United Nations E/2001/15

Economic and Social Council

Distr.: Limited
19 April 2001

Original: English

Substantive session
2-27 July 2001
Item 10 of the provisional agenda*
Regional cooperation

Summary of the economic survey of Latin America and the Caribbean 2000

Executive summary

The economic recovery of the Latin American and Caribbean economies that began in the final quarter of 1998 continued during the year 2000. Thanks, in particular, to the performance of the region's two largest economies, its GDP expanded at an average annual rate of 4.0 per cent in 2000, which compares favourably with the 1998 growth rate of 2.3 per cent and the rate of just 0.3 per cent posted in 1999. Growth trends in 2000 differed from the pattern seen during the preceding two years, which had been marked by a sharp differentiation between the countries in the northern and southern portions of the region. In 1998-1999, South America had been seriously shaken by the international financial crisis, whereas Mexico, Central America and the Caribbean had benefited from the rapid growth of the United States market. On the other hand, all the countries posted positive growth rates for 2000, except Argentina and Uruguay. The highest rates are recorded in the Dominican Republic, Mexico, Belize, Chile and Cuba.

Trends in the international economy, which are always a key factor in determining the performance of Latin America and the Caribbean, were mixed in 2000. High international growth rates boosted the region's exports. Commodity price trends were uneven, with petroleum soaring by 60 per cent while mineral prices rose 8 per cent and the prices of some agricultural products (especially coffee) fell. The international financial scene was also quite complex. With the important exception of foreign direct investment (FDI), both liquidity and financing terms for the region were very tight. In addition, both volumes and prices on international financial markets were highly volatile, partly in response to sharp swings on United States exchanges.

* E/2001/100.

01-34094 (E) 020701

Exports of goods and service rose 19 per cent in value while imports climbed 17 per cent. Trends in Venezuela — the region's largest oil exporter — heavily influence the region-wide figures, however. For example, when Venezuela is included in the regional total, then the figures show the trade deficit narrowing from $19 billion in 1999 to $13 billion in 2000, but if Venezuela is factored out of the computations, then the deficit appears to have edged up from $26 billion to $28 billion. The current account followed the same pattern, with the deficit shrinking from $53 billion to $48 billion if Venezuela is included, but climbing from $58 billion to $62 billion if it is not.

The total capital inflows for the region is estimated at around $52 billion ($59 billion without Venezuela), compared to $40 billion in 1999. The regional increase was primarily a reflection of the larger amounts of capital flowing into Brazil, which more than outweighed the decline in Argentina's inflows and outflows from Venezuela. FDI continued to be the chief source of capital inflows. Bond issues were used almost entirely for refinancing maturing debt obligations, while bank loans and investment in local exchanges contributed very little to total capital inflows. The volume of bond issues was quite volatile, with the bulk of such issues being launched in the first quarter or in July. At 11.5 per cent, average interest rates were fairly high for the first eight months and then climbed further, to end the year at 13 per cent. Some countries, notably Argentina, had even higher rates.

Macroeconomic policy was relaxed somewhat as the year progressed, especially in countries that allowed their currencies to float freely. Generally speaking, this new approach tended to result in a more flexible monetary policy rather than in more lenient fiscal policies. In point of fact, the countries' fiscal deficits declined, on average, from 3.1 per cent of GDP in 1999 to 2.4 per cent in 2000 as income grew faster than expenditure. The money supply made a partial recovery from its 1999 downturn and interest rates moved down slightly, but this did not translate into a higher rate of credit expansion because banks had adopted a cautious attitude and domestic demand has thus far not rebounded. Most of the countries' currencies depreciated in real terms, but the decline was generally slight (1.5 per cent on average).

Consumer prices improved upon the already favourable pattern of the past four years, with a regional average of 8.8 per cent for the 12-month period ending in December 2000. What is more, over 80 per cent of the countries for which statistics are available had single-digit inflation rates during this period. Although some countries did see a small increase in inflationary pressures due, among other factors, to rising oil prices, this does not signal a loss of control over the process. Inflation continued to subside in Venezuela and, although prices were rising very steeply early in the year in Ecuador, the dollarization policy that it adopted has been bringing the inflation rate back down since that time.

The region's most serious problems are still to be found in the labour market. Although the upturn in GDP growth in 2000 did raise employment levels slightly, it has not been enough to lower unemployment rates, which have remained at what is nearly a record high for the region (around 9 per cent). One of the possible reasons for this is the continuing efforts being made by businesses to boost their productivity, which has entailed the creation of fewer jobs even though growth has picked up. Another reason may have to do with the sectoral composition of this trend. In a number of countries whose growth rates were considerably higher than the year before, commensurate increases in employment did not occur because growth was concentrated in capital-intensive (and often export) sectors. This situation is also linked to the lag in domestic demand, since small and medium-sized enterprises serving the domestic market are the ones that create the most jobs. Meanwhile, wages edged up by 1.5 per cent, on average, in the 10 countries for which information is available.

The Latin American economies are expected to continue their recovery in 2001, although at a somewhat slower pace (about 3.3 per cent) since, owing to the cooling of the United States economy and the difficulties of the Japanese economy, the outlook for the international economy is not as bright as it was in 2000. Of the larger countries, Mexico is likely to grow more slowly than in 2000, while Brazil may post a slightly higher growth rate. The overall figures indicate that the economic cycle that is now beginning will be weaker than the two cycles of the 1990s, which may usher in a longer-term growth trend of between 3.5 per cent and 4 per cent. As noted earlier, the economies' growth rates will probably not be high enough to bring about a significant improvement in the performance of the region's labour markets, and many countries will therefore need to implement special policies to address this problem.

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I. Domestic economic performance

1. Overall, the region turned in a generally favourable economic performance in 2000, after having done quite poorly the year before. In most of the countries, inflation remained at the low levels achieved in the past few years. Job creation was up slightly, but not enough to reduce unemployment. The outlook for 2001 is for slightly slower growth rates than in 2000 (see table 1).

Table 1
Latin America and the Caribbean: main economic indicators

	1998	*1999*	*2000[a]*
Economic activity and prices	*Annual growth rates*		
Gross domestic product	2.3	0.3	4.0
Per capita gross domestic product	0.6	-1.3	2.4
Consumer prices	10.3	9.5	8.8
Terms of trade	-5.8	0.4	3.8
	Percentages		
Urban open unemployment	8.1	8.7	8.5
Fiscal balance/GDP[b]	-2.5	-3.1	-2.3
External sector	*Billions of dollars*		
Exports of goods and services	326	342	407
Imports of goods and services	379	361	421
Balance on goods	-33	-4	4
Balance on services	-19	-15	-17
Balance on income account	-51	-53	-55
Balance on current account	-87	-53	-48
Balance on capital and financial account	70	40	52
Overall balance	-17	-13	4
Net resource transfer	27	-6	-2

Source: Economic Commission for Latin America and the Caribbean.
[a] Preliminary estimates.
[b] Simple average.

A moderate upswing in regional GDP

2. In 2000, economic activity is estimated to have risen by 4 per cent in Latin America and the Caribbean, allowing the region to close out the decade with an average annual growth rate of 3.3 per cent (see table 2). The reactivation seen in 2000 stood in contrast to the region's near zero growth in 1999 and its lacklustre rate of expansion in 1998, although the year's results were lower than the 1997 figure, which was one of the region's best showings in the past 25 years. Per capita GDP climbed by an estimated 2.4 per cent in 2000, yielding a cumulative increase of nearly 17 per cent for the 1990s.

3. The region's growth in 2000 was driven by exports, but consumption and investment also made positive contributions. A portion of the increase in total demand was deflected into the external sector, however, as attested to by the expansion of imports. The adverse economic conditions experienced by the region since late 1997 have not faded away entirely, however, since external financing remains tight for most of the countries. The oil-exporting countries were aided by the steep rise in the prices of hydrocarbons on the international market; this gave a further boost to Mexico's already buoyant economy and, even more importantly, counteracted the recessionary factors that have lately been weighing heavily on the Colombian, Ecuadorian and Venezuelan economies. In contrast, the non-oil-exporting countries witnessed a deterioration in their terms of trade which hampered their recovery.

4. Because of the size of their economies, Mexico's vigorous growth and Brazil's more moderate expansion accounted for a large part of the region's overall reactivation, as the other countries, taken as a group, grew by only 2.2 per cent. There were fewer differences than the year before between the trends seen in the countries in the northern and southern halves of the region, although the two fastest-growing economies were still in the northern portion. The Dominican Republic had the highest growth rate (about 8 per cent) of all and thus remained on the upward path it has followed throughout the 1990s. Mexico also surged ahead (7 per cent), thereby consolidating the growth rate it has exhibited since 1996 thanks to its exports to the North American market. Nicaragua also did very well, and Honduras bounced back from the sharp reduction in its level of economic activity seen in the wake of Hurricane Mitch. The other Central American and Caribbean countries posted more moderate gains.

5. In the South American countries the level of economic activity rebounded from its slump of nearly 1 per cent in 1999 to post a 3 per cent increase in 2000. Brazil experienced a 4.2 per cent upswing, with one of

the outstanding developments in this regard being the reactivation of the manufacturing sector, which had lost ground during the preceding two years. In Colombia, Ecuador and Venezuela, GDP recovered from its 1999 downturn but failed to do much more than that, whereas Chile's turnaround was particularly significant. The Argentine economy stalled as a further decrease in investment largely cancelled out the small increases seen in consumption and export volumes, while economic activity in Uruguay flagged under the influence of adverse external conditions.

Small increases in savings and investment

6. Investment picked up in 2000 after having fallen sharply in 1999. An average growth rate of 4.2 per cent was posted for gross fixed investment, while the mean rate for total investment (gross fixed investment plus changes in stocks) amounted to 5.5 per cent, thus approximating the average growth rate of 5 per cent registered for the 1990s as a whole. Nevertheless, at 22 per cent of GDP, the total flow of investment in 2000 was far lower than it had been in 1998 (24 per cent). Domestic saving climbed but external saving dipped to 2.5 per cent of regional GDP.

7. The aggregate figures for investment mask the differences to be observed in the performance of the domestic and external sectors of the individual countries, however. The countries of the region can be grouped into three categories:

(a) Rapid growth in total investment (above the regional average): Colombia, the Dominican Republic, Honduras and Mexico. This group of countries had economic growth rates that averaged over 6 per cent in 2000, and the continuation of their expansion appears to have required an increase in investment;

(b) Moderate investment growth (between 0 and the regional average): Bolivia, Brazil, Chile, Ecuador, El Salvador, Haiti, Peru and Venezuela. This group had flat or low economic growth rates in 1999 and could therefore fuel its growth by making use of idle capacity;

(c) Negative investment growth: Argentina, Costa Rica, Guatemala, Nicaragua, Panama, Paraguay and Uruguay. This category is composed of two subgroups: South American countries whose economic performance has been constrained, and Central American countries whose economies have performed normally. The latter's low levels of investment are associated with specific circumstances, such as the very high levels of investment required in preceding years due to natural disasters (as in the case of Guatemala) and lower FDI (e.g., Costa Rica).

Inflation remains low

8. In 2000, the region's average rate of inflation is estimated at around 9 per cent, which is slightly lower than it had been during the three preceding years. What is more, 17 of the 22 countries concerned had single-digit inflation, and in most of them the rate either declined or remained low. The only country in which inflation was sharply higher was Ecuador, where surging inflation early in the year drove up the rate from 60 per cent in 1999 to 97 per cent for 2000 as a whole. A number of other countries (Bolivia, Chile, El Salvador, Paraguay and Uruguay) recorded slight increases in their low rates of inflation, mainly as a result of the spike in oil prices. The exchange-rate adjustments made in various countries of the region in the past two years did not have any major impact on inflation despite the reactivation of production in the year 2000.

9. Argentina, which was once again the top performer, boasted another decline in consumer prices, and Barbados and Panama followed with their customary low rates of between 1 per cent and 2 per cent. Another six countries (Bolivia, Chile, El Salvador, Guatemala, Peru, and Trinidad and Tobago) also posted rates below 5 per cent. Although inflation rose in 2000 in almost all of these countries, they are clearly consolidating their stabilization processes, which have made considerable headway in recent years.

10. A number of countries achieved striking improvements in this area. Uruguay, which until very recently had experienced high inflation, registered a rate of under 4 per cent in 1999, and the slight increase seen in 2000 did nothing to jeopardize the inroads made by its stabilization process. Colombia's inflation rate in 2000 (8.8 per cent) was the lowest in 30 years. Mexico also made progress, as it recorded single-digit inflation for the first time in five years. Brazil had a low rate of price increases in 2000 despite a sizeable devaluation in 1999 and the subsequent reactivation of its economy. Venezuela cut its rate of inflation from 20

per cent to 14 per cent, although the latter figure was still high by the region's current standards.

11. The situation in Ecuador was quite complex. The severe economic and financial crisis being experienced by this country caused inflation to surge in the first quarter of the year, but since that time the decision to dollarize has brought about a marked slowdown in the monthly inflation rate.

Upswing in growth fails to boost the labour market

12. The region's economic recovery did not bring about any major improvement in the labour market. The employment rate climbed slightly (from 52.7 per cent to 53.2 per cent) in a group of 10 countries, but even so was at its second-lowest level of the past 10 years (the preceding year's rate was the lowest of all). What is more, since the reactivation was coupled with an increase in the labour supply, unemployment hardly budged at all but instead held at an estimated 8.5 per cent for the year as a whole, as compared to 8.7 per cent in 1999, both of which are historically high levels. The failure of economic growth to have much of an impact on unemployment in 2000 is not a new phenomenon, however.

13. In keeping with the region's sluggish rate of job creation, real average wages showed no significant improvement in most of the countries, although in some cases wage levels were buoyed by reductions in inflation and productivity gains. As a result, the median wage level in 10 countries for which information on real formal-sector wages is available climbed by 1.4 per cent.

14. The region's listless performance in terms of employment and wages was the net result of widely varying trends in the different economies. The countries can be divided into three groups based on this criterion. The first is composed of countries where fairly high growth rates had a very favourable effect on labour indicators. In Mexico, employment held to the upward trend that had taken shape when it recovered from the 1994-1995 crisis. As a result, open unemployment continued to descend despite an increase in the labour supply. Much of this improvement was attributable to an increase in wage labour as a proportion of total employment, especially in medium-sized and large firms. Stronger labour demand and declining inflation were reflected in a 6 per cent increase in real formal-sector wages (the largest gain since the crisis), but the real minimum wage showed no change. Real average wages are still 15 per cent below their 1994 level, however.

15. Brazil witnessed its first increase in employment since 1995. As the participation rate also climbed, however, its impact on unemployment levels was limited during most of the year. Only in the latest months did unemployment drop significantly. The sizeable upturn in employment (4.3 per cent between August 1999 and August 2000) in the country's six major metropolitan areas was concentrated in occupations that are not covered by social or labour laws. Formal wage-based employment also rose, with employment in the formal manufacturing sector climbing by 3.9 per cent between December 1999 and December 2000 after having plunged by nearly 25 per cent between 1990 and 1999. Real average wages dipped slightly for the year as a whole (although less than the year before), but the real minimum wage was boosted by an 11 per cent nominal increase beginning in April.

16. The Nicaraguan economy expanded rapidly, although less so than the year before, and this helped to lower unemployment and raise wages. In the Dominican Republic, the high rate of GDP growth — stemming in part from the dynamism of labour-intensive activities such as manufacturing, tourism and construction — drove up the employment rate sharply but failed to make a sizeable reduction in unemployment because the country's economic buoyancy encouraged more people to enter the labour market.

17. The second group of countries turned in a better macroeconomic performance than they had in 1999 but did not see any marked improvement in employment or unemployment levels. Labour demand remained weak in these countries owing to a combination of factors: the concentration of economic growth in non-labour-intensive activities, the weakness of sectors that usually provide a large number of jobs (such as construction and small business), the lag in hiring typically seen at the end of an economic crisis and the reaction of many firms to adverse competitive conditions, which included special efforts to boost productivity by means of staff cuts.

18. Consequently, employment levels declined in a number of countries, including Chile and Venezuela, despite their achievement of clearly higher rates of economic growth than in 1999. In both of the above countries annual average unemployment levels were down slightly, however, as members of the economically active population withdrew from the labour market, thereby lowering the participation rate.

19. In contrast, employment levels in Colombia edged upward, although here again the demand for labour was slack and new jobs were concentrated in the informal sector. In addition, since the labour supply also expanded, no improvement was seen in the unemployment rate. Few statistics are available for Peru, but what data there are suggest that urban job creation was lethargic despite an upswing in growth. This, in turn, had an impact on slightly rising unemployment levels and stagnating real wages. Ecuador also belongs to this group, since although employment and unemployment levels improved slightly, its economy's moderate recovery was not forceful enough to boost labour demand, and new jobs were therefore concentrated in the informal sector, while real wages slipped once again.

20. The third group is made up of countries where slack economic growth was reflected in lower employment and higher unemployment along with flat wages. The countries in this group are Argentina and Uruguay, together with Bolivia and Paraguay (countries that as yet have little information on labour trends in 2000), and Costa Rica. In Argentina, as of the third quarter formal-sector employment had declined — especially in construction, commerce, agriculture and some areas of the manufacturing sector — but had risen somewhat in the financial sector and the real estate industry. In Costa Rica, the sharp slowdown in economic growth translated into lower employment levels and, specifically, into the stagnation of formal employment. As a result, the contraction in open unemployment was entirely attributable to a lower labour-force participation rate.

II. Macroeconomic policy

21. Macroeconomic policy in the region has emerged from the two-year crisis with a qualitatively different profile. This is especially true in countries that have allowed their currencies to float, since this type of exchange-rate regime enables them to mount a more pragmatic response to events as they unfold. The causes of these changes have been the regionwide decline in inflation and the greater credibility achieved by macroeconomic policy makers in the consolidation of domestic (inflation and the fiscal deficit) stability.

22. Most of the countries that witnessed a sharp slowdown in economic activity in 1999 developed a macroeconomic policy in 2000 that has been shaped by three main forces:

(a) A willingness to take the necessary steps to reduce the larger fiscal deficits inherited from the year before;

(b) A desire — the exchange-rate regime permitting — to make monetary policy more flexible so that it can backstop the reactivation of the economy without sacrificing price stability;

(c) The need to cope with the vagaries of international financial markets. This policy framework, which is quite complex in its own right, was further complicated by the steep increase in fuel prices and their impact on inflation.

Fiscal deficit narrows

23. A better economic environment and greater austerity in fiscal policy helped the region to cut its average fiscal deficit to 2.3 per cent of GDP after it had reached a decade-long high of over 3 per cent of GDP in 1999. Exogenous factors, such as higher oil prices, and cyclical elements, such as greater economic buoyancy, helped enhance the impact of adjustment policies aimed at closing the fiscal gap. A number of these adjustment policies were linked to agreements reached with the International Monetary Fund (IMF) or to the fiscal accountability laws passed in the past two years.

24. This improvement was not seen across the board, however. In fact, more than half the countries' deficits actually widened. The cost of policies specifically designed to reactivate the economy and improve public social services and the lower revenues occasioned by the decline in economic activity in some countries were the two main reasons for this negative outcome. In the countries where the deficit rose, however, it did so by an average of 0.5 per cent of GDP, whereas the governments that improved their accounts (especially Brazil, Colombia, Ecuador and Venezuela) did so by

the equivalent of 2 per cent of GDP, thereby raising the regional average.

25. The recovery made by public revenues was particularly robust in the main oil-exporting countries (Colombia, Ecuador, Mexico and Venezuela), thanks to the higher international prices of crude oil. In the oil-importing countries, these price increases had varying effects on public-sector income. In most of these cases, the effects were positive and included surpluses for State-run oil refineries and distributors. In cases where tariffs were lowered to offset the rise in crude oil prices and thus soften their impact on domestic prices, however, fiscal receipts were lower due to the decrease in tariff revenues (e.g., the Dominican Republic, Honduras).

26. The brisker pace of economic activity and, in particular, higher levels of consumption boosted indirect revenues. The economic reactivation also had a positive impact on direct tax receipts, which heightened the effect of tax authorities' efforts to reduce evasion of these taxes. This upward trend at the regional level offset the decline in revenues recorded by some countries (Guatemala, Nicaragua and Uruguay, among others).

27. Government expenditure slowed, partly because of the explicit spending limits that were introduced through fiscal accountability legislation, deficit reduction timetables or IMF agreements.

28. For the most part, the governments that did manage to cut spending did so at the expense of capital investment. Among the components of current expenditure, lower domestic interest rates and the relative stability of the region's currencies helped to lighten the debt service burden. Upward pressure on spending came mainly from social sectors (especially health care, social security and education) as a result of either wage hikes or infrastructure and services projects. A number of countries (including Bolivia) also launched reactivation drives in an effort to lift their economies out of the stagnation seen in 1999.

Foreign-exchange markets continue to readapt, but within a calmer environment than before

29. The region's foreign-exchange markets were less volatile in 2000, following the sometimes violent adjustments made in some currencies and exchange-rate regimes in 1999. The predominant trend in Latin America continued to be one of real devaluation (a country average of 1.5 per cent), but it was much more gradual than in 1999 (4 per cent) as the exchange-rate adjustment began to lose momentum in the first quarter of 2000 and the rate of depreciation steadily decreased until it disappeared altogether late in the year. There were occasions during the year, however, when economic agents grew nervous, mainly as a result of successive increases in international interest rates and a heightened perception of risk in connection with sovereign debt; in some countries, these circumstances were compounded by domestic (mostly non-economic) factors.

30. These regional averages mask major differences, however. More specifically, some Caribbean countries (especially Haiti) witnessed fairly sharp devaluations, and in Jamaica the appreciation of the currency — a trend that had lasted for many years — reversed itself. The region's two largest economies — Brazil and Mexico — saw their currencies undergo nominal revaluations that translated into a real appreciation of around 7 per cent. Sharp fluctuations in their rates against major international currencies (the dollar and the euro) or other currencies in the region (the real) reduced the competitiveness of countries such as Argentina and Uruguay, and this hurt their extraregional and intraregional trading activity.

31. While flexible exchange-rate regimes gained ground — in fact, four countries abandoned their currency bands and allowed their currencies to float — during 1999, in the year 2000 two countries opted for dollarization. Ecuador, which was unable to restore confidence in its currency in the wake of the devaluations of 1999, decided to make the move to formal dollarization of its economy early in 2000. El Salvador also took steps in this direction when, late in the year, it legalized the use of the United States dollar in the domestic economy at a fixed parity with the colón (a de facto fixed exchange-rate regime had existed in this country since 1993).

More relaxed monetary policies

32. The beginnings of a return to a more normal state of affairs on international financial markets, which had first been seen in late 1999, allowed the authorities to adopt a somewhat more relaxed policy stance in

countries that had been in a recession the year before and wanted to help their reactivation along by reaching a satisfactory level of liquidity. This situation arose in many countries, including Brazil, where the seven-point increase in the growth rate of real liquidity (M1) was closely related to the economic recovery and to stronger domestic demand (both investment and consumption).

33. The real annual growth rate for M1, which had slowed, on average, during the 1999 recession, regained some of the ground it had lost. This was entirely attributable to the more rapid expansion of the money supply in the many countries whose economies had grown more slowly in 1999, since in the rest, the real rate of increase in M1 tended to decline.

34. The possibility of adopting a more flexible stance with respect to the money supply continued to be determined, to a large extent, by external liquidity. In Venezuela, the steep increase in reserves actually made it necessary to take steps to rein in the rapid expansion of liquidity. Mexico was another case in point, as monetary policy had to be tightened in order to prevent the economy from overheating.

35. In contrast, countries that remained subject to severe external constraints were unable to relax their monetary policy. This was particularly true of Argentina owing to the nature of its exchange-rate regime. In a number of other countries (Bolivia, Peru) whose recoveries were driven by exports while domestic demand remained slack, the larger primary money supply did not translate into a parallel expansion of liquidity because domestic lending either stagnated or actually shrank.

36. Some of the changes occurring in the external environment (soaring oil prices, a succession of increases in United States interest rates) also hampered macroeconomic policy management and obliged the countries' central banks to adopt more cautious policies than originally planned (Chile, Dominican Republic). The unusually sharp increases seen in the fiscal or quasi-fiscal deficits of several Central American and Caribbean countries had similar effects.

Credit supply stagnates despite lower interest rates

37. Changes in monetary policy caused interest rates to descend in many countries, thereby sustaining a trend that had appeared in the second half of 1999. The median decline for both deposits and loans was slightly less than 2 percentage points, so the interest-rate spread, which had widened considerably in 1998 and 1999, held steady. Brazil and Colombia were two of the countries where rates fell the most (by 9 and 7 percentage points for deposits, respectively, and a much steeper decrease in lending rates in Brazil). In a number of countries, the authorities helped lower the cost of credit further by reducing the legal reserve requirement (Costa Rica, Peru).

38. Ecuador represents a special case, since dollarization drove nominal interest rates down sharply while inflation remained very high (although it was on the decline), thus pushing real interest rates deep into negative territory. This actually had very little impact, however, given the extremely low level of financial activity in this economy, which has only recently emerged from a severe crisis. Private-sector borrowing contracted by 2 per cent.

39. Investment and consumption did not respond to the reduction in real rates in other countries either. The slump in private-sector credit can partly be accounted for by gloomy expectations (often due to non-economic factors), but the still fragile state of health of the banking system in many countries of the region was also a factor. As a result, in particular, of the increase in the percentage of non-performing loans after two years of sluggish growth, the banks also adopted an extremely prudent lending policy. The financial sector's cautious approach to lending activity and its flight to quality have also been influenced by tighter bank supervision in almost all the countries of the region.

Renewed efforts to implement economic reforms

40. As economic activity picked up its pace, privatization programmes began to regain the momentum they had displayed before the crisis. Proceeds from privatizations in the region topped $15 billion, some $3 billion more than the year before. The situation differed a great deal from country to country, however, since 80 per cent of that figure corresponded to Brazil alone. European — and particularly Spanish — multinationals again played a preponderant role.

41. Countries in which the privatization process had remained at a standstill for a number of years (Ecuador, Paraguay) adopted laws in 2000 that will allow this process to move ahead swiftly in the future. As the stock of privatizable State assets continues to dwindle, increasing use is being made of concessions as a means of meeting the region's hefty infrastructure investment requirements.

42. In trading activity, the use of protectionist measures subsided somewhat, and the tariff rollbacks called for in subregional agreements moved forward. The South American Common Market (MERCOSUR) embarked upon a process designed to promote macroeconomic coordination with a view to strengthening regional integration and reducing its member countries' vulnerability to swings in the international market. The use of bilateral agreements became more widespread, and Mexico was particularly active in this regard. Another important event during the year was the Meeting of the Presidents of South America, at which the participating States decided to complete negotiations between MERCOSUR and the Andean Community regarding the creation of a South American free trade area in 2001.

43. A number of countries continued to work to strengthen their financial systems (Colombia, Ecuador, Mexico), but some nations were still in the grips of financial crises at the end of the year (Nicaragua, Peru). Chile took another step towards the deregulation of its capital market by discontinuing the one-year minimum stay requirement for foreign investment and eliminating the capital gains tax applying to non-residents. Costa Rica and Nicaragua passed laws aimed at modernizing their pension systems and fortifying pension funds' financial position. Argentina and Ecuador, meanwhile, adopted measures designed to streamline their labour markets and cut labour costs.

III. The external sector

44. Regional trade rebounded sharply in 2000. Exports made a stronger recovery than imports did, and the region's deficits in merchandise and services trade and on the current account both narrowed considerably as a result. In fact, the current account deficit was cut from 3.1 per cent of GDP in 1999 to 2.5 per cent in 2000. These aggregate figures fail to reflect the overall patterns seen in the individual countries, however.

45. The steep rise in oil prices had a very strong influence on this trend. In fact, if Ecuador and, especially, Venezuela — the region's main oil exporters — are factored out of the calculations, then the differences noted with respect to 1999 are actually reversed. Thus, if it were not for those two countries (the only ones to post a surplus on the current account), the region's current account deficit would have increased, as it did in many of the individual countries.

46. Trends in the hydrocarbons market were also a decisive factor in the changes observed in the real terms of trade. The region's six oil-exporting countries saw an improvement, whereas all the net importers except Chile registered a deterioration in this ratio.

47. The deficit on the regional factor income account widened, albeit moderately, as interest payments rose in step with international interest rates. Current transfers to the Central American and Caribbean countries, particularly in the form of family remittances, held to the upward trend they have exhibited for most of the 1990s.

48. Factor income payments outpaced capital inflows, and the region therefore registered a negative transfer of resources for the second year running. It did manage to build up its international reserves somewhat (by almost $4.5 billion), however. Brazil, which amortized debts owed to the International Monetary Fund (IMF) in April, was one of the countries that drew down its reserves; Argentina recorded smaller decrease.

External product markets pick up

49. The value of the region's exports jumped by 20 per cent (17 per cent not counting Venezuela), the highest growth rate in the past five years. All the countries except Costa Rica, Haiti and Paraguay posted increases, and in most cases the upswings were in the double-digit range. The most outstanding showings were turned in by Venezuela, with an increase of more than 60 per cent, and Mexico, with more than 20 per cent. These improvements were brought about by a combination of larger volumes (11 per cent for the region as a whole) and higher prices (up by more than 8 per cent), although differences were seen from one country to the next.

50. These differences reflect the varying factors that affected individual countries. Apart from conditions specific to each country or area (e.g., the reclamation

of cropland damaged by Hurricane Mitch in Central America), the most influential forces were trends in external demand.

51. First of all, the situation in external product markets, although uneven, was generally favourable. The world economy remained on its upward trend, and in terms of GDP growth, the worldwide rate surpassed the region's rate of increase by a moderate amount. The United States once again outperformed Europe, and this gave a further boost to its North American Free Trade Agreement (NAFTA) partner, Mexico, and to the countries of the Caribbean basin. The continued strong showing of the *maquila* industry and of customs-free areas was associated with the robust growth of the United States economy, and this was a major factor in the increase in shipments from Mexico and the Central American and Caribbean countries (including the Dominican Republic, which won improved access for its textile products).

52. Secondly, export unit values tended to rise, although there were many exceptions to this overall pattern which illustrated the uneven price trends of the individual countries' export products.

53. In the first 11 months of the year, heavier demand and the production limits set by the Organization of Petroleum Exporting Countries (OPEC) drove up the mean price of these countries' crude oil exports to levels over 60 per cent higher than the 1999 average. All of the region's oil-exporting countries registered higher unit values for their exports, and these increases were in the double digits in the cases of Colombia, Ecuador and Venezuela.

54. The aggregate price index for other minerals and metals climbed by 8 per cent, with nickel and copper recording the sharpest upturns. The trend in the latter product, together with higher timber prices, contributed to a 13 per cent jump in the unit value of Chile's exports.

55. In the farm sector, soybean and sugar prices both climbed. Latin American wheat and beef producers, on the other hand, continued to suffer from low price levels. Coffee prices slipped for the second year in a row and were down by more than 4 per cent from their 1999 mean. Consequently, a downturn was seen in the unit values of a number of Central American and Caribbean coffee-exporting countries, along with Uruguay.

56. Thirdly, the reactivation of the Latin American and Caribbean economies galvanized intraregional trade, which thus regained the buoyancy it had lost during the two preceding years. In the first semester, intraregional trade expanded by 19 per cent, thanks to increases of 28 per cent in the Andean Community, 18 per cent in MERCOSUR and 5 per cent in the Central American Common Market (CACM).

Reactivation spurs imports

57. Imports were up in almost all of the countries. The growth rate for the region as a whole was 17 per cent thanks to a 12 per cent expansion in the volume of imports and an increase in prices of 4.5 per cent.

58. The individual countries' import volumes reflect the trends in their levels of economic activity and, in some cases, the strength of their *maquila* industries, which import large amounts of components. Consequently, the largest gains were seen in the Dominican Republic (14 per cent), Mexico (19 per cent) and Venezuela (34 per cent). Imports were lower in Argentina, Costa Rica, Nicaragua, Paraguay and Uruguay. All the other countries registered single-digit increases.

59. Higher oil prices made purchases more expensive for net importing countries, which are in the majority. On the other hand, the appreciation of the United States dollar lowered the dollar value of the other industrialized countries' products by as much as 5 per cent. Nonetheless, the unit value of imports rose for all the countries, primarily because of their dependence on imported oil. The largest increases were in Chile (11 per cent) and Brazil (9 per cent) and the smallest in Colombia, Argentina, Bolivia and Venezuela.

60. The combination of these unrelated factors had a wide range of implications in terms of import values. With the exception of Nicaragua and Paraguay, the value of imports rose in all the countries, with increases of 20 per cent or more in the cases of Chile, the Dominican Republic, Mexico and Venezuela.

61. Nevertheless, imports of capital goods were lower in quite a few countries that witnessed reductions or fairly small increases in domestic investment. Most of these countries were in South America (including Argentina, Bolivia, Ecuador, Paraguay, Peru and Uruguay), but a few were in Central America (Nicaragua and Panama).

Capital inflows remain at moderate levels

62. Following the crisis that began in Asia in 1997 and the Russian Federation moratorium of August 1998, the Latin American and Caribbean region found itself in the downswing of the external financing cycle and continued to experience bouts of volatility. These episodes were closely associated with events on international financial markets, especially in the United States, and this was particularly evident in the bond market. Two complete cycles ran their course during the period under review; the first lasted from December 1999 to May 2000 and hit its high point in March, while the second ran from June to December 2000 and peaked in July.

63. As had also been the case in 1998-1999, Latin American investments were perceived to be high-risk ventures, especially from mid-October on. During that same month, this situation led Argentina to begin negotiating an international financial assistance package with IMF.

64. During a year of tight liquidity on international markets, the region's capital inflows amounted to $52 billion. Although this was clearly higher than the $40 billion received in 1999, it was still far lower than the $70 billion registered in 1998 and the $85 billion that entered the region in 1997. The most dynamic category was once again FDI; in fact, on average, other net capital flows were negative.

65. For the fifth year in a row, the region's net inflows of FDI provided much of the financing needed to cover the deficit on the current account of the balance of payments. Although the $57 billion that entered the region in 2000 was a far cry from the extraordinarily high 1999 figure, it was similar to the average inflow in 1996-1998. A portion of these flows was generated by operations undertaken by international banks that are investing in local banks in Latin America. The largest operation of this sort in 2000 was the Spanish bank Santander Central Hispano's acquisition of Banco do Estado de São Paulo (Banespa). FDI flows to Brazil and Mexico and to some of the smaller economies, such as Bolivia, the Dominican Republic and Ecuador, were particularly plentiful. In contrast, net flows to Argentina and Peru were considerably lower and Chile registered a net outflow.

66. During 2000, new bond issues bordered on $37 billion, thanks to the greater dynamism of the euro market. These types of capital continued to exhibit a high degree of volatility, however, with placements being concentrated in the first three months of the year and July. Operations of this sort were undertaken by Argentina (the region's largest issuer for the third straight year), Brazil, Colombia and Mexico, and smaller issues were floated by seven other Latin American and Caribbean countries. Most of the proceeds continued to be used to amortize maturing debt obligations or to swap Brady bonds. As has been the case since the international crisis that began in Asia in mid-1997, most issues were made by central governments and public enterprises. Private issuers included a number of Brazilian banks, the Mexican cement company Cemex ($400 million) and the Spanish power company Endesa (400 million euros).

67. The cost of external finance hovered around an annual rate of 11.5 per cent in the first eight months of 2000. In September the situation began to deteriorate, however, and by late November the cost of financing was nearing 13 per cent, before settling at 12 per cent in December. This can be attributed to the higher perceived risk of investing in the region, since yields on United States Treasury bills declined slightly during that time. Maturities for bond placements, which had made a strong recovery in the first quarter, had shrunk to five years by the end of the year.

68. In the first half of 2000, commercial bank credit to the region did not gain back much of the ground that was lost when the international turbulence caused by the Russian moratorium of August 1998 had triggered copious outflows. This was partly attributable to sluggish demand for short-term credit.

69. The pace of the recovery in equity investment inflows slackened during the first six months of the year. These flows were also quite volatile. Share price indices (in dollars) for the main exchanges (with the exception of Venezuela's) slipped after their 1999 rebound. At the close of 2000, the regional index was still 25 per cent lower than it had been in mid-1997.

External debt shrinks slightly

70. The disbursed external debt of Latin America and the Caribbean totalled somewhat more than $750 billion, which represented a nominal decrease for the

first time since 1988. In most of the countries, external debt levels did not vary a great deal. Countries posting a reduction included Brazil, which made a non-scheduled payment to IMF in April, Mexico, which continued to pursue an active policy aimed at improving its debt profile, and Ecuador and Honduras, both of which restructured their debts.

71. Thanks to this trend and the upturn in exports, an across-the-board improvement was seen in debt/export ratios in 2000, and the regional coefficient fell from 217 per cent in 1999 to 180 per cent in 2000. A number of countries continue to exhibit high levels of indebtedness, however. The ratio between interest payments and exports diminished to 14.5 per cent.

72. Bolivia, which had qualified for the Heavily Indebted Poor Countries (HIPC) initiative in 1998, began to apply for the second phase of this scheme early in 2000. If successful, it may secure approximately $650 million in debt relief. Honduras has also met HIPC eligibility requirements and stands to obtain a reduction equivalent to some $550 million. In both cases, most of the financing will come from multilateral agencies while the balance will be provided by the Governments of industrialized countries.

73. In Ecuador, which had suspended the servicing of its external debt in October 1999, the Government signed an agreement with 98 per cent of its creditors. The $6.4 billion in eligible debt, which includes Brady bonds and Eurobonds, will be reduced by nearly 40 per cent. In September 2000 the country also concluded a preliminary agreement with the Paris Club to restructure $880 million in bilateral debt.

Table 2

Latin America and the Caribbean: total gross domestic product

(Percentages based on values at 1999 prices)

	Annual growth rates									*Annual average*		
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*[a]	*1981-1990*[b]	*1991-2000*
Latin America and the Caribbean	**3.8**	**3.3**	**3.8**	**5.2**	**1.1**	**3.6**	**5.2**	**2.3**	**0.5**	**4.0**	**1.2**	**3.3**
Subtotal, Latin America[c]	**3.8**	**3.3**	**3.9**	**5.3**	**1.1**	**3.6**	**5.2**	**2.3**	**0.4**	**4.0**	**1.2**	**3.3**
Subtotal, Caribbean	**1.6**	**0.7**	**0.5**	**3.1**	**2.8**	**2.8**	**1.8**	**2.9**	**4.2**	**3.1**	**0.1**	**2.3**
Antigua and Barbuda	2.7	0.9	5.0	6.2	-4.8	6.0	5.5	3.9	4.5	3.4	6.1	3.3
Argentina	10.6	9.6	5.9	5.8	-2.9	5.5	8.0	3.8	-3.4	-0.5	-0.7	4.1
Barbados	-3.6	-5.5	1.0	3.5	2.6	4.0	2.4	4.3	2.5	2.9	1.1	1.4
Belize	3.0	9.0	4.3	1.6	3.7	1.3	4.1	1.5	5.7	5.9	4.5	4.0
Bolivia	5.4	1.7	4.3	4.8	4.7	4.5	4.9	5.4	0.8	2.2	0.2	3.8
Brazil	1.0	-0.3	4.5	6.2	4.2	2.5	3.1	0.1	1.1	4.2	1.6	2.6
Chile	7.3	10.9	6.6	5.1	9.0	6.9	6.8	3.6	-0.1	5.4	3.0	6.1
Colombia	1.8	3.6	4.4	5.9	4.9	1.9	3.3	0.7	-3.9	3.0	3.7	2.5
Costa Rica	1.3	8.6	5.9	4.8	3.9	0.6	5.6	7.7	7.6	1.4	2.2	4.7
Cuba	-10.9	-11.2	-14.7	0.6	2.4	7.8	2.5	1.2	6.2	5.5	3.7	-1.4
Dominica	2.1	2.3	1.9	1.9	1.2	2.9	2.2	2.8	0.7	-	4.4	2.0[d]
Dominican Republic	1.0	8.3	3.3	3.5	4.6	6.7	8.3	7.9	7.9	7.8	2.4	5.9
Ecuador	5.0	3.0	2.2	4.4	3.0	2.3	3.9	1.0	-9.5	2.4	1.7	1.7
San Salvador	2.8	7.3	6.4	6.0	6.2	1.8	4.2	3.5	3.4	2.0	-0.4	4.3
Grenada	3.7	1.0	-1.1	3.4	3.1	3.0	4.3	7.6	7.7	-	4.9	3.6[d]
Guatemala	3.7	4.9	4.0	4.1	5.0	3.0	4.4	5.1	3.6	3.3	0.9	4.1
Guyana	8.9	9.1	11.5	9.4	3.8	8.6	6.7	-2.2	3.9	2.9	-2.9	6.2
Haiti	0.1	-13.8	-2.2	-8.3	5.0	2.8	1.5	3.2	2.4	1.2	-0.5	-1.0
Honduras	2.7	5.8	7.1	-1.9	3.7	3.7	5.0	3.3	-2.0	4.8	2.4	3.2
Jamaica	0.3	2.5	1.8	1.9	1.8	-0.3	-2.2	-1.0	0.7	0.5	2.2	0.6
Mexico	4.2	3.7	1.8	4.4	-6.1	5.4	6.8	5.1	3.7	6.9	1.9	3.5
Nicaragua	-0.4	0.8	-0.4	4.0	4.4	5.1	5.4	4.1	6.9	5.3	-1.5	3.5
Panama	9.0	8.2	5.3	3.1	1.9	2.7	4.7	4.6	3.2	2.7	1.4	4.5
Paraguay	2.5	1.7	4.0	3.0	4.5	1.1	2.4	-0.6	-0.1	0.0	3.0	1.8
Peru	2.7	-0.4	4.8	12.7	8.6	2.5	6.8	-0.4	1.4	3.6	-1.2	4.1

	Annual growth rates									Annual average		
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*[a]	*1981-1990*[b]	*1991-2000*
Saint Kitts and Nevis	2.6	3.2	4.6	5.5	1.8	5.7	6.9	0.9	2.2	-	5.8	3.7[d]
Saint Vincent and the Grenadines	1.7	6.9	2.0	-2.3	7.8	1.2	3.5	5.8	4.0	-	6.5	3.4[d]
Saint Lucia	-0.4	7.5	-1.3	4.6	2.1	0.8	-0.3	2.6	3.5	-	6.8	2.1[d]
Suriname	3.9	-1.8	-11.8	-0.8	3.7	7.6	5.3	12.5	2.3	-	0.5	2.1[d]
Trinidad and Tobago	3.5	-1.0	-1.2	4.2	4.2	4.4	4.0	5.3	7.8	5.0	-2.6	3.6
Uruguay	3.7	8.3	3.5	7.0	-2.3	5.0	5.0	4.3	-3.8	-1.1	0.0	2.9
Venezuela	10.5	7.0	-0.4	-3.7	5.9	-0.4	7.4	0.7	-5.8	3.2	-0.7	2.3

Source: Economic Commission for Latin America and the Caribbean, 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] Based on 1990 constant prices.
[c] 19 countries; does not include Cuba.
[d] 1991-1999 period.