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Summary of the economic survey of Latin America and the Caribbean, 2004

Summary

The summary of the economic survey of Latin America and the Caribbean explores the main characteristics of the current economic recovery. In 2004, the economy of the region grew by about 5.8 per cent and per capita gross domestic product expanded by about 4.2 per cent. Section II reviews the prominent features of the region's economic growth, while section III discusses the region's economic performance against the backdrop of developments in the world economy. Sections IV and V focus on the economic performance of the region in 2004 and the outlook for 2005.

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I. Introduction

1. The Latin American and Caribbean economy grew by about 5.8 per cent in 2004, thereby outstripping the most optimistic forecasts, while the region's per capita gross domestic product (GDP) expanded by around 4.2 per cent. In 2005, GDP growth is projected to come in at approximately 4.5 per cent; this further upturn in per capita GDP will raise it to about 12 per cent above the average for the 1990s and to more than 6 per cent above its 1997 level, which was around where it had hovered until 2004.

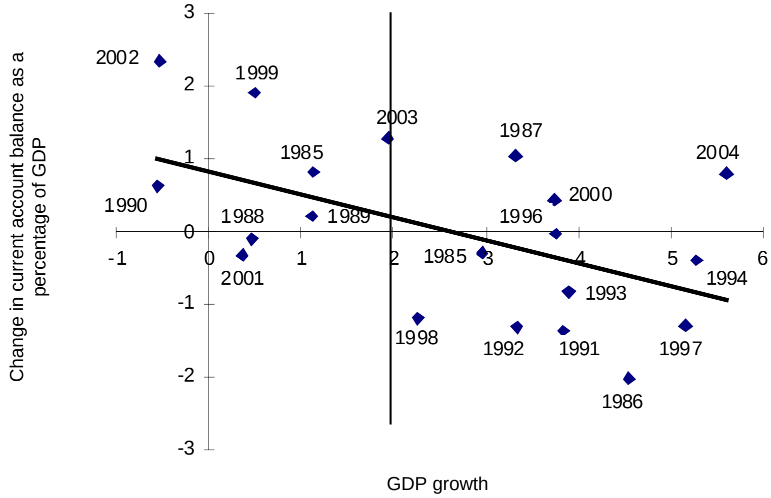
II. Prominent features of the region's growth in 2003-2004

2. One of the characteristics of the current recovery that makes it stand out from other events in the region's economic history is that, for the second year in a row, GDP growth was coupled with a surplus on the balance-of-payments current account in 2004 and that both of these aggregates were higher than they were the year before. In the past, when GDP was growing at a good pace, the current account was deteriorating, and when the current account was improving based on positive trade balances, this was because imports were contracting owing to slack domestic demand. A strengthening current account has been combined with GDP growth of over 2 per cent for the region as a whole in only three of the last 20 years; the other two cases were 1987 and 2000, but in neither of those two years was the increase in economic activity as strong as it was in 2004.[1]

3. A second and related distinguishing trait is that the sharp increase in GDP occurred at a time when the region was registering capital outflows, which, given the surplus posted on the 2003 balance-of-payments financial account, signals a sizeable downturn in the net capital flows received by the region. Decreases of this scale (usually regarded as constituting capital flight) have never before been seen in conjunction with an increase in GDP growth (see figure I). In the last two years, however, the external sector's strength has enabled the region to build up a credit balance in its transactions with the rest of the world, and much of the upswing in the GDP growth rate was associated with the buoyancy of exports (see figure II).

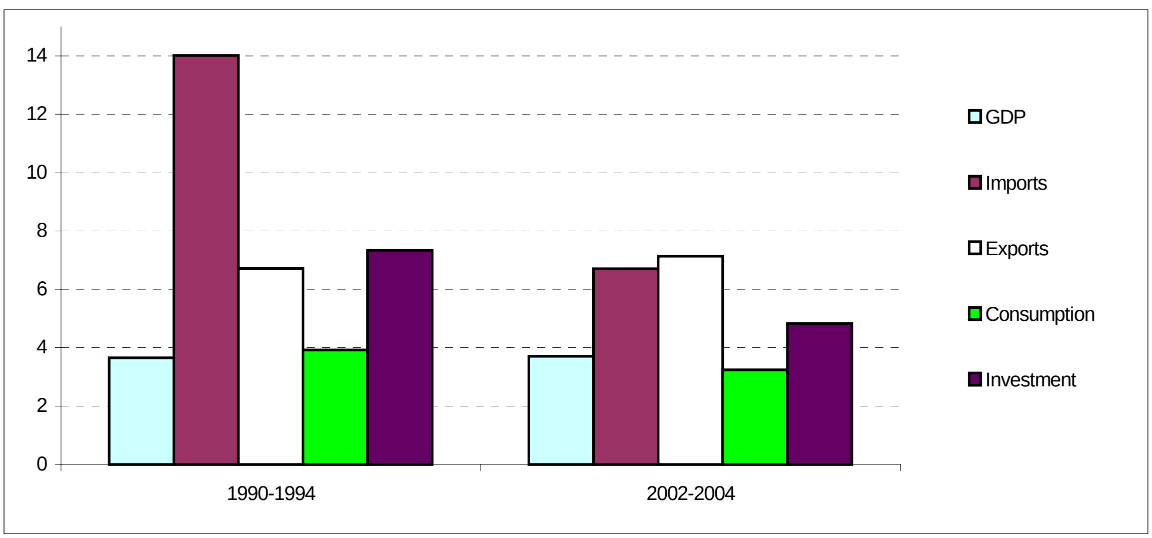
4. The counterpart to the current account surplus was, to some extent, residents' accumulation of assets in the rest of the world (which itself can constitute a form of capital flight). At the same time, however, some countries of the region trimmed down their stock of liabilities with non-residents, thus scaling back their levels of indebtedness, and the region's international reserves were on the increase. Furthermore, these events were accompanied by a downward trend in sovereign risk premiums, which are now approaching record lows. Thus, the net outflow of capital coincided with an expanding demand for regional financial assets. Given this unique combination of phenomena, the current situation clearly warrants analysis so that the factors underlying this growth trend can be identified.

Figure I
Latin America and the Caribbean: variation in the current account balance (as a percentage of GDP) and GDP growth



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

Figure II
Latin America and the Caribbean: total supply and demand and annual growth rates



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

5. Since the start of this decade, the region has been witnessing an increase in the real exchange rate.[2] This upward trend (which has been steeper and stronger in South America, whereas in some of the Central American countries and Mexico, it was slower to take shape and has been somewhat less marked) has driven up the relative prices of tradable goods, thereby providing an incentive to expand exportable supply and hence to substitute such goods for imports and increase export activity.[3]

6. As was to be expected, the increase in the real exchange rate had the effect, on the one hand, of diminishing income levels, especially in the case of wage earners, and thus reducing total expenditure (thereby causing the exportable surplus to expand) and, on the other, of redirecting expenditure towards domestic production (thereby reducing imports). This is a plausible description of what occurred in 2002 and part of 2003, a period marked by very slow GDP growth and a hefty trade surplus that enabled the region to post a positive balance on its current account in 2003. Owing to the effects of the stabilization programmes implemented in previous years and of the recession and unemployment triggered by the adjustment, the reconfiguration of relative prices did not generate any major inflationary pressures. It should be noted that this general description is simply an attempt to trace the overall chain of events occurring in the region as a whole and thus does not reflect the considerable differences to be observed across countries.

7. Starting in 2003 but especially in 2004, favourable external conditions began to have a positive effect on the terms of trade. This, in turn, increased the purchasing power of export earnings and, since export activity was becoming more profitable, stimulated the growth of exportable supply. As a result, exports became the initial driving force behind the recovery of economic activity, in conjunction, especially in the beginning, with an increase in the supply of import-substituting domestic goods. Since the context for these events included high unemployment, low real wages, an underutilization of installed capacity and, in many cases, a recent history of instability, it comes as no surprise that domestic demand was slow to react.

8. Macroeconomic policy played an important role in this situation in two respects. First, the countries' central banks lowered interest rates in order to help spur the reactivation of their economies based on a relatively flexible monetary policy that also helped to sustain the nominal exchange rate. Second, the public sector maintained a high savings rate, and although this did nothing to facilitate the expansion of the economy (in the best of cases, it was a neutral factor), it did help to sustain the relative prices of tradables while at the same time allowing for a flexible monetary policy.

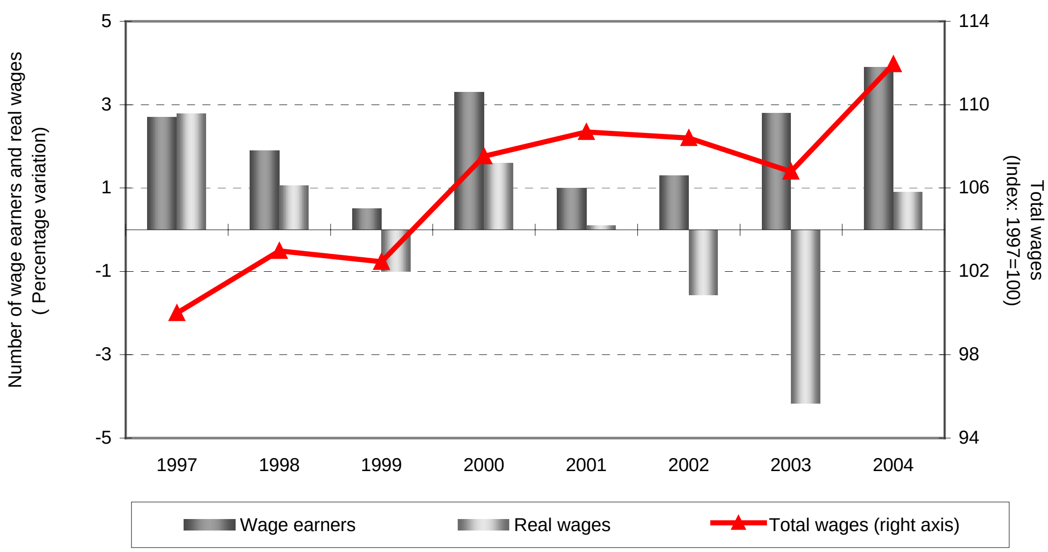
9. As exchange rates remained high and the impact of this strategy was, particularly from 2003 on, heightened by the improvement in the terms of trade, the upward trend in exports gradually began to be accompanied by an upswing in investment and, although the response of consumption was slower in coming (owing to low wage levels), GDP growth also started to pick up. This elicited an elastic response from imports, which began to rise accordingly.

10. This process, which had begun to take shape in 2003, firmed up in 2004. Exports expanded further; the upward trend in investment grew more solid, especially in tradables-producing sectors; and the region began to see a substantial increase in employment together with a slight rise in real wages (see figure III).

This fuelled an increase in overall consumption, although the consumption of durable goods had already begun to climb in response to the reduction in interest rates.

11. As a result, GDP growth accelerated, thereby spurring an expansion of imports and giving rise to a situation not seen in the region in at least the past 50 years: for the second year running, the region's economy grew while, at the same time, posting a surplus on the current account. What is more, unlike past episodes, the trade surplus that underpinned the positive balance on the current account was not the reflection of a drop in imports. In fact, imports exhibited a GDP elasticity of 2.7 and, in real terms, began to outpace export growth. Thus, the terms-of-trade effect gradually emerged as a decisive element in accounting for the trade surplus and, in conjunction with remittances, the surplus on the current account as well.

Figure III
Latin America and the Caribbean: total wages, 1997-2004



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

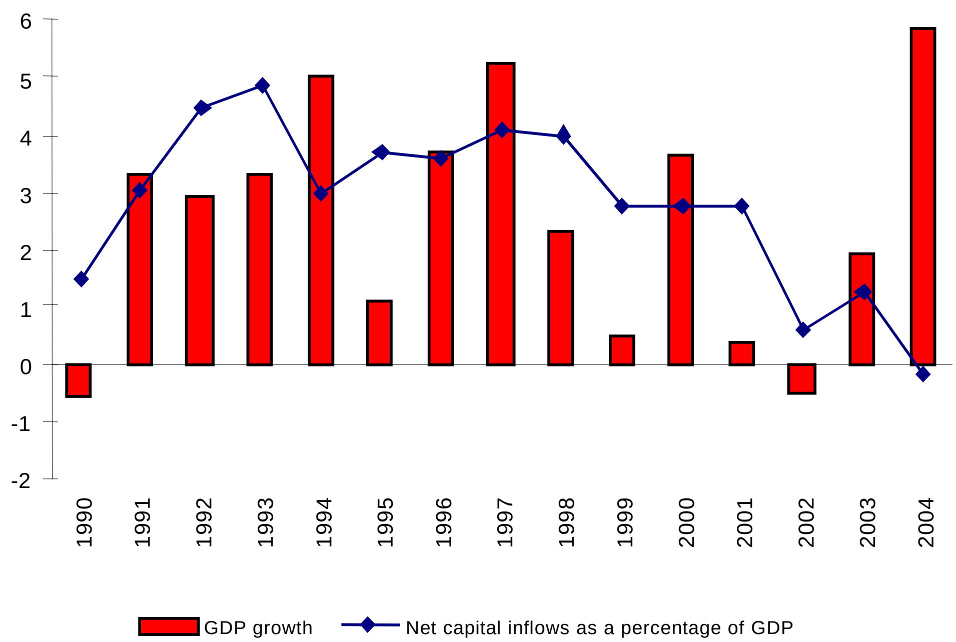
12. It is noteworthy that, with the sole exception of Haiti, all the countries of the region recorded positive growth rates in 2004. What is more, for only the second time in the last 20 years, the region's six largest economies all expanded by more than 3 per cent. This was coupled with an increase in gross capital formation although, when expressed as a percentage of GDP (18.9 per cent in 1995 dollars), this aggregate is still below the average for the 1990s. Meanwhile, private consumption grew more slowly than GDP, thereby helping to raise the region's savings rate.

13. Another striking aspect of the situation is that the region's economy grew at a time when it was registering a US$ 3.3 billion net outflow of capital, which — given the US$ 22 billion net inflow recorded in 2003 — translated into a net reduction in capital flows of around US$ 25 billion (1.3 per cent of regional GDP).

This was only the second time in the past 20 years that per capita income had risen when capital flows were shrinking. The other instance was in 1994, but in that case the significant decrease in net inflows of external capital was caused by the outflow of capital from Mexico in the final quarter, which had few consequences in terms of economic activity during that year but had a strong negative impact in 1995 (see figure IV).[4]

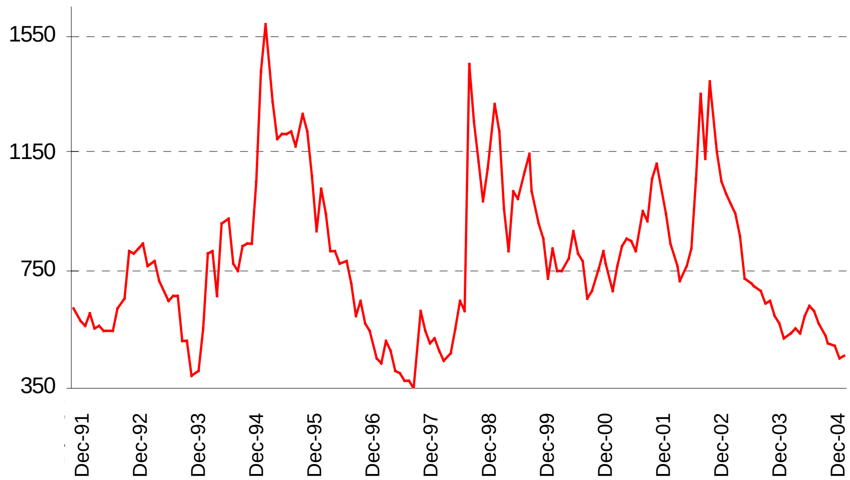
14. This situation stemmed largely from the sizeable current account surplus, which made it possible to lower domestic interest rates, thus discouraging capital inflows. The significant decline in the region's country risk (see figure V) — which came in at around 450 basis points at the end of 2004 and is now approaching the historical minimum of the series[5] — clearly indicates that these capital outflows are due not to an increase in the region's risk rating, but rather to the fact that the downturn in local interest rates has in many cases outpaced the decline in the cost of external financing.

Figure IV
Latin America: net capital inflows as a percentage of GDP and growth rates



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

Figure V
Latin America: average sovereign risk spread



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

15. The counterpart to these trends in the capital and financial accounts of the region's balance of payments was the current account surplus achieved in this period, which reflects not only the brisk growth of exports in real terms, but also the improvement in the terms of trade, whose impact on the purchasing power of export earnings was equivalent to a capital inflow of about US$ 24.2 billion. The increase in remittances added another US$ 40.5 billion.

III. The international backdrop

16. As discussed earlier, the region's strong economic performance was closely tied to developments in the international economy. World economic activity picked up speed in 2004, resulting in estimated global GDP growth of 4 per cent (well above the 2.6 per cent rate posted in 2003), while the expansion of world trade amounted to 10.6 per cent (versus 6.2 per cent in 2003). The United States of America and China have been the driving force behind the expansion in global economic activity, which has contributed to the commodity price hikes that have benefited many countries of the region, especially those in South America.

17. For 2004 as a whole, the United States' GDP expanded by just over 4 per cent (as against 3 per cent in 2003), although growth slowed down somewhat in the course of the year and is expected to continue to trend downward in 2005. Durable goods consumption and housing investment had been buoying the recovery, but they began to falter as the fiscal deficit swelled to 3.5 per cent of GDP and the balance-of-payments current account deficit reached 5.7 per cent of GDP. The shortfall has been financed largely with inflows from Asian Governments seeking to prevent their currencies from appreciating. The monetary policy stance changed in June, when the authorities began to raise the federal funds rate, and by the end of March

2005, this rate had risen to 2.75 per cent amid fears of an impending increase in inflation that could drive up interest rates.

18. China posted GDP growth of 9.5 per cent in 2004 (9.3 per cent in 2003), thanks to the continuation of the large-scale investments seen since 2003 and the stimulus provided by the expansion of exports. While measures taken by the Chinese authorities in 2004 in an effort to gradually cool down the economy reined in investment somewhat, it nevertheless soared by 25.8 per cent. In the fourth quarter of 2004, the strong expansion of exports (thanks, in part, to the depreciation of the dollar, to which the yuan is tied) took the place of the waning growth impulse generated by investment. In early 2005, mixed signals are being seen regarding the success of China's efforts to cool off its economy. Fixed investment has been climbing at virtually the same rate as in 2004, but import growth has been slackening — so much so, in fact, that imports actually decreased in February. For 2005, the authorities have set growth targets of 8 per cent for GDP and 16 per cent for investment. In view of the conflicting signals seen in the first two months of the year, however, the country's chances of meeting these targets are unclear.

19. Japan's economy grew by 2.6 per cent in 2004, which was below preliminary estimates. Two thirds of this increase was accounted for by the strength of exports, which were given a decisive lift by the expansion of Chinese and United States demand. Export growth tended to slacken as the year went on, however, and will be heavily influenced by events in these two markets during 2005 and by the relative strength of the yen. Meanwhile, the gross domestic product of the European Union grew by 2.2 per cent in 2004. This was a lower rate than the year before and no doubt reflected the sharp appreciation of the euro, which dampened the export growth that had been the main driving force behind the economy's fledgling recovery.

20. In keeping with its usual procyclical pattern, intraregional trade rose steeply as the regional economy expanded. The biggest increases in intraregional trade were seen in the Andean Community and the Common Market of the South (MERCOSUR), although exports by Mexico and Chile to other countries in the region were also up sharply.

IV. The economic performance of Latin America and the Caribbean in 2004

21. Thanks to current trends in the world economy and world trade, the improvement in the region's terms of trade that began in 2003, when they rose by 1.2 per cent, strengthened in 2004 with a positive variation of 5.6 per cent resulting from the 10.6 per cent upturn in export prices and the 4.7 per cent increase in import prices. Trends in commodity prices (especially in the cases of petroleum and metals) were a decisive factor in this regard. Figure VI illustrates the price trends for some of the region's export products.

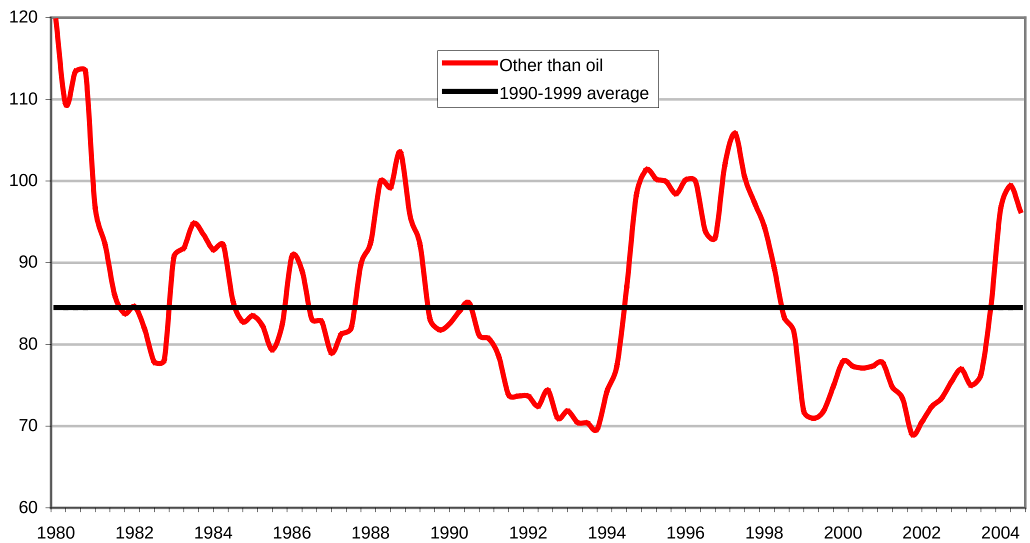
22. Among net oil-importing countries, which are at a relative disadvantage, this negative effect was more than offset in the cases of Chile and Peru (which are metal exporters) by higher export prices. The combination of higher prices and larger volumes gave rise to an almost unprecedented boom in the region's merchandise trade. The sum of total exports and imports amounted to US$ 866 billion (44.3 per

cent of GDP) and represented a 22 per cent growth rate. Exports expanded by 23 per cent (an 11.2 per cent increase in volume and a 10.6 per cent rise in prices), while imports climbed by 20.9 per cent (increases of 15.5 per cent in volume and 4.7 per cent in prices). For the third consecutive year, the region posted a surplus on the merchandise trade account, with the positive balance rising at an average rate of some US$ 20 billion per year to reach the 2004 figure of US$ 60.63 billion (3.1 per cent of GDP).

23. The improvement in the terms of trade in 2004 brought an additional US$ 24.2 billion in foreign exchange into the region, which was more than the increase in the trade surplus and more than the upswing in the current account balance. In other words, had it not been for that improvement, both of these aggregates would have deteriorated slightly relative to their 2003 levels.

Figure VI

Latin America and the Caribbean: quarterly movements of non-oil commodity export prices, 1980-2004[a]



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

[a] Nominal prices, weighted by the share of each product category in the region's non-oil commodity exports in 1995.

24. For the second year in a row, the region posted a surplus on the balance-of-payments current account (US$ 18.22 billion, or 0.93 per cent of GDP). The factors accounting for the region's surplus were qualitatively identical to those that were at work in 2003, but their impact was even stronger in 2004. The positive components of the region's current account were the merchandise trade balance (US$ 60.63 billion) and current transfers (US$ 40.49 billion), for a combined balance of US$ 101.12 billion. The services balance and the income balance both showed deficits (US$ 15.11 billion and US$ 67.79 billion, respectively). The counterpart to the current account surplus was a capital outflow of US$ 3.3 billion, which was made up of net autonomous outflows (registered on the capital and financial

accounts, plus errors and omissions) of US$ 12.5 billion and net compensatory inflows (use of International Monetary Fund credit and exceptional financing) totalling US$ 9.2 billion. The variation in the region's autonomous flows can, in turn, be disaggregated into US$ 50.6 billion in net foreign direct investment inflows (2.6 per cent of GDP) and US$ 61.473 billion in portfolio investment and other capital outflows (3.1 per cent of GDP). As a result of these movements, the region accumulated US$ 14.86 billion in reserves (0.76 per cent of GDP).

25. With net capital outflows equivalent to 0.17 per cent of GDP (not counting workers' remittances) and a US$ 67.79 deficit on the income account, the region made outward transfers totalling US$ 71.1 billion (3.6 per cent of GDP) in 2004; this was more than twice as high as the level of outward transfers in 2003 (US$ 35.59 billion, or 2.1 per cent of GDP). If remittances are included in the calculations, then the region's outward transfers fall to US$ 30.6 billion, or 1.6 per cent of GDP, as compared to a net inflow of US$ 100 million in 2003.

26. The region's bond issues in 2004 amounted to US$ 36.383 billion, which was 4 per cent lower than the total for 2003 and equivalent to 38 per cent of total emerging-market bond placements. One noteworthy development was that, although the region has been losing ground to other emerging markets (especially Central Europe and Eastern Europe), some of the countries in the region have begun to issue long-term, local-currency instruments, and for the first time ever, the Inter-American Development Bank placed bonds that were denominated in the currencies of countries in the region. At the close of the first quarter of 2005, the region's bond issues represented 44 per cent of all emerging-market issues.

27. The region's macroeconomic performance in 2004 resulted in a significant improvement in the countries' fiscal accounts. This enabled their central governments to build up a primary surplus that, as a weighted average, was equivalent to 2 per cent of GDP, as against the 1.8 per cent surplus they had posted in 2003. The overall deficit (including interest on the debt) shrank from 1.2 per cent of GDP to 1 per cent. At a broader level of coverage that is more representative of countries that have a more highly decentralized public sector (Argentina, Brazil, Colombia and Mexico), the non-financial public sector's primary surplus increased, on average, from 3.2 per cent of GDP in 2003 to 3.8 per cent in 2004.

28. At least in the countries for which the relevant information is available, the fiscal out-turn for 2004 was primarily a reflection of increased revenues rather than of spending cuts. Revenues (measured as a percentage of GDP), buoyed by a generally favourable environment, moved in step with the level of activity, rising slightly above their 2003 level, while expenditure remained constant in real terms. The financial surplus made it possible to reduce debt-to-GDP ratios, which nonetheless remain very high, averaging 50 per cent but exceeding 60 per cent in seven countries of the region.

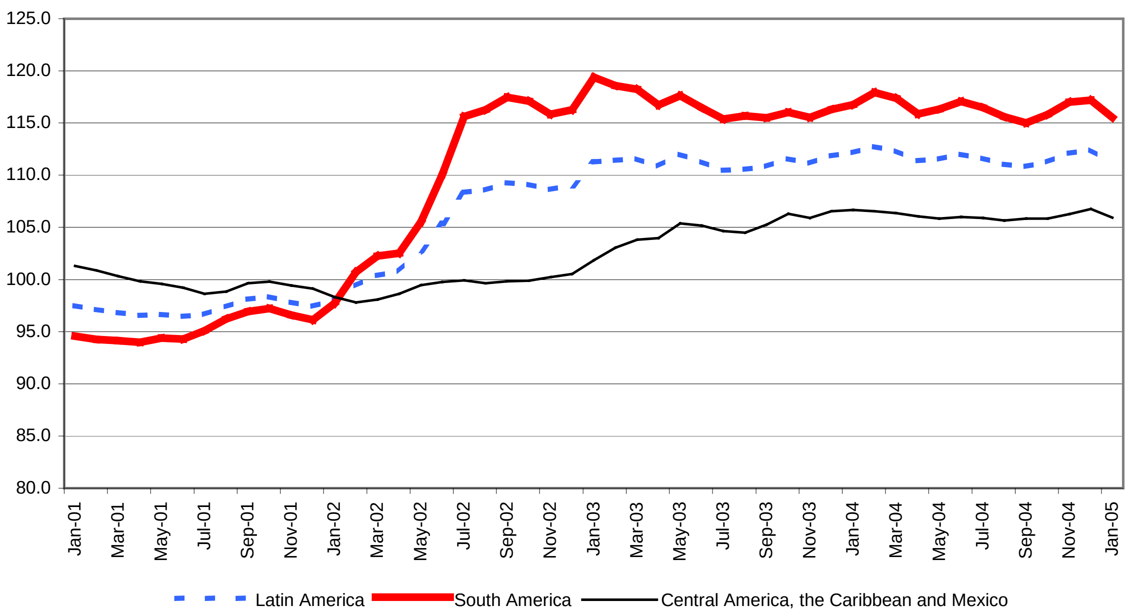
29. An analysis of movements in the benchmark interest rates set by the region's central banks in the course of 2004 reveals that, in general, monetary policy supported the recovery of domestic demand by lowering the cost of financing. Although inflation indices did climb during some months of the year, prompting the countries' monetary authorities to raise interest rates, real interest rates generally followed a downward trend and actually were negative in some cases.

30. This strategy was facilitated by the fact that public accounts were balanced and by the reduction in risk premiums and the decline in international interest rates seen early in the year. In this regard, the decision of the United States Federal Reserve Board to begin raising interest rates in the second half of 2004 and the expectation of further increases in the near future herald changes in regional interest-rate trends. The magnitude and sequencing of any adjustments will surely reflect developments in international financial markets, although these changes are likely to be relatively small.

31. The Latin American and Caribbean countries' exchange-rate policies, almost all of which were implemented in an environment free of constraints, succeeded in keeping real exchange rates relatively stable (see figure VII). This was no simple task, given the high level of commodity prices and the increase in export volumes, especially in the case of South America. This subregion witnessed a small real appreciation in effective exchange rates, especially in the second half of the year, together with a sharper appreciation against the United States dollar. In Mexico and Central America, on the other hand, real exchange rates were more stable; in fact, especially because of events in Mexico, they exhibited a tendency to depreciate somewhat in 2004, although this trend began to weaken in the second half of the year.

Figure VII
Latin America and the Caribbean: real effective exchange rates

(Simple averages, January 1999-December 2001 = 100)



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

32. Real exchange-rate movements in several Central American countries reflected a slight improvement in the terms of trade as well as the growing significance of remittances for a number of countries. The supply-side pressure exerted by these developments on the countries' exchange markets has coincided with growing competition from Chinese products in the United States market. This situation poses an economic policy dilemma for the subregion's central bankers.

33. One notable development in the region's labour market was that the pace of job creation picked up as the demand for labour strengthened. After a sharp upturn in the labour participation rate in 2003, the labour supply[6] expanded somewhat more slowly in 2004. As a result, at the regional level, the higher rate of job creation was reflected in a drop in the unemployment rate, which declined from 10.7 per cent in 2003 to 10.0 per cent in 2004. This was the largest region-wide decrease in unemployment since 1986. Unlike the situation in earlier years, job creation came to be concentrated in wage employment as the demand for labour generated by business enterprises strengthened. It should be pointed out, however, that this positive outcome was primarily a reflection of events in countries that were recovering from severe crises, rather than being the result of a region-wide improvement in labour-market indicators.

34. Since unemployment levels are still high in many countries, the upswing in economic activity did not bring about any major improvement in wages; the weighted average increase in pay levels in the formal sectors of a sample of 11 countries amounted to 0.9 per cent in real terms.

35. It is, however, estimated that the slight decline in unemployment, in combination with the small rise in wage levels, helped to reduce the region's poverty level from approximately 44.3 per cent in 2003 to about 42.9 per cent in 2004. This nonetheless high poverty rate reflects the fact that, in the region's urban areas alone, 16.4 million people are unemployed. In addition, a large number of employed persons who work in the informal sector or are underemployed have incomes that leave them below the poverty line.

36. The rate of inflation continued to trend downward, reaching a region-wide average of 7.4 per cent compared to 8.5 per cent in 2003 and 12.1 per cent in 2002. Although trends in international commodity prices, particularly for food and petroleum, exerted upward pressure on price indices in the first half of 2004, in the second half these pressures abated and inflation showed a quite widespread tendency to decline.

V. The outlook for 2005

37. The international environment is expected to be a positive one for the region in 2005, albeit less so than in 2004, as world economic growth is projected at around 3.25 per cent.[7] The probable slowdown in the United States economy and the recessionary and inflationary effects of high oil prices are the main factors underlying this forecast. Although it is not yet known exactly how much or how fast the Chinese economy will cool down, that economy is likely to grow more slowly in 2005 than it did in 2004. Growth is also expected to slacken in Japan and the euro area. The risks currently facing the world economy are associated with the imbalances in the United States economy and their potential impact on interest rates and the value of the dollar, the possibility of an abrupt descent in China's growth

rate and the uncertainty surrounding the oil market and the possible adoption of protectionist measures, especially in the United States.

38. In view of this external environment and events in the region's economies, in 2005 the region is expected to remain on the growth trend that began two years ago, although its rate of expansion is likely to be somewhat slower than in 2004. Economic activity is expected to pick up, resulting in an average growth rate for the region of 4.5 per cent, which would raise per capita GDP by about 3 per cent (see table).

Latin America and the Caribbean: economic growth

Country	*2003*	*2004*	*2005*[a]
Argentina	8.8	9.0	6.5
Bolivia	2.5	3.8	3.3
Brazil	0.5	5.2	4.0
Chile	3.3	5.8	6.0
Colombia	4.0	4.0	4.0
Costa Rica	6.4	4.0	3.5
Cuba	2.6	3.0	4.0
Dominican Republic	-0.4	2.0	3.0
Ecuador	2.7	6.6	3.4
El Salvador	2.0	1.5	1.5
Guatemala	2.1	2.5	3.0
Haiti	0.4	-3.0	2.0
Honduras	3.2	5.0	4.2
Mexico	1.2	4.4	3.8
Nicaragua	2.3	4.3	3.5
Panama	4.3	6.0	4.5
Paraguay	3.8	2.9	3.0
Peru	3.8	5.1	4.5
Uruguay	2.5	11.8	6.0
Venezuela (Bolivarian Republic of)	-7.6	17.3	5.0
Latin America	1.8	5.8	4.5
Caribbean	3.4	4.1	4.0
Latin America and the Caribbean	1.8	5.8	4.5

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

[a] Projections.

39. The question arises as to whether the growth observed in the region is based on a solid foundation that can sustain it over the medium term or whether the region has simply taken advantage of extraordinarily favourable conditions that may, as noted above, take a turn for the worse in the near future.

40. Reasons for believing that the region's economies may continue to grow, albeit perhaps at lower rates than in 2004, include the existence of sound domestic macroeconomic frameworks, the maintenance of high real exchange-rate parities and their effect on the region's exportable supply, the still low external dependence of demand in comparison to other components, the influence of the multiplier effect on the growth of demand and the possible existence of repressed consumer demand which, having thus far been held back by high unemployment and low real wages, may break free of those constraints if 2005 proves to be a third straight year of economic growth. Furthermore, the region has a sizeable current account surplus that should allow it to sustain relatively high growth rates, while no significant tension is foreseen in the external sector. Nevertheless, it should be remembered that, not long ago (from 1996 to 1998), the region experienced a comparable episode of high international commodity prices which also enabled it to build up a current account surplus, but the effects proved to be short-lived. The greatest threats in the short run appear to be the possibility that some of the imbalances currently in evidence in the international economy could trigger a traumatic adjustment that could drive down world GDP (and, therefore, demand for the region's exports), and heightened global uncertainty.

41. In any event, the region should seize this opportunity to alter the basis on which it participates in the world economy. In the medium term, this will require the region (and especially South America) to reduce its reliance on low-value-added natural resources and to correct its export profile, which is overly dependent on low wages, particularly in the case of Central America and the Caribbean and, to a lesser extent, Mexico.

Notes

[1] The upturn in the terms of trade is one factor that the three episodes have in common; the major difference between the current situation and the most recent of the other two cases is that, in 2000, the improvement in the terms of trade was almost wholly due to the increase in oil prices.

[2] The nominal exchange rate is defined as the number of units of a given country's currency that must be surrendered in exchange for one unit of foreign currency at any given point in time. A domestic currency depreciates (appreciates) in nominal terms when, at that point in time, more (fewer) units of that currency must be surrendered in exchange for one unit of the foreign currency than during a specified reference period. The real bilateral exchange rate index is calculated by deflating the nominal exchange rate by the ratio between the inflation rates of the two countries. A currency depreciates (appreciates) in real terms when the real bilateral exchange rate index rises (falls).

[3] Generally speaking, the countries of the region can sell the sum total of their output without influencing prices. There are some exceptions, however, in cases where Latin America is the supplier for a sizeable portion of the total market for certain export commodities. Be this as it may, the expansion of exports reflects a number of longer-term factors, including the technological modernization efforts and investments undertaken in the region in past years.

[4] In 1994 there was a net capital outflow of approximately US$ 19 billion, but if it had not been for the net outflow of somewhat more than US$ 33 billion registered by Mexico in the final quarter of that year, the net flow would have been positive.

[5] Excluding Argentina, the region's average country-risk spread is about 360 basis points.

[6] The labour supply is represented by the economically active population, whose size is determined by population growth and the labour participation rate.

[7] *World Economic Situation and Prospects 2005* (United Nations publication, Sales No. E.05.II.C.2).