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Summary of the economic survey of Latin America and the Caribbean 1999

Executive summary

The international financial crisis continued to dominate economic trends in the Economic Commission for Latin America and the Caribbean (ECLAC) region for the second year in a row. A sharp decrease in capital inflows, together with the high volume of interest and dividend payments abroad, meant that net resource transfers to the region were negative for the first time since 1990. At the same time, low commodity prices (except in the case of oil), in combination with the downturn in intraregional trade experienced by the South American countries, led to a decline in export earnings for many countries. Thus, despite the best efforts of policy makers to deal with the adverse external scenario, regional growth stagnated in 1999 (0.3 per cent) and per capita gross domestic product (GDP) declined (-1.3 per cent).

This regional average, however, masks sharp differences across countries. Mexico and much of Central America and the Caribbean — which have close links with the booming United States economy through *maquila* transactions, other manufacturing and agricultural trade, and tourism — grew at moderate or even high rates. The South American countries, by contrast, with their concentration in commodity exports and their significant level of intraregional industrial trade, fared poorly.

Not surprisingly, job creation slowed in most of the South American countries but proved to be more dynamic in Mexico, Central America and much of the Caribbean. For the region as a whole, employment slipped from 53.7 per cent of the working-age population in 1998 to 52.5 per cent in 1999, while unemployment climbed from 8.0 to 8.7 per cent, the highest rate ever to be registered since records

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began to be kept for a significant number of countries. Aided by low rates of inflation, real wages performed better than employment did. Indeed, the consolidation of the price stabilization process continues to be one of the principal achievements of the decade. At below 10 per cent, inflation remained under control despite the depreciation of a number of currencies, and 17 of the 22 countries for which information is available had single-digit rates for 1999.

The trade deficit shrank notably, mainly as a consequence of the slump in imports triggered by the stagnation of income levels, which discouraged purchases in general, and the depreciation of local currencies, which raised the cost of foreign goods. Exports also fell in many countries; in fact, if Mexico were not included in the figures, then the region would have registered a 3 per cent contraction in external sales. Both export and import prices were lower. The result was a reduction in the current account deficit, which narrowed from US$ 87.5 billion (4.5 per cent of GDP) in 1998 to US$ 56.5 billion (3.2 per cent) in 1999.

Autonomous capital inflows were the main source of financing for the current account deficit even though they were down to just US$ 43.5 billion (from US$ 69 billion in 1998 and US$ 83 billion in 1997). Compensatory flows and international reserves covered the remainder. In line with the trend of the past several years, foreign direct investment (FDI) dominated the capital account; in fact, this category of investment amounted to US$ 70 billion in 1999, far exceeding total inflows since bank loans, equity purchases and errors and omissions were all negative. International bond issues amounted to over US$ 40 billion, but most of this sum went to amortize and refinance debts falling due. Access to the bond market was uneven, and terms on the new issues — both interest rates and maturities — were significantly worse than they had been during the pre-crisis years.

In their attempts to deal with the unexpected length and severity of the international crisis, macroeconomic policy makers adopted a less contractionary stance than in 1998, especially during the second half of the year. Fiscal spending was not cut to match the decline in revenues, so that the average deficit in the region is likely to exceed 3 per cent of GDP, the highest level of the decade. Late in the year, nominal interest rates were lowered and in a number of countries monetary policy makers gained some manoeuvring room with the shift towards flexible exchange rates. The most prominent case of a switch in exchange-rate regime was Brazil, but similar steps were also taken in Chile, Colombia and Ecuador.

Sluggish growth rates, the lagged effects of high interest rates and exchange-rate depreciation had a negative impact on the financial sector in many countries. The ratio of non-performing loans increased substantially, and this was reflected in banking crises in several instances. Particular difficulties arose in cases where loans had been made in foreign currency since the local currency equivalent increased as a result of devaluations. In general, the reform process slowed its pace as privatizations were postponed, and in some cases tariffs were raised in order to cope with temporary emergencies. Although institutional negotiations at the intraregional level continued to move forward, trade among regional groups contracted sharply and conflicts arose in some cases as a result of differences in economic policy positions.

The year closed on a positive note in terms of projections for the near future, with the United States economy continuing to grow at a fairly rapid pace, Europe’s economy growing as well, and Japan and the rest of Asia making a recovery. Conditions in international financial markets are becoming more favourable for the

countries of the region and commodity prices are starting to rebound, indicating that the situation will improve in almost all of the region's countries during the year 2000. ECLAC projections put the growth rate for the region as a whole at 3.7 per cent; Mexico and Central America are expected to post higher growth rates (4.7 and 4.8 per cent, respectively), followed by Brazil (3.7 per cent), the Southern Cone (3.1 per cent) and the Andean countries (2.7 per cent).

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I. Domestic economic performance

1. With the exception of inflation, which was under control in the great majority of Latin American and Caribbean countries, the region's economic performance was weak in 1999, with almost zero growth and downturns in both investment and consumption. In view of these trends, it is hardly surprising that job creation was lower than in the previous year and that unemployment was on the rise. Projections for 2000, however, are more encouraging.

Table 1
Latin America and the Caribbean: main economic indicators

	1997	*1998*	*1999*[a]
Economic activity and prices	*Annual rates of variation*		
Gross domestic product	5.4	2.1	0.3
Per capita gross domestic product	3.7	0.4	-1.3
Consumer prices	10.4	10.3	9.5
Terms of trade	2.2	-5.3	0.7
	Percentages		
Urban open unemployment	7.3	8.0	8.7
External sector	*Billions of dollars*		
Exports of goods and services	326.9	325.4	340.0
Imports of goods and services	356.9	376.5	359.9
Balance on goods	-10.4	-32.6	-5.2
Balance on services	-19.6	-18.6	-14.7
Balance on factor income	-47.2	-52.6	-54.4
Balance on current account	-62.6	-87.5	-56.5
Balance on capital and financial account	83.2	68.7	43.5
Overall balance	20.5	-18.7	-12.8
Net transfers of resources	31.6	24.9	-1.3

Source: ECLAC.
[a] Preliminary estimates.

Regional output stalls

2. Output was stagnant in Latin America and the Caribbean in 1999, with a rate almost two percentage points below the 1998 figure and five percentage points under the 1997 figure, which had been one of the best years in the last quarter century. Per capita output contracted by 1.3 per cent, but even so was still 14 per cent above its level at the beginning of the decade.

3. Overall economic performance in 1999 was the outcome of the very different performances of two groups of countries. On the one hand, there were the dynamic economies of Mexico and various Central American and Caribbean countries. Costa Rica, Cuba, Dominican Republic, Nicaragua, and Trinidad and Tobago were particularly notable, with gross domestic product (GDP) growth of between 6 and 8 per cent, while Mexico had the highest rate of any of the region's medium-sized or large economies. Not all countries in this geographical area grew as briskly, however. The Honduran economy, for example, contracted in the wake of hurricane Mitch, which had devastated the country at the end of 1998, and the growth rate in Jamaica fell as well.

4. In South America, economic problems were much more widespread in 1999. Declines of 3 per cent or more were posted in Argentina, Colombia, Ecuador and Venezuela, and there were smaller downturns in Chile, Paraguay and Uruguay. Brazil's modest growth rate of 0.8 per cent was a significant factor in the stagnation of the region's economy given the size of the Brazilian economy.

5. The adverse economic conditions that affected the region began to appear in late 1997. The downswing then intensified as the impact of the international financial crisis grew, with abrupt drops in capital flows and steep reductions in the terms of trade. The list of countries in which economic activity was on the rise grew shorter, while the number of countries with declining output increased.

6. The region's national income was also stagnant in 1999, though individual figures varied. In most countries, the deterioration in the terms of trade noticeably affected national income, which fell in a number of cases. In the oil-producing countries, however, particularly Mexico and Venezuela, national income did better than GDP as a result of the significant rise in oil prices from their levels in 1998, when they had fallen sharply.

Moderate recovery expected in 2000

7. In 2000, the Latin American economies are expected to rebound from their 1999 doldrums. Economic Commission for Latin America and the Caribbean (ECLAC) estimates put the growth rate at

3.7 per cent, which will bring the decade to a close with an average growth rate of 3.2 per cent. This quite encouraging projection is based on the promising outlook for the international economy, with significant growth, very low inflation and moderate interest rates in the developed countries. At the same time, the external sector is expected to improve in a number of the region's countries as a result of the devaluation of local currencies, which ought to stimulate exports and keep imports down. This scenario is based on the assumption that international capital markets will continue to improve, thereby paving the way for larger capital inflows. Growth rates in Mexico and the Central American and Caribbean countries, which turned in the best performance in the region in 1999, are also likely to rise next year. Meanwhile, the South American countries are expected to make a recovery after their weak 1999 performance. There are already signs of an upturn in Brazil, which will be helpful to neighbouring countries.

Investment retreats

8. Investment in 1999 fell sharply as a result of the international crisis, and private investment was especially hard hit. Trends in this variable were also quite uneven, with the Central American and Caribbean countries suffering less than South America. The decreases were the steepest in Chile, Colombia and Ecuador and less so in Argentina, Peru, Uruguay and Venezuela. The best-performing countries were Honduras, Nicaragua, Panama and Cuba. This situation was partly attributable to a marked increase in public investment for rehabilitation and reconstruction following the devastation of hurricane Mitch (Honduras and Nicaragua) and to increased public and private investment in infrastructure (Panama).

9. Changes in the sources of investment financing included a decrease in external saving amounting to more than two percentage points of GDP,[1] while the contribution of domestic and national saving increased by more than one percentage point. In 14 of the 19 countries for which information is available, however, the latter was weakened by increasingly unfavourable terms of trade. This was a particularly important factor in Chile, El Salvador, Honduras, Nicaragua, Paraguay, Peru and Uruguay.

Inflation holds steady at low levels

10. The average inflation rate for the region was 9.5 per cent in 1999, the lowest figures in half a century. Inflation has dropped rapidly in recent years, plunging from 888 per cent in 1993 to 10 per cent in 1997, since when it has levelled off. In fact, 17 of the 22 countries with information available were in the single-digit range for the year. There were significant increases in only two cases: in Brazil, inflation moved up from 2.5 per cent in 1998 to about 8.5 per cent in 1999, and in Ecuador it rose from 43 to 61 per cent.

11. Among the best performers, Argentina again stood out, with a drop of 1.8 per cent in its consumer price index. Other countries with very low inflation (3 per cent or less) were Bolivia, Chile, El Salvador and Panama. The first three of these countries consolidated their stabilization processes after achieving very significant advances in recent years. Panama continued to register its usual low rate of inflation.

12. Despite the devaluation of various of the countries' currencies, the impact was not passed on to domestic prices thanks to tight monetary policy and the recession that persisted through the first three quarters of the year.

13. Brazil experienced a setback in its price stabilization process, which in the preceding years had enabled the country to control inflation, after posting four-digit inflation rates in the late 1980s and early 1990s. The setback was directly related to the steep devaluation of the currency in the early part of the year. However, the effects of economic stagnation and the deindexation process that has been going on in recent years prevented most of the devaluation's impact from being passed on to consumer prices. Ecuador has been having the most difficult time of any country in the region due to the depth of the economic and financial crisis that has overtaken it. The crisis has triggered an inflationary spike that has pushed rates up to over 60 per cent for the first time since 1992.

Labour market problems worsen

14. The deterioration of the situation in the labour market, which began to become apparent midway through the decade (with a temporary remission in 1997), accelerated in 1999. The economic problems that have arisen in various countries since late 1998, especially in the southern part of the region, were

reflected in falling employment rates and sharply rising unemployment.

15. Sluggish economic growth rates led to a drop in the average employment rate. The proportion of total employment accounted for by wage earners decreased in many countries, including Argentina, Brazil, Chile, Colombia and Ecuador. The result was a further expansion of the informal segment of the labour market. The economic slowdown was particularly hard on employment in construction and manufacturing.

16. In contrast, as was also the case the year before, formal employment levels in Mexico and some Central American and Caribbean countries were boosted by higher growth rates thanks to the stimulus provided by these countries' links with the booming United States economy.

17. In keeping with these trends, the unemployment rate for the region as a whole rose from 8.0 to 8.7 per cent, the highest level ever recorded since labour statistics became available for a significant number of the region's countries. The largest increases in unemployment were in Argentina, Chile, Colombia, Ecuador and Venezuela. By contrast, in Brazil, where unemployment in 1998 had reached levels comparable to those of the early 1980s, the rate remained relatively steady, while in Mexico and a number of Central American and Caribbean countries it fell.

18. Real wages in the formal sector performed better than employment, with upswings in Chile, Colombia, Costa Rica, Nicaragua and Uruguay. In all of these countries, the increase in wages was due in large part to the decline in inflation, especially where prices rose less than projected (principally Chile, Colombia and Uruguay). In contrast, real wages stalled in Argentina, Mexico and Paraguay, and fell in Brazil and Peru.

II. Macroeconomic policy and reforms

19. Macroeconomic policy was marked by sharp contrasts during the year. The larger fiscal deficit partially offset the fall in private domestic demand, while monetary policy makers maintained an austere stance until midway through the year. This stance was then relaxed somewhat, and interest rates moved down slightly. Exchange-rate policy also became more flexible. The status of the banking sector remains a cause for concern in several countries; new lending remains depressed and the quality of the banking system's loan portfolio has deteriorated.

Fiscal deficit widens

20. The recessionary conditions existing in the region drove down fiscal revenues at a time when a number of the countries had drawn up budgets for 1999 that allowed for increased public expenditure. The prime objective during the year was to continue, insofar as possible, to execute public investment and expenditure programmes in the social sector at their budgeted levels, even though fiscal revenues were lower than initially expected. As a result, the countries' average non-financial public-sector deficit rose to 3.2 per cent of GDP, its highest level of the decade.

21. The greater increase seen in spending in the region can be attributed to four factors, the first two of which relate to investment. Apart from addressing infrastructure investment needs that could no longer be put off, several countries that had been hit by natural disasters the year before had to make significant investments in reconstruction work. In addition, many Governments in the region renewed their efforts to satisfy social needs that they had been postponing as they strove to maintain fiscal stability. Lastly, the service on the public sector's external debt (expressed in local currency) continued to rise in 1999, both as a natural outcome of a slightly higher level of external indebtedness and because of devaluations. Domestic debt service also led to higher expenditure because of the delayed effect of monetary policy in countries that attempted to use interest-rate hikes to curb the depreciation of their currencies.

22. The negative trend in income was the other contributing factor behind the larger budgetary shortfall. Weaker economic activity and a slowdown in international trade depressed tax revenues for the second year running, and this was compounded by tariff reductions, especially in Central America. However, an upswing in non-tax revenues — driven by rebounding international oil prices (in Colombia, Ecuador, Mexico and Venezuela) together with other non-recurrent receipts — partly offset these cuts. Tax authorities also reacted by proposing rate hikes and measures to combat evasion.

Monetary policy makers adopt a less defensive stance

23. Monetary policy was largely determined by events in the external sector, particularly with regard to the countries' access to capital markets. The prevailing mood at the beginning of the year was one of strict austerity in most of the region, especially in countries that had lost international reserves when the global crisis deepened in August 1998 or encountered difficulties in the area of external trade.

24. Austerity policies were maintained for most of the first half of 1999 in response to the uncertainty generated by the turbulence on currency markets that marked this period, as several countries devalued their currencies and Ecuador instituted a partial moratorium on its external debt. A few countries, including Guatemala, adopted a more expansionary policy from the very start of the year.

25. Nonetheless, monetary policy makers generally began to adopt a more flexible stance towards the end of the first semester, for two main reasons. The first was the international financial markets' return to greater stability, which facilitated access to external financing. This more optimistic outlook was also backed up by the Brazilian economy's positive reaction to the January devaluation since this kept the spectre of contagion from the crisis at bay. The second contributing factor was of a domestic nature and had to do both with the persistence of underlying recessionary forces in several of the region's countries and with a worsening situation in domestic financial markets.

26. Monetary authorities were even more inclined than usual to respond to calls from business sectors to make macroeconomic policy more flexible and encourage economic recovery since inflation rates were generally at or below the targeted rates in a majority of countries. Making exchange-rate policy more flexible (for example, in Colombia) also gave them room to lower the interest rate. And signs that the recession had bottomed out provided grounds for the supposition that an increase in the demand for money would accompany the expected upturn in production activity. The widening fiscal deficit nonetheless made it necessary to hold to a prudent line of monetary policy.

27. In a number of countries, the nominal interest rate began to edge down cautiously at the end of the second quarter. This more relaxed monetary policy stance led to an easing of the downward trend in real liquidity that had predominated in Latin America since the fourth quarter of 1998 (the real variation in the money supply (M1) was -5 per cent in the 12 months to December 1998), and a slight upturn in the real money supply started to be seen in the third quarter of 1999.

28. The slowdown in the rate of inflation partly offset the fall in the nominal interest rate, so average real interest rates remained higher than in 1998. This was especially true of Mexico, Paraguay, Peru and Bolivia, while the main exceptions were Chile and Ecuador.

Banking crisis continues

29. The recession that overtook many of the region's countries and the high real interest rates that have prevailed since the international crisis of September 1998 reduced new credit demand. The upswing in lending rates further undermined the position of firms that were already in financial distress, and this in turn caused the quality of bank loan portfolios to deteriorate.

30. In addition, the great majority of countries in the region have been affected to varying degrees by financial disturbances that have made the banking sector more risk-averse than before. As a result, a decline in domestic credit activity and a trend towards financial disintermediation have been apparent in many cases. The difficult conditions existing in many of the countries' financial systems prompted a great deal of restructuring and consolidation via mergers and acquisitions, especially in Peru and Colombia, and a similar situation is expected to arise in Ecuador as well. In Mexico, the new Bank Savings Protection Institute began operations in September. Current estimates place the total cost to the Mexican Government of bailing out the banking system and implementing a support programme for debtors at almost 22 per cent of GDP by the end of 1999.

Exchange-rate policy becomes more flexible

31. The management of exchange-rate policy exhibited more flexibility. Four countries (Brazil, Colombia, Chile and Ecuador) abandoned in 1999 their currency band regimes and let their currencies float, and this latter type of regime is now the most common system in the region. The system of currency bands, which played a very important role in stabilization programmes based on the use of the nominal exchange rate as an anchor, has come under increasing criticism

on the grounds that it generates vulnerability to speculative attacks. Only four Latin American countries (Argentina, El Salvador, Panama and Ecuador since 2000) and a group of small economies in the Eastern Caribbean still have either de facto or *de jure* fixed parity systems. In any event, the floating systems that are in use involve a more than negligible amount of intervention. In Mexico and Brazil, for example, monetary authorities have repeatedly stepped in to smooth out fluctuations in the exchange rate, and monetary policy has continued to be highly dependent on external factors.

32. Trends in nominal exchange rates were very different in South America from the rest of the region. In South America, the increase in the nominal rate of devaluation, which had begun in late 1997, gained momentum starting in January 1999 because of the Brazilian devaluation. The steepest rates of devaluation were seen in Ecuador (an increase of nearly 100 per cent in the average exchange rate for the year), Brazil (57 per cent) and Colombia (24 per cent).

33. Mexican and Central American currency markets showed the effects of the disturbances in Brazil during the first quarter but then quickly returned to normal levels, with average rates of devaluation comparable to those registered before the Russian crisis of 1998. Exchange rates in Guatemala, however, were a source of tension, as the currency's 16 per cent devaluation was extreme in the context of the country's history.

34. Continuing a pattern that had become apparent the year before, the Caribbean countries were isolated from the international financial turbulence that affected other countries in the region. Exchange rates there remained on the same trend as before, with average rates of devaluation on the order of 2 per cent. The exception was the somewhat higher rate of devaluation registered by Jamaica (6.3 per cent), where the effects of an economic crisis are still being felt.

35. As inflation has been falling throughout the region, real exchange rates have followed the patterns of nominal variation quite closely. In 1999, the simple average of the depreciation rates among Latin American countries was 3.5 per cent. The only case in which an appreciation was observed when rates were measured as subregional aggregates was the Caribbean, and even there the rise was slight (1.7 per cent).

Reforms continue at a slower pace

36. In 1999, the economic crisis put a brake on structural reform in the region since the authorities had to focus their efforts on dealing with immediate problems. Privatization programmes suffered as scheduled projects were postponed, and proceeds from privatization (slightly over US$ 12 billion) were far below the previous year's record figure (US$ 40 billion). Argentina accounted for one third of the total and Brazil for another third. The sectoral diversification of privatizations and concessions continued, with operations being conducted that involved ports, airports, public water systems, highways, railroads, telecommunications, power generation and distribution, and natural gas.

37. Deteriorating fiscal balances triggered efforts to find institutional arrangements that could give the authorities tighter control over fiscal accounts (the convertibility law in Argentina, fiscal accountability legislation in Brazil and a fiscal prudence bill in Peru). Guyana joined the list of countries that have legislatively mandated the independence of their central banks. Against a background of latent or overt crisis in national financial systems, efforts were made to continue strengthening bank supervision and oversight as well, especially in the Caribbean and Central American countries.

III. External sector

38. The international crisis left its mark on the region's external sector for the second year in a row, as the region felt the effects of sluggish foreign capital flows and a steady slide in non-fuel commodity prices. In contrast to what had occurred the previous year, however, the sharp adjustment in the region's economies put a stop to the trend towards a widening deficit on the current account of the balance of payments. The shortfall therefore narrowed from 4.5 per cent of the region's gross domestic product in 1998 to 3.2 per cent in 1999.

39. The substantial reduction in the deficit was mainly the reflection of a smaller negative balance on the trade account. This, in turn, was the result of a sharp downturn in imports, which more than made up for the slowdown or decrease seen in the exports of most countries, particularly in South America. The deficit in factor income widened again, albeit

moderately. At the same time, current transfers, especially family remittances, continued their upward trend in Central America and the Caribbean, thereby helping to narrow these countries' current account deficits.

40. This reduction in the region's deficit was offset, however, by the decrease in foreign capital inflows and higher profit remittances; the combination of these factors resulted in a negative net transfer of resources for the first time since 1990. As had also been the case the year before, the region had to draw upon its international reserves and compensatory financing, this time in the amount of some US$ 13 billion. The use of international reserve assets was less widespread than in 1998, occurring mainly in Brazil and to a lesser extent in Chile, Colombia, Mexico and Peru.

Decline in net capital inflows continues

41. Latin America received autonomous capital flows amounting to US$ 43.5 billion in 1999, which was below the 1998 figure and little more than half of the level of inflows in 1997. Only a few countries, mainly in Central America, saw an increase in inbound capital; inflows to most countries were lower, and Ecuador and Venezuela witnessed net withdrawals. This situation stems from the external financial contraction that began in 1998, especially with respect to loans and equity flows, and carried over into the early months of 1999. Since then, these flows have been making a halting recovery.

42. As had also been the case in the preceding biennium, a large proportion of external finance in 1999 consisted of less volatile types of capital; the main such category was foreign direct investment (FDI), which actually surpassed the exceptionally high levels recorded in 1997-1998. In fact, FDI inflows exceeded total capital inflows for 1999, which indicates that there were net outflows in other categories. The main recipient country was Brazil, but Argentina and the Dominican Republic also posted record levels, and FDI inflows to Mexico remained close to the previous biennium's figure of US$ 11 billion. In a year when private debt flows were used almost entirely for amortization payments, FDI inflows made important contributions to financing the balance-of-payments current account deficit in over half of the countries of the region. In some cases where there was insufficient access to private external resources, financing from official sources, especially loans from multilateral agencies, also played a key role in covering the deficit.

43. International bond placements amounted to over US$ 40 billion, which was somewhat higher than the figure for 1998. These funds went primarily to Argentina, Brazil and Mexico, and to a lesser extent to Chile, Colombia and Venezuela. The main issuers were central Governments and public-sector companies since private firms had difficulties in obtaining financing. The size of individual issues was smaller, and there were more placements in currencies other than the United States dollar, mainly the euro. It was noteworthy that in April 1999, just three months after the devaluation of the Brazilian real, seven of the region's Governments were able to float bond issues on international financial markets amounting to US$ 10 billion at a premium of 550 basis points (5.5 per cent) over United States treasury bonds (5 per cent in April). This upturn was followed by a decline in issues between May and September, which then gave way to another upswing beginning in October that continued during the first quarter of 2000.

44. Following the Russian moratorium in August 1998, the cost of external financing for the region rose sharply — to an annual rate of nearly 15 per cent — before gradually slipping back to 10.5 per cent by April 1999. Later on it rose again, to 12 per cent, and then hovered around that level for the rest of the year. The maturity profile for the region's bond issues in 1999 deteriorated to an average of five years. Bank lending was also affected by the turbulence on international financial markets. The recovery in international bank lending to the region has been very slow, especially when compared to bond placements.

45. Among the more volatile forms of capital, those associated with equity investments began to flow back into the region's main stock markets midway through the second half of 1999. However, the available information indicates that this recovery has a long way to go before fully reversing the large withdrawals that took place in the second half of 1998. At the same time, some of the region's larger economies were still experiencing outflows of other types of short-term capital, although the amounts involved are quite moderate when compared to the massive withdrawals that occurred between August and October 1998.

Slight expansion in the region's external debt

46. In 1999, the total gross disbursed external debt of Latin America and the Caribbean edged up to slightly less than US$ 750 billion, a nominal increase of just 0.5 per cent, the lowest rate for the 1990s. The slowdown in the rate of increase was remarkable when compared to the trend in recent years and reflected the difficulties that the countries have had in obtaining foreign funds, especially from private-sector sources. In nearly half of the region's countries, gross external liabilities increased by negligible amounts and some countries even saw a reduction in nominal terms (Jamaica, Peru and Venezuela). Another group of countries (Argentina, Costa Rica, Chile and Uruguay) saw their gross external liabilities increase by between 4 and 7 per cent, while Paraguay registered a spectacular increase of nearly 40 per cent due to an unprecedented US$ 400 million government bond issue.

47. Indicators of the region's external debt burden for 1999 remained at levels similar to those of 1998, when they had deteriorated for the first time in the 1990s. The ratio of interest due to exports of goods and services held steady at 17 per cent, while the ratio of external debt to exports of goods and services eased slightly to 216 per cent. Over half of the countries continue to display what can be considered satisfactory debt burden indicators, while in the remaining countries these indicators remain a cause for concern. Events relating to external debt renegotiations included Ecuador's default on interest payments on its collateralized Brady bonds during the second semester of 1999. Later, it also defaulted on interest payments on other government liabilities with private-sector creditors when the holders of those Brady bonds rejected the Government's proposal to resort to the underlying guarantee. It is important to note that judging from the behaviour of spreads on Latin American eurobonds in the secondary market, the international financial community appears to see these events as being confined to Ecuador. Honduras and Nicaragua, meanwhile, are hoping to qualify for the highly indebted poor countries (HIPC) initiative, in which Bolivia and Guyana are already participating.

Lower prices and a slump in intraregional trade squeeze export revenues

48. Taking the region as a whole, the value of exports rose by nearly 5 per cent, but this result was largely due to the predominance of Mexico in the aggregate figure. Approximately half of the countries posted lower export values; if it had not been for Mexico, export growth would have been negative (-3 per cent).

49. The competitive gains arising from devaluations in Latin America and countries' declining levels of domestic absorption failed to generate higher export earnings, for two reasons. First, the economies of the region, especially those of the South American countries, continue to be major commodity exporters, and the supply of such products tends to be price inelastic in the short run. Moreover, sales of commodities other than hydrocarbons suffered from steadily weakening prices on world markets, especially in the case of agricultural products, as the downward trend in non-fuel commodity prices persisted. The prices of industrial commodities exported by the region were down as well. As world economic activity strengthened, the prices of various raw materials began to rebound, especially towards the end of the year. This trend was particularly evident in minerals, such as aluminium, copper and nickel, and in beef prices. The price of oil also shot up as a result of the policy to restrict supply adopted by the Organization of Petroleum Exporting Countries (OPEC), and the average price for 1999 was over 40 per cent higher than in 1998.

50. Second, in the category of manufactured products, a strategic component of regional exports, the bulk of the South American countries' sales are made in the regional market, where sales of these products were also hurt by the weakness of economic activity and demand. Consequently, the value of intraregional trade, which in 1998 had already suffered its first contraction in 12 years, plummeted by approximately 25 per cent in the first three quarters of 1999. Trade among the countries of the Southern Cone Common Market fell by this same percentage, while trade in the Andean Community fell even more sharply (35 per cent). The situation was different in the Central American Common Market and the Caribbean Community, where the available information indicates that trade among member countries stayed at the same level as the year before.

51. A different trend was also seen in exports of manufactures from Mexico and several Central American and Caribbean countries, which are primarily sold on world markets, especially the United States. Sales of these products benefited from the expansion of

production capacity in *maquila* industries and from the brisk pace of growth in the United States economy, which is expected to amount to as much as 4 per cent for 1999.

52. While a majority of the countries managed to boost their export volumes, all of them except the main oil exporters saw the unit values of their external sales decline. In some cases, the drop in prices offset the increase in volume (e.g., Brazil and Guatemala), while in others it compounded the effect of a reduction in volume (e.g., Argentina, Bolivia, Honduras, Panama, Paraguay and Uruguay), thereby causing export revenues to actually shrink. In contrast, oil exporting countries and those with a sizeable *maquila* sector saw their export earnings rise, as did Chile and Peru, which managed to regain some of the ground lost in 1998. The best performances, with two-digit growth rates, were turned in by Costa Rica, Haiti, Mexico and Venezuela.

Imports decline

53. The total value of the region's merchandise imports fell for the first time in the last 15 years, by more than 4 per cent; excluding Mexico, it fell by 15 per cent. This was the result of a combination of factors, the most important being the adjustment brought about by slack domestic demand and currency devaluations. As a result of this adjustment, import volumes contracted sharply in nearly all the South American countries; furthermore, in almost every case the decrease was in the double-digit range and was reflected in all product categories (consumer, capital and intermediate goods).

54. In some cases, however, there were other factors that boosted imports. Countries whose exports expanded as a result of the buoyancy of the *maquila* sector also had to purchase more imports, particularly of intermediate goods, since these assembly industries work almost entirely with foreign components. This was a contributing factor to the increase seen in Mexico's import volumes and was also decisive in several other Central American and Caribbean countries, beginning with Costa Rica. Other factors of a circumstantial nature included foreign direct investments that entailed the purchase of capital goods, as in the case of Bolivia; reconstruction work following natural disasters in Nicaragua and Honduras; and the need to supplement the food supply, as in Haiti. At the same time, decreased sales by Panama and Paraguay in the form of re-exports to other countries in the region also entailed a reduction in foreign purchases.

55. The import bill was also lightened by the widespread fall in the prices of the products purchased, with the notable exception of oil. The prices of the manufactures exported by developed countries, which represent the largest share of regional imports, fell by an average of 1.5 per cent. This decline was compounded by the even larger drop in the prices of many industrial commodities (steel, chemicals and fertilizers, for example) and of foodstuffs and other non-fuel commodities. On average, the regional terms of trade improved slightly following the previous year's downturn.

Notes

[1] This figure is in constant local currency and hence differs from the balance-of-payments current account, which is measured in current dollars.

Table 2
Latin America and the Caribbean: total gross domestic product
(Percentages, based on values at 1995 prices)

	Annual growth rates								
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*[a]
Latin America and the Caribbean	3.8	3.2	3.9	5.3	1.1	3.6	5.4	2.1	0.3
Subtotal (19 countries)[b]	**3.9**	**3.3**	**3.9**	**5.3**	**1.1**	**3.6**	**5.4**	**2.1**	**0.3**
Argentina	10.6	9.6	5.9	5.8	-2.9	5.5	8.0	3.9	-2.9
Bolivia	5.4	1.7	4.3	4.8	4.7	4.5	4.1	4.6	1.0
Brazil	1.0	-0.3	4.5	6.2	4.2	2.5	3.5	-0.1	0.8
Chile	7.3	11.0	6.6	5.1	9.1	6.9	6.8	3.1	-1.1
Colombia	2.0	4.1	5.2	6.1	5.2	2.1	3.4	0.5	-5.2
Costa Rica	2.2	7.1	5.8	4.3	2.2	-0.5	3.5	6.4	7.7
Cuba	-10.9	-11.2	-14.7	0.6	2.4	7.8	2.5	1.5	6.0
Ecuador	5.0	3.0	2.2	4.4	3.0	2.3	3.9	1.0	-7.3
El Salvador	2.8	7.3	6.4	6.0	6.2	1.8	4.2	3.2	2.6
Guatemala	3.7	4.9	4.0	4.1	5.0	3.0	4.3	5.0	3.4
Haiti	0.1	-13.8	-2.2	-8.3	5.0	2.8	1.5	3.2	2.3
Honduras	2.7	5.8	7.1	-1.9	3.7	3.8	5.0	3.9	-1.9
Mexico	4.2	3.7	1.8	4.4	-6.1	5.4	6.8	5.0	3.6
Nicaragua	-0.4	0.8	-0.4	4.0	4.4	5.1	5.4	4.1	6.9
Panama	9.0	8.2	5.3	3.1	1.9	2.7	4.7	4.4	3.2
Paraguay	2.5	1.7	4.0	3.0	4.5	1.1	2.4	-0.6	0.5
Peru	2.5	-0.9	5.7	13.6	8.6	2.3	8.6	0.1	3.8
Dominican Republic	0.8	6.4	2.0	4.3	4.4	6.8	7.1	6.0	7.6
Uruguay	2.9	7.4	3.1	5.5	-2.0	5.0	5.0	4.6	-3.4
Venezuela	10.5	7.0	-0.4	-3.7	5.9	-0.4	6.6	-0.2	-7.2
Subtotal Caribbean	**1.6**	**0.7**	**0.6**	**3.1**	**2.7**	**2.8**	**2.0**	**1.8**	**3.2**
Antigua and Barbuda	2.7	0.9	5.0	6.2	-4.8	6.0	5.5	3.9	4.0
Barbados	-3.6	-5.5	0.9	3.5	2.3	5.3	3.1	3.1	2.5
Belize	3.0	9.0	4.3	1.6	3.6	1.3	4.1	1.5	5.7
Dominica	2.1	2.3	1.9	1.9	1.2	2.9	2.2	2.4	1.0
Grenada	3.7	1.0	-1.1	3.4	3.0	3.2	4.7	5.0	4.0
Guyana	9.4	9.4	11.8	9.6	3.2	8.5	9.1	-2.2	1.8
Jamaica	0.3	2.5	1.8	1.9	1.8	-0.3	-2.2	-1.0	-1.1
Saint Kitts and Nevis	2.5	3.2	5.2	5.6	3.2	5.8	7.2	1.7	...
Saint Vincent and the Grenadines	1.6	6.7	2.4	-2.6	7.8	1.7	3.2	5.5	4.0
Saint Lucia	-0.3	7.5	1.6	1.6	2.1	0.8	-0.3	2.3	3.9

	Annual growth rates								
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*[a]
Suriname	4.0	-1.7	-11.7	-0.9	2.4	7.6	4.2	...	...
Trinidad and Tobago	3.5	-1.0	-1.2	4.2	4.1	4.1	4.0	3.8	6.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
Note: Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimate.
[b] Excluding Cuba.