2008-2009

Economic Survey
of Latin America and the Caribbean

Policies for creating quality jobs

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Notes
In this publication, the term "country" is used to refer to territorial entities, whether these are States as understood by international law and practice or simply territories for which statistical data are maintained on a separate and independent basis.
The word "dollars" refers to United States dollars, unless otherwise specified.
The following symbols have been used in the tables shown in the Survey: Three dots (…) indicate that data are not available or are not separately reported. A dash (-) indicates that the amount is nil or negligible. A point is used to indicate decimals.

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Foreword

The publication of the sixty-first edition of the *Economic Survey of Latin America and the Caribbean*, corresponding to 2008-2009, comes at a critical point in the economic development of the Latin American and Caribbean region. A growth phase whose nature and duration is unequalled in the region's recent history has come to an abrupt end and output is contracting. The toll this state of affairs is taking on the well-being of the population will inevitably be reflected in setbacks in social variables.

The first part of this edition of the *Economic Survey* looks at the channels through which the crisis is affecting the economies of the region and its impact on variables such as economic growth, employment and external-sector indicators. It also discusses the strengths and weaknesses of the countries in dealing with the fallout from the global crisis and the economic policies they have deployed to this end. The analysis covers the performance of the region's economy in 2008 and the first semester of 2009 and concludes with a discussion of the outlook for the second half of the year. This chapter draws on the data contained in an extensive statistical appendix.

The nature of the recovery will depend greatly on developments in the world economy, but also on the way the countries prepare for the challenges of the future. Macroeconomic management of the crisis is crucial, but so, as ECLAC has emphasized on many occasions, is laying the foundations for sustainable growth based on growing systemic competitiveness, greater social cohesion and environmentally sustainable production and consumption structures. A key task for the countries of the region is therefore to develop institutions that can help achieve those objectives. The second part of this year's *Economic Survey* examines the fabric of labour institutions which, in the recent past, have been at the centre of polarized confrontations and hotly contested debates.

The first chapter of this second part of the report reviews the historical development of labour institutions in the region, the great variety of institutions among countries and the role of their main components. The second chapter looks at recent changes in a number of specific institutions, the minimum wage, trade unions and collective bargaining, as well as unemployment protection systems. The evidence of their effects on the operation of the labour market is examined, along with alternatives for improving them. The third chapter is devoted to active labour-market policies, specifically training and skills-building, public sector employment services, direct and indirect job creation and the promotion of own-account work. The fourth chapter discusses policy choices for promoting productive labour-market integration for young people and women, who often face exclusion and discrimination in the labour market. The fifth chapter of this part of the *Economic Survey* sums up the conclusions regarding the challenges surrounding labour institutions and mechanisms for moving towards achievement of the objectives discussed.

Lastly, the individual performance of each economy in 2008 and in the first half of 2009 is analysed in the country notes, which include tables setting out the main economic indicators. These notes, together with the statistical appendix providing data on all the countries, are contained in the CD-ROM that accompanies the printed publication and are also available on the ECLAC website (www.eclac.org). The tables presented in the statistical appendix provide ready access to data for recent years and support the creation of spreadsheets. This CD-ROM also contains the electronic versions of the first and second parts of the printed publication.

The statistical information presented in this publication reflects the data available up to 30 June 2009.

Summary

After growing continuously for six years, the GDP of Latin America and the Caribbean will fall by 1.9% in 2009, which will bring about a reduction in per capita GDP of some 3%. Unemployment in the region, meanwhile, is expected to climb to around 9%.

The region's fastest growth stretch in four decades was broken by a worldwide crisis that originated in the financial systems of the developed countries. The impacts were transmitted to the region mainly through the channels of external trade and export prices, which both slumped heavily between the last quarter of 2008 and the first quarter of 2009. Although some of this downturn was reversed in the first half of 2009, terms of trade are estimated to have deteriorated by around 12% for the region overall. Some countries will feel an additional impact through the channel of services exports as a result of falling tourism revenues, which in many cases have been further eroded by the outbreak of A(H1N1) influenza.

Other factors, albeit harder to quantify, have also come into play, such as the destruction of wealth resulting from falling asset values and the impact on demand for goods and services of poorer expectations on the part of households and businesses. Growth in public consumption, on the other hand, has quickened, which may be attributed to the countries' active use of fiscal policy to cushion the impact of the crisis. Private consumption has been undermined in some cases by a reduction in the remittances sent home by migrant workers.

This time, the region is on a better footing than in previous crises with more room to deploy countercyclical measures, thanks to external deleveraging, improved fiscal accounts, the build-up of international reserves and its greater integration into international financial markets. As a result, despite projected deteriorations in the balance-of-payments current account in the region and declines in foreign currency inflows in the form of FDI, the Latin American countries are not expected to face difficulties in meeting their external obligations in 2009. A number of Caribbean economies are in a very different position, however, which has left them rather more exposed to the crisis.

Notwithstanding the seriousness of the international economic situation, some indicators support a moderately optimistic analysis and offer grounds to suppose that the worst of the crisis may be over. Accordingly, the second half of 2009 may bring the beginnings of a recovery, albeit slow and not without risk. The gradual improvement in external conditions should firm up in 2010, when the region could post growth of as much as 3.1%, though this rate falls short of those seen in the past few years and will not sustain a rapid reversal of the indicators recorded this year.

The pace of recovery in the region will depend on the extent to which the governments are able to deploy policies to offset the effects of the crisis. This, in turn, will depend on the availability of resources for the purpose. Hence the need for the international financial institutions to play an active role in financing countercyclical policies and measures to counteract the crisis.

Beyond the current economic context, the crisis provides an opportunity to reflect upon the sort of labour policies and institutions that would help to underpin sustained and equitable growth. The second part of this edition of the *Economic Survey* is devoted to an analysis of labour institutions in the region.

Labour institutions have been the subject of heated debate, both in the Latin American and Caribbean region and further afield. Given the profound transformation and growing integration of markets, together with the rapid pace of technological change, it is necessary to take a fresh look —as each case dictates— at the labour institutions developed at a time when economies were less integrated into the global economy. It is also essential to deal with the weaknesses of the existing institutions, which leave broad sectors of the population unprotected and do little to improve the employment conditions of excluded groups, especially women and young people with little education. The region needs to make progress with improving its labour institutions in order to offer better protection for workers, promote productivity, help bring about fairer working conditions and endow institutions with greater social legitimacy.

Part 1

The economic situation in Latin America and the Caribbean in 2008-2009

Chapter I

Regional overview

A. Introduction

ECLAC estimates that, after growing continuously for six years, the gross domestic product (GDP) of Latin America and the Caribbean will fall by 1.9% in 2009. This fall will bring about a reduction in per capita GDP of 3.1% and will take its toll on the labour market. As a result of falling demand for labour, the region's unemployment rate is expected to climb from the 7.5% observed in 2008 to around 9% in 2009.

Table I.1
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Percentages)

Country	2004	2005	2006	2007	2008	2009 [a]	2010 [a]
Argentina	9.0	9.2	8.5	8.7	7.0	1.5	3.0
Bolivia (Plurinational State of)	4.2	4.4	4.8	4.6	6.1	2.5	3.5
Brazil	5.7	3.2	4.0	5.7	5.1	-0.8	3.5
Chile	6.0	5.6	4.6	4.7	3.2	-1.0	3.5
Colombia	4.7	5.7	6.9	7.5	2.6	0.6	3.5
Costa Rica	4.3	5.9	8.8	7.8	2.6	-3.0	3.0
Cuba	5.8	11.2	12.1	7.3	4.3	1.0	3.0
Dominican Republic	1.3	9.3	10.7	8.5	5.3	1.0	2.0
Ecuador	8.0	6.0	3.9	2.5	6.5	1.0	2.5
El Salvador	1.9	3.1	4.2	4.7	2.5	-2.0	2.5
Guatemala	3.2	3.3	5.4	6.3	4.0	-1	2.5
Haiti	-3.5	1.8	2.3	3.4	1.3	2.0	2.0
Honduras	6.2	6.1	6.3	6.3	4.0	-2.5	2.5
Mexico	4.0	3.2	4.8	3.3	1.3	-7.0	2.5
Nicaragua	5.3	4.3	3.9	3.2	3.2	-1.0	2.5
Panama	7.5	7.2	8.5	11.5	9.2	2.5	5.0
Paraguay	4.1	2.9	4.3	6.8	5.8	-3.0	3.0
Peru	5.0	6.8	7.7	8.9	9.8	2.0	5.0
Uruguay	11.8	6.6	7.0	7.6	8.9	1.0	3.5
Venezuela (Bolivarian Republic of)	18.3	10.3	9.9	8.9	4.8	0.3	3.5
Subtotal Latin America	6.1	4.9	5.7	5.8	4.2	-1.9	3.2
Caribbean	4.6	4.0	7.0	3.4	1.5	-1.2	0.5
Latin America and the Caribbean	6.1	4.9	5.8	5.8	4.2	-1.9	3.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.
[a] Projections.

The region's fastest growth stretch in four decades was broken by a worldwide crisis that has brought an abrupt end to a boom phase of unusual intensity and scope and has affected almost all the world's economies, whether developed or developing.

The period of global growth which spanned from 2003 to mid-2007 began to show signs of weakening when liquidity and solvency problems, which had arisen in the subprime mortgage market in the United States, spread further afield. The shock waves were felt in financial systems around the world and had a significant impact on goods and labour markets; this effect has worsened since September 2008. This became a global disturbance of unwonted seriousness, and its similarities with the Great Depression of the 1930s prompted comparisons with that event.

This crisis clearly originated in the developed countries, from where it spread to the periphery, particularly Latin America and the Caribbean. As has been noted by ECLAC, with the exception of some Caribbean economies, the present crisis finds the region much better prepared than in the past. About two years since financial turmoil began, it is clear that the nature of the impact and the capacity of the Latin American and Caribbean countries on this occasion differ from the position during the recurring episodes that afflicted the region from the debt crisis of the 1980s until the early years of the present decade. There have been no financial panics or debt crises and, in general terms, the countries of the region have room for manoeuvre which, subject to individual disparities, enables them to implement policies to moderate the impact on production and employment.

The region will not, however, escape unscathed. The abovementioned contraction of GDP and rise in unemployment will probably be accompanied by increasing informality. Consequently, unlike the situation in 2003-2008, poverty is likely to rise and new stumbling blocks will appear on the road towards achievement of the Millennium Development Goals. This represents the end of a period of improvement in social indicators in which poverty came down by over 10 percentage points,[1] but one still marked by great inequality resulting from a development model that failed to correct —and in many cases worsened— the structural disparities typical of the region's economies.

Accordingly, in addition to this chapter devoted to the current economic situation and the outlook for Latin America and the Caribbean, the thematic chapters in this edition of the *Economic Survey* will look at the labour institutions in the region, to assess how ready the countries' labour markets are to deal with the crisis and what medium capacity they have to follow a strategy of inclusive development in the medium and long terms.

The next section of this chapter looks at the world economy. It then considers recent trends in the economies of Latin America and the Caribbean and the features of the macroeconomic space for anti-crisis policymaking and comments on the measures announced by the countries of the region. The last section considers the prospects for the short term and examines issues whose importance goes beyond the present situation.

B. The global economy

The region is faced with a crisis comparable in depth and scope to the crisis of the 1930s. A further element of coincidence: both crises began in the United States financial system and spread outward from there; they both began with the bursting of an asset price bubble and led to insolvency problems in the financial system.

In that comparison, the current crisis stands out for the huge volume of the financial assets involved, the level of interconnectedness of credit markets and the combination of great sophistication and opacity of a large number of instruments and transactions. This time, however, the economic policy response was quicker and more focused, partly owing to the experience derived from the Great Depression in terms of the need to contain the financial crisis as soon as possible and implement expansionary monetary and fiscal policies in order to stave off the risk of economic depression. Subject to the great differences resulting from varying capacities and the particularities of each case, this is what the countries have generally been doing since 2008.

1 See Infante and Sunkel (2009).

Another major difference regarding the events of the 1930s is that there are now a number of international coordinating institutions on the regional and multilateral levels, many of them set up following the Great Depression and the Second World War, others more recently, like the Group of Twenty (G20). Despite their limitations, they have some capacity to backstop the policies that countries implement individually in order to avoid, or at least restrict, predatory practices which can harm international trade —which has already been quite badly hit by the crisis— through the channel of trade or exchange-rate policies.

Thus, although it is hard to forecast the depth and duration of the current global recession, this episode could be limited to an economic contraction that, however abrupt and severe, may not be as damaging for the world economy as a whole as the Great Depression in terms of unemployment, contract breaches and destruction or prolonged underutilization of productive resources.

Figure I.1(a) shows the seasonally adjusted monthly evolution of industrial GDP in the United States during different recessionary periods. Each line begins in the first month of GDP contraction and continues until a period of two successive months of rising activity levels. As the figure shows, no recent period of recession matches the current one in terms of duration or depth. This episode is undeniably milder than the depression of the 1930s, however.[2]

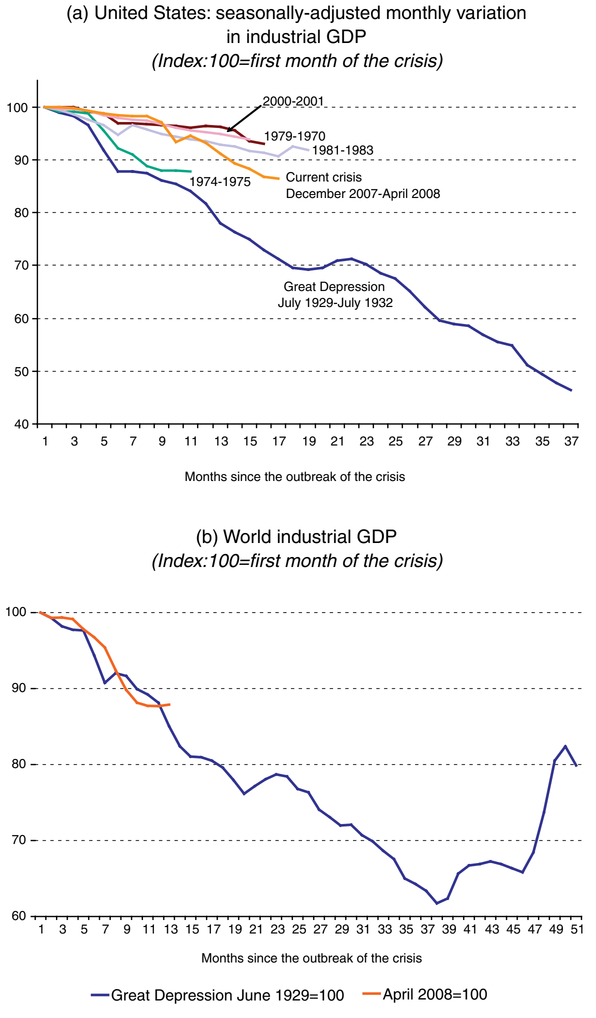
Figure I(b) reproduces and updates the rate of growth in world industrial GDP as presented in a work by Eichengreen and O'Rourke. They argue that the comparison between the early stages of the Great Depression and the current situation is clearer with economies which have contracted even more steeply than that of the United States. Indeed, the pattern of industrial GDP is very similar in the early months of both crises. If the contraction had already bottomed out, however, the fall this time would be much smaller than in the 1930s.

The financial crisis which broke out two years ago was rapidly transmitted to real variables and spread worldwide, owing mainly to four factors:

- The credit squeeze caused by the financial system's fragility led banks to demand more liquidity, given the uncertainty over the renewal of their liabilities and the need to rebuild their capital, on the one hand, and doubts as to the solvency of potential borrowers, on the other.

Figure I.1

INDUSTRIAL GDP IN THE UNITED STATES AND THE WORLD



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the Federal Reserve of the United States; B. Eichengreen and K.H. O'Rourke, "A tale of two depressions", June 2009; and International Monetary Fund.

- The destruction of wealth, both financial and non-financial, caused by losses of value in real-estate property and in shares and other assets.
- Worsening expectations regarding economic activity, affecting households' consumption decisions and businesses' investment decisions.

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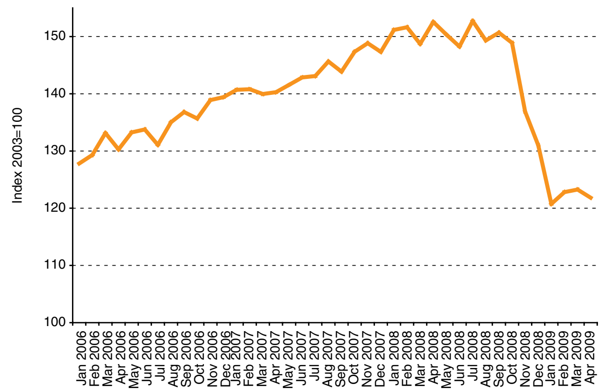
[2] See Krugman (2009).

- The decline in world trade between July 2008 and January 2009, as shown in figure I.2, although this seems to have slowed in recent months.

As shown in table I.2, projections agree that GDP will shrink at the global level, driven basically by GDP contractions in the developed economies. The GDP of the United States is expected to fall by around 3% in 2009, with a larger drop in Europe and a still greater one in Japan. For the emerging and developing countries as a whole, GDP variation is expected to be positive, though much less so than in recent years. The continuing growth in this group is largely due to the expected trend in the Chinese economy, although other Asian and African economies should expand too, albeit at much lower rates than in recent years.

Figure I.2
INDEX OF WORLD EXPORT VOLUME



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CPB Netherlands Bureau for Economic Policy Analysis.

Table I.2
ESTIMATED WORLD GROWTH RATES, 2008-2010
(Percentages)

	IMF			World Bank			DESA		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
World (exchange-rate aggregates)	2.0	-2.6	1.7	1.9	-2.9	2.0	2.1	-2.6	1.6
World (PPP aggregates)	3.1	-1.4	2.5	3.0	-1.7	2.8	3.3	-1.0	2.7
Developed countries	0.8	-3.8	0.6	0.7	-4.2	1.3	0.8	-3.9	0.6
United States	1.1	-2.6	0.8	1.1	-3.0	1.8	1.1	-3.5	1.0
Euro area	0.8	-4.8	0.3	0.6	-4.5	0.5	0.9	-3.5	0.0
Japan	-0.7	-6.0	1.7	-0.7	-6.8	1.0	-0.6	-7.1	1.5
Emerging and developing countries	6.0	1.5	4.7	5.9	1.2	4.4	5.4	1.7	4.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund, World Bank and the Department for Economic and Social Affairs of the United Nations.

C. Hallmarks of recent trends in the Latin American and Caribbean economies

1. Channels of transmission of the crisis

One feature that sets this crisis apart from previous episodes concerns the channels through which it has been transmitted to the economies of the Latin American and Caribbean region. Unlike in similar episodes, the strongest impacts have come through the real economy. As discussed later, there are a number of reasons why this time around export volumes and prices, remittances and other elements directly related to economic activity, combined with the deterioration in consumer and producer expectations, have been the factors behind the abrupt cessation of growth in the region in the fourth quarter of 2008.

Box I.1 describes the shocks which have hit the region recently. Only three of the 14 cases analysed (Brazil, Chile[3] and Peru) show evidence of a sudden stop in capital flows associated with the crisis, whereas in 7 cases the data appear to indicate a trade shock caused by a much greater fall in exports than would be expected in the usual cyclical movement.

The fact that the Latin American countries have in recent years reduced their levels of indebtedness, in some cases renegotiating loans with improved maturities or interest rates, while simultaneously building up their international reserves, helps to explain why the region has not, unlike other occasions, experienced a financial crisis. A number of Caribbean economies are in a rather different position in this regard, as discussed in box I.2.

Box I.1

REVERSAL OF EXPORTS AND CAPITAL FLOWS

The financial crisis has taken its toll on both trade and capital flows into the region. Two methodologies were employed to estimate these effects. The first focused on the reversals that the Latin American countries' exports have experienced as a consequence of changes in global demand. This exercise looked at the deviation of the detrended export series from its long-term trend, calculated using the Hodrick-Prescott filter. A reversal of trade was defined as any reduction in exports of more than one and a half standard deviations.

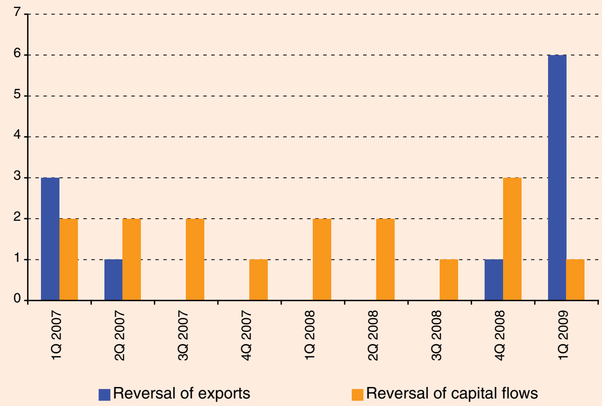
The second method was employed for episodes in which capital flows dropped sharply. This series comprises the detrended investment flows obtained from the difference between accumulated reserves and the basic balance.[a] A drop in capital flows is defined as an episode in which these flows fall more than one and a half standard deviations below the average for the period.[b]

As shown in the figure below, in 14 Latin American countries, up to the first quarter of 2009 the impact of the international financial crisis was stronger in terms of reversal of exports than in terms of a sudden capital flow reversal.[c] Seven countries experienced a heavy drop in exports between the fourth quarter of 2008 and the first quarter of 2009: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Ecuador, Mexico and Peru. Of the region's seven largest economies, Colombia alone did not show such a reversal. An export slump of this magnitude had not been seen in the region since the Asian crisis. Notably, the South American countries felt the brunt of this decline.

Three capital flow reversals occurred in the last quarter of 2008,[d] in Brazil, Chile[e] and Peru, as well as one in the first quarter of 2009 in the Bolivarian Republic of Venezuela.[f] In sum, since the outbreak of the international financial crisis, there have been seven episodes of export reversal and four of capital flow reversal.

LATIN AMERICA (SELECTED COUNTRIES): REVERSAL OF EXPORTS AND CAPITAL FLOWS

(Number of countries)



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

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

[a] The basic balance is the sum of the current account and net foreign direct investment.

[b] Includes from the first quarter of 1995 to the first quarter of 2009.

[c] Sufficient data were available for exercises to be conducted for the following countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru and Uruguay.

[d] There were capital flow reversals in other countries in 2008 —including Argentina (second quarter), the Bolivarian Republic of Venezuela (first three quarters) and Ecuador (first quarter)— that are not attributable to the crisis.

[e] Chile shows a reversal of capital flows when public sector flows are discounted from the analysis.

[f] Like the reversals experienced in the first three quarters of 2008, this one was not attributable to the crisis.

[3] If public-sector flows are excluded from the analysis, Chile shows a reverse in capital flows. In the case of the Bolivarian Republic of Venezuela, a reversal is apparent in the balance-of-payments capital account in the first quarter of 2009, but this cannot be attributed to the crisis since the same occurs at times in 2008 before the crisis deepened.

Box I.2

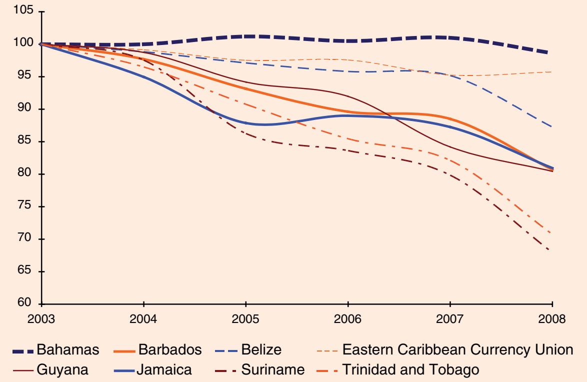
MACROECONOMIC IMBALANCES AND EXCHANGE-RATE SUSTAINABILITY IN THE CARIBBEAN

Unlike the majority of Latin American countries, which maintain a dirty floating exchange-rate regime, all the member countries of the Caribbean Community (CARICOM), except Jamaica, use fixed or quasi-fixed exchange-rate regimes. The Bahamas, Barbados, Belize and the eight members of the Eastern Caribbean Currency Union (ECCU) have their currencies pegged to the United States dollar, while Guyana, Suriname and Trinidad and Tobago have an exchange-rate system in which the central bank intervenes actively to contain fluctuations in the nominal exchange rate.

While exchange-rate stability has provided these countries with a valuable instrument for anchoring expectations and reducing inflation, the situation has involved some problems and challenges: for example, significant and sustained appreciations of the bilateral real exchange rate owing to the inflation differential with the United States. As can be seen in the figure below, aside from the Bahamas, the countries have experienced marked currency appreciations in real terms.

CARIBBEAN COMMUNITY: REAL BILATERAL EXCHANGE RATE

(Index 2003=100)



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

The currency appreciation, together with large current account deficits, high levels of public debt and low international reserves in most of the countries, add up to a very difficult situation in terms of sustaining the exchange-rate regimes, and this has been worsened by the current world economic crisis. Table 1 shows the twin deficits between 2006 and 2008 as percentages of GDP. In 2008, the ECCU countries averaged a current account deficit close to 35% of GDP, while the figures for Guyana and Jamaica exceeded 20% of GDP. It is noteworthy that in all those countries, the current account deficit is substantially higher than the fiscal deficit (between 15 and 30 percentage points of GDP), showing that private sector's excess of spending over income has been huge. Countries with abundant natural resources, such as Suriname and Trinidad and Tobago, have in recent years posted surpluses on both the fiscal and external accounts, so they were better placed to sustain their quasi-fixed exchange-rate regimes.

Table 2 shows the figures for public debt and international reserves at the close of 2008. Most of the countries have very high levels of public debt–in some cases over 100% of GDP. As for international reserves, with the exception of Barbados, Guyana and Trinidad and Tobago, at the end of 2008 none of the countries could cover over 3.3 months of imports.

Given the difficulty of access to external financing, the current state of the world economy represents a threat for most of these exchange-rate regimes. The reversal of capital inflows, or even a reduction in their quantity, would put downward pressure on the currencies which might lead to exchange-rate crises. A different outcome would be a substantial reduction in the current account deficit, which could cause a collapse of the real economy, as has been seen from various such experiences. This is not to mention the inflationary consequences, the damaging effects upon entities which experience a mismatch of currencies on their balance sheets, and the rising cost of servicing external debt. Consequently, the Caribbean countries are facing a major economic policy dilemma. Regardless of the preferences of the respective authorities, this is an issue that must be tackled urgently.

Table 1

CARIBBEAN COMMUNITY: TWIN DEFICITS, 2006-2008 [a]

(Percentages of GDP)

	Fiscal deficit			Current account deficit		
	2006	2007	2008 [b]	2006	2007	2008 [b]
Average [c]	**2.5**	**1.3**	**1.8**	**5.3**	**3.1**	**5.8**
Bahamas	1.6	1.3	1.4	20.9	17.5	13.9
Barbados	2.0	1.8	5.8	8.6	5.3	10.4
Belize	1.9	1.2	-1.1	2.1	4.1	10.8
Guyana	13.1	7.4	6.3	27.4	17.6	25.8
Jamaica	4.6	4.2	7.2	11.4	15.8	22.5
Suriname	-1.4	-5.7	-2.1	-6.8	-14.2	-14.5
Trinidad and Tobago	-6.3	-3.7	-6.5	-25.1	-24.6	-27.6
Eastern Caribbean Currency Union [c]	**4.6**	**3.9**	**3.5**	**29.8**	**34.8**	**34.4**
Anguilla	-1.0	2.1	4.0	66.3	67.9	76.2
Antigua and Barbuda	7.9	6.4	8.5	30.9	32.9	31.3
Dominica	-1.5	-1.0	-0.8	15.7	25.0	30.8
Grenada	6.4	6.7	6.4	35.1	42.9	45.3
Montserrat	3.3	6.4	9.8	17.7	22.8	35.1
Saint Kitts and Nevis	2.4	2.4	-0.4	17.4	21.5	24.2
Saint Lucia	6.3	2.2	0.2	32.1	34.1	26.9
Saint Vincent and the Grenadines	3.9	3.6	1.2	23.7	34.2	36.5

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

[a] A minus sign denotes a surplus.

[b] Preliminary figures.

[c] Simple average.

Box I.2 (concluded)

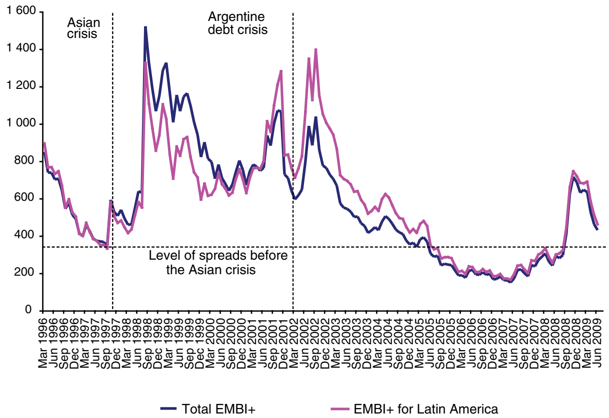
Table 2
CARIBBEAN COMMUNITY: PUBLIC DEBT AND INTERNATIONAL RESERVES, 2008 [a]

	Public debt (*Percentages of GDP*)[b]			International reserves[b]	
	External	Internal	Total	Percentages of GDP	Import cover (*months*)
Average [c]	**35.8**	**37.6**	**73.4**	**20.9**	**5.1**
Bahamas	5.7	42.0	47.7	...	...
Barbados	26.7	72.0	98.7	21.3	5.5
Belize	68.9	12.0	80.9	12.4	2.8
Guyana	72.0	31.8	103.8	26.9	5.0
Jamaica	48.7	58.2	106.9	13.1	2.8
Suriname	12.7	20.8	33.5	16.2	3.3
Trinidad and Tobago	5.8	20.3	26.1	35.3	11.0
Eastern Caribbean Currency Union [c]	**45.6**	**43.9**	**89.5**	**16.0**	**2.5**
Anguilla	6.4	16.6	23.0	15.0	1.7
Antigua and Barbuda	38.9	49.1	88.0	13.0	1.9
Dominica	66.6	26.7	93.2	16.0	2.6
Grenada	78.5	27.8	106.4	16.0	3.1
Montserrat	6.8	1.4	8.2	26.0	3.1
Saint Kitts and Nevis	57.2	113.1	170.3	16.0	2.9
Santa Lucia	37.1	33.0	70.2	13.0	2.1
Saint Vincent and the Grenadines	39.4	29.9	69.2	13.0	2.3

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

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

Figure I.3
EMERGING MARKET BOND INDEX: EMBI+ AND EMBI+ LATIN AMERICA
(Basis points)

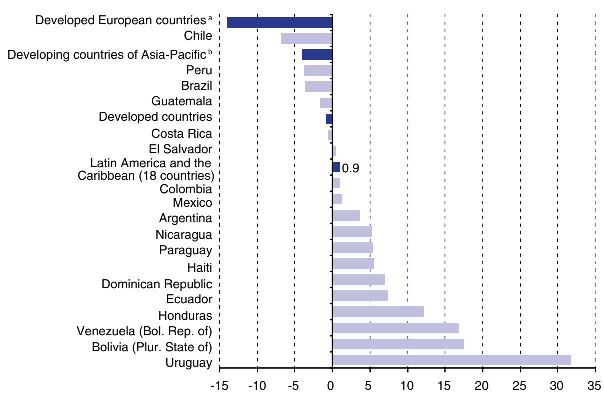


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from JP Morgan.

Even at the worst point of the crisis (September-October 2008), the jump in risk premiums implicit in sovereign debt yields was smaller than during other crises. Risk premiums have since trended sharply downwards, similarly to those of the emerging economies in general.

The region's financial systems have relatively low external exposure, so the domestic credit supply is not as sensitive as it might be to external conditions, especially by comparison with the emerging economies of Asia and Eastern Europe, as shown in figure I.4.[4] Section C5(b) and section D examine these issues in greater depth, as does box I.2, which looks at the main differences exhibited by most of the Caribbean economies in this regard.

Figure I.4
NET EXTERNAL POSITION OF THE FINANCIAL SYSTEM, DECEMBER 2008
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the Bank for International Settlements (BIS).
[a] Excluding the Russian Federation.
[b] Excluding China.

4 This figure shows the net external positions (assets minus liabilities) of banks located in the country and which report to the Bank for International Settlements (BIS).

The impact has been felt more strongly through the channel of trade, as can be seen from the slowdown of export volumes. The global recession and the drop in world trade are hurting commodity prices, which have plummeted from the highs reached in 2008. This pattern has been partially reversed in the last few months but this has not made up for the falls experienced between late 2008 and early 2009.[5] Accordingly, the region's terms of trade have worsened, following a period of significant gains. The terms-of-trade loss is estimated at up to 10.8% for the region as a whole and even more for exporters of hydrocarbons and metals.

Some countries, especially Mexico and the countries of the Caribbean and Central America, will feel the additional impact of falling tourism revenues, which in many cases have been further eroded by the outbreak of the A(H1N1) influenza. These issues are examined more closely in section C5(a).

2. Macroeconomic aggregates

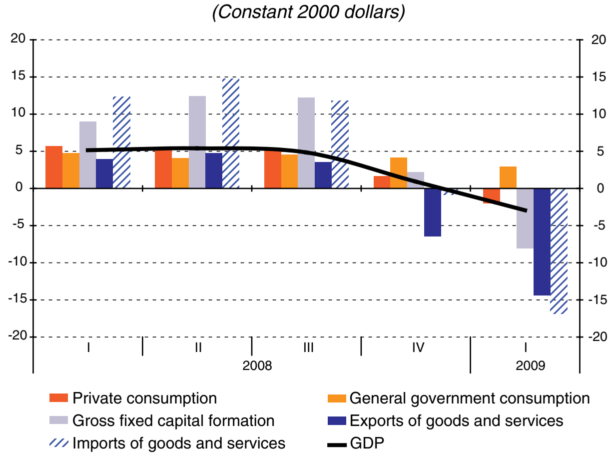
As mentioned above, in addition to the international repercussions that the crisis in the United States has caused across financial markets and external trade, other factors, albeit harder to quantify, have also come into play, such as the destruction of wealth resulting from falling asset values and the impact on demand for goods and services of poorer expectations on the part of households and businesses. These factors are particularly significant in countries with larger domestic markets that influence economic activity more heavily.

Aside from declining export volumes, the macroeconomic impact of the crisis in the region has been reflected in shrinking investment and a heavy slowdown in private consumption. Growth in public consumption, on the other hand, has quickened, which may be attributed to active fiscal policies; this will be discussed further below.

In some countries, private consumption has also been eroded by a dip in migrants' remittances, the amount of which fell by 5%-10% in year-on-year terms between the fourth quarter of 2008 and the first quarter of 2009. The fall in investment, meanwhile, has reflected smaller inflows of foreign direct investment (FDI), which slipped by around 40%.[6] This effect has been particularly apparent in the countries of the Caribbean and Central America where FDI flows represent a high proportion of GDP.

In the fourth quarter of 2008, after rising at rates of at least 5% over the previous 14 quarters, regional GDP gained a mere 1.3% in year-on-year terms; in seasonally-adjusted figures, this represented a fall of 1.9% in comparison with the third quarter of 2008. This was the first drop in the region's GDP in almost six years. The slowdown intensified in the first quarter of 2009, with a contraction of 2.1% with respect to the first quarter of 2008 and 2.4% against the fourth quarter of 2008, also in seasonally-adjusted figures.

Figure I.5
LATIN AMERICA: YEAR-ON-YEAR VARIATION IN AGGREGATE DEMAND, 2008-2009
(Constant 2000 dollars)



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

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5 There is also no certainty regarding the duration of these price rises.

6 See ECLAC (2009a).

3. Labour market and wages

Recent developments in labour markets have reflected the performance of the region's economy. In the great majority of the countries, the strong job creation that was a hallmark of the recent high-growth period continued in the first part of 2008, but this began to change in the last quarter of the year and the employment situation took a sharp turn for the worse.

With the considerable slowing of economic growth, the employment rate began to record year-on-year falls, which steepened in the first quarter of 2009, marking the end of a five-year stretch (2004-2008) of strong improvements in labour-market indicators during which regional unemployment had come down from 11.0% to 7.4%.

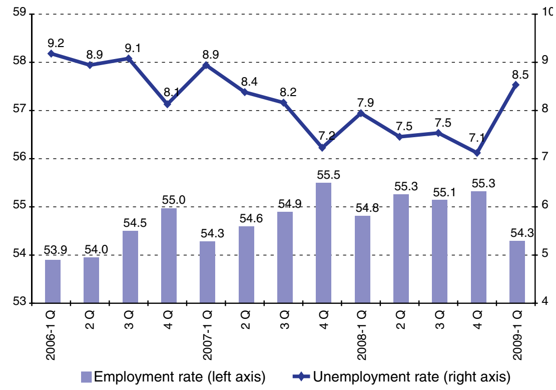
In early 2009, the sharp fall in the employment rate led to a year-on-year increase of 0.6 percentage points in the unemployment rate, which reached 8.5% in the first quarter of 2009. This translated into an increase of over one million in the number of urban unemployed. Particularly badly affected were Chile, Colombia, Ecuador and Mexico, whose urban jobless rate rose by more than one percentage point between the first quarter of 2008 and the first quarter of 2009. The rise in unemployment would in fact have been steeper had it not been for a downtrend in the labour participation rate at the regional level, which softened the impact of falling employment on unemployment statistics.

For 2009, the unemployment rate is forecast to rise by more than one percentage point, which would bring it to around 9%, representing an additional three million people joining the ranks of the unemployed.[7]

Figure I.6

LATIN AMERICA (9 COUNTRIES): EMPLOYMENT AND UNEMPLOYMENT RATES, FIRST QUARTER 2006-FIRST QUARTER 2009

(Percentages)



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

4. Inflation

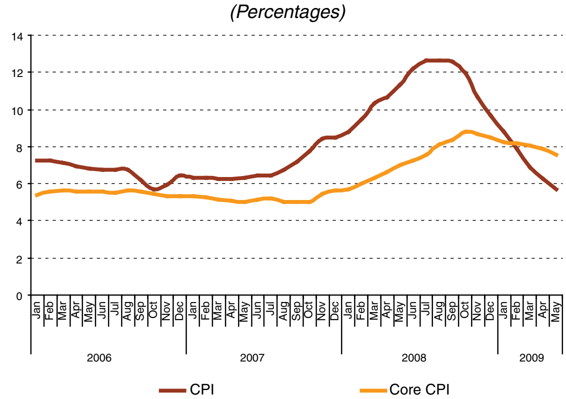
Inflation in the region stood at 8.4% in 2008 (6.4% in 2007). The inflationary surge ran from mid-2007 until September 2008, affecting the countries of South America, as well as those of Central America and the Caribbean.

Beginning in September 2008, the pace of inflation began to slow considerably following a sharp plunge in world prices for food and fuels (which had been the main drivers of price rises in the region) and the toll taken by the international crisis on domestic demand. This trend continued into the early months of 2009. In the 12 months to May 2009, average inflation in the region fell to 6.1% (a simple average of 5.7%), with the largest decreases occurring in the countries of Central America.

Figure I.7

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX AND CORE INFLATION

(Percentages)



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

[7] See ECLAC/ILO (2009).

5. External accounts

(a) The balance-of-payments current account

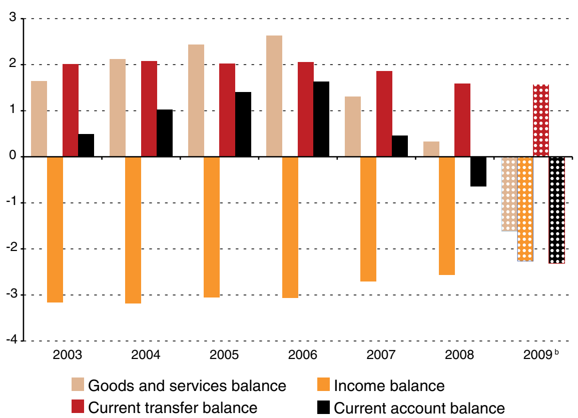
The region ended 2008 with a current account deficit equivalent to 0.6% of GDP, compared with a 0.5% surplus in 2007. This marked the end of a five-year period of consecutive current account surpluses. The trade surplus narrowed to 0.3% of GDP (1.3% in 2007) and the current transfers surplus shrank to 1.6% of GDP (1.8% in 2007). The income balance was only slightly less negative than the previous year's figure.

The deterioration in the region's balance-of-payments current account is expected to deepen in 2009. A deficit of 2.3% of GDP is projected, mostly because the anticipated downturn in the region's terms of trade will sharply worsen the trade balance, which is expected to go into deficit. Falling remittances will also contribute to the current account deterioration, though to a lesser extent. These factors will, however, be partially offset by a narrowing of the deficit on the real services balance and, above all, a smaller deficit on the income balance, in keeping with expectations of reduced profit remittances by foreign companies operating in the region.

Figure I.8

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF THE CURRENT ACCOUNT BALANCE, 2003-2009 [a]

(Percentages of GDP at current prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Not including Cuba.
[b] Projection.

(i) Goods and services balance

There were two clearly distinct stages in 2008. As figure I.9 shows, trade in goods, both exports and imports, increased strongly in the first three quarters of the year. Quarterly figures for export values climbed at an average rate of 26.5%, although volumes increased more slowly. Quarterly import figures traced a similar pattern, with an average increase of 28.5%. The impact of the international economic crisis began to be felt in the fourth quarter. Exports shrank by 10.4% in the last quarter of 2008 owing to slowing external demand, which dragged down both volumes and prices. As was to be expected, Central America and Mexico were the worst hit by the contraction in external demand, since their economies are more open and they export much of their merchandise to the United States. This trend carried over into the first quarter of 2009, when export volumes suffered a year-on-year fall of some 7%.

Thus far in 2009, falling world demand has been reflected in the imports of the region's main trade partners (China, European Union, United States). Figure I.10 shows that in April 2009, the imports of the United States from the Latin American and Caribbean region were 30% below their level 12 months earlier; over the same period, those of the European Union plunged by 25% and those of China were down 22%. In the latter two cases, however, the contraction has slowed in recent months.

The real services balance has followed a similar pattern. The services deficit grew from 0.4% to 0.6% of GDP. The economies that rely most heavily on the services sector, particularly tourism, are those of the Caribbean (where, in many cases, services represent around 20% of GDP) and, to a lesser extent, Central America (where the proportion is around 6% of GDP). South and Central America saw slower growth in tourist arrivals in 2008, but this was not the case in the Caribbean.[8] In the first four months of 2009 tourist arrivals declined 3.7% in Central America and 6.5% in the Caribbean (UNWTO, 2009).Tourist arrivals rose 0.2% in South America in the same period, however.

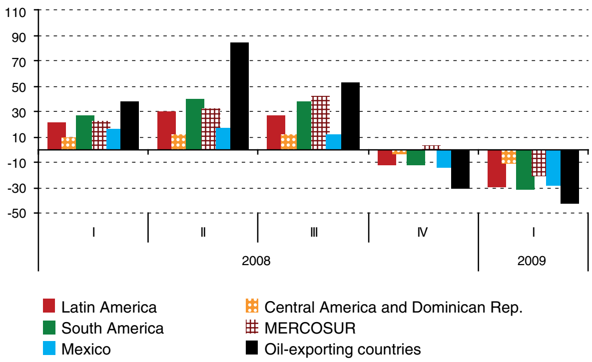
Another feature of recent trade performance is the downturn in the region's terms of trade in 2009, resulting from falling commodity prices, as shown in figure I.11. ECLAC forecasts that Latin America's terms of trade will slide by 10.8% in 2009, following a 3.0% rise in 2008. For South America and the MERCOSUR countries, decreases of 15.7% and 5.9% are expected, respectively. The worst affected countries will be exporters of metals and petroleum and energy, whose terms of trade will fall by 20.6% and 28.3%, respectively.

The variation in commodity prices has had the opposite effect in Central America and most of the Caribbean economies, which suffered major terms-of-trade losses in recent years and witnessed a slight upturn in 2009 (see figure I.11 and box I.3).

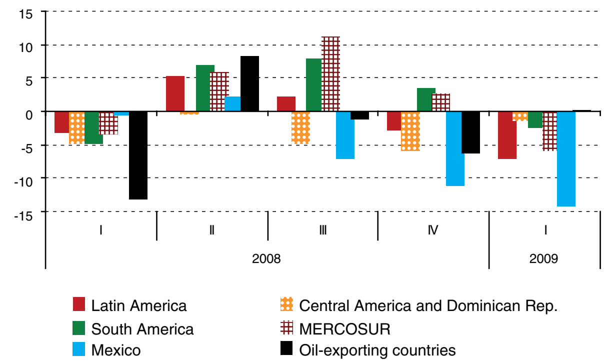
8 Growth in South America was 3.9% (6.5% in 2007), in Central America 7.2% (12% in 2007) and in the Caribbean 2.4% (1.6% in 2007).

Figure I.9
LATIN AMERICA: TRADE PERFORMANCE BY SUBREGION
(Percentages)

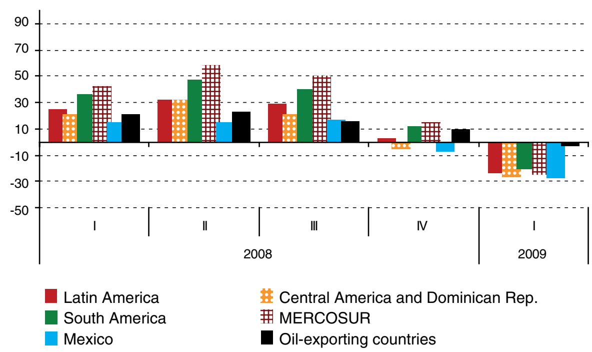
(a) Latin America: exports
(year-on-year variation in values)



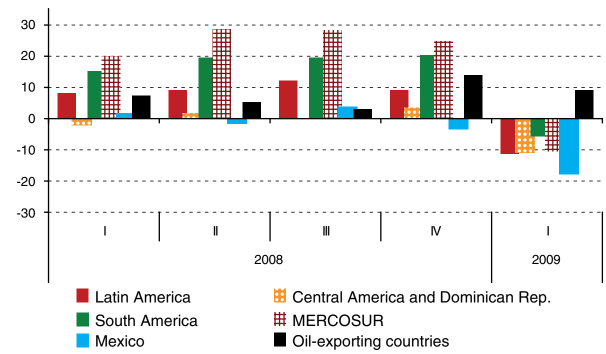
(b) Latin America: exports
(year-on-year variation in volumes)



(c) Latin America: imports
(year-on-year variation in values)

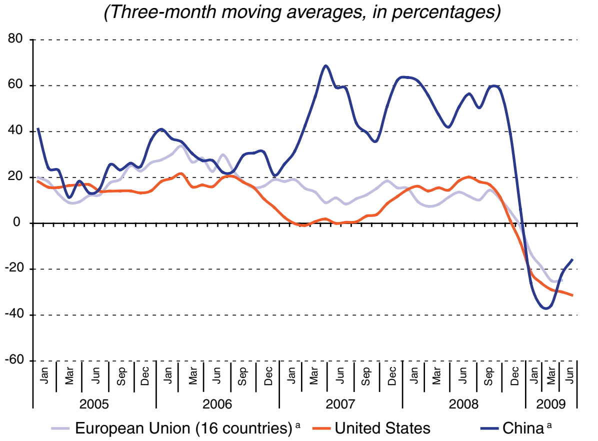


(d) Latin America: imports
(year-on-year variation in volumes)



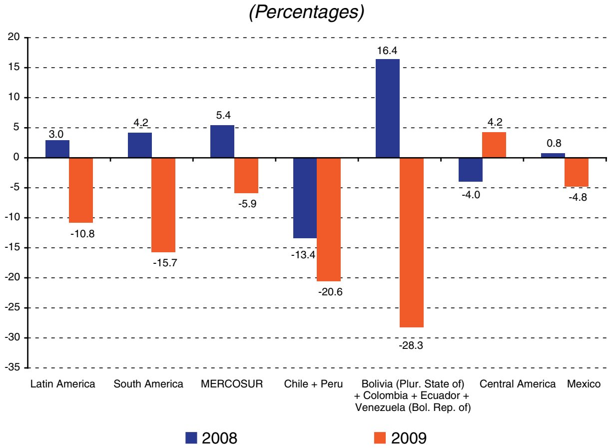
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure I.10
YEAR-ON-YEAR VARIATION OF IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN, BY DESTINATION
(Three-month moving averages, in percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Bloomberg, the Statistical Office of the European Communities (EUROSTAT) and the United States International Trade Commission (USITC).
[a] Does not include imports from the Caribbean.

Figure I.11
LATIN AMERICA (19 COUNTRIES): ESTIMATED YEAR-ON-YEAR VARIATION IN TERMS OF TRADE, 2008-2009
(Percentages)



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

Box I.3

TERMS OF TRADE IN THE ENGLISH-SPEAKING CARIBBEAN

The region's trade balance was severely affected by volatility in international commodity prices. For the English-speaking Caribbean countries (the vast majority of which are importers of oil, petroleum products and food), the rise in prices in 2008 and their subsequent fall significantly altered the terms of trade.

With a view to developing a preliminary assessment of the impact of international commodity price fluctuations on terms of trade in the subregion, ECLAC estimated the variation of this aggregate in 2008 and 2009. This calculation is based on the most recent data on export and import structure available in the Commodity Trade Database (COMTRADE), as well as on trends in international prices of the goods exported and imported by the countries analysed. The data for Belize was corrected as of 2006, since the country began exporting oil in that year. In the case of Grenada, the exercise controlled for the 2005 effects of Hurricane Ivan (which badly hit banana exports) by using the previous year's figures.

Weighted indices were calculated using the commodity price indices from the United Nations Conference on Trade and Development (UNCTAD) database, as a proxy for the export and import commodity price index. These therefore do not include the effects on the unit value of imports and exports of preferential price agreements, such as Petrocaribe, and the impact of prices preset in trade agreements. A weighted index for measuring changes in manufacturing prices was calculated using the unit value indices of manufacturing exports by developing and developed countries prepared by the Department of Economic and Social Affairs (DESA).

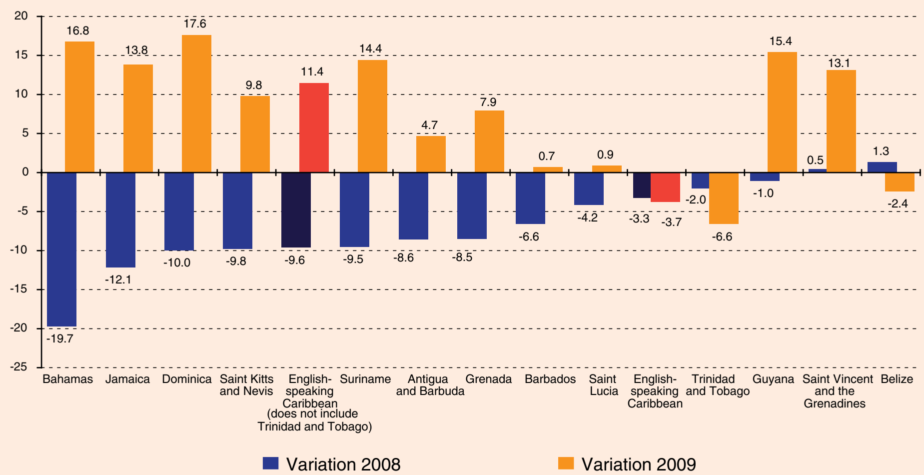
The figure below portrays the terms-of-trade downturn experienced by the majority of countries in the English-speaking Caribbean in 2008. For the subregion as a whole, the decline is estimated at 3.3%. However, this result is heavily influenced by the terms of trade in Trinidad and Tobago, the largest country of the group. When Trinidad and Tobago is excluded from the calculation, the drop reaches 9.6%. High prices in international markets, particularly for food and energy products, played a significant role in this negative result. The exception to the trend was Belize, where oil represented 45% of total exports in 2008.

More favourable terms of trade are projected for most of the countries in 2009, thanks to markedly lower commodity prices. For the region as a whole, not including Trinidad and Tobago, an improvement of around 11.4% is expected. Terms of trade will worsen, however, for commodity-exporters such as Trinidad and Tobago (which exports natural gas, oil and petroleum products) and Belize (which exports oil).

The large terms-of-trade variation in the English-speaking Caribbean countries can also be attributed to these countries' export composition. Most of these countries have a highly specialized export structure based on only a handful of products (especially raw materials). As a result, they are much more affected by highly volatile international commodity prices than countries that export a larger proportion of manufactured products.

ENGLISH-SPEAKING CARIBBEAN: ESTIMATED YEAR-ON-YEAR VARIATION IN TERMS OF TRADE, 2008 AND 2009 [a]

(Percentages)



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

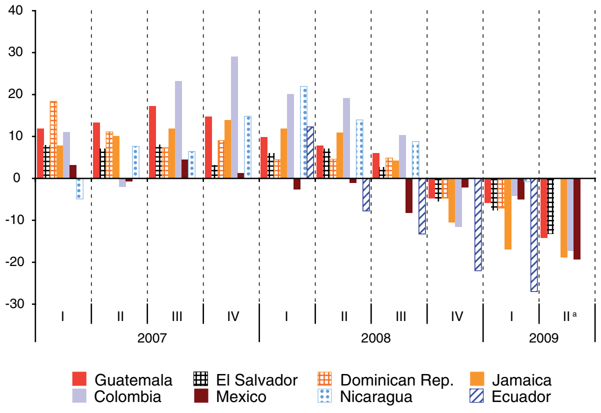
[a] Includes Suriname.

(ii) Income and transfers balance

The deficit on the income balance widened by 9.6% in 2008, mostly owing to an increase in payments of profits and dividends. In absolute terms, Brazil, Mexico and Chile showed the largest outflows, followed by Colombia, Peru and Argentina. Most of the region's FDI is concentrated in those countries: exporters of commodities, on which production profits rose in 2008.

Current transfers dipped from 1.8% to 1.6% of GDP in 2008 as a result of the fall in remittances sent home by workers resident abroad.[9] Inflows of remittances began to decline in the third quarter of 2008 and this trend steepened in the first quarter of 2009. Partial data available for the second quarter of 2009 show a contraction of between 13% and 19% in Colombia, El Salvador, Guatemala, Jamaica and Mexico between May 2008 and May 2009.

Figure I.12
LATIN AMERICA (8 COUNTRIES): YEAR-ON-YEAR QUARTERLY RATES OF GROWTH IN REMITTANCES
(Percentages)



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

(b) The capital account

Although the first signs of the onset of the crisis were seen in the United States in mid-2007, its effects took over a year to reach the securities markets of emerging countries. It was not until the Lehman Brothers failure that volatility and risk premiums rose in relation to earlier patterns in a way that was comparable to events in the developed countries' financial markets. Up to that point, the emerging economies had continued to enjoy normal access to world financial markets.

This episode crystallized expectations that the developed countries' financial markets and economies would slide into a deep recession which, though of highly uncertain magnitude at that time, would certainly lead to a contraction in the world economy. This drastically changed expectations regarding the performance of the emerging economies, their capacity to service their debt obligations and the potential yield of investments in those economies. The anticipated capital losses of the developed countries' financial institutions —seemingly limitless amid the wave of bankruptcies and hurried mergers then taking place— were expected to trigger a deleveraging that would constrain the supply of credit both within those countries and for emerging economies.

In October 2008 risk premiums for emerging countries rose steeply in international markets and they remained high until late 2008 (see figure I.3). During this period, investors sought to liquidate their positions in those countries' domestic markets, leading to a flight of foreign exchange which was at times quite substantial. At the same time, short-term external borrowing facilities for emerging countries' banks were not renewed, which exerted further pressure on foreign-exchange markets. Those facilities are crucial for maintaining the momentum of external trade, which therefore suffered an additional impact in a context in which world trade was already shrinking, as noted earlier. Events in the financial systems of the developed countries thus had a direct and unusually rapid impact on the emerging countries' exports and activity levels.

Figure I.13, which shows patterns in lending to emerging-country banks by international banks which report to the Bank for International Settlements (BIS), clearly shows that credit contracted during the last quarter of 2008, following a long uptrend that began in mid-2002 after the impact of the Asian crisis had eased. As a result of that change, the capacity of emerging-country banks to support lending, such as credit for external trade, was heavily curtailed. As the figure shows, the most exposed regions (emerging economies in Asia and the Pacific and in Europe) were the worst affected. Latin America and the Caribbean, whose banking systems are generally less integrated into world markets than those in the aforementioned areas, faced a smaller, although still significant contraction (10.5% in the last quarter of 2008) in external bank credit.

Within the Latin American and Caribbean region, the South American countries encountered the greatest difficulties in access to external bank credit in the last quarter of 2008, as measured by total external liabilities (public and private) owed to banks reporting to BIS. The largest falls, in GDP terms, were experienced by Brazil, Chile and Peru, as noted in box I.1 as well as the Dominican Republic and Uruguay.

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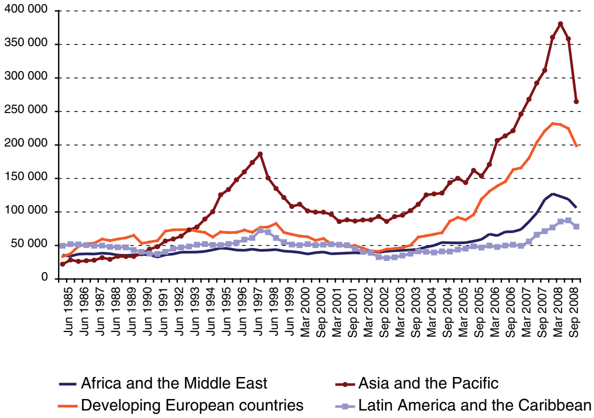
[9] Current transfers are most significant in the countries of the Caribbean and Central America: in Guyana they make up 28.4% of GDP, in Haiti 23.9%, in Honduras 21.1%, in El Salvador 17.3%, in Nicaragua 16.8%, in Jamaica 14.4% and in Guatemala 12.9%. In absolute terms, Mexico accounts for the largest share of regional remittances —almost 40% of the regional total.

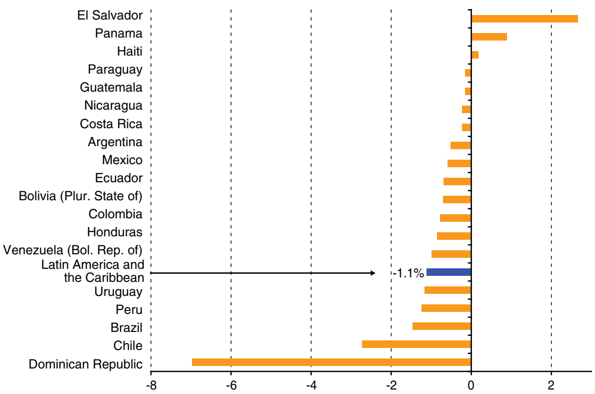
Figure I.13
EXTERNAL LIABILITIES OWED BY EMERGING-COUNTRY BANKS TO BANKS REPORTING TO THE BANK FOR INTERNATIONAL SETTLEMENTS
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures provided by the Bank for International Settlements (BIS).

In response, as discussed in section D1 the central banks of several countries of the region took steps to ensure liquidity in local currency and foreign exchange in order to support their banks. To the same end, the United States Federal Reserve entered into agreements with the central banks of Brazil and Mexico.[10]

Figure I.14
LATIN AMERICA: CHANGE IN TOTAL EXTERNAL LIABILITIES OWED TO BANKS REPORTING TO THE BANK FOR INTERNATIONAL SETTLEMENTS, SEPTEMBER TO DECEMBER 2008
(Percentages of GDP)

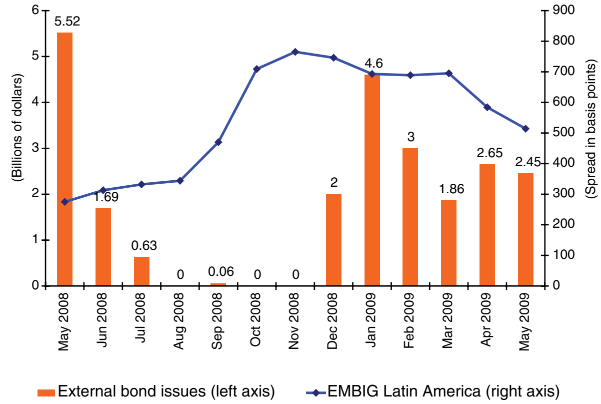


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Bank for International Settlements (BIS).

10 See ECLAC (2009b).

Sovereign and corporate bonds in global markets ceased to be issued in the countries of the region during the period of higher risk premiums, as shown in figure I.15.

Figure I.15
SOVEREIGN AND CORPORATE BOND ISSUES IN GLOBAL MARKETS
(Billions of dollars and basis points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Capital Flows to Latin America: Recent Developments* (LC/WAS/L.97), Washington, D.C., May 2008; and figures provided by JP Morgan.

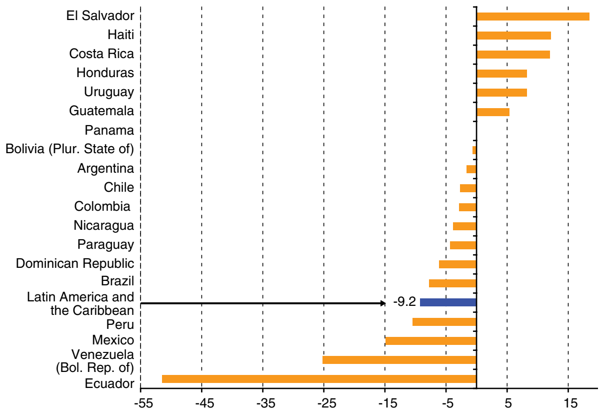
Balance-of-payments figures show —as was to be expected in an uncertain environment— that investments abroad by residents increased by 47%, while investments in the region by foreigners rose by 11%. This rate of growth is far below that of previous years, as several investment projects were cancelled in late 2008.

This set of factors has clearly had an impact on international reserves, which fell back after reaching a record level of some US$ 500 billion in September 2008. In the first four months of 2009, reserves in the region had fallen by approximately 9%, or US$ 48 billion, from their September 2008 level. This was strongly influenced by the drop in reserves in the Bolivarian Republic of Venezuela, Brazil, Ecuador, Mexico and Peru, as shown in figure I.16. Some Caribbean countries, including Jamaica, have also seen a major drain in international reserves.

In the first few months of 2009, the conditions for a gradual improvement of this adverse situation began to emerge. With the entry into office of a new administration in the United States, new programmes to avoid a financial meltdown began to take shape, in addition to those inherited from the previous government, while banks were being taken over in a number of European countries. This bolstered the expectation that, apart from isolated bankruptcies, all possible steps would be taken to prevent the failure of institutions which were of systemic importance. Meanwhile, monetary policy in several countries sought to re-inject liquidity by lowering interest rates to close to zero, as well as to restore the flow of credit by offering guarantees on interbank lending.

The risk perception regarding emerging countries began to wane in the first quarter of the year, although it remained higher than in the preceding three years. The region regained access to international capital markets, and issuance of sovereign and corporate bonds resumed (see figure I.15). Pressure on the foreign-exchange markets eased, resulting in a certain appreciation of some currencies. In turn, share prices began to recover, and in several countries of Latin America, the stock-market gains largely reversed the losses seen at the height of the crisis.

Figure I.16
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES VARIATION, SEPTEMBER 2008 TO APRIL 2009 [a]
(Percentages)



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

D. Macroeconomic space and policies to deal with the crisis

As ECLAC has noted on several occasions, macroeconomic behaviour in the region has changed, although to varying degrees in the different countries. In contrast with previous periods of growth, countries have recently promoted a rise in savings rates, decreasing the reliance on external financial resources and, in many cases, reducing the absolute value of obligations owed to the rest of the world. This trend has been marked by a decline in governments' external liabilities that more than offset the private sector's greater reliance on international lending.

Sounder public finances have translated into a large decrease in the ratio of total non-financial public sector debt to GDP. In several cases, this resulted from higher government revenue and economic growth as well as changes in some relative prices.[11] Public-sector finances in Honduras, Nicaragua and the Plurinational State of Bolivia were also strengthened by benefits received in the framework of the Heavily Indebted Poor Countries (HIPC) Debt Initiative.[12] In other cases, debt reduction resulted from renegotiations after crisis episodes.

In several countries the composition of public debt changed considerably, in terms of ownership (with a larger share being held by residents) and denomination (with an increase in debt denominated in local currency). These changes reduced the vulnerability to exchange rate fluctuations of governments that depend mainly on domestic economic activity for their revenue.

In sum, the countries of Latin America generally paid down their debt over the last decade. This was especially true of the public sector and left the region in a better position than in previous crises, since there was less need to turn to the markets to roll over external obligations. As discussed in box I.2, however, the converse is true in many of the Caribbean countries, several of which have built up debt levels equivalent to over 100% of GDP.[13]

The region's external position was also bolstered by the accumulation of significant international reserves. In the wake of episodes such as the Asian crisis, various developing countries had decided to build up their external

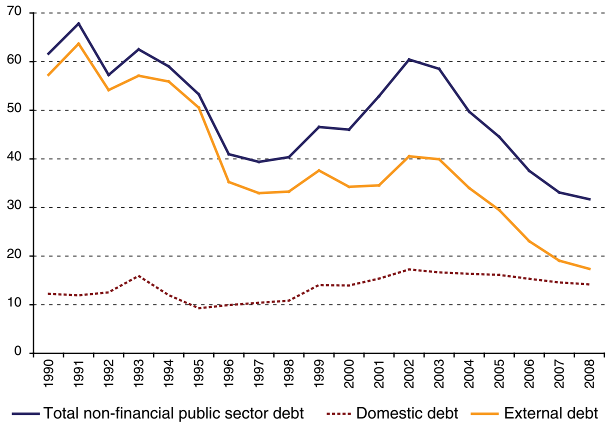
[11] Government revenue improved largely because of economic growth, higher commodity prices and tax reforms implemented in many countries.

[12] Conversely, indebtedness levels rose in Guyana, which also participates in the HIPC Debt Initiative.

[13] In late 2008, external debt was equivalent to 170.3% of GDP in Saint Kitts and Nevis, 106.9% of GDP in Jamaica and 106.4% of GDP in Grenada.

assets, reducing their reliance on borrowing in the event of liquidity constraints. This type of self-insurance reflected the decision to pay a price —equivalent to the opportunity cost of the external resources accumulated— in recognition of the procyclical nature of the international credit supply and out of a desire to avoid the conditionalities associated with multilateral agency financing.

Figure I.17
LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC SECTOR DEBT
(Percentages of GDP)

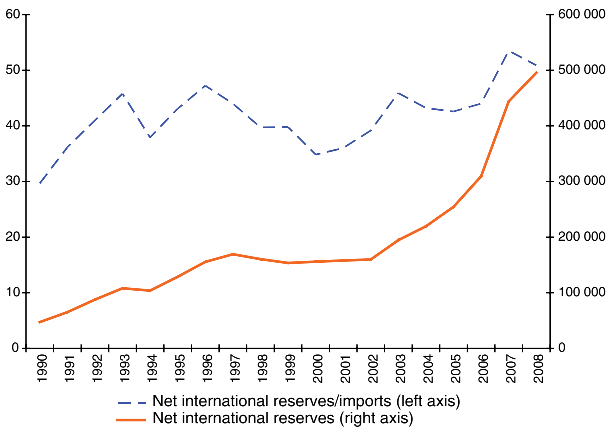


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures

The countries of Latin American and the Caribbean were no exception to this global trend and they built up their international reserves significantly, especially when export prices began to climb. As shown in figure I.18, since 2002 the pace of accumulation of net reserves had accelerated. When the current crisis broke out, those international reserves, both in absolute terms and in proportion to imports, were at historic highs and far above the levels seen during previous crises.[14]

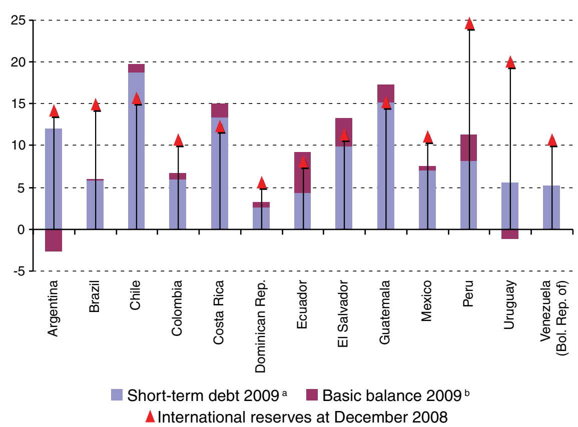
Despite projections of a deterioration in the balance-of-payments current account in the region and of a decline in inflows of hard currency in the form of FDI, the countries of Latin America are not expected to face difficulties in meeting their external obligations in 2009. As shown in figure I.19, the sum of the foreign currency required to cover the projected basic balance (current account balance plus the balance of direct investments) and estimated external obligations that fall due in 2009 is fully in line with the available external assets of the countries, even in the event that only a very small portion of external liabilities can be refinanced. As analysed in box I.2, a number of Caribbean economies face a far different situation in this regard.

Figure I.18
LATIN AMERICA AND THE CARIBBEAN: NET INTERNATIONAL RESERVES
(Percentages of imports and billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and the International Monetary Fund (IMF).

Figure I.19
ESTIMATES OF BASIC BALANCE, INTERNATIONAL RESERVES AND EXTERNAL DEBT OBLIGATIONS FOR 2009
(Percentages of GDP estimated for 2009)



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

[a] Preliminary estimate; includes payment of short- and medium-term debt.

[b] Positive values indicate a basic balance deficit.

14 The perceived effort of the countries of the region would appear even larger if calculations of international reserves included the sums saved by a number of countries in sovereign funds, fed by fiscal surpluses. This has, however, implied a substantial sacrifice in terms of the opportunity cost of resources that the countries of the region and emerging economies in general have had to incur to offset the flaws of the international financial markets against which they had little defence during other crises.

The stronger footing of several of the region's countries not only distinguishes the current financial difficulties from those they have faced in previous episodes of crisis, but it also has created additional space to implement policies to mitigate the effects of the crisis. Manoeuvring room was provided by reserves accumulated by the public sector as well as by the lower levels of indebtedness, making it possible for countries to borrow without jeopardizing their financial sustainability. Nevertheless, the recent repercussions of the crisis have narrowed the macroeconomic space for implementing policies to spur domestic demand and have underscored that choices must be made regarding instruments and resources available to governments for fulfilling competing objectives.[15]

The crisis has been accompanied by a gradual deterioration in macroeconomic indicators. It is estimated that, for the region overall, the balance-of-payments current account and the public sector's financial balance will show a deficit of more than two percentage points of GDP (with much variation among countries, as some, especially in Central America and the Caribbean, are running high external and fiscal deficits).

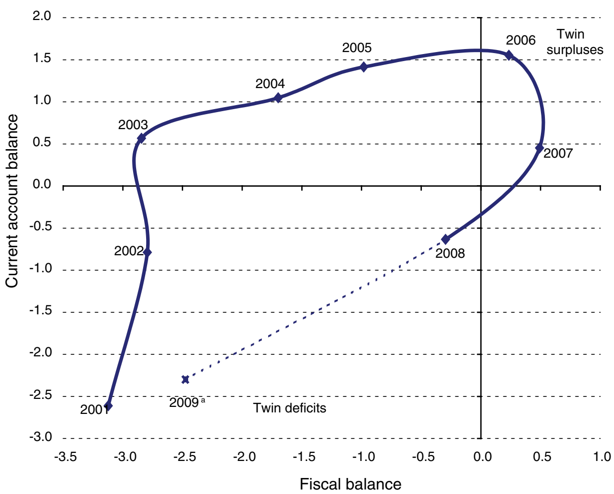
In addition to the constraints that changes in public accounts and external accounts may impose on the resources available for countercyclical interventions, the characteristics of the economies of the region place other limits on the efficacy of macroeconomic policy. Specifically, irrespective of the importance of maintaining liquidity levels that allow financial systems to operate smoothly, the effectiveness of monetary policies in countries with low levels of monetization may prove to be limited. Highly uncertain situations may hamper the mechanisms by which expansionary monetary policies expand the credit supply, and those by which increases in the credit supply lead to an effective use of available financing to raise demand for goods.

In crisis situations, when credit markets tend to become segmented, fiscal policy may play a key role in maintaining aggregate spending levels. Nevertheless, the countries of the region often face institutional constraints and limitations on the public sector's capacity to implement policy. This restricts the manoeuvring room for using fiscal policy flexibly for macroeconomic stabilization. In particular, although tax cuts are relatively simple to implement, they may have only a limited effect in countries in which taxation is low to begin with. Furthermore, in conditions of uncertainty, increases in disposable income do not necessarily spur demand, especially if the beneficiaries of tax cuts belong to the upper income groups. In addition, increases in public spending place greater burdens on institutions and public administrations. Increasing public investment takes time, especially because the countries do not normally have a stock of pre-assessed projects standing ready to be implemented. Targeted subsidies can be highly effective, but not all countries have developed mechanisms to identify and reach the potential beneficiaries of social programmes.

Figure I.20

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): CURRENT ACCOUNT AND FISCAL BALANCE, 2001-2009

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Data for 2009 are preliminary estimates.

In any event, given the opportunities for and constraints on macroeconomic policy, the countries of the region have implemented such policies quite actively. These efforts are discussed below and in box I.5.

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15 See Fanelli and Jiménez (2009).

1. Monetary and financial policy

Faced with the changing international outlook in the last four months of 2008, in which credit in the developed countries tightened and the inflationary pressures that had prevailed for much of the year eased, the region's central banks took steps to ensure that there was sufficient liquidity for domestic financial markets to function.[16] To this end, the legal reserve was reduced, terms were shortened or liquidity absorption operations were reversed, and special mechanisms for rediscount or repurchase operations were established or broadened. At the same time, central banks held monetary-policy interest rates almost unchanged, with the expectation that lower raw-materials prices would lessen inflationary pressure. Since the final months of 2008, inflation has tended to decline in most of the economies of the region and has remained within the target ranges set by the monetary authorities, at least those that set explicit inflation targets. Inflation is expected to continue downward during 2009.

In early 2009, the central banks of most countries in the region lowered their monetary-policy rates to spur economic recovery, in coordination with their fiscal measures. The easing of inflationary pressure and expectations of a lower rate of inflation have created the space to change the orientation of monetary policy.

Examples include the steps taken by the central bank of Brazil, which lowered the basic interest rate of the Special System of Clearance and Custody on four occasions between December 2008 and April 2009, with a total reduction from 13.66% to 11.66%. Similar measures were taken in the same period by the central banks of Colombia, Guatemala, Mexico and Peru. The central bank of Chile slashed its interest rate by seven percentage points, from 8.25% in December 2008 to 1.25% in May 2009, and the central bank of Honduras also sharply cut its rate, from 9% to 4.5% between November 2008 and March 2009. Central bank monetary-policy rates are expected to continue to slide in some of these countries, where they are still quite high in real terms.[17]

Nevertheless, expansionary monetary policy proved unable to prevent the credit market from slackening, especially once the international crisis worsened. Year-on-year growth in total lending, in real terms, has continued to slow thus far in 2009 in Argentina, the Bolivarian Republic of Venezuela, Brazil, Mexico and Peru, although the Venezuelan economy was the only one to see a fall in absolute terms. A common element in the seven largest economies of Latin America is that, as with monetary aggregates, the performance of credit differed between April 2008-October 2008 and November 2008-April 2009. During the first period total lending increased in Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico and Peru, whereas from October 2008 to April 2009, lending was stagnant in Brazil, Chile, Mexico and Peru and contracted in Argentina, the Bolivarian Republic of Venezuela and Colombia. Consumer credit, which provides an early warning of worsening economic expectations, decreased in this period in the Bolivarian Republic of Venezuela, Colombia, Mexico and Peru, while it rose slightly in Argentina, Brazil and Chile.

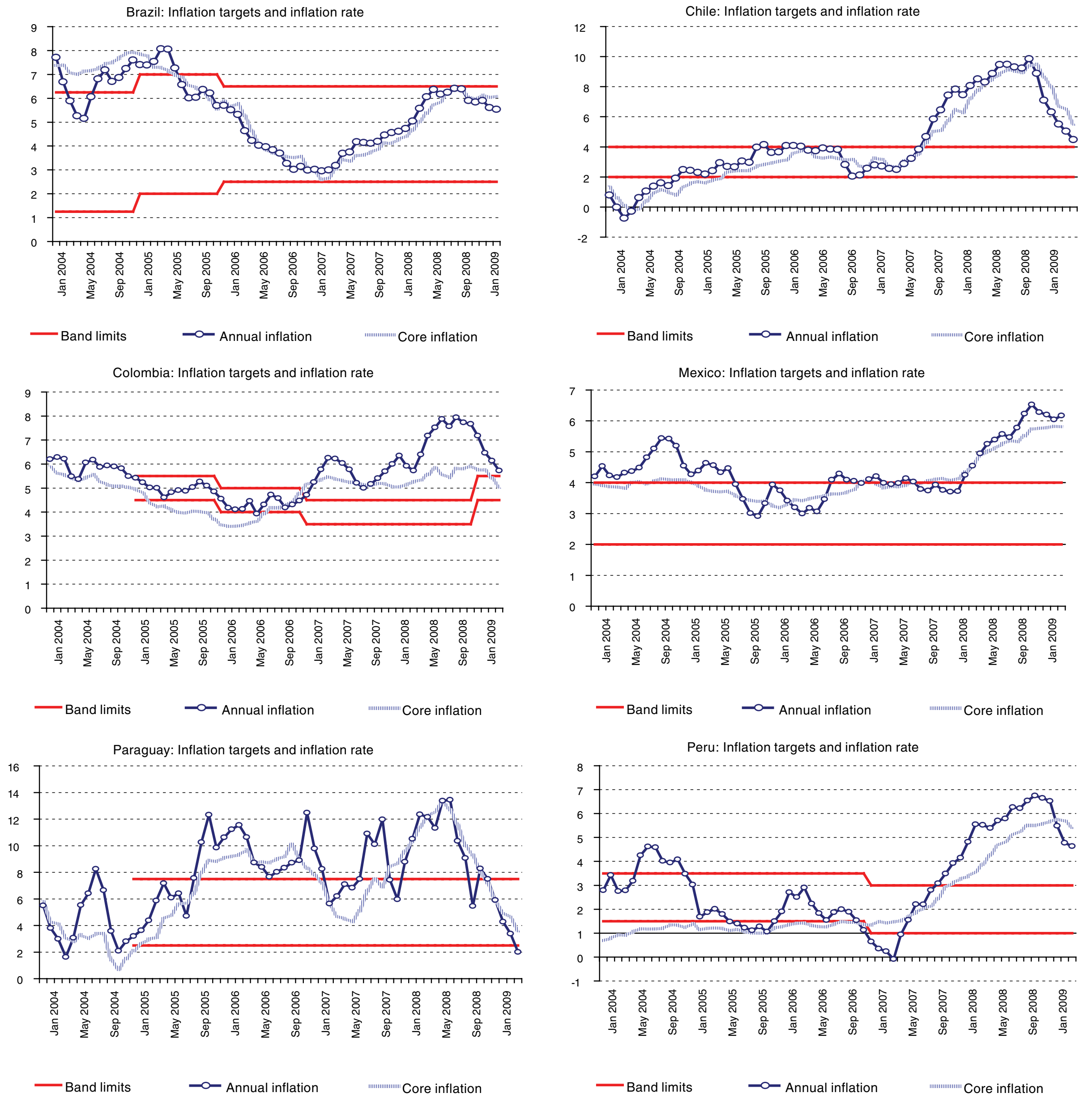
An important indicator of the soundness of the financial systems of the region is the ratio of non-performing loans to total lending. Since the last quarter of 2008, this ratio has risen moderately in the seven largest economies of the region, although without taking the non-performing portfolio to levels far different to those of the last four years.[18] In addition, in all of these economies, portfolio provisions are higher than or similar to the amount of non-performing loans. Nevertheless, the continuous rise in this indicator since September 2008 requires both central banks and bank oversight agencies to remain vigilant.

[16] The spike in inflation in 2007 and the first half of 2008 complicated the management of monetary policy and hindered the achievement of inflation targets set by the central banks. Inflation remained over-target during this period in Chile, Colombia, Mexico, Paraguay and Peru. Brazil was the only country whose inflation rate remained within the target range (which is broader than that of the other countries), but there too inflation rose and hovered above the middle of the band. Although the climbing inflation was driven mainly by supply shocks triggered by food and energy prices, most of the central banks raised their monetary policy rates in order to anchor inflationary expectations. Although inflationary pressure eased in the second semester of 2008, real interest rates remained very high at the end of the year.

[17] Argentina constitutes an exception to this trend, since developments in the currency markets there have limited the central bank's scope for lowering interest rates.

[18] For example, in March 2009 this ratio was less than half of its March 2006 value in Argentina, and less than half of its March 2005 value in Peru; in Chile and Mexico, it was similar to its values in July 2005 and September 2005, respectively; in Brazil, the April value was similar to the value in September 2006; and in the Bolivarian Republic of Venezuela and Colombia, its value was slightly above that recorded in the previous four years.

Figure I.21
LATIN AMERICA (SELECTED COUNTRIES): INFLATION TARGETS AND INFLATION RATE
(Percentages)



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

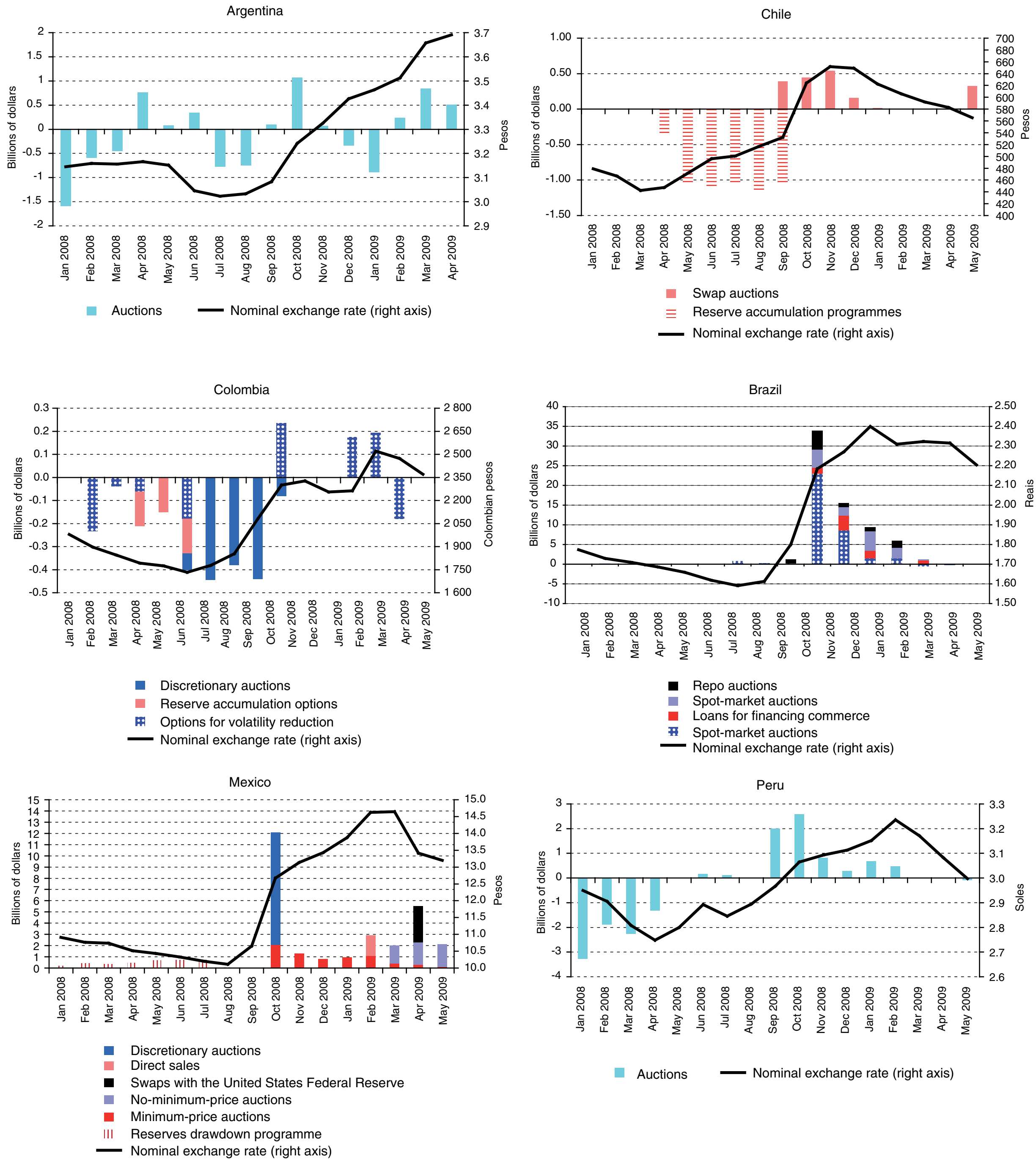
2. Exchange-rate policy

The reaction of exchange-rate policies to the crisis varied across Latin America and the Caribbean. Beginning in the third quarter of 2008, when the international financial crisis broke out, seven Latin American countries saw their currencies depreciate against the dollar in nominal terms. In some countries, including Mexico, the depreciation was significant. One notable exception was the Plurinational State of Bolivia, whose currency appreciated by 1.9% from July to December 2008 as part of the anti-inflation strategy implemented by the central bank.

Figure I.22

LATIN AMERICA (SELECTED COUNTRIES): EXCHANGE-RATE INTERVENTION AND NOMINAL EXCHANGE RATE

(Billions of dollars and respective currencies)



Source: Bank for International Settlements (BIS) "The global crisis and Latin America: financial impact and policy responses", *BIS Quarterly Review*, June 2009.

Financial and trade shocks led to significant depreciations in the currencies of several South American countries between August and December 2008. For example, the Brazilian real, the Mexican peso, the Chilean peso and the Colombian peso all depreciated in that period (48.8%, 32.8%, 25.6% and 21.7%, respectively), and all despite the drawdown of reserves by those countries' central banks. The types of interventions varied and included currency futures transactions as well as spot-market operations. Mexico and Peru (and to a lesser extent Colombia) conducted large spot-market auctions, whereas Brazil performed numerous swap operations in the last quarter of 2008, as did Chile (though to a smaller extent) (BIS, 2009).

Although central banks across the region cut interest rates, the currencies of the South American countries tended to rise in value in nominal terms between December 2008 and May 2009,[19] reflecting improving conditions in international financial markets. This appreciation was not sufficient to compensate for the depreciations of the previous months, however. During this period, auctions of foreign exchange gradually declined before ceasing altogether.

The Mexican peso also recorded nominal appreciation during this period. This overall trend, however, masks a sharp depreciation in the peso until mid-March 2009, due to international market volatility and uncertainty regarding the country's ability to satisfy the demand for foreign exchange. In order to boost dollar liquidity in the economy and to try to steer the depreciation of the peso, the Government of Mexico adopted a series of measures as of the fourth quarter of 2008 including the supply of dollars through auctions, the establishment of a swap mechanism with the United Sates Federal Reserve and the creation of a US$ 47-billion flexible credit line with IMF. Between March and May 2009, the combination of measures implemented (which involved substantial currency interventions), together with reduced financial volatility abroad, resulted in a 9.9% nominal appreciation of the peso.

Currency depreciations in the Central American and Caribbean countries were quite small from August to December 2008, with the exception of Jamaica, whose currency depreciated by 10%, and to a lesser extent Guatemala, where the quetzal dropped 3.1% in nominal terms. Currencies in the subregion continued to post limited depreciations in the first five months of 2009, with the exception of the two countries mentioned, whose currencies recorded steeper falls in value.[20]

3. Fiscal policy

The challenge of fiscal policy in the current economic climate lies in applying countercyclical measures in a context of lower tax revenues, while simultaneously protecting certain expenditures —education, social protection and infrastructure— which are vital for staving off an increase in poverty and laying the foundations for future growth. Although the governments of the region still have some capacity to shore up their economies through fiscal interventions, in practice, the fiscal space has narrowed considerably in the last year and varies widely from country to country depending on savings built up in good times, spending rigidities, the duration of the crisis and scope for prudent borrowing.

The crisis has placed the public finances of the Latin American economies in a complicated position. On the one hand, fiscal revenues have been substantially curtailed, owing to lower levels of activity and falling commodity prices. On the other, the fiscal stimuli countries have implemented and the measures they have taken to mitigate the distributive costs of the crisis have further eroded their fiscal balances. In addition, the fiscal downturn occurs, in many cases, amid severely constrained external borrowing conditions, and this affects the countries' ability to apply countercyclical fiscal policies.

The diversity of circumstances affecting the countries makes it particularly difficult to quantify the fiscal resources lost. Nevertheless, for analytical purposes, it is worth making a distinction between countries that have derived significant incomes from natural resources over the last few years and those which do not have access to this source of income.

Although the region is, generally speaking, much better placed than it was in past crises in terms of public finances and fiscal policy, there are matters that warrant concern about the public sector's capacity to weather the crisis successfully. Insofar as much of the improvement in the fiscal situation in recent years was due to rising commodity prices from 2002 until the first half of 2008, a deterioration in those prices represents a major risk for the fiscal space gained.

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19 The exception was Argentina, where the peso has gradually depreciated since mid-2008.

20 Jamaica is facing a difficult fiscal and balance-of-payments situation which pushed up demand for foreign exchange in late 2008 and the first quarter of 2009.

As discussed in detail in ECLAC (2008e), in recent years the countries of the region posted structural balances that were, on average, poorer than the fiscal balances actually observed. This is particularly evident in countries that produce raw materials for export, where the gap between the structural and observed balances widened considerably in 2007 and the first half of 2008, since these countries were receiving extraordinary income that was unlikely to be sustained in the future.

The dramatic increase in fiscal revenues witnessed in 2002-2008 is closely linked to income from natural-resource extraction. Such income made up more than 30% of fiscal revenues in the Bolivarian Republic of Venezuela, Ecuador, Mexico, the Plurinational State of Bolivia and Trinidad and Tobago, and between 14% and 18% on average over the last three years in Argentina, Chile, Colombia and Peru. As recent months have shown, however, income from natural-resource extraction is significantly more volatile than revenues from other sources.

As shown in table I.3, in countries that are highly specialized in producing and exporting commodities —those in which the related fiscal revenues represent over 30% of receipts— fiscal resources will drop by 5.6 percentage points of GDP in 2009. Revenues are expected to fall by 1.7 percentage points in countries somewhat specialized in commodities. In the other countries, the drop is estimated at some 0.5% in GDP, owing to falling economic activity.

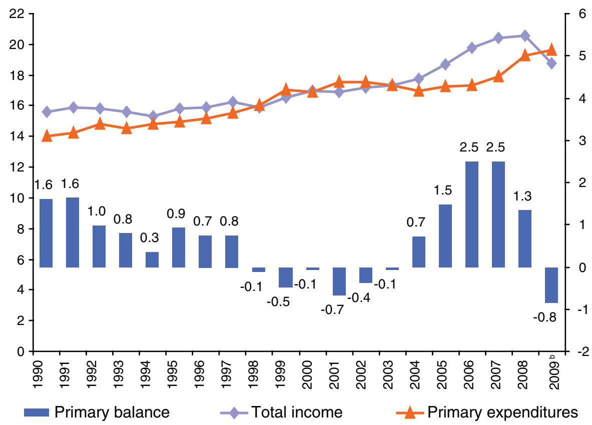
Table I.3
VARIATION IN FISCAL INCOME, 2008-2009
(Percentages of GDP)

	Variation 2008-2009	Contribution to average variation
Countries highly specialized in commodities	-5.6	-1.2
Countries somewhat specialized in commodities	-1.7	-0.3
Countries not specialized in commodities	-0.5	-0.3
Total		-1.8

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

The total effect for Latin America and the Caribbean is a dip in receipts equivalent to 1.8% of GDP (simple average), which means the region would shift from an average primary surplus of 1.3% of GDP to a primary deficit of around 0.8% of GDP in 2009 (see figure I.23). This outcome will depend heavily on the extent to which the countries implement the spending increases announced to mitigate the effects of the crisis (see box I.5).

Figure I.23
LATIN AMERICA: INCOME, EXPENDITURES AND PRIMARY BALANCE OF CENTRAL GOVERNMENT [a]
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Coverage corresponds to central government, except in Ecuador and Mexico, where it refers to the non-financial public sector, and the Plurinational State of Bolivia, where it refers to general government.
[b] Projection.

The effects of the international financial crisis on fiscal income vary from country to country depending upon their tax structure, level of tax collection and other sources of current financing.21 As discussed in box I.4, the countries worst exposed to the effects of the crisis will be those with high percentages of non-tax income or revenues derived from natural resources, low tax burdens or very open markets (particularly if they export mainly to developed countries). Conversely, countries with high tax burdens and larger percentages of revenues from income tax and VAT productivity should be less exposed.

[21] Jiménez and Gómez Sabaini (2009), calculated the degree of exposure of each country's fiscal income to different variables and divided the countries into three groups: high, medium and low exposure. This exercise is summarized in box I.4.

Box I.4

QUANTIFYING THE VULNERABILITY OF FISCAL REVENUE TO THE INTERNATIONAL CRISIS

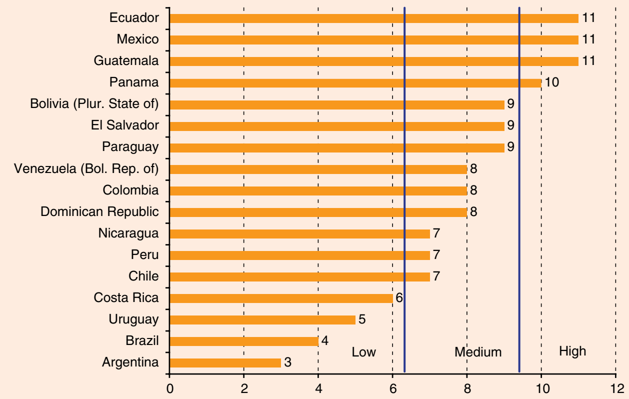
Given the uncertainty created by crises and the difficulty in predicting their effects, the ways in which they are transmitted and impact the economy require careful consideration. The effect of the international crisis on tax revenues in the region differs from one country to another and will depend not only on the nature of the crisis but also on the level and structure of the tax burden and the different sources of financing employed. Be that as it may, the average impact of the crisis on fiscal income is estimated to be significant, with a drop equivalent to 1.8% of GDP projected for 2009 in relation to 2008 revenues.

The exercise presented below [a] seeks to identify the countries most likely to incur large losses of fiscal revenue, given the channels through which the current international crisis affects tax receipts in the region.

This exercise therefore quantifies the degree of exposure of fiscal revenue to several variables and classifies the countries into three groups: high, medium or low exposure. This indicator has been devised by weighting the different characteristics of the structure of tax revenue, political and institutional rigidity and the capacities of each country's tax administration.

The analysis considers the following features of the tax system: overall tax burden; importance of revenue from taxes on natural resources as a share of tax revenue; import taxes as a proportion of total taxes; value added tax (VAT) as a proportion of total revenue; VAT productivity ratio; remittances as of share of GDP; importance of social security contributions in total revenue; and income taxes collected from business as a share of total tax receipts.

LATIN AMERICA AND THE CARIBBEAN: INDEX OF EXPOSURE OF FISCAL REVENUES TO THE INTERNATIONAL CRISIS



According to the findings of this exercise, Ecuador, Guatemala, Mexico and Panama are the countries with the most highly exposed fiscal revenues. These countries have at least two of the three attributes found to be the most significant in the analysis: dependence on natural-resource-based revenue (except for Guatemala and Panama); political and institutional rigidity in applying tax reforms (which translates into a very low tax burden); and a significant ratio of import taxes to tax revenue (except Mexico).

The countries in the medium-exposure group are the Bolivarian Republic of Venezuela, Chile, Colombia, the Dominican Republic, El Salvador, Nicaragua, Paraguay, Peru and the Plurinational State of Bolivia. The low-exposure group comprises Argentina, Brazil, Costa Rica and Uruguay. The figure below summarizes the findings, with countries listed from highest to lowest degree of exposure.

Nonetheless, as these results indicate the relative positions of the countries of the region, countries found to have a low exposure are in no way immune from negative impacts on their fiscal revenue; they are simply considered to be better positioned than the other countries.

In conclusion, countries with a high percentage of non-tax revenues or a high percentage of revenues from taxes on natural resources, with low tax burdens and a high degree of trade openness have a higher index of exposure of fiscal revenue to the crisis than do those with high tax burdens, a higher ratio of income tax to overall revenue and a high VAT productivity ratio.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *The Role of Tax Policy in the Context of the Global Crisis: Consequences and Prospects* (LC/L.3037), Santiago, Chile, 15 May 2009.

[a] This analysis is a revised version of a section of the document: Economic Commission for Latin America *and the Caribbean (ECLAC), The Role of Tax Policy in the Context of the Global Crisis: Consequences and Prospects* (LC/L.3037), Santiago, Chile, 15 May 2009.

The fiscal policy measures taken by the governments in the region are summarized in table I.4. On the spending side, 14 countries have announced measures to support the production sectors, generally targeting SMEs or agriculture. The same number of countries have plans for infrastructure investment and 14 have announced spending on housing. As regards taxes, eight countries have announced cuts in personal income tax, with changes in deductions, lower tax rates or increased exemptions (which have been announced as temporary in two cases), while nine have cut corporate taxes, through fresh exemptions, deductions or accelerated depreciation schemes (announced as temporary in three cases).

With regard to the impact of the measures announced, apart from the differences that may be expected between initiatives based on tax cuts and those based on public-spending hikes, in Latin America and the Caribbean

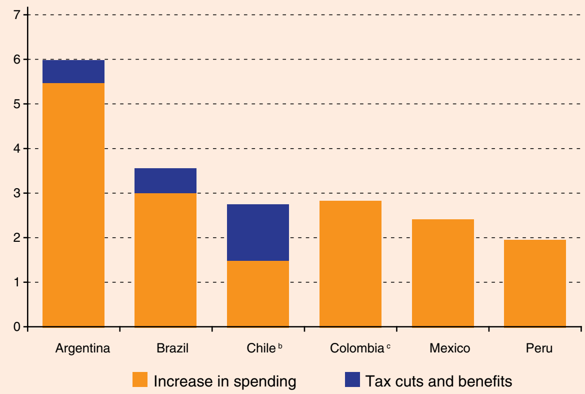
Box I.5
MEASURES TAKEN TO COUNTERACT THE CRISIS

The countries of Latin America and the Caribbean have announced and implemented a variety of policies to deal with the impact of the global economic crisis. Broadly speaking, those measures fall into two categories: those designed to restore confidence and unlock financial markets and those whose aim is to bolster weakened aggregate demand, in some cases through compensatory policies which support the most vulnerable sectors. The range of measures is very broad, not only because the effects of the crisis vary from country to country and, consequently, the instruments needed to deal with those effects also differ, but also because of the differences in terms of each country's capacity to implement initiatives of various kinds, which is determined by the availability of resources.

Initially, central banks made strenuous efforts to provide the financial systems with liquidity so that local credit markets could function normally, as well as to supply financing themselves to borrowers not covered by those markets. Nonetheless, the nature of the crisis and, in particular, the plunge in confidence, called for other kinds of measures. Although monetary and exchange-rate policies should be part of a well-structured and coherent set of measures, fiscal policy is the most potent instrument in such cases.

Within fiscal policy, measures to boost spending have more potential than those based on tax cuts. The former provide a direct means of boosting demand, whereas the latter increase the private sector's disposable income and, given the prevailing level of uncertainty, a large proportion of that increase is likely to be saved rather than spent. If spending is raised by increasing direct transfers, the impact will be greater if the transfers target sectors with a higher propensity to consume. Transfers of this type are, however, harder to implement in the short term and are more demanding in institutional terms than untargeted transfers. Furthermore, when the higher spending is achieved through programmes of increased infrastructure investment, not all projects have the same impact in terms of employment and demand for locally-produced inputs; and governments do not necessarily have a list of programmes which are ready to be implemented in the short term.

LATIN AMERICA (SELECTED COUNTRIES): FISCAL COST OF ANTI-CRISIS MEASURES PLANNED FOR 2009
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] GDP 2008.
[b] The measures are to be implemented in 2009, except for the reduction in stamp duty, which continues into 2010.
[c] Includes a measure for a period after 2009.

An assessment was conducted of the fiscal cost of anti-crisis measures planned up to 2009 in six of the region's largest countries. It included all measures which have been announced and have a fiscal cost, so the estimates of the cost are not limited to a particular stimulus plan, but also include additional expenditure items. It should be noted that the calculation of costs is based on announcements and not on actual spending; this cannot be assessed until subsequently, when information becomes available on the level of implementation. Furthermore, the estimates are for 2009, so for multi-year plans the portion of costs corresponding to 2009 had to be estimated. Taking into account the steep drop in fiscal revenue, together with credit constraints, there may be doubt as to some governments' capacity to finance and execute the spending these measures call for.

The governments have announced widely varying interventions. Argentina is intervening actively, deploying fiscal measures at a cost of around 6.0% of GDP, o which over 90% is going to raise spending under the public works plan. The package of measures announced by the Government of Brazil represents some 3.6% of GDP, of which 85% is being used to increase spending and 15% is going to tax cuts or benefits. Inventions by the governments of Colombia, Chile and Mexico are estimated at some 2.4%-2.8% of GDP. In Chile 46% of the overall amount is being channelled into tax cuts and benefits, while in Colombia and Mexico the full amount is being used to increase spending. With regard to the type of measures, in Colombia the increase in fuel subsidy and transfers represents 65% of the total cost. In Chile the fiscal stimulus plan accounts for practically the full amount (93%). In Mexico, the programme to support household budgets and employment, together with the fiscal stimulus in the form of additional infrastructure spending, are the main components (around 68% of the total cost). In Peru, almost the entire array of anti-crisis measures correspond to the 2009-2010 stimulus plan.

In addition, all the countries, especially Mexico and Brazil and to a lesser extent Peru, announced measures to boost financing, such as sector-specific credit lines, soft loans and guarantee funds, whose ceiling values are shown in the table below.

	Financing ceiling *(Percentages of GDP)*
Argentina	1.5
Brazil	3.4
Chile	1.3
Colombia	0.6
Mexico	3.4
Peru	0.03

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31 May 2009* (LC/L.3025/Rev.1), Santiago, Chile, June 2009.

Table I.4

LATIN AMERICA (18 COUNTRIES): MAIN FISCAL MEASURES TAKEN TO DEAL WITH THE CRISIS

	Argentina	Bolivia (Plurinational State of)	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Ecuador	El Salvador	Guatemala	Honduras	Mexico	Nicaragua	Panama	Paraguay	Peru	Uruguay	Venezuela (Bolivarian Republic of)
Tax system																		
Corporate income tax, reductions/depreciation			X	T	X	T		X		X		T				X	T	
Personal income tax cuts	X		X	T	X					X	X	T		X				
Taxes on external trade	X		T					X				X	T					
Taxes on goods and services			T														X	X
Social contributions	X											T						
Other			X	X	X			T					X			T	X	
Public spending																		
Infrastructure investment	X	X	X	X	X	X	X	X		X	X	X	X		X	X	X	
Housing	X	X	X	T	X	X	X			X	X	X	X		X	X	X	
Support for SMEs and agricultural producers		X	X	X	X	X	X		X	X	X	X		X	X	X	X	X
Support for strategic sectors	T	X	X	X	X					X		X				X	X	
Direct transfers to households	T			T		X					X				X			
Other			X		X				X			X	X			X		

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
Note: T: Temporary measures.

tax incentives and deductions, often referred to as "tax spending", are notoriously difficult to quantify and their impacts difficult to estimate.[22] The implementation of such measures bring a further element into the analysis in terms of their duration, since whether they are temporary or permanent changes the impact on the sustainability of public finances.

These limitations and difficulties aside, in practice, governments often opt, at least in the short term, for tax cuts or non-targeted subsidies, since although they offer smaller potential than spending hikes, they are easier to implement.

Lastly, although a large proportion of these measures were adopted by central governments, many of them require —or will require— human or financial resources from subnational governments, as well as coordinated actions among various levels of government. This constitutes a chink of vulnerability in fiscal policy during the crisis since, although the public accounts of subnational governments have improved in recent years, this improvement was attributable not to better tax collection by local and intermediate governments, but in large measure to growing transfers from national governments. Total transfers grew by two GDP points between 1997 and 2007, while tax receipts for subnational governments rose from 2.1% of GDP to just 2.7% in the same period.

An analysis of the income structure of subnational governments by country reveals that transfers are significant in most countries. In Argentina, Mexico and the Plurinational State of Bolivia, transfers exceed 7% of GDP and in Colombia and Ecuador they total approximately 5% of GDP. In Ecuador and Mexico transfers actually represent subnational governments' main source of financing, at 80% of total income.

Furthermore, although much has been said about the public sector's falling debt ratio in 2002-2008 as an indicator of soundness, significant differences remain between countries in this regard at the subnational level. In some countries, such as Argentina and Brazil, local government public debt is still quite high (11% and 14% of GDP, respectively) and makes up a significant proportion of non-financial public sector debt (18% in Argentina and 39% in Brazil).

22 Although the methodologies used to calculate these effects are difficult to compare, the countries of the region draw substantially on "tax expenditures", which vary from around 2% of GDP in Argentina, Brazil and Peru to over 5% of GDP in Chile, Guatemala and Mexico, which heavily eroded their tax bases. For a more detailed account of tax spending in the region, see Jiménez and Podestá (2009).

E. Outlook

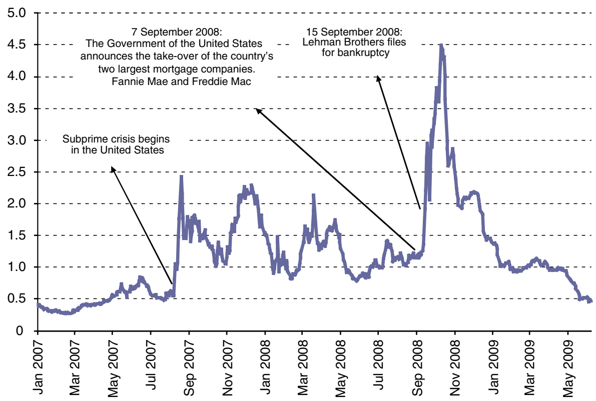
Even given the still-critical state of the global economy in mid-2009, the downturn shows signs of having come to a halt and even, in some cases, gone into reverse, with an incipient improvement in a number of economic and financial indicators, even though it remains to be seen whether this trend will firm up as time goes on.

The banks' situation has improved, as indicated by changes in the level of risk perceived by the financial market for interbank lending which, after spiking sharply, has gradually returned to pre-crisis levels. This has been partly a result of financial support programmes deployed by the government of the developed countries and the outcomes of bank stress tests which have found possible losses to be of a magnitude perfectly manageable with the tools available, in addition to the announcement by several major banks that they will soon reimburse the financial assistance received during the worst moments of the crisis, which denotes a gradual return to solvency.

As to the possibility of rebuilding wealth, there has been a widespread, albeit partial, recovery of stock markets in both developed countries and emerging markets, and home prices have stopped falling in the United States.

In keeping with these indicators, consumer confidence indices show that economic agents appear to be beginning to change their perception of where the crisis is heading. Indicators of consumer and business confidence suggest that the pessimism that pervaded late 2008 is slowly being turned around. This positive development could herald the start of a gradual recovery in the second half of this year, albeit slow and not without risk.

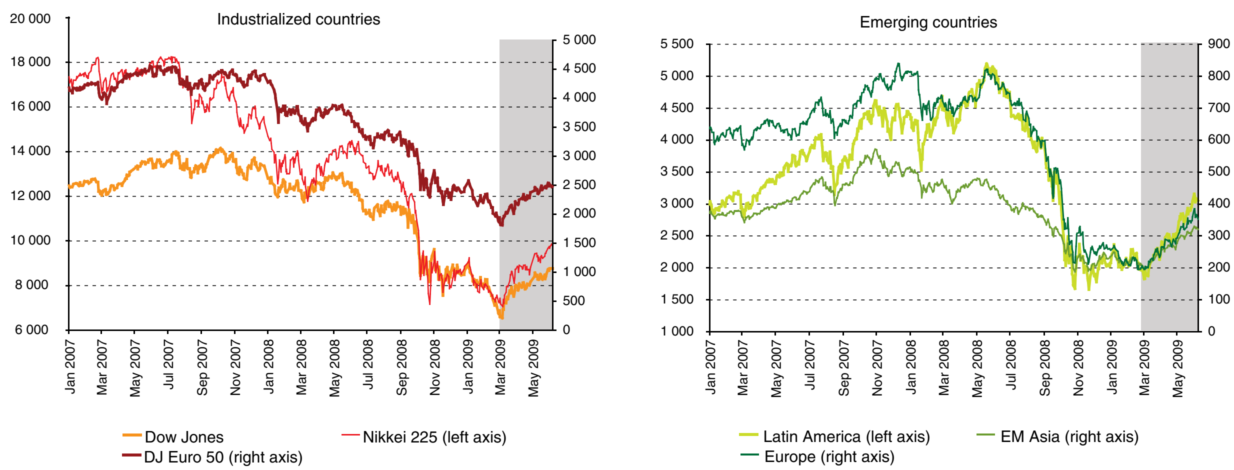
Figure I.24
INTERBANK MARKET INTEREST RATES [a]
(TED Spread: 2007-2009)



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

[a] The TED spread is a measure of the risk that a bank will default and corresponds to the spread between short-term interbank loans and the risk-free rate (three-month Treasury bonds).

Figure I.25
INDUSTRIALIZED COUNTRIES AND EMERGING ECONOMIES: STOCK MARKET INDICES



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

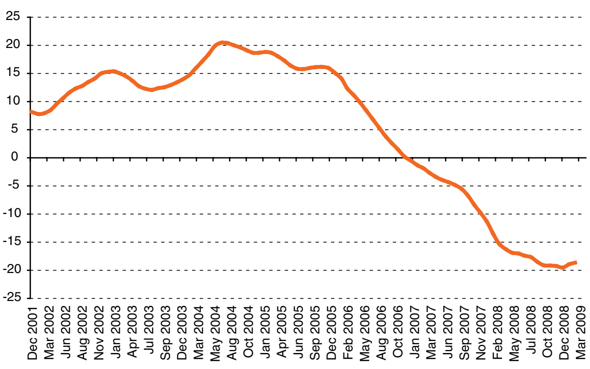
Financial markets will take time to return to business as usual and the availability of funds on the international markets will remain tight for some time. Deleveraging and slow credit growth will continue as long as banks are addressing their capitalization needs and the challenge posed by their holdings of financial assets of dubious value and outstanding delinquent loans. Moreover, the erosion of wealth (particularly non-financial wealth) has ceased but has yet to go into reverse, and this is placing a further constraint on the recovery of demand.

The slow recovery may well encounter some bumps along the road which could further delay emergence from the crisis. Close attention must be paid to the emerging economies of Eastern Europe and the Baltic nations, which have developed significant disequilibria comparable to or even worse than those seen in Latin America and the Caribbean in past crises. Some European banks are exposed enough in these countries to warrant concern that a worsening of the situation in that area could trigger contagion in Western European economies. In addition, a prolonged period of sluggish demand and economic activity at the world level could damage the asset positions of large groups of agents badly enough to strike a blow at financial systems.

It is thus difficult to predict when the crisis will end and what the path to recovery will look like. One possibility, assuming that the scenario described in the preceding paragraph does not occur, is that domestic demand will recover slowly in the developed countries on the back of a gradual return to normalcy in financial markets, the beginning of a process of recovery in the value of assets that make up the wealth of the private sector, particularly in the developed countries, and a change in the expectations of economic agents. In fact, the decline across the array of available indicators in the financial and real sectors alike is already slowing up and even showing some signs of reversing itself as uncertainty about the global economy abates, thanks to strong commitments on the part of economic authorities (particularly in developed countries but also in the developing world) to implement measures to mitigate the effects of the crisis on domestic demand.

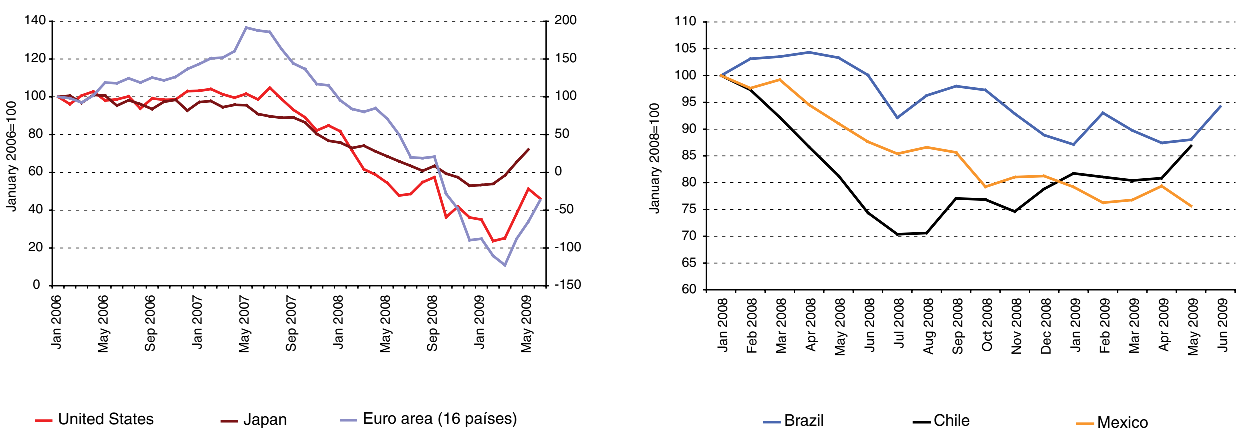
With regard to the region, in late 2008 it was forecast that economic activity would slow in 2009, given that, as noted in the *Preliminary Overview of the Economies of Latin America and the Caribbean, 2008* (ECLAC, 2008e), the engines that had been driving growth between 2003 and mid-2008 were shutting down one by one. At that time, expectations pointed to a drop in domestic demand, in both private consumption and investment, owing to declining national income (caused, in turn, by falling raw materials prices), rising unemployment and tighter credit, all exacerbated by weakening expectations.

Figure I.26
CASE-SCHILLER HOME PRICE INDEX, 10 MAJOR CITIES
(12-month percentage variation)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Standard & Poor's.

Figure I.27
CONSUMER CONFIDENCE INDICES



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national sources and the Statistical Office of the European Communities (EUROSTAT).

Towards mid-2009, the slowdown in international trade appeared to abate, commodity prices began to recover, access to credit eased and indicators of expectations began to improve. These developments allow for the possibility that activity levels in the region will begin to recover in the second semester: in fact, the downtrend is already showing signs of easing up in several countries. Given the extremely low starting point, this partial upturn will not be sufficient to make up for the contractions —or slowdowns— recorded in the fourth quarter of 2008 and in the first quarter of 2009. As a result, the annual rate of GDP growth will be negative for the first time in seven years. As noted earlier, the slump in economic activity will take its toll on the labour market and unemployment may be expected to rise and job quality to worsen, which will have a negative impact on poverty.

GDP in Latin America and the Caribbean is projected to contract by 1.9% in 2009, owing mainly to deteriorating activity levels in Mexico, whose GDP is expected to contract by 7%. For South America as a whole, activity will be flat (0.1%), similarly to the position in the Central American isthmus (0%), and per capita GDP will fall in many of the countries in both cases. For the Caribbean countries overall, GDP is expected to contract by 1.2%.

As noted, a gradual recovery is expected to begin in the second half of 2009 and become consolidated in 2010, when the region could return to positive growth, though at rates well below those recorded in recent years. Regional growth is projected at 3.1%, with South America (3.8%) again growing faster than Mexico (2.5%) and Central America (2.8%). Very modest growth is projected for the Caribbean (0.5%). Growth rates like these, however, are unlikely to prevent the deterioration of social indicators that will accompany the economic contraction in 2009. In fact, the growth rate projected for 2010 will barely be high enough to prevent unemployment from rising, assuming that the participation rate remains constant, but will not suffice to reverse the downturn estimated for 2009.

In order to achieve faster economic recovery that could more rapidly boost employment and thus help the region to regain the poverty reduction track it veered from in 2009, the governments would need greater capacity to tackle the impacts of the crisis through policy measures. That, however, will depend, among other things, on the volume of resources available for the purpose.

Given that the macroeconomic space for public policymaking has become tighter, all this points to the need for the international financial institutions to actively provide resources to finance countercyclical policies and measures to offset the impacts of the crisis. The region does have room to borrow sustainably, particularly from these entities, based on the behaviour observed in recent years.

Box I.6

TOWARDS A RECOVERY OF THE LATIN AMERICAN ECONOMIES

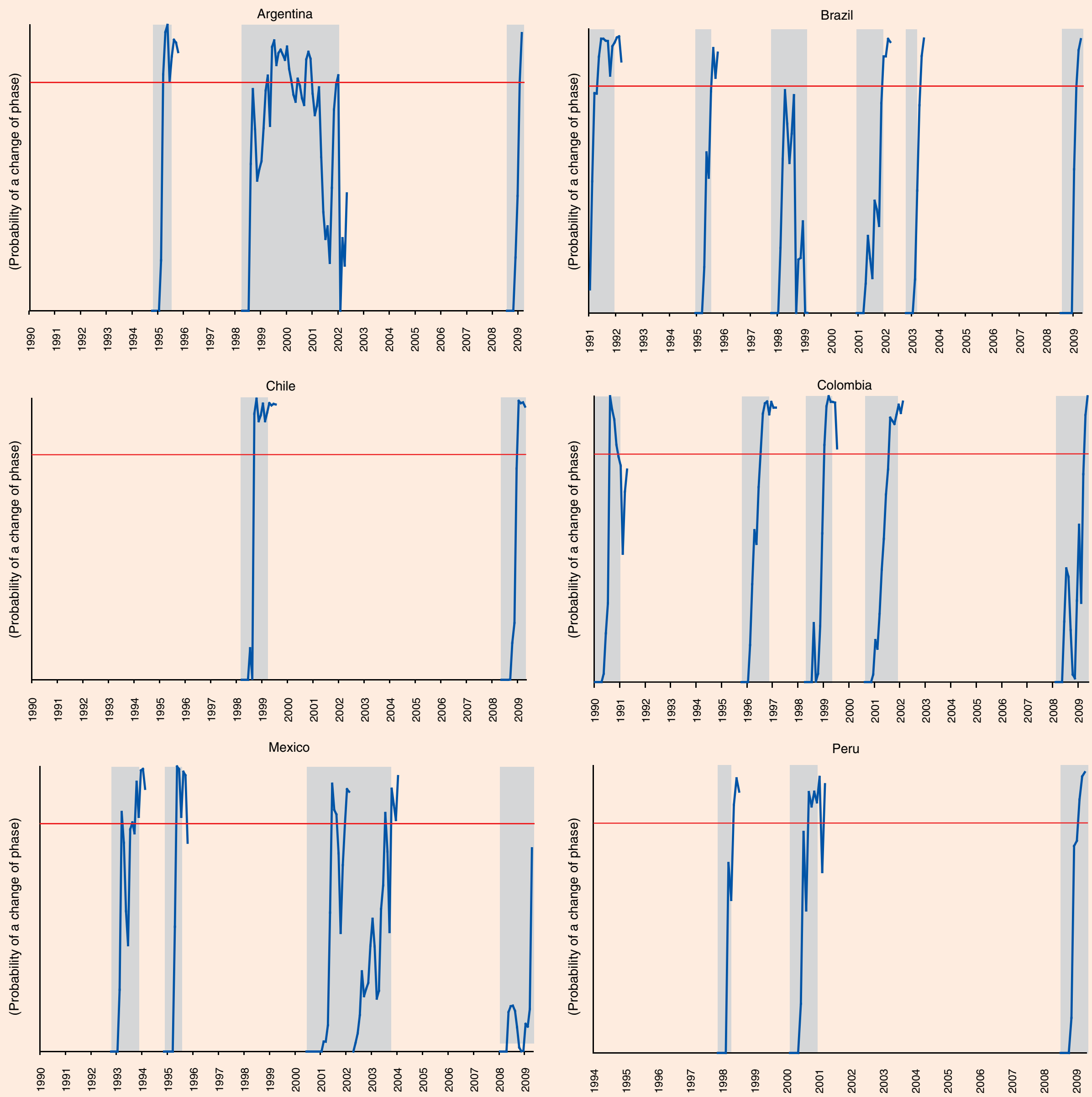
The international financial crisis has had a severe impact on the region, as evidenced by the economic activity indices observed in the fourth quarter of 2008 and the first quarter of 2009, when growth rates were close to zero or negative. Clearly, growth in Latin America was dented by the current international climate; nonetheless, as ECLAC has maintained, the region was better equipped to handle the situation than it had been on prior occasions and the question of when the recovery might begin is well worth asking.

With a view to finding some pointers in this regard, early signs of recovery were calculated using the most recent monthly data (from April and even May 2009) from six of the region's largest economies: Argentina, Brazil, Chile, Colombia, Mexico and Peru. In each country, an indicator of economic activity was taken as a reference point and a composite leading or advance indicator[a] was determined based on a set of financial and real variables. The set of variables was different in each country, but included real exports, total real imports and capital goods imports, real exchange rates, international reserves, indicators of overall and sector-specific economic activity, prices for major commodity exports, measurements of monetary liquidity, interest rates, stock markets and domestic credit, among others. In each country trend shifts were identified both for the target indicator and for each of the variables. The point at which these changes occurred was compared and those variables that changed early on were selected to feed into the composite indicator. Once the leading indicator was calculated, it was converted into a probability function to predict the likelihood of an imminent change of trend. This probability was then compared with a threshold established by referring to previous experience of business cycles in each economy. The crossing of that threshold represented a signal that the economy was about to bottom out (in the case of a contraction) or peak (in the case of an expansion) and that, consequently, a change of phase was imminent.[b]

The results of this exercise for the economies selected are shown in the figure below, in which the shaded rectangles denote periods in which economic activity was declining and the red line indicates the threshold mentioned above. The indicators for Argentina, Brazil, Chile, Colombia and Peru have all crossed the threshold, sending out a signal that the beginning of a recovery is approaching. In the case of Mexico, the threshold has yet to be reached, but significant progress has been made towards it. Based on this data, the countries of the region could be expected to enter a phase of economic recovery in the second semester of 2009.

Box I.6 (concluded)

PROBABILITY OF RECOVERY



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

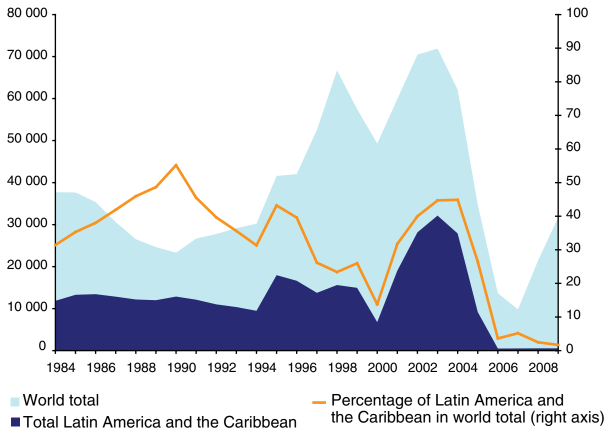
[a] The methodology used was basically that employed by the National Bureau of Economic Research (NBER), see G. Bry and C. Boschan, *Cyclical Analysis of Time Series*, New York, 1971.

[b] For the details of these calculations, see F. Cantú, A. Acevedo and O. Bello, “Indicadores adelantados de actividad económica para algunos países de América Latina”, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009, unpublished.

The need for international financial institutions to play a more active role will be even greater if the recovery of the international financial system is delayed and if access to external financing continues to be precarious. In such a situation, a number of countries could have difficulty in covering their external obligations.

The manner in which countries are granted financing from international financial institutions is also very important. At the very least, conditionalities must not be procyclical, as they often were in the past. And, importantly, costs and terms of financing must fit the needs of developing countries. Much would also be gained from the institutions working together in a coordinated, consistent and complementary fashion in order to reinforce their effects.[23]

Figure I.28
LOANS EXTENDED BY THE INTERNATIONAL MONETARY FUND
(Millions of special drawing rights and percentages)



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

The resources to augment the lending capacity of the international financial institutions must be raised very quickly in order to provide the liquidity necessary to broaden the policy space for hastening the recovery of the economies. This will help to prevent, or at least lessen, residual economic, social and political impacts that would be very difficult to remedy down the line.

Beyond the current economic context, the crisis provides an opportunity to reflect upon the kinds of macroeconomic policies that would best facilitate a sustained growth trend in the wake of the turmoil and would limit the vulnerability of the region's economies to both external and domestic shocks. Much has been achieved in this regard in the region, but much more remains to be done. The importance of saving resources in favourable times with a view to financing countercyclical policies at some future point is perhaps one of the most important lessons to emerge from this crisis.[24]

This is also an opportune moment to consider the changes on the horizon in the world economy and how the Latin American and Caribbean countries will fit into this new landscape. It is likely that developed countries will grow more slowly and, consequently, the developing world will take on a greater role in sustaining global demand. This poses new challenges in terms of competitiveness and makes export diversification —by product, but especially by destination market— imperative.

International financial systems may come under much stricter regulation and oversight, which could dampen the buoyancy of credit markets and lead to higher interest rates. In such a scenario, it would be necessary to ensure that domestic savings are kept at adequate levels and can flow freely into financing for economic activity. It also poses major challenges in terms of designing an international financial architecture that considers the needs of developing economies.[25]

A new paradigm shift is taking place and is repositioning the role of the State in the economy, not only in regulating economic activity to ensure that the search for private profitability does not conspire against the well-being of the wider society, but also in developing a type of production fabric that incorporates more knowledge and environmental efficiency and makes innovation a priority. Above all, the State has a role in protecting the most vulnerable sectors of society to ensure inclusive development. This raises the question of what kind of State is needed to carry forward these tasks and what reforms are necessary to build it.

The medium- and long-term challenges raised above touch upon the lacks revealed by a crisis that has struck the region a hard blow, albeit without the drama of previous occasions. The crisis has broken a stretch of six consecutive years of growth and improvement in social indicators. Regional GDP is projected to shrink by 1.9% and unemployment is expected to rise to 9%, with informality probably increasing. All this will worsen poverty in a region whose inhabitants already number over 180 million poor and 70 million indigents and it points to the imperative of regaining a growth track at rates that are consistent with social needs.

In sum, the region needs public policies that will enable it to become competitive enough to participate in the global economy in such a way as to grow with greater social cohesion. As ECLAC has signalled, this will require an economic and social policy mix built on three pillars: technical progress, productive employment and human capital. This strategy of production development combined with greater equity-building will, in turn, require resources to finance the necessary policies as well as a stronger State able to address these challenges successfully.

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23 Some of these themes are analysed in an interesting work recently published by IDB entitled "Policy Trade-offs for Unprecedented Times: Confronting the Global Crisis in Latin America and the Caribbean" (IDB, 2009).

24 For a detailed examination of these topics, see ECLAC (2008f).

25 See Calvo (2009).

Part 2

Policies for creating quality jobs

Introduction

Economic growth in Latin America between 2003 and 2008 had a positive effect on the labour market, as the resulting rise in employment pushed down the unemployment rate and increased job quality. This contributed to a significant reduction in poverty and indigence rates during the period. This positive trend did not, however, prevent a continuation of the region's serious labour problems and their ongoing manifestations in the form of unemployment, underemployment, job insecurity and informality. In this context, the conditions of certain groups of workers are especially unfavourable, such as the least skilled and, within this group, women and young people in particular. Furthermore, the deficiencies in the region's labour markets often generate dramatically unequal income distribution and poverty situations from which many people are unable to escape —even when they are employed.

The current worldwide economic crisis also affects the region's labour markets, which means additional challenges for labour policies. All of this is playing out against a fairly volatile international backdrop, in which increased competition (as a result of more globally integrated markets) requires Latin American and Caribbean economies to have a high capacity for adjustment and adaptation.

In this context, the debate on the appropriate characteristics for labour institutions is perhaps one of the most controversial in the sphere of economic and social policy. This is largely due to the fact that the labour market is different to others —mainly because the workforce is the good being traded— and that hiring conditions are defined for a specific period of time, without a total or permanent change of ownership. Besides this, the labour market has problems of incomplete information among the economic agents involved, as the business owner does not know the worker's real performance, while the worker has no knowledge of all the labour conditions within the business. This affects the negotiation of contract terms, hampers labour mobility and restricts investment in human capital. Lastly, bargaining power between the individual worker and the firm is clearly unequal, partially due to the aforementioned information asymmetries and partially because of the need for workers to maintain a constant income (given their low capacity for saving or accessing alternative resources). All of this constitutes a further feature that renders the results of negotiation far from optimal, and calls for public-policy intervention.

Above and beyond the technical explanation based on the specific characteristics of the labour market, the reasons for appropriate regulation are also ethical ones based on the need to provide social justice. Thus it has been posited that the labour market is a social institution (Solow, 1992). As a result of social and political processes marked by conflict, legal regulations and rules based on collective bargaining have been established to complement and restrict regulations based on the market.[1]

As a result, there emerged a vast array of labour institutions covering, inter alia, the regulation of labour conditions (level and type of wage and contract, conditions

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1 See an analysis of the potential advantages and risks of the three forms of regulation in Betcherman, Luinstra and Ogawa (2001).

for dismissal, etc.), mechanisms for their creation and control, the organization of labour market agents, the institutions that affect the availability and characteristics of the workforce (health, education and vocational training systems), information systems and labour organization in companies (Rodgers, 1993).

Labour institutions as a whole must pursue the double objective of ensuring the efficient functioning of the labour market, as well as the protection of structurally weaker actors, with the ultimate aim of contributing to the generation of high-quality employment.

As with other institutions, labour institutions are the products of history, the result of social, political, economic and cultural interactions in a given time and place. Achieving the above-mentioned objectives is therefore mainly dependent on the way in which the challenges of the economic, social, political and cultural context are responded to. In particular, labour institutions are expected to be consistent, and to have a long-term development strategy that stimulates systemic competitiveness, while taking account of the need to correct the region's structural heterogeneity by encouraging the convergence of the productive structure, so as to facilitate greater social inclusion. With this in mind, it is also vital to develop mechanisms to promote the expanded coverage of labour institutions, to include large swathes of the workforce that do not enjoy their benefits. This should go hand in hand with the development of non-contributory protection systems (ECLAC, 2006), with a view to extending social protection to the entire population.

To reiterate what was stated earlier, there is intense debate about the optimum characteristics of labour institutions, both in terms of regulation generated by legislation, and the way in which this affects labour-market functioning. Broadly speaking, there are two viewpoints on the matter. According to one argument, high firing costs, hiring difficulties, fixed working hours and high labour costs prevent greater levels of investment and growth, and eventually have a negative effect on job creation. Those in this camp maintain that labour markets require increased flexibility, and that the solution would be the legal deregulation of labour markets in favour of market-based regulation. The opposing point of view is that legal regulation, as well regulation based on collective bargaining, does not have a negative impact on labour-market performance, and in fact is necessary for ensuring social justice and cohesion, not to mention increases in efficiency, real technical progress and productivity.[2]

Although there are obvious implications for both stances (specific interests of increased profitability for business owners and greater protection for workers) in the short term, the picture is not as clear from a more long-term perspective. In a genuine strategy of competitiveness, would maximum flexibility (and the associated high staff turnover and problems in generating human capital) really be best for business owners? On the other hand, in a constantly changing environment, is an employment strategy based on accumulating seniority in a stable job really the best way to protect workers and encourage upward career paths? Perhaps it is possible to find solutions that turn the short-term mutual compromises into win-win situations, taking into account the long-term implications.

This *Economic Survey* does not aim to answer these questions, but rather present the options that Latin American and Caribbean countries have available to enhance their labour institutions, so that they may become the means of generating quality employment. With this in mind, the first chapter offers a review of the debate on labour institutions and the elements thereof, as well as how the debate both influenced and was affected by the unsatisfactory performance of regional labour markets in recent decades. The second chapter examines the functioning and impact on labour markets of specific institutional aspects such as minimum wages, unions, collective bargaining and unemployment protection. The third chapter provides an analysis of advances and weaknesses in terms of active labour-market policies. One of the key tasks of labour policies is to encourage the entry into the productive labour market of groups who come up against specific obstacles in this area. The penultimate chapter therefore reviews policies and programmes to promote productive employment for women and young people, especially the least skilled among them. The final chapter presents some preliminary conclusions about these topics that are so important for the region.

2 As stated by Berg and Kucera (2008), such institutions become even more important in contexts of excess labour supply, as these make it essential to ensure a minimum level of protection for all workers.

Chapter I

Challenges and opportunities for labour institutions in Latin America and the Caribbean

A. Development of labour institutions in the region

Between the 1950s and 1960s, the Latin American and Caribbean region underwent a process of rapid economic growth, in which the labour markets changed dramatically. In addition, the labour supply rose quickly as a result of high birth rates and lower mortality, as well as (especially from the 1970s onwards) a surge in female participation. At the same time, levels of schooling rose following the expansion of the education system. High economic growth generated significant labour demand in modern sectors of the economy, which in turn pushed up the proportion of waged non-agricultural work in the occupational structure. The share of the agricultural sector in employment dropped sharply, while employment in secondary and tertiary activities grew. Lastly, average productivity increased, albeit with major intersectoral and intrasectoral gaps.

These transformations in the occupational structure were accompanied by the development of labour institutions similar to those in more industrialized countries. Such changes were intended to create a framework to substantially increase waged work in the industrial and tertiary sectors and to respond to the demands of emerging social sectors (Candia, 1994). Similarly to what happened in industrialized countries, legal instruments were created to regulate labour relations, both directly through State intervention and by means of collective agreements. One of the factors influencing the design of labour codes was the need to correct the structural imbalance between the various agents in the labour market by providing special protection for workers. Furthermore, public sector employment expanded dramatically, which had an impact on wage setting. At times, the public sector acted as employer of last resort (Echeverría, 1985). The experiences of Latin American countries differed from those of industrialized countries in the following ways:

(i) Regulatory coverage was limited to a much smaller section of the workforce.

(ii) In many countries, relations among the main socio-economic agents (public sector, business owners and unions) were characterized by a social covenant led by a populist State. In this context, unions were highly dependent on the State and political forces, and political negotiations were given priority over labour negotiations and legislatory regulation was preferred over regulation resulting from negotiations between business owners and unions.

(iii) In some cases, socio-political instability generated a cyclical movement in which regulation arising from consensus among companies, workers and the State was replaced by authoritarian regulation that dismantled or weakened union organization (although the former was eventually re-established).

(iv) In countries with a weakened production base and exclusive socio-political systems, the prevailing collective labour relations were authoritarian and repressive, and individual labour relations were often strongly biased towards protection, although the coverage of labour institutions was smaller than in more developed countries.

As a result of the way in which the labour market grew between 1950 and 1980, there were simultaneous processes of social inclusion and exclusion (PREALC, 1991, p. 2). While a growing proportion of the economically active population became involved in buoyant activities, a considerable percentage of those who left the agricultural sector and migrated to large towns —as a result of interweaving push and pull processes— were able to find work only in low-productivity and low-income activities. At the same time, labour institutions —which had been designed by adapting institutions from other socio-economic contexts to specific local situations covered only a small percentage of the labour force. Large swathes of the population (their proportion depending on the country) were excluded from these processes and benefited only indirectly from some of the progress (social policies, trickle-down income opportunities) or else experienced economic displacement and social marginalization.

As a result, although open unemployment remained generally low (PREALC, 1982, pp. 99-100), analysts highlighted serious labour problems that were reflected in the (visible and invisible) underemployment that characterized large sections of the employed among farm workers and informal urban workers. In this regard, the predominant interpretations attributed the ultimate causes of these problems to non-labour markets.[1]

Some interpretations, such as those based on the Harris-Todaro model, assigned an important role to labour-market regulation, specifically in explaining the large size of the informal urban sector. According to this interpretation, the benefits provided by law or collective bargaining to formal workers were hugely attractive to the rural workforce, but made labour costs more expensive, which then limited labour demand. A large number of migrants from rural to urban areas were therefore forced to work in informal employment while waiting for an opportunity to join the formal sector. However, in the 1970s and much of the 1980s many analysts thought that labour markets in Latin America functioned reasonably well (Squire, 1979; Gregory, 1986).

During the crisis of the 1980s, labour integration factors weakened even further both in the labour market itself (with productive employment creation at a low ebb) and at the institutional level. Within the labour market, on the one hand, the need to generate employment remained high (as the participation rate continued to rise) while, on the other hand, the capacity of the formal sector to create productive employment decreased (with most new jobs being concentrated in the informal sector). Agriculture, which had temporarily been a refuge, continued to see its share in employment fall, while the expansion of the secondary sector faltered and the pace of growth increased in the tertiary sector (which has accounted for over half of employment since the 1980s). At the same time, average labour productivity fell and structural heterogeneity deepened, owing in particular to the surge in informal sector employment, which lowered this sector's average productivity.

In this context, many aspects of labour institutions (which covered only some of the population) became even less effective. In many countries, minimum wages plummeted in real terms and lost their influence as the benchmark for wage negotiations, traditional social security systems suffered financial crises and unions lost bargaining power.

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[1] "[…] one of the special features of Latin America is the persistence of the employment of a considerable proportion of the labour force at low levels of productivity […] The productive absorption of this labour is made more difficult by the dynamic insufficiency of the economy, which is incapable of reducing this proportion despite the high rates of accumulation and growth of the modern sectors, this being explained, in turn, by the nature of technological change and the distribution and appropriation of wealth" (Tokman, 1982, p. 129). From another perspective, Balassa and others (1986, p. 71) also detected labour problems. However, they gave another explanation: the high expectations surrounding the creation of new jobs through the import substitution strategy for Latin American development were not fulfilled. The industries established were relatively capital-intensive and therefore unable to absorb all the workers left unemployed in the agricultural sector, who were thus disadvantaged by this strategy.

The main aim of the liberalizing structural reforms driven through from the 1980s was to lay the foundations for high and sustained economic growth; employment was not considered a key variable. However, the proposed reforms were expected to have a major positive effect on labour markets, by eliminating a series of distortions that were acting against job creation.[2] The main rationales for the reforms included the following:

(i) Anti-export bias: it was suggested that import substitution strategies (characterized by, among others, tariff protectionism, currency overvaluation and a fiscal policy that discouraged exports) had shaped a production structure that did not match the region's factor endowment (underutilizing the labour factor).

(ii) Urban bias: to promote industrialization, agricultural activities (which tend to be labour-intensive) had allegedly been relegated to the role of providing foreign exchange and cheap industrial inputs and food (through price, credit, fiscal and tariff policies, and so forth), and this would have hindered their development.

(iii) Bias in favour of intensive use of capital: to promote the modernization of productive activities, the relative prices of capital had been lowered by means of machinery and equipment import facilities, as well as input subsidies and credit mechanisms.

(iv) Bias against labour demand: distortions such as non-wage labour costs, unionization, the large size of the public sector and minimum wages had made the labour factor more expensive.

As a result, the proposed reforms were to stimulate job creation in three ways: increased economic growth would boost labour demand; reorientation of investment would reflect the region's comparative advantages (thus favouring more labour-intensive sectors); and corrections in the relative prices of capital and labour would promote a move towards more labour-intensive technologies. However, with the exception of the labour plan in Chile in 1979 and, to a lesser extent, the reform in Panama in 1986, labour reforms were not a priority on structural reform agendas prior to the 1990s.[3]

This could also have been influenced by the fact that other reforms (relating to trade, finance or privatizations) were expected to have a far greater impact on economic growth and therefore on employment. In addition, since strong resistance could be anticipated to deregulatory labour reforms, it may have been thought not worthwhile to invest political capital in them.[4] A contributing factor in this decision may have been the above-mentioned perception that, despite their distortions, the region's labour markets functioned reasonably well. As a result, public policies in the labour sector of many countries concentrated their efforts more on active labour market policies rather than labour reforms, in an attempt to improve the efficiency of mediation, training and micro-enterprise development instruments (interventions that are clearly less antagonistic than labour reforms) (Weller, 2004).

However, although economic growth picked up somewhat in the early 1990s, labour indicators were clearly unsatisfactory, as indicated by high open unemployment, fresh still maintaining a very relative expansion of the informal sector and decreases in job security. Consequently, optimistic view of market functioning it was suggested that labour reforms had been a key omission from the agenda and new labour institutions were needed. This went on to be explicitly included in the proposals for second-generation reforms, this time with strong emphasis on making labour markets more flexible and giving less emphasis to other labour policy objectives (Burki & Perry, 1997; IDB, 1997).[5]

The rationale for this proposal was based on historically decontextualized theoretical considerations about the cost (monetary and non-monetary) of regulations, which would have a negative impact on the level and characteristics of hiring, the unemployment rate and the efficiency of labour-market adjustments to labour-demand and supply shocks. Accordingly, it tended to be assumed that labour markets functioned the some way as other markets and therefore the preference was for the most far-reaching labour deregulation possible.[6]

More recently, however, the limited results of the main reforms of this type (typified by low formal job creation and more precarious employment conditions) have caused the international debate to adopt greater degree of caution with respect to radical deregulation measures (Freeman, 2005).[7] This situation has refocused the debate around the areas and objectives that have conventionally been prioritized by labour policy, such as improving labour conditions, offsetting asymmetries among market agents,

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2 See Weller (2000, pp. 23-27).

3 This is reflected in a key document on the proposed reforms (Williamson, 1990). Out of the 10 reforms from the Washington Consensus, labour reform is mentioned only in the proposal on deregulation (in a quotation from another document that mentions one labour aspect to reform —the high cost of dismissal— in conjunction with six other policy areas). At that time, labour reform was clearly not a priority on the agenda for market-oriented structural reforms.

4 It is noteworthy that some of the most far-reaching reforms were implemented in regimes with varying limitations on the exercise of democratic and union rights, such as that in Chile in the 1970s and 1980s and subsequently in Peru.

5 According to the interpretation of Williamson (2003), this was an uncompleted task left over from first-generation reforms.

6 "The challenge of labour policy is not very different to the challenge of trade policy up to a few years ago, i.e. to reduce distortions and increase competitiveness" (Cox Edwards, 1997, p. 91).

7 This process was accompanied by a reorientation of the vision of certain international financial agencies.

social labour protection and promoting equitable access to employment.

The current international economic crisis, which affects the region's countries to varying degrees, has begun to have a negative impact on the labour market and living conditions of the population (ECLAC/ILO, 2009). In this context, the role of labour institutions becomes even more significant, as they should help to avoid inequitable adjustments associated with any economic and social losses. More specifically, policies intended to avoid unemployment and sustain the income of those who lose their jobs not only contribute to reducing the negative impact of these episodes on family income but also lessen the secondary effects on other labour-market indicators (such as average wages and their distribution) and help to stabilize domestic demand (thereby limiting the severity of the crisis and supporting the subsequent recovery of growth). This function is particularly important, given the fact that evidence suggests that employment-output elasticity increases during a recession (see box I.1).

Box I.1
ECONOMIC CYCLE AND EMPLOYMENT

Navarro (2009) obtained traditional functions of labour demand using dynamic panel estimations from 15 Latin American countries for the period 1980-2007 and a subset of six countries for the period 1985-2008.[a] First, aggregate employment is found to contract during recessions and the signs of employment-output elasticity and employment-wage elasticity are consistent with the theory and the international empirical evidence available. In particular, the employment-output elasticity for the subset of six countries is between 0.32 and 0.34, whereas the employment-wage elasticity varies between -0.11 and -0.12; for the group of 15 countries the values drop to 0.27 and nearly -0.05, respectively. Furthermore, there seems to be a greater negative impact on wage employment creation, which appears to point to informal employment having a countercyclical role.

Second, the responses of job creation to variations in wages and in the level of activity seem to be asymmetrical depending on the phase of the cycle. In particular, employment-output elasticity increases in recessions, while the employment-wage elasticity decreases. In the case of wage employment, the employment-output elasticity increases from 0.3 in periods of stability or growth to 0.75 in the recessionary phase of the cycle. In contrast, the employment-wage elasticity drops from -0.22 to -0.03 under the same sets of circumstances. From this, it may be inferred that the reduction of labour costs is ineffective in increasing labour demand in the recessionary phase of the cycle, whereas policies that target aggregate demand and the level of domestic activity appear to have a greater impact on employment in times of crisis.

The author puts forward two arguments to account for these findings. On the one hand, a "macro" argument suggests that, in recessions, labour demand from companies is limited by the demand for their products and that wage decreases are not enough to encourage job creation. The "expectations" factor is important in this scenario, such that, even with hiring subsidies, firms will be less willing to increase hiring unless they expect demand for their products to rise in the near future. On the other hand, the "micro" argument is based on two of the rules of derived demand of Hicks and Marshall (Hammermesh, 1993): (i) if a negative demand shock results in lay-offs, the share of labour costs in the total costs of companies is expected to fall, and companies become less sensitive to wage changes; (ii) if the price elasticity of demand falls, companies have less incentive to reduce prices, which results in lower employment-wage elasticity.[b]

Source: Lucas Navarro, "Dinámica del empleo y crisis en América Latina: resultados de estimaciones de panel", document presented at the workshop on labour- market institutions' present challenges, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 14 and 15 April 2009, unpublished.

[a] The small size of the sample is a potential source of bias in the estimations. To mitigate this problem, a technique of instrumental variables developed by Hahn, Hausman and Kuersteiner (2007) is used.

[b] According to much of the literature, the price elasticity of demand is procyclical. See Edmond and Veldkamp (2008), among others.

B. Aims of labour institutions

The ultimate aim of labour institutions is to generate quality employment. In order to achieve this, institutions must fulfil a twofold objective: ensure effective functioning of the labour market (namely an optimum allocation of resources) and guarantee the protection and strengthening of the weakest in a market with structural inequalities among actors. An appropriately designed labour policy thus stimulates economic growth, competitiveness, employment and social cohesion. It should therefore be designed with due consideration for the need to:

(i) Contribute to improved labour conditions (creating working conditions that comply with the standards of security and decent work, helping to offset power asymmetries among workers and employers during wage negotiations, promoting equitable access to the labour market and to the benefits of labour and social protection institutions and enforcing labour laws, among other things).

(ii) Promote institutions and policies to tackle the effects of variable economic activity on the labour market.

(iii) Help to create the conditions for employment and wage growth, in the framework of a development strategy.

The world's various models of the regulation of labour relations differ in the emphasis they place on achieving labour-policy objectives. For instance, European Mediterranean countries have labour legislation that prioritizes job stability, but few resources are channelled into labour-market policies. For their part, workers in France, Germany and Sweden have job security and a high level of labour and social protection. In contrast, the United Kingdom and the United States have more flexible labour regulations and spend fewer fiscal resources on protection policies (Tokman, 2008a).

Lastly, some European countries have attempted to respond to demands for increased flexibility without neglecting job security, by orienting their regulatory system towards a system known as flexicurity. Denmark, Belgium, the Netherlands, Finland and Ireland, for example, have labour legislation that does not seek to protect jobs through regulations but that involves a high level of public spending in pursuit of labour market policies that are both passive (income protection for the jobless) and active (especially training) to help safeguard workers' standards of living. Another striking feature of these countries' experiences is the intensive social dialogue that has facilitated the introduction and management of the system.

As in European countries, in the Latin American and Caribbean labour-policy objectives are promoted in a variety of ways. Tokman (2008a) identifies the following four groups of Latin American countries by the stringency of their labour legislation (HL for highly stringent legislation and LL for low) and the relative significance of their spending on social and labour protection (HP for high protection and LP for low protection):

(i) LL-HP: includes Argentina, Chile, Costa Rica and Uruguay, which have less strict labour legislation and high spending, in relative terms, on labour protection.

(ii) HL-LP: includes Mexico, Panama and the Andean countries. They have more stringent legislation that provides greater job security (through the high cost of redundancies), but they allocate limited resources to worker protection.

(iii) HL-HP: includes the Bolivarian Republic of Venezuela and Brazil.

(iv) LL-LP: includes countries of Central America, the Dominican Republic and the Plurinational State of Bolivia.

There are also major differences between Latin American and European countries that have a relatively high level of social and labour protection: Latin American countries mainly use labour legislation (especially in terms of redundancy compensation) as practically the only way of ensuring job security, whereas European countries use passive and active policies based on income and employment security.

Institutions in the Caribbean have different historical roots to those in Latin America, as they are closer to systems in the United Kingdom and the United States. More specifically, labour relations are more largely based on market regulation, although considerable efforts are also made in terms of active labour-market policies (see box I.2).

The conclusion is that the starting point for an analysis aimed at enhancing labour institutions varies greatly among the region's countries. Reflections on the most appropriate regulatory systems to promote progress in achieving labour-policy objectives should consider the historical development process of each country's system of labour institutions. The adaptation of labour institutions, as agreed upon by the various economic and social actors, seems to be the only way forward for achieving sustainable institutions in keeping with a long-term development strategy and in which each institutional component is related in a coordinated way.

The following sections provide a general overview of recent trends and the current status in the most relevant policy areas: first, aspects of social and labour protection; second, active and passive labour-market policies; and lastly, aspects of the functioning of the labour market in terms of employment protection and means of promoting a higher level of employment. Where appropriate, the results of specific experiences and of studies on labour-market reform are discussed. The chapter closes with an analysis of the structural limitations and challenges faced by countries wishing to achieve greater integration with the world economy, along with social equity and protection.

Box I.2

LABOUR INSTITUTIONS IN ENGLISH-SPEAKING CARIBBEAN COUNTRIES

Generally speaking, the labour markets of English-speaking Caribbean countries are considered more flexible than those of Latin American countries. Working hours or time-related and functional flexibility are the main forms of labour-market flexibility. There are selected forms of payment flexibility, especially in large unionized firms (particularly profit-sharing and performance-based pay). Numerical flexibility is more restricted by labour legislation, although there is a growing trend towards the use of contract labour (both domestic and migrant labour). Both Barbados and Jamaica have established institutions to promote greater use of incentive pay based on productivity or performance. Some measure of flexibility has been introduced via collective bargaining agreements as labour laws have not changed in any fundamental way over the past decade.

In the Caribbean, the social protection system for laid off workers is not fully developed. Although there are redundancy compensation schemes for those who fulfil the relevant requirements, a high percentage of the labour force working in basic activities receives no financial support during spells of unemployment. Barbados has unemployment insurance, but only people who meet certain conditions can benefit from it. Jobless workers have to resort to special social assistance programmes while unemployed. Informal labour and remittances from abroad also help to relieve the loss of income resulting from unemployment. In Jamaica, there are plans to introduce a formal assistance system for the unemployed.

There is widespread agreement among stakeholders in the labour market that active labour-market policies (especially the provision of training and information on the labour market) are key areas. Caribbean countries have implemented many such policies, particularly in terms of training programmes and State-run employment services. Most of these countries have a range of public and private agencies that provide training to employed and unemployed people. Some countries have special programmes for young people, such as the Youth Training and Employment Partnership Programme (YTEPP) in Trinidad and Tobago. As for public employment services, they tend to be underused as job information usually passes through informal channels such as word of mouth and social networks.

Although labour-market participants have made efforts to engage in social dialogue, few concrete measures have been introduced in this area by the subregion's countries (except Barbados and, to a lesser extent, Jamaica).

Source: Andrew S. Downes, "Flexible labour markets, workers' protection and active labour-market policies in the Caribbean", *Macroeconomía del desarrollo series*, Nº 86 (LC/L.3063-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations Publication, Sales No.: E.09.II.G.59.

C. Labour protection

Labour protection includes a gamut of public measures implemented to support individuals, families and communities in dealing with various risks, and to offset labour-market exclusions and asymmetries (with emphasis on the poorest and most vulnerable members of society).

One of the most important elements is unemployment protection, which is implemented to fulfil objectives of equity and efficiency. First, unemployment protection schemes that reach low-income households serve to smooth the effects of joblessness on family income and reduce the adverse effects on the welfare of those households, thereby helping to prevent more households from falling into poverty. Second, inasmuch as the income protection system for the unemployed represents a financial support that facilitates job-seeking, it will contribute to matching the characteristics of supply and demand (Acemoglu and Shimer, 1999) and will promote efficiency. It can thus reduce the income losses resulting from changes in employment following redundancy.

However, it is often argued in developed countries that these protection schemes generate dependency on the part of beneficiaries by discouraging them from actively seeking work. Following on from this, some developed countries that have very generous programmes have incorporated means of checking job-seeking efforts and have strengthened the active policies associated with unemployment benefits. Within this set-up, job centres have taken on an increasingly important role, improving the coordination between unemployment insurance, and the training aimed at increasing the employability and rehiring of the unemployed.

Unlike in developed countries, in Latin America and the Caribbean the scope and coverage of unemployment insurance has always been limited. As will be discussed in chapter II, even in the few countries that have such schemes (Argentina, Barbados, Bolivarian Republic of Venezuela, Brazil, Chile, Ecuador and Uruguay), the rates of coverage for the unemployed population are low. This is mainly due to widespread precarious employment conditions, a low level of affiliation and a high degree of employment instability.

Given the lack of contributory unemployment protection programmes or their limited scope, many of the region's countries have implemented non-contributory cash transfer schemes. Although there is considerable ongoing debate on the repercussions of this type of programme on the labour market (in terms of labour participation, formalization and wages), this study does not look at them in any detail since such measures are intended to increase the income of low-income households rather than to deal with unemployment.[8]

As mentioned previously, one of the purposes of labour institutions is to address the structural inequality among actors in the market. As a consequence, other aspects of social and labour protection that usually receive special attention have to do with compensation for labour-market asymmetries. These tend to be analysed from three perspectives that will be discussed in detail in the following chapters. First, there is the establishment of a level playing field, through the promotion of options that lead to a balanced negotiation of labour conditions. The tools used in developed countries and in Latin America and the Caribbean include promoting unions, establishing rules for collective bargaining and employment supervision aimed at promoting compliance with labour rules and laws. Second, with a view to tackling unequal bargaining conditions and promoting a minimum standard of living for the least skilled workers, minimum wages have been set. Third, various population groups (particularly women and young people) tend to be at a disadvantage in the labour market or find it difficult to access the formal sector of it. They are therefore excluded from formal labour protection mechanisms, experience higher unemployment and generally work in low-productivity employment. These final aspects are addressed in chapter IV.

D. Active labour-market policies

Active labour-market policies are those designed to avoid job losses or to expedite the transition between unemployment and employment. These schemes operate on three different levels: (i) on the quality and type of labour supply, through workforce training programmes; (ii) on demand, through direct or indirect job creation or support to microenterprises, and (iii) through intermediation between the two parties in the employment relationship (mainly carried out by job centres).

As noted earlier, the line between active and passive policies has become increasingly blurred, as the latter kind (especially unemployment insurance) are increasingly associated with active schemes to support the return to work —for reasons of both efficiency and equity.

In terms of efficiency, (re)training programmes can offset, at least partially, the loss in skills related to periods of unemployment by accumulating human capital, be it general or specific to a given activity. This will reduce the amount of income lost through the period of unemployment and will also boost the productivity of companies that subsequently hire workers who benefited from the scheme, thereby increasing overall efficiency. As pointed out by Bertranou and Paz (2007), active policies aimed at improving job prospects help to equal out the skills and opportunities of workers, and are therefore positive from the point of view of equity. Indeed, these measures are increasingly incorporating more equity considerations and seeking participation by groups of excluded workers.

As stated above, in recent decades the region's countries have implemented active labour-market policies owing to the dramatic transformation and restructuring of the labour market in the wake of international economic liberalization and technological change. In order to lesser the negative impacts of these changes on economic activity and unemployment, the region's countries began to implement a series of policies that would operate on the three aforementioned levels.

A major shift that occurred both developed countries and the region in the 1990s was the switch from universal policies to programmes targeting the most vulnerable social groups, including the long-term unemployed, young people and women (especially those with a low level of formal education).

The broad variety of active policies implemented in the region form the subject of a considerable body of literature, which analyses their effects and outcomes in terms of labour-market indicators with rather diverse findings (see chapter III).

[8] See a description and assessment of these programmes in their entirety in the ILO/IPEC study (2007); a review of debates on conditional transfer programmes in Ribas, Soares and Hirata (2008), Villatoro (2007, 2008) and Cecchini and others (2009); and an analysis of the possibility of implementing a level of basic non-contributory social protection in the region in ECLAC (2006) and Bertranou and others (2007a).

E. Labour policy dilemmas in promoting employment

One of the proposals to emerge from the debate on labour institutions stresses the fact that, to promote employment, it is vital to make it easier for firms to reorganize their workforce in response to changes in market conditions. In accordance with this vision, high flexibility implies having few restrictions and low costs for hiring and firing, as well as for defining employment conditions (external flexibility). Flexibility also implies having little difficulty in adapting production processes by reassigning tasks and work conditions (internal flexibility) (Velásquez Pinto, 2009a). However, these proposals are highly controversial and the evidence is not conclusively in their favour, as shown below and in the following sections.

There are arguments for and against greater labour-market flexibility. Arguments in favour include the fact that the resulting labour turnover would increase productivity thanks to the dissemination of knowledge and an improved allocation of the labour factor. It is argued that facilitating and encouraging job changes stimulates upward mobility, greater productivity, higher wages and better allocation of resources once workers have gained some experience in a given job.

It is also argued that high exit costs can reduce the number of recruitments, as companies take into account the costs associated with future redundancies. The high cost of redundancies could generate a hiring bias towards more highly skilled workers, as these tend to receive more specific training from companies, which obviously means they are less likely to be made redundant (irrespective of the existing regulatory framework). As a result, increased flexibility would stimulate job creation, boost economic growth and also partially curb the bias in recruitment (to the benefit of lower skilled workers).

Arguments against flexibility include the fact that flexible schemes increase occupational instability, especially during periods of unemployment (thereby negatively affecting the welfare of workers). This worsens households' financial stability (ILO, 2004) and is particularly difficult for low-income families, due to their greater vulnerability to social risks. Furthermore, frequent job turnover may have an adverse effect on individuals' social integration and impair their employment opportunities, as it narrows the possibilities of accumulating knowledge and skills. Indeed, unemployed workers often obtain jobs of a lower quality (in terms of responsibilities, duration and wages) than the position they had previously.[9]

This loss of income and decline in job quality following a period of unemployment also reflects the erosion of human capital caused by bouts of joblessness and the scarring effect they can have if employers use previous stability as a proxy for the supposed productivity of workers. Besides this, the experience of being unemployed and looking for a job has a negative effect on individuals' attitude and motivation.

Labour instability makes it difficult to acquire specific skills at the company level. For instance, an employer who assumes that a worker will not stay in a job for long will probably not invest in his/her training. In contrast, a context of longer-term contracts appears to be more conducive to the deployment of training policies, career development schemes and other strategies aimed at increasing productivity (Auer, Berg and Coulibaly, 2005; Chacaltana and García, 2001).

Last but not least, it is important not to disregard the bargaining-power inequalities that characterize the labour market, especially for small and medium-sized enterprises (SMEs), and the disadvantaged position of the least skilled workers (with precarious employment conditions, often in the most informal sectors of the economy). In this context of inequality, the potential benefits of any increased labour flexibility would not reach these segments of the workforce, and inequality would only deepen.

In brief, although strong competitive pressure and continual technological change are forcing the region's economies to increase their capacity for adjustment, any progress in this direction must consider the asymmetries of the region's labour markets, which could be deepened by an ill-informed adoption of flexibility measures. The State undoubtedly has an important role to play, particularly in promoting a social dialogue that can help generate consensus-based reforms that provide for mechanisms to protect workers and encourage upward labour mobility in the new labour context, while also promoting the expansion of labour institutions' coverage to include the large swathes of the workforce that are excluded from their benefits.

Finally, there is a need for a more balanced view of how ductile the region's labour markets actually are. In practice, it has recently became more common to see a variety of contractual arrangements that have considerably boosted the capacity to reassign workforce and productive resources, thereby making the productive base more flexible.

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9 See, among others, Nickell, Jones and Quintini (2000) and Bucheli and Furtado (2002).

F. Changes in labour rules in Latin America and the Caribbean over the past 20 years

As mentioned at the beginning of this chapter, as part of structural reforms, many of the region's countries reformed labour legislation substantially, especially during the 1990s. Most of the reforms were aimed at bringing greater flexibility to specific aspects of the labour market. The most significant measures included the following: (i) a broader range of contract types, adding a range of fixed-term contracts to the traditional ones of indeterminate duration; (ii) facilitation of subcontracting; (iii) reduction of dismissal costs through various mechanisms such as a broadening of the definition of "dismissal for just cause" and the introduction of unemployment protection systems based on individual accounts; (iv) reduction of other labour costs; and (v) greater internal flexibility introduced through the more flexible working hours and the de-indexing of wages (ECLAC, 2008b).

Nevertheless, there was no single set of measures in the region and the speed and extent of changes varied among the countries. Argentina and Peru were the main reformers in the 1990s, while Brazil, Colombia, Ecuador and Panama also introduced flexibility measures.[10] In contrast, countries such as the Bolivarian Republic of Venezuela, the Dominican Republic, Guatemala, Mexico and Nicaragua made few changes or, in the case of Chile, partially reversed some liberalizing measures implemented during the previous decade (Vega Ruiz, 2005).

All of this took place in a context of notable changes in the occupational structure, partly during the 1980s but mainly in the 1990s. The changes resulted in a relatively larger informal sector (with an increase in the number of microenterprises and unskilled own-account workers) and increased the extent of employment precariousness waged work not registered with social security. Both processes contributed to reduce de facto coverage of formal labour institutions.

The region's experiences in terms of union organization were also highly varied, as some countries such as Brazil, Chile, Colombia and Costa Rica made legislative changes to strengthen unions, while the opposite occurred in Argentina and Peru.

All these patterns occurred in the context of a long process of weakening of collective labour relations and levels of unionization. The contributing factors to this can be divided into three groups: (i) changes in productive processes and the occupational structure, such as a relative increase in the number of SMEs —which makes union organization more difficult; increased proportion of certain professional and technical occupations that operate different criteria with respect to traditional union membership; the reduction of industrial and public-sector employment (where unionization is usually more extensive), and technological change that has reduced the need for large masses of workers carrying out similar tasks; (ii) union action restricted by crackdowns on union activities or legal reforms aimed at restricting their scope for action; and (iii) the conduct of unions themselves, which have directed their demands at the State rather than business owners, combined with the loss of legitimacy of some unions because of the lack of transparency that sometimes characterizes their practices (Weller, 2000).

In the present decade, on the other hand, new flexibility measures have been limited to certain sectors (SMEs and export agriculture). What has been more significant is the reversal of the labour deregulation of the 1990s and the rise in worker protection measures. Countries that have experienced these processes are Argentina, Chile and Peru, where the most far-reaching reforms had been implemented previously (Goldin, 2008; Velásquez, 2009b; Toyama, Rosas and Tostes, 2009). One important change that has strengthened protection during this decade has been a restriction on the subcontracting of staff and services, and increased regulation of their conditions, in countries such as Chile, Colombia, Costa Rica, Panama, Peru and Uruguay.

[10] Chile had implemented a far-reaching deregulatory reform in the 1980s.

G. Some evidence of the effects of labour rules

A wide range of studies assesses the effects of changes to labour regulations. Generally speaking, the studies compare various labour indicators before and after the reforms or use a "control group" to compare its performance with that of the "treatment groups" directly affected by the changes. The results of these studies have been extremely varied, and there tends to be no conclusive evidence regarding the impact of reforms on labour indicators.

Much of this research focuses on the effects that the change in grounds for dismissal has on worker turnover. Kugler (2000) analysed the repercussions of reducing firing costs in Colombia in 1990 and concluded that it had contributed to an increase in aggregate employment and a decrease in employment duration in the formal sector in relation to the informal sector.

Paes de Barros and Leite Corseuil (1999) analysed the effects that increased firing costs introduced in Brazil in 1988 had on job turnover, using two estimation strategies. In the first, the average duration of employment spells was assessed before and after the reform, comparing those made redundant (the treatment group) and informal workers or those who resigned (the control group). The other strategy used a binary indicator for the effects of the reform on employment duration. The results supported the hypothesis that increasing firing costs tends to reduce job separation rates and therefore increase the average duration of periods in employment. The authors did, however, point out that the major changes in the macroeconomic context in the late 1980s and early 1990s made it difficult to isolate the direct effects of labour reforms in the analysis. Similarly, the findings of Gonzaga (2003) indicate that higher firing costs in 1998 and 2001 contributed to a fall in worker turnover in Brazil.

Saavedra and Torero (2000) concluded that the labour flexibility policy implemented since 1992 in Peru contributed to an increase in turnover. In particular, they concluded that in the post-reform period the average duration of employment spells decreased among both formal workers (directly affected by the reforms) and informal workers (with a larger fall among the former).

As for the results in Argentina, Galiani and Hopenhayn (2000) indicated that, in the second half of the 1990s job instability increased independently of the duration of spells of employment. However, this did not occur in the longer periods of employment, especially those of over one year. There was therefore no clear evidence to support the hypothesis that the reforms lessened the stability of jobs directly affected by them. Nevertheless, in a subsequent study, Hopenhayn (2001) found a significant effect on jobs lasting up to three months, which coincides with the maximum length of the probationary period established in 1995.

Beccaria and Maurizio (2001) concluded that the increase in worker turnover in the 1990s was due mainly to the rise in the proportion of waged jobs not registered with social security and the increased instability of this type of job, with both phenomena linked to reduced labour-market buoyancy and the steady increase in unemployment throughout the decade. Their analysis suggests, on the other hand, that there was no increase in the rate of separation for jobs covered by social security, which implies that the direct effects of labour flexibility reforms were nil.

Haltiwanger, Scarpetto and Schweiger (2008) estimated employment creation and destruction flows for 16 countries, five of which were in Latin America. For this purpose, the reference point used was the United States labour market, since it was considered competitive and only lightly regulated. They concluded that gross job flows (creation plus destruction) ranged between 25% and 30%, depending on the size of companies in each country. Furthermore, gross job flows were smaller in the countries studied than in the United States, especially in the case of Latin American and European countries. However, the authors maintained that the differences were due to firms entering and exiting the market, rather than employment dynamics in existing firms.

Another set of studies analysed the repercussions of labour reforms on the level of employment and its composition. As in the previous case, the findings on the effects of regulation on aggregate employment and unemployment are ambiguous. This is because higher firing costs may bring down the exit rates from a given occupation, but could also reduce entry flows. It is argued, for example, that higher firing costs discouraged new firms from entering the market and existing firms from creating jobs. Accordingly, the net results of regulation on aggregate employment and unemployment are unclear and must be calculated empirically in each case.

According to Kugler (2000), lower firing costs in Colombia led to a decrease in the unemployment rate. This was attributed partly to the fact that hiring rates rose by more than firing rates, and partly to a reallocation of employment in favour of the formal sector, which has greater stability and therefore smaller exit flows.

Lastly, in terms of the composition of employment, Montenegro and Pagés (2004) concluded that higher firing costs in Chile had shifted employment away from young people, women and unskilled workers, in favour of male, adult, more highly skilled waged workers.

In summary, the evidence available does not yield a clear conclusion on the effects of regulations on job creation. Furthermore, what emerges from the discussion is that maximum flexibility is not the optimum level from the social perspective, and the evidence also casts doubt on whether there can be an optimum level valid for all countries. At the same time, it is worth assessing the extent to which increased worker mobility, linked to lower hiring and firing costs, contributes to a more efficient use of resources and results in higher growth rates and greater job creation in a given country. Conversely, a rise in worker turnaround may generate negative effects not only on workers' welfare but also on the overall efficiency of the economy. Lastly, one of the requirements for achieving a virtuous circle is the existence of a social and labour protection system that covers all individuals, so as to mitigate the effects of increased uncertainty and volatility on workers' income. Otherwise, labour-market asymmetries may deepen and the benefits may not reach the most vulnerable groups.

H. Social dialogue and the search for agreement

The analysis of the two labour-policy dilemmas described above indicates that, if Latin American and Caribbean countries are to make progress in building agreements among the stakeholders involved, they must engage in an ongoing social dialogue. However, the countries do not generally have a long tradition of social dialogue, agreement-seeking, compromise or joint decision-making by employers and workers. This has resulted in greater difficulties when it comes to improving labour institutions, as well as a lack of sustainability over time of reforms that are implemented.

There is often a lack of consensus about labour regulation even at the stage of diagnosis, when stakeholders cannot agree on how to interpret the current situation, which makes it extremely difficult to move forward with the necessary reforms. This is very evident when it comes to describing labour institutions as either flexible or rigid, because there are so many variables involved, and each side is likely to make selective use of research data (ECLAC, 2008b).

The lack of consensus at the diagnostic stage is the first barrier that must be overcome if progress is to be made in reaching agreements aimed at enhancing labour regulations and the protection system. In this sense, an integrated system of labour studies and information would be very valuable for analysing the performance of labour markets, as it would serve as a basis for building consensus around a diagnosis. It is also essential for parties to acknowledge each other as legitimate interlocutors.

Given the countries' histories, reaching agreements will clearly be a long and complex process. All the available means must be used to make gradual progress in this direction, creating mutual trust among those involved. This progress should be part of wider processes to build social cohesion (ECLAC, 2007). Indeed, cooperation and communication are key instruments for generating inclusive institutions that are perceived as fair and therefore sustainable.

I. Limitations and challenges

As discussed, the strategy based on labour-market flexibility did not lead to large-scale generation of productive employment and a major productivity gains. This indicates the need for a more balanced and integrated approach to adapting labour institutions to new technological, economic and social conditions, as well as the importance of social dialogue as a means of enhancing each country's labour regulations.

Nonetheless, there is a series of obstacles to implementing this type of process:

(i) Given the level of achievement of the aims of labour institutions in many countries, experience indicates that the priority is to extend protection schemes (Goldin, 2008).[11] In this regard, it is vital to tackle head on the scarcity of resources, which is a structural problem resulting from low taxation in the region. As pointed out by Berg and Salerno (2008), however, many countries that currently have unemployment insurance with broad coverage began to develop this when their per capita income was similar to or even lower than that of many Latin American countries today. The experiences of some Latin American and Caribbean countries are an interesting starting point for the debate on models that can be matched to the regional reality.

(ii) The region's countries have vast informal sectors that represent a very significant proportion of the labour market (although the share varies among countries). Workers in the informal sector are not covered by labour regulations, protection systems or active labour-market policies. De facto flexibility is therefore very high. And since unemployment insurance is not universal in its coverage, these workers readily take informal jobs, thereby feeding back into the growth of this sector. As pointed out by ECLAC (2008b), in this case the indicators of labour-market integration problems are underemployment, stagnating productivity and the lack of social and labour protection, rather than unemployment. Having said that, informality is a heterogeneous phenomenon and there are different options for moving towards formalization (Tokman, 2008a).

(iii) There is a lack of active social dialogue among parties, in both the design and ongoing adjustment of labour institutions. As stated, despite exceptions, the labour history of many of the region's countries has been highly antagonistic with limited collective bargaining and agreement-seeking. One key requirement in this regard is to increase representativity, autonomy and the democratic structures within unions. Furthermore, in order to be effective and equitable, labour institutions need to establish minimum levels, given that large sectors of workers do not have the level of organization or bargaining ability required. Institutions also need to define whether to extend the range of issues raised in collective bargaining while reducing the level of detail of legal regulations.

(iv) Compliance with labour regulations is low and flexibility reforms implemented in the region failed to increase it. What is more, the gap between the rules and their enforcement makes it difficult to achieve consensus, as actors use one or the other to support their arguments.

(v) The prevailing vision is a short-term one. The region's countries should adopt a long-term competitiveness strategy based on innovation and the accumulation of human capital (ECLAC, 2008a). In the current context of globalization, economic growth and the welfare of the population depend on the production of goods and services with a high level of knowledge and technological innovation. Constant innovation and adjustment processes require highly skilled workers, which make training and education (not only formal education but also lifelong learning) essential. However, there has been little debate in the countries about the long-term strategy for socio-economic development. At the same time, discussions on labour institution reform have broken away from a wider debate about that strategy. Occasionally, this has facilitated the use of labour reforms as a means of increasing profitability in the short term. These components should be considered mutually complementary to promote systemic competitiveness and the inclusion of the entire population.

It should be borne in mind, however, that there are major differences among the region's countries, with their varying levels of urbanization, wage structures and labour formality. These structural aspects affect the options available in each case, such that the countries of Latin America and the Caribbean must find their own path to integrating the various components of labour institutions, in an effective and equitable way, in keeping with their social, economic, political and cultural reality.

[11] Stating that labour markets are fundamentally flexible is not to deny the heterogeneity among the region's countries or the need and possibility to negotiate specific flexibility measures to eliminate certain bottlenecks in the labour market.

Chapter II

Labour institutions and the labour market

A. Introduction

The dual objective of the institutional framework for labour is to contribute to the effective functioning of the labour market and to protect workers, taking into account the inequalities in this market's mode of operation. Although these are common objectives, there is no single model of labour institutions that can meet them. Rather, labour institutions are the result of specific historical processes in each country. In addition, there is considerable controversy, from a theoretical viewpoint, about whether labour institutions reduce economic efficiency and social well-being, have no effect, or as Freeman (2009) asserts, strengthen them. The following sections review this debate, as well as the experiences of the region's countries with respect to some labour institutions, describing their present features as well as the principal changes they have undergone in recent years and evaluating their effects on the functioning of the region's labour markets.

B. Minimum wage

1. Characteristics and recent trends of minimum wages in the region[1]

The purpose of minimum wage policies is to reduce the incidence of low wages and protect the purchasing power of the most vulnerable workers. The basis of these policies lies in the power and information asymmetries that disproportionately disadvantage these workers, particularly when the supply of unskilled workers is large. Under

[1] This section is largely based on Marinakis (2008).

these circumstances, wage setting in the absence of State intervention translates into low incomes that may even fall below the standards considered socially acceptable in terms of subsistence conditions.

The minimum wage is a labour market institution that exists in most countries. Many of them have ratified International Labour Organization (ILO) Conventions 26 (1928) and 131 (1970) on minimum wage fixing setting or have established mechanisms to implement them.

However, beyond the fact that the minimum wage is widely used, there is considerable diversity in objectives, setting mechanisms and forms of interaction with collective bargaining. In fact, in several countries where collective bargaining is weak, the minimum wage has come to play an important role in wage setting.

In some countries, such as Argentina, Brazil, Chile, Peru and Uruguay, a single minimum wage is set nationwide, while in others, such as Costa Rica, Guatemala, Honduras and Paraguay, minimum wages are set by occupation. There are also different approaches to fixing the minimum wage. In Mexico, for example, three levels are applied differentially based on the development level of the regions. In Uruguay, in addition to a national minimum wage, wage councils set specific minimum wages by economic sector. In recent years, the problems associated with complex systems based on occupation have prompted some countries to simplify them by grouping different minimum wages in categories.[2]

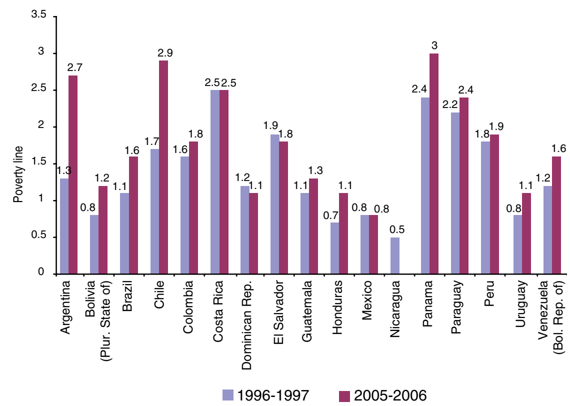
After sharp declines in the 1980s brought on by high inflation and stabilization policies implemented to contain aggregate demand and production costs, real minimum wages held steady in the 1990s. A calculation based on the median values of the annual rates of change in real minimum wages in the region points to a 35.7% drop between 1980 and 1990 and a much smaller decline of 1.7% in the 1990s.[3] In the 2000s, several countries initiated minimum wage recovery policies which, against a backdrop of downward-trending inflation, translated into a real increase of 10.9% between 2000 and 2007. However, when inflation spiked in 2008, the real value of minimum wages slipped back again, by 0.7%.

One of the main objectives of minimum wages is to establish a wage floor that enables workers to meet their basic needs and avoid falling into poverty.[4] To evaluate the extent to which minimum wages fulfil this objective, it is useful to compare minimum wage rates to the poverty line in each country.

Marinakis (2008) notes a very wide range of situations in the 2005-2006 period:[5] at the low end of the range are the Plurinational State of Bolivia, the Dominican Republic, Guatemala, Honduras, Mexico and Uruguay, where minimum wages are close to the income level at the poverty line, and at the high end of the scale are Argentina, Chile, Costa Rica, Panama and Paraguay, where minimum wages are equivalent to roughly double poverty line income (see figure II.1). In any event, none of the countries have minimum wages high enough for a single worker to pull a four-person family out of poverty.

Figure II.1

LATIN AMERICA (17 COUNTRIES): POVERTY LINES PER PERSON COVERED BY THE MINIMUM WAGE



Source: A. Marinakis, *Evolución de los salarios en América Latina, 1995-2006*, Santiago, Chile, International Labour Organization (ILO), 2008.

In addition, minimum wage levels should be analysed in the context of the specific economic conditions, so the second comparison indicator is per capita GDP in each country. Here, too, there are considerable disparities between the countries. In 2006 Mexico's minimum wage represented 17% of per capita GDP and Uruguay's represented 23%, the lowest rates in the region, while Paraguay's rate was the highest at 164% of per capita GDP.[6]

A third indicator, which reflects consistency between the minimum wage and labour market indicators, is the ratio between the country's minimum and average wages. The evaluation criterion is that the minimum wage should represent the low end of the wage scale. When the minimum is very low, it will not influence the wage setting process. However, when the minimum is very high, a large percentage of actual wages will be equal to or even lower than it. In recent years, minimum to average wage ratios ranged from a low of 28% in Uruguay to a high of 98% in Paraguay. Minimum wage raising policies in, for example, Argentina, Brazil, Peru and Uruguay have pushed this ratio up in recent years (see figure II.2).

2 This is the case in Costa Rica, which went from 520 categories set by occupation, skill and industry in 1987 to 19 categories set by education and skill in 1997 (Gindling and Terrell, 2007a).

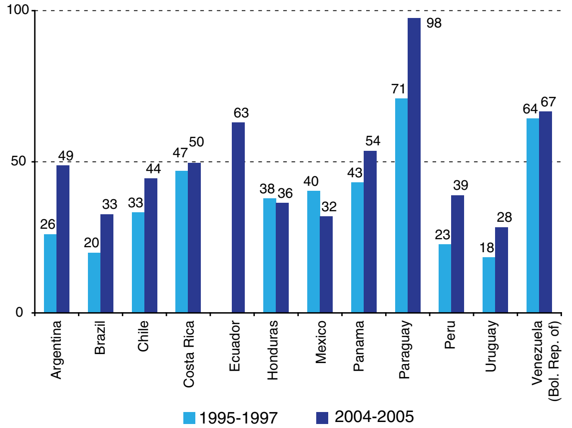
3 Calculation by ECLAC based on official country statistics.

4 Some countries have determined that minimum wages meet the needs of workers and also their families.

5 This evaluation uses the poverty line prepared by ECLAC.

6 As noted by Marinakis and Velasco (2006), in the latter case, the lower end of the wage scale is clearly below the minimum wage.

Figure II.2
LATIN AMERICA (12 COUNTRIES): RATIO OF MINIMUM WAGE TO AVERAGE WAGE
(Percentages)



Source: A. Marinakis, *Evolución de los salarios en América Latina, 1995-2006*, Santiago, Chile, International Labour Organization (ILO), 2008.

Lastly, and in relation to the above, an indicator of the efficacy of minimum wages as a wage policy instrument is the percentage of wage-earners who earn less than the legal minimum, which reveals the rate of non-compliance with labour laws. In this connection, a significant upward adjustment in the minimum wage could result in a parallel increase in the number of workers who receive a wage lower than the legal minimum. This occurred recently in Argentina, where the percentage rose from 4% in 2000 —when, as noted earlier, the minimum wage was not operationally relevant— to 22% in 2006. This contrasts with the situation in Brazil and Chile, where minimum wage adjustments did not result in increased non-compliance with the law.

Lastly, in a large subset of countries, the non-compliance rate is higher than in the rest. This group includes Paraguay, where approximately 48% of workers earned less than the minimum wage in 2006, Ecuador, Colombia and the Bolivarian Republic of Venezuela.

2. Effects of the minimum wage on the labour market

There is a large body of literature on the effects of the minimum wage on different labour market indicators. Some of its most significant arguments and findings are presented below.

(a) The minimum wage and employment levels

From a conceptual standpoint, it is argued that when minimum wage levels and increases do not reflect productivity levels and gains, a cost is generated in the form of less employment. In addition, in this situation certain types of workers may be replaced by others —unskilled by skilled, for example— because the former are more likely to earn wages at or near the legal minimum. However, a minimum wage increase may spur productivity and strengthen domestic demand. Fields (2007, pp. 59 et seq.) concludes that the available theoretical models are ambiguous with respect to the impact of the minimum wage. Indeed, the employment effects of the minimum wage depend on the characteristics assumed by the employment demand function around the minimum wage level.

In a recent review of studies on the effects of the minimum wage on employment, Neumark and Wascher (2006) concede that the empirical evidence is mixed, but assert that most studies of highly industrialized countries, especially those considered to be the soundest methodologically, point to a negative correlation between the two variables, especially for the least skilled workers. However, the findings are very heterogeneous, principally with respect to the magnitude of the effects, and the methodological debate about the best way to analyse this relationship has yet to be resolved (Eyraud and Saget, 2008).

In any case, studies on the relationship between the minimum wage and employment levels in Latin America have yielded disparate results, with regard to both the economically active population generally and specific groups. For example, Feliciano (1998) determined that in Mexico the minimum wage adversely affects women but not men, whereas Montenegro and Pagés (2004) found the opposite in Chile: the minimum wage improves employment levels among women, compared with employment levels among adult men. Lemos (2007) discovered no significant minimum-wage effects on employment in either the public sector or the private sector in Brazil. Meanwhile, Gindling and Terrell (2007a) estimated the effect of variations in the minimum wage on total employment as low in Costa

Rica, but appreciably higher in Honduras (Gindling and Terrell, 2007a and 2007b).[7]

Moreover, because the minimum wage is generally more important for people with lower levels of education, the impact of a minimum wage increase on employment may be more significant for these groups than in aggregate terms. Sharp increases in the minimum wage in Chile in the three-year period from 1998 to 2000 were found to have adversely affected employment levels among young people, especially those with limited skills. These increases had been programmed in advance and thus did not take account of the Asian crisis that unfolded during those years (Cowan and others, 2005).[8]

Summarizing the results of studies on the effects of the minimum wage on employment in Latin America, the World Bank (2006) found that an increase in the minimum wage benefits many workers, but its negative impact (greater unemployment) is concentrated in specific groups, such as young people and women, especially those with limited skills.

Lastly, as Eyraud and Saget (2008) assert, there are a number of factors that could mitigate or even reverse the negative effect that the minimum wage may have on employment. From the supply perspective, in the wake of a minimum wage hike, business owners may see the need to change the way they organize labour for the sake of productivity. From the demand perspective, wage increases for workers with a low savings propensity can spur domestic consumption, helping to spur job creation across the economy. The outcome depends on the extent to which rises in the minimum wage are extended throughout the wage scale.

(b) The minimum wage and the informal sector

There is also a debate as to whether increases in the minimum wage affect workers in the formal sector only or whether they are also passed on to those in the informal sector. The available evidence in the region seems to indicate that the impact extends to both sectors (Gindling and Terrell, 2005; Maloney and Nuñez Mendez, 2003). In some cases, the effects even seem to be greater on the informal sector than on the formal sector.

(c) The minimum wage, poverty and inequality

The fact that most of the studies have confirmed that the elasticity of labour demand with respect to the minimum wage is significantly lower than 1 indicates that minimum wage increases could be an effective poverty-reduction tool. In poor households, the positive effects on income would far outweigh the possible negative effects on employment (Freeman, 2009). The findings of Lustig and McCleod (1997) on the ratio between the minimum wage and poverty in 22 developing countries indicate that real increases in the minimum wage can lead to lower poverty rates. The strong negative impact of minimum wage rises on employment that was observed in Honduras seems to be an exception. In any event, the differences in this area underscore the need to consider the specific characteristics of each country when determining the amount of an adjustment in the minimum wage, particularly its level relative to the factors analysed above.

Lastly, the minimum wage can have positive effects on income distribution if it benefits workers who receive lower pay, thus reducing the wage gap. Some empirical studies on less developed countries indicate that the minimum wage is effective in raising wages at the lower levels and thus reduces inequalities. In the case of Colombia, Maloney and Nuñez (2001) concluded that this was the case in both the formal and the informal sectors.

3. Role of the minimum wage in the global crisis

In the current context of the global financial crisis, it is appropriate to analyse the extent to which the minimum wage is mitigating the adverse effects of the crisis, especially among low-income workers.

In accordance with the policies to improve the purchasing power of the minimum wage that some countries in the region have implemented in recent years, thereby reviving the minimum wage as an essential instrument of wage policy, the minimum wage can help preserve the purchasing power of the lowest paid workers in these unfavourable conditions. Moreover, to the extent that this

[7] The cited authors found total employment elasticity with respect to the minimum wage of -0.1 in Costa Rica and -1.0 in Honduras.

[8] Between the fourth quarter of 1997 and the same period in 2000, the employment rate among Chilean adults fell from 57.5% to 55.6%, but the decline was even sharper (from 31.6% to 26.3%) among young people aged 15 to 24 years (estimate by ECLAC, based on data from Chile's National Institute of Statistics (INE)).

strategy staves off a drop in domestic consumption, it will also help diminish contractionary multiplier effects on the economy.

Protecting real wages is even more important in light of the experience of the region's countries, which seems to indicate that efforts to make up wage cuts made in times of crisis are very costly and require long periods of time. The asymmetry in wage behaviour during the different phases of the business cycle is even more pronounced for low wages, with profoundly adverse effects on distribution.

In addition, wage policy formulations should take into account the considerable heterogeneity in the relative value of the minimum wage, described above. It can be assumed that if the starting point of a policy to raise the real minimum wage were comparatively low, the policy would help support the purchasing power of poor households. However, a significant increase when the relative value of the minimum wage is higher could unleash unwanted secondary effects such as greater unemployment among specific groups and a higher non-compliance rate, which would tend to offset this favourable effect. Furthermore, during a deep crisis, the minimum wage would be a major cost factor in many companies, so under the present circumstances, many countries would be better advised to pursue a policy that protects the level of the real minimum wage, rather than one that significantly increases its purchasing power (Marinakis, 2008).

Lastly, in order to protect real wages from the negative effects of the crisis, along with efforts to buttress employment and the domestic market, social dialogue in the form of collective bargaining must be pursued within a framework of broad representation of all social actors. As noted earlier, the region has limited experience in this regard, but it would be desirable to move forward in this area, not only to moderate the effects of the economic adjustment associated with the current climate but to chart a firmer course of dialogue and consensus-building that benefits workers and employers alike.

C. Unions and collective bargaining

After having performed an important role in organizing workers and developing labour standards in the region, Latin American unionism is now facing —with obvious differences between countries— problems of lack of recognition, restrictions on the right to freedom of association and low representativeness.

Against this backdrop, the governments must follow through on their commitment to guarantee the right to freedom of association and facilitate collective bargaining, while the unions must adapt to the challenges of globalization, finding paths that accentuate its positive effects while neutralizing its negative impacts. This section analyses the state of the union movement in the region and the challenges for the future.

1. Unionism, collective bargaining and social dialogue in the region

Trade liberalization, the privatization of State-owned enterprises and the deregulation of labour markets have had a strong impact not only on the labour markets, but on the development of unionism in the region. This has been most evident in the areas of collective bargaining and the relationship between the unions and the State. Higher open unemployment rates, an increase in precarious working conditions and fewer jobs in government and manufacturing —which unions have traditionally strongly represented— have significantly weakened a union movement that is also based on the premise of a stable open-ended job (Frías, 2009).

This is in addition to the lack of union autonomy from political or government influence and internal divisions that have contributed to the fragmentation of the union movement and made it difficult to make collective demands. Furthermore, there has been a tendency towards strategies based more on confrontation than cooperation and consensus-building. In some countries reforms to labour legislation have restricted collective bargaining.

However, aside from these structural conditions, trends in unionism in the region have been very mixed in recent years, as illustrated below with some examples.

In the case of Argentina, after weakening for several years due to the aforementioned factors, the union movement has begun to recover its role in determining working conditions and to build a more direct relationship with companies through collective bargaining. As Trajtemberg (2008) indicates, Argentina's system of labour relations is based on single unionism, the centralization of collective bargaining and the mechanism of extending the coverage of agreements to all workers. Under single unionism, one union has the authority to represent all workers in a specific sector, industry or trade, upon being granted status as a legal trade union. As it is a governmental administrative agency that grants this status, the government and the unions have a close relationship. This does not preclude the presence of other unions in the same trade, but only those that have been granted legal status can represent the workers, including non-members, as a collective. In addition, they are the only ones that can collect dues through employee withholdings and establish and administer publicly funded social welfare activities, such that union relations with the State are conducted along corporativist lines.

The extension of agreements to all workers means that when specific working conditions are established for one group of workers through an industry agreement, the agreement applies obligatorily to all workers and companies within the area of representation. In other words, these negotiations benefit not only the union members but also workers who are not members of the union (Trajtemberg, 2008).

In recent years, the rate of unionization in Argentina has increased, as have the amount of collective bargaining activity and the coverage of collective labour agreements. At the same time, the rate of labour disputes in certain sectors such as education has climbed, and there are some differences between private and public negotiations. In private negotiations, strikes are shorter, which can be attributed to the existence of a greater number of institutionalized negotiation channels. Meanwhile, the public sector experiences more work stoppages, which can be attributed both to the lack of a tripartite negotiating forum (since the government plays a dual role in this case), and to the government's more limited financial capacity to meet to all union demands. Lastly, progress has been made in incorporating public services into collective bargaining, which is still only an aspiration in many countries.

In Chile, in early 2000 a number of forums were created to debate proposed labour reform legislation that would reflect the consensus of employers and workers. Among the items included in the reforms that were finally approved, which in some cases did not have the broad support of the parties, were collective bargaining and unions. With respect to collective bargaining, among other measures, the legal rights of workers who participate in collective bargaining were expanded, and provisions were approved relating to the information that workers have the right to request during collective bargaining. With respect to unions, legal protection was instituted for the establishment of unions, and the number of workers needed to form a union was lowered. Lastly, provision was made for the rehiring of workers dismissed for anti-union practices, with dismissed workers having the option to choose between being rehired and receiving a higher severance payment (Frías, 2009).

In Mexico, close relations between unions and the government date back to the end of the Mexican Revolution and were consolidated with the official incorporation of the union confederations into the Party of the Mexican Revolution (predecessor to the Institutional Revolutionary Party, or PRI) in 1938. The network of corporate relations thus formed led, in the 1960s, to quotas of popularly elected government positions for union leaders, union intervention in tripartite bodies associated with social security, union influence in the design of labour policy, the spread of collective hiring practices and of the system of contractual benefits, and clientelist relations with workers at the company level. Since the mid-1980s, scope for union activity has been shrinking owing to changes in the organization of labour and the emergence of a younger, more female working class with low wages, few skills, high turnover and no union tradition (De la Garza Toledo, 2002).

In the countries of Central America, many of which are characterized by complex labour and social conditions, there is a major shortage of institutionally recognized unions, as well as obstacles and impediments to the right to freedom of association and weaknesses in the area of collective bargaining, which is reflected in the fact that Central America leads the region and the world in the number of complaints filed with ILO (Sepúlveda Malbrán, Schapira-Felderhoff and Delpech, 2009). Accordingly, the unionization rate is very low and most workers in dependent employment lack access to collective bargaining. In many Central American countries, unionism is also stymied by the magnitude of the informal sector, which makes it hard to organize microenterprise and own-account workers.

In the Caribbean, the rate of unionization has fallen from between 30% and 40% in the 1960s to between 20% and 30% in recent years. However, unions still play an important role in key sectors of the economy such as government, ports, public infrastructure services and other services such as hotels and banks. Although it fluctuates, the rate of labour disputes has fallen compared to the past (Downes, 2009).

2. Effects of unions and collective bargaining on the performance of companies and the labour market

From a conceptual viewpoint, union involvement in wage-setting through collective bargaining is said to tend to compress income distribution and decouple pay from worker productivity.

There are many studies that attempt to evaluate this and other hypotheses on the impact of union action on labour market performance. According to one finding, there is a wage gap in favour of unionized workers, and this gap is wider at the lower end of the wage scale. In addition, a number of studies have found that collective bargaining tends to reduce wage dispersion, which should have a positive effect on income distribution (Cahuc and Zylberberg, 2004; Khan, 2003; Aidt and Tzannatos, 2002).

Popli (2006) confirmed these findings in Mexico. Fairris (2005, 2006) found a positive correlation between unionization and worker training, as a result of which unionized firms in Mexico have a higher level of productivity than their non-unionized counterparts. Conversely, Maloney and Ribeiro (1999) concluded that unionization is associated with an increase in employment, which would indicate lower productivity.

A wage gap in favour of unionized workers has also been observed in Brazil. Specifically, Menezes-Filho and others (2005) analysed panel data for a group of manufacturing firms between 1988 and 1998, a period in which union density in the country declined, and concluded that an increase in unionization tends to lower corporate profits, while boosting productivity and employment. However, this effect weakens when the unionization rate reaches 50% or higher. Unionization leads to wage gains of about 12%. The positive link between the introduction of profit-sharing arrangements and corporate performance appears to be stronger in more highly unionized companies. According to the authors, this could indicate improved communication between the two parties that promotes the effective functioning of this type of system.

Cassoni, Labadie and Fachola (2005) studied the case of Uruguay in 1988-1995, when in addition to the liberalization process, the centralized wage bargaining system was changed to a company-level system. Their findings seem to indicate that unionization translates into higher wage and employment levels and promotes investment as firms substitute capital for labour. In addition, unionization was found to have a positive effect on productivity. The authors asserted that wage increases generated by union activity induce companies to adopt more capital-intensive technologies, boosting productivity. Cassoni, Allen and Labadie (2000) concluded that the elasticity of employment with respect to output and wages falls when collective bargaining is involved, which indicates a reduction in employment flexibility.

In Argentina, too, unionization and collective bargaining have been seen to reduce wage dispersion (Trajtemberg, 2008). Meanwhile, using data from 1994-1996 in Peru, Saavedra and Torero (2005) posited that a reduction in the profitability of manufacturing companies was linked to union activity, but determined that the effect on labour productivity was not significant. By contrast, Urízar and Lée (2005) reported that the productivity of unionized coffee plantations in Guatemala fell in the period 1992-2000 compared to the productivity of other companies.

Based on the evidence described above, unionization is generally observed to have a positive effect on wages, while reducing wage dispersion and increasing instruction and training levels. However, there is also considerable heterogeneity in the findings between countries, industries and types of companies.

3. Options for strengthening worker representation and collective bargaining

Based not only on the weaknesses but also on the positive experiences in the region, the following set of actions have been identified to bolster unionism's contribution to the strengthening and improvement of an institutional framework for labour that promotes the creation of quality jobs, contributes to dialogue and brings about a sustained improvement in labour relations:[9]

[9] See Frías (2009).

(i) Expand the representativeness of unions to include the full spectrum of unprotected sectors, such as temporary, part-time and subcontracted workers.
(ii) Emphasize organizational, educational and training activities in sectors with low levels of unionization. This requires in-house training programmes or access to training through agreements with other institutions, not only to provide training to union members, but also to disseminate this knowledge to larger segments of the population.
(iii) Secure greater union commitment to company development, and thus to the challenge of increasing productivity and improving quality by contributing ideas and seeking consensus.
(iv) Recognize unions not only as agents for their members but as stakeholders in the growth of the companies and the development of the country. This calls for a process of mutual adaptation between employers and unions so they can develop joint projects and strategies, which also requires greater participation by workers through, for example, stock ownership plans.
(v) Work on strengthening unions from the inside, to make them more representative and better managed. This entails, among other measures, promoting democratic relations within unions, making management more transparent and leaders more accountable, learning about the real situation of their membership base, promoting the rotation of positions, overhauling structures and establishing internal dispute resolution mechanisms. Unions must also become gradually more autonomous from political parties to ensure that the interests of the workers prevail.
(vi) Establish agreements with civil society organizations, building strategic partnerships with other sectors.
(vii) Work towards incorporating national unions into the international union movement, which will enable the unions to learn about and gather experiences from other contexts, as well as receive greater solidarity support and training.

The foregoing suggests that in order to link the prevailing trends in the union movement with the modern institutional framework for labour in a positive way that addresses the interests of workers and employers alike, the unions must be overhauled in a way that allows them to become a key social and labour stakeholder in the development of the countries.

At the same time, employers must recognize the potential of dialogue with the union movement for achieving high levels of productivity and efficiency, and spurring growth, development and social cohesion. Lastly, governments must fulfill their international commitment to promote, respect and protect unionism and the safety of union members, as a basic condition for building fair, productive labour relations.[10]

D. Unemployment protection

1. Characteristics of unemployment protection mechanisms[11]

The existence of market failures that prevent the provision of optimal insurance against the contingency of unemployment is the argument that is typically invoked to justify implementation of a public job-loss protection policy (Velásquez Pinto, 2009a). This is why, to a greater or lesser extent, countries have implemented various types of public safety nets for unemployed workers, with differing designs and objectives. In Latin America and the Caribbean, there are at least four different mechanisms: (i) unemployment insurance; (ii) severance payment; (iii) individual savings accounts; and (iv) advance notice of dismissal.

(a) Unemployment insurance

At present, only seven countries in the region have unemployment insurance, as follows: Argentina, Barbados, the Bolivarian Republic of Venezuela, Brazil, Chile, Ecuador and Uruguay. The purpose of unemployment insurance is to provide financial support during job searches, mitigate

10 According to the International Trade Union Confederation (ITUC, 2009), in 2008 at least 76 union members were killed worldwide as a result of their actions in defense of worker rights; 66 of them were in Latin America.

11 This section is largely based on Velásquez Pinto (2009b).

the effects of lack of employment income and prevent situational poverty due to job loss.

These types of systems are financed with monthly contributions from participants (workers, companies or both) or with fiscal resources. In certain cases, the State covers operating deficits.

In general, the extant mechanisms follow the logic of a pay-as-you-go system and could thus be characterized as group insurance arrangements. The exception to this traditional design in the region is Chile's unemployment insurance system, which consists of individual capitalization accounts that are funded by employee and employer contributions and an unemployment solidarity fund, which operates as a distribution fund and is financed by employer contributions and a specific annual contribution by the State. If unemployed workers meet certain conditions, they have access to the fund as a backstop to their individual accounts.

Along with Chile's new unemployment insurance, the changes made to Uruguay's unemployment insurance system in 2008 were the most sweeping reforms of the decade and were introduced to improve the coverage and benefits of unemployment insurance. In Uruguay, the system is financed with general revenue and the funds that come from a single social security contribution that covers, among other things, disability, survivor, maternity and family benefits, in addition to old-age benefits. As part of these reforms, dismissed workers who have completed their employment contract or who have been totally or partially laid off have access to insurance. Workers with more than one job receive a subsidy when dismissal is found to have occurred in the higher-paying job. In addition, a system of declining benefits was created to incentivize job-seeking; the minimum amount of the benefit was doubled; the subsidy was increased by 20% for workers who are married or cohabiting, or have minor children or older children with disabilities or relatives in their care; and it was made obligatory to attend training courses during the benefit period.

In terms of scope of application, the programmes in place in the region have generally been designed to protect wage earners in the formal non-farm sector who have open-ended contracts. However, in recent years, some countries have been expanding the scope of these programmes to include other groups, such as rural or temporary workers. For example, in Argentina and Brazil coverage was extended to temporary and seasonal farm workers, and in Uruguay domestic workers are now covered. In the case of Chile, the conditions of insurance benefits have been amended to extend access to workers with fixed-term contracts. In Argentina, Brazil and Chile, the system does not extend to public-sector workers, who tend to be covered by special job security and dismissal compensation provisions.

Lastly, with respect to benefit amounts, most are determined as a percentage of average earnings received during the period leading up to dismissal (between 50% and 60%). In some cases, minimum and maximum benefit amounts are also set. Moreover, as an incentive for active job searching, a decreasing benefit schedule is usually created. An exception is Ecuador, which established a lump-sum benefit payable only if a worker remains unemployed 60 days after dismissal.

(b) Severance pay

Severance payments are monetary sums that companies must pay workers in the case of dismissals "without just cause" or "due to the needs of the company." Each country establishes the specific conditions under which a dismissal falls into one of these categories. This is the most frequently used mechanism for protecting the unemployed in the region's countries. Unlike unemployment insurance, it not only provides the unemployed worker with resources in the case of these types of dismissals, but also performs the function of discouraging dismissals, thereby promoting job protection.

Under this mechanism, the benefit is granted in the form of a lump-sum payment upon termination of employment, and the amount is based on the wage earned by the dismissed worker and the length of time in the position. The increase in the benefit according to job experience is based on the premise that the duration of unemployment increases with years of work and the acquisition of specific skills. However, some countries, including the Bolivarian Republic of Venezuela, Chile and Peru, specify a ceiling for severance pay. In all of the countries, the beneficiaries are dependently employed workers with open-ended contracts.

The purpose of severance provisions is to discourage unfair dismissals or dismissals resulting from temporary situations of falling business activity and rising employer costs. Severance pay is also intended to provide economic support in the absence of employment income after dismissal. However, severance payments have been criticized for a number of reasons. One is the potential inability of a company to pay if it is experiencing financial problems at the time of the dismissal. These problems tend to mount during the downswing in the business cycle, precisely when the unemployment risk is highest.

Another criticism is that this instrument acts as a disincentive to labour mobility, slowing global productivity growth. It is further argued that the rising costs associated with length of service discourage the dismissal of long-term workers, shifting the cost of adjustment mainly to younger workers. Lastly, there is a "moral hazard" in the sense that longstanding company employees may relax their efforts if they judge that their employer cannot afford to fire them.

In the face of these criticisms, proposals have been made on numerous occasions to eliminate this mechanism or supplement it with unemployment insurance. The assertion is that unemployment insurance would help lower severance pay. However, as Blanchard (2003) maintained, neither of the two instruments are perfect substitutes due to the intrinsic legitimacy of severance pay, its intended disincentive effect on dismissals and the limitations related to insurance, especially in the region's countries.

(c) Unemployment protection systems based on individual accounts

This instrument consists in the regular accumulation of contributions made by workers and employers that can be withdrawn by the worker upon termination of employment, often regardless of the reason for termination.

In recent years, several countries in the region have been introducing individual accounts as an alternative to severance pay. A few have already been using this instrument for some time, such as Argentina, where a system is in place in the construction sector.[12] In the case of Brazil, in addition to the regular required contributions, compensation —a percentage of the accumulated balance in the account— has been established for dismissals "without just cause." Meanwhile, Panama allows workers to make deposits in these accounts, which also serve as collateral for mortgage loans.

In Peru, the system is financed with an individual fund into which employers make semiannual contributions equivalent to 50% of wages. As in the previous case, workers are authorized to withdraw contributions in emergencies or to use them as security for a loan. In Colombia, partial withdrawals are authorized to finance education and housing expenses and to use as collateral for mortgage loans.

In the Bolivarian Republic of Venezuela, workers may choose to have employer contributions deposited into an individual account at a financial institution or to keep them with the company. In the latter case, the employer must guarantee a rate of return set by the central bank.

Lastly, as previously noted, the Chilean unemployment insurance system consists of individual accounts in conjunction with an unemployment solidarity fund. This new system directly links the two instruments as sources of financing for benefits in the event of dismissal for economic reasons. In addition, the system is tied to the severance pay mechanism, so that previous employer contributions are deducted from the severance pay upon termination of an employment contract. Use of this combined mechanism has risen sharply, with nearly 73% of private-sector wage-earners making contributions in 2007. This is explained by the fact that enrolment in the system is mandatory and automatic upon signature of an employment contract. In 2008 new reforms were implemented to increase the scope and benefits of this mechanism.

(d) Advance notice of dismissal

This mechanism requires the employer to notify the worker in advance that he or she will be dismissed, so as to give the worker time to look for a new job. In general, one or two months of advance notice is stipulated. If advance notice is not provided, the employer must add pay for the notice period to the dismissal costs. This mechanism covers formal wage earners with open-ended contracts.

2. Effects of unemployment protection policies on labour-market performance

The various instruments for protecting unemployed workers can have positive or negative effects on labour market indicators. Among their positive effects, these monetary transfers help mitigate the income loss experienced by individuals and their families as a result of unemployment and, by discouraging dismissals —in the case of severance pay— they reduce the erosion of general and specific human capital, boosting overall productivity. Conversely, these instruments are said to generate higher adjustment costs, which can reduce the ability to adapt to changing economic conditions.

The following section analyses the specific arguments made in relation to each of these instruments.

[12] The employer must make monthly contributions equal to 12% of wages during the first year and 8% thereafter, which are deposited in individual accounts in banking institutions (Velásquez Pinto, 2009b).

(a) Effects of unemployment insurance

It is argued that unemployment insurance reduces the opportunity cost of job loss and to increase in the duration of unemployment spells (moral hazard). The most salient of the arguments commonly invoked in relation to the repercussions of unemployment insurance on productivity and unemployment and employment rates are the following:

(i) Because unemployment insurance is financed with payroll contributions, it contributes to higher labour costs and lower labour demand. In addition, by increasing the reservation wage of unemployed workers, unemployment insurance raises the wage rate at which a worker will accept employment.

(ii) It has been suggested that there is a positive correlation between the level and period of unemployment benefits and the lengthening of unemployment spells as a result of lower unemployment exit rates (Narendranathan, Nicke and Stern, 1985; Meyer, 1990; Katz and Meyer, 1990; Carling, Edin and Holmlund, 1996; Bover, Arellano and Bentolila, 1996). However, the estimates for developed countries indicate that the benefit amount generally has a limited effect on the average duration of unemployment spells.[13] As for the effects of the length of the benefit period, the evidence shows that the probability of exiting unemployment increases as the insurance expiry date approaches.[14] A recent study (Fitzenberger and Wilke, 2007) indicates that the benefit period has very little effect on job search times and post-unemployment wages, but a high replacement rate leads to longer unemployment spells at the low end of the wage scale.

(iii) Other studies indicate that although there is a direct effect from unemployment insurance, longer benefit periods allow for more efficient job searches and promote better matching between the skills of wage earners and job requirements, which leads to greater job security and by extension reduces future employment-to-unemployment flows.[15]

(iv) It can also be argued that by allowing for a longer job search period, unemployment benefits save workers from having to quickly accept a job with lower pay and of poorer quality than their last position. For example, unemployment insurance can reduce the need to accept informal employment, helping to break the unemployment-to-informal employment cycle typical of the countries in the region.

(v) The longer unemployment spells resulting from unemployment insurance could adversely affect post-unemployment wages and increase the probability of another unemployment spell (scarring effect of unemployment).[16] The argument is that in a context of information asymmetry between employers and employees, the former could interpret the latter's unemployment experience as a sign of low productivity and reject an applicant as a candidate for a vacancy or hire the applicant at a lower wage. It is further argued that an unemployment spell adversely affects workers' general and specific human capital, with effects similar to those described above. These effects would become more pronounced with the duration of the unemployment spell.

(vi) A higher benefit amount could reduce employment-to-inactivity flows and create incentives for certain groups, such as women, to enter the workforce. Moreover, the existence of unemployment insurance could lead to an increase in workforce participation rates, as workers position themselves to gain access to benefits at a later time, causing both the employment rate and the unemployment rate to rise.[17]

(vii) Unemployment insurance could increase the frequency of unemployment-to-employment transition periods among those who are not eligible to receive benefits. The best way to safeguard against the risk of future unemployment is to return to work, inasmuch as the right to future protection can be obtained only through a job registered in the social security system.

(viii) A recent study on Chile (Sanhueza and Castillo, 2008) suggests that workers who have unemployment insurance are less likely to become unemployed, and

13 For example, in the case of the United States, Meyer (1990) found that an increase of 10% in the benefit amount translated to an average increase of 1.5 weeks in the duration of the unemployment period. In the United Kingdom, the estimates are: 1.0 weeks in the study by Lancaster and Nickell (1980) and 0.5 weeks in the study by Narendranathan, Nicke and Stern (1985). See a compilation and critical review of the available empirical studies on this topic in Atkinson and Micklewright (1991).

14 Among others, Katz and Meyer (1990) and Cebrián and others (1996).

15 Ehrenberg and Oaxaca (1976) were the first to consider the effect of insurance on post-unemployment outcomes, particularly wages. Other treatments of this topic include studies by Belzil (2001), van Ours and Vodopivec (2006) and Tatsiramos (2006).

16 For more information, see Arulampalam, Booth and Taylor (2000), Gregg and Wadsworth (1996), Arulampalam (2000), Gregory and Jukes (1997), Fitzenberger and Wilke (2007) and van Ours and Vodopivec (2006).

17 Card and Riddell (1993) analysed the effects of the introduction of unemployment insurance on the unemployment rate in Canada and concluded that a significant portion of the increase in the rate could be attributed to the exit from inactivity. This incentive for workforce participation could be considered a positive effect, inasmuch as a portion of the new participants in the labour market obtained jobs, which caused the employment rate to rise. This underscores the importance of "reading" the unemployment rate in tandem with the employment rate.

the duration of unemployment spells is shorter for them than for those without access to unemployment benefits. The authors offer two possible explanations: either the Chilean system is designed effectively or there is segmentation, with the workers who have access to benefits also being those with the best chances of finding a job.

Based on the many arguments described, the real effect of unemployment insurance on labour indicators depends on the specific characteristics of each system, its design, requirements and benefits, as well as on the macroeconomic and labour-market context. It is also likely that welfare programmes and unemployment insurance produce different effects. Therefore, the challenge is to design mechanisms that perform their protective function but also establish effective incentives, help reduce possible distortions in the labour market and possess financing mechanisms that ensure their long-term sustainability.

(b) Effects of severance pay

Unintended effects similar to those mentioned above tend to be attributed to severance pay also. In addition, it is argued that severance pay could induce dismissal-seeking behaviour on the part of workers as a way to gain access to these benefits. Labour disputes about severance pay generally make up the largest portion of the caseload of labour tribunals in Latin America, which demonstrates that in many cases this benefit does not necessarily reach workers when they need it.

In an influential work, Heckman and Pagés (2003) analysed the anticipated costs associated with the termination of employment contracts —in terms of monthly wages— using information on 17 countries in Latin America and 23 member countries of the Organisation for Economic Co-operation and Development (OECD). The authors concluded, among other things, that in Latin America high adjustment costs could hinder job creation and lengthen the duration of unemployment. While acknowledging that the comparative results of their study were not very robust in econometric terms, they emphasized that the results were consistent with the findings of other studies carried out at the national level.[18] However, Berg and Kucera (2008) point out that in only two of the eight country studies presented in the work edited by Heckman and Pagés (2004) were the effects of regulations on employment and unemployment levels observed to be statistically significant. As suggested by Velásquez Pinto (2009b), this type of information may not be sufficient to draw a conclusion about the real degree of rigidity, given that the specific relationship between labour regulations and the degree of labour market flexibility in each country must be considered.

Moreover, inasmuch as these types of benefits are available to formal workers only, it is concluded that severance pay provisions reinforce segmentation and inequality. However, in general it seems wise to develop strategies that gradually expand the coverage of protection systems, which should be designed with the potential positive and negative effects of the various instruments in mind.

Lastly, it should be noted that dismissal disincentives can boost productivity by reducing turnover and allowing for more stable employment relationships with a major specific training component.

(c) Effects of individual accounts

One of the arguments in favour of individual savings accounts is that, unlike severance pay, regular contributions by the employer guarantee the availability of funds upon termination of employment, mitigating the risk of non-payment. The low cost of administering these accounts, which can be handled by the local financial system, is also mentioned.

Critics of the system argue that the funds could be used for purposes other than unemployment, either through authorization to that effect or agreements to simulate a dismissal in order to make use of the accumulated balance at a given time. The occurrence of such conduct has been confirmed in Brazil (Barros Corseuil and Foguel, 1999) as well as in Peru, where the opportunity to withdraw funds has, in practice, eroded protection for unemployed workers and turned the accounts into a de facto wage increase (Velásquez Pinto, 2009b).

However, one of the most important questions about this system concerns its actual capacity to protect the unemployed. Specifically, nothing guarantees that upon dismissal a worker will have accumulated sufficient contributions to finance long or recurring unemployment spells. This means that this instrument must be supplemented by others, as in Chile where a distribution fund is financed with employer and government contributions.

Lastly, like unemployment insurance, individual accounts are not a perfect substitute for severance pay. This is because, by converting a contingency cost into a fixed cost, this mechanism either fails to discourage dismissals or acts as only a partial disincentive, as in the case of Brazil where the employer must supplement the account balance when a worker is dismissed “without just cause.”

[18] Saavedra and Torero (2000) in the case of Peru; Mondino and Montoya (2000) in the case of Argentina and Kluger (2002) in the case of Colombia.

3. Scope of unemployment insurance mechanisms and integration with other programmes

By way of conclusion, this section offers a brief assessment of unemployment insurance mechanisms from the viewpoint of their coverage and integration with other existing programmes. The empirical evidence indicates that the situation in the region falls short in at least three areas: field of action, benefit amount and integration with other programmes.

As shown in table II.1, unemployment insurance coverage is very limited. In the past no more than 10% of the unemployed have been covered, except in the case of Uruguay, where coverage has reached 20%. Due to mandatory enrolment in the unemployment insurance programme for new employment contracts, coverage in Chile rose to 19.6% in 2007, while in Uruguay it climbed to 13.6% that year.

Table II.1
UNEMPLOYMENT INSURANCE COVERAGE
(Percentages of the total unemployed population)

Year	Argentina	Chile	Brazil	Ecuador	Uruguay
1995	5.9	...	12.0	2.3	15.8
1996	6.3	...	9.2	5.6	12.1
1997	5.1	...	8.6	6.2	11.3
1998	5.5	...	6.2	4.5	14.3
1999	6.4	...	6.0	3.1	17.0
2000	6.4	...	6.1	3.5	18.7
2001	6.5	...	7.7	4.1	16.2
2002	7.4	...	4.1	4.8	16.9
2003	5.1	2.1	4.0	2.7	9.1
2004	4.1	5.7	4.0	2.8	8.4
2005	3.2	9.7	4.3	...	10.5
2006	4.5	15.7	5.3	...	11.2
2007	4.7	19.6	5.6	...	13.6

Source: Mario Velásquez Pinto, "Seguros de desempleo y funcionamiento eficiente y equitativo de los mercados de trabajo," document presented at the workshop Challenges confronted by labour institutions, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April 2009.

The factors associated with this sparse insurance coverage are the high percentage of informal jobs and high labour turnover —which prevents the accumulation of a minimum of contributions— driven, in many cases, by the increase in fixed-term contracts. These structural obstacles also hinder the efficacy of the other unemployment protection instruments. For example, Escobar (2009) calculates that only 6.4% of unemployed workers in Chile receive years-of-service compensation.

Another characteristic of these programmes in the region is that the benefits are low, which is directly related to the low average wages in the economies. In these circumstances, programmes must be designed either to generate an income that does not diverge greatly from the unemployed worker's previous wage —which could cause financing problems— or to contain the cost of the benefits, which would not then be enough to provide for the family's subsistence needs (Velásquez Pinto, 2009b).

Lastly, another common characteristic of unemployment insurance schemes in the region is the lack of integration with other active labour market policies. In particular, they tend to have few ties to training programmes, while the insurance beneficiaries are frequently observed to receive no job search assistance.[19]

In short, the protection of unemployed workers is one of the weakest components of labour market regulation in Latin America and the Caribbean. Very few countries have protection systems other than severance pay, and coverage and benefits are generally very low. As a result of these limitations, the region's countries often make use of emergency public-sector job creation programmes or non-contributory income transfer schemes.

Based on this overview, it may be concluded that the region must make significant progress in expanding and improving protection for unemployed workers, for both social and economic reasons. The main challenge in this area is to design protection systems that incorporate employer participation without increasing non-wage labour costs excessively. They must also have broad coverage, limit possible moral hazard and be integrated with active policies to facilitate workforce adjustment. In any event, the options that are available in this regard are closely related to the specific productive structure and productivity levels of individual countries (see box II.1).

[19] In the current financial crisis, some countries that have unemployment insurance are using their resources to implement training programmes as a way of forestalling dismissals while improving future productivity (ECLAC/ILO, 2009).

Box II.1

FORMALIZATION, SOCIAL PROTECTION AND STRUCTURAL HETEROGENEITY

An analysis of reforms aimed at enhancing the labour market's ability to adapt to changing conditions, especially in the countries of Latin America during the 1980s and 1990s, points to the risk of an uneven impact that would damage the position of workers. In fact, the reforms that were launched focused on labour costs and regulations, relegating compensation for the loss of rights and benefits to the potential trickle-down effects that prospective growth would have on employment. The limits of that growth and its effects indicate that future attempts to regulate the labour market should balance the interests of workers and employers, for which explicit, tangible compensation mechanisms are needed.

Efforts to find impartial mechanisms to invigorate the labour market, however, inevitably come up against the structural limitations of the region's economies, which include informality and limited access to the social safety net.

Some countries have made progress in formalizing the workforce, as noted by Tokman (2008a), who proposed a strategy based on labour inspections, the simplification of procedures and the clarification of ambiguous employment relationships, among other things. These types of measures, although instrumental to the modernization of the labour markets, have limited potential in many of the region's countries in which the vast majority of workers are in the informal sector.

Increasing companies' options for adapting certain aspects of employment to their short-term needs leads to the deterioration of working conditions in the absence of effective social protection mechanisms. These mechanisms help mitigate the risks associated with fluctuations in employment and the resulting uncertainty with respect to well-being. Although formalization of the workforce is a valid option that boosts access to protection, the high proportion of unregistered businesses and the low productivity of many workers and employers limit the potential of this strategy in most of the region's countries. In many of them, universalizing social protection and decoupling it from the labour sector could be pursued as prerequisites of reforms intended to increase the capacity of companies to adjust to changing market conditions.

However, the introduction (or substantial reform) of a social safety net is a costly process, in both political and fiscal terms, and must generally be done gradually. Recent experience in some countries in the region suggests that partial progress has been made in this direction. For example, the extension of family allowances to informal workers and other groups in Uruguay is a clear step towards universal coverage of children (Arim, Cruces and Vigorito, 2009), and programmes such as *Bolsa Familia* in Brazil and *Oportunidades* in Mexico constitute progress in the same direction. In areas more directly related to labour, the expansion of non-contributory pensions in Brazil and Chile is an important step (Bertranou and others, 2007a). However, the region has seen less progress in the area of unemployment insurance, as evidenced by sparse coverage, low benefit levels with respect to wages and, above all, the exclusion of informal workers. Unemployment insurance is the key to reducing the adverse impact of transitions and promoting more efficient employment relations in the developed economies.

Due to its structural heterogeneity, the region's common objectives cannot be met with any single approach. The characteristics of the aforementioned measures —formalization and expansion of the social safety net— depend on the development of the specific labour markets of each country and, within each country, on considerations such as the urban-rural dimension. In the case of some less-developed markets, formalization is secondary in importance to the development of non-contributory mechanisms (ECLAC, 2006). Promoting education and training to support worker productivity is also essential. Specifically in the labour sector, the precariousness of working conditions suggests that more basic concerns must first be addressed, such as the "minimum threshold" of regulation of working conditions proposed by Tokman (2008a). Other countries can focus on more targeted formalization activities, especially in urban areas where the informal sector is smaller. With varying degrees of difficulty, and with proposals tailored to their needs, all of the countries in the region can make progress in expanding the social safety net.

Source: Guillermo Cruces and Andrés Ham, "La flexibilidad laboral en América Latina: las reformas pasadas y las perspectivas futuras," Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009, unpublished.

Chapter III

Active labour-market policies

A. Overview

Active labour-market policies are public sector interventions designed to prevent unemployment, improve employability, and underpin the demand for labour. In particular, they aim to:[1]

- Enhance worker employability by providing training programmes and promoting labour-market participation.
- Increase the demand for labour through programmes that generate direct temporary wage-earning jobs, wage or employment subsidies, or programmes to promote productive enterprise.
- Improve the workings of the labour market by providing information services and guidance in job-search and labour intermediation.

One of the advantages of active labour-market policies is that they command greater consensus among workers and employers than other approaches. The two areas in which interests tend to converge most are training programmes and employment services; but there is also agreement on programmes to create direct jobs or support microenterprise. The consensus surrounding these policies makes it a lot easier to forge strategic partnerships between the stakeholders, in order to encourage and underpin public initiatives of this type.

In the developed world, particularly among countries of the Organisation for Economic Co-operation and Development (OECD), active labour-market policies (which have a long history in many cases) have become increasingly important in view of the criticisms made of passive labour market policies in a situation of rising unemployment.

The region is currently implementing many programmes under a variety of modalities. Although these have been made more effective and efficient and fairer in recent years, the schemes implemented still show major shortcomings in these three indicators, as discussed below.

1 This follows the classification used by the International Labour Organization (ILO).

B. Active labour-market policies: strengths and weaknesses

1. Occupational training programmes

Training programmes are usually broadly accepted by all parties, given their potential for promoting productivity, job stability, upwardly mobile employment careers and wages. In particular, it is recognized that skilled labour helps enhance the region's systemic competitiveness, while knowledge acquisition is seen as an essential component of employability that facilitates labour-market participation generally and the re-engagement of the unemployed in particular.

Nonetheless, evaluations of this type of programme around the world have not always been favourable. In a review of the experiences of 49 countries Betcherman, Olivas and Dar (2004) note that several programmes achieved positive results by making it easier to find a job (although they failed to find a positive impact on wages). Nonetheless, positive results are obtained almost exclusively in developed countries and transition economies, while the benefits are marginal in many others. On-the-job training and participation by employers produced better results than classroom-based training.

The results of valuations in Latin America have also been mixed, even in different assessments of the same programme. For example, using data for 1997, an evaluation of the global supply of training provided by the National Apprenticeship Service (SENA) in Colombia (Medina and Núñez, 2001), shows that the effects on labour-market participation have been insignificant for the various beneficiary groups. The impact on earnings was also insignificant. Nonetheless, according to Sarmiento and others (2007), who use data for 2003, SENA-certified training courses increase the likelihood of being employed by 10%, and raise labour incomes by a similar amount.

The Mexican Job Training Programme for Unemployed Workers (PROBECAT) (now known as BECATE) was introduced in 1984 to cushion the adverse impact of the debt crisis on the labour market. The programme provided training for unemployed workers in short (six-month) courses, with the aim of improving their chances of rejoining the labour market and bolstering their income during the transition. Participants were paid a minimum wage during the training period, and local employment offices provided job placement services. Although training courses were initially provided in secondary schools and training centres, an on-the-job training module was introduced later to strengthen the link with the productive sector, with the employers in question being required to hire at least 70% of those trained. In 1995, a third training module was added to cover own-account workers in response to the 1994 financial crisis (Tokman, 2009).

This programme has been evaluated four times since its creation, giving positive results in two cases, insignificant in another, and variable according to personal characteristics, regions and institutions, in the last. The first evaluation was performed by the World Bank (Revenga, Riboud and Tan, 1994), and the second by the Ministry of Labour (STPS, 1995). These two evaluations show that participants spent less time job-seeking compared to non-participants and subsequently earned higher wages. Nonetheless, the results in both cases were only valid for men.

The third evaluation, also performed by the World Bank, used a different methodology (Wodon and Marinowa, 1999), but did not find significant positive results in terms of either employment or wages. On the contrary, negative effects were detected in job search in the case of men who received training in classrooms. The fourth evaluation analysed the period 1984-1998 and found positive results that were differentiated by individual characteristics, regions, modalities and institutions (Calderón-Madrid and Trejo, 2001). The wage increases for participants, in relation to non-participants, seemed to be greater for women than for men. On-the-job training is more effective than training in the classroom, and private-sector institutions achieve better results than those operated by the government.

These programmes in the region have undergone major changes in recent years, including the following: greater diversification among the suppliers of training, a larger private-sector presence, and decentralization of programmes in the public sector; a wider range of beneficiaries (employed workers with skills, youth without job experience, unemployed workers, among others), and the design of different programmes to address the specific problems being faced by the target public; certification of the skills needed by broadening the supply of training and recognizing informal learning; better matching of training with the requirements of labour demand, through participation by firms and, in some cases, labour unions; new public financing instruments for these programmes.

Special training mechanisms have been introduced or strengthened during the current crisis. Firstly, several countries (such as Argentina, Chile and Uruguay) provide incentives to train workers who are at risk of dismissal owing to the critical circumstances being endured by their firms (ECLAC/ILO, 2009). In this way, workers keep their jobs and receive training to improve their productivity for when they resume their tasks. Secondly, retraining programmes are being implemented (in Peru for example) for unemployed workers with slim chances of returning to their previous occupation.

Despite recent changes, training systems in the region still have major shortcomings. For example, their coverage is normally limited and it is generally large firms that make use of the programmes and provide greater benefits to higher-ranking staff, so their equity effect is questionable. Lastly, these systems do not usually form part of a long-term development strategy, which they would have to in order to contribute optimally to a sustained increase in systemic competitiveness (ECLAC, 2004).

The outcome of these programmes depends on a number of conditions. In particular, their success seems to require strict targeting, relatively small scale, the existence of a recognized qualification that is valued in the labour market and, above all, work in the firm. Training is ineffective for finding work in cyclical downswings when the demand for labour is weak. Nonetheless, training programmes for young people in Latin America and the Caribbean have functioned relatively well, and have had a positive effect on both employment and the income of their participants.[2] There is a consensus that preventive measures are needed to combat high levels of youth unemployment, such as access to duration of quality school education.[3]

In brief, when designing training systems, the following issues need to be borne in mind:

- There is a close link between the results of employment training and education systems and the population's general knowledge. Weaknesses in general education reduce the capacity of training programmes to improve workers' labour-market participation. It is therefore essential to promote an education of better coverage, quality, duration and equity in the region.
- Training systems need to adapt better to the different needs of the various segments of the productive system and the labour force, by diversifying the programmes supplied.
- Given the major changes that have occurred in production practices, a permanent training system needs to be set up to help workers adapt to new technologies and improve their chances of entering the labour market.
- Competency-based training needs to be strengthened. This entails transmitting not only specific knowledge, but also the capacity to adapt to new tasks and technologies in different settings. The advantage of competencies is that they can be applied in different jobs, which improves employability.

The supply of training needs to be accredited and transparent, and its results need to be evaluated using recognized and agreed-upon skill certification systems.[4]

2. Employment services

Employment services provide a link between labour supply and demand, aiming to facilitate labour-market entry, reduce unemployment and raise productivity. As noted by Mazza (2003, p. 166), they seek to increase the speed and quality with which persons looking for work are matched with vacancies and training. Their specific tasks range from assistance in job-search, through job placement, vacancy information and help in producing

2 For example, see details of the *ProJoven* programme in Peru, in Hoyle (2005) and Chacaltana (2005).

3 See chapter IV on this point.

4 In addition to the registration of institutions that provide training, Calderón (2007) calls for the creation of a personal accreditation system, such as the Mexican System of Labour Competencies operated by the Council for Standardization and Certification of Labor Competency (CONOCER), which provides the market with information not only on the training obtained by the worker, but also on the institution that provided it.

a curriculum vitae, to more complex activities such as direct or indirect training through other organizations, providing information on labour-market trends, managing unemployment insurance and other programmes, and overseeing active job-search.

The rationale for this type of policy is based on the information asymmetry that exists in the labour market and the difficulty in correctly matching labour supply and demand in a highly changeable setting. This asymmetry results in lengthy periods of job-search (and hence unemployment), compounded by under-use of labour skills and mismatches between those skills and market needs. These programmes target both the unemployed and job-seekers in general, in addition to employers.

The region has wide-ranging experience in labour intermediation services, which in recent years have gained currency as a potentially effective and low-cost instrument (Mazza, 2003). In general, these services are provided either by Ministries of Labour (such as in Argentina and Uruguay) or by public training institutes (such as the National Apprenticeship Service in Colombia and the National Training and Employment Service (SENCE) in Chile). Implementation modalities vary; in some cases, the private sector provides these services through schemes involving varying degrees of collaboration with public agencies. Several modes of cooperation have been established between the public and private sectors, thereby altering the previous exclusively public structure. Such institutions also provide services for some segments of the informal sector, whereas previously they operated only in the formal sector. In some countries (such as Mexico), employment services are also involved in dealing with international migration issues.

In some Latin American and Caribbean countries, new technologies, especially the Internet, are increasingly being used in activities of this type. In particular, online employment exchange or labour market information services are available in Chile, the Dominican Republic, Mexico, Panama and Uruguay.

Despite progress made in this area, however, a large proportion of hirings continue to be made through personal contacts, which tends to be less efficient in terms of matching supply and demand. It also further deepens labour market segmentation, since workers with the widest contact networks generally belong to the middle- and high-income brackets. Accordingly, those who make most use of these employment services tend to be those who find it hardest to enter the labour market.

Employment services also need to strengthen their use of new information and organizational technologies, supported by highly qualified staff to meet the extremely varied demand generated by the region's heterogeneous productive structures and labour forces. Services also need to be more directly integrated with other labour-market policies, both active and passive; and their coverage needs to be expanded to encompass other segments of the population, such as informal workers.

Although public employment services are comparatively inexpensive, it needs to be borne in mind that intermediation does not actually create jobs, but only brings together those who offer and those who are looking for work. Accordingly, they are far less effective when labour demand is weak. Moreover, as noted above, the presence of a large informal sector in the region, together with traditional job-search practices based on personal relationships, makes these public services less effective.

3. The creation of wage employment

Direct job creation programmes are generally introduced as an emergency measure during sharp contractions of labour demand, especially in the absence of broad-coverage unemployment protection systems. These schemes offer temporary jobs paying close to the minimum wage and generally target members of poor families (sometimes only heads of household). Low pay tends to work as a self-selection mechanism, since the programmes attract only members of low-income households. So do the tasks involved in these jobs, which tend to be labour-intensive, such as cleaning activities, construction or maintenance of physical infrastructure. Examples include the *Trabajar* programme and the *Jefes y Jefas de Hogar* programme in Argentina, emergency employment programmes in Chile, Peru and Uruguay, and the social investment funds implemented by the Plurinational State of Bolivia and Costa Rica.

The *Trabajar* programme in Argentina, which was designed to relieve poverty and targeted the unemployed, provided employment in infrastructure works of high social impact. The plan had a broader coverage than other programmes previously implemented in that country; and, according to an evaluation by Ravallion (1999), it was heavily oriented towards the poor: 80% of workers in the plan were from families belonging to the poorest 20% of the population. Jalan and Ravallion (2003) also showed that the programme increased incomes among beneficiaries in relation to the control group.

The *A trabajar urbano* programme (now called *Construyendo Perú*) was introduced in Peru in late 2001 to alleviate the cumulative effects of the Asian crisis in the late 1990s (Chacaltana, 2005). This programme was similar to *Trabajar* in Argentina, since it aimed to create temporary employment in labour-intensive public-works projects for people with low incomes, particularly heads of household and the unemployed in poor sectors. Its evaluation shows that the geographic targeting was appropriate, since it channelled 55% of expenditure into areas where the poorest 20% of the population live, and 75% to areas corresponding to the poorest 40%. Self-selection through low wages does not seem to have been very successful, because in Lima only 21% received wages below the level set by the programme, while in the rest of the country the figure was 38%. Administrative expenses were considered acceptable.

One of the weaknesses of these programmes is that they do little to help workers rejoin the labour market; as they do not generate skills or know-how valued by the market, they do not facilitate subsequent labour market re-entry for the unemployed. In practice, they merely generate temporary incomes for low-income households. Moreover —and this relates to the previous point— even when the emergency is over, it is often difficult to close down programmes of this kind because many of the beneficiaries will have few employment alternatives even in more favourable economic conditions. Another frequent criticism points to the unequal distribution of funding owing to political factors or because of differing management capacities among participating institutions (ECLAC, 2008a). They also do not seem to increase the employability of beneficiaries in the long run, and they could have a negative impact if participation in the programme is stigmatized by society.

An important component of these programmes should therefore be to develop exit strategies for the beneficiaries. Depending on individual characteristics and setting, measures should be taken to promote entry into the main labour market and avoid fostering beneficiary dependency on this type of programme.

It is also suggested that the temporary programme be made permanent, but with countercyclical flexibility —expanding in recessionary phases and contracting in upswings. This criterion is applied in Chile, where programmes were made permanent and seasonally adjustable, and were divided into direct and indirect programmes (Tokman, 2009).

An alternative to direct programmes to strengthen labour demand consists of indirect job-creation programmes that provide economic incentives for private firms to hire workers or retain those who would otherwise have been laid off. These policies consist of a subsidy that lowers non-wage labour costs or covers part of the wage. Argentina and Chile introduced this type of mechanism in the *Proempleo* programmes. Countries including Argentina, Brazil, Mexico and Panama have recently applied schemes of this sort in the context of "first job" programmes, more to overcome the structural barriers faced by young first-time job-seekers than to facilitate employment during an economic downturn.[5]

Some doubts have arisen about the efficiency of these instruments, owing to their potential "dead-weight" effects (hiring workers who would have been hired anyway) and the displacement of existing workers by subsidized hirings. A key point here is the close relation between the programme and the economic cycle: at the peak of the cycle the "dead-weight" effect could prevail, while in the trough the programme could become less efficient through the substitution effect, or else simply become ineffectual because firms see no need for further hiring, with its attendant costs, and will not take up the incentives (ECLAC, 2008b).

Nonetheless, even in those circumstances, indirect job-creation programmes seem to be effective in boosting the demand for the groups that find it hardest to obtain a job. For example, Bravo (2004) states that the programme implemented in Chile has achieved better results than direct employment programmes, and at a lower cost. Employment subsidies are more effective when combined with other programmes, such as training and assisted job-search. It is therefore essential to design these programmes correctly to strengthen their positive effects.

[5] See chapter IV.

4. Programmes to support self-employment and microenterprise

Given the shortfall of wage employment creation, many of the region's countries have introduced programmes to promote independent work, either in the form of own account work or through the creation of microenterprises. Incentives for microenterprises and small businesses have normally aimed at developing a favourable environment for such businesses, and implementing specific productive development policies for this type of enterprise.

Policies of the first type include those designed to reduce production and transaction costs, particularly registration, tax and labour costs. A number of procedural simplifications have been made to reduce registration costs, including a one-stop facility for business services. Other slightly more complex strategies, such as those in Honduras (*Honduras Compite*), aim to simplify not only procedures, but also the mechanisms that affect enterprise competitiveness. Lastly, there are schemes that combine a reduction in red tape with simplified tax payment systems, such as the integrated tax and contributions system for microenterprises and small businesses (SIMPLES) in Brazil.

In relation to tax costs for small business units, some countries offer exemptions from certain taxes (for example, from value-added tax in the case of craft workers in Colombia and Ecuador). Other countries operate simplified arrangements, such as the *monotributo* regime, in which the payment of some or all tax liabilities is replaced with a flat charge. These schemes are employed in Argentina, Brazil, Paraguay and Uruguay (Gonzáles, 2006). A third scheme consists of labour regimes that are differentiated by firm size, which have been introduced in some of the region's countries, such as Peru, Colombia and Chile (Chacaltana, 2009).

Experience shows that schemes to reduce production and transaction costs are needed to encourage microenterprises and small businesses to join the formal sector; but clearly they are insufficient to promote business expansion and thus generate more quality jobs in this segment. This requires a battery of instruments linked to the productive development of the establishments in question.

As shown in table III.1, the region has a wide variety of programmes designed to promote the development of smaller firms. The countries of the region have developed various instruments in three broad areas: access to domestic and international markets; access to credit; and promotion of competitiveness.[6]

Table III.1

LATIN AMERICA: PRODUCTIVE SUPPORT PROGRAMMES FOR MICROENTERPRISE AND SMALL BUSINESSES

Areas of intervention	Programmes	Countries (partial listing)
Market access	Programmes to support commercial activity in general Government procurement programmes favouring microenterprises and small businesses Export support programmes for microenterprises and small businesses	Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Mexico, Peru, Plurinational State of Bolivia
Access to credit	Development bank Microfinance Reduction of direct risk and identification of payment capacity Credit guarantee	Argentina, Chile, Peru, Plurinational State of Bolivia
Promotion of competitiveness	Business development services Access to technology	Brazil, Chile, Peru

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Chacaltana, "Magnitud y heterogeneidad: políticas de fomento del empleo juvenil y las microempresas", document prepared for the workshop Challenges confronted by labour institutions, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April 2009, unpublished.

While these programmes are generally designed to develop firms that already exist, there are also programmes to help workers set themselves up independently, in self-employment as or microentrepreneurs. Measures to promote independent work require a comprehensive approach that facilitates access to capital, knowledge, technology and markets, to create a sustainable business. A comprehensive approach is also needed to train independent workers, combining "skills acquisition and upgrading

[6] For further information on this point, see Chacaltana (2009).

with practising production and income-generation activities within broader and multi-component training for entrepreneurship development, such as through establishing and managing cooperatives and producers' associations and access to finance, technology and markets." (ILO, 2007b). An increasingly important component is training in new technologies. Programmes to support independent start-up include those targeting young people and women, which are analysed in chapter IV.

In general, is unclear whether programmes to support the creation and promotion of microenterprise should be considered as part of the battery of measures to combat unemployment or as productive development policies; and this has caused confusion regarding responsibilities and institutional overlap, among other things. It would be best for these programmes to be directed by institutions responsible for productive development, which would coordinate the various aspects of the programmes (credit, technical assistance, training, and others) with the corresponding specialist organizations, while labour-sector institutions would provide information to stakeholders and handle beneficiary selection processes. They could also play an employment advisory role in programmes to promote enterprise creation.

C. Final remarks

The mixed results obtained from active labour-market policies suggest that the success of such policies depends crucially on their design, scope and targeting, and also on the specific characteristics of the economic and labour-market setting.[7] In Latin America and the Caribbean, this means taking account of the very heterogeneous productive structure and labour force. Policies should also be evaluated in terms of the contribution they make to a long-term development strategy based on innovation, diversification of the productive structure and social cohesion (ECLAC, 2008b).

The efficiency of a public employment system depends largely on its capacity to facilitate access to a wide range of services, offered by a variety of public and private institutions, to an extremely heterogeneous labour force with very diverse needs. This means that active labour-market policies —given the historical lack of funding for the public agencies involved— must have the necessary resources and form a coherent and integrated system of initiatives that exploit potential synergies and are mutually complementary.

Greater integration produces better results than independent schemes. For example, training should be preceded by labour-market orientation for the participants and should conclude with periods of internship in firms and affiliation to a labour exchange service. Support for a business undertaking should also be provided as part of a broader programme encompassing business plan formulation support to obtain financing, assistance in managing the business, and monitoring for a period after the firm has been created.

The programme itself also need to be coherent and coordinated. Coordination between the public and private sectors in labour market intermediation services would reduce costs and increase efficiency, for example. Programmes to encourage independent work should incorporate the various components needed for the business prospect. Work-training programmes should contain a theoretical component in the classroom and another practical component in firms, as a fundamental requirement for improving the chances of obtaining a job and a better income. The possibility of providing financial support to low-income participants, along with medical assistance, child-care services and flexible hours also needs to be considered; and advisory services are required for job-search and the formulation of a personal career plan.

The diversity of demand for active labour-market policy services that reflect heterogeneity of the productive structure and labour force, in a context of resource scarcity, require a high degree of targeting to improve the efficiency, effectiveness and equity of the initiatives in question. Decentralization and participation by local governments can improve the governance of employment programmes by targeting local needs, thereby making them more effective and efficient. Nonetheless, decentralization mechanisms also require high levels of coordination and supervision by the Government.

7 On this point see Farné (2009) and Weller (2009).

Another way to address a heterogeneous demand for active labour-market policy services is to engage non-profit institutions, universities and private firms in intermediation, training and support for microenterprises and small businesses, in order to reach groups that have hitherto been neglected and thus expand coverage, taking account of specific needs and improving services.

There is also growing recognition of the importance of studies and diagnostics of labour market conditions and trends for decision-making; and several countries have responded to this need by setting up labour-market observatories. These mechanisms need to be strengthened to be able in order to exploit information from all available sources for processing and dissemination, including intermediation facilities (public and private services, communications media, Internet and others).

Observatories can also serve as centres of documentation and analysis of the activities of public employment services, generating additional information on labour supply and demand, while monitoring and evaluating programmes in this area. In fact, active labour-market policies require a permanent information system to be able to make changes when needed, prevent inappropriate use of funds and learn from the experience. In this regard, evaluations of impact and the cost-benefit ratio are highly valuable instruments that should be incorporated at the programme-design stage.

Social stakeholders have an important role to play in designing and monitoring labour-market policies, which requires intensive and continuous dialogue. Stakeholder participation and consensus on the policies implemented greatly help to increase the positive impacts of these programmes, improving their governance, avoiding abuses and generating policies that are sustainable in the long term.

Institutional governance should make programmes more flexible, to be able to adapt easily to changes in setting —such as a change in economic circumstances— or when problems are detected in their design or implementation. The empirical evidence shows that the impacts of active labour-market policies are highly dependent on the phase of the business cycle. For example, direct job-creation programmes are appropriate in crisis periods as a way to provide monetary support in the absence of other social protection policies. Once the emergency has passed, however, the programme should be progressively wound down by generating incentives for their beneficiaries to join other programmes offering better productive engagement. Nonetheless, the difficulty in making this transition stems from the shortage of employment opportunities that exist even after the crisis, particularly for certain groups of workers; so, rather than completely closing these programmes down, it might be more feasible to vary their scale in line with the trend of labour-market indicators.

In the case of subsidies for hiring in the private sector, the best time to activate such policies seems to be the start of economic recovery, since in a recession firms will not hire new workers even if they are subsidized, while in the subsequent upswing there is the risk of dead-weight losses. The incentive for hiring precisely at the start of recovery would help to shorten the time-lag that tends to exists between an upturn in production and new job creation. The risk of subsidizing the hiring of workers who would have found jobs anyway can be controlled by reducing the amount of the subsidy as the recovery consolidates.

Lastly, active labour-market policies fail to reach a major segment of the population; and it is the task of social policy to compensate for this using the specific instruments available to it. Specifically, programmes such as *Oportunidades* (previously *Progresa*) in Mexico, *Bolsa Família* in Brazil, *Familias por la inclusión social* in Argentina and *Chile Solidario* could play an important role in this respect, since they provide transfers that are conditional on the fulfilment of certain obligations, such as children's attendance at school and health centres (with the additional aim of reducing poverty in the future) or active job-search by parents. The advantage of these programmes at times of crisis is that they provide a rapid response to the lack of employment, and they also show a political willingness to address emergency situations among the worst affected groups.

Chapter IV

Labour-market integration policies for young people and women

A. Introduction

The vast literature analysing the status of young people and women in the labour market highlights the disadvantages they face and the contribution they make to the productive process and economic growth. The studies confirm that both of these population groups find it especially hard to enter the labour market; and, when they succeed in doing so, they face disadvantageous employment conditions. In particular, these groups are more vulnerable to unemployment, precarious jobs, unpaid work, horizontal and vertical segmentation and wage discrimination.[1]

These problems of labour-market integration involve three types of heterogeneity and inequality. Firstly, the structural productive heterogeneity of the region is reflected in a segmented and exclusive labour market. Secondly, this heterogeneity and the unequal opportunities that stem from it affect the various segments of the working-age population in different ways, posing special obstacles for young people and women in finding quality jobs. Many of those obstacles stem from factors external to the labour market. Moreover, both young people and women are heterogeneous groups themselves, with major disparities in terms of human, social and cultural capital that clearly differentiate employment opportunities (Weller, 2007).

In the case of young people, early dropout or expulsion from school, a mismatch between education and training and the characteristics of labour demand, major inequities between young people and their highly precarious position in the labour market integration, among other factors, have economic and social consequences that call for specific public policies to address these problems and their causes.

Moreover it is becoming increasingly urgent to incorporate the gender perspective into all labour-market policies, because: (i) employment, particularly decent employment, is the main route to reducing poverty and increasing the material well-being and autonomy of

1 See Abramo and Valenzuela (2006), ILO (2007b) and ECLAC/OIJ (2008), among others.

individual people, especially women; (ii) as noted above, women face less advantageous labour-market conditions than men, involving restrictions on the supply side (difficulties in combining paid work with family responsibilities) and also in terms of demand (segregation and discrimination), and (iii) women are the sole or main income-earners in a growing number of families.

Some experiences in the region, although incipient, clearly show the existence of programmes, institutions and legislative measures that have improved women's status in the labour-market, to a greater or lesser degree. The region has made progress in recognizing the role played by women as important, and often the main, family bread-winners. Although this is a significant step in itself, it is not sufficient to achieve genuine gender mainstreaming in all of the pillars of labour-market policy. This requires addressing the various dimensions of labour-market institutions, both in the regulatory framework and passive labour-market policies, and in policies to reconcile family and work (ECLAC, 2008d).

The following analysis first presents an overview of youth employment policies in Latin America; then the strengths and weaknesses of strategies implemented in the region's countries are reviewed from a gender perspective; and, lastly, a few final thoughts are offered.

B. Youth labour-market integration and employment policies

Latin America currently has over 100 million young people between 15 and 24 years of age. To differing extents in individual countries, the proportion of children in the population has diminished and that of youth or young adults —the age group facing the most serious labour-market problems— has increased.

Public policies are being challenged to improve the effectiveness, efficiency and equity of labour-market integration by young people, which requires other measures in addition to policies targeting labour-market institutions. As young people are not all in the same situation, not all policies are appropriate. Some young people only study and are interested in the quality and relevance of the education they are obtaining; some only work, and their specific concerns relate to their current and future jobs; other young people both study and work, while others are not studying, or working, or looking for work. The latter group accounts for roughly 20% of all youth in the region. Two out of every three young people in this situation are women who perform household chores, many of whom have had pregnancies during their teens (Chacaltana, 2009).

The existence of a large group of young people who neither study nor work makes for an extremely critical situation. Most of the young people concerned come from low-income families, which makes it likely that the current low-income situation of their parents will be reproduced in their children, thus reinforcing the intergenerational transmission of disadvantages.

This situation reveals a broader problem, posed by the difficulties of making the school-to-work transition. The education received by young people has major shortcomings in terms of the knowledge and skills they acquire and the information they receive for gradually moving into the world of work. Possibilities for gaining initial work experiences are few and far between, and public employment services need to enhance their role as intermediaries particularly in this segment. In the case of young people who are neither studying nor working, the responses come from domains outside the labour market, such as the education system and the implementation of programmes to reduce school dropout (Chacaltana, 2009).

Compounding this situation, most young people who have a job are working in precarious conditions on low pay and without social security, which further undermines job stability; and periods of work are frequently interspersed with spells of unemployment. This is particularly important in view of the empirical evidence that an unstable employment record in an individual's first few years in the labour market generally has a negative impact, by preventing the accumulation of experience, productivity and specific human capital. This effect is compounded by the negative implications of unemployment for a person's career and living standards. From this standpoint, the youth labour market is viewed as "chaotic" —as a milieu in which many young people driff from job to job without gaining knowledge and attitudes that will later lead to better wages and employment conditions (Maurizio, 2009a).

In contrast, some young people see a labour market with higher rates of turnover as providing opportunities for autonomy and self-realization, because they succeed in accumulating relevant experience for their personal growth and for an upwardly mobile career.[2] This benign version of a labour market with high entry and exit rates is associated with new technologies and new forms of business organization; but it is also restricted to young people with high levels of education. Another highly educated group of young people has better chances of gaining a formal job and experiencing lower exit rates. Nonetheless, for many young people, the impossibility of gaining admission to a stable and quality work environment leads to social exclusion, particularly among those who dropped out of the education system early (Jacinto, 1996; Feldman, 1996; Miranda and Salvia, 2001; Maurizio, 2009a).

There are many hypotheses to explain this instability, including, as noted above, a structural inconsistency between the nature of supply (limited by education andexperience deficits) and continuously adapting demand, problems of incomplete information among both young people and firms, labour-market distortions caused by the institutional framework of the labour market and the fact that youth employment is more sensitive to economic conditions (Weller, 2003; Tokman, 2008b). Nonetheless, account needs to be taken of the high level of heterogeneity that exists among youth cohorts, in which specific groups, differentiated by education level, sex, family of origin, area of residence, ethnic background, and special capacities, face very diverse situations in terms of their labour-market engagement (ECLAC/OIJ, 2008).

Latin American countries have implemented various types of policy to address this complex situation. This section analyses the main strategies implemented in the region with a view to identifying trends and areas for intervention. The emphasis will be placed on public policies relating to labour-market integration, labour training and promotion of youth business initiatives.[3]

1. Youth labour-market policies

The data show that a lack of job experience is a major impediment to young people's engagement in the labour market.[4] Accordingly, policies to help young people find work focus mainly on overcoming the difficulties involved in obtaining a first job.

Although employment services in the region have improved in recent years, this scheme of labour-market intermediation does not appear to be sufficient or appropriate to young people's needs. High levels of job turnover make them permanent job-seekers with few references from previous jobs. An efficient employment service that uses new technologies not only makes it easier for young people (who generally are better connected) to access relevant information, but also helps to reduce inequalities caused by the crucial importance of social capital in finding productive employment. In Peru, for example, the cost of the credentials demanded by employers (study certificate and criminal records, identity documents, and health certificates in some occupations) may be very high, particularly because such documents may be valid only for a short time. Accordingly, a service that employment agencies could usefully provide would be assistance in obtaining employment credentials.

On the demand side, a more recent instrument is first-job legislation, which provides incentives to hire young people by reducing labour costs. Such systems exist in Mexico and Chile, for example, and existed in Brazil up to 2007. Paraguay also has legislation of this type, though it has yet to be implemented, while the Dominican Republic is debating a draft law on the subject.

In Chile, the subsidy on youth hiring is applied directly to wages, whereas in Mexico the First Employment Contract Law (2007) requires the State to pay the social security contributions of the young employee. The incentives provided under this latter programme come into effect only after a minimum period of employment, to give greater stability to young people in their first job.

All of these policies are designed to help young people enter the formal sector of the economy. Similar measures need to be taken for young people whose problem is not in finding work as such, but in obtaining quality jobs, because they work in precarious and informal occupations. Measures, such as expanding social security coverage, should be considered to improve the quality of employment for these young people.

[2] Albuquerque (2009) shows that job turnover among young people employed in the Brazilian formal sector has positive effects on their income, which might suggest that, for young people who succeed in entering this sector, a job generates experience that is recognized when seeking employment later. Nonetheless, this yields decreasing returns, so in the case of high turnover, the benign effect is clouded by a perception of high instability that could impair the productivity of the young people concerned.

[3] The following sections are based on the conclusions of Chacaltana (2009).

[4] Young first-time job-seekers generally take longer to find employment than their age-peers who already have labour-market experience; and, in any given youth cohort, women usually take longer to find a job than men (Weller, 2003).

2. Training policies

As noted in chapter III, training and education policies have a long track record in the region, involving both public and private suppliers. Nonetheless, there are various problems in youth training: access is somewhat unequal, and a large group of young people do not benefit from these programmes (Chacaltana, 2009). For those that do gain access to training, the problem is the relevance of the knowledge acquired for gaining employment and achieving job stability. Another difficulty concerns the quality of the knowledge imparted.

There are currently at least four youth-training modalities that aim to overcome these difficulties. The most common involves vocational training institutes, which aim to resolve problems of access, relevance, and lack of financing. Institutes may be public or private, or belong to universities, in which case they are generally funded through business contributions.

In the second system the firm participates directly in training activities, to ensure that the knowledge imparted really matches business needs. This is done through an instrument that is particularly suited to young people, namely training or apprenticeship contracts.[5] In Colombia, Costa Rica and Paraguay, for example, the law requires firms to hire one apprentice per given number of contracted workers, or else pay a contribution to a vocational training institution.

A third modality seeks to overcome problems of access, relevance and quality, particularly for young people whose particular difficulties in entering productive employment are due to their relatively low level of education. In terms of access, these measures target the poorest young people and work through existing educational institutions. To ensure relevance, training entities should have direct links with the productive system; and, lastly, the problem of quality is tackled by drawing up a register of service providers. The *Joven* [Youth] programmes that have been applied in several of the region's countries, based on the experience of the *Chile Joven* programme, are examples of this modality.

Lastly, a fourth, more comprehensive scheme is based on the notion that training is just one element in a broader spectrum of employability, for which reason various actors need to be involved. Examples of this modality are the *ProJovem* programme of Brazil and *Chilecalifica*. As in the *Joven* model, these are multidimensional, ranging from continuous training through to skill certification.

Although the different programmes play a major role in supporting young people's productive engagement, major problems of coverage, quality and access still remain. Specifically, there is not always a guarantee that the contents of the programmes help to reduce gender segmentation in the labour market. Lastly, the effectiveness of the various training schemes is impaired by poor quality and inequity in basic education, which disadvantage a large group of young people. The schemes are basically hampered by the fact that the young people lack the minimum basic knowledge needed to incorporate new specific knowledge for work.

3. Policies to promote youth entrepreneurship

Policies also exist to promote entrepreneurial initiatives among young people. Here it is worth noting that nearly four out of every 10 workers in the region end up working in situation that do not correspond to a direct employer-employee relationship (Chacaltana, 2009).

As noted by Llisterri and others (2006), there are two types of entrepreneur: those who start up businesses to seize an opportunity, and those who do so out of necessity or as a survival strategy. The second type is the most common among young people, since most of them start working as a wage-earners, but later become discouraged by turnover and decide to set up an activity on their own account.

In the case of young people, White and Kenyon (2004) identified two types of constraint on opportunity-driven business initiative: first, a lack of vocation for independent employment compounded by risk aversion; and second, administrative and economic constraints on setting up

[5] See Barbagelata (2003).

a business and making it succeed (such as problems of access to credit, which often arise in the case of young people). Policies to promote youth business initiatives therefore need to be multi-dimensional and distinguish between young people who are thinking of setting up a firm and those that have already done so (Tueros, 2008), to implement specific policies in each case. Linares (2008) argues that entrepreneurship promotion programmes in Peru are clearly biased towards the motivation and planning stages, while only a small fraction also target the formation and follow-up phases.

Examples of these policies in the region include the Youth Entrepreneurship Success Programme (YES) of Trinidad and Tobago, the *Fondo Emprender* of Colombia and *Chile Emprende* (Camacho, 2009). While all of these are public-sector initiatives, there are also non-governmental programmes such as *Colectivo Integral de Desarrollo* in Peru, which is based on evidence showing that business and management training are more important than credit when setting up a business, since most young people start by using their own or family savings (Chacaltana, 2009).

In conclusion, the problem of youth employment is highly complex and heterogeneous, and the solution does not lie exclusively in labour-market policies, but also requires complementary actions to keep young people in the education system, for example through conditional income-transfer programmes and student grants.

Lastly, it is essential to have a macroeconomic regime that generates sufficient jobs, and quality jobs in particular. Reducing unemployment and improving precarious employment conditions will, first, lead to higher family incomes, and thus reduce the need for secondary workers in families; and, second, it will generate better quality jobs for young people.

C. Gender mainstreaming in labour-market policies

There are reasons of efficiency and equity for promoting equal opportunities and treatment between men and women. First, there is growing recognition that the female labour force is increasingly needed to undertake production processes and underpin higher rates of economic growth; and that the unpaid work performed by women is also crucial to the functioning of the economic system (ECLAC, 2008d). Accordingly, reducing and eliminating the discrimination and segregation suffered by women helps increase productivity, competitiveness and economic growth by making full use of available factors of production.

Gender equity is also a key element in strengthening social integration and building democratic societies in which citizens are empowered and citizenship is fully exercised. It is also impossible to make progress in terms of decent employment without promoting gender equality and eliminating all forms of discrimination.

Over time, the Governments of the region have ratified international conventions on this subject, thus assuming a responsibility to incorporate them into domestic legislation and enforce them. Domestic laws have also been passed in this area (Pautassi, Faur and Gerardi, 2004). The broad range of international and national laws that promote the principles of equal opportunity and non-discrimination between women and men thus serve as a starting point for effectively moving towards these objectives (Tomei, 2006). Nonetheless, the wide disparities that exist in the labour market between the two groups clearly show that a policy statement by countries, and even existing laws, are not sufficient conditions for eliminating discrimination against women in the labour market. Fully incorporating this dimension requires gender mainstreaming in all stages of policy adoption: conception, execution, evaluation and monitoring (Abramo, 2003).

Equal access to productive employment also requires consideration of issues such as reconciling work and family life, lack of access to employment networks, lack of certain qualifications, and cultural constraints, right from the design stage of the corresponding public programmes. Two of the most important aspects in this regard concern availability of free childcare services and flexible working hours in the labour market.

The following paragraphs review the various dimensions of the employment and labour-market policies implemented in Latin America from a gender perspective, assessing progress made to date and outstanding issues. To put the analysis in context, the section starts with a general overview of women's labour-market integration in the region, while also considering the dynamic of the last few years and its structural characteristics.

1. Stylized facts concerning the labour-market status of women in the region[6]

The female participation rate in the region has been rising over the last few years, although it is still very low compared to that of men. This situation reflects the high proportion of women who undertake exclusively domestic chores, revealing an unequal distribution of household tasks and family responsibilities in which women on average devote many hours to unpaid work. The greater presence of women in the labour force has not been matched by a reduction in family and social responsibilities. Women from poor families show even lower activity rates than those from non-poor households; and factors that generate this gap include lower education levels, a larger number of children, and less access to childcare services.

Female unemployment rates are persistently higher than the corresponding rates among men, largely reflecting less favourable conditions for formal employment for women. This is also reflected in the fact that a large proportion of female employment is in the informal sector. Furthermore, women tend to perform jobs at the lower end of the occupational spectrum in this sector, working on their own account, in domestic service or unpaid. Partly related to this, women's employment conditions are still often highly precarious.

Women's employment records and chances of an upwardly mobile career are worse affected by horizontal and vertical segregation than is the case among men. This prevents women workers from gaining access to certain types of job (they tend to participate most in "female" occupations), or to certain none senior posts even if they have the same levels of qualifications as men. Compounding all of this, their pay remains lower than that received by men, partly as a result of the discrimination they suffer in the labour market. This gap is usually larger, the higher their education level.

All of these factors mean that women, on average, are less protected in old age by contributory pension and retirement systems, and it is harder for them to fulfil all the requirements to be eligible for pension benefits.

2. Labour-market institutions from the gender perspective[7]

(a) Collective bargaining

Collective bargaining is a highly valuable institution for promoting equal opportunities in the labour market, although in practice it is insufficient, since it neglects to cover a large swathe of the employed female population. This is because of the high proportion of women engaged in informal activities and the fact that women are over represented in formal sectors that are explicitly excluded from collective bargaining.

Female domestic employees and rural workers, many women working in maquila plants and most home-based workers are excluded from collective bargaining by their employment contracts, antiunion practices or the bargaining process itself. Moreover, in cases where the public sector does not use this instrument, a large group of women working as teachers or in the health sector are also excluded from coverage.

Hostility to women's union organization also persists among labour unions, thereby blocking women's access to representative positions (Rodríguez, 2006); and this, together with the fact that employers are also resistant to gender-equity clauses, would help explain why such clauses are uncommon in collective bargaining processes in the region (Abramo and Rangel, 2005).

Legal changes have helped to bring about improvements on maternity and paternity protection in contractual clauses. These relate to the duration of maternity leave, the time for which expectant and breast-feeding mothers are protected from dismissal, paternity leave (establishment and duration), protection for the father against dismissal during the childbirth period, maintenance of full salary during maternity leave, length of time allowed for breast-feeding, ratification of the principle of non-discrimination and equal pay for equal work, childcare services of higher quality and for longer periods and sanctions against sexual harassment.

6 Based on Milosavljevic (2007), ECLAC (2008c), Abramo and Valenzuela (2006), Yannoulas (2005) and Rico (2003).

7 This section is largely based on Maurizio (2009b).

Progress has also been made in terms of leave and other entitlements relating to adoption and pregnancy, such as the ban on demanding a pregnancy test from prospective employees in Brazil, permission to attend prenatal check-ups, reduction in working hours, and a prohibition on tasks that could harm the mother and child.

Although improvements have been made in protecting the working woman as a mother, progress has been more limited or even non-existent on other issues, such as reconciling work and family life for women and men, working conditions, and the implementation of effective measures to promote equal opportunities. There is also less momentum on vocational training and labour organization, and there are no mechanisms for evaluating training programmes, the promotion system or performance assessment from a gender perspective.

In conclusion, while the region has made headway by introducing equal opportunity clauses into collective bargaining processes, there is still much to do to ensure that this institution actually serves as a means to eliminate discrimination based not only on gender, but also on race and ethnic origin, among other aspects.

(b) Minimum wage

The institution of the minimum wage is particularly important from the gender perspective, because it can help to close the gender wage gap, given that women on average earn lower wages than men and are over represented at levels close to the minimum wage.

Nonetheless, this possibility of a relative improvement in women's wages depends on avoiding a deterioration in their employment rate, and no substitution of female employment by men. The effectiveness of this instrument in narrowing the gender wage gap also requires the legislation to be effectively enforced, which makes mechanisms of sanction, application and control of labour legislation very important.

(c) Unemployment protection

As noted in chapter II, relatively little use has been made of passive labour-market programmes in Latin America, as shown by the limited scope and coverage of unemployment insurance and other labour protection instruments. In these circumstances, women have even less access to the corresponding benefits. More difficult access to jobs, more precarious conditions, and greater occupational instability among women all reduce their chances of fulfilling the requirements to accede to this type of protection during a spell of unemployment.

Nonetheless, the adverse conditions faced by women do not fully explain their lack of access to unemployment protection. In some countries, such as Argentina, insurance regulations play a part in restricting women's access because they exclude workers dismissed from sectors such as domestic service, private education or the public sector, where women have high participation rates.

Lastly, a further inequity occurs when women lose the right to have their employer make social security and pension system contributions on their behalf during maternity leave. This reduces their access to pension benefits and unemployment insurance.[8]

(d) Active labour-market policies

Following Abramo (2003), four different situations can be distinguished in relation to the gender perspective and women's participation in the labour-market policies applied in the region:

- Programmes that incorporate the gender dimension into their design, and hence also in the corresponding performance indicators. An example of this is the National Plan for Worker Qualification (PLANFOR) in Brazil.[9]
- Programmes targeting women exclusively, and particularly female heads of poor households. An example of this type is the training programme for women heads of household in Chile.
- Programmes in which gender is not a design concern, but measures giving priority to women are subsequently adopted in later phases of the programme, for example at the implementation stage.
- Programmes whose design completely disregards gender issues, but which for various reasons target women, who form a majority of the beneficiary group. This is seen most often in policies that make transfers to the poor, but less frequently in employment or microcredit programmes or those targeting the unemployed.

A number of experiences are described below, from which conclusions can be drawn on the gender perspective in active labour-market policies. The aim is to assess the extent to which, and how, the implementation of these programmes has helped to reduce the gender gap in access to employment, particularly to quality jobs.

(i) Vocational education and training

Women face a significantly smaller range of job possibilities than men; so training programmes need to

8 To illustrate the greater difficulties that women face in gaining access to this insurance, it should be noted that in Argentina roughly half of the unemployed population are women, yet women represent only 27% of unemployment insurance beneficiaries.

9 The design of this programme included the goal of promoting equal opportunities and ensuring access for the most vulnerable groups. For this purpose it established that participation by these groups should be at least equal to that of the economically active population.

target not only women but also policy-makers and key stakeholders, to raise their awareness of the problem experienced by women in the labour market.

Training in the gender perspective is especially important, because it can help improve women's access to skills and better quality jobs.

The region has experiences of programmes in which the gender perspective has been incorporated through various channels. These include PLANFOR (1995-2002)[10] in Brazil; FORMUJER;[11] *Chile Joven*,[12] the Women Heads of Household programme in Chile, and the Youth Training Programme Skills Development for Domestic Service, both in Argentina.

Institution-building programmes include the regional project to support the formulation of Gender-Oriented Labour-Market Policy being implemented by ECLAC and the German Agency for Technical Cooperation (GTZ), and the project to mainstream gender in policies to eradicate poverty and create employment in Latin America, implemented by ILO in six Latin American countries.[13]

Although the region has made headway with training and education programmes that incorporate the gender perspective, these efforts made are still insufficient, and broad areas of public intervention remain to be exploited. In designing these programmes it is important to consider the variety of women's situations, which diminishes the value of one-size-fits-all policies.

(ii) Business development

A growing number of women in the region are developing their own independent businesses. As noted by Valenzuela (2005), although they all share certain characteristics, such as generally being mothers in the middle stage of the life cycle, and a significant number of them are heads of household, the following distinctions can be made: (i) at the base of the pyramid are women with low educational levels, belonging to poor households, who generally undertake informal and precarious work with help from family members (often their children), operating with minimum levels of capital; (ii) an intermediate group of women with some capital and a more solid business, which has better chances of surviving through time, and (iii) at the top end of the pyramid are entrepreneurial women with access to contact networks, who direct small or medium-sized businesses and succeed in establishing themselves on a stable basis.

Independent workers, whether men or women, find it hard to stay in the market and expand their activities, because they lack access to the necessary assets, such as financing, management know-how, technology, and risk insurance, among others. Nonetheless, these constraints tend to act more heavily on activities undertaken by women (Valenzuela and Venegas, 2001).

At the same time, the job segregation women experience as wage-earners is replicated when they work independently, and they tend to congregate in activities that have low entry barriers and are therefore highly competitive, often in the services or commerce sector.

Another characteristic that self-employed women share with their wage-earning counterparts is a combination of paid and unpaid work involving family activities and care work. This constraint might be expected to be most onerous among self-employed women, particularly in the initial stages of their activities. As Valenzuela (2005) notes, this difficulty is sometimes resolved by setting up the business at home, which has certain advantages, but also drawbacks. The former include greater flexibility of working hours and less travel; the drawbacks include difficulty in separating family and work responsibilities, and lack of rest periods and adequate working conditions (Lund and Srinivas, 2000; Chant, 2007; Kantor, 2002; Lessinger, 1990; López Estrada, 2002).

Accordingly, this type of occupation in some circumstances may help to provide greater work opportunities for women and generate higher incomes that enable many of them to escape from poverty. However, the constraints involved in some types of self-employment are more burdensome for women than men.

Issues that should be included in business development programmes in order to attract more women into self-

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10 In 2003, PLANFOR was replaced by the National Qualifications Plan, which also prioritizes access for groups that tend to be excluded on race or gender grounds.

11 The Regional Programme to Strengthen the Vocational and Technical Training of Low-Income Women (FORMUJER) arose as a regional initiative funded by the Multilateral Investment Fund of the Inter-American Development Bank (IDB), with technical coordination by the Inter-American Research and Documentation Centre on Vocational Training (CINTERFOR) of the International Labour Organization (ILO). It was aimed at strengthening gender equity by providing training for women, particularly those living in poverty. The participating countries were Argentina, Costa Rica and the Plurinational State of Bolivia. Yannoulas (2005) cites the following contributions made by the programme: (a) development of a political-educational training model that takes the gender perspective as a conceptual and strategic framework for the policy, making it possible to implement actions to target and take affirmative action in favour of deprived population groups (particularly women); (b) the design of curricular profiles by cross-referencing training with labour skills and gender, and (c) the implementation of compensatory strategies to address gender and poverty inequalities, diversifying the vocational alternatives available to women.

12 This programme included a stimulus for women's participation from the outset, by providing childcare for participating mothers, agreements with employers associations to encourage the employment of participating women, and awareness-raising workshops for officials and trainers.

13 The countries are Argentina, the Plurinational State of Bolivia, Honduras, Nicaragua, Paraguay and Peru.

employment and complement experiences to promote independent work generally, include the following:

- Property rights: women's lack of access to such rights, including intellectual property rights, means that they cannot use, build or transform or exchange their assets into productive capital with a view to generating more capital (Chant and Pedwell, 2008).
- In some situations women face difficulties in renting premises in their own name (Vera-Sanso, 2006).
- As also noted by Chant and Pedwell (2008), informal workers, particularly women, would benefit hugely if they had "empowering" capacities, ranging from negotiating skills to knowledge of their legal rights, and union skills enabling them to participate in associations to defend their rights.
- It is important to promote awareness-raising, sensitization and consensus among society regarding the new roles that women can play in the economy, including this type of activity.
- Family care services need to be built into the design of these programmes. Family responsibilities affect the workload of businesswomen and require measures to alleviate the domestic burden and promote the development of other activities.

(iii) Direct job creation programmes

Targeted employment programmes have been implemented in the region for groups facing difficulties in finding jobs, some of them oriented towards women exclusively (usually poor women). Nonetheless, even in the broader-scope programmes, a high proportion of the beneficiaries tend to be women.

Evaluating this type of programme from a gender perspective poses major challenges. First, apart from programmes targeting women exclusively, the female presence in these programmes stems from their orientation towards poor or single-parent families. But this does not mean that the gender equity objective can be considered to be fulfilled, since the design of such programmes generally does not address the constraints described above.

Second, the type of tasks to be undertaken within these programmes needs to be considered explicitly, along with the extent to which they reduce job segregation and segmentation. A major feature of these plans is that women generally end up performing the same tasks in community centres as they undertake at home, such as the provision of care and food.

Lastly the impact of programmes on a woman's future career needs to be assessed. For example, in the case of the Unemployed Male and Female Heads of Household Programme (PJJHD) in Argentina, the proportion of beneficiaries who enter a wage-earning job registered with social security is clearly biased in favour of men. Whereas men currently represent 26% of all beneficiaries, they account for almost half of those entering the labour-market by this route. This pattern is even more marked in periods of rapid economic growth, such as enjoyed by that country since 2003; and it is particularly important to analyse the employment records of those who succeed (or fail) to enter labour market after joining a programme of this sort.

(iv) Labour intermediation services

Fewer contact networks and opportunities for training and vocational education, compounded by occupational segregation, make women's job-search more difficult. This is very important in the region because a large part of job-search is based on informal contacts, many of which are developed through cumulative labour-market experience or personal contacts. As women participate less in the labour force, or do so more intermittently, they have less access to this mechanism when looking for a job.

In this regard, the supply of free intermediation services may help to reduce one of the labour-market entry barriers by helping to improve women's access to information on vacancies and the general situation of the labour market. This type of service may thus become an important tool for reducing discrimination in the labour market and contributing towards equal opportunities.

The flexibility provided when intermediation services use information and communication technologies could benefit individuals who are subject to greater time or mobility constraints, which is often the case for women.

Partnerships between the public and private sectors and non-profit organizations may also benefit women (Mazza, 2003), particularly the poorest among them. In Peru, for example, civil society organizations (NGOs, the church) could provide local services of this type in conjunction with the private sector. Local partnerships may be more efficient in adapting to the specific characteristics and problems of certain groups, such as women or young people. Mobile units that take these services into the community are particularly useful for women with childcare and other family responsibilities.

Nonetheless, one of the challenges faced by this type of service is to incorporate the gender perspective from the design stage, which involves addressing these contingencies through specialist services that deal with this specific situation. As noted by Samaniego (2002), an evaluation of this type of programme in the countries of the Organisation for Economic Co-operation and Development (OECD) seems to show that the more they are adapted to the specifics of different groups in the beneficiary population;

the more effective they are. This requires an awareness of the disadvantages and constraints these groups face and of the measures available to reduce them.[14]

Another challenge is to evaluate the performance of this type of service, for which suitable "productivity" indicators would need to be defined. Establishing adequate performance indicators is not easy and certainly cannot be based solely on the number of people who found a job (Mazza, 2003). Nonetheless, jobs obtained through the intermediation service by vulnerable groups such as women, young people and migrants, among others, could be weighted differently.

Two other features of the region's labour market are also important. One of them concerns migratory flows. In this regard, Mexico's public employment service provides information on employment opportunities outside the country, such as temporary work in Canada (in this case it also obtains visas and pays the transport cost). As women form a growing proportion of migratory flows, these services have had a direct impact on them. The other feature concerns the importance of the informal sector and female employment in it. The services provided need to be expanded to embrace these workgroups as potential beneficiaries.

D. Final remarks

In the context of a segmented and exclusive labour market that reflects the heterogeneity of the region's productive structure, opportunities for accessing quality jobs are unequally distributed. If, as claimed, one of the goals of the institutional framework in the labour market is to protect structurally disadvantaged participants, institutions are needed that address the access problems faced by specific groups.

Such groups include young people and women, who consistently display adverse labour-market indicators. These groups are also internally heterogeneous; and factors such as educational level, characteristics of the household of origin, area of residence and ethnic origin influence their chances of engaging in the labour market and result in significant differences in the labour-market variables pertaining to each group.

A review of the specific role played by labour-market institutions in integrating young people and women into the labour market shows both similarities and differences. Instruments to improve employability need to take account of the weaknesses and inequities in human, social and cultural capital among these groups. The concept of "double relevance", which is often used to analyse training programmes, should be extended to all policies. Programmes are relevant when they take account of labour demand representing quality job opportunities, on the one hand, and the profiles, expectations and needs of the target population, on the other, focusing on closing gaps in opportunities and outcomes.

This calls for activities to strengthen gender mainstreaming in employment programmes and help young people from low-income households enter the labour market, with a view to breaking the inter-generational transmission of poverty. The improvements in public employment services, programmes to promote independent employment and education and training programmes reviewed in the foregoing sections could play a major role in this regard. In the case of young people, it is also essential to strengthen the link between the education system and the world of work, which is a task to be shared by all stakeholders.

For women, measures to help reconcile family life and work, supported by the approval and enforcement of anti-discrimination laws, are crucial for overcoming the inequalities that encumber their integration into the labour market.

[14] An example of this is an ILO project undertaken in Chile, Colombia and Uruguay to reduce the difficulties faced by women in finding more and better jobs (Abramo, 2003).

Chapter V

Conclusions

Labour institutions have been the subject of an intense economic-policy debate —one characterized by a high ideological content that, particularly from the 1990s, gave rise to strong positions in favour of a series of reforms aimed at making labour markets as deregulated and flexible as possible. However, amidst low growth and uneven productivity in Latin American and Caribbean economies, the reforms did not have the expected impact on labour markets. Disappointment over the broken promises of flexibility reforms has intensified questioning about the efficiency of relatively unregulated labour markets and has resulted in proposals on labour-market regulation that have become rather more cautious in recent years (Freeman, 2005).

Although there is no consensus on the type of reform necessary, there is agreement that the region's labour institutions are not fit to face the challenges emerging from increasingly integrated markets, volatile economies and ever-changing technology. From different positions, it has been agreed that these institutions do not ensure efficient market functioning or the protection of workers as structurally weak actors. As such, labour institutions are not making a satisfactory contribution to the creation of quality employment or a development strategy based on increased systemic competitiveness and greater social inclusion. The criticisms differ in their content and nuances, depending on the stance and social interests of those behind them.

As mentioned in previous chapters, the last few decades have seen several labour institutions called to task over their lack of effectiveness and equity. Minimum wages, for example, sustained major losses in real terms, as they were often used as a means of stabilizing prices. Unionization rates dropped abruptly in many countries in the wake of changes to the production structure, anti-union policies (often associated with dictatorial governments) and the behaviour of unions themselves that has caused them to lose legitimacy. Employment-protection mechanisms have become weaker, as increasing emphasis was placed on the non-wage labour costs involved.[1] This emphasis was often intended to offset the negative impact of certain configurations of relative prices on business profitability.[2] Nonetheless, in the late 1990s and even more so in this

1 It should be pointed out that not all the changes implemented in that period were of the same ilk. There were also measures to improve the protection afforded to specific groups, while some countries strengthened the options for union organization.

2 Some of the region's countries have at times used the exchange rate as an anti-inflationary policy instrument, which usually triggered a process of exchange-rate appreciation that affected the profitability of the production of tradable goods.

decade, a few countries introduced policies that focused on the need to recover the minimum wage in real terms, increased unionization and stronger protection mechanisms.

The literature on the three institutions mentioned shows that their development and performance are extremely varied, which makes it impossible to formulate general recommendations and indicates that the analysis needs to be considered on a case-by-case basis, in the context of the economic and institutional specificities of each country. If we consider the case of the minimum wage, we see that there is huge regional variety in terms of its (absolute and relative) level, and that the impact of a real increase depends, among other things, on its level in relation to average wages, on average productivity, and on the needs and income sources of poor households. If the minimum wage is relatively low, then increasing it will probably have a positive impact, as it well help to boost the income of poor households without affecting employment. In contrast, the effect may be different if the minimum wage is relatively high, as any significant increase could risk reducing labour demand and pushing up levels of non-compliance.

The impact of organized labour and collective bargaining is also varied, depending on their specific characteristics. In contrast with the downward trend in unionization seen in previous decades, there are several factors now conducive to greater union organization, including the importance of social dialogue as a key to achieving sustainable reforms to labour institutions and the increased flexibility of collective bargaining as an instrument of regulation (compared with a legislation that sets down the characteristics of labour relations in detail). However, if organized labour and collective bargaining are to achieve this aim, a series of conditions must be met, including the elimination of anti-union practices and the development and strengthening of democratic, autonomous, representative and transparent structures of union organization.

In the recent past, several countries have made efforts to improve unemployment protection. Little progress has been made in this regard, however, and this has been highlighted by the current crisis. Although there have been efforts to use the instruments available to prevent a larger rise in unemployment, existing schemes are very weak, especially in terms of coverage. The region still faces the challenge of developing mechanisms that offer greater levels of protection in the context of higher rates of labour turnover resulting from globalization and far-reaching and rapid technological change. Given the high degree of labour-market informality, increasing the coverage of protection mechanisms must go hand-in-hand with the development and promotion of non-contributory social protection mechanisms (ECLAC, 2006).

Over the last few decades, the region's countries have implemented a wide range of changes to active labour-market policies. Reforms have included those related to vocational training: tailoring it to demand, targeting the needs of different population groups and improving coverage through decentralization and a broadening of the type of training-service providers.

Training can be key to improving employability, particularly for groups who find it especially difficult to enter the labour market, such as women and young people with low levels of formal skills. However, the results of assessments show that such programmes have a rather modest impact, which suggests that policies have a long way to go in terms of effectiveness, efficiency and equity. A prerequisite to significantly improving the effectiveness of training programmes is complementing them with improvements in basic and secondary education and ensuring that they provide the means for lifelong learning, which is essential if productivity, competitiveness and labour conditions are to be constantly improved.

Public employment services must offer an integrated approach for labour-market policies, as well as providing intermediation services. Besides directly carrying out certain activities (such as analysing and disseminating labour-market information, intermediation, advice and guidance), they should also forge strategic partnerships with institutions responsible for other programmes (training, self-employment promotion, emergency employment programmes, hiring subsidies, and so forth).[3] The integrated approach makes it possible to improve coordination and complementarity of the various instruments by adapting them to the needs of the actors involved. This also facilitates the implementation of a cross-cutting gender approach in active policies that is essential for reasons of efficiency and equity.

Against the backdrop of the current economic crisis, some instruments of active policy have been redesigned or reinforced, with a view to limiting the impact of the fall in aggregate demand on the labour market. Some of the main examples include funding for training as an alternative to unemployment, retraining of laid-off workers, hiring subsidies and the renewal of public emergency-employment programmes (ECLAC/ILO, 2009).

Productive heterogeneity and labour-market segmentation can give rise to major inequalities in employment status among specific groups of workers, particularly women and young people. Labour institutions should take this situation into account and develop suitable instruments for fulfilling their dual objective of ensuring labour-market efficiency and strengthening the position of workers as

3 Although unemployment insurance may be managed by public employment services, such schemes can also be run in other ways.

structurally weaker actors, especially those who face additional inequalities.

Whereas active policies are relatively uncontroversial, in that their potential contribution satisfies (or at least does not contradict) the interests of governments, workers and business owners, the same cannot be said of policies governing collective and individual labour relations. Here, the viewpoint that any measure favourable to the interests of one social actor must be detrimental to those of the other is still common. Only some progress has been made towards analysing measures that suit the interests of employers and workers. Generating processes of social dialogue and political consensus at various levels, in which actors recognize each other as legitimate representatives of specific interests, can be a key mechanism for making headway in this regard. Starting off by discussing less controversial topics, such as active labour-market policies, can be a useful way of building the trust that is essential if broad consensuses are to be reached subsequently on thornier issues. International experience shows that there is no one ideal form for labour institutions, but rather various systems may help the region's countries rise to the challenges they face. Ultimately, enhanced and sustainable labour institutions should result from broad social dialogue and democratic decision-making processes in each of the region's countries.

South America

Argentina

1. General trends

The Argentine economy once more expanded noticeably during 2008 and rising investment drove the capital formation ratio to 20.8%. There was a strong slowdown in the course of the year, however, reflecting the impact of the international crisis as well as a number of domestic factors. In the first few months of 2009, construction and manufacturing showed signs of a downturn, especially in sectors affected by consumption of durable and production goods, and agriculture was hit by a severe drought and uncertainty over prices and profits. Nevertheless, official indexes of aggregate economic activity continued to show positive year-on-year variations, in the first quarter. According to ECLAC projections, economic growth will be 1.5% in 2009. Unemployment remained historically low, although labour-market conditions continued to worsen and the manufacturing employment rate dipped towards the end of 2008 and into the early months of 2009. Variation in the consumer price index was estimated by the National Institute of Statistics and Censuses (INDEC) at 7.2% for 2008.

Especially early in the year, economic patterns in 2008 were driven by a strong upturn in export prices. Although this had a positive impact on national income, it also gave rise to a number of tensions over distributive issues. Terms of trade for the year overall were the best for more than five decades and up by 12.9% on the 2007 figure. As a result, even with a strong rise in import volumes (16%) and unchanged export volumes, the trade surplus swelled to some US$ 14.5 billion (representing around 3.3% of GDP). By contrast, large outflows of capital from the non-financial private sector fuelled excess demand for foreign currency as of the second quarter, which forced a drawdown of reserves. In the first few months of 2009 private-sector acquisitions of large foreign assets continued to offset the country's considerable trade surpluses, except that the goods trade surplus reflected large falls in both imports and exports.

In 2002-2008 the Argentine economy's growth relied relatively little on credit use and the country ran surpluses on the balance-of-payments current account and on the public sector accounts. As a result, when the international crisis hit the economic agents were not, as a rule, carrying high levels of debt and some sectors enjoyed strong liquidity positions. This softened those impacts that were carried through financial channels, though certain elements of uncertainty on both the external and domestic fronts fed through to the assets market and the risk premiums implicit in public security prices rose sharply in the latter part of 2008 and in March 2009. By mid-2009, risk premiums had fallen back again, but were still high compared to those seen in previous years and elsewhere.

These conditions severely constrained the public sector's access to market financing and it remained the policy not to apply to the International Monetary Fund (IMF), so the government had to find ways of raising the funds to maintain spending and meet its debt payments. One of the measures taken was to refinance obligations owed to local financial entities. Another measure, the transfer of the private component of the pension system to the public sector, which was announced in October 2008, led to a sizeable flow of resources in pension contributions and the payment of a large segment of debt.

International trade flows were badly affected by the external crisis and the poor grain harvest. In the first four months of 2009, export values were down 24% on the year-earlier period owing to the effects of both prices (-15%) and volume (-9%). The powerful drag effect of exports was accompanied by continued outflows of private capital. The real adjustment in the economy took the form of a heavy drop in investment, as noted earlier, particularly in imports of equipment goods. Sales of consumer durables, both nationally produced and imported, also declined. Current consumptions flows appear to have held steady, however.

As economic activity began to slow, the government looked for other mechanisms to sustain domestic spending. It was announced that funds from the social security system would be used to bolster public works programmes and to prop up demand for various types of consumer and capital goods through lending. The government also took steps to contain job losses, particularly in larger firms, and took steps to restrict certain imports. In addition, the central bank signed currency swap agreements with its Brazilian and Chinese counterparts, in order to strengthen the country's external liquidity position.

In the first few months of 2009 public revenues showed signs of slackening and expanded considerably more slowly in nominal terms than primary spending (15% compared with 24%). Weaker resource-generation was associated mainly with the performance of taxes on external trade and financial transactions and was offset by inflows of further funding in transfers from the social security system. Although external conditions continued to be marked by great uncertainty, the prices of Argentina's main export products returned to levels comparable to those of the last few years, before the extraordinary surges of previous months. Meanwhile, the proximity of the parliamentary elections in June rather limited the economic decision-making horizon.

2. Economic policy

(a) Fiscal policy

In 2008, the national public sector again ran a higher financial surplus than it had the previous year (1.4% of GDP measured on a cash basis, as against 1.1% of GDP). The primary surplus was around 3.1% of GDP, similar to the 2007 figure. This pattern reflected significant increases in both income and expenditure. As a percentage of GDP, primary expenditures rose by just over 1.5 points (from 21.3% to 22.9%), with the increase taking place mainly in current transfers to the private sector and such items as energy, transport and food, which were up by 0.9 GDP points (from 3.5% to 4.4%). Towards the end of the year the government adjusted utility rates, partly in order to ease the burden of subsidies. Other spending items, such as wages, social security benefits and capital expenditures, rose in line with GDP.

Receipts from national taxes rose by almost 1.5 GDP points to 26.7%. Much of this increase (one GDP point) was attributable to export duties. Income from contributions to the social security system also rose (0.6 GDP points), partly because of the incorporation of resources that would previously have gone to the system's private component. The main domestic taxes on income and economic activity (VAT and capital gains tax) remained virtually unchanged as a proportion of GDP.

Macroeconomic performance had a strong bearing on the measures taken to raise resources. In the first quarter of 2009, year-on-year figures showed receipts from external trade taxes strongly down (14%) and nominal income from VAT up by less than 10%. The pension system reform generated a surge (64%) in social security inflows and this sustained total receipts, which were up by 16%. Meanwhile, primary spending was increasing at a faster rate (25%). Transfers to the private sector during this period (15%) were heavily outpaced by other items, such as social security benefits (27%) and capital expenditures (34%), and the overall result was a sharply lower primary surplus (down by 50%). The government took steps to reduce the rates on wage taxes and created a scheme for allocating receipts from soya export duties to the provinces, some of which appeared to be struggling to cover their costs.

The public debt decreased to just under 50% of GDP. In 2008 the government considered regularizing outstanding debt owed to the Paris Club and making proposals to holdouts from the 2005 restructuring, but postponed both initiatives.

(b) Monetary and exchange-rate policies

The inflation rate came under pressure from rapidly swelling domestic demand and rising international prices in early 2008. Consequently, monetary policy was directed towards keeping the money supply growing below nominal output and managing exchange-rate variation. Conflict in the agricultural sector led to some financial turmoil in the second quarter, when deposits shrank and tensions arose in the currency market. The central bank took steps to prop up liquidity, while intervening actively in the market by selling foreign exchange. A similar approach was taken during episodes of financial tension in September-November 2008 and March 2009, although from mid-2008 onward the exchange rate was kept on a track of more rapid currency depreciation and the price of the dollar rose by almost 20% between June 2008 and June 2009. In the early part of 2009, the multilateral real exchange rate was higher than the levels recorded before the depreciation of the early 2000s, but lower than in late 2007.

In 2008 overall, monetary aggregates held by the private sector expanded by around 10%. The banks reduced their holdings in central bank papers by around 25% and, partly as a result, lending to the private sector expanded more than deposits (by some 20%). In the first few months of 2009, the nominal values of deposits and loans remained virtually unchanged.

Interest rates varied, with large fluctuations around periods of turbulence. In April 2009, yields on fixed-term deposits were around 12%, 4 percentage points higher than a year earlier, but 5 points below the figures for November 2008. Lending rates followed a similar pattern, but with much higher figures. The stock markets recorded large movements with heavy falls in the share price index (cumulatively, over 50%) throughout 2008 and a slight recovery (15%) in the first four months of 2009.

3. The main variables

(a) Economic activity

GDP rose 7% on average in 2008, which represented the continuation of an unusually long and dynamic expansionary period (with growth of 8.5% per year between the low point of 2002 and 2008, and almost 3% per year between the cyclical high 10 years ago and 2008). Investment again rose at rates above GDP growth, so the capital formation ratio was by far the highest of the series beginning in 1993. This occurred both in construction and in durable production equipment, in which investment exceeded 10% of GDP. The expansion of export volumes slowed and the slight rise recorded stood in contrast to the surges of previous years. The volume of private consumption rose approximately in line with output. The savings rate (at current prices) showed a slight increase on 2007. This is significant because the records for that year (27% of GDP) actually exceeded those of the expansionary periods of the 1990s by almost 10 percentage points.

From the perspective of merchandise supply, output growth was driven in 2008 by manufacturing and construction, although both these sectors slackened. With regard to the primary sectors, activity stood still in mining and slipped back a little in agriculture, owing to weather problems and the stand-off between the government and the farmers. Output of infrastructure services climbed strongly (10.9%) and the rise in other services was also considerable (over 7%).

Livestock farming showed downturns in slaughter volumes, meat production and exports, and the high proportion of female animals slaughtered indicated that stocks were being reduced. Government intervention in the market helped to keep farm prices stable, while consumer prices rose below the average rate. Consumption per capita remained relatively high.

Petroleum extraction continued to trend downward (this time by 1.8%) and reached a 15-year low. Gas production also dropped, by almost 1%. These developments in hydrocarbon supply were associated with dips in the volumes of fuels and energy exported.

Growth was widespread across the manufacturing sector in 2008 overall. Automobile production rose at above-average rates (approaching 600,000 units), as did output in the basic metals industries. Both these activities, however, experienced sharp downturns as of mid-year and this influenced the aggregate performance, which showed a year-on-year decline in the first four months of 2009. A similar pattern was observed in the construction industry.

(b) Prices, wages and employment

In the first few months of 2008, price movements continued to be driven by rapidly rising demand and surges in international prices, which were passed through to high inflation rates. The pace of inflation slowed notably

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Annual growth rates [b]									
Gross domestic product	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	7.0
Per capita gross domestic product	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4	7.6	5.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-1.7	1.1	-2.3	6.9	-1.5	11.1	2.6	9.8	-1.5
Mining and quarrying	6.7	4.7	-3.7	3.7	-0.4	-0.2	3.0	-0.5	1.2
Manufacturing	-3.8	-7.4	-11.0	16.0	12.0	7.5	8.9	7.6	5.0
Electricity, gas and water	6.6	1.1	-3.0	6.9	6.5	5.0	5.0	5.7	3.7
Construction	-9.3	-11.6	-33.4	34.4	29.4	20.4	17.9	9.9	3.7
Wholesale and retail commerce, restaurants and hotels	-2.4	-7.8	-16.8	11.7	12.4	9.5	7.9	10.7	7.9
Transport, storage and communications	1.7	-4.6	-7.9	8.2	13.4	14.8	13.4	13.7	12.7
Financial institutions, insurance, real estate and business services	1.3	-4.4	-9.6	-1.1	2.2	7.1	8.2	8.1	9.3
Community, social and personal services	1.7	-0.1	-3.3	2.8	4.4	5.6	5.4	5.0	4.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	-0.5	-5.2	-12.8	7.0	8.3	8.5	7.4	8.8	6.7
Government consumption	0.6	-2.1	-5.1	1.5	2.7	6.1	5.2	7.6	7.0
Private consumption	-0.7	-5.7	-14.4	8.2	9.5	8.9	7.8	9.0	6.7
Gross domestic investment [c]	-6.8	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	9.0
Exports (goods and services)	2.7	2.7	3.1	6.0	8.1	13.5	7.3	9.1	1.1
Imports (goods and services)	-0.2	-13.9	-50.1	37.6	40.1	20.1	15.4	20.5	13.3
Percentages of GDP									
Investment and saving [d]									
Gross domestic investment [c]	17.5	15.6	11.0	14.6	19.0	20.9	23.0	24.2	25.0
National saving	14.4	14.2	19.6	20.9	21.1	23.8	26.7	27.0	27.1
External saving	3.1	1.4	-8.6	-6.3	-2.1	-2.9	-3.6	-2.8	-2.1
Millions of dollars									
Balance of payments									
Current account balance	-8 955	-3 780	8 767	8 140	3 212	5 275	7 770	7 412	7 034
Goods balance	2 452	7 385	17 178	16 805	13 265	13 087	13 958	13 456	15 464
Exports, f.o.b.	26 341	26 543	25 651	29 939	34 576	40 387	46 546	55 980	70 021
Imports, f.o.b.	23 889	19 158	8 473	13 134	21 311	27 300	32 588	42 525	54 557
Services trade balance	-4 284	-3 863	-1 460	-1 193	-1 331	-992	-501	-452	-889
Income balance	-7 522	-7 727	-7 491	-7 976	-9 283	-7 304	-6 148	-5 927	-7 651
Net current transfers	399	424	540	504	561	484	459	336	111
Capital and financial balance [e]	7 737	-17 679	-22 158	-17 177	-10 164	2 143	6 439	4 188	-10 724
Net foreign direct investment	9 517	2 005	2 776	878	3 449	3 954	3 099	4 969	7 502
Other capital movements	-1 781	-19 684	-24 934	-18 055	-13 613	-1 811	3 340	-781	-18 226
Overall balance	-1 218	-21 459	-13 391	-9 037	-6 952	7 418	14 208	11 600	-3 690
Variation in reserve assets [f]	439	12 083	4 516	-3 581	-5 319	-8 857	-3 529	-13 098	-9
Other financing	778	9 376	8 876	12 618	12 271	1 439	-10 679	1 499	3 699
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	100.0	95.9	225.8	205.0	212.8	213.4	218.0	222.1	229.1
Terms of trade for goods (index: 2000=100)	100.0	99.3	98.7	107.2	109.2	106.9	113.4	117.5	132.7
Net resource transfer(millions of dollars)	993	-16 030	-20 773	-12 535	-7 175	-3 722	-10 388	-241	-14 676
Total gross external debt (millions of dollars)	155 014	166 272	156 748	164 645	171 205	113 799	108 873	124 575	128 112
Average annual rates									
Employment									
Labour force participation rate [h]	57.7	57.3	57.2	60.1	60.3	59.9	60.3	59.5	58.8
Open unemployment rate [i]	15.1	17.4	19.7	17.3	13.6	11.6	10.2	8.5	7.9
Visible underemployment rate [i]	17.1	18.9	24.0	20.7	17.5	14.2	12.5	10.4	9.5
Annual percentages									
Prices									
Variation in consumer prices (December-December)	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	7.2
Variation in wholesale prices (December-December)	2.4	-3.4	113.7	2.0	7.9	10.6	7.2	14.6	8.8
Variation in nominal exchange rate (annual average)	0.0	0.0	206.5	-5.3	0.8	-0.0	5.2	1.3	1.5
Variation in average real wage	2.3	-0.8	-13.9	-1.9	10.0	7.4	8.9	9.1	8.8
Nominal deposit rate [j]	8.5	16.3	39.3	10.5	2.7	3.9	6.5	7.9	11.1
Nominal lending rate [k]	11.1	26.5	53.0	19.1	6.8	6.2	8.6	11.1	19.5

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
				Percentages of GDP					
Central national administration									
Total income	15.2	14.3	14.2	16.1	16.3	16.7	17.2	18.2	19.3
Current income	15.0	14.2	14.1	16.1	16.2	16.5	17.0	18.1	19.2
Tax income	12.9	12.9	12.1	14.5	15.4	15.8	16.0	17.2	18.1
Capital income	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.1	0.1
Total expenditure	17.3	18.3	14.8	15.9	14.4	16.3	16.2	17.5	18.8
Current expenditure	16.3	17.4	14.1	15.1	12.9	14.3	13.6	15.3	16.6
Interest	3.4	4.0	2.1	1.9	1.3	1.9	1.7	2.1	2.1
Capital expenditure	1.1	0.9	0.7	0.8	1.5	2.0	2.6	2.2	2.2
Primary balance	1.3	0.0	1.5	2.1	3.2	2.3	2.7	2.7	2.5
Overall balance	-2.1	-4.0	-0.6	0.2	2.0	0.4	1.0	0.6	0.4
National administration debt [l]	45.0	53.7	145.9	138.2	126.4	72.8	63.6	55.7	48.3
Domestic	16.4	22.3	52.8	59.4	52.7	38.3	37.4	31.8	...
External	28.6	31.5	93.0	78.8	73.8	34.5	26.1	23.9	...
Money and credit [m]									
Domestic credit	31.7	32.6	43.2	37.9	32.7	24.9	20.7	17.1	15.7
To the public sector	12.8	18.8	48.8	42.2	38.0	29.5	22.0	17.4	15.2
To the private sector	23.9	20.8	15.3	10.8	10.5	11.7	13.0	14.5	13.6
Others	-5.0	-7.1	-20.9	-15.1	-15.8	-16.2	-14.3	-14.7	-13.1
Liquidity (M3)	29.6	24.9	21.9	24.9	24.7	25.8	25.8	26.1	22.3
Currency outside banks and local-currency deposits (M2)	12.9	8.5	21.2	23.5	23.0	23.8	23.5	23.5	19.6
Foreign-currency deposits	16.8	16.5	0.7	1.4	1.7	2.0	2.3	2.6	2.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Gross domestic investment does not include changes in stocks.
[d] Based on figures in local currency expressed in dollars at current prices.
[e] Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population, urban areas.
[i] Percentage of the economically active population, urban areas.
[j] Fixed-term deposits, all maturities.
[k] 30-day loans to leading firms.
[l] As from 2005, this does not include unswapped debt.
[m] The monetary figures are end-of-year stocks.

towards the end of the year and in the early months of 2009, although there are still a strong pass-through to consumer prices.

Nominal wages registered a cumulative variation of 22% in 2008, with the largest wage hikes going to workers not registered in the social security. Wage rises in the public sector and the formal private sector were slightly below the average. Wages rose by some 3% in the first quarter of 2009, again driven by the informal sector.

The employment rate rose marginally in 2008 to 42.6% of the total population in the fourth quarter, compared with 42.1% in the year-earlier period. The unemployment rate in that period stood at 7.3% (7.5% a year earlier) and records for the first quarter of 2009 show no variation from first-quarter 2008 (8.4%). The downturn in manufacturing was reflected in the sector's employment indices as of the end of 2008. Year-on-year, manufacturing employment dropped by 0.5% in the final quarter of 2008 and by 2.6% in the first quarter of 2009 and the number of hours worked fell heavily, by 5.4% and 4.3%, respectively, in the two periods. These were the first negative variations observed since 2002.

(c) The external sector

The current account surplus came in at US$ 7.034 billion in 2008, as against US$ 7.412 billion in 2007. The larger surplus on the trade balance offset the rise in outflows on the income balance, which reflected both interest payments (about US$ 1.5 billion, some US$ 900 million more than in 2007) and remittances of profits and dividends (US$ 5.9 billion compared with US$ 5.2 billion the previous year). The services balance was moderately negative, with a slightly larger deficit than in 2007. There were increases in both exports and imports of items such as transport, travel and informatics and professional services (exports in this last category rose to over US$ 4.5 billion). Capital flows shifted from a strong positive net position in 2007 to a sizeable deficit. To some extent, this reflected the performance of public sector operations but the main cause was a large outflow of funds from the non-financial private sector. Activity in the currency market generated a small increase in central bank reserves over the year overall, owing to the combination of a large build-up in the first quarter and decreases throughout the rest of the year, especially in the second quarter.

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.0	8.6	8.8	9.1	8.5	7.8	6.9	4.1	2.0	...
Goods exports, f.o.b. (millions of dollars)	11 144	13 666	14 347	16 622	16 008	17 464	21 308	15 264	11 756	...
Goods imports, c.i.f. (millions of dollars)	9 164	10 182	12 695	12 666	12 849	15 327	16 502	12 736	8 307	...
Gross international reserves (millions of dollars)	35 876	41 938	42 931	45 711	50 039	47 918	47 072	46 198	46 933	46 026
Real effective exchange rate (index: 2000=100) [c]	215	218	224	231	235	238	229	216	224	242 [d]
Open unemployment rate	9.8	8.5	8.1	7.5	8.4	8.0	7.8	7.3	8.4	...
Consumer prices (12-month percentage variation)	9.1	8.8	8.6	8.5	8.8	9.3	8.7	7.2	6.3	5.5 [d]
Average nominal exchange rate (pesos per dollar)	3.10	3.08	3.14	3.14	3.15	3.12	3.05	3.33	3.54	3.73
Average real wage (variation from same quarter of preceding year)	8.1	8.5	9.2	10.6	6.4	8.2	9.8	10.4	15.1	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	7.2	7.0	7.9	9.5	8.4	10.2	11.0	14.9	12.5	12.1
Lending rate [f]	9.2	8.7	10.9	15.5	13.0	17.1	19.7	28.1	22.8	20.2
Interbank rate [g]	7.0	7.4	10.2	9.2	8.1	8.9	9.0	11.7	10.9	10.8
Sovereign bond spread (basis points)	209	325	398	410	581	614	953	1 704	1 894	1 291
Stock price index (national index to end of period, 31 December 2000=100)	505	526	525	516	505	506	383	259	270	381
Domestic credit (variation from same quarter of preceding year)	1.3	-2.4	4.9	2.7	12.9	34.2	33.3	17.2	3.1	-7.7 [h]
Non-performing loans as a percentage of total credit	4.1	3.9	3.5	3.2	3.3	3.1	2.8	3.1	3.5	3.8 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Fixed-term deposits, all maturities.
[f] 30-day loans to leading firms.
[g] Buenos Aires interbank offered rate (BAIBOR).
[h] Data to April.

The value of goods exports rose by 25% in 2008 to over US$ 70 billion. Given that volumes varied very little, this rise was attributable chiefly to prices, which pushed terms of trade to historic highs. Values rose across the spectrum of exports, but only industrial manufactures showed an increase in volumes as well (17%). In the primary goods category, cereals and oleaginous crops such as soybean, posted the largest rises in export values. In agricultural manufactures, the higher export values were driven by oil industry products, as well as meats and dairy goods. In industrial manufactures, the largest rises were in chemicals (48%) and metals, machinery and land vehicles (this group represented US$ 12.5 billion and expanded by almost 25%). Exports of fuels rose owing to the price effect, despite a 9% reduction in volumes.

Total exports continued to post high values until the last few months of the year, when that trend weakened notably. This continued into 2009 and in April export values were 22% lower than those of a year earlier, with particularly severe drops in fuels (55%) and primary products (39%), as well as industrial manufactures (18%) and agricultural manufactures (11%).

Import values were sharply up (28%) in 2008 overall, in response to the expansionary pull of domestic demand, and variations were considerable in both prices (11%) and volumes (16%). The import values of fuels and intermediate goods showed a very steep rise (52%), reflecting the price effect. Imports of capital and consumer goods rose (in both price and volume) by over 20%. At the end of 2008 and early 2009, however, the performance of imports changed drastically and they became a barometer for the shifts in macroeconomic patterns. The year-on-year decline in April was 38%, with the downturn led by capital goods imports (-43%).

Bolivarian Republic of Venezuela

1. General trends

The Venezuelan economy exhibited less buoyant growth in 2008 than in previous years: GDP increased 4.8% compared with average annual growth of 9.7% in 2004-2007. The economy slowed down even further in the first quarter of 2009, with GDP increasing just 0.3% with respect to the same period in 2008, and economic activity is projected to stagnate in 2009, with GDP growth at around 0%. Plunging international oil prices have slashed foreign exchange earnings (which are largely dependent on petroleum exports), and heavier restrictions and longer waiting times have been established for the purchase of foreign exchange at the official exchange rate.[1] The government's purchasing power has meanwhile diminished because the exchange rate was kept constant and inflation remained notably high.

In March 2009, the government announced a set of measures to mitigate the effect of the international crisis and the drop in oil prices on the domestic economy. The main measures include: an increase in the VAT rate from 9% to 12% as of 1 April 2009); salary cuts for senior government officials; a reduction in what is designated sumptuous or superfluous spending; a 20% increase in the national minimum wage; the reformulation of the basic premises of the national budget that are linked to oil prices and oil production (average price estimates for the Venezuelan oil basket were revised downwards from US$ 60 to US$ 40 per barrel, and production volumes from 3.5 million to 3.1 million barrels per day); and the expansion of the public debt by 28 billion bolivar fuertes. Despite the public spending cuts, the government announced that there would be no reductions in social expenditure. The official exchange rate remained unchanged at 2.15 bolivar fuertes per dollar.

2. Economic policy

In April 2008, in the framework of the special powers granted to the President under the enabling law, the government announced the nationalization of a large metallurgy firm and of the cement companies operating in the country.[2] On 31 July, the President announced the nationalization of Banco de Venezuela (previously owned by Grupo Santander) and issued 26 decrees with the force of law in the following areas: labour, food production

1 Despite the plunge in oil prices as of September 2008, the average price for the Venezuelan crude oil basket in 2008 was US$ 86.81 per barrel (up 34.1% from the previous year). Between January and May 2009, the average price slumped 51.4%, compared with the same period in 2008, to US$ 41.4 per barrel.

2 This law was enacted in January 2007 and remained in force until 31 July 2008.

and supply, defence, economic planning, loans to the agricultural and tourism sectors, and development of what is termed the "popular economy". In May 2009, an agreement was reached whereby the government bought Banco de Venezuela for US$ 1.05 billion.

Measures to stimulate national production were also adopted, including the continuation of the farm subsidies policy. The organic law for the reordering of the domestic liquid fuels market was passed in October. Intermediation in the supply and transportation of liquid fuels was made the State's prerogative under this law and subsequently entrusted to Petróleos de Venezuela S.A. (PDVSA), its affiliates and the corresponding service stations.

On 14 March 2009, a law was passed to ban dragnet fishing, and the government confiscated all fishing boats that had not been modified by that date. In that same month, the National Assembly passed a bill to reform the organic law on decentralization, delimitation and the transfer of public-sector competencies, whereby the management of national ports and airports is transferred to government control. In May 2009, the government decreed the nationalization of several metallurgy companies and firms engaged in petroleum-related activities. An edict issued by the central bank established that 70% of national gold production must be sold on the domestic market, and that 60% must be offered to the central bank.

The government continued to supply oil at below-market prices to several countries within the framework of the Bolivarian Alternative for Latin America and the Caribbean, the Petrocaribe energy cooperation agreement, Petrosur, and bilateral agreements signed with a number of countries.

In February 2009, a proposed amendment of the constitution to allow the indefinite re-election of the president was submitted to a popular referendum and approved with 54.3% of the valid votes cast.

(a) Fiscal policy

Fiscal policy continued to be expansive in 2008. In nominal terms, the central government's total spending rose 37.7% owing to increases in both current expenditure (especially operational spending) and capital expenditure. Current income grew 17.5%, driven by the increase in receipts from oil royalties and the application of the law on the special contribution derived from extraordinary prices in the international hydrocarbon market that was issued in April 2008.[3] Tax revenue growth fell sharply, however, owing to the steep decline of oil prices in the last months of the year, the reduction in the VAT rate implemented in 2007 and the elimination of the tax on bank withdrawals in June 2008. Fiscal income therefore shrank considerably in real terms despite the increase in the tax on cigarettes and alcoholic beverages. As a percentage of GDP, income fell from 28.9% in 2007 to 24.7% in 2008, while spending came in at 25.8% of GDP. The central government therefore posted a primary surplus of 0.1% of GDP and a fiscal deficit of 1.2% of GDP. Results for the first quarter of 2009 show a 14% fall in current revenue, owing to a 35.9% drop in oil revenue. Total spending continued to rise (12.2%).

In May, a joint Chinese-Venezuelan fund was established with US$ 4 billion from the Government of China and US$ 2 billion from the Government of the Bolivarian Republic of Venezuela. In February 2009, the fund's resources were doubled to US$ 12 billion with each country contributing the same amount as on the first occasion.

(b) Monetary policy

One of the main concerns of monetary authorities was to curb the high rate of inflation, and monetary policy was therefore essentially restrictive until the international crisis unfolded in September 2008. Under this policy, interest rates were kept high, the reserve ratio regarding marginal balances in banks was raised, and the central bank carried out various operations to absorb liquidity from the system. In the fourth quarter of the year, the authorities reversed some of these measures in order to stimulate domestic demand, which had decelerated sharply.

On 1 January 2008, a redenomination of the bolivar took place. Three zeros were cut from the currency unit, which was renamed the "bolivar fuerte" (Bs.F.). The minimum interest rates for savings and time deposits were raised as of 1 May 2008, to 15% and 17%, respectively, and a ceiling of 33% was imposed on credit card interest rates. In 2008, lending rates averaged 22.77%, and borrowing rates averaged 17.13% for time deposits and 15% for savings. At the end of March 2007, the central bank announced a reduction in interest rates. The ceiling for lending rates was lowered from 33% to 31% (for credit card rates as well), and for borrowing, from 15% to 14% in the case of savings and from 17% to 16% in the case of time deposits. Between January and April 2009, lending rates averaged 22.2% and borrowing rates averaged 16.6% in the case of time deposits and 14.6% in the case of savings. At the beginning of 2009, the borrowing rates were lowered to 8% and 9% (from 11% and 12%) and as of April, to 6% and 7%, respectively.

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[3] This law stipulates that oil companies must pay a special tax to the State when oil prices rise above US$ 70 per barrel of Brent crude, as follows: 50% of the price difference per barrel of crude when the price is above US$ 70 and 60% when the price is above US$ 100 per barrel. This tax must be paid in foreign exchange, and the proceeds are deposited in the National Development Fund (FONDEN).

The expansion of the monetary aggregates also slowed considerably in 2008. In nominal terms, M2 and M1 increased 26.8% and 26.5%, respectively, between December 2007 and December 2008. Domestic lending to the private sector followed a similar pattern, expanding 26.2% (compared with 73.5% in 2007) as a result of the contraction of commercial credit (by 16.5%) and of consumer credit (by 30%). In March 2009, M2 and M1 rose 2.1% and 2.3%, respectively, in relation to December 2008 (in relation to March 2008, they had risen 31% and 32.5%). Also in March 2009 and in relation to December 2008, domestic lending to the private sector fell by 0.5% (commercial lending shrank by 3.6% and consumer loans increased by barely 3.3%). In comparison with March 2008, however, domestic lending to the private sector was up by 24.2%.

On 30 December 2008, the central bank announced the reduction, from 30% to 27% as of 5 January 2009, of the legal reserve applied to the total amount of the marginal balances of financial institutions. Throughout the year, the preventive measures adopted by the supervisory authorities aimed to regulate structured notes holdings and provisioning based on these assets. The international banking crisis still made itself felt in the country's banking sector, however, and the collapse of Stanford Bank International resulted in the shutdown of its Venezuelan branches by authorities.[4] The institution was subsequently sold to the National Credit Bank in May 2009.

In March 2008, the authorities announced its intention to issue US$ 1.5 billion in structured notes over the course of the year. In April, the government launched a combined offer of US$ 3 billion in international sovereign bonds maturing in 2023 and 2028. These were aimed mainly at local production companies. This bond issue finally went ahead for US$ 4 billion.

Funds continued to be transferred from the central bank's international reserves to the National Development Fund (FONDEN) in 2008 and the first few months of 2009: US$ 1.5 billion were transferred between February and March 2008 and US$ 12.543 billion in January 2009. These transfers and the liquidation of foreign exchange holdings by the Foreign Exchange Administration Commission (CADIVI) meant that the central bank's international reserves stood at US$ 28.819 billion in April 2009 (compared with US$ 42.299 billion in December 2008).[5]

(c) Exchange-rate policy

The exchange rate was kept at 2,150 bolivars per United States dollar in 2008, and the foreign exchange regime and the restrictions on capital outflows in place since 2003 were upheld. A new law on illegal currency transactions was passed on 28 January.

In March 2008, it was established that in order to acquire foreign exchange to import industrial goods, importers would have to obtain certification that national production of the goods in question was either insufficient or nil. On 23 June, companies already registered with CADIVI by 11 June were relieved of the obligation to submit advance requests for foreign exchange purchases of US$ 50,000 or less for the importation of industrial goods.

Nevertheless, due to the drop in oil prices and the steep decline in foreign exchange inflows, it has become increasingly difficult in the last few months of 2008 and during the first half of 2009 to buy foreign exchange on the official market. As a result, it takes more days to obtain foreign exchange, imports have fallen and the amount that people travelling abroad are authorized to spend on their credit cards has been cut. On 31 December 2008, the amount of foreign exchange that could be purchased for travelling abroad was cut from US$5,000 to US$ 2,500. Monthly cash advance limits were also halved, from US$ 500 to US$ 250. The foreign exchange sales authorized by CADIVI fell from a daily average of close to US$ 190 million in 2008 to US$ 117 million in the first quarter of 2009, and the gap between the official and the parallel exchange rate widened to almost 200% in April 2009 as a result.[6]

3. The main variables

(a) Economic activity

The GDP growth figure for 2008 (4.8%) was the result of the marked slowdown in the non-oil sectors (where growth shrank from 9.5% in 2007 to 5.1% in 2008), particularly manufacturing (1.4%), construction (4.2%) and trade (4.7%), and the contraction of the financial institutions and insurance sector (-1.7%). Domestic demand

[4] This meant that customers could not withdraw money from their accounts and that the financial institution could not receive new deposits or extend loans.

[5] Including resources from the Macroeconomic Stabilization Fund.

[6] Throughout 2008, the parallel exchange rate was approximately 80% higher than the official one.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
				Annual growth rates [b]					
Gross domestic product	3.7	3.4	-8.9	-7.8	18.3	10.3	9.9	8.9	4.8
Per capita gross domestic product	1.8	1.5	-10.5	-9.4	16.2	8.4	8.0	7.1	3.1
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	6.5	2.0	-0.8	-1.3	4.4	9.8	1.0	3.1	5.6
Mining and quarrying	2.4	2.6	-12.9	-0.3	9.6	2.8	-1.9	-4.0	2.7
Manufacturing	4.8	0.3	-13.7	-7.4	23.9	6.0	7.3	7.1	1.5
Electricity, gas and water	4.7	4.8	2.1	-0.5	8.5	11.2	4.9	3.2	4.5
Construction	4.0	13.5	-8.4	-39.5	25.1	20.0	30.6	17.7	4.2
Wholesale and retail commerce, restaurants and hotels [c]	4.8	4.2	-12.4	-9.8	28.1	21.5	15.6	18.5	4.8
Transport, storage and communications	7.6	2.8	-4.4	-6.5	18.7	18.4	18.9	14.6	11.5
Financial institutions, insurance, real estate and business services	0.5	3.4	-3.1	-3.3	15.9	13.9	18.3	8.8	1.1
Community, social and personal services	2.2	2.4	-0.2	3.4	10.6	8.1	6.9	7.5	6.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.6	6.2	-6.2	-2.3	15.2	14.6	14.3	17.5	6.8
Government consumption	4.2	6.9	-2.5	5.7	14.2	10.7	9.6	2.3	5.7
Private consumption	4.7	6.0	-7.1	-4.3	15.4	15.7	15.5	21.2	7.1
Gross domestic investment	6.7	13.6	-34.0	-35.5	91.3	30.5	36.3	22.2	2.9
Exports (goods and services)	5.8	-3.5	-4.0	-10.4	13.7	3.8	-3.0	-7.0	-2.8
Imports (goods and services)	12.4	14.1	-25.2	-20.9	57.7	35.2	34.8	29.9	3.8
				Percentages of GDP					
Investment and saving [d]									
Gross domestic investment	24.2	27.5	21.2	15.2	21.8	23.0	25.3	28.0	24.5
National saving	34.3	29.1	29.3	29.3	35.6	40.5	40.0	36.7	37.0
External saving	-10.1	-1.6	-8.2	-14.1	-13.8	-17.5	-14.7	-8.8	-12.5
				Millions of dollars					
Balance of payments									
Current account balance	11 853	1 983	7 599	11 796	15 519	25 447	27 149	20 001	39 202
Goods balance	16 664	7 456	13 421	16 747	22 647	31 708	32 712	23 702	45 447
Exports, f.o.b.	33 529	26 667	26 781	27 230	39 668	55 716	65 210	69 165	93 542
Imports, f.o.b.	16 865	19 211	13 360	10 483	17 021	24 008	32 498	45 463	48 095
Services trade balance	-3 253	-3 305	-2 909	-2 634	-3 383	-3 997	-4 433	-5 851	-6 397
Income balance	-1 388	-2 020	-2 756	-2 337	-3 673	-2 202	-1 092	2 565	707
Net current transfers	-170	-148	-157	20	-72	-62	-38	-415	-555
Capital and financial balance [e]	-5 895	-3 812	-12 027	-6 342	-13 619	-19 993	-22 011	-25 743	-29 927
Net foreign direct investment	4 180	3 479	-244	722	864	1 422	-2 666	-1 591	-1 041
Other capital movements	-10 075	-7 291	-11 783	-7 064	-14 483	-21 415	-19 345	-24 152	-28 886
Overall balance	5 958	-1 829	-4 428	5 454	1 900	5 454	5 138	-5 742	9 275
Variation in reserve assets [f]	-5 449	2 027	4 428	-5 454	-1 900	-5 454	-5 138	5 742	-9 275
Other financing	-508	-198	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	100.0	101.4	118.4	150.5	152.5	134.1	128.3	127.0	115.9
Terms of trade for goods (index: 2000=100)	100.0	82.2	87.6	98.7	118.1	154.4	184.4	202.1	249.5
Net resource transfer (millions of dollars)	-7 792	-6 030	-14 783	-8 679	-17 292	-22 195	-23 103	-23 178	-29 220
Total gross external debt (millions of dollars)	36 437	35 398	35 460	40 456	43 679	46 427	44 952	52 949	46 360
				Average annual rates					
Employment									
Labour force participation rate [h]	64.6	66.5	68.7	69.2	68.5	66.3	65.4	64.9	64.7
Open unemployment rate [i]	13.9	13.3	15.8	18.0	15.3	12.4	10.0	8.4	7.4
Informal sector [j]	53.0	50.3	51.0	52.6	49.8	47.3	…	...	...
Prices				**Annual percentages**					
Variation in consumer prices (December-December)	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9
Variation in wholesale prices (December-December)	15.8	10.2	49.4	48.4	23.1	14.2	15.9	17.2	32.4
Variation in nominal exchange rate (annual average)	12.3	6.4	60.4	38.4	17.7	10.5	2.7	0.0	-0.0
Variation in average real wage	4.0	6.9	-11.0	-17.6	0.2	2.6	5.1	1.2	-4.2
Nominal deposit rate [k]	14.9	14.7	28.8	17.2	12.6	11.7	10.1	10.6	16.0
Nominal lending rate [l]	24.5	24.8	38.4	25.7	17.3	15.6	14.6	16.7	22.8

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income	20.2	20.8	22.2	23.4	24.0	27.5	29.6	28.9	24.7
Tax income	12.9	11.4	10.6	11.3	12.7	15.3	15.6	16.1	13.5
Total expenditure [m]	21.8	25.1	26.1	27.8	25.9	25.9	29.6	25.8	25.8
Current expenditure	18.1	20.3	20.3	22.1	20.4	19.6	22.5	19.9	19.9
Interest	2.5	2.9	4.6	4.7	3.7	2.9	2.1	1.5	1.3
Capital expenditure	3.3	4.4	5.1	5.5	5.0	5.8	6.7	5.8	5.8
Primary balance	0.9	-1.5	0.6	0.3	1.8	4.6	2.1	4.5	0.1
Overall balance	-1.7	-4.4	-4.0	-4.4	-1.9	1.6	0.0	3.0	-1.2
Central-government debt	26.8	30.4	42.4	46.3	38.1	32.8	23.9	19.3	14.0
Domestic	9.0	12.4	15.1	17.8	14.0	11.0	9.1	7.4	4.5
External	17.8	18.0	27.3	28.4	24.2	21.7	14.8	12.0	9.5
Money and credit [n]									
Domestic credit	15.6	15.9	15.0	18.9	19.1	20.8	...	...	...
To the public sector	3.3	3.3	4.1	4.0	4.5	3.3	...	...	...
To the private sector	10.5	11.6	9.6	8.6	10.7	12.7	...	...	...
Others	1.8	1.0	1.3	6.3	3.9	4.7	...	...	...
Liquidity (M3)	20.4	19.1	18.2	23.0	21.8	23.3	30.3	31.3	28.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1997 prices.
[c] As of 2005 does not include restaurant and hotel activities, which are included in total GDP.
[d] Based on figures in local currency expressed in dollars at current prices.
[e] Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population, nationwide total.
[i] Percentage of the economically active population, nationwide total.
[j] Population employed in the informal sector as a percentage of the employed population.
[k] 90-day deposits.
[l] Average lending rate of the country's six major commercial and universal banks.
[m] Includes extraordinary expenditure and net lending.
[n] The monetary figures are end-of-year stocks.

fell in 2008 as a result of the 2.4% drop in gross fixed capital formation and less buoyant private consumption (7.1% compared with 18.7% in 2007). Export volumes continued to decline, this time by 2.8%, while import volumes rose by 2.8%, compared with increases of over 30% between 2004 and 2007.

In the first quarter of 2009, GDP grew by 0.3% in relation to the same period in 2008, oil sector activity was down by 4.8%, and non-oil activities increased by 1.3% thanks to growth in communications (9.2%), construction (3.6%), electricity and water (3.7%) and communal and personal services (4.6%). In terms of aggregate demand, growth in private- and public-sector consumption contracted sharply, by 1.4% and 1.9%, respectively, as did external demand. The volume of goods and service exports shrank by 16.6%, while import volumes rose by 3.6%, reflecting the 11.6% increase in gross fixed capital formation.

(b) Prices, wages and employment

In January 2008, the central bank, together with the National Statistical Institute, began to publish a national consumer price index (NCPI). This index varied 30.9% over the year, fuelled mainly by the rise in prices for food and beverages, restaurants and hotels, health services and household goods.[7] Between January and April 2009, the NCPI climbed 6.7% with respect to December 2008, while between April 2008 and April 2009, it accumulated an increase of 26%.[8] Although price controls were imposed on a wide range of goods and services, non-compliance has been on the rise, particularly in non-food segments. In order to boost the food supply available to the population at large, in March 2009, the government set a minimum production quota for 12 items in the basic basket (edible oil, sugar, coffee, tomato sauce, cheese, milk, flour, rice and potatoes), which must be sold at the government-established prices.

[7] In 2008, the consumer price index for the metropolitan area of Caracas rose 31.9%. In the first four months of 2009, the consumer price index was up 7.8% on December 2008, having risen 29.4% between April 2008 and April 2009.

[8] Core inflation rose 33.8% over 2008 and 11.6% in the first four months of 2009 (33.4% in the twelve months up to April 2009).

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.8	7.6	8.6	8.5	5.0	7.3	4.1	3.2	0.3	...
Goods exports, f.o.b. (millions of dollars)	16 820	13 927	18 810	19 608	22 084	29 703	31 151	10 604	9 829	...
Goods imports, f.o.b. (millions of dollars)	9 242	9 959	12 528	13 734	11 091	11 035	12 135	14 328	11 271	...
Gross international reserves (millions of dollars)	32 299	25 213	29 954	34 286	31 946	34 335	39 206	43 127	28 992	30 167
Real effective exchange rate (index: 2000=100) [c]	121.5	121.5	118.6	112.6	105.3	101.8	95.8	83.3	77.2	75.1 [d]
Unemployment rate	10.3	8.4	8.5	6.7	8.5	7.5	7.2	6.3	8.1	...
Consumer prices (12-month percentage variation)	18.5	19.4	15.3	22.5	29.1	32.2	36.0	31.9	28.5	27.4
Average nominal exchange rate (bolívares per dollar)	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147
Average real wage (variation from same quarter of preceding year)	-3.6	2.1	1.8	4.6	-3.4	-2.3	-3.5	-8.9	-5.4	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	1.7	2.0	2.3	3.0	2.9	2.8	2.5	4.6	4.3	4.0
Lending rate [f]	15.4	15.6	16.4	19.5	23.0	23.0	22.9	22.5	22.5	21.1
Sovereign bond spread (basis points) [g]	212	341	398	506	638	591	930	1 862	1 567	1 302
Stock price index (national index to end of period, 31 December 2000=100)	717	582	546	555	514	546	556	514	640	653
Non-performing loans as a percentage of total credit	1.0	1.1	1.3	1.2	1.5	1.7	2.0	1.8	2.2	2.4 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1997 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] 90-day deposits.
[f] Average lending rate of the country's six major commercial and universal banks.
[g] Measured by JP Morgan's EMBI+ index.
[h] Data to April.

Meanwhile, the wholesale price index accumulated an increase of 32.4% in 2008 (36.7% for national products and 17.1% for imports). In April 2009, the wholesale price index was 31% higher than in April 2008 (33.2% for national products and 23.4% for imports).

The general wage index was on average 25% higher than in 2007 (23.7% in the case of private-sector wages and 27.6% in the case of public-sector wages). In the first quarter of 2009, and in relation to the first quarter of 2008, this index was up by 22.6% (24.3% and 19.4% in the private and public sectors, respectively, reflecting the contraction of public expenditure). Both public-sector wages and the minimum wage were raised by 30% as from 1 May 2008. In March 2009, the government announced another, two-step increase in the minimum wage: 10% as of 1 May and another 10% as of 1 September.

The average unemployment rate was 7.8% in 2008 (compared with 9.3% in 2007) and climbed to 8.3% in the first three months of 2009. The largest number of new jobs were created in the public sector in 2008.

(c) The external sector

Goods exports swelled by 35.2% in 2008 on the back of high international oil prices, while imports grew by only 5.8%, reflecting the decline in domestic demand and the greater restrictions imposed on vehicle imports and on radio, television and communications equipment imports. The trade balance thus expanded to US$ 45.447 billion, which translated into an increase in the current account surplus equivalent to 12.6% of GDP (compared with 8.8% in 2007). In the first quarter of 2009, exports fell by 55.5%, while imports grew by 6.4%, on account of the increase in capital goods imports (22.2%), and in capital goods imports by the public sector in particular (78.9%), as well as the rise in intermediate consumer goods imports (9.6%). The current account therefore posted a deficit of US$ 3.533 billion in the first quarter of the year.

The country's external debt was US$ 48.615 billion in the first quarter of 2009, compared with US$ 46.360 billion in 2008 and US$ 52.949 billion in 2007. As a percentage of GDP, total external debt fell from 23.2% in 2007 to 14.8% in 2008.

Brazil

1. General trends

The international crisis interrupted the growth that the Brazilian economy had enjoyed since 2003. In 2008, the GDP growth rate was 5.18%; and up to the third quarter of the year, it stood at 6.3%. Although the indicators on economic performance in 2009 point to high volatility and the effective results of the economic measures implemented in response to the crisis are not fully known, it is estimated that GDP will decline by 0.8%. This result reflects the negative impact of the crisis on the different sectors and the capacity of the government and of economic agents to counteract it.

The most obvious effect of the crisis was the sharp decline in GDP in the fourth quarter of 2008 (down 3.6% from the immediately preceding quarter, the largest quarterly drop since 1990). The quarterly fall in output was particularly sharp in the case of industry (8.2%), reflecting lower demand, both external (export volume declined by 3.2%) and domestic (with gross fixed capital formation falling by 9.3% and private consumption by 1.8%). Import volume was down by 6.6%.

The sharp decline in output was due to difficulties and uncertainties regarding international financial flows and their domestic impact, especially in terms of the reduction in the credit supply, with higher costs and shorter repayment periods. In the fourth quarter of 2008, the supply of funds for advance-payment operations for exports fell sharply, to less than half of the amount offered in the preceding quarter, and growth in domestic credit operations, which had been above 2% per month, came to a standstill. The average general annual interest rate on loans rose from 40.4% in September 2008 to 43.3% in December. Lastly, widespread uncertainty caused the real to depreciate more than 40% from late August to mid-November and the São Paulo Stock Exchange (BOVESPA) to lose more than 40% between the end of August and December 2008.

The government responded to the worsening situation in international markets and its impact on expectations for the Brazilian economy with a broad variety of economic measures, including direct interventions in the markets and substantial legal changes. This package of measures, together with small improvements in the external situation, slowed the fall of GDP in the early months of 2009: in the first quarter, GDP fell 0.8% from the preceding quarter. One indicator of that improvement is formal employment. In the last quarter of 2008, there was a net loss of more than 634,000 jobs, after a net gain of more than 2 million jobs in the formal sector during the preceding three quarters. In January 2009 there was a net loss of more than 100,000 formal positions, but from February to April, job creations were rising, and there was a total net gain of 48,500 formal positions for the first four months of the year. Nevertheless, this was far below the 849,000 positions created in the same four-month period in 2008 or the average of 531,000 jobs created in the same period from 2003 to 2007.

The domestic market has been the focus of the country's efforts to respond to the international crisis. Growth in recent years had raised levels of employment and income and, consequently, domestic consumption. Although lending increased during that period, higher wages —including the minimum wage, which has risen by nearly 50% since 2003— and the increase in income-transfer instruments (which have reached more than 12 million families) have served to maintain domestic purchasing power. The volume of wholesale sales in the first quarter of 2009 was 3.8% higher than in the same period in 2008.

2. Economic policy

Macroeconomic conditions prior to the crisis —including large international reserves (US$ 200 billion), a sizeable primary surplus in the country's fiscal accounts (4.1% of GDP) and low inflation (a cumulative 5.9% for 2008)— made it possible to use various economic policy instruments in 2008. To improve external and internal liquidity, the central bank introduced lines of credit in dollars for Brazilian debtors and exporters, reduced compulsory deposits and encouraged interbank lending, in addition to reducing the basic interest rate of the Special System of Clearance and Custody (SELIC). The federal government also lowered taxes, although temporarily, on sales of motor vehicles and some consumer durables, and introduced new investment programmes, such as those for housing. These outlays, together with the growth in other current expenditure, increased federal government spending by 19%, year on year, in the first four months of 2009. The effects of the crisis on economic activity reduced tax receipts by 5% from January to April 2009 in comparison with the same period the previous year. The federal government's primary surplus declined from 5.4% of GDP in the first four months of 2008 to 2.4% of GDP in the same period in 2009.

(a) Fiscal policy

Fiscal policy has been the main tool for stimulating the sectors hardest hit by the crisis. In response to the fall in tax receipts owing to the lower level of activity and the need to maintain investment and social policies, the government lowered its fiscal targets for 2009 from a public-sector primary surplus of 3.8%, in GDP terms, to one of 2.5%. The target for the public-sector primary surplus in 2010 was set at 3.3%.

The main tax-related measures were cuts in income-tax rates for middle-income families and a temporary reduction in the tax on manufactured products and motor vehicle sales (in the first half of 2009), the tax on consumer durables (in the second quarter of 2009) and the tax on various inputs used in civil engineering. On the expenditure side, the government capitalized the National Bank for Economic and Social Development (BNDES) with more than 100 billion reais to ensure resources for investment. It also continued to carry out projects under the Growth Acceleration Programme (PAC), which grew 25% year on year between January and April 2009. The growth in public spending has been due primarily to higher current expenditure, both for payroll (24%) and other items (17.8%).

(b) Monetary policy

Because the first effects of the crisis were felt in the international financial system, and because of the impact of the crisis on credit flows, it was the monetary authorities who had to respond first. The central bank lowered the amount of compulsory deposits by close to 100 billion reais, allowed a portion of deposits to be used for the purchase of portfolios from smaller banks (for a total of 37 billion reais) and implemented other measures to boost banking activities, as well as the use of guarantee funds in the event of difficulties or of a need for banks to be taken over. Although no takeovers were necessary, significant mergers were announced in the banking sector in the fourth quarter of 2008: one between the private banks Itaú and Unibanco, which became the largest bank in Brazil, and another between Banco do Brasil (publicly owned) and Votorantim (privately owned) and Nossa Caixa (State-owned).

State-owned banks have played a significant role. Although total lending increased by 8.3% between October 2008 and April 2009, lending by public banks grew 9.5%, compared with an increase of only 2.5% in lending by private banks, both Brazilian and foreign. The increase in lending was mainly concentrated in transactions with government funds for specific sectors. Between October 2008 and April 2009, this type of lending grew by 14.9% (reaching 30% of all lending), while transactions with individuals and enterprises increased by 7.1% and 6.1%, respectively. The central bank lowered the basic interest rate (that of the SELIC) from 13.75% to 12.75% in January 2009 and to 10.25% in April.

The exchange rate has both risen and fallen since October 2008. Between October 2008 and February 2009, the real was devalued by more than 40%, but since March it has made a strong recovery (10% in May alone). This behaviour of the exchange rate entailed substantial losses initially, although it later made it possible to pay down debts abroad or linked to derivative transactions of large Brazilian firms. In addition, it limited the impact on prices of the initial devaluation.

3. The main variables

(a) Economic activity

In Brazil, as in the rest of the world, the profound uncertainties introduced by the crisis and the break from previous trends made it difficult to predict growth rates. GDP projections for 2009 worsened continually between September 2008 and April 2009.

Beginning in April, however, as economic indicators began to point towards a relative improvement in domestic demand, the estimates of GDP growth for 2009 were revised, especially after the change for the first quarter (down 1.8% year on year) was announced. In early June, the estimates stood at about -0.8%. This projection is based on the hypothesis that the slight recovery will continue for the rest of the year.

Industry led the drop in activity in the first six months of the crisis; between October 2008 and March 2009, industrial output declined 17% from the same period in the previous year. In March and April 2009 output began to increase, owing to sharply rising production of consumer durables (up 20.2% in April from January 2009 —when it had fallen to a five-year low— but still 20% below the April 2008 level). Thanks to the tax stimulus measures and the resumption of consumer lending, the consumer goods sectors —both durable and non-durable— were able to lessen the impact of the crisis on Brazilian industry. The consumer goods sector has declined the least, falling by a cumulative 3.2%, year on year, from January to April 2009.

The performance of agriculture in 2009 remains in doubt. Although the area of crop-growing is estimated to be very similar to that of 2008, weather and possible problems with financing for inputs could cause output to fall by 7.5%. In recent years, credit for the sector has come from three more or less equally important sources: banks, companies that market or supply inputs and self-financing. There have been problems with the latter two forms of credit. The lending capacity of these companies has diminished, as has growers' capacity for self-financing, owing to the lower rate of return. It is estimated that, for most products, the exchange-rate devaluation is insufficient to make up for the loss stemming from the fall in agricultural prices. The lack of financing may have an unfavourable effect on sales of the main harvest in 2009, as well as on the amount sown for the winter harvest in the second half of 2009 and in 2010.

The services sector is expected to withstand the crisis better than others. Both in the last quarter of 2008 and in the first quarter of 2009, services grew with respect to the preceding quarter (by 2.5% and 1.7%, respectively), although at an average rate of growth far below that of the first two quarters of 2008 (5.6%). One reason for this was the significant role played by the State sector, whose consumption accounts for nearly 20% of GDP and has continued to rise. In addition, data for the retail sector point to a slight rise in 2009. As these areas employ large numbers of workers and therefore have an important effect on the income and employment multiplier, their performance may partially offset lower activity in other sectors.

Regarding demand, two opposing sets of factors came into play in mid-2009. The first set includes the relatively quick turnaround of domestic credit and the decline in interest rates, higher fiscal spending and the relatively favourable performance, given the circumstances, of the wage bill and household consumption. The second set includes lower investment (mitigated by higher public investment) and falling external demand, which, in the first four months of 2009, declined by 6.3% from the same period in 2008. Investment is expected to be the component most affected by the crisis; in the first quarter of 2009, it fell to its lowest level since 2006 (14% below the same quarter in 2008).

Two factors explain this decline. First, lower growth, caused by financing problems in ongoing investment projects that have passed the point of no return. Despite uninterrupted, and even increased, support from BNDES, long-term lending from other sources of credit —both external and internal— fell, and the expected self-financing capacity declined owing to difficulties with cash flow caused by the decline in the profit margins of investing companies. Second, there was a sharp reduction in decisions to begin new projects, reflected in various sources (National Confederation of Industries, BNDES); decisions that until the outbreak of the crisis were considered firm have been put on hold. Nevertheless, the expected execution of public-investment projects in infrastructure and petroleum —included in the PAC— as well as the kick-off of a government programme to subsidize low-income housing construction, could partially offset this negative trends.

Export earnings declined owing to falling volumes and prices (10.6% and 7.9%, respectively, in the first four months of 2009, on a year-on-year basis). Nevertheless,

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	4.3	1.3	2.7	1.1	5.7	3.2	4.0	5.7	5.1
Per capita gross domestic product	2.8	-0.2	1.2	-0.3	4.2	1.8	2.6	4.3	3.8
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	2.7	6.1	6.6	5.8	2.3	0.3	4.5	5.9	5.8
Mining and quarrying	9.1	2.2	11.6	4.7	4.3	9.3	4.4	2.8	4.3
Manufacturing	5.7	0.7	2.4	1.9	8.5	1.2	1.1	4.7	4.3
Electricity, gas and water	4.2	-6.2	2.9	4.0	8.4	3.0	3.5	5.9	8.0
Construction	2.0	-2.1	-2.2	-3.3	6.6	1.8	4.7	5.0	3.2
Wholesale and retail commerce, restaurants and hotels	4.5	-0.5	-0.2	-0.3	7.2	3.4	5.9	7.1	4.8
Transport, storage and communications	10.1	3.5	3.7	-0.1	5.7	3.7	1.9	6.0	4.9
Financial institutions, insurance, real estate and business services	3.4	3.4	3.6	0.5	3.8	4.9	4.9	7.7	6.0
Community, social and personal services	2.2	2.0	4.1	2.1	4.4	2.6	3.6	2.5	5.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.0	1.2	2.6	-0.3	3.9	4.0	4.1	5.7	5.4
Government consumption	-0.2	2.7	4.7	1.2	4.1	1.9	3.6	3.1	5.6
Private consumption	4.0	0.7	1.9	-0.8	3.8	4.7	4.3	6.5	5.3
Gross fixed capital formation	5.0	0.4	-5.2	-4.6	9.1	3.6	8.7	13.4	13.8
Exports (goods and services)	12.9	10.0	7.4	10.4	15.3	10.1	4.6	6.6	-0.7
Imports (goods and services)	10.8	1.5	-11.9	-1.6	14.4	9.3	18.1	20.7	18.3
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	18.3	18.0	16.2	15.8	17.1	16.2	16.8	17.7	18.9
National saving	14.5	13.8	14.7	16.5	18.9	17.8	18.0	17.9	17.1
External saving	3.8	4.2	1.5	-0.8	-1.8	-1.6	-1.3	-0.1	1.8
					Millions of dollars				
Balance of payments									
Current account balance	-24 225	-23 215	-7 637	4 177	11 679	13 985	13 643	1 551	-28 227
Goods balance	-698	2 650	13 121	24 794	33 641	44 703	46 457	40 032	24 835
Exports, f.o.b.	55 086	58 223	60 362	73 084	96 475	118 308	137 807	160 649	197 942
Imports, f.o.b.	55 783	55 572	47 240	48 290	62 835	73 606	91 351	120 617	173 107
Services trade balance	-7 162	-7 759	-4 957	-4 931	-4 678	-8 309	-9 640	-13 219	-16 689
Income balance	-17 886	-19 743	-18 191	-18 552	-20 520	-25 967	-27 480	-29 291	-40 561
Net current transfers	1 521	1 638	2 390	2 867	3 236	3 558	4 306	4 029	4 188
Capital and financial balance [d]	32 286	19 764	-3 542	-451	-5 073	13 606	16 927	85 933	31 196
Net foreign direct investment	30 498	24 715	14 108	9 894	8 339	12 550	-9 380	27 518	24 601
Other capital movements	1 788	-4 951	-17 650	-10 345	-13 412	1 056	26 307	58 415	6 595
Overall balance	8 061	-3 450	-11 178	3 726	6 607	27 590	30 569	87 484	2 969
Variation in reserve assets [e]	2 262	-3 307	-302	-8 496	-2 244	-4 319	-30 569	-87 484	-2 969
Other financing	-10 323	6 757	11 480	4 769	-4 363	-23 271	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	120.4	132.6	131.2	123.8	100.4	88.9	82.5	79.2
Terms of trade for goods (index: 2000=100)	100.0	99.6	98.4	97.0	97.9	99.2	104.4	106.6	110.4
Net resource transfer (millions of dollars)	4 077	6 778	-10 252	-14 234	-29 955	-35 633	-10 553	56 642	-9 366
Total gross external debt (millions of dollars)	216 921	209 935	210 711	214 929	201 373	169 451	172 589	193 219	198 361
					Average annual rates				
Employment									
Labour force participation rate [g]	58.0	56.4	55.1	57.1	57.2	56.6	56.9	56.9	57.0
Open unemployment rate [h]	7.1	6.2	11.7	12.3	11.5	9.8	10.0	9.3	7.9
Visible underemployment rate [h]	…	…	4.1	5.0	4.6	3.7	4.1	3.6	3.1
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9
Variation in wholesale prices (IPA-DI) (December-December) [i]	12.1	11.9	35.4	6.3	14.7	-1.0	4.3	9.4	9.8
Variation in nominal exchange rate (annual average)	0.8	28.8	23.9	5.3	-4.9	-16.8	-10.7	-10.4	-5.8
Variation in average real wage	-1.1	-4.9	-2.1	-8.8	0.7	-0.3	3.5	1.5	2.1
Nominal deposit rate [j]	8.4	8.6	9.2	11.1	8.1	9.2	8.3	7.7	7.9
Nominal lending rate [k]	41.9	41.1	44.4	49.8	41.1	43.7	40.0	34.5	38.8

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Percentages of GDP								
Federal government									
Total income	19.9	20.7	21.6	20.9	21.5	22.7	22.9	23.8	24.7
Total expenditure	21.7	22.8	22.8	25.2	23.4	26.3	25.7	25.7	25.6
Interest [l]	3.7	3.8	3.4	6.6	4.4	6.1	4.9	4.2	3.3
Primary balance [l]	1.8	1.7	2.2	2.3	2.6	2.5	2.1	2.3	2.5
Overall balance	-1.8	-2.1	-1.2	-4.3	-1.9	-3.6	-2.9	-1.9	-0.8
Federal-government public-debt	29.9	31.6	37.9	34.0	31.0	30.9	31.0	31.4	25.2
Domestic	22.7	23.7	24.6	24.6	24.5	28.8	33.0	39.7	37.5
External [m]	7.2	7.9	13.4	9.4	6.4	2.2	-2.0	-8.3	-12.3
Money and credit [n]									
Domestic credit	69.3	72.5	74.6	75.5	73.7	78.3	86.2	93.2	103.9
To the public sector	35.3	39.6	41.8	43.6	41.7	41.3	42.4	40.9	41.5
To the private sector	33.8	32.5	32.5	31.8	32.0	37.0	43.8	52.2	62.2
Others	0.3	0.4	0.2	0.1	0.0	0.0	0.0	0.1	0.1
Liquidity (M3)									
Currency outside banks and local-currency deposits (M2)	24.1	24.7	26.9	24.3	25.4	27.1	27.9	30.1	37.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Index based on the previous year's prices in local currency.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; six metropoplitan areas.
[h] Percentage of the economically active population; six metropolitan areas.
[i] IPA-DI: wholesale price index (acronym in Portuguese).
[j] Interest rate on savings.
[k] Pre-set corporate rate.
[l] Based on the "below-the-line" criterion. Central Bank of Brazil.
[m] Refers to net public external debt.
[n] The monetary figures are end-of-year stocks.

given that the crisis and the exchange-rate devaluation caused imports to fall in the same period (4.9% in unit value and 20.2% in volume), the net effect on the trade balance has been positive, although small.

(b) Prices, wages and employment

In 2008, there were two significant movements in prices. In the first half of the year, as in other countries, wholesale farming prices in Brazil soared; by June, they were 39% higher than 12 months before. Starting in September, this process quickly reversed itself, and by December the annual increase was 2.4%. In addition, the rise in industrial prices, in response to strong growth and higher costs for inputs, lagged somewhat behind other prices. In 2007, wholesale industrial prices rose 4.4%; in 2008, they accelerated rapidly, rising 15.4% in the 12 months ending in October; and at year-end they were 13% higher than a year earlier. Between January and April 2009, wholesale industrial prices fell by 3.15%, while agricultural prices rose by 0.63%. The decrease in pressure has caused consumer prices to decelerate: in April the nationwide consumer price index had accumulated a 1.72% gain since December 2008, posting a 5.5% increase with respect to April 2008. These results point to a convergence towards the target 4.5%, paving the way towards greater interest-rate cuts.

The positive results in terms of inflation made it possible to maintain the purchasing power of wages. The wage bill in the main metropolitan areas continued to rise, and in March 2009, it showed a 7.4% increase over the same month in 2008. This increase made it possible for social security contributions to continue rising (11.2% up to April 2009, compared with the same period in 2008); hence, the deficit in the social insurance system remained near 1.6% of GDP, even considering the increase in the minimum wage (12% starting in February 2009).

(c) The external sector

The main change in the Brazilian economy in the first four months of 2009 was in the performance of the country's external accounts as a result of the global crisis. Lower economic activity along with the limited liquidity available to finance exports and a customs inspectors' strike at the beginning of the year led to a 49% increase in the trade balance, with a 17.5% reduction in exports and a 24% fall in imports.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.3	5.8	5.4	6.1	6.1	6.2	6.8	1.3	-1.8	...
Goods exports, f.o.b. (millions of dollars)	34 002	39 212	43 385	44 050	38 690	51 955	60 215	47 082	31 178	...
Goods imports, c.i.f. (millions of dollars)	25 275	27 355	33 025	34 962	35 929	43 414	51 860	41 904	28 167	...
Gross international reserves (millions of dollars)	109 531	147 101	162 962	180 334	195 232	200 827	206 494	193 783	190 388	195 264 [c]
Real effective exchange rate (index: 2000=100) [d]	87.3	83.7	81.4	77.6	76.6	74.2	73.5	92.6	91.1	84.6 [c]
Urban unemployment rate	9.8	10.0	9.3	8.1	8.4	8.1	7.8	7.3	8.6	...
Consumer prices (12-month percentage variation)	3.0	3.7	4.1	4.5	4.7	6.1	6.3	5.9	5.6	4.8
Average nominal exchange rate (reais per dollar)	2.11	1.98	1.92	1.78	1.74	1.65	1.67	2.28	2.32	2.08
Average real wage (variation from same quarter of preceding year)	3.4	-0.3	-0.6	2.9	-0.8	0.0	4.6	4.4	4.5	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	8.2	7.9	7.6	7.1	6.8	7.4	8.5	8.9	7.7	6.8 [c]
Lending rate [f]	36.8	35.0	33.5	32.8	35.2	36.6	39.1	44.4	43.0	42.2 [g]
Interbank interest rate [h]	12.9	12.3	11.4	11.1	11.1	11.6	12.8	13.5	12.5	10.6 [c]
Sovereign bond spread (basis points) [i]	170	160	173	221	284	228	331	428	425	294
Stock price index (national index to end of period, 31 December 2000=100)	300	356	396	419	400	426	325	246	268	337
Domestic credit (variation from same quarter of preceding year)	19.8	19.7	20.2	18.6	17.9	20.2	19.6	23.9	15.3	...
Non-performing loans as a percentage of total credit	4.9	4.7	4.6	4.3	4.1	4.0	4.0	4.4	5.0	5.5 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Index based on the previous year's prices in local currency.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Interest rate on savings.
[f] Pre-set corporate rate.
[g] Data to April.
[h] Certificates of interbank deposit rate, overnight.
[i] Measured by JP Morgan's EMBI+ index.

The fall in exports was mainly due to lower prices (7.9% compared with the same period in 2008), while the export volume decreased 10.6% year on year. Commodities exports grew 7.4% (declining 9.7% in price and rising 17.9% in volume). Exports of semi-manufactured products decreased by 22.5% (with prices falling by 13.2% and volumes by 11.2%). The worst performance was turned in by manufactured goods, exports of which declined by 29.7% (2% in prices and 28.2% in volume). Imports fell by 23.8% (4.9% in price and 20.2% in volume) from the same period in 2008. Nevertheless, the volume of capital goods imports rose by 2.7% and that of non-durable goods by 5.6%. The import volume for intermediate goods and of durable goods fell sharply, by 29.8% and 14.5%, respectively.

The trade balance also reflected the devaluation of the real at the beginning of 2009. In the light of the accumulated variation in the wholesale price index between April 2008 and April 2009, in real terms, the currency depreciated 11.5% against the dollar, 11% against the currencies of member countries of the Latin American Integration Association (LAIA) and 8.4% against a basket of 13 currencies.

The current transactions deficit to April was US$ 4.874 billion (1.44% of GDP), compared with US$ 13.304 billion (2.62% of GDP) in the first four months of 2008.

The income balance deficit fell to US$ 8.291 billion from US$ 14.675 billion in the same period in 2008. Net interest payments reached a deficit of US$ 3.241 billion (compared with US$ 2.474 billion in the same period in

2008) and net payments of dividends and profits declined to US$ 5.273 billion from US$ 12.358 billion in the same period in 2008.

In the first four months of 2009, the capital and financial account surplus declined to US$ 5.567 billion from US$ 30.648 billion in the same period in 2008, owing to the reduction in portfolio investment from US$ 10.342 billion in the first four months of 2008 to a US$ 3.719 billion deficit in 2009. Net FDI was comparable with the 2008 level, both in absolute terms (approximately US$ 6 billion in 2009) and as a percentage of GDP (2.5% between January and April 2008 and 2.6% in the same period in 2009). Brazilian direct investment abroad fell from US$ 6.098 billion between January and April 2008 to US$ 2.401 billion in the same period one year later.

The surplus in the overall balance of payments declined sharply, from US$ 12.59 billion between January and April 2008 to only US$ 624 million one year later.

Total international reserves stood at US$ 201.317 billion at the end of April 2009, equivalent to 15 months' imports.

The total external debt fell from US$ 198.362 billion in December 2008 to US$ 193.138 in April 2009, as a result of the reduction in short-term debt from US$ 36.5 billion in December 2008 to US$ 31.8 billion in April 2009. Nevertheless, the country's external indicators are mixed. Between December 2008 and April 2009, the ratio of debt service to exports rose from 19% to 19.6%; the ratio of interest on the debt to exports rose from 7.9% to 8% of GDP; the ratio of total debt to GDP climbed from 12.6% to 13.8%, and the ratio of international reserves to short-term debt increased from 349.7% to 354.6%.

Chile

1. General trends

In 2008, the Chilean economy expanded at an annual rate of 3.2%, compared with 4.7% in 2007, as unemployment rose and annual inflation surged, driven by large increases in international prices, particularly for food and fuels, in the first three quarters of the year. Later, the outbreak of the global crisis that originated in the United States in September that year wrought great changes in external conditions that drastically curbed domestic and external demand in the last quarter of 2008 and the first quarter of 2009.

Economic growth has continued to slow and unemployment to rise in the first half of 2009. Both domestic and external demand therefore contracted sharply in the first quarter. Inflation levels also dropped significantly. GDP growth estimates have thus been revised considerably downwards, with a negative variation of 1% now forecast.

Notwithstanding the negative effects of the turmoil on the external front, 2008 marked the fifth year in an unbroken series of fiscal surpluses during which the country built up US$ 25.5 billion in international reserves, which have enabled it to implement countercyclical policies without having to borrow at home or abroad. The central bank's reserves, meanwhile, stand at US$ 24.2 billion, further boosting Chile's countercyclical capacity.

2. Economic policy

(a) Fiscal policy

For several years, fiscal policy has been directed towards attaining a structural surplus, in other words, it has been guided according to the trend values, rather than the short-term projections, of its main determinants. The structural surplus target was set at 0.5% of GDP for 2008 and at 0% of GDP for 2009. The aim of this policy is to generate savings during boom periods when copper prices are high and GDP expands at above-trend rates so as to be able to cope with the deficits that can develop when copper prices are low or the domestic economy performs below trend. The savings generated during boom times are channelled into funds that should enable the country to handle contingencies (guarantees for minimum pension payments), shore up public spending and take countercyclical action whenever growth dips below-trend levels or a crisis occurs.

In 2008, consolidated central government spending increased 7.8% in real terms and, despite the drop in receipts from mining and income tax, actual income exceeded budget projections. The country thus achieved a surplus equivalent to 5.3% of GDP in 2008, bringing the total accumulated over five successive years of surpluses to 21.7% of GDP. By the end of 2008, financial assets of US$ 25.5 billion were held in contingency funds.

From the start of the global financial crisis in September 2008, the authorities used the countercyclical capacity that had been built up to take fiscal measures aimed at propping up employment levels, stimulating domestic demand and preventing poverty from rising. As a first step, the housing subsidies programme was expanded by temporarily doubling the subsidy available for homes worth up to 1,000 *unidades de fomento* (UF), a unit of account employed in Chile's capital markets, and a new temporary subsidy was created for housing units valued between 1,000 and 2,000 UF. Second, capital and other resources were injected into the Production Development Corporation (CORFO) and the Small Enterprise Guarantee Fund (FOGAPE) to boost their capacity to back commercial bank loans. Capital was also pumped into BancoEstado to increase its credit capacity and into the Technical Cooperation Service (SERCOTEC) to boost lending to micro-enterprises. Third, measures were introduced to streamline tax procedures with a view to expediting companies' tax returns. Fourth, low-income families were paid an extraordinary bonus of 40,000 Chilean pesos (US$ 70) for each family member eligible for family subsidy and for each member eligible for family or maternity benefits. The beneficiaries of the *Chile Solidario* programme received a bonus of 40,000 pesos per family. By the end of the first quarter of 2009, over 1,470,000 people had received this bonus. A second bonus of similar characteristics will be distributed in the second half of the year.

In addition, budget implementation has been brought forward with a view to generating more domestic activity during the first semester of 2009. The budget approved for 2009 includes resources to step up public investment and expand direct and indirect job creation programmes.[1]

The central government's consolidated budget deficit is projected to be 4.1% of GDP, which represents a drop of over nine percentage points from the surplus recorded in 2008. Much of this drop (3.7 percentage points) is attributable to lower tax receipts (from income tax and VAT), on account of diminishing activity levels and the decline in copper revenue caused by falling international prices and rising production costs. The 14.5% rise in consolidated government spending, stemming in part from the aforementioned countercyclical policy action, will also contribute to the deficit. Despite the prospect of a deficit, the availability of resources has enabled Chile to continue to service its public debt and make amortization payments without issuing fresh external debt. Government bonds have continued to be issued in order to develop the domestic market, albeit at a slower pace than in 2008. In gross terms, public debt fell in GDP terms in the first half of the year to 5.2% of the output estimated for 2009.

(b) Monetary policy

Monetary policy continued to pursue the annual inflation target of between 2% and 4% on a two-year horizon. But from mid-2007 onwards, inflation soared above target, reaching an annualized rate of almost 10% in mid-2008. This was the result of domestic food supply shocks, rising fuel costs (which were triggered by the suspension of the natural gas supply from Argentina that forced the country to purchase more expensive fuel elsewhere) and the sharp rise in international food and fuel prices in the first part of 2008. This led to successive increases in the monetary policy rate, from 5% in June 2007 to a high of 8.25% in 2008. Despite the outbreak of the global financial crisis in September and the prospects of a world recession, the rate was maintained until December as the core 12-month inflation index suggested that price rises would continue to steepen. It was not until December, after two months of negative monthly variation in the consumer price index, that the 12-month core inflation index confirmed the break in this trend, which enabled the central bank to start lowering the monetary policy rate. Over the first six months of 2009, the rate was slashed by 750 basis points to a historic low of 0.75% to respond to rapidly declining inflation and the growing need for liquidity created by the crisis.

In order to address the serious liquidity problems in the interbank market arising from the uncertainty generated by the crisis, the monetary authorities adopted a broad array of measures to increase liquidity in both pesos and dollars. The swap programme was extended from one to six months, thus offering the market up to US$ 5 billion. As a complement to this measure, repurchase agreements with similar terms were set up to inject local currency liquidity into the system. The central bank also announced that it would accept bank deposits as collateral for renewable 7-day repos, which effectively broadened the range of guarantees permissible for transactions in the financial system.

The market responded cautiously at first and for a while credit remained tight as uncertainty and risk perceptions heightened in keeping with the pessimistic forecasts for growth and employment. Towards the end of the first semester, however, financial market losses in the more developed countries ceased to mount and the risk of collapse among systemically influential financial institutions began to recede. Risk ratings were revised and credit began to gradually recover in Chile on the back of low interest rates and the strengthened liquidity supply mechanisms.

[1] The main measures adopted by the countries of the region to deal with the present conditions are compiled in the report published by the Economic Commission for Latin America and the Caribbean (ECLAC), *The reactions of the Governments of the Americas to the international crisis: an overview of policy measures up to 31 May 2009* (LC/L.3025/Rev.1), Santiago, Chile, 31 May 2009.

(c) Exchange-rate policy

In the context of the country's deep integration with international markets and its low-risk status, the central bank has, for several years, maintained a free-floating exchange rate and generally refrained from intervening in the exchange market. However, in the face of a steady gain of the peso against the dollar and in order to stave off the effects of the external crisis, in April 2008 the central bank embarked upon an eight-month foreign exchange purchasing plan aimed at augmenting international reserves by US$ 8 billion, or some 50%. In October, the bank suspended this plan, since reserves had reached US$ 24.2 billion the month before —US$ 6 billion more than at the outset— and the exchange rate had depreciated by 38.5% in nominal terms. Subsequently, as the crisis unfolded, the dollar gained a further 5% against the peso, and by the end of the year, reached real levels comparable to those prior to the international financial crisis. In December 2009, the real effective exchange rate was higher than the average observed during the Argentine exchange-rate crisis of 2001-2002, and since the beginning of the current crisis has remained above the average level recorded during the Asian crisis.

(d) Other policies

Given the hard times forecast in economic terms for 2009, the authorities have made strenuous policy efforts to prevent the employment situation from worsening. In the first half of the year legislation was implemented to subsidize the income and hiring of workers between the ages of 18 and 24 whose families belong to the poorest 40% of the population. The law includes support for independent and seasonal workers as well. The subsidy is equivalent to 30% of pay for the lowest-income young workers, progressively diminishing to zero for those earning 360,000 pesos (US$ 630) or more a month.

The government also presented a bill establishing tax incentives and subsidies to encourage employers to retain and train workers. The bill substantially increases business's tax credit for spending on worker training provided that employers retain the payroll they had in April. Alternatively, workers and employers may agree upon a special leave of absence for up to five months during which the worker does not provide services in the company, but instead attends training courses and receives the equivalent of 50% of the pay received during the previous six months, up to maximum of 190,000 pesos (US$ 330). This amount is covered by the company and by a subsidy funded through unemployment insurance.

3. The main variables

(a) Economic activity

Up to the third quarter of 2008, domestic demand was expanding faster than in 2007, at an average annual rate of 10%, driven mainly by investment and durable goods consumption. The situation changed drastically in the last quarter of the year when, on the domestic front, uncertainty surrounding the depth and duration of the global crisis forced a revision of consumption and investment plans. Consumption of durable goods plummeted 10.4% in the fourth quarter, so that total consumption rose only by 1.1%. Investment growth fell to less than half the level recorded in the three previous quarters. Overall, domestic demand in 2008 grew by 7.4%, slightly less than in 2007. Sluggish growth in export volumes and the rapid swelling of imports up to the third quarter meant that net external demand acted as a brake on economic growth. GDP therefore grew by 3.2% in 2008, a rate admittedly below the 4.7% posted in 2007, but one achieved amid major external shocks.

Economic indicators for the first quarter of 2009 reveal the size and scope of the decline in activity resulting from the crisis. GDP fell by 2.1% compared with the year-earlier period, but by only 0.6% in seasonally adjusted terms. One of the most striking signs is that virtually every demand aggregate, except for government consumption and public investment, has posted a decline. Investment in, and imports of, machinery and equipment and inventory accumulation were sharply down. In these circumstances, national savings rose despite the almost 6% drop in real gross disposable national income. In short, aggregate demand reacted swiftly and strongly to the mounting uncertainty of the economic situation.

The sectors that witnessed the strongest contractions in output were manufacturing, commerce, mining, transportation and construction. In all these cases, except mining, the downturn was linked mainly to the shrinking of domestic demand. Technical problems and steadily declining ore grade continued to bedevil the productivity

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Annual growth rates [b]								
Gross domestic product	4.5	3.4	2.2	3.9	6.0	5.6	4.6	4.7	3.2
Per capita gross domestic product	3.2	2.2	1.0	2.8	4.9	4.5	3.5	3.6	2.1
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	6.6	7.5	6.8	2.6	11.0	7.0	4.0	1.7	2.1
Mining and quarrying	3.2	5.7	-4.2	5.5	6.1	-3.9	0.7	3.1	-5.0
Manufacturing	4.9	0.6	1.9	3.3	7.0	6.0	3.9	3.1	0.0
Electricity, gas and water	9.5	1.5	3.3	4.3	2.8	3.0	7.6	-28.8	-4.0
Construction	-0.7	4.1	2.5	4.3	3.2	10.1	4.0	5.4	9.7
Wholesale and retail commerce, restaurants and hotels	4.4	2.6	0.9	4.9	7.3	8.5	6.9	6.1	3.8
Transport, storage and communications	8.6	7.4	5.3	5.8	5.5	6.9	6.9	8.1	6.5
Financial institutions, insurance, real estate and business services	4.0	3.0	2.8	2.8	6.4	7.0	4.2	7.9	5.5
Community, social and personal services	3.0	2.8	2.5	2.6	3.1	3.5	3.6	4.5	2.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	2.9	2.5	4.0	7.0	7.1	7.0	7.1	4.2
Government consumption	3.0	2.9	3.1	2.4	6.1	5.9	6.4	8.0	4.0
Private consumption	3.7	2.9	2.4	4.2	7.2	7.4	7.1	6.9	4.3
Gross domestic investment	14.0	0.8	2.2	7.8	9.0	21.7	6.2	9.9	17.0
Exports (goods and services)	5.1	7.2	1.6	6.5	13.3	4.3	5.1	7.6	3.1
Imports (goods and services)	10.1	4.1	2.3	9.7	18.4	17.2	10.6	14.9	12.9
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	21.1	21.1	20.7	21.1	20.0	22.2	20.1	20.6	24.7
National saving	19.9	19.5	19.9	20.1	22.2	23.4	24.9	25.0	22.6
External saving	1.2	1.6	0.9	1.1	-2.2	-1.2	-4.9	-4.4	2.0
	Millions of dollars								
Balance of payments									
Current account balance	-898	-1 100	-580	-779	2 074	1 449	7 154	7 189	-3 440
Goods balance	2 119	1 844	2 386	3 723	9 585	10 775	22 780	23 635	8 846
Exports, f.o.b.	19 210	18 272	18 180	21 664	32 520	41 267	58 680	67 666	66 455
Imports, f.o.b.	17 091	16 428	15 794	17 941	22 935	30 492	35 900	44 031	57 610
Services trade balance	-719	-844	-701	-618	-746	-622	-631	-975	-646
Income balance	-2 856	-2 526	-2 847	-4 489	-7 837	-10 487	-18 401	-18 595	-14 563
Net current transfers	558	427	583	605	1 072	1 783	3 406	3 123	2 924
Capital and financial balance [d]	1 234	504	779	413	-2 265	267	-5 144	-10 387	9 887
Net foreign direct investment	873	2 590	2 207	2 701	5 610	4 801	4 556	9 568	9 896
Other capital movements	361	-2 086	-1 428	-2 288	-7 875	-4 534	-9 699	-19 955	-9
Overall balance	337	-596	199	-366	-191	1 716	2 011	-3 198	6 447
Variation in reserve assets [e]	-337	596	-199	366	191	-1 716	-2 011	3 198	-6 447
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	111.7	109.4	114.7	108.5	103.2	100.9	102.5	101.7
Terms of trade for goods (index: 2000=100)	100.0	93.3	97.2	102.8	124.9	139.8	183.2	189.5	164.9
Net resource transfer (millions of dollars)	-1 621	-2 022	-2 068	-4 076	-10 102	-10 220	-23 545	-28 982	-4 676
Total gross external debt (millions of dollars)	37 177	38 527	40 504	43 067	43 517	44 934	47 590	55 822	64 768
	Average annual rates								
Employment									
Labour force participation rate [g]	54.4	53.9	53.7	54.4	55.0	55.6	54.8	54.9	56.0
Open unemployment rate [h]	9.7	9.9	9.8	9.5	10.0	9.2	7.7	7.1	7.8
Visible underemployment rate [h]	6.1	7.1	6.2	6.5	8.4	8.5	8.5	8.0	9.0
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	4.5	2.6	2.8	1.1	2.4	3.7	2.6	7.8	7.1
Variation in wholesale prices (December-December)	7.9	3.1	10.4	-1.0	7.8	3.2	7.9	14.0	22.7
Variation in nominal exchange rate (annual average)	6.1	17.7	8.5	0.4	-11.9	-8.2	-5.2	-1.5	0.2
Variation in average real wage	1.4	1.7	2.0	0.9	1.8	1.9	1.9	2.8	-0.3
Nominal deposit rate [i]	8.7	6.5	4.1	3.2	2.4	4.5	5.5	5.9	7.8
Nominal lending rate [i]	18.7	16.7	14.4	13.0	11.0	13.5	14.4	13.6	15.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Total central government [j]									
Income	21.6	21.7	21.0	20.7	22.0	23.8	25.8	27.5	26.4
Tax income	17.9	18.0	18.1	17.3	17.0	18.3	18.3	20.2	20.1
Expenditure	22.2	22.2	22.3	21.2	19.9	19.3	18.1	18.7	21.1
Current expenditure	19.0	18.9	18.8	17.9	16.8	16.1	15.1	15.4	17.3
Interests	1.2	1.2	1.2	1.1	1.0	0.8	0.7	0.6	0.5
Capital expenditure	3.2	3.4	3.4	3.3	3.1	3.1	3.0	3.2	3.8
Primary balance	0.6	0.7	-0.1	0.7	3.1	5.4	8.4	9.4	5.8
Overall balance	-0.7	-0.5	-1.2	-0.5	2.1	4.6	7.7	8.8	5.3
Central government public debt [k]	13.6	14.9	15.7	13.0	10.7	7.3	5.3	4.1	5.2
Domestic	10.0	10.4	9.9	7.5	5.9	4.0	2.4	2.0	3.1
External	3.6	4.5	5.7	5.5	4.8	3.3	2.9	2.1	2.1
Money and credit [l]									
Domestic credit	64.4	65.8	61.9	61.5	60.1	59.8	55.1	60.8	65.4
To the public sector	-1.5	0.2	-3.9	-1.1	-2.2	-4.5	-8.5	-9.0	-14.6
To the private sector	66.0	65.6	65.9	62.7	62.3	64.3	63.7	69.8	80.0
Liquidity (M3)	53.1	54.2	54.6	48.8	50.3	53.3	53.2	58.2	69.6
Currency outside banks and local-currency deposits (M2)	47.9	47.8	48.6	43.4	45.5	48.6	48.6	53.4	60.5
Foreign-currency deposits	5.1	6.3	5.9	5.4	4.9	4.7	4.7	4.8	9.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC). on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2002, based on figures in local currency at constant 1996 prices. From 2003 onward, based on figures in local currency at constant 2003 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of merchandise exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Non-adjustable 90-360 day operations.
[j] Reflects the new accounting methodology set out in the 2001 IMF manual.
[k] Does not include publicly guaranteed debt.
[l] The monetary figures are annual averages.

of the mining sector. Conversely, the output of the agriculture and forestry and the electricity, gas and water sectors expanded. In the case of agriculture and forestry, the increase was driven by rising exports and the slower decline in external demand in comparison with that for other primary goods and manufactures. In the case of electricity, gas and water, lower fuel prices made it possible to generate more value added in the sector.

The swiftness and extent of the downturn in aggregate demand in the last quarter of 2008 and the first quarter of 2009 suggest that the adjustment has largely taken place already. The decline in activity levels is therefore expected to taper off, and there could be a modest recovery during the second half of the year based on the sharp reduction in inventories and as reduced uncertainty and renewed credit flows help to turn demand around. Sales in the housing market, which had a large unsold stock, for example, showed some signs of an upturn in the first semester of 2009. The sales figures for consumer durables continued to languish below 2008 levels, however.

Nevertheless, the magnitude of the crisis precludes any radical change in the lower growth trend for 2009: the central bank's growth projections are between -0.75% and 0.2%. ECLAC, for its part, has forecast 0.3% growth in 2009.

(b) Prices, wages and employment

Average annual inflation hovered around 10% on several occasions during the second half of 2008 owing to high international prices for food and fuels and domestic pass-through mechanisms. The average annual inflation rate was 8.7%, almost twice as high as in 2007 (4.4%).

During the first semester of 2009, inflation remained at the low levels that began in November 2008, with four months of negative variations of the consumer price index. Inflation is reacting to the fallback in domestic demand and lower international prices and is therefore expected to drop far lower, well within the monetary policy target range.

Nominal wages continue to be indexed and have thus risen slightly but steadily. With prices falling, real wages have risen by more than nominal wages, but modestly nevertheless. The unit labour cost index, which takes productivity variations into account, may rise in 2009 as a reaction to the drops in this variable typical of the initial stages of a slower growth cycle. The minimum wage will undergo a nominal 3.7% adjustment to reach 165,000 pesos (approximately US$ 300) per month.

Unemployment oscillated between 7.5% and 8.5% in 2008 in the framework of a steadily increasing labour

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2007 [a]				2008				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.9	5.5	3.6	3.8	3.4	4.6	4.6	0.2	-2.1	...
Goods exports, f.o.b. (millions of dollars)	16 571	18 291	16 237	16 567	19 277	18 423	16 419	12 336	11 274	...
Goods imports, c.i.f. (millions of dollars)	10 084	11 228	12 306	13 545	14 004	16 233	17 786	13 880	9 631	...
Gross international reserves (millions of dollars)	15 390	17 897	16 320	16 910	17 898	20 251	24 204	23 162	23 382	23 448
Real effective exchange rate (index: 2000=100) [c]	105	104	101	100	94	97	102	114	109	105 [d]
Unemployment rate	6.7	6.9	7.7	7.2	7.6	8.4	7.8	7.5	9.2	...
Consumer prices (12-month percentage variation)	2.6	3.2	5.8	7.8	8.5	9.5	9.2	7.1	5.0	1.9
Average nominal exchange rate (pesos per dollar)	541	527	520	502	463	472	517	642	607	566
Average real wage (variation from same quarter of preceding year)	3.4	3.7	3.2	1.1	0.6	-0.2	-1.1	-0.2	1.8	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.4	5.5	6.1	6.6	6.7	7.1	8.4	9.2	4.9	2.0
Lending rate [e]	14.0	13.1	13.3	13.9	14.0	14.2	15.7	16.9	16.5	13.1
Interbank rate [f]	5.1	5.1	5.5	5.8	6.2	6.4	7.6	8.2	5.5	1.4
Stock price index (national index to end of period, 31 December 2000=100)	270	320	300	281	268	277	254	219	229	285
Domestic credit (variation from same quarter of preceding year)	-99.9	-99.9	-99.9	-99.9	21.4	21.1	16.5	11.2	12.0	9.4 [g]
Non-performing loans as a percentage of total credit	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.1	1.2 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Non-readjustable 90-360 day operations.
[f] Overnight.
[g] Data to April.

force and expanding employment, especially wage jobs. In the last quarter of the year, the unemployment rate edged up to 8% in November and December, higher than the 7.2% recorded the previous year.

Despite the favourable shift towards wage employment in the composition of the labour market, job creation diminished from the last quarter of 2008 and into the first part of 2009, and the growth in the labour force in the first quarter of the year was accompanied by a steep rise in unemployment. Given the magnitude of the crisis and the fact that winter is a season of lower employment in Chile, the unemployment rate is expected to continue to rise to above 2008 levels despite the support programmes the government has put in place. To avoid this, employment would have to hold steady during the winter months —rather an improbable scenario in the current crisis— and the labour force would have to stop growing or even shrink.

(c) The external sector

In 2008 the current account posted a deficit for the first time in over four years, of 2% of GDP. This reflected the pattern of spending in the first three quarters of the year, which drove a rise in import volumes across almost all categories, while food and fuel price hikes pushed up the volume of imports as well. Meanwhile, mining exports were sluggish despite high prices and volumes actually shrank owing to technical difficulties. A similar situation arose in the industrial exports sector.

The great uncertainty surrounding the course of the global economy, generated by the financial crisis afflicting several developed countries, resulted in a steep drop in external demand for commodities, including copper and molybdenum, and a sudden cessation of financing for trade. Import and export prices fell precipitously and export volumes contracted sharply during this period.

The balance-of-payments current account in 2009 also reflects the depth of the adjustment. After posting a deficit at the end of 2008, in the first quarter of 2009 it turned in a surplus equivalent to 1.8% of GDP, largely as a result of the plunge in both import volumes (especially machinery and equipment and intermediate goods imports) and import values. Export prices and volumes suffered a less dramatic decline and in some segments, such as fruit produce, volumes expanded thanks to new access conditions in the United States market. The other components of the current account also posted surpluses or reduced deficits either in response to the effects of the external crisis (lower export prices also translate into lower profit remissions by foreign investors) or of the resulting domestic reaction (reduced demand for travel abroad).

The GDP of Chile's main trading partners is expected to shrink by 1.5% in 2009. Furthermore, the terms of trade are expected to worsen by 22%, outstripping the 9% decline witnessed in 2008. This will reduce national income and, consequently, dampen spending. The current account could reach equilibrium or post a slight deficit as a result of the contraction of imports.

The capital and financial account continued to run a surplus owing to the positive impact of foreign direct investment, which was this time partially counteracted by the resource outflows associated with more limited use of external credit lines for imports as those activities weakened. Now that the moments of greatest uncertainty in the external financial markets have passed, Chile has continued to enjoy ready access to those markets, which has helped to put trade financing and external borrowing for private-sector activity back on a normal footing, and bond issues have resumed. In 2009, one agency raised Chile's sovereign risk rating from A2 to A1, the best rating in the region.

International reserves, which had peaked at US$ 24.2 billion in September 2008, dipped slightly in the last quarter of that year before reaching a new high in mid-2009. Thanks to these reserves and the financial resources built up by the State, Chile's external solvency position is extremely solid.

Colombia

1. General trends

The Colombian economy grew by 2.5% in 2008, a lower rate than the sustained growth of recent years. Indicators of economic activity began to show signs of weakness as early as the first quarter of 2008 and this trend intensified throughout the year as a result of the international financial crisis, as well as some internal factors. The growth rate for the first quarter of 2009 (0.6%) points to an economic contraction in relation to the same quarter in 2008. On that basis, the ECLAC forecast is that the rate for the year will stand at 0.6%.

The most vulnerable areas of the economy are the external and fiscal sectors: the former because of the expected fall in income from exports, remittances and FDI, and the latter owing to the lack of fiscal manoeuvring space to deal with some of the effects of the crisis through a major boost to public spending. As for monetary policy, the authorities have sought to stimulate demand by applying measures to reduce the cost of credit and guarantee access to a financial system which, in comparison with the crisis of 1999, is showing satisfactory levels of liquidity and solvency. Nonetheless, there are still uncertainties as to the factors which will be the engines of growth in the coming years.

The inflation rate stood at 7.7% at the end of 2008, exceeding for the second consecutive year the target set by the central bank. Food and controlled goods —fuels, transport and public services— were once again responsible for most of the increase. Inflation slowed in the first half of 2009, owing to falls in world petroleum prices and because reduced international demand for goods and services pushed prices down. This has allowed monetary policy to become one of the main instruments for boosting demand, with a series of cuts in the monetary policy rate, which had fallen to 4.5% at the end of June 2009. This reversed the consecutive rate increases begun in 2007 to control inflationary pressures. In addition to this monetary policy measure, the government used fiscal policy in order to execute, despite the crisis, the infrastructure investment plan which had been adopted and to improve the coverage of direct subsidy programmes for the poorest sectors of the population.

The sectors which had spearheaded economic growth in recent years —manufacturing, retail commerce and construction— quickly cooled off in the first months of 2009, resulting in a worrisome decline in employment. In terms of aggregate demand, private consumption and investment —the main engines of economic growth in previous years— are now growing at a much lower rate. Initially this was a consequence of central-bank measures to keep a lid on inflation but more recently it has resulted from decreased confidence among households and businesses in response to the financial crisis. The fiscal and external deficits, which previously had not elicited much concern because they were fully and securely financed, have become a source of vulnerability for the economy of Colombia, especially because of tight global credit and the expected reduction in tax receipts and exports. An additional source of uncertainty is the outcome of the referendum to allow President Álvaro Uribe Vélez to run for re-election for the second time.

2. Economic policy

(a) Fiscal policy

The consolidated public sector deficit ended 2008 at 0.1% of GDP, better than the initial goal of 0.8%, thanks to the improved balance of the non-financial public sector. This was the result of the reduction of the central government's deficit to 2.3% of GDP —below the target of 2.6%— owing mainly to lower planned transfers to the regions. Regional and local governments posted a surplus because programme execution was delayed, as normally occurs in the first year that municipal councils are in office. The revenue of the central government and regional and local governments were strengthened thanks to high average prices for petroleum in 2007.

The ceiling for the central government's deficit was tentatively set at 3.2% of GDP for 2009. However, at the end of March, when the growth figures for the fourth quarter of 2008 were released, the government announced that it was raising the target to 3.7% of GDP owing to the expected reduction in tax revenue The additional funds will come from multilateral banks and available cash on hand. In addition, out of the budget approved for 2009, three trillion pesos in spending for activities with a lower redistributive effect was put on hold until 2010.

In the light of the economic slowdown, the central government will use public spending as its main countercyclical policy, carrying out its entire investment plan as foreseen before the crisis. The investment plan focuses mainly on infrastructure —concessions, major highways, departmental roads, tertiary roads, housing, drinking water and basic sanitation— and on social issues, through an attempt to expand the coverage of the Families in Action programme intended to benefit the low-income segment of the population.

Anticipating a possible reduction in fiscal revenue, the central government took out a US$ 10.5 billion contingency loan with the International Monetary Fund, in the framework of the latter's Flexible Credit Line intended to support different countries' efforts to mitigate the effects of the financial crisis. These funds will be used only if the economic situation so requires.

(b) Monetary policy

Monetary policy was flexibly adapted in 2008 to the new conditions brought about by the economic downturn. The government attempted to keep a lid on inflationary pressure during the first few months of the year by maintaining, and even slightly raising, the monetary policy rate, which by July 2008 stood at 10.0%.

Monetary policy has lagged somewhat behind market rates. The annual average nominal deposit rate rose from 8.0% in 2007 to 9.7% in 2008, and the average nominal lending rate from 15.5% in 2007 to 17.2% in late 2008. Total consumer, commercial and mortgage lending, in addition to deteriorating in quality, grew at real rates of 4.1%, 12.9% and 6.1%, respectively —in each case, below the 2007 rate. The monetary aggregates M2 and M3 expanded less than in 2007 and the means of payment contracted.

Against a backdrop of considerable uncertainty regarding the intensity and duration of the financial crisis, various instruments were used in the second half of 2008 to give monetary policy more manoeuvring room. Legal reserve requirements were lowered and a series of cuts in monetary policy rates began. This policy was consolidated in the first few months of 2009 through successive 100-basis-point cuts, bringing the monetary policy rate down to 4.5% in late June. This type of measures —despite the delay in their effect on market interest rates— might explain the slowing deceleration of the main categories of lending. The growth rate of consumer credit, which accounts for 60% of all lending, was 6.5% in April 2009; that of commercial credit, which represents 25% of all lending, stood at 18.4%; and that of mortgage lending —10% of the total— was 14%. As part of its efforts to address the crisis, the government has promoted credit lines to encourage purchases of durable goods (vehicles and appliances) and introduced a subsidy on some home loans. These policies help explain credit trends.

(c) Exchange-rate policy

Exchange rates were highly volatile in 2008, in line with the evolution of the financial crisis and other external factors. The Colombian peso appreciated in the first half of 2008, owing to capital inflows and FDI, while in the second half of the year, the growing financial crisis brought this trend to a halt and the currency depreciated. The annual average nominal appreciation of the peso was -13.5% from January to June 2008, leading the economic authorities to impose certain restrictions on the entry of capital. The exchange rate posted a 3.1% annual average nominal depreciation in the second half of 2008, largely owing to the incipient crisis and the outflow of capital, mainly for purchases of United States Treasury bonds. This turnaround in the behaviour of the currency led the central bank to eliminate the deposit requirement on foreign debt and led the authorities to approve a tax amnesty on the repatriation of capital held abroad and free of links to illicit activities.

The year-on-year depreciation of the peso of as May 2009 was 27.4%, because of declining FDI, among other reasons.

(d) Trade policy

The government moved forward with its policy of pursing trade negotiations. A free trade agreement is currently being negotiated with the European Union, while approval by the United States Congress of the free trade agreement between the two countries remains pending. A free trade agreement was signed with Chile, and immediately went into force.

Colombian exports continue to be concentrated in terms of both destination and products.[1] This heightens the country's vulnerability during periods of crisis such as the current one. Sales to the Bolivarian Republic of Venezuela and the United States —which are Colombia's two largest trading partners and account for more than 50% of its foreign trade— are expected to drop sharply. The government has consolidated its strategy of market diversification by promoting trade agreements and studying the possibility of joining Asia-Pacific Economic Cooperation (APEC).

3. The main variables

(a) Economic activity

The GDP growth rate was 2.5% in 2008, below the average rate of 5.9% from 2003 to 2007. Most notably, a 1.0% contraction in last quarter of 2008 had a decisive impact on the final result for the year. However, the decline in economic activity did not affect every sector to the same degree. Whereas mining, transportation and finance were able to maintain growth rates above 3.0%, construction and agriculture had less favourable rates, 1.7% and 2.7%, respectively. Nevertheless, it was industry that felt the brunt of the economic downturn, as value added in the sector fell by 1.8%. Especially hard hit were vehicles and clothing. By contrast, growth in construction was due to a strong performance in building start-ups despite a decline in public works, while one of the reasons for the lower growth in agriculture was decreased coffee production.

On the demand side, private consumption and investment were sharply down, after spearheading economic growth in Colombia for several years. Private consumption rose at a rate of 2.3% in 2008, while investment increased by 8.8%. The factors believed to be responsible for the lower growth in private consumption (2%) include falling confidence among households, and erosion of their purchasing power owing to higher prices for food and fuels and the higher cost of credit. The lower growth rate of investment is due to delays in executing public works projects, as is normally the case in the first year in office of new municipal councils. Total domestic demand rose by 4.1% in 2008, substantially below the 8.9% figure posted in 2007.

(b) Prices, wages and employment

The central bank's inflation target (between 3.5% and 4.5%) was not met in 2008, for the second consecutive year. Continuing inflationary pressure —both external and internal— pushed the rate up to 7.7% at the end of the year. Much of this increase was due to higher food prices, whose 13.1% annual increase was the highest in the current decade. Another area in which prices jumped considerably was controlled goods —fuels, transport and public services— with a 9.4% year-on-year increase for 2008. An external factor —higher international prices for petroleum and food— was the main reason the inflation target was not met. Towards the end of 2008, these price increases began to ease up but domestic prices failed to decline proportionately, owing to domestic factors such as the weather, strikes and the peso depreciation.

Twelve-month inflation fell sharply until June 2009, when the year-on-year rate stood at 3.8%. This has made it possible for the central bank to implement a countercyclical monetary policy based on lower interest rates. The inflation target was set at 4.5% to 5.5% for 2009. Current conditions are more propitious for this target to be met, even though the minimum wage hike will be 7.7%, above the upper limit of the inflation target. The factors that might ensure that the target is met include weak demand, lower inflationary expectations and a low degree of price pass-through from the depreciation of the peso.

1 Petroleum and coal accounted for 36.1% of exports in 2008.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	2.9	2.2	2.5	4.6	4.7	5.7	6.9	7.5	2.5
Per capita gross domestic product	1.3	0.6	0.9	3.0	3.1	4.2	5.5	6.2	1.3
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	3.8	0.5	5.3	3.2	1.8	2.4	3.9	3.9	2.7
Mining and quarrying	-10.3	-7.2	-2.4	0.9	-0.9	1.7	3.2	2.9	7.3
Manufacturing	11.7	1.6	1.0	7.3	5.3	5.4	6.8	9.5	-1.8
Electricity, gas and water	0.9	5.0	1.0	3.3	2.9	3.0	3.1	3.7	1.2
Construction	-3.9	1.6	3.2	14.7	13.4	12.8	13.5	11.5	1.7
Wholesale and retail commerce, restaurants and hotels	7.5	3.4	2.9	5.8	6.0	7.3	8.7	8.7	1.7
Transport, storage and communications	1.5	4.7	2.5	5.2	5.0	8.7	9.2	11.0	4.0
Financial institutions, insurance, real estate and business services	-1.0	5.1	6.1	5.7	3.9	5.5	6.7	7.3	5.6
Community, social and personal services	0.6	1.8	-0.6	0.2	3.6	4.6	4.7	4.7	2.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.4	2.9	3.3	3.5	3.9	5.1	6.2	6.9	2.1
Government consumption	-0.3	3.7	3.9	3.4	4.6	6.4	4.2	4.9	1.3
Private consumption	2.0	2.7	3.2	3.5	3.7	4.7	6.8	7.5	2.3
Gross capital formation	12.3	7.9	2.2	1.4	27.5	19.9	19.1	13.7	8.8
Exports (goods and services)	6.1	0.4	-2.6	2.2	10.0	7.2	8.0	11.4	7.0
Imports (goods and services)	6.0	8.5	1.7	5.8	13.0	17.0	16.2	13.9	9.8
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	15.7	16.7	17.2	18.9	20.1	21.6	24.3	24.3	24.3
National saving	16.5	15.5	15.8	17.8	19.3	20.3	22.5	21.5	21.5
External saving	-0.9	1.1	1.4	1.1	0.8	1.3	1.8	2.8	2.8
					Millions of dollars				
Balance of payments									
Current account balance	807	-1 067	-1 290	-973	-906	-1 882	-2 983	-5 837	-6 761
Goods balance	2 670	600	306	556	1 346	1 595	322	-596	990
Exports, f.o.b.	13 760	12 869	12 384	13 813	17 224	21 729	25 181	30 577	38 546
Imports, f.o.b.	11 090	12 269	12 077	13 258	15 878	20 134	24 859	31 173	37 556
Services trade balance	-1 259	-1 412	-1 435	-1 439	-1 680	-2 102	-2 119	-2 607	-3 129
Income balance	-2 277	-2 609	-2 866	-3 398	-4 297	-5 456	-5 929	-7 865	-10 138
Net current transfers	1 673	2 354	2 706	3 309	3 724	4 082	4 743	5 231	5 515
Capital and financial balance [d]	63	2 286	1 428	789	3 447	3 610	3 005	10 550	9 399
Net foreign direct investment	2 111	2 526	1 277	783	2 873	5 590	5 558	8 136	8 406
Other capital movements	-2 048	-240	151	6	574	-1 980	-2 553	2 414	993
Overall balance	870	1 218	138	-184	2 541	1 729	23	4 714	2 638
Variation in reserve assets [e]	-870	-1 218	-138	184	-2 541	-1 729	-23	-4 714	-2 638
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	104.2	105.7	119.6	107.1	96.7	97.8	85.7	83.0
Terms of trade for goods (index: 2000=100)	100.0	94.2	92.5	95.2	102.3	111.0	115.2	124.4	138.1
Net resource transfer (millions of dollars)	-2 214	-323	-1 439	-2 609	-850	-1 846	-2 924	2 686	-739
Total gross external debt (millions of dollars)	36 130	39 163	37 382	38 065	39 497	38 507	40 103	44 553	46 392
					Average annual rates				
Employment									
Labour force participation rate [g]	63.5	64.4	64.8	65.0	63.6	63.3	62.0	61.8	62.6
Open unemployment rate [h i]	17.3	18.2	17.6	16.7	15.4	13.9	13.0	11.4	11.5
Visible underemployment rate [h]	14.2	16.3	16.8	15.3	15.2	13.8	11.9	10.0	9.1
Prices					Annual percentages				
Variation in consumer prices (December-December)	8.8	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.7
Variation in producer prices (December-December)	14.9	9.0	3.8	10.2	5.2	3.0	5.3	1.3	9.0
Variation in nominal exchange rate (annual average)	18.9	10.1	8.9	14.9	-8.7	-11.7	1.6	-12.0	-5.2
Variation in average real wage	3.9	-0.3	3.1	-0.6	1.7	1.5	3.7	-0.5	-1.8
Nominal deposit rate [j]	12.1	12.4	8.9	7.8	7.8	7.0	6.2	8.0	9.7
Nominal lending rate [k]	18.8	20.7	16.3	15.2	15.1	14.6	12.9	15.4	17.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
				Percentages of GDP					
Non-financial public sector									
Total income	30.0	31.0	30.3	30.6	31.9	29.9	30.0	30.0	27.4
Current income	29.6	31.0	30.3	30.6	31.9	29.9	30.0	30.0	27.4
Tax income	14.2	15.4	15.2	15.3	15.9	16.7	17.4	17.5	17.7
Total expenditure [l]	33.5	34.6	33.3	32.9	32.7	30.2	30.8	31.0	27.3
Current expenditure	26.1	27.0	26.2	26.0	26.2	25.3	25.3	24.6	22.3
Interest	3.9	4.2	3.9	4.1	3.8	3.4	3.9	3.8	3.2
Capital expenditure	7.3	7.5	7.1	6.9	6.6	4.9	5.5	6.4	5.1
Primary balance	0.3	0.6	0.9	1.9	3.0	3.1	3.0	2.8	3.3
Overall balance [l]	-3.5	-3.6	-3.1	-2.2	-0.8	-0.3	-0.8	-1.0	0.1
Non-financial public sector debt	39.5	42.9	49.5	46.7	42.4	38.9	36.0	32.3	31.9
Domestic	18.1	19.1	22.9	21.7	22.4	23.0	20.9	19.3	18.4
External	21.0	23.9	26.6	25.0	20.2	15.9	15.0	12.9	13.2
Money and credit [m]									
Domestic credit	32.2	31.4	31.0	30.5	30.2	30.7	31.2	32.0	33.9
To the public sector	8.4	9.0	10.4	10.7	10.6	10.5	8.1	6.0	6.4
To the private sector	23.8	22.3	20.6	19.8	19.6	20.2	23.1	26.0	27.6
Currency outside banks and local-currency deposits (M2)	28.9	29.1	28.6	28.3	29.5	31.0	31.9	33.4	35.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, thirteen cities.
[h] Percentage of the economically active population, thirteen cities.
[i] Includes hidden unemployment.
[j] 90-day fixed-term certificates of deposit for banks and corporations.
[k] Actual total system-wide rate.
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.

The economic slowdown in 2008 was reflected in labour-market indicators. Nationwide unemployment stood at 10.5% in the fourth quarter of 2008, up from 9.8% in the same period in 2007. Job creation gradually declined in 2008, and a large proportion of the positions created were non-wage jobs. The persistent decrease in wage employment is a source of concern.

The cyclical downturn is expected to take a more severe toll on the labour market in 2009. Surveys for the first months of 2009 point to lower employment in manufacturing and retail commerce, in line with declining production and sales. In addition, the labour participation rate rose as a result of the economic situation (that is, greater labour supply), causing an increase in unemployment. The most recent available data (May) show an unemployment rate of 11.7% at the national level and 12.4% in the country's 13 largest cities. This is substantially higher than in May 2008, which confirms the difficult situation in the country's labour market as well as worsening conditions within it, reflected in the higher rate of non-wage (own-account) employment and the shrinkage of wage employment.

(c) The external sector

The current account deficit in 2008 was 2.8%, a lower percentage than in 2007. The main reason for this decrease was the trade surplus generated by higher income from exports, especially non-traditional exports, thanks to higher commodity prices during much of the year. Exports rose by 25.5%, as traditional exports jumped 40.8%, especially because of higher sales of petroleum and derivatives (66.9%), and non-traditional exports increased by 11.6%. The 20.6% increase in imports was due largely to higher sales of intermediate and capital goods. The central bank's gross international reserves rose by US$ 2.638 billion in 2008.

Because the effects of lower global demand stemming from the financial crisis began to be felt only in late 2008, they are not reflected in the figures given above. Nevertheless, both exports and imports are expected to decline sharply in 2009, owing to the contraction of demand among the country's leading trading partners as well as the possible deterioration of the terms of trade, mainly because of lower prices for petroleum, coal and coffee.

According to preliminary data for the first quarter of 2009, imports fell by 10.2% and exports by 13.2% compared with the same period in 2008. The largest reduction was in traditional exports, primarily sales of petroleum and derivatives. The decline in non-traditional exports was less severe. The hardest-hit sectors were floriculture and clothing. In imports, the most significant decline was in motor vehicles and parts and in organic chemicals. In addition, remittances and FDI are expected to decline sharply.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.4	7.5	6.0	8.3	4.5	4.0	3.5	-1.4	-0.7	...
Goods exports, f.o.b. (millions of dollars)	6 116	7 272	7 714	8 889	8 657	10 405	10 210	8 353	7 513	...
Goods imports, c.i.f. (millions of dollars)	7 390	7 903	8 445	9 159	8 882	10 050	10 648	10 089	7 973	...
Gross international reserves (millions of dollars)	18 666	19 651	20 206	20 607	21 789	22 485	23 725	23 672	23 475	23 356
Real effective exchange rate (index: 2000=100) [c]	90.1	82.4	84.4	86.0	81.7	76.5	81.8	92.1	94.8	91.7 [d]
Unemployment rate	13.3	11.5	11.0	9.8	12.3	11.6	11.5	10.8	13.7	...
Consumer prices (12-month percentage variation)	5.8	6.0	5.0	5.7	5.9	7.2	7.6	7.7	6.1	3.8
Average nominal exchange rate (pesos per dollar)	2 220	2 023	2 043	2 020	1 907	1 767	1 904	2 294	2 419	2 228
Average real wage (variation from same quarter of preceding year)	1.2	-0.5	-0.8	-1.1	-0.6	-1.0	-2.6	-3.3	-1.5	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	7.0	7.7	8.6	8.7	9.3	9.7	9.8	10.1	8.9	6.3
Lending rate [f]	13.4	14.9	16.5	16.7	16.7	17.3	17.3	17.5	16.6	13.3
Interbank interest rate [g]	7.8	8.5	9.2	9.3	9.5	9.7	9.9	9.8	8.6	6.0
Sovereign bond spread (basis points) [h]	159	119	166	195	258	221	318	498	487	312
Stock price index (national index to end of period, 31 December 2000=100)	1 334	1 328	1 302	1 335	1 120	1 146	1 154	944	1 001	1 233
Domestic credit (variation from same quarter of preceding year)	18.6	13.3	16.5	15.4	13.2	14.9	15.9	17.1	19.2	14.5 [i]
Non-performing loans as a percentage of total credit	2.8	3.0	3.2	3.3	3.9	3.9	4.1	4.0	4.5	4.7 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] 90-day fixed-term certificates of deposit for banks and corporations.
[f] Actual total system-wide rate.
[g] Repo rate.
[h] Measured by JP Morgan's EMBI+ index.
[i] Data to April.

Ecuador

1. General trends

Economic growth in Ecuador stood at 6.5% in 2008, significantly higher than the 2.5% posted in 2007. As in other countries of Latin America and the Caribbean, high prices for export commodities —in this case, crude oil— led to a sharp rise in fiscal revenue in 2007 and the first three quarters of 2008, which allowed the government to finance substantially higher public spending, especially public investment. Economic growth is expected to be only 1% in 2009, however, mainly because of lower oil prices.

The Constituent Assembly approved a new Constitution, introducing various significant changes, including economic ones. The State will have a more prominent role in economic matters and, more specifically, the central bank will no longer be independent.

Despite the sharp rise in public revenue, in 2008 the fiscal situation deteriorated markedly relative to 2007, as the primary and overall balances of the non-financial public sector (NFPS) worsened. While the primary balance went, in GDP terms, from a 4.0% surplus in 2007 to a 0.2% deficit in 2008, the overall balance declined from a 2.1% surplus to a 1.6% deficit. Fiscal policy is likely to be less expansionary in 2009, because of the fiscal constraints the government will face in terms of oil revenue receipts and financing public spending.

Lastly, the balance-of-payments current account also deteriorated, with the surplus in GDP terms falling from 3.6% in 2007 to 2.3% in 2008. This was due to a sharp depreciation in the balance of trade in goods in the fourth quarter, with rising imports driven by higher consumption and a fall in petroleum export earnings caused by lower international oil prices.

2. Economic policy

(a) Fiscal policy

Public spending continued the upward trend begun in 2007, with total spending by the NFPS rising from 27.4% to 40.6% of GDP. Although this higher expenditure was due to a strong rise in gross fixed capital formation by the State, from 6.9% of GDP in 2007 to 13.5% in 2008, sharp increases were also posted in current spending, including wages, purchases of goods and services, transfers and other expenditure such as the Human Development Bond. In particular, large amounts were spent on imported petroleum products, which were sold at fixed prices far below cost. Fiscal revenue rose from 29.4% of GDP in 2007 to 39% in 2008. Oil revenue soared from 7.2% to 16.5% of GDP in the same period, almost exclusively because of higher international petroleum prices. Non-petroleum revenue also increased, although to a lesser extent, rising from 20.9% to 21.7% of GDP between 2007 and 2008. In April 2008, the petroleum funds were eliminated and the balances were transferred to the “single current account”.

With larger increases in spending than in revenue, non-petroleum revenue in 2008 was insufficient to cover current spending and, in fact, accounted for only 80.6% of it. This poses serious policy challenges for 2009, owing to financing constraints and lower oil prices. In particular, given the downward rigidity of current spending, the reduction in oil revenue in the context of the international financial crisis makes it more likely that an adjustment in fiscal spending in 2009 will have an especially strong impact on public investment. From the third to the fourth quarter of 2008, petroleum revenue fell by an amount equivalent to 1.8% of GDP, with a larger decrease expected in 2009. It is thus very likely that capital formation by the State will decline sharply in 2009, with the consequent detrimental effects for economic growth.

From 2007 to 2008, the slight fall in nominal total public debt, together with a 6.5% rise in GDP, translated into a decline of the debt-to-GDP ratio from 30.0% to 25.8%. The ratio of internal debt to external debt in nominal terms also changed, while both fell in GDP terms. External debt fell from 22.9% of GDP in December 2007 to 18.9% twelve months later, while internal debt rose from 6.9% of GDP to 7.1%. Internal debt continued to rise in the first quarter of 2009. In April 2009, the Latin American Reserve Fund agreed to extend a US$ 480 million loan to Ecuador, with three years for repayment of the principal and a one-year grace period. The government has entered into negotiations with other international agencies to obtain loans to meet its 2009 budget.

In November 2008, the government made public a report on the country's debt, prepared by the Ecuadoran Integral Public Credit Audit Commission (CAIC). At the same time, it decided to declare technical default on the payment of interest on its 2012 Global Bonds, and in February 2009 on that of its 2030 Global Bonds. In December 2008, the 2012 bonds and the 2030 bonds each represented a commitment of US$ 3.24 billion, equivalent to 23.6% of the country's total public debt and 32.1% of its external public debt. Lastly, on 20 April 2009, the government proposed that holders of these bonds submit bids to trade their bonds for cash in a modified Dutch auction. The government set a floor price of 29.5% plus 50 basis points over nominal value. This did not extend to the third Global Bond, due in 2015. As a result, in June 2009, the government announced that 92.8% of the 2030 bonds and 81.3% of the 2012 bonds had been withdrawn from the market.

(b) Monetary policy

Between 2008 and early 2009, benchmark interest rates in the country's financial sector fell. Whereas in April 2008, the maximum rate for corporate loans stood at 10.9%, by April 2009, it had dropped to 9.3%. The maximum rate for the small and medium-sized enterprise sector fell from 14.5% to 11.8% in the same period.

Banking sector assets increased until November 2008, when they reached the equivalent of 33.9% of GDP, up from 32.2% in December 2007. From then until early 2009, they began to decline in nominal terms. Between November 2008 and March 2009, the cumulative decline in bank assets was equivalent to 4.5% in dollars. This may reflect the sharp decline in oil prices and the consequent reduction in assets to finance the more than US$ 1.5 billion deficit of the balance-of-payments current account during the fourth quarter of 2008.

In 2008 and early 2009, the composition of assets also shifted. In particular, the liquid assets held by open banks in proportion to total assets has been decreasing since July 2008, especially in terms of deposits abroad. Despite the fiscal constraints, the banking sector continued to show little interest in lending to the State; hence, government bonds represented only 0.5% of the banking sector's portfolio. Lastly, starting in November, the decline in asset values began to affect especially loans to companies in the non-financial public sector, which declined by 8.3% in nominal terms —nearly twice as much as that of total assets— between November 2008 and March 2009. By contrast, growth in lending to other residents, including consumer credit, was sluggish, only 0.4% in the same period.

(c) Other policies

As a result of the turmoil stemming from the global financial crisis, the currencies of several of the country's leading trading partners, including the European Union, Brazil and Colombia, depreciated against the dollar starting in mid-2008. This, combined with a higher rate of inflation in Ecuador than in the United States and some trading partners, translated into a 9.8% effective real exchange rate appreciation between December 2007 and December 2008. This trend continued for the first three months of 2009, and the effective real exchange rate fell by 1.4% from December 2008 to March 2009.

Lastly, in response to the deterioration in the current account since late 2008, the government adopted a series of policies to restrict imports. The measures introduced in January 2008 included safeguard measures on imports, introduced initially for one year, to partially mitigate the balance-of-payments deficit expected for 2009, and Resolution 467 of the Foreign Trade and Investment Council of Ecuador, on the distribution of import quotas. This provision increased ad valorem tariffs on some sub-items and set specific tariffs for others, especially textiles, footwear and two sub-items in the ceramics sector. Quantitative restrictions were also adopted on imports of a series of products by assigning importer and sub-item quotas.

3. The main variables

(a) Economic activity

The economy grew by 6.5% in 2008, mainly on the strength of the construction sector (13.8%), in addition to services, manufacturing and government services. On the demand side, private consumption and gross fixed capital formation were the most powerful economic engines in 2008, in particular because of the strong increase in public investment. While private consumption grew by 7%, gross fixed capital formation increased by 16.1%. The reason for this increase in GDP was the strong fiscal stimulus the economy received thanks to the recovery in fiscal receipts, especially as a result of higher oil prices.

It is useful to examine the performance in 2008 of the oil sector, which accounts for 18.6% of the country's GDP. Although the volume of oil produced declined by 1%, the performance of the State-owned company PETROECUADOR (including Petroamazonas, which operates block 15) should be distinguished from that of private companies: output by the former increased by 3.4%, while that of the private companies fell by 5.5%. In particular, extraction by private companies declined steadily starting in April 2008, possibly owing to the lack of investment in a context in which the Ecuadorian government is attempting to increase its share of oil revenues. Also, PETROECUCADOR embarked on an investment plan to increase its oil-extraction capacity in 2008. The 2009 investment budget, however, has been cut because of fiscal constraints.

Economic activity is expected to decline sharply in 2009, within a context of fiscal-management and balance-of-payment constraints and the general sluggishness of the global economy owing to the international financial crisis; this is likely to result in low economic growth for Ecuador. Specifically, the buoyancy seen in the construction sector in 2008 is unlikely to continue, given that significantly lower public investment and internal demand and tighter credit could reduce demand for housing.

(b) Prices, wages and employment

Inflation stood at 8.8% in 2008, as measured by the variation in the consumer price index from December 2007 to December 2008. Inflation rose in early 2008 and peaked in August before gradually falling to 5.4% in May 2009. During the first five months of 2009, cumulative inflation stood at 2.9%. Although the international crisis led to a downward trend for many products in this period, the restrictive trade measures imposed by the government in early 2009 could explain part of the inertial inflation in sectors such as clothing and footwear.

Labour force participation in urban areas decreased from 61.2% to 60.1%, while the fall in the employment rate was smaller (from 56.8% to 56.0%); hence, the unemployment rate dropped moderately (from 7.4% to 6.9%). The real minimum wage rose by 8.5% over the year.

(c) The external sector

The current account surplus was US$ 1.194 billion in 2008, equivalent to 2.3% of GDP, down from 3.6% of GDP in 2007. However, a US$ 1.526 billion deficit was posted in the fourth quarter of 2008, equivalent to 2.9% of GDP. The balance of trade in goods was particularly favourable, as a result of high oil prices until the third quarter. The income balance also improved during 2008; the deficit fell from 4.0% of GDP in 2007 to 2.5% in 2008, especially as a result of declining income from direct foreign investment. Remittances from Ecuadorian emigrants declined in 2008. The United States accounts for 46.8% of all remittances, Spain 41%, and Italy in a distant third place, with 7.5%. Because of the crisis in those countries, remittances fell by 8.6% on a nominal basis, while in GDP terms they declined from 6.7% to 5.3% between 2007 and 2008. The sharpest decline was in remittances from the United States. Given that economic problems will persist in the United States and Spain in 2009, remittances from Ecuadorian emigrants are expected to remain stagnant and to continue the trend seen since the second quarter of 2008.

Regarding the balance-of-payments financial account, the net outflow of hard currency from Ecuador was equivalent to 0.9% of GDP in 2008. Net FDI rose during the year, but from a very low level, and reached 1.8% of GDP. The branch of economic activity that received most FDI was mining and quarrying. Along with the acquisition of foreign assets like deposits abroad and, to a lesser extent, other assets outflows occurred as both the public and private-sectors paid down their loans. Hence, the net outflow of foreign currency, in the category "other investments," which comprises the items mentioned above, was 3.1% of GDP, outstripping the higher flows of FDI received during the year.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	2.8	5.3	4.2	3.6	8.0	6.0	3.9	2.5	6.5
Per capita gross domestic product	1.3	3.8	2.8	2.1	6.5	4.5	2.4	1.0	5.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.1	3.6	5.4	5.6	1.9	7.8	5.1	4.1	5.4
Mining and quarrying	8.0	1.1	-2.5	6.0	25.3	1.1	1.0	-4.8	0.0
Manufacturing	-32.4	11.6	6.3	3.7	-10.3	20.0	1.0	9.3	11.3
Electricity, gas and water	2.6	0.6	8.2	1.2	-8.7	1.3	0.5	15.5	12.7
Construction	18.3	19.7	20.0	-0.7	4.0	7.3	3.8	0.1	13.8
Wholesale and retail commerce, restaurants and hotels	3.8	4.8	2.2	3.5	3.9	5.3	4.9	3.4	6.5
Transport, storage and communications	7.7	1.9	1.2	4.3	4.8	8.9	7.2	5.7	5.4
Financial institutions, insurance, real estate and business services	2.3	3.6	7.9	2.7	6.2	9.0	7.3	5.3	7.6
Community, social and personal services	5.8	0.4	-0.4	2.3	2.7	2.5	3.6	5.3	14.0
Gross domestic product, by type of expenditure									
Consumption	3.9	5.8	6.3	4.7	4.5	6.9	5.3	3.8	7.5
General government	4.7	-0.6	4.3	1.4	3.6	3.5	3.7	6.1	11.6
Private	3.8	6.8	6.6	5.2	4.7	7.3	5.5	3.5	7.0
Gross domestic fixed investment	12.1	23.5	18.9	-0.2	4.9	10.9	3.8	2.5	16.1
Exports (goods and services)	-1.0	-0.8	-0.8	9.6	15.9	9.0	8.9	2.2	3.3
Imports (goods and services)	15.8	24.8	16.7	-3.9	11.1	13.7	9.3	7.3	10.2
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	20.1	24.3	26.5	21.5	23.4	23.8	23.4	24.1	25.6
National saving	25.9	21.3	21.3	20.0	21.7	24.7	27.3	27.7	27.8
External saving	-5.8	2.9	5.1	1.5	1.7	-0.9	-3.9	-3.6	-2.3
					Millions of dollars				
Balance of payments									
Current account balance	921	-624	-1 271	-422	-542	348	1 618	1 650	1 194
Goods balance	1 395	-356	-902	80	284	758	1 768	1 823	1 361
Exports, f.o.b.	5 137	4 821	5 258	6 446	7 968	10 468	13 176	14 870	19 147
Imports, f.o.b.	3 743	5 178	6 160	6 366	7 684	9 709	11 408	13 047	17 786
Services trade balance	-420	-572	-716	-744	-954	-1 130	-1 305	-1 371	-1 548
Income balance	-1 405	-1 335	-1 305	-1 528	-1 902	-1 942	-1 950	-2 047	-1 607
Net current transfers	1 352	1 639	1 652	1 769	2 030	2 661	3 104	3 246	2 989
Capital and financial balance [d]	-6 618	394	1 144	558	823	318	-1 748	-263	-246
Net foreign direct investment	720	1 330	1 275	872	837	493	271	193	974
Other capital movements	-7 338	-936	-132	-313	-14	-175	-2 019	-457	-1 220
Overall balance	-5 697	-230	-127	136	281	666	-131	1 387	948
Variation in reserve assets [e]	-307	106	66	-152	-277	-710	124	-1 497	-952
Other financing	6 004	124	62	17	-4	43	7	111	4
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	70.7	61.8	60.3	61.6	64.8	65.4	68.2	68.8
Terms of trade for goods (index: 2000=100)	100.0	84.6	86.8	89.8	91.5	102.4	109.9	113.0	124.0
Net resource transfer (millions of dollars)	-2 020	-817	-100	-953	-1 084	-1 580	-3 691	-2 200	-1 850
Total gross external debt (millions of dollars)	1 180	1 074	1 008	1 160	1 437	2 147	2 023	3 521	4 473
					Average annual rates				
Employment									
Labour force participation rate [g]	57.3	63.1	58.3	58.2	59.1	59.5	59.1	61.2	60.1
Unemployment rate [h]	14.1	10.4	8.6	9.8	9.7	8.5	8.1	7.4	6.9
Visible underemployment rate [i]	16.1	12.6	10.2	9.8	8.1	7.3	6.3	10.8	9.9
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	91.0	22.4	9.4	6.1	1.9	3.1	2.9	3.3	8.8
Variation in producer prices (December-December)	64.9	-5.6	17.7	4.5	4.3	21.6	7.2	18.2	-28.3
Variation in nominal exchange rate (annual average) [j l]	112.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variation in minimum urban wage	-3.6	11.5	0.9	6.1	2.4	3.0	3.3	3.9	8.5
Nominal deposit rate [k]	8.2	6.6	5.1	5.3	4.0	3.8	4.4	5.3	5.5
Nominal lending rate [k]	15.2	15.5	14.1	12.6	10.2	8.7	8.9	10.1	9.8

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income	20.4	18.1	18.4	16.7	15.9	16.3	16.5	18.5	26.2
Tax income	10.2	11.2	11.0	9.7	9.7	10.1	10.2	10.4	12.5
Total expenditure	20.3	19.1	19.1	17.0	16.8	16.8	16.7	18.7	27.4
Current expenditure	16.1	12.4	14.2	12.4	12.6	12.7	12.7	12.9	16.1
Interest	6.3	4.4	3.3	2.9	2.5	2.3	2.3	2.0	1.5
Capital expenditure	4.1	6.8	4.9	4.6	4.3	4.1	4.0	5.7	11.3
Primary balance	6.5	3.4	2.6	2.5	1.5	1.8	2.0	1.9	0.3
Overall balance	0.1	-1.0	-0.7	-0.4	-1.0	-0.5	-0.2	-0.1	-1.2
Public-sector debt	81.7	62.7	54.3	49.2	43.7	38.6	32.0	30.0	25.8
Domestic [l]	17.8	13.2	11.1	10.5	10.7	9.9	7.8	7.1	6.9
External	63.9	49.5	43.2	38.6	33.0	28.7	24.1	22.9	18.9
Money and credit [m]									
Domestic credit	34.7	26.5	20.4	17.3	16.6	16.8	17.1	18.0	18.0
To the public sector	3.6	-0.1	-0.3	-2.5	-4.5	-6.1	-6.7	-6.9	-9.2
To the private sector	31.1	26.6	20.7	19.8	21.1	22.8	23.9	24.9	27.2
Liquidity (M2)	25.6	24.2	23.4	20.3	21.7	23.0	24.0	25.9	27.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, three cities.
[h] Percentage of the economically active population, urban total. Up to 2003, the figures relate to Cuenca, Guayaquil and Quito. Includes hidden unemployment.
[i] Percentage of the economically active population, three cities.
[j] In January 2000, the country adopted the United States dollar as its official currency.
[k] Reference rate in dollars, monthly average.
[l] Refers to the central government.
[m] The monetary figures are end-of-year stocks.

The value of Ecuadorian exports rose by 29.3% in 2008, up from the 12.7% growth posted in 2007. Some 80% of this increase stemmed from petroleum-related sales, especially those of crude oil (75%). The value of exports increased by 42.3%, owing mainly to the rise in international oil prices from an average of US$ 59.9 per barrel in 2007 to US$ 83 in 2008. The quantity of crude oil exported rose by only 2.6% from 2007 to 2008. The value of exports of petroleum products increased by 22.7%, but solely because of higher prices, since the volume exported declined slightly. Non-petroleum exports were up 14.1% in value terms, accounting for 20% of the increase in exports. The most noteworthy of the products contributing to exports were bananas, which were up 25.9% and accounted for about 10% of the increase in exports, and tinned fish and vegetable oils, which rose 21.5% and 57.5%, respectively. In the first three months of 2009, the value of exports was down 69.3%, mainly because of the decrease in oil exports (67.2%), although the value of non-petroleum exports also declined by 4.5%.

The value of imports rose by 35.1% in 2008, driven by higher international prices for several products, such as intermediate goods, and higher domestic demand. Raw materials imports accounted for 38.4% of this increase, while an additional 26.2% stemmed from capital goods purchases. As a result of the lower prices for imported goods and, probably, the economic slowdown starting in the last quarter of 2008, imports decreased by 1.7% in the first few months of 2009, almost entirely because of the 3.8% decrease in the value of raw materials imports.

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	1.6	1.1	1.4	5.8	6.5	8.3	8.0	3.4	1.2	...
Goods exports, f.o.b. (millions of dollars)	2 878	3 353	3 826	4 264	4 623	5 497	5 178	3 213	2 623	...
Goods imports, c.i.f. (millions of dollars)	3 094	3 161	3 556	4 083	3 747	4 508	5 374	5 058	3 669	...
Gross international reserves (millions of dollars)	2 182	3 204	3 611	3 521	4 144	6 103	6 477	4 473	3 244	2 675
Real effective exchange rate (index: 2000=100) [c]	66.1	68.1	68.5	70.0	70.7	70.8	69.4	64.4	62.7	63.5 [d]
Unemployment rate	8.8	7.4	7.1	6.1	6.9	6.4	7.1	7.3	8.6	...
Consumer prices (12-month percentage variation)	1.5	2.2	2.6	3.3	6.6	9.7	10.0	8.8	7.4	4.5
Average nominal exchange rate (sucres per dollar) [e]	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000	25 000
Nominal interest rates (annualized percentages)										
Deposit rate [f]	5.1	5.1	5.4	5.7	5.9	5.8	5.3	5.1	5.2	5.5
Lending rate [f]	9.4	9.8	10.7	10.7	10.6	10.0	9.4	9.2	9.2	9.2
Interbank interest rate [g]	2.4	2.5	2.5	2.5	1.7	1.1	1.0	0.6	0.9	0.7
Sovereign bond spread (basis points) [h]	659	711	616	614	662	596	1 001	4 731	3 568	3 003
Stock price index (national index to end of period, 31 December 2000=100)	369	354	342	329	353	347	341	349	342	302
Domestic credit (variation from same quarter of preceding year)	26.6	16.2	12.5	15.0	2.1	-5.4	-2.9	14.8	16.1	30.2 [i]
Non-performing loans as a percentage of total credit	10.5	10.0	10.1	9.2	9.2	8.4	7.9	7.7	8.7	9.2 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] In January 2000, the country adopted the United States dollar as its official currency.
[f] Reference rate in dollars, monthly average.
[g] Interbank market, weighted average.
[h] Measured by JP Morgan's EMBI+ index.
[i] Data to April.

Paraguay

1. General trends

The Paraguayan economy grew by 5.8% in 2008, marking six consecutive years of economic expansion. This result was due to the performance of the external sector, which was positive due to the price boom for its principal export products and a favourable harvest. Domestic demand was also significantly buoyant, reflecting an increase in private consumption and in investment. The first two quarters of 2008 were characterized by robust economic activity, while the third quarter showed a deceleration and, in some sectors, even a decline. It was a good year for agriculture and livestock, and industry recovered, owing, in particular, to significant growth in construction and machinery production. The year ended with balanced fiscal accounts, attaining a surplus of 2.6% of GDP and a primary balance of 3.3%. Inflation reached 7.5% in December but is expected to fall in 2009. The current account deficit (2.2% of GDP) was larger than in the previous years and is expected to widen in 2009. Economic growth is projected to decline sharply, continuing the less favourable trend that began during the second half of 2008. This slowdown will be caused by, among other factors, a drop in income from the external sector and a less buoyant agricultural activity on account of the drought. A growth rate of 3% is projected for 2009.

2. Economic policy

(a) Fiscal policy

The central government closed the year with a surplus equivalent to 2.6% of GDP. This figure marks the fifth straight year of balanced fiscal accounts and represents an improvement over prior years. The primary balance was equivalent to 3.3% of GDP, surpassing the previous year's figure (1.8%). The stand-by agreement signed with the International Monetary Fund (IMF) in 2006 expired in August 2008 and all fiscal goals were met.

The tax burden remained low in Paraguay, although did rise from 11.4% in 2007 to 12.4% in 2008. Current income rose by 17.6%. Tax receipts were bolstered by the buoyant economic growth, with receipts from value added tax (VAT) —which accounted for 50.9% of total tax revenues— growing by 32.9%. Revenues from international trade increased by 24.0%, while income tax receipts were up by 24.1%. The largest component of non-tax based revenue was that generated by the two binational entities Itaipú and Yacyretá, contributing 1.876 trillion guaraníes, 8.1% less than in 2007. Capital income grew by 11.4%. Total encumbered expenditures increased by 6.6%, and current expenditures —the most rigid component— grew by 12.5% owing to increases in personal expenditures (18.1%). Capital expenditures, an important indicator of public investment, decreased by 13.9%. Expenditures on physical investments fell by 50.1%, while expenditures on financial investments declined by 87.4%. The external public financial debt recorded in the Debt Management and Financial Analysis System (DMFAS) dropped to 15.6% of GDP, compared to 20.6% in 2007.

In June 2009 the National Congress decided to postpone the application of the personal income tax for the third time and it is now slated to come into effect in 2010.

The government announced that in order to mitigate the negative effects of the international financial crisis, it would implement expansive fiscal policy measures in 2009 that would include, among other things, investment in roadway infrastructure and labour-intensive projects in the six poorest departments. Spending on physical investments had increased by 243% by the month of March. Additionally, the Ministry of Finance announced its intention to take out loans totalling US$ 300 million to finance the 2009 budget using contingent lines of credit from international institutions. The first batch was presented to the National Congress for approval. On 12 May the Ministry of Finance held a public auction for the issue and placement of general treasury bonds and accepted proposals totalling 185 billion guaraníes for one-, two- and three-year notes with interest rates ranging from 6.1% to 6.85% in the case of the latter.

(b) Monetary policy

The benchmark inflation rate set by the central bank is 5% with a 2.5% tolerance range on either side. Since the inflation rate —as measured by the year-on-year variation of the consumer price index (CPI)— exceeded the tolerance range in early 2008, the central bank decided to increase the referential rate curve on monetary regulation instruments (MRI) in March. In June and July, however, inflation hit a high of 13.4% and the central bank raised the legal reserve requirement in local currency. Given the external scenario present in the third quarter, in October the central bank implemented several measures aimed at boosting liquidity in the national banking system and mitigating the negative effects of the financial crisis. It lowered the legal reserve requirements in foreign and local currency, reduced the yield curve on the benchmark interest rate for the issuance of MRIs by one percentage point and established a line of credit for financial entities with repo operations in securities issued by the CBP. In November, it again lowered the benchmark rate curve on MRIs and created a mechanism for automatic early repayment.

In January 2009, the central bank decided to hold bi-weekly competitive auctions on MRI interest rates, which were reduced by approximately 50 basis points as a result. In February, it lowered the legal reserve requirements to zero for local currency deposits of more than one year and for foreign currency deposits of more than 541 days. In March, it established a line of credit to provide liquidity to local financial institutions.

Monetary aggregates expanded in the first half of 2008. From January to June, the average year-on-year variation for M0 was 34.9%, while that of M1 was 40.7%, that of M2 was 46.6% and that of M3 was 36.2%. These figures fell during the second semester reaching 25.1%, 22.7%, 31.9% and 27.6% respectively. The total of monetary regulation instruments in December was 4.027 trillion guaraníes, down 16.7% from the same month in 2007. This figure continued to drop in 2009 to 2.589 trillion guaraníes in March, 43.8% lower than in March 2007. Private-sector deposits in the banking system continued to grow, and the ratio of deposits in local currency increased to 59% during the semester compared with 52% in June 2007. This trend towards "guaranization" in the banking system, however, was reversed with the onset of the financial crisis, and the ratio fell to 53% in December (compared with 54.8% in December 2007). This same process of dollarization in the second half of the year was also seen in lending, although the ratio of credits in local currency fell below that of December 2007. The average year-on-year variation for lending to the private sector in 2008 was 51.8%, although the increase was slightly lower during the second half of the year. All indications are that this trend has continued in 2009: the year-on-year variation in May was 32.7%.

(c) Exchange-rate policy

From January to June 2008, the guaraní appreciated by 27.9% in real terms against the dollar, thanks to increased foreign exchange inflows from agricultural exports, remittances and revenue generated by the binational entities Itaipú and Yacyretá. In an attempt to mitigate the effects of this appreciation, the central bank intervened in the currency market, purchasing a total of US$ 459.7 million by July. International reserves increased to US$ 3.187 billion, the equivalent of approximately 19.8% of GDP or 4.5 months of imports. Beginning in August, exchange-rate pressure stemming from the high value of the United States dollar led the central bank to sell dollars in an effort to reduce the volatility of the guaraní. In October, it modified the maximum daily variation in the net foreign currency positions of financial entities, limiting it to US$ 1 million and reduced the permitted percentage of foreign currency holdings from 50% to

30% of cash equity. In December, these interventions amounted to a net sale of US$ 12.8 million in cumulative terms, and international reserves dropped to US$ 2.864 billion, nearly 17.8% of GDP. The depreciation of the guaraní that began in August caused the average real exchange rate to appreciate by 19.3% in 2008, or by 3.3% in year-on-year terms from December 2007 to December 2008. The average real effective exchange rate —the rate applied to transactions with the country's main trading partners— appreciated by 12.7% in 2008.

In the first few months of 2009 the guaraní continued its depreciation against the dollar —27.2% in nominal terms from June 2008 to June 2009— and the central bank continued intervening in the currency market, selling US$ 66.5 million by March that year. In April and May, however, the bank was forced to buy dollars since significant foreign exchange inflows from grain exports are usually generated in those months. In May 2009, accumulated interventions amounted to a net purchase of US$ 47.3 million.

(d) Other policies

Beginning in October 2008 the government implemented several measures within the framework of an "anti-crisis plan" or "economic reactivation plan" with a view to addressing the effects of the international financial crisis. In addition to the fiscal, monetary and exchange-rate policies mentioned above, it announced sector-specific measures, such as streamlining government procurement procedures to establish preferential margins for domestic products and goods produced by campesino family farms. In February 2009, through the Ministry of Finance, the central bank extended a short-term loan to the Development Finance Agency —a second-tier bank— to provide financing to the agricultural sector. In March, the government decided to temporarily apply 10% and 15% tariffs to imports, regardless of origin, until 31 December 2009. Social and labour policy actions included the implementation of a short-term job-creation programme and the expansion of the conditional transfer programme, which helps families living in extreme poverty. Government procurement legislation was modified to stipulate that at least 70% of labour hired by government contractors for jobs or services provided to regional or municipal governments must be of local origin.

In December 2008, the European Commission announced its decision to offer Paraguay duty-free access to the European Union market under the Generalized System of Preferences Plus (GSP+). The inclusion of Paraguay in the GSP+ means that, as of January 2009, the country can export close to 3,000 manufactured products with preferential tariffs.

Another important event occurred in March of 2009 when the National Telecommunications Commission (CONATEL) approved regulations on Internet and data transmission services which opened up the market for users and service-providers and loosened restrictions on service supply modes for those services, with the exception of voice over internet protocol (VOIP) services.

3. The main variables

(a) Economic activity

Despite the international crisis, which made itself felt in the second half of the year, and the subsequent slowdown of the economy, Paraguay posted economic growth of 5.8%. Per capita GDP was up by 3.9%, reaching its highest level in 47 years at US$ 1,556 in constant terms. This performance was mainly due to excellent results during the first semester, while the third quarter showed a deceleration, and in some cases such as mining and manufacturing, even a decrease in economic activity. In terms of domestic demand, the contribution of the private sector was noteworthy. Domestic consumption rose (imports of consumer goods were up 43.8%), and sizable investments were made in the private sector. This increased demand is evidenced by a 52.6% jump in capital goods imports, including machinery, apparatuses and engines (27.3%) and transportation equipment and accessories (81.9%). Gross fixed capital formation grew by 20.5% in real terms. The external sector benefitted from a good harvest and high prices for its principal export products (soybeans and meats).

When broken down by sector, the main contribution to growth was made by the primary sector (2.4 percentage points of the 5.8%), where the expansion can be traced to buoyant growth in crop growing (10.5%) and livestock

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	-3.3	2.1	-0.0	3.8	4.1	2.9	4.3	6.8	5.8
Per capita gross domestic product	-5.3	0.0	-2.0	1.8	2.1	0.9	2.4	4.8	3.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.0	11.6	4.2	8.0	3.9	-0.1	3.6	14.3	9.0
Mining and quarrying	-5.2	-8.3	-9.1	15.6	2.7	7.8	-2.2	3.5	5.0
Manufacturing	-0.9	-0.7	-1.4	0.7	3.3	2.7	2.5	-1.2	2.2
Electricity, gas and water	1.9	1.9	1.1	4.6	3.6	2.8	8.5	5.9	3.5
Construction	-7.8	-1.4	-8.9	14.4	2.1	4.5	-3.5	7.2	10.5
Wholesale and retail commerce, restaurants and hotels	-3.7	0.0	-1.6	5.5	5.1	2.4	5.5	5.1	4.2
Transport, storage and communications	1.4	2.1	2.0	0.7	9.6	7.2	10.7	10.7	5.2
Financial institutions, insurance, real estate and business services	-0.7	1.2	0.8	-4.9	2.1	4.0	4.0	3.8	7.6
Community, social and personal services	-1.9	-5.1	-1.1	0.5	2.7	5.9	4.3	3.0	3.9
Gross domestic product, by type of expenditure									
Consumption	-4.7	1.4	-6.7	2.4	4.6	4.7	5.0	6.1	6.0
General government	-2.6	-8.6	-3.2	-2.0	6.0	11.5	4.0	5.3	4.2
Private	-5.0	2.6	-7.1	2.9	4.4	3.9	5.1	6.2	6.2
Gross domestic investment	-9.1	11.0	-13.7	8.5	11.9	-11.1	4.3	12.5	21.5
Exports (goods and services)	8.0	-9.6	15.9	4.4	1.8	12.1	14.6	9.6	11.6
Imports (goods and services)	0.9	-6.1	-6.2	3.6	6.2	9.0	16.5	10.8	18.0
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	18.8	18.7	18.7	20.1	18.7	19.3	19.1	17.4	19.6
National saving	16.5	14.6	20.5	22.4	20.7	19.5	20.4	18.7	17.5
External saving	2.3	4.1	-1.8	-2.3	-2.1	-0.2	-1.4	-1.3	2.2
					Millions of dollars				
Balance of payments									
Current account balance	-163	-266	93	129	143	16	128	165	-345
Goods balance	-537	-614	-280	-276	-244	-462	-621	-557	-1 040
Exports, f.o.b.	2 329	1 890	1 858	2 170	2 861	3 352	4 401	5 471	7 769
Imports, f.o.b.	2 866	2 504	2 138	2 446	3 105	3 814	5 022	6 027	8 809
Services trade balance	175	165	214	245	327	313	414	506	478
Income balance	22	16	43	-4	-134	-58	-92	-158	-151
Net current transfers	177	167	116	165	194	224	426	373	369
Capital and financial balance [d]	-178	220	-213	105	128	144	259	562	723
Net foreign direct investment	98	78	12	22	32	47	167	178	311
Other capital movements	-277	141	-225	83	96	97	93	384	412
Overall balance	-341	-47	-121	234	271	160	387	728	378
Variation in reserve assets [e]	215	45	84	-301	-179	-146	-387	-727	-378
Other financing	126	2	37	67	-92	-14	-0	-0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	102.8	106.5	112.5	106.4	118.7	106.5	95.5	83.7
Terms of trade for goods (index: 2000=100)	100.0	100.2	96.7	101.4	104.3	97.4	95.5	100.1	107.3
Net resource transfer (millions of dollars)	-29.7	237.2	-133.6	167.6	-97.6	72.2	167.6	404.5	572.1
Total gross external debt (millions of dollars)	3 275	3 074	3 336	3 371	3 330	3 056	3 069	3 174	3 507
					Average annual rates				
Employment									
Labour force participation rate [g]	63.7	59.2	61.2	59.8	63.4	61.8	59.4	60.8	61.7
Open unemployment rate [h]	10.0	10.8	14.7	11.2	10.0	7.6	8.9	7.2	7.4
Visible underemployment rate [h]	9.1	8.3	9.5	8.8	8.3	7.5	5.6	5.8	6.6
Prices					Annual percentages				
Variation in consumer prices (December-December)	8.6	8.4	14.6	9.3	2.8	9.9	12.5	6.0	7.5
Variation in nominal exchange rate (annual average)	11.8	17.8	39.2	12.4	-7.0	3.4	-8.8	-10.8	-13.5
Variation in average real wage	1.3	1.4	-5.0	-0.8	1.7	1.1	0.6	2.4	-0.8
Nominal deposit rate [i]	15.4	16.0	21.7	15.5	5.7	6.1	9.8	5.9	6.2
Nominal lending rate [j]	26.8	28.3	34.3	30.5	21.2	15.3	16.6	14.6	14.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Non-financial public sector									
Total income	34.4	35.7	32.7	31.9	33.9	34.8	34.6	32.8	33.1
Current income	33.1	35.0	32.6	31.8	33.9	34.7	34.5	32.1	32.8
Capital income	1.2	0.8	0.1	0.0	0.1	0.1	0.1	0.7	0.2
Total expenditure [k]	38.4	35.9	34.6	30.8	31.6	33.3	32.3	29.9	29.6
Current expenditure	30.5	29.3	28.9	26.2	26.6	28.3	27.4	26.2	26.4
Capital expenditure	7.9	6.5	5.8	4.9	5.2	4.9	4.9	3.7	2.9
Overall balance	-4.0	-0.1	-1.9	1.1	2.3	1.5	2.3	2.8	3.4
Non-financial public sector debt	35.3	44.0	63.0	46.9	41.7	32.8	24.8	19.9	18.3
Domestic	4.1	6.4	8.2	5.0	4.1	3.0	2.7	2.5	2.3
External	31.2	37.6	54.8	42.0	37.6	29.8	22.1	17.4	15.9
Money and credit [l]									
Domestic credit [m]	6.2	7.3	9.9	6.7	6.2	5.7	3.7	3.7	3.2
To the public sector	2.0	3.3	5.7	3.1	3.3	3.1	1.5	1.8	1.6
To the banking sector	4.2	4.0	4.2	3.6	2.9	2.6	2.2	1.9	1.6
Liquidity (M3)	31.7	35.3	31.9	29.1	28.3	27.5	26.8	30.0	33.1
Currency outside banks and local-currency deposits (M2)	15.5	15.4	13.4	14.2	15.2	15.9	16.2	19.2	20.2
Foreign-currency deposits	16.2	19.9	18.4	14.8	13.1	11.7	10.6	10.7	12.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; urban total.
[i] Weighted average of effective interest rates on time deposits.
[j] Weighted average of effective interest rates on loans in national currency, excluding overdrafts and credit cards.
[k] Includes net lending.
[l] The monetary figures are end-of-year stocks.
[m] Refers to the credit extended to the banking sector by the Central Bank of Paraguay.

(6.5%, a recovery from the 6.4% drop recorded in 2007). The service sector was responsible for 2.2 percentage points, bolstered by the growth in financial services (18%), transport (5.5%), hotels and restaurants (5.1%), communications (4.8%) and commerce (4.1%). The manufacturing sector contributed 0.3 percentage points, thanks to growth in construction (10.5%), machinery (10%) and meat production (7.3%).

Economic activity is expected to drop sharply in 2009, with growth estimated at -3%. This slowdown will stem from the negative effects of the international crisis, such as lower exports, difficulty accessing credit and lower remittance levels, (which have on average made up 1.2% of GDP in the last few years) and from the losses expected in the agricultural sector, which is the most important sector in the Paraguayan economy. Agricultural forecasts for 2008-2009 are quite pessimistic due to difficulties in financing planting, (which have been caused by the lack of credit) and the severe drought that is affecting many of the country's departments. According to Ministry of Agriculture and Livestock estimates, production of cotton will fall by 61%, soybeans by 39% and sesame by 23%.

(b) Prices, wages and employment

In January 2008 the central bank began publishing a new CPI for the Asuncion metropolitan area to better reflect the current basic consumption basket. The inflation rate hit 7.5% in December 2008, topping the 6% rate observed in 2007. Variation in the CPI throughout the year was quite volatile; 8.8% in year-on-year terms in January, with a high of 13.4% in June and July. The rise in prices during the first half of the year was fuelled by the year-on-year variation in food prices which reached 24.3% in June. In the first six months of the year, prices for dairy products rose by 33.3% on average, compared with the same time period in 2007, followed by meats (24.6%), grains and grain products (21.9%) and fruits and vegetables (20.5%). At the same time there was an increase in the price of fuel (peaking in May at 19.5%), a key input for many local and imported products. Inflationary pressure eased in the second half of 2008 with the decrease in international commodity prices. The core inflation rate, which excludes the most volatile products in the food basket (fruits and vegetables) saw less variation and ended the year at 6.9%, while core inflation X1, which additionally excludes regulated services and fuels, reached 7.2%.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.3	4.4	7.6	8.6	7.6	8.9	3.1	3.9	-4.1	...
Goods exports, f.o.b. (millions of dollars) [c]	495	732	744	814	940	1 471	1 282	741	900	...
Goods imports, f.o.b. (millions of dollars) [c]	1 189	1 265	1 472	1 650	1 755	2 100	2 651	1 965	1 428	...
International reserves (millions of dollars)	1 658	2 041	2 153	2 240	2 489	2 879	3 187	2 737	2 834	2 870 [d]
Real effective exchange rate (index: 2000=100) [e]	96.1	96.7	97.1	91.9	90.5	81.8	78.8	83.7	89.1	91.2 [d]
Consumer prices (12-month percentage variation)	5.6	6.8	10.1	6.0	12.3	13.4	9.1	7.5	3.4	2.0
Average nominal exchange rate (guaraníes per dollar)	5 171	5 060	5 081	4 793	4 637	4 096	3 974	4 689	5 075	5 043
Nominal interest rates (annualized percentages)										
Deposit rate [f]	10.3	4.2	4.4	4.8	5.6	6.4	5.5	7.2	4.9 [g]	…
Lending rate [h]	17.6	14.0	13.7	13.0	13.7	13.6	13.6	17.4	19.6 [g]	…
Domestic credit (variation from same quarter of preceding year)	-3.6	15.5	25.2	14.6	-0.9	-1.0	-0.8	-0.2	-0.4	...
Non-performing loans as a percentage of total credit	2.9	2.5	2.0	1.3	1.3	1.2	1.1	1.1	1.5	1.7 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Refers to registered trade only.
[d] Data to May.
[e] Quarterly average, weighted by the value of goods exports and imports.
[f] Weighted average of effective interest rates on time deposits.
[g] Data to January.
[h] Weighted average of effective interest rates on loans, excluding overdrafts and credit cards.

Inflation has continued to fall in 2009, mainly in response to lower food prices, while the appreciation of the dollar meant higher prices for imported products. Year-on-year variation in the CPI in June stood at 1.9%, while core inflation was 1.3%.

No changes were made to the minimum wage in 2008, which had last been raised in October 2007. For 1 May 2009, however, a 5% increase was announced. The economically active population swelled from 60.8% in 2007 to 61.7% in 2008, with a 28 point difference between sexes (75.7% for men and 47.9% for women). The open unemployment rate rose slightly, from 5.6% in 2007 to 5.7% at the national level in 2008, and women were the most affected group. The national underemployment rate dropped to 26.5%, but this change also favoured men since the rate for them dropped from 25.7% to 25%, while the rate for women went from 27.7% to 28.9%.

(c) The external sector

Exports soared to a high of US$ 4.390 billion in 2008, recording a growth rate of 59.9%, a rate not seen since the 1980s. Similarly, imports grew 53.1%, to US$ 8.452 billion. The rise in international commodity prices played a major role in this result since nearly 60% of exports are soybeans and soy products whose average prices increased by 50% in 2008. In volume terms, exports stagnated compared with 2007. The increase in imports was driven by a 12.7% average appreciation rate of the guaraní with respect to the currencies of the country's main trading partners, and the vibrant domestic economy, as confirmed by the increased volume of imports. With regard to remittances, growth in this source of external financing slowed significantly in 2008 to only 2.1%, compared with 97% in 2007, and was negative (-0.9%) in the first quarter of 2009. The current account deficit stood at 2.2% of GDP, which was higher than previous years, and can essentially be explained by the negative trade balance. The capital and financial account posted a surplus of US$ 414 million, down from US$ 780.5 million in 2007. Foreign investment was also down, by 18.1% in the case of foreign direct investment and by 72.5% in the case of other investments.

The trade balance is expected to shrink in 2009 because of a possible decrease in agricultural exports owing, on the one hand to volume being lowered by pessimistic expectations for economic growth in Paraguay's main export destinations (including MERCOSUR which receives 50% of its exports), and on the other, to a deterioration of the terms of trade. In May 2009 cumulative exports showed a year-on-year decrease of 25.8% when compared with the same period in 2008, while cumulative imports dropped by 27.3%.

Peru

1. General trends

In 2008, for the seventh consecutive year, Peru turned in a strong economic performance. Growth reached 9.8%, formal employment grew by 8.3% and the country posted a fiscal surplus of 2.1% of GDP, which allowed public debt to be reduced once again. However, as a result of higher international prices, inflation exceeded the target range, ending the year at 6.7%. Worsening terms of trade and the strong rise in imports meant that the balance-of-payments current account deficit rose to 3.3% of GDP.

In the fourth quarter of the year, the global economic and financial crisis began to take a toll, first on the financial market and later on the real sector. The authorities responded by applying countercyclical measures to inject liquidity into the financial markets, avoid a surge in exchange-rate volatility and stabilize domestic demand. Even so, economic growth slowed in the fourth quarter of 2008 and remained weak in early 2009. Growth is expected to stand at 2.0% by the end of 2009, while inflation is expected to continue to fall towards the central target of 2%.

2. Economic policy

The favourable external context that had buoyed Peru's economic growth in recent years changed markedly. Initially, starting in late 2007, inflation surged on the back of higher international prices for hydrocarbons and food, leading authorities to adopt a more restrictive monetary policy to offset expectations of across-the-board price hikes.

Nevertheless, the changing international situation and its effects on the Peruvian economy prompted authorities to reverse their monetary policy and focus on ensuring liquidity in the financial system, avoiding a rapid depreciation of the currency and stimulating the credit market though a series of cuts in the benchmark interest rate. They also adopted an expansionary fiscal policy in response to faltering demand.

(a) Fiscal policy

In early 2008, the aim of fiscal policy was to take advantage of high revenues so as to significantly increase public investment while containing current spending to avoid undermining the sustainability of public finances. The government hoped to lower the surplus of the non-financial public sector to the equivalent of 2.0% of GDP, from 3.1% in 2007. In the second half of the year, the authorities responded to rising inflation by further restricting public spending and raising the fiscal surplus target for 2008 to 2.7% of GDP. In December, however, as the consequences of the global crisis for the Peruvian economy proved to be stronger than expected, the authorities announced an economic stimulus plan for

2009-2010, which was expected to cost the equivalent of 3.2% of GDP and to entail a considerable rise in public investment.

Throughout 2008, fiscal receipts continued to benefit from strong economic growth, with general sales tax receipts rising from 7.5% to 8.5% of GDP. Income tax revenue, which had surged in previous years mostly because of high minerals prices, remained relatively stable in GDP terms; by contrast, revenue from the import tax and selective consumption tax declined because the rates had been lowered to halt the upturn in inflation seen in the first half of 2008. Indeed, at the beginning of the year, tariffs on 571 food items were lowered or eliminated altogether, and the selective consumption tax on fuel was lowered several times. In addition, the financial transaction tax was cut from 0.08% to 0.07%. As a result, central government revenue remained quite stable, with a small increase from 18.2% to 18.3% of GDP. Capital expenditure by the non-financial public sector (NFPS) rose from 3.2% to 4.3% of GDP, while current spending declined slightly. The surplus of the NFPS decreased by one percentage point, returning to its 2006 level of 2.1% of GDP. Part of the reason for this was a reduction —equivalent to a half a percentage point of GDP— in the surplus of non-central government public-sector bodies. At the same time, gross public debt fell from 29.6% to 24.0% of GDP.

The economic stimulus plan that began to take shape in early 2009 emphasized an expansion and acceleration of public investment both by central government agencies and decentralized entities. In addition, the duty drawback rate for non-traditional exports was raised temporarily from 5% to 8%, an accelerated-depreciation scheme for buildings was introduced, access to low-income housing was expanded, as was the temporary public employment programme, and two funds, one for retraining workers and another for refinancing microfinance institutions, were established.

Given the decrease in revenue, the authorities may finance increased public spending with resources from the fiscal stabilization fund, which in late 2008 contained US$ 1.807 billion, and incur a fiscal deficit, which could be financed with lines of credit from international financial institutions. To meet its financing needs for 2010, the government issued US$ 1 billion in 10-year global bonds in March 2009.

The economic slowdown and lower minerals prices are expected to lead to a reduction in revenue in 2009. In the first quarter, the central government's current revenue decreased by 13.5% in real terms, mainly as a result of lower income tax and selective consumption tax receipts, whereas general sales tax revenues declined only slightly —as a result of declining imports— and internal general sales tax receipts continued to rise.[1] Central government non-financial expenditure increased nearly 20% in real terms, mainly as a result of increased capital spending.

(b) Monetary and exchange-rate policy

As regards monetary policy, it became necessary to tackle inflation, which had been above target since late 2007. Although the situation was triggered by higher international prices, the authorities felt that, given strong domestic demand, there was a danger of inflationary expectations regarding consumer prices in general. In September they raised the benchmark rate from 5.0%, at which it had stood since the beginning of the year, to 6.5%, where it remained until January 2009. Lower interest rates in the United States in the first half of 2008 triggered an influx of short-term capital, which led to an appreciation of the new sol. To counteract this trend and halt the credit expansion, the authorities raised the legal reserve requirement, in several increments, from 6% to 9%, and the marginal reserve requirement to 25% for local currency and 49% for foreign currency, as well as the cost of transactions for non-residents. In addition, between January and April 2008, the central bank bought US$ 8.7 billion, which raised its reserves to US$ 35.5 billion.

In Peru, the effect of the international crisis was felt first in the financial markets. Starting in September 2008, stock market indicators deteriorated sharply, massive amounts of short-term capital flowed out of the country, the price of external credit rose, and there was an increased preference for dollar liquidity, which, as a share of the total liquidity of depository corporations, rose from 39.5% in May 2008 to 47.5% in March 2009.

Consequently, in September the authorities adopted measures to ensure the financial system's liquidity both in local currency and in dollars. The legal reserve requirement was lowered to 6% and eliminated for certain transactions, repo operations were expanded, central bank certificates were bought back and foreign-currency swaps were introduced. In addition, in a bid to avoid a sharp depreciation of the new sol, between May 2008 and February 2009, the authorities sold some US$ 7 billion.

In real terms, between April and December 2008, the new sol depreciated only 6.4% against the dollar and, given its previous appreciation, both the bilateral average real exchange rate for the year and the end-of-year variation declined (by 8.3% and 2.0%, respectively). Moreover,

[1] In January, the selective consumption tax decreased as a result of a modification to the payment system, which returned to normalcy starting in February. In addition, as a result of lower prices for hydrocarbons at the end of 2008, the selective consumption tax on fuel was raised. As a result, since February, receipts from this tax have risen in real terms.

because the exchange rates of other trading partners depreciated more than did that of Peru in the second half of the year, towards year end the real effective exchange rate of the new sol declined even more (5.1%). The currency continued to lose value in the first few months of 2009, but began to recover in March.

Given the gradual decline in inflation and the signs of economic slowdown, the benchmark interest rate was lowered several times starting in February 2009, and in June it stood at 3.0%.

Despite these fluctuations, lending to the private sector continued to grow in 2008. In the first half of 2009, the year-on-year increase slowed, but remained over 20%. At the same time, the gradual de-dollarization of lending continued, as the proportion of dollar-denominated loans shrank from 56.6% of the total in December 2007 to 50.4% in March 2009. In line with the benchmark interest rate, local-currency interest rates gradually rose in 2008, especially short-term rates, which slightly exceeded the annual average rate for 2007. The lowering of the benchmark rate began to impact market rates in March 2009. Foreign-currency interest rates declined sharply in the second half of 2008, in line with international trends.

The problem of non-performing loans was kept under control: in December 2008, the ratio of loans in arrears to all bank lending stood at 1.3%, the same percentage as in the previous year, before rising slightly in March 2009, to 1.4%.

(c) Trade policy

Peru continued to raise its profile in international markets by entering into bilateral free trade agreements. In February 2009, its free trade agreement with the United States came into force, and in March, its economic complementarity agreement with Chile took effect. It signed free trade agreements with Canada and Singapore in May 2008 and with China in April 2009. Trade negotiations with Mexico continued and talks began with the European Union, Japan and the Republic of Korea.

3. The main variables

(a) Economic activity

During most of 2008, the Peruvian economy continued to grow at a fast pace —its annual growth rate even increased to 9.8%— driven by buoyant domestic demand (12.3%). Notably, gross fixed investment rose by 28.0%, fuelled by increased private-sector and public-sector investment (25.6% and 41.9%, respectively). Gross domestic investment consequently rose to 26.6% of GDP, from 22.9% in 2007 and only 17.9% in 2005. Higher household income from labour and the expansion of credit led also to a strong increase (8.8%) in private consumption. The moderate rise in public consumption (4.0%), on the other hand, reflected fiscal spending priorities. Exports, for their part, grew at a faster pace (8.2%) than in previous years, although not as fast as the economy overall. The rise in imports (19.9%), meanwhile, mirrored the strong domestic demand.

Unlike in previous years, in 2008 all branches of economic activity grew at high rates of 6% or more. Robust domestic demand spurred double-digit growth in construction and commerce.

Nevertheless, starting in the fourth quarter, when growth of 6.5% was recorded, the economy experienced a marked deceleration, with growth declining to 1.8% in the first quarter of 2009 and slowing even more in the second quarter. Exports declined and inventories shrank significantly. Manufacturing contracted, mainly because of falling exports and lower inventories generated by sluggish demand. Fisheries were also adversely affected by the reduced availability of some species and the imposition of the closed season, and some agricultural export activities also suffered. A slight upturn in the second half of 2009 is expected to translate into a 2.0% rate of economic growth for the year overall.

(b) Prices, wages and employment

Inflation had remained below 3% since February 2005, but in the second half of 2007 it began to accelerate as a result of higher international prices for hydrocarbons and food. It stood at 3.9% at the end of 2007 and 6.7% twelve months later. Prices of other items also rose, leading to higher core inflation, which in December stood at 5.6%. Against a backdrop of lower international prices, year-on-year inflation gradually eased as of December 2008, falling to 3.1%

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Annual growth rates [b]									
Gross domestic product	3.0	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8
Per capita gross domestic product	1.6	-1.1	3.7	2.8	3.7	5.6	6.5	7.6	8.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.8	-0.1	6.1	2.3	0.1	5.3	8.0	3.5	6.7
Mining and quarrying	2.4	9.9	12.0	5.5	5.3	8.4	1.4	2.7	7.6
Manufacturing	5.8	0.7	5.7	3.6	7.4	7.5	7.5	10.8	8.5
Electricity, gas and water	3.2	1.6	5.5	3.7	4.5	5.6	6.9	8.5	7.7
Construction	-6.5	-6.5	7.7	4.5	4.7	8.4	14.8	16.6	16.5
Wholesale and retail commerce, restaurants and hotels	3.4	0.7	3.2	2.9	5.9	6.0	10.3	9.4	12.8
Transport, storage and communications	2.6	-0.4	3.7	4.9	6.4	8.5	9.2	18.9	9.0
Financial institutions, insurance, real estate and business services	2.3	-1.2	4.9	4.1	3.9	6.5	7.5	9.3	9.0
Community, social and personal services	1.7	-0.0	3.7	5.0	3.8	5.3	5.8	4.8	9.0
Gross domestic product, by type of expenditure									
Consumption	3.6	1.2	4.4	3.4	3.7	5.1	6.6	7.9	8.3
General government	3.1	-0.8	-0.0	3.9	4.1	9.1	7.6	4.5	4.0
Private	3.7	1.5	4.9	3.4	3.6	4.6	6.4	8.3	8.8
Gross domestic investment	-2.7	-7.1	3.0	4.7	4.5	8.9	26.5	26.1	24.8
Exports (goods and services)	8.0	6.8	7.5	6.2	15.2	15.2	0.8	6.2	8.2
Imports (goods and services)	3.8	2.9	2.3	4.2	9.6	10.9	13.1	21.3	19.9
Percentages of GDP									
Investment and saving [c]									
Gross domestic investment	20.2	18.8	18.4	18.4	18.0	17.9	20.0	22.9	26.6
National saving	17.2	16.5	16.4	16.9	18.0	19.3	23.1	24.1	23.3
External saving	2.9	2.3	2.0	1.6	-0.0	-1.4	-3.1	-1.1	3.3
Millions of dollars									
Balance of payments									
Current account balance	-1 556	-1 217	-1 117	-958	19	1 148	2 854	1 220	-4 180
Goods balance	-411	-195	292	853	3 004	5 286	8 986	8 287	3 090
Exports, f.o.b.	6 955	7 026	7 714	9 091	12 809	17 368	23 830	27 882	31 529
Imports, f.o.b.	7 366	7 221	7 422	8 238	9 805	12 082	14 844	19 595	28 439
Services trade balance	-735	-963	-994	-900	-732	-834	-737	-1 187	-1 929
Income balance	-1 410	-1 101	-1 457	-2 144	-3 686	-5 076	-7 580	-8 374	-8 144
Net current transfers	999	1 042	1 041	1 233	1 433	1 772	2 185	2 494	2 803
Capital and financial balance [d]	1 415	1 640	2 085	1 482	2 397	380	-128	8 368	7 292
Net foreign direct investment	810	1 070	2 156	1 275	1 599	2 579	3 467	5 425	4 079
Other capital movements	605	571	-71	207	798	-2 199	-3 595	2 943	3 213
Overall balance	-142	423	968	525	2 417	1 528	2 726	9 588	3 112
Variation in reserve assets [e]	440	-275	-852	-516	-2 443	-1 628	-2 753	-9 654	-3 169
Other financing	-298	-148	-116	-9	26	100	27	67	57
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	102.8	106.5	112.5	106.4	118.7	106.5	95.5	83.7
Terms of trade for goods (index: 2000=100)	100.0	95.6	98.4	102.2	111.3	119.4	152.1	157.6	136.9
Net resource transfer (millions of dollars)	-293	391	512	-670	-1 262	-4 596	-7 681	61	-796
Total gross external debt (millions of dollars)	27 981	27 195	27 872	29 587	31 244	28 657	28 672	33 137	34 587
Average annual rates									
Employment									
Labour force participation rate [g]	64.4	66.7	68.4	67.4	68.1	67.1	67.4	68.9	68.1
Open unemployment rate [h]	8.5	9.3	9.4	9.4	9.4	9.6	8.5	8.4	8.4
Visible underemployment rate [h]	12.3	12.8	11.8	9.8	9.6	9.5	9.4	9.5	8.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	3.7	-0.1	1.5	2.5	3.5	1.5	1.1	3.9	6.7
Variation in wholesale prices (December-December)	3.8	-2.2	1.7	2.0	4.9	3.6	1.3	5.2	8.8
Variation in nominal exchange rate (Annual average)	3.2	0.5	0.3	-1.1	-1.9	-3.4	-0.7	-4.4	-6.6
Variation in average real wage	0.8	-0.9	4.6	1.6	1.1	-1.9	1.2	-1.8	2.6
Nominal deposit rate [i]	...	...	3.5	2.9	2.4	2.7	3.4	3.5	3.3
Nominal lending rate [i]	...	...	22.3	20.2	18.7	17.9	17.1	16.5	16.7

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Percentages of GDP								
Central government									
Total Income	15.2	14.5	14.5	15.0	15.0	15.8	17.6	18.2	18.3
Current income	14.9	14.3	14.3	14.8	14.9	15.7	17.4	18.1	18.2
Tax income	12.2	12.4	12.1	12.8	13.1	13.6	15.0	15.6	15.6
Capital income	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	18.0	17.3	16.6	16.7	16.2	16.5	16.1	16.4	16.1
Current expenditure	15.1	15.0	14.6	14.8	14.4	14.7	14.1	14.2	13.8
Interest	2.2	2.1	2.0	2.0	1.8	1.8	1.8	1.6	1.4
Capital expenditure	2.8	2.2	2.0	1.9	1.8	1.9	2.0	2.1	2.4
Primary balance	-0.6	-0.6	-0.2	0.2	0.6	1.1	3.2	3.5	3.6
Overall balance	-2.8	-2.8	-2.1	-1.7	-1.3	-0.7	1.5	1.8	2.2
Central government public debt	45.2	44.2	45.7	47.4	41.8	38.2	31.3	27.2	24.8
Domestic	8.8	9.6	9.3	10.4	8.0	9.0	8.0	9.3	8.6
External	36.4	34.5	36.5	36.9	33.7	29.2	23.2	17.9	16.2
Money and credit [j]									
Domestic credit	15.2	14.8	13.4	13.2	12.9	13.9	14.6	17.8	14.9
To the public sector	-6.2	-4.4	-4.8	-4.1	-4.3	-3.4	-3.6	-5.3	-7.2
To the private sector	31.9	30.4	30.1	28.7	27.0	28.7	28.6	33.1	34.0
Others	-10.5	-11.2	-11.8	-11.4	-9.9	-11.3	-10.5	-10.0	-11.9
Liquidity (M3)	25.4	26.1	26.1	24.7	24.0	25.8	24.3	26.9	30.3
Currency outside banks and local-currency deposits (M2)	7.7	8.7	9.1	9.4	10.8	11.7	12.0	14.5	16.1
Foreign-currency deposits	17.7	17.4	17.1	15.3	13.2	14.1	12.4	12.4	14.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, Lima metropolitan area; 2000, urban total.
[h] Percentage of the economically active population, Lima metropolitan area.
[i] Fix-weighted average interest rate.
[j] The monetary figures are end-of-year stocks.

in June 2009, while core inflation lagged behind and fell to 4.7% in the same period.

The trend in average labour income was favourable, with a 4.6% rise in real terms.

Strong economic growth generated high labour demand, which led to an 8.3% increase in formal employment. It slowed in the fourth quarter of 2008, however, to 6.8%, and even further in the first quarter of 2009 (to 3.4%). In urban areas, the annual average employment rate rose from 66.6% to 67.2%, contributing to a slight decrease in unemployment. Nevertheless, in Metropolitan Lima, the employment rate registered a moderate decline which did not translate into a higher unemployment rate because labour participation decreased slightly. These trends continued into early 2009.

To encourage the creation of formal employment, in 2008 a law was enacted reducing labour costs for micro- and small enterprises. In 2009, to stimulate household demand, the authorities temporarily allowed formal workers to gain access to their seniority bonuses and eliminated the requirement that social-security contributions be paid on the twice-yearly bonuses received by formal wage earners.

(c) The external sector

After four years of running a surplus, the balance-of-payments current account ended 2008 at a deficit equivalent to 3.3% of GDP. This turnabout was in part generated by sluggish exports. The unfavourable trend in export prices, which declined sharply in year-on-year terms starting in the fourth quarter, dampened export growth. Nevertheless, goods exports rose 13.1%, with two-digit increases in both traditional and non-traditional items. Imports, on the other hand, grew by 45.1%, owing to strong domestic demand and higher prices with, most notably, a 57.6% surge in purchases of capital goods abroad. The increase in the deficit in services stemming from higher transportation costs also contributed to a sharp decline in the trade-balance surplus, from 6.6% to 0.9% of GDP.

In 2008, the country's terms of trade deteriorated by 13.1% in relation to the previous year. Although at the end of the year import prices began to come down, in year-on-year terms, the terms of trade continued to worsen.

Outflows of foreign currency for factor payments declined, mainly as a result of lower profit remittances

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.5	8.1	8.9	9.8	10.3	11.8	10.9	6.5	1.8	...
Goods exports, f.o.b. (millions of dollars)	5 739	6 665	7 540	7 938	7 771	8 470	8 814	6 474	5 313	...
Goods imports, c.i.f. (millions of dollars)	4 208	4 495	5 290	5 602	6 265	7 550	7 976	6 648	4 867	...
International reserves (millions of dollars)	18 456	21 555	22 855	27 720	33 608	35 550	34 732	31 233	30 961	30 822
Real effective exchange rate (index: 2000=100) [c]	103.3	105.0	105.2	103.0	101.4	100.7	101.4	97.7	98.2	94.7 [d]
Unemployment rate	9.8	8.3	8.2	7.5	9.3	7.9	8.5	7.8	9.3	...
Consumer prices (12-month percentage variation)	0.2	1.5	2.8	3.9	5.5	5.7	6.2	6.6	4.8	3.1
Average nominal exchange rate (new soles per dollar)	3.2	3.2	3.2	3.0	2.9	2.8	2.9	3.1	3.2	3.0
Average real wage (variation from same quarter of preceding year)	...	-3.6	...	0.1	...	2.7	...	...	...	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	3.5	3.5	3.5	3.6	3.5	3.2	3.1	3.3	3.5	3.3 [d]
Lending rate [e]	16.8	16.6	16.3	16.3	16.5	16.5	16.7	17.1	17.2	16.5 [d]
Interbank interest rate	4.5	4.5	4.8	5.0	4.9	5.5	6.2	6.6	6.4	4.8 [d]
Sovereign bond spread (basis points) [f]	121	117	137	178	223	199	310	509	425	278
Stock price index (national index to end of period, 31 December 2000=100)	1 420	1 851	1 806	1 450	1 439	1 348	931	583	764	1 081
Domestic credit (variation from same quarter of preceding year)	35.0	42.6	31.5	35.7	27.3	11.4	9.0	-7.1	-12.6	0.8 [g]
Non-performing loans as a percentage of total credit	1.6	1.6	1.5	1.3	1.4	1.2	1.2	1.3	1.4	1.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Fix-weighted average interest rate.
[f] Measured by JP Morgan's EMBI+ index.
[g] Data to April.

and payments of interest on public debt, which kept down the size of the current-account deficit. Another factor was the stability of current transfers.

Some trends that emerged in the fourth quarter continued through early 2009, including a sharp decrease in the prices and volume of exports, a decline, although minor, in imports, and a drop in profit remittances.

As noted above, there was a massive influx of short-term capital in the first half of 2008, but this trend was reversed towards the end of the year. Similarly, large inflows of foreign investment were received at the beginning of 2008, but because of disinvestment in the final months of the year, annual foreign-investment inflows fell from US$ 5.425 billion in 2007 to US$ 4.079 billion in 2008. In 2008, the public sector continued to pay down its debt: the early repayment of loans to the Andean Development Corporation and of Brady Bonds reduced the net external public debt from 19.6% to 15.7% of GDP. The financial account (including errors and omissions) posted a surplus equivalent to of 5.7% of GDP, compared with 7.8% in 2007; the central bank's net reserves increased to 2.5% of GDP.

In 2008, the investment-grade rating given to the country by certain credit-rating agencies helped improve its access to credit on international financial markets. This improvement was, however, undermined by the overall trends in those markets. In the context of a preference for dollar holdings, the yield spread with respect to United States Treasury bonds rose from 154 basis points in May 2008 to 524 basis points in December, before dropping to 292 basis points in May 2009. In March 2009, to meet its financing needs for 2010, the government issued US$ 1 billion in 10-year sovereign bonds, at an interest rate of 7.125%.

Plurinational State of Bolivia

1. General trends

In 2008, Bolivia continued to show positive results in economic activity and external and fiscal accounts. GDP growth stood at 6.1%, 1.5 percentage points above the 2007 figure. For the fifth consecutive year, GDP grew by over 4%. The year closed with an inflation rate of 11.8%. The increase in economic activity translated into a drop in unemployment from 7.7% to 7%. The non-financial public sector (NFPS) posted a surplus equivalent to 3.2% of GDP and the balance of payments ended the year with a US$ 2.374 billion surplus. Net international reserves held by the central bank increased by US$ 2.403 billion.

These results were driven by the rise in average annual prices for gas and soy exports in 2008 and higher volumes of mineral exports. Given the international crisis, prices for the main Bolivian export products fell starting in the fourth quarter, and this has been reflected in external sector results in the first quarter of 2009. ECLAC estimates project growth in economic activity of approximately 2.5% for 2009.

In the first quarter of 2008, the country was affected by the weather phenomenon known as La Niña,[1] particularly in the departments of Beni and Santa Cruz, which prevented additional growth in agricultural activity in 2008. A national emergency was declared on 28 January 2009 in response to the dengue epidemic.

From the political perspective, the new constitution which had been under debate since 2006 was passed in January 2009 in a referendum organized by the National Electoral Court. It is expected that the new constitution will be accompanied by legislative changes; presidential elections will be held in December 2009.

2. Economic policy

(a) Fiscal policy

In 2008, for the third consecutive year, the NFPS posted a surplus equivalent to 3.2% of GDP. Revenue grew owing to higher prices for hydrocarbons and increased receipts from domestic taxes and customs duties. In the case of revenue from hydrocarbons, the State's participation in the industry intensified, while tariff receipts were boosted by higher import volumes. The areas of fiscal spending that saw the largest increases were goods and services and public investment. In sectoral terms, the general government result was close to balanced, while State-owned enterprises showed a surplus equivalent to 3.3% of GDP.

[1] See Economic Commission for Latin America and the Caribbean (ECLAC), *Evolución del impacto acumulado y adicional ocasionado por La Niña, Bolivia, 2008* (LC/MEX/L.863), Mexico City, ECLAC subregional headquarters for Mexico, May 2008.

The external public debt grew by US$ 238.6 million in 2008 (10.4%), mainly comprised of loans from multilateral institutions (US$ 107.7 million) and bilateral debt (US$ 120.8 million). The latter includes borrowing from the Bolivarian Republic of Venezuela in the framework of strengthening economic ties between the two countries. Only 2.1% of external public debt is short-term, owed by the State oil company Yacimientos Petrolíferos Fiscales Bolivianos (YPBF). Domestic debt increased by 10% in 2008.

(b) Monetary policy

In 2008, as in the last few years, the central bank's objective was to maintain a low, stable inflation rate. It therefore continued to apply a monetary policy based on a system of intermediate quantitative targets, establishing a ceiling on net domestic credit to ensure that the money supply is consistent with public demand for money.

The coordination agreement between the central bank and the Ministry of Finance, signed in April 2008, was renewed for 2009.[2] As in 2007, the financial programme targets were easily met in 2008. The agreed target of reducing net domestic credit (1.466 billion bolivianos) was easily surpassed (4.595 billion bolivianos), as was the target of maintaining US$ 1.7 billion in net international reserves held by the central bank, which totalled US$ 2.374 billion. These results were due to the favourable external context for the Bolivian economy in the first three quarters of 2008, which is when most of the year's accumulation of net international reserves by the central bank took place. Net domestic credit was reduced by means of open market operations and changes to the legal reserve requirement. The savings realized by the NFPS in the accounts it holds with the central bank also contributed.

Changes in the external landscape in 2008 were reflected in the reorientation of monetary policy. From January to September, total open market operations jumped 125% from US$ 1,021,500,000 to US$ 2,298,600,000.[3] They dropped by 4.2% in the fourth quarter, however, reaching US$ 2,202,300,000 at the end of the year. The central bank proceeded with caution in the open market during the first four months of 2009. At the end of April, the total of open market operations was very similar to what was seen at the end of 2008 (US$ 2.197 billion). Given the external situation, public preference shifted towards holding money in foreign currency. Thus, the ratio of broad money in local currency (M3) to broad money including foreign currency (M'3) began to decrease in October 2008. From September 2008 to April 2009 this indicator dropped 6.7 percentage points from 63% to 56.7%.[4]

In December 2008, seeking to discourage the public's preference for foreign currency deposits, the central bank increased to 30% the legal reserve requirement for foreign currency. It established 30 September 2008 as the base date for the application of the additional reserve requirement and the measure went into effect in January 2009. In the first quarter of 2008, in order to restrict the growth of monetary aggregates, the central bank had raised the legal reserve requirement on national currency deposits.

(c) Exchange-rate policy

Together with monetary policy, the exchange-rate policy aims to achieve stability in the purchasing power of the national currency. Since 2008, the central bank has kept the benchmark rates for both the purchase and sale of dollars fixed at 6.97 and 7.07 bolivianos, respectively. This measure is designed to keep the exchange rate from overreacting to the uncertainties caused by the international financial crisis. To that end, the central bank has based all its transactions on those rates. It is maintaining the crawling-peg exchange-rate regime it has applied for the past 20 years, which is based on small unannounced depreciations or appreciations of the boliviano against the dollar. Although the exchange rate has in practice been fixed since September, the monetary authorities are not formally committed to maintaining it. While the central bank has been a net seller of foreign exchange to the financial system since September 2008, from January 2007 to August 2008 it was a net purchaser, which prevented greater appreciation of the boliviano.

In December 2008, the central bank lowered the commission applied to transfers from abroad from 1% to 0.6% and raised the commission on transfers to other countries from 0.2% to 0.6%. This measure was designed to alleviate downward pressure on the exchange rate.

Consequently, from December 2007 to December 2008, the boliviano appreciated 7.8% in nominal terms as compared with 4.5% in 2007.

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2 This type of agreement was established in 2006 and replaced the financial programme signed with the International Monetary Fund until 2005. The programme is designed to keep the monetary programme, and therefore the net internal credit target, in line with goals set in the National Development Plan and the annual fiscal programme.

3 Open market operations performed by the Central Bank of Bolivia are denominated in bolivianos and Housing Development Units (UFV).

4 This ratio, which is a good indicator of preference for the boliviano, had increased consistently over the last three years. The figure seen in April 2009 is 17.4 percentage points higher than the January 2006 figure.

(d) Other policies

On 19 February 2009 the government mandated a 12% increase (647 bolivianos) in the minimum wage for the public and private sectors and a private-sector wage increase of the same percentage.[5] Both measures are retroactive to 1 January. The general wage increase for workers in the private sector is not mandatory for executives or managerial positions and is left to the employer's discretion.

As mentioned in the *Economic Survey of Latin America and the Caribbean 2007-2008*, in response to the damage caused by the weather phenomenon known as La Niña, a fund for reconstruction, food security and production support was created in 2008 and was initially funded with a US$ 600 million loan from the central bank to the Ministry of Finance. By the end of 2008, US$ 241 million of the fund had already been utilized.

3. The main variables

(a) Economic activity

The GDP of the Bolivian economy grew by 6.1% in 2008, 1.5 percentage points faster that in 2007. The four economic activities that posted the fastest growth were metallic and non-metallic minerals (56.3%), construction (9.2%), commerce (4%) and financial establishments, insurance, real estate and business services (4.7%). The proportion of the total GDP growth which was attributable to each of these activities was 2.4, 0.3, 0.4 and 0.5 percentage points, respectively. Growth in the metallic and non-metallic minerals sector was mainly due to the opening of the San Cristóbal mine. The crop-growing and livestock, fish farming, forestry and hunting and fishing sector was up 2.6%, following a 0.5% drop in 2007. This recovery would have been stronger had it not been for the adverse effects of the La Niña weather phenomenon during the first quarter of 2008.

On the demand side, gross fixed capital formation grew by 18.7%, 6.1 percentage points more than in 2007. Final household consumption was up 5.5%, while final government consumption rose by 3.9%. Once again, the expansion in gross capital formation was due to rising government investment. The budget for 2009 calls for growth in public investment of approximately 31.6%

(b) Prices, wages and employment

Inflation in 2008 stood at 11.8%, 0.1 percentage points higher than in 2007. With price rises in 2007 and 2008 far surpassing the 2006 level (5%), the inflation target was not met for the second consecutive year. The categories that contributed the most to the rise in the consumer price index (CPI) were food and non-alcoholic beverages (58.9%), restaurants and hotels (22.2%) and furniture and household items (7.5%).

2008 can be divided into two distinct periods in terms of inflationary behaviour. At the end of the first semester, cumulative inflation stood at 8.5% while 12-month inflation was 17.3%. The figures for the second semester were 2.7% and 11.8% respectively.

Inflation slowed in the first four months of 2009. The cumulative rate was -0.6%, 6.2 percentage points lower than in the same period in 2008, while 12-month inflation was 5.3%, 9.9 percentage points below the 2008 level. The behaviour of inflation from September 2008 on can be attributed mainly to falling international commodity prices and the exchange-rate stability maintained by the central bank. Given how the price index has behaved so far in 2009, inflation is projected to close the year within the central bank's target range.

According to information from the National Statistical Institute (INE), the urban open unemployment rate dropped 0.7 percentage points, from 7.7% in 2007 to 7% in 2008. This may have resulted from increased activity in labour-intensive sectors such as construction and commerce. As for wages, the CPI for unskilled labour rose by 18.6% in 2008, while wages for skilled labour rose by 8.6%.[6] In the first case, the expansion was due to higher pay for domestic help and in the second, increased wages for workers in the health care sector.

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5 Article 48 of the new constitution stipulates that labour provisions are binding. Under article 49, overall and sectoral minimum wages and overall wage increases are to be determined by law.

6 These wage indicators are calculated based on certain items in the different categories of the CPI.

Table 1
PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	2.5	1.7	2.5	2.7	4.2	4.4	4.8	4.6	6.1
Per capita gross domestic product	0.1	-0.6	0.2	0.4	1.9	2.2	2.6	2.4	4.0
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	3.4	3.5	0.4	8.7	0.2	5.0	4.3	-0.5	2.6
Mining and quarrying	6.4	-1.5	2.5	5.0	9.4	13.1	5.4	7.0	22.9
Manufacturing	1.8	2.7	0.3	3.8	5.6	3.0	8.1	6.1	3.7
Electricity, gas and water	1.9	0.7	2.2	2.9	3.1	2.7	4.0	4.3	3.6
Construction	-4.1	-7.0	16.2	-23.7	2.2	6.4	8.2	14.3	9.2
Wholesale and retail commerce, restaurants and hotels	3.6	1.1	2.0	1.8	3.5	2.4	3.4	4.8	4.0
Transport, storage and communications	2.4	3.0	4.3	3.9	4.0	2.9	3.9	3.5	4.0
Financial institutions, insurance, real estate and business services	-0.6	0.2	-3.1	-3.3	-1.5	0.4	5.4	6.3	4.7
Community, social and personal services	2.4	2.6	3.0	2.9	3.3	3.0	3.3	3.7	3.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.3	1.5	2.2	2.1	2.9	3.3	4.0	4.1	5.3
Government consumption	2.1	2.9	3.5	3.6	3.1	3.4	3.3	3.8	3.9
Private consumption	2.3	1.3	2.0	1.9	2.9	3.3	4.1	4.2	5.5
Gross domestic investment	-7.4	-17.5	17.9	-12.8	-11.8	26.9	-5.1	11.1	29.3
Exports (goods and services)	15.0	8.4	5.7	12.2	16.6	8.3	11.3	3.1	2.2
Imports (goods and services)	4.7	-5.0	13.1	0.9	5.5	14.8	5.2	4.4	9.4
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	18.1	14.3	16.3	13.2	11.0	14.3	13.9	14.4	14.4
National saving	12.8	10.9	11.8	14.2	14.9	20.8	25.4	26.5	26.5
External saving	5.3	3.4	4.5	-0.9	-3.8	-6.5	-11.5	-12.1	-12.1
					Millions of dollars				
Balance of payments									
Current account balance	-446	-274	-352	76	337	622	1 317	1 591	2 015
Goods balance	-364	-295	-340	100	421	609	1 242	1 004	1 467
Exports, f.o.b.	1 246	1 285	1 299	1 598	2 146	2 791	3 875	4 458	6 448
Imports, f.o.b.	1 610	1 580	1 639	1 497	1 725	2 183	2 632	3 455	4 980
Services trade balance	-244	-164	-177	-187	-190	-194	-350	-189	-200
Income balance	-225	-211	-205	-303	-385	-376	-397	-489	-536
Net current transfers	387	396	369	465	491	584	822	1 266	1 284
Capital and financial balance [d]	407	238	9	-137	-265	-185	121	361	359
Net foreign direct investment	734	703	674	195	63	-242	278	362	508
Otros movimientos de capital	-327	-465	-665	-332	-328	56	-156	-1	-149
Overall balance	-39	-36	-343	-62	73	437	1 439	1 952	2 374
Variation in reserve assets [e]	39	33	303	-152	-157	-463	-1 286	-1 952	-2 374
Other financing	1	3	40	214	85	26	-152	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100	101	96	104	110	117	119	118	106
Terms of trade for goods (index: 2000=100)	100	96	96	99	104	112	140	142	144
Net resource transfer (millions of dollars)	182	30	-156	-226	-565	-535	-428	-128	-177
Gross external public debt (millions of dollars)	6 740	6 861	6 945	7 709	7 562	7 666	6 278	5 386	5 913
					Average annual rates				
Employment									
Labour force participation rate [g]	56.1	60.6	58.0	60.4	58.6	55.7	58.7	57.1	...
Open unemployment rate [h]	7.5	8.5	8.7	9.2	6.2	8.1	8.0	7.7	7.0
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	3.4	0.9	2.5	3.9	4.6	4.9	4.9	11.7	11.8
Variation in nominal exchange rate (annual average)	6.4	6.8	8.5	6.8	3.6	1.6	-0.8	-1.9	-7.8
Variation in real minimum wage	2.9	10.8	4.7	0.8	-4.2	-5.1	4.5	-1.3	-1.5
Nominal deposit rate [i]	...	...	2.7	1.8	2.0	1.7	2.4	2.4	3.6
Nominal lending rate [i]	...	13.7	10.9	9.1	8.2	8.2	7.8	8.2	8.9

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Percentages of GDP								
Non-financial public sector									
Total income	33.6	30.4	27.5	28.8	27.4	31.7	39.1	43.6	48.4
Current income	31.4	28.0	25.3	25.9	24.9	29.5	37.3	42.0	47.1
Tax income	16.1	15.2	15.4	14.8	17.0	18.4	17.9	18.1	19.2
Capital income	2.2	2.4	2.3	2.9	2.5	2.1	1.8	1.6	1.2
Total expenditure	37.3	37.2	36.3	36.7	33.0	33.9	34.6	41.9	45.1
Current expenditure	30.3	28.9	28.0	28.6	23.9	23.9	24.4	29.1	32.4
Interest	1.8	2.1	2.1	2.6	2.6	2.7	1.8	1.3	0.9
Capital expenditure	7.1	8.4	8.4	8.1	9.1	10.0	10.2	12.7	12.6
Primary balance	-1.9	-4.7	-6.7	-5.3	-2.9	0.4	6.3	3.0	4.1
Overall balance	-3.7	-6.8	-8.8	-7.9	-5.5	-2.2	4.5	1.7	3.2
Public debt [j]	65.8	76.7	80.2	89.5	83.9	78.3	52.6	40.0	36.7
Domestic [k]	19.4	26.1	28.7	30.7	31.6	31.1	27.1	24.0	22.7
External	46.4	50.7	51.5	58.8	52.3	47.2	25.5	16.0	14.0
Money and credit [l]									
Domestic credit	70.0	67.4	66.6	63.7	58.0	53.4	44.1	42.0	39.4
To the public sector	11.5	14.2	15.5	15.9	15.9	14.1	9.2	8.0	8.3
To the private sector	58.5	53.2	51.1	47.8	42.1	39.3	34.8	34.0	31.1
Liquidity (M3)	51.5	52.9	49.4	47.7	42.3	43.0	42.4	47.8	46.5
Currency outside banks and local-currency deposits (M2)	7.2	7.9	7.7	8.3	9.3	12.2	15.6	23.9	26.1
Foreign-currency deposits	44.3	45.0	41.7	39.4	33.1	30.9	26.7	23.9	20.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, urban total.
[h] Percentage of the economically active population, urban total.
[i] Bank operations (61-90 days), in dollars.
[j] Public and publicly guaranteed private debt is not included.
[k] Domestic debt refers to central government debt.
[l] The monetary figures are end-of-year stocks.

(c) The external sector

The balance of payments posted a surplus of US$ 2.374 billion (14.2% of GDP) in 2008, US$ 422 million (21.6%) more than in 2007. The current account surplus rose by US$ 424 million (26.7%) to US$ 2.015 billion (12.2% of GDP). The balance of the financial and capital account was close to its 2007 level.

The current account result was driven by an improvement in the goods balance, which grew by US$ 464 million (46.2%) with respect to 2007. Extraction, mining and gas exports also contributed. The country's exports climbed US$ 1.99 billion (44.6%), owing mainly to export volume (29.1%). Given the growth of economic activity and the appreciation of the real exchange rate, imports have surged in recent years. In 2008 they rose by US$ 1.526 billion (44.2%). The total of family remittances was similar to the 2007 level, increasing by US$ 51.3 million (4.9%).

At the end of 2008, net international reserves held by the central bank reached US$ 7.722 billion (46.3% of GDP), an increase of US$ 2.403 billion (45.3%) over the 2007 figure. In relation to 2003 —when hydrocarbon prices began to rise— the central bank's net international reserves have expanded. Net reserves closed 2008 at an all-time year-end high.

Despite the favourable performance of the external accounts in the first three quarters of 2008 (the balance-of-payments surplus averaged US$ 810.1 million), results were negative in the fourth quarter, with a balance-of-payments deficit of US$ 56.4 million. The capital and financial account posted a US$ 166 million deficit after showing a surplus in the preceding three quarters. This result was due to a deterioration of investment and portfolio accounts in the private sector. Net international reserves held by the central bank fell by US$ 88.7. Unlike other countries whose export basket is heavily weighted by commodities, Bolivian exports did not undergo a significant decline since the prices of its gas exports are linked to petroleum, but with a three-month lag. A slowdown in the external sector became evident in the first quarter of 2009. With respect to the same period in 2008, the trade balance showed a surplus of US$ 127 million, 77% less than in 2008 (US$ 428 million). This

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	2.5	4.1	5.3	6.1	6.6	6.9	7.1	4.2	2.1	...
Goods exports, f.o.b. (millions of dollars)	964	1 112	1 272	1 445	1 560	1 740	1 885	1 743	1 169	...
Goods imports, c.i.f. (millions of dollars)	748	796	902	1 010	1 036	1 234	1 359	1 380	1 043	...
Gross international reserves (millions of dollars)	3 547	3 888	4 742	5 319	6 232	7 118	7 809	7 722	7 762	7 895 [c]
Real effective exchange rate (index: 2000=100) [d]	118	121	116	116	115	112	106	90	89	94 [c]
Consumer prices (12-month percentage variation)	7.2	6.6	10.5	11.7	14.1	17.3	14.5	11.8	6.6	2.1
Average nominal exchange rate (bolivianos per dollar)	8.00	7.96	7.79	7.64	7.55	7.31	7.07	7.00	7.01	7.03
Nominal interest rates (annualized percentages)										
Deposit rate [e]	2.5	2.3	2.5	2.5	2.8	3.5	4.0	4.1	2.9	1.7
Lending rate [e]	8.3	8.0	8.2	8.3	8.1	8.2	9.3	9.8	9.6	8.9 [c]
Interbank rate [f]	3.8	3.9	4.6	5.6	5.9	6.6	7.7	4.9	3.0	1.5 [c]
Domestic credit (variation from same quarter of preceding year)	5.3	7.6	7.1	6.9	6.4	4.8	8.5	10.1	11.4	...
Non-performing loans as a percentage of total credit	8.8	6.9	7.8	5.6	5.7	5.2	5.0	4.3	4.8	4.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Bank operations (61-90 days); three-month average, in dollars.
[f] Repurchase rate, in dollars.

was due to a fall of nearly US$ 433 million in exports, resulting from a decrease in the value of external sales of food and beverages, industrial supplies and fuel and lubricants. In 2009, Bolivian exports to the United States will not enjoy preferential treatment through the Andean Trade Promotion and Drug Eradication Act, since the Act was not renewed by that country. In the last year for which figures are available (2007), exports —especially fabrics, jewellery and crafts— benefited from this tariff advantage and reached US$ 155 million. Bolivian exports still enjoy preferential treatment through two programmes: the Generalized System of Preferences and the most-favoured-nation clause, as well as cooperation agreements signed in recent years with the Bolivarian Republic of Venezuela and the Islamic Republic of Iran.

Uruguay

1. General trends

With a GDP growth rate of 8.9% in 2008, the Uruguayan economy achieved strong expansion for the fifth consecutive year, but in the fourth quarter it began to feel the impact of the international crisis. The growth of the economy was driven by a rise in internal and external demand, causing high levels of growth in investment and consumption. The best performances were recorded by the industrial and transport and communications sectors. Annual inflation stood at 9.2%, exceeding the range established by the monetary programme. Because of the adoption of fiscal measures to contain the rise in internal prices, the non-financial public sector closed the year with a deficit of 1.3% of GDP.

The current account deficit was higher than in 2007, mostly because of rising prices for imported petroleum and electric power during the first half of the year, although falls in those prices from August onwards and rising tourism revenue produced a more favourable picture in the second half of 2008 and in early 2009. As in previous years, strong external capital flows continued in the form of direct investment and financial capital, and there was once again a considerable rise in the level of reserve assets.

The annual rate of GDP growth for 2009 is projected by ECLAC at 1%. Inflation is expected to stand at the upper limit of the authorities' target range of 3%-7%. The primary fiscal surplus is projected at around 1.8% of GDP, while the overall balance is expected to be -1.9% of GDP.

2. Economic policy

In general, economic policy in 2008 continued to focus on macroeconomic stability amidst the shifting context of international markets and inflationary pressures from the domestic market. The strong economic growth recorded in previous years and rising prices of exports and imported intermediate consumer goods put constant pressure on domestic prices, which were controlled by means of a moderately restrictive monetary policy and fiscal measures to absorb part of the hike in energy costs in the first half of the year. Additionally, the quasi-fiscal deficit increased in the first quarter of 2008 owing to monetary sterilization operations used to prevent an increased drop in the nominal exchange rate.

Beginning in September, the sudden change in international market conditions led to a temporary relaxation of monetary restrictions, in hopes that an adjustment in the nominal exchange rate following the revaluation of the dollar would lessen the impact of falling prices and weakening external demand on the most vulnerable sectors.

At the end of the year a set of fiscal measures was announced to reactivate the economy following the first signs of a slowdown in economic activity and international demand. These measures included government investment in infrastructure projects, incentives for private investment and for the export sector, and mechanisms to facilitate mortgage lending and access to financing for small and medium-sized enterprises.

In light of severe weather conditions (including a prolonged drought) and the worsening situation in international markets, a second set of measures to attenuate their effects was announced in March 2009. These initiatives were focused on safeguarding employment by subsidizing job training and job protection in the worst affected sectors (textiles, clothing, leather and motor vehicles). Other measures aimed at improving the profitability of the industrial sector included: tax exemptions on capital goods production, extension to the leather and motor vehicle sectors of preferential conditions for export pre-financing, liquidity improvements and reviewing the tariff policy for the motor vehicle sector, value added tax (VAT) deductions on diesel fuel used in manufacturing and temporary changes to the rules of origin regime for exports subject to tax reimbursement. Initiatives to mitigate the effects of the drought included financial support targeting small scale fish and dairy producers and subsidies for the purchase of feed and fodder. In addition, analysis of possible mechanisms for managing weather emergencies was initiated and a decision was made to reduce the cost of imported equipment for building irrigation systems.

Given the expected increase in the fiscal deficit, special lines of credit with multilateral lending institutions and the issuance of additional treasury bonds, for sale primarily in the domestic market, were negotiated. Placement of debt in international markets is under consideration for the second semester.

(a) Fiscal policy

In 2008 the non-financial public sector (NFPS) posted a primary surplus of 1.5% of GDP and an overall deficit of -1.3%. Payments for debt servicing made up 2.8% of GDP.

Income of the non-financial public sector remained steady throughout the year in real terms with respect to the year before. Central government tax revenue grew by 14.5%, with an increase of 4.9% in real terms. The primary result of public enterprises was negative, standing at -0.8% of GDP at year's end.

Central government primary expenditure grew by 10.9% in nominal terms (1.5% in real terms), recording a real increase of 24.5% in investments. Current expenditure remained constant in real terms, with a 2.3% reduction in debt servicing payments. The gross external debt of the NFPS remained constant in dollars but once again fell in GDP terms, standing at 38.2% of GDP at year's end compared with 41.4% the year before.

In the year to March 2009, the fiscal deficit rose terms to approximately 2% in GDP terms. This result can be attributed to weaker tax revenues, which grew by 1% in real terms in the first semester, compared with the same period in the year 2008, while interest payments were up by 11% in real terms and current expenditure jumped 9%.

(b) Monetary policy

Monetary policy remained restrictive in 2008 in order to keep inflation within the target range of 3%-7% annually with an 18 month horizon. Initially, the interbank overnight rate (call rate) —which regulates interbank loans in local currency— was the main instrument of control. This rate was set at an annual 7.25% until September 2008 and was raised to 7.75% in October, although less emphasis was placed on its control in the last quarter, owing to the turmoil in international markets. At that point, exchange-rate operations were favoured with the expectation that the local currency would follow the international trend of dollar revaluation. Following the stabilization which occurred at the end of the year, the interest rate was once again controlled, and was set at 9.5% in December and raised to an annual 10% at the beginning of 2009. In March 2009 it was adjusted back down to 9%.

The figure for monetary expansion (M1) was 7.4% in real terms by the end of 2008, following a sharp deceleration towards the end of the year. Likewise, the money supply (M2) grew by 7% in real terms with respect to the average in 2007, slackening in the last months of the year owing to slower growth in term deposits. The central bank held assets totalling over US$ 6.3 billion at year's end, 54% more than in 2007. This growth was fuelled by the increase in the reserve requirement on short-term deposits implemented as one of the anti-inflationary measures.

Activity in the financial sector continued expanding throughout 2008, with 19% growth in the volume of operations (measured as total current bank loans and bank obligations to the non-financial sector). Non-financial private sector deposits in the banking system grew by 21%, standing at about US$ 12.8 billion. Growth slowed in the last four months of the year owing to greater uncertainty. The share of sight deposits increased, accounting for 77% of the total, compared with 73% the year before. The share of foreign currency deposits rose starting in September from 78% in August to 82% between October and December, and the share of non-resident deposits went from 20% at the end of 2007 to 23% in December 2008.

Lending to the resident private sector increased by 32.6% in current dollars, standing at approximately US$ 7.3 billion (27.8% of GDP) in late 2008. Loans in local currency had grown by 57% at year's end, while those in foreign currency expanded by 16%. Thus, the local-currency portfolio made up 48% of all lending. Liquidity in the financial system at 30 days stood at 65%, with levels of net asset responsibility exceeding the required minimum.

In December 2008, lending rates averaged 27.5% in local currency and 6.9% in dollars, up 5 and 0.3 percentage points respectively compared with the average rates in December 2007. Deposit rates in local currency averaged 5.4% in December 2008 and 1% for dollar denominated deposits. So far in 2009 average lending rates have fallen slightly to 24% in local currency and 6.4% in dollars, while deposit rates averaged 5.6% for local currency and 0.7% in dollars.

(c) Exchange-rate policy

A floating exchange-rate regime was maintained throughout the year. By August the dollar had fallen some 11%, consistent with its international depreciation and heavy inflows of foreign exchange from exports. Both of these trends reversed beginning in September which caused the dollar to be revalued in the local market during the last four months of the year and to appreciate by nearly 27%. As a result, the local currency dropped 12% against the dollar in 2008. The dollar dipped at the beginning of 2009, reaching a degree of stability at around 23.50 pesos to the dollar in February.

(d) Other policies

The retirement system was modified in late 2008 based on evidence that showed that under the current system workers were unlikely to be able to retire with pensions before age 70. The required number of years worked with contributions to obtain benefits was reduced, as were the corresponding replacement rates. An old-age pension for people aged 65 and older who met certain contribution requirements was established and a special subsidy for people who were unemployed for more than one year when approaching retirement age was instituted as a way to allow for early retirement. The pension systems for police officers and bank employees, which suffered from large deficits and unfavourable ratios of workers to pensioners, were reformed to bring them in line with the general pension system.

Lastly, the central bank's charter was modified, giving it a more active role in controlling inflation and supervising the banking system. In this context, a deposit insurance agency (COPAB) was created as an autonomous entity outside the central bank, in charge of administering deposit insurance and carrying out the process of bank liquidations.

3. The main variables

(a) Economic activity

Output of goods and services increased in 2008 in all sectors except electric power, gas and water. The industrial sector spearheaded GDP growth with an increase of 17.3%, accounting for 2.6 percentage points of the 8.9% GDP growth. The transport and communications sector grew faster (27%) as in previous years, but accounted for only 2.4 percentage points of GDP expansion. Other services (personal and business services) made up 1.7 percentage points of growth, with a year-on-year variation of 5%. The commerce, restaurants and hotels sector benefited from 10.5% growth over the year and contributed 1.4 percentage points to GDP variation. The construction sector grew by 9% with an incidence of 0.5 percentage points, while the primary sector increased by 5.7% and was responsible for 0.4 percentage points of growth. Output of electric power, gas and water fell by 38% during the year and had an incidence of -1.2 percentage points on annual GDP growth.

The increase in GDP in 2008 was fuelled by higher domestic demand, with an annual variation of 8.8% and an incidence of 6.3 percentage points from private consumption and 0.9 percentage points from public consumption. Gross fixed capital formation stood at 16.4% of GDP, following an 18.1% total variation for the year. Public investment grew by 28.1%, while private investment increased by 15.7%. The areas with the greatest variation in investment were machinery and equipment (29.8%) and cultivated assets (11.2%). Exports grew by 10.5% and accounted for 3.1 percentage points of the increase in GDP, while imports rose by almost 20%, with an incidence of -6.2 percentage points.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	-1.4	-3.4	-11.0	2.2	11.8	6.6	4.6	7.6	8.9
Per capita gross domestic product	-1.8	-3.6	-11.0	2.2	11.9	6.6	4.4	7.3	8.6
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-3.0	-7.1	5.1	10.6	10.6	4.6	3.5	-5.4	5.7
Mining and quarrying	-8.8	-5.2	-37.6	14.1	7.2	4.4	...	...	...
Manufacturing	-2.1	-7.6	-13.9	4.7	20.8	10.1	7.9	7.0	17.3
Electricity, gas and water	5.0	1.7	-0.6	-7.4	1.8	5.8	-26.4	55.3	-38.4
Construction	-11.1	-8.7	-22.0	-7.1	7.5	4.2	10.1	5.5	9.0
Wholesale and retail commerce, restaurants and hotels	-5.3	-3.2	-24.5	-1.0	21.3	10.1	6.0	12.7	10.5
Transport, storage and communications	1.5	0.3	-9.1	3.1	11.5	11.1	8.8	12.2	27.1
Financial institutions, insurance, real estate and business services	2.2	1.7	-0.9	-5.3	-1.7	-3.5	2.2	6.2	4.8
Community, social and personal services	-0.6	-2.3	-3.3	0.7	3.2	1.4	3.1	3.7	5.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.4	-2.1	-15.9	1.1	9.5	4.0	7.1	7.3	8.8
Government consumption	-0.3	-2.9	-9.3	-4.8	2.5	0.0	6.0	5.0	8.6
Private consumption	-1.6	-2.0	-16.9	2.0	10.6	4.5	7.2	7.7	8.8
Gross domestic investment	-13.0	-9.1	-34.5	18.0	22.0	7.6	13.3	6.3	25.0
Exports (goods and services)	6.4	-9.1	-10.3	4.2	30.4	16.3	2.7	8.2	10.5
Imports (goods and services)	0.1	-7.1	-27.9	5.8	26.8	10.8	14.8	6.7	19.9
	-1.4	-3.4	-11.0	2.2	11.8	6.6	4.6	7.6	8.9
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	20.1	21.5	19.3	26.9	22.7	15.7	20.3	21.0	23.0
National saving	17.3	19.0	22.3	26.1	22.7	15.9	18.4	20.6	19.5
External saving	2.7	2.6	-3.0	0.8	-0.0	-0.2	2.0	0.3	3.5
					Millions of dollars				
Balance of payments									
Current account balance	-566	-498	382	-87	3	42	-392	-80	-1 119
Goods balance	-927	-775	48	183	153	21	-499	-555	-1 554
Exports, f.o.b.	2 384	2 139	1 922	2 281	3 145	3 774	4 400	5 043	7 100
Imports, f.o.b.	3 311	2 915	1 874	2 098	2 992	3 753	4 898	5 598	8 654
Services trade balance	394	316	153	135	325	372	409	683	744
Income balance	-60	-68	108	-488	-588	-494	-428	-345	-454
Net current transfers	28	30	72	83	113	144	126	136	146
Capital and financial balance [d]	733	775	-4 314	1 048	302	753	2 791	1 091	3 352
Net foreign direct investment	274	291	180	401	315	811	1 495	1 139	2 049
Other capital movements	459	484	-4 494	647	-12	-58	1 296	-49	1 303
Overall balance	166	277	-3 932	961	306	796	2 399	1 010	2 233
Variation in reserve assets [e]	-166	-278	2 328	-1 380	-454	-620	15	-1 005	-2 233
Other financing	0	0	1 604	420	149	-175	-2 414	-5	-0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	94.5	91.1	91.9	93.6	91.0	89.1	87.6	83.0
Terms of trade for goods (index: 2000=100)	100.0	104.0	102.6	103.5	99.9	90.7	88.6	88.7	92.3
Net resource transfer (millions of dollars)	672	707	-2602	979	-137	84	-52	741	2897
Total gross external debt (millions of dollars) [g]	8 895	8 937	10 548	11 013	11 593	11 418	10 560	12 218	12 027
					Average annual rates				
Employment									
Labour force participation rate [h]	59.6	60.6	59.1	58.1	58.5	58.5	60.9	62.7	62.6
Open unemployment rate [i]	13.6	15.3	17.0	16.9	13.1	12.2	11.4	9.6	7.9
Visible underemployment rate [i]	11.9	15.3	18.4	19.3	15.8	17.1	13.6	12.8	17.2
Prices					Annual percentages				
Variation in consumer prices (December-December)	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.5	9.2
Variation in producer prices, local products (December-December)	9.5	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	6.4
Variation in nominal exchange rate (annual average)	6.7	10.1	59.6	32.7	1.8	-14.7	-1.9	-2.4	-10.8
Variation in average real wage	-1.3	-0.3	-10.7	-12.5	0.0	4.6	4.3	4.7	3.3
Nominal deposit rate [j]	14.7	18.6	61.7	28.4	5.5	2.3	1.7	2.3	3.2
Nominal lending rate [k]	32.1	38.1	116.4	56.6	26.0	15.3	10.7	10.0	13.1

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
				Percentages of GDP					
Central government									
Total income	19.4	19.9	20.3	20.5	20.7	20.9	21.2	20.3	19.4
Tax income	16.1	16.7	16.8	17.8	17.7	17.9	18.6	17.8	17.2
Total expenditure	22.8	24.2	24.9	24.9	23.0	22.4	22.1	21.8	20.4
Current expenditure	21.0	22.4	23.6	23.7	21.6	21.1	20.7	20.3	18.7
Interest	2.0	2.4	3.9	5.4	4.7	4.2	4.1	3.6	2.7
Capital expenditure	1.8	1.7	1.4	1.2	1.4	1.3	1.4	1.5	1.7
Primary balance	-1.4	-1.9	-0.8	1.0	2.3	2.7	3.2	2.1	1.7
Overall balance	-3.4	-4.3	-4.6	-4.4	-2.4	-1.6	-1.0	-1.6	-1.0
Non-financial public sector debt	34.4	44.7	101.4	96.1	75.5	67.4	60.4	51.4	49.4
Domestic	8.3	14.9	24.3	18.0	14.5	14.4	13.6	10.0	11.2
External	26.1	29.8	77.2	78.0	61.0	52.9	46.9	41.4	38.2
Money and credit [l]									
Domestic credit	...	43.3	51.8	29.2	17.2	13.7	18.7	14.6	12.5
To the public sector	4.0	6.5	22.3	14.1	11.8	5.9	7.4	1.3	2.9
To the private sector	54.8	65.0	72.0	44.5	29.7	26.1	25.6	24.2	27.8
Others	...	-28.2	-42.5	-29.5	-24.4	-18.4	-14.3	-10.9	-18.9
Liquidity (M3)	71.1	89.9	86.0	79.6	64.8	58.0	56.5	48.8	54.5
Currency outside banks and local-currency deposits (M2)	11.0	9.9	8.7	9.3	8.8	10.4	11.2	12.4	12.3
Foreign-currency deposits	60.2	80.0	77.4	70.3	56.0	47.6	45.3	36.4	42.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1983 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Figures include the private sector and do not include memorandum items on external liabilities and assets.
[h] Economically active population as a percentage of the working-age population,urban total.
[i] Percentage of the economically active population, urban total.
[j] Average rate for fixed-term deposits, 30-60 days.
[k] Business credit, 30-367 days.
[l] The monetary figures are end-of-year stocks.

GDP rose by 2.3% in the first semester of 2009 with respect to the first semester of 2008. In seasonally adjusted terms, however, it fell 2.9% in the fourth quarter of 2008. In the first quarter of 2009, compared with the same period the previous year, the transport and communications sector grew by 12% and the construction sector by 6%, while agriculture, industry, and supply of electric power, gas and water contracted by 1.8%, 2.2% and 7% respectively. In terms of physical volume, final government consumption posted 6% growth in the first quarter (with respect to the first quarter of 2008) and gross capital formation increased by 5%. In that same period, exports expanded by 1.5%, private consumption grew by 1.2% and imports of goods and services decreased by 7%.

(b) Prices, wages and unemployment

The consumer price index (CPI) rose by 9.2% in 2008, the highest increase since 2003. The category with the highest incidence was food and beverages (3 percentage points), with a cumulative yearly variation of 10.6% in December 2008. In order of magnitude, it was followed by housing (13.8%), recreation (12.6%) and education (10.4%). In the same period, the national producer price index rose by 6.4%. From January to May 2009, the increase in consumer prices stood at 1.7%, while annualized inflation hit 6.6% in May 2009.

The labour market continued to be favourable throughout the year and the urban employment rate reached an annual average of 57.7%, growing by one percentage point. The participation rate of the working age population stood at 62.6% —similar to the previous year's figure. Thus, the average unemployment rate (7.9%) dropped by almost two percentage points with respect to the year before. Real wages rose by 3.3% on average in 2008, with similar increases in both public and private sectors. The market continued its trend towards formalization and the percentage of non-registered workers fell from 26.2% in 2007 to 23.9% in 2008. In April 2008, the unemployment rate rose slightly to 8.8% in urban areas, owing to the fall in the employment rate, particularly in the country's interior.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.0	6.7	8.2	9.2	7.8	10.3	9.9	7.6	2.3	...
Goods exports, f.o.b. (millions of dollars)	932	1 136	1 217	1 230	1 297	1 667	1 637	1 348	1 091	...
Goods imports, c.i.f. (millions of dollars)	1 151	1 205	1 655	1 617	1 780	2 686	2 371	2 096	1 442	...
Gross international reserves (millions of dollars)	3 458	3 686	3 540	4 121	4 993	6 101	6 344	6 360	6 965	7 100 [c]
Real effective exchange rate (index: 2000=100) [d]	129.6	129.1	126.4	122.8	119.2	115.1	112.2	117.2	113.9	118.7 [c]
Urban unemployment rate	10.4	10.1	9.4	8.6	8.9	7.8	8.0	6.9	7.9	...
Consumer prices (12-month percentage variation)	7.4	8.1	8.9	8.5	8.0	8.4	7.5	9.2	7.5	6.5
Average nominal exchange rate (pesos per dollar)	24.30	23.95	23.53	21.95	20.90	19.77	19.58	23.36	23.48	23.68
Average real wage (variation from same quarter of preceding year)	5.1	3.9	5.7	4.3	4.3	4.0	1.9	4.0	6.2	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	1.7	2.0	2.3	3.0	2.9	2.8	2.5	4.6	4.3	4.0
Lending rate [f]	9.5	10.3	9.3	10.8	11.1	11.2	12.2	18.0	18.0	17.0
Interbank rate	1.3	3.0	4.6	7.1	7.0	7.2	7.2	19.0	9.4	8.9
Sovereign bond spread (basis points) [g]	172	147	202	223	310	265	376	578	586	335
Domestic credit (variation from same quarter of preceding year)	22.9	23.1	9.9	-7.9	-7.1	1.1	6.6	1.2	1.4	...
Non-performing loans as a percentage of total credit	19.7	18.3	18.4	13.7	14.5	20.5	20.2	16.6	14.9	13.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1983 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Average rate for fixed-term deposits, 30-61 days.
[f] Business credit, 30-367 days.
[g] Measured by JP Morgan's EMBI+ index.

(c) The external sector

The overall balance of payments in 2008 was US$ 2.232 billion. The balance-of-payments current account recorded a deficit of US$ 1.119 billion (equivalent to 3.5% of GDP), offset by a capital and financial balance surplus of US$ 3.352 billion, thanks to private sector investments totalling US$ 2.386 billion, specifically foreign direct investment at US$ 2.049 billion.

The value of exported goods increased by 31.8% in 2008, totalling US$ 5.95 billion. The main export products were beef (20% of all exports), grains (10%), rice (7.5%) and wood products (7%). Although exports to Brazil did pick up, continued to lose ground in terms of sales abroad. Imports of goods grew by 58.7%, totalling around US$ 8.9 billion. Crude oil made up 27% of all goods imports, followed by machinery and equipment imports, with 15.5% of the total.

Mexico and Central America

Costa Rica

1. General trends

Real GDP in Costa Rica grew by 2.6% compared with 7.8% in 2007. Per capita GDP was up 0.9%, well below the rate for prior years. Inflation ended the year at 13.9% (10.8% in 2007). The unemployment rate stood at 4.9%, following a reverse in the downward trend seen in recent years. The public-sector balance showed a small deficit, while the central government balance was slightly positive. The balance-of-payments current account deficit increased significantly from 6.3% of GDP in 2007 to 9% in 2008.

In an effort to mitigate the negative effects of external shocks that occurred during the year, the government applied macroeconomic policy measures such as increased social spending and changes in monetary and exchange-rate policies. Activity in the production sectors suffered a widespread deceleration in 2008, particularly in agriculture and manufacturing which experienced negative growth. The negative repercussions of the international crisis took the form of a strong drop in exports and tourism income in Costa Rica. Higher inflation was due to rising world prices for fuel and raw materials, along with growth in domestic demand in the first half of the year.

According to ECLAC estimates, GDP will slip by 3% in real terms in 2009, mainly owing to weakened exports and consumption. As was the case in 2008, external demand is expected to fall and tourist arrivals to drop. Flows of foreign direct investment (FDI) are also expected to weaken. Private consumption will be dented by falling real household income. Given that inflationary pressures have subsided, inflation is expected to remain in single digits. The fiscal deficit will rise owing to declining revenues and the need for higher spending, while the external deficit will shrink as a result of improved terms of trade. The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) entered into force on 1 January 2009.

2. Economic policy

Macroeconomic policy in 2008 faced shifting challenges arising from different types of external turmoil. In the first four months of the year, capital inflows were strong, which led to exchange-rate appreciation and a reduction in interest rates. Inflation picked up from May onwards and the exchange rate moved towards the ceiling of the band, which translated into a surge in interest rates.

(a) Fiscal policy

The narrowly-defined global public sector (which includes the non-financial public sector and the central bank) posted a negative balance of 0.4% of GDP, as compared with a surplus of 0.8% in 2007. This result was due to an increase in the non-financial public sector deficit, despite the reduction of the central bank's deficit.

The central government posted a surplus for the second year in a row, equivalent to 0.2% of GDP and slightly smaller than the 2007 surplus (0.6%).

The central government's current revenue grew by 3.9% in real terms, significantly less than the 2007 figure (16%). Reflecting modest growth in GDP, the tax burden rose slightly from 15.2% in 2007 to 15.7% in 2008. The slowdown in economic activity impacted negatively on revenues from taxes on sales, external trade and income.

Central government spending rose by 6.6% in real terms (4% in 2007). Current and capital transfers, mainly for social housing programmes, welfare payments, education and road infrastructure, were the fastest growing item (13.7%). As part of the measures taken to mitigate the effects of the crisis, the central government transferred resources to non-contributory pension schemes and disbursed US$ 117.5 million to capitalize State banks.

The rest of the non-financial public sector posted a deficit equivalent to 0.4% of GDP, as compared with a 1% surplus in 2007, as a result of the weakening financial position of State enterprises. For a third straight year, the central bank deficit was smaller than the previous year (0.2% of GDP compared with 0.7% in 2007), reflecting lower interest rates, exchange-rate earnings and fewer open-market operations.

External public debt decreased slightly in 2008, to US$ 3.629 billion (US$ 3.637 billion in 2007). As a proportion of GDP, this drop was significant: from 13.8% in 2007 to 12.2% in 2008. Domestic public debt fell from 32.7% of GDP in 2007 to 27.1% in 2008. Net issue of debt was lower than in 2007, thanks to the central government's financial surplus and the smaller deficit posted by the central bank.

Tax authorities have been under pressure in 2009, faced with falling revenues due to slowing economic activity, on the one hand, and increased spending —a key element in countercyclical policies— on the other. Overall public sector debt is expected to reach approximately 4% of GDP. In the early months of 2009, the government's plan for addressing the crisis (Plan Escudo) was hampered by lack of capacity to invest in infrastructure, delays in the approval of international loans and falling public revenues. In the first four months of the year, total central government revenues dropped 8.5% in nominal terms (21% in real terms) as compared with the same period in 2008.

(b) Monetary and exchange-rate policy

In 2008 monetary and exchange-rate policy focused on counteracting the negative effects of international market turmoil and easing inflationary pressure, in the framework of a transition towards a flexible exchange rate. Throughout the year, the problem known as the "impossible trinity" worsened. This term refers to the great difficulty that countries face in simultaneously controlling exchange rates and maintaining monetary independence in an environment of free movement of capital.

Exchange-rate and interest-rate patterns in 2008 fell into two distinct periods. In the first four months of the year, the nominal exchange rate rose more than 5% against the dollar, due chiefly to capital inflows. Despite strong inflationary pressure, the monetary policy interest rate was lowered from 6% to 3.25% in January as a result of lower interest rates in the United States and other trading partners, and in an attempt to discourage capital inflows.

Starting in May, the exchange rate hovered at the upper limit of the band, as the weakened external accounts eroded economic expectations for the short and medium terms. The parameters of the band were adjusted in July in an effort to reduce volatility. Given this pressure on the exchange rate and rising inflation, the authorities raised the monetary policy interest rate four times until it hit 10.87% in August. The increase in nominal rates during the second half of the year, together with the rise in inflation, led to a negative average real deposit rate at year's end (-5.6%). The average real lending rate in the financial system closed the year at 6.8%.

Capital inflows drove the central bank's net international reserves to a record high of US$ 4.937 billion in April 2008. The central bank was forced to intervene in the currency market as of May in order to alleviate pressure on the exchange rate. As a result, net international reserves gradually decreased, reaching US$ 3.799 billion at year's end (7.6% down on the figure at the end of 2007).

At the close of 2008, the nominal exchange rate stood at 553 colones per dollar, 8.3% higher than in December 2007, while the yearly average was 526.2 colones. The real bilateral exchange rate against the dollar rose for the fourth consecutive year (2.5%), while the real effective exchange rate (with all of Costa Rica's trading partners) went up 3.2%.

M1 grew by 1.5% in 2008 (22.6% in 2007). Higher inflation, exchange-rate volatility and negative interest rates on deposits encouraged long-term deposits, principally in foreign currency. Long-term deposits in national currency were up by 19.4%, while those in foreign currency expanded by 40%. This represented an increase in dollarization and put an end to the de-dollarization trend observed in the previous three years. Foreign-currency deposits made up 47% of M3 (broad money), as compared with 41.4% in 2007.

Credit to the private sector grew significantly thanks to the drop in interest rates during the first half of 2008. Total credit was up 32% in nominal terms, compared with 38.7% in 2007. The increase was particularly sharp in loans to construction (50.1%), services (48.3%) and housing (40.4%), while consumer credit was up 29.9%. Lending slowed in the last months of 2008, owing to higher interest rates and tighter credit conditions.

The international crisis posed little complication for the stability of the Costa Rican financial system in the early months of 2009. The exchange rate maintained its earlier course. In July, the nominal exchange rate was 5% higher than in December 2008. As part of the Plan Escudo, loans from the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank (IDB) should be sufficient to maintain fiscal and external solvency in the Costa Rican economy in 2009.

(c) Trade policy

CAFTA-DR was approved by referendum in October 2007, paving the way for preparations to implement the Agreement. The implementation agenda was discussed in 2008. Following intensive negotiations, the complete package of bills was passed in November, ready to enter into force in January 2009.

The government of President Arias continued to take measures to strengthen trade relations with Asia. In 2008 it was agreed to begin negotiations on a free trade agreement with China —Costa Rica's second largest trading partner— and the first rounds of talks took place in 2009. Negotiations for a free trade agreement with Singapore were also begun.

Eight rounds of negotiations for an association agreement between Central America and the European Union were held during 2008 and the first semester of 2009. The process is expected to conclude in 2009. With respect to Central American integration, the countries concluded negotiations on the 2009-2011 Multi-Year Plan of the Central American Integration System and signed off on the Plan.

3. The main variables

(a) Economic activity

The slowdown in real GDP growth in 2008 was attributable mainly to a drop-off in exports —the engine of growth during the recent expansionary cycle— and slacker consumption. Aggregate demand slowed (3.4% compared with 6.6% in 2007), owing to smaller expansion in consumption (4.3% compared with 6.8% in 2007) and a decrease in exports of goods and services, which were down 1.3% in real terms. Consumption was impacted by higher inflation and more sluggish economic activity, as well as strongly deteriorating expectations. Gross fixed investment was up significantly (11.9%) due to inertial growth in private construction and public investment in infrastructure.

Manufacturing was the hardest hit industry in 2008, shrinking by 4.3%. Production in free zones, which makes up 41% of manufacturing, shrank by 7.9%. Growth in the agriculture, livestock, forestry and fishing sector declined 2.3% owing to shrinking external demand and supply issues (including weather and pests). The construction sector expanded by 13.1%, slightly above half the rate for 2007. Growth in the commerce, restaurants and hotels sector was down 3.8%, while the financial services and insurance sector remained buoyant (9%).

In April 2009, the monthly economic activity index (IMAE) showed a negative average monthly variation (-5.2%), marking seven straight months of contraction. The worst hit sectors were manufacturing (-16.1%), hotels (-15.9%) and agriculture (-8.1%). Construction contracted by an average of 3.7%.

(b) Prices, wages and employment

The inflation rate —as measured by the consumer price index (CPI)— rose in 2008 for the second straight year, closing at 13.9% (10.8% in 2007) and exceeding the central bank's target rate (8% with a one-point margin on either side). The main drivers of inflation were food and non-alcoholic beverages, transport and housing services. This rise in the rate reflected higher international prices, buoyant domestic demand in the first semester, increased lending to the private sector and the difficulty of keeping the inflation outlook close to target amid severe external shocks. Food prices had a strong impact on the year-on-year core inflation rate (14.0%).

The open unemployment rate stood at 4.9%, slightly higher than the 2007 figure (4.6%). The effects of the crisis were lagged in the real sector and the repercussions on employment are therefore expected to be greater in

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	1.8	1.1	2.9	6.4	4.3	5.9	8.8	7.8	2.6
Per capita gross domestic product	-0.5	-1.0	0.9	4.4	2.4	4.0	6.9	6.0	0.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	0.7	1.4	-3.3	7.4	0.7	4.3	12.7	5.1	-2.3
Mining and quarrying	6.3	6.4	-3.1	4.2	7.7	7.6	25.7	-1.6	-3.1
Manufacturing	-2.9	-9.1	3.4	8.4	4.0	10.8	10.8	7.0	-4.3
Electricity, gas and water	6.4	4.1	5.3	5.8	4.0	5.9	6.1	2.4	3.1
Construction	4.4	14.4	-1.5	4.8	6.3	-0.2	18.2	21.6	13.1
Wholesale and retail commerce, restaurants and hotels	1.5	1.9	1.6	3.4	3.9	4.0	4.8	6.8	3.8
Transport, storage and communications	10.2	9.2	12.0	13.7	12.0	9.6	10.5	9.1	7.7
Financial institutions, insurance, real estate and business services	8.1	6.8	4.8	7.1	6.6	5.4	11.1	9.2	10.4
Community, social and personal services	2.6	2.0	3.0	3.0	1.4	3.3	2.3	3.7	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.1	1.5	3.0	2.8	2.9	3.9	5.4	6.8	4.3
Government consumption	1.4	3.6	2.3	-0.3	1.3	0.2	2.9	2.2	2.4
Private consumption	1.0	1.2	3.1	3.2	3.1	4.4	5.7	7.4	4.5
Gross domestic investment	-0.9	2.6	6.6	7.2	-0.5	4.3	10.8	18.0	12.3
Exports (goods and services)	-0.1	-9.6	3.6	12.1	8.2	12.8	10.3	10.0	-1.3
Imports (goods and services)	-2.6	1.3	6.9	0.9	9.1	12.4	8.1	4.5	5.0
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	16.9	20.3	22.6	20.6	23.1	24.3	26.4	24.6	25.6
National saving	12.6	16.6	17.5	15.6	18.9	19.4	21.9	18.3	16.5
External saving	4.3	3.7	5.1	5.0	4.3	4.9	4.5	6.3	9.0
					Millions of dollars				
Balance of payments									
Current account balance	-691	-603	-857	-880	-791	-981	-1 023	-1 647	-2 676
Goods balance	-210	-820	-1 278	-1 089	-1 421	-2 159	-2 727	-2 985	-4 813
Exports, f.o.b.	5 813	4 923	5 270	6 163	6 370	7 099	8 102	9 299	9 738
Imports, f.o.b.	6 024	5 743	6 548	7 252	7 791	9 258	10 829	12 285	14 551
Services trade balance	679	746	685	776	857	1 116	1 351	1 733	2 111
Income balance	-1 252	-679	-440	-776	-440	-209	4	-865	-407
Net current transfers	93	151	175	209	212	270	349	470	433
Capital and financial balance [d]	539	616	1 020	1 219	872	1 374	2 053	2 795	2 328
Net foreign direct investment	400	451	625	548	733	904	1 371	1 634	2 010
Other capital movements	138	165	395	671	139	470	682	1 161	318
Overall balance	-152	13	163	339	80	393	1 031	1 148	-348
Variation in reserve assets [e]	152	-13	-163	-339	-80	-393	-1 031	-1 148	348
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	97.5	98.6	104.5	106.1	107.3	106.2	103.5	100.0
Terms of trade for goods (index: 2000=100)	100.0	98.4	96.9	95.5	91.9	88.3	85.8	84.9	81.7
Net resource transfer (millones de dólares)	-714	-63	580	443	432	1 166	2 058	1 930	1 921
Gross external public debt (millions of dollars)	5 307	5 265	5 310	5 575	5 710	6 485	6 994	8 341	9 082
					Average annual rates				
Employment									
Labour force participation rate [g]	53.6	55.8	55.4	55.5	54.4	56.8	56.6	57.0	56.7
Open unemployment rate [h]	5.2	6.1	6.4	6.7	6.5	6.6	6.0	4.6	4.9
Visible underemployment rate [h]	10.5	11.3	12.3	15.2	14.4	14.6	13.5	11.5	10.5
Prices					Annual percentages				
Variation in consumer prices (December-December)	10.2	11.0	9.7	9.9	13.1	14.1	9.4	10.8	13.9
Variation in industrial producer prices (December-December)	10.2	8.6	8.4	11.0	17.7	12.1	13.7	14.6	23.5
Variation in nominal exchange rate (annual average)	7.9	6.7	9.4	10.8	9.8	9.2	7.0	1.0	1.9
Variation in average real wage	0.8	1.0	4.1	0.4	-2.6	-1.9	1.6	1.4	-1.5
Nominal deposit rate [i]	15.3	13.4	14.0	12.6	11.5	12.1	11.4	7.1	5.4
Nominal lending rate [j]	28.1	26.7	26.8	26.2	23.4	24.0	22.7	17.3	16.7

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Non-financial public sector									
Total income	23.5	25.5	24.7	25.0	24.4	25.2	25.8	26.7	26.8
Current income	24.0	24.8	24.8	24.7	24.4	25.2	25.8	26.7	26.9
Tax income	18.5	19.6	19.8	19.9	19.7	20.2	20.7	22.2	22.8
Capital income	-0.5	0.7	-0.1	0.4	-0.0	-0.0	-0.0	-0.0	-0.1
Total expenditure [k]	25.0	27.1	28.6	27.4	26.4	25.6	24.5	24.8	26.9
Current expenditure	20.6	22.2	23.3	22.8	22.2	21.8	21.0	20.7	21.1
Interest	3.6	4.0	4.3	4.3	4.1	4.2	3.8	3.1	2.2
Capital expenditure	4.4	4.8	5.2	4.5	4.1	3.8	3.5	4.1	5.3
Primary balance	2.0	2.4	0.4	1.9	2.1	3.8	5.2	4.9	2.1
Overall balance	-1.6	-1.6	-3.9	-2.4	-2.0	-0.4	1.3	1.8	-0.1
Non-financial public sector debt	41.8	43.2	45.1	45.6	46.9	42.9	38.4	31.9	29.9
Domestic	26.9	28.1	28.7	27.0	27.6	25.5	23.4	19.6	18.1
External	14.9	15.2	16.4	18.6	19.3	17.4	15.0	12.3	11.8
Money and credit [l]									
Domestic credit	28.6	27.5	31.2	33.3	36.1	36.8	36.3	39.7	45.0
To the public sector	7.5	3.8	5.6	6.5	9.0	6.7	4.4	2.2	2.2
To the private sector	21.0	23.5	25.4	26.5	26.7	29.4	31.1	36.6	41.7
Other	0.1	0.1	0.1	0.3	0.4	0.7	0.8	0.9	1.1
Liquidity (M3)	33.4	33.8	36.3	37.1	42.6	44.0	44.3	43.8	46.8
Currency outside banks and local-currency deposits (M2)	20.0	19.1	20.4	20.9	21.0	22.3	23.5	25.7	24.8
Foreign-currency deposits	13.3	14.7	16.0	16.2	21.6	21.7	20.8	18.2	22.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] 90-day deposits at State-owned banks.
[j] Rate on loans to industry from State-owned banks.
[k] Includes net lending.
l The monetary figures are end-of-year stocks.

2009. As a result of the rise in inflation, the real minimum wage index fell 1.3%.

The inflation target set by the central bank for 2009 was 9%, with a tolerance of one percentage point on either side. Inflationary pressure has eased, given falling international prices and the slowdown of economic activity. In the first five months of 2009, cumulative inflation was 1.04% (5.08% for the same period in 2007), whereas year-on-year inflation reached 9.52% (11.9% in 2008). The inertia caused by three decades of inflation in excess of 10% makes the achievement of a significant reduction in inflation a challenge for Costa Rica.

(c) The external sector

The current account deficit increased significantly in 2008. Goods exports amounted to US$ 9.738 billion, which represents a growth rate of 4.7%, well below the average for the three previous years. Of the increase in export value, 56% may be attributed to greater volumes and the rest to higher prices.

Non-traditional exports grew only 3.2% owing to falling exports from free zones and maquila industries. In particular, exports of clothing and modular circuitry parts dropped significantly. Traditional exports, on the other hand, grew by 7% thanks to coffee and meat exports, which were driven by international price rises.

Imports of goods were up by 18.4% in 2008 (13.4% in 2007), reflecting rising global prices for fuels and raw materials. As a consequence, the merchandise trade deficit widened to US$ 4.813 billion (US$ 2.986 billion in 2007), or approximately 16% of GDP. Imports of intermediate goods jumped 21.5%, especially goods for agriculture (64.3%), fuels and lubricants (45.8%) and construction materials (40.7%). The terms of trade deteriorated for the eighth consecutive year (-3.8%). They have worsened by 18.3% this decade.

Services exports grew considerably (15.3%), particularly the "other services" category. Tourism revenues slowed (11.1% growth compared with 18.7% in 2007) because of the international crisis. The positive services balance (US$ 2.111 billion) helped offset the deficit in the goods trade balance. The income balance

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	7.5	8.6	7.2	7.9	6.1	3.5	2.8	-1.8	-4.8	...
Goods exports, f.o.b. (millions of dollars)	2 252	2 414	2 287	2 384	2 408	2 521	2 404	2 171	2 061	...
Goods imports, c.i.f. (millions of dollars)	3 004	3 003	3 304	3 642	3 610	4 105	4 087	3 569	2 539	...
Gross international reserves (millions of dollars)	3 492	3 734	3 886	4 114	4 891	4 334	3 814	3 799	4 167	3 971
Real effective exchange rate (index: 2000=100) [c]	104.4	104.5	103.3	101.8	98.6	101.0	103.9	96.7	96.1	99.1 [d]
Consumer prices (12-month percentage variation)	9.2	8.7	9.4	10.8	11.0	12.8	15.8	13.9	12.3	8.2
Average nominal exchange rate (colones per dollar)	519	519	519	511	496	508	548	555	562	574
Average real wage (variation from same quarter of preceding year)	0.9	1.5	2.5	0.4	-6.1	0.8	-3.5	1.2	13.6	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	8.7	6.8	6.6	6.5	5.0	3.7	5.1	7.6	8.5	8.5
Lending rate [f]	19.8	17.1	16.2	16.1	15.3	14.6	16.7	20.2	21.4	22.0
Interbank interest rate	7.2	5.6	5.4	5.7	2.9	2.7	6.8	4.8	4.4	6.4
Stock price index (national index to end of period, 31 December 2000=100)	178	187	186	193	235	232	209	177	114	116
Domestic credit (variation from same quarter of preceding year)	20.2	21.2	23.1	28.7	28.3	31.4	32.4	31.4	26.2	19.5
Non-performing loans as a percentage of total credit	1.4	1.4	1.2	1.2	1.3	1.2	1.3	1.5	1.9	2.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] 90-day deposits at State-owned banks.
[f] Rate on loans to industry from State-owned banks.

showed a deficit of US$ 400 million, which contributed to the negative current account balance.

Family remittances totalled US$ 584 million (US$ 596 million in 2007), representing a 2% drop attributable to the slacker economic activity in the United States (their principal source). Remittances sent to other countries —chiefly Nicaragua— came to US$ 264 million, similar to the 2007 figure. This was the first time in four years that those outward remittances did not rise, which reflects the slowdown in the Costa Rican economy.

For the first time in seven years, the financial account posted a surplus (US$ 2.053 billion) that was smaller than the current account deficit (US$ 2.676 billion). Portfolio investment showed a surplus, particularly debt instruments (US$ 547 million), which helped finance the current account deficit.

FDI inflows reached US$ 2.016 billion, which represents significant growth (6.3%) given the current international environment. The reduction of FDI in real estate was offset by flows into the free-zone firms and the sale of two Costa Rican firms to foreign investors.

The current account deficit could shrink in 2009 as imports slow, owing to falling average international prices for food and fuels and the impact of slackening economic activity on demand for imported capital and consumer goods. Goods exports are also expected to fall, along with tourism revenues and FDI flows.

In the first four months of 2009, goods exports dropped 16.4%. Free-zone and manufacturing exports slowed heavily, continuing the trend that has been observed since late 2007. Exports of traditional products also declined. Goods imports fell faster than exports (34%) and, as a result, the trade deficit narrowed significantly, from US$ 1.816 billion in January-April 2008 to US$ 478 million in the same period of 2009.

El Salvador

1. General trends

Most macroeconomic indicators for El Salvador worsened in 2008. Real GDP increased by 2.5%, two percentage points less than in 2007, while per capita GDP rose by 0.9%, only a third of the previous year's increase. As in 2007, the sector with the highest rate of growth was agriculture.

Although family remittances (17.1% of GDP) increased at a lower rate than before, they still helped lift private consumption and mitigate the impact of higher international oil and food prices on the balance-of-payments current account, which posted a deficit equivalent to 7.2% of GDP. The non-financial public sector deficit increased by almost one percentage point above its 2007 level, to 1% of GDP. Inflation was 5.5%, half a percentage point above the level recorded in 2007.

Mauricio Funes was sworn in as President in June 2009, and will head the country's first left-leaning government. His government has vowed to implement more active, forward-looking public policies, prioritize social policies and tackle the lack of public security head on.

As a consequence of the unfavourable external context, ECLAC projects that GDP growth in El Salvador in 2009 will fall by 2% owing to sharp drops in exports, remittances, consumption and investment. Clearly, this outlook would improve if the external context were to change, especially in terms of the United States economy and the steps taken by the new administration to curb the slowdown in growth. The anti-crisis plan calls for spending US$ 475 million, but the authorities do not have the full amount available. The new government's measures to counteract the negative effects of the crisis are therefore unlikely to have significant results in 2009.

2. Economic policy

(a) Fiscal policy

The tax burden of the central government without social security contributions fell to 13% of GDP in 2008, slightly below the 2007 level. Non-tax revenue on the other hand rose by 0.4 points of GDP. Thus, current revenue remained constant in GDP terms.

Current expenditure increased by 3.8%, mainly because of higher transfers and purchases of goods and services. Subsidies on electric power, water and liquefied natural gas remained in place, as did those on public transport, and they accounted for approximately US$ 440 million in expenditure (2% of GDP). Total spending rose to the equivalent of 15.3% of GDP. The central government deficit (including pensions) increased from 0.2% of GDP in 2007 to 0.6% in 2008. The deficit of the non-financial public sector (including pensions) was equivalent to 1% of GDP, 0.8 percentage points above its 2007 level. Starting in February 2009, only users who consumed less than 99 kW a month were eligible for the subsidy on residential electricity consumption (US$ 163 million, equivalent to 0.7% of GDP). These users account for 80% of total demand.

External debt of the non-financial public sector rose by 2.4% in 2008, to US$ 5.41 billion. The reason for this was new borrowing (equivalent to half of total indebtedness) from multilateral agencies including the World Bank and Inter-American Development Bank as a result of the exceptional circumstances related to the economic crisis. Domestic public debt grew by 15.1% from 2007, to US$ 2.494 billion. The debt of the non-financial public sector thus fell to 35.7% of GDP, almost one percentage point below its 2007 level. A total of US$ 553 million in short-term treasury notes was issued.

International rating agencies lowered their long-term sovereign debt rating for El Salvador in 2008. Standard & Poor's and Fitch Ratings downgraded their outlook for foreign-currency-denominated bonds from El Salvador from stable to negative. In May 2009, Standard and Poor's once again downgraded the country's sovereign risk, from BB+ to BB, with a stable outlook. In June, Fitch also downgraded its rating for the country.

The new government's fiscal policy in 2009 has been focused on countering the reduction in revenue, ensuring State financing and using resources for countercyclical purposes. Tax receipts are expected to decline by an amount equivalent to 2% of GDP, owing to lower collections of value-added tax and import duty. Consequently, and in the light of the slump in production, the current national budget will have to be revised. For now, the government will redirect its loans and issue bonds to cover the shortfall not covered by the budget. In June 2009, the new government announced that it would implement a series of new anti-crisis measures to boost fiscal revenue, encourage efficient spending and improve the targeting of subsidies.

(b) Monetary and exchange-rate policy

Real interest rates fell slightly in 2008. Adjusted for inflation, the average yield on 180-day term deposits declined to -2.8%. Real average interest rates on one-year loans fell from 3.1% in 2007 to 0.6% in 2008.

Because of the lack of liquidity in the financial system, lending to the private sector by commercial banks and financial institutions was sharply curtailed. Credit shrank by 6.4% in nominal terms and 12% in real terms compared with 2007. The activities most affected in real terms were mining and quarrying (-77.6%), services (-39.6%) and construction and housing (-28.4%). Lending to the public sector increased by 19.5%, although it accounted for a small share of total lending (4%). At year-end, the country had US$ 3.349 billion in net international reserves, up 8.3% from 2007 and equivalent to 2.8 months of goods and services imports.

Most of the important indicators for the banking system had worsened as of December 2008. The country's banks reported an increase in non-performing loans in proportion to total lending, higher costs of funds and greater difficulties in obtaining them, and a need to raise provisions to counteract the increase in non-performing loans. The situation does not appear to be alarming, however, given the equity worthiness built up by the banks over the last three years. To lessen these negative effects, in April 2009, the Central Reserve Bank of El Salvador began to return 3% of the liquidity provision (1.3% of GDP) that had been established for contingencies in connection with financial volatility and the presidential elections.

(c) Other policies

Between 2005 and 2008, the Solidarity Network programme —the aim of which is to reduce extreme poverty among families in 100 municipalities— distributed more than US$ 22.4 million in education and health vouchers in 77 municipalities, benefitting 83,654 families. In addition, US$ 53.2 million was invested in basic social infrastructure such as drinking water (38%), electric power (29%) and other types of infrastructure and technical assistance (33%).

In 2009, some US$ 40 million from the Millennium Fund (FOMILENIO) is expected to be used to build the northern longitudinal highway and to initiate connectivity, rural electrification, productive development and educational projects. Still, some projects are likely to be reconsidered, since their costs now surpass the initial estimates made three years ago. The Solidarity Network programme is expected to reach 120,000 families, including 37,000 new households in the last 23 (extremely high poverty) municipalities selected. In the second half of 2009, the new government will conduct studies to allow this programme to cover not only rural areas but also urban ones.

Between mid-2008 and early 2009, to soften the consequences of the global crisis, the outgoing government implemented a series of measures including the provision of subsidies, increased liquidity in the financial system through the return of 3% of the liquidity provision, the strengthening of the agricultural sector through the provision of improved seeds, the strengthening of the Solidarity Network and the implementation of 19 measures known as the "Family Alliance," intended to address the negative effects of higher prices on the purchasing power of middle-income families.

On 16 January 2009, the Executive Board of the International Monetary Fund approved a US$ 800 million stand-by agreement to support the country's economic strategy.

In 2008 and the first half of 2009, several rounds of negotiations were held for an association agreement between the European Union and Central America. The resulting accord is to go beyond a free trade agreement and will include significant cooperation funding. Negotiations are expected to be concluded this year.

3. The main variables

(a) Economic activity

Real economic growth was 2.5% in 2008, mainly because of the buoyancy of the agricultural sector. The moderate increase in consumption (3.8%) was due to smaller rises in remittances and in the country's economic activity. Fixed gross investment decreased by 5.3% as a result of the contraction in private investment (6.5%), unlike public investment, which rose by 5%. Investment in machinery fell by 4.6%, the largest decline in a decade. Exports of goods and services rose by 6.8% while imports increased by 4.8%. Per capita GDP rose only by 0.9%.

The agricultural sector performed favourably for the fifth consecutive year, with a 7.3% growth rate, driven primarily by higher international prices for basic grains. Output in the crop-growing sector rose by 10.8%, the highest increase in five years. Production in the livestock sector (which includes forestry, hunting and fishing) was up 2.2%.

Manufacturing GDP (representing 22.7% of total production activity) expanded by 2.7%, one percentage point less than in the previous year. Industrial maquila services, by contrast, increased significantly (5.1%), after four years of continuous decline.

The construction sector contracted by 6% as a result of lower private investment in housing and, to a certain extent, the public sector's failure to use its entire allotted budget in some infrastructure projects. Mining experienced a significant slowdown, with 1.7% growth, five percentage points lower than in 2007. Activity in basic services and other services increased by 2.6% and 1.6%, respectively, nearly 2.5 percentage points less than in 2007.

The economy showed clear signs of slowing in the first few months of 2009, and may fall into recession. In March, economic activity measured on the basis of the volume of cycle-trend activity decreased by 6.2% year-on-year, a decline of 10 percentage points with respect to the growth rate of the same month in the previous year. This was the result of the slowing of the mining and quarrying, construction, commerce and transportation sectors.

(b) Prices, wages and employment

Inflation stood at 5.5% in 2008, half a percentage point above the 2007 level. This was the result of higher international prices for oil and food, which pushed up the prices of other goods and services until August 2008, when year-on-year inflation rose to 9.9%. In May 2009, year-on-year inflation stood at 1.2%, seven percentage points below the level recorded a year earlier.

The minimum wage rose by 5%, on average, for all economic activities except the maquila sector in 2008. Nevertheless, the average real minimum wage fell by 2%. The government has offset price hikes by subsidizing rates charged for electric power, liquefied natural gas, water and public transport. In January 2009, the average minimum wage was raised once again by a nominal 7.5%, for both agricultural and non-agricultural workers except those in the maquila industry.

Preliminary data indicate that the open unemployment rate was 5.9% in 2008, down from 6.3% in 2007. Many workers were laid off, however, particularly in the construction and maquila sectors. There may be significant job losses in 2009, with serious social repercussions. The Salvadoran Social Security Institute had 590,000 contributors in September 2008, but by March 2009 35,000 formal-sector jobs had been lost.

(c) The external sector

Despite the global economic crisis, goods exports by El Salvador continued to be robust in 2008, in part because the country's economic performance lagged behind that of the United States. At 14.2%, the increase in goods exports was nearly twice that seen in 2007, mainly on account of the higher volume exported to countries other than the United States. Non-traditional exports grew by 19%, while traditional exports posted a 29% increase, in part because of the favourable price effect. As in 2007, maquila exports (42.4% of total exports) continued to grow, increasing by 6.9%. Services exports (travel and transportation, among others) barely rose (1.1%), down from 4.7% growth in 2007. Total goods imports expanded by 12%. Intermediate and consumer goods imports rose by 26.4% and 5.4%, respectively, whereas those of capital goods decreased by 1.7%, owing to the economic crisis and the consequent lack of investment incentives. Services imports increased by 15%, one percentage point less than in 2007. In 2009, exports and imports are expected to decrease by 15% and 20%, respectively.

The oil bill rose to US$ 1.865 billion in 2008, equivalent to 8.4% of GDP (1.5 percentage points more than in 2007) and was equivalent to 17% of all goods

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	2.2	1.7	2.3	2.3	1.9	3.1	4.2	4.7	2.5
Per capita gross domestic product	0.2	-0.2	0.4	0.5	0.1	1.3	2.4	2.9	0.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-3.1	-2.6	0.4	0.9	2.8	4.9	7.5	8.6	7.3
Mining and quarrying	-4.7	11.7	5.5	3.5	-16.0	2.6	4.9	6.5	1.7
Manufacturing	4.1	4.0	2.9	2.2	1.0	1.5	3.2	3.7	2.7
Electricity, gas and water	-2.3	4.7	7.3	4.4	3.4	4.4	4.6	2.4	2.6
Construction	-3.4	9.6	6.7	3.2	-9.8	3.4	5.5	1.2	-6.0
Wholesale and retail commerce, restaurants and hotels	3.6	1.9	1.5	2.7	2.4	4.4	4.4	5.3	1.4
Transport, storage and communications	6.1	4.3	5.0	3.4	5.4	5.4	5.1	5.1	2.6
Financial institutions, insurance, real estate and business services	3.0	-0.8	2.7	2.6	2.5	2.7	3.0	3.6	1.6
Community, social and personal services	1.1	-0.3	-0.6	0.5	1.3	0.3	2.4	2.9	2.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.7	3.2	1.5	1.9	2.9	4.1	4.6	6.9	4.1
Government consumption	0.9	4.6	0.1	-0.3	1.1	1.8	2.8	1.1	1.8
Private consumption	3.9	3.1	1.6	2.1	3.0	4.3	4.8	7.3	4.2
Gross domestic investment	2.7	5.1	-2.7	7.8	-3.9	2.4	7.3	6.0	-5.3
Exports (goods and services)	16.8	-0.2	6.0	4.7	5.7	3.8	8.1	3.9	6.9
Imports (goods and services)	14.5	4.2	1.5	4.8	4.1	5.0	8.4	8.1	5.4
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	16.9	16.7	16.4	17.0	16.2	15.7	16.1	16.1	15.0
National saving	13.6	15.6	13.6	12.3	12.2	12.4	12.5	10.3	7.7
External saving	3.3	1.1	2.8	4.7	4.0	3.3	3.6	5.8	7.2
					Millions of dollars				
Balance of payments									
Current account balance	-431	-150	-405	-702	-628	-569	-671	-1 183	-1 596
Goods balance	-1 740	-1 933	-1 865	-2 287	-2 660	-2 938	-3 533	-4 105	-4 394
Exports, f.o.b.	2 963	2 892	3 020	3 153	3 339	3 447	3 759	4 039	4 611
Imports, f.o.b.	4 703	4 824	4 885	5 439	6 000	6 385	7 291	8 144	9 004
Services trade balance	-235	-250	-240	-107	-64	-87	-79	-252	-498
Income balance	-253	-266	-323	-423	-458	-579	-531	-576	-536
Net current transfers	1 797	2 298	2 023	2 114	2 555	3 035	3 472	3 750	3 832
Capital and financial balance [d]	385	-27	282	1 019	575	510	742	1 463	1 930
Net foreign direct investment	178	289	496	123	366	398	268	1 408	719
Other capital movements	207	-316	-214	895	209	112	475	55	1 211
Overall balance	-46	-178	-124	316	-52	-59	72	280	334
Variation in reserve assets [e]	46	178	124	-316	53	59	-72	-280	-334
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	99.7	99.7	100.2	98.9	101.0	101.4	102.7	103.7
Terms of trade for goods (index: 2000=100)	100.0	102.5	101.6	97.7	96.8	96.8	95.5	94.6	91.0
Net resource transfer (millions of dollars)	131.9	-293.1	-41.8	595.4	117.4	-68.9	211.5	887.4	1 393.7
Gross external debt (millions of dollars) [g]	2 831	3 148	3 987	7 917	8 211	8 761	9 586	9 075	9 711
					Average annual rates				
Employment									
Labour force participation rate [h]	52.2	53.3	51.2	53.4	51.7	52.4	52.6	62.1	62.7
Open unemployment rate [i]	6.7	7.0	6.2	6.9	6.8	7.8	6.6	6.3	5.9
Visible underemployment rate [j]	3.7	3.8	4.3	4.8	4.5	6.2	4.9	5.3	6.3
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	4.3	1.4	2.8	2.5	5.4	4.3	4.9	4.9	5.5
Variation in wholesale prices (December-December)	4.9	-4.8	4.9	-0.6	13.0	6.9	0.6	13.9	-6.0
Variation in real minimum wage	-2.2	-3.6	-1.8	2.1	-1.4	-4.5	-0.7	2.5	0.2
Nominal deposit rate [k]	6.5	5.5	3.4	3.4	3.3	3.4	4.4	4.7	4.2
Nominal lending rate [l]	10.7	9.6	7.1	6.6	6.3	6.9	7.5	7.8	7.9

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Non-financial public sector									
Total income [m]	15.8	14.9	15.5	16.2	16.3	16.3	17.4	18.0	18.2
Current income	14.9	14.4	14.7	15.7	16.0	16.0	17.1	17.7	17.9
Tax income	12.4	12.3	13.0	13.3	13.3	14.1	15.0	15.0	14.6
Capital income	0.1	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure [n]	18.8	18.5	18.8	18.3	16.9	17.4	18.4	18.2	19.2
Current expenditure	15.5	14.0	13.9	14.6	14.6	14.6	15.3	15.4	16.2
Interest	1.5	1.4	1.7	2.0	2.1	2.2	2.4	2.5	2.3
Capital expenditure	3.3	4.5	4.9	3.7	2.3	2.8	3.1	2.8	3.0
Primary balance	-1.5	-2.2	-1.6	-0.0	1.5	1.1	1.4	2.2	1.3
Overall balance	-3.0	-3.6	-3.3	-2.1	-0.6	-1.1	-1.1	-0.2	-1.0
Non-financial public sector debt	30.0	33.6	38.6	40.3	40.5	39.7	39.7	36.6	35.7
Domestic	9.6	11.7	11.6	11.4	12.0	12.7	10.7	10.6	11.3
External	20.4	21.9	27.0	28.9	28.6	27.1	28.9	25.9	24.5
Money and credit [o]									
Domestic credit	...	40.4	42.1	40.1	39.4	38.4	38.3	38.7	36.9
To the public sector	...	1.5	0.9	0.9	1.0	1.3	0.6	1.4	1.7
To the private sector	...	40.2	44.5	42.3	42.1	42.3	42.5	42.1	40.8
Currency outside banks and local-currency deposits (M2)	...	-1.3	-3.4	-3.1	-3.7	-5.2	-4.8	-4.8	-5.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Figures up to 2002 refer to public external debt. From 2003 onward, figures refer to total external debt
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Unemployed as a percentage of the economically active population; nationwide total.
[j] Underemployed as a percentage of the economically active population; urban total.
[k] Reference rate for deposits of up to 180 days in the financial system.
[l] Reference rate for 1-year loans in the financial system.
[m] Includes grants.
[n] Includes net lending.
[o] The monetary figures are end-of-year stocks.

and services imports.[1] The consequences included a deterioration in the terms of trade for goods and services (-3.7%) for the sixth straight year. This trend may be reversed in 2009 if the global economic crisis leads to lower relative prices for imported goods. In 2008, moreover, the real exchange rate continued to appreciate (3%), which eroded its competitiveness in the United States market.[2]

Exports to the rest of Central America increased by 21.3% in 2008, compared with a 10.6% increase in exports to the rest of the world (64.2% of total exports). The country's imports from Central America climbed by 14.1% and those from the rest of the world increased by 11.5%.

The Dominican Republic-Central America-United States Free Trade Agreement took effect on 1 March 2006. Three years later, in 2008, exports from El Salvador to the United States (48.8% of total exports), including from the maquila sector, rose by 9% over 2007. As imports also increased (by 6.5%), El Salvador's trade deficit with the United States remained (0.7% of GDP).

The economy once again benefited substantially from inflows of family remittances (US$ 3.788 billion), although their growth rate fell to 2.5% (from 6.5% in 2007) because of the economic crisis in the United States. Remittances covered 77.4% of the trade deficit, and were equivalent to 22% of GDP. The balance-of-payments current account deficit rose to 7.2% of GDP, 1.5 percentage points higher than in 2007. In 2009, these inflows are expected to decline as a result of the economic crisis, tougher immigration policy and falling employment of Hispanics in the United States. This casts doubt on the ability of remittances to offset the country's large trade balance deficit in a sustained manner. In the first five months of 2009, remittances were down 10%.

Revenue from the 1,875,000 tourists who visited the country in 2008 was US$ 734 million (3.3% of GDP),

1 The oil bill refers to imports of crude oil and derivative products.
2 The real exchange rate refers to the nominal exchange rate deflated by the ratio between the price index of El Salvador and that of the United States.

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4,2	4,6	4,8	4,9	3,4	2,9	2,2	1,8	-1,5	...
Goods exports, f.o.b. (millions of dollars)	975	963	1 063	983	1 055	1 249	1 195	1 050	968	...
Goods imports, c.i.f. (millions of dollars)	2 009	2 229	2 222	2 252	2 309	2 660	2 598	2 187	1 763	...
Gross international reserves (millions of dollars)	1 911	2 144	2 420	2 198	2 275	2 305	2 263	2 545	2 524	2 788
Real effective exchange rate (index: 2000=100) [c]	100,7	102,7	102,8	103,8	104,8	105,8	104,5	99,6	98,0	99,2 [d]
Consumer prices (12-month percentage variation)	5,1	3,7	4,3	4,9	6,0	9,0	8,7	5,5	3,3	0,2
Average nominal exchange rate (colones per dollar)	8,75	8,75	8,75	8,75	8,75	8,75	8,75	8,75	8,75	8,75
Nominal interest rates (annualized percentages)										
Deposit rate [e]	4,9	5,0	4,6	4,4	3,8	3,8	4,2	5,0	6,8	9,5
Lending rate [f]	7,8	7,8	7,8	7,9	7,6	7,3	7,5	9,1	8,1	4,9
Domestic credit (variation from same quarter of preceding year)	7,8	9,5	8,2	10,4	10,3	11,4	11,6	3,5	0,4	-1,5 [d]
Non-performing loans as a percentage of total credit	2,1	2,1	2,1	2,1	2,4	2,4	2,8	2,9	3,2	3,7 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Reference rate for deposits of up to 180 days in the financial system.
[f] Reference rate for 1-year loans in the financial system.

but was still less than the total amount of FDI inflows. The economic crisis is expected to have a substantial, adverse effect on tourism in 2009 and cause revenue to fall by about 10%.

The financial account posted a positive balance of US$ 1.634 billion as a result of the US$ 784 million in FDI (3.5% of GDP), stemming, in turn, from sales of telecommunication assets (which accounted for 68% of all FDI) and investment in the financial, commercial and services sectors, the maquila industry and mining. Nevertheless, the country faces the challenge of attracting more foreign investment and domestic private investment; meeting this challenge in the global economic crisis in 2009 will not be easy.

Guatemala

1. General trends

Real GDP growth in Guatemala stood at 4.0% in 2008, down from 6.3% in 2007, reflecting lower investment and slower growth in private consumption. Because of the economic crisis in the United States, family remittances declined to the equivalent of 11.3% of GDP, although they still helped finance the sizeable trade deficit (15.3% of GDP). In addition, the balance-of-payments current account deficit (4.8% of GDP) was once again financed by rising foreign direct investment (FDI). Higher world oil and food prices in the first half of the year pushed inflation up to 9.4% for the year. The tax burden was equivalent to 11.3% of GDP —one percentage point less than in 2007— increasing the central government deficit to 1.6% of GDP, slightly above the 2007 level.

In January 2008, the country's newly inaugurated president, Álvaro Colom, promised to maintain macroeconomic stability and place greater emphasis on social policy and rural development. In his first year and a half in office, Colom has had relative success in keeping a lid on inflation despite external shocks. Nevertheless, both economic growth and fiscal performance have been threatened by the global financial crisis. The challenge will be to reach a consensus on legal regulations that will make greater fiscal resources available to respond to the urgent social as well as economic needs that the country faces as a result of the global recession.

In 2009, the Guatemalan economy has been hurt by the recession in the United States. Falls in exports, family remittances, investment and fiscal revenue have had a significant adverse impact on employment. On the domestic front, growth in the construction and agricultural sectors is expected to diminish. In 2009, in the light of this adverse context, the Economic Commission for Latin America and the Caribbean (ECLAC) expects a 1% decline in GDP, an inflation rate of around 5% and a central government deficit equivalent to 3.9% of GDP. At the beginning of the year, the National Economic Emergency and Recovery Programme (PNERE) was launched to mitigate the adverse consequences of the crisis.

2. Economic policy

(a) Fiscal policy

As a result of the economic slowdown, total government revenue in 2008 was 5.3% lower in real terms than in the previous year. Tax receipts declined by 5.2% following a decline in receipts from indirect revenue (-7.3%), in particular revenue from import taxes, which dropped by 18%. Direct taxes rose by 0.5%, also in real terms, despite a 0.1% decrease in income-tax receipts. The tax burden fell to 11.3% of GDP, almost one percentage point lower than in 2007.

Total spending contracted by 3.2% in real terms. Current spending decreased 1.8% —led by external interests (-20.3%)— as did spending on education, health and social welfare (-15.7%). Capital expenditure also declined (5.9%), with a particularly sharp fall in the "other capital expenditure" component (-13.5%). As a result, the central government deficit rose slightly to 1.6% of GDP, compared with 1.4% in 2007.

In 2008, the external public debt increased by 3.7% over its 2007 level, and at the close of December it stood at 11.3% of GDP. The domestic debt grew by 8.3%, to stand at 8.9% of GDP at year-end. The ratio of total debt to GDP improved, declining from 21.4% in 2007 to 20.2% in 2008. In 2009, however, it is expected to rise to 21.5% of GDP because of new borrowing to mitigate the consequences of the global economic crisis.

At the end of 2008, the congress adopted a solidarity tax to replace the extraordinary tax imposed temporarily to support the peace agreement. In addition, in the first few months of 2009, congress began to discuss the application of a specific tax on the first registration of imported vehicles, to replace import tariffs, as well as an income tax reform bill, to be implemented in stages. Efforts are continuing to improve tax administration in order to reduce evasion.

Starting in the second half of 2008, the government rolled out a series of measures in response to the global economic crisis, such as a temporary, moderate reduction of the legal reserve requirement in order to increase liquidity in the financial system and strengthen support programmes for SMEs and the Mi Familia Progresa programme. In January 2009, it launched the National Emergency Economic Recovery Programme.

Between late 2008 and early 2009, following negotiations with international financial organizations, the country received loan disbursements from the World Bank (US$ 200 million) and the Inter-American Development Bank (IDB) (US$ 650 million), as well as contingent funding from the International Money Fund (US$ 950 million), to be used to finance various development programmes and cope with the consequences of the economic crisis.

In 2008, international credit-rating agencies changed their outlook for the long-term sovereign debt of Guatemala from positive to stable. In 2009, given the adverse economic effects of the crisis, these agencies are expected to further downgrade the country's credit ratings.

In May 2009, in response to the effects of the global economic crisis and the possibility of a 2% drop in tax receipts as a percentage of GDP, and in order to ensure prudent management of the fiscal deficit, the authorities adjusted the budget in line with the Rules for Adjusting the Budget Performance in Fiscal Year 2009. Clearly, the size and effectiveness of the anti-crisis measures adopted will largely depend on the amount of funds available to the government. The risk is that, if the available resources are insufficient, the initially programmed budget of four billion quetzals will not be executed.

(b) Monetary and exchange-rate policy

Until July 2008, rising international prices for petroleum and petroleum products and food led to a year-on-year inflation rate of 9.4 %, well above the 4%-7% target range. To hold down inflationary pressure and as part of the adoption of explicit inflation targets, the monetary authorities raised the interest rate on seven-day deposit certificates from 6.5% in 2007 to 7.25% in December 2008. This measure brought down inflation at the end of 2008, but also led to a slowdown in economic activity. Between January and April 2009, in a bid to reactivate the economy, the central bank therefore lowered its monetary-policy rate in several steps, to 5.75%. This rate is expected to continue to decline for the rest of 2009.

In 2008, the nominal dollar-quetzal exchange rate was volatile because of the worsening international financial crisis and the possibility that sources of external financing might dry up, and this led the central bank to intervene in the foreign-exchange market. Even so, in late 2008 the bilateral real exchange rate with the dollar appreciated by 8.3% compared with the average rate for 2007, while international reserves increased by 20.5% to US$ 3.6 billion (equivalent to three months of goods and services imports). Moreover, the real effective exchange rate (with all trading partners) appreciated by 6.4%.

In February 2009, the Monetary Board changed the rule on exchange-rate intervention in order to afford the Bank of Guatemala greater discretion to offset the unusual volatility of the nominal exchange rate. The Board also authorized the central bank to supply liquidity to banks in the system for as much as US$ 290 million up to 31 May 2009. In addition, the margin of fluctuation of the moving average of the flexible exchange-rate system was broadened from 0.50% to 0.75%.

In 2008, the year-on-year increase in the money supply (M1) was 3.2%, while for M2 it was 6.4%. Broad money (M3) increased by 7.6%, as a result of the expansion of foreign-currency deposits (15.3%). These results point to the private sector's preference for safer assets in the light of insecurity, inflationary expectations and the possibility of exchange-rate instability.

Nominal lending rates rose as high as 13.4%, while average nominal borrowing rates climbed from 4.9% in 2007 to 5.2% in 2008. Nonetheless, the latter were negative in real terms (-5.6%). The year-on-year increase in private-sector credit was 11%, half the previous year's figure and below the estimated target of between 14.6% and 17.6%. In addition, lending to the public sector decreased by 39%.

Several banks have merged in the last three years, strengthening their creditworthiness in the banking system. This trend continued in 2008 and the number of banking institutions declined from 21 in December 2007 to 19 in 2008. In December 2008, the country's banks reported an increase in non-performing loans in proportion to all lending (from 1.6% in 2007 to 2.4% in 2008), against a backdrop of the higher cost of financing and greater difficulties in obtaining it.

(c) Trade policy

Trade policy remained focused on projects and negotiations begun in previous years. A free trade agreement was signed with Panama in February 2008, and trade negotiations continued with Canada and Chile. During 2008 and the first half of 2009, Guatemala took part in talks for an association agreement between Central America and the European Union. These negotiations are expected to conclude in 2009.

President Álvaro Colom, of the Unidad Nacional de la Esperanza (UNE) party, has so far found it difficult to reach agreements with congress on the budget and debt, which have taken on particular importance owing to the urgent need to mitigate the adverse effect of the global economic crisis. These difficulties are partly due to the fact that congress is politically divided, with the ruling party holding only 51 of 158 seats.

3. The main variables

(a) Economic activity

Per capita GDP rose 1.5% in 2008, compared with a 4.0% increase in real GDP which was driven by consumption (up 4.3%), in particular a strong surge in public consumption (8.5%). By contrast, gross fixed investment contracted for the first time since 2000, by 6.2%.

Output was sluggish in nearly every sector, falling in real terms in some cases. The supply of basic services increased by 14%, four percentage points less than in 2007. Other sectors, such as commerce, restaurants, finance and social and community services, grew at an rate of 4.6% overall. Agriculture was up by 2%, four percentage points less than the previous year. Output of both traditional and non-traditional crops rose by close to 2% in comparison with a 3% increase in livestock, forestry and fishing. Industrial growth remained modest (2.4%) and the construction sector was 3.6% down because of slowing private-sector projects and the deteriorating business climate. Mining output fell by 0.8% in 2008, after posting strong growth in 2007 (13.9%).

The monthly index of economic activity reflected a gradual but steady slowing from mid-2008, although in April 2009 it posted a year-on-year increase of 1.3%. A year earlier, the corresponding increase had been 4.2%. ECLAC expects that the worsening impact of the global economic crisis will translate into a 1% drop in real GDP in 2009.

(b) Prices, wages and employment

In December 2008, the year-on-year inflation rate stood at 9.4%, seven tenths of a percentage point higher than in 2007. The reason for this was high international petroleum and food prices that persisted until July, which led to rising prices for other goods and services. Particularly noteworthy were the increases in the prices of food and non-alcoholic beverages (12.4%) and of transportation and communication (10.5%). The government set an inflation target for 2009 of 4.5%-6.5%. As of May 2009, year-on-year inflation was 2.3%.

In 2008, although average minimum wages rose by 5.7%, average real wages declined by 2.6%. In early 2009, minimum wages were raised by 10.7% for both farm and non-farm workers, except in the maquila industry. In March 2008, the Ministry of Labour and Social Security estimated the national unemployment rate at 5.5%. No official information has since been released. Analysts estimate that in 2009 the unemployment rate will be close to 7% owing to the slowdown in production.

(c) The external sector

In 2008, despite slight growth in absolute terms, the goods and services deficit declined in proportion to GDP by two percentage points, from 17% in 2007 to 15.3%.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	3.6	2.3	3.9	2.5	3.2	3.3	5.4	6.3	4.0
Per capita gross domestic product	1.2	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	1.5
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	2.6	1.2	5.4	2.5	4.2	2.1	1.3	5.9	2.0
Mining and quarrying	-8.5	0.8	16.0	-6.0	-11.9	-3.2	17.6	13.9	-0.8
Manufacturing	1.9	1.1	1.1	2.5	4.9	2.6	2.8	4.0	2.4
Electricity, gas and water	17.4	-3.0	5.1	4.9	3.6	2.7	3.0	6.3	2.2
Construction	-18.3	12.2	15.4	-3.7	-8.9	4.5	13.1	8.8	-3.6
Wholesale and retail commerce, restaurants and hotels	4.1	2.7	2.0	1.5	3.1	3.2	3.9	4.0	3.3
Transport, storage and communications	7.6	6.8	7.8	10.0	15.4	11.3	18.6	22.9	18.2
Financial institutions, insurance, real estate and business services	3.1	0.3	5.0	5.9	5.5	5.3	6.0	5.5	6.0
Community, social and personal services	4.6	3.5	3.1	1.4	0.5	2.3	5.4	6.0	4.8
Gross domestic product, by type of expenditure									
Consumption	4.2	4.0	9.9	8.5	9.6	11.3	10.6	13.9	14.8
General government	10.4	5.4	6.2	6.4	-0.1	5.5	9.2	17.8	15.0
Private	3.5	3.8	10.3	8.8	10.7	11.9	10.7	13.6	14.8
Gross domestic investment	-8.8	1.8	16.6	3.6	7.5	8.8	21.6	10.9	3.0
Exports (goods and services)	3.8	-4.0	3.1	5.0	14.5	1.3	10.1	15.1	14.4
Imports (goods and services)	6.0	6.9	6.3	8.3	14.6	6.2	13.1	14.9	12.9
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	20.1	19.7	20.6	20.3	20.8	19.7	20.8	20.7	18.7
National saving	14.0	13.2	14.5	15.6	16.0	15.2	15.8	15.5	13.9
External saving	6.1	6.5	6.1	4.7	4.9	4.6	5.0	5.2	4.8
					Millions of dollars				
Balance of payments									
Current account balance	-1 049	-1 211	-1 262	-1 020	-1 165	-1 241	-1 524	-1 786	-1 863
Goods balance	-1 599	-2 212	-2 837	-2 960	-3 632	-4 191	-4 852	-5 487	-5 574
Exports, f.o.b.	3 961	4 111	4 224	4 526	5 105	5 460	6 082	6 983	7 848
Imports, f.o.b.	5 560	6 322	7 061	7 486	8 737	9 650	10 934	12 470	13 422
Services trade balance	-109	-146	-251	-263	-244	-142	-260	-310	-370
Income balance	-209	-68	-275	-303	-410	-485	-680	-843	-929
Net current transfers	868	1 215	2 102	2 506	3 122	3 577	4 268	4 854	5 010
Capital and financial balance [d]	1 703	1 686	1 269	1 554	1 769	1 479	1 776	2 002	2 195
Net foreign direct investment	230	488	183	218	255	470	552	720	822
Other capital movements	1 474	1 198	1 085	1 337	1 514	1 009	1 225	1 283	1 374
Overall balance	654	475	7	535	604	239	252	216	333
Variation in reserve assets [e]	-654	-475	-7	-535	-604	-239	-252	-216	-333
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	96.2	88.6	88.8	85.7	79.3	76.9	76.3	72.2
Terms of trade for goods (index: 2000=100)	100.0	96.7	95.8	93.0	92.1	91.3	89.6	87.9	85.6
Net resource transfer (millions of dollars)	1 494	1 618	993	1 251	1 359	995	1 096	1 160	1 266
Gross external public debt (millions of dollars)	2 644	2 925	3 119	3 467	3 844	3 723	3 958	4 226	4 382
					Average annual rates				
Employment									
Labour force participation rate [g]	...	...	61.5	61.4	56.1	...	...	...	...
Open unemployment rate [h]	...	...	5.4	5.2	4.4	...	...	...	...
Prices					Annual percentages				
Variation in consumer prices (December-December)	5.1	8.9	6.3	5.9	9.2	8.6	5.8	8.7	9.4
Variation in nominal exchange rate (annual average)	5.1	1.2	-0.5	1.5	0.1	-3.8	-0.5	0.9	-1.5
Variation in average real wage	3.8	0.5	-0.9	0.4	-2.2	-4.0	-1.1	-1.6	-2.6
Nominal deposit rate [i]	10.2	8.8	7.1	5.2	4.5	4.6	4.7	4.9	5.2
Nominal lending rate [j]	20.9	19.0	16.9	15.0	13.8	13.0	12.8	12.8	13.4

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Percentages of GDP								
Central administration									
Total income	12.3	12.4	12.8	12.5	12.3	12.0	12.7	12.9	12.1
Tax income	11.5	11.1	12.2	11.9	11.8	11.5	12.1	12.3	11.6
Total expenditure	14.3	14.5	13.9	15.1	13.4	13.7	14.7	14.3	13.7
Current expenditure	10.2	10.3	9.7	10.1	9.2	9.1	9.4	9.5	9.2
Interest	1.4	1.6	1.4	1.3	1.4	1.4	1.4	1.5	1.4
Capital expenditure	4.1	4.2	4.2	5.1	4.3	4.6	5.3	4.8	4.5
Primary balance	-0.6	-0.6	0.3	-1.3	0.3	-0.3	-0.6	0.0	-0.3
Overall balance	-2.0	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6
Central-government public debt	19.0	20.2	18.4	20.9	21.4	20.8	21.7	21.4	20.2
Domestic	6.5	6.3	5.0	6.3	6.7	7.9	8.8	9.3	8.9
External	12.5	13.9	13.3	14.6	14.7	12.8	12.9	12.1	11.3
Money and credit [k]									
Domestic credit	19.1	18.3	18.1	18.4	17.7	21.0	25.4	27.7	26.6
To the public sector	-2.5	-3.8	-3.1	-2.9	-3.9	-2.9	-2.3	-2.6	-2.8
To the private sector	19.8	20.6	20.0	20.4	20.9	23.2	27.1	30.0	29.1
Others	1.7	1.5	1.1	0.9	0.7	0.6	0.7	0.4	0.4
Liquidity (M3)	30.3	32.1	31.7	33.5	34.0	35.7	37.8	37.1	35.4
Currency outside banks and local-currency deposits (M2)	30.3	30.7	29.6	30.7	30.3	31.8	33.6	32.4	30.5
Foreign-currency deposits	0.1	1.4	2.0	2.8	3.7	3.9	4.2	4.7	4.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] From 2001 onward, based on figures in local currency at constant 2001 prices. Year 2000, based on figures in local currency at constant 1958 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Average rate for deposits in the banking system.
[j] Average rate for loans in the banking system.
[k] The monetary figures are end-of-year stocks.

The balance-of-payments current account deficit stood at 4.8% of GDP, almost half a percentage point less than in the previous year. The terms of trade once again deteriorated (by 2.7%), as had occurred over the past five years. For 2009, it is expected that both exports and imports will decrease by about 10%, the current account deficit will be close to 3% of GDP and the terms of trade will improve, as the global economic crisis causes the international price of oil and prices for some imported goods to fall.

As a consequence of the global economic crisis, goods exports in 2008 increased at a lower rate than in the previous year, but even so they grew by 12.4%, principally owing to the strong showing of traditional exports such as cardamom (51.7%), petroleum (50%) and coffee (12%). This result was due to significant price increases, given that export volumes rose only slightly. Non-traditional exports grew at a rate of 10.5%, one and a half percentage points lower than in 2007. The products most favoured by higher prices included foodstuffs (30.6%) and vegetables (21.5%). External sales to the rest of Central America continued to rise (20.1%), while those to the rest of the world climbed by 9.4%, four percentage points less than in 2007.

Imports grew at a lower rate: 7.6% in 2008 compared with 14.0% in 2007. The main factor in this decline was intermediate goods purchases (12.6%). Particularly significant was the increase in fuel and food prices up to mid-2008. The oil bill accounted for 16.7% of all purchases (7.2% of GDP). Purchases of consumer goods increased by 3.4%, far less than in 2007 (14.2%). Capital goods purchases declined by 3.9%.

The deficit in non-factor services totalled US$ 370 million, as a result of high income from other services and tourism. The negative income balance rose to 10% owing to the increase in repatriated profits (US$ 886 million) and interest paid (US$ 494 million). Current transfers —mostly family remittances— continued to mitigate the deficit in factor and non-factor services. In 2008, remittances totalled US$ 4.315 billion, a 4.5% year-on-year increase compared with the 14% increase in 2007. Remittances are expected to decline in 2009 because of falling employment among Hispanics in the United States.

The financial and capital accounts showed a positive net balance of US$ 2.195 billion. Foreign direct investment increased once again (14.16%), although it remained modest in proportion to GDP (2.1%), and targeted the communications, banking and retail sectors. Net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments had a positive balance of US$ 333 million. Nevertheless, in 2009 the situation will be much more difficult, as the adverse effects of the recession become more pronounced; hence, the balance-of-payments current account deficit is expected to decrease.

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.5	7.0	7.2	6.6	4.3	4.3	2.6	3.3	0.1	...
Goods exports, f.o.b. (millions of dollars)	1 711	1 829	1 697	1 661	1 879	2 111	2 069	1 706	1 886	...
Goods imports, c.i.f. (millions of dollars)	3 164	3 236	3 526	3 650	3 489	3 997	3 822	3 237	2 626	...
Gross international reserves (millions of dollars)	4 250	4 489	4 275	4 310	4 338	4 771	4 745	4 659	5 030	...
Real effective exchange rate (index: 2000=100) [c]	76.8	77.4	77.2	77.2	76.0	73.3	71.2	68.2	71.1	73.9 [d]
Consumer prices (12-month percentage variation)	7.0	5.3	7.3	8.7	9.1	13.6	12.7	9.4	5.0	0.6
Average nominal exchange rate (quetzals per dollar)	7.4	7.8	7.9	7.8	7.9	7.6	7.6	7.7	0.0	7.7
Nominal interest rates (annualized percentages)										
Deposit rate [e]	4.9	4.9	4.9	4.9	5.0	5.1	5.3	5.4	5.6	5.7
Lending rate [f]	12.9	12.8	12.7	12.9	12.9	13.3	13.6	13.8	13.9	13.8
Domestic credit (variation from same quarter of preceding year)	31.6	22.3	24.5	23.8	19.5	15.2	8.6	8.5	...	...
Non-performing loans as a percentage of total credit	2.4	2.2	1.9	1.6	2.9	2.6	2.6	2.3	2.6	3.2 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] IMAE - variación anual del promedio trimestral.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Average rate for deposits in the banking system.
[f] Average rate for loans by the banking system.

Honduras

1. General trends

The Honduran economy grew by 4.0% in 2008, 2.3 percentage points below the 2007 figure. Growth varied significantly by sector. The most buoyant sectors were financial intermediation (18.1%) and communications (14%). Year-on-year inflation stood at 10.8%, driven mainly by rising international prices for food and petroleum.

The open unemployment rate dropped from 3.1% in May 2007 to 3.0% in May 2008, while the nationwide underemployment rate remained high at 28%. At the end of 2008 the central government showed a deficit equivalent to 2.3% of GDP, which was 0.6 percentage points smaller than in 2007. The current account deficit jumped to 13.8% of GDP, surpassing the previous year's figure by 3.5 percentage points. This result reflects the economy's vulnerability to external shocks.

Overall, the economic context during the first seven months of 2008 was characterized by rising food and fuel prices, which translated into inflationary pressure and an expansion of imports. The impact of the international financial crisis in the second semester was reflected in a downturn in exports and a slowdown in family remittances, with negative repercussions on private consumption.

According to ECLAC projections, real GDP will contract by 2.5% in 2009, owing to slowing imports, declining flows of foreign direct investment (FDI) and remittances and the deterioration of employment. As a result, poverty is expected to increase. Given the sharp drop in imports, the balance-of-payments current account deficit is expected to shrink considerably.

Presidential elections are due to be held in Honduras in November 2009.

2. Economic policy

In 2008 and up to April 2009, economic policy in Honduras was conducted within the framework of the stand-by agreement signed with the International Monetary Fund (IMF), which seeks to maintain the conditions necessary for sustained growth and reduce poverty by consolidating macroeconomic stability.

In the 2008 budget, the target for the combined public sector deficit was set at 1.5% of GDP. A ceiling of 6.5% of GDP was placed on public investment spending and a floor of 7% of GDP was set for spending on anti-poverty programmes. A further goal was established to reduce the current account deficit to 6% of GDP in the medium term. Meeting these goals, however, has been no simple matter given the impact of the international financial crisis and the resulting global slowdown, combined with rising international food and fuel prices.

(a) Fiscal policy

The central-government fiscal deficit dropped to 2.3% of GDP in 2008, compared with 2.9% in 2007. This positive result can be partially attributed to total revenues

(19.3% of GDP), which rose at a slightly faster pace than total expenditures (21.7% of GDP).

Central government real total expenditure rose by 2.3%, which was considerably less than the figure for 2007 (21.6%). The increase was mainly a reflection of higher wages negotiated with a number of trade unions (teachers, doctors and nurses), and payroll spending expanded by US$ 159.8 million. Those wage hikes were smaller than those observed the previous year, however.

Total central government revenues increased by 5.1% in real terms, which partially reflected the effects of new legislation on tax evasion in 2008 and improvements in tax collection. Nonetheless, tax revenues fell 1.2% in real terms given the slowdown in economic activity which translated into smaller corporate profits.

At the end of 2008 external debt had risen by US$ 300 million and surpassed the figure for 2007, owing to higher outlays by multilateral lenders. This increase was offset by US$ 485 million in principal payments and an adjustment for exchange-rate fluctuations.

Since May 2009, the government has been in talks with IMF to renegotiate the stand-by agreement which expired in April. These negotiations are taking place without congress having approved the 2009 budget and the government is currently operating under the 2008 budget.

The fiscal situation is likely to deteriorate as a result of falling revenues in 2009 and increasing government commitments to address the financial crisis. Tax receipts for 2009 will be hurt by the economic slowdown, along with decreasing tariff revenues from slackening trade and commitments to reduce tariffs under the Dominican Republic-Central America - United States Free Trade Agreement (CAFTA-DR). Lastly, the fact that Honduras has an existing agreement with IMF could hamper its ability to access external financing to address the financial crisis and the adverse effects of the global economic slowdown.

(b) Monetary and exchange-rate policy

Monetary policy was steered in response to two distinct periods in 2008: the first characterized by rising food and fuel prices and the second marked by the global economic slowdown. In order to mitigate the inflationary pressures associated with rising international prices, the Central Bank of Honduras raised the monetary policy rate from 7.5% to 9.0% in the first seven months of 2008.

The central bank also increased the mandatory investment rate for institutions in the financial system from 4% to 9% in 2008. National banks could comply with this requirement in two ways: (a) up to five percentage points through holdings of Honduran government bonds for fiscal year 2008; and (b) up to two percentage points in new local-currency lending to basic grain producers and other strategic production sectors (agriculture, exports, maquila, housing construction and small and medium-sized enterprises).

A differentiated reserve requirement was also implemented for deposit liabilities in local and foreign currency. All deposit liabilities in local and foreign currency —except interbank operations and external debt— were made subject to a non-yield-bearing reserve requirement of 12%. Foreign-currency deposits were subject to an additional 24% reserve requirement that financial institutions must hold as investments in first-tier foreign banks.

At the same time, the legal reserve requirement to back loans for production activities in targeted sectors was cut to 0% for banks that reduced their consumer and commercial lending to under 80% of their total portfolio.

M1 expanded by only 1.8%, compared with 16.3% in 2007. Cash outside banks diminished, while deposits in checking accounts were up slightly. Local-currency liquidity (M2) recorded an increase of 2.5%, while broad liquidity (M3) was up by 4.9%. Foreign-currency deposits expanded by 10.1%, reflecting the substitution of local for foreign currency.

In order to maintain liquidity in the financial system and given the global economic crisis, in December 2008 the central bank shifted the focus of monetary policy and lowered the monetary policy rate to 7.75%. The rate was then reduced three more times in 2009 to stimulate lending to production activities and create jobs, taking it to 4.5% by April. On 26 March 2009 the central bank approved the 2009-2010 monetary programme, which sets forth the bank's strategy and policy measures and sets the inflation target for the year at 9% with a margin of one percentage point on either side.

Although Honduras has a flexible exchange rate regime, the exchange rate has been held steady since mid-2005 as an anchor against imported inflation. In 2008, the real bilateral exchange rate against the dollar rose by 6.8%, while the real effective exchange rate (with all the country's trading partners) was up by 3.9%. The external accounts have deteriorated, which could lead to a decrease in the nominal exchange rate.

(c) Trade policy

Trade policy in 2008 was focused on harnessing the benefits of CAFTA-DR, which came into force in 2006, offering Central American and Dominican exports preferential access to United States markets. This objective will remain in 2009. Another aim of trade policy will be the ongoing negotiations with the European Union, which should conclude in 2009, as well as the satisfactory resolution of disputes over bananas and coffee.

(d) Other policies

Measures were taken in January 2009 to help channel funds into the country's main production activities in order to increase credit for strategic sectors. The government announced the creation of a trust guaranteed by the Central Bank of Honduras and the Honduran Bank for Production and Housing in the amount of 10 billion lempiras (US$ 530 million). These funds will be channelled through private banks. Under this initiative, the construction, agriculture and maquila sectors will have access to seven-year loans at nominal annual rates of 10%, with a lower rate of 7% for micro-enterprises. Of the 10 billion lempiras, 40% are earmarked for construction, 20% for micro-enterprises and small firms and the rest for other activities. These funds are in addition to the 8.2 billion lempiras approved in 2008 for the reduction and elimination of the legal reserve requirement in lempiras and foreign currency.

In April 2009 the government announced a plan to address the effects of the global economic and financial crisis, building on and improving some existing measures and incorporating new initiatives. The abovementioned trust was created as an important means of channelling soft loans to production sectors. The government also identified the need to loosen loan requirements so private banks could make 22 billion lempiras available to the production sectors and, to that end, offered to share credit risk with the banking system and help banks to renegotiate overdue agricultural loans. The plan highlights the need to broaden credit to social sectors, aiming to provide some 3 billion lempiras in financial support for subsidized housing, micro-enterprises and SMEs and the agricultural sector. The plan also seeks to strengthen the financial system by guaranteeing an as yet undisclosed amount of savings deposits. This is expected to be achieved by capitalizing the Deposit Insurance Fund (FOSEDE) and creating a special fund to protect the financial system. There are additional plans to create a line of credit worth 900 million lempiras which would be used to make timely payments for public works and public services. Another 800 million lempiras will be allocated to vouchers to pay agricultural arrears and certification of urban plots.

Lastly, steps will be taken to expand transfers to vulnerable sectors through existing social protection networks and to increase public investment in road and energy infrastructure. The number of families receiving transfers will increase from 150,000 to 220,000, focusing on the poorest areas.

By mid-2009, however, only a fraction of the announced funds had been disbursed, owing partly to delays inherent in investment viability studies, which hamper the rapid extension of loans to the earmarked sectors.

3. The main variables

(a) Economic activity

In 2008 the Honduran economy grew by 4.0% in real terms, while per capita GDP increased by a mere 1.9%. Aggregate demand was up by 6.1% (8.7% in 2007) and private consumption and gross investment expanded by 7.1% and 13.6%, respectively. GDP growth also reflected a slowdown in gross fixed capital formation, which grew by 12.2%, or 7.2 percentage points less than in 2007. This translated into a slower growth rate for imports of machinery and equipment. Nevertheless, imports climbed by 8.8% and surpassed exports (2.6%), so that the external sector made a negative contribution to GDP growth.

Agriculture expanded by 3.4% and lost the buoyancy it had shown in recent years, mainly owing to smaller crop framing output. Manufacturing and construction also experienced slower growth than in 2007 (3.8% and 6.3%, respectively). The transport, storage and communications sector recorded double-digit expansion (10.9%) for the fifth straight year. Performance in other services (7.4%) was led by rapid growth in financial services (12.5%).

In 2009 the Honduran economy has suffered the effects of the international financial crisis. In the first semester the monthly index of economic activity recorded a contraction of 1%. The sectors with the largest downturns were commerce (-0.7%), transport and communications (-4.5%), banking and insurance (-11.0%) and construction (-18.3%).

(b) Prices, wages and employment

In 2008 the annual inflation rate ended the year at 10.8% driven mainly by rising food and fuel prices. Food and non-alcoholic beverages contributed 5.4 percentage points to the rise in prices, followed by housing, water,

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Annual growth rates [b]								
Gross domestic product	5.7	2.7	3.8	4.5	6.2	6.1	6.6	6.3	4.0
Per capita gross domestic product	3.6	0.6	1.7	2.5	4.1	3.9	4.5	4.2	1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.7	2.1	4.5	2.3	7.2	-2.3	7.6	5.7	3.4
Mining and quarrying	1.7	34.5	-5.8	8.5	-5.6	-0.6	-3.6	4.4	5.1
Manufacturing	5.5	3.8	7.8	6.4	4.0	7.0	4.3	4.3	3.8
Electricity, gas and water	10.6	-14.0	-13.6	-20.6	6.2	52.4	22.6	5.8	5.5
Construction	1.5	-7.8	-11.5	3.8	1.2	-2.3	9.4	9.7	6.3
Wholesale and retail commerce, restaurants and hotels	3.7	1.2	3.3	2.1	4.2	5.4	5.5	5.8	4.8
Transport, storage and communications	5.0	2.9	2.4	11.5	13.5	16.6	11.7	11.6	10.9
Financial institutions, insurance, real estate and business services	2.6	9.7	9.7	8.6	12.4	12.3	15.1	11.3	12.5
Community, social and personal services	10.5	5.4	5.4	4.0	5.8	5.4	6.0	8.4	3.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.9	4.8	4.0	4.3	5.0	6.8	8.0	9.6	5.9
Government consumption	15.7	6.4	3.1	3.7	5.4	10.1	1.6	18.0	-0.5
Private consumption	6.8	4.5	4.2	4.4	5.0	6.1	9.2	8.1	7.1
Gross domestic investment	-2.8	-3.9	-4.6	4.9	21.9	-1.2	7.2	18.8	13.6
Exports (goods and services)	7.3	4.0	10.0	8.7	13.2	5.3	1.6	3.0	2.6
Imports (goods and services)	3.8	3.6	5.9	7.9	16.2	3.6	4.0	11.9	8.8
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	28.3	26.0	24.3	25.3	29.7	27.6	28.3	33.4	34.7
National saving	21.2	19.7	20.7	18.6	22.0	24.6	24.6	23.1	20.9
External saving	7.1	6.3	3.6	6.7	7.6	3.0	3.7	10.3	13.8
	Millions of dollars								
Balance of payments									
Current account balance	-508	-479	-282	-553	-678	-290	-404	-1 275	-1 977
Goods balance	-644	-729	-637	-1 020	-1 293	-1 497	-2 027	-3 178	-4 343
Exports, f.o.b.	3 343	3 423	3 745	3 754	4 534	5 048	5 277	5 642	6 046
Imports, f.o.b.	3 988	4 152	4 382	4 774	5 827	6 545	7 303	8 820	10 389
Services trade balance	-187	-207	-190	-162	-204	-229	-291	-349	-305
Income balance	-215	-258	-301	-362	-446	-460	-537	-400	-350
Net current transfers	538	715	846	991	1 265	1 895	2 450	2 652	3 021
Capital and financial balance [d]	380	419	272	358	1 040	477	687	1 090	1 912
Net foreign direct investment	375	301	269	391	553	599	669	928	875
Other capital movements	5	117	3	-32	487	-122	19	162	1 036
Overall balance	-128	-60	-10	-194	362	187	283	-185	-65
Variation in reserve assets [e]	-55	-101	-106	97	-510	-346	-282	109	42
Other financing	183	161	115	98	149	159	-1	76	23
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	97.1	96.9	98.5	100.9	100.6	98.0	97.8	94.4
Terms of trade for goods (index: 2000=100)	100.0	94.8	92.0	88.0	87.2	87.2	83.2	81.6	80.9
Net resource transfer (millions of dollars)	348	322	86	94	743	177	149	766	1584
Gross external debt (millions of dollars)	4 711	4 757	4 922	5 242	5 912	5 093	3 879	3 028	3 321
	Average annual rates								
Employment									
Labour force participation rate [g]	...	52.5	51.7	50.0	50.6	50.9	50.7	50.7	51.0
Open unemployment rate [h]	...	5.9	6.1	7.6	8.0	6.5	4.9	4.0	4.1
Visible underemployment rate [h]	...	3.8	4.7	5.9	6.5	6.9	5.4	4.3	3.5
Prices	Annual percentages								
Variation in consumer prices (December-December)	10.1	8.8	8.1	6.8	9.2	7.7	5.3	8.9	10.8
Variation in nominal exchange rate (annual average)	4.4	4.3	6.2	5.5	5.0	3.4	0.4	0.0	0.0
Variation in real minimum wage	3.1	2.5	2.1	8.6	0.8	5.8	5.1	2.8	0.2
Nominal deposit rate [i]	15.9	14.5	13.7	11.5	11.1	10.9	9.3	7.8	9.5
Nominal lending rate [j]	26.8	23.8	22.7	20.8	19.9	18.8	17.4	16.6	17.9

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income [k]	15.7	16.7	16.4	16.5	17.2	17.6	18.1	19.1	19.3
Current income	14.9	15.2	15.3	15.6	16.4	16.4	16.6	17.5	17.2
Tax income	13.7	13.6	13.3	13.7	14.5	14.5	15.2	16.3	15.6
Total expenditure [l]	20.4	21.1	20.3	21.3	19.8	19.8	19.2	21.9	21.7
Current expenditure	14.6	14.7	15.2	16.2	14.8	15.3	16.0	17.9	17.1
Interest [m]	2.2	1.0	1.0	1.0	1.1	1.1	1.0	0.6	0.6
Capital expenditure [l]	5.5	5.7	4.2	4.6	5.0	4.5	3.3	4.1	4.7
Primary balance	-2.5	-3.4	-2.9	-3.7	-1.5	-1.1	-0.1	-2.3	-1.7
Overall balance	-4.7	-4.4	-3.9	-4.7	-2.6	-2.2	-1.1	-2.9	-2.3
Central government debt	55.6	53.9	55.5	60.7	59.6	44.7	28.7	17.3	19.4
Domestic	3.6	3.8	3.9	6.3	4.6	3.8	3.3	2.8	4.7
External	52.0	50.1	51.6	54.4	55.0	40.9	25.4	14.5	14.7
Money and credit [n]									
Domestic credit [o]	...	25.3	23.7	26.7	24.0	23.7	27.2	34.0	32.2
To the public sector	...	-1.9	-2.3	0.4	-1.0	-0.9	-2.6	-2.1	-1.2
To the private sector	...	36.7	36.1	37.7	38.5	39.7	45.2	52.7	50.9
Others	...	-9.4	-10.1	-11.4	-13.6	-15.0	-15.4	-16.6	-17.6
Liquidity (M3)	...	...	46.5	47.2	49.2	50.8	55.0	56.5	51.4
Currency outside banks and local-currency deposits (M2)	...	...	34.0	34.5	35.4	37.3	41.3	42.5	37.8
Foreign-currency deposits	...	...	12.6	12.7	13.8	13.5	13.8	14.0	13.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; nationwide total.
[i] Weighted average rate on time deposits.
[j] Weighted average rate on loans.
[k] Includes grants and recovery of interest.
[l] Includes net lending.
[m] Central bank data include accrued interest on the public debt.
[n] The monetary figures are end-of-year stocks.
[o] Includes securities issued for monetary regulation and short- and long-term external loans.

electricity, gas and other fuels which together added 1.8 percentage points to the inflation rate.

Inflation peaked at 14% in August, making it impossible to meet the inflationary target set under the monetary programme. This trend was reversed, however, in the last four months of 2008, thanks to falling prices for fuels and some foods. Rising international prices contributed to domestic inflation, in particular prices for electric power and some prepared foods such as rice, pasteurized and powdered milk, chicken and carbonated beverages. The only consumer price category to record a year-on-year drop in prices was communications, reflecting greater competition in that sector.

Despite moderate economic growth, the national employment rate continued the upward trend observed in recent years. Since the participation rate also rose, the national unemployment rate held steady at 3.0% (4.1% in urban areas). As a result of the crisis, however, the unemployment rate —and probably the underemployment rate too— has risen. Some 39,000 jobs are estimated to have been lost since October 2008, owing to slackening external demand for textiles and clothing, harnesses for the automobile industry and other outputs of the Honduran maquila industry. Construction has also lost approximately 40,000 jobs.

In January 2008 the minimum wage rose by 13.3%, reaching a monthly average of 3,428.5 lempiras (US$ 181.40). An additional increase in the minimum wage was announced in December to help address the financial crisis and the effects of the global economic slowdown and the monthly wage was set at 5,500 lempiras in urban areas and 4,055 lempiras in rural areas. It was agreed at talks held in January 2009 that this wage rise would not apply to the maquila industry as long as layoffs were still occurring.

(c) The external sector

External conditions deteriorated in 2008 owing, in part, to high prices for imported goods and slower

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars) [b]	549	606	601	511	769	785	617	478	652	...
Goods imports, c.i.f. (millions of dollars)	1 531	1 674	1 847	1 931	1 988	2 374	2 435	2 034	1 584	...
Gross international reserves (millions of dollars)	2 827	2 900	2 742	2 733	2 736	2 780	2 590	2 690	2 784	2 804 [c]
Real effective exchange rate (index: 2000=100) [d]	97.7	98.2	97.6	97.2	97.6	97.4	94.1	88.4	86.5	87.3 [e]
Consumer prices (12-month percentage variation)	6.3	6.2	7.1	8.9	9.2	12.2	13.7	10.8	8.8	5.4
Average nominal exchange rate (lempiras per dollar)	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9
Nominal interest rates (annualized percentages)										
Deposit rate [f]	7.8	7.6	7.7	8.0	8.3	8.8	9.6	11.2	12.1	10.9 [e]
Lending rate [g]	17.0	16.7	16.3	16.4	16.6	17.1	18.4	19.7	19.9	19.9 [e]
Interbank interest rate	5.3	5.5	6.4	7.3	8.0	8.4	9.8	10.1	7.2	5.6
Domestic credit (variation from same quarter of preceding year)	37.7	41.7	49.1	41.9	30.6	29.6	21.6	9.2	4.9	...
Non-performing loans as a percentage of total credit	4.1	4.1	4.0	3.2	3.7	3.8	4.4	4.6	5.8	6.8 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Does not include maquila activities.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] Weighted average rate on time deposits.
[g] Weighted average rate on loans.

growth in the value of exports, which came to only 7.2%. This performance may be attributed to a combination of opposing trends, since traditional exports recorded growth of 18.1% (slightly higher than in 2007), while value added rose by 3.8% in the maquila sector and 7.3% in non-traditional exports.

The total value of imports (not including maquila) was US$ 10.389 billion, which represents an increase of 17.8%. This can be attributed chiefly to imports of fuel, lubricants and electric power which totalled US$ 1,952,800,000, a 49.7% increase. Other imports expanded by only 16% in 2008, as compared with 30% growth recorded the year before.

Capital goods imports were up by 10.2%, considerably less than the 42.1% jump recorded in 2007. Consequently, the current account deficit swelled to US$ 1.977 billion, equivalent to 13.9% of GDP and 3.6 percentage points larger than the 2007 deficit. The terms of trade worsened again (-0.9%).

The United States continues to be the largest market for Honduran exports and receives 40.5% of total exports by volume, followed by Central America (23.4%) and Europe (20.0%). This dependence on United States and European markets implies that the volume of Honduran exports will likely slip in 2009, given the global economic slowdown.

Net income from current transfers posted a surplus of US$ 3.021 billion and grew by 13.9%, or 5.7 percentage points more than in 2007. Remittances made up 93% of such transfers and amounted to US$ 2.801 billion in 2008. As a proportion of GDP, however, remittances stood at 19.6%, one percentage point less than in 2007.

The financial account closed the year at US$ 1,632,100,000, partially owing to an inflow of US$ 877 million in FDI. International reserves stood at US$ 2.46 billion, reflecting the loss of US$ 54 million in 2008. These reserves cover approximately 3.4 months of goods and services imports.

Mexico

1. General trends

The growth rate of the Mexican economy fell from 3.3% in 2007 to 1.3% in 2008, which represented a meagre 0.2% rise in per capita GDP. This result may be attributed to a significant weakening of both external demand —associated with the international economic crisis— and domestic demand, reflecting the loss of momentum in private consumption and, to a lesser degree, in private investment. Exports dropped considerably beginning in the third quarter of 2008. Weakened demand can be traced to an upsurge in unemployment, a decline in consumer credit and fewer remittances from abroad. Inflation rose from an average of 4.0% in 2007 to 5.1% in 2008.

The slowdown in economic activity drained some buoyancy from imports, although these were boosted by the appreciation of the real exchange rate which prevailed until October, and rising international food and fuel prices. Overall, faster growth in imports than in exports led to a widening of the trade deficit. All of these factors, together with a 3.6% drop in international remittances, translated into a current account deficit equivalent to 1.5% of GDP (0.8% in 2007). The consolidated public sector balance reached virtual equilibrium thanks to the contribution of oil revenue, which increased by 14% in real terms.

The country faces an extremely harsh economic landscape in 2009. The situation is even more difficult than it was during the recession of 1995, when GDP fell by 6.2% but bounced back in less than 12 months on the back of surging exports. This option is not available this time since the world economy is navigating the worst crisis since the 1930s. Downturns in foreign direct investment (FDI), remittances, oil prices, tourism and access to financing only exacerbate the situation. Real GDP dropped 1.6% in the fourth quarter of 2008 and plummeted 8.2% in the first quarter of 2009.

Limited fiscal resources, short-term implementation difficulties with public spending and tighter credit for investment projects have curbed the effectiveness of the government's initiatives to counteract the effects of the external shock. The reactivation of the Mexican economy depends, in great measure, on momentum from the United States economy, which means that reaching a new growth phase could take even longer.

The various programmes implemented by the federal government to manage the crisis have thus far been unable to prevent sharp declines in economic activity and employment. Creation of quality employment has been severely limited by a shrinking economy and the saturation of 'escape valves', such as informal employment and migration, in addition to returning immigrants putting further pressure on the labour market. The fallout from the A (H1N1) influenza epidemic, which the government estimates at around 0.5% of GDP, is another consideration. ECLAC projections for 2009 show an economic contraction of between 6% and 7%, with severe job losses.

2. Economic policy

(a) Fiscal policy

Consistently with the federal budget and fiscal responsibility act, public finances were virtually balanced in 2008 (-0.1% of GDP). Government income grew by 9.5% in real terms, owing most notably to a 13.9% increase in oil income derived from high international prices, which was partly offset by lower production and export volumes, increased imports of petroleum derivatives and exchange-rate appreciation. Oil income accounted for 36.9% of government income. The average price of the Mexican oil mix rose to US$ 84.40 a barrel, or US$ 37.80 more than projected in the general economic policy guidelines for 2008.

Total public sector expenditures climbed 10.1% in real terms in 2008, with growth in capital expenditures outpacing that of current expenditures (25.1% and 7.1%, respectively). Within capital expenditures, physical investment was up by 12.2%. Within current spending, social development outlays rose by 7.0% and spending on personal services was up by 3.4%. The financial cost (consisting mainly of interest and commissions) recorded a decline of 9.6%, while government transfers to states increased by 21.1%.

The federal government's fiscal balance for 2008 showed a slight improvement of two-tenths of a percentage point, bringing the fiscal deficit to 1.6% of GDP. Non-oil tax revenues grew by 9.8% in real terms, mainly owing to higher takings from an excise tax on production and services (13.0%), income tax (9.9%), value added tax (6.5%) and import tax (5.8%). Revenue generated from the flat-rate business tax and a levy on cash deposits (both of which went into effect in 2008) contributed to these results. Total expenditures rose by 10.6%, largely owing to capital expenditures (21.9%).

The outlook promises great challenges for public finances in 2009, given the magnitude of the economic crisis. In the first quarter of 2009 real income fell by 9.1%, reflecting both oil income (-17.6%) and non-oil income (-11.4%), while spending climbed by 14.5%.

The loss of public income as a consequence of the progressive deterioration of the economy could spell a 1.5% drop in GDP for 2009, without taking into account the effects of lower tax collection due to the epidemiological emergency caused by the A(H1N1) influenza outbreak in May and June, which led to the closing of schools, restaurants and leisure and entertainment venues. Unless the government adopts new fiscal initiatives to combat the crisis, a fiscal deficit of at least 2% of GDP is projected for 2009. This assumes that the decrease in income would be partially offset by payoffs on oil-price hedging instruments, a further depreciation of the peso (which would boost the value in pesos of oil exports and the operating profits of the central bank) and reduced spending.

The Mexican government announced four programmes in 2008 and 2009 to address the deteriorating economic situation and to lessen its effects. The first two, announced in March and October 2008, were aimed at supporting businesses and families. Discounts were granted on firms' contributions to the Mexican Social Security Institute (IMSS) and on flat-rate income and business taxes, while families benefited from a cut in household electricity rates. Other initiatives included higher spending on infrastructure (including the construction of a refinery that will begin this year), assistance for small and medium-sized enterprises (SMEs) and a new tariff reduction and deregulation programme.

Another 25 measures were announced in early 2009 aimed at supporting employment and workers, household budgets, competitiveness and SMEs, and investment in infrastructure. Measures to mitigate the effects of the epidemiology emergency were also announced, including support targeting SMEs and businesses in the tourism, restaurants and leisure sector.

(b) Monetary policy

Based on the hypothesis that the international crisis would not have a serious impact on the Mexican economy but that rising inflation was a cause for concern, throughout 2008 the central bank continued to pursue stabilization as its main objective through a monetary policy aimed at tempering external inflationary pressures. To this end, in August the bank raised the target interest rate by 75 basis points, from 7.5% in May to 8.25%, where it remained for the rest of the year. The exchange rate remained generally stable, but showed some appreciation in real terms. Given the worsening economic situation abroad and the growing signs of its effects on the Mexican economy and employment however, the direction of monetary policy shifted and the benchmark interest rate was lowered by 300 basis points between January and May 2009.

The monetary base expanded by 9.6% in real terms in 2008, equivalent to half the increase seen in 2007. In the first quarter of 2009 the balance of the monetary base rose by 12.4% over the figure for March 2008. As defined by the country, M1 rose by 7.1% and M2 by 9.8%. M3 was somewhat less buoyant with a real growth rate of 8.6%. Notable within this aggregate were an increase of 6.4% in non-resident deposits and a significant 13.8% drop in public securities held by non-residents.

Lending to the non-financial private sector maintained a growth rate similar to that of 2007. In December 2008, this type of credit showed a balance equivalent to 30.7% of GDP, representing a real annual variation of 8.9% with respect to the year before. Total commercial bank lending to the private sector amounted to 13.7% of GDP, similar to the 2007 figure. Household consumer lending dropped 5.3% in 2008, following growth of 18.3% the previous year. The delinquency index rose to 3.21%. For consumer credit, this index stood at 8.04%, recording a 2.56 percentage point increase over 2007, and for credit card lending, it rose to 9.42%.

In the remainder of 2009 the central bank is expected to lower the benchmark interest rate somewhat with a view to helping to improve the economic situation, while still maintaining its primary objective of controlling inflation.

(c) Exchange-rate policy

Within the framework of a floating exchange rate, the peso progressively strengthened against the dollar in the first half of 2008, which reached its lowest price in August. Thereafter the Mexican currency depreciated steadily until March 2009 owing to the international financial crisis. The demand for dollars was also heightened by companies seeking to adjust their exposure in dollar-denominated derivatives. Thus, from early August 2008 to late March 2009 the peso cost of dollars rose by 43%. On average in 2008, however, the real bilateral exchange rate with respect to the dollar depreciated only 1.2%. The real effective exchange rate (with all the country's trading partners) depreciated by 2.1%.

The central bank implemented several measures to boost liquidity in the currency market, the stock market and the banking system. Dollars were injected into the currency market through extraordinary and daily auctions, and no-minimum-bid auctions were instituted in March 2009. Other contingent mechanisms were put in place to temporarily supply banks with local currency liquidity, and measures were taken to inject liquidity into domestic debt markets. The central bank also established a guarantee programme through the development bank for short-term private lending.

In late March the government secured a one-year, renewable contingent credit line with the International Monetary Fund of approximately US$ 47 billion. This amount, together with US$ 30 billion that can be accessed through the currency swap facility with the United States Federal Reserve —which is in place until October of this year— and the US$ 76.5 billion in international reserves (as of May 2009) total US$ 153.5 billion. All this, combined with the measures taken to halt the peso's rapid depreciation against the dollar, helped bring down the exchange rate from around 15 pesos per dollar in March to almost 13 pesos in May, affording the central bank more room to reduce the interest rate should the crisis deepen.

3. The main variables

(a) Economic activity

The momentum of the Mexican economy gradually slackened throughout 2008 in the context of a general downturn in external and domestic demand, and GDP growth dropped from 3.3% in 2007 to 1.3% in 2008. Private consumption edged up a mere 1.5% (3.9% in 2007) owing to weaker credit, a slowing of the real wage bill and decreased family remittances. Investment growth fell back from an average rate of 8% in the last four years to less than 5% in 2008. It remained, nevertheless, the most buoyant element of demand, although it continued to worsen in the last months of the year and especially in early 2009.

In 2008 production grew by 2.1% in the service sector and by 3.2% in the agricultural sector, while industry output slipped by 0.7%, owing mainly to manufacturing. The slowdown in services was caused by sluggish private consumption and a decline in foreign-trade-related services.

In manufacturing, the largest drops in 2008 came in computer equipment, electronic components and accessories (-13.6%) and in textile supplies (-38.3%). Production in the automotive industry was up 4%, thanks to robust exports in the first part of the year. Exports to the European Union increased by 9.8% and accounted for 12.9% of Mexican vehicle exports. The United States continued to be the principal export destination

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	6.6	-0.0	0.8	1.4	4.0	3.2	4.8	3.3	1.3
Per capita gross domestic product	5.1	-1.1	-0.1	0.6	3.2	2.3	3.7	2.2	0.2
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	0.4	5.9	-0.9	3.8	2.9	-0.7	3.9	2.0	3.2
Mining and quarrying	3.8	1.5	0.4	3.7	1.3	-0.3	1.4	-0.6	-2.3
Manufacturing	6.9	-3.8	-0.7	-1.3	3.9	3.5	5.1	2.7	-0.3
Electricity, gas and water	3.0	2.3	1.0	1.5	4.0	2.0	12.2	3.7	2.2
Construction	4.2	-5.7	2.1	3.3	5.3	2.5	7.9	4.4	-0.6
Wholesale and retail commerce, restaurants and hotels	12.2	-1.2	0.0	1.5	6.4	3.9	5.5	4.4	2.5
Transport, storage and communications	9.1	3.8	1.8	5.0	5.4	3.6	5.4	3.7	0.8
Financial institutions, insurance, real estate and business services	5.5	4.5	4.2	3.9	4.7	5.3	7.1	5.2	2.8
Community, social and personal services	2.9	-0.3	0.9	-0.6	2.1	3.5	2.5	2.1	1.1
Gross domestic product, by type of expenditure									
Consumption	7.4	1.9	1.4	2.1	4.4	4.6	4.8	3.6	1.4
General government	2.4	-2.0	-0.3	0.8	-2.8	3.5	0.3	2.1	0.6
Private	8.2	2.5	1.6	2.2	5.6	4.8	5.6	3.9	1.5
Gross fixed capital formation	11.4	-5.6	-0.6	0.4	8.0	6.5	9.6	7.2	4.9
Exports (goods and services)	16.3	-3.6	1.4	2.7	11.5	6.8	10.8	5.7	1.4
Imports (goods and services)	21.5	-1.6	1.5	0.7	10.7	8.5	12.8	7.0	4.3
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	27.5	22.1	22.7	22.9	24.7	23.9	25.7	25.4	26.0
National saving	24.5	19.5	20.7	21.9	24.0	23.3	25.2	24.6	24.5
External saving	2.9	2.6	2.0	1.0	0.7	0.5	0.5	0.8	1.5
					Millions of dollars				
Balance of payments									
Current account balance	-18 683	-17 683	-14 137	-7 190	-5 169	-4 369	-4 375	-8 331	-15 725
Goods balance	-8 337	-9 617	-7 633	-5 779	-8 811	-7 587	-6 133	-10 074	-17 261
Exports, f.o.b.	166 121	158 780	161 046	164 766	187 999	214 233	249 925	271 875	291 343
Imports, f.o.b.	174 458	168 396	168 679	170 546	196 810	221 820	256 058	281 949	308 603
Services trade balance	-2 323	-3 558	-4 048	-4 601	-4 607	-4 713	-5 736	-6 305	-7 079
Income balance	-15 017	-13 847	-12 725	-12 313	-10 513	-14 207	-18 455	-18 368	-16 846
Net current transfers	6 994	9 338	10 269	15 503	18 762	22 138	25 949	26 415	25 461
Capital and financial balance [d]	25 793	25 008	21 227	16 628	9 227	11 533	3 372	18 617	23 163
Net foreign direct investment	17 789	23 045	22 158	15 183	19 216	15 325	13 558	19 022	21 264
Other capital movements	8 004	1 963	-931	1 445	-9 989	-3 791	-10 186	-404	1 899
Overall balance	7 110	7 325	7 090	9 438	4 058	7 164	-1 003	10 286	7 438
Variation in reserve assets [e]	-2 824	-7 325	-7 090	-9 438	-4 058	-7 164	1 003	-10 286	-7 438
Other financing	-4 286	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	94.4	94.0	104.5	108.3	104.6	104.7	105.8	108.1
Terms of trade for goods (index: 2000=100)	100.0	97.4	97.9	98.8	101.6	103.6	104.1	105.1	105.9
Net resource transfer (millions of dollars)	6 491	11 161	8 502	4 315	-1 286	-2 674	-15 083	250	6 317
Total gross external debt (millions of dollars)	148 652	144 526	140 099	140 554	139 152	130 731	117 506	141 823	150 142
					Average annual rates				
Employment									
Labour force participation rate [g]	58.7	58.1	57.8	58.3	58.9	59.5	60.7	60.7	60.4
Open unemployment rate [h]	3.4	3.6	3.9	4.6	5.3	4.7	4.6	4.8	4.9
Visible underemployment rate [h]	…	…	…	…	…	7.5	6.9	7.2	6.9
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5
Variation in the national producer price index (December-December)	6.4	1.3	9.2	6.8	8.0	3.4	7.3	5.4	7.8
Variation in nominal exchange rate (annual average)	-1.1	-1.2	3.4	11.7	4.6	-3.5	0.1	0.2	2.1
Variation in average real wage	6.0	6.7	1.9	1.4	0.3	-0.3	0.4	1.0	0.7
Nominal deposit rate [i]	14.6	11.0	6.2	5.1	5.4	7.6	6.1	6.0	6.7
Nominal lending rate [j]	16.9	12.8	8.2	6.9	7.2	9.9	7.5	7.6	8.7

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Non-financial public sector									
Total income	19.7	20.0	20.2	21.2	20.7	21.2	22.0	22.3	23.8
Tax income	9.7	10.3	10.6	10.1	9.0	8.8	8.6	9.0	8.3
Total expenditure	20.7	20.6	21.3	21.8	20.9	21.3	21.9	22.3	23.8
Current expenditure	18.3	18.2	18.4	19.0	17.8	18.2	18.6	18.7	19.4
Interest	2.3	2.3	2.0	2.1	1.9	2.0	2.1	1.9	1.6
Capital expenditure	2.4	2.4	2.9	2.8	3.2	3.1	3.3	3.6	4.4
Primary balance [k]	1.3	1.7	0.9	1.6	1.7	1.9	2.1	1.9	1.6
Overall balance [k]	-1.0	-0.7	-1.1	-0.6	-0.2	-0.1	0.1	0.0	-0.1
Public-sector debt	25.3	24.1	25.7	26.1	24.2	23.0	22.7	23.0	27.2
Domestic [l]	11.8	12.6	13.8	14.4	13.8	14.6	16.9	17.6	20.8
External	13.5	11.5	11.8	11.8	10.4	8.4	5.8	5.4	6.4
Money and credit [m]									
Domestic credit	38.4	38.2	39.0	36.8	33.3	32.2	33.1	34.1	32.9
To the public sector	10.9	11.1	11.4	10.6	10.1	8.7	8.5	8.3	8.2
To the private sector	15.7	12.9	14.3	14.0	13.2	14.5	16.9	18.4	17.4
Others	11.8	14.2	13.3	12.0	9.7	9.0	7.8	7.4	7.2
Liquidity (M3)	39.1	43.3	44.4	45.6	45.0	48.6	49.5	50.4	54.8
Currency outside banks and local-currency deposits (M2)	37.8	41.6	42.9	44.4	43.6	47.1	48.1	49.2	53.4
Foreign-currency deposits	1.3	1.7	1.5	1.2	1.4	1.5	1.4	1.3	1.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2003, based on figures in local currency at constant 1993 prices. From 2004 onward, based on figures in local currency at constant 2003 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, urban areas.
[h] Percentage of the economically active population, urban areas.
[i] Cost of term deposits in local currency in the multibanking system.
[j] Lending rate published by IMF.
[k] Does not Include non-budgeted expenditure.
[l] Federal-government domestic debt.
[m] The monetary figures are end-of-year stocks.

for Mexican-produced vehicles (70.8% of the total), but sales to this market dropped by 2.4%.

Economic activity continued to trend downwards in the first few months of 2009; GDP fell by 8.2% in real terms in the first quarter, owing in large measure to the United States recession, which caused a 29% decrease in manufacturing exports. Domestic spending lagged as a result of downturns in employment, purchasing power, consumer lending and remittances from workers abroad (which dropped off by almost 5.0% in the first quarter of 2009). Gross fixed capital investment also tumbled, in both machinery and equipment and construction.

Manufacturing slipped by 13.8% in the first quarter of 2009, with the sharpest declines in transportation equipment (-38.3%) and computer equipment, electronic components and accessories and other equipment (-29%). The only branches in which production did not suffer were food and beverages and tobacco, which posted growth rate of only 0.1% and 0.3%, respectively. Reflecting the crisis in the United States automobile industry, vehicle production in Mexico contracted by 42.3% in January-April 2009 with respect to the year-earlier period, and exports fell by 40.7%.

(b) Prices, wages and employment

The December-December inflation rate rose to 6.5% in 2008 (2.7 percentage points higher than in 2007), mainly owing to sharp international price rises for food commodities, metals and energy. The depreciation of the peso beginning in September helped fuel the rise in inflation in late 2008 and early 2009.

Year-on-year inflation was 6.2% in April 2009. This increase can be traced to patterns in non-core inflation, in which agricultural products —especially fruits and vegetables— recorded the sharpest price rises; thus, non-core inflation showed a year-on-year variation of 7.8%, while the core price index stood at 5.8%. A drop in inflation is anticipated in the coming months, which could bring average annual inflation to around 4.5%.

The nationwide open unemployment rate rose from 3.7% in 2007 to 4.0% in 2008, and was higher for women than for men (4.1% and 3.9% respectively). More than 12 million people currently work in the informal sector, which is equivalent to 28.1% of the employed population.

On average in 2008, nearly 280,000 workers registered with IMSS (an indicator of formal employment), which

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.0	3.0	3.5	3.7	2.6	2.9	1.7	-1.6	-8.2	...
Goods exports, f.o.b. (millions of dollars)	60 269	67 656	70 269	73 681	70 084	79 403	78 467	63 389	50 067	...
Goods imports, f.o.b. (millions of dollars)	62 723	70 112	72 779	77 362	71 732	80 268	84 894	71 709	51 957	...
Gross international reserves (millions of dollars)	75 851	77 934	82 168	87 211	91 134	94 045	98 863	95 302	85 636	83 173 [c]
Real effective exchange rate (index: 2000=100) [d]	104.6	105.9	106.8	106.0	106.1	104.0	102.0	120.4	129.6	120.7 [c]
Unemployment rate	5.1	4.5	5.1	4.7	4.9	4.3	5.2	5.2	6.4	...
Consumer prices (12-month percentage variation)	4.2	4.0	3.8	3.8	4.2	5.3	5.5	6.5	6.0	5.7
Average nominal exchange rate (pesos per dollar)	11.0	10.9	11.0	10.9	10.8	10.4	10.3	13.1	14.4	13.3
Average real wage (variation from same quarter of preceding year)	1.4	0.2	0.4	0.9	0.5	0.6	1.5	0.9	0.8	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.8	5.9	6.0	6.2	6.4	6.5	…	7.2	6.7	5.2
Lending rate [f]	7.4	7.5	7.6	7.8	7.9	7.9	8.5	10.5	9.9	7.8 [c]
Interbank rate	7.4	7.6	7.7	7.9	7.9	8.0	8.5	8.7	8.0	5.9
Sovereign bond spread (basis points) [g]	99	95	112	149	168	172	252	376	379	233
Stock price index (national index to end of period, 31 December 2000=100)	509	551	536	523	547	520	440	396	347	431
Domestic credit (variation from same quarter of preceding year)	11.0	11.8	14.5	11.1	4.2	8.2	2.5	4.1	14.1	...
Non-performing loans as a percentage of total credit	2.2	2.3	2.5	2.5	2.5	2.8	3.0	3.2	3.4	3.6 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Cost of term deposits in local currency in the multibanking system.
[f] Lending rate published by IMF.
[g] Measured by JP Morgan's EMBI+ index.
[h] Data to April.

is equivalent to a 2.0% increase, but between April 2008 and April 2009, 484,000 formal jobs were lost. In April 2009 alone —when the health emergency occurred— just over 31,000 jobs were lost, with 21,421 in manufacturing, followed by commerce and business, personal and household services, which lost 6,773 and 3,197 workers respectively.

Following a virtual standstill in 2007, and continuing the negative trend seen for several years, employment levels in manufacturing fell by 2.4% in 2008 and labour productivity rose by 2.5%. Average real wages in the economy as a whole grew by 0.9%, slightly less than the year before, and unit labour costs fell by 1.5%.

(c) The external sector

In value terms, export growth was less buoyant in 2008: 7.2% as compared with 8.8% in 2007. Oil exports climbed by 17.8% and non-oil exports by 5.2%. As in 2007, exports of the extractive industries were the fastest-growing (11.2%), while agricultural and manufacturing exports jumped 6.5% and 5.1%, respectively.

Goods imports rose by 9.5% thanks to increases in consumer goods, intermediate goods and capital goods (11.3%, 7.9% and 16.4%, respectively). This led to a widening of the trade gap in 2008 to US$ 17 billion (1.6% of GDP), which was US$ 7 billion more than in 2007.

Not including petroleum, the trade deficit grazed US$ 68 billion (6.2% of GDP). Thanks to higher oil prices, the terms of trade improved by 3.7% in 2008.

The balance-of-payments current account deficit was larger than in 2007 and closed at 1.5% of GDP. This result resulted from a combination of deficits in the trade balance (US$ 17.261 billion), the non-factor services balance (US$ 7.005 billion) and the factor services balance (US$ 17.152 billion) and a current transfers surplus of US$ 25.461 billion, of which remittances accounted for US$ 25.137 billion (a 3.6% drop compared with 2007).

The downtrend in trade worsened in early 2009. Exports plunged by 30.5% in the first four months, owing to the worsening economic situation in the United States (the destination market for 80% of Mexico's exports) and to lack of financing for production. This contraction in exports, along with sluggish domestic demand, led to an almost 31% drop in imports. Thus, in the first four months of 2009, the trade deficit stood at US$ 1.681 billion, 39% smaller than in the same period of 2008. When oil exports are excluded, however, the deficit was US$ 9.079 billion, 56% smaller than the same period in 2008.

The financial account recorded a surplus of US$ 23.163 billion, thanks to income from FDI, paydowns of external debt by the non-bank private sector and external financing of Projects with a Deferred Impact on Public Expenditure Recording (PIDIREGAS).[1] In terms of outlays, outgoings included international debt paydowns by the public sector and commercial banks, portfolio investment outflows and an increase in assets held abroad by Mexican residents.

FDI inflows were 20% down on the 2007 figure and net FDI stood at US$ 21.264 billion. This type of investment went chiefly to manufacturing (29%) and extraction activities (20%), and the main investors were the United States (41% of the total), Spain (20%) and Canada (11%). In the first quarter of 2009, FDI inflows totalled US$ 2.663 billion, 36.5% less than in the previous year, while outward investment amounted to US$ 2.939 billion. Net FDI in this period was thus negative by US$ 273 million. Total FDI for 2009 is expected to come to some US$ 15 billion.

[1] Refers to extra-budgetary financial transactions.

Nicaragua

1. General trends

Real GDP grew by 3.2% in 2008, as it did in 2007. Per capita GDP increased by 1.9%, similar to the decade average of 2%. The unemployment rate rose, standing at 6.1%. The acceleration of inflation subsided in the third quarter, and the rate closed the year at 13.8%. The current account deficit and the central government deficit both rose.

Municipal elections were held 9 November 2008 and the pre- and post-election periods were characterized by social and political conflicts among the stakeholders involved. As a result, some members of the international community with a presence in Nicaragua suspended budgetary assistance and financing for development projects, demanding the country's institutions be strengthened.

Results were mixed in the productive sectors. The manufacturing and service sectors slowed, while agriculture expanded significantly. The external sector withstood the international economic and financial crisis initially, but began to feel its adverse effects towards the end of the year. Goods exports grew at a rate similar to that of 2007, while exports of services contracted. Foreign direct investment (FDI) flows and remittances expanded faster than in the previous year. The terms of trade worsened (-4.4%), owing to higher prices for imported goods.

According to ECLAC forecasts, GDP will fall by 1% in 2009 in the face of weakening external demand and slowing public and private consumption. The economy will be affected by the falls in remittances, exports and FDI flows which were felt in late 2008 and, to a greater extent, in early 2009. Private consumption will slacken owing to a drop in real household incomes and public consumption will be dented by falling fiscal revenue. The current account deficit will narrow owing to a significant drop in imports. Given that inflationary pressure has abated, a single-digit inflation rate is expected.

2. Economic policy

The central government incurred extraordinary expenses in 2008 in an effort to mitigate the impact of external shocks. Its ability to effectively implement expansionary fiscal policy, however, was curbed by falls in fiscal revenue and international assistance. The monetary policy implemented in 2007 remained in place.

(a) Fiscal policy

As a proportion of GDP, the central government's fiscal deficit —not including grants— stood at 4.1% (3.3% in 2007), reversing the trend observed over the last four years. Although external grants (2.9% of GDP) helped lower the fiscal deficit to 1.2% of GDP, they totalled considerably less than in 2007 (3.7% of GDP).

Total tax revenue dropped by 4.5% in real terms, compared with 5% growth in 2007. Tax receipts climbed by 14.5% in nominal terms, but declined in real terms because of a jump in the average annual inflation rate (19.8%). As a result, the tax burden decreased to 17.6% of GDP (18.1% in 2007). Revenue from direct taxes grew by 1.7% while that from indirect taxes dropped by 11.3%.

The reduction or elimination of tariffs on many products to offset rising food prices led to decreased revenue from import taxes.

As a result of rising inflation, total central government expenditure dropped by 1% in real terms but increased by 18.6% in nominal terms. Capital expenditure underwent the largest contraction (16.7% in real terms) which can be attributed to funds being transferred from this segment to current expenditure. Growth in wages (10.8%) and purchases of goods and services (38.3%) fuelled the expansion of current expenditure (6.1%). The government incurred extraordinary expenses in the form of subsidies on electric power and fuels (to offset international price increases) and food purchases to stabilize prices and boost food supply networks.

The external public debt dropped by 4.3 percentage points to 55.2% of GDP by the end of the year. Unlike the previous two years, there was no significant reduction through debt forgiveness in 2008. Domestic debt also declined, ending the year at 17.1% of GDP (19.8% in 2007). Nicaragua has not included in its national accounts the international aid it receives under the Bolivarian Alternative for Latin America and the Caribbean (ALBA).

Total central government income dropped sharply in early 2009 owing to a slowdown in economic activity, forcing the authorities to rein in current expenditure and rework the budget. External grants of direct budgetary assistance have also decreased. According to preliminary estimates, the combined impact of these two items could exceed 2.5 GDP points in 2009.

In January the government unveiled the "Production, growth and employment support programme, 2009" to deal with the economic crisis. The programme's main pillars are: financial stability and external cooperation; public investment; support for production and private investment; promotion of solidarity-based employment and fiscal austerity. Implementation of the programme —particularly those measures requiring significant funding— will be limited by dwindling central government income.

(b) Monetary and exchange-rate policy

In order to curb inflationary pressure, and despite the worsening of the terms of trade and the growing trade gap, the devaluation rate was held at 5% annually. In late 2008, the official nominal exchange rate reached 19.8 córdobas to the dollar. The real bilateral exchange rate with the dollar rose by 9.1% (annual average), while the real effective exchange rate with respect to the country's main trading partners appreciated by 5.2%.

Monetary aggregates grew much more slowly in nominal terms than in 2007 because of the slowing of economic activity in late 2008. M1, including cash in circulation and current account deposits, posted a nominal increase of 2.8% (23.6% in 2007), also held back by anti-inflation measures. Term deposits in local currency dropped by 11%. Dollar-denominated deposits, on the other hand, grew by 11.5%, and their share of broad money (M3) rose from 65.4% in 2007 to 68.2% in 2008 as a result of high inflation.

Credit union loan portfolios grew by 12.3% in nominal terms, as compared with 31.6% in 2007, thanks to precautionary measures taken by the banking sector in light of the international financial crisis, as well as the economic slowdown in late 2008. Personal loans and credit card lending were particularly hard hit. Lending to the commercial and agricultural sectors, on the other hand, continued expanding.

The legal reserve requirement remained at 6.25%, but the financial system held excess reserves as a precautionary measure given the current international situation. In late 2008, the nominal deposit rate in local currency reached 6.9%, slightly higher than the rate at the end of 2007 (6.6%). Likewise, the nominal lending rate in local currency jumped 70 basis points to 13.6%, owing to the reduced availability of liquidity caused by the international financial crisis. The real deposit and lending rates in local currency were negative throughout the year and stood at -6.1% and -0.2% respectively in December. The effectiveness of these monetary-policy instruments continued to be hampered by high dollarization of the economy and lack of a more fully developed local financial system.

Adjusted net international reserves held by the central bank dropped by US$ 27 million to stand at US$ 710 million in December 2008, owing to lower demand for córdobas, as well as a decrease in central government transfers owing to delayed receipt of budgetary assistance from external sources. The central bank maintains its commitment to hold sufficient international reserves to ensure effective convertibility.

In 2009, the central bank is expected to hold the devaluation rate at 5% annually. Similarly, given lower international interest rates and lower domestic inflation, interest rates in Nicaragua are likely to trend downward. Adjusted net international reserves reached US$ 622 million in June, and monetary aggregates posted a negative variation in nominal terms.

(c) Trade policy

Trade policy in 2008 focused on continuing the negotiations begun in previous years, as well as on creating favourable conditions for diversifying export markets through new trade agreements or treaties. The government monitored the negotiations of the Doha

Round and continued its negotiations with the member countries of the Caribbean Community (CARICOM) with a view to Nicaragua (along with El Salvador, Guatemala, Honduras and Panama) joining the free trade agreement between Costa Rica and CARICOM.

In the area of Central American integration, negotiations on the Pluriannual Plan 2009-2011 of the Central American Integration System were concluded and the plan was approved. In the context of continuing negotiations for an Association Agreement between Central America and the European Union, five rounds of talks were held in 2008 and negotiations are slated to conclude in 2009. Other achievements in 2008 include the consolidation of the Generalized System of Preferences Plus (SGP+) and the creation of a list of Nicaraguan goods and services.

In January 2008, the free trade agreement with Taiwan Province of China entered into force, and the investment protocol for the treaty was signed in May. Lastly, with a view to expanding export markets, steps were taken to initiate trade negotiations in the near future with the governments of the Bolivarian Republic of Venezuela, Cuba and the Russian Federation.

3. The main variables

(a) Economic activity

Despite unfavourable external conditions, economic activity in Nicaragua grew at the same rate in 2008 as in 2007. Consumption (4%) and investment (11.1%) expanded at rates similar to those of the previous year. Export growth slowed to 5.1%, compared with 9% in 2007. Growth in imports (9.6%) continued to hold back the expansion of the economy. Gross fixed investment grew, thanks to more FDI flows, particularly for equipment and machinery in the telecommunications and energy sectors. Consumption expanded, fuelled by increased family remittances, which helped offset the negative effects of inflation in the first three quarters. Exports, for their part, were dented by lower external demand.

Throughout 2008, the rate of variation of the monthly index of activity showed a downward trend, in keeping with the behaviour observed since mid-2007. The slowdown in economic activity worsened in the last few months of the year. The Nicaraguan economy benefitted from favourable export prices in the first half of 2008, when external demand was still growing and remittances were robust, despite the negative external shocks caused by rising fuel and raw-material prices. These favourable trends were reversed in the second semester, particularly near the end of the year.

Agriculture (5%) was the sector that expanded the most in 2008, followed by government services (4.9%). The buoyant growth in agriculture was driven by an increase in planted areas, the recovery of production following the damage caused by bad weather in 2007 and the peak of the two-year coffee cycle. Manufacturing slowed significantly (2.2% growth as compared with 7.4% in 2007) owing to weaker textile and clothing production, which is concentrated in the free zones. Transport and communications and commerce, restaurants and hotels grew more slowly than in 2007 (3.6% and 3.3%, respectively), and construction posted negative growth (-2.8%) for a third consecutive year.

In the first four months of 2009, the monthly index of economic activity showed an average contraction of 5.7% (as compared with 5% growth in the same period in 2008). The most heavily affected sectors were construction (-21.3%), agriculture (-13.3%) and commerce (-6.5%).

(b) Prices, wages and employment

Despite a dramatic spike in inflation in the middle of the year, cumulative inflation was lower in 2008 (13.8%) than in 2007 (16.9%). Year-on-year inflation peaked in August (23.9%) then quickly retreated. Marked increases in international food and fuel prices had a direct effect on domestic prices. Likewise, when the international prices fell back, so did domestic inflation. Food and beverage prices posted the largest cumulative variation (22.5%). Core inflation (14.5%) ended the year higher than overall inflation since it does not include fuel prices.

The nationwide open unemployment rate rose significantly from 4.9% in 2007 to 6.1% in 2008. The economically active population nationwide grew by 5.6%, exceeding the increase in the employment rate (4.3%). According to data from household surveys, the informal employment rate rose slightly from 62.7% to 63.5% of the working population. Nominal average wages climbed by 7.8%, not enough to offset the average inflation registered in 2008. This translated into a decrease in real average wages of 10.2%.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	4.1	3.0	0.8	2.5	5.3	4.3	3.9	3.2	3.2
Per capita gross domestic product	2.4	1.5	-0.6	1.2	4.0	2.9	2.5	1.8	1.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	12.1	2.7	-0.3	1.9	5.7	4.6	3.4	-2.4	5.0
Mining and quarrying	-15.5	13.6	5.6	-10.6	20.0	-10.4	-3.4	-7.4	-3.6
Manufacturing	4.3	5.9	2.1	2.4	9.0	5.6	6.5	7.4	2.2
Electricity, gas and water	8.9	8.3	1.4	5.1	4.4	3.6	2.7	2.3	3.2
Construction	-1.0	2.1	-13.3	2.7	12.1	7.3	-3.2	-2.6	-2.8
Wholesale and retail commerce, restaurants and hotels	1.7	1.6	3.3	1.4	4.6	2.3	3.9	4.7	3.3
Transport, storage and communications	0.9	3.7	2.7	9.7	4.8	6.7	4.4	7.5	3.6
Financial institutions, insurance, real estate and business services	5.1	3.9	2.3	6.8	7.2	4.0	5.6	8.2	2.7
Community, social and personal services	2.3	5.1	2.0	2.4	2.2	4.0	4.4	3.4	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.2	4.1	3.6	2.1	2.1	3.6	4.0	4.1	4.0
Government consumption	4.8	-2.9	-4.6	5.6	3.2	6.9	8.0	4.0	4.8
Private consumption	5.3	4.9	4.5	1.8	2.0	3.3	3.6	4.1	4.0
Gross domestic investment	-16.8	-8.4	-7.1	-1.0	10.7	11.3	-1.5	10.8	-40.0
Exports (goods and services)	12.5	7.3	-3.5	9.2	17.1	7.7	12.6	9.0	5.1
Imports (goods and services)	-4.7	0.7	-0.1	3.5	8.2	8.6	6.8	12.4	9.6
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	31.0	28.2	26.1	25.9	28.0	30.1	30.2	33.2	33.3
National saving	9.6	8.7	7.6	9.7	13.5	15.0	16.7	15.7	10.1
External saving	21.4	19.5	18.5	16.2	14.5	15.1	13.4	17.6	23.2
					Millions of dollars				
Balance of payments									
Current account balance	-842	-805	-744	-663	-649	-734	-710	-1 001	-1 475
Goods balance	-921	-910	-939	-971	-1 088	-1 302	-1 451	-1 759	-2 173
Exports, f.o.b.	881	895	914	1 056	1 369	1 654	2 034	2 336	2 675
Imports, f.o.b.	1 802	1 805	1 853	2 027	2 457	2 956	3 485	4 094	4 848
Services trade balance	-129	-141	-130	-119	-123	-140	-134	-182	-209
Income balance	-202	-240	-206	-198	-192	-150	-129	-135	-161
Net current transfers	410	486	530	625	755	857	1 003	1 075	1 068
Capital and financial balance [d]	644	542	531	441	531	670	772	1 093	1 460
Net foreign direct investment	267	150	204	201	250	241	287	382	626
Other capital movements	377	392	327	239	281	429	485	711	834
Overall balance	-198	-263	-213	-222	-118	-64	62	92	-14
Variation in reserve assets [e]	16	110	-69	-55	-160	-6	-186	-173	-30
Other financing	182	153	282	278	278	70	124	80	45
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	101.2	103.3	106.9	107.7	108.4	107.0	110.8	105.4
Terms of trade for goods (index: 2000=100)	100.0	88.4	87.0	84.1	82.5	81.4	79.4	78.6	75.2
Net resource transfer (millions of dollars)	624	455	607	520	616	590	768	1 039	1 344
Gross external public debt (millions of dollars)	6 660	6 374	6 363	6 596	5 391	5 348	4 527	3 385	3 512
					Average annual rates				
Employment									
Labour force participation rate [g]	53.8	57.5	…	53.7	53.1	53.8	51.4	51.1	53.3
Open unemployment rate [h]	7.8	11.3	11.6	10.2	9.3	7.0	7.0	6.9	8.0
Prices					**Annual percentages**				
Variation in consumer prices (December-December) [i]	9.9	4.7	4.0	6.6	8.9	9.6	10.2	16.2	12.7
Variation in nominal exchange rate (annual average)	7.4	5.4	6.6	6.0	5.5	2.6	6.1	6.3	5.0
Variation in average real wage	0.0	1.0	3.5	1.9	-2.2	0.2	1.4	-1.8	-6.0
Nominal deposit rate [j]	10.8	11.6	7.8	5.6	4.7	4.0	4.9	6.1	6.6
Nominal lending rate [k]	18.1	18.6	18.3	15.5	13.5	12.1	11.6	13.0	13.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Non-financial public sector									
Total income [l]	24.0	23.0	24.3	26.6	28.9	29.6	31.7	32.8	31.8
Current income	19.4	20.1	21.2	22.8	25.3	26.2	27.4	28.8	28.6
Tax income	18.1	17.2	18.0	19.9	20.6	21.7	22.8	23.7	23.4
Total expenditure	28.5	29.6	26.3	28.9	30.3	30.5	31.0	31.5	32.5
Current expenditure	16.7	23.7	20.7	22.2	22.9	24.1	26.0	26.4	28.2
Interest	2.2	2.2	2.2	3.1	2.1	1.9	1.8	1.5	1.2
Capital expenditure	11.7	6.0	5.6	6.6	7.4	6.5	5.0	5.1	4.3
Primary balance	-2.3	-4.4	0.3	0.8	0.8	1.0	2.5	2.8	0.4
Overall balance	-4.5	-6.6	-1.9	-2.3	-1.4	-0.9	0.7	1.3	-0.7
Non-financial public sector debt	114.7	111.3	134.1	138.0	100.7	92.8	69.1	43.3	39.3
Domestic	0.0	0.0	21.5	22.5	21.5	21.1	18.9	16.8	14.2
External	114.7	111.3	112.6	115.5	79.3	71.7	50.2	26.4	25.1
Money and credit [m]									
Domestic credit	...	78.0	79.7	80.7	71.4	67.3	62.8	61.5	56.4
To the public sector	...	74.7	72.7	68.2	56.4	48.1	39.8	33.1	29.2
To the private sector	...	17.7	19.6	22.9	25.4	29.3	33.7	39.3	37.6
Others	...	-14.4	-12.5	-10.4	-10.4	-10.1	-10.7	-10.9	-10.4
Liquidity (M3)	37.5	37.4	40.0	41.8	43.0	41.3	39.4	41.2	37.5
Currency outside banks and local-currency deposits (M2)	12.9	12.4	12.1	13.4	14.4	13.5	13.6	14.3	11.9
Foreign-currency deposits	24.6	25.0	27.9	28.4	28.6	27.8	25.8	27.0	25.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population, urban total.
[i] Consumer price index in the Managua metropolitan area.
[h] Weighted average rate on 30-day deposits.
[k] Weighted average rate on short-term loans.
[l] Includes grants.
[m] The monetary figures are end-of-year stocks.

Inflation dropped significantly in the first five months of 2009. The year-on-year variation was 4.1% in May, compared with 21.8% for the same period in 2008. Cumulative inflation in the first five months of the year was practically zero (0.1%, compared with 9.5% in the same period in 2008), owing to falling international food prices and the slowdown in economic activity.

(c) The external sector

The balance-of-payments current account deficit widened from 17.6% of GDP in 2007 to 23.2% in 2008. This was essentially due to a worsening of the terms of trade. Exports of goods, including those from free zones, totalled US$ 2.675 billion in 2008, an annual increase of 14.5% compared with 14.8% in 2007. Of the increase in exports, 45% was attributable to heavier export volume and the rest to higher prices. The modest expansion in free-zone exports (5.9%) contrasted with robust growth in traditional exports (14.2%) and other exports (30.1%). Under traditional exports, primary goods exports rose owing to higher international prices and agricultural exports expanded thanks to better weather conditions than in 2007.

For the second consecutive year, goods imports (18.4%) grew faster than exports, totalling US$ 4.848 billion in late 2008. The principal import products were crude oil, human medications, diesel fuel and gasoline. The merchandise trade balance posted a deficit of US$ 2.173 billion, 23.6% larger than in 2007 and equivalent to 34.1% of GDP. The services trade deficit widened by US$ 209 million, compared with US$ 182 million in 2007, and was mostly due to growth in transport expenses (30.4%).

The terms of trade worsened for the eighth consecutive year (-4.4% with respect to 2007), which explains the deterioration of the merchandise balance owing to higher fuel and raw materials prices.

Income from family remittances totalled US$ 818 million (US$ 740 million in 2007), with an annual growth rate higher than in the previous year (10.7% as compared with 6% in 2007). The rate of growth of remittances slowed sharply in late 2008, however, and they contracted in the first months of 2009.

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4.3	4.2	3.9	3.7	3.7	...	...	...	1.7	...
Goods exports, f.o.b. (millions of dollars)	310	310	292	291	399	413	385	292	355	...
Goods imports, c.i. f. (millions of dollars)	741	859	913	1 085	1 010	1 165	1 158	1 005	771	...
Gross international reserves (millions of dollars)	896	1 009	1 036	1 103	1 073	1 123	1 165	1 141	1 078	1 143
Real effective exchange rate (index: 2000=100) [c]	110.8	110.9	111.6	109.8	108.3	107.0	105.1	101.1	101.1	104.1 [d]
Consumer prices (12-month percentage variation)	9.0	9.0	10.9	16.2	18.9	22.7	23.0	12.7	7.1	3.1 [d]
Average nominal exchange rate (córdobas per dollar)	18.1	18.3	18.6	18.8	19.0	19.3	19.5	19.7	20.0	20.2
Average real wage (variation from same quarter of preceding year)	-1.9	-0.7	-0.3	-4.2	-5.0	-5.6	-7.0	2.6	-0.2	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.7	5.9	6.4	6.3	6.7	6.5	6.4	6.7	6.5	6.5 [d]
Lending rate [f]	12.7	13.2	13.2	13.0	13.6	12.6	13.1	13.4	14.4	14.2 [d]
Interbank rate	44.0	42.5	27.0	8.3	9.6	10.1	11.3	11.2	11.6	11.6 [d]
Domestic credit (variation from same quarter of preceding year)	14.1	12.9	8.9	10.5	8.0	7.2	10.8	7.7	5.9	...
Non-performing loans as a percentage of total credit	2.1	2.3	2.5	2.4	2.8	2.8	3.1	3.0	2.8	2.7 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Weighted average rate on 30-day deposits.
[f] Weighted average rate on short-term loans.
[g] Data to April.

The financial accounts posted a surplus of US$ 596 million, which, together with the capital account surplus, helped to partially fund the current account deficit. The rest of the deficit was covered by a surplus in the errors and omissions account of US$ 502 million. FDI flows in 2008 totalled US$ 626 million, compared with US$ 382 million in 2007. This significant growth can be attributed mainly to sizable investments in power generation (US$ 270 million).

The current account deficit is projected to shrink in 2009, owing to an improvement in the terms of trade and weakening imports. FDI flows are also expected to decline. In the first four months of 2009, goods exports totalled US$ 470 million (US$ 81 million less than the same period in 2008), while imports reached US$ 977 million (US$ 364 million less than in 2007). Consequently, the trade deficit narrowed from US$ 790 million to US$ 507 million in the first three months of 2008 and 2009, respectively.

Panama

1. General trends

In 2008 the Panamanian economy witnessed vibrant growth in real GDP (9.2%) and expanded by an average of 8.8% over the last five years. The non-financial public sector recorded a slight surplus equivalent to 0.4% of GDP, below the figure for 2007 (3.5%). This result was due to a decrease in revenues and an increase in current expenditures used to mitigate the effects of higher food and fuel prices in the first half of the year.

The inflation rate reached 10% in September 2008, driven by food and fuel prices, but closed the year at 6.5% due to appreciation of the dollar and lower prices for imported goods.[1] The current account recorded a deficit equivalent to 12.1% of GDP and was 4.8 percentage points higher than the year before. In August 2008, the total employment and open unemployment rates fell from 6.4% to 5.6% and from 4.7% to 4.2% respectively.

The opposition candidate Ricardo Martinelli won the elections in May 2009 and took office on 1 July. His platform includes changing the tax system by introducing a flat income tax and introducing crime-fighting measures.

Despite the resilience of the Panamanian economy in 2008, a severe reduction in the growth rate is expected for 2009 and 2010 due to the international financial crisis. ECLAC projects a growth rate of 2.5% for 2009. The contraction (or deceleration) of the residential construction sector is expected to be partially offset by government investment in social housing projects, infrastructure and the Panama Canal. As a result of decreased trade volume worldwide, and despite higher tolls, Panama Canal revenues are not expected to rise in 2009 as they did in previous years.

Demand for tourism services is also expected to be flat in 2009, though recovery in 2010 is possible. The open unemployment rate is likely to rise in 2009 and with it, the national poverty rate. Lastly, the slowdown in economic activity could impact tax revenues, while increased transfers to vulnerable sectors are expected to have fiscal implications in the short term.

2. Economic policy

Economic policy in 2008 focused on implementing public works programmes, ensuring the welfare of the poor in response to rising food and fuel prices and addressing the financial crisis in the last quarter of 2008.

(a) Fiscal policy

The non-financial public sector posted a surplus of US$ 97.8 million, equivalent to 0.4% of GDP. The surplus was lower than the one recorded in 2007 (3.5% of GDP). The central government surplus shrank as well, going from 1.2% of GDP in 2007 to 0.3% in 2008.

[1] This rate refers to the consumer price index for the districts of Panama and San Miguelito.

These weaker results are due to the fact that total central government expenditures increased by 15.9% in real terms, while revenues expanded to a lesser degree (10.2%). The increase in public spending may be attributed to operational costs and transfers, in particular liquefied gas and basic food basket subsidies. Capital expenses grew significantly with respect to the preceding year (49.4% in real terms), owing to investments in public works projects such as roads, social infrastructure and housing.

After implementing several procedural changes, the Tax Administration Department has improved its tax-collecting capacity. Consequently, tax receipts grew by 7.2% in real terms, a lower figure than the 14.0% growth recorded for 2007. Revenues from direct taxes were up by 5.7%, while indirect tax revenues grew by 8.8%.

In December 2008 the National Assembly passed the General State Budget for fiscal year 2009, which totalled US$ 9.763 billion. A sizable portion of the budget is allocated to public investments (US$ 3.401 billion), including infrastructure projects in health, education and transport.

The new Fiscal and Social Responsibility Act, which caps the fiscal deficit at 1% of GDP, went into effect in January 2009. The Act mandates a 40% cap on the debt/equity ratio, which means reducing the sovereign debt by US$ 2.8 billion over seven years. It likewise prohibits government entities from taking on fiscal obligations in the last six months of their term if they have insufficient budgetary resources to pay for them.

The Act also stipulates that during the last six months in office, the government cannot commit more than 50% of the annual operating budget. Each new administration must present an investment plan for their five-year term and all investments over US$ 10 million have to be accompanied by a feasibility or social impact study. In case of emergencies or during periods of recession, the law contains contingencies which raise the limits when annual GDP growth falls below 1%. In such situations, the maximum limit can be increased to 3% of GDP for one year and 2% the following year.

The central government external debt grew by US$ 197 million (0.9% of GDP) in 2008, due to an increase in loans from multilateral institutions (US$ 109.1 million) and private institutions (US$ 102.7 million). Loans from bilateral and official lenders decreased by US$ 14.8 million. Domestic public debt, on the other hand, dropped by US$ 257 million (1.1% of GDP). In March 2009, the government of Panama placed US$ 323 million on the external market, a remarkable result in the context of the current international financial crisis.

(b) The international banking centre and credit policy

Towards the end of 2008, the financial sector began to show signs of deceleration owing to the global financial crisis. Term deposits in the Panamanian banking system decreased, as did sight deposits of firms. From December 2008 to March 2009, term deposits grew by only 0.4%, compared with 5.5% in the same period the year before. Deposits of private individuals totalled US$ 3.764 billion in December 2008 and were down by US$ 163 million by the end of March.

Assets in the Panamanian banking system maintained the accelerated pace of growth observed over the last few years, moving from US$ 45.642 billion in 2007 to US$ 53.427 billion in 2008. This increase (17.1%) is slightly lower than the 2007 figure (20%), though it still signals a significant expansion.

Banks in Panama, both national and foreign, have maintained positive real lending and deposit rates over the last five years. In 2008, however, as a result of the rise in the price index, these interest rates turned slightly negative, with the exception of the lending rates for consumer loans and credit cards. Deposit rates in national and foreign banks —both for individuals and firms— were negative as of the last quarter of 2007.

Loans granted by the national banking system grew by 12.6% in 2008, compared with 19.6% in 2007. In addition to a significant rise in lending to the construction sector (47.2%), there was an unusually sharp increase in lending to industry (55.4%).

In January 2009 the government adopted the Financial Stimulus Programme (FSP) with a view to injecting financial resources into the system and addressing the credit squeeze. The FSP has received US$ 1.11 billion in financing from the Inter-American Development Bank, the Andean Development Corporation and the National Bank of Panama. The National Bank of Panama administers these funds through a trust. The trust extends loans to banking and financial institutions which, in turn, make loans to their clients using their normal standards. Implementation has been slow, however, and as of April 2009 only US$ 18 million had been lent to banks.

Proposals have been made for the National Bank of Panama, which has US$ 2.3 billion in international banks, to allocate funds to a programme which would channel loans to national productive sectors. An initiative of this kind was already attempted during earlier crises, such as at the beginning of the 1990s, when the government of Guillermo Endara set up a programme to provide funds to private banks to boost liquidity in the national market.

(c) Trade policy

One of the priorities of the Panamanian Government in the area of international trade is the ratification of the bilateral agreement with the United States, which was signed in June 2007 but was not ratified in 2008. Given that Panama has demonstrated its commitment to addressing the concerns of the United States regarding workers' rights, protection of intellectual property and environmental standards, it is possible the agreement will be ratified in 2009.

With the signing of a free trade agreement with Costa Rica in 2008, Panama now has agreements with all of the Central American countries. It is therefore able to actively participate in the creation of a common customs system, as well as a regional association agreement with the European Union. Panama continues to seek opportunities to conclude bilateral agreements with Canada and Mexico. It is also likely to attempt to formalize its relations with China. Trade between the two countries has intensified in recent years, expanding from US$ 60.9 million in 2004 to US$ 426.7 million in 2007. Imports from China make up 85% of the total amount of trade between China and Panama.

3. The main variables

(a) Economic activity

Real GDP grew by 9.2% in 2008, driven mainly by construction (30%), transport, storage and communications (15.7%) and hotels and restaurants (9.3%). Domestic demand was up 10% in real terms, compared with 12.9% in 2007. Likewise, internal consumption climbed by 6.3% in real terms, compared with 9.7% in 2007.

Value added in the construction sector grew by 30% in one year, that is, 9.7 percentage points more than in 2007. In 2008, and since 2006, the average growth rate has been 22.9%. This result may be attributed to public and private investments in residential and non-residential projects, civil engineering works (such as hydroelectric projects), work relating to the second phase of construction of the Northern Corridor, the Panama-Colon highway, public works projects to clean up the Bay of Panama and works carried out by the Panama Canal Authority as part of the widening project.

In 2008, the transport, storage and communications sector posted real growth of 15.7%, slightly under the figure for 2007. The port sector grew by 12.9% following brisker container movement (14.2%). The Panama Canal operations expanded by 7.1%, owing largely to increased services to ships (16.9%). There was, however, a decrease in ship transit, with growth of only 0.2% and a reduction in total net tons transported. The telecommunications sector was more buoyant (21.8%) owing to higher cell phone usage and more widespread use and volume of land lines, Internet services and international calls.

Boosted by a 14.8% increase in hotel stays and an 11.7% rise in the number of visitors, the hotel sector recorded 9.3%. Visitor spending was up by 19%. Although the sector has seen average growth of 11.8% since 2006, the rate of growth slowed in 2008, which will mean a slowdown in external demand for tourist services in 2009 and 2010.

As a consequence of the international crisis and worldwide slowdown, the branches of economic activity that registered slowest growth in 2008 were commerce and financial intermediation. The commerce, restaurant and hotel sector contracted slightly, reaching 7.4% as compared with 9.3% in 2007. Commercial activity in the Colon Free Zone grew by 6.1% thanks to re-exports to Central and South America. Financial intermediation was impacted by the international financial crisis, particularly towards the end of the year, growing only 2.3% compared with 19.4% in 2007.

The agricultural sector grew by 6% in 2008, up from 1.7% in 2007. Watermelon production was up, but other tradable fruits were affected by problems linked to marketing, lack of financing and adverse weather conditions. Following a three-year long contraction, fishing recovered significantly reaching 13.4%.

As a consequence of the international financial crisis, the monthly index of economic activity declined at the end of 2008, which explains why the first quarter of 2009 posted an average 3.4%, compared with 9% in the same period of 2008. Internal credit dipped somewhat, following a contraction in consumer credit, which led to fewer automobile sales in the first quarter of 2009 (down an average of 20%).

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	2.7	0.6	2.2	4.2	7.5	7.2	8.5	11.5	9.2
Per capita gross domestic product	0.8	-1.3	0.4	2.3	5.6	5.4	6.7	9.7	7.4
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	9.6	6.5	3.3	9.3	1.4	2.6	4.2	1.7	6.0
Mining and quarrying	-10.6	-4.1	18.1	35.4	12.5	0.1	17.2	22.7	29.8
Manufacturing	-7.2	-6.3	-2.6	-3.4	2.1	4.2	3.9	5.5	3.8
Electricity, gas and water	9.3	-4.7	6.9	1.4	6.1	5.6	3.3	9.2	5.1
Construction	1.3	-21.8	-7.1	32.5	13.9	1.0	18.4	20.3	30.0
Wholesale and retail commerce, restaurants and hotels	3.8	3.7	-0.9	2.4	11.9	9.2	11.2	9.3	7.4
Transport, storage and communications	12.5	2.5	2.0	10.9	14.9	11.8	13.7	17.3	15.7
Financial institutions, insurance, real estate and business services	5.9	-0.5	-0.2	0.5	3.3	10.0	9.1	11.5	4.6
Community, social and personal services	-0.4	3.9	4.5	1.8	3.3	0.9	3.3	5.4	4.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	0.2	3.9	7.3	7.3	3.9	8.1	4.2	9.7	6.3
Government consumption	1.8	8.1	9.1	0.4	1.9	4.1	3.1	5.9	6.0
Private consumption	-0.1	3.1	6.9	8.7	4.3	8.8	4.4	10.4	6.3
Gross domestic investment	-7.3	-25.7	-5.6	23.3	9.4	6.4	16.6	33.2	23.7
Exports (goods and services)	18.5	0.3	-2.5	-10.1	18.5	11.3	11.1	15.0	7.0
Imports (goods and services)	10.3	-4.3	0.7	-3.5	14.4	11.2	7.4	19.3	8.5
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	24.1	17.6	15.7	19.0	18.7	18.4	19.5	23.5	30.9
National saving	18.4	16.2	15.0	14.8	11.6	11.8	16.4	16.2	18.8
External saving	5.8	1.4	0.8	4.1	7.1	6.6	3.1	7.3	12.1
					Millions of dollars				
Balance of payments									
Current account balance	-673	-170	-96	-537	-1 003	-1 022	-527	-1 422	-2 792
Goods balance	-1 143	-696	-1 035	-1 202	-1 537	-1 558	-1 712	-3 182	-4 714
Exports, f.o.b.	5 839	5 992	5 315	5 072	6 080	7 375	8 478	9 338	10 289
Imports, f.o.b.	6 981	6 689	6 350	6 274	7 617	8 933	10 190	12 521	15 003
Services trade balance	854	890	968	1 240	1 337	1 420	2 210	2 818	3 262
Income balance	-560	-590	-272	-809	-1 020	-1 126	-1 278	-1 311	-1 579
Net current transfers	177	226	244	234	217	242	253	253	238
Capital and financial balance [d]	595	803	242	269	608	1 697	699	2 044	3 377
Net foreign direct investment	624	467	99	818	1 019	918	2 498	1 907	2 402
Other capital movements	-29	336	143	-548	-411	779	-1 799	137	975
Overall balance	-77	633	146	-267	-395	675	172	622	585
Variation in reserve assets [e]	109	-622	-138	267	396	-521	-162	-611	-579
Other financing	-32	-11	-8	1	-1	-154	-10	-10	-5
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	103.1	101.2	103.2	108.4	111.0	112.7	114.3	112.2
Terms of trade for goods (index: 2000=100)	100.0	102.7	101.6	97.2	95.3	93.5	90.8	90.0	85.9
Net resource transfer (millions of dollars)	3	202	-39	-539	-414	418	-589	723	1 792
Gross external public debt (millions of dollars)	5 604	6 263	6 349	6 504	7 219	7 580	7 788	8 276	8 477
					Average annual rates				
Employment									
Labour force participation rate [g]	59.9	60.5	62.6	62.8	63.5	63.5	62.6	62.7	63.9
Unemployment rate [h i]	13.5	14.0	13.5	13.1	11.8	9.8	8.7	6.4	5.6
Visible underemployment rate [h]	…	…	…	…	4.4	4.6	3.4	2.7	2.1
Prices					Annual percentages				
Variation in consumer prices (December-December)	0.7	0.0	1.9	1.5	1.5	3.4	2.2	6.4	6.8
Variation in real minimum wage	3.8	7.0	-1.2	0.7	0.9	-2.8	3.4	-1.7	2.7
Nominal deposit rate [j]	7.1	6.8	5.0	4.0	2.2	2.7	3.8	4.8	3.5
Nominal lending rate [k]	10.3	10.6	9.2	8.9	8.2	8.2	8.1	8.3	8.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income [l]	18.2	17.7	16.8	15.4	14.4	15.2	18.6	19.5	19.7
Current income	18.1	17.2	16.1	15.2	14.3	15.1	18.5	19.2	18.3
Tax income	9.6	8.8	8.6	8.7	8.5	8.7	10.3	10.7	10.6
Capital income	0.0	0.5	0.7	0.3	0.1	0.0	0.1	0.1	1.1
Total expenditure	19.3	19.4	18.8	19.2	19.8	19.1	18.4	18.3	19.5
Current expenditure	16.9	16.7	16.1	16.1	16.6	16.6	15.9	14.2	13.9
Interest	4.2	4.2	4.1	4.3	4.2	4.4	4.2	3.5	3.1
Capital expenditure	2.4	2.7	2.7	3.1	3.2	2.5	2.5	4.1	5.6
Primary balance	3.1	2.6	2.2	0.5	-1.2	0.5	4.4	4.7	3.4
Overall balance [m]	-1.1	-1.7	-1.9	-3.8	-5.4	-3.9	0.2	1.2	0.3
Central government debt	65.5	70.1	69.0	66.6	69.6	65.1	60.3	53.2	44.6
Domestic	18.0	17.7	17.7	16.7	18.9	16.8	15.0	10.8	8.0
External	47.5	52.4	51.3	49.9	50.6	48.4	45.3	42.3	36.6
Money and credit [n]									
Domestic credit	94.3	99.0	91.1	88.8	90.3	90.3	90.6	89.3	85.8
To the public sector	-7.6	-9.6	-6.4	-3.9	-0.0	-3.7	-3.2	-7.8	-9.0
To the private sector	101.9	108.6	90.4	87.1	85.1	87.1	88.4	92.0	89.7
Others	0.0	0.0	7.1	5.6	5.2	6.9	5.5	5.1	5.0
Liquidity (M3)	80.6	85.6	80.9	79.5	78.3	78.0	86.1	88.9	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Includes hidden unemployment.
[j] Six-month deposits in the local banking system.
[k] One- to five-year loans for commercial activities in the local banking system.
[l] Includes grants.
[m] The overall balance for 2005 includes an adjustment for compensation to bondholders amounting to 111.6 million balboas.
[n] The monetary figures are end-of-year stocks.

(b) Prices, wages and employment

The inflation rate dropped significantly in August 2008, down from a high of 10%, and closed the year at 6.5% Thus, the yearly average was 8.8%, or 4.6 percentage points above the 2007 figure. Average inflation for 2009 is projected at 5%. The sectors that saw the sharpest rise in prices were food (16.6%), fuels (17.5%) and tourism (15%).

With a view to addressing price hikes in the first half of 2008 —particularly in food and fuels— the government implemented the Consumer Support Programme (PAC) by means of a law that came into force on 2 June 2008. In phase I, the programme provided assistance to 40,000 tax payers by reducing their income taxes. In phase II, the tax cut was extended, starting in January 2009, to 110,000 Panamanians whose monthly income was between US$ 801 and US$ 2,390.

Other measures implemented to increase the purchasing power of the Panamanians included liquefied gas and energy subsidies, which benefit 90% of the population. The government also acquired Compita products, which were distributed and sold at below-market prices. An estimated two million Panamanians benefited from these measures.

The annual open unemployment rate for 2008 is a product of the rapid economic growth posted during the year. From 2007 to 2008, the total unemployment rate dropped 0.8%, to stand at 5.6%. Towards the end of 2008, however, the Panamanian economy showed signs of deceleration. Real estate sales slipped in October, which has repercussions for future construction and absorption of workers. The construction sector was the main engine for a significant rise in employment in 2008. In August 2007, some 134,495 people were working in the construction sector and this figure rose to 149,875 in the same month in 2008. Approximately 80,000 jobs are expected to be lost in 2009, mostly in construction, commerce and tourism.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.7	11.5	11.5	11.8	8.7	11.2	9.7	7.3	2.5	...
Gross international reserves (millions of dollars)	1 029	1 613	1 573	1 935	1 801	...	...	...	...	...
Real effective exchange rate (index: 2000=100) [c]	113.5	114.3	114.3	115.1	114.7	115.2	112.8	106.2	105.2	106.1 [d]
Consumer prices (12-month percentage variation)	3.2	3.7	5.2	6.4	8.8	9.6	10.0	6.8	3.7	2.5 [d]
Nominal interest rates (annualized percentages)										
Deposit rate [e]	4.9	4.8	4.7	4.6	4.0	3.5	3.4	3.3	3.6 [f]	…
Lending rate [g]	8.3	8.3	8.3	8.3	8.2	8.3	8.2	8.1	8.2 [f]	…
Sovereign bond spread (basis points) [h]	156	130	160	184	245	218	306	540	481	299
Domestic credit (variation from same quarter of preceding year)	13.6	10.4	8.6	12.1	13.6	14.1	17.1	13.8	7.6	7.1 [i]
Non-performing loans as a percentage of total credit [j]	2.3	2.4	2.5	2.3	2.3	2.0	2.3	2.8	2.6	2.9 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Six-month deposits in the local banking system.
[f] Data to February.
[g] One-year loans for commercial activities in the local banking system.
[h] Measured by JP Morgan's EMBI+ index.
[i] Data to April.
[j] Includes credit in arrear.

(c) The external sector

The balance-of-payment current account deficit stood at US$ 2.792 billion in 2008, equivalent to 12.1% of GDP and 4.8% higher than in 2007. This result stems from the deficit of the trade in goods balance and the negative income balance which increased by 48.1% and 20.4% respectively. The balance of the trade in services and transfer balance showed surpluses of US$ 3.262 billion and US$ 238 million, equivalent to 14.1% and 1% of GDP respectively.

With demand for agricultural products falling in the United States and European markets, national exports grew by only 1.6%.

F.o.b. imports increased by 19.8%, slightly less than the 2007 figure. There was a marked deceleration in telephone calls, which grew by 19.4%, compared with 40.5% in 2007. Imports from the Colón Free Zone jumped from 12.4% in 2007 to 20.1% in 2008. Consumer goods accounted for the highest growth in 2008.

Net remittances in 2008 were negative, given that US$ 10.8 million more remittances were sent than were received. This figure reflects the importation of labour from nearby countries like Colombia and Nicaragua.

The financial account showed a surplus of US$ 2.855 billion. The steady inflow of capital into the country is due to the incorporation of new banks and non-financial firms into the local market who operate with non-resident equity. A sizable amount of this capital inflow is linked to the flow of foreign direct investment, which stood at US$ 2.402 billion in 2008, reflecting an increase of 25.9% compared with the previous year.

The Caribbean

Bahamas

1. General trends

The Bahamian economy contracted by 1.7% in 2008, as against growth of 0.7% in 2007. The downturn in major markets, especially in the second half of the year, led to a slump in demand for tourism services and a sharp fall in foreign direct investment (FDI) that dampened construction activity. Real value added in financial services was buoyant in 2008. Reflecting the impact of higher fuel[1] and food prices, inflation leaped far above trend to 4.6%, compared with 2.8% in 2007. One of the knock-on effects of the rapid decline in activity levels in the second semester was a spike in unemployment, which reached 12.1% at the end of December, a far higher rate than the 7.9% recorded in December 2008.

Fiscal performance improved in fiscal year[2] 2007-2008 as a result of dynamic revenue growth, which outpaced growth in spending. Nevertheless, for the first half of fiscal year 2008-2009, with slumping activity and rising unemployment, the government stimulus translated into an expansionary fiscal stance that included the fast-forwarding of capital projects. In the context of a challenging environment, monetary policy was directed towards maintaining sufficient external reserves to support the pegged exchange rate. Households exercised caution as the global recession made itself felt in the economy and the depletion of resources that usually occurs in the Christmas shopping period was more moderate in 2008.

The balance-of-payments current account deficit narrowed from 17.5% of GDP in 2007 to 13.9% of GDP in 2008, associated with slacker non-oil import demand, growing exports and lower foreign payments for construction experts. Continued import compression reflecting the economy's negative growth is expected to lead to a marginal narrowing of the current account deficit in 2009.

The Bahamian economy is expected to stay in recession with negative growth of 4% in 2009, as the contagion from major markets leads to sharp contractions in tourism, FDI and financial services. The economy is not expected to recover until 2011. The fall-out in major sectors of the economy will result in higher unemployment and reduced hours for some workers. The inflation rate, which is running above the long-term average of around 2%, is expected to ease in 2009 as the international prices of most imports decrease and domestic demand slows.

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1 Fuel prices eased in the latter half of 2008, but the earlier hike contributed to higher average prices.

2 In the Bahamas the fiscal year runs from 1 July to 30 June.

Table 1

THE BAHAMAS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	4.3	-0.3	2.0	-2.4	3.7	5.7	4.3	0.7	-1.7
Per capita gross domestic product	2.8	-1.6	0.7	-3.6	2.4	4.4	3.0	-0.5	-2.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	5.5	-2.0	19.0	-3.8	-7.3	-15.2	5.5	-14.6	-5.8
Mining and quarrying	10.6	2.7	2.8	14.6	4.8	-4.7	-1.6	-43.8	-20.5
Manufacturing	9.8	-20.6	-5.7	22.2	24.2	40.1	-31.0	-12.0	-1.8
Electricity, gas and water	26.9	6.3	5.7	6.6	-29.5	13.0	18.1	2.5	6.0
Construction	30.6	-22.2	18.0	6.6	-1.2	9.5	28.5	5.1	-10.0
Wholesale and retail commerce, restaurants and hotels	-3.1	5.1	-6.4	2.7	6.0	10.3	4.0	-6.1	-0.7
Transport, storage and communications	3.1	-6.5	3.7	0.9	11.1	4.0	3.5	-5.1	-6.4
Financial institutions, insurance, real estate and business services	6.6	7.8	5.8	-9.5	7.2	2.0	1.3	4.7	3.2
Community, social and personal services	-2.0	-1.9	-2.2	-3.0	2.7	4.9	-2.3	4.4	0.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.3	4.0	-3.6	-1.1	-4.7	9.7	7.4	-3.1	-1.6
Government consumption	3.6	2.8	-1.3	-10.4	-3.3	3.9	2.4	0.1	2.2
Private consumption	3.2	4.3	-4.2	1.4	-5.1	11.1	8.6	-3.8	-2.5
Gross domestic investment	14.1	-9.1	-2.7	1.4	-4.7	24.0	21.3	-0.3	-11.1
Exports (goods and services)	5.1	-5.9	10.0	-1.3	25.8	1.4	1.1	3.0	-3.8
Imports (goods and services)	9.6	-4.1	-4.3	3.2	3.8	17.8	16.2	-3.1	-9.6
					Millions of dollars				
Balance of payments									
Current account balance	-442	-594	-298	-321	-171	-651	-1 374	-1 315	-1 055
Goods balance	-1 334	-1 340	-1 213	-1 231	-1 348	-1 763	-2 033	-2 154	-2 132
Exports, f.o.b.	576	423	422	427	477	549	694	802	997
Imports, f.o.b.	1 910	1 764	1 635	1 657	1 826	2 312	2 727	2 956	3 129
Services trade balance	955	835	1 057	1 014	1 068	1 230	825	1 020	1 191
Income balance	-141	-199	-184	-152	-141	-203	-218	-232	-169
Net current transfers	78	110	42	49	251	85	52	52	56
Capital and financial balance [c]	381	564	359	432	354	562	1 295	1 269	1 164
Net foreign direct investment	250	192	209	247	443	563	706	746	700
Other capital movements	130	372	150	185	-89	-1	588	523	464
Overall balance	-61	-30	61	111	184	-89	-79	-46	109
Variation in reserve assets [d]	62	30	-61	-111	-184	89	79	46	-109
Net resource transfer	240	366	175	279	213	358	1 077	1 037	994
Gross external public debt	350	328	309	363	345	338	334	326	427
					Average annual rates				
Employment									
Unemployment rate [e]	…	6.9	9.1	10.8	10.2	10.2	7.6	7.9	12.1
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.6
Nominal deposit rate [f]	...	...	...	3.9	3.8	3.2	3.4	3.7	3.9
Nominal lending rate [g]	...	...	...	12.0	11.2	10.3	10.0	10.6	11.0
					Percentages of GDP				
Central government [h]									
Total income	17.3	15.1	15.3	15.9	16.8	18.0	18.4	19.0	20.7
Current income	17.3	15.1	15.3	15.6	16.6	17.9	18.4	19.0	20.6
Tax income	15.5	13.6	13.8	14.0	14.9	16.1	16.5	16.9	18.7
Capital income [i]	0.0	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.1
Total expenditure [j]	16.9	17.7	17.7	18.1	18.5	18.7	19.9	20.3	22.1
Current expenditure	15.3	15.8	16.3	16.7	17.0	16.9	17.7	17.9	19.6
Interest	1.7	1.8	1.7	1.9	1.9	1.7	1.7	1.9	2.2
Capital expenditure	1.5	1.8	1.4	1.4	1.5	1.8	2.3	2.4	2.5
Primary balance	2.1	-0.7	-0.7	-0.3	0.2	1.0	0.2	0.6	0.8
Overall balance	0.4	-2.5	-2.4	-2.2	-1.7	-0.8	-1.6	-1.3	-1.4
Public external debt	6.3	5.8	5.2	6.1	5.6	5.0	4.6	4.4	5.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Money and credit [k]									
Domestic credit	75.2	80.5	81.1	81.2	82.1	84.6	90.5	98.7	104.2
To the public sector	11.7	13.6	14.7	14.7	14.3	13.8	14.7	16.2	18.1
To the private sector	63.5	66.8	66.4	66.4	67.9	70.7	75.8	82.5	86.1
Liquidity (M3)	62.7	64.3	63.3	65.5	69.8	69.4	69.6	74.7	77.9
Currency outside banks and local-currency deposits (M2)	61.1	62.7	61.8	63.8	68.2	67.3	67.4	72.1	75.3
Foreign-currency deposits	1.6	1.6	1.5	1.7	1.6	2.1	2.2	2.7	2.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2006 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Percentage of the economically active population; nationwide total. Includes hidden unemployment.
[f] Deposit rate, weighted average.
[g] Lending and overdraft rate, weighted average.
[h] Fiscal years.
[i] Includes grants.
[j] Includes net lending.
[k] The monetary figures are end-of-year stocks.

2. Economic policy

(a) Fiscal policy

Fiscal policy was less expansionary in fiscal year 2007-2008 than in the previous fiscal year; growth in spending eased and was outpaced by the increase in revenues. Overall, the deficit contracted to 1.3% of GDP, from 1.6% of GDP in 2007. Revenues expanded by 6.4% to 1.424 billion Bahamian dollars (B$), reflecting solid growth in income from selective taxes on tourism services (15.8%), partly due to higher receipts from departure taxes. Non-tax revenue of B$ 157 million surpassed both the budgeted figure and receipts for the previous fiscal year.

At 4.7%, growth in expenditure was below the budgeted level, as a result of the containment of primary spending during the year. Outlays on goods and services and personal emoluments, the two largest current spending items, were up by 6.8% and 2.8%, respectively, although in real terms there was a fall in outlays on wages and salaries. Debt interest payments rose by 12.1% to B$ 143 million, as the public debt stock climbed to 36.5% of GDP. Even with this debt-to-GDP ratio, debt costs would remain manageable within a framework of stable growth and orderly debt acquisition, but could raise concerns if fiscal expansion becomes locked in as economic conditions worsen.

Capital formation focused on infrastructure projects and the acquisition of assets advanced by 6.5%, but was below initial allocations. The smaller deficit in fiscal year 2007-2008 was financed by domestic currency borrowings of B$ 137.9 million and proceeds from a US$ 100 million bond issue. External public debt rose from 4.4% to 5.6% of GDP.

The spreading recession has impinged on fiscal performance in 2008-2009. The government has undertaken a fiscal stimulus programme with the aim of containing the slowdown in economic activity and rise in unemployment while providing critical public infrastructure. The stimulus includes the start-up of infrastructure projects such as road improvement and the redevelopment of downtown Nassau, as well as safety-net assistance, including unemployment benefit for workers who have lost their jobs. Combined with a decline in revenues from import duties and stamp and gaming taxes, the stimulus has forced the government to double its original fiscal deficit target to 4.7% of GDP for 2008-2009. Nevertheless, even with extra borrowing, debt levels should remain within the medium-term goal of 30%-35% of GDP. Given the country's heavy reliance on the United States market, Standard and Poor's has downgraded its outlook for the Bahamas from stable to negative.

(b) Monetary and exchange-rate policy

Despite its trade and financial openness, the Bahamas was largely shielded from the "toxic" products that contributed to the financial crisis in major markets. There was thus no serious direct threat to the financial sector and monetary policy was largely neutral, with no policy intervention in 2008. The central bank's role consisted mainly of monitoring to ensure sufficient reserves to support the fixed exchange-rate regime and maintain stable prices.

The reserve cover was bolstered enough to support the exchange rate by the build-up of reserves (stemming from public external borrowing) and reduced import leakage (due to reduced credit growth). Growth in domestic credit slipped by 5.8 percentage points, as sluggish economic conditions led banks to evaluate their customers' credit risk more carefully in order to reduce defaults. Credit to the private sector slackened, with the greatest allocations going to personal loans. The bulk of consumer lending went to debt consolidation (B$ 98 million) and credit card debt (B$ 37.4 million). Along with a spike in overdraft facilities, this underscored households' increased financial difficulties in the recessionary environment. Many households will need to retire expensive credit card and overdraft debt in an orderly fashion in order to avoid slipping into a debt trap.

Broad money (M2) growth slowed to 5.2% from 10.6% the previous year. The growth of savings accounts and foreign-currency deposits diminished. Fixed-term deposits also grew more slowly, owing to reduced holdings by businesses and public corporations. Although liquidity in the banking system increased, the weighted average interest rate spread widened by nine basis points, owing to a jump of 32 basis points in the average loan rate to 10.95%, which offset the average deposit rate's rise of 23 basis points to 3.92%.

One area of short-term concern is the deteriorating quality of assets in the domestic banking sector as borrowers face increasing loan servicing problems in the gathering recession. Non-performing loans (those with arrears of over 90 days) increased by 46.1% in 2008 and are expected to show a continued rise in the early part of 2009. Another major concern is the renewed attempt to tighten regulation in offshore financial regimes in the framework of measures to reduce tax avoidance. This could impinge on both the financial sector and real estate because of the close link between the two.

Clico Bahamas (Colonial Life Insurance Company) went into liquidation in February 2009, after the parent company in Trinidad and Tobago encountered major financial difficulties and a number of its subsidiaries were taken over by the Central Bank of Trinidad and Tobago. Updated insurance legislation recently passed by the parliament will raise prudential standards in the sector, including strict limits on inter-company loans.

A more active monetary stance could facilitate recovery by boosting credit to production sectors, thereby complementing the fiscal stimulus.

3. The main variables

(a) Economic activity

Economic activity declined by 1.7% in 2008, reflecting a sharp slowdown in real output in the second half of the year, partly due to the recession in major markets. The mainstay tourism industry (the commerce, restaurants and hotels sector contributes 21% of GDP) contracted as total visitor arrivals fell by 4%. The sector was especially badly hit by the drop in stay-over visitors (-4.3%), whose average spending is about 15 times that of cruise-ship passengers. Stay-overs from the United States, the country's largest tourism market, were down by 6.9% as households in that country cut travel plans owing to the recession. This fall exceeded the growth in arrivals from the Canadian and European markets in response to the weakness of the United States dollar.

Construction activity plunged by 10% as the positive impetus from domestic activity was cancelled out by a fall-off in foreign investment in the sector, particularly in second homes. The financial services sector was relatively buoyant in 2008 (3.2%). The number of licensed banks and trust companies increased by 26 to 271. These entities' total outlays, which contribute to value added, rose by 8.2% to B$ 553.1 million, consisting largely of operational expenses, including salaries and capital expansion. Employment in the offshore banking sector was up by 31% to 4,954 persons, reflecting a higher number of local employees.

A breakdown of GDP by category of expenditure shows that consumption, investment and exports of goods and services contracted by 1.6%, 11.1% and 3.8%, respectively, reflecting the slowdown in activity.

All the major sectors have been affected by the spread of recessionary conditions to the Bahamas from major markets in 2009. During the first four months of 2009, stay-over arrivals fell by 15.5%. Moreover, hotel-room revenue continues to decline owing to falling prices for hotel stays and depressed housing sales, and this pattern is expected to persist throughout the year and have adverse multiplier effects on other sectors, especially distribution. The authorities hope that the fifty-ninth congress of the Fédération internationale de football association (FIFA) hosted in June, and the Miss Universe pageant to be held in August, will help to cushion the impact on the tourism sector. Except for stimulus projects undertaken by the government, construction activity has been subdued so far in 2009, as FDI in the sector has tapered off. Given these factors, growth is projected at 4% for 2009.

(b) Prices, wages and employment

Inflation increased from 2.8% in 2007 to 4.6% in 2008, as the spike in oil prices in the first semester and still-high food prices pushed up prices overall. Although international oil and food price inflation eased somewhat, domestic food prices rose by 6.7%, partly owing to the high cost structure of domestic wholesalers and retailers. Above-average prices were sustained for the 12-month period to April 2009 (4.8%), in spite of slackening economic conditions. Nevertheless, inflation should ease up during the latter part of 2009 since oil and food prices are not expected to reach the highs seen in 2008. Weaker domestic demand should also help to reduce inflation.

The unemployment rate is estimated to have exceeded 12% at the end of 2008, compared with 8.7% in May that year, as job losses were recorded in the hotel, construction, distribution and other sectors.

(c) The external sector

The slowdown in activity fed through to the balance of payments and the current account deficit narrowed to 13.9% of GDP (US$ 1.055 billion), down from 17.5% of GDP (US$ 1.315 billion) in 2007. This improvement stemmed largely from reduced non-oil import demand increased exports, lower payments for foreign experts on projects and a tapering-off of outward private-sector income remittances. The trade deficit declined by 1.0% to US$ 2.132 billion, as the fall in the non-oil deficit offset the hike (44.7%) in fuel costs. The services account surplus expanded by 16.8% to US$ 1.191 billion, as a result of a drop in external payments for construction services and an increase in net travel receipts. Although tourism revenues contracted as the sector weakened, this was compensated by a fall in residents' overseas travel spending in response to worsening conditions.

The capital and financial account surplus narrowed by 1.1% to US$ 940.7 million (12.4% of GDP). Net FDI, as well as some items of other private investment, declined by 23.9% to US$ 885.6 million, partly reflecting a plunge of one third in net real estate purchases by foreigners.

In 2009, the current account deficit is expected to narrow slightly, as import demand falls in line with the decline in activity. The services account is projected to remain fairly stable, as lower payments for construction services and reduced overseas travel payments by residents are expected to match the contraction in tourism receipts.

Barbados

1. General trends

Reflecting the impact of the global recession, growth slowed significantly during 2008, falling to 0.5% (3.4% in 2007). With the country's heavy dependence on tourism, the fall in visitor arrivals from North America and Europe became a major cause for concern. Commerce, restaurants and hotels amounting to almost 86% of GDP, posted a contraction of 0.4%. Construction, a big driver of growth in recent years, also recorded negative growth. The outlook for 2009 is no more encouraging, and GDP is expected to fall by 3%.

As a direct result of this fall in activity, the unemployment rate rose from 7.4% to 8.1% by the end of 2008 and it is likely to increase further in 2009. Adding to those concerns is the deterioration of external accounts, with a growing trade and current account deficit, a faltering surplus in services and a shrinking capital and financial balance surplus, resulting in a substantial loss of international reserves. Furthermore, inflation accelerated through 2008, reaching 7.3% (December-December), although price increases slowed in the last quarter of the year; for 2009, moderate inflation is expected due to the pass-through effect of lower international prices of oil and other imports.

2008 saw a considerable expansion of the fiscal deficit (from 1.8% to 5.8% of GDP) because diminished tax income combined with growing current and capital expenditure. With a growing fiscal deficit, there are increasing concerns as to whether the budgetary balance can be sustained without further increasing the stock of public debt (domestic and external), which had already reached a level equivalent to 98.7% of GDP by the end of 2008.

Against this background, fiscal and monetary authorities have undertaken several measures to counter the worst effects of the economic slowdown and financial uncertainty. In particular, the central bank closely monitored the financial markets during 2008 and intervened when necessary for stabilization purposes. For 2009, the main public policy targets are to stimulate economic activity, control the budget imbalance, improve the external accounts, and preserve living standards.

2. Economic policy

(a) Fiscal policy

Fiscal revenues stagnated during 2008, growing by less than 0.9% in nominal terms. The main reason for this was the negative growth of direct tax revenue, which contracted by 4.2%, reflecting a sharp reduction in corporate income and profits. Indirect taxes, however, recorded a 4.2% increase, fed by higher income from import duties and excise tax. Overall, tax revenue grew by a mere 0.5% in nominal terms and, as a percentage of GDP, decreased from 33.6% in 2007 to 31.1% in 2008. Non-tax revenue expanded by 8.2% thanks to significant expansions in grants and postal revenue, helping to counter the stagnation in tax revenue.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	2.3	-4.6	0.7	1.9	4.8	3.9	3.2	3.4	0.5
Per capita gross domestic product	1.8	-5.0	0.3	1.6	4.4	3.5	2.8	3.1	0.2
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	3.7	-9.5	-4.2	-4.0	-7.3	8.2	-5.8	2.2	0.3
Mining and quarrying	-8.4	8.0	6.4	-16.0	9.5	8.5	-3.1	-5.9	-7.9
Manufacturing	-0.5	-30.9	1.0	-1.6	2.1	2.2	1.1	-2.9	-2.3
Electricity, gas and water	0.0	-4.5	3.6	2.9	1.8	-0.5	9.8	1.1	-0.4
Construction	1.1	6.8	7.7	0.6	2.8	14.0	-0.4	0.1	-3.4
Wholesale and retail commerce, restaurants and hotels	4.8	-4.4	-0.6	5.3	7.5	1.2	3.7	4.7	-0.4
Transport, storage and communications	0.9	0.1	-3.0	3.0	5.3	5.0	5.2	5.6	2.7
Community, social and personal services [c]	1.3	-0.6	1.5	0.7	4.9	4.1	4.3	4.2	2.7
					Millions of dollars				
Balance of payments									
Current account balance	-146	-111	-168	-170	-337	-361	-277	-182	-382
Goods balance	-744	-681	-702	-801	-971	-1 069	-1 003	-1 046	-1 224
Exports, f.o.b.	286	271	253	264	293	378	465	481	461
Imports, f.o.b.	1 030	952	955	1 066	1 264	1 447	1 468	1 528	1 685
Services trade balance	603	570	550	647	668	762	811	819	826
Income balance	-82	-93	-102	-107	-122	-151	-171	-101	-85
Net current transfers	78	93	86	92	88	97	86	145	101
Capital and financial balance [d]	323	333	144	237	180	135	320	461	132
Net foreign direct investment	18	17	17	58	-16	53	...	...	...
Other capital movements	305	316	127	179	196	82	...	...	...
Overall balance	178	222	-24	67	-157	-226	43	278	-249
Variation in reserve assets [e]	-178	-223	24	-68	157	228	-41	-278	249
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	98.5	100.2	104.5	107.7	106.1	104.3	105.1	103.2
Net resource transfer (millions of dollars)	241	241	42	131	58	-16	149	360	47
Gross external debt (millions of dollars)	951	1 135	1 163	1 241	1 222	1 353	1 501	1 572	1 530
					Average annual rates				
Employment									
Labour force participation rate [g]	68.6	69.5	68.4	69.2	69.5	69.6	...	...	...
Unemployment rate [h]	9.2	9.9	10.3	11	9.8	9.1	8.7	7.4	8.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.8	-1.2	0.9	0.3	4.3	7.4	5.6	4.7	7.3
(annual average)	2.4	2.8	-4.6	4.6	1.6	6.1	7.3	4.0	8.1
Nominal deposit rate [i]	...	...	...	2.8	3.0	3.8	5.0	5.5	4.9
Nominal lending rate [j]	...	...	...	7.6	7.4	8.5	10.0	10.4	9.7
					Percentages of GDP				
Central government									
Total income	33.4	34.2	34.6	34.2	33.6	33.6	35.7	35.5	33.0
Tax income [k]	31.1	32.0	32.0	32.0	32.2	31.4	34.1	33.6	31.1
Total expenditure [l]	34.9	37.7	40.9	37.2	35.8	37.9	37.7	37.4	38.8
Current expenditure	29.4	31.6	33.7	32.2	32.0	32.6	31.9	33.9	34.9
Interest	4.6	5.4	5.4	5.0	4.8	4.8	5.1	4.6	5.3
Capital expenditure	5.4	5.8	7.2	5.0	3.8	3.9	4.2	3.0	3.4
Primary balance	3.1	1.9	-1.0	2.0	2.6	0.5	3.1	2.7	-0.5
Overall balance	-1.5	-3.5	-6.4	-3.0	-2.2	-4.3	-2.0	-1.8	-5.8
Public external debt	23.2	29.5	29.9	27.9	28.3	30.0	29.2	29.4	26.7
					Percentages of GDP				
Money and credit [m]									
Domestic credit	62.5	58.7	72.8	70.5	79.1	86.4	89.2	89.9	92.1
To the public sector	11.3	7.8	17.1	19.2	20.8	18.2	16.7	17.3	18.6
To the private sector	51.2	51.0	55.7	51.4	58.4	68.1	72.5	72.6	73.5
Liquidity (M3)	78.8	83.2	96.8	95.1	105.1	108.1	110.8	119.2	112.9
Currency outside banks and local-currency deposits (M2)	85.2	91.5	109.3	105.8	115.8	124.6	122.0	139.1	127.0
Foreign-currency deposits	6.3	8.3	12.5	10.7	10.7	16.4	11.3	19.9	14.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1974 prices.
[c] Includes financial institutions, insurance, real estate and business services.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population.
[h] Percentage of the economically active population. Includes hidden unemployment.
[i] Prime lending rate.
[j] Interest rate for savings.
[k] Includes grants and post office revenues.
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.

Total expenditure grew substantially in 2008 (12.8%), fed by expanding current expenditure, owing to increases in spending on goods and services (19.5%), debt interest payments (25.5%), and a 19.1% increase in transfers and subsidies. Capital expenditure, constituting around 9% of total expenditure, grew by 26.2% as a result of higher disbursements by the National Insurance Scheme.

The overall outcome of the insufficient revenue growth and rising expenditure has been a considerable expansion in the fiscal deficit, which grew by almost 250% between 2007 and 2008. The latest figures available show that by the end of 2008 the accumulated fiscal deficit amounted to 5.8% of GDP, much higher than the deficit recorded in 2007 (1.8% of GDP). Further growth in the fiscal deficit is expected in 2009, fuelled by higher current expenditure, particularly on wages and salaries, and higher capital spending related to countercyclical programmes.

The government required higher than expected financing to balance public finances, and as a result, the total public debt stock rose by 9% during 2008. The stock of domestic public debt (government and government-guaranteed) grew by 10.9% to US$ 2.649 billion (72% of GDP), while external public debt decreased slightly (-2.2%) to 26.7% of GDP. Thus, the overall stock of public domestic and external debt stood at US$ 3.631 billion in 2008, approximately equivalent to 98.7% of GDP (99.5% of GDP in 2007).

(b) Monetary policy

The central bank's main concerns in 2008 were to ensure the stability of the financial system while supporting economic activity by reducing the financial cost of doing business. Although the financial authorities were able to keep the financial markets steady, it was not without costs. The decrease of capital inflows and the increase of capital outflows from the private sector forced the central bank to intervene and resulted in a gradual reduction of international reserves, which fell by 12.4% in the course of 2008, amounting to US$ 678 million by December.

Net domestic credit grew by 10.5%, stimulated by strong expansion of credit to the central government in order to balance the public budget. Thus, by end of the year the amount of net lending to the central government rose by 19.6% compared to December 2007, while credit to the private sector was up 9.9%. However, a central concern is the strong fall in the stock of net external assets of the banking system; following several years of substantive growth, they fell by 22.2% to US$ 875 million.

Money (M1) contracted during 2008, due to the reduction in the end-of-year stocks of currency with the public (-2.5%) and demand deposits (-3.6%). Broad money rose by 2.8%, however, thanks to a 7.2% expansion in the stock of saving deposits; but deposits in foreign currency by non-residents fell by 31.5% between December 2007 and December 2008.

Regarding interest rates, the central bank's policy in 2008 sought to reduce lending and deposit rates gradually, lowering the cost of doing business. The annual average prime lending rate fell from 10.5% to 9.7%, while the average interest rate for savings also contracted from 5.5% to 4.5%. Similarly, the monetary authorities reduced the discount rate on borrowing from the central bank, aiming to provide liquidity to financial institutions.

The outlook for 2009 points to further erosion of net inflows of capital, which will increase pressure on the central bank to intervene, further decreasing its stock of international reserves. Liquidity will be a central issue, prompting the monetary authorities to adopt measures such as further reductions of the discount rate, the establishment of a repurchase facility, or the extension of reserve requirements to financial companies as a source of support in case of liquidity problems.

The deteriorating operations of CLICO financial group in Barbados have become a key issue for the monetary authorities, after the group's crisis and the subsequent bail-out by the country's central authorities in January 2009. In recent months the central bank and the government have announced a variety of measures to support and protect the interests of policyholders and shareholders. These include the adoption of a memorandum of understanding to ensure the transparency and accountability in the sale and liquidation of CLICO subsidiaries, and the participation of the central bank in the establishment of a regional fund to rescue CLICO subsidiaries in the smaller Caribbean countries.

(c) Exchange-rate policy

The monetary authorities aim to preserve the pegged exchange rate against the dollar, in existence since 1975. With deteriorating net capital inflows, efforts by the central bank to preserve the exchange-rate regime by compensating imbalances in supply and demand of foreign currency and fending off speculative pressures, although successful, have taken a toll on international reserves. For 2009, although a mild improvement in the external accounts is expected, mainly owing to lower import costs, the stabilization of the exchange-rate market will still translate into a further decline in international reserves.

3. The main variables

(a) Economic activity

Although both tradable and non-tradable sectors were affected by the economic slowdown in 2008, the tradable sectors suffered more, recording a 1.6% decline in output, while the non-tradable sectors managed to achieve a 1.2% expansion. The net outcome was real GDP growth of 0.5% for the year, a serious setback from the progress of the previous five years, when the growth rate averaged 3.4%.

Those sectors most dependent on visitors suffered a reduction in activity levels, reflecting the 1.9% reduction in arriving by air visitors, particularly from the United States and the United Kingdom, and the 3.1% reduction in cruise-ship passenger arrivals. Wholesale and retail commerce, restaurants and hotels (35.8% of GDP), recorded a 0.4% contraction in 2008, their first negative result since 2002.

However, the sector suffering the highest decline during 2008 was mining, with a 7.9% contraction, followed by construction (-3.4%) and manufacturing (-2.3%). In the case of mining (amounting to less than 1% of GDP), its contraction is mainly attributed to a significant decrease in stone quarrying activities. As regards construction (8.4% of GDP), a key driver of growth in recent years, the decline is explained by a sharp slowdown in the development of new commercial and residential projects. However, the business and other services sector still managed to grow by 2.5%, the lowest rate recorded in the last five years, reflecting the impact of the economic slowdown in the markets for financial, insurance and real estate services.

The agricultural sector (4.3% of GDP) recorded a marginal 0.3% increment despite a fall in the output of sugar. Although a recovery in sugar production, which amounts to approximately 20% of total exports and will improve overall agricultural output, is expected for 2009, GDP is forecast to contract by 3%. The main reasons for this negative forecast are the contraction in tourism flows and the stagnation of domestic exports, which will have spillover effects on other sectors.

(b) Prices, wages and employment

Price inflation increased during 2008, reaching 7.3% (December-December), considerably above the 4.7% recorded in 2007. The consumer price index (CPI) peaked in September but declined during the last quarter, reflecting the fall in international commodity prices. Food and beverages and tobacco, were the two categories contributing the most to price inflation (recording annual 16.4% and 34.3% rises, respectively), while fuel and electric power recorded a significant reduction (-20.6%) thanks to the drop in prices during the last quarter. For 2009, international price pressures on oil and food are expected to be steady, so the inflation rate is estimated to be between 4% and 5% by the end of the year.

A major concern is the rising unemployment rate, up to 8.1% during 2008 compared to 7.4% in 2007. It is widely expected that unemployment will further increase during 2009 as output in the construction and tourism sectors is likely to fall. During the second half of 2008 and the beginning of 2009 the authorities implemented measures to stimulate productive activities and promote job creation and preservation. In that sense, a major initiative is the government's employment stabilization scheme, which will make low-cost loans available to employers committed to keeping their current employment levels.

(c) The external sector

The deterioration of external accounts reached new heights in 2008, with a US$ 1.224 billion trade deficit and a US$ 382 current account deficit, equivalent to 33% and 10% of GDP, respectively. The current account deficit more than doubled compared to 2007, not just because of the negative evolution in goods and services trade, but also as a result of the deteriorating current transfers balance.

The financial and capital component of the balance of payments suffered a serious fall in its surplus (from 13% of GDP in 2007 to 5% in 2008). The overall result was a balance-of-payments deficit equivalent to 7% of GDP (compared with a surplus of 8% of GDP in 2007). As a result, net international reserves declined to US$ 678 million, equivalent to an import cover of 4.8 months.

For 2009, the authorities expect a mild improvement in the balance of payments, mainly as a result of lower import costs. Weak foreign investment inflows will remain a major problem, hampering the recovery of the financial and capital account.

Belize

1. General trends

Growth recovered to 3.3% in 2008, from 1.2% in 2007, despite the slowdown in global demand caused by the financial and economic crisis and the dampening effects of flood damage in 2008. The pick-up was driven by a substantial rise in manufacturing, including petroleum refining, and a recovery in agriculture.

Inflation spiked to 6.4%, the highest rate in the last 12 years, propelled by an upsurge in food and fuel prices during the first three quarters of the year. Unemployment declined to 8.2% from 8.5% in the previous year, as job growth was buoyed by stronger activity.

The fiscal situation benefited from a fortuitous growth in grant receipts, complemented by higher petroleum revenue, leading to an overall surplus of 1.1% of GDP, the first in 20 years. This resulted in a net decline in financing both from abroad and on the domestic market. However, public debt remains high (81% of GDP) and thus limits fiscal room for manoeuvre.

The central bank did not undertake any monetary-policy intervention during the year, despite the build-up in banking system liquidity. The central bank deemed the prior increases in the cash and liquid assets ratios in 2006 as sufficient to contain credit growth that could fuel imports that would in turn deplete vital foreign reserves, which are necessary for defending the fixed exchange-rate regime.

Partly reflecting the high dependence of growth on imported machinery and equipment, the external current account deficit almost tripled to 10.8% of GDP, as a surge in imports for major capital projects and hikes in fuel and food prices led to an almost 50% increase in the trade deficit. Foreign direct investment (FDI) financing boosted foreign reserves, but maintaining adequate reserves will remain a challenge in the medium term.

Economic growth is expected to slow to 1% in 2009 as the knock-on effects of the global financial and economic crisis buffet inflows from FDI and remittances and constrain demand for the country's commodity exports.

2. Economic policy

(a) Fiscal policy

Fiscal performance is still a major concern for growth and stability in Belize, owing to the country's high debt ratio, the volatility of its revenue growth and the stickiness of its current expenditure. For the calendar year 2008, fiscal performance exceeded expectations, with the central government recording an overall surplus of 1.1% of GDP, the first in 20 years, compared to a 1.2% deficit in 2007. The primary surplus expanded to 4.9%, exceeding the estimated figure of 4% required for medium-term debt sustainability following the debt restructuring in 2007.

Fiscal improvement was built on dynamic growth in revenues from petroleum taxes that burgeoned with growing production, and a spike in grant receipts. Without grants, the overall balance would have been in deficit

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	12.3	5.0	5.1	9.3	4.6	3.0	4.7	1.2	3.3
Per capita gross domestic product	9.5	2.4	2.6	6.8	2.2	0.7	2.4	-0.9	1.2
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	9.5	-0.4	0.5	38.9	9.5	3.0	-6.4	-20.7	2.9
Mining and quarrying	23.3	3.3	-5.4	0.0	5.7	-6.5	3.4	15.6	22.9
Manufacturing	23.4	-0.4	1.5	-0.6	12.2	0.9	30.5	3.8	7.8
Electricity, gas and water	13.2	0.3	2.7	8.5	-1.5	-0.5	41.3	2.4	2.8
Construction	38.9	1.3	3.7	-17.8	4.5	-3.6	-1.9	-3.0	-1.9
Wholesale and retail commerce, restaurants and hotels	11.8	8.4	3.6	3.8	1.7	5.2	0.8	2.3	1.8
Transport, storage and communications	13.1	11.9	11.3	8.6	5.0	8.8	3.5	13.1	4.9
Financial institutions, insurance, real estate and business services	11.7	6.2	17.8	16.9	5.5	3.5	8.2	5.1	2.3
Community, social and personal services	4.5	4.2	4.0	5.7	2.1	2.5	-2.0	4.2	2.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.3	9.0	7.6	3.5	-0.3	-0.8	-2.3	4.9	...
Government consumption	7.0	6.1	13.1	5.3	-0.9	4.1	-0.9	11.1	...
Private consumption	6.1	9.5	6.7	3.2	-0.1	-1.7	-2.6	3.7	...
Gross domestic investment	30.9	-6.2	-5.3	-14.0	-5.4	8.0	1.8	5.0	...
Exports (goods and services)	8.7	4.9	9.6	13.2	5.7	11.8	11.0	-6.2	...
Imports (goods and services)	20.1	-0.8	2.6	2.1	-7.5	6.7	0.5	-0.3	...
					Millions of dollars				
Balance of payments									
Current account balance	-162	-184	-166	-176	-156	-151	-25	-52	-149
Goods balance	-197	-209	-187	-207	-173	-231	-185	-216	-323
Exports, f.o.b.	282	269	310	316	307	325	427	426	465
Imports, f.o.b.	478	478	497	522	481	556	612	642	788
Services trade balance	30	43	44	70	88	143	211	230	219
Income balance	-53	-67	-69	-85	-117	-114	-125	-159	-156
Net current transfers	58	48	47	46	46	51	74	93	112
Capital and financial balance [c]	213	181	160	146	125	139	75	75	207
Net foreign direct investment	23	61	25	-11	111	126	108	139	176
Other capital movements	190	120	135	158	13	13	-33	-64	31
Overall balance	52	-3	-5	-30	-31	-12	50	23	58
Variation in reserve assets [d]	-52	3	5	30	31	12	-50	-23	-58
Other external-sector indicators									
Net resource transfer	161	115	91	61	8	25	-50	-84	50
Gross external public debt	431	495	652	822	913	970	985	973	955
					Average annual rates				
Employment									
Unemployment rate [e]	11.1	9.1	10.0	12.9	11.6	11.0	9.4	8.5	8.2
Prices					**Annual percentages**				
Variation in consumer prices (November-November)	0.6	1.1	2.3	2.6	3.1	4.2	3.0	4.1	6.4
Nominal deposit rate [f]	5.4	4.4	4.3	4.8	5.2	5.4	5.8	5.9	6.2
Nominal lending rate [g]	16.0	15.5	14.8	14.4	13.9	14.2	14.2	14.3	14.2
					Percentages of GDP				
Money and credit [h]									
Domestic credit	49.4	56.6	51.0	57.2	64.1	63.3	64.5	70.1	69.7
To the public sector	8.2	11.9	3.2	5.7	10.6	9.3	8.7	8.9	7.4
To the private sector	41.2	44.6	47.8	51.5	53.5	54.0	55.8	61.2	62.3
Liquidity (M3)	58.0	59.7	57.0	55.7	59.1	59.6	62.0	68.0	70.9
					Percentages of GDP				
Central government									
Total income [i]	...	27.7	30.4	22.8	24.3	23.9	24.8	30.0	29.0
Current income	...	26.2	28.9	21.6	21.4	22.9	23.3	25.5	26.4
Tax income	...	23.9	26.5	19.0	19.3	20.5	21.2	22.6	22.4
Capital income	...	0.7	0.2	0.9	1.3	0.3	0.4	1.1	0.3
Total expenditure	...	39.2	34.0	31.8	30.6	30.7	26.7	31.2	27.8
Current expenditure	...	30.6	26.8	20.0	22.4	25.2	22.7	24.9	22.3
Interest	...	10.1	6.3	4.0	5.8	6.7	5.8	5.3	3.8
Capital expenditure	...	8.7	7.1	11.9	8.2	5.5	4.0	6.3	5.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Primary balance	...	-1.5	2.8	-5.0	-0.5	-0.1	3.9	4.1	4.9
Overall balance	...	-11.6	-3.6	-9.0	-6.3	-6.8	-1.9	-1.2	1.1
Total public debt	...	68.7	79.3	96.3	99.7	99.5	93.5	89.4	81.3
Domestic	...	12.0	9.2	13.0	13.2	12.5	12.4	12.7	12.4
External	...	56.8	70.1	83.3	86.5	87.0	81.2	76.7	68.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Percentage of the economically active population. Nationwide total.
[f] Rate for savings.
[g] Weighted average rate for loans.
[h] The monetary figures are end-of-year stocks.
[i] Includes grants.

and the primary surplus would have narrowed to 2.7% of GDP. This highlights the need for reforms to the structure and administration of taxation to reduce dependence on volatile grant receipts.

Expenditure contracted by 3.1%, dampened by a sharp reduction in foreign interest payments and the termination of one-off debt restructuring fees from 2007. Outlays on wages and salaries and on goods and services moved in opposite directions, with the former increasing by 6.8% and the latter declining by 14.5%.

With the strengthened fiscal stance in 2008, both external and domestic lending to the government decreased. The public sector's external debt declined by 1.8% to the equivalent of 68.9% of GDP, while total public debt fell from 89% to 81% of GDP. Disbursements totalled US$ 83 million, of which 57% represented credit for fuel imports under the PETROCARIBE initiative with the Bolivarian Republic of Venezuela.

The budget for fiscal year 2009-10 projects a deficit of 1.7% of GDP. The deficit will be driven by a spike (22%) in capital spending on infrastructure and other projects.

(b) Monetary and exchange-rate policy

Monetary policy was largely neutral in 2008 with no real policy intervention, despite the sharp growth in liquidity at the end of the year relative to 2007 (13%). The policy authorities deemed the hike in statutory reserves since 2006 as adequate to control credit expansion and thereby limit the depletion of foreign reserves. This is essential to the stability of the pegged exchange rate, which underpins stable inflation.

The monetary stance was aided by the strong fiscal result, which led to an accumulation of government deposits at the central bank. Net lending to the government fell by 14.5%, contributing to a sharp easing of total domestic credit growth from 14.3% in 2007 to 7.9% in 2008. Growth in credit to the private sector slowed to 10.6% from 15.4% in 2007, as more sluggish credit growth to services, the primary sector and manufacturing, linked to the elimination of the Universal Health Services (UHS) debt, more than offset the sharp rise in personal loans.

Reflecting the slowdown in domestic credit, broad money expanded at a slower pace (13.3%) relative to 15.4% in 2007. The deposit profile indicated a lengthening of maturity, as money growth was fuelled by time deposits. Growth in the foreign component of the money supply slowed as the central bank's build-up of reserves was offset by the depletion of those of commercial banks.

Banking sector liquidity was bolstered by reduced lending, as well as inflows from tourism and repatriation by residents of funds held overseas, partly in response to market uncertainty. With high excess reserves overall, however, competition increased, especially for the portfolios of large depositors. This nudged up the weighted average deposit rate by 40 basis points, while the weighted average lending rate fell by 20 basis points to 14.1%.

The central bank is putting systems in place to move to a more market-oriented monetary policy, including the use of open market operations to manage liquidity in the banking system. This approach is expected to foster the development of a vibrant interbank market that could benefit banks with liquidity problems.

In response to the difficulties of the CLICO Group, the government has imposed a number of restrictions on the operations of CLICO Belize to protect policyholders.

3. The main variables

(a) Economic activity

Despite the negative impact of the floods and a spreading global recession, growth in Belize rebounded in 2008, posting 3.3% relative to 1.2% in 2007. The pick-up in activity was spurred by a marked increase in oil production and the recovery of agriculture. Petroleum production expanded by 23.5% as the number of producing wells increased from five to seven, taking advantage of higher international prices. A major surge in hydroelectric power generation from the Beacon and Vaca dams also contributed to growth in activity. As a result, manufacturing, which includes petroleum refining, posted growth of 7.8% and mining and quarrying 22.9% (the latter, however, constitutes less than 1% of GDP).

Agriculture recovered (2.9%) from its weak performance in 2007 (-20.7%), when output was severely affected by hurricane Dean, floods, and pest and disease infestation. While sugar, the second most important crop after citrus fruits, contracted owing to weather damage and froghopper infestation, citrus fruit output rose, largely owing to improved extension services and husbandry. Similarly, banana production expanded by 30.8% thanks to improved agronomic practices and additional demand from the Dole company. Nevertheless, output remained at lower levels than in the previous five years.

The two largest sectors of the economy —commerce, restaurants and hotels and financial services— also posted positive growth. The former grew by 1.8% (2.3% in 2007) despite a contraction in stay-over arrivals (2.8%), the first such contraction in 12 years, which was mainly due to a fall in arrivals from the United States. Cruise visitor arrivals were also down (4.1%). In response, the government has embarked on a promotion programme which includes securing more attractive rates from major airlines and marketing in Latin America, but such efforts are constrained by limited budgetary scope. Financial services grew by 2.3% as compared to 5.1% in 2007.

The pass-through effects of the recession in major markets is expected to lead to a slowing of activity in 2009. Growth is projected to fall to 1%, linked to declines in tourism, construction, citrus fruit production and distribution. Meanwhile transport and communication will post positive growth thanks to expansion in cellular telephony.

To cushion the impact of the fallout in major markets, the government has prioritized a number of infrastructure projects; reintroduced excise taxes on fuels and raised import duty on petrol and diesel fuel.

(b) Prices, wages and employment

Inflation (November-November) rose to 6.4%, the highest rate in the last 12 years, driven by soaring international food and fuel prices in the first three quarters of the year. It moderated, however, with the decline in fuel and food prices in the fourth quarter. On an annual basis, food and fuel prices were up 13.3% and 3.6%, respectively. Inflation declined by 1.6 percentage points over the quarter from November 2008 to February 2009.

Mid-year unemployment (June 2008) fell from 8.5% to 8.2%, as the pick-up in economic activity led to a 2.4% increase in job growth relative to a 1.9% rise in the labour force. Most jobs were created in the primary sector (18.5%), but the tertiary sector remained the largest employer with 57.3% of the working population. Employment is expected to be adversely affected in 2009; the fallout from slowing global demand is likely to lead to job losses in tourism, construction and other sectors.

(c) The external sector

The external accounts worsened in 2008, as surging imports for capital projects caused the current account deficit to almost triple, to 10.8% of GDP. Import payments soared by 22.8%, reflecting both higher volumes and prices for capital goods, fuel and food and animal feed products. Exports also grew, by 9.2%, bolstered by higher petroleum exports that were spurred by increased production, stemming partly from the hike in international prices. Exports of non-traditional products, including sawn wood and citrus oils, also recorded increases, while the other key commodity exports turned in a mixed performance. Sugar exports contracted in both value and volume owing to unfavourable weather and pest damage.

The services surplus declined for the first time since 2000, owing mainly to falling tourism and transportation receipts. Net transport payments rose on account of lower receipts from port calls (16.4%) and higher transportation costs (22%).

Net current transfers rose by 19.5% to the equivalent of 8% of GDP. Net transfers were boosted by a grant from the government of Taiwan province of China; by insurance and remittance receipts; and by a fall in transfers to non-resident entities in relation to the Universal Health Services debt.

The expanded current account deficit was financed by capital and financial inflows, with the balance shooting up from 8.9% of GDP in 2007 to 15.7% of GDP in 2008. The capital account surplus was boosted by grants under the European Union sugar and banana support programmes and from the Caribbean Development Bank for the Basic Needs Trust Fund. The financial account surplus expanded by 90.6% to US$ 209 million as a result of large FDI outlays in petroleum, real estate and tourism. Loan repayments were also down because of the debt restructuring of 2007. Gross international reserves increased by 53.2% to US$ 166.2 million, raising the import cover from 2.3 to 2.8 months.

The slowdown in growth is expected to lead to a reduced current account deficit in 2009, estimated at 9.7% of GDP, as imports will contract by around 12% owing to lower prices and a substantial decrease in imports of capital goods as a result of the winding down of major projects and sluggish private consumption. Exports are projected to fall sharply (16%) on account of a major softening of commodity prices. The collapse of FDI inflows means the current account deficit will have to be financed by drawing down official reserves. Nevertheless, import coverage should remain at around three months, owing to lower import volumes.

Cuba

1. General trends

The Cuban economy grew by 4.3% in 2008, down from 7.3% the previous year. For the third consecutive year, per capita GDP rose at the same rate as overall GDP, reflecting zero demographic growth. The consumer price index was practically unchanged, falling by 0.1 of a percentage point, while unemployment contracted from 1.8% in 2007 to 1.6% in 2008. By contrast, both the fiscal deficit and the external deficit worsened. The fiscal deficit rose from 3.2% of GDP in 2007 to 6.7% in 2008. In the same period, the balance-of-payments current account went from a small surplus to a deficit equivalent to several percentage points of GDP.[1]

The Cuban economy was hit by three main external shocks in 2008. First, higher food prices, along with the loss of harvests owing to hurricanes, increased the food bill by US$ 840 million. Second, the international price of nickel, Cuba's principal export product, dropped sharply. Third, borrowing conditions were tightened and access to credit from suppliers was restricted.

Weather phenomena were exceptionally intense in 2008. The country was buffeted by three hurricanes and a tropical storm. The damage and losses were officially estimated at US$ 9.7 billion (nearly 20% of GDP).

The government had expected GDP to rise by 6% in 2009. ECLAC, however, estimates that it will increase by about 1% for the year, based on the progressive worsening of both external and domestic conditions and GDP growth of 2.8% in the first quarter of the year. The country is once again facing a situation as difficult as that of the "special period" of the 1990s.

In 2008, a highly significant political change occurred, as Raúl Castro replaced his brother, Fidel Castro, as President of the Council of State. In addition, ties with the European Union returned to normal after five years of friction. In early 2009, under a new government, the United States changed its policy towards Cuba, with the promise of greater economic openness between the two nations in the near future.

2. Economic policy

(a) Fiscal policy

Economic difficulties adversely affected the State's fiscal balance, as the deficit rose from 3.2% of GDP in 2007 to 6.7% in 2008. The reasons for this were lower revenue and higher spending, the latter mostly in response to weather damage.

Total central government revenue increased by 4.5% in real terms, compared with an 11.1% increase the previous year. Indirect tax revenues fell by 16.5% because of a sharp decrease in circulation taxes. In addition, taxes

[1] As of the closing date of this document (30 June 2009), Cuba had not published balance-of-payments figures.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	5.9	3.2	1.4	3.8	5.8	11.2	12.1	7.3	4.3
Per capita gross domestic product	5.6	2.9	1.2	3.6	5.6	11.1	12.0	7.3	4.3
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	9.1	0.9	-2.5	2.4	0.2	-11.6	-6.0	18.0	1.5
Mining and quarrying	33.2	-3.5	12.4	1.8	-4.7	0.1	1.9	3.4	1.6
Manufacturing	5.1	-0.6	0.2	-2.0	2.5	1.2	2.7	9.9	1.1
Electricity, gas and water	12.8	1.1	2.4	3.1	-2.5	-1.6	3.4	7.9	0.9
Construction	8.4	-5.3	-2.4	4.4	10.0	18.9	37.7	-8.6	3.3
Wholesale and retail commerce, restaurants and hotels	7.6	4.4	2.0	5.0	0.7	4.8	22.7	0.5	-2.6
Transport, storage and communications	5.0	8.4	0.0	2.7	4.8	8.2	9.2	6.7	8.3
Financial institutions, insurance, real estate and business services	0.9	5.4	1.2	0.2	4.9	1.0	2.8	8.1	4.7
Community, social and personal services	3.5	5.6	3.4	7.7	14.2	29.6	8.9	14.5	8.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.4	3.7	2.7	6.5	3.7	3.6	15.0	4.4	-0.2
Government consumption	3.0	3.3	4.1	7.3	8.6	10.4	7.9	10.5	7.9
Private consumption	2.1	3.8	2.1	6.2	1.5	0.4	18.7	1.5	-4.4
Gross domestic investment	11.3	0.8	-10.8	-9.6	13.5	33.0	26.0	2.4	7.1
Exports (goods and services)	14.1	-3.6	-3.8	5.8	19.0	47.5	1.3	13.8	16.9
Imports (goods and services)	-0.2	-3.8	-7.3	12.1	13.0	25.8	20.4	-1.1	2.5
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	12.5	11.5	9.2	8.5	8.8	10.8	11.7	10.2	...
National saving	10.2	9.6	8.2	8.6	9.1	11.1	11.3	11.0	...
External saving	2.3	1.9	1.0	-0.1	-0.3	-0.3	0.4	-0.8	...
					Millions of dollars				
Balance of payments									
Current account balance	-696	-605	-343	20	116	140	-215	488	...
Goods balance	-3 120	-2 847	-2 388	-2 574	-2 918	-5 235	-6 331	-6 253	...
Exports, f.o.b.	1 675	1 622	1 422	1 671	2 180	2 369	3 167	3 830	...
Imports, f.o.b.	4 796	4 469	3 810	4 245	5 098	7 604	9 498	10 083	...
Services trade balance	2 306	1 931	1 825	2 329	2 710	6 375	6 456	7 900	...
Income balance	-622	-502	-600	-650	-650	-633	-618	-960	...
Net current transfers	740	813	820	915	974	-367	278	-199	...
Capital and financial balance [d]	805	595	300	200	800	...	...	...	...
Overall balance	109	-11	-43	220	916	...	...	...	...
Variation in reserve assets [e]	-109	0	0	0	0	...	...	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	90.5	94.1	99.8	106.1	105.4	112.3	115.1	125.9
Official exchange rate (pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Average unofficial exchange rate (pesos per dollar)	21.00	26.00	26.00	26.00	26.00	24.00	24.00	24.00	24.00
Terms of trade (index: 2000=100)	100	114	105	121	133	130	164	172	113
Gross external public debt (millions of dollars) [g]	10 961	10 893	10 900	11 300	5 806	5 898	7 794	8 908	9 906
					Average annual rates				
Employment									
Labour force participation rate [h]	70.1	70.9	71.0	70.9	71.0	72.1	72.1	73.7	74.8
Unemployment rate [i]	5.4	4.1	3.3	2.3	1.9	1.9	1.9	1.8	1.6
Prices					Annual percentages				
Variation in consumer prices [j] (December-December)	-2.3	-1.4	7.3	-3.8	2.9	3.7	5.7	2.8	-0.1
Variation in average real wage	8.7	-3.8	9.3	2.5	6.3	13.0	11.6	-0.9	-1.8
Nominal lending rate [k]	...	...	...	9.6	9.7	9.8	9.4	9.1	9.0

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income	36.2	34.4	35.0	35.7	33.8	44.0	43.2	46.0	45.9
Current income	35.1	33.5	33.9	34.4	32.8	42.5	41.7	43.7	44.1
Tax income	27.5	25.9	26.6	26.9	23.3	28.7	30.0	27.7	23.6
Capital income	1.1	0.8	1.2	1.3	1.1	1.5	1.5	2.3	1.8
Total expenditure	38.4	36.7	38.0	38.7	37.6	48.6	46.4	49.2	52.6
Current expenditure	28.0	28.2	30.7	31.7	30.2	38.9	33.6	38.3	43.1
Interest	0.9	0.9	0.7	0.7	0.7	1.2	1.2	1.4	1.4
Capital expenditure	5.7	6.3	5.8	5.8	6.0	7.2	9.1	8.3	7.2
Primary balance	-1.3	-1.5	-2.3	-2.2	-3.0	-3.3	-2.0	-1.8	-5.3
Overall balance	-2.2	-2.3	-3.0	-3.0	-3.7	-4.6	-3.2	-3.2	-6.7
Liquidity [l]									
Currency outside banks and local-currency deposits (M2)	36.8	39.0	40.6	37.7	38.0	46.6	38.6	37.2	40.6
Domestic credit to the private sector	...	...	...	...	...	9.2	15.0	21.0	23.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] On the basis of figures in national currency at constant 1997 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Provisional figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.
[g] From 2004, refers only to active external debt; excludes long-term debt, 60.2% of which is official external debt with the Paris Club.
[h] Percentage of the economically active population, nationalwide total.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Local-currency markets.
[k] Average of loans to enterprises by the country's main banks.
[l] The monetary figures are end-of-year stocks.

associated with the massive sale of household items as part of the "energy revolution" also declined, owing to the conclusion of the programme. Direct tax revenue was stagnant owing to the opposing effects of the cut in taxes on company profits (16.2%) and the increase in labour-force utilization taxes (28.6%).

Total spending increased by 13.2%, in real terms, exceeding the previous year's increase. Current spending rose 16.2%, because of increases both in budgeted activities (including education, health, culture and sports) and in subsidies in response to higher prices for food and petroleum, given the government's intention of maintaining the population's consumption levels. The costs of evacuation, protection, repairs and replacement that the country had to incur also pushed up spending.

In the past 18 months, public policy has focused on agricultural production. Since the State system's output was insufficient, food has increasingly been imported and imports now account for about 80% of total consumption. Higher international food prices moved agriculture to the top of the list of priorities.

The government plans to replace imported food with domestically-grown food, especially from the non-government sector. To this end, small producers were given idle State-owned lands for their private use, producer prices for key products such as milk and beef were raised, and individual producers were permitted to purchase inputs.

Another important decision taken in 2008, with potentially far-reaching effects, was the change in the wage system. The wage ceiling was eliminated, and pay will now depend on productivity and individual performance.

In 2008, in light of the rapid ageing of the population and the resulting costs, a new social security law was passed. The most noteworthy changes include the raising by five years of the retirement age, to 65 for men and to 60 for women. In addition, pensioners will be allowed to earn work-related income without forfeiting their pensions.

Other measures in this period include the elimination of the ban on selling computers, DVD players and appliances, and on staying at hotels intended for foreign tourists. Mobile phone purchases are now allowed, which is expected to be highly beneficial given the difficulty of using the landline network.

The continued deterioration of the fiscal situation in 2009 made it necessary for the authorities to revise the budget in the first half of the year.

(b) Monetary and exchange-rate policy

Monetary policy in 2008 continued to follow the guidelines set in previous years. Prices were stabilized not only in sectors in which price controls are in effect but also in sectors, such as agriculture, where market forces play a greater role in determining prices. The hurricanes caused shortages of some food products in September. The resulting strong hikes in the prices of these items made it necessary for the authorities to impose temporary controls and lower prices to their pre-hurricane levels.

Monetary aggregates increased slightly more than nominal GDP. Nominal M1 expanded 10%, whereas M2 expanded 17%, driven by a 33% increase in term deposits. However, the country's monetary indicators exclude transactions in hard currency as well as in convertible pesos.

Although the authorities still planned to gradually abandon the two-tier monetary system —characterized, mainly, by an overvalued official exchange rate— no steps were taken in this direction in 2008. The exchange rate between the convertible and the non-convertible peso remained at 24 to 1. The exchange rate of the convertible peso to the United States dollar also remained unchanged, at 1 to 0.92. A 10% surcharge is levied for using dollars in cash.

Given that there was some expectation that the peso might be revalued in the first half of 2008, demand for it temporarily rose, causing a slight change in the ratio of convertible to non-convertible pesos in circulation. Interest rates remained unchanged, except for a slight decrease in the rate on convertible pesos, from 9.1% to 9.0%, the same rate in effect for non-convertible pesos.

The Currency Approval Committee was eliminated to gradually loosen government controls on using foreign currency. Ministries now have the authority to decide on how they use foreign currency and must take responsibility for managing financial variables.

In the first few months of 2009, the country's external solvency continued to deteriorate, which led to a shortage of hard currency. The fall in exports and in foreign-exchange earnings from international tourism has caused a delay in payments and led to the freezing of the bank accounts of some foreign companies that operate in Cuba.

The government has responded by reviewing the budgeted revenue and expenditure of all State agencies and companies to identify savings, and adopt an adjustment plan. The number of subsidized food products was reduced and measures to curb energy consumption by 12% were announced. These measures will have repercussions on expected GDP growth for the year.

(c) Other policies

In 2008, Cuba continued to step up cooperation with China, its second-largest trading partner. This led to the visit of the Chinese President and the signing of several bilateral agreements. Progress was also made on an economic cooperation programme with Brazil.

Cuba was admitted as a full member of the Permanent Mechanism for Consultation and Policy Co-ordination (Rio Group). In June 2009, the 1962 resolution by which the Organization of American States had excluded Cuba was rescinded.

Although the re-establishment of bilateral cooperation between the European Union and Cuba will not usher in profound, long-term changes, the measure may partially ease the country's current financial difficulties. One example is the 2009 donation of 30 million euros by the European Union to rebuild hurricane-damaged areas. Cuba is negotiating a € 270 million support plan with Spain, to open new lines of credit, write off part of its debt and modify the terms for the repayment of the rest.

Also significant is the change in the policy of the United States government towards Cuba. The administration of President Barack Obama has announced a policy that departs substantially from that of the previous administration. Restrictions on sales of food and medicine to Cuba were eased, as were limitations on travel by Cuban-Americans to the island. In addition, sending remittances has been made easier, and limits on the amount that may be sent have been relaxed. Nevertheless, the depth and scope of the changes are not yet clear.

The other countries of the hemisphere continued to normalize their relations with Cuba, as Costa Rica re-established its ties with Havana in early 2009. When El Salvador followed suit in June, the United States was left as the only country not to have diplomatic relations with Cuba.

3. The main variables

(a) Economic activity

The economy grew by 4.3% in 2008, three percentage points less than in 2007, mainly owing to adverse external conditions and weather phenomena.Consumption dropped slightly (0.2%), because the increase in public consumption (7.9%) was insufficient to offset lower private consumption (4.4%). The two components' rates of growth were below their 2007 level.

One reason for the drop in private consumption in 2008 was the massive purchase of appliances in 2006-2007 under the household energy saving programme.

Gross investment rose 7.1%, substantially higher than the 2.4% increase in 2007. Exports increased by 16.9% and imports rose by 2.5%.

Of the major areas of activity, basic services posted the strongest gain (7.2%). The increases in goods (1.8%) and other services (3.9%) were almost four points lower than in 2007. Because of adverse weather, value added in agriculture, hunting, forestry and fishing grew only 1.5%, less than one tenth the increase recorded the previous year. Sugar cane and potatoes, the output of which rose more than one third, were the only crops to post high rates of growth. Although the output of vegetables, cereals, tobacco, citric and other fruits decreased, that of milk, beef and pork rose.

Manufacturing grew by only 1.1%, far below the 2007 figure of 9.9%. By contrast, the output of several foodstuffs, including raw and refined sugar, wheat meal, cheese and pasta rose sharply. The value added of metal and non-metal goods, chemicals, leather goods and wood products diminished. The results for construction were mixed, with a decrease in housing and an increase in non-housing construction, for an overall growth rate of 3.3%.

The 8.3% growth in transportation, storage and communication, largely the result of the acquisition of buses and trucks, eliminated a significant bottleneck in the economy. The commerce, restaurant and hotel sector decreased at a rate 2.6% since it was compared with the high level posted in 2006 and 2007 owing to the massive sales of appliances during that period as part of the energy modernization programme. Community, social and personal services increased 8.4%, continuing the strong performance of previous years.

Official estimates put the cost of damage from weather events in 2008 at US$ 9.7 billion —higher than the cost of all such damage in Cuba from 2000 to 2007, calculated at US$ 9.1 billion. The hardest-hit sectors were agriculture and housing (with 530,000 homes affected, including 90,000 destroyed). The Cuban economy has a production capacity of 50,000 housing units a year. The losses in agriculture made it necessary to step up food imports.

(b) Prices, wages and employment

Inflation, as measured with the December-to-December consumer price index, fell slightly to a negative level (-0.1%) in 2008 in markets in which the national currency (non-convertible peso) is used. The annual average increase was 2.2%, reflecting the impact of food prices as a result of the hurricanes in the third quarter. Nevertheless, government price controls lessened inflationary pressure in the fourth quarter.

The unemployment rate fell two tenths of a percentage point to end the year at 1.6%. The female unemployment rate (2%) remained slightly above the rate among males (1.3%). Nevertheless, according to official figures, there are 189,000 working-age persons who neither work nor study. This is a source of concern for the authorities, because this population segment receives public services and other State benefits without contributing to society.

Average real wages in non-convertible pesos, were slightly down (0.5%) in 2008. The average for wages that are partly in non-convertible pesos and partly in convertible pesos (which was introduced to stimulate productivity) posted a slight increase of 0.2%. The minimum wage declined by 2.2%.

(c) The external sector

The global economic crisis caused the balance-of-payments current account to go from a surplus equivalent to 0.8% of GDP in 2007 to a deficit equivalent to several points of GDP in 2008.

The value of goods exports fell 0.6% in 2008, despite an increase in the volume exported (12.2%). The main determinant of this result was the sharp drop in the international price of nickel, Cuba's leading export. At its peak, during the recent boom, the value of nickel was close to US$ 50,000, but by early 2009, the cost had fallen to less than one fifth of that (US$ 9,000). Exports of fish and seafood, citrus fruits, preserved fruit, tobacco and medicine also contracted.

By contrast, the import bill jumped sharply (41.3%). Nearly all of this increase was due to higher prices, given that the volume imported rose only 4.4%. Whereas the cost of intermediate goods imports soared 61.7%, owing to high petroleum and food prices, that of capital goods imports fell slightly (0.4%). Given these trends and their negative effect on trade, the country's terms of trade worsened by 34.5%. The country was unable to make up for the trade deficit with earnings from services, a sector that had traditionally run a surplus on the strength of tourism and medical services.

Dominican Republic

1. General trends

Owing to the deceleration of worldwide economic activity observed during the second semester, the Dominican economy expanded by 5.3% in 2008, less than the 9.5% average recorded over the last three years. The inflation rate stood at 14.6% in September but, as a result of the monetary policies applied and the drop in commodity prices, inflation fell during the last quarter and closed the year at 4.5%.

In 2008, the non-financial public sector showed a deficit equivalent to 3.4% of GDP, compared to a 0.1% surplus in 2007, owing mainly to reduced revenue and increased spending on measures to address the damage caused by storms since late 2007 and to mitigate the effects of higher food and fuel prices.

The external balance worsened, owing in large measure to increases in the oil bill and a sharp drop in ferronickel exports. The current account deficit at the end of 2008 was equivalent to 9.7% of GDP, and was financed by an upswing in foreign direct investment (FDI) flows, which reached a record high of US$ 2.885 billion.

Presidential elections were held in May 2008 and President Leonel Fernández was re-elected. While the new government focused on constitutional reform during the first few months, public policy shifted towards addressing the international financial crisis in the last quarter of 2008. The impact on the Dominican economy was reflected in reduced flows of remittances and tourism, along with worsening financial conditions.

The economy recorded growth of 1% in the first quarter of 2009 in relation to the same period of the previous year. ECLAC predicts a growth rate of 1.0% for 2009. The 2009 budget projects a central government deficit of 1.7% of GDP.

2. Economic policy

(a) Fiscal policy

The central government recorded a 3.2% deficit in 2008, as compared with a surplus equivalent to 0.1% of GDP in 2007. This result is mainly due to a significant increase in current expenditure —particularly transfers and interest— and a drop in revenue in real terms stemming from less buoyant economic activity, as well as the granting of tax exemptions and tax cuts.

Total central government income contracted by 5.4% in 2008, following an average rate of over 16% during the previous two years. The reduction in tax revenue, which suffered a drop in real growth from 15.5% to -2.1%, can be attributed to the deceleration of economic activity, the granting of tax exemptions to the agricultural sector to help mitigate the effects of the storms in late 2007 and the lowering of the highest income-tax rate. Consequently, the tax burden fell from 16% to 15% of GDP.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3
Per capita gross domestic product	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	6.9	3.8
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	4.2	9.5	2.5	1.8	-2.5	5.9	8.6	1.2	-3.4
Mining and quarrying	16.1	-13.5	7.7	8.8	5.8	-0.1	11.0	-1.4	-30.3
Manufacturing	3.7	-1.9	4.9	0.9	2.4	6.3	3.2	2.4	2.6
Electricity, gas and water	6.6	15.1	9.7	-6.9	-23.8	4.8	6.3	9.7	10.3
Construction	-4.0	-3.9	4.6	-17.1	-2.3	9.2	24.6	3.2	-0.4
Wholesale and retail commerce, restaurants and hotels	4.4	-1.0	4.5	-2.3	-1.2	12.5	8.3	9.3	4.3
Transport, storage and communications	9.6	19.8	15.1	5.7	6.5	18.9	17.8	12.5	15.5
Financial institutions, insurance, real estate and business services	2.4	7.4	7.7	3.9	-1.6	2.0	9.0	11.0	7.3
Community, social and personal services	6.3	2.1	4.1	3.5	2.7	-1.2	5.8	4.5	3.5
Gross domestic product, by type of expenditure									
Gasto de consumo final	4.7	3.5	5.7	-4.9	3.1	15.4	12.0	8.9	7.1
Consumo del gobierno	3.7	9.2	8.0	-12.6	3.8	10.2	11.0	10.0	7.7
Consumo privado	4.7	3.3	5.6	-4.6	3.1	15.7	12.0	8.9	7.1
Gross domestic investment	13.5	-4.0	5.0	-20.2	-1.8	13.3	21.3	12.5	9.2
Exports (goods and services)	8.7	-6.1	2.0	10.6	3.6	-1.2	0.7	3.2	-2.6
Imports (goods and services)	8.5	-4.7	1.5	-12.9	5.3	11.3	8.2	6.8	4.5
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	23.3	21.1	21.2	15.0	14.9	16.5	18.4	18.9	18.3
National saving	18.9	18.0	18.0	20.1	19.7	15.1	14.8	13.8	8.6
External saving	4.3	3.0	3.2	-5.2	-4.8	1.4	3.6	5.1	9.7
					Millions of dollars				
Balance of payments									
Current account balance	-1 026	-741	-798	1 036	1 041	-473	-1 288	-2 096	-4 437
Goods balance	-3 742	-3 503	-3 673	-2 156	-1 952	-3 725	-5 564	-6 437	-9 147
Exports, f.o.b.	5 737	5 276	5 165	5 471	5 936	6 145	6 610	7 160	6 949
Imports, f.o.b.	9 479	8 779	8 838	7 627	7 888	9 869	12 174	13 597	16 095
Services trade balance	1 854	1 826	1 757	2 249	2 291	2 457	2 985	3 021	3 093
Income balance	-1 041	-1 092	-1 152	-1 393	-1 825	-1 902	-1 853	-2 081	-1 815
Net current transfers	1 902	2 028	2 269	2 336	2 528	2 697	3 144	3 401	3 432
Capital and financial balance [d]	978	1 256	243	-1 583	-862	1 178	1 452	2 716	4 117
Net foreign direct investment	953	1 079	917	613	909	1 123	1 528	1 579	2 885
Other capital movements	25	177	-674	-2 196	-1 771	55	-77	1 137	1 232
Overall balance	-48	515	-555	-546	179	705	164	620	-320
Variation in reserve assets [e]	70	-519	527	358	-542	-1 109	-314	-679	303
Other financing	-22	4	28	189	363	404	150	59	17
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	96.5	98.5	131.3	125.5	87.4	95.7	95.9	98.4
Terms of trade for goods (index: 2000=100)	100.0	100.9	101.5	97.9	96.7	95.8	94.9	98.0	93.6
Net resource transfer (millions of dollars)	-85	168	-881	-2 787	-2 324	-321	-251	694	2 319
Total gross external debt (millions of dollars) [g]	3 679	4 176	4 536	5 987	6 380	5 847	6 296	6 556	7 220
					Average annual rates				
Employment									
Labour force participation rate [h]	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.1	55.6
Open unemployment rate [i]	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6	14.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	9.0	4.4	10.5	42.7	28.7	7.5	5.0	8.9	4.5
Variation in nominal exchange rate (annual average)	2.4	3.3	9.8	65.7	36.6	-30.2	12.8	-0.3	4.3
Variation in real minimum wage	-0.4	5.7	-0.5	-9.2	-15.0	18.7	-7.1	4.8	-6.5
Nominal deposit rate [j]	18.6	16.1	16.4	20.6	21.1	12.7	9.8	7.0	10.3
Nominal lending rate [k]	23.6	20.0	21.3	27.8	30.3	21.4	15.7	11.7	16.0

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income [l]	13.3	14.5	14.6	13.2	14.0	15.7	16.1	17.7	15.9
Current income	13.2	14.4	14.3	13.1	13.9	15.4	15.9	17.3	15.7
Tax income	12.5	14.0	13.8	12.1	12.9	14.6	14.9	16.0	15.0
Capital income	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	12.9	15.6	16.2	16.1	16.6	16.8	17.2	17.6	19.6
Current expenditure	9.6	10.5	10.5	10.2	12.5	12.6	13.0	13.0	14.4
Interest	0.8	0.8	1.1	1.6	1.8	1.3	1.4	1.2	1.6
Capital expenditure	3.3	5.0	5.7	5.9	4.1	4.3	4.2	4.6	5.1
Primary balance	-1.0	-1.1	-0.2	-2.7	-1.6	0.7	0.3	1.4	-1.6
Overall balance [m]	-1.8	-1.9	-1.3	-4.3	-3.4	-0.6	-1.1	0.1	-3.2
Central-government debt	...	...	...	...	...	22.0	20.4	18.4	20.0
Domestic	...	...	...	...	...	3.3	2.6	2.0	3.8
External	...	...	...	...	...	18.6	17.7	16.4	16.2
Money and credit [n]									
Domestic credit [o]	23.8	24.7	28.7	35.3	23.1	19.4	17.0	16.6	17.5
To the public sector	2.9	1.6	10.4	1.5	6.4	10.2	17.7	17.2	18.3
To the private sector	21.1	24.5	26.5	26.8	18.0	17.5	17.2	19.0	17.9
Others	-0.3	-1.4	-8.2	7.0	-1.2	-8.3	-17.9	-19.6	-18.7
Liquidity (M3)	24.3	27.9	28.5	36.8	27.8	27.7	25.2	25.7	24.0
Currency outside banks and local-currency deposits (M2)	24.2	27.9	28.5	36.8	27.8	27.7	25.2	25.7	23.9
Foreign-currency deposits	0.1	-	-	0.1	-	-	-	-	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports. Owing to lack of data, the period 2002-2008 has been weighted using trade figures for 2001.
[g] Public and guaranteed private external debt.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentage of the economically active population; nationwide total.
[j] 90-day certificates of deposit.
[k] Average of the benchmark rate.
[l] Includes grants.
[m] Includes residuals and other payments (transfers).
[n] The monetary figures are end-of-year stocks.
[o] Includes securities issued for monetary regulation and short- and long-term external loans.

Non-tax revenues were down by 45.6% in real terms, owing to the temporary closure of the Falconbridge mining company in response to falling international prices for ferronickel.

Current expenditure grew by nearly 50 billion Dominican pesos, which translates into a real growth rate of 16.1%. Current transfers were up by almost 30%, mainly owing to subsidies to the electric power sector associated with rising oil prices.

Interest payments swelled by over 36.9%, chiefly from expenses incurred in the plan to recapitalize the central bank. For that purpose, the government issued debt instruments which were structured in such a way that the interest payments would recapitalize the central bank over an estimated ten-year period. As such, the central bank's quasi-fiscal deficit —equivalent to 1.3% of GDP in 2008— was taken over by the central government.

Capital expenditure —which makes up nearly 25% of total spending— fell slightly (15.9%) as compared with the 2007 figure (18.8%) owing to slower growth in fixed investment (22.9%) compared to the 2007 figure (23.5%).

The consolidated government deficit —taking into account donations, which dropped almost 3 billion pesos, and the rest of the non-financial public sector— was equivalent to 3.3% of GDP.

The central government is projected to run a deficit equivalent to 1.7% of GDP in 2009, which will be financed with approximately US$ 740 million from multilateral institutions. By May, the country's Congress had approved only US$ 200 million, which led to the domestic debt programme being moved up. This, in turn, delayed the implementation of some of the government's anti-crisis measures announced after the summit held by President Fernández in early 2009.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	9.2	5.5	8.9	10.3	5.7	9.6	-0.6	6.5	...	...
Goods exports, f.o.b. (millions of dollars)	1 721	1 879	1 749	1 812	1 694	1 853	1 836	1 566	1 285	...
Goods imports, f.o.b. (millions of dollars)	2 473	2 642	2 948	3 226	3 184	3 747	3 743	2 896	2 189	...
Gross international reserves (millions of dollars)	2 547	2 705	2 922	2 946	2 892	2 584	2 636	2 644	2 539	2 476 [c]
Real effective exchange rate (index: 2000=100) [d]	96.2	93.4	96.3	97.7	98.7	99.1	98.0	97.9	99.8	102.6 [e]
Consumer prices (12-month percentage variation)	5.5	5.9	6.8	8.9	9.7	12.2	14.6	4.5	2.4	0.3
Average nominal exchange rate (pesos per dollar)	33.3	32.2	33.1	33.5	33.8	34.1	34.7	35.2	35.6	36.0
Nominal interest rates (annualized percentages)										
Deposit rate [f]	7.7	7.2	6.4	6.6	6.7	8.5	12.5	13.7	12.0	7.9
Lending rate [g]	13.1	11.8	11.3	10.6	11.2	12.5	18.8	21.5	19.4	12.3
Interbank rate	9.1	8.2	7.8	7.9	9.0	10.4	14.1	15.5	11.5	7.6
Domestic credit (variation from same quarter of preceding year)	34.3	36.7	34.1	16.0	19.3	24.9	24.2	15.9	11.1	2.5 [c]
Non-performing loans as a percentage of total credit	5.5	5.4	5.0	4.3	4.3	3.8	3.9	3.5	4.4	4.8 [e]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] 90-day certificates of deposit.
[g] Average of the benchmark rate.

(b) Monetary policy

During the first six months of 2008, monetary policy was focused on containing inflationary pressure caused by rising international food and fuel prices, along with the effects of election expenses.

Raising the benchmark interest rate on three occasions was the principal monetary policy tool used. As a result, the interest rate on short-term deposit earnings rose from 7% at the beginning of 2008 to 9% in August. Placement of debt instruments increased, more changes were made to the composition and calculation of the legal reserve requirement and reserves were used to contain the depreciation of the peso.

As a result of these measures, the real lending rate rose from 6.5% in December 2007 to 19.4% towards the end of 2008. While real deposit rates moved into positive territory, going from -2.2% to 9% during the same period, the financial intermediation margin widened by 175 basis points, closing at 10.5%.

Consequently, total lending by commercial banks to the private sector grew by only 3.7% in real terms in 2008, as compared with 20.7% recorded in 2007. The sectors most affected by the decrease in lending were agriculture (-30.8%) and commerce (-1.1%). The growth rate of consumer lending plummeted from 39.6% to 4.2% in real terms.

The increase in interest rates translated into a reallocation of portfolios whereby demand deposits were replaced with term deposits, which, in turn, caused a reduction in M1 of 8.4% and an increase in M2 of 7.8% in 2008.

During the second half of 2008, worsening expectations for worldwide growth owing to the financial crisis gave rise to falling international prices for practically all commodities. This, together with the delayed effects of the restrictive monetary policy maintained during the first half of the year, led the 12-month inflation rate to end the year at 4.5%.

The sudden drop in the inflation rate made room for a change of direction in monetary policy in order to address liquidity problems caused by the worsening financial crisis in the fourth quarter of 2008, and to stimulate domestic demand.

To that end, beginning in January 2009, the central bank significantly lowered benchmark rates. The rate for interest-bearing deposits went from 9.5% to 5% between December 2008 and May 2009, while the Lombard rate was lowered from 16% to 10% in the same period. Likewise, repurchasing of debt instruments was utilized as a means of boosting liquidity in the financial market and the definition and calculation of the legal reserve requirement were loosened, freeing almost 17 billion pesos (equivalent to approximately 1.1% of GDP) to inject liquidity into the economy. Additionally, the Inter-American Development Bank provided a loan of US$ 300 million, which will in turn be lent to the production sectors by commercial banks.

(c) Exchange-rate policy

Despite volatility in the financial markets, the Dominican peso depreciated only 5% in nominal terms, mainly owing to exceptional FDI flows in 2008 and the central bank's use of US$ 400 million in reserves to intervene in the currency market. Despite this nominal depreciation, the real bilateral exchange rate against the dollar appreciated at an average annual rate of 2.3%.

(d) Other policies

In January 2009 the Dominican government convened the Summit for National Unity in the Face of the International Economic Crisis. The first stage of the summit ended in February and focused on proposals for addressing the international crisis; the second stage ended in May and dealt with initiatives for medium-term development.

In the economic arena, beyond the monetary policy measures mentioned above, other measures included granting fiscal incentives to build affordable housing, creating a 1.5 billion peso fund to support small and medium-sized enterprises and the extension of tax exemptions for the agricultural sector.

Social policy focused on broadening coverage for the contributory family health insurance scheme, launching a pilot programme for subsidized contributory social security and increasing transfers to the Solidarity Programme, which includes subsidized food purchases, promoting school attendance and assistance to older adults.

3. The main variables

(a) Economic activity

GDP growth in 2008 stood at 5.3%, which represents a sizable slowdown with respect to the previous two-year period. During the first quarter of 2009, the economy grew by 1%, owing to a recovery in the agricultural sector as of the last quarter of 2008 and continued buoyancy in the communications and financial sectors. Consequently, ECLAC predicts a growth rate of 1.0% for 2009.

This sizable drop in real GDP growth in 2008 was driven by a contraction in exports (-2.6%) which was not sufficiently offset by vibrant domestic demand (7.5%). Private consumption slowed by almost two percentage points and stood at 7.1%. This result can be traced to the restrictive measures applied by the central bank and the sudden slowing in the growth of remittances (2.1% as compared with 11.2% in 2007). Public consumption, for its part, grew by 7.7%.

Following double-digit growth rates in the previous two years, gross capital formation was up 9.2% in real terms in 2008 owing to a contraction in the construction sector, which was offset by investments in machinery and equipment. Given the decline in demand growth, imports decelerated by more than two percentage points, growing by 4.5%.

The agricultural sector contracted by 3.4%, owing to damage caused by the six tropical storms that have hit since the end of 2007. Agricultural production contracted by 9.3% in 2008.

Mining suffered a significant contraction (-30.3%), affected by the temporary closure of the principal ferronickel production company. Construction also underwent a slight reduction (-0.4%), while manufacturing expanded by 2.6%.

The service sector grew by 8.3%. The most buoyant segments included communications (19.9%) and financial intermediation (13.7%), both of which kept up the favourable performance seen in recent years.

Commerce recorded growth of 5%, a steep deceleration in comparison with the vibrant expansion seen in this sector over the last three years (13.6%). This deceleration worsened as of the third quarter of 2008, owing to reduced availability of consumer credit associated with higher interest rates.

The number of visitors to the country was practically unchanged in 2008 with respect to 2007. A 5% increase in average spending by non-resident foreign visitors played a part in the 3.4% expansion of the hotels, bars and restaurants sector. Lastly, the community, social and personal services sector recorded 3.5% growth, one percentage point less than in 2007.

(b) Prices, wages and employment

In the first half of 2008, the consumer price index was affected by rising international prices for food and fuel, as well as pressure from buoyant domestic demand. Consequently, 12-month inflation hit 14.6% in September. As expected, food and transport were the areas that recorded the sharpest rise in prices, with average increases of over 14% throughout the year.

Given the disappearance of external inflationary pressures in the second half of the year and the effects of monetary policy measures, negative monthly inflation rates were observed in the last quarter. The 12-month rate in December 2008 was 4.5%, which was the target set in the monetary programme.

Although monthly inflation has been positive since January 2009, the cumulative increase in the consumer price index as of May was only 1%. As such, a low inflation rate is expected at year's end.

Despite the deceleration of economic activity, both the open unemployment and the broad unemployment rates showed significant improvement and stood at 4.2% and 14.1%, respectively. In 2008, 105,639 new jobs were created, which is equivalent to an increase of 3% and slightly lower than the figure for 2007 (3.3%). Nevertheless, the effects of the crisis were felt in terms of employment quality, as job creation fell by 0.4% in the formal sector and grew by 4.5% in the informal sector.

Nominal minimum wages in the private sector rose slightly in 2008, while those in the public sector grew significantly. Thus, taking into account the 12-month inflation rate, in real terms minimum wages fell 1.1% in the private sector, while wages in free-zone companies and the public sector rose by 5.4% and 32.8% respectively.

(c) The external sector

The current account deficit practically doubled in 2008 as a proportion of GDP (9.7%), as compared with the 2007 figure. Most of this deficit was financed by foreign direct investment, which reached a record high of US$ 2.885 billion. The widening of the deficit is attributable to an increase in imports (18%) —which reflects the rising oil bill— and a fall in exports (-3%), linked to the fall in ferronickel exports.

On the basis of data from the first quarter of 2009, a severe contraction is projected in external trade. Imports have fallen by almost 30% and exports by 24% with respect to the same period in 2008.

The service balance rose by 2.4% in 2008, recording a surplus of US$ 3.093 billion. The goods balance, on the other hand, shrank by 7% compared with the same period in 2007. This result reflects 5.3% fewer non-residential tourist arrivals than in the same period the year before.

The loss of buoyancy in the world economy was also felt in terms of a significant deceleration in remittances (2.1%). As a result, net current transfers grew by only 0.9% in 2008 compared with 8.9% the year before. This decline continued in the first quarter of 2009 and the year-on-year contraction topped 5%.

The increase in FDI flows in 2008 can be mainly attributed to the sale of shares of the spirits company Brugal. FDI flows are expected to reach close to US$ 1.5 billion in 2009, similar to the figure recorded in the period 2006-2007. Approximately US$ 1 billion of that amount corresponds to investments announced by the mining company Barrick Gold in its development of the Pueblo Viejo mine.

The financial account balance stood at US$ 3.832 billion, while the balance-of-payments deficit —including errors and omissions— was US$ 319.7 billion (0.7% of GDP).

International reserves were used in 2008 to boost liquidity in the financial markets and prevent further depreciation of the peso. Towards the end of November, net international reserves had fallen by US$ 400 million with respect to December 2007. This trend was reversed in December 2008 and by mid-May 2009, net international reserves reached US$ 2.117 billion, equivalent to nearly two months' worth of imports.

Guyana

1. General trends

Economic growth in Guyana slowed to 3.1% in 2008, dampened by a mixture of external and internal factors, such as the global recession and the sugar industry's struggle. The current account deficit deteriorated significantly to stand at 25.8% of GDP, while the external public debt increased substantially to 72% of GDP. Inflation eased significantly, however (from 14.1% in December 2007 to 6.4% in December 2008).

Throughout 2008, the Guyanese authorities implemented diverse measures aimed at countering the impact of negative externalities; fighting price inflation during the first half of the year; and seeking to keep financial markets steady and preserve economic growth during the second. Nevertheless, those efforts implied a cost: a loss of revenue from consumption tax, lower capital expenditure and a growing stock of public debt.

Official estimates for 2009 point to substantial growth, low inflation, and a modest improvement in the external accounts. The structural weaknesses of the economy persist, however and will probably be exacerbated by the deepening of the global crisis. Faced with a commodity-based export sector, a significant dependence on remittances from abroad, a high poverty rate and an elevated debt to GDP ratio, the country's fiscal and monetary authorities will have to tread carefully in order to preserve stability and growth. ECLAC estimates zero growth for 2009.

2. Economic policy

The commitments assumed under the poverty reduction strategy paper (PRSP) and the Heavily Indebted Poor Countries(HIPC) Initiative, among others, continued to shape economic policy.

(a) Fiscal policy

In 2008, total revenue for the central government grew by 8.8%, although fiscal revenue showed mixed results. Income and trade taxes increased by 6.4% and 9.2% respectively, reflecting the government's efforts to improve tax monitoring and collection. Likewise, property taxes and environmental tax receipts also evolved positively. Consumption tax receipts contracted by 3.1%, however, following a reduction in value-added and excise tax rates and the introduction of tax exemptions on essential goods, including fuels and food, in an effort to curb inflation. Thus, although overall tax income grew by 2.3%, as a percentage of GDP it fell from 35.6% to 33.5%.

Boosted by higher transfers from the Bank of Guyana's income, non-tax revenue grew by 11.5%, offsetting lower dividend income from equity holdings. Overall, current revenues rose by 2.6% in 2008, much lower than the very high growth rate (28.7%) recorded in 2007, thanks to the introduction of the value added tax. Grant receipts increased significantly by 48.6%, while transfers from the HIPC Initiative fell by 18.9%.

Growth in fiscal expenditures was lower than expected (at 6.5%) following a drastic reduction (15.1%) in capital expenditures owing to the completion of major projects such as the Skeldon Sugar Complex modernization programme. This reduction in capital expenditure helped

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	-0.7	1.6	1.2	-0.7	1.6	-2.0	5.1	5.3	3.1
Per capita gross domestic product	-0.7	1.6	1.0	-0.9	1.4	-2.0	5.2	5.5	3.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-10.2	-11.4	24.1	-1.7	3.2	-13.7	6.5	0.7	-5.8
Mining	5.9	4.2	-6.9	-8.7	-6.5	-17.8	-21.6	22.5	6.1
Manufacturing [c]	-11.7	86.7	-45.2	-2.2	0.0	12.0	5.2	0.8	-1.9
Construction	6.6	2.0	-3.9	5.6	4.1	9.4	12.0	5.7	8.6
Wholesale and retail commerce, restaurants and hotels	5.2	0.5	-0.9	-2.6	1.9	15.0	10.1	8.8	11.9
Transport, storage and communications	7.1	5.4	4.5	4.9	3.6	9.4	10.0	13.0	10.0
Financial institutions, insurance, real estate and business services	3.6	-3.5	-0.8	1.6	1.0	6.3	8.4	6.2	10.2
Community, social and personal services	8.5	-2.9	-0.8	1.1	1.2	3.2	3.4	2.0	2.6
					Millions of dollars				
Balance of payments									
Current account balance	-82	-91	-62	-45	-20	-158	-250	-189	-299
Goods balance	-47	-56	-24	-17	-8	-233	-300	-365	-502
Exports, f.o.b.	503	485	490	508	584	551	585	698	798
Imports, f.o.b.	550	541	514	525	592	784	885	1 063	1 300
Services trade balance	-24	-20	-24	-15	-47	-53	-98	-100	...
Income balance	-58	-59	-55	-55	-39	-39	-69	-11	-15
Net current transfers	47	44	40	43	74	167	216	287	329
Capital and financial balance [d]	122	71	84	59	41	166	293	188	306
Net foreign direct investment	67	56	44	26	30	77	102	110	179
Other capital movements	55	15	41	33	11	89	191	78	127
Overall balance	40	-19	22	14	21	8	43	-1	7
Variation in reserve assets [e]	-24	35	-13	-5	-10	-24	-61	-37	-45
Other financing	-16	-16	-9	-9	-11	16	18	39	38
Other external-sector indicators									
Net resource transfer	48	-3	20	-6	-10	143	242	215	329
Gross external public debt	1 193	1 197	1 247	1 085	1 071	1 215	1 043	719	834
					Average annual rates				
Prices									
Variation in consumer prices (December-December)	5.8	1.5	6.0	...	...	8.2	4.2	14.1	6.4
Variation in nominal exchange rate (annual average)	2.5	2.7	1.8	1.7	2.3	0.8	0.2	1.1	0.6
Nominal deposit rate [f]	7.3	6.7	4.3	3.8	3.4	3.4	3.3	3.2	3.1
Nominal lending rate [g]	17.2	17.3	17.3	16.6	16.6	15.1	14.9	14.1	13.9
					Percentages of GDP				
Central government									
Total income [h]	37.0	37.0	40.5	37.3	39.6	42.2	43.7	42.1	42.2
Current income	31.8	31.1	32.2	31.5	33.1	34.1	34.1	36.9	34.9
Tax income	29.1	28.3	29.5	28.8	30.9	32.1	32.0	35.6	33.5
Capital income [h]	5.2	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Total expenditure	44.4	47.6	46.1	46.5	46.5	55.7	56.8	49.4	48.5
Current expenditure	31.3	35.3	34.8	34.5	32.1	34.4	34.0	29.7	33.1
Interest	...	8.8	7.7	6.2	4.9	4.4	3.9	2.8	2.8
Capital expenditure	13.2	12.4	11.4	12.0	14.3	21.3	22.8	19.7	15.4
Net capital expenditure	...	-1.8	2.0	-3.0	-2.0	-9.1	-9.3	-4.5	-3.6
Overall balance	-7.4	-10.6	-5.7	-9.1	-6.9	-13.5	-13.1	-7.4	-6.3
Public-sector external debt	167	168	172	146	136	147	114	67	72.0
					Percentages of GDP				
Money and credit [i]									
Domestic credit	19.2	19.5	21.0	17.5	23.9	24.1	23.7	20.7	25.3
To the public sector	-19.9	-18.1	-15.9	-9.2	-0.6	-2.0	-5.7	-8.8	-7.9
To the private sector	44.9	43.3	42.4	33.7	31.0	31.8	33.7	33.7	37.8
Others	-5.8	-5.7	-5.4	-7.0	-6.4	-5.7	-4.4	-4.3	-4.7
Liquidity (M3)	65.7	69.7	70.9	73.8	73.3	75.2	78.5	75.1	78.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1988 prices.
[c] Includes electricity, gas and water.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Small savings rate.
[g] Weighted average prime rate.
[h] Up to 2001, includes grants.
[i] The monetary figures are end-of-year stocks.

to counterbalance the considerable expansion of current expenditures (20.8% increase), fuelled by strong increases in goods and services (19.2%), staff costs (8.7%), and particularly in transfer payments (45.1%). The increase in transfer payments is the result of higher pension and public assistance disbursements.

Consequently, the overall fiscal deficit for 2008 was equivalent to 6.3% of GDP, far exceeding the budgetary target (4.8% of GDP). It was nevertheless an improvement compare with the deficit in 2007 (7.4% of GDP). The deficit was financed with external borrowing; thus, the external public debt grew by 16% to stand at over US$ 834 million by December 2008 or 72% of GDP. Other factors fuelling this disturbing trend in the external debt stock were disbursements from the Inter American Development Bank and the Petrocaribe Fund. In parallel, the stock of domestic debt grew by 8.3% in 2008, mainly because of the strong expansion (208.9% on an annualized basis) in the volume of outstanding six-month treasury bills. Total public debt rose by 98.8%, to stand at 103.8% of GDP. Debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiatives (MDRI) totalled US$ 71 million.

For 2009, allocations for major infrastructure projects will lead to significant increases in capital expenditure and, consequently, to a further deterioration of the fiscal balance. Thus, the fiscal deficit is expected to widen by 24.6% in 2009, or by the equivalent of a full percentage point of GDP, bringing it to 7.3%. The Government has redoubled its efforts to secure debt relief agreements with bilateral and commercial creditors.

(b) Monetary policy

The main objectives for the monetary authorities in 2008 were, first, to keep inflationary pressures at bay; second, to stabilize the exchange rate; and, third, to promote private sector credit and economic growth. In that regard, inflation decelerated, particularly during the second half of 2008, and the exchange rate was basically stable, while credit to the private sectors grew significantly (21.8% increase).

The sectors that benefited most from this credit expansion were mining (100.6% growth), rice milling, distribution, agriculture and services. Lending for real estate mortgages and personal household consumption also picked up substantially: by 29.7% and 13.1%, respectively. Credit to the central government swelled by as much as 65.9%, although overall credit to the public sector decreased by 2.7% as a consequence of the reduction in credit to non-central government public sector entities.

The key mechanism for monetary policy was treasury bills in the primary market, issued in order to absorb excess liquidity in the financial system. Thus, by the end of 2008, the total stock of treasury bills had increased by 16.7% compared with 2007. Conversely, annual growth of money (12.5%) and broad money (12.7%) decelerated slightly compared with the previous year. Interest rates showed just minor variations, with the average nominal deposit rate declining from 3.2% to 3.1%, while the average nominal lending rate fell from 14.1% to 13.9%, as result of high levels of excess liquidity.

For 2009, the reverberations of the CLICO corporate meltdown will be a major issue for monetary and financial policies. CLICO, one of the major financial corporations in the Caribbean, with subsidiary operations in Guyana, had to be bailed out by the Government of Trinidad and Tobago at the beginning of 2009, and the aftershock is still being felt in Guyana. Thus, in February 2009 the government took control of CLICO Guyana, committing up to US$ 34 million to provide guarantees to policyholders and stakeholders.

(c) Exchange-rate policy

Activity in the foreign-exchange market rallied during 2008 by 21.9% with an accumulated total of US$ 4.8 billion in transactions. The stronger inflows of foreign currency were due to higher exports receipts and current transfers, but these were offset by rising demand attributable to the higher cost of imports, particularly during the second and third quarters of the year.

Currency depreciation was minimal, thanks to measures implemented by the Bank of Guyana, including open interventions in the foreign-exchange market. Thus, nominal depreciation of the Guyana dollar (G$) vis-à-vis the United States dollar averaged just 0.7% for the year, while the December 2007-December 2008 currency depreciation was just 0.86%. For 2009, expectations are that the Bank of Guyana will keep supporting a stable exchange rate through market interventions.

3. The main variables

(a) Economic activity

The activity levels of the productive sectors of the Guyanese economy varied widely, mainly as a consequence of exposure to external factors, such as the volatility of international prices of oil and other imported inputs, or the reduction in external demand and the fall in the prices of its exports on international markets.

Distribution was the sector with the most positive performance during 2008, with an 11.9% annual growth rate, thanks to increased demand for consumer and intermediate imported goods. Financial and real estate services, and transport, storage and communication were also buoyant (up by 10.2% and 10%, respectively). In the case of the former, growth can be attributed to significant expansion in private sector credit, while in the latter, the sector expanded thanks to rising competition in non-fixed line telecommunications and higher transportation activity between coastal areas and the interior.

Among the sectors with negative results, agriculture, forestry and fishing (the largest sector of the economy, at 28% of GDP) suffered a larger contraction, countering the gains made in the two previous years. The main catalyst of this fall was the sharp decline in sugar production (-15.1%), owing to delays in the operations of the upgraded Skeldon Sugar Factory, labour problems, pest infestation, and adverse weather conditions. The output of rice, the other major crop, was up by 10.6%, but logging also contracted sharply (by 16.7%).

Manufacturing was down by 1.9%. High fuel and inputs costs were the main factors behind this contraction.

The mining sector grew by 6.1%, although this represented a significant slowdown compared with the growth rate recorded in 2007 (22.5%). This slowdown is attributable to the fall in international bauxite prices during the second half of 2008, which severely affected the industry, with dried bauxite production slumping by 18.1% compared with 2007 levels. Furthermore, preliminary information for the first months of 2009 suggests that the bauxite sector will continue to face a very adverse environment throughout the year.

Overall, GDP growth in 2008 stood at 3.1%, much below the 5.3% achieved in 2007. For 2009, ECLAC estimates 0% GDP growth, but the government hopes to achieve 4.7% growth. If this ambitious goal is to be achieved, several key factors must be present: a fast and smooth recovery in the sugar industry, stabilization of the bauxite sector, or a rally in manufacturing. In that sense, although the outlook for sugar and rice (the country's two main export crops) is generally positive, it should be recalled that the European Union-African-Caribbean-Pacific Sugar Protocol comes to an end in September and that the sugar price guaranteed by the European Union in the second phase of the transition period to the Economic Partnership Agreement (EPA) will be much lower.

(b) Prices, wages and employment

One positive development was the slowdown in price inflation. Thus, cumulative consumer price inflation at the end of 2008 was 6.4%, less than half the level recorded in 2007 (14.1%). For 2009, the official target for inflation has been set at 5.2%, a reflection of lower prices for oil and other imported inputs. Inflation was just 0.4% during the first quarter 2009.

The number of strikes in the public sector escalated from 177 in 2007 to 202 in 2008, of which 198 involved GUYSUCO, the national sugar company. A total of 92,018 person-days were lost in the public sector (an increase of 38.8%), while wage losses by public-sector workers were up by 40.7%. In 2008, the latter received a 5% cost-of-living adjustment in May and December. Similarly, pensions and the minimum public-sector wage were also raised to help to preserve the purchasing power of vulnerable segments of the population.

(c) The external sector

The current account deficit expanded in 2008, from 17.6% of GDP to 25.8% of GDP, owing to the higher cost of imports, such as oil and food, and the negative outturn of the service and income balances. The merchandise trade deficit widened to US$ 502 million, equivalent to 43.3% of GDP. Thanks to higher inflows of in-kind transfers and receipts from bank accounts abroad, net current transfers expanded to stand at US$ 329 million, 28% of GDP, despite a marginal decline in workers' remittances. The current account deficit was offset by an 81% increase in the capital and financial balance surplus, thanks to a considerable increase in FDI inflows. Thus, the overall effect was a modest improvement in the balance of payments, which turned the small 2007 deficit into a rather small surplus in 2008. By year end, net international reserves stood at US$ 299 million, equivalent to 2.7 months of import cover.

The balance of payments in 2009 is expected to deteriorate and turn into a deficit. Although the forecast is for an increase in export earnings, thanks to the recovery in sugar exports, and a lower import bill, this will probably be countered by a sharp decline in workers' remittances and in-kind transfers due to the global recession. Meanwhile, the capital and financial account will record a lower surplus, attributable to weaker private capital inflows and official transfers.

Haiti [1]

1. General trends

The external and domestic shocks which affected the Haitian economy in 2008 resulted in a substantial deceleration of the GDP growth rate, which stood at 1.2%, as compared with 3.4% recorded in 2007. In addition, other macroeconomic indicators reversed the favourable trend from previous years. The growth rate of per capita GDP fell from 1.8% to -0.5%, the inflation rate rose from 7.9% to 19.8% and the balance-of-payments current account recorded a deficit of 4.9%, compared with a surplus equivalent to 0.2% of GDP the previous year. In contrast, the central government fiscal deficit went from 1.6% of GDP in 2007 to 1.2% in 2008.

The external shocks that contributed most to these results were the surges in international food and fuel prices. The domestic shocks with the greatest impact included the institutional crisis which resulted from the fall of the government and paralysed the country from April to August, and the devastating effects of four consecutive hurricanes. According to estimates by ECLAC and other national and international institutions, the combined damage of these two factors represented a total of some US$ 900 million (15% of GDP).

ECLAC projects GDP growth of 2% in 2009. Public investment —within the framework of the emergency programme approved in the wake of the natural disasters— will be the main engine for economic recovery. The agriculture sector may also contribute to growth, since its encouraging first-semester results may offset the highly negative performance in 2008 (-6.1%). Given the slowdown in inflation during the first six months of the fiscal year, an inflation rate of 9% is expected for the year ending in September 2009.

The worldwide recession and, in particular, the deceleration of the United States economy will translate into slacker external demand for Haitian exports (especially maquila textile manufactures) and slower growth in remittances. As a result, the external sector may be characterized by export stagnation and a drop in imports in 2009.

In terms of the financial and monetary climate, the authorities announced the continuation of their tight policy stance aimed at achieving macroeconomic stabilization and lowering inflation, within the framework of the third and final year of the Poverty Reduction and Growth Facility (PRGF) negotiated with the International Monetary Fund (IMF). One of the authorities' prime objectives was to reach, in late June, the completion point under the Heavily Indebted Poor Countries (HIPC) Debt Initiative, of which Haiti is a beneficiary. At that point, Haiti will qualify for approximately US$ 900 million in debt forgiveness and its debt servicing will be reduced by nearly US$ 48 million annually.

[1] This analysis refers to fiscal years 2008 (October 2007 to September 2008) and 2009 (October 2008 to September 2009). To facilitate a regional comparison, however, data is presented by calendar year.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.4	1.2
Per capita gross domestic product	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.8	-0.5
Gross domestic product, by sector									
Agriculture,,hunting, forestry and fishing	-3.6	0.9	-3.7	0.2	-4.8	2.6	1.7	2.7	-6.1
Mining and quarrying	0.5	2.7	0.0	0.0	-7.1	7.7	7.1	0.0	6.7
Manufacturing	-0.5	-0.0	1.8	0.3	-2.5	1.6	2.3	1.3	-0.1
Electricity, gas and water	-9.2	-26.8	1.7	3.3	11.1	7.1	-22.7	-1.7	-8.8
Construction	8.3	0.7	0.9	1.9	-2.7	3.0	2.9	2.6	5.5
Wholesale and retail commerce, restaurants and hotels	4.5	0.4	2.9	0.6	-6.4	1.4	3.0	6.1	6.1
Transport, storage and communications	12.5	2.2	-0.3	1.6	0.8	3.2	4.5	8.1	6.6
Financial institutions, insurance, real estate and business services	4.4	-0.7	-1.6	0.3	-0.8	1.3	2.0	1.8	1.7
Community, social and personal services	-1.6	-2.6	1.1	-1.4	-3.2	1.6	1.5	4.6	4.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	14.8	-1.6	-1.2	0.8	-3.1	5.3	1.2	1.8	3.9
Fixed domestic investment	18.3	-1.2	2.5	3.1	-3.2	1.4	2.2	3.1	7.6
Exports (goods and services)	6.3	-2.2	-2.1	7.7	2.5	6.6	7.2	-2.9	6.9
Imports (goods and services)	29.3	-2.1	-1.2	3.2	-1.7	7.3	1.9	-0.2	7.9
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	27.3	25.9	25.1	30.7	27.3	27.4	28.9	27.7	25.7
National saving	24.3	22.0	22.3	29.1	25.8	27.6	27.1	27.9	21.6
External saving	3.0	3.8	2.8	1.6	1.5	-0.2	1.7	-0.2	4.1
					Millions of dollars				
Balance of payments									
Current account balance	-111	-134	-89	-44	-56	7	-85	10	-295
Goods balance	-755	-750	-706	-782	-833	-849	-1 053	-1 096	-1 617
Exports, f.o.b.	332	305	274	334	377	460	495	522	490
Imports, f.o.b.	1 087	1 055	980	1 116	1 210	1 309	1 548	1 618	2 107
Services trade balance	-108	-124	-123	-164	-204	-399	-399	-417	-421
Income balance	-9	-9	-14	-14	-12	-35	7	5	16
Net current transfers	761	750	754	917	993	1 290	1 361	1 517	1 726
Capital and financial balance [d]	64	131	8	36	91	27	179	151	393
Net foreign direct investment	13	4	6	14	6	26	161	75	30
Other capital movements	51	127	3	22	85	1	18	77	363
Overall balance	-47	-2	-81	-8	35	34	94	161	97
Variation in reserve assets [e]	57	-5	49	25	-50	-22	-109	-208	-171
Other financing	-10	7	32	-17	15	-12	15	47	73
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	100.0	101.2	100.2	98.7	96.0	92.4	88.9	86.4	62.4
Net resource transfer (millions of dollars)	45	129	26	5	94	-20	201	204	482
Gross external public debt (millions of dollars)	1 170	1 189	1 229	1 316	1 376	1 335	1 419	1 541	1 885
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	19.0	8.1	15.2	35.8	19.1	15.4	10.3	10.0	10.2
Variation in nominal exchange rate (annual average)	25.0	15.4	19.7	44.8	-10.2	3.9	0.3	-7.2	6.3
Variation in average real wage	-11.9	-11.6	-8.9	33.5	-14.7	-13.2	-12.0	-7.5	-13.3
Nominal deposit rate [f]	11.8	13.6	8.2	14.0	10.9	3.5	6.0	5.2	2.4
Nominal lending rate [g]	25.1	28.6	25.5	30.7	34.1	27.1	29.5	31.2	23.3
					Percentages of GDP				
Central government [h]									
Total income [i]	8.2	7.8	8.3	8.9	8.9	10.9	10.6	10.9	9.6
Current income	8.0	7.4	8.2	8.8	8.9	9.7	10.2	10.3	9.5
Tax income	7.9	7.4	8.2	8.8	8.9	9.7	10.2	10.3	9.5
Total expenditure	10.5	10.0	11.0	12.0	12.0	11.5	10.6	12.4	10.8
Current expenditure	8.1	8.2	9.0	8.7	9.2	10.2	9.7	9.8	8.6
Interest	0.5	0.3	0.1	0.4	0.7	1.0	0.8	0.3	0.3
Capital expenditure	2.4	1.8	2.0	3.3	2.8	1.2	0.9	2.6	2.1
Primary balance	-1.8	-1.9	-2.6	-2.7	-2.4	0.5	0.8	-1.2	-0.9
Overall balance	-2.3	-2.2	-2.7	-3.1	-3.1	-0.5	-0.0	-1.6	-1.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Central government debt	43.8	46.2	60.2	57.5	46.7	44.1	35.6	32.2	37.6
Domestic	13.6	14.8	17.4	17.2	14.8	13.5	10.5	8.6	12.2
External	30.2	31.5	42.7	40.4	31.8	30.6	25.1	23.7	25.4
Money and credit [j]									
Domestic credit	29.3	30.1	35.6	34.5	29.8	28.6	23.9	21.3	19.1
To the public sector	13.3	14.6	17.3	16.8	14.3	12.8	9.7	7.7	5.9
To the private sector	16.0	15.6	18.4	17.7	15.4	15.7	14.2	13.6	13.2
Liquidity (M3)	37.6	38.7	45.4	47.8	42.5	42.1	37.9	35.8	33.9
Currency outside banks and local-currency deposits (M2)	25.9	25.6	27.9	27.7	26.0	24.1	22.3	20.6	19.0
Foreign-currency deposits	11.7	13.1	17.6	20.0	16.6	18.0	15.6	15.2	14.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1986-1987 prices, fiscal years, October to September.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Average of highest and lowest rates on time deposits, commercial banks.
[g] Average of highest and lowest lending rates, commercial banks.
[h] Fiscal years.
[i] Includes grants.
[j] The monetary figures are end-of-year stocks.

2. Economic policy

In spite of the blows suffered by the economy, economic policy in 2008 was aimed at maintaining the parameters for fiscal and monetary discipline outlined in the Poverty Reduction and Growth Facility (PRGF). After heavy social protests broke out in April 2008, however, the authorities implemented a programme of subsidies to help mitigate the effects of rising prices, specifically for rice and hydrocarbons, which remained in place until August and mid-October respectively.

The main economic policy guidelines for fiscal year 2009 were based on the latest PRGF Review and the letter of intent to IMF in February 2009. In addition, the economic recovery plan announced by the authorities for 2009-2010 outlined four high-priority objectives: reducing vulnerability to natural disasters, improving economic output, providing access to basic services and ensuring macroeconomic stability. Unlike in past programmes, emphasis was placed on the urgent need to facilitate job creation and income generation, in an attempt to make up social lags and stimulate the economy.

(a) Fiscal policy

In fiscal year 2008, the central government's fiscal accounts showed a deficit equivalent to 1.2% of GDP, owing to a 5.1% real reduction in income and a 6.8% decrease in expenditures. Operating expenditures dropped by 31% and investments fell by 13%. Wages, however, showed a positive variation (27%). Subsidies grew by 4.3%, owing mainly to the two programmes undertaken by the government to lower rice and fuel prices. Central bank monetary financing was partially funded (US$ 51 million) towards the end of the fiscal year with resources obtained through the PETROCARIBE programme, an agreement brokered by the Bolivarian Republic of Venezuela.

In an attempt to boost fiscal revenues, the Ministry of Finance and the Economy submitted a proposal to congress —among other measures— to raise the taxes applied to telecommunications services (cellular telephone services). In the face of widespread protests by telecoms operators and other sectors, however, the initiative was scrapped. The administrative and oversight measures adopted in previous years to improve tax collection, increase tax coverage and systematically reduce tax evasion thus became even more important.

As of April 2009, the cumulative balance of the current fiscal year reflected, in real terms, tax revenue growth of 7.4%, thanks to increased takings in direct taxes (15%) and VAT (9.9%). Nevertheless, as result of slight increases in customs duties (2.5%) and a large drop in grants (direct budgetary assistance), total revenues fell by 1.3%.

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross international reserves (millions of dollars)	333	369	415	494	524	558	537	587	602	...
Consumer prices (12-month percentage variation)	8.0	9.1	7.9	10.0	16.3	15.8	19.9	10.2	1.0	-1.0
Average nominal exchange rate (gourdes per dollar)	38.1	36.6	35.8	36.6	37.7	38.8	39.9	39.8	40.1	40.0
Nominal interest rates (annualized percentages)										
Deposit rate [d]	5.8	6.3	5.2	3.4	2.1	2.3	2.8	2.7	1.9	1.5
Lending rate [e]	34.1	34.1	32.5	24.2	23.1	24.0	23.1	22.8	22.4	22.3
Domestic credit (variation from same quarter of preceding year)	-2.1	-3.8	2.9	2.3	10.8	9.6	3.4	9.8	...	...
Non-performing loans as a percentage of total credit	11.7	11.6	11.1	9.6	10.2	10.0	9.7	10.5	10.5	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Average of highest and lowest rates on time deposits, commercial banks.
[c] Average of highest and lowest lending rates, commercial banks.

In the same period, expenditure was up by 5.7% in real terms, given that the 28.7% increase in current expenditures —which was driven, in turn, by wages (5.9%)— was outweighed by a 66.5% plunge in locally funded investments. This, however, did not imply a negative variation in gross public capital formation, since the vast majority of actual spending in this budget line is supported by external funding, which is not reflected here. The contraction of the central government's operating expenditures (-5.6%) reflects the adjustment mechanism used by government agencies.

Thanks to extrabudgetary resources derived from PETROCARIBE funds, the authorities were able to establish a US$ 197 million emergency programme in September 2008. Of that amount, almost 75% will be allocated for investment spending and 25% for current expenditures. Both will occur in the current fiscal year.

The budget for fiscal year 2009 was presented to Congress in December 2008, but was not passed until June. The emergency funding law passed in September, however, gave the authorities special powers to execute expenditures, redistribute budget items and expedite government contracts, significantly reducing the restrictions that late approval would have meant in the first six months of the fiscal year.

Public spending is expected to rise somewhat in 2009 in order to promote infrastructure reconstruction and increase social spending. Some social spending measures had already been envisaged in the National Growth and Poverty Reduction Strategy (in 2007) and others arose out of the humanitarian crisis caused by natural disasters in 2008. Spending items will see substantial increases in both current expenditures and investment, while fiscal revenues will be flat given the economic outlook. This suggests a likely deficit of up to 2.8% of GDP at the end of fiscal year 2009, which would be financed with additional resources from the international community and the central bank.

(b) Monetary policy

In light of the external shocks which beleaguered the Haitian economy and the resulting rise in inflation, the central bank severely tightened monetary policy in 2008. Towards the end of the fiscal year (September 20008), this translated into a reduction in real terms of the monetary base (-3.8%) and of net credit to the economy (-11.8%), particularly to the public sector (-43.3%). Private lending was up by 4.5%, owing in part to higher demand from importers, whose invoicing rose considerably.

The benchmark interest rate (91-day BRH bonds) remained high (8%) throughout this period and excess liquidity was absorbed through net sales of foreign exchange (US$ 59 million) by the central bank.

Although the central bank eased its stance somewhat in May, the 2-percentage-point reduction in the rate on BHR bonds seems to indicate a very cautious position for fiscal year 2009 overall. In fact, the programme agreed to with IMF highlights the need to keep monetary indicators on a moderate trend.

In the first semester (March 2009) net domestic credit increased (7.1%), as did M1 (11.2%) and M3 (10.9%). The nominal variation of the monetary base (9.5%) was in line with the indicator's projections to September (9.3%).

(c) Exchange-rate policy

In 2008 the gourde's nominal exchange rate against the United States dollar fell by 2.3%. The availability of net reserves held by the central bank allowed for targeted interventions aimed at containing sudden (speculative) fluctuations in the exchange rate, with net sales totalling US$ 59 million, approximately 10% of total reserves. Flows of remittances and grants also helped to maintain a degree of exchange-rate stability within the framework of a real appreciation (6.6%), despite the external shocks.

In light of fluctuations as of May 2009 (nominal depreciation of 7.5%), exchange-rate policy will likely continue as described during the current fiscal year, even though, in a departure from the trend of recent years, the real exchange rate depreciated slightly (0.4%). If remittances —which are the chief source of foreign exchange and finance almost 60% of the trade gap— slow as expected, the currency could come under further downward pressure. The provisions of the IMF programme allow for such a situation and include an additional margin for drawdown of net reserves held by the central bank —up to US$ 50 million— by the end of this fiscal year.

(d) Other policies

The international donors' conference for Haiti, held in April 2009 in Washington D.C. under the auspices of the Inter-American Development Bank (IDB), helped to strengthen the cooperation framework and reaffirm the international community's commitment to assist the country, and represented a response to the Government of Haiti's request for additional funds. These funds will be allocated to an emergency programme to reduce the country's vulnerability and promote economic and social recovery by creating over 150,000 jobs, among other measures. New commitments were garnered totalling some US$ 323 million in budgetary assistance and investments for 2009 and 2010.

3. The main variables

The external and domestic shocks that battered the Haitian economy in 2008 were reflected in meagre GDP growth of 1.2% and worsened already difficult conditions rooted in serious structural lags suffered by the country.

(a) Economic activity

Sluggishness in the production sector in 2008 stemmed from negative performance in agriculture (-6.1%) and flat manufacturing output (0.1%). Agriculture was dented first by the combined effects of droughts in several production areas, then by the devastating effects of consecutive hurricanes. In manufacturing, the slowdown in the United Sates economy had negative repercussions on the maquila industry while construction, transport and communications, and commerce fared better (up by 5.5%, 6.6% and 6.1%, respectively).

Domestic demand expanded by 2.8% in 2008 thanks to growth in investment (2.8%) and total consumption (1.6%), which was buoyed by remittances and a rise in outlays on wages in the public sector, which took on over 9,000 new employees in 2008.

The prospect of an upturn in GDP in the current fiscal year (2.0%) is largely tied to good preliminary results in agriculture during the first winter harvest and, especially, to the prospect of increased public investment. The emergency programme of September 2008 seeks to energize vital sectors such as agriculture and infrastructure and construction, which will receive 17% and 43%, respectively, of the extrabudgetary emergency funds, as well as other sectors in which investment should help to contain the damage sustained in catastrophic events like those of 2008 (15% of GDP).

(b) Prices, wages and remuneration

Following a spike in prices in 2008 (19.8% from September 2007 to September 2008), fuelled by rising food and fuel prices in the international market, inflation is notably down in fiscal year 2009. The seven-month cumulative rate of inflation (from October to April) averaged 7.9%, compared with 11.9% the year before. Falling prices for food (-2.1%) and transport (-2.9%) were key determinants for this result, with lower prices for imported components playing a role in both cases.

While the yearly average inflation rate in 2008 was 14.4%, variations recorded up to April 2009 showed an average of 3.8%, suggesting that the inflation target could be met at the end of the fiscal year (9.5% from September 2008 to September 2009).

However, with the wage lag that has built up —real minimum wages fell by 12.6% in 2008 and purchasing power has plummeted by 70% since 2004— debates on revision of the minimum wage have reached the heart of the national agenda and become part of the crisis the country now faces. The resolution passed by congress in May 2009, which increased the minimum wage to 200 gourdes per day (from 70 gourdes per day, its level since 2003), has yet to be signed by the executive branch. The ensuing debates —within the executive and some sectors of business— make consensus seem still some way off.

Even if the job creation goals announced in the emergency programme were to be met, the lag would still be significant, given that the jobs created would be mainly temporary positions associated with labour-intensive schemes.

(c) The external sector

Following a small surplus equivalent to 0.2% of GDP in 2007, the balance-of-payments current account showed a deficit of US$ 295 million (4.9% of GDP) in 2008, owing to a severe worsening (of over 20%) of the terms of trade. While exports and imports both fell in volume terms (by 9.3% and 9.5% respectively), only exports dropped in value (-6.1%); conversely, import values rose by 30.2% as a result of an average price variation of 44%.

Remittances (US$ 1.252 billion, equivalent to 21% of GDP) and grants (US$ 474 million), which rose in the wake of the humanitarian crisis caused by the natural disasters, helped mitigate the negative impact of the trade balance. The capital account balance was bolstered by loan disbursements (US$ 385 million), while loan servicing payments were down by one third with respect to the previous year. This trend should continue in the current fiscal year and those to come since Haiti qualifies for the benefits associated with the debt forgiveness programme, having reached completion point in late June.

The Haitian economy is highly dependent on international prices for certain products (food and hydrocarbons), which is reflected in the scale of the external shocks weathered in 2008. In addition, the financial crisis in the world economy in 2009 —and, particularly, the recession in the United States— will likely prolong the harsh external conditions. Given that the United States is the main export market and the principal source of remittances for Haiti, the trends observed so far in 2009 give cause for concern. The upturn in the maquila export sector is still modest and remittances are not only slowing, but actually dropping.

Jamaica

1. General trends

During 2008, the economy of Jamaica suffered the effects of the worldwide economic downturn through lower export demand, falling commodity prices, slowing in tourism and related economic activities, and stagnation of remittances from abroad. The real economy contracted by an estimated 0.6% and the unemployment rate rose from 9.9% to 10.9%. External accounts deteriorated during 2008, with widening trade and current account deficits and a steady loss of international reserves, raising concerns about exchange rate stability and debt sustainability. The fiscal deficit expanded dangerously, fuelled by lower-than-expected fiscal revenues.

Against this scenario, the fiscal and monetary authorities redoubled efforts to counter the worst effects of the economic slowdown and to stabilize markets through measures such as the establishment of liquidity lines and special loan facilities, the implementation of stimulus packages and the reinforcement of social programmes and safety nets. However, with very limited fiscal space, high public debt, currency depreciation and rising domestic interest rates, it is agreed that the economy will decline further in 2009, with projections forecasting contraction of 3%, which would be the worst performance since 1998.

In this context, the country's authorities will need to ensure a substantial and steady provision of financial resources in order to keep the economy stable and meet increased requirements for promotional and social programmes. The government has already secured several contingency loans with a number of multilateral agencies, but if the financial and economic situation continues to deteriorate, the funds already secured may be not enough, forcing the authorities to seek additional financing.

2. Economic policy

(a) Fiscal policy

The negative impact of the economic crisis interfered with the targets set by the government for the fiscal year 2008-2009.[1] Fiscal revenues weakened, growing only 7.6% and falling 10.6 percentage points short of the original expectations for the fiscal year. This mainly resulted from the sharp contraction in capital income (-79.9% or 0.7% of total fiscal revenues), and non-tax revenue (-11.8%). Similarly, there was an acute shortfall in the bauxite levy, whose yield was almost half of its budgeted target. Tax revenue grew by 12.2%, mainly thanks to good results from a tax amnesty, which substantially increased income tax receipts; even with the boost from the amnesty, however, the receipts were still 7.1 percentage points below the goal established in the budget. In contrast, income from

[1] In Jamaica, the fiscal year runs from April to March.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	0.7	1.3	1.0	3.5	1.4	1.0	2.7	1.4	-0.6
Per capita gross domestic product	-0.1	0.6	0.2	2.8	0.7	0.4	2.1	0.9	-1.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-12.5	6.7	-6.8	7.0	-11.2	-6.8	16.2	-6.0	-5.1
Mining	-1.0	2.9	2.1	5.0	2.2	2.8	1.2	-2.7	1.1
Manufacturing	0.4	-0.8	-2.0	-0.5	1.4	-4.4	-2.3	0.2	-1.2
Electricity, gas and water	2.2	0.7	4.6	4.7	-0.1	4.2	3.2	0.6	0.9
Construction	0.7	-0.2	-1.0	5.1	8.4	7.5	-1.9	4.6	-5.5
Wholesale and retail commerce, restaurants and hotels [c]	2.1	-0.5	0.4	2.2	2.1	2.1	3.8	1.7	0.7
Transport, storage and communications	6.5	4.8	6.2	4.0	1.4	0.9	4.4	3.3	-2.2
Financial institutions, insurance, real estate and business services	1.9	3.4	3.5	4.6	2.2	0.6	1.7	3.3	1.2
Community, social and personal services	-0.3	1.0	1.4	1.5	0.9	1.1	2.1	1.2	0.1
					Millions of dollars				
Balance of payments									
Current account balance	-367	-759	-1 074	-773	-509	-1 009	-1 183	-2 038	-3 223
Goods balance	-1 442	-1 618	-1 871	-1 943	-1 945	-2 581	-2 943	-3 841	-4 981
Exports, f.o.b.	1 563	1 454	1 309	1 386	1 602	1 664	2 134	2 363	2 761
Imports, f.o.b.	3 004	3 073	3 180	3 328	3 546	4 246	5 077	6 204	7 742
Services trade balance	603	383	315	552	572	670	628	425	355
Income balance	-350	-438	-605	-571	-583	-676	-616	-662	-680
Net current transfers	821	914	1 087	1 189	1 446	1 578	1 749	2 040	2 083
Capital and financial balance [c]	886	1 624	832	342	1 203	1 238	1 413	1 598	3 118
Net foreign direct investment	394	525	407	604	542	582	797	...	...
Other capital movements	492	1 099	425	-263	661	656	616	...	...
Overall balance	518	865	-242	-432	694	229	230	-440	-105
Variation in reserve assets [d]	-499	-847	261	448	-686	-228	-230	440	105
Other financing	-19	-18	-19	-16	-8	-1	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [e]	100.0	101.7	101.2	116.9	113.6	104.4	104.8	108.5	101.8
Net resource transfer (millions of dollars)	517	1 168	208	-246	612	561	797	937	2 438
Gross external public debt (millions of dollars)	3 375	4 146	4 348	4 192	5 115	5 372	5 794	6 123	6 344
					Average annual rates				
Employment									
Labour force participation rate [f]	63.3	63.0	63.6	64.4	64.3	64.2	64.7	64.9	65.4
Unemployment rate [g]	15.5	15.0	14.2	11.4	11.7	11.3	10.3	9.8	10.6
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	6.1	8.7	7.3	14.1	13.7	12.9	5.8	16.8	16.9
Variation in nominal exchange rate (annual average)	9.4	7.7	5.3	19.3	6.0	1.7	5.5	5.0	5.7
Nominal deposit rate [h]	10.5	9.4	9.1	8.3	6.7	5.9	5.3	5.0	5.1
Nominal lending rate [h]	32.9	29.4	26.1	25.1	25.1	23.2	22.0	22.0	22.3
					Percentages of GDP				
Money and credit [i]									
Domestic credit	34.6	35.6	35.4	40.5	35.7	34.7	30.2	30.4	34.4
To the public sector	28.9	29.3	26.7	29.6	23.4	21.3	14.9	12.8	15.4
To the private sector	7.6	8.3	10.0	12.5	13.3	14.1	15.8	18.2	19.8
Others	-1.9	-2.0	-1.3	-1.7	-1.1	-0.6	-0.4	-0.6	-0.8
Liquidity (M3)	34.6	34.9	35.2	33.8	34.1	33.2	32.5	33.7	29.9
Currency outside banks and local-currency deposits (M2)	26.2	26.1	25.5	22.7	22.8	22.7	23.0	22.7	20.1
Foreign-currency deposits	8.4	8.7	9.8	11.1	11.3	10.5	9.5	11.0	9.8

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Percentages of GDP								
Central government [j]									
Total income [k]	26.3	24.5	25.0	27.6	27.9	26.9	26.8	28.8	26.4
Current income	25.4	23.3	23.4	26.2	26.2	25.6	26.2	27.3	25.5
Tax income	22.6	21.6	22.0	24.2	24.3	23.4	23.9	24.7	23.5
Capital income	0.4	0.7	1.4	1.3	0.9	1.2	0.4	1.1	0.2
Total expenditure [l]	27.1	29.6	31.8	32.9	32.2	29.9	31.5	33.1	33.6
Current expenditure	24.9	27.1	30.1	31.9	30.4	27.7	28.5	28.4	29.6
Interest	11.2	12.2	13.3	16.2	15.0	12.7	12.4	11.4	12.0
Capital expenditure	2.4	2.4	1.7	1.0	1.8	2.2	3.0	4.7	3.9
Primary balance	10.3	7.1	6.5	10.9	10.7	9.7	7.8	7.2	4.8
Overall balance	-0.8	-5.1	-6.8	-5.3	-4.3	-3.0	-4.6	-4.2	-7.2
Public-sector external debt	42.8	51.1	51.3	51.2	58.0	55.3	55.9	53.9	48.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Annual average, weighted by the value of goods exports and imports.
[f] Economically active population as a percentage of the working-age population.
[g] Percentage of the economically active population. Includes hidden unemployment. Nationwide total.
[h] Average rates.
[i] The monetary figures are end-of-year stocks.
[j] Fiscal years.
[k] Includes grants.
[l] Includes statistical discrepancy.

grants greatly surpassed the amount originally set for 2008-2009.

Fiscal expenditures stayed on target, growing by 19.5% in nominal terms, with just a minimal deviation (0.7%) over the original budget provisions. This was accomplished through a reduction in capital expenditure, compensating slightly higher than expected disbursements on remunerations and interest payments.

The central government deficit expanded from 4.2% of GDP in fiscal year 2007-2008 to 7.2% of GDP in fiscal year 2008-2009, considerably surpassing the target set in the budget (3.9% of GDP). Faced with increased funding requirements, the government mainly resorted to domestic financing, with expanded credit from the banking system and the issue of debt instruments. The government also relied on bond emissions in international markets and direct loans from multilateral institutions. In these efforts, the government faced increasingly adverse conditions, with rising interest rates and continuing foreign exchange volatility. Furthermore, during the last quarter of the year Jamaica's debt and credit ratings were downgraded by the international rating agencies, increasing the difficulties and costs of financing.

In 2008, as a result, the domestic debt stock grew by 9% and the external debt stock rose by 3.6%. As of December 2008, the total public debt stock (domestic and external) rose to US$ 13.9 billion, some 106.9% of GDP, and by the end of fiscal year 2009-2010 it is expected to reach 108.9% of GDP.[2] Improving debt management has become a very pressing issue because of the heavy burden that debt servicing represents for the public finances, with interest payments alone accounting for 25% of total budgetary expenditure, while debt servicing (amortization and interest payments) represented around 55% of total expenditure during the fiscal year 2008-2009.

In April 2009, the government submitted to the parliament its proposed budget for fiscal year 2009-2010. In real terms, it was 4.5% below the previous budget, reflecting austerity efforts to balance public revenue and expenditure, with a targeted fiscal deficit of 5.5% of GDP. To reach this goal, the main fiscal policy challenges will be to increase revenue while holding expenditure down. The government plans to streamline public agencies, improve financial and budget management, and improve revenue collection through tax reform.

In its budget submission, the government announced a tax package, including a major increase in the special fuel tax and higher customs user fees levied on selected petroleum products, wider coverage of the general consumption tax, and the establishment of a Forensic Data-Mining Intelligence Unit to monitor own-account workers, but also a 100% increase in the income tax threshold. Efforts to increase revenue have encountered

2 Following a GDP revision in 2008, public debt as a percentage of GDP decreased significantly.

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.3	2.4	0.4	-0.4	-0.0	-0.9	-0.3	-1.1	...	...
Gross international reserves (millions of dollars)	2 614	2 472	1 943	1 906	2 106	2 477	2 281	1 795	1 663	1 661
Real effective exchange rate (index: 2000=100) [c]	107.4	108.8	108.9	108.8	104.9	103.1	99.3	99.7	110.7	114.4 [d]
Consumer prices (12-month percentage variation)	8.0	7.7	9.0	16.8	19.9	24.0	25.3	16.9	12.4	9.5 [d]
Average nominal exchange rate (pesos per dollar)	67.46	68.08	69.14	71.01	71.29	71.37	72.12	76.73	86.29	88.91
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.2	5.2	5.0	4.9	4.9	4.7	5.5	5.5	5.9	5.9
Lending rate [e]	22.1	22.9	21.9	21.0	22.2	21.8	22.3	23.0	22.5	23.3
Stock price index (national index to end of period, 31 December 2000=100)	314	312	333	374	372	380	353	277	273	280
Domestic credit (variation from same quarter of preceding year)	9.3	8.1	17.8	13.7	6.9	20.4	17.5	32.9	28.6	14.1 [f]
Non-performing loans as a percentage of total credit	2.1	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Average rates.
[f] Data to April.

political and social backslashes, however, and in May the government announced a partial reversal of some of the new tax measures, retaining exemptions in the general consumption tax on basic items while increasing the special consumption tax on cigarettes, liquor and other non-essential items.

Securing financing from multilateral sources to support fiscal and debt sustainability has become another priority for the government. By April 2009, Jamaica had successfully negotiated close to US$ 1 billion in contingency loans from multilateral institutions such as the World Bank, the Inter-American Development Bank and the Caribbean Development Bank. Furthermore, the government engaged in pre-emptive talks with the IMF regarding a line of credit for an additional US$ 1 billion.

In 2008, the government implemented a variety of measures to reduce the negative social impact of the economic slowdown and rising prices. It introduced subsidies on basic food items, tax and tariff reductions for essential products, and adjustments to the national minimum wage. Significant efforts are also being made to increase the scope and coverage of social programmes, such as the Programme of Advancement Through Health and Education (PATH). The government plans to expand PATH coverage to an additional 120,000 beneficiaries in 2009, thanks to funding from multilateral agencies. The authorities have also announced an increase in the education budget, an expansion of the School Feeding Programme and a strengthening of the Constituency Development Fund, which implements projects such as home repairs for the indigent, school and community centre repairs, and agriculture projects.

(b) Monetary and exchange-rate policy

Monetary policy in 2008 focused on the easing of liquidity constraints in exchange markets and the holding down of inflationary pressures, in the face of heightened uncertainty and volatility in international and domestic financial markets. A significant reduction in the supply of United States dollars during the second half of the year led the Bank of Jamaica to implement several measures aimed at increasing the supply of United States dollars to prevent further depreciation of the local currency and absorb excess liquidity to keep inflation under control. Those measures included the implementation of a special loan facility for security dealers, and the establishment in November 2008 of an intermediation facility in domestic and foreign currency.

Higher interest rates, expanded availability of special financial instruments such as certificates of deposit, and higher reserve requirements were also aimed at reducing excess liquidity. Despite these efforts, the Jamaican dollar depreciated substantially, and as of December 2008 the average exchange rate was J$ 80.2 to US$ 1, reflecting a cumulative 13.9% depreciation since December 2007, when the exchange rate against the United States dollar averaged J$ 70.4. Moreover, depreciation pressures intensified during the first months of 2009, with the average exchange rate increasing to J$ 88.4 to the United States dollar, reaching a cumulative 10.2% depreciation for the first quarter.

Expansion of the monetary base slowed in comparison to previous periods, standing at 9.6% during 2008, significantly below the target set by the Bank of Jamaica at the beginning of the year (12.6%) and the level recorded in 2007 (also 12.6%). However, during the last quarter of the year the monetary base grew thanks to a seasonal increase in currency issue and rising statutory requirements. At the same time, domestic interest rates were gradually increased during 2008, with the deposit rate averaging 5.33% by December, while the average lending rate topped 23.17% in the same month.

3. The main variables

(a) Economic activity

The Jamaican economy suffered a decline in output during 2008, recording growth of -0.6% as compared with 1.4% in 2007. This was mainly the result of declining external and internal demand. Construction was the sector most adversely affected by the economic slowdown, while agriculture, transport and communication and manufacturing also recorded negative results. The major economic sectors (financial services and tourism), however, still managed to post positive growth.

The 5.5% contraction in construction, which represents 8% of GDP, following a 4.6% expansion in 2007, was due to a sharp decline in private and public investment projects and residential construction. This contraction led to an equivalent fall in the market for construction inputs such as cement, sales of which declined by 7.8% during 2008. The lagged effects of hurricane Dean and heavy floods during 2007 (a 5.1% contraction) continued to hamper agricultural activities, which make up 5% of GDP, further exacerbated by the passage of tropical storm Gustav in September. Efforts by the Ministry of Agriculture to boost agricultural output have been encouraging but the sector still has a long way to go before it recovers fully.

The 2.2% contraction in transport and communication (12% of GDP) reflected shrinking levels of activity in other sectors, with lower demand for water and air transportation services because fewer ships were calling at Jamaican ports, reduced domestic cargo movement, and institutional problems faced by Air Jamaica. In the case of the manufacturing sector (9% of GDP), the 1.2% fall was principally due to significant falls in production of beverages, chemicals and metal products, while food production showed mixed results.

As for sectors which posted positive results, the expansion of financial services (which represent 21% of GDP) reflected increased buoyancy (1.2% growth) in the banking sector. Mining (4% of GDP) expanded by 1.1%, following a 2.7% contraction recorded in 2007, owing to a partial recovery of the bauxite and alumina industry despite production problems, electric power cuts and weak external demand. In the first months of 2009, however, the bauxite and alumina industry was hit by serious cuts in activities owing to falling international demand.

Commerce and hotel and restaurant activities (25% of GDP) grew by 0.7% thanks to expansion in hotels and restaurants (2.7%) while wholesale and retail commerce posted practically zero growth. Tourism activities started to slow during 2008, with arrivals from the United States growing marginally (1.4%), while those from Europe contracted by 1.4%. Arrivals from Canada increased significantly, however (23.9%), probably owing to increased purchasing power resulting from the appreciation of the Canadian dollar against the United States dollar. Thanks to the greater numbers of Canadian visitors, the number of stay-over visitors increased by 3.7% in 2008. Total cruise-ship passengers fell 7.7%, however, and foreign exchange earnings from tourism contracted by 0.5%. Data for the first quarter of 2009 show that the contraction in tourism deepened and accelerated, with total stay-over arrivals down 11.8% and cruise-ship passenger arrivals down 25.7% compared to the first quarter of 2008.

The negative expectations for 2009 are very worrisome; as the global recession deepens, forecasts for GDP point to a contraction of the order of 3%. Tradable sectors are expected to be worst affected owing to a fall in export demand, reduced commodity prices, and fewer tourist arrivals. Stimulus measures such as tax cuts and soft loans for business, manufacturing and tourism activities, and promotional programmes and subsidies for the agricultural sector are being put in place by the government, but these measures are unlikely to be sufficient to lift Jamaica out of the recession.

(b) Prices, wages and employment

Consumer price inflation reached 16.8% by the end of 2008 (December-December), equal to the rate registered in 2007. Inflation peaked in August, however, recording a staggering annualized figure of 26.5%. Inflationary pressures declined during the last months of 2008, partially thanks to cooling commodity prices and the monetary and exchange rate policy measures adopted by the Bank of Jamaica to slow currency depreciation.

The categories recording the highest annual increases were food and non-alcoholic beverages (24%) and alcoholic beverages and tobacco (27%), with particularly strong increases in the cost of oils and fats (43.4%), vegetables (38.4%), and bread and cereals (33.5%). On the other hand, housing, utilities and fuels registered moderate annual inflation (9.3%) thanks to very low increases (4.7%) in electric power, gas and other fuels owing to price controls, subsidies and the government's other anti-inflationary measures.

The authorities expect a fall in inflation in fiscal year 2009-2010, with a forecast rate of 11%-14%. Lower import prices and weaker domestic demand are the main factors that will push inflation down, although increases in the fuel tax rate in the first half of 2009 will probably filter through to transportation and utilities costs.

In 2008, the labour force increased by 1% to 1.3 million persons, with an average participation rate of 65.4% (compared with 64.8% in 2007). Slowing economic activity led to a rise in the unemployment rate from 9.9% in 2007 to 10.9% in 2008, largely reflecting job losses in construction and installation activities because of the scaling down or suspension of several major tourism and infrastructure projects. This is a major concern, since unemployment is expected to increase further in 2009, when falling tourism flows, the closure of bauxite plants and the slowdown in manufacturing will adversely affect labour markets.

Following the high level of inflation in 2008, the government decreed compensatory salary increases for public servants and an adjustment of the national minimum wage on the order of 17.5%.

(c) The external sector

External accounts deteriorated significantly in 2008, with a widening of the trade and current account deficits. While merchandise exports grew by 16.9% compared to 2007, totalling US$ 2.761 billion, this was considerably surpassed by the large expansion in merchandise imports (24.8%), which topped US$ 7.742 billion at the end of 2008. Consequently, the merchandise trade deficit in goods rose by as much as 29.7%.

The trade surplus in services saw a substantial reduction (-16.3%), mainly owing to the increased deficit in transportation services. The income balance deficit and the net current transfer surplus did not alter significantly, amounting to -4.7% and 14.6% of GDP for 2008, respectively. However, the 3.1% growth of net remittances in 2008 was just a fraction of the rise recorded in 2007 (13%), and with a total of US$ 1.712 billion as of December 2008, net remittances as a percentage of GDP fell to 12% from the 2007 figure of 12.9%. Moreover, these flows started to contract in absolute terms in 2009, with a 11.9% fall during the first quarter compared to the same period in 2008. Overall, the current account deficit grew by 58.1%, reaching 22.5% of GDP (15.8% in 2007).

The capital account reversed the US$ 36 million deficit recorded in 2007, achieving a US$ 22 million surplus. The financial account enjoyed a substantial expansion, almost doubling its surplus from US$ 1.634 billion in 2007 to US$ 3.096 billion in 2008, equivalent to 21.6% of GDP. This was the result of positive net flows of private and official investments. Nonetheless, it was not enough to compensate for the current account deficit, resulting in another balance-of-payments deficit (0.7% of GDP).

Net international reserves declined during 2008, standing at US$ 1.773 billion in December, a net -5.6% reduction from the level recorded in December 2007. According to estimates from the Bank of Jamaica, the amount of gross foreign assets available was equivalent to 13.6 weeks of imports of goods and services.

For 2009, it is expected that the trade and current account deficits will diminish, reflecting weaker overall import demand, and lower prices for some key imports such as foodstuffs and oil.

Suriname

1. General trends

Despite the cooling of international commodity prices in the second half of 2008, the Suriname economy maintained 5.2% growth in 2008, down only slightly from the rate of 5.3% achieved in 2007. Growth was led by construction, mining, and wholesale and retail commerce, restaurants and hotels. An overall fiscal surplus of approximately 2.1% of GDP was recorded, compared with 5.7% in 2007. The Central Bank maintained its Suriname dollar (S$) cash reserve requirement at 25%, and both deposit and lending rates remained stable, ending the year at 6.3% and 12.0% respectively. Domestic credit expanded by 20%, and the December-December inflation rate stood at 9.4% (8.3% in 2007), although by April 2009 this indicator had dwindled to 0.8%. Once again, the balance-of-payments current account exhibited a surplus (equivalent to 14.5% of GDP). The government continues to focus its fiscal policy on promoting growth, while its monetary policy targets inflation. In 2009, GDP is expected to grow by 2.5%.

2. Economic policy

The overarching economic policy aims continue to be inflation targeting, facilitating economic growth in general and export growth in particular, and maintaining sustainable debt levels.

(a) Fiscal policy

The fiscal accounts remained in surplus for 2008, with current revenue increasing for the fifth year running, owing to the continued favourable international prices for minerals in the first half of the year and also to higher-than-expected tax revenue from construction and infrastructural activity. While a severe downturn in aluminium prices resulted in a 47% drop in tax revenue from that source, revenues from gold remained steady as prices throughout 2008 remained historically high, with US$ 90 million in revenue from IAM Gold alone. Staatsolie, the State oil company posted record profits of US$ 248 million for 2008. Total tax revenue increased substantially to reach 25.2% of GDP, while total revenue increased marginally over the 2007 figure, and represented 34.8% of GDP.

Total expenditure increased by 13.5% to stand at 32.7% of GDP, with current expenditure increasing slightly to 25.6% of GDP. Capital expenditure increased by almost 60%, but accounted for only 22% of total spending. The beginning of a two-year, US$ 116 million public-sector salary review, expected to be implemented by 2010, has sparked concerns that, despite the bleak international scenario, the government might be willing to undertake spending excesses as general elections are also due in

Table 1

SURINAME: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	1.9	5.7	2.7	6.8	7.2	6.3	4.5	5.3	5.2
Per capita gross domestic product	1.0	4.8	1.9	6.1	6.5	5.6	3.8	4.7	4.6
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	5.9	11.5	-3.8	3.6	1.0	-4.8	5.0	5.8	-1.7
Mining and quarrying	-9.1	25.0	-8.3	0.3	30.2	14.9	3.5	10.4	12.6
Manufacturing	60.1	12.5	-3.7	5.5	10.8	10.3	1.7	-4.4	-4.9
Electricity, gas and water	-7.8	5.0	11.6	-1.3	10.1	3.1	8.8	6.2	6.4
Construction	-11.8	4.5	0.6	17.0	10.1	8.7	5.0	15.4	15.7
Wholesale and retail commerce, restaurants and hotels	-15.8	-14.6	8.5	32.0	6.0	8.0	15.4	14.8	11.8
Transport, storage and communications	24.9	28.8	12.3	3.0	7.7	7.8	-3.4	4.5	8.5
Financial institutions, insurance, real estate and business services	2.8	0.7	3.3	2.5	5.4	4.2	1.8	1.5	1.6
Community, social and personal services	4.0	1.1	0.2	0.7	4.7	4.0	0.7	0.3	0.0
					Millions of dollars				
Balance of payments									
Current account balance	32	-84	-131	-159	-137	-144	115	326	360
Goods balance	153	140	47	30	42	22	161	314	378
Exports, f.o.b.	399	437	369	488	782	1 212	1 174	1 359	1 722
Imports, f.o.b.	246	297	322	458	740	1 189	1 013	1 045	1 344
Services trade balance	-125	-115	-128	-136	-130	-148	-31	-72	-126
Income balance	6	-108	-42	-49	-63	-40	-52	8	21
Net current transfers	-2	-1	-9	-5	14	22	36	76	87
Capital and financial balance [c]	-23	162	112	166	175	95	-21	-148	-308
Net foreign direct investment	-148	-27	-74	-76	-37	28	-163	-247	-234
Other capital movements	125	189	186	242	212	67	143	99	-75
Overall balance	10	78	-19	7	38	-49	94	177	52
Variation in reserve assets [d]	-10	-78	19	-7	-38	-24	-94	-177	-52
Other external-sector indicators									
Net resource transfer	-17	54	70	118	112	55	-72	-140	-287
Total gross external public debt	291	350	371	382	382	388	389	299	316
					Average annual rates				
Employment									
Unemployment rate [e]	14.0	14.0	10.0	7.0	8.4	11.2	12.1	...	...
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	76.2	...	...	...	...	15.8	4.7	8.3	9.4
Variation in nominal exchange rate (annual average)	53.9	64.7	7.7	10.8	5.1	-0.0	0.2	0.0	0.0
Nominal deposit rate [f]	15.5	11.9	9.0	8.3	8.3	8.0	6.7	6.4	6.3
Nominal lending rate [f]	29.0	25.7	22.2	21.0	20.4	18.1	15.7	13.8	12.2
					Percentages of GDP				
Central government									
Total income	…	42.6	30.7	31.6	32.4	30.5	31.8	36.8	34.8
Current income	…	39.2	29.4	30.0	30.7	28.7	28.9	30.9	31.0
Tax income [g]	…	34.1	24.2	25.2	25.2	22.8	22.8	24.7	25.2
Grants	…	3.4	1.3	1.6	1.7	1.9	2.9	5.9	3.8
Total expenditure [h]	…	42.2	35.7	30.7	33.3	31.2	30.4	31.1	32.7
Current expenditure	…	35.6	32.2	27.3	28.8	26.0	24.8	26.3	25.6
Interest	…	2.3	2.7	2.3	1.9	2.1	1.9	1.5	0.9
Capital expenditure	…	5.7	3.3	3.1	4.4	5.2	5.6	4.8	7.1
Primary balance	…	2.7	-2.4	3.1	1.0	1.4	3.3	7.2	3.0
Overall balance	…	0.4	-5.0	0.8	-0.9	-0.7	1.4	5.7	2.1
Public-sector debt	…	65.1	54.8	48.1	45.7	43.5	36.2	27.3	…
Domestic	…	12.6	16.0	14.1	16.0	17.3	13.8	11.5	…
External	…	52.6	38.8	34.0	29.7	26.2	22.4	15.9	12.7

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Money and credit [i]									
Domestic credit	38.7	18.5	32.2	30.1	33.0	29.4	28.9	28.4	32.1
To the public sector	29.0	7.4	13.8	10.2	10.9	8.4	6.5	2.4	0.0
To the private sector	9.7	11.0	18.3	19.6	21.7	20.6	22.1	25.6	32.0
Others	0.1	0.1	0.1	0.3	0.4	0.3	0.3	0.4	0.6
Liquidity (M3)	68.2	65.0	55.8	51.0	56.0	47.5	49.3	54.9	57.1
Currency outside banks and local-currency deposits (M2)	43.4	39.6	34.1	27.1	28.5	24.9	25.7	28.6	30.6
Foreign-currency deposits	24.9	25.4	21.7	23.9	27.5	22.6	23.6	26.3	26.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Percentage of the economically-active population, nationwide total.
[f] Deposit and loan rates published by IMF.
[g] Includes capital revenue
[h] Includes net lending.
[i] The monetary figures are end-of-year stocks.

2010. The uncertainty of the international commodity markets, the imminent departure of a major aluminium producer and the expectation that tax contributions from Staatsolie will decline as the company invests in a new refinery make the sources of future revenues harder to identify. In addition, it is unlikely that in the run-up to a general election, a government would increase taxes in order to maintain revenue flows. In total, the current primary surplus improved by 27% over 2007 to 5.4% GDP but the overall surplus decreased by 60% to 2.1% of GDP.

Efforts to privatize the company in charge of the banana sector have not gone particularly well. The bureaucracy involved as well as the organisational weakness of the incumbent company have been stated as deterrents to a takeover, but the main obstacle is the inability of the Surinamese banana sector to remain competitive with the industry in its larger Latin American neighbours.

Debt sustainability continues to be a key priority. External debt increased by 6% over 2008, but remained low as a proportion of GDP (13%). Bilateral debt has increased by 6% over 2008, but remained at approximately 10% of GDP.

Accumulated reserves from mining windfalls over the last five years allowed the government to indulge in a debt-reduction strategy on. The conservative attitude of Suriname's banking system protected it from engaging in the type of questionable securitization-based credit schemes seen in many other countries. The ability to acquire debt domestically thus remains unchanged, and the retirement of the Dutch Investment Bank debt as well as a major loan from Brazil, increases the ability of the country to acquire new external debt without overstepping the mandated "healthy" limits. Successful debt management has positively affected the country's international credit rating, and though markets are still tight, the government has expressed interest in using this as a basis for attracting new foreign direct investment to Suriname. Current loans, especially from China are being used productively and are responsible for significant amounts of construction sector activity.

The discussions relating to the creation of a stabilization and heritage fund for Suriname that would be financed by windfall tax revenue from increased mineral production have ceased.

Policymakers expect that Suriname will be able to weather the current downturn if the world economy stages a recovery by the end of 2010. No significant government intervention to prop up the real economy has occurred thus far, and none is planned, though much uncertainty has been expressed about the aluminium sector and its potential to negatively impact government revenue and employment.

(b) Monetary and exchange-rate policy

Liquidity (M2) expanded by more than 15% from 2007 to reach 30.7% of GDP. Net domestic credit expanded by 19.7% to reach 24% of GDP, fuelled by the continued expansion in private sector domestic credit, which swelled by 34.7% in 2008, representing 32.9% of GDP. This expansion of domestic credit to the private sector reflects the continued increase in demand for durable goods by the Surinamese, especially the buoyant demand for cars and housing. The Government Housing Project was launched in 2008 and applies to housing or land loans with interest rates of no more than 9%, of which it pledges to pay four percentage points over a period of two years.

The Central Bank's monetary policies remained largely unchanged over 2008 with the continuing focus being inflation-targeting on the understanding that much inflation is externally driven. Market interest rates were held stable in order to favour credit expansion. The lending rate fell slightly from 13.9% to 12.0% and deposit rates had basically stabilized at 6.3% in 2008 down from 6.4% in the previous year. The Suriname dollar reserve requirement remained unchanged at 25%.

Throughout 2008, the official exchange rate of the Suriname dollar to the United States dollar remained virtually unchanged at approximately S$ 2.75 = US$ 1. In April 2009, however, the exchange rate in the commercial market came under some pressure owing to a shortage of dollars in the market. Intervention in the market by the Central Bank, which sold foreign exchange for certain items deemed productive, restored some ease to the market, but suspicions that commercial banks might be hoarding newly released foreign exchange brought an end to the Central Bank's intervention. The Central Bank is now considering increasing the commercial banks' reserve requirement on dollars from the current level of 33.3%.

The conservative nature of the Surinamese financial system is considered key in helping the country to avoid the types of credit schemes that brought ruin upon the financial sectors of so many other countries. The effects of the global recession on the real economy are certainly recognizable: there is no doubt that the sudden fall in the price of aluminium was one of the deciding. factors in BHP Billiton's decision to leave Suriname; moreover, CLICO Suriname has been affected by the financial troubles experienced by CLICO Guyana. Nevertheless, the outlook for the financial sector in Suriname remains stable.

3. The main variables

(a) Economic activity

Total GDP grew by 5.2% over 2008, driven by rises in the construction sector (15.7%); in mining and quarrying (12.6%); and in wholesale and retail trade, restaurants and hotels (11.8%). The growth rate was marginally slower than the 2007 figure of 5.3%, but higher than expectations given the adverse external situation in the second half of the year.

The three main economic sectors all posted positive growth. The transport and communication sector expanded by 8.5% to reach 13% of GDP, while activity in commerce, restaurants and hotels sector surged ahead by 11.8%, accounting for 21% of GDP. Both sectors were bolstered by the increase in economic activity, which fuelled demand for these services. The other major sector, financial services (17% of GDP), posted growth of 1.6%.

Mining and quarrying and manufacturing were the sectors expected to take the biggest hits from the impact of the global recession and the subsequent slump in commodity prices. However, strong gold prices in 2008 and steady oil production boosted mining and quarrying activity by 12.6% over 2008 (8% of GDP), even though the expected additions to oil reserves did not materialize as expected. Manufacturing output, which accounts for 10% of GDP, decreased by 5% following a 50% fall in aluminium prices during the second half of 2008, which caused a contraction in activity throughout the aluminium chain. Production in the manufacturing sector is expected to steady or increase slightly over 2009 as Suralco and the government take over the mining and manufacturing operations of the aluminium sector.

Production problems encountered in the rice subsector and reduced exports contributed to the 1.7% contraction in the agricultural sector. Despite government efforts to diversify the economy, especially the agricultural sector, there is no evidence of the non-mineral sectors' contributing more significantly to export revenue.

In 2008, the construction sector recorded double-digit growth for the fifth consecutive year, strengthening by 15.7% and accounting for 4.7% of GDP This growth was driven by government construction programmes, debt financed infrastructure development programmes and the previously mentioned national housing project. Currently there are three major road projects being financed by donor agencies.

Sustained construction activity and an increase in gold production are expected to boost real GDP growth by 2.5% in 2009. While there are signs of a recovery in the global economy, problems in the local mining sector and uncertain external price conditions continue to cast a shadow on growth projections.

(b) Prices, wages and employment

At the end of the year, inflation stood at 9.4% (December-December) higher than in 2007 (8.3%). It had been a great concern in the first half of 2008, when food and oil prices soared, then peaked in August and September, at an annualized rate of 18.1%. Transport accounted for the greatest impact on the consumer price index (CPI); in August, it posted an annualized rate of 26.4%. Most group indices, with the exception of those that exhibit significant price controls, started to decrease with the cooling of commodity prices in the second half of 2008. The annualized CPI for April 2009 has been recorded as 0.8%.

The unemployment rate continues to be reported at 12%, although no new studies into the variable have been conducted since 2006. Nevertheless, with the boom in the construction and other sectors, opportunities for employment appear to be growing. However, Suralco, the former partner of BHP Billiton in the abandoned West Suriname aluminium project, has now acquired the controlling stake and has indicated that it wishes to cut production by up to 40%, which could have a serious impact on employment.

(c) External sector

Mineral and metal exports were the main drivers of the favourable current account surplus, especially over the first half of 2008 when prices of some commodities were at record highs. The current account surplus grew by 10.7% in 2008, reaching 14.3% of GDP, compared with 14% of GDP in 2007. Exports increased by 26.7% to reach 68% of GDP. Imports increased more than exports (28.6%), but in absolute values remain below exports (53% of GDP). The service deficit deteriorated further to 5% of GDP. Despite the construction boom, many business and engineering services companies are foreign and are mandated to operate in Suriname on the basis of loan agreements. As a result, opportunities to improve the services account through activity centred around these projects are lost. Remittances remained stable (around 5.2% of GDP) despite the economic crisis. The capital account surplus fell to 1.3% of GDP, while the financial account deficit shrank to 2.5% of GDP. Foreign direct investment fell slightly (9.3% of GDP) and the overall balance decreased but remained positive at 2.1% of GDP.

In 2009 the current account is expected to remain in surplus, but not to the extent seen in previous years, following a return of commodity prices to historically average levels.

Trinidad and Tobago

1. General trends

The world financial and economic crisis severely impacted Trinidad and Tobago, mainly through the collapse of oil and gas prices after the highs observed during the first seven months of 2008. In this context, GDP growth shrank to 3.5%, two percentage points lower than in 2007. On the economic policy side, the central government recorded a fiscal surplus of 6.5% in fiscal year 2007-08[1] (compared with 3.8% in fiscal year 2006-2007) owing to higher-than-expected revenue from the energy sector. Monetary policy continued to be based on the absorption of excess liquidity generated by expansionary fiscal spending. The nominal exchange rate remained fairly stable in the context of a quasi-fixed exchange-rate regime, but the tendency towards a real currency appreciation continued. Meanwhile, headline inflation posted a rate of 14.5% at the end of 2008, driven by food inflation that reached a record high of 30.6%. The current account surplus increased from 24.6% of GDP in 2007 to 27.6% of GDP in 2008, mainly on account of the expansion of energy exports, whereas the capital and financial account deficit (including errors and omissions) remained at around 16.5% of GDP.

As the global economic crisis is expected to last throughout the year, economic conditions in the country are projected to deteriorate further in 2009, with GDP growth estimated at 0.8% as international energy prices remain low, despite recent increases. Nevertheless, Trinidad and Tobago is in a better situation than most Caribbean countries to cope with the crisis. At the end of 2008 it had a strong gross international reserves position (US$ 9.4 billion), approximately 12% of GDP accumulated in the Heritage and Stabilization Fund and low debt levels. Economic policy continued to be guided by the "Vision 2020" national development plan, and no major changes are expected in that regard. Looking ahead, the main challenge facing Trinidad and Tobago will continue to be the reduction of its dependency on the energy sector, which accounts for nearly half of output, over 55% of fiscal revenue and above 85% of merchandise exports.

1 In Trinidad and Tobago the fiscal year runs from 1 October to 30 September.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	6.9	4.2	7.9	14.4	8.0	5.4	13.3	5.5	3.5
Per capita gross domestic product	6.5	3.8	7.6	14.0	7.6	5.0	12.9	5.1	3.1
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-2.4	8.7	8.7	-15.3	-34.2	-5.4	-10.1	2.6	8.6
Mining and quarrying [c]	12.5	5.6	13.5	31.4	8.2	8.3	21.8	1.7	0.4
Manufacturing	6.0	9.8	3.8	12.2	8.1	13.5	12.4	14.9	4.2
Electricity, gas and water	5.5	4.1	8.7	5.3	3.2	6.2	-0.4	6.5	1.4
Construction [d]	7.6	10.3	-5.1	23.4	8.1	16.1	6.2	6.6	3.8
Wholesale and retail commerce, restaurants and hotels	5.4	-2.5	1.4	1.8	0.4	4.5	15.1	3.3	2.3
Transport, storage and communications	8.9	7.7	9.6	5.4	-0.8	-2.4	9.5	11.1	8.2
Financial institutions, insurance, real estate and business services	12.4	0.8	11.5	7.3	21.7	-2.4	1.6	10.9	8.8
Community, social and personal services	-4.3	-0.4	4.3	2.8	5.9	1.0	1.2	1.2	0.9
					Millions of dollars				
Balance of payments									
Current account balance	544	416	76	985	1 647	3 594	7 271	5 364	6 725
Goods balance	969	718	238	1 293	1 509	3 948	7 700	5 721	6 956
Exports, f.o.b.	4 290	4 304	3 920	5 205	6 403	9 672	14 217	13 391	16 929
Imports, f.o.b.	3 322	3 586	3 682	3 912	4 894	5 725	6 517	7 670	9 973
Services trade balance	166	204	264	314	480	...	...	...	...
Income balance	-629	-539	-480	-681	-397	-760	-936	-964	-897
Net current transfers	38	33	55	59	56	50	55	60	51
Capital and financial balance [e]	-103	86	39	-663	-912	-1 701	-6 152	-3 824	-4 019
Net foreign direct investment	654	685	684	583	973	599	513	830	1 638
Other capital movements	-757	-599	-645	-1 246	-1 885	-2 300	-6 665	-4 654	-5 657
Overall balance	441	502	116	321	735	1 893	1 119	1 541	2 706
Variation in reserve assets [f]	-441	-502	-116	-321	-734	-1 893	-1 119	-1 541	-2 706
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	100.0	94.5	91.1	91.9	93.6	91.0	89.1	87.6	83.0
Net resource transfer (millions of dollars)	-732	-453	-441	-1 344	-1 309	-2 461	-7 087	-4 787	-4 917
Gross external public debt (millions of dollars)	1 680	1 666	1 549	1 568	1 382	1 361	1 295	1 278	1 445
					Average annual rates				
Employment									
Labour force participation rate [h]	61.2	60.7	60.9	61.6	63.0	63.7	63.9	63.5	...
Unemployment rate [i]	12.2	10.8	10.4	10.5	8.4	8.0	6.2	5.6	4.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.6	14.5
Variation in nominal exchange rate (annual average)	0.0	-1.1	0.2	0.7	0.0	-0.4	0.3	0.1	-0.6
Nominal deposit rate [j]	5.3	5.3	3.5	2.9	2.4	2.4	2.4	2.4	2.4
Nominal lending rate [j]	16.5	15.6	13.4	11.0	9.4	9.1	10.2	10.5	12.3
					Percentages of GDP				
Money and credit [k]									
Domestic credit	28.2	27.4	28.3	21.6	17.1	13.8	8.3	15.8	10.9
To the public sector	-1.0	-0.8	-1.7	-4.2	-9.5	-13.0	-17.5	-11.8	-17.5
To the private sector	29.2	28.3	30.0	25.9	26.6	26.9	25.7	27.5	28.3
Liquidity (M3)	37.4	40.3	40.9	32.2	33.3	35.2	35.5	35.8	38.3
Currency outside banks and local-currency deposits (M2)	27.2	31.3	31.1	26.1	24.9	27.9	26.9	27.1	27.7
Foreign-currency deposits	10.2	9.1	9.8	6.0	8.4	7.3	8.6	8.7	10.6

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government [l]									
Total income	25.4	24.4	24.6	23.6	24.7	29.5	31.9	28.8	36.5
Current income	25.3	24.3	24.6	23.5	24.7	29.5	31.9	28.8	36.5
Tax income [m]	14.9	15.5	15.8	13.4	14.0	13.8	12.6	12.5	14.7
Capital income	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	23.8	24.5	25.3	22.2	22.9	24.5	25.5	25.1	30.1
Current expenditure	21.4	22.9	24.1	21.1	20.9	21.8	21.8	19.8	23.5
Interest	4.7	4.0	4.3	3.5	2.8	2.5	2.0	1.9	2.0
Capital expenditure [n]	2.4	1.6	1.2	1.1	1.9	2.8	3.8	5.2	6.6
Primary balance	6.3	4.0	3.7	4.9	4.6	7.5	8.3	5.7	8.4
Overall balance	1.6	-0.1	-0.6	1.3	1.8	5.0	6.3	3.7	6.5
Public-sector external debt	20.6	18.9	17.2	13.8	10.8	8.8	6.9	6.1	-5.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Refers only to the oil industry.
[d] Includes quarrying.
[e] Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentage of the economically active population. Includes hidden unemployment; nationwide total.
[j] Weighted average.
[k] The monetary figures are end-of-year stocks.
[l] Fiscal years.
[m] Refers to tax revenues from the non-petroleum sector.
[n] Includes net lending.

2. Economic policy

(a) Fiscal policy

During the first seven months of 2008, high international energy prices helped to boost fiscal revenue. The budget for fiscal year 2007-2008 was initially based on the assumption of an average oil price of US$ 50 per barrel. However, the average price observed over the period turned out to be US$ 93.15. This price differential resulted in revenues exceeding budget projections by some TT$ 8 billion, and energy sector revenue rose from 14.6% of GDP in fiscal year 2006-2007 to 19.8% in 2007-2008. There were no dramatic changes in public spending between fiscal year 2006-2007 and fiscal year 2007-2008: current spending rose from 19.8% to 23.5% of GDP, and capital expenditure from 5.2% to 6.6% of GDP. In this context, the central government surplus increased from 3.8% to 6.5% over the same period. Despite this solid overall fiscal surplus, the non-energy balance recorded a deficit of 14.7% of GDP in fiscal year 2007-2008.

The high volatility of energy prices and uncertainty regarding their evolution make the elaboration of the budget very difficult in Trinidad and Tobago. The initial projections for fiscal year 2008-09 were made assuming an average oil price of US$ 70 per barrel, which would have resulted in a small overall surplus. However, the decline in energy prices prompted by the world economic crisis forced the budget to be revised in November 2008. This first revision was based on the assumption of an average oil price of US$ 55 per barrel and spending cuts, and resulted in a projected deficit of TT$ 741.9 million (0.4% of GDP). In early 2009 an additional revision was made, based on an average oil price of US$ 45 per barrel and further cuts in expenditure. This version of the budget now projects an overall fiscal deficit of TT$ 1.864 billion (1.1% of GDP) in fiscal year 2008-2009 and a non-energy fiscal deficit equivalent to 10.2% of GDP.

But as the economic situation has continued to deteriorate, even this latest revision seems to have fallen short. Indeed, in October 2008-February 2009 the overall fiscal deficit amounted to TT$ 2.957 billion or 1.8% of GDP, contrasting with the surplus of 0.4% of GDP recorded during the same period in fiscal year 2007-2008. Most interestingly, this 2.2 percentage point difference is wholly explained by the significant, 24.9% increase in

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.5	3.0	1.1	6.3	2.4	3.0	4.2	-1.1	-3.3	...
Gross international reserves (millions of dollars)	5 819	6 296	6 566	7 053	7 439	9 115	9 265	9 830	9 097	8 811 [c]
Real effective exchange rate (index: 2000=100) [d]	87.6	88.5	86.9	87.2	87.2	87.2	82.5	75.2	74.5	75.2 [e]
Consumer prices (12-month percentage variation)	8.0	7.3	8.2	7.6	9.8	11.3	14.8	14.5	11.3	10.3 [e]
Average nominal exchange rate (pesos per dollar)	6.30	6.29	6.29	6.29	6.31	6.25	6.22	6.26	6.26	6.28
Nominal interest rates (annualized percentages)										
Deposit rate [f]	2.4	2.4	2.4	2.5	2.4	2.4	2.4	2.4	2.4	1.8 [c]
Lending rate [g]	10.6	10.6	10.6	10.3	11.5	12.3	12.6	13.0	13.0	12.9 [c]
Interbank rate	10.0	10.0	10.0	10.0	10.2	10.3	10.6	10.8	10.7	10.5 [c]
Domestic credit (variation from same quarter of preceding year)	82.9	154.2	159.3	114.1	14.4	-27.9	-23.4	-23.8	-16.1 [h]	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] 90-day certificates of deposit.
[g] Average of the benchmark rate.
[h] Data to February.

outlays (revenue marginally declined by 0.1%), which was led by an impressive 64.4% expansion of transfers and subsidies. The latter is evidence of the efforts being made by the government to ameliorate the social impact of the global turmoil. Considering that about 12% of GDP was accumulated in the Heritage and Stabilization Fund, if this trend continues over the remainder of the fiscal year, the overall fiscal deficit could end up being above 3% of GDP.

On the upside, unlike in most Caribbean countries, public debt burden is not a problem. Public debt stood at 26% of GDP in 2008, of which almost one fourth was external and the remainder domestic.

(b) Monetary and exchange-rate policy

During 2008, the principal challenge confronted by the central bank continued to be high inflationary pressures in the context of the high liquidity levels in the financial sector that were fostered by expanded fiscal expenditure. The main monetary policy instruments used were liquidity absorption measures and increases in the reference interest rate (the repo rate).

In October 2007 - March 2008, net fiscal injections amounted to TT$ 7.856 billion. These were partially absorbed by a combination of open market operations (TT$ 3.757 billion) and sales of foreign exchange by the central bank (TT$ 3.435 million). The same policy mix was used in October 2008 - March 2009, when net fiscal injections totalled TT$ 9.752 billion. In this case, open market operations absorbed TT$ 500 million through a 91-day central bank bill issued in November 2008, whereas sales of foreign exchange reached TT$ 4.355 billion. In addition, in order to absorb the liquidity arising from the sale of RBTT Financial Holding Ltd,[2] in July 2008 a special liquidity absorption bond of TT$ 1.2 billion was issued with a maturity of nine years at a coupon rate of 8.25%. Furthermore, the cash requirement ratio applicable to commercial banks was raised by six percentage points to 17% between February and November 2008, helping to withdraw TT$ 2.154 billion from the banking system. Finally, in 2008, the repo rate was raised three times by 25 basis points each in February, July and September to end up at 8.75%.

2 RBTT is the second largest commercial bank in Trinidad and Tobago.

Reflecting the excess liquidity in the financial system, the monetary aggregates exhibited rapid growth during 2008. M1 —which is referred to as M1A by the central bank— expanded by a monthly year-on-year average of 17.6%, a much higher rate than the 7.6% growth recorded in 2007. This is explained by the significant dynamism of demand deposits because the increase of currency in active circulation remained approximately at the same level recorded in 2007. On the other hand, M2 in 2008 posted an average monthly year-on-year growth rate of 17.2%, 3.9 percentage points higher than in 2007 (13.3%). Growth of domestic credit to the private sector meanwhile slowed from 20.3% in 2007 to 14.0% in 2008, revealing a more prudent stance on the part of domestic financial institutions owing to the increased uncertainty that had been brought about by the deterioration of conditions in the world economy.

In 2009, the central bank faces the challenge of reducing two-digit inflation while at the same time dealing with a moderate economic slowdown and rising unemployment. To this end, the repo rate was reduced to 8.5% in March, then to 8% in April and 7.5% in June, and the government issued a 15-year bond, which raised TT$ 1.5 billion. As domestic consumer demand slows and eases inflationary pressures and as the cooling down of the economy becomes more acute, the central bank is expected to gradually focus on stimulating domestic demand rather than on combating inflation.

Lastly, the quasi-fixed exchange-rate regime remained unchanged, in a context of high foreign-exchange inflows generated by a combination of high energy prices in January-July 2008 and the injection of foreign exchange by the Royal Bank of Canada to facilitate de purchase of RBTT. However, the high inflation rate differential between Trinidad and Tobago and the United States implied a sustained appreciation of the bilateral real exchange rate of about 30% between 2000 and 2008. This presents another policy challenge to the country, as it is hard to believe that new activities, firms and sectors will emerge to reduce the dependency on the energy sector in such a context. Even the central bank acknowledges that there was speculation about a possible depreciation of the domestic currency vis-à-vis the United States dollar during the first quarter of 2009 because the global economic crisis and the collapse of energy international prices had diminished foreign currency inflows and conditions in the foreign-exchange market were consequently tight.[3]

(c) Other policies

In December 2008 a new Financial Institutions Act was passed. This legislation institutes consolidated supervision aimed at identifying and evaluating risks and contagion threats, including related-party lending, upgrading governance structures (such as requiring a more independent board of directors and an independent audit committee) and giving more authority to the central bank to take early corrective and preventive action to protect depositors.

Paradoxically, in late January 2009 the government and the central bank announced the bailout of CLICO[4] Investment Bank (CIB) —owned by CL Financial Ltd., a major conglomerate with interests in many sectors and activities in a large number of countries, especially in the Caribbean— in order to maintain the stability of the financial sector, prevent contagion of other financial institutions and protect depositors' funds. According to the central bank, the collapse of CIB was prompted mainly by three factors: first, excessive related-party transactions, which carry significant contagion risk; second, the very high interest rate offered to attract resources to finance high-risk investments, much of them in illiquid assets (including real estate in Trinidad and Tobago and elsewhere); and third, high leveraging of CL Financial Ltd. assets, which constrained the potential amount of cash that could be raised from the assets sales.

In the aftermath of the bailout of CLICO, a series of new bills have been introduced in parliament aimed at improving regulation and supervision of the financial sector. These include a Securities Industry Act and money-laundering legislation. In the coming months legislation governing pension funds, insurance companies and credit unions is expected to be introduced.

In August 2008 the country signed a Memorandum of Understanding with Grenada, Saint Lucia and Saint Vincent and the Grenadines, agreeing in principle to an economic union by 2011 and a political union by 2013. In addition, in 2009, the Economic Partnership Agreement (EPA) between the Caribbean Forum of African Caribbean and Pacific States (CARIFORUM) and the European Union will enter its implementation phase. The EPA demands certain reciprocity in the preferential access of Caribbean countries to the European Union market.

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3 Central Bank of Trinidad and Tobago, Monetary Policy Report, April 2009, p. 41.

4 Colonial Life Insurance Company.

3. The main variables

(a) Economic activity

Economic growth was 3.5%, two percentage points lower than in 2007, due to an almost stagnant energy sector that grew by a mere 0.4% (compared with 1.7% in 2007). The poor performance of this sector, which accounts for nearly half of the country's output, was explained by a combination of lower oil production and stagnant petrochemical output. The non-energy sector also recorded a marked slowdown from 7.7% in 2007 to 4.8% in 2008. The sharpest contraction within this sector was recorded by manufacturing, whose growth rate shrank to 4.2% in 2008 from an impressive 14.9% in 2007.

It is worth noting that economic activity lost momentum hand in hand with the emergence and the intensification of the global economic crisis. Indeed, overall output declined by 2% during the last quarter of 2008 (in year-on-year terms) after having expanded during the first three quarters at rates ranging from 2.4% to 3.8%. The drop in petrochemicals production during October-December 2008 was as high as 14.4%. Therefore, in the context of a worsening international economic situation, GDP growth is expected to be around 0.8% in 2009, with the non-energy sector continuing to exhibit a better performance than the energy one. The deterioration of external conditions suggests that Trinidad and Tobago will have to alter the policy mix implemented during the boom years of soaring high energy prices in 2003-2007 and that monetary policy will increasingly have to focus on boosting domestic demand because fiscal policy will no longer have the resources needed to implement substantial increases in public spending.

On the demand side, growth in 2008 was led by government consumption that expanded by 8.1% (compared with 7.4% in 2007), followed by private consumption that grew by 5.8% (compared with 6.3% in 2007). Export growth was slower due to a decline in oil production, falling from 6.2% in 2007 to 4.8% in 2008. The slowdown of investment was significant as it exhibited a growth rate of 3.5%, less than half of the 8.9% growth registered in 2007. This reflects the reduction in public and private investment that had been particularly dynamic in 2007 due to a number of major projects implemented that year. Finally, the dependence on imported food spearheaded the 8.7% rise in imports recorded in 2008, which was slightly lower than the increase in imports in 2007 (8.9%).

(b) Prices, wages and employment

Inflation gained momentum in 2008 posting a year-on-year headline rate of 14.5% in December, nearly twice as high as the one observed in December 2007 (7.6%). As usual, the main driver was food inflation which reached a record of 30.6% at the end of 2008, again almost doubling the level reached at the end of 2007 (16.8%). Undoubtedly, rising world food prices exerted a significant impact on domestic food inflation, particularly during the first half of the year. Higher prices of imported grain (particularly wheat, whose consumption is intense but which is not produced in Trinidad and Tobago) led National Flour Mills to raise the domestic price of flour in February, April and July 2008. As a consequence, inflation in the bread and cereals category of the food component of the Retail Price Index[5] rose from 14.1% in January 2008 to 63.2% in September. This process was aggravated by the closure of a second mill. Moreover, the substantive decline in international food prices since the third quarter of 2008 has not been transferred to domestic prices. For instance, while year-on-year headline inflation posted a rate of 10.3% in May 2009, food inflation stood at 19.6%. This signals a grave problem: not only that have domestic prices not declined in tandem with international prices, they have kept increasing at high rates. The social implications of this phenomenon are strong. Perhaps part of the explanation lies in monopolistic or oligopolistic behaviour on the part of importers, distributors, and retailers. Nevertheless, weaker consumer demand should gradually drive the inflation rate downwards in 2009, and inflation is estimated to end the year in the one digit region.

In terms of employment, despite the slowdown in economic growth recorded in 2008 in relation to 2007, the unemployment rate in January-September 2008 averaged 4.9%, one percentage point lower than during the same period in 2007. This reflects the fact that although 5,000 people joined the labour force, some 11,300 persons found a job.[6] This process was spurred by employment in the construction sector, which created 7,100 additional jobs during the first few months of 2008, followed by the services sector which created 3,100 jobs. It is worth noting that the energy sector lost 2,200 jobs, the heaviest loss recorded in that period. In recent months, however, the labour market has been showing signs of

[5] This is the name of the consumer price index.
[6] The total labour force was estimated at 630,700 in September 2008.

weakening, with the leaders in job losses being energy services (about 1,000 jobs in 2008-2009), the Trinidad and Tobago Contractors Association (2,000 jobs lost in January-March 2009), and Home Construction Limited (2,500 jobs in August 2008-January 2009). Employment is expected to be adversely affected by the pessimistic output performance forecast for 2009.

(c) The external sector

The steady climb in energy prices during most of the year more than offset the decline of energy production. This determined that in 2008 the current account surplus stood at 27.6% of GDP, three percentage points higher than in 2007. Meanwhile, the trade surplus stood at 28.6% of GDP (up from 26.2% in 2007), fuelled by the hike in energy exports from US$ 11.5 billion to US$ 14.6 billion, an increase of 27%. Non-energy exports also expanded notably (22%) to US$ 9.4 billion. Merchandise imports were 30% higher in 2008 than in 2007. The current account surplus was partly counterbalanced by a capital and financial account deficit (including errors and omissions) of 16.5% of GDP in 2008 (compared with 17.5% in 2007).[7] Overall, the balance-of-payments surplus increased from 7.1% of GDP in 2007 to 11.1% in 2008. This resulted in an accumulation of gross international reserves that rose from US$ 6.7 billion in 2007 to US$ 9.4 billion in 2008 or 11.5 months of imports coverage. Evidently, given the evolution of international energy prices, the current account surplus is expected to decline during 2009, largely as a result of rapidly declining export receipts, although it should remain significant.

7 Foreign Direct Investment (FDI) represented 6.2% of GDP in 2008, up from the 4% posted in 2007.

Eastern Caribbean Currency Union

1. Main trends

Based on preliminary estimates by the Eastern Caribbean Central Bank (ECCB) in 2008, the growth of the economies of ECCU[1] was a mere 1.7% in 2008 compared with 5.2% in the previous year, falling short of the projected 3%. The two main drivers of economic growth, construction and tourism, were particularly affected by the global economic crisis. The manufacturing sector suffered a major setback, while agriculture and banks and insurance, recorded solid growth rates. Overall, there was a marginal decline in inflation (reaching 4.8% by the end of the year) catalysed by the stabilization of commodities prices towards the end of 2008. A fiscal deficit equivalent to 3.5% of GDP was recorded, and the balance-of-payments current account deficit remained at approximately 34.4% of GDP. The debt level continued to be unsustainable at 89.5% of GDP.

Compared with the results for 2007, economic growth declined in six of the eight countries, with Anguilla reporting a particularly sharp contraction from 21% in 2007 to -0.5% in 2008. Saint Vincent and the Grenadines also recorded negative growth (-0.5%). Positive growth was recorded in Antigua and Barbuda (2.8%), Dominica (3.2%), Grenada (0.3%), Montserrat (6.2%), Saint Kitts and Nevis (2.5%) and Saint Lucia (2%). The economic growth forecast for 2009 is -1%, as the effects of the global economic crisis continue to filter through to these economies.

2. Economic policy

(a) Fiscal policy

As a result of the global financial crisis, governments have taken a number of policy decisions (removal of value added tax and the common external tariff on selected commodities, safety net programmes and unemployment benefits) to cushion the impact of the crisis on the populace and have implemented a public service investment programme (capital investment projects) to stimulate economic activity. However, fiscal discipline is key to maintaining confidence, and the central government deficit actually shrank slightly from 3.9% of GDP in 2007 to 3.5% of GDP in 2008, and a modest primary surplus of 0.01% of GDP was posted, compared with a deficit of 0.4% of GDP in the previous year.

[1] ECCU member countries are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines.

Table 1
EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Annual growth rates [b]								
Gross domestic product	4.3	-0.3	2.0	-2.4	3.7	5.7	4.3	0.7	-1.7
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	5.5	-2.0	19.0	-3.8	-7.3	-15.2	5.5	-14.6	-5.8
Mining and quarrying	10.6	2.7	2.8	14.6	4.8	-4.7	-1.6	-43.8	-20.5
Manufacturing	9.8	-20.6	-5.7	22.2	24.2	40.1	-31.0	-12.0	-1.8
Electricity, gas and water	26.9	6.3	5.7	6.6	-29.5	13.0	18.1	2.5	6.0
Construction	30.6	-22.2	18.0	6.6	-1.2	9.5	28.5	5.1	-10.0
Wholesale and retail commerce, restaurants and hotels	-3.1	5.1	-6.4	2.7	6.0	10.3	4.0	-6.1	-0.7
Transport, storage and communications	3.1	-6.5	3.7	0.9	11.1	4.0	3.5	-5.1	-6.4
Financial institutions, insurance, real estate and business services	6.6	7.8	5.8	-9.5	7.2	2.0	1.3	4.7	3.2
Community, social and personal services	-2.0	-1.9	-2.2	-3.0	2.7	4.9	-2.3	4.4	0.8
	Millions of dollars								
Balance of payments									
Current account balance	-468	-510	-574	-681	-523	-815	-1 246	-1 545	-1 631
Goods balance	-1 074	-997	-979	-1 176	-1 233	-1 481	-1 832	-2 087	-2 171
Exports, f.o.b.	352	309	299	259	342	370	359	378	454
Imports, f.o.b.	1 426	1 306	1 278	1 435	1 576	1 851	2 191	2 465	2 625
Services trade balance	661	574	526	604	763	710	638	628	594
Income balance	-223	-198	-218	-238	-267	-234	-216	-236	-207
Net current transfers	168	110	98	129	215	188	164	149	153
Capital and financial balance [c]	489	577	633	722	634	811	1 349	1 591	1 613
Net foreign direct investment	328	372	340	553	449	632	1 106	1 229	723
Other capital movements	161	205	293	169	185	179	243	362	890
Overall balance	21	67	59	41	111	-4	103	47	-19
Variation in reserve assets [d]	-21	-67	-61	-41	-110	16	-92	-47	19
Other external-sector indicators									
Gross external public debt (millions of dollars)	1 262	1 458	1 763	2 060	2 250	2 098	2 230	2 169	2 159
	Average annual rates								
Prices									
Variation in consumer prices (December-December)	...	2.4	-0.1	1.7	2.7	4.1	1.5	5.5	4.8
Nominal deposit rate [e]	4.4	4.3	3.7	4.6	3.2	3.2	3.2	3.2	3.3
Nominal lending rate [e]	11.6	11.4	11.0	12.8	10.4	10.2	9.9	9.6	9.6
	Percentages of GDP								
Central government									
Total income [f]	27.9	27.2	28.4	29.0	30.1	35.7	30.7	30.5	31.6
Current income	24.9	24.5	25.3	25.6	26.2	26.4	27.5	28.0	27.9
Tax income	21.3	21.1	21.8	22.3	23.1	23.8	24.8	25.3	25.0
Capital income	0.2	0.1	0.5	0.4	0.4	0.4	0.2	0.4	0.6
Total expenditure	32.3	34.3	36.9	34.0	33.7	33.5	35.3	34.4	35.1
Current expenditure	25.2	26.4	27.2	26.5	26.9	25.7	25.8	25.5	27.3
Interest	3.5	3.4	4.1	4.0	4.4	3.5	3.7	3.5	3.5
Capital expenditure [g]	7.0	7.9	9.7	7.5	6.8	7.8	9.5	8.9	7.8
Primary balance	-0.9	-3.8	-4.4	-0.9	0.8	5.7	-0.9	-0.4	0.0
Overall balance	-4.4	-7.1	-8.5	-5.0	-3.6	2.2	-4.6	-3.9	-3.5
Public-sector debt	46.5	53.1	63.7	67.6	59.9	57.2	55.1	48.8	45.6
	Percentages of GDP								
Money and credit [h]									
Domestic credit	75.4	79.1	79.3	75.9	75.8	79.2	82.6	90.8	94.7
To the public sector	-1.3	-0.9	-1.1	-2.7	-2.2	-0.3	-1.6	-0.5	0.6
To the private sector	76.7	80.0	80.4	78.5	78.0	79.6	84.2	91.3	94.1
Liquidity (M3)	76.7	80.6	83.8	86.9	91.6	92.3	92.5	92.4	94.5
Currency outside banks and local-currency deposits (M2)	66.9	70.3	72.3	75.4	78.7	78.1	76.4	76.4	79.5
Foreign-currency deposits	9.8	10.2	11.4	11.5	12.9	14.2	16.1	16.1	15.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in Eastern Caribbean dollars at constant 1990 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Weighted averages.
[f] Includes grants.
[g] Includes net lending.
[h] The monetary figures are end-of-year stocks.

Total central government revenue increased by 10.5%, from 30.5% to 31.6% of GDP between 2007 and 2008, thanks to improved tax administration and a broader tax base. Current income increased by only 6.3%, half the increase recorded in the previous year, on the back of increases in receipts from tax and non-tax sources (5.6% and 12.9%, respectively). Revenue from taxes on income and profit rose by 15.2%, mainly reflecting an increase in revenue from company taxes, especially in Saint Lucia. Revenue from property and international trade taxes, meanwhile, declined slightly.

Current expenditure grew by 14.3%, from the equivalent of 25.5% of GDP in the previous year to 27.3% of GDP in 2008, on account of increases in personal emoluments (12%), transfers and subsidies (23%) and goods and services (15.2%). The increase in personal emoluments was driven by salary and wage increases in Anguilla, Grenada, Saint Kitts and Nevis and Saint Vincent and the Grenadines. Higher outlays for transfers and subsidies were in part due to larger transfers to public entities in Anguilla, the expansion of safety net programmes in Antigua and Barbuda and an increase in retirement benefits in Grenada and Saint Vincent and the Grenadines. The rise in fuel prices and utilities costs was responsible for the increased outlays on goods and services. Capital expenditure declined by 7% as major works were completed on a number of projects.

The fiscal current account balance recorded a surplus of 0.6% of GDP, compared with 2.5% of GDP in 2007. Declining current account surpluses were recorded for Dominica, Grenada, Saint Lucia and Saint Vincent and the Grenadines. Saint Kitts and Nevis experienced a migration from a surplus of 1.2% of GDP to a deficit of 1.5% GDP and Anguilla from a surplus of 5.5% of GDP to a deficit of 0.3% of GDP. Montserrat's deficit shrank slightly from 46.1% to 42.8% of GDP, while the deficit of Antigua and Barbuda widened from 0.8% to 3.7% of GDP.

The public debt situation remains a major concern for the subregion. At the end of 2008, the debt level was at 89.5% of GDP, slightly lower than the level recorded in 2007 (92.6% of GDP), but still above the 60% target set by ECCB. Two countries still maintain debt levels exceeding 100% of GDP: Grenada (106.4%) and Saint Kitts and Nevis (170.3%). While the level of public-sector debt declined in Antigua and Barbuda and Dominica, the debt stock increased marginally in the rest of ECCU. The high level of debt presents a serious challenge to the member countries: the ratio between debt service and current fiscal revenue is as high as 25% for ECCU. In Saint Kitts and Nevis, the ratio is approximately 40%, making this level of debt particularly unsustainable.

(b) Monetary and exchange rate policy

Monetary policy continues to focus on the stability of the Eastern Caribbean dollar. Although ECCB does not employ inflation targeting, inflation worries have eased with the decline in commodity prices. In 2008, there was no change in the discount rate, which remained at 6.5%, while the interbank market rate fluctuated between 5% and 6%. The weighted average lending and deposit rates remained fairly stable at approximately 9.5% and 3.3%, respectively.

Monetary aggregates of ECCU grew at a slower pace than in 2007, reflecting the slowdown in economic activity. Broad money (M3) grew by 2.6% in 2008 compared with 10.4% in 2007, reflecting a 4.8% increase in liquidity (M2) and a contraction of 7.6% in foreign currency deposits. The main source of this increase was the expansion of domestic credit, which grew by 11.2%, driven again by the increase in credit to the public sector. Domestic lending to the private sector grew approximately 10%, compared with 19% in 2007. Growth in domestic lending to the public sector also slowed, from 42.9% in 2007 to 16.2% in 2008.

The exchange rate peg of US$ 1 to EC$ 2.70 continues to provide stability for the EC dollar. The real effective exchange rate remained unchanged in the second half of 2008, an indication of the stabilization of the United States dollar.

In order to avoid a run on the Bank of Antigua in the wake of the arrest of Sir Allen Stanford, the majority shareholder, in February 2009, ECCB exercised its emergency powers and seized control of the institution. Sir Allen Stanford was charged by the United States Securities and Exchange Commission over an alleged US$ 8 billion dollar investment fraud. Subsequently, a consortium of indigenous banks[2] took control of the Bank upon the recommendation of ECCB.

Meanwhile, the subregion is still trying to get a handle on the CLICO[3] debacle. In April 2009, a Liquidity Support Fund was established to provide financial support by providing liquidity to the Eastern Caribbean countries serviced by CLICO insurance and British American, two major subsidiaries of CL Financial Ltd. Trinidad and Tobago will inject US$ 50 million, Barbados US$ 5 million, Eastern Caribbean US$ 10 million and international institutions US$ 15 million into the Fund.

(c) Other policies

Progress was made on the establishment of the Economic Union of the Organization of Eastern

[2] Antigua Commercial Bank Ltd, National Bank of Dominica Ltd, National Commercial Bank (SVG) Ltd, St Kitts-Nevis-Anguilla National Bank.

[3] Colonial Life Insurance Company Ltd.

Caribbean States (OECS).[4] June 2010 was set as the date for the implementation of the Economic Union. This will see the creation of a single economic space which will facilitate the free movement of people, goods, services and capital and promote economic diversification and growth, as well as greater export competitiveness, employment and human resources development. Meanwhile, efforts are ongoing to establish an economic and political union between OECS and Trinidad and Tobago by 2013.

3. The main variables

(a) Economic activity

In 2008, the growth of ECCU decelerated to 1.7% as a result of the slowdown in construction and in mining and quarrying, and the contraction of the tourism and manufacturing sectors. Between 2007 and 2008, valued added fell from 6% to 4% in the construction sector and from 22% to 5% in the mining and quarrying sector.

Agricultural activity increased by 4.3% as banana production, a major growth engine in the sector, expanded significantly. However, while banana production capacity was up by a notable 30% in Saint Lucia and by 21% in Dominica, plantations in Saint Vincent and the Grenadines were blighted by moko disease and leaf spot disease, which slashed production there by 40%. Cocoa production in Grenada, meanwhile, increased by 50%. Prospects for agriculture are, nevertheless, generally bleak: the future of the banana industry is still uncertain, and the subregion remains vulnerable to natural disasters. Banks and insurance drove growth in the financial services, insurance, real estate and business sectors (3.7%), which contitutes 19% of GDP and thus is a key sector in the ECCU.

Manufacturing industry contracted by 6.6% as a result of a decline in beverages and toothpaste production. The latter ceased altogether in Dominica in the last quarter of 2008, and there was a 33% drop in the production of beer and beverages in Saint Vincent and the Grenadines.

The tourism sector is a major source of foreign exchange and employment; in some countries, such as Anguilla, it represents as much as 25% of GDP. Despite the decline in tourism demand as a result of the global economic crisis, total visitor arrivals in ECCU increased by almost 2% on account of a marginal increase in Caribbean visitors and a large (22%) increase in visitors from Canada. Tourist activity varied among ECCU countries according to the product differentiation, access and marketing strategies pursued. Tourist arrivals declined in Anguilla, Antigua and Barbuda, Montserrat and Saint Vincent and the Grenadines, but increased in Saint Kitts and Nevis, Dominica, Grenada and Saint Lucia. However, all countries posted a decline in tourist arrivals in the last quarter of 2008. Overall, there was a 4.6% increase in the number of cruise ship passengers, while the number of stay-over visitors, the highest-expenditure tourism group, and excursionists fell by 0.5% and 28%, respectively. In sum, tourism posted a 2.2% decline compared with growth of 0.5% in 2007.

Tourist arrivals are forecast to fall drastically in 2009. Some of the ECCU countries have already begun experiencing declines in hotel bookings. For instance, as of May 2009, bookings were down by at least 30% in Saint Lucia. Hotel investments have also slowed as credit remains tight. Given the dependence on tourism, a fall of 1% of GDP is expected in 2009.

(b) Prices, wages and employment

The December-December inflation rate for 2008 was 4.8%, down from 5.5% in 2007. With the exception of fuel and electricity, education and personal services, all other sub-indices showed high prices. Having risen by 13.5% in 2007, fuel and electricity prices contracted by 4% in 2008 on account of the fall in oil prices on the international market in the second half of that year. The highest price increases were recorded in food, (9%, fuelled by increased prices for cereals and dairy products), followed by transportation and communication (8%, reflecting the increase in fuel prices in early 2008). Saint Vincent and the Grenadines, Anguilla and Montserrat reported higher inflation, while the other countries reported a decline in the inflation rate.

Wages and salaries were raised in Saint Kitts and Nevis, Anguilla, Saint Vincent and the Grenadines and Grenada to offset the impact of nominal price increases.

[4] The Organization of Eastern Caribbean States member States are Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Anguilla and the British Virgin Islands are associate members.

Employment will be greatly impacted by the decline in construction and tourism activity. Tourism employs a substantial amount of the labour force in ECCU, and a downturn in this sector automatically translates into job cuts. In December 2008, Sandals Resorts in Saint Lucia laid off 210 workers, 80 persons were laid off at the Marriott Hotel in Saint Kitts and Nevis in April 2009, and 60 workers were laid off from the Jalousie plantation in Saint Lucia in January 2009. This trend is expected to continue. The negative impact of waning tourism on unemployment is expected to be compounded in Antigua and Barbuda by the seizure of the assets of Sir Allen Stanford, the largest private-sector employer.

(c) The external sector

The balance-of-payments current account deficit remained at a high 34.4% of GDP at the end of 2008, compared with 34.8% of GDP in 2007. In nominal terms, the current account deficit worsened by approximately 6%. The 20% increase in the value of goods exports (to US$ 454 million) was not sufficient to offset the nearly 6.5% increase in goods imports (to US$ 2.625 billion). The services account surplus deteriorated slightly to 12.5% of GDP from 14.1% of GDP in 2007 owing to the decline in tourism receipts as the number of stay-over visitors fell. There was a 29% drop in foreign direct investment, reflecting a significant decrease in equity investment in the tourism sector and real estate. On the capital account, the level of migrant transfers remained fairly unchanged at US$ 51 million. The capital and financial account recorded a positive balance at approximately 32% of GDP. The overall balance-of-payment deficit was financed with a reduction in ECCB reserves. The Bank's net international reserves shrank by 0.8% to reach US$ 755 million, covering 2.5 months of imports of goods and services.

The current account deficit is expected to decline marginally to 31.6% of GDP in 2009 on account of an increase in exports and a decline in imports as construction activity continues to slow.

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Statistical annex

Table A-1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates				
Gross domestic product [b]	4.0	0.4	-0.4	2.2	6.1	4.9	5.8	5.8	4.2
Per capita gross domestic product [b]	2.5	-1.0	-1.7	0.9	4.7	3.6	4.4	4.4	2.9
Consumer prices [c]	9.0	6.1	12.2	8.5	7.4	6.1	5.0	6.4	8.4
					Percentages				
Urban open unemployment [d]	10.4	10.2	11.0	11.0	10.3	9.1	8.6	7.9	7.4
Total gross external debt/GDP [e]	35.2	36.4	40.2	40.4	34.8	25.1	20.9	20.5	18.0 [f]
Total gross external debt/ exports of goods and services	173	181	179	171	139	101	84	84	75 [f]
					Millions of dollars				
Balance of payments [g]									
Current account balance	-48 701	-54 048	-16 188	8 580	20 889	33 921	43 817	11 301	-33 542
Merchandise trade balance	-1 301	-8 123	19 868	40 155	55 423	75 395	90 448	62 998	34 512
Exports of goods f.o.b.	363 967	348 998	352 903	384 246	473 449	569 286	677 875	763 336	883 553
Imports of goods f.o.b.	365 269	357 121	333 035	344 092	418 026	493 891	587 428	700 337	849 042
Services trade balance	-14 398	-17 006	-12 098	-10 578	-10 919	-14 799	-16 225	-21 882	-27 509
Income balance	-54 572	-55 325	-53 805	-58 916	-68 810	-79 858	-94 267	-96 454	-106 996
Net current transfers	21 570	26 405	29 846	37 915	45 194	53 183	63 861	66 639	66 450
Capital and financial balance [h]	64 428	37 870	-9 771	1 935	-8 098	22 724	16 383	111 303	68 055
Net foreign direct investment	71 520	66 111	50 261	37 197	48 680	53 766	30 173	85 384	90 484
Other capital movements	-7 092	-28 241	-60 032	-35 263	-56 778	-31 042	-13 790	25 918	-22 429
Overall balance	15 727	-16 178	-25 959	10 515	12 791	56 645	60 200	122 604	34 513
Variation in reserve assets [i]	-7 515	-43	3 539	-29 154	-21 661	-35 258	-47 263	-124 527	-38 425
Other financing	-8 212	16 222	22 420	18 639	8 870	-21 385	-12 934	1 923	3 911
Net transfer of resources [f]	975	-1 551	-41 412	-39 503	-69 202	-80 760	-97 661	12 145	-39 770
International reserves [f]	171 298	169 408	167 959	201 185	227 838	263 207	320 757	459 550	510 457
					Percentages of GDP				
Fiscal sector [j]									
Overall balance	-2.6	-3.2	-2.9	-3.0	-1.9	-1.1	-0.0	0.3	-0.4
Primary balance	-0.2	-0.8	-0.5	-0.2	0.5	1.3	2.2	2.2	1.3
Total revenue	16.4	16.4	16.5	16.6	17.0	18.0	18.9	19.4	19.6
Tax revenue [k]	12.8	12.8	12.9	13.0	13.5	14.3	14.6	15.1	15.0
Total expenditure	18.8	19.5	19.4	19.5	18.8	19.1	18.9	19.2	20.0
Capital expenditures	3.5	3.6	3.5	3.6	3.5	3.5	3.5	3.9	4.3
Central-government public debt	43.2	45.5	58.4	57.5	50.9	42.8	35.8	29.9	28.0
Public debt of the non-financial public-sector (NFPS)	47.3	49.5	64.3	61.9	55.1	47.4	39.7	32.7	30.8

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

[a] Preliminary figures.

[b] Based on official figures expressed in 2000 dollars.

[c] December-December variation.

[d] The data for Argentina and Brazil have been adjusted to allow for changes in methodology in 2003 and 2002, respectively.

[e] Estimates based on figures denominated in dollars at current prices.

[f] Does not incluye Cuba.

[g] Does not include Cuba, Guyana, Saint Kitts and Nevis, Suriname and Trinidad and Tobago.

[h] Includes errors and omissions.

[i] A minus sign (-) indicates an increase in reserve assets.

[j] Central government, except for the Plurinational State of Bolivia, where coverage corresponds to general government. Simple averages. Includes information from 19 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[k] Does not include social security contributions.

Table A-2

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Millions of current dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean	**2 114 994**	**2 059 905**	**1 850 259**	**1 920 524**	**2 216 811**	**2 686 924**	**3 165 350**	**3 661 441**	**4 266 044**
Antigua and Barbuda	664	696	714	753	815	868	1 003	1 155	1 217
Argentina	284 346	268 831	102 042	129 596	153 129	183 196	214 267	262 451	330 196
Bahamas	5 528	5 659	5 912	5 942	6 189	6 797	7 280	7 498	7 564
Barbados	2 559	2 554	2 476	2 695	2 817	3 006	3 191	3 433	3 729
Belize	832	872	933	988	1 056	1 115	1 213	1 277	1 387
Bolivia (Plurinational State of)	8 398	8 142	7 905	8 082	8 773	9 549	11 452	13 120	16 674
Brazil	644 476	552 288	505 960	552 453	663 733	882 040	1 089 398	1 300 312	1 575 835
Chile	75 495	68 840	67 532	73 986	95 678	118 182	146 771	163 879	169 458
Colombia	94 053	92 877	93 016	91 703	113 774	144 581	162 347	207 786	242 268
Costa Rica	15 946	16 404	16 844	17 518	18 596	19 965	22 526	26 267	29 663
Cuba	30 565	31 682	33 591	35 901	38 203	42 644	52 743	58 604	62 705
Dominica	271	266	255	263	285	299	317	341	357
Dominican Republic	23 655	24 512	24 913	20 045	21 582	33 542	35 660	41 013	45 523
Ecuador	15 934	21 250	24 899	28 636	32 642	37 187	41 763	45 789	52 572
El Salvador	13 134	13 813	14 307	15 047	15 798	17 070	18 654	20 373	22 115
Grenada	430	422	437	480	469	554	564	608	644
Guatemala	17 196	18 703	20 777	21 918	23 965	27 211	30 231	34 031	38 976
Guyana	713	712	726	743	788	825	915	1 075	1 159
Haiti	3 665	3 508	3 215	2 827	3 660	4 154	4 961	6 225	7 215
Honduras	7 187	7 653	7 860	8 234	8 871	9 757	10 918	12 417	14 321
Jamaica	8 949	9 104	9 677	9 399	10 135	11 152	11 989	12 909	14 431
Mexico	636 731	681 762	711 103	700 325	758 222	844 137	945 651	1 018 221	1 080 483
Nicaragua	3 938	4 125	4 026	4 102	4 465	4 872	5 294	5 691	6 365
Panama	11 621	11 808	12 272	12 933	14 179	15 465	17 137	19 485	23 088
Paraguay	7 095	6 446	5 092	5 552	6 950	7 473	9 275	12 222	15 976
Peru	53 336	53 955	56 775	61 356	69 701	79 389	92 319	107 329	127 500
Saint Kitts and Nevis	329	343	351	362	400	439	489	512	552
Saint Vincent and the Grenadines	335	345	365	382	414	445	498	555	598
Saint Lucia	707	685	701	743	798	850	913	955	1 019
Suriname	775	665	955	1 122	1 285	1 481	1 736	1 867	2 263
Trinidad and Tobago	8 154	8 825	9 008	11 305	13 280	15 935	19 345	21 717	24 205
Uruguay	20 829	19 248	12 731	11 605	13 706	17 230	20 023	24 254	32 186
Venezuela (Bolivarian Republic of)	117 148	122 910	92 890	83 529	112 452	145 513	184 509	228 071	313 799

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

[a] Preliminary figures.

Table A-3
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean [b]	**4.0**	**0.4**	**-0.4**	**2.2**	**6.1**	**4.9**	**5.8**	**5.8**	**4.2**
Antigua and Barbuda	1.5	2.2	2.5	5.2	7.2	4.7	12.6	10.0	2.5
Argentina	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	7.0
Bahamas	4.3	-0.3	2.0	-2.4	3.7	5.7	4.3	0.7	-1.7
Barbados	2.3	-4.6	0.7	2.0	4.8	3.9	3.2	3.4	0.5
Belize	12.3	5.0	5.1	9.3	4.6	3.0	4.7	1.2	3.3
Bolivia (Plurinational State of)	2.5	1.7	2.5	2.7	4.2	4.4	4.8	4.6	6.1
Brazil	4.3	1.3	2.7	1.1	5.7	3.2	4.0	5.7	5.1
Chile	4.5	3.4	2.2	3.9	6.0	5.6	4.6	4.7	3.2
Colombia	2.9	2.2	2.5	4.6	4.7	5.7	6.9	7.5	2.5
Costa Rica	1.8	1.1	2.9	6.4	4.3	5.9	8.8	7.8	2.6
Cuba	5.9	3.2	1.4	3.8	5.8	11.2	12.1	7.3	4.3
Dominica	0.6	-3.6	-4.2	2.2	6.3	3.4	5.2	3.4	3.4
Dominican Republic	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3
Ecuador	2.8	5.3	4.2	3.6	8.0	6.0	3.9	2.5	6.5
El Salvador	2.2	1.7	2.3	2.3	1.9	3.1	4.2	4.7	2.5
Grenada	17.5	-3.9	2.1	8.4	-6.5	12.0	-1.9	3.6	2.1
Guatemala	3.6	2.3	3.9	2.5	3.2	3.3	5.4	6.3	4.0
Guyana	-0.7	1.6	1.2	-0.7	1.6	-2.0	5.1	5.3	3.1
Haiti	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.4	1.3
Honduras	5.7	2.7	3.8	4.5	6.2	6.1	6.6	6.3	4.0
Jamaica	0.7	1.3	1.0	3.5	1.4	1.0	2.7	1.4	-0.6
Mexico	6.6	-0.0	0.8	1.4	4.0	3.2	4.8	3.3	1.3
Nicaragua	4.1	3.0	0.8	2.5	5.3	4.3	3.9	3.2	3.2
Panama	2.7	0.6	2.2	4.2	7.5	7.2	8.5	11.5	9.2
Paraguay	-3.3	2.1	-0.0	3.8	4.1	2.9	4.3	6.8	5.8
Peru	3.0	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8
Saint Kitts and Nevis	4.3	2.0	1.0	0.5	7.6	5.6	5.3	4.0	9.7
Saint Vincent and the Grenadines	1.8	1.0	3.7	3.2	6.2	3.6	9.6	7.7	1.0
Saint Lucia	-0.2	-5.1	3.1	4.3	5.2	6.0	4.0	1.1	2.3
Suriname	1.9	5.7	2.7	6.8	7.2	6.3	4.5	5.3	5.2
Trinidad and Tobago	6.9	4.2	7.9	14.4	8.0	5.4	13.3	5.5	3.5
Uruguay	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.0	7.6	8.9
Venezuela (Bolivarian Republic of)	3.7	3.4	-8.9	-7.8	18.3	10.3	9.9	8.9	4.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] On the basis of figures expressed in constant 2000 dollars.

Table A-4

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT

(Annual growth rates)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean [b]	**2.5**	**-1.0**	**-1.7**	**0.9**	**4.7**	**3.6**	**4.4**	**4.4**	**2.9**
Antigua and Barbuda	-0.7	0.3	0.8	3.7	5.7	3.3	11.2	8.7	1.3
Argentina	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4	7.6	5.9
Bahamas	2.8	-1.6	0.7	-3.6	2.4	4.4	3.0	-0.5	-2.9
Barbados	1.8	-5.0	0.3	1.6	4.4	3.5	2.8	3.1	0.2
Belize	9.5	2.4	2.6	6.8	2.2	0.7	2.4	-0.9	1.2
Bolivia (Plurinational State of)	0.1	-0.6	0.2	0.4	1.9	2.2	2.6	2.4	4.0
Brazil	2.8	-0.2	1.2	-0.3	4.2	1.8	2.6	4.3	3.8
Chile	3.2	2.2	1.0	2.8	4.9	4.5	3.5	3.6	2.1
Colombia	1.3	0.6	0.9	3.0	3.1	4.2	5.5	6.2	1.3
Costa Rica	-0.5	-1.0	0.9	4.4	2.4	4.0	6.9	6.0	0.9
Cuba	5.6	2.9	1.2	3.6	5.6	11.1	12.0	7.3	4.3
Dominica	0.8	-3.5	-4.0	2.4	6.5	3.6	5.5	3.8	3.8
Dominican Republic	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	6.9	3.8
Ecuador	1.3	3.8	2.8	2.1	6.5	4.5	2.4	1.0	5.0
El Salvador	0.2	-0.2	0.4	0.5	0.1	1.3	2.4	2.9	0.9
Grenada	16.8	-4.8	1.1	7.2	-7.4	11.3	-2.3	3.6	2.2
Guatemala	1.2	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	1.5
Guyana	-0.7	1.6	1.0	-0.9	1.4	-2.0	5.2	5.5	3.4
Haiti	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.7	-0.4
Honduras	3.6	0.6	1.7	2.5	4.1	3.9	4.5	4.2	1.9
Jamaica	-0.1	0.6	0.2	2.8	0.7	0.4	2.1	0.9	-1.1
Mexico	5.1	-1.1	-0.1	0.6	3.2	2.3	3.7	2.2	0.2
Nicaragua	2.4	1.5	-0.6	1.2	4.0	2.9	2.5	1.8	1.9
Panama	0.8	-1.3	0.4	2.3	5.6	5.4	6.7	9.7	7.4
Paraguay	-5.3	0.0	-2.0	1.8	2.1	0.9	2.4	4.8	3.9
Peru	1.6	-1.1	3.7	2.8	3.7	5.6	6.5	7.6	8.6
Saint Kitts and Nevis	3.0	0.7	-0.3	-0.8	6.3	4.3	3.9	2.6	8.3
Saint Vincent and the Grenadines	1.3	0.4	3.2	2.6	5.6	3.1	9.0	7.1	0.5
Saint Lucia	-1.1	-6.1	2.0	3.1	4.0	4.8	2.9	-0.0	1.2
Suriname	1.0	4.8	1.9	6.1	6.5	5.6	3.8	4.7	4.6
Trinidad and Tobago	6.5	3.8	7.6	14.0	7.6	5.0	12.9	5.1	3.1
Uruguay	-1.8	-3.6	-11.0	2.2	11.9	6.6	6.8	7.3	8.6
Venezuela (Bolivarian Republic of)	1.8	1.5	-10.5	-9.4	16.2	8.4	8.0	7.1	3.1

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

[a] Preliminary figures.

[b] On the basis of figures expressed in constant 2000 dollars.

Table A-5
LATIN AMERICA AND THE CARIBBEAN: COMPONENTS OF TOTAL DEMAND [a]
(Indices 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [b]
Total supply	**100.0**	**100.3**	**99.1**	**100.7**	**108.2**	**114.9**	**123.3**	**132.1**	**139.0**
Gross domestic product	100.0	100.4	99.9	102.1	108.3	113.7	120.2	127.2	132.6
Imports of goods and services	100.0	99.9	94.3	95.6	109.5	122.4	140.1	158.1	172.3
Total demand	**100.0**	**100.3**	**99.1**	**100.7**	**108.2**	**114.9**	**123.3**	**132.1**	**139.0**
Total consumption	100.0	101.0	100.7	102.5	107.9	113.9	120.7	128.4	134.1
Private consumption	100.0	100.9	100.2	102.1	107.9	114.3	121.6	130.0	135.6
Government consumption	100.0	101.3	102.9	104.6	107.8	112.3	116.7	121.6	127.1
Gross capital formation	100.0	98.0	90.5	88.8	99.2	105.2	119.0	132.5	148.1
Gross fixed capital formation	100.0	97.3	90.6	90.4	101.9	113.2	127.5	143.0	155.8
Domestic demand	100.0	100.3	98.5	99.6	106.0	112.1	120.4	129.3	137.0
Exports of goods and services	100.0	100.0	102.1	106.1	119.2	129.0	138.3	146.6	149.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] On the basis of figures expressed in constant 2000 dollars. Includes information from 20 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[b] Preliminary figures.

Table A-6
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT BY ECONOMIC SECTOR [a]
(Indices 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [b]
Total gross domestic product at market prices	**100.0**	**100.4**	**99.9**	**102.1**	**108.3**	**113.7**	**120.2**	**127.2**	**132.6**
Agriculture, forestry, hunting and fishing	100.0	104.0	106.7	111.6	114.1	117.0	121.8	127.6	132.1
Mining and quarrying	100.0	101.9	100.0	103.1	107.5	109.3	110.8	110.3	111.3
Manufacturing	100.0	97.8	96.4	98.5	105.8	110.0	115.2	120.9	123.6
Construction	100.0	97.2	93.5	93.6	102.0	109.0	121.0	129.4	133.4
Electricity, gas, water and sanitation services	100.0	98.8	100.5	103.8	109.8	114.1	120.3	125.1	130.8
Transport, storage and communications	100.0	102.7	103.9	107.4	115.4	123.7	132.7	143.7	153.0
Wholesale and retail trade, restaurants and hotels	100.0	98.9	96.3	98.5	106.1	112.2	120.3	128.7	134.3
Financial establishments, insurance, real estate and business services	100.0	102.4	104.0	105.9	110.6	117.0	125.1	133.8	140.6
Community, social and personal services	100.0	101.2	102.9	104.7	109.0	113.6	118.2	122.6	127.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] On the basis of figures expressed in constant 2000 dollars. Includes information from 20 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[b] Preliminary figures.

Table A-7

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION [a]

(Percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [b]
Latin America and the Caribbean	**18.5**	**18.0**	**16.8**	**16.4**	**17.4**	**18.5**	**19.7**	**20.9**	**21.8**
Argentina	16.2	14.3	10.2	12.9	15.9	17.9	19.5	20.4	20.8
Bahamas	33.8	31.2	29.8	31.1	28.5	33.6	39.3	38.9	35.1
Belize	28.7	25.6	23.1	18.1	16.4	17.2	16.7	17.4	16.6
Bolivia (Plurinational State of)	17.9	13.8	16.0	13.9	13.2	13.4	14.0	15.1	16.9
Brazil	16.8	16.6	15.4	14.5	15.0	15.0	15.7	16.9	18.3
Chile	19.8	19.9	19.8	20.2	20.9	24.5	24.0	25.7	29.8
Colombia	13.0	14.0	14.7	16.0	17.4	19.9	21.8	23.4	23.6
Costa Rica	17.8	18.0	18.7	18.8	18.0	17.7	18.0	19.7	21.5
Cuba	11.9	12.6	6.8	6.1	6.2	6.7	8.6	8.2	8.6
Dominican Republic	20.5	19.3	19.1	15.3	14.8	15.4	16.9	17.5	18.2
Ecuador	20.5	24.0	27.4	26.4	25.7	26.8	26.8	26.8	29.2
El Salvador	16.9	16.9	17.1	17.1	15.9	15.8	16.9	17.1	15.8
Guatemala	19.1	19.0	20.0	18.9	18.1	18.3	20.1	19.8	18.5
Haiti	27.3	27.3	28.0	28.8	28.9	28.8	28.8	28.6	28.7
Honduras	25.8	24.3	21.7	22.1	25.7	23.8	25.3	28.5	30.7
Mexico	21.4	20.2	19.9	19.7	20.5	21.1	22.1	22.9	23.7
Nicaragua	29.9	27.4	25.5	25.0	25.4	26.8	26.7	27.9	29.3
Panama	21.2	15.7	14.4	17.1	17.4	17.3	18.6	22.4	25.5
Paraguay	17.5	16.1	15.0	15.5	15.6	16.4	16.2	17.3	19.7
Peru	20.2	18.5	17.5	17.8	18.3	19.2	21.2	24.0	28.0
Uruguay	16.3	15.3	11.6	10.1	11.7	12.9	15.2	15.1	16.4
Venezuela (Bolivarian Republic of)	21.0	23.1	20.7	14.1	17.9	22.4	26.4	29.8	27.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] On the basis of figures expressed in constant 2000 dollars.
[b] Preliminary figures.

Table A-8

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT [a]

(Percentages of GDP)

	Gross domestic investment				National saving				External saving			
	2005	2006	2007	2008 [b]	2005	2006	2007	2008 [b]	2005	2006	2007	2008 [b]
Latin America and the Caribbean	**20.2**	**21.3**	**21.9**	**22.7**	**21.6**	**22.8**	**22.3**	**22.1**	**-1.4**	**-1.5**	**-0.5**	**0.7**
Argentina	20.9	23.0	24.2	25.0	23.8	26.7	27.0	27.1	-2.9	-3.6	-2.8	-2.1
Bolivia (Plurinational State of)	14.3	13.9	14.4	14.4	20.8	25.4	26.5	26.5	-6.5	-11.5	-12.1	-12.1
Brazil	16.2	16.8	17.7	18.9	17.8	18.0	17.9	17.1	-1.6	-1.3	-0.1	1.8
Chile	22.2	20.1	20.6	24.7	23.4	24.9	25.0	22.6	-1.2	-4.9	-4.4	2.0
Colombia	21.6	24.3	24.3	24.3	20.3	22.5	21.5	21.5	1.3	1.8	2.8	2.8
Costa Rica	24.3	26.4	24.6	25.6	19.4	21.9	18.3	16.5	4.9	4.5	6.3	9.0
Cuba	10.8	11.7	10.2	...	11.1	11.3	11.0	...	-0.3	0.4	-0.8	...
Dominican Republic	16.5	18.4	18.9	18.3	15.1	14.8	13.8	8.6	1.4	3.6	5.1	9.7
Ecuador	23.8	23.4	24.1	25.6	24.7	27.3	27.7	27.8	-0.9	-3.9	-3.6	-2.3
El Salvador	15.7	16.1	16.1	15.0	12.4	12.5	10.3	7.7	3.3	3.6	5.8	7.2
Guatemala	19.7	20.8	20.7	18.7	15.2	15.8	15.5	13.9	4.6	5.0	5.2	4.8
Haiti	27.4	28.9	27.7	25.7	27.6	27.1	27.9	21.6	-0.2	1.7	-0.2	4.1
Honduras	27.6	28.3	33.4	34.7	24.6	24.6	23.1	20.9	3.0	3.7	10.3	13.8
Mexico	23.9	25.7	25.4	26.0	23.3	25.2	24.6	24.5	0.5	0.5	0.8	1.5
Nicaragua	30.1	30.2	33.2	33.3	15.0	16.7	15.7	10.1	15.1	13.4	17.6	23.2
Panama	18.4	19.5	23.5	30.9	11.8	16.4	16.2	18.8	6.6	3.1	7.3	12.1
Paraguay	19.3	19.1	17.4	19.6	19.5	20.4	18.7	17.5	-0.2	-1.4	-1.3	2.2
Peru	17.9	20.0	22.9	26.6	19.3	23.1	24.1	23.3	-1.4	-3.1	-1.1	3.3
Uruguay	15.7	20.3	21.0	23.0	15.9	18.4	20.6	19.5	-0.2	2.0	0.3	3.5
Venezuela (Bolivarian Republic of)	23.0	25.3	28.0	24.5	40.5	40.0	36.7	37.0	-17.5	-14.7	-8.8	-12.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Based on values calculated in national currency and expressed in current dollars.
[b] Preliminary figures.

Table A-9
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods f.o.b.			Exports of services			Imports of goods f.o.b.			Imports of services		
	2006	2007	2008 [c]	2006	2007	2008 [c]	2006	2007	2008 [c]	2006	2007	2008 [c]
Latin America and the Caribbean [d]	**693 911**	**778 842**	**903 060**	**87 282**	**100 821**	**114 923**	**596 063**	**710 357**	**861 929**	**103 563**	**122 802**	**142 497**
Antigua and Barbuda	74	76	76	477	517	520	560	649	662	259	283	290
Argentina	46 546	55 980	70 021	8 023	10 376	12 090	32 588	42 525	54 557	8 523	10 828	12 979
Bahamas	694	802	997	2 436	2 599	2 543	2 727	2 956	3 129	1 611	1 580	1 353
Barbados	465	481	461	1 529	1 635	1 634	1 468	1 528	1 685	718	816	808
Belize	427	426	465	363	398	389	612	642	788	152	168	170
Bolivia (Plurinational State of)	3 875	4 458	6 448	477	499	500	2 632	3 455	4 980	827	688	700
Brazil	137 807	160 649	197 942	19 476	23 954	30 451	91 351	120 617	173 107	29 116	37 173	47 140
Chile	58 680	67 666	66 455	7 830	8 952	10 754	35 900	44 031	57 610	8 462	9 927	11 401
Colombia	25 181	30 577	38 546	3 377	3 636	4 042	24 859	31 173	37 556	5 496	6 243	7 171
Costa Rica	8 102	9 299	9 738	2 972	3 551	4 096	10 829	12 285	14 551	1 621	1 818	1 985
Cuba	3 167	3 830	...	6 667	8 192	...	9 498	10 083	...	211	292	...
Dominica	44	39	36	100	109	116	147	172	197	52	66	71
Dominican Republic	6 610	7 160	6 949	4 543	4 767	4 911	12 174	13 597	16 095	1 558	1 746	1 819
Ecuador	13 176	14 870	19 147	1 037	1 200	1 409	11 408	13 047	17 786	2 341	2 572	2 957
El Salvador	3 759	4 039	4 611	1 426	1 494	1 510	7 291	8 144	9 004	1 506	1 746	2 008
Grenada	31	41	31	130	147	146	263	328	343	99	111	111
Guatemala	6 082	6 983	7 848	1 519	1 731	1 789	10 934	12 470	13 422	1 778	2 041	2 159
Guyana	585	698	798	148	173	...	885	1 063	1 300	245	272	...
Haiti	495	522	490	194	257	343	1 548	1 618	2 107	593	674	763
Honduras	5 277	5 642	6 046	745	788	910	7 303	8 820	10 389	1 036	1 137	1 215
Jamaica	2 134	2 363	2 761	2 649	2 707	2 777	5 077	6 204	7 742	2 021	2 282	2 421
Mexico	249 925	271 875	291 343	16 221	17 489	18 040	256 058	281 949	308 603	21 957	23 794	25 119
Nicaragua	2 034	2 336	2 675	344	373	399	3 485	4 094	4 848	478	555	608
Panama	8 478	9 338	10 289	3 938	4 924	5 864	10 190	12 521	15 003	1 728	2 107	2 601
Paraguay	4 401	5 471	7 769	798	966	1 062	5 022	6 027	8 809	384	460	584
Peru	23 830	27 882	31 529	2 660	3 159	3 637	14 844	19 595	28 439	3 397	4 346	5 566
Saint Kitts and Nevis	59	58	57	173	174	173	220	242	270	102	102	112
Saint Vincent and the Grenadines	41	51	53	171	162	143	240	288	302	88	114	110
Saint Lucia	97	101	186	334	356	368	521	542	578	169	188	189
Suriname	1 174	1 359	1 722	234	245	284	1 013	1 045	1 344	264	317	411
Trinidad and Tobago	14 217	13 391	16 929	...	...	...	6 517	7 670	9 973	...	...	...
Uruguay	4 400	5 043	7 100	1 387	1 807	2 158	4 898	5 598	8 654	979	1 124	1 414
Venezuela (Bolivarian Republic of)	65 210	69 165	93 542	1 572	1 673	1 867	32 498	45 463	48 095	6 005	7 524	8 264

Table A-9 (continued)

	Trade balance			Income balance			Current transfers balance			Current account balance		
	2006	2007	2008 [c]	2006	2007	2008 [c]	2006	2007	2008 [c]	2006	2007	2008 [c]
Latin America and the Caribbean [d]	**82 017**	**47 050**	**14 060**	**-95 356**	**-97 453**	**-107 898**	**64 201**	**67 096**	**66 951**	**50 862**	**16 692**	**-26 887**
Antigua and Barbuda	-267	-340	-356	-64	-64	-51	22	24	23	-309	-379	-384
Argentina	13 458	13 003	14 574	-6 148	-5 927	-7 651	459	336	111	7 770	7 412	7 034
Bahamas	-1 208	-1 135	-941	-218	-232	-169	52	52	56	-1 374	-1 315	-1 055
Barbados	-192	-227	-398	-171	-101	-85	86	145	101	-277	-182	-382
Belize	26	14	-104	-125	-159	-156	74	93	112	-25	-52	-149
Bolivia (Plurinational State of)	892	815	1 267	-397	-489	-536	822	1 266	1 284	1 317	1 591	2 015
Brazil	36 816	26 813	8 146	-27 480	-29 291	-40 561	4 306	4 029	4 188	13 643	1 551	-28 227
Chile	22 149	22 660	8 200	-18 401	-18 595	-14 563	3 406	3 123	2 924	7 154	7 189	-3 440
Colombia	-1 797	-3 203	-2 139	-5 929	-7 865	-10 138	4 743	5 231	5 515	-2 983	-5 837	-6 761
Costa Rica	-1 376	-1 252	-2 701	4	-865	-407	349	470	433	-1 023	-1 647	-2 676
Cuba	125	1 647	...	-618	-960	...	278	-199	...	-215	488	...
Dominica	-54	-90	-115	-17	-16	-18	20	21	21	-52	-85	-112
Dominican Republic	-2 579	-3 416	-6 054	-1 853	-2 081	-1 815	3 144	3 401	3 432	-1 288	-2 096	-4 437
Ecuador	464	452	-187	-1 950	-2 047	-1 607	3 104	3 246	2 989	1 618	1 650	1 194
El Salvador	-3 612	-4 357	-4 892	-531	-576	-536	3 472	3 750	3 832	-671	-1 183	-1 596
Grenada	-200	-251	-279	-29	-34	-36	36	24	25	-193	-261	-289
Guatemala	-5 112	-5 797	-5 944	-680	-843	-929	4 268	4 854	5 010	-1 524	-1 786	-1 863
Guyana	-398	-465	-613	-69	-11	-15	216	287	329	-250	-189	-299
Haiti	-1 452	-1 513	-2 038	7	5	16	1 361	1 517	1 726	-85	10	-295
Honduras	-2 317	-3 527	-4 647	-537	-400	-350	2 450	2 652	3 021	-404	-1 275	-1 977
Jamaica	-2 316	-3 417	-4 626	-616	-662	-680	1 749	2 040	2 083	-1 183	-2 038	-3 223
Mexico	-11 869	-16 379	-24 340	-18 455	-18 368	-16 846	25 949	26 415	25 461	-4 375	-8 331	-15 725
Nicaragua	-1 585	-1 941	-2 382	-129	-135	-161	1 003	1 075	1 068	-710	-1 001	-1 475
Panama	498	-365	-1 452	-1 278	-1 311	-1 579	253	253	238	-527	-1 422	-2 792
Paraguay	-207	-50	-562	-92	-158	-151	426	373	369	128	165	-345
Peru	8 249	7 099	1 161	-7 580	-8 374	-8 144	2 185	2 494	2 803	2 854	1 220	-4 180
Saint Kitts and Nevis	-89	-112	-153	-32	-32	-11	33	33	33	-89	-110	-131
Saint Vincent and the Grenadines	-116	-189	-216	-24	-21	-21	20	20	20	-120	-190	-217
Saint Lucia	-259	-272	-214	-56	-68	-74	12	14	14	-303	-327	-272
Suriname	130	242	252	-52	8	21	36	76	87	115	326	360
Trinidad and Tobago	8 151	6 268	7 571	-936	-964	-897	55	60	51	7 271	5 364	6 725
Uruguay	-90	128	-811	-428	-345	-454	126	136	146	-392	-80	-1 119
Venezuela (Bolivarian Republic of)	28 279	17 851	39 050	-1 092	2 565	707	-38	-415	-555	27 149	20 001	39 202

Table A-9 (concluded)

	Capital and financial balance [a]			Overall balance			Reserve assets (variation) [b]			Other financing		
	2006	2007	2008 [c]	2006	2007	2008 [c]	2006	2007	2008 [c]	2006	2007	2008 [c]
Latin America and the Caribbean [d]	**10 610**	**107 636**	**64 179**	**61 472**	**124 328**	**37 292**	**-48 554**	**-126 290**	**-41 242**	**-12 916**	**1 962**	**3 949**
Antigua and Barbuda	324	380	377	15	1	-7	-15	-1	7	0	0	0
Argentina	6 439	4 188	-10 724	14 208	11 600	-3 690	-3 529	-13 098	-9	-10 679	1 499	3 699
Bahamas	1 295	1 269	1 164	-79	-46	109	79	46	-109	0	0	0
Barbados	320	461	132	43	278	-249	-41	-278	249	0	0	0
Belize	75	75	207	50	23	58	-50	-23	-58	0	0	0
Bolivia (Plurinational State of)	121	361	359	1 439	1 952	2 374	-1 286	-1 952	-2 374	-152	0	0
Brazil	16 927	85 933	31 196	30 569	87 484	2 969	-30 569	-87 484	-2 969	0	0	0
Chile	-5 144	-10 387	9 887	2 011	-3 198	6 447	-2 011	3 198	-6 447	0	0	0
Colombia	3 005	10 550	9 399	23	4 714	2 638	-23	-4 714	-2 638	0	0	0
Costa Rica	2 053	2 795	2 328	1 031	1 148	-348	-1 031	-1 148	348	0	0	0
Cuba	...	...	...	...	...	...	...	...	...	...	...	...
Dominican Republic	1 452	2 716	4 117	164	620	-320	-314	-679	303	150	59	17
Dominica	65	84	109	13	-1	-3	-13	1	3	0	0	0
Ecuador	-1 748	-263	-246	-131	1 387	948	124	-1 497	-952	7	111	4
El Salvador	742	1 463	1 930	72	280	334	-72	-280	-334	0	0	0
Grenada	198	271	283	6	11	-6	-6	-11	6	0	0	0
Guatemala	1 776	2 002	2 195	252	216	333	-252	-216	-333	0	0	0
Guyana	293	188	306	43	-1	7	-61	-37	-45	18	39	38
Haiti	179	151	393	94	161	97	-109	-208	-171	15	47	73
Honduras	687	1 090	1 912	283	-185	-65	-282	109	42	-1	76	23
Jamaica	1 413	1 598	3 118	230	-440	-105	-230	440	105	0	0	0
Mexico	3 372	18 617	23 163	-1 003	10 286	7 438	1 003	-10 286	-7 438	0	0	0
Nicaragua	772	1 093	1 460	62	92	-14	-186	-173	-30	124	80	45
Panama	699	2 044	3 377	172	622	584	-162	-611	-579	-10	-10	-5
Paraguay	259	562	723	387	728	378	-387	-727	-378	-0	-0	0
Peru	-128	8 368	7 292	2 726	9 588	3 112	-2 753	-9 654	-3 169	27	67	57
Saint Kitts and Nevis	106	117	145	17	7	15	-17	-7	-15	0	0	0
Saint Vincent and the Grenadines	132	188	213	12	-2	-3	-12	2	3	0	0	0
Saint Lucia	317	345	269	14	19	-3	-14	-19	3	0	0	0
Suriname	-21	-148	-308	94	177	52	-94	-177	-52	0	0	0
Trinidad and Tobago	-6 152	-3 824	-4 019	1 119	1 541	2 706	-1 119	-1 541	-2 706	0	0	0
Uruguay	2 791	1 091	3 352	2 399	1 010	2 233	15	-1 005	-2 233	-2 414	-5	-0
Venezuela (Bolivarian Republic of)	-22 011	-25 743	-29 927	5 138	-5 742	9 275	-5 138	5 742	-9 275	0	0	0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Includes errors and omissions.
[b] A minus sign (-) indicates an increase in reserve assets.
[c] Preliminary figures.
[d] Does not include Cuba.

Table A-10

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, F.O.B.

(Indices 2000=100)

	Value			Volume			Unit value		
	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]
Latin America and the Caribbean	**186.7**	**210.3**	**243.4**	**136.9**	**141.5**	**142.3**	**136.4**	**148.7**	**171.0**
Argentina	176.7	212.5	265.8	144.4	155.6	155.7	122.4	136.6	170.7
Bolivia (Plurinational State of)	310.9	357.8	517.5	176.6	180.1	242.6	176.1	198.6	213.3
Brazil	250.2	291.6	359.3	184.8	195.0	190.2	135.4	149.6	188.9
Chile	305.5	352.2	345.9	145.4	155.3	153.7	210.1	226.9	225.0
Colombia	183.0	222.2	280.1	135.7	143.3	149.3	134.8	155.1	187.6
Costa Rica	139.4	160.0	167.5	147.2	167.3	171.7	94.7	95.6	97.5
Cuba	189.0	228.6	...	96.7	98.1	...	195.5	232.9	...
Dominican Republic	115.2	124.8	121.1	103.4	103.3	94.5	111.4	120.9	128.1
Ecuador	256.5	289.5	372.7	184.8	189.6	196.9	138.8	152.7	189.3
El Salvador	126.8	136.3	155.6	118.4	121.1	134.2	107.2	112.5	115.9
Guatemala	153.5	176.3	198.1	136.6	148.0	151.2	112.4	119.1	131.1
Haiti	149.3	157.4	147.8	133.5	136.7	123.4	111.8	115.2	119.8
Honduras	157.8	168.8	180.8	167.0	170.0	165.7	94.5	99.2	109.2
Mexico	150.4	163.7	175.4	124.4	126.5	126.9	120.9	129.4	138.2
Nicaragua	231.0	265.2	303.7	225.8	249.3	264.3	102.3	106.4	114.9
Panama	145.2	159.9	176.2	137.2	145.3	152.5	105.9	110.1	115.6
Paraguay	189.0	234.9	333.6	173.4	195.9	235.8	109.0	119.9	141.5
Peru	342.6	400.9	453.3	175.5	179.5	193.1	195.2	223.4	234.7
Uruguay	184.6	211.6	297.8	163.1	171.0	185.2	113.2	123.7	160.8
Venezuela (Bolivarian Republic of)	194.5	206.3	279.0	91.0	84.7	83.6	213.7	243.6	333.8

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

[a] Preliminary figures.

Table A-11

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, F.O.B.

(Indices 2000=100)

	Value			Volume			Unit value		
	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]
Latin America and the Caribbean	**161.5**	**192.3**	**233.1**	**136.6**	**152.6**	**165.4**	**118.2**	**126.0**	**140.8**
Argentina	136.4	178.0	228.4	126.4	153.2	177.6	107.9	116.2	128.6
Bolivia (Plurinational State of)	163.5	214.6	309.3	129.8	153.5	208.7	125.9	139.8	148.2
Brazil	163.8	216.2	310.3	126.3	154.1	181.3	129.6	140.3	171.2
Chile	210.0	257.6	337.1	183.2	215.1	246.9	114.7	119.7	136.5
Colombia	224.2	281.1	338.7	191.5	225.5	249.3	117.0	124.6	135.9
Costa Rica	179.8	203.9	241.6	162.8	181.1	202.4	110.4	112.6	119.4
Cuba	198.1	210.3	...	166.1	155.8	...	119.2	135.0	...
Dominican Republic	128.4	143.5	169.8	109.4	116.4	124.1	117.4	123.3	136.9
Ecuador	304.8	348.6	475.2	241.4	258.0	311.2	126.3	135.1	152.7
El Salvador	155.0	173.2	191.5	138.1	145.5	150.4	112.3	119.0	127.3
Guatemala	196.7	224.3	241.4	156.7	165.5	157.7	125.5	135.5	153.1
Haiti	142.5	148.9	193.9	113.3	111.7	101.1	125.7	133.2	191.9
Honduras	183.1	221.2	260.5	161.2	181.9	193.0	113.6	121.6	135.0
Mexico	146.8	161.6	176.9	126.3	131.2	135.5	116.2	123.2	130.5
Nicaragua	193.5	227.3	269.1	150.1	168.0	176.0	128.9	135.3	152.9
Panama	146.0	179.3	214.9	125.3	146.6	159.7	116.5	122.3	134.6
Paraguay	175.2	210.3	307.4	153.6	175.5	233.2	114.1	119.8	131.8
Peru	201.5	266.0	386.1	157.0	187.7	225.1	128.4	141.7	171.5
Uruguay	147.9	169.1	261.4	115.8	121.3	150.0	127.8	139.4	174.3
Venezuela (Bolivarian Republic of)	192.7	269.6	285.2	166.3	223.6	213.1	115.9	120.5	133.8

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

[a] Preliminary figures.

Table A-12

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS, F.O.B./F.O.B.

(Indices 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean	**100.0**	**96.3**	**96.6**	**98.6**	**103.6**	**108.7**	**115.3**	**118.0**	**121.4**
Argentina	100.0	99.3	98.7	107.2	109.2	106.9	113.4	117.5	132.7
Bolivia (Plurinational State of)	100.0	95.8	96.2	98.5	104.1	111.8	139.8	142.1	144.0
Brazil	100.0	99.6	98.4	97.0	97.9	99.2	104.4	106.6	110.4
Chile	100.0	93.3	97.2	102.8	124.9	139.8	183.2	189.5	164.9
Colombia	100.0	94.2	92.5	95.2	102.3	111.0	115.2	124.4	138.1
Costa Rica	100.0	98.4	96.9	95.5	91.9	88.3	85.8	84.9	81.7
Cuba	100.0	114.0	105.1	121.0	133.3	129.8	164.0	172.6	...
Dominican Republic	100.0	100.9	101.5	97.9	96.7	95.8	94.9	98.0	93.6
Ecuador	100.0	84.6	86.8	89.8	91.5	102.4	109.9	113.0	124.0
El Salvador	100.0	102.5	101.6	97.7	96.8	96.8	95.5	94.6	91.0
Guatemala	100.0	96.7	95.8	93.0	92.1	91.3	89.6	87.9	85.6
Haiti	100.0	101.2	100.2	98.7	96.0	92.4	88.9	86.4	62.4
Honduras	100.0	94.8	92.0	88.0	87.2	87.2	83.2	81.6	80.9
Mexico	100.0	97.4	97.9	98.8	101.6	103.6	104.1	105.1	105.9
Nicaragua	100.0	88.4	87.0	84.1	82.5	81.4	79.4	78.6	75.2
Panama	100.0	102.7	101.6	97.2	95.3	93.5	90.8	90.0	85.9
Paraguay	100.0	100.2	96.7	101.4	104.3	97.4	95.5	100.1	107.3
Peru	100.0	95.6	98.4	102.2	111.3	119.4	152.1	157.6	136.9
Uruguay	100.0	104.0	102.6	103.5	99.9	90.7	88.6	88.7	92.3
Venezuela (Bolivarian Republic of)	100.0	82.2	87.6	98.7	118.1	154.4	184.4	202.1	249.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.

Table A-13

LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFER [a]

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [b]
Latin America and the Caribbean	**975**	**-1 551**	**-41 412**	**-39 503**	**-69 202**	**-80 760**	**-97 661**	**12 145**	**-39 770**
Antigua and Barbuda	16	48	49	85	56	136	260	316	326
Argentina	993	-16 030	-20 773	-12 535	-7 175	-3 722	-10 388	-241	-14 676
Bahamas	240	366	175	279	213	358	1 077	1 037	994
Barbados	241	241	42	131	58	-16	149	360	47
Belize	161	115	91	61	8	25	-50	-84	50
Bolivia (Plurinational State of)	182	30	-156	-226	-565	-535	-428	-128	-177
Brazil	4 077	6 778	-10 252	-14 234	-29 955	-35 633	-10 553	56 642	-9 366
Chile	-1 621	-2 022	-2 068	-4 076	-10 102	-10 220	-23 545	-28 982	-4 676
Colombia	-2 214	-323	-1 439	-2 609	-850	-1 846	-2 924	2 686	-739
Costa Rica	-714	-63	580	443	432	1 166	2 058	1 930	1 921
Dominica	31	39	36	32	23	64	49	68	91
Dominican Republic	-85	168	-881	-2 787	-2 324	-321	-251	694	2 319
Ecuador	-2 020	-817	-100	-953	-1 084	-1 580	-3 691	-2 200	-1 850
El Salvador	132	-293	-42	595	117	-69	211	887	1 394
Grenada	61	67	109	83	30	131	170	237	247
Guatemala	1 494	1 618	993	1 251	1 359	995	1 096	1 160	1 266
Guyana	48	-3	20	-6	-10	143	242	215	329
Haiti	45	129	26	5	94	-20	201	204	482
Honduras	348	322	86	94	743	177	149	766	1 584
Jamaica	517	1 168	208	-246	612	561	797	937	2 438
Mexico	6 491	11 161	8 502	4 315	-1 286	-2 674	-15 083	250	6 317
Nicaragua	624	455	607	520	616	590	768	1 039	1 344
Panama	3	202	-39	-539	-414	418	-589	723	1 792
Paraguay	-30	237	-134	168	-98	72	168	405	572
Peru	-293	391	512	-670	-1 262	-4 596	-7 681	61	-796
Saint Kitts and Nevis	32	84	95	71	43	23	74	85	135
Saint Vincent and the Grenadines	19	30	18	55	99	70	108	167	192
Saint Lucia	64	73	75	115	45	62	261	277	195
Suriname	-17	54	70	118	112	55	-72	-140	-287
Trinidad and Tobago	-732	-453	-441	-1 344	-1 309	-2 461	-7 087	-4 787	-4 917
Uruguay	672	707	-2 602	979	-137	84	-52	741	2 897
Venezuela (Bolivarian Republic of)	-7 792	-6 030	-14 783	-8 679	-17 292	-22 195	-23 103	-23 178	-29 220

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] The net resource transfer is calculated as total net capital income minus the income balance (net payments of profits and interest). Total net capital income is the balance on the capital and financial accounts plus errors and omissions, plus loans and the use of IMF credit plus exceptional financing. Negative figures indicate resources transferred outside the country.
[b] Preliminary figures.

Table A-14

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT [a]

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2 007	2 008 [b]
Latin America and the Caribbean	**72 190**	**66 914**	**50 996**	**37 806**	**49 692**	**54 563**	**30 735**	**86 235**	**92 155**
Antigua and Barbuda	43	98	66	166	80	214	374	356	253
Argentina	9 517	2 005	2 776	878	3 449	3 954	3 099	4 969	7 502
Bahamas	250	192	209	247	443	563	706	746	700
Barbados	18	17	17	58	-16	53	...	...	...
Belize	23	61	25	-11	111	126	108	139	176
Bolivia (Plurinational State of)	734	703	674	195	63	-242	278	362	508
Brazil	30 498	24 715	14 108	9 894	8 339	12 550	-9 380	27 518	24 601
Chile	873	2 590	2 207	2 701	5 610	4 801	4 556	9 568	9 896
Colombia	2 111	2 526	1 277	783	2 873	5 590	5 558	8 136	8 406
Costa Rica	400	451	625	548	733	904	1 371	1 634	2 010
Dominican Republic	953	1 079	917	613	909	1 123	1 528	1 579	2 885
Dominica	18	17	20	31	26	33	27	53	52
Ecuador	720	1 330	1 275	872	837	493	271	193	974
El Salvador	178	289	496	123	366	398	268	1 408	719
Grenada	37	59	54	89	65	70	85	174	161
Guatemala	230	488	183	218	255	470	552	720	822
Guyana	67	56	44	26	30	77	102	110	179
Haiti	13	4	6	14	6	26	161	75	30
Honduras	375	301	269	391	553	599	669	928	875
Jamaica	394	525	407	604	542	582	797	...	...
Mexico	17 789	23 045	22 158	15 183	19 216	15 325	13 558	19 022	21 264
Nicaragua	267	150	204	201	250	241	287	382	626
Panama	624	467	99	818	1 019	918	2 498	1 907	2 402
Paraguay	98	78	12	22	32	47	167	178	311
Peru	810	1 070	2 156	1 275	1 599	2 579	3 467	5 425	4 079
Saint Kitts and Nevis	96	88	80	76	46	93	110	158	88
Saint Vincent and the Grenadines	38	21	34	55	66	40	109	110	121
Saint Lucia	54	59	52	106	77	78	234	253	105
Suriname	-148	-27	-74	-76	-37	28	-163	-247	-234
Trinidad and Tobago	654	685	684	583	973	599	513	830	1 638
Uruguay	274	291	180	401	315	811	1 495	1 139	2 049
Venezuela (Bolivarian Republic of)	4 180	3 479	-244	722	864	1 422	-2 666	-1 591	-1 041

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

[a] Corresponds to direct investment in the reporting economy after deduction of outward direct investment by residents of that country. Includes reinvestment of profits.

[b] Preliminary figures.

Table A-15

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES [a]

(Millions of dollars)

	2000	2001	2002	2003	2004	2005 [b]	2006 [c]	2007 [d]	2008 [e]	2009	
										1 Q	2 Q [f]
Latin America and the Caribbean	**40 255**	**38 503**	**20 208**	**37 906**	**36 383**	**45 054**	**44 647**	**41 176**	**18 466**	**9 123**	**13 733**
Argentina	13 468	2 711	-	100	200	540	1 896	3 256	65	...	...
Bahamas	-	-	-	-	-	-	-	-	100	...	...
Barbados	200	150	-	-	-	325	215	-	-	...	...
Belize	-	-	125	100	-	-	-	-	-	...	...
Bolivia (Plurinational State of)	-	-	-	-	108	-	-	-	-	...	...
Brazil	12 068	13 010	6 857	19 364	11 603	15 334	19 079	10 608	6 400	2 500	5 210
Chile	676	1 515	1 694	3 200	2 350	1 000	1 062	250	-	600	900
Colombia	1 622	4 329	695	1 545	1 545	2 435	3 177	3 065	1 000	1 000	2 000
Costa Rica	250	250	250	490	310	-	-	-	-	...	...
Cuba	-	-	-	-	-	-	400	200	-	...	...
Dominican Republic	-	500	-	600	-	160	675	605	-	...	...
Ecuador	-	-	-	-	-	650	-	-	-	...	...
El Salvador	50	354	1 252	349	286	375	925	-	-	...	...
Grenada	-	-	100	-	-	-	-	-	-	...	...
Guatemala	-	325	-	300	380	-	-	-	30	...	...
Jamaica	422	812	300	-	814	1 050	930	1 900	350	...	250
Mexico	9 777	11 016	6 505	7 979	13 312	11 703	9 200	10 296	5 835	3 700	4 050
Panama	350	1 100	1 030	275	770	1 530	2 076	670	686	323	323
Paraguay	-	-	-	-	-	-	-	-	-	...	...
Peru	-	-	1 000	1 250	1 305	2 675	733	1 827	-	1 000	1 000
Trinidad and Tobago	250	-	-	-	-	100	500	-	-	...	...
Uruguay	641	856	400	-	350	1 062	3 679	999	-	...	...
Venezuela (Bolivarian Republic of)	482	1 575	-	2 354	3 050	6 115	100	7 500	4 000	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF), Merrill-Lynch and JP Morgan.

[a] Includes sovereign, bank and corporate bonds.

[b] Does not include US$ 584 million issued by the Andean Development Corporation (ADC) and US$ 200 million issued by the Central American Bank for Economic Integration (CABEI).

[c] Does not include US$ 250 million issued by the Andean Development Corporation (ADC), US$ 250 million issued by the Latin American Reserve Fund (FLAR) and US$ 567 million issued by the Central American Bank for Economic Integration (CABEI).

[d] Does not include US$ 539 million issued by the Andean Development Corporation (ADC).

[e] Does not include US$ 447 million issued by the Andean Development Corporation (ADC).

[f] Does not include US$ 1 billiion issued by the Andean Development Corporation (ADC).

Table A-16

LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT [a]

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [b]
Latin America and the Caribbean	**743 532**	**750 019**	**743 955**	**775 759**	**771 919**	**675 054**	**663 050**	**751 084**	**778 247**
Antigua and Barbuda	465	493	539	607	706	470	491	501	524
Argentina	155 014	166 272	156 748	164 645	171 205	113 799	108 873	124 575	128 112
Bahamas [c]	350	328	309	363	345	338	334	326	427
Barbados	951	1 135	1 163	1 241	1 222	1 353	1 501	1 572	1 530
Belize [c]	431	495	652	822	913	970	985	973	955
Bolivia (Plurinational State of)	6 740	6 861	6 945	7 709	7 562	7 666	6 278	5 386	5 913
Brazil	216 921	209 935	210 711	214 929	201 373	169 451	172 589	193 219	198 361
Chile	37 177	38 527	40 504	43 067	43 517	44 934	47 590	55 822	64 768
Colombia	36 130	39 163	37 382	38 065	39 497	38 507	40 103	44 553	46 392
Costa Rica	5 307	5 265	5 310	5 575	5 710	6 485	6 994	8 341	9 082
Cuba [c d]	10 961	10 893	10 900	11 300	5 806	5 898	7 794	8 908	9 906
Dominica	154	182	209	230	224	242	249	247	248
Dominican Republic [c]	3 679	4 176	4 536	5 987	6 380	5 847	6 296	6 556	7 220
Ecuador	13 216	14 376	16 236	16 756	17 211	17 237	17 099	17 445	16 514
El Salvador [e]	2 831	3 148	3 987	7 917	8 211	8 761	9 586	9 075	9 711
Grenada	132	176	316	352	420	447	473	491	494
Guatemala [c]	2 644	2 925	3 119	3 467	3 844	3 723	3 958	4 226	4 382
Guyana [c]	1 193	1 197	1 247	1 085	1 071	1 215	1 043	719	834
Haiti [c]	1 170	1 189	1 229	1 316	1 376	1 335	1 419	1 541	1 885
Honduras	4 711	4 757	4 922	5 242	5 912	5 093	3 879	3 028	3 321
Jamaica [c]	3 375	4 146	4 348	4 192	5 115	5 372	5 794	6 123	6 344
Mexico	148 652	144 526	140 099	140 554	139 152	130 731	117 506	141 823	150 142
Nicaragua [c]	6 660	6 374	6 363	6 596	5 391	5 348	4 527	3 385	3 512
Panama [c]	5 604	6 263	6 349	6 504	7 219	7 580	7 788	8 276	8 477
Paraguay	3 275	3 074	3 336	3 371	3 330	3 056	3 069	3 174	3 507
Peru	27 981	27 195	27 872	29 587	31 244	28 657	28 672	33 137	34 587
Saint Kitts and Nevis	162	214	265	317	317	311	306	285	296
Saint Vincent and the Grenadines	163	172	172	207	243	250	255	220	240
Saint Lucia	178	213	260	338	369	388	404	415	415
Suriname [c]	291	350	371	382	382	388	389	299	316
Trinidad and Tobago [c]	1 680	1 666	1 549	1 568	1 382	1 361	1 295	1 278	1 445
Uruguay	8 895	8 937	10 548	11 013	11 593	11 418	10 560	12 218	12 027
Venezuela (Bolivarian Republic of)	36 437	35 398	35 460	40 456	43 679	46 427	44 952	52 949	46 360

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

[a] Includes debt owed to the International Monetary Fund.

[b] Preliminary figures.

[c] Refers to external public debt.

[d] From 2004 on refers only to active external debt; excludes other external debt, 60.2% of which is official debt owed to the Paris Club.

[e] Up to 2002 corresponds to public external debt.

Table A-17

LATIN AMERICA AND THE CARIBBEAN: GROSS INTERNATIONAL RESERVES

(Millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
										I Q	II Q [a]
Latin America and the Caribbean	**171 298**	**169 408**	**167 959**	**201 185**	**227 838**	**263 207**	**320 757**	**459 550**	**510 457**	**482 382**	**478 688**
Antigua and Barbuda [b]	64	80	88	114	120	127	143	144	138	94	133 [c]
Argentina	32 478	15 318	10 420	13 820	19 299	27 262	31 167	45 711	46 198	46 933	46 026
Bahamas [b]	350	319	381	491	674	586	461	464	568	634	768 [d]
Barbados [b]	473	690	669	738	580	603	636	839	753 [e]	...	...
Belize [b]	123	112	115	85	48	71	114	109	166	168	180 [d]
Bolivia (Plurinational State of)	1 160	1 129	897	1 096	1 272	1 798	3 193	5 319	7 722	7 762	7 895 [d]
Brazil	33 011	35 866	37 823	49 296	52 935	53 799	85 839	180 334	193 783	190 388	195 264 [d]
Chile	15 110	14 400	15 351	15 851	16 016	16 963	19 429	16 910	23 162	23 382	23 448
Colombia	8 740	9 956	10 540	10 608	13 220	14 634	15 109	20 607	23 672	23 475	23 356
Costa Rica	1 318	1 384	1 502	1 839	1 922	2 313	3 115	4 114	3 799	4 167	3 971
Dominica	29	31	45	48	42	49	63	61	55	57	58 [c]
Dominican Republic	818	1 341	829	279	825	1 929	2 251	2 946	2 644	2 539	2 476 [c]
Ecuador	1 180	1 074	1 008	1 160	1 437	2 147	2 023	3 521	4 473	3 244	2 675
El Salvador	1 894	1 712	1 591	1 910	1 893	1 833	1 908	2 198	2 545	2 524	2 788
Grenada [b]	58	64	88	83	122	94	100	111	105	88	90 [c]
Guatemala	1 885	2 359	2 381	2 932	3 529	3 783	4 061	4 310	4 745	5 030	...
Guyana [b]	305	287	284	276	232	252	280	313	356	405	...
Haiti	232	191	139	112	166	187	305	494	587	602	...
Honduras	…	1 578	1 687	1 609	2 159	2 526	2 824	2 733	2 690	2 784	2 804 [c]
Jamaica	1 049	1 903	1 643	1 196	1 882	2 169	2 399	1 906	1 795	1 663	1 661
Mexico	35 585	44 814	50 674	59 028	64 198	74 110	76 330	87 211	95 302	85 636	83 173 [d]
Nicaragua	497	383	454	504	670	730	924	1 103	1 141	1 078	1 143
Panama [b]	723	1 092	1 183	1 011	631	1 211	1 335	1 935	...	...	...
Paraguay	714	662	603	853	1 191	1 292	1 594	2 240	2 737	2 834	2 870 [d]
Peru	8 563	8 838	9 690	10 206	12 649	14 120	17 329	27 720	31 233	30 961	30 822
Saint Kitts and Nevis [b]	45	56	66	65	78	72	89	96	110	154	156 [c]
Saint Vincent and the Grenadines [b]	55	61	53	51	75	70	79	87	84	89	91 [c]
Saint Lucia [b]	79	89	94	107	133	116	135	154	143	169	163 [c]
Suriname	63	119	106	106	129	126	215	401	433	468	600 [d]
Trinidad and Tobago	1 405	1 876	1 924	2 258	2 993	4 787	6 777	7 053	9 830	9 097	8 811 [c]
Uruguay	2 823	3 100	772	2 087	2 512	3 078	3 091	4 121	6 360	6 965	7 100 [d]
Venezuela (Bolivarian Republic of)	20 471	18 523	14 860	21 366	24 208	30 368	37 440	34 286	43 127	28 992	30 167

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

[a] Balance as of June.

[b] Does not include gold.

[c] Balance as of April.

[d] Balance as of May.

[e] Balance as of November.

Table A-18

LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES

(National indices to end of period, 31 December 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008		2009	
									III	IV	I	II
Argentina	100	71	126	257	330	370	502	516	383	259	270	381
Brazil	100	89	74	146	172	219	291	419	325	246	268	337
Chile	100	109	92	137	166	181	248	281	254	219	229	285
Colombia	100	134	206	291	542	1 187	1 393	1 335	1 154	944	1 001	1 233
Costa Rica	100	113	117	104	88	96	169	193	209	177	114	116
Ecuador	100	130	195	178	216	272	353	329	341	349	342	302
Jamaica	100	117	157	234	390	362	348	374	353	277	273	280
Mexico	100	113	108	156	229	315	468	523	440	396	347	431
Peru	100	97	115	202	307	397	1 066	1 450	931	583	764	1 081
Trinidad and Tobago	100	98	124	157	243	242	220	222	241	191	186	176
Venezuela (Bolivarian Republic of)	100	96	117	325	439	299	765	555	556	514	640	653

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

Table A-19

LATIN AMERICA AND THE CARIBBEAN: OVERALL REAL EFFECTIVE EXCHANGE RATES [a]

(Indices 2000=100, deflacted by CPI)

	2000	2001	2002	2003	2004	2005	2006	2007 [b]	2008 [b]	2009 [b c]
Latin America and the Caribbean [d]	**100.0**	**99.2**	**111.0**	**120.5**	**119.6**	**111.4**	**108.6**	**105.4**	**99.1**	**98.9**
Argentina	100.0	95.9	225.8	205.0	212.8	213.4	218.0	222.1	229.1	230.1
Bolivia (Plurinational State of)	100.0	101.1	95.5	104.2	109.5	116.9	119.3	117.9	105.9	91.0
Brazil	100.0	120.4	132.6	131.2	123.8	100.4	88.9	82.5	79.2	88.5
Chile	100.0	111.7	109.4	114.7	108.5	103.2	100.9	102.5	101.7	107.2
Colombia	100.0	104.2	105.7	119.6	107.1	96.7	97.8	85.7	83.0	93.6
Costa Rica	100.0	97.5	98.6	104.4	106.0	107.3	106.1	103.5	100.0	97.2
Cuba [e]	100.0	90.5	94.1	99.8	106.1	105.4	112.3	115.1	125.9	...
Dominica	100.0	100.3	101.6	104.2	108.0	110.9	113.2	116.8	119.1	114.7
Dominican Republic [f]	100.0	96.5	98.6	131.4	125.6	87.5	95.7	95.9	98.5	101.0
Ecuador	100.0	70.7	61.8	60.3	61.6	64.7	65.3	68.1	68.7	63.0
El Salvador	100.0	99.7	99.7	100.2	98.9	101.0	101.4	102.7	103.7	98.5
Guatemala	100.0	96.3	88.6	88.8	85.7	79.3	76.9	76.3	72.2	72.2
Honduras	100.0	97.1	96.9	98.5	100.9	100.6	98.0	97.8	94.4	86.8
Jamaica	100.0	101.7	101.2	116.9	113.6	104.4	104.8	108.5	101.8	112.2
Mexico	100.0	94.4	94.0	104.5	108.3	104.6	104.7	105.8	108.1	126.0
Nicaragua	100.0	101.2	103.3	106.9	107.7	108.4	107.0	110.9	105.4	102.3
Panama	100.0	103.1	101.2	103.2	108.4	111.0	112.7	114.3	112.2	105.5
Paraguay	100.0	102.8	106.5	112.5	106.4	118.7	106.5	95.5	83.7	90.0
Peru	100.0	98.1	95.8	99.8	99.9	101.1	104.0	104.1	100.3	96.8
Trinidad and Tobago	100.0	94.5	91.1	91.9	93.6	91.0	89.1	87.6	83.0	74.8
Uruguay	100.0	101.4	118.4	150.5	152.5	134.1	128.3	127.0	116.0	115.9
Venezuela (Bolivarian Republic of)	100.0	95.3	125.1	141.1	139.5	141.0	132.4	118.6	96.6	76.4

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

[a] Annual averages. A country's overall real effective exchange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by each partner's share in the country's total trade flows in terms of exports and imports. The extraregional real effective exchange rate index excludes trade with other Latin American and Caribbean countries. A currency depreciates in real effective terms when this index rises and appreciates when it falls.

[b] Preliminary figures, weighted by trade in 2006.

[c] January-May average.

[d] Simple average of the extraregional real effective exchange rate for 20 countries.

[e] Preliminary figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

[f] Owing to lack of data, the period 2002-2009 has been weighted using trade figures for 2001.

Table A-20
LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE
(Average annual rates)

			2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean [b]		**Total**	**59.3**	**59.7**	**59.5**	**59.7**	**59.9**	**60.0**	**60.0**	**60.8**	**61.2**
		Female	**44.9**	**45.7**	**45.6**	**46.6**	**46.7**	**47.0**	**47.2**	**48.0**	**48.6**
		Male	**74.5**	**74.4**	**74.1**	**73.6**	**73.9**	**73.7**	**73.6**	**74.6**	**74.6**
Argentina [c]	Urban areas	Total	56.6	56.0	55.8	60.1	60.3	59.9	60.3	59.5	58.8
		Female	43.4	42.6	43.3	49.2	49.0	48.3	49.0	47.7	47.2
		Male	71.7	71.4	70.3	72.9	73.2	73.2	73.3	73.0	72.0
Bolivia (Plurinational State of)	National total	Total	62.4	67.8	64.6	67.6	64.9	…	…	...	...
		Female	53.7	60.2	56.3	60.1	57.2	…	…	...	...
		Male	71.8	75.9	73.2	75.4	73.4	…	…	...	...
Brazil [c]	Six metropolitan areas	Total	58.0	56.4	56.7	57.1	57.2	56.6	56.9	56.9	57.0
		Female	45.2	43.9	43.9	47.8	48.3	47.7	48.1	48.5	48.7
		Male	72.7	71.0	70.5	67.7	67.3	66.7	66.8	66.5	66.5
Chile	National total	Total	54.4	53.9	53.7	54.4	55.0	55.6	54.8	54.9	56.0
		Female	35.6	35.0	35.0	36.6	38.1	39.2	38.5	39.1	41.0
		Male	74.0	73.4	73.0	73.0	72.3	72.6	71.7	71.4	71.8
Colombia	Thirteen metropolitan areas	Total	63.5	64.4	64.8	65.0	63.6	63.3	62.0	61.8	62.6
		Female	54.8	55.5	55.3	56.9	54.9	54.9	53.5	53.5	54.0
		Male	73.8	74.6	74.7	74.2	73.3	72.8	71.6	71.2	72.1
Costa Rica	National total	Total	53.6	55.8	55.4	55.5	54.4	56.8	56.6	57.0	56.7
		Female	35.0	38.6	38.2	38.5	36.8	40.4	40.7	41.6	41.7
		Male	72.8	73.7	73.2	73.3	72.9	73.9	73.5	73.2	72.5
Cuba	National total	Total	70.1	70.9	71.0	70.9	71.0	72.1	72.1	73.7	74.7
		Female	53.9	53.7	53.9	54.2	54.4	55.6	56.7	59.3	60.2
		Male	84.9	86.7	86.6	86.0	86.1	87.0	86.0	86.7	87.8
Dominican Republic	National total	Total	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.1	55.6
		Female	40.6	40.0	42.1	41.0	43.7	43.1	43.6	43.2	43.5
		Male	70.4	69.2	68.3	68.6	69.2	68.8	68.6	69.3	67.9
Ecuador	Urban total	Total	57.3	63.1	58.3	58.2	59.1	59.5	59.1	61.3	60.1
		Female	45.0	52.5	46.7	47.0	47.9	48.6	47.7	50.9	49.6
		Male	70.3	74.0	70.2	69.8	70.8	70.9	71.2	72.5	71.3
El Salvador [d]	National total	Total	52.2	53.3	51.2	53.4	51.7	52.4	52.6	62.1	62.7
		Female	38.7	39.5	38.6	40.4	38.6	39.5	40.4	46.7	47.3
		Male	67.7	69.2	65.8	68.3	66.5	67.4	67.0	81.0	81.4
Honduras	National total	Total	…	52.5	51.7	50.0	50.6	50.9	50.7	50.7	51.0
		Female	…	34.7	32.5	33.0	32.7	33.2	33.5	33.3	34.4
		Male	…	71.8	72.3	68.4	70.0	70.0	69.7	70.1	69.3
Jamaica [e]	National total	Total	63.4	63.0	65.8	64.4	64.3	64.2	64.7	64.8	65.4
		Female	54.2	53.6	57.3	55.4	55.8	55.5	56.4	56.5	57.5
		Male	72.8	73.0	74.7	73.7	73.3	73.3	73.5	73.6	73.8
Mexico	Urban areas	Total	58.7	58.1	57.8	58.3	58.9	59.5	60.7	60.7	60.4
		Female	41.4	40.9	40.6	41.5	42.9	44.1	45.8	46.2	46.1
		Male	78.0	77.3	76.9	76.8	76.7	76.9	77.6	77.3	76.7
Nicaragua	National total	Total	53.8	57.5	…	53.7	53.1	53.8	51.4	51.1	53.3
		Female	…	40.2	…	…	…	39.4	…	...	...
		Male	…	75.6	…	…	…	69.2	…	...	...
Panama	National total	Total	59.9	60.5	62.6	62.8	63.3	63.6	62.6	62.7	63.9
		Female	41.6	41.7	45.1	45.9	46.6	47.4	45.8	46.8	47.2
		Male	78.8	79.5	80.1	79.9	80.6	80.3	79.9	79.3	81.3
Paraguay	National total	Total	63.7	59.2	61.2	59.8	63.4	61.8	60.1	60.8	61.7
		Female	49.0	45.5	45.8	45.7	50.4	48.6	46.1	48.0	47.9
		Male	78.9	73.3	76.9	74.3	76.6	75.1	74.0	73.9	75.8
Peru	Metropolitan Lima	Total	63.4	65.5	62.9	63.2	62.3	62.5	64.0	63.5	66.4
		Female	51.4	55.9	51.8	54.2	49.9	52.3	53.4	51.7	56.4
		Male	76.8	76.1	75.3	72.9	75.6	73.4	75.4	76.1	77.0
Uruguay	Urban total	Total	59.7	60.8	59.3	58.1	58.5	58.5	60.9	62.7	62.6
		Female	49.3	51.0	49.4	48.9	48.7	49.5	51.9	53.7	54.3
		Male	71.9	72.2	70.7	69.0	70.0	69.3	71.7	73.6	72.7
Venezuela (Bolivarian Republic of)	National total	Total	64.6	66.5	68.7	69.3	68.5	66.3	65.4	64.9	64.7
		Female	47.3	50.9	54.3	55.5	54.5	51.5	50.6	50.0	50.1
		Male	81.9	82.0	83.5	83.0	82.6	81.2	80.4	79.9	79.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] The data relating to the different countries are not comparable owing to differences in coverage and in the definition of the working age population. The regional series are simple averages of national data (excluding Nicaragua and the Plurinational State of Bolivia) and include adjustments for lack of information and changes in methodology.
[c] New measurements have been used since 2003; the data are not comparable with the previous series.
[d] New measurements have been used since 2007; the data are not comparable with the previous series.
[e] New measurements have been used since 2002; the data are not comparable with the previous series.

Table A-21

LATIN AMERICA AND THE CARIBBEAN: OPEN URBAN UNEMPLOYMENT

(Average annual rates)

		2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean [b]		**10.4**	**10.2**	**11.0**	**11.0**	**10.3**	**9.1**	**8.6**	**7.9**	**7.4**
Argentina [c]	Urban areas	15.1	17.4	19.7	17.3	13.6	11.6	10.2	8.5	7.9
Bahamas [d]	National total	…	6.9	9.1	10.8	10.2	10.2	7.6	7.9	12.1
Barbados [d]	National total	9.2	9.9	10.3	11.0	9.8	9.1	8.7	7.4	8.1
Belize [d]	National total	11.1	9.1	10.0	12.9	11.6	11.0	9.4	8.5	8.2
Bolivia (Plurinational State of)	Urban total	7.5	8.5	8.7	9.2	6.2	8.1	8.0	7.7	7.0
Brazil [e]	Six metropolitan areas	7.1	6.2	11.7	12.3	11.5	9.8	10.0	9.3	7.9
Chile	National total	9.7	9.9	9.8	9.5	10.0	9.2	7.7	7.1	7.8
Colombia [d]	Thirteen metropolitan areas	17.3	18.2	17.6	16.7	15.4	13.9	13.0	11.4	11.5
Costa Rica	Urban total	5.3	5.8	6.8	6.7	6.7	6.9	6.0	4.8	4.8
Cuba	National total	5.4	4.1	3.3	2.3	1.9	1.9	1.9	1.8	1.6
Dominican Republic [d]	National total	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6	14.1
Ecuador [d]	Urban total [f]	14.1	10.4	8.6	9.8	9.7	8.5	8.1	7.4	6.9
El Salvador [g]	Urban total	6.5	7.0	6.2	6.2	6.5	7.3	5.7	5.8	5.5
Guatemala	Urban total	...	...	5.4	5.2	4.4	…	...	...	...
Honduras	Urban total	...	5.9	6.1	7.6	8.0	6.5	4.9	4.0	4.1
Jamaica [d]	National total	15.5	15.0	14.2	11.4	11.7	11.3	10.3	9.8	10.6
Mexico	Urban areas	3.4	3.6	3.9	4.6	5.3	4.7	4.6	4.8	4.9
Nicaragua	Urban total	7.8	11.3	11.6	10.2	9.3	7.0	7.0	6.9	8.0
Panama [d]	Urban total	15.2	17.0	16.5	15.9	14.1	12.1	10.4	7.8	6.5
Paraguay	Urban total	10.0	10.8	14.7	11.2	10.0	7.6	8.9	7.2	7.4
Peru	Metropolitan Lima	8.5	9.3	9.4	9.4	9.4	9.6	8.5	8.4	8.4
Suriname	National total	14.0	14.0	10.0	7.0	8.4	11.2	12.1	...	...
Trinidad and Tobago [d]	National total	12.2	10.8	10.4	10.5	8.4	8.0	6.2	5.6	4.9 [h]
Uruguay	Urban total	13.6	15.3	17.0	16.9	13.1	12.2	11.4	9.6	7.9
Venezuela (Bolivarian Republic of)	National total	13.9	13.3	15.8	18.0	15.3	12.4	10.0	8.4	7.4

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

[a] Preliminary figures.

[b] The data for Argentina and Brazil have been adjusted to reflect changes in methodology in 2003 and 2002, respectively.

[c] New measurements have been used since 2003; the data are not comparable with the previous series.

[d] Includes hidden unemployment.

[e] New measurements have been used since 2002; the data are not comparable with the previous series.

[f] Up to 2003, the figures refer to Cuenca, Guayaquil and Quito.

[g] New measurements have been used since 2007; the data are not comparable with the previous series.

[h] Average of the March, June and September data.

Table A-22

LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE [a]

(Average annual rates)

		2000	2001	2002	2003	2004	2005	2006	2007	2008 [b]
Latin America and the Caribbean [c]		**52.8**	**52.5**	**52.1**	**52.5**	**53.1**	**53.6**	**54.2**	**54.8**	**55.1**
Argentina [d]	Urban areas	49.0	47.4	45.9	0.0	0.0	0.0	0.0	0.0	0.0
Bolivia (Plurinational State of)	Urban total	51.9	55.4	53.0	54.9	55.0	51.2	54.0	52.7	...
Brazil [d]	Six metropolitan areas	53.8	52.9	52.6	...	...	...	...	...	...
Chile	National total	49.1	48.6	48.4	49.3	49.5	50.4	50.5	51.0	51.7
Colombia	Thirteen metropolitan areas	52.6	52.7	53.4	54.2	53.8	54.5	54.0	54.8	55.3
Costa Rica	National total	50.8	52.4	51.8	51.8	50.9	53.0	53.3	54.4	53.9
Cuba	National total	66.3	68.0	68.6	69.2	69.7	70.7	70.7	72.4	73.6
Dominican Republic	National total	47.6	45.8	46.2	45.4	46.0	45.9	46.9	47.4	47.7
Ecuador	Urban total	52.1	56.2	52.9	51.5	53.5	54.4	54.3	56.8	56.0
El Salvador [e]	National total	48.7	49.8	48.0	49.7	48.2	48.3	49.2	58.1	59.0
Honduras	National total	…	50.3	49.7	47.4	48.6	48.6	49.0	49.2	49.4
Jamaica	National total	53.4	53.5	54.0	57.1	56.8	57.0	58.0	58.6	58.5
Mexico	Urban areas	56.8	56.0	55.5	55.6	55.8	56.7	57.9	57.8	57.5
Nicaragua	National total	50.6	51.0	...	49.5	49.6	50.8	48.8	48.6	50.1
Panama	National total	51.8	52.0	54.1	54.6	55.9	57.3	57.2	58.7	60.3
Paraguay	National total	59.0	54.7	54.6	55.0	58.8	58.2	55.4	57.4	58.2
Peru	Metropolitan Lima [f]	59.7	60.5	62.0	61.1	61.6	60.7	61.8	63.0	62.4
Trinidad and Tobago	National total	53.8	53.8	54.6	55.2	57.8	58.6	59.9	59.9	60.2 [g]
Uruguay	Urban total	51.6	51.4	49.1	48.3	50.9	51.4	53.9	56.7	57.7
Venezuela (Bolivarian Republic of)	National total	55.5	57.6	57.8	56.8	58.1	58.1	58.9	59.5	59.9

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

[a] Employed population as a percentage of the working-age population.

[b] Preliminary figures.

[c] Weighted average adjusted for lack of information and changes in methodology.

[d] New measurements have been used since 2003; the data are not comparable with the previous series.

[e] New measurements have been used since 2007; the data are not comparable with the previous series.

[f] For 2000, the figures refer to the urban total.

[g] Average of the March, June and September data.

Table A-23
LATIN AMERICA AND THE CARIBBEAN: FORMAL EMPLOYMENT INDICATORS
(Indices 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Argentina [b]	100.0	101.0	93.1	96.2	107.0	118.7	129.6	139.8	147.7
Brazil [c]	100.0	102.9	101.6	104.2	109.5	115.7	121.3	127.5	135.6
Chile [b]	100.0	101.6	103.4	105.9	109.6	118.2	125.7	136.7	146.2
Costa Rica [d]	100.0	97.6	104.0	106.9	110.9	116.1	123.9	134.4	144.3
El Salvador [d]	100.0	101.7	100.9	102.5	104.9	108.6	113.9	119.8	123.3
Guatemala [d]	100.0	102.2	104.9	105.5	108.9	110.4	113.0	118.2	118.1
Jamaica [e]	100.0	98.0	97.4	96.3	97.9	99.0	100.2	101.5	...
Mexico [d]	100.0	99.5	98.6	98.2	99.6	102.8	107.7	112.2	114.5
Nicaragua [d]	100.0	101.8	101.0	103.7	112.9	123.2	136.2	148.8	159.9
Panama [f]	100.0	95.5	89.7	95.7	99.4	108.5	117.6	124.1	128.3
Peru [e]	100.0	98.1	98.1	99.8	102.5	107.1	115.0	124.3	134.7
Uruguay [d g]	100.0	97.7	92.1	93.9	99.8	110.7	120.5	130.9	141.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Dependent workers paying into pension schemes.
[c] Workers covered by social and labour legislation.
[d] Workers with social security coverage.
[e] Workers of medium-sized and large firms.
[f] Private workers with social security coverage. From 2007, workers of small, medium-sized and large businesses.
[g] Employment positions generating social security contributions.

Table A-24
LATIN AMERICA: VISIBLE UNDEREMPLOYMENT INDICATORS
(Percentage of employed)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Argentina [b]	17.1	18.9	24.0	20.7	17.5	14.2	12.5	10.4	9.5
Brazil [c]	…	…	4.1	5.0	4.6	3.7	4.1	3.6	3.1
Chile [d]	6.1	7.1	6.2	6.5	8.4	8.5	8.5	8.0	9.0
Colombia [e]	14.2	16.3	16.8	15.3	15.2	13.8	11.9	10.0	9.1
Costa Rica [f]	10.5	11.3	12.3	15.2	14.4	14.6	13.5	11.5	10.5
Ecuador [g]	16.1	12.6	10.2	9.8	8.1	7.3	6.3	10.8	9.9
El Salvador [h]	3.7	3.8	4.3	4.8	4.5	6.2	4.9	5.3	6.3
Honduras [i]	…	4.0	4.9	6.3	7.1	7.4	5.6	4.4	3.6
Mexico [j]	…	…	…	…	…	7.5	6.9	7.2	6.9
Panama [k]	…	…	…	…	4.4	4.6	3.4	2.7	2.1
Paraguay [l]	9.1	8.3	9.5	8.8	8.3	7.5	5.6	5.8	6.6
Peru [m]	12.3	12.8	11.8	9.8	9.6	9.5	9.4	9.5	8.9
Uruguay [k]	11.9	15.3	18.4	19.3	15.8	17.1	13.6	12.8	17.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Employed persons who work less than 35 hours per week and wish to work more hours; total urban areas.
[c] Employed persons who work less than 40 hours per week and wish to work more hours; six metropolitan areas.
[d] Employed persons who work less than 35 hours per week and who wish to work more; national total; third quarter of each year. The figures up to 2005 and since 2006 are not directly comparable since the sample changed.
[e] Employed persons who work less than 48 hours per week and wish to work more hours; 13 metropolitan areas.
[f] Employed persons who work less than 47 hours per week and wish to work more hours; national total.
[g] Employed persons who work less than 40 hours per week and wish to work more hours. Up to 2006, Cuenca, Guayaquil and Quito; since 2007, urban national.
[h] Employed persons who work less than 40 hours per week and wish to work more hours; total urban areas. New measurements have been used since 2007; the data are not comparable with the previous series.
[i] Employed persons who work less than 36 hours per week and wish to work more hours; total urban areas.
[j] Employed workers wishing to work more than their current job permits, national total.
[k] Employed persons who work less than 40 hours per week and wish to work more hours; total urban areas.
[l] Employed persons who work less than 30 hours per week and wish to work more hours; total urban areas.
[m] Employed persons who work less than 35 hours per week and wish to work more hours; metropolitan Lima.

Table A-25
LATIN AMERICA AND THE CARIBBEAN: TREND IN REAL AVERAGE WAGES
(Average annual index, 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Argentina [b]	100.0	99.2	85.4	83.8	92.2	99.0	107.8	117.6	127.9
Bolivia (Plurinational State of)	100.0	105.8	109.3	111.1	114.1	110.0	101.2	98.4	...
Brazil [c]	100.0	95.1	93.1	84.9	85.5	85.2	88.2	89.5	91.4
Chile [d]	100.0	101.7	103.7	104.6	106.5	108.5	110.6	113.7	113.4
Colombia [b]	100.0	99.7	102.7	102.1	103.8	105.3	109.3	108.7	106.8
Costa Rica [e]	100.0	101.0	105.1	105.5	102.8	100.8	102.4	103.8	102.2
Cuba	100.0	96.2	105.1	107.8	114.6	129.5	144.5	143.1	140.5
Guatemala [e]	100.0	100.5	99.6	100.0	97.8	93.9	92.9	91.4	89.0
Mexico [b]	100.0	106.7	108.7	110.2	110.5	110.2	110.6	111.7	112.5
Nicaragua [e]	100.0	101.0	104.5	106.5	104.2	104.5	105.9	104.0	97.8
Panama [f]	100.0	98.8	95.8	95.3	94.5	93.4	95.3	96.2	95.4
Paraguay	100.0	101.4	96.3	95.6	97.2	98.2	98.8	101.1	100.3 [g]
Peru [h]	100.0	99.1	103.7	105.3	106.5	104.4	105.7	103.8	106.5 [g]
Uruguay	100.0	99.7	89.0	77.9	77.9	81.5	85.0	89.0	91.9
Venezuela (Bolivarian Republic of)	100.0	106.9	95.1	78.4	78.6	80.7	84.8	85.8	82.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Manufacturing. From 2005, registered private-sector workers.
[c] Workers covered by social and labour legislation. Since 2003, private sector only.
[d] General index of hourly wages.
[e] Average wages declared by workers covered by social security.
[f] Average wages declared by workers covered by social security. The variation in remunerations for 2007 relative to 2006 refers to workers in large, medium-sized and small enterprises.
[g] Figure for June.
[h] Private sector workers in the Lima metropolitan area.

Table A-26
LATIN AMERICA AND THE CARIBBEAN: REAL MINIMUM WAGE
(Indices 2000=100)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Argentina	100.0	101.1	81.3	84.0	129.8	171.1	193.2	219.6	253.3
Bolivia (Plurinational State of)	100.0	110.8	116.0	116.9	112.0	106.3	111.1	109.7	108.0
Brazil	100.0	109.8	114.3	117.4	121.4	128.5	145.3	154.8	160.8
Chile	100.0	103.8	106.8	108.3	111.3	113.4	116.3	118.5	118.3
Colombia	100.0	101.2	101.9	102.0	103.8	105.0	107.9	108.6	106.9
Costa Rica	100.0	100.2	99.5	99.2	97.6	97.8	99.5	100.8	99.5
Cuba	100.0	89.6	94.3	92.4	94.4	206.6	196.6	184.7	180.7
Dominican Republic	100.0	105.7	105.1	95.5	81.2	96.4	89.6	93.8	87.7
Ecuador	100.0	111.5	112.5	119.3	122.2	125.9	130.0	135.1	146.7
El Salvador	100.0	96.4	94.6	96.7	95.3	91.1	90.5	92.7	92.9
Guatemala	100.0	108.3	108.6	117.3	117.6	115.9	119.6	117.7	105.7
Haiti	100.0	88.4	80.5	107.5	91.7	79.6	70.0	64.8	56.2
Honduras	100.0	102.5	104.6	113.6	114.5	121.2	127.4	130.9	131.1
Mexico	100.0	100.4	101.2	100.4	99.1	99.0	99.0	98.3	96.2
Nicaragua	100.0	102.1	105.9	109.2	113.5	118.1	128.5	131.6	141.6
Panama	100.0	107.0	105.8	106.5	107.5	104.5	108.1	106.3	109.2
Paraguay	100.0	103.7	102.9	105.8	102.4	104.4	106.7	103.9	101.3
Peru	100.0	101.2	101.0	102.2	106.9	105.1	112.0	111.7	114.5
Uruguay	100.0	98.7	88.7	77.7	77.5	131.9	153.2	159.6	176.9
Venezuela (Bolivarian Republic of)	100.0	100.0	94.5	83.3	92.7	103.7	113.9	114.4	107.1

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

Table A-27

LATIN AMERICA AND THE CARIBBEAN: MONETARY BASE

(End-of-year balances as percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Antigua and Barbuda	11.6	13.3	13.6	16.4	15.7	15.6	15.0	13.3	11.9
Argentina	5.3	4.5	9.3	12.1	11.3	10.5	11.7	11.9	10.3
Bahamas	6.5	7.2	7.6	8.2	10.3	8.6	7.8	9.0	8.5
Barbados	11.0	12.7	18.3	20.1	13.7	12.9	13.0	16.2	15.2
Belize	11.9	11.9	10.3	10.3	10.9	11.5	13.2	13.2	13.8
Bolivia (Plurinational State of)	7.9	8.3	8.2	8.5	8.3	10.2	12.2	16.9	18.5
Brazil	4.0	4.1	5.0	4.3	4.6	4.7	5.1	5.6	5.1
Chile	4.1	4.2	4.2	4.1	4.1	4.4	4.5	4.3	4.8
Colombia	5.5	5.5	6.1	6.2	6.4	6.8	7.1	7.5	6.9
Costa Rica	5.9	5.2	5.1	5.4	5.5	6.1	6.4	7.2	7.0
Cuba	28.2	32.2	32.5	27.8	31.6	31.6	26.0	23.6	30.2
Dominica	12.6	12.7	18.9	17.7	15.2	15.1	17.2	16.9	13.8
Dominican Republic	8.5	9.3	8.3	12.6	8.6	9.1	9.0	8.9	8.5
Ecuador	1.6	1.4	1.2	1.1	1.2	1.5	1.4	1.7	2.5
El Salvador	13.0	11.8	9.9	11.6	10.4	9.9	9.3	10.2	10.4
Grenada	14.1	15.9	18.2	18.1	25.9	16.9	17.2	18.5	16.5
Guatemala	9.2	9.5	10.0	9.8	10.0	10.2	11.1	10.9	9.7
Guyana	22.9	24.4	26.2	27.5	27.7	29.5	27.6	25.0	24.7
Haiti	17.4	19.9	22.0	24.0	22.7	21.1	20.0	19.4	18.6
Honduras	9.7	8.3	8.5	8.4	9.1	8.9	9.6	11.2	11.2
Jamaica	8.9	8.2	7.6	7.5	7.3	7.1	7.4	7.3	6.8
Mexico	3.5	3.5	3.8	4.0	4.0	4.1	4.4	4.4	4.8
Nicaragua	5.5	6.1	6.3	7.3	7.5	7.8	8.7	9.4	8.4
Panama	...	0.9	6.0	6.0	5.6	5.2	4.9	5.2	4.4
Paraguay	8.5	8.4	8.8	9.7	9.8	9.2	9.2	10.5	10.9
Peru	3.0	3.2	3.4	3.5	3.9	4.5	4.6	5.3	6.0
Saint Kitts and Nevis	15.7	16.6	18.9	16.7	19.6	16.3	18.2	18.8	18.4
Saint Vincent and the Grenadines	17.3	18.4	15.4	15.3	14.9	14.4	14.5	15.4	14.1
Saint Lucia	11.0	13.3	13.3	14.1	15.7	13.0	13.7	14.2	14.0
Suriname	30.6	24.8	21.1	15.4	15.0	12.4	13.9	15.8	16.3
Trinidad and Tobago	8.2	8.8	8.1	6.6	5.7	7.1	6.8	6.7	9.2
Uruguay	3.9	3.9	4.1	4.2	3.9	4.9	4.5	5.5	4.5
Venezuela (Bolivarian Republic of)	7.3	7.3	7.1	8.4	7.8	7.6	11.3	13.1	12.4

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

Table A-28

LATIN AMERICA AND THE CARIBBEAN: MONEY SUPPLY (M3) [a]

(End-of-year balances as percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Antigua and Barbuda	77.2	77.2	80.1	92.0	92.9	93.1	91.4	88.3	90.7
Argentina	29.6	24.9	21.9	24.9	24.7	25.8	25.8	26.1	22.3
Bahamas	62.7	64.3	63.3	65.5	69.8	69.4	69.6	74.7	77.9
Barbados	78.8	83.2	96.8	95.1	105.1	108.1	110.8	119.2	112.9
Belize	58.0	59.7	57.0	55.7	59.1	59.6	62.0	68.0	70.9
Bolivia (Plurinational State of)	51.5	52.9	49.4	47.7	42.3	43.0	42.4	47.8	46.5
Brazil [b]	24.1	24.7	26.9	24.3	25.4	27.1	27.9	30.1	37.1
Chile	53.1	54.2	54.6	48.8	50.3	53.3	53.2	58.2	69.6
Colombia [c]	28.9	29.1	28.6	28.3	29.5	31.0	31.9	33.4	35.4
Costa Rica	33.4	33.8	36.3	37.1	42.6	44.0	44.3	43.8	46.8
Cuba [d]	36.8	39.0	40.6	37.7	38.0	46.6	38.6	37.2	40.6
Dominica	64.3	70.4	79.8	78.1	76.3	77.6	80.2	81.4	81.7
Dominican Republic	24.3	27.9	28.5	36.8	27.8	27.7	25.2	25.7	24.0
Ecuador	25.6	24.2	23.4	20.3	21.7	23.0	24.0	25.9	27.5
El Salvador	46.3	44.9	42.0	40.2	39.2	37.2	38.0	40.9	42.4
Grenada	85.0	95.6	98.9	97.2	117.1	98.2	97.3	100.2	100.8
Guatemala	30.3	32.1	31.7	33.5	34.0	35.7	37.8	37.1	35.4
Guyana	65.7	69.7	70.9	73.8	73.3	75.2	78.5	75.1	78.0
Haiti	37.6	38.7	45.4	47.8	42.5	42.1	37.9	35.8	33.9
Honduras	41.2	44.8	46.5	47.2	49.2	50.8	55.0	56.5	51.4
Jamaica	34.6	34.9	35.2	33.8	34.1	33.2	32.5	33.7	29.9
Mexico	39.1	43.3	44.4	45.6	45.0	48.6	49.5	50.4	54.8
Nicaragua	37.5	37.4	40.0	41.8	43.0	41.3	39.4	41.2	37.5
Panama	80.6	85.6	80.9	79.5	78.3	78.0	86.1	88.9	...
Paraguay	31.7	35.3	31.9	29.1	28.3	27.5	26.8	30.0	33.1
Peru	25.4	26.1	26.1	24.7	24.0	25.8	24.3	26.9	30.3
Saint Kitts and Nevis	87.4	86.0	89.2	92.3	101.8	97.1	98.4	104.5	110.7
Saint Vincent and the Grenadines	70.3	70.3	71.0	69.1	72.3	72.7	69.9	67.2	66.4
Saint Lucia	61.8	66.7	67.2	68.3	70.1	74.6	83.4	84.7	89.7
Suriname	68.2	65.0	55.8	51.0	56.0	47.5	49.3	54.9	57.1
Trinidad and Tobago	37.4	40.3	40.9	32.2	33.3	35.2	35.5	35.8	38.3
Uruguay	71.1	89.9	86.0	79.6	64.8	58.0	56.5	48.8	54.5
Venezuela (Bolivarian Republic of) [e]	20.4	19.1	18.2	23.0	21.8	23.3	30.3	31.3	28.8

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

[a] According to the ECLAC definition, this corresponds to M1 plus savings and time deposits in national currency plus foreign-currency deposits.

[b] According to the country's definition, this corresponds to M1 plus special interest-bearing deposits, savings deposits and securities issued by deposit institutions.

[c] According to the country's definition, this also includes deposits of entitites in liquidation and, since 2001, term deposit certificates of special entities and demand deposits of non-bank entities.

[d] Refers to M2 (M1 plus fixed-term deposits).

[e] Does not include foreign-currency deposits.

Table A-29

LATIN AMERICA AND THE CARIBBEAN: FOREIGN-CURRENCY DEPOSITS

(End-of-year balances as percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Antigua and Barbuda	5.4	4.3	6.1	5.3	6.1	5.8	7.5	9.0	8.2
Argentina	16.8	16.5	0.7	1.4	1.7	2.0	2.3	2.6	2.7
Bahamas	1.6	1.6	1.5	1.7	1.6	2.1	2.2	2.7	2.7
Barbados	6.3	8.3	12.5	10.7	10.7	16.4	11.3	19.9	14.1
Bolivia (Plurinational State of)	44.3	45.0	41.7	39.4	33.1	30.9	26.7	23.9	20.3
Chile	5.1	6.3	5.9	5.4	4.9	4.7	4.7	4.8	9.1
Costa Rica	13.3	14.7	16.0	16.2	21.6	21.7	20.8	18.2	22.0
Dominican Republic	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Dominica	1.4	2.2	3.2	1.4	1.7	1.3	1.3	1.1	1.6
Grenada	5.9	6.6	6.7	7.4	7.0	6.8	5.0	7.4	7.2
Guatemala	0.1	1.4	2.0	2.8	3.7	3.9	4.2	4.7	4.8
Haiti	11.7	13.1	17.6	20.0	16.6	18.0	15.6	15.2	14.8
Honduras [a]	9.8	11.6	12.4	12.5	13.6	13.4	13.8	14.0	13.3
Jamaica	8.4	8.7	9.8	11.1	11.3	10.5	9.5	11.0	9.8
Mexico	1.3	1.7	1.5	1.2	1.4	1.5	1.4	1.3	1.4
Nicaragua	24.6	25.0	27.9	28.4	28.6	27.8	25.8	27.0	25.6
Paraguay	16.2	19.9	18.4	14.8	13.1	11.7	10.6	10.7	12.8
Peru	17.7	17.4	17.1	15.3	13.2	14.1	12.4	12.4	14.2
Saint Kitts and Nevis	28.0	25.4	24.9	27.0	28.8	28.3	30.8	32.1	26.7
Saint Vincent and the Grenadines	1.0	0.8	1.0	1.0	2.3	1.2	2.3	2.6	2.3
Saint Lucia	0.4	0.7	1.3	1.6	1.8	2.7	8.4	4.3	5.8
Suriname	24.9	25.4	21.7	23.9	27.5	22.6	23.6	26.3	26.4
Trinidad and Tobago	10.2	9.1	9.8	6.0	8.4	7.3	8.6	8.7	10.6
Uruguay	60.2	80.0	77.4	70.3	56.0	47.6	45.3	36.4	42.2

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

[a] Term deposits in foreign currency.

Table A-30
LATIN AMERICA AND THE CARIBBEAN: DOMESTIC CREDIT TO THE PRIVATE SECTOR
(End-of-year balances as percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Antigua and Barbuda	73.8	72.9	77.2	76.9	71.9	74.9	76.0	75.2	77.9
Argentina	23.9	20.8	15.3	10.8	10.5	11.7	13.0	14.5	13.6
Bahamas	63.5	66.8	66.4	66.4	67.9	70.7	75.8	82.5	86.1
Barbados	51.2	51.0	55.7	51.4	58.4	68.1	72.5	72.6	73.5
Belize	41.2	44.6	47.8	51.5	53.5	54.0	55.8	61.2	62.3
Bolivia (Plurinational State of)	58.5	53.2	51.1	47.8	42.1	39.3	34.8	34.0	31.1
Brazil	33.8	32.5	32.5	31.8	32.0	37.0	43.8	52.2	62.2
Chile	66.0	65.6	65.9	62.7	62.3	64.3	63.7	69.8	80.0
Colombia	23.8	22.3	20.6	19.8	19.6	20.2	23.1	26.0	27.6
Costa Rica	21.0	23.5	25.4	26.5	26.7	29.4	31.1	36.6	41.7
Cuba [b]	...	...	...	...	...	9.2	15.0	21.0	23.4
Dominica	62.9	62.3	63.9	60.2	59.5	60.1	62.9	61.4	63.4
Dominican Republic	21.1	24.5	26.5	26.8	18.0	17.5	17.2	19.0	17.9
Ecuador	31.1	26.6	20.7	19.8	21.1	22.8	23.9	24.9	27.2
El Salvador	0.0	40.2	44.5	42.3	42.1	42.3	42.5	42.1	40.8
Grenada	78.4	81.2	80.6	75.9	81.2	74.5	81.6	86.8	91.8
Guatemala	19.8	20.6	20.0	20.4	20.9	23.2	27.1	30.0	29.1
Guyana	44.9	43.3	42.4	33.7	31.0	31.8	33.7	33.7	37.8
Haiti	16.0	15.6	18.4	17.7	15.4	15.7	14.2	13.6	13.2
Honduras	34.1	36.7	36.1	37.7	38.5	39.7	45.2	52.7	50.9
Jamaica	7.6	8.3	10.0	12.5	13.3	14.1	15.8	18.2	19.8
Mexico	15.7	12.9	14.3	14.0	13.2	14.5	16.9	18.4	17.4
Nicaragua	0.0	17.7	19.6	22.9	25.4	29.3	33.7	39.3	37.6
Panama	101.9	108.6	90.4	87.1	85.1	87.1	88.4	92.0	89.7
Paraguay [c]	4.2	4.0	4.2	3.6	2.9	2.6	2.2	1.9	1.6
Peru	31.9	30.4	30.1	28.7	27.0	28.7	28.6	33.1	34.0
Saint Kitts and Nevis	79.0	75.2	72.4	79.0	80.8	79.4	79.5	84.9	83.4
Saint Vincent and the Grenadines	66.6	66.0	64.2	62.0	59.6	57.6	58.6	60.0	57.4
Saint Lucia	79.3	93.7	92.5	84.5	86.4	93.1	106.6	129.4	133.8
Suriname	9.7	11.0	18.3	19.6	21.7	20.6	22.1	25.6	32.0
Trinidad and Tobago	29.2	28.3	30.0	25.9	26.6	26.9	25.7	27.5	28.3
Uruguay	54.8	65.0	72.0	44.5	29.7	26.1	25.6	24.2	27.8
Venezuela (Bolivarian Republic of)	10.5	11.6	9.6	8.6	10.7	12.7	...	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Includes credit, services and agricultural production cooperative production units, private farmers and individuals.
[c] Credit granted to the private sector by the banking sector.

Table A-31
LATIN AMERICA AND THE CARIBBEAN: REPRESENTATIVE LENDING RATES
(Annual average of annualized monthly rates)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Antigua and Barbuda [a]	...	...	...	...	...	11.2	10.7	10.3	10.1
Argentina [b]	11.1	26.5	53.0	19.1	6.8	6.2	8.6	11.1	19.5
Bahamas [c]	...	...	...	12.0	11.2	10.3	10.0	10.6	11.0
Barbados [b]	...	...	...	7.6	7.4	8.5	10.0	10.4	9.7
Belize [d]	16.0	15.5	14.8	14.4	13.9	14.2	14.2	14.3	14.2
Bolivia (Plurinational State of) [e]	...	13.7	10.9	9.1	8.2	8.2	7.8	8.2	8.9
Brazil [f]	41.9	41.1	44.4	49.8	41.1	43.7	40.0	34.5	38.8
Chile [g]	18.7	16.7	14.4	13.0	11.0	13.5	14.4	13.6	15.2
Colombia [h]	18.8	20.7	16.3	15.2	15.1	14.6	12.9	15.4	17.2
Costa Rica [i]	28.1	26.7	26.8	26.2	23.4	24.0	22.7	17.3	16.7
Cuba [j]	...	...	...	9.6	9.7	9.8	9.4	9.1	9.0
Dominica [a]	...	...	...	...	...	9.9	9.5	9.2	9.1
Dominican Republic [b]	23.6	20.0	21.3	27.8	30.3	21.4	15.7	11.7	16.0
Ecuador [k]	15.2	15.5	14.1	12.6	10.2	8.7	8.9	10.1	9.8
El Salvador [l]	10.7	9.6	7.1	6.6	6.3	6.9	7.5	7.8	7.9
Grenada [a]	...	...	...	...	...	10.0	9.8	9.7	9.5
Guatemala [a]	20.9	19.0	16.9	15.0	13.8	13.0	12.8	12.8	13.4
Guyana [b]	17.2	17.3	17.3	16.6	16.6	15.1	14.9	14.1	13.9
Haiti [m]	25.1	28.6	25.5	30.7	34.1	27.1	29.5	31.2	23.3
Honduras [a]	26.8	23.8	22.7	20.8	19.9	18.8	17.4	16.6	17.9
Jamaica [n]	32.9	29.4	26.1	25.1	25.1	23.2	22.0	22.0	22.3
Mexico [o]	16.9	12.8	8.2	6.9	7.2	9.9	7.5	7.6	8.7
Nicaragua [p]	18.1	18.6	18.3	15.5	13.5	12.1	11.6	13.0	13.2
Panama [q]	10.3	10.6	9.2	8.9	8.2	8.2	8.1	8.3	8.2
Paraguay [r]	26.8	28.3	34.3	30.5	21.2	15.3	16.6	14.6	14.6
Peru [s]	...	...	22.3	20.2	18.7	17.9	17.1	16.5	16.7
Saint Kitts and Nevis [a]	...	...	...	...	...	9.9	9.2	9.3	8.6
Saint Vincent and the Grenadines [a]	...	...	...	...	...	9.6	9.7	9.6	9.5
Saint Lucia [a]	...	...	...	...	...	10.4	10.5	9.9	9.2
Suriname [o]	29.0	25.7	22.2	21.0	20.4	18.1	15.7	13.8	12.2
Trinidad and Tobago [b]	16.5	15.6	13.4	11.0	9.4	9.1	10.2	10.5	12.3
Uruguay [t]	32.1	38.1	116.4	56.6	26.0	15.3	10.7	10.0	13.1
Venezuela (Bolivarian Republic of) [u]	24.5	24.8	38.4	25.7	17.3	15.6	14.6	16.7	22.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Weighted average lending rates.
[b] Prime lending rate.
[c] Interest rate on loans and overdrafts, weighted average.
[d] Rate for personal and business loans, residential and other construction; weighted average.
[e] Nominal dollar rate for 60-91-day banking operations.
[f] Preset lending rate for legal persons.
[g] Lending rate for 90-360-day periods, non-adjustable operations.
[h] Total lending rate of the system (weighted average of all lending rates).
[i] Average rate of the financial system for loans in national currency.
[j] Corporate lending rate in convertible pesos.
[k] Benchmark dollar lending rate.
[l] Basic lending rate for up to 1 year.
[m] Average of minimum and maximum lending rates.
[n] Average lending rate.
[o] Lending rate published by the International Monetary Fund.
[p] Weighted average of the weekly lending rate for loans in national currency in the system.
[q] Interest rate on 1-year trade credit.
[r] Weighted average of effective lending rates in national currency, not including overdrafts or credit cards.
[s] Average lending rate, constant structure.
[t] Business credit, 30-367 days.
[u] Average rate for loan operations for the six major commercial banks.

Table A-32

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES

(Percentage variation December–December)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**9.0**	**6.1**	**12.2**	**8.5**	**7.4**	**6.1**	**5.0**	**6.4**	**8.4**	**5.6**
Antigua and Barbuda	...	...	2.5	1.8	2.8	2.5	0.0	5.2	2.3	...
Argentina	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	7.2	5.5 [c]
Bahamas	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.6	4.3 [d]
Barbados	3.8	-1.2	0.9	0.3	4.3	7.4	5.6	4.7	7.3	7.3 [e]
Belize	0.6	1.1	2.3	2.6	3.1	4.2	3.0	4.1	6.4	1.5 [e]
Bolivia (Plurinational State of)	3.4	0.9	2.5	3.9	4.6	4.9	4.9	11.7	11.8	2.1
Brazil	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.8
Chile	4.5	2.6	2.8	1.1	2.4	3.7	2.6	7.8	7.1	1.9
Colombia	8.8	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.7	3.8
Costa Rica	10.2	11.0	9.7	9.9	13.1	14.1	9.4	10.8	13.9	8.2
Cuba [g]	-2.3	-1.4	7.3	-3.8	2.9	3.7	5.7	2.8	-0.1	0.9 [f]
Dominica	1.1	1.1	0.5	2.8	0.8	2.7	1.8	6.0	2.0	...
Dominican Republic	9.0	4.4	10.5	42.7	28.7	7.5	5.0	8.9	4.5	0.3
Ecuador	91.0	22.4	9.4	6.1	1.9	3.1	2.9	3.3	8.8	4.5
El Salvador	4.3	1.4	2.8	2.5	5.4	4.3	4.9	4.9	5.5	0.2
Grenada	3.4	-0.7	2.3	1.2	2.5	6.2	1.7	7.4	5.2	...
Guatemala	5.1	8.9	6.3	5.9	9.2	8.6	5.8	8.7	9.4	0.6
Guyana	5.8	1.5	6.0	...	...	8.2	4.2	14.1	6.4	...
Haiti	19.0	8.1	15.2	35.8	19.1	15.4	10.3	10.0	10.2	-1.0
Honduras	10.1	8.8	8.1	6.8	9.2	7.7	5.3	8.9	10.8	5.4
Jamaica	6.1	8.7	7.3	14.1	13.7	12.9	5.8	16.8	16.9	9.0
Mexico	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5	5.7
Nicaragua	9.9	4.7	4.0	6.6	8.9	9.6	10.2	16.2	12.7	3.1 [c]
Panama	0.7	0.0	1.9	1.5	1.5	3.4	2.2	6.4	6.8	2.5 [c]
Paraguay	8.6	8.4	14.6	9.3	2.8	9.9	12.5	6.0	7.5	2.0
Peru	3.7	-0.1	1.5	2.5	3.5	1.5	1.1	3.9	6.7	3.1
Saint Kitts and Nevis	...	...	1.7	3.1	1.7	6.0	7.9	2.1	7.6	...
Saint Vincent and the Grenadines	0.4	5.5	-0.7	0.5	1.7	3.9	4.8	8.3	8.7	...
Saint Lucia	1.4	-0.2	0.4	2.7	...	...	...	6.8	3.8	...
Suriname	76.2	...	...	...	...	15.8	4.7	8.3	9.4	0.8 [f]
Trinidad and Tobago	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.6	14.5	10.3 [c]
Uruguay	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.5	9.2	6.5
Venezuela (Bolivarian Republic of)	13.4	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9	27.4

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

[a] Twelve-month variation to June 2009.
[b] The only English-speaking Caribbean countries included are Barbados, Jamaica and Trinidad and Tobago.
[c] Twelve-month variation to May 2009.
[d] Twelve-month variation to March 2009.
[e] Twelve-month variation to February 2009.
[f] Twelve-month variation to April 2009.
[g] Refers to national-currency markets.

Table A-33

LATIN AMERICA AND THE CARIBBEAN: WHOLESALE PRICES

(Percentage variation December–December)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Argentina	WPI	2.4	-3.4	113.7	2.0	7.9	10.6	7.2	14.6	8.8	5.6
Brazil	IPA-DI	12.1	11.9	35.4	6.3	14.7	-1.0	4.3	9.4	9.8	1.2
Chile	WPI	7.9	3.1	10.4	-1.0	7.8	3.2	7.9	14.0	22.7	6.5
Colombia	PPI	14.9	9.0	3.8	10.2	5.2	3.0	5.3	1.3	9.0	5.3
Costa Rica	IND-PPI	10.2	8.6	8.4	11.0	17.7	12.1	13.7	14.6	23.5	11.0
Ecuador	PPI	64.9	-5.6	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	-30.9
El Salvador	IPRI	4.9	-4.8	4.9	-0.6	13.0	6.9	0.6	13.9	-6.0	-14.6 [b]
Mexico	NPPI	6.4	1.3	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.2
Peru	WPI-NP	3.8	-2.2	1.7	2.0	4.9	3.6	1.3	5.2	8.8	-0.2
Uruguay	IPP-PN	9.5	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	-0.1
Venezuela (Bolivarian Republic of)	IPM -IVA	15.8	10.2	49.4	48.4	23.1	14.2	15.9	17.2	32.4	29.7

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

[a] Twelve-month variation to May 2009.
[b] Twelve-month variation to April 2009.

Abbreviations:
WPI: Wholesale price index; IPA-DI: Wholesale price index-domestic availability (acronym in Portuguese); PPI: Producer price index; IND-PPI: Industrial producer price index; IPRI: Industrial price index; NPPI: National producer price index; WPI-NP: Wholesale price index, national products; PPI-NP: Producer price index, national products; WPI-VAT: Wholesale price index, includes value added tax.

Table A-34
LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR BALANCE
(Percentages of GDP)

	Central government						Non-financial public sector					
	Primary balance			Overall balance			Primary balance			Overall balance		
	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]
Latin America and the Caribbean (excl. Cuba)	**2.2**	**2.2**	**1.3**	**-0.0**	**0.3**	**-0.4**	**4.2**	**3.9**	**...**	**1.4**	**1.4**	**...**
Latin America and the Caribbean (inc. Cuba)	**2.0**	**2.0**	**0.9**	**-0.2**	**0.1**	**-0.7**	**4.2**	**3.9**	**...**	**1.4**	**1.4**	**...**
Argentina [b]	2.7	2.7	2.5	1.0	0.6	0.4	3.5	3.3	...	1.4	0.7	...
Bolivia (Plurinational State of) [c]	5.3	3.5	0.8	3.5	2.3	-0.0	6.3	3.0	4.1	4.5	1.7	3.2
Brazil [d]	2.1	2.3	2.5	-2.9	-1.9	-0.8	3.8	3.9	4.1	-2.9	-2.2	-1.5
Chile	8.4	9.4	5.8	7.7	8.8	5.3	12.4	11.8	...	11.3	10.8	...
Colombia [e]	0.1	1.0	0.9	-3.5	-2.7	-2.3	3.0	2.8	3.3	-0.8	-1.0	0.1
Costa Rica	2.7	3.7	2.4	-1.1	0.6	0.2	5.2	4.9	2.1	1.3	1.8	-0.1
Cuba	-2.0	-1.8	-5.3	-3.2	-3.2	-6.7	...	...	...	...	...	...
Dominican Republic [h]	0.3	1.4	-1.6	-1.1	0.1	-3.2	...	...	...	...	...	...
Ecuador	2.0	1.9	0.3	-0.2	-0.1	-1.2	5.4	4.0	-0.2	3.3	2.1	-1.6
El Salvador	2.0	2.2	1.7	-0.4	-0.2	-0.6	1.4	2.2	1.3	-1.1	-0.2	-1.0
Guatemala	-0.6	0.0	-0.3	-1.9	-1.4	-1.6	...	...	...	...	...	...
Haiti	0.8	-1.2	-0.9	-0.0	-1.6	-1.2	...	...	...	...	...	...
Honduras [f]	-0.1	-2.3	-1.7	-1.1	-2.9	-2.3	...	...	...	...	...	...
Mexico [g]	-0.3	-0.5	-0.2	-1.8	-2.0	-1.6	2.1	1.9	1.6	0.1	0.0	-0.1
Nicaragua	1.8	1.9	0.0	0.0	0.4	-1.2	2.5	2.8	0.4	0.7	1.3	-0.7
Panama	4.4	4.7	3.4	0.2	1.2	0.3	4.9	7.0	3.6	0.5	3.5	0.4
Paraguay [h]	1.5	1.8	3.3	0.5	1.0	2.6	...	3.9	4.2	2.3	2.8	3.4
Peru	3.2	3.5	3.6	1.5	1.8	2.2	4.0	4.9	3.7	2.1	3.1	2.1
Uruguay	3.2	2.1	1.7	-1.0	-1.6	-1.0	3.8	3.4	1.2	-0.5	-0.4	-1.6
Venezuela (Bolivarian Republic of)	2.1	4.5	0.1	0.0	3.0	-1.2	0.6	-1.0	-1.2	-1.5	-2.6	-2.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] The central government coverage corresponds to national public administration. The non-financial public sector (NFPS) coverage corresponds to the non-financial public sector of Argentina.
[c] The central government coverage corresponds to general government.
[d] The central government coverage corresponds to the federal government. The figures are derived from the primary balance calculated "below-the-line" and nominal interest.
[e] The central government coverage corresponds to the central national government. The central government balance does not include the cost of financial restructuring.
[f] The central government coverage corresponds to the consolidated central government.
[g] The central government coverage corresponds to the federal government. The coverage of the non-financial public sector refers to the public sector.
[h] The overall balance includes the residue.

Table A-35
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL REVENUE
(Percentages of GDP)

	Total revenue			Current revenue			Capital revenue		
	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]
Latin America and the Caribbean (excl. Cuba)	**18.9**	**19.4**	**19.6**	**18.4**	**18.9**	**19.0**	**0.2**	**0.2**	**0.3**
Latin America and the Caribbean (inc. Cuba)	**20.1**	**20.8**	**20.9**	**19.5**	**20.1**	**20.3**	**0.3**	**0.3**	**0.3**
Argentina	17.2	18.2	19.3	17.0	18.1	19.2	0.2	0.1	0.1
Bolivia (Plurinational State of) [b]	32.7	32.7	32.7	30.8	31.1	31.5	1.8	1.6	1.2
Brazil	22.9	23.8	24.7	22.9	23.8	24.7	...	...	...
Chile [c]	25.8	27.5	26.4	25.8	27.5	26.4	0.0	0.0	0.0
Colombia [d]	14.7	15.0	15.7	13.4	13.5	13.6	1.2	1.5	2.1
Costa Rica	14.2	15.5	15.9	14.2	15.5	15.9	0.0	0.0	0.0
Cuba	43.2	46.0	45.9	41.7	43.7	44.1	1.5	2.3	1.8
Dominican Republic	16.1	17.7	15.9	15.9	17.3	15.7	0.0	0.0	0.0
Ecuador	16.5	18.5	26.2	16.5	18.5	26.2	0.0	0.0	0.0
El Salvador	14.4	14.6	14.7	14.2	14.3	14.4	0.0	0.0	0.0
Guatemala	12.7	12.9	12.1	12.7	12.9	12.1	0.0	0.0	0.0
Haiti	10.6	10.9	9.6	10.2	10.3	9.5	0.0	0.0	0.0
Honduras	18.1	19.1	19.3	16.6	17.5	17.2	0.0	0.0	0.0
Mexico	15.1	15.4	17.0	15.1	15.4	17.0	0.0	0.0	0.0
Nicaragua	22.7	23.3	21.9	18.8	19.6	19.0	0.0	0.0	0.0
Panama	18.6	19.5	19.7	18.5	19.2	18.3	0.1	0.1	1.1
Paraguay	18.3	17.6	18.3	18.2	17.2	17.9	0.1	0.0	0.0
Peru	17.6	18.2	18.3	17.4	18.1	18.2	0.1	0.1	0.1
Uruguay	21.2	20.3	19.4	21.2	20.3	19.4	0.0	0.0	0.0
Venezuela (Bolivarian Republic of)	29.6	28.9	24.7	29.6	28.9	24.7	0.0	0.0	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] General government.
[c] Total revenue corresponds to revenue plus sales of physical assets.
[d] Total revenue includes special funds and incorporates accrued revenues.

Table A-36

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL EXPENDITURE

(Percentages of GDP)

	Total expenditure			Current expenditure			Capital expenditure			Interest		
	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]	2006	2007	2008 [a]
Latin America and the Caribbean (excl. Cuba)	**18.9**	**19.2**	**20.0**	**15.4**	**15.3**	**15.7**	**3.5**	**3.9**	**4.3**	**2.2**	**2.0**	**1.7**
Latin America and the Caribbean (inc. Cuba)	**20.3**	**20.7**	**21.6**	**16.3**	**16.4**	**17.1**	**3.8**	**4.1**	**4.4**	**2.2**	**1.9**	**1.6**
Argentina	16.2	17.5	18.8	13.6	15.3	16.6	2.6	2.2	2.2	1.7	2.1	2.1
Bolivia (Plurinational State of) [b]	29.2	30.5	32.7	18.9	18.7	21.8	10.4	11.7	10.9	1.8	1.3	0.8
Brazil	25.7	25.7	25.6	21.4	21.1	20.7	4.3	4.6	4.9	4.9	4.2	3.3
Chile [c]	18.1	18.7	21.1	15.1	15.4	17.3	3.0	3.2	3.8	0.7	0.6	0.5
Colombia [d]	18.1	17.6	18.1	16.5	15.8	15.8	1.5	1.8	2.3	3.6	3.7	3.2
Costa Rica	15.3	14.9	15.7	14.3	13.6	13.5	0.9	1.3	2.2	3.8	3.1	2.2
Cuba	46.4	49.2	52.6	33.6	38.3	43.1	9.1	8.3	7.2	1.2	1.4	1.4
Dominican Republic	17.2	17.6	19.6	13.0	13.0	14.4	4.2	4.6	5.1	1.4	1.2	1.6
Ecuador	16.7	18.7	27.4	12.7	12.9	16.1	4.0	5.7	11.3	2.3	2.0	1.5
El Salvador	14.8	14.8	15.3	12.2	12.3	12.6	2.6	2.6	2.7	2.4	2.4	2.3
Guatemala	14.7	14.3	13.7	9.4	9.5	9.2	5.3	4.8	4.5	1.4	1.5	1.4
Haiti	10.6	12.4	10.8	9.7	9.8	8.6	0.9	2.6	2.1	0.8	0.3	0.3
Honduras	19.2	21.9	21.7	16.0	17.9	17.1	3.3	4.1	4.7	1.0	0.6	0.6
Mexico [e]	16.9	17.3	18.7	14.0	14.4	15.1	2.8	3.0	3.5	1.5	1.4	1.4
Nicaragua	22.7	22.9	23.1	19.3	19.2	20.3	3.5	3.7	2.8	1.8	1.5	1.2
Panama	18.4	18.3	19.5	15.9	14.2	13.9	2.5	4.1	5.6	4.2	3.5	3.1
Paraguay	17.8	16.7	15.7	13.7	12.9	12.8	4.2	3.8	2.9	1.0	0.8	0.6
Peru	16.1	16.4	16.1	14.1	14.2	13.8	2.0	2.1	2.4	1.8	1.6	1.4
Uruguay	22.1	21.8	20.4	20.7	20.3	18.7	1.4	1.5	1.7	4.1	3.6	2.7
Venezuela (Bolivarian Republic of) [f]	29.6	25.8	25.8	22.5	19.9	19.9	6.7	5.8	5.8	2.1	1.5	1.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] General government.
[c] Total expenditure refers to expenditure plus investment, capital transfers and fixed capital consumption.
[d] Includes accrued expenditure and floating debt.
[e] Current expenditure, capital expenditure and interest correspond to federal government expenditure.
[f] Total expenditure includes extrabudgetary.

Table A-37

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX BURDEN INCLUDING SOCIAL SECURITY CONTRIBUTIONS

(Percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean (exc. Cuba)	**15.1**	**15.4**	**15.3**	**15.5**	**16.0**	**16.7**	**17.2**	**17.9**	**17.8**
Latin America and the Caribbean (inc. Cuba)	**15.7**	**15.9**	**15.9**	**16.1**	**16.4**	**17.3**	**17.9**	**18.3**	**18.2**
Argentina [b]	21.5	20.9	19.9	23.4	26.4	26.8	27.4	29.1	30.6
Bolivia (Plurinational State of) [b]	17.9	17.0	17.3	17.2	19.0	20.4	19.8	20.1	21.7
Brazil [b]	30.4	31.3	31.9	31.4	32.2	33.3	33.5	34.7	35.5
Chile	17.7	18.1	18.0	17.3	17.0	18.3	18.3	20.2	20.1
Colombia	12.5	14.1	13.9	14.0	14.7	14.9	15.6	15.6	15.5
Costa Rica	12.3	13.2	13.2	13.3	13.3	13.6	14.0	15.2	15.6
Cuba	27.5	25.9	26.6	26.9	23.3	28.7	30.0	27.7	25.2
Dominican Republic	11.3	13.1	13.0	12.0	12.8	14.6	15.0	16.0	15.0
Ecuador	11.6	13.3	14.1	12.9	12.8	13.0	13.9	14.3	16.5
El Salvador	12.4	12.3	13.0	13.3	13.3	14.1	15.0	15.0	14.6
Guatemala	10.9	11.1	12.2	11.9	11.8	11.5	12.1	12.3	11.6
Haiti	7.9	7.4	8.2	8.8	8.9	9.7	10.2	10.3	9.5
Honduras	14.3	16.6	15.4	15.5	15.5	15.7	16.2	17.5	15.9
Mexico	11.0	11.7	12.0	11.6	10.3	10.1	9.9	10.3	9.4
Nicaragua	17.5	16.0	16.8	18.6	19.3	20.3	21.3	22.1	21.7
Panama	16.0	15.2	14.8	14.6	14.4	14.3	15.7	16.5	16.5
Paraguay	12.0	12.0	11.2	11.3	12.9	13.0	13.1	12.6	13.7
Peru	14.1	14.3	13.8	14.5	14.7	15.2	16.7	17.2	17.4
Uruguay	22.5	22.4	21.5	21.4	21.6	22.6	23.4	23.0	23.3
Venezuela (Bolivarian Republic of)	13.6	12.2	11.2	11.9	13.3	15.9	16.3	17.0	14.2

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

Table A-38

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX BURDEN AND COMPOSITION OF TAX REVENUES

(Percentages of GDP)

	Total		Income tax and capital gains tax		Property tax		Other direct taxes		General goods and services taxes	
	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]
Latin America and the Caribbean (exc. Cuba)	**17.9**	**17.8**	**4.8**	**4.8**	**0.7**	**0.7**	**0.0**	**0.0**	**6.5**	**6.6**
Latin America and the Caribbean (inc. Cuba)	**18.3**	**18.2**	**4.7**	**4.8**	**0.7**	**0.7**	**0.1**	**0.0**	**7.0**	**7.0**
Argentina [b]	29.1	30.6	5.4	5.3	3.2	3.2	0.0	0.0	10.4	10.6
Bolivia (Plurinational State of) [b]	20.1	21.7	3.3	4.0	1.3	1.2	0.0	0.0	9.2	10.0
Brazil [b]	34.7	35.5	7.5	8.2	2.9	2.0	0.5	0.3	12.8	13.5
Chile	20.2	20.1	8.4	7.3	…	…	0.0	0.0	7.9	8.9
Colombia	15.6	15.5	5.6	5.1	1.0	1.3	0.0	0.0	5.4	5.7
Costa Rica	15.2	15.6	3.9	4.4	0.6	0.6	0.0	0.0	5.9	6.0
Cuba	27.7	25.2	3.9	3.6	…	…	0.3	0.4	16.8	15.0
Dominican Republic	16.0	15.0	4.0	3.7	1.0	1.1	0.0	0.0	4.9	4.7
Ecuador	14.3	16.5	2.8	4.4	0.2	0.2	0.0	0.0	5.5	5.4
El Salvador	15.0	14.6	4.6	4.5	0.1	0.1	0.0	0.0	6.8	6.6
Guatemala	12.3	11.6	3.3	3.3	0.0	0.0	0.0	0.0	5.9	5.5
Haiti	10.3	9.5	1.8	1.8	0.0	0.0	0.1	0.0	3.0	2.9
Honduras	17.5	15.9	5.1	4.9	0.2	0.2	0.0	0.0	6.1	6.1
Mexico	10.3	9.4	4.7	5.1	0.2	0.2	0.0	0.0	3.7	3.8
Nicaragua	22.1	21.7	5.5	5.7	0.0	0.0	0.0	0.0	7.6	7.3
Panama	16.5	16.5	4.8	4.8	0.6	0.5	0.2	0.2	2.2	2.3
Paraguay	12.6	13.7	2.0	2.2	0.0	0.0	0.0	0.0	5.7	6.4
Peru	17.2	17.4	7.2	6.9	0.3	0.3	0.0	0.0	5.8	6.6
Uruguay	23.0	23.3	3.5	4.6	1.3	1.0	0.0	0.0	8.7	8.4
Venezuela (Bolivarian Republic of)	17.0	14.2	7.7	5.9	0.6	0.9	0.0	0.0	5.7	4.7

	Specific goods and services tax		Tax on trade and International transactions		Other indirect taxes		Other taxes		Social security contributions	
	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]	2007	2008 [a]
Latin America and the Caribbean (exc. Cuba)	**1.8**	**1.4**	**1.3**	**1.3**	**0.0**	**0.0**	**0.2**	**0.4**	**2.6**	**2.7**
Latin America and the Caribbean (inc. Cuba)	**1.8**	**1.4**	**1.3**	**1.2**	**0.0**	**0.0**	**0.3**	**0.4**	**2.7**	**2.7**
Argentina [b]	1.7	1.7	3.4	4.4	0.0	0.0	0.4	0.4	4.5	5.1
Bolivia (Plurinational State of) [b]	3.2	3.0	1.1	1.2	0.0	0.0	0.3	0.4	1.8	1.8
Brazil [b]	1.6	1.5	0.5	0.6	0.1	0.1	0.5	0.5	8.5	8.8
Chile	1.5	1.3	0.4	0.3	0.0	0.0	0.7	0.7	1.3	1.5
Colombia	0.3	0.3	1.0	0.9	0.0	0.0	0.2	0.2	2.2	2.0
Costa Rica	3.3	1.0	1.2	1.2	0.0	0.0	0.1	2.1	0.3	0.3
Cuba	1.4	1.3	0.0	0.0	0.0	0.0	1.1	1.0	4.1	3.9
Dominican Republic	4.2	3.9	1.7	1.6	0.0	0.0	0.0	0.0	0.1	0.1
Ecuador	0.5	0.9	1.5	1.5	0.0	0.0	0.0	0.1	3.9	4.0
El Salvador	0.8	0.7	1.0	0.8	0.0	0.0	0.0	0.3	1.6	1.6
Guatemala	1.3	1.1	1.1	0.9	0.4	0.4	0.2	0.1	0.3	0.3
Haiti	0.8	0.5	3.0	2.8	0.0	0.0	1.7	1.5	…	…
Honduras	3.7	2.5	1.2	1.1	0.0	0.0	0.0	0.0	1.3	1.1
Mexico	-0.0	-1.4	0.3	0.3	0.0	0.0	0.1	0.2	1.3	1.3
Nicaragua	3.9	3.7	1.0	1.0	0.0	0.0	0.0	0.0	4.0	4.1
Panama	1.1	1.0	1.8	1.8	0.0	0.0	0.2	0.2	5.7	5.8
Paraguay	2.1	1.9	1.4	1.5	0.0	0.0	0.2	0.4	1.2	1.3
Peru	1.3	1.0	0.7	0.5	0.2	0.1	0.2	0.2	1.6	1.8
Uruguay	2.3	1.7	1.3	1.0	0.0	0.0	0.0	0.4	5.9	6.2
Venezuela (Bolivarian Republic of)	0.7	0.9	1.5	1.1	0.0	0.0	0.0	0.0	0.9	0.8

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

[a] Preliminary figures.

[b] General government.

Table A-39

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT GROSS PUBLIC DEBT

(Percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean	**43.2**	**45.5**	**58.4**	**57.5**	**50.9**	**42.8**	**35.8**	**29.9**	**28.0**
Argentina [b]	45.0	53.7	145.9	138.2	126.4	72.8	63.6	55.7	48.3
Bolivia (Plurinational State of) [c]	60.7	72.7	77.5	86.8	81.1	75.6	49.8	37.1	33.8
Brazil [d]	29.9	31.6	37.9	34.0	31.0	30.9	31.0	31.4	25.2
Chile [e]	13.6	14.9	15.7	13.0	10.7	7.3	5.3	4.1	5.2
Colombia [f]	32.9	39.0	44.0	43.9	40.0	39.6	37.6	32.9	33.5
Costa Rica	42.4	43.2	43.6	41.3	41.0	37.5	33.3	27.6	24.9
Dominican Republic	...	...	...	...	...	22.0	20.4	18.4	20.0
Ecuador	73.3	56.9	50.3	45.8	40.8	35.9	29.4	27.5	23.7
El Salvador [c]	27.2	30.7	35.2	37.2	38.1	37.6	37.5	34.5	33.4
Guatemala [c]	19.0	20.2	18.4	20.9	21.4	20.8	21.7	21.4	20.2
Haiti [g]	43.8	46.2	60.2	57.5	46.7	44.1	35.6	32.2	37.6
Honduras	55.6	53.9	55.5	60.7	59.6	44.7	28.7	17.3	19.4
Mexico [h]	21.2	20.5	21.9	22.1	20.8	20.3	20.7	21.2	24.7
Nicaragua	113.0	109.9	133.7	137.7	100.6	92.6	68.7	42.4	38.2
Panama [i]	65.5	70.1	69.0	66.6	69.6	65.1	60.3	53.2	44.6
Paraguay	32.6	41.1	59.2	44.4	38.0	31.4	23.8	16.9	15.3
Peru	45.2	44.2	45.7	47.4	41.8	38.2	31.3	27.2	24.8
Uruguay	30.6	40.1	94.4	90.2	71.4	64.2	57.2	48.2	46.2
Venezuela (Bolivarian Republic of) [j]	26.8	30.4	42.4	46.3	38.1	32.8	23.9	19.3	14.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] National public administration. As from 2005, does not include debt not presented for swap.
[c] Does not include publicly guaranteed private debt.
[d] Net public debt. Federal government and central bank.
[e] Consolidated.
[f] Central national government.
[g] Does not include public sector commitments to commercial banks.
[h] Federal government.
[i] Does not include domestic floating debt.
[j] Non-financial public sector.

Table A-40

LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR GROSS PUBLIC DEBT

(Percentages of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Latin America and the Caribbean	**48.8**	**51.0**	**65.4**	**63.8**	**57.0**	**48.9**	**41.2**	**33.9**	**32.2**
Argentina [b]	53.1	64.8	184.4	156.9	143.3	87.6	76.3	66.7	59.3
Bolivia (Plurinational State of) [c]	65.8	76.7	80.2	89.5	83.9	78.3	52.6	40.0	36.7
Brazil [d]	47.7	50.8	59.6	53.7	49.3	46.7	45.0	44.3	37.0
Chile [e]	18.6	20.2	22.1	19.5	16.8	13.0	10.6	9.1	12.1
Colombia [f]	39.5	42.9	49.5	46.7	42.4	38.9	36.0	32.3	31.9
Costa Rica	41.8	43.2	45.1	45.6	46.9	42.9	38.4	31.9	29.9
Dominican Republic [j]	...	...	...	...	...	...	...	19.0	20.8
Ecuador [c]	81.7	62.7	54.3	49.2	43.7	38.6	32.0	30.0	25.8
El Salvador [c]	30.0	33.6	38.6	40.3	40.5	39.7	39.7	36.6	35.7
Guatemala [c]	21.2	21.7	19.6	22.0	22.4	21.5	21.9	21.6	20.5
Haiti [g]	49.1	50.7	66.5	63.5	51.1	47.5	38.1	34.5	39.6
Honduras	55.4	53.5	55.1	59.9	59.4	44.8	30.0	18.2	18.5
Mexico [h]	25.3	24.1	25.7	26.1	24.2	23.0	22.7	23.0	27.2
Nicaragua	114.7	111.3	134.1	138.0	100.7	92.8	69.1	43.3	39.3
Panama	66.5	71.1	69.4	67.0	70.4	66.2	61.0	53.7	45.2
Paraguay	35.3	44.0	63.0	46.9	41.7	32.8	24.8	19.9	18.3
Peru [i]	45.2	44.2	45.7	47.4	41.8	38.2	31.3	27.2	24.8
Uruguay	34.4	44.7	101.4	96.1	75.5	67.4	60.4	51.4	49.4
Venezuela (Bolivarian Republic of)	26.8	30.4	42.4	46.3	38.1	32.8	23.9	19.3	14.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Up to 2002 the figures refer to national public-sector debt plus provincial debt. From 2003 on, the figures are consolidated.
[c] Refers to the external debt of the non-financial public-sector and central-government domestic debt.
[d] Net public debt. Public sector.
[e] Consolidated.
[f] Consolidated non-financial public sector.
[g] Does not include public sector commitments to commercial banks.
[h] Includes public sector external debt and federal government domestic debt.
[i] Includes local and regional government debt owed to Banco de la Nación.
[j] Public sector.

Table A-41

LATIN AMERICA AND THE CARIBBEAN: SUBNATIONAL GOVERNMENT FISCAL INDICATORS

(*Percentages of GDP*)

		2000	2001	2002	2003	2004	2005	2006	2008 [a]
Argentina	**Provinces**								
	Total revenue	11.5	11.2	10.4	11.3	12.8	13.4	13.5	13.9
	Total expenditure	12.6	13.5	10.9	10.9	11.8	13.1	13.4	14.0
	Primary balance	-0.5	-1.5	-0.0	0.9	1.4	0.7	0.5	0.2
	Overall balance	-1.2	-2.4	-0.5	0.4	1.0	0.3	0.1	-0.1
	Public debt	7.5	11.2	21.9	18.8	16.8	14.8	12.8	11.0
Bolivia (Plurinational State of)									
	Regional governments								
	Total revenue	6.3	7.8	8.2	7.7	8.6	10.4	12.7	13.0
	Total expenditure	6.4	7.9	7.9	9.6	8.1	8.2	10.8	11.8
	Primary balance	0.1	0.1	0.5	0.4	0.7	2.4	2.1	1.3
	Overall balance	-0.1	-0.2	0.3	0.4	0.6	2.2	1.9	1.1
	Public debt	1.0	0.9	1.1	1.2	1.5	1.5	1.2	1.1
Brazil	**States and municipalities**								
	Total revenue	12.9	12.9	12.8	12.3	12.3	12.8	12.9	13.2
	Total expenditure	12.2	12.7	12.7	12.0	11.9	12.3	12.5	12.5
	Primary balance [b]	0.2	0.3	0.3	0.6	0.7	0.7	0.6	0.9
	Overall balance [b]	-0.4	-0.4	-0.4	-0.1	0.1	0.0	-0.1	0.4
	Public debt	15.7	17.6	19.8	18.6	18.1	16.3	15.4	14.4
Chile	**Municipalities**								
	Total revenue	3.2	3.2	3.3	3.1	2.7	2.9	2.7	2.7
	Total expenditure	3.3	3.2	3.3	3.1	2.8	2.8	2.5	2.6
	Primary balance	-0.1	0.0	0.0	0.0	-0.0	0.2	0.2	0.1
	Overall balance	-0.1	0.0	0.0	0.0	-0.0	0.2	0.2	0.1
Colombia	**Departments and municipalities**								
	Total revenue	6.8	6.9	7.5	7.8	7.8	8.7	8.6	8.5
	Total expenditure	7.3	6.9	7.4	7.5	7.1	8.4	8.8	9.0
	Primary balance	-0.1	0.3	0.4	0.5	0.9	0.4	-0.1	-0.3
	Overall balance	-0.5	-0.0	0.1	0.3	0.7	0.3	-0.3	-0.5
	Public debt	3.2	3.6	3.3	2.5	1.8	1.7	1.5	1.6
Costa Rica	**Local governments**								
	Total revenue	0.8	0.9	0.8	0.8	0.8	0.8	0.9	0.9
	Total expenditure	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.9
	Primary balance	0.1	0.1	0.1	0.1	0.0	-0.0	0.1	0.0
	Overall balance	0.1	0.0	0.0	0.1	-0.0	-0.1	0.0	-0.0
Cuba	**Local governments**								
	Total revenue	15.0	15.9	17.3	17.5	17.9	20.8	21.3	21.3
	Total expenditure	15.0	15.9	17.3	17.5	17.9	20.8	21.3	21.3
	Primary balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Overall balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador	**Town councils and municipalities**								
	Total revenue	2.8	3.9	4.0	3.7	4.3	3.9	4.1	6.6
	Total expenditure	2.1	3.3	3.8	3.3	4.2	3.6	4.1	4.0
	Primary balance	0.6	0.6	0.2	0.3	0.1	0.3	0.1	2.7
	Overall balance	0.6	0.6	0.2	0.3	0.1	0.3	0.0	2.6
Mexico	**State governments and federal district**								
	Total revenue	7.1	7.7	7.7	8.0	7.8	8.2	8.4	8.4
	Total expenditure	7.1	7.8	7.9	7.9	7.6	8.1	8.2	8.3
	Primary balance	0.1	0.0	-0.1	0.1	0.2	0.2	0.3	0.1
	Overall balance	-0.0	-0.0	-0.2	0.0	0.1	0.1	0.2	0.0
	Public debt	1.5	1.6	1.7	1.6	1.5	1.6	1.6	1.8
Paraguay	**Provincial governments**								
	Total revenue	0.4	0.4	0.3	0.3	0.5	0.5	0.5	0.5
	Total expenditure	0.4	0.4	0.2	0.3	0.5	0.5	0.5	0.4
	Primary balance	-0.0	0.0	0.0	-0.0	0.0	-0.0	-0.0	0.1
	Overall balance	-0.0	0.0	0.0	-0.0	0.0	-0.0	-0.0	0.1
Peru	**Local governments**								
	Total revenue	2.1	2.1	2.1	2.2	2.3	2.5	2.7	3.7
	Total expenditure	2.1	2.1	2.1	2.1	2.2	2.2	2.7	2.6
	Primary balance	0.1	0.1	0.1	0.2	0.1	0.3	0.1	1.1
	Overall balance	0.0	-0.0	0.1	0.1	0.1	0.3	0.1	1.1

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

[a] Preliminary figures.

[b] The primary and overall balances do not include financial resources (credit operations and disposal of assets).

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