to develop part of the new Waterfront complex as an international financial centre governed by national legislation ("on-shore"), which would make it one of the main centres of its kind in the Caribbean.

(b) Prices, wages and employment

Inflation was the major subject of economic debate during 2006. The consumer price index (CPI) climbed by more than 10% in the 12 months leading up to October. It was the first time in 12 years that double-digit inflation had been recorded. Determining factors of these price

increases include import costs and agricultural bottlenecks, combined with the major injection of liquidity associated with expanded public spending. The most affected were food prices, which rose by 26%, as well as other retail prices. Government initiatives to improve market efficiency included publishing prices and organizing country fairs on Sundays.

Wage agreements concluded during 2006 resulted in larger increases than in the recent past. Basic wages rose by between 17.2% and 18.6%.

Unemployment decreased considerably in 2006 following the creation of 12,000 new jobs throughout the year. The unemployment rate dropped to a minimum of 5% in the final quarter of 2006. This reduction has occurred in a context of rising domestic demand, resulting from an increase in banking credit and fiscal expenditure. Inflation and employment figures support the idea that the country's economy is operating beyond its capacity.

(c) The external sector

The balance of payments posted a surplus for the fourteenth year running: the surplus was US\$ 1.249 billion (7% of GDP) in 2006, compared with US\$ 1.893 million (13% of GDP) in 2005.

Positive external accounts are due to higher energy prices and an expansion of installed capacity. International prices for crude oil were 16.8% higher than in the previous year, while production volumes were up by 15.2%. Energy exports (which include oil, natural gas and petrochemical products) grew by 28% in 2006, thereby increasing the contribution of energy exports to total exports from 89% in 2005 to 91% in 2006.

Booming economic activity, abundant liquidity and the government's development of infrastructure works pushed up imports by 19.5% in comparison with the previous year. Imports of capital goods surged by a staggering 70.7% to represent 10.5% of GDP (7.2% in 2005). Petroleum imports for refining were up by 14.5% during the year.

Other components of the current account include the income balance, which posted a hefty deficit due to the repatriation of capital income by foreign energy companies, while the services balance and the balance of transfers continued to register small surpluses.

The current account surplus of almost US\$ 3.318 billion (nearly 17% of GDP, which makes it the region's largest) was invested in foreign assets and recorded as outflows from the capital account. These flows almost doubled from US\$ 1.7 billion in 2005 to US\$ 3.0 billion in 2006. US\$ 220 million was issued in regional bonds. Commercial banks invested heavily in international

assets, the level of which increased eightfold to stand at US\$ 845 million. The non-financial private sector also continued its strategy of diversifying its portfolio, thereby protecting itself from the risks of investing in assets abroad.

In the absence of any significant external-debt servicing commitments, the positive balance of payments pushed up the level of net international reserves to around US\$ 6.5 billion, which is 33% higher than the previous year and represents 10 months of imports.

For 2007, the authorities predict a solid current account, although with a downward trend. International prices for oil, methanol and ammonia are expected to dip slightly, with no guarantee that this will be offset by an increase in production volumes. The authorities' fiscal stance will remain expansionary in 2007, which is an election year, while the real appreciation of the exchange rate is expected to continue. As a result, greater increases are projected for imports, and the current account surplus is expected to shrink.

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Member countries of the Eastern Caribbean Currency Union¹

1. General trends

In 2006, the economies of the Eastern Caribbean Currency Union (ECCU) recorded growth for the fifth consecutive year, following a contraction in activity in 2001, when tourism and FDI were dampened by fallout from the events of 11 September. The 7.1% expansion exceeded the 2005 rate of 5.8% and was the highest for the five-year period. This reflected the dynamism exhibited by the construction industry as the countries undertook to construct or modernize stadiums, road networks and other infrastructure, while the private sector expanded the capacity of hotels and other accommodation facilities in preparation for the Cricket World Cup. The demand pressure associated with accelerated growth did not affect price levels, however, as inflation eased from 4.6% in 2005 to 1.4% in 2006.²

One of the major challenges for the ECCU economies in recent years—and 2006 was no exception—has been debt-fuelled fiscal expansion. The aggregate central government deficit almost doubled, moving from 2.2% to 4.2% of GDP, following the marked increase in capital expenditure. Monetary conditions tightened somewhat in 2006, despite the neutral monetary stance of the authorities, constrained as they are by the currency board arrangement. Liquidity in the banking system contracted, as vibrant demand for credit outpaced growth in deposit liabilities. The internal imbalance was partially offset by a stronger external position, as the overall balance of payments moved from a deficit equivalent to 0.4% of GDP to a surplus of 2.3% of GDP in 2006. This improvement was due to FDI inflows for tourism-related and other construction projects.

Some of the growth impetus of the year 2006 has carried over into 2007, although growth is expected to slow to 5.5%. Construction activity will lose momentum with the completion of some large projects, including the construction of stadiums, for the Cricket World Cup, but private-sector activity geared to the construction of hotels, villas and commercial properties will remain dynamic. As it turned out, world-cup-related visitor arrivals were below expectations. Inflation of between 2% and 3% is projected for 2007, in line with the movements in oil prices and, above all, with the removal of fuel subsidies in some member countries, where the price adjustments are now being passed on directly to the consumer. New tax measures, which should lead to higher collections, will result in an improved fiscal outturn. Both capital and current expenditure will increase at a slower rate. Growth in domestic credit and deposits

¹ The *Economic Survey of Latin America and the Caribbean* usually contains a chapter entitled “Member countries of the Organisation of Eastern Caribbean States (OECS)”. The source for these data is the Eastern Caribbean Central Bank, which is the monetary authority of the Eastern Caribbean Currency Union. All the OECS members except the British Virgin Islands are members of this Union. As the statistical information refers to the member countries of the Union and not of OECS—in other words, it does not include the British Virgin Islands—from this year onward, the chapter will be entitled “Member Countries of the Eastern Caribbean Currency Union”.

² The inflation figure may be linked to the use of an outdated basket of products, which fails to accurately track recent price movements.

Table 1
EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates^b									
Gross domestic product	4,0	5,8	2,8	-1,3	0,7	2,9	4,1	5,8	7,1
Per capita gross domestic product	3,2	5,0	2,1	-1,9	0,0	2,3	3,4	5,0	6,5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	...	...	...	-8,4	6,8	-5,2	0,0	-11,7	10,8
Mining	...	...	...	-6,3	-1,5	6,7	-6,2	16,4	37,7
Manufacturing	...	...	...	-0,2	-0,2	0,2	0,5	6,1	3,4
Electricity, gas and water	...	...	...	5,6	1,9	2,9	2,8	5,7	5,7
Construction	...	...	...	-1,5	-2,5	3,8	4,9	20,4	15,5
Wholesale and retail commerce, restaurants and hotels	...	...	...	-5,3	-0,4	8,4	4,1	4,3	7,1
Transport, storage and communications	...	...	...	-1,2	-0,6	2,7	7,7	7,9	4,7
Financial institutions, insurance, real estate and business services	...	...	...	0,8	3,3	2,6	6,0	4,4	5,7
Community, social and personal services	...	...	...	2,0	2,8	1,2	2,8	3,1	3,9
Millions of dollars									
Balance of payments									
Current account balance	-366	-453	-468	-513	-574	-687	-475	-705	-948
Goods balance	-982	-1 056	-1 074	-997	-979	-1 181	-1 192	-1 397	-1 584
Exports, f.o.b.	316	328	352	309	295	306	338	366	355
Imports, f.o.b.	1 299	1 383	1 426	1 306	1 274	1 488	1 530	1 763	1 939
Services trade balance	629	652	661	572	526	607	764	745	736
Income balance	-147	-176	-223	-198	-218	-241	-267	-234	-253
Net current transfers	134	127	168	110	98	129	220	181	153
Capital and financial balance ^c	398	522	516	471	544	741	454	632	1 122
Net foreign direct investment	313	355	328	372	340	556	449	537	850
Financial capital ^d	85	166	188	98	204	186	5	95	272
Overall balance	51	22	21	67	61	46	110	-16	92
Variation in reserve assets ^e	-51	-13	-8	-60	-54	-46	-97	28	-94
Other financing ^f	0	-8	-13	-6	-8	0	-12	-12	2
Other external-sector indicators									
Gross external public debt (millions of dollars)	949	1 110	1 173	1 306	1 571	1 830	1 939	1 806	1 842
Average annual rates									
Prices									
Variation in consumer prices (December-December)	...	...	...	2.4	-0.1	1.0	2.7	4.6	1.4
Nominal deposit rate ^g	4.2	4.2	4.4	4.3	3.7	4.6	3.2	3.2	3.3
Nominal lending rate ^g	11.3	11.8	11.6	11.4	11.0	12.8	10.4	10.2	9.9
Percentages of GDP									
Central government									
Total income ^h	29.0	28.4	27.8	27.7	29.0	29.4	30.5	36.1	31.7
Current income	25.2	25.7	25.4	24.9	25.8	25.9	26.5	26.7	28.0
Tax income	21.7	21.6	21.6	21.3	22.1	22.5	23.4	23.8	25.2
Capital income	0.6	0.3	0.2	0.1	0.5	0.4	0.4	0.4	0.2
Total expenditure	30.6	31.4	32.1	34.9	37.9	34.4	34.1	33.9	35.9
Current expenditure	23.6	24.1	24.4	26.9	28.0	26.8	27.2	26.0	26.2
Interest	1.8	2.1	2.6	3.4	4.1	4.1	4.4	3.6	3.7
Capital expenditure	7.1	7.3	7.7	8.0	9.9	7.6	6.6	8.0	9.7
Primary balance ^h	0.2	-0.9	-1.7	-3.9	-4.8	-0.9	0.8	5.8	-0.5
Overall balance ^h	-1.6	-3.0	-4.3	-7.3	-9.0	-5.0	-3.6	-2.2	-4.2
Public-sector external debt	37.6	46.1	46.5	53.1	63.7	67.6	59.9	...	...
Money and creditⁱ									
Domestic credit	62.1	64.0	71.5	74.2	74.1	69.8	70.5	74.2	78.9
To the public sector	-2.2	-3.4	-1.3	-0.9	-1.1	-2.7	-2.3	-0.3	-1.6
To the private sector	67.6	70.8	75.7	77.0	77.1	74.3	73.5	75.3	81.0
Liquidity (M3)	68.7	72.2	77.3	81.4	84.7	88.0	93.0	92.4	94.1
Currency outside banks and local-currency deposits (M2)	62.0	64.8	67.4	71.1	73.1	76.3	79.9	78.1	77.7
Foreign-currency deposits	6.7	7.4	9.9	10.3	11.5	11.7	13.1	14.4	16.4

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

^a Preliminary figures. ^b Based on figures in Eastern Caribbean dollars at constant 1990 prices. ^c Includes errors and omissions. ^d Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^e A minus sign (-) denotes an increase in reserves. ^f Includes the use of IMF credit and loans and exceptional financing. ^g Weighted averages. ^h Includes grants. ⁱ The monetary figures are end-of-the-year stocks.

will be less vigorous in 2007, following a slowdown in activity. The balance-of-payments current-account deficit

is expected to remain stable as the increase in imports will be offset by higher visitor arrivals.

2. Economic policy

In 2006, the ECCU countries continued to grapple with fiscal consolidation and external debt management in an effort to boost macroeconomic resilience to economic shocks, while pushing ahead with structural reforms designed to create a more internationally competitive economy. This is all the more crucial as traditional export crops, such as sugar and bananas, have been on the wane. All economies recognize the need to bring wage settlements in line with inflation and public-sector productivity.

(a) Fiscal policy

At its fifty-sixth meeting, the Monetary Council of the Eastern Caribbean Central Bank agreed on a system of benchmarks aimed at improving coordination of fiscal and monetary policies. The Council noted the fiscal targets of member countries and approved the development of quarterly indicators to track achievement of these targets. To enhance transparency, it recommended that countries publish targets for primary balances and debt/GDP ratios.

Fiscal policy of the member countries of the Currency Union was expansionary in 2006 with the overall deficit doubling from US\$ 217 million or 2.2% of GDP to US\$ 449 million or 4.2% of GDP. Although there was a marked improvement in the current surplus, this was offset by a sharp rise in capital spending.

The current surplus doubled in GDP terms, moving from 0.7% in 2005 to 1.8% in 2006, after the Union recorded deficits between 2000 and 2004. Revenue jumped 15% to reach 28% of GDP, reflecting robust growth in both tax and non-tax receipts. Current spending grew three times as fast as in 2005, and represented 26.2% of GDP. Spending on transfers and subsidies was higher owing to greater transfers to statutory bodies. Outlays on goods and services increased owing to the rise in international fuel prices and purchase of construction materials. Interest payments were up by 13.4%, since most member countries had incurred higher debts.

Capital expenditure increased by 33% to reach the equivalent of 9.7% of GDP, the highest level in the past 10 years. All the items were high-cost projects undertaken in preparation for the Cricket World Cup: stadiums, roads, security, basic services and the upgrade

of airport infrastructure. However, there is some doubt as to whether these islands have reaped direct economic benefits from hosting the matches. Initial indications are that the tournament was somewhat lacklustre in terms of the number of visitors and spending and may even have scared away other tourists. Countries will, therefore, have to focus on the legacy component by hosting other events in the stadiums and by stepping up tourism marketing overseas in order to reap future benefits from their investments.

The sustainability of debt in the ECCU countries is an important area of concern because of high debt/GDP ratios, limited diversification and lack of room for fiscal manoeuvre. These factors present a challenge to growth in the event of economic shocks, such as natural disasters. In 2006, public-sector debt increased to US\$ 11.109 billion, compared with US\$ 10.474 billion in 2005. Central government debt increased by 5.9 percentage points to represent 83.6% of GDP.

In Antigua and Barbuda, the robust economic growth (11.5%) gave the government more leeway for applying reforms aimed at reducing the macroeconomic disequilibria caused by past fiscal excesses. The reintroduction of personal income tax in 2005 resulted in high revenues. The reform is part of a wider agenda for strengthening the fiscal position; reducing public debt; allocating resources to the development of physical infrastructure and social capital; and facilitating private-sector development.

Conscious of the need to reconcile economic reform, growth and poverty reduction, the Government of Dominica implemented an adjustment programme supported by the IMF poverty reduction and growth facility (PRGF). Macroeconomic stabilization contributed to positive growth rates in the past three years, the highest being 4.6% in 2006. The authorities accepted the Monetary Council's target for medium-term debt (60% of GDP) and also that of achieving a current account surplus to offset in part capital spending.

In Grenada, economic policy was geared to implementing reforms and adjustments for consolidating growth. The government continued to build up the capital stock, which had been badly eroded as a result of hurricane Ivan in 2004. Tax administration has been strengthened with the establishment of the Recoveries and Collections

Unit in the Ministry of Finance, whose role is to improve collections from delinquent tax payers. In addition, the auditing systems have been enhanced with the recruitment of additional accountants. The government also plans to reintroduce VAT³ in October 2007, to replace the general consumption tax, the airline ticket tax and the motor vehicle purchase tax. The idea is to make the VAT broad-based so as to tax more people at a lower rate, thereby increasing compliance and government revenues.

Policy in Saint Kitts and Nevis was geared towards fiscal consolidation and debt management. The fiscal overhaul is focused on tax reform, improved expenditure management and strengthened tax administration.

In Saint Lucia, fiscal consolidation and debt management remain a major challenge for the authorities. In 2006, above normal capital expenditure related to the Cricket World Cup led to a deterioration in public finances, with the overall deficit mounting to 6.6% of GDP.

The Government of Saint Vincent and the Grenadines continued its programme of infrastructure development and public-sector reform to provide a pivot for improved private-sector development. Efforts are being made to revamp the public sector by strengthening human resource management and streamlining public administration through a reclassification exercise, designed to guarantee equal pay for equal work and to develop job classifications that reflect the duties to be carried out.

(b) Monetary and exchange-rate policy

Constrained by the inability to engage in active monetary policy in the context of the currency board with an open capital account, the ECCU authorities have long adopted a largely neutral monetary stance. However, with average reserves of over 90% of monetary liabilities for a

number of years (far exceeding the 60% requirement), it seems that ECCU countries have opted for exchange-rate stability at the expense of policy flexibility, especially as regards short-term countercyclical monetary policy.

Monetary developments in 2006 were influenced by the economic upturn and the private-sector credit boom that has continued from previous years. As a result, growth in domestic credit (14.6% in 2005 and 16.5% in 2006) was driven by strong private-sector activity, including the acquisition of property and consumer durables, construction and tourism as well as manufacturing and mining. Private-sector credit expanded in all countries at rates ranging from 11.2% in Dominica to 24.5% in Saint Lucia.

Broad money (M2) grew by 9% and foreign currency deposits by 25.1%, reflecting FDI inflows channelled towards tourism capacity expansion. With the strong demand for credit and slower growth in the money supply, liquidity in the banking system declined in 2006 relative to 2005. Consequently, the weighted average interest rate on deposits increased by 0.1 percentage point to 3.3%. However, the weighted average interest rate on loans and advances diminished by 0.3 percentage point to 9.9% as increased competition forced banks and non-banks to lower rates to retain customers. Moreover, with strong FDI inflows, the net foreign assets of the banking system increased by almost 11%, compared with growth of 4% in the previous year.

The Regional Government Securities Market (RGSM) is now an important vehicle for raising government finance. In 2006, gross funds raised by governments on the market increased by 80%, reflecting participation by the Government of Antigua and Barbuda in the bond markets. The maturity of instruments has increased with the issue of more long-term instruments that should help governments to better manage their debt obligations.

3. The main variables

(a) Economic activity

Growth picked up in 2006 (7.1% compared with 5.8% in 2005), driven by construction activity, tourism and agriculture. All the countries recorded higher growth rates than in 2005, except Saint Lucia and Grenada. The construction boom continued (20.4% in 2005 and

15.5% in 2006), especially in Antigua and Barbuda and Saint Lucia (35% and 25%, respectively). Private construction centred on expanded hotel room capacity in these two countries in preparation for their hosting of games for the Cricket World Cup. The expansion was largely funded by FDI for international hotel chains and by commercial banks for some local investment projects.

³ Grenada was one of the first English-speaking Caribbean countries to introduce VAT in the 1980s, but this initiative failed for a number of reasons, including poor tax-payer education, the regressive nature of the tax in relation to incomes, and too hasty implementation, which led to low compliance and collections.

Commercial buildings and residential properties were also constructed; the latter benefited from tax incentives for building and expanding residential properties as part of the Home Stay accommodation programme for the Cricket World Cup, designed to spread the benefits of the tournament.

Tourism activity recovered with growth of 6.1% in 2006 compared with 0.2% in 2005, thanks to an increase in stay-over visitors, especially persons staying in paid accommodation. A fall-off in arrivals from Europe was offset by higher arrivals from the United States and the Caribbean. Arrivals were up in all countries except Saint Lucia and Montserrat. Grenada registered the largest increase (20.4%), linked to the reopening of a number of hotels that had been damaged during hurricane Ivan.

Agriculture posted a recovery, with growth of 10.8%, following a similar decline in 2005. Improved performance was built on the turnaround in banana production in Saint Lucia and Dominica, which was up by 6.4%, thanks to the control of the leaf spot infestation, favourable weather conditions and strong demand for Fair Trade bananas, which fetch high prices on the European market. Production of cocoa and nutmeg also rose thanks to the recovery following hurricane damage to trees in Grenada. Meanwhile, in Saint Kitts and Nevis, sugar-cane harvests ceased with the closure of the industry in 2005.

Value added in the fledgling manufacturing sector increased by 3.4% in 2006, half the rate for the previous year. Production of soap, concrete blocks, processed food, electronic components and paper board were up in response to stronger demand, while beer production in Dominica and soft drinks in Grenada were down.

(b) Prices, wages and employment

In spite of the robust productive activity and strong monetary expansion, inflation declined to 1.4% in 2006, down from 4.6% in 2005. Price pressures eased with the reduction in oil prices in the latter half of the year and government subsidies, which cushioned the impact of the high oil price on consumers. Nevertheless, the outdated basket used to compute the index might affect the reliability of the result. Prices increased in all countries except in Antigua and Barbuda and Saint Lucia.

Real wages recovered in 2006, as wage increases outpaced inflation. Public-sector wage and salary rises ranged from 4.5% in Saint Vincent and the Grenadines

to 12% in Montserrat. Average private-sector wages also improved, pushed up by construction-sector wages and labour shortages in some countries.

(c) The external sector

Improvements in the overall balance of payments of the ECCU group have long depended on the countries' ability to attract FDI inflows rather than on their export competitiveness. In order to put their external accounts on a more sustainable footing, the ECCU countries need to improve their export competitiveness in goods as well as in tourism and other services in order to narrow the structural current account deficit and not to simply rely on capital inflows to bridge the gap.

Reversing the outcome in 2005 (a deficit of 0.4% of GDP), ECCU achieved a balance-of-payments surplus (2.3% of GDP) in 2006 as a result of a sharp increase in capital inflows (US\$ 850 million). This surge in inflows consisted in FDI in tourism-related projects, including hotels and condominiums, particularly in Antigua and Barbuda and Saint Lucia, as investors strived to consolidate their positions in the up-market niche product in the islands. The rest of the capital and financial account was less satisfactory, as commercial bank investments abroad led to net outflows, while inflows of grant finance were down by more than 50%, reflecting the termination of the assistance from the Republic of China for building sports stadiums and of debt forgiveness for Antigua and Barbuda in 2005.

The structural current-account deficit widened to 23.9% of GDP in 2006, up from 19.4% of GDP in 2005, following the acceleration in import-dependent growth and high international fuel and other commodity prices. The expansion in imports was due to growth in construction and higher prices for inputs as well as to the greater demand for consumer goods fuelled by increased available income. Exports declined, however, as higher banana volumes and prices were counteracted by the absence of sugar exports following the closure of the industry in Saint Kitts and Nevis. The services account balance deteriorated by 1.2 percentage points as net outflows for insurance and other business services counterbalanced the 4.9 percentage-point increase in net travel receipts, stemming from higher visitor arrivals and expenditure. Meanwhile, the income account deficit remained stable at around 6% of GDP.

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Statistical appendix

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Table A-1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Annual growth rates									
Gross domestic product ^b	2.5	0.2	3.9	0.3	-0.5	2.1	6.2	4.6	5.6
Per capita gross domestic product ^b	0.8	-1.3	2.4	-1.1	-1.8	0.8	4.8	3.3	4.2
Consumer prices ^c	10.0	9.7	9.0	6.1	12.2	8.5	7.4	6.1	5.0
Percentages									
Urban open unemployment ^d	10.3	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.6
Total gross external debt/GDP ^e	35.6	41.1	36.2	37.6	41.5	41.5	36.1	26.0	22.0
Total gross external debt/ exports of goods and services	216	211	172	182	178	169	139	101	84
Millions of dollars									
Balance of payments									
Current account balance	-90 353	-55 813	-48 176	-53 884	-16 523	7 725	20 624	35 936	47 334
Merchandise trade balance	-39 841	-10 834	-643	-7 798	19 441	41 067	56 546	77 566	92 737
Exports of goods f.o.b.	289 351	305 868	367 080	351 535	354 676	387 528	477 437	575 340	680 949
Imports of goods f.o.b.	329 193	316 702	367 723	359 333	335 235	346 461	420 891	497 774	588 212
Services trade balance	-17 015	-13 128	-14 289	-16 675	-11 648	-10 313	-10 554	-14 415	-17 144
Income balance	-51 464	-52 394	-55 241	-55 969	-54 329	-59 572	-69 052	-78 843	-89 323
Net current transfers	17 967	20 543	21 997	26 558	30 012	36 543	43 684	51 628	61 064
Capital and financial balance ^f	71 514	43 701	64 491	38 386	-9 128	3 195	-6 820	23 509	14 651
Net foreign direct investment	62 544	81 305	72 055	66 753	47 148	37 601	48 164	52 824	31 887
Financial capital ^g	8 970	-37 603	-7 564	-28 367	-56 276	-34 406	-54 985	-29 315	-17 236
Overall balance	-18 839	-12 112	16 315	-15 498	-25 652	10 920	13 804	59 445	61 985
Variation in reserve assets ^h	9 809	6 061	-8 074	-698	3 203	-29 586	-22 673	-37 372	-48 967
Other financing ⁱ	9 029	6 051	-8 242	16 197	22 449	18 666	8 869	-22 073	-13 019
Net transfer of resources	29 040	-2 671	1 192	-1 293	-41 308	-38 161	-66 853	-77 107	-87 691
International reserve assets ^j	173 897	166 559	170 118	163 307	165 409	201 224	227 708	263 483	320 827
Percentage of GDP									
Fiscal sector ^k									
Overall balance	-2.2	-3.1	-2.7	-3.3	-3.2	-2.9	-1.8	-1.2	-0.2
Primary balance	0.0	-0.4	-0.2	-0.7	-0.4	-0.2	0.6	1.4	2.1
Total revenue	15.7	16.2	16.6	16.7	16.8	16.9	17.3	18.2	19.3
Tax revenue	14.3	14.4	14.2	14.5	14.6	14.8	15.3	16.1	16.9
Current expenditure	14.2	15.2	15.7	16.3	16.4	16.2	15.7	16.1	16.3
Capital expenditure	3.5	3.9	3.3	3.4	3.3	3.4	3.2	3.1	3.0
Central government public debt	39.7	43.9	44.2	46.6	59.6	58.8	52.2	43.9	37.0
Public debt of the non-financial public-sector (NFPS)	44.4	49.1	46.8	49.0	63.4	61.5	54.1	46.9	39.5

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 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.

^j Including gold.

^k Central government. Simple averages.

Table A-2
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Millions of current dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean^b	2 064 528	1 830 371	2 014 409	1 953 987	1 739 204	1 806 905	2 083 698	2 541 085	2 948 570
Latin America^b	2 039 302	1 803 900	1 985 811	1 924 432	1 708 505	1 773 521	2 047 482	2 500 633	2 905 480
Argentina	299 098	283 665	284 346	268 831	102 042	129 596	153 129	183 196	214 259
Bolivia	8 497	8 285	8 398	8 142	7 905	8 082	8 773	9 441	11 162
Brazil	843 825	586 864	644 476	552 288	505 960	552 453	663 733	882 330	1 067 801
Chile	79 689	73 285	75 495	68 840	67 532	73 986	95 844	118 908	145 841
Colombia	98 513	86 301	83 767	81 995	81 243	79 411	98 054	122 940	135 758
Costa Rica	14 094	15 796	15 946	16 403	16 844	17 514	18 594	19 973	22 145
Cuba	23 777	26 147	28 206	29 557	30 680	32 337	...	...	...
Ecuador	23 255	16 674	15 934	21 250	24 899	28 636	32 636	36 489	40 892
El Salvador	12 008	12 465	13 134	13 813	14 307	15 047	15 822	16 974	18 574
Guatemala	17 290	16 330	17 196	18 703	20 777	21 918	23 965	27 285	30 637
Haiti	3 757	4 089	3 665	3 508	3 215	2 827	3 660	4 154	4 961
Honduras	5 262	5 424	6 025	6 400	6 580	6 945	7 538	8 372	9 301
Mexico	421 008	480 600	580 791	621 866	648 629	638 798	683 067	767 222	839 503
Nicaragua	3 573	3 743	3 938	4 125	4 026	4 102	4 465	4 855	5 301
Panama	10 933	11 456	11 621	11 807	12 272	12 933	14 204	15 483	17 097
Paraguay	7 915	7 301	7 095	6 446	5 092	5 552	6 950	7 473	9 019
Peru	56 752	51 553	53 336	53 954	57 059	61 504	69 662	79 383	93 277
Dominican Republic	20 124	21 182	23 417	24 590	24 957	19 498	21 718	34 717	38 783
Uruguay	22 371	20 913	20 086	18 561	12 277	11 191	13 216	16 615	19 308
Venezuela (Bolivarian Republic of)	91 339	97 974	117 148	122 910	92 890	83 529	112 452	144 823	181 862
The Caribbean	25 225	26 470	28 598	29 555	30 699	33 384	36 216	40 452	43 091^c
Antigua and Barbuda	620	652	665	697	715	754	819	870	983
Bahamas	4 283	4 704	5 004	5 131	5 389	5 503	5 661	5 869	6 210
Barbados	2 370	2 478	2 559	2 554	2 476	2 695	2 817	3 006	3 251
Belize	689	732	832	871	932	988	1 055	1 111	1 205
Dominica	259	268	271	266	255	263	285	300	...
Grenada	353	380	410	395	408	444	427	504	...
Guyana	661	626	669	661	671	700	757	766	854
Jamaica	7 743	7 738	7 889	8 116	8 471	8 190	8 825	9 715	10 244
Saint Kitts and Nevis	287	305	329	343	351	362	399	429	...
Saint Vincent and the Grenadines	317	330	335	345	365	382	415	430	461
Saint Lucia	658	692	707	685	703	746	798	882	...
Suriname	942	757	775	665	955	1 122	1 285	1 481	1 736
Trinidad and Tobago	6 044	6 809	8 154	8 825	9 008	11 236	12 673	15 089	18 147

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

^a Preliminary figures.

^b Excluding Cuba.

^c Excluding Dominica, Grenada, Saint Kitts and Nevis and Saint Lucia.

Table A-3
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean^b	2.5	0.2	3.9	0.3	-0.5	2.1	6.2	4.6	5.6
Latin America^b	2.5	0.2	3.9	0.3	-0.5	2.1	6.2	4.6	5.5
Argentina	3.9	-3.4	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5
Bolivia	5.0	0.4	2.5	1.7	2.5	2.7	4.2	4.0	4.6
Brazil	0.0	0.3	4.3	1.3	2.7	1.1	5.7	2.9	3.7
Chile	3.2	-0.8	4.5	3.4	2.2	3.9	6.0	5.7	4.0
Colombia	0.6	-4.2	2.9	1.5	1.9	3.9	4.9	4.7	6.8
Costa Rica	8.4	8.2	1.8	1.1	2.9	6.4	4.3	5.9	7.9
Cuba	0.2	6.3	6.1	3.0	1.5	2.9	4.5	...	...
Cuba ^c	...	...	...	3.0	1.8	3.8	5.4	11.8	12.5
Ecuador	2.1	-6.3	2.8	5.3	4.2	3.6	7.9	4.7	4.1
El Salvador	3.7	3.4	2.2	1.7	2.3	2.3	1.8	2.8	4.2
Guatemala	5.0	3.8	3.6	2.3	3.9	2.5	3.2	3.5	4.9
Haiti	2.2	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3
Honduras	2.9	-1.9	5.7	2.6	2.7	3.5	5.0	4.1	6.0
Mexico	5.0	3.8	6.6	0.0	0.8	1.4	4.2	2.8	4.8
Nicaragua	3.7	7.0	4.1	3.0	0.8	2.5	5.3	4.3	3.7
Panama	7.4	4.0	2.7	0.6	2.2	4.2	7.5	6.9	8.1
Paraguay	0.6	-1.5	-3.3	2.1	0.0	3.8	4.1	2.9	4.2
Peru	-0.7	0.9	3.0	0.2	5.2	3.9	5.2	6.4	8.0
Dominican Republic	8.3	6.1	7.9	2.3	5.0	-0.4	2.7	9.2	10.7
Uruguay	4.5	-2.8	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.0
Venezuela (Bolivarian Republic of)	0.3	-6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3
The Caribbean	4.1	3.9	3.4	1.7	3.6	6.4	4.7	4.7	7.3
Antigua and Barbuda	4.4	4.1	1.5	2.2	2.5	5.2	7.2	4.6	11.0
Bahamas	6.8	4.0	1.9	0.8	2.3	1.4	1.8	2.7	3.4
Barbados	6.2	0.5	2.3	-4.6	0.7	2.0	4.8	4.1	3.8
Belize	3.7	8.7	12.9	4.9	5.1	9.3	4.6	3.5	5.8
Dominica	3.2	0.6	0.6	-3.6	-4.2	2.2	6.3	3.3	4.0
Grenada	8.2	7.0	7.0	-4.9	1.5	7.5	-7.4	13.2	7.0
Guyana	-1.7	3.8	-1.4	2.3	1.1	-0.7	1.6	-2.0	4.7
Jamaica	-1.2	1.0	0.7	1.5	1.1	2.3	1.0	1.4	2.5
Saint Kitts and Nevis	0.9	3.6	4.3	2.0	1.1	0.5	7.6	5.0	5.0
Saint Vincent and the Grenadines	5.2	4.4	1.8	1.0	3.7	3.2	6.2	1.5	4.0
Saint Lucia	6.4	2.4	-0.2	-5.1	3.0	4.1	5.6	7.7	7.0
Suriname	3.1	-2.4	4.0	5.9	1.9	6.1	7.7	5.6	5.8
Trinidad and Tobago	8.1	8.0	6.9	4.2	7.9	14.4	8.8	8.0	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 Excluding Cuba.

^c Data supplied by the National Statistical Office of Cuba.

Table A-4
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean ^b	0.8	-1.3	2.4	-1.1	-1.8	0.8	4.8	3.3	4.2
Latin America ^b	0.8	-1.4	2.4	-1.1	-1.9	0.7	4.9	3.3	4.2
Argentina	2.7	-4.4	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4
Bolivia	2.5	-1.9	0.1	-0.6	0.2	0.4	1.9	1.8	2.5
Brazil	-1.5	-1.2	2.8	-0.2	1.2	-0.3	4.2	1.5	2.3
Chile	1.9	-2.0	3.2	2.2	1.0	2.8	4.9	4.6	2.9
Colombia	-1.1	-5.8	1.3	-0.1	0.4	2.3	3.3	3.3	5.4
Costa Rica	5.7	5.7	-0.5	-1.0	0.9	4.4	2.4	4.0	6.0
Cuba	-0.2	6.0	5.8	2.7	1.3	2.7	4.3	...	...
Cuba ^c	...	...	...	2.7	1.5	3.6	5.1	11.7	12.7
Ecuador	0.6	-7.6	1.3	3.8	2.8	2.1	6.4	3.3	2.6
El Salvador	1.7	1.4	0.2	-0.2	0.4	0.5	0.0	1.0	2.5
Guatemala	2.6	1.5	1.2	-0.1	1.3	0.0	0.6	0.9	2.3
Haiti	0.3	0.9	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7
Honduras	0.7	-3.9	3.6	0.5	0.6	1.4	3.0	2.0	3.9
Mexico	3.2	2.1	5.1	-1.1	-0.1	0.6	3.4	1.9	3.7
Nicaragua	1.9	5.2	2.4	1.5	-0.6	1.2	4.0	3.0	2.3
Panama	5.3	2.0	0.8	-1.3	0.4	2.3	5.6	5.1	6.3
Paraguay	-1.6	-3.6	-5.3	0.0	-2.0	1.8	2.1	0.9	2.3
Peru	-2.1	-0.5	1.6	-1.1	3.9	2.7	4.0	5.2	6.8
Dominican Republic	6.4	4.3	6.1	0.6	3.3	-2.0	1.1	7.6	9.1
Uruguay	3.9	-3.4	-1.8	-3.6	-11.0	2.2	11.9	6.6	6.8
Venezuela (Bolivarian Republic of)	-1.6	-7.7	1.8	1.5	-10.5	-9.4	16.2	8.5	8.5
The Caribbean	3.4	3.2	2.6	1.0	2.9	5.7	4.0	4.0	6.7
Antigua and Barbuda	1.8	1.7	-0.7	0.3	0.8	3.7	5.7	3.2	9.6
Bahamas	5.2	2.5	0.5	-0.6	0.9	0.2	0.6	1.5	2.1
Barbados	5.7	0.1	1.8	-5.0	0.3	1.6	4.4	3.7	3.5
Belize	1.0	5.9	10.1	2.3	2.6	6.8	2.2	1.2	3.5
Dominica	3.3	0.8	0.8	-3.5	-4.0	2.4	6.5	3.6	4.3
Grenada	7.8	6.5	6.3	-5.8	0.4	6.3	-8.3	12.5	6.6
Guyana	-1.5	4.0	-1.3	2.2	1.0	-0.9	1.4	-2.0	4.7
Jamaica	-2.0	0.2	-0.1	0.8	0.4	1.5	0.3	0.8	1.9
Saint Kitts and Nevis	-0.4	2.3	3.0	0.7	-0.2	-0.8	6.3	3.6	3.7
Saint Vincent and the Grenadines	4.6	3.9	1.3	0.4	3.2	2.6	5.6	1.0	3.4
Saint Lucia	5.5	1.5	-1.1	-6.1	2.0	2.9	4.4	6.5	5.8
Suriname	2.0	-3.4	3.0	5.0	1.1	5.3	7.0	4.9	5.1
Trinidad and Tobago	7.6	7.6	6.5	3.8	7.6	14.0	8.4	7.6	11.6

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 Excluding Cuba.

^c Data supplied by the National Statistical Office of Cuba.

Table A-5
LATIN AMERICA AND THE CARIBBEAN: COMPONENTS OF TOTAL DEMAND^a
(Indices 2000=100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^b
Total supply	95.0	94.8	100.0	100.2	98.8	100.6	108.3	114.8	123.0
Gross domestic product	96.0	96.2	100.0	100.3	99.8	101.8	108.2	113.2	119.5
Imports of goods and services	90.8	88.2	100.0	99.9	94.2	95.3	109.6	122.6	140.1
Total demand	95.0	94.8	100.0	100.2	98.8	100.6	108.3	114.8	123.0
Total consumption	95.5	96.4	100.0	100.9	100.4	102.1	107.2	113.2	119.9
Household consumption	95.1	95.8	100.0	100.9	100.0	101.8	107.3	113.9	120.9
Government consumption	96.9	99.0	100.0	101.0	102.2	103.5	106.7	110.0	115.5
Gross capital formation	103.1	93.4	100.0	97.7	88.9	88.8	101.6	107.0	120.3
Gross fixed capital formation	102.4	95.8	100.0	97.2	90.7	90.5	102.0	113.6	128.8
Domestic demand	97.0	95.8	100.0	100.3	98.1	99.5	106.1	112.0	120.0
Exports of goods and services	85.3	89.9	100.0	100.1	102.1	106.1	119.1	128.6	138.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures expressed in 2000 dollars.

^a Includes information from 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 Preliminary figures.

Table A-6
LATIN AMERICA: GROSS DOMESTIC PRODUCT BY ECONOMIC SECTOR^a
(Index 2000=100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^b
Total gross domestic product at market prices	96.0	96.2	100.0	100.3	99.8	101.8	108.2	113.2	119.5
Agriculture, forestry, hunting and fishing	94.9	98.0	100.0	103.9	106.3	111.1	114.0	117.0	121.8
Mining and quarrying	97.7	97.0	100.0	102.3	99.2	103.0	109.6	113.9	116.4
Manufacturing	97.1	95.9	100.0	97.9	96.4	98.6	106.5	110.0	115.3
Construction	104.6	99.9	100.0	97.6	93.6	95.2	104.3	111.9	123.7
Electricity, gas, water and sanitation services	93.2	95.5	100.0	98.6	100.3	103.7	109.9	115.1	120.3
Transport, storage and communications	90.1	93.0	100.0	102.6	104.6	109.3	118.9	128.2	138.9
Wholesale and retail trade, restaurants and hotels	95.7	94.2	100.0	98.7	95.9	98.1	105.7	111.2	118.0
Financial establishments, insurance, real estate and business services	96.1	97.0	100.0	101.9	102.8	104.1	108.5	115.1	122.4
Community, social and personal services	95.8	97.8	100.0	100.5	102.2	103.4	107.1	110.1	114.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures expressed in 2000 dollars.

^a Includes information from 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 Preliminary figures.

Table A-7
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION
(Percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean^b	19.7	18.4	18.5	17.9	16.8	16.4	17.4	18.6	19.9
Argentina	19.1	17.2	16.2	14.3	10.2	12.9	15.9	17.9	19.6
Bolivia	23.9	20.1	17.9	13.8	16.0	13.9	13.2	13.2	13.5
Brazil	18.2	16.7	16.8	16.7	15.4	14.5	15.0	15.1	15.8
Chile	23.0	19.1	19.7	19.9	19.8	20.2	21.0	24.2	24.2
Colombia	19.3	13.2	12.6	13.4	14.5	16.1	17.6	20.0	23.9
Costa Rica	20.6	18.3	17.8	18.0	18.7	18.8	18.0	18.0	18.2
Cuba	12.5	12.5	12.9	12.1	10.9	9.9	10.1	...	...
Cuba ^c	...	...	11.8	11.1	9.9	8.9	9.1	9.7	...
Ecuador	24.3	18.8	20.5	24.0	27.4	26.4	25.7	26.5	26.2
El Salvador	17.2	16.4	16.9	16.9	17.1	17.1	15.9	16.4	17.4
Guatemala	21.3	21.7	19.1	19.0	20.0	18.9	18.2	18.4	18.2
Haiti	19.3	23.3	27.3	27.3	28.0	28.8	28.9	28.8	28.8
Honduras	27.6	29.9	26.1	23.5	21.6	22.3	25.4	22.6	23.5
Mexico	19.7	20.5	21.4	20.2	19.9	19.7	20.3	21.3	22.3
Nicaragua	27.6	35.0	29.9	27.4	25.5	25.0	25.8	24.6	23.0
Panama	22.0	23.5	21.2	15.7	14.4	17.1	17.4	17.3	18.3
Paraguay	19.2	17.1	17.5	16.1	15.0	15.5	15.6	16.5	17.0
Peru	24.9	21.9	20.2	18.5	17.4	17.8	18.4	19.6	21.6
Dominican Republic	22.7	19.4	20.7	19.5	19.5	14.7	13.4	13.8	15.0
Uruguay	15.8	14.9	13.2	12.4	9.4	8.1	9.5	11.1	13.6
Venezuela (Bolivarian Republic of)	23.6	21.2	21.0	23.1	20.7	14.1	17.9	22.4	27.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures expressed in 2000 dollars.

^a Preliminary figures.

^b Excluding Cuba.

^c Data supplied by the National Statistical Office of Cuba.

Table A-8
LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT^a
(Percentages of GDP)

	Gross domestic investment				National saving				External saving			
	2003	2004	2005	2006 ^b	2003	2004	2005	2006 ^b	2003	2004	2005	2006 ^b
Latin America and the Caribbean	18.0	19.7	19.4	20.2	18.6	20.7	20.9	21.8	-0.5	-1.0	-1.5	-1.7
Argentina	14.6	19.0	20.9	23.0	20.8	21.0	23.9	26.8	-6.2	-2.1	-3.1	-3.8
Bolivia	13.2	11.0	13.8	12.1	14.2	14.9	20.5	23.9	-0.9	-3.8	-6.7	-11.9
Brazil	15.8	17.1	16.0	16.8	16.5	18.9	17.6	18.0	-0.8	-1.8	-1.6	-1.3
Chile	21.1	20.1	22.4	20.4	20.1	22.2	23.5	24.0	1.1	-2.2	-1.1	-3.6
Colombia	17.2	19.2	20.8	23.4	16.0	18.3	19.2	21.3	1.2	0.9	1.5	2.1
Costa Rica	20.6	23.0	25.2	27.6	15.6	18.8	20.4	22.7	5.0	4.3	4.9	4.9
Ecuador	21.5	23.4	24.3	23.9	20.0	21.7	25.0	27.4	1.5	1.7	-0.7	-3.5
El Salvador	17.0	16.0	15.4	16.1	12.3	12.0	10.8	11.5	4.7	4.0	4.6	4.6
Guatemala	20.3	20.8	19.7	21.0	15.6	15.8	14.6	16.0	4.7	5.1	5.1	5.0
Haiti	30.7	27.3	27.4	28.9	29.1	25.8	28.7	28.9	1.6	1.5	-1.3	0.0
Honduras	26.6	30.3	30.1	32.9	22.6	24.3	28.7	31.0	4.1	6.0	1.3	1.9
Mexico	20.5	22.0	21.8	21.9	19.1	21.1	21.1	21.7	1.4	1.0	0.6	0.2
Nicaragua	25.9	27.3	29.6	29.4	9.7	12.6	14.3	13.3	16.2	14.7	15.3	16.1
Panama	19.0	18.8	18.3	16.6	15.1	11.4	13.3	14.4	3.9	7.5	5.0	2.2
Paraguay	19.9	20.8	19.6	20.4	22.2	22.8	20.0	18.4	-2.3	-2.0	-0.4	2.0
Peru	18.7	18.8	18.5	21.4	17.1	18.9	19.9	24.0	1.6	0.0	-1.4	-2.6
Dominican Republic	15.8	17.0	15.0	17.3	21.1	21.8	13.6	15.2	-5.3	-4.8	1.4	2.0
Uruguay	12.6	13.1	13.1	16.4	11.8	13.1	13.4	14.0	0.8	0.0	-0.3	2.4
Venezuela (Bolivarian Republic of)	15.2	21.8	22.6	24.7	29.3	35.6	40.2	39.6	-14.1	-13.8	-17.6	-14.9

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

^a Based on values calculated in national currency and expressed in current dollars.

^b Preliminary figures.

Table A-9
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods f.o.b.			Imports of goods f.o.b.			Balance of goods f.o.b.			Balance of services		
	2004	2005	2006 ^d	2004	2005	2006 ^d	2004	2005	2006 ^d	2004	2005	2006 ^d
Latin America and the Caribbean	477 437	575 340	680 949	420 891	497 774	588 212	56 546	77 566	92 737	-10 554	-14 415	-17 144
Antigua and Barbuda	55	58	72	379	416	462	-324	-358	-390	277	256	314
Argentina	34 576	40 387	46 456	21 311	27 300	32 585	13 265	13 087	13 872	-1 328	-1 205	-934
Bahamas	477	590	692	1 905	2 399	2 624	-1 428	-1 810	-1 932	1 013	1 112	520
Barbados	293	379	461	1 264	1 464	1 462	-971	-1 085	-1 001	668	777	854
Belize	307	325	427	481	556	612	-173	-231	-185	88	134	200
Bolivia	2 146	2 791	3 863	1 725	2 334	2 809	421	457	1 054	-190	-42	-194
Brazil	96 475	118 308	137 470	62 835	73 606	91 396	33 641	44 703	46 074	-4 678	-8 309	-9 408
Chile	32 520	41 297	58 116	22 935	30 492	35 903	9 585	10 805	22 213	-746	-636	-922
Colombia	17 224	21 729	25 181	15 878	20 134	24 859	1 346	1 595	322	-1 680	-2 102	-2 119
Costa Rica	6 370	7 100	8 238	7 791	9 242	10 842	-1 421	-2 142	-2 604	857	1 116	1 215
Dominica	43	42	42	128	146	142	-85	-103	-101	41	34	36
Ecuador	7 968	10 427	13 052	7 684	9 698	11 332	284	729	1 721	-954	-1 129	-1 347
El Salvador	3 337	3 432	3 567	5 999	6 440	7 257	-2 662	-3 008	-3 689	-78	-72	19
Grenada	33	39	25	236	280	299	-203	-241	-274	63	21	44
Guatemala	3 368	3 701	4 046	7 189	8 068	9 075	-3 822	-4 368	-5 029	-116	-241	-253
Guyana	589	551	601	647	784	885	-58	-233	-284	-47	-53	-114
Haiti	378	459	496	1 210	1 308	1 548	-833	-850	-1 052	-203	-313	-336
Honduras	2 421	2 750	3 043	3 677	4 239	5 037	-1 256	-1 489	-1 993	-214	-262	-417
Jamaica	1 602	1 664	2 117	3 546	4 246	5 062	-1 945	-2 581	-2 945	572	670	802
Mexico	187 999	214 233	249 997	196 810	221 820	256 130	-8 811	-7 587	-6 133	-4 607	-4 713	-6 027
Nicaragua	1 369	1 654	1 978	2 457	2 956	3 422	-1 088	-1 302	-1 444	-123	-140	-141
Panama	6 078	7 591	8 509	7 617	8 907	10 310	-1 538	-1 316	-1 801	1 278	1 415	2 210
Paraguay	2 861	3 352	4 838	3 105	3 814	5 772	-244	-462	-935	327	349	383
Peru	12 809	17 336	23 750	9 805	12 076	14 897	3 004	5 260	8 853	-732	-834	-932
Dominican Republic	5 936	6 145	6 440	7 888	9 869	11 190	-1 952	-3 725	-4 750	2 291	2 447	2 666
Saint Kitts and Nevis	57	58	66	175	194	222	-118	-136	-156	52	51	53
Saint Vincent and the Grenadines	39	43	44	199	212	239	-160	-170	-195	72	75	82
Saint Lucia	109	69	87	369	414	470	-260	-345	-383	217	226	225
Suriname	782	1 212	1 174	740	1 189	1 013	42	22	161	-130	-148	-31
Trinidad and Tobago	6 403	8 373	6 500	4 894	5 725	3 268	1 509	2 648	3 232	512	596	308
Uruguay	3 145	3 774	4 389	2 992	3 753	4 863	153	21	-474	325	372	361
Venezuela (Bolivarian Republic of)	39 668	55 473	65 210	17 021	23 693	32 226	22 647	31 780	32 984	-3 383	-3 866	-4 259

Table A-9 (continued)

	Trade balance balance			Income balance balance			Current transfers			Current account		
	2004	2005	2006 ^d	2004	2005	2006 ^d	2004	2005	2006 ^d	2004	2005	2006 ^d
Latin America and the Caribbean	45 992	63 151	75 593	43 684	51 628	61 064	-69 052	-78 843	-89 323	20 624	35 936	47 334
Antigua and Barbuda	-46	-102	-76	8	8	6	-45	-42	-53	-83	-136	-123
Argentina	11 936	11 881	12 938	564	539	516	-9 282	-6 730	-5 456	3 219	5 690	7 998
Bahamas	-415	-698	-1 412	251	85	52	-141	-203	-218	-305	-815	-1 578
Barbados	-303	-308	-147	88	95	86	-122	-172	-228	-337	-385	-289
Belize	-85	-97	15	46	51	74	-117	-114	-118	-156	-160	-30
Bolivia	231	415	861	491	584	822	-385	-364	-357	337	634	1 326
Brazil	28 963	36 394	36 666	3 236	3 558	4 306	-20 520	-25 967	-27 444	11 679	13 985	13 528
Chile	8 839	10 169	21 291	1 072	1 791	3 356	-7 837	-10 645	-19 392	2 074	1 315	5 256
Colombia	-334	-507	-1 797	3 724	4 082	4 743	-4 299	-5 456	-6 007	-909	-1 881	-3 061
Costa Rica	-564	-1 026	-1 389	212	270	310	-444	-215	1	-796	-971	-1 077
Dominica	-44	-70	-64	15	16	17	-32	-27	-28	-60	-82	-75
Ecuador	-670	-400	373	2 030	2 635	3 049	-1 919	-1 965	-1 990	-559	270	1 433
El Salvador	-2 739	-3 080	-3 671	2 568	2 865	3 335	-460	-571	-519	-632	-786	-855
Grenada	-140	-220	-231	121	114	47	-39	-24	-28	-59	-129	-212
Guatemala	-3 937	-4 609	-5 282	3 045	3 558	4 103	-318	-336	-355	-1 211	-1 387	-1 533
Guyana	-105	-286	-397	74	167	259	-39	-39	-43	-70	-158	-181
Haiti	-1 036	-1 162	-1 387	993	1 254	1 382	-12	-37	7	-56	55	2
Honduras	-1 470	-1 752	-2 410	1 374	1 979	2 518	-359	-340	-287	-456	-113	-179
Jamaica	-1 373	-1 911	-2 143	1 446	1 578	1 727	-583	-676	-681	-509	-1 009	-1 097
Mexico	-13 418	-12 300	-12 161	17 044	20 484	23 468	-10 316	-13 093	-13 161	-6 691	-4 908	-1 853
Nicaragua	-1 212	-1 442	-1 586	755	824	856	-201	-127	-124	-657	-745	-855
Panama	-260	99	409	220	243	258	-1 021	-1 124	-1 045	-1 061	-782	-378
Paraguay	83	-113	-552	194	224	386	-138	-78	-14	139	33	-180
Peru	2 273	4 426	7 921	1 433	1 755	2 184	-3 686	-5 076	-7 649	19	1 105	2 456
Dominican Republic	339	-1 278	-2 084	2 528	2 697	3 033	-1 819	-1 897	-1 735	1 047	-478	-786
Saint Kitts and Nevis	-66	-84	-102	18	18	20	-43	-41	-36	-90	-107	-118
Saint Vincent and the Grenadines	-88	-95	-113	14	18	20	-29	-33	-30	-103	-110	-123
Saint Lucia	-43	-119	-158	14	16	12	-70	-79	-78	-100	-183	-224
Suriname	-88	-125	130	14	22	36	-63	-40	-52	-137	-144	115
Trinidad and Tobago	2 020	3 243	3 540	53	53	0	-450	-554	-223	1 623	2 741	3 318
Uruguay	478	393	-113	113	144	126	-588	-494	-470	3	42	-457
Venezuela (Bolivarian Republic of)	19 264	27 914	28 725	-72	-99	-46	-3 673	-2 281	-1 512	15 519	25 534	27 167

Table A-9 (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	-6 820	23 509	14 651	13 804	59 445	61 985	-22 673	-37 372	-48 967	8 869	-22 073	-13 019
Antigua and Barbuda	90	143	124	6	7	1	-6	-7	-1	0	0	0
Argentina	-10 171	2 404	6 482	-6 952	8 094	14 480	-5 319	-8 857	-3 530	12 271	763	-10 950
Bahamas	489	726	1 499	184	-89	-79	-184	89	79	0	0	0
Barbados	180	317	333	-157	-68	44	157	68	-44	1	0	0
Belize	125	179	62	-31	18	33	31	-18	-33	0	0	0
Bolivia	-265	-141	192	73	493	1 518	-157	-504	-1 518	85	11	0
Brazil	-5 073	13 606	17 041	6 607	27 590	30 569	-2 244	-4 319	-30 569	-4 363	-23 271	0
Chile	-2 260	442	-3 245	-186	1 757	2 011	186	-1 757	-2 011	0	0	0
Colombia	3 450	3 610	3 083	2 541	1 729	23	-2 541	-1 729	-23	0	0	0
Costa Rica	876	1 364	2 111	80	393	1 034	-80	-393	-1 034	0	0	0
Dominica	52	92	75	-8	10	0	6	-14	0	2	4	0
Ecuador	840	396	-1 564	281	666	-131	-277	-710	124	-4	43	7
El Salvador	579	728	926	-53	-59	71	53	59	-72	0	0	0
Grenada	101	102	208	42	-27	-4	-46	27	4	4	0	0
Guatemala	1 819	1 641	1 812	609	254	279	-609	-254	-279	0	0	0
Guyana	27	166	226	-43	8	45	32	-24	-62	12	16	17
Haiti	91	-4	95	35	51	97	-50	-22	-112	15	-29	15
Honduras	829	330	450	373	217	271	-504	-372	-387	131	155	116
Jamaica	1 203	1 238	1 327	694	229	230	-686	-228	-230	-8	-1	0
Mexico	10 749	12 073	850	4 058	7 164	-1 003	-4 058	-7 164	1 003	0	0	0
Nicaragua	546	748	875	-111	3	21	-160	-60	-132	271	56	111
Panama	666	1 456	554	-395	675	176	396	-521	-166	-1	-154	-10
Paraguay	125	110	556	264	143	376	-179	-146	-387	-85	3	11
Peru	2 397	265	727	2 417	1 371	3 183	-2 443	-1 471	-3 210	26	100	27
Dominican Republic	-868	1 183	1 057	179	705	271	-542	-1 109	-319	363	404	48
Saint Kitts and Nevis	104	100	121	14	-7	3	-14	7	-3	0	0	0
Saint Vincent and the Grenadines	128	106	123	25	-4	0	-25	4	0	0	0	0
Saint Lucia	126	167	218	27	-15	-6	-27	15	6	0	0	0
Suriname	175	168	-21	38	24	94	-38	-24	-94	0	0	0
Trinidad and Tobago	-889	-848	-2 069	734	1 893	1 249	-734	-1 893	-1 249	0	0	0
Uruguay	302	753	2 853	306	796	2 396	-454	-620	15	149	-175	-2 411
Venezuela (Bolivarian Republic of)	-13 364	-20 110	-22 431	2 155	5 424	4 736	2 155	-5 424	-4 736	0	0	0

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

^a Includes errors and omissions.

^b A minus sign (-) indicates an increase in reserve assets.

^c Includes the use of IMF credit and loans and exceptional financing.

^d Preliminary figures.

Table A-10
LATIN AMERICA AND THE CARIBBEAN: BALANCE-OF-PAYMENTS CURRENT ACCOUNT
(Percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean	-4.4	-3.0	-2.4	-2.7	-0.9	0.5	1.0	1.4	1.6
Argentina	-4.8	-4.2	-3.2	-1.4	8.6	6.3	2.1	3.1	3.7
Bahamas	-22.2	-4.2	-8.8	-11.6	-7.8	-8.6	-5.4	-13.9	-25.4
Barbados	-2.7	-6.0	-5.7	-4.3	-6.8	-6.3	-12.0	-12.8	-8.9
Belize	-8.7	-9.9	-19.4	-21.1	-17.8	-17.9	-14.8	-14.4	-2.5
Bolivia	-7.8	-5.9	-5.3	-3.4	-4.5	0.9	3.8	6.7	11.9
Brazil	-4.0	-4.3	-3.8	-4.2	-1.5	0.8	1.8	1.6	1.3
Chile	-4.9	0.1	-1.2	-1.6	-0.9	-1.1	2.2	1.1	3.6
Colombia	-4.9	0.8	0.9	-1.3	-1.7	-1.2	-0.9	-1.5	-2.3
Costa Rica	-3.7	-4.1	-4.3	-3.7	-5.1	-5.0	-4.3	-4.9	-4.9
Ecuador	-9.0	5.5	5.8	-2.9	-5.1	-1.5	-1.7	0.7	3.5
El Salvador	-0.8	-1.9	-3.3	-1.1	-2.8	-4.7	-4.0	-4.6	-4.6
Guatemala	-6.0	-6.3	-6.1	-6.7	-5.9	-4.7	-5.1	-5.1	-5.0
Guyana	-15.4	-12.5	-17.2	-20.2	-16.5	-12.9	-9.2	-20.6	-21.3
Haiti	-1.0	-1.4	-3.0	-3.8	-2.8	-1.6	-1.5	1.3	0.0
Honduras	-2.8	-4.4	-4.0	-4.7	-3.6	-4.1	-6.0	-1.3	-1.9
Jamaica	-4.3	-2.8	-4.7	-9.3	-12.7	-9.4	-5.8	-10.4	-10.7
Mexico	-3.8	-2.9	-3.2	-2.8	-2.2	-1.4	-1.0	-0.6	-0.2
Nicaragua	-19.2	-24.8	-21.4	-19.5	-18.5	-16.2	-14.7	-15.3	-16.1
Panama	-9.3	-10.1	-5.8	-1.4	-0.8	-3.9	-7.5	-5.0	-2.2
Paraguay	-2.0	-2.3	-2.3	-4.1	1.8	2.3	2.0	0.4	-2.0
Peru	-5.9	-2.7	-2.9	-2.3	-2.0	-1.6	0.0	1.4	2.6
Dominican Republic	-1.7	-2.0	-4.4	-3.0	-3.2	5.3	4.8	-1.4	-2.0
Suriname	-16.5	-3.8	-4.4	-17.5	-6.3	-12.6	-10.6	-9.7	6.6
Trinidad and Tobago	-10.6	0.4	6.7	4.7	0.8	8.8	12.8	18.2	18.3
Uruguay	-2.1	-2.4	-2.8	-2.7	3.1	-0.8	0.0	0.3	-2.4
Venezuela (Bolivarian Republic of)	-4.9	2.2	10.1	1.6	8.2	14.1	13.8	17.6	14.9

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

^a Preliminary figures.

Table A-11
LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS, f.o.b.
(Annual growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
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	-4.2	2.6	-6.6	-2.3	0.7	-3.0
2002	1.0	0.9	0.1	-7.0	-6.8	-0.2
2003	9.0	3.9	4.9	3.2	0.5	2.7
2004	23.3	10.3	11.8	21.8	14.5	6.4
2005	20.4	7.9	11.6	18.2	11.1	6.4
2006 ^a	19.0	7.0	11.2	19.1	13.4	5.0

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

^a Preliminary figures.

Table A-12
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	130.1	156.7	186.4	118.6	128.0	136.9	109.6	122.4	136.2
Argentina	131.3	153.3	176.4	118.2	136.0	144.9	111.0	112.7	121.7
Bolivia	172.2	224.0	310.0	151.9	171.8	182.9	113.4	130.4	169.5
Brazil	175.1	214.8	249.6	163.8	178.5	185.2	106.9	120.3	134.7
Chile	169.3	215.0	302.5	135.7	141.2	144.0	124.8	152.2	210.1
Colombia	125.5	158.4	183.5	116.7	128.0	136.1	107.6	123.7	134.8
Costa Rica	109.6	122.1	141.7	115.7	129.0	149.7	94.7	94.7	94.7
Ecuador	155.1	203.0	254.1	159.5	171.1	183.1	97.2	118.6	138.8
El Salvador	112.6	115.8	120.4	113.6	111.3	112.3	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	149.7	108.0	126.2	133.9	105.4	109.6	111.8
Honduras	120.3	136.7	151.3	144.3	150.4	160.1	83.4	90.9	94.5
Mexico	113.2	129.0	150.5	105.1	112.0	124.5	107.6	115.2	120.9
Nicaragua	155.5	187.8	224.6	172.1	191.7	219.5	90.3	98.0	102.3
Panama	104.1	130.0	145.7	103.3	125.3	137.7	100.8	103.8	105.9
Paraguay	122.9	143.9	207.7	113.8	134.7	190.6	107.9	106.9	109.0
Peru	184.2	249.3	341.5	152.4	174.8	176.1	120.9	142.6	194.0
Dominican Republic	103.5	107.1	112.3	100.5	100.0	100.8	103.0	107.1	111.4
Uruguay	131.9	158.3	184.1	127.7	149.1	162.7	103.3	106.2	113.2
Venezuela (Bolivarian Republic of)	118.3	165.4	194.5	92.6	95.2	91.0	127.8	173.8	213.7

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

^a Preliminary figures.

Table A-13
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	134.9	160.7	107.9	119.9	136.0	105.8	112.5	118.2
Argentina	89.2	114.3	136.4	87.7	108.4	126.6	101.7	105.5	107.8
Bolivia	107.1	145.0	174.4	98.3	124.3	138.5	109.0	116.6	125.9
Brazil	112.6	131.9	163.8	103.1	108.8	126.2	109.3	121.3	129.8
Chile	134.2	178.4	210.1	134.3	163.8	183.7	99.9	108.9	114.4
Colombia	143.2	181.6	224.2	136.2	162.9	191.5	105.1	111.5	117.0
Costa Rica	129.3	153.4	180.0	125.5	143.1	163.0	103.1	107.2	110.4
Ecuador	205.3	259.1	302.8	193.1	223.6	239.7	106.3	115.9	126.3
El Salvador	127.6	136.9	154.3	124.5	127.3	137.4	102.4	107.5	112.3
Guatemala	151.6	170.1	191.4	140.9	145.1	152.5	107.6	117.3	125.5
Haiti	111.4	120.4	142.5	101.4	101.5	113.3	109.8	118.6	125.7
Honduras	137.2	158.1	187.9	143.4	151.7	165.3	95.7	104.3	113.6
Mexico	112.8	127.1	146.8	106.5	114.4	126.4	105.9	111.2	116.2
Nicaragua	136.4	164.1	189.9	124.6	136.3	147.4	109.5	120.4	128.9
Panama	109.1	127.6	147.7	103.2	115.0	126.7	105.7	111.0	116.5
Paraguay	108.3	133.1	201.4	104.7	121.3	176.5	103.5	109.7	114.1
Peru	133.1	163.9	202.2	122.6	137.3	157.5	108.6	119.4	128.4
Dominican Republic	83.2	104.1	118.1	78.1	93.1	100.5	106.5	111.8	117.4
Uruguay	90.4	113.4	146.9	87.4	96.9	115.1	103.4	117.0	127.6
Venezuela (Bolivarian Republic of)	100.9	140.5	191.1	93.3	124.8	164.9	108.2	112.5	115.9

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

^a Preliminary figures.

Table A-14
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS, f.o.b./f.o.b.
(Indices 2000=100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean	91.3	94.5	100.0	96.3	96.6	98.6	103.7	108.8	115.2
Argentina	96.6	90.9	100.0	99.3	98.7	107.2	109.2	106.9	113.0
Bolivia	102.0	97.1	100.0	95.8	96.2	98.5	104.1	111.8	134.6
Brazil	111.9	97.0	100.0	99.6	98.4	97.0	97.9	99.2	103.8
Chile	91.0	94.2	100.0	93.3	97.2	102.8	124.9	139.8	183.7
Colombia	81.2	87.2	100.0	94.2	92.5	95.2	102.3	111.0	115.2
Costa Rica	117.5	106.9	100.0	98.4	96.9	95.5	91.9	88.3	85.8
Ecuador	75.8	89.1	100.0	84.6	86.8	89.8	91.5	102.4	109.9
El Salvador	95.8	99.6	100.0	102.5	101.6	97.7	96.8	96.8	95.5
Guatemala	115.3	101.9	100.0	96.7	95.8	93.0	92.1	91.3	89.6
Haiti	107.6	104.2	100.0	101.2	100.2	98.7	96.0	92.4	88.9
Honduras	108.9	107.5	100.0	94.8	92.0	88.0	87.2	87.2	83.2
Mexico	90.6	99.3	100.0	97.4	97.9	98.8	101.6	103.6	104.1
Nicaragua	79.6	95.3	100.0	88.4	87.0	84.1	82.5	81.4	79.4
Panama	104.7	104.6	100.0	102.7	101.6	97.2	95.3	93.5	90.8
Paraguay	108.0	101.7	100.0	100.2	96.7	101.4	104.3	97.4	95.5
Peru	103.4	100.8	100.0	95.6	98.4	102.2	111.3	119.4	151.1
Dominican Republic	108.0	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9
Uruguay	104.4	95.9	100.0	104.0	102.6	103.5	99.9	90.7	88.7
Venezuela (Bolivarian Republic of)	51.2	66.1	100.0	82.2	87.6	98.7	118.1	154.4	184.4

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

^a Preliminary figures.

Table A-15
LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS^a
(Millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^b
Latin America and the Caribbean	29 040	-2 671	1 192	-1 293	-41 308	-38 161	-66 853	-77 107	-87 691
Antigua and Barbuda	35	44	16	56	75	90	44	101	70
Argentina	10 513	5 639	1 030	-16 030	-20 773	-12 535	-7 182	-3 564	-9 924
Bahamas	873	136	240	366	300	431	348	523	1 281
Barbados	2	114	241	241	42	131	58	145	105
Belize	14	60	161	115	91	61	8	65	-56
Bolivia	637	324	182	30	-156	-226	-565	-495	-165
Brazil	7 257	-1 336	4 077	6 778	-10 252	-14 234	-29 955	-35 633	-10 403
Chile	-162	-3 079	-1 621	-2 022	-1 985	-4 076	-10 097	-10 203	-22 637
Colombia	1 763	-2 338	-2 177	-302	-1 371	-2 608	-850	-1 846	-2 923
Costa Rica	-97	-691	-714	-63	580	443	432	1 150	2 112
Cuba	-39	-29	183	92	-300	-450	150	300	0
Dominica	11	21	31	39	36	23	23	69	47
Ecuador	467	-2 715	-2 020	-817	-100	-953	-1 084	-1 525	-3 546
El Salvador	231	165	132	-293	-42	595	119	156	407
Grenada	62	32	61	70	109	81	66	78	180
Guatemala	1 118	696	1 494	1 642	938	1 271	1 501	1 305	1 457
Guyana	20	29	81	81	58	39	-1	143	200
Haiti	56	80	45	129	26	5	94	-70	117
Honduras	173	528	228	280	258	-64	601	145	279
Jamaica	53	-271	517	1 168	208	-246	612	561	646
Mexico	4 865	1 691	6 491	11 161	8 502	5 960	433	-1 020	-12 311
Nicaragua	471	888	624	455	607	520	616	678	862
Panama	479	652	3	202	-39	-506	-356	179	-501
Paraguay	189	287	-30	237	-134	168	-97	35	553
Peru	975	-701	-293	391	512	-670	-1 262	-4 711	-6 895
Dominican Republic	-453	-352	-85	168	-881	-2 787	-2 324	-310	-630
Saint Kitts and Nevis	34	57	32	84	95	71	61	59	85
Saint Vincent and the Grenadines	87	57	19	30	18	55	99	74	93
Saint Lucia	28	63	64	73	75	115	56	88	140
Suriname	163	25	31	123	18	91	112	127	-73
Trinidad and Tobago	378	-268	-732	-453	-440	-1 257	-1 339	-1 403	-2 292
Uruguay	793	480	672	707	-2 602	979	-137	84	-29
Venezuela (Bolivarian Republic of)	-1 955	-2 957	-7 792	-6 031	-14 785	-8 679	-17 037	-22 391	-23 943

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

^a The net resource transfer is equal to total net capital inflows minus the income balance (net payments of interest and profits). Total net capital inflows correspond to the balance on the capital and financial accounts plus errors and omissions, plus loans and use of IMF credit and exceptional financing. Negative figures indicate outward resource transfers.

^b Preliminary figures.

Table A-16
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 transfer	Exports of goods and services	Net resource transfer as a percentage of exports of goods and services
	Autonomous ^c	Non-autonomous ^d	Total				
	(1)	(2)	(3)				
					(5) = (3) + (4)		(7) = (5) / (6)
				(4)	(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	-26.7	105.4	-25.3
1984	-10.9	23.9	13.0	-37.5	-24.5	117.5	-20.8
1985	-16.4	20.3	3.9	-35.5	-31.6	112.8	-28.1
1986	-12.4	21.9	9.4	-32.7	-23.3	99.2	-23.4
1987	-13.2	25.6	12.4	-31.0	-18.6	113.4	-16.4
1988	-19.8	22.8	3.0	-34.6	-31.6	130.6	-24.2
1989	-18.8	29.0	10.2	-39.0	-28.8	145.8	-19.7
1990	-5.5	21.6	16.1	-34.2	-18.1	162.0	-11.2
1991	23.3	11.8	35.1	-31.4	3.7	164.2	2.3
1992	48.1	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	54.0	-53.7	0.2	408.2	0.1
2001	34.7	16.2	50.9	-54.3	-3.4	391.7	-0.9
2002	-11.6	22.5	10.9	-52.6	-41.7	394.1	-10.6
2003	1.6	18.7	20.2	-57.6	-37.4	429.1	-8.7
2004	-8.7	8.9	0.1	-67.3	-67.2	524.9	-12.8
2005	20.9	-22.1	-1.2	-76.8	-78.0	630.5	-12.4
2006 ^e	12.4	-13.0	-0.6	-87.5	-88.1	745.6	-11.8

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

^a Includes information from 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 utility and interest payments.

^c Includes errors and omissions.

^d Includes the use of IMF credit and loans and exceptional financing, including transactions such as external debt forgiveness and accumulation of arrears.

^e Preliminary figures.

Table A-17
LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT^a
(Millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^b
Latin America and the Caribbean	62 544	81 305	72 055	66 753	47 148	37 601	48 164	52 824	31 887
Antigua and Barbuda	23	32	43	98	66	166	77	114	119
Argentina	4 965	22 257	9 517	2 005	2 776	878	3 449	3 954	3 418
Bahamas	165	149	250	192	209	247	443	564	706
Barbados	15	16	18	17	17	58	-16	53	0
Belize	13	54	23	61	25	-11	111	126	72
Bolivia	947	1 008	734	703	674	195	63	-280	237
Brazil	26 002	26 888	30 498	24 715	14 108	9 894	8 339	12 550	-8 469
Chile	3 144	6 203	873	2 590	2 207	2 701	5 610	4 751	5 256
Colombia	2 033	1 392	2 069	2 509	1 283	820	2 941	5 578	5 365
Costa Rica	608	614	400	451	625	548	733	904	1 340
Dominica	7	18	18	15	18	29	24	26	32
Ecuador	870	648	720	1 330	1 275	1 555	1 160	1 646	2 087
El Salvador	1 103	162	178	289	496	123	430	300	254
Grenada	49	42	37	59	54	89	54	26	94
Guatemala	673	155	230	456	111	131	155	208	325
Guyana	44	46	67	56	44	26	30	77	100
Haiti	11	30	13	4	6	14	6	26	160
Honduras	99	237	282	193	176	247	325	372	385
Jamaica	287	429	394	525	407	604	542	582	0
Mexico	12 409	13 712	17 789	23 045	18 472	14 087	17 964	13 262	13 279
Nicaragua	218	337	267	150	204	201	250	241	282
Panama	1 203	864	624	467	99	771	1 004	1 027	2 560
Paraguay	336	89	98	78	12	22	32	68	161
Peru	1 582	1 812	810	1 070	2 156	1 275	1 599	2 579	3 467
Dominican Republic	700	1 338	953	1 079	917	613	909	1 023	1 183
Saint Kitts and Nevis	32	58	96	88	80	76	46	47	92
Saint Vincent and the Grenadines	89	57	38	21	34	55	66	56	62
Saint Lucia	83	83	54	59	52	106	80	108	139
Suriname	9	-62	-148	-27	-74	-76	-37	28	-163
Trinidad and Tobago	730	379	654	685	684	1 034	600	599	599
Uruguay	155	238	274	291	180	401	315	811	1 377
Venezuela (Bolivarian Republic of)	3 942	2 018	4 180	3 479	-244	722	864	1 400	-2 632

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

^a Refers to direct investment in the reporting economy, minus direct investment abroad by reporting-economy residents. Includes reinvested profits.

^b Preliminary figures.

Table A-18
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES ^a
(Millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005 ^b	2006 ^{c,d}
Latin America and the Caribbean	40 406	44 107	40 255	38 503	20 208	37 906	36 383	45 054	44 247
Argentina	15 931	14 900	13 468	2 711	-	100	200	540	1 896
Barbados	-	-	200	150	-	-	-	325	215
Belize	-	-	-	-	125	100	-	-	-
Bolivia	-	-	-	-	-	-	108	-	-
Brazil	8 380	11 180	12 068	13 010	6 857	19 364	11 603	15 334	19 079
Chile	1 063	1 765	676	1 515	1 694	3 200	2 350	1 000	1 062
Colombia	1 385	1 676	1 622	4 329	695	1 545	1 545	2 435	3 177
Costa Rica	200	300	250	250	250	490	310	-	-
Ecuador	-	-	-	-	-	-	-	650	-
El Salvador	-	150	50	354	1 252	349	286	375	925
Grenada	-	-	-	-	100	-	-	-	-
Guatemala	-	-	-	325	-	300	380	-	-
Jamaica	250	-	422	812	300	-	814	1 050	930
Mexico	8 914	11 441	9 777	11 016	6 505	7 979	13 312	11 703	9 200
Panama	325	500	350	1 100	1 030	275	770	1 530	2 076
Paraguay	0	400	-	-	-	-	-	-	-
Peru	150	-	-	-	1 000	1 250	1 305	2 675	733
Dominican Republic	-	-	-	500	-	600	-	160	675
Trinidad and Tobago	-	230	250	-	-	-	-	100	500
Uruguay	550	350	641	856	400	-	350	1 062	3 679
Venezuela (Bolivarian Republic of)	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 figures from the International Monetary Fund (IMF), Merrill-Lynch and J.P. Morgan.

^a Include sovereign, bank and corporate bonds.

^b Does not include US\$ 584 million issued by the Andean Development Corporation (ADC) and US\$ 200 million issued by the Central American Bank for Economic Integration (CABEI).

^c Does not include US\$ 250 million in bonds issued by the Andean Development Corporation (ADC), US\$ 250 million issued by the Latin American Reserve Fund (FLAR) or US\$ 567 million issued by the Central American Bank for Economic Integration (CABEI).

^d The Bonar V bonds (US\$ 1.5 billion) and Bonar VI bonds (US\$ 500 million) issued up to the third quarter of 2006 and included in table A-17 of the Preliminary Overview of the Economies of Latin America and the Caribbean 2006 are subject to Argentine law and not international law. As such, they are not included in the total reported for Argentina.

Table A-19
LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT ^a
(Millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^b
Latin America and the Caribbean	743 261	762 941	739 051	745 551	734 147	762 947	765 580	661 124	648 275
Latin America	735 003	754 922	729 947	735 289	723 345	751 959	753 632	648 943	635 705
Argentina	147 634	152 563	155 014	166 272	156 748	164 645	171 205	113 804	109 338
Bolivia ^c	4 659	4 574	4 460	4 497	4 400	5 142	5 045	4 947	3 279
Brazil	223 792	225 610	216 921	209 935	210 711	214 929	201 373	169 451	172 589
Chile	32 591	34 758	37 177	38 527	40 504	43 067	43 517	44 934	47 695
Colombia	36 682	36 733	36 130	39 097	37 325	38 008	39 442	38 456	40 039
Costa Rica	3 402	3 641	3 748	3 883	4 118	4 621	4 979	4 979	4 995
Cuba ^c	11 209	11 078	10 961	10 893	10 900	11 300	12 000	...	...
Ecuador	16 221	15 902	13 216	14 376	16 236	16 756	17 211	17 237	16 977
El Salvador ^d	2 646	2 789	2 831	3 148	3 987	7 917	8 211	8 642	9 305
Guatemala ^c	2 368	2 631	2 644	2 925	3 119	3 467	3 844	3 723	3 958
Haiti ^c	1 104	1 162	1 170	1 189	1 229	1 316	1 376	1 335	1 484
Honduras	4 369	4 691	4 711	4 757	4 922	5 242	5 912	5 082	3 832
Mexico	160 258	166 381	148 652	144 526	134 980	132 273	130 925	128 255	116 701
Nicaragua ^c	6 287	6 549	6 660	6 374	6 363	6 596	5 391	5 348	4 527
Panama ^c	5 349	5 568	5 604	6 263	6 349	6 504	7 219	7 580	7 788
Paraguay	2 189	2 767	3 054	2 922	3 038	3 133	3 087	2 855	2 856
Peru	30 142	28 586	27 981	27 195	27 872	29 587	31 244	28 657	28 332
Dominican Republic	3 546	3 661	3 679	4 176	4 536	5 987	6 380	6 755	7 266
Uruguay ^e	5 467	8 261	8 895	8 937	10 548	11 013	11 593	11 418	10 558
Venezuela (Bolivarian Republic of)	35 087	37 016	36 437	35 398	35 460	40 456	43 679	45 486	44 184
The Caribbean	8 258	8 018	9 104	10 262	10 802	10 988	11 947	12 181	12 571
Antigua and Barbuda	394	398	391	388	434	497	532	317	321
Bahamas ^c	338	355	350	328	309	363	343	335	331
Barbados	444	479	611	774	756	761	816	899	1 047
Belize ^c	233	255	431	495	652	822	913	970	985
Dominica ^c	91	132	150	175	202	219	209	221	222
Grenada ^c	105	115	139	154	262	279	331	401	424
Guyana ^c	1 516	1 210	1 193	1 197	1 247	1 085	1 071	1 096	921
Jamaica ^c	3 306	3 024	3 375	4 146	4 348	4 192	5 120	5 376	5 796
Saint Kitts and Nevis	124	152	162	216	261	316	304	285	280
Saint Vincent and the Grenadines	101	160	160	168	168	195	219	231	231
Saint Lucia ^c	134	153	170	204	246	324	344	350	365
Suriname ^c			291	350	371	382	382	371	389
Trinidad and Tobago ^c	1 471	1 585	1 680	1 666	1 549	1 553	1 364	1 329	1 261

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

^a Total gross external debt includes debt owed to the International Monetary Fund.

^b Preliminary figures.

^c The figures refer to public external debt.

^d Figures up to 2002 refer to public external debt. From 2003 onward, figures refer to total external debt.

^e Figures for 1998 refer to public external debt. From 1999 onward, figures refer to total external debt.

Table A-20
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVE ASSETS^a
(Millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Latin America and the Caribbean	173 897	166 559	170 118	163 307	165 409	201 224	227 708	263 483	320 827
Latin America	170 782	163 562	165 955	157 504	159 721	195 382	220 425	254 244	309 565
Argentina	31 736	33 100	34 234	15 232	10 476	14 119	19 646	28 077	32 037
Bolivia	1 193	1 223	1 160	1 139	897	1 096	1 272	1 798	3 193
Brazil	44 586	36 342	33 012	35 867	37 823	49 296	52 935	53 800	85 839
Chile	16 292	14 946	15 110	14 400	15 351	15 851	16 016	16 963	19 429
Colombia	8 740	8 103	9 006	10 245	10 844	10 921	13 540	14 957	15 440
Costa Rica	992	1 472	1 318	1 334	1 500	1 839	1 922	2 313	3 115
Ecuador	1 786	1 888	1 180	1 074	1 008	1 160	1 437	2 147	2 023
El Salvador	1 766	1 972	1 894	1 712	1 591	1 910	1 893	1 833	1 908
Guatemala	1 369	1 243	1 885	2 359	2 381	2 932	3 529	3 783	4 061
Haiti	258	264	182	141	82	62	114	133	253
Honduras	...	1 255	1 312	1 414	1 523	1 430	1 971	2 330	2 633
Mexico	31 799	31 782	35 585	44 814	50 674	59 028	64 198	74 110	76 330
Nicaragua	357	513	497	383	454	504	670	730	924
Panama	954	823	723	1 092	1 183	1 011	631	1 211	1 335
Paraguay	875	988	772	723	641	983	1 168	1 297	1 703
Peru	9 982	9 003	8 563	8 838	9 690	10 206	12 649	14 120	17 328
Dominican Republic	659	881	818	1 341	829	279	825	1 929	2 251
Uruguay	2 589	2 600	2 823	3 100	772	2 087	2 512	3 078	3 091
Venezuela (Bolivarian Republic of)	14 849	15 163	15 883	12 296	12 003	20 666	23 498	29 636	36 672
The Caribbean	3 115	2 997	4 164	5 803	5 688	5 842	7 283	9 239	11 262
Antigua and Barbuda	59	70	64	80	88	114	120	127	143
Bahamas	347	411	350	319	381	491	674	586	461
Barbados	366	302	473	690	669	738	580	603	636
Belize	44	71	123	112	115	85	48	71	114
Dominica	28	32	29	31	45	48	42	49	63
Grenada	47	51	58	64	88	83	122	94	100
Guyana	277	268	305	287	284	276	232	252	280
Jamaica	709	555	1 054	1 901	1 645	1 195	1 846	2 170	2 318
Saint Kitts and Nevis	47	50	45	56	66	65	78	72	89
Saint Vincent and the Grenadines	39	43	55	61	53	51	75	70	79
Saint Lucia	71	75	79	89	94	107	133	116	135
Suriname	283	109	127	188	112	113	137	140	237
Trinidad and Tobago	799	963	1 403	1 924	2 049	2 477	3 195	4 888	6 608

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

^a Including gold.

Table A-21
LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES
(National indices to end of period, 31 December 2000=100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006		2007	
									III	IV	I	II
Argentina	103	132	100	71	126	257	330	370	393	502	505	526
Brazil	44	112	100	89	74	146	172	219	239	291	300	356
Chile	73	104	100	109	92	137	166	181	210	248	270	320
Colombia ^a	156	140	100	134	206	291	542	1 187	1 155	1 393	1 334	1 328
Costa Rica	-	-	100	113	116	104	79	98	119	147	176	187
Ecuador	176	86	100	130	195	178	216	272	320	353	369	354
Jamaica	71	76	100	117	157	234	390	362	298	348	314	312
Mexico	70	126	100	113	108	156	229	315	388	468	509	551
Peru	111	152	100	97	115	202	307	397	860	1 066	1 420	1 851
Trinidad and Tobago	99	95	100	111	124	157	243	242	197	220	210	207
Venezuela (Bolivarian Republic of)	70	79	100	96	117	325	439	299	519	765	717	582

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

^a The figures up to 2000 are based on the Bogota Stock Exchange Index (IBB).

Table A-22
LATIN AMERICA AND THE CARIBBEAN: OVERALL REAL EFFECTIVE EXCHANGE RATES ^a
(Indices 2000=100, deflated by CPI)

	1998	1999	2000	2001	2002	2003	2004 ^b	2005 ^b	2006 ^b	2007 ^{b c}
Latin America and the Caribbean ^d	94.4	100.7	100.0	99.8	117.4	125.8	126.0	119.1	115.3	112.9
Argentina	108.8	99.6	100.0	95.6	225.3	204.9	214.9	215.3	219.8	216.9
Bolivia	98.5	98.6	100.0	101.0	95.4	104.1	111.6	119.9	122.0	122.7
Brazil	72.3	108.2	100.0	120.1	132.1	131.0	124.7	101.8	90.6	87.6
Chile	92.5	98.3	100.0	111.3	109.1	114.6	107.0	101.6	97.0	100.9
Colombia	83.2	91.6	100.0	104.0	105.5	119.2	108.4	96.0	98.1	88.7
Costa Rica	99.8	101.8	100.0	97.0	97.3	103.3	106.8	108.3	108.2	106.9
Ecuador	64.7	89.2	100.0	70.9	61.8	60.2	62.8	65.4	65.9	68.5
El Salvador	101.9	100.4	100.0	99.6	99.5	100.0	100.2	101.6	102.0	102.0
Guatemala	88.1	98.7	100.0	95.7	88.5	88.6	85.9	79.9	77.5	77.0
Honduras	108.8	104.5	100.0	97.1	96.9	98.4	100.0	100.0	98.9	97.5
Jamaica	96.0	97.7	100.0	101.6	101.1	115.9	114.3	105.6	106.1	109.4
Mexico	119.1	108.9	100.0	93.5	92.9	104.5	109.4	106.0	106.4	106.3
Nicaragua	101.1	101.9	100.0	101.1	103.3	107.0	108.9	108.1	107.9	110.7
Panama	100.1	100.7	100.0	102.9	101.2	103.2	108.4	110.6	111.8	113.4
Paraguay	99.2	96.7	100.0	102.6	106.4	112.5	108.3	118.6	107.8	96.1
Peru	91.7	101.5	100.0	97.8	95.6	99.8	101.3	101.9	103.5	104.7
Trinidad and Tobago	105.3	102.2	100.0	94.5	91.1	91.8	93.2	91.7	88.9	87.3
Uruguay	107.0	98.3	100.0	101.2	118.3	150.4	151.9	137.0	135.6	137.2
Venezuela (Bolivarian Republic of)	116.6	102.6	100.0	95.2	125.0	137.2	143.3	143.4	136.5	123.5

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

^a Annual averages. A country's overall real effective exchange 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. The extraregional real effective exchange rate index excludes trade with other Latin American and Caribbean countries. A currency depreciates in real effective terms when this index rises and appreciates when it falls.

^b Preliminary figures, weighted by trade in 2003.

^c January-June average.

^d Simple average of the extraregional real effective exchange rate for 18 countries. Excluding Trinidad and Tobago.

Table A-23
LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE
(Average annual rates)

			1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean^b	Total		59.1	59.2	58.9	58.8	58.9	58.8	59.1	59.1	59.2
	Female		44.2	44.8	44.8	45.0	45.2	45.8	46.1	46.4	46.7
	Male		74.9	74.6	74.1	73.5	73.4	72.8	73.1	72.7	72.8
Argentina ^c	Urban areas	Total	...	...	56.6	56.0	55.8	60.1	60.3	59.9	60.3
		Female	...	...	43.4	42.6	43.3	49.2	49.0	48.3	49.0
		Male	...	...	71.7	71.4	70.3	72.9	73.2	73.2	73.3
Bolivia	National total	Total	...	64.2	62.4	67.8	64.6	67.6	64.9	...	...
		Female	...	56.8	53.7	60.2	56.3	60.1	57.2	...	...
		Male	...	72.0	71.8	75.9	73.2	75.4	73.4	...	...
Brazil ^c	Six metropolitan areas	Total	58.2	57.1	58.0	56.4	56.7	57.1	57.2	56.6	56.9
		Female	44.5	43.9	45.2	43.9	43.9	47.8	48.3	47.7	48.1
		Male	73.7	72.2	72.7	71.0	70.5	67.7	67.3	66.7	66.8
Chile	National total	Total	54.5	54.8	54.4	53.9	53.7	54.4	55.0	55.6	54.8
		Female	35.1	35.7	35.6	35.0	35.0	36.6	38.1	39.2	38.5
		Male	74.6	74.6	74.0	73.4	73.0	73.0	72.3	72.6	71.7
Colombia	Thirteen metropolitan areas ^d	Total	62.7	63.8	63.5	64.2	64.2	64.5	62.9	62.7	61.1 ^e
		Female	52.9	54.9	54.8	55.6	56.2	56.8	54.8	54.7	53.7 ^e
		Male	74.1	74.5	73.8	74.3	73.9	73.7	72.7	72.3	71.4 ^e
Costa Rica	National total	Total	55.3	54.8	53.6	55.8	55.4	55.5	54.4	56.8	56.6
		Female	35.6	35.5	35	38.6	38.2	38.5	36.8	40.4	40.7
		Male	75.6	75.1	72.8	73.7	73.2	73.3	72.9	73.9	73.5
Ecuador	Cuenca, Guayaquil and Quito ^f	Total	58.4	60.0	56.8	55.6	54.1	53.8	55.8	56.1	56.8
		Female	46.1	47.8	46.0	44.7	42.1	41.6	44.4	45.7	46.8
		Male	71.8	73.1	68.3	67.0	66.7	66.7	67.8	67.0	67.4
El Salvador	National total	Total	53.4	52.6	52.2	53.3	51.2	53.4	51.7	52.4	52.6
		Female	39.4	39.1	38.7	39.5	38.6	40.4	38.6	39.5	40.4
		Male	69.3	68.1	67.7	69.2	65.8	68.3	66.5	67.4	67.0
Honduras	National total	Total	51.9	54.9	...	52.5	51.7	50.0	50.6	50.9	50.7
		Female	32.8	37.6	...	34.7	32.5	33.0	32.7	33.2	33.5
		Male	72.5	73.9	...	71.8	72.3	68.4	70.0	70.0	69.7
Jamaica ^g	National total	Total	65.6	64.5	63.4	63.0	65.8	64.4	64.3	63.9	64.7
		Female	57.8	56.3	54.2	53.6	57.3	55.4	55.8	55.4	56.3
		Male	74.0	72.8	72.8	73.0	74.7	73.7	73.3	72.9	73.4
Mexico	Urban areas	Total	59.1	58.3	58.7	58.1	57.8	58.3	58.9	59.5	60.7
		Female	41.4	40.4	41.4	40.9	40.6	41.5	42.9	44.1	45.8
		Male	78.7	78.2	78.0	77.3	76.9	76.8	76.7	76.9	77.6
Nicaragua	National total	Total	54.7	...	53.8	57.5	...	53.7	53.1	53.8	...
		Female	36.7	...	...	40.2	...	...	...	39.4	...
		Male	73.6	...	...	75.6	...	...	...	69.2	...
Panama	National total	Total	62.2	61.2	59.9	60.5	62.6	62.8	63.3	63.6	62.6
		Female	44.2	43.1	41.6	41.7	45.1	45.9	46.6	47.4	45.8
		Male	80.7	79.7	78.8	79.5	80.1	79.9	80.6	80.3	79.8
Paraguay	National total	Total	57.9	57.3	63.7	59.2	61.2	59.8	63.4	61.8	60.1
		Female	41.4	41.3	49.0	45.5	45.8	45.7	50.4	48.6	46.1
		Male	74.4	73.9	78.9	73.3	76.9	74.3	76.6	75.1	74.0
Peru	Metropolitan Lima	Total	64.6	65.7	63.4	65.5	62.9	63.2	62.3	62.5	64.0
		Female	53.7	56.0	51.4	55.9	51.8	54.2	49.9	52.3	53.4
		Male	77.2	76.7	76.8	76.1	75.3	72.9	75.6	73.4	75.4
Dominican Republic	National total	Total	54.4	53.5	55.2	54.3	55.1	54.7	56.3	55.9	56.0
		Female	...	36.6	40.6	40.0	42.1	41.0	43.7	43.1	43.6
		Male	...	71.2	70.4	69.2	68.3	68.6	69.2	68.8	68.6

Table A-23 (concluded)

			1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Uruguay	Urban total	Total	60.4	59.3	59.7	60.8	59.3	58.1	58.5	58.5	60.9
		Female	49.2	48.6	49.3	51.0	49.4	48.9	48.7	49.5	51.9
		Male	73.4	72.0	71.9	72.2	70.7	69.0	70.0	69.3	71.7
Venezuela (Bolivarian Republic of)	National total	Total	65.2	66.3	64.6	66.5	68.7	69.3	68.5	66.3	65.4
		Female	47.2	48.8	47.3	50.9	54.3	55.5	54.5	51.5	50.6
		Male	83.1	83.7	81.9	82.0	83.5	83.0	82.6	81.2	80.4

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

^a Preliminary figures.

^b The data relating to the different countries are not comparable owing to differences in coverage and in the definition of the working age population. The regional series are simple averages of national data (excluding Bolivia and Nicaragua) and include adjustments for lack of information and changes in methodology.

^c New measurements have been used since 2003; the data are not comparable with the previous series.

^d Up to 1999, the figures correspond to seven metropolitan areas.

^e Data up to the third quarter.

^f Figures up to 1999 relate to the urban total.

^g New measurements have been used since 2002; these data are not comparable with previous series.

Table A-24
LATIN AMERICA AND THE CARIBBEAN: OPEN URBAN UNEMPLOYMENT
(Average annual rates)

		1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean^b		10.3	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.6
Argentina ^c	Urban areas	12.9	14.3	15.1	17.4	19.7	17.3	13.6	11.6	10.2
Bahamas ^d	National total	7.8	7.8	...	6.9	9.1	10.8	10.2	10.2	7.6
Barbados ^d	National total	12.3	10.4	9.2	9.9	10.3	11.0	9.8	9.1	8.7
Belize ^d	National total	14.3	12.8	11.1	9.1	10.0	12.9	11.6	11.0	9.4
Bolivia	Total urbano ^e	6.1	7.2	7.5	8.5	8.7	9.2	6.2	8.2	...
Brazil ^f	Six metropolitan areas	7.6	7.6	7.1	6.2	11.7	12.3	11.5	9.8	10.0
Chile	National total	6.4	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.7
Colombia ^d	Thirteen metropolitan areas ^g	15.3	19.4	17.3	18.2	17.6	16.7	15.4	13.9	13.0
Costa Rica	Urban total	5.4	6.2	5.3	5.8	6.8	6.7	6.7	6.9	6.0
Cuba	National total	6.6	6.3	5.5	4.1	3.3	2.3	1.9	1.9	1.9
Ecuador ^d	Cuenca, Guayaquil and Quito ^h	11.5	14.4	14.1	10.4	8.6	9.8	11.0	10.7	10.1
El Salvador	Urban total	7.6	6.9	6.5	7.0	6.2	6.2	6.5	7.3	5.7
Guatemala	Urban total	...	...	...	...	5.4	5.2	4.4	...	...
Honduras	Urban total	5.2	5.3	...	5.9	6.1	7.6	8.0	6.5	4.9
Jamaica ^d	National total	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3	10.3
Mexico	Urban areas	4.7	3.7	3.4	3.6	3.9	4.6	5.3	4.7	4.6
Nicaragua	Urban total ⁱ	13.2	10.7	7.8	11.3	11.6	10.2	9.3	7.0	7.0
Panamá ^d	Urban total ^j	15.5	13.6	15.2	17.0	16.5	15.9	14.1	12.1	10.4
Paraguay	Urban total	6.6	9.4	10.0	10.8	14.7	11.2	10.0	7.6	8.3
Perr	Metropolitan Lima	8.5	9.2	8.5	9.3	9.4	9.4	9.4	9.6	8.5
Dominican Republic ^d	National total	14.4	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.2
Trinidad and Tobago ^d	National total	14.2	13.2	12.2	10.8	10.4	10.5	8.4	8.0	6.2
Uruguay	Urban total	10.1	11.3	13.6	15.3	17.0	16.9	13.1	12.2	11.4
Venezuela (Bolivarian Rep. of)	National total	11.3	15.0	13.9	13.3	15.8	18.0	15.3	12.4	10.0

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

^a Preliminary figures.

^d The data for Argentina and Brazil have been adjusted to reflect changes in methodology in 2003 and 2002, respectively.

^c New measurements have been used since 2003; the data are not comparable with the previous series.

^d Includes hidden unemployment.

^e Up to 1999, the figures relate to the departmental capitals.

^f New measurements have been used since 2002; the data are not comparable with the previous series.

^g Up to 1999, the figures relate to seven metropolitan areas.

^h Up to 1999, the figures relate to the urban total.

ⁱ Up to 1999, the figures relate to the national total.

^j Up to 1999, the figures relate to the metropolitan area.

Table A-25
LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE ^a
(Average annual rates)

		1998	1999	2000	2001	2002	2003	2004	2005	2006 ^b
Latin America and the Caribbean ^c		52.8	52.2	52.8	52.3	52.0	52.4	53.0	53.5	54.0
Argentina ^d	Urban areas	49.9	49.6	49.0	47.4	45.9	49.8	52.0	52.9	54.1
Bolivia	Urban total ^e	49.5	52.3	51.9	55.4	53.0	54.9	55.0	...	...
Brazil ^d	Six metropolitan areas	53.7	52.7	53.8	52.9	48.7	50.1	50.6	51.0	51.2
Chile	National total	51.0	49.2	49.1	48.6	48.4	49.3	49.5	50.4	50.5
Colombia	Thirteen metropolitan areas ^f	52.7	50.8	52.6	52.5	52.9	53.8	53.2	54.0	53.2
Costa Rica	National total	52.2	51.5	50.8	52.4	51.8	51.8	50.9	53.0	53.3
Ecuador	Cuenca, Guayaquil and Quito ^g	50.1	47.8	48.8	49.8	49.5	48.6	49.7	50.1	51.0
El Salvador	National total	49.6	48.9	48.7	49.8	48.0	49.7	48.2	48.3	49.2
Honduras	National total	51.1	53.7	...	50.3	49.7	47.4	48.6	48.6	49.0
Jamaica	National total	55.4	54.4	53.4	53.5	54.0	57.1	56.8	56.7	58.0
Mexico	Urban areas	56.3	56.1	56.8	56.0	55.5	55.6	55.8	56.7	57.9
Nicaragua	National total	48.4	...	50.6	51.0	...	49.5	49.6	50.8	49.7
Panama	National total	53.7	54.0	51.8	52.0	54.1	54.6	55.9	57.3	57.2
Paraguay	National total	54.8	53.4	59.0	54.7	54.6	55.0	58.8	58.2	56.5
Peru	Metropolitan Lima ^h	60.3	61.6	59.7	60.5	62.0	61.1	61.6	60.7	61.8
Dominican Republic	National total	45.1	46.1	47.6	45.8	46.2	45.4	46.0	45.9	46.8
Trinidad and Tobago	National total	52.5	52.8	53.8	53.8	54.6	55.2	57.8	58.6	59.9
Uruguay	Urban total	54.3	52.6	51.6	51.4	49.1	48.3	50.9	51.4	53.9
Venezuela (Bolivarian Rep. of)	National total	57.8	56.4	55.5	57.6	57.8	56.8	58.1	58.1	58.9

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

^a Employed population as a percentage of working-age population.

^b Preliminary figures.

^c Weighted average adjusted for lack of information and changes in methodology.

^d New measurements have been used since 2003; the data are not comparable with the previous series.

^e Up to 1999, the figures relate to the departmental capitals.

^f Up to 1999, the figures relate to seven metropolitan areas.

^g Up to 1999, the figures relate to the urban total.

^h Up to 2000, the figures relate to the urban total.

Table A-26
LATIN AMERICA AND THE CARIBBEAN: FORMAL EMPLOYMENT INDICATORS
(Index 2000=100. Percentage of employed)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Argentina ^b	95.7	99.3	100.0	101.0	93.1	96.2	107.0	118.7	128.9
Brazil ^c	100.8	98.2	100.0	102.9	101.6	104.2	109.5	115.7	121.3
Chile ^b	97.0	96.1	100.0	101.6	103.4	105.9	109.6	118.2	125.7
Costa Rica ^d	94.2	98.5	100.0	97.6	104.0	106.9	110.9	116.1	123.9
El Salvador ^d	82.6	102.1	100.0	102.7	102.4	107.8	104.9	106.9	114.9
Guatemala ^d	97.7	98.3	100.0	102.2	104.9	105.5	108.9	110.4	113.0
Jamaica ^e	107.3	103.8	100.0	98.0	97.4	96.3	97.9	98.9	99.6
Mexico ^d	89.3	94.4	100.0	99.5	98.6	98.2	99.5	102.5	109.1
Nicaragua ^d	84.1	91.4	100.0	101.8	101.0	103.7	112.9	123.2	136.2
Panama ^f	96.3	105.3	100.0	95.5	89.7	95.7	99.4	108.5	111.0
Peru ^e	109.0	102.7	100.0	98.1	98.1	99.8	102.5	107.1	115.0
Uruguay ^{d g}	...	...	...	100.0	94.6	90.6	92.6	95.9	...

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

^a Preliminary figures.

^b Workers in the pension system.

^c Workers covered by social and labour legislation.

^d Workers with social security coverage.

^e Workers of medium-sized and large firms.

^f Private workers with social security coverage. In 2006, workers of small, medium-sized and large businesses.

^g Index 2001=100.

Table A-27
LATIN AMERICA: VISIBLE UNDEREMPLOYMENT INDICATORS
(Percentage of employed)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Argentina ^b	15.5	16.7	17.1	18.9	24.0	20.7	17.5	14.2	12.5
Brazil ^c	...	...	...	...	4.1	5.0	4.6	3.7	4.1
Chile ^d	4.3	5.5	6.1	7.1	6.2	6.5	8.4	8.5	8.5
Colombia ^e	...	...	14.2	16.3	16.8	15.3	15.2	13.8	11.9
Costa Rica ^f	13.5	14.0	10.5	11.3	12.3	15.2	14.4	14.6	13.5
Ecuador ^g	15.1	17.9	16.1	12.6	10.2	9.8	8.1	7.3	6.3
El Salvador ^h	3.5	3.9	3.7	3.8	4.3	4.8	4.5	6.2	4.9
Honduras ⁱ	2.2	2.6	...	4.0	4.9	6.3	7.1	7.4	5.6
Mexico ^j	...	...	...	...	...	...	...	7.5	6.9
Panama ^k	...	...	...	...	...	...	4.4	4.6	3.4
Paraguay ^l	6.0	5.8	9.1	8.3	9.5	8.8	8.3	7.5	5.8
Peru ^m	12.5	12.5	12.3	12.8	11.8	9.8	9.6	9.5	9.4
Uruguay ^k	...	...	11.9	15.3	18.4	19.3	15.8	17.1	13.6

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

^a Preliminary figures.

^b Employed persons who, for reasons beyond their control, work less than 35 hours per week and who wish to work more hours; urban areas.

^c Employed persons who work less than 40 hours per week and who are available to work more hours; six metropolitan areas.

^d Employed persons who work less than 35 hours per week and who wish to work more; national total; third quarter of each year.

The figures up to 2005 and since 2006 are not directly comparable since a change in the sample causes a break in the comparability.

^e Employed persons who work less than 48 hours per week and wish to work more hours; 13 metropolitan areas.

^f Employed persons who work less than 47 hours per week and wish to work more hours; national total.

^g Employed persons who, for reasons beyond their control, work less than 40 hours per week; Cuenca, Guayaquil and Quito.

^h Employed persons who, for reasons beyond their control, work less than 40 hours per week; total urban areas.

ⁱ Employed persons who work less than 36 hours per week and wish to work more hours; total urban areas.

^j Employed persons who need, and are willing, to work more hours than their current job allows; national total.

^k Employed persons who work less than 40 hours per week and are willing and available to work more hours; total urban areas.

^l Employed persons who work less than 30 hours per week and would wish to work more hours; total urban areas.

^m Employed persons who work less than 35 hours per week and are willing and available to work more hours; Metropolitan Lima.

Table A-28
LATIN AMERICA AND THE CARIBBEAN: TREND IN REAL AVERAGE WAGES
(Average annual Index, 2000=100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Argentina ^b	95.0	97.8	100.0	99.2	85.4	83.8	92.2	97.8	106.2
Bolivia	94.0	98.6	100.0	105.8	109.3	111.1	114.4	109.9	103.9 ^c
Brazil ^d	105.8	101.1	100.0	95.1	93.1	84.9	85.5	85.2	88.2
Chile ^e	96.3	98.6	100.0	101.7	103.7	104.6	106.5	108.5	110.6
Colombia ^c	92.2	96.3	100.0	99.7	103.3	103.0	104.4	105.7	109.1
Costa Rica ^f	94.7	99.2	100.0	101.0	105.1	105.5	102.8	100.8	102.4
Guatemala	91.1	96.3	100.0	100.5	99.6	100.0	97.8	93.9	92.9
Mexico ^b	92.9	94.3	100.0	106.7	108.7	110.2	110.5	110.2	110.6
Nicaragua ^f	96.2	100.0	100.0	101.0	104.5	106.5	104.2	104.5	105.9
Paraguay	100.8	98.7	100.0	101.4	96.3	95.6	97.2	98.2	98.8
Peru ^g	101.3	99.3	100.0	99.1	103.7	105.3	106.5	104.4	105.7
Uruguay	99.7	101.3	100.0	99.7	89.0	77.9	77.9	81.5	85.0
Venezuela (Bolivarian Republic of)	100.8	96.1	100.0	106.9	95.1	78.4	78.6	80.7	84.8

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

^a Preliminary figures.

^b Manufacturing

^c First half-year.

^d Workers covered by social and labour legislation. Since 2003, only the private sector.

^e General index of hourly wages.

^f Average wages declared by workers covered by social security.

^g Private sector workers in the Lima metropolitan area.

Table A-29
LATIN AMERICA AND THE CARIBBEAN: REAL MINIMUM WAGE
(Index 2000=100)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Argentina	97,9	99,1	100,0	101,1	81,3	84,0	129,8	171,1	193,2
Bolivia	90,3	97,2	100,0	110,8	116,0	116,9	112,0	106,3	111,1
Brazil	96,6	97,4	100,0	109,8	114,3	117,4	121,4	128,5	145,3
Chile	85,7	93,4	100,0	103,8	106,8	108,3	111,3	113,4	116,3
Colombia	95,6	99,5	100,0	101,2	101,9	102,0	103,8	105,0	107,9
Costa Rica	98,4	100,6	100,0	100,2	99,5	99,2	97,6	97,8	99,5
Ecuador	116,2	103,7	100,0	111,5	112,5	119,3	122,2	125,9	130,0
El Salvador	99,9	102,3	100,0	96,4	94,6	96,7	95,3	91,1	90,4
Guatemala	92,3	95,8	100,0	108,3	108,6	117,3	117,6	115,9	119,6
Haiti	123,3	113,5	100,0	88,4	80,5	107,5	91,7	79,6	70,0
Honduras	100,0	97,0	100,0	102,5	104,6	113,6	114,5	121,2	127,4
Mexico	102,9	99,3	100,0	100,4	101,2	100,4	99,1	99,0	99,0
Nicaragua	103,6	100,5	100,0	102,1	105,9	109,2	113,5	118,1	128,5
Panama	93,2	96,3	100,0	107,0	105,8	106,5	107,5	104,3	107,9
Paraguay	100,0	95,9	100,0	103,7	102,9	105,8	102,4	104,4	106,7
Perú	93,2	90,0	100,0	101,2	101,0	102,2	106,9	105,1	112,0
Dominican Republic	101,6	100,4	100,0	105,7	105,1	95,5	81,2	96,4	89,6
Uruguay	101,2	101,7	100,0	98,7	88,7	77,7	77,5	131,9	153,2
Venezuela (Bolivarian Republic of)	94,3	96,4	100,0	100,0	94,5	83,3	92,7	103,7	113,9

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

^a Preliminary figures.

Table A-30
LATIN AMERICA AND THE CARIBBEAN: MONETARY BASE
(End-of-year balances, millions of currency units, national currency of each country)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Antigua and Barbuda	188	214	208	250	263	334	345	366	405
Argentina	16 370	16 493	15 054	11 981	29 151	46 391	52 477	54 710	80 066
Bahamas	132	166	166	164	165	182	264	221	220
Barbados	334	392	403	418	442	475	513	576	
Bolivia	3 568	3 685	4 104	4 455	4 644	5 238	5 769	7 883	11 227
Brazil	39 184	48 430	47 686	53 256	73 302	73 219	88 733	101 247	121 102
Chile	1 483 320	1 652 270	1 682 740	1 830 510	1 938 790	2 080 630	2 370 780	2 915 670	3 504 069
Colombia	6 923 066	9 739 609	10 710 351	11 647 913	14 107 395	16 441 518	19 260 196	22 804 033	27 031 813
Costa Rica	242 907	273 880	292 400	281 745	306 140	379 188	446 086	580 967	735 497
Dominica	84	95	92	91	130	126	117	122	147
Ecuador	...	770	261	289	304	321	391	556	585
El Salvador	...	1 861	1 704	1 624	1 419	1 746	1 642	1 690	1 728
Grenada	140	148	163	181	215	234	328	253	262
Guatemala	10 244	11 089	12 303	13 953	16 281	17 039	19 074	21 143	25 538
Haiti	9 690	12 247	13 480	17 090	20 723	28 735	31 866	35 373	40 133
Honduras	...	10 079	10 353	9 790	10 992	11 945	14 675	16 442	19 726
Jamaica	...	...	34 413	34 310	35 758	40 526	45 055	49 418	57 975
Mexico	131 528	188 718	208 943	225 580	263 937	303 614	340 178	380 034	449 821
Nicaragua	2 306	2 739	2 726	3 366	3 623	4 498	5 346	6 338	8 122
Paraguay	1 987 333	2 138 545	2 106 943	2 227 567	2 193 176	3 461 744	4 060 380	4 240 520	4 789 622
Peru	5 023	5 876	5 642	6 087	6 759	7 441	9 327	11 724	13 864
Dominican Republic	25 892	28 920	33 115	38 551	38 470	77 558	78 555	92 390	107 289
Saint Kitts and Nevis	115	129	140	154	179	163	212	193	241
Saint Vincent and the Grenadines	111	130	157	172	153	160	170	173	195
Saint Lucia	196	202	210	246	251	282	338	298	337
Suriname	82	114	266	306	402	426	506	544	602
Trinidad and Tobago	3 790	3 850	4 214	4 839	4 573	4 664	4 740	7 098	8 342
Uruguay	...	10 837	10 012	9 990	11 101	13 863	15 398	20 650	21 679
Venezuela (Bolivarian Rep. of)	3 717 323	4 909 822	5 790 841	6 478 295	7 701 120	11 274 439	16 524 461	23 086 512	44 795 446

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

Table A-31
LATIN AMERICA AND THE CARIBBEAN: MONEY SUPPLY (M3) ^a
(End-of-year balances, millions of currency units, national currency of each country)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Antigua and Barbuda	1 188	1 312	1 387	1 454	1 545	1 871	2 043	2 184	2 476
Argentina	79 369	81 589	84 245	67 020	68 380	93 671	110 387	137 300	168 994
Bahamas	2 904	3 248	3 550	3 717	3 836	3 992	4 422	4 830	5 142
Barbados	4 157	4 666	4 682	5 100	6 028	6 282	7 130	8 474	8 505
Belize	767	840	966	1 041	1 063	1 101	1 248	1 330	505
Bolivia	24 531	25 142	26 765	28 444	27 976	29 541	29 480	33 157	38 857
Brazil ^b	254 965	274 770	283 785	321 612	397 503	412 895	493 497	582 464	662 896
Chile	17 459 180	19 755 850	21 620 760	23 668 670	25 386 980	24 978 460	29 355 270	35 275 590	41 439 030
Colombia ^c	56 639	60 574	62 761	68 572	74 200	83 154	97 098	112 558	131 490
Costa Rica	1 164 385	1 382 079	1 653 680	1 828 079	2 211 575	2 614 206	3 507 816	4 236 947	5 154 399
Dominica	424	468	471	506	549	554	587	627	687
Ecuador	...	3 774	4 081	5 148	5 831	5 811	7 080	8 569	10 007
El Salvador	5 473	5 955	6 075	6 201	6 015	6 047	6 192	6 353	7 093
Grenada	750	855	986	1 090	1 167	1 260	1 483	1 469	1 482
Guatemala	29 255	32 655	40 502	47 228	51 474	58 282	64 668	74 183	86 982
Guyana	68 696	76 980	85 445	93 036	98 147	106 259	114 495	124 012	143 777
Haiti	19 564	24 235	29 141	33 174	40 923	57 217	59 703	70 755	75 745
Honduras	30 395	37 155	43 924	50 115	56 733	64 752	77 251	92 402	110 891
Jamaica	...	120 260	132 998	146 062	165 026	183 493	211 468	230 634	256 417
Mexico	1 685 792	2 042 501	2 355 098	2 755 127	3 047 185	3 446 693	3 856 680	4 471 599	5 083 994
Nicaragua	14 252	17 437	18 713	20 633	22 951	25 909	30 569	33 657	36 660
Panama	7 204	7 816	8 598	9 425	9 396	9 845	10 676	11 560	14 234
Paraguay	6 383 030	7 532 200	7 833 095	9 332 984	9 275 384	10 362 815	11 733 888	12 708 501	14 032 981
Peru	40 828	46 280	47 295	49 333	52 198	52 744	57 094	67 599	73 562
Dominican Republic	72 627	90 088	102 302	132 708	148 128	244 047	266 846	307 933	347 484
Saint Kitts and Nevis	546	607	777	794	845	903	1 099	1 151	1 298
Saint Vincent and the Grenadines	516	580	636	655	709	722	821	874	940
Saint Lucia	996	1 093	1 179	1 234	1 273	1 370	1 509	1 712	2 056
Suriname	...	...	699	941	1 249	1 489	1 967	2 181	2 697
Trinidad and Tobago	16 894	17 216	19 219	22 195	23 023	22 889	27 829	35 375	43 365
Uruguay	92 832	157 816	180 656	232 323	234 599	262 441	256 788	246 399	272 805
Venezuela (Bolivarian Republic of)	10 621 645	12 740 836	16 284 578	16 976 436	19 573 369	30 835 975	46 363 672	70 794 342	119 892 075

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

^a According to the ECLAC definition, this corresponds to M1 plus savings and time deposits in national currency plus foreign currency deposits.

^b According to the country's definition, this corresponds to M1 plus special interest-bearing deposits, savings deposits and securities issued by deposit institutions.

^c According to the country's definition, this also includes deposits of entities in liquidation and, since 2001, term deposit certificates of special entities and demand deposits of non-bank entities.

Table A-32

LATIN AMERICA AND THE CARIBBEAN: FOREIGN CURRENCY DEPOSITS
(End-of-year balances, millions of currency units, national currency of each country)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Antigua and Barbuda	63	70	97	81	117	107	135	137	203
Argentina	39 442	43 183	47 695	44 246	2 214	5 182	7 425	10 733	15 178
Bahamas	61	53	86	92	92	101	97	144	159
Barbados	412	501	325	426	617	577	603	987	719
Belize	84	88	110	123	126	133	...	171	...
Bolivia	20 803	21 533	23 016	24 195	23 629	24 421	23 015	23 765	24 507
Chile	1 091 090	1 742 120	2 097 250	2 773 150	2 757 770	2 760 290	2 853 140	3 082 150	3 630 320
Costa Rica	436 518	522 327	621 087	751 680	918 522	1 071 303	1 671 424	1 997 509	2 307 090
Dominica	10	13	10	16	22	10	13	10	11
Grenada	30	42	69	75	79	96	89	102	77
Guatemala	47	68	73	2 055	3 293	4 899	7 032	8 139	9 667
Haiti	...	...	9 071	11 253	14 731	24 002	23 257	30 265	31 342
Honduras ^a	6 689	8 431	10 442	13 801	16 288	18 887	22 904	25 067	28 572
Jamaica	...	26 582	32 252	36 642	45 695	60 328	69 879	72 922	75 183
Mexico	56 114	70 510	80 434	106 514	103 530	92 449	120 373	140 650	141 697
Nicaragua	9 209	11 009	12 278	13 778	16 008	17 615	20 336	22 653	24 028
Paraguay	...	...	4 008 680	5 264 549	5 361 311	5 283 641	5 434 062	5 379 703	5 539 561
Peru	28 224	32 211	32 877	32 960	34 089	32 730	31 455	36 962	37 410
Dominican Republic	897	1 587	216	105	119	406	187	266	203
Saint Kitts and Nevis	104	119	249	235	236	264	311	336	407
Saint Vincent and the Grenadines	12	17	9	8	10	10	26	15	31
Saint Lucia	7	21	8	13	24	32	39	62	208
Suriname	...	...	255	368	486	698	966	1 038	1 290
Trinidad and Tobago	3 885	4 158	5 254	4 995	5 513	4 296	6 988	7 362	10 506
Uruguay	67 279	130 917	152 769	206 672	210 975	231 880	222 088	202 266	218 919

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

^a Term deposits in foreign currency.

Table A-33
LATIN AMERICA AND THE CARIBBEAN: DOMESTIC CREDIT TO THE PRIVATE SECTOR
(Annual averages as percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Antigua and Barbuda	63.6	65.5	69.3	69.6	73.2	73.2	68.2	65.6	68.2
Argentina	22.7	25.0	24.2	23.0	16.7	11.5	9.6	10.0	11.1
Bahamas	68.4	68.2	70.0	73.0	74.9	72.2	74.2	78.9	83.1
Barbados	...	...	...	...	...	50.6	52.2	59.7	64.3
Belize	41.5	43.1	39.9	41.5	45.3	49.0	51.7	52.4	51.9
Bolivia	57.3	63.0	59.3	54.7	50.7	47.1	41.9	39.1	34.6
Brazil	30.9	30.6	30.6	31.6	30.6	30.0	29.6	32.6	38.1
Chile	61.1	63.1	62.4	64.1	63.9	61.6	58.2	58.8	59.4
Colombia	35.4	33.8	26.7	24.2	23.0	22.2	21.6	21.8	24.2
Costa Rica	14.8	16.2	18.3	20.7	23.1	23.8	24.2	25.5	27.5
Dominica	56.5	57.5	59.9	62.0	59.0	60.0	56.3	56.7	60.0
Ecuador	...	...	...	26.6	22.1	18.7	18.8	20.8	22.0
El Salvador	...	...	...	...	40.2	40.5	40.2	39.6	40.8
Granada	65.9	70.3	74.1	231.3	81.0	76.0	84.9	74.9	83.0
Guatemala	...	...	16.7	16.9	17.1	17.1	17.0	17.9	20.3
Guyana	44.8	43.5	43.9	43.4	41.7	34.9	30.6	30.4	31.2
Haiti	14.4	14.2	15.2	14.7	15.2	15.9	15.1	14.2	13.3
Honduras	...	...	...	...	38.8	38.6	38.5	38.7	42.6
Jamaica	...	10.4	8.6	8.7	10.2	13.0	15.2	15.6	...
Mexico	22.2	19.0	16.7	16.3	14.1	14.9	14.0	14.6	16.4
Nicaragua	...	...	...	17.7	17.8	20.2	21.9	25.1	29.3
Panama	77.7	89.7	99.8	105.3	99.1	86.2	82.5	82.5	84.5
Paraguay ^b	...	...	...	...	22.3	13.6	13.6	13.8	13.8
Peru	30.2	33.2	31.7	30.8	29.4	28.2	26.5	25.9	25.9
Dominican Republic	21.4	24.0	26.2	29.5	31.5	32.4	24.6	21.2	20.2
Saint Kitts and Nevis	70.3	70.8	72.5	73.4	67.8	66.7	65.6	66.5	66.2
Saint Vincent and the Grenadines	54.0	58.1	63.1	63.9	62.7	60.8	57.4	56.8	54.3
Saint Lucia	70.2	73.1	77.6	84.7	80.9	75.1	122.1	73.9	84.4
Suriname	18.9	14.7	10.8	8.3	13.4	17.0	18.6	20.8	...
Trinidad and Tobago	29.5	29.9	33.5	29.5	29.3	30.2	28.9	29.6	29.6
Uruguay	...	...	...	67.9	73.6	51.4	35.6	27.4	24.5
Venezuela (Bolivarian Republic of)	11.2	10.2	9.1	10.1	9.0	7.3	7.4	9.2	11.2

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

^a Preliminary figures.

^b Credit granted to the private sector by the banking sector.

Table A-34
LATIN AMERICA AND THE CARIBBEAN: REPRESENTATIVE LENDING RATES
(Annual average of monthly annualized rates)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Antigua and Barbuda ^a	11.0	11.0	10.7	10.8	11.0	10.7	10.6	10.8	10.8
Argentina ^b	10.6	11.0	11.1	26.5	53.0	19.1	6.8	6.2	8.6
Bahamas ^c	...	...	...	...	...	12.0	11.2	10.3	10.0
Barbados ^d	...	...	...	...	...	7.6	7.4	8.5	10.0
Belize ^e	16.5	16.3	16.0	15.5	14.8	14.4	13.9	14.2	14.2
Bolivia ^f	...	...	...	13.7	10.9	9.1	8.2	8.2	7.8
Brazil ^g	68.3	64.8	41.9	41.1	44.4	49.8	41.1	43.7	40.0
Chile ^h	27.4	17.6	18.7	16.7	14.4	13.0	11.0	13.5	14.4
Colombia ⁱ	44.5	29.4	18.8	20.7	16.3	15.2	15.1	14.6	12.9
Costa Rica ^j	...	29.8	28.1	26.7	26.8	26.2	23.4	24.0	22.7
Dominica ^a	10.0	10.0	10.0	10.0	9.8	9.5	9.3	9.3	9.3
Ecuador ^k	...	...	15.2	15.5	14.1	12.6	10.2	8.7	8.9
El Salvador ^l	...	...	10.7	9.6	7.1	6.6	6.3	6.9	7.5
Grenada ^a	10.0	10.0	10.0	10.0	9.8	9.3	9.0	9.0	9.3
Guatemala ^m	16.5	19.4	20.9	19.0	16.9	15.0	13.8	13.0	12.8
Guyana ⁿ	17.0	17.1	17.2	17.3	17.3	16.6	16.6	15.1	14.9
Haiti ^o	23.5	22.9	25.1	28.6	25.5	30.7	34.1	27.1	29.5
Honduras ^m	30.6	30.2	26.8	23.8	22.7	20.8	19.9	18.8	17.4
Jamaica ^p	42.1	36.8	32.9	29.4	26.1	25.1	25.1	23.2	22.0
Mexico ^q	26.4	23.7	16.9	12.8	8.2	6.9	7.2	9.9	7.5
Nicaragua ^r	...	17.6	18.1	18.6	18.3	15.5	13.5	12.1	11.6
Panama ^s	9.9	10.1	10.3	10.6	9.2	8.9	8.2	8.2	8.1
Paraguay ^t	30.5	30.2	26.8	28.3	34.3	30.5	21.2	15.3	16.6
Peru ^u	...	...	...	...	22.3	20.2	18.7	17.9	17.1
Dominican Republic ^v	23.5	22.2	23.6	20.0	21.3	27.8	30.3	21.4	15.7
Saint Kitts and Nevis ^a	10.8	10.5	10.3	10.5	10.6	9.8	9.4	8.7	8.8
Saint Vincent and the Grenadines ^a	11.3	11.3	10.8	10.1	10.0	10.0	9.8	10.0	10.0
Saint Lucia ^a	10.0	10.0	10.0	10.0	10.0	9.9	9.8	9.8	9.8
Suriname ^q	27.1	27.4	29.0	25.7	22.2	21.0	20.4	18.1	15.7
Trinidad and Tobago ^w	17.0	17.1	16.5	15.6	13.4	11.0	9.4	9.1	10.2
Uruguay ^x	38.4	39.0	32.1	38.1	116.4	56.6	26.0	15.3	10.7
Venezuela (Bolivarian Republic of) ^y	45.3	31.3	24.5	24.8	38.4	25.7	17.3	15.6	14.6

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

^a Prime lending rate, average of minimum and maximum rates.

^b Thirty-day loans in pesos to leading firms, arithmetical average.

^c Interest rate on loans and overdrafts, weighted average.

^d Prime lending rate.

^e Rate on personal, commercial, residential construction and other loans; weighted average.

^f Nominal dollar rate for 60-91-day banking operations.

^g Preset lending rates for legal persons.

^h Lending rates for periods of 90-360 days, non-adjustable operations.

ⁱ Total lending rate of the system.

^j Average rate of the financial system for loans in national currency.

^k Benchmark dollar lending rate.

^l Basic lending rate for up to 1 year.

^m Weighted average lending rates.

ⁿ Weighted average prime rate.

^o Average of minimum and maximum lending rates.

^p Average interest rate on loans.

^q Lending rate published by the International Monetary Fund.

^r Weighted average of the weekly lending rate for loans in national currency in the system.

^s Interest rate on 1-year trade credit.

^t Weighted average of effective lending rates in national currency, not including overdrafts or credit cards.

^u Average lending rate, constant structure.

^v Prime lending rate.

^w Prime interest rate on term loans.

^x Business credit, 30-367 days.

^y Average rate for loan operations for the six major commercial banks.

Table A-35
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variation December – December)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 ^a
Latin America and the Caribbean^b	10.0	9.7	9.0	6.1	12.2	8.5	7.4	6.1	5.0	...
Antigua and Barbuda	...	...	...	...	2.5	1.8	2.8	2.5	...	...
Argentina	0.7	-1.8	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.8
Bahamas	1.9	1.4	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.1 ^c
Barbados	1.7	2.9	3.8	-0.3	0.9	0.3	4.3	7.4	5.6	4.4 ^d
Bolivia	4.4	3.1	3.4	0.9	2.4	3.9	4.6	4.9	4.9	6.6
Brazil	1.7	8.9	6.0	7.7	12.5	9.3	7.6	5.7	3.1	3.7
Chile	4.7	2.3	4.5	2.6	2.8	1.1	2.4	3.7	2.6	3.2
Colombia	16.7	9.2	8.8	7.6	7.0	6.5	5.5	4.9	4.5	6.0
Costa Rica	12.4	10.1	10.2	11.0	9.7	9.9	13.1	14.1	9.4	8.8
Cuba	2.9	-2.9	-3.0	-0.5	7.0	-1.0	3.0	3.7	5.7	...
Dominica	1.4	0.0	1.1	1.1	1.7	2.8	3.3	3.8	4.1	...
Ecuador	43.4	60.7	91.0	22.4	9.3	6.1	1.9	3.1	2.9	2.2
El Salvador	4.2	-1.0	4.3	1.4	2.8	2.5	5.4	4.3	4.9	3.7
Grenada	1.2	1.1	3.4	-0.7	-0.4	1.1	2.5	5.8	...	...
Guatemala	7.5	4.9	5.1	8.9	6.3	5.9	9.2	8.6	5.8	5.3
Guyana	4.7	8.7	5.8	1.5	6.0	5.0	5.5	8.2	4.2	...
Haiti	7.4	9.7	19.0	8.1	14.8	40.4	20.2	14.8	10.2	9.1
Honduras	15.7	10.9	10.1	8.8	8.1	6.8	9.2	7.7	5.3	6.2
Jamaica	7.9	6.8	6.1	8.7	7.3	14.1	13.7	12.9	5.8	5.6
Mexico	18.6	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.1	4.0
Nicaragua	18.5	7.2	9.9	4.7	4.0	6.6	8.9	9.6	10.2	9.0
Panama	1.4	1.5	0.7	0.0	1.9	1.5	1.5	3.4	2.2	3.7
Paraguay	14.6	5.4	8.6	8.4	14.6	9.3	2.8	9.9	12.5	6.8
Peru	6.0	3.7	3.7	-0.1	1.5	2.5	3.5	1.5	1.1	1.5
Dominican Republic	7.8	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.0	5.9
Saint Kitts and Nevis	0.9	3.2	...	...	1.7	3.1	1.7	7.2	...	...
Saint Vincent and the Grenadines	3.3	-1.8	1.4	-0.2	0.4	2.7	1.7	4.7	...	...
Saint Lucia	3.6	6.1	0.4	0.0	1.4	0.5	3.5	5.2	-0.6	...
Suriname	22.9	112.9	76.1	4.9	28.4	14.0	9.3	15.8	4.7	3.8 ^d
Trinidad and Tobago	5.6	3.4	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.9 ^c
Uruguay	8.6	4.2	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.0
Venezuela (Bolivarian Republic of)	29.9	20.0	13.4	12.3	31.2	27.1	19.2	14.4	17.0	19.4

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

^a Twelve-month variation to June 2007.

^b The only English-speaking Caribbean countries included are Barbados, Jamaica and Trinidad and Tobago. For 2005 and 2006, Cuba is not included.

^c Twelve-month variation to May 2007.

^d Twelve-month variation to March 2007.

Table A-36
LATIN AMERICA AND THE CARIBBEAN: WHOLESALe PRICES
(Percentage variation December – December)

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 ^a
Argentina	WPI	-6.3	1.2	2.4	-3.4	113.7	2.0	7.9	10.6	7.2	9.3
Brazil	IPA-DI	1.5	28.9	12.1	11.9	35.4	6.3	14.7	-1.0	4.3	3.7
Chile	WPI	0.3	13.5	7.9	3.1	10.4	-1.0	7.8	3.2	7.9	4.1
Colombia	PPI	13.5	12.7	11.0	6.9	9.3	5.7	4.6	2.1	5.5	-1.0
Costa Rica	IND-PPI	8.8	11.3	10.2	8.6	8.4	11.0	17.7	12.1	13.7	13.0
Ecuador	PPI	...	186.9	64.9	-5.6	17.7	4.5	4.3	21.6	7.2	-0.5
El Salvador	IPRI	...	10.8	4.9	-4.8	4.9	-0.6	13.0	6.9	0.4	1.5
Mexico	NPPI	17.5	12.5	6.4	1.3	9.2	6.8	8.0	3.4	7.3	2.4
Peru	WPI-NP	6.5	5.5	3.8	-2.2	1.7	2.0	4.9	3.6	1.3	2.3
Uruguay	IPP-PN	3.3	-0.3	9.5	3.8	64.6	20.5	5.1	-2.2	8.2	8.4
Venezuela (Bolivarian Republic of)	WPI-VAT	23.3	13.6	15.8	10.2	49.4	48.4	23.1	14.2	15.9	16.4

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

^a Twelve-month variation to June 2007.

Abbreviations:

WPI: Wholesale price index;

IPA-DI: Wholesale price index-domestic availability (acronym in Portuguese);

PPI: Producer price index;

IND-PPI: Industrial producer price index;

IPRI: Industrial price index;

NPPI: National producer price index ;

WPI-NP: Wholesale price index, national products;

PPI-NP: Producer price index, national products;

WPI-VAT: Wholesale price index, includes value added tax.

Table A-37
LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR BALANCE
(Percentages of GDP)

	Central government						Non-financial public sector					
	Primary balance			Overall balance			Primary balance			Overall balance		
	2004	2005	2006 ^a	2004	2005	2006 ^a	2004	2005	2006a	2004	2005	2006 ^a
Latin America and the Caribbean	0.6	1.4	2.1	-1.8	-1.2	-0.2	2.5	3.1	...	-0.5	0.1	...
Argentina ^b	3.2	2.3	2.7	2.0	0.4	1.0	5.2	3.5	3.4	3.5	1.0	1.3
Bolivia ^c	-2.6	-0.6	2.7	-5.4	-3.5	0.2	-2.9	0.4	6.4	-5.5	-2.3	4.6
Brazil ^d	2.7	2.6	2.2	-1.2	-3.2	-3.1	4.2	4.4	3.9	-2.4	-3.0	-3.0
Chile	3.1	5.4	8.4	2.1	4.5	7.7	4.5	6.9	...	3.3	6.9	...
Colombia ^e	-0.3	-1.2	0.6	-4.3	-4.7	-3.5	3.5	3.6	3.6	-0.9	-0.3	-1.0
Costa Rica ^f	1.4	2.0	2.8	-2.7	-2.1	-1.1	2.1	3.8	5.3	-2.0	-0.4	1.4
Ecuador ^g	1.5	1.8	2.1	-1.0	-0.5	-0.2	4.5	2.9	5.5	2.1	0.7	3.3
El Salvador	0.9	1.1	2.0	-1.1	-1.0	-0.4	1.5	1.1	1.4	-0.6	-1.1	-1.1
Guatemala	0.3	-0.3	-0.6	-1.1	-1.7	-1.9	...	...	...	...	...	...
Haiti	-2.4	0.4	0.8	-3.1	-0.6	0.0	...	...	...	...	...	...
Honduras ^h	-2.0	-1.5	-0.3	-3.1	-2.6	-1.3	0.1	1.1	...	-1.7	-0.3	...
Mexico ⁱ	1.3	1.3	0.5	-1.0	-0.7	-1.6	2.5	2.4	2.9	-0.2	-0.1	0.1
Nicaragua ^j	-0.1	0.1	1.8	-2.2	-1.8	0.0	0.8	1.0	2.5	-1.4	-0.9	0.7
Panama ^j	-1.2	1.2	4.5	-5.4	-3.9	0.2	-0.6	2.0	4.9	-4.9	-3.2	0.5
Paraguay ^k	2.7	2.0	1.5	1.6	0.8	0.5	...	...	...	2.3	1.5	2.4
Peru ^l	0.6	1.1	3.2	-1.3	-0.7	1.4	1.0	1.6	3.9	-1.0	-0.3	2.1
Dominican Republic	-1.6	0.6	0.3	-3.4	-0.6	-1.0	...	...	...	...	...	...
Uruguay	2.4	2.8	3.3	-2.5	-1.6	-1.0	4.3	4.4	4.1	-0.8	-0.3	-0.4
Venezuela (Bolivarian Rep. of)	1.8	4.6	2.1	-1.9	1.6	0.0	6.2	7.1	0.6	2.5	4.1	-1.5

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

^a Preliminary figures.

^b The central government coverage corresponds to national public administration, on an accrual basis. The non-financial public sector (NFPS) coverage corresponds to the public sector, on a cash basis.

^c The central government coverage does not include social security expenditure, cash basis. The NFPS balance includes pensions.

^d The central government coverage includes federal government and central bank. The figures are derived from the primary balance based on the below-the-line criterion and nominal interest.

^e The central government coverage corresponds to the central national government. The central government balance does not include revenue and actual expenditure, floating debt or the cost of financial restructuring. The NFPS balance includes net lending.

^f NFPS coverage corresponds to the narrowly-defined non-financial public sector.

^g Accrual basis. In 2003, does not include the US\$ 130 million that the Under-Secretary of the National Treasury has de-earmarked from the central government budget.

^h The central government coverage corresponds to the consolidated central government.

ⁱ The central government coverage includes the federal government and social security. The balance includes non-recurrent income from the sale of companies. NFPS coverage corresponds to the public sector.

^j Cash basis.

^k The central government coverage corresponds to the central administration.

^l Accrual basis. The overall balance includes the residue and other transfer payments.

Table A-38
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL REVENUE
(Percentages of GDP)

	Total revenue			Current revenue			Capital revenue		
	2004	2005	2006 ^a	2004	2005	2006 ^a	2004	2005	2006 ^a
Latin America and the Caribbean	17.3	18.2	19.3	16.5	17.5	18.7	0.7	0.7	0.8
Argentina	16.3	16.7	17.4	16.2	16.5	17.3	0.1	0.2	0.2
Bolivia ^b	22.0	25.7	28.7	19.2	23.6	26.5	2.8	2.2	2.1
Brazil ^c	21.6	22.7	23.4	...	...	...	...	...	...
Chile ^d	22.0	23.7	26.0	22.0	23.6	25.9	0.0	0.0	0.0
Colombia ^e	15.5	16.0	17.5	14.3	14.9	16.0	1.1	1.1	1.5
Costa Rica ^f	13.6	13.8	14.5	13.6	13.8	14.5	0.0	0.0	0.0
Ecuador	15.9	16.6	16.9	...	...	...	...	...	...
El Salvador ^f	13.2	13.6	14.5	12.9	13.3	14.3	0.3	0.3	0.2
Guatemala	12.3	12.0	12.7	12.3	11.9	12.7	0.0	0.0	0.0
Haiti ^f	8.9	10.9	10.7	8.9	9.7	10.0	0.0	1.3	0.7
Honduras ^f	20.3	20.5	21.2	19.2	19.1	19.5	1.0	1.4	1.8
Mexico	18.4	19.0	19.0	...	...	...	...	...	...
Nicaragua ^f	20.5	21.5	22.7	17.2	18.1	18.8	3.3	3.4	3.9
Panama	14.4	15.2	18.6	14.3	15.1	18.5	0.1	0.0	0.1
Paraguay	18.4	18.3	18.9	18.4	18.3	18.8	0.0	0.1	0.1
Peru	15.0	15.8	17.4	14.9	15.7	17.3	0.1	0.1	0.1
Dominican Republic ^g	13.9	15.1	15.3	13.8	14.9	15.0	0.1	0.2	0.3
Uruguay	21.6	21.8	21.9	...	...	...	...	...	...
Venezuela (Bolivarian Republic of)	24.0	27.7	30.0	24.0	27.7	30.0	0.0	0.0	0.0

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

^a Preliminary figures.

^b Total revenues include loan recovery.

^c Gross revenue.

^d Total revenue corresponds to revenue plus sales of financial assets.

^e Total revenue includes special funds and revenues arising therefrom.

^f Total revenue includes grants.

^g Accrual basis. Capital revenue includes grants.

Table A-39
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL EXPENDITURE
(Percentages of GDP)

	Total expenditure			Current expenditure			Capital expenditure			Interest		
	2004	2005	2006 ^a	2004	2005	2006 ^a	2004	2005	2006 ^a	2004	2005	2006 ^a
Latin America and the Caribbean	18.9	19.2	19.3	15.7	16.1	16.3	3.2	3.1	3.0	2.4	2.5	2.4
Argentina	14.4	16.3	16.5	12.9	14.3	13.8	1.5	2.0	2.6	1.3	1.9	1.7
Bolivia ^b	27.4	29.2	28.5	23.1	24.9	25.3	4.3	4.3	3.2	2.8	2.9	2.5
Brazil	19.5	22.2	22.6	17.8	20.3	20.6	1.7	1.8	2.0	3.9	5.8	5.3
Chile ^c	19.9	19.1	18.2	16.8	16.1	15.2	3.1	3.1	3.0	1.0	0.8	0.7
Colombia ^d	19.7	20.7	21.1	18.5	19.2	19.4	1.2	1.5	1.7	4.0	3.5	4.2
Costa Rica ^e	16.3	15.9	15.5	15.2	14.9	14.6	1.1	1.1	0.9	4.1	4.1	3.9
Ecuador	16.8	17.1	17.1	12.6	12.9	13.1	4.3	4.1	4.1	2.5	2.3	2.3
El Salvador ^e	14.4	14.6	14.9	12.2	12.1	12.3	2.3	2.6	2.7	2.0	2.2	2.4
Guatemala	13.4	13.7	14.6	9.2	9.1	9.4	4.3	4.6	5.3	1.4	1.4	1.4
Haiti	12.0	11.5	10.7	9.2	10.2	9.7	2.8	1.2	1.1	0.7	1.0	0.8
Honduras ^f	23.1	23.1	22.5	17.2	17.8	18.8	6.0	5.2	3.8	1.0	1.0	1.0
Mexico ^g	19.5	19.7	20.6	16.8	16.8	17.4	2.6	2.9	3.2	2.3	2.1	2.1
Nicaragua ^f	22.7	23.3	22.7	16.8	17.9	19.2	6.0	5.4	3.5	2.1	1.9	1.8
Panama	19.8	18.3	18.4	16.6	15.9	15.9	3.2	2.5	2.5	4.2	4.4	4.2
Paraguay ^e	16.8	17.5	18.3	12.9	13.5	14.0	4.0	4.1	4.3	1.1	1.2	1.0
Peru	16.2	16.5	15.9	14.4	14.7	14.0	1.8	1.9	2.0	1.8	1.8	1.8
Dominican Republic ^h	16.6	16.2	16.2	12.4	12.2	12.3	4.2	4.0	3.9	1.8	1.3	1.3
Uruguay	24.1	23.5	22.9	22.6	22.1	21.5	1.5	1.4	1.4	4.9	4.4	4.3
Venezuela (Bolivarian Rep. of) ⁱ	25.9	26.0	30.0	20.9	20.2	23.3	5.0	5.8	6.7	3.7	3.0	2.1

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

^a Preliminary figures.

^b Total expenditure includes lending.

^c Total expenditure refers to expenditure plus investment, capital transfers and fixed capital consumption.

^d Does not include actual expenditure, floating debt or the cost of financial restructuring.

^e Total expenditure includes net lending.

^f Capital expenditure includes net lending.

^g Current expenditure, capital expenditure and interest correspond to federal government expenditure.

^h Accrual basis.

ⁱ Total expenditure includes extrabudgetary expenditure and net lending.

Table A-40

LATIN AMERICA AND THE CARIBBEAN: TAX BURDEN INCLUDING SOCIAL SECURITY CONTRIBUTIONS
(Percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean	14.3	14.4	14.2	14.5	14.6	14.8	15.3	16.1	16.9
Argentina	12.9	12.9	13.1	13.2	12.8	14.8	16.6	17.1	17.5
Bolivia	14.8	14.0	14.0	13.6	13.9	14.1	16.5	22.8	25.6
Brazil	19.5	20.7	21.5	22.1	23.4	22.9	23.5	24.4	24.1
Chile	17.6	17.0	17.7	18.1	18.0	17.3	17.0	18.2	18.5
Colombia	14.4	14.2	14.1	16.0	16.0	16.2	17.0	17.5	20.6
Costa Rica	12.6	11.9	12.3	13.2	13.2	13.3	13.3	13.6	13.7
Ecuador	10.5	10.3	11.6	13.3	14.1	12.9	12.8	13.3	14.2
El Salvador	12.8	12.8	13.0	12.3	13.0	13.3	13.2	14.2	15.0
Guatemala	10.0	10.7	10.9	11.1	12.2	11.9	11.8	11.5	12.1
Haiti	8.3	8.8	7.9	7.4	8.2	8.9	8.9	9.7	9.9
Honduras	17.2	18.3	17.0	16.9	17.1	17.6	18.2	18.3	19.2
Mexico	12.0	12.9	12.1	12.9	13.2	12.6	11.5	11.0	11.0
Nicaragua	17.2	17.1	17.5	16.6	16.8	18.6	19.3	20.4	21.2
Panama	16.2	16.6	16.0	15.0	14.8	14.6	14.4	14.2	14.7
Paraguay	12.6	11.8	12.0	12.0	11.2	11.3	12.9	13.0	13.5
Peru	15.6	14.3	13.9	14.2	13.6	14.5	14.7	15.2	16.5
Dominican Republic	11.9	12.8	12.7	13.9	13.8	12.4	13.0	14.1	14.1
Uruguay	24.1	24.1	23.6	23.6	22.8	23.0	24.4	25.4	23.6
Venezuela (Bolivarian Republic of)	11.6	11.6	9.4	9.6	10.3	10.4	11.5	12.2	16.0

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

^a Preliminary figures.

Table A-41
LATIN AMERICA AND THE CARIBBEAN: TAX BURDEN AND COMPOSITION OF TAX REVENUES
(Percentages of GDP)

	Income tax and capital gains tax		Property tax		General goods and services tax		Specific goods and services tax		Tax on trade and International transactions	
	2005	2006 ^a	2005	2006 ^a	2005	2006 ^a	2005	2006 ^a	2005	2006 ^a
Latin America and the Caribbean	3.8	4.2	0.7	0.6	5.5	6.0	2.0	2.1	1.5	1.3
Argentina	3.7	3.6	1.7	1.6	3.5	3.7	2.0	1.9	2.7	2.8
Bolivia	3.1	3.5	3.3	2.7	6.9	7.2	6.4	9.3	1.1	0.9
Brazil	6.2	5.9	0.3	0.3	...	...	1.2	1.2	0.4	0.4
Chile	5.1	5.2	0.7	0.6	7.9	7.3	1.9	1.6	0.4	0.4
Colombia	6.1	7.5	1.2	1.3	6.1	7.4	0.4	0.4	1.0	1.3
Costa Rica	3.4	3.5	0.5	0.6	4.9	5.3	3.3	3.0	1.1	1.2
Ecuador	2.6	2.6	0.2	0.2	5.4	5.4	0.6	0.6	1.5	1.5
El Salvador	3.9	4.2	0.1	0.1	6.5	7.0	0.6	0.5	1.1	1.1
Guatemala	3.2	3.6	0.0	0.0	5.2	5.4	0.8	1.3	1.9	1.2
Haiti	2.3	3.0	...	...	2.4	2.9	0.7	0.6	2.6	3.1
Honduras	4.5	5.3	0.4	0.2	7.0	7.5	3.7	3.5	1.4	1.3
Mexico	4.6	4.9	0.2	0.2	3.8	4.2	0.7	0.0	0.3	0.3
Nicaragua	4.8	5.1	0.0	0.0	6.9	7.3	4.0	4.0	1.1	1.0
Panama	3.6	4.3	0.7	0.7	0.9	1.9	0.9	0.8	2.3	1.6
Paraguay	2.0	1.9	0.0	0.0	5.4	5.5	2.1	2.2	1.9	1.8
Peru	4.3	6.0	...	...	5.4	5.5	1.6	1.4	1.2	0.9
Dominican Republic	2.8	3.1	0.3	0.6	3.9	4.3	3.2	3.6	3.5	2.1
Uruguay	3.0	3.1	1.8	1.6	10.4	10.7	3.0	3.0	1.4	0.1
Venezuela (Bolivarian Republic of)	2.4	4.1	0.9	0.1	6.4	8.7	0.6	0.8	1.2	1.7

	Social security contributions		Other direct taxes		Other indirect taxes		Total	
	2005	2006 ^a	2005	2006 ^a	2005	2006 ^a	2005	2006 ^a
Latin America and the Caribbean	2.7	2.7	...	...	0.6	0.6	16.1	16.9
Argentina	3.3	3.8	...	...	0.2	0.2	17.1	17.5
Bolivia	2.0	2.0	...	...	...	...	22.8	25.6
Brazil	13.9	14.0	2.4	2.2	3.5	3.5	24.4	24.1
Chile	1.4	1.4	...	...	0.8	2.0	18.2	18.5
Colombia	2.7	2.7	...	...	0.0	0.0	17.5	20.6
Costa Rica	0.3	0.3	...	...	0.0	0.0	13.6	13.7
Ecuador	3.0	3.8	...	...	0.0	0.0	13.3	14.2
El Salvador	1.7	1.6	...	...	0.4	0.4	14.2	15.0
Guatemala	0.3	0.3	...	...	0.2	0.2	11.5	12.1
Haiti	...	...	...	...	1.6	0.3	9.7	9.9
Honduras	1.4	1.3	0.0	0.0	...	...	18.3	19.2
Mexico	1.3	1.3	...	...	0.1	0.1	11.0	11.0
Nicaragua	3.6	3.8	...	...	0.0	0.1	20.4	21.2
Panama	5.3	4.8	0.3	0.3	0.2	0.3	14.2	14.7
Paraguay	1.2	1.1	...	...	0.5	1.0	13.0	13.5
Peru	1.5	1.6	...	...	1.1	1.1	15.2	16.5
Dominican Republic	0.0	0.1	...	...	0.3	0.3	14.1	14.1
Uruguay	5.8	5.0	...	...	0.0	0.0	25.4	23.6
Venezuela (Bolivarian Republic of)	0.6	0.6	...	...	...	...	12.2	16.0

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

^a Preliminary figures.

Table A-42
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT PUBLIC DEBT
(Percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean	39.7	43.9	44.2	46.6	59.6	58.8	52.2	43.9	37.0
Argentina ^b	37.6	43.0	45.0	53.7	145.9	138.2	126.4	72.8	63.6
Bolivia ^c	55.1	58.9	60.7	72.7	77.5	86.8	81.1	76.4	52.8
Brazil ^d	23.6	29.7	29.9	31.6	37.9	34.0	31.0	30.9	31.7
Chile ^e	12.5	13.8	13.6	14.9	15.7	13.0	10.7	7.2	5.3
Colombia ^f	22.1	29.5	36.9	44.2	50.3	50.7	46.4	46.6	44.9
Costa Rica ^g	42.9	42.9	42.4	43.2	43.6	41.3	41.0	37.5	33.9
Ecuador ^g	57.0	84.9	73.3	56.9	50.3	45.8	40.8	36.6	30.0
El Salvador ^c	...	...	27.2	30.7	35.2	37.2	38.0	37.8	37.7
Guatemala ^c	16.4	19.7	19.0	20.2	18.4	20.9	21.4	20.7	21.6
Haiti ^h	36.6	38.6	43.8	46.2	60.2	57.5	46.7	44.1	35.1
Honduras ^g	...	...	66.3	64.5	66.3	72.0	70.1	52.0	33.6
Mexico ⁱ	27.8	25.6	23.2	22.5	24.0	24.2	23.0	22.4	23.3
Nicaragua ^g	124.2	116.4	113.0	109.9	133.7	137.7	100.6	93.0	70.3
Panama ⁱ	62.0	66.0	65.5	70.1	69.0	66.6	69.6	65.1	60.4
Paraguay ^g	20.5	30.4	32.6	41.1	59.2	44.4	38.0	31.4	24.8
Peru ^k	43.0	48.1	45.2	44.2	45.5	47.3	41.8	38.2	30.9
Dominican Republic	...	...	...	...	...	...	...	21.2	19.8
Uruguay	24.0	26.2	31.9	41.9	98.7	94.3	74.6	67.0	59.3
Venezuela (Bolivarian Republic of) ^l	29.4	29.3	26.8	30.4	42.4	46.3	38.1	32.9	24.3

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

^a Preliminary figures to June 2006.

^b Gross public debt. National public administration. As from 2005, does not include debt not presented for swap.

^c Gross public debt. Does not include publicly guaranteed private debt.

^d Net public debt. Federal government and central bank.

^e Consolidated gross public debt.

^f Gross public debt. Central national government.

^g Gross public debt.

^h Gross public debt. Does not include public sector commitments to commercial banks.

ⁱ Gross public debt. Federal government.

^j Gross public debt. Does not include domestic floating debt.

^k Gross public debt. Includes local and regional government debt with the Banco de la Nación.

^l Gross public debt. Non-financial public-sector.

Table A-43
LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR PUBLIC DEBT
(Percentages of GDP)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 ^a
Latin America and the Caribbean	44.4	49.1	46.8	49.0	63.4	61.5	54.2	46.9	39.5
Argentina ^b	42.6	49.3	53.1	64.8	184.4	144.8	132.5	77.8	65.5
Bolivia ^c	60.1	64.2	65.8	76.7	80.2	89.5	83.9	79.2	55.8
Brazil ^d	39.4	48.5	47.7	50.8	59.6	53.7	49.3	46.7	46.0
Chile ^e	17.4	19.1	18.6	20.2	22.1	19.5	16.8	12.9	10.6
Colombia ^f	29.3	38.8	44.3	48.5	56.7	53.9	49.2	45.8	43.1
Costa Rica ^g	...	...	41.8	43.2	45.1	45.6	46.9	42.9	39.5
Ecuador ^h	62.5	94.0	81.7	62.7	54.3	49.2	43.7	39.4	32.7
El Salvador ^h	...	...	30.0	33.6	38.3	40.6	40.8	40.9	39.8
Guatemala ^h	19.4	22.7	21.2	21.7	19.6	22.0	22.4	21.5	21.9
Haiti ⁱ	41.1	42.7	49.1	50.7	66.5	63.5	51.1	47.5	37.6
Honduras ^g	75.0	78.8	66.1	64.0	65.8	71.0	69.9	52.2	34.9
Mexico ^j	34.2	31.0	27.7	26.5	28.1	28.6	26.9	25.3	25.5
Nicaragua ^g	125.4	120.2	114.7	111.3	134.1	138.0	100.7	93.1	70.7
Panama ^g	64.8	67.2	66.5	71.1	69.4	67.0	70.4	66.1	61.1
Paraguay ^g	23.5	33.5	35.3	44.0	63.0	46.9	41.7	32.8	25.8
Peru	43.0	48.1	45.2	44.2	45.5	47.3	41.8	38.2	30.9
Dominican Republic ^k	18.2	17.3	18.0	19.7	23.0	40.8	25.1	25.7	22.5
Uruguay	28.6	30.9	35.9	46.7	106.0	100.4	78.9	70.4	62.6
Venezuela (Bolivarian Republic of)	29.4	29.3	26.8	30.4	42.4	46.3	38.1	32.9	24.3

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

^a Preliminary figures to June 2006.

^b Gross public debt. The figures for the years 1986 to 2002 relate to national public-sector debt plus provincial debt; from 2003 onward, the figures are consolidated data.

^c Gross public debt. Includes non-financial public sector (NFPS) external debt and central government domestic debt.

^d Net public debt. Public sector.

^e Consolidated gross public debt.

^f Gross public debt. Consolidated non-financial public sector

^g Gross public debt.

^h Gross public debt. Includes NFPS external debt and central government domestic debt.

ⁱ Gross public debt. Does not include public sector commitments to commercial banks.

^j Gross public debt. Includes public sector external debt and federal government domestic debt.

^k Gross public debt. Public sector.

Table A-44
LATIN AMERICA AND THE CARIBBEAN: SUBNATIONAL GOVERNMENT FISCAL INDICATORS
(Percentages of GDP)

		1998	1999	2000	2001	2002	2003	2004	2005 ^a
Argentina ^b	Total revenue	11.1	11.4	11.5	11.2	10.4	11.3	12.8	13.4
	Total expenditure	11.7	12.8	12.6	13.6	10.9	10.9	11.8	13.1
	Primary balance	-0.3	-0.9	-0.5	-1.5	0.0	0.9	1.4	0.7
	Overall balance	-0.7	-1.5	-1.2	-2.4	-0.5	0.4	1.0	0.3
	Public debt	4.4	5.8	7.5	11.2	21.9	18.8	16.8	14.8
Bolivia ^c	Total revenue	7.2	6.8	6.3	7.8	8.1	7.7	8.5	10.5
	Total expenditure	7.3	7.0	6.4	7.9	7.9	9.6	8.0	8.3
	Primary balance	0.0	0.1	0.1	0.1	0.5	-1.9	0.7	2.4
	Overall balance	-0.2	-0.1	-0.1	-0.2	0.3	-1.9	0.6	2.2
	Public debt	0.8	0.8	1.0	0.9	1.1	1.2	1.5	1.5
Brazil ^d	Total revenue	13.9	12.8	12.9	12.9	12.8	12.3	...	...
	Total expenditure	14.6	13.1	12.8	13.1	13.1	12.4	...	...
	Primary balance	-0.2	0.2	0.5	0.8	0.7	0.8	0.9	1.0
	Overall balance	-1.7	-0.4	-0.6	-0.4	0.2	-0.5	0.0	0.0
	Public debt	13.4	16.0	15.7	17.6	19.8	18.6	18.1	16.3
Chile ^e	Total revenue	3.0	3.3	3.2	3.2	3.3	3.1	2.7	2.9
	Total expenditure	3.0	3.2	3.3	3.2	3.3	3.1	2.7	2.7
	Primary balance	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.2
	Overall balance	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.2
Colombia ^f	Total revenue	7.2	7.8	7.6	7.8	8.6	9.0	9.1	9.2
	Total expenditure	7.7	8.3	8.2	7.8	8.5	8.7	8.3	9.0
	Primary balance	0.1	0.1	-0.2	0.3	0.4	0.6	1.0	0.4
	Overall balance	-0.5	-0.5	-0.6	0.0	0.1	0.3	0.8	0.2
	Public debt	3.1	3.5	3.6	4.1	3.8	2.9	2.1	2.0
Costa Rica ^g	Ingreso total	0.7	0.6	0.8	0.9	0.9	0.8	0.8	0.8
	Total expenditure	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8
	Primary balance	0.0	-0.1	0.1	0.1	0.1	0.1	0.0	0.2
	Overall balance	-0.1	-0.1	0.1	0.0	0.1	0.1	0.0	-0.1
Ecuador ^h	Total revenue	2.5	2.3	2.8	3.9	4.0	3.7	4.3	4.0
	Total expenditure	2.2	2.2	2.1	3.3	3.8	3.3	4.2	3.7
	Overall balance	0.3	0.2	0.6	0.6	0.2	0.3	0.1	0.3
Mexico ⁱ	Total revenue	6.1	6.6	6.9	7.5	7.5	7.8	7.7	...
	Total expenditure	6.0	6.4	6.8	7.5	7.6	7.7	7.6	...
	Primary balance	0.2	0.2	0.2	0.1	0.0	0.1	0.2	...
	Overall balance	0.1	0.1	0.1	0.0	-0.1	0.1	0.1	...
	Public debt	1.9	1.7	1.6	1.7	1.8	1.8	1.7	1.7
Paraguay ^j	Total revenue	0.3	0.4	0.4	0.4	0.3	0.3	0.5	0.5
	Total expenditure	0.3	0.4	0.4	0.4	0.2	0.3	0.5	0.5
	Primary balance	0.0	0.1	-0.1	0.1	0.1	0.1	0.2	0.1
	Overall balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Peru ^g	Total revenue	2.1	1.9	2.1	2.1	2.1	2.2	2.3	2.5
	Total expenditure	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2
	Overall balance	0.0	-0.1	0.0	0.0	0.1	0.1	0.1	0.3

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

^a Preliminary figures.

^b Figures relate to provinces.

^c Figures relate to regional governments.

^d Figures relate to states and municipalities.

^e Figures relate to municipalities.

^f Figures relate to departments and municipalities.

^g Figures relate to local governments.

^h Corresponds to town councils and municipalities.

ⁱ Figures relate to state governments.

^j Figures relate to provincial governments.



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La Revista se inició en 1976 como parte del Programa de Publicaciones de la Comisión Económica para América Latina y el Caribe, con el propósito de contribuir al examen de los problemas del desarrollo socioeconómico de la región. Las opiniones expresadas en los artículos firmados, incluidas las colaboraciones de los funcionarios de la Secretaría, son las de los autores y, por lo tanto, no reflejan necesariamente los puntos de vista de la Organización.

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