



# VI

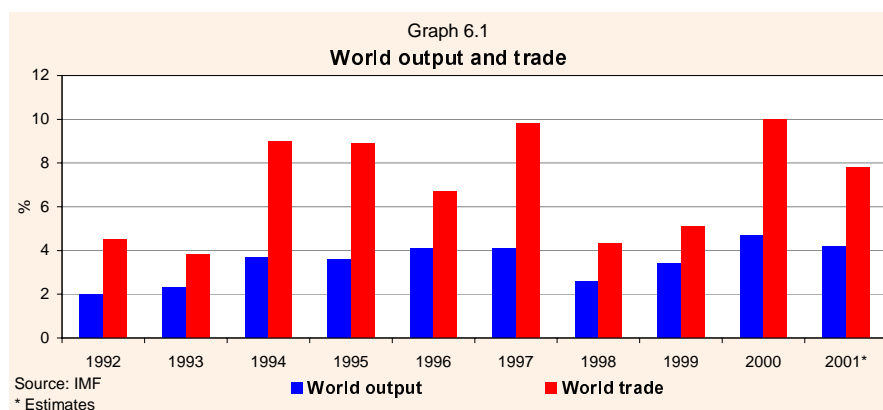
## THE INTERNATIONAL ECONOMY

### Introduction

World economic growth in 2000 was generated basically by the trajectories of the United States economy and petroleum prices. The American economy expanded more intensively in the first half of the year than in the second, with productivity gains that aided in controlling inflationary pressures in a framework of full employment. In a context of rising international energy prices, estimates of growth in demand at a level higher than the expansion capacity of potential product led the Federal Reserve to raise the basic interest rate target on several successive occasions in the period from February to May by a total of 100 basis points to a final level of 6.5% per year. Consequently, despite the fact that the pace of American economic activity remained high in the second half of the year, the rise in the cost of financial resources, coupled with reductions in available income caused by rising energy costs and the negative wealth effect resulting from adjustments in the market value of stocks, contributed to a decrease in the dynamics of demand indicators, falloffs in the pace of industrial production growth and forecasts of declines in confidence indicators. Parallel to these factors, measures taken by Opec with the objective of raising and, subsequently, managing international petroleum prices generated changes in the relative prices of the economy with strong negative impacts on the costs inherent to importer economies. At the same time, these measures made it possible for the petroleum exporting countries to increase their revenues on international sales.

The level of economic activity in the United States, renewed expansion in the Euro Zone countries and recovery in the emerging economies of Southeast Asia, Latin America and Eastern Europe contributed to sharp growth in the trade level. In this sense, IMF estimates indicate that the marketed volume of goods and services increased by 10% in 2000, 2.1 percentage points above the projection elaborated in May, compared to expansion of 5.1% in 1999.

In much the same way as occurred in previous years, the Japanese economy showed no real signs of consistent recovery. The scenario in that country can be described as one marked by weak internal demand, particularly under private consumption, while external demand was the factor most responsible for the positive growth



registered in industrial output. In this context, expectations of deceleration in world economic growth and a consequent downturn in the American economy clearly suggests that short-term expansion in the Japanese economy will be limited.

Economic performance in the Euro Zone countries benefited from devaluation of the single currency in relation to the dollar and renewed growth in the emerging economies. With this, the economic growth process consolidated in the range of 3% in a framework of declining unemployment and expanding productivity indices. Growth in consumer price indices at a level above the reference defined by the European Central Bank (ECB) and increases in United States interest rates contributed to the more restrictive nature of European monetary policy, as the interest reference rate closed at 4.75% per year at the end of the year, for an increase of 175 basis points.

According to preliminary estimates issued by the Economic Commission for Latin America and the Caribbean (Cepal), GDP expanded by 4% in the region, a result considered quite significant following the stability that marked 1999. This performance can be ascribed to the increase in foreign sales that resulted from greater world demand and a slight recovery in the international prices of exported products. However, the Argentine economy was characterized by an ongoing recession that dates to the end of 1998 and has been further aggravated by deterioration in public sector accounts. In this framework, at the end of the year the Argentine government opted for a new financial support agreement with the IMF, international organizations and private banks. This decision is expected to contribute to restoring investor confidence in the Argentine economy and making it possible to regain a process of economic expansion.

In general, the emerging Asian economies registered strong recovery in the pace of activity in 2000 despite the fact that several serious problems, such as the restructuring of the South Korean banking system, must still be coped with.

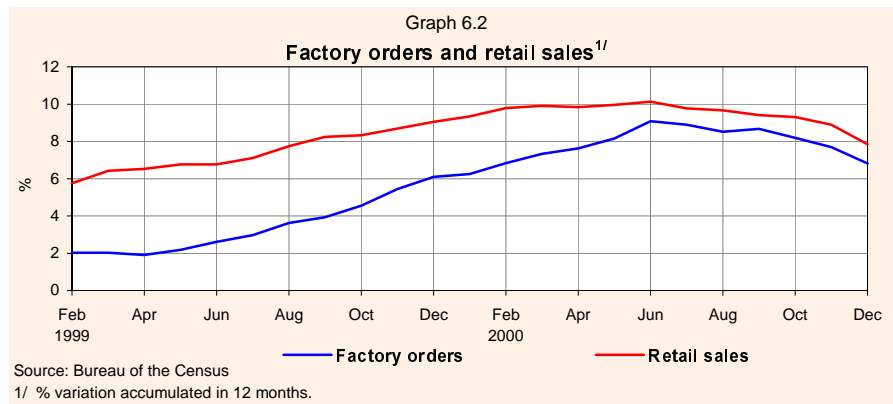
In this context, the IMF's estimate of world economic growth in 2000 suggests a rate of 4.7% for the year or 0.5 percentage point higher than the forecast made in the month of May. This result indicates the continued trend toward accelerated world economic growth that had reached a level of 2.6% in 1998 and 3.4% in 1999.

### United States

In the first half of the year, utilization of production factors moved to a very high level, particularly in the context of the labor market, thus reducing the product gap. The pace of internal absorption surpassed that of GDP and led to a gradual increase in the utilization of external savings. Even though it has not generated significant inflationary pressures, this imbalance did lead the Federal Open Market Committee (FOMC) to adopt successive interest rate increases in order to adjust the rate of aggregate demand growth to that of GDP. In the second half of the year, the United States economy, which had registered positive annual growth rates for ten consecutive years, showed the first signs of deceleration. However, this trend did not result in changes in the basic interest rate (fed funds) target of 6.5% per year.

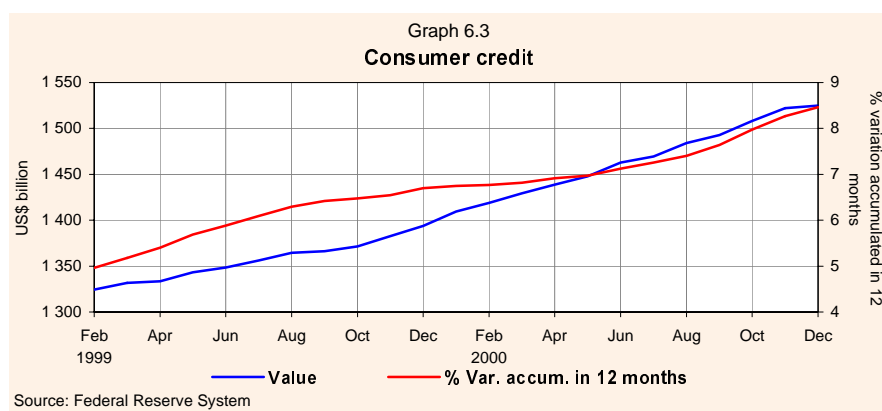
The slowdown in the growth pace was more evident under aggregate investments, government spending and net external demand, as shown in the statistics released by the Bureau of Economic Analysis. The reduction in the growth of net income available to the private sector and the decline in the capital stock on securities markets have aided in generating a slowdown in household consumption, as is evident in the trends under factory orders and retail sales at the end of the year.

Following accelerated growth in the period between mid-1999 and the end of the first half of 2000, accumulated factory orders over twelve months reversed course as of the start of the second half of the year. Annual accumulated twelve month growth came to 9.1% in June 2000, declining to 6.8% in December. In much the same way, retail sales accumulated over twelve months moved steadily upward in accumulated



annual terms in the period from 1999 to June 2000 when this heading closed with expansion of 10.1%, before dropping back to 7.9% in December.

Despite both declining orders and sales, consumer credit operations followed a strongly positive growth curve even in the second half of 2000 before turning downward in the month of December. Consequently, growth in November came to 10.4% compared to the same month of the previous year, before slipping to 10% in the final month of the year.

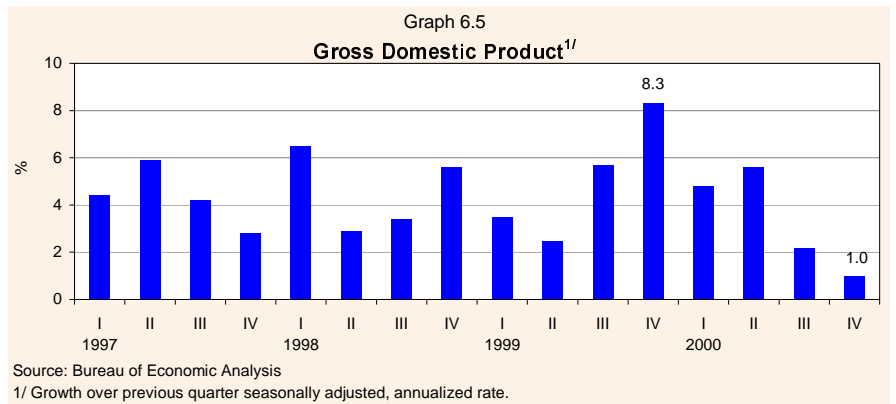
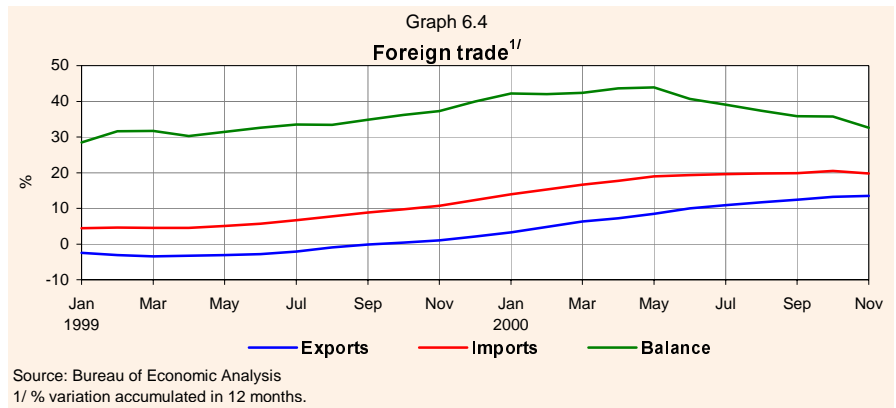


The construction industry was the segment that registered the sharpest slowdown over the course of the year. The pace of new building starts slowed gradually in the period between 1999 and the first quarter of 2000, turning negative as of the month of May. For the most part, this performance was a consequence of the rise in mortgage interest rates.

Government accounts exerted no demand pressures on the economy since, according to the Department of the Treasury, the federal government registered a surplus of US\$236.7 billion in fiscal year 2000, which ended in May of that year. This amount was sharply higher than in 1999 and 1998.

With respect to foreign trade, exports have expanded at a rapid pace, while the growth rate under imports remained stable at a level higher than export operations.

GDP expanded by 5% in the year, compared to growth of 4.2% in 1999. Here, it should be stressed that, though the annual result pointed to upward movement, data for the third and fourth quarters of the year reveal an accentuated decline in growth, from 2.2% in the third quarter to 1% in the fourth, when compared to the previous quarters, based on annualized rates from which seasonal effects have been removed.



Unemployment varied between 3.9% and 4.1% during the year according to the Bureau of Labor Statistics, interrupting the sharp downward trend that has marked recent years. However, one should note that this level is significantly below that of the historical series.

Industrial output expanded at an accelerated pace up to the third quarter of the year, before turning negative in the final three months of the year. Consequently, the year's total industrial output expanded by 5.6% when viewed against the previous

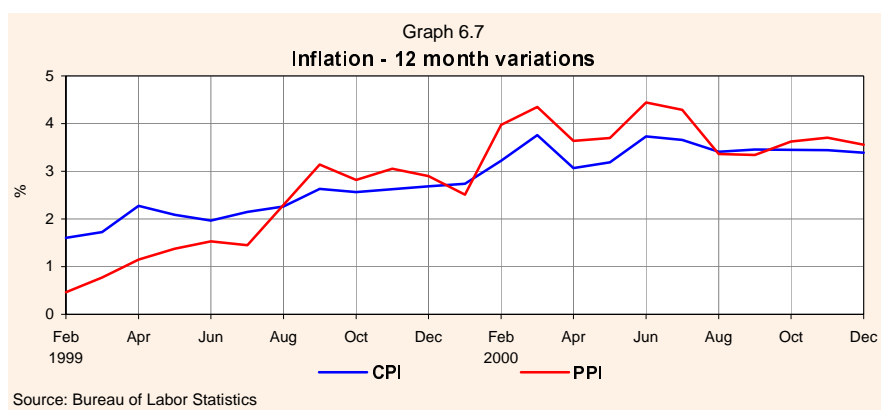


year compared to growth of 4.2% in 1999. Just as occurred in the previous year, this expansion was powered by sectors involved in production of computers and supplies for the informatics and telecommunications industries. Evidently, this growth reflected more intense utilization of these goods and this fact, in turn, generated a positive impact on labor productivity.

The compatibility between increased output and stability in the jobless rate resulted from enhanced productivity, principally in the manufacturing industry. Labor productivity in this sector increased by an average of 7.1% in the year, according to data released by the Bureau of Labor Statistics. When one analyzes the totality of the nonfarm sector, growth in labor productivity came to 4.3%. The productivity increase was accompanied by growth in real average earnings. With this, the unit labor cost remained relatively stable in the nonfarm sector, while declining in the manufacturing sector.

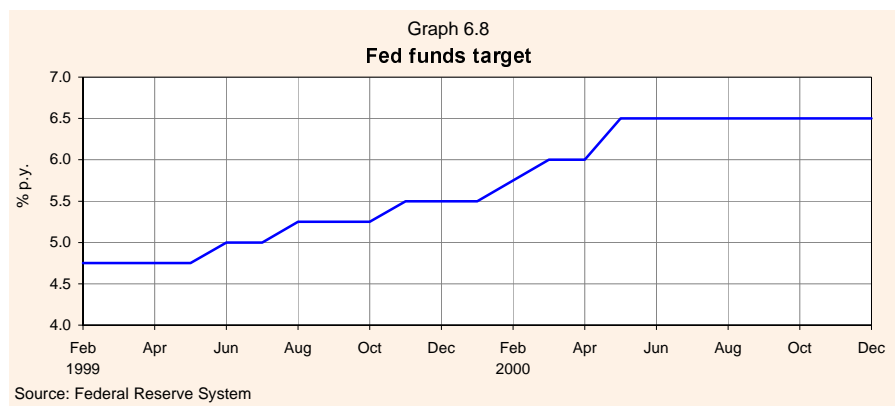
Price indices registered relatively low levels of growth despite the pressures generated by upward movement in international market petroleum prices. The Consumer Price Index (CPI), measured by the Bureau of Labor Statistics, increased by 3.4% in the year, compared to expansion of 2.7% in 1999. The core index, which excludes the effects of energy and foodstuffs, increased by 2.6% in 2000.

The Producer Price Index (PPI) for final goods rose by 3.6% in 2000 following a 2.9% increase in 1999, once again according to the Bureau of Labor Statistics. Just as occurred in 1999, the prices of final energy products produced the greatest pressure on the index with growth of 17.1%, while the prices of other items moved upward by an overall rate of 1.3%, demonstrating that the impact of the price rise under energy goods had restricted effects on the other prices of the economy.



Growth in aggregate demand at a pace higher than potential aggregate supply resulted in successive increases in the fed funds interest rate target between 1999 and the first half of 2000, even when one takes into consideration the gains in labor productivity.

Though the first signs of a slowdown in the pace of economic growth were perceived in the second half of the year, the probable impacts of the rise in international oil prices and stabilization of the jobless rate at historically low levels contributed to maintaining the target at 6.5% per year. It was only at the November and December FOMC meetings that the Committee emphatically expressed its concern at the decelerating pace of economic activity. On January 3, the Committee held an extraordinary meeting and reduced the fed funds interest rate target by 50 basis points, followed by another cutback of 50 basis points at its ordinary meeting on January 31, 2001.



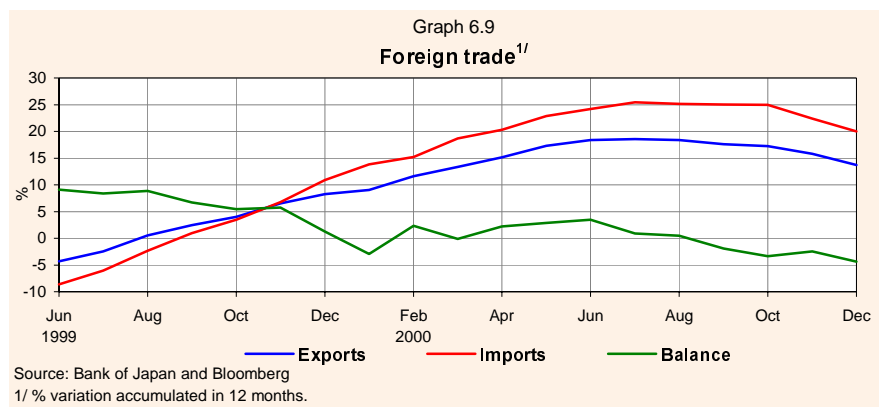
Economic deceleration in the second half of the year was reflected in the expectations of economic agents for 2001. Contrary to the relative stability noted in 1999, the Purchasing Managers Index (PMI) of the National Association of Purchasing Managers (NAPM) registered a downward trajectory over the course of the year. In the first half of 2000, confidence in the continuity of the economic growth process remained stable at a level above 50 up to July. However, in the following months, the index moved into a downward curve, revealing expectations of declining expansion.

## Japan

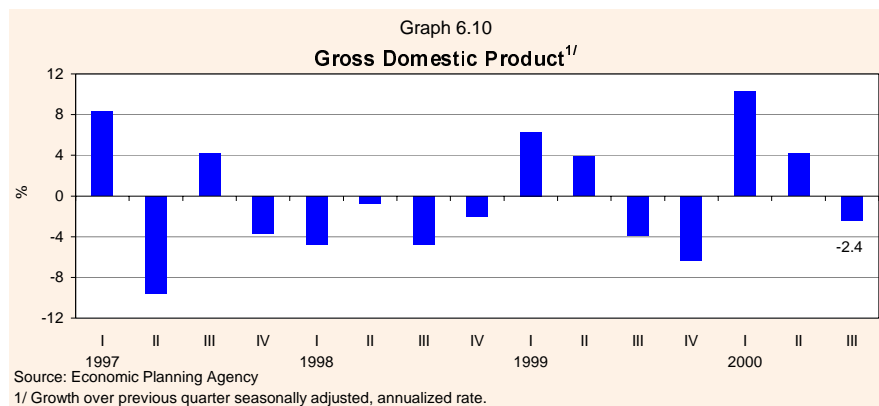
In early 2000, indicators related to the economic activity level suggested an upturn in the pace of growth. One should stress that, in response to external demand, industrial output expanded during the entire year. However, the weak performance of internal demand was not sufficient to support a process of consistent recovery, particularly when foreign sales and public sector acquisitions cooled in the final six months of the year.

Fiscal policy guidelines that had previously been anti-cyclical and sharply expansionary gradually gave way to efforts to stimulate private demand. Nonetheless, the still strong presence of the government in the economy contributed to expectations of a deficit equivalent to 10% of GDP in December 2000 and a gross public debt of more than 130% of GDP at the end of the fiscal year in March 2001. However, one should add that, with the assets available to the country, the Japanese government has a net debt in the range of 45% of GDP, a level considered low by international standards. Despite this, in September, Moody's lowered the country's ranking from AA1 to AA2 and justified this step in terms of Japan's reduced capacity to honor commitments in its own currency.

Parallel to public demand, external demand acted as the most important mechanism for stimulating economic activity. Up to the month of November, exports came to US\$439.5 billion or 15.6% more than in the same period of 1999, while imports expanded by 21.5% to a level of US\$340.2 billion. The trade surplus dropped by 1.1% using the same basis of comparison and closed at US\$95.1 billion.



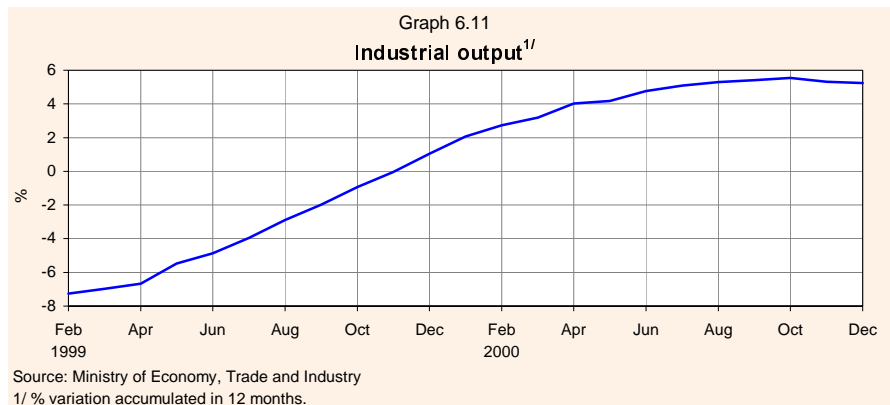
Economic performance in the year can be characterized as low growth with high GDP volatility. In the seasonally adjusted series, product increased by 4.2% in the second





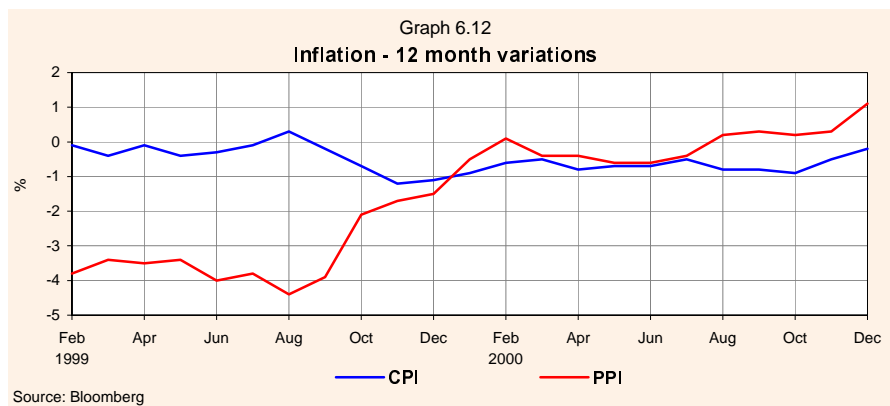
quarter, following 10.3% in the first quarter. Based on figures from which seasonal factors have been purged, the third quarter was marked by a further drop to 2.4% when annualized growth in comparison to the previous quarter is considered.

Up to October, industrial production expanded at increasingly greater rates as the 12 month accumulated result closed at 5.6%. In November and December, this upward movement reversed course as the respective rates ended at 5.3% and 5.2%. Growth in industrial output is partially explained by exports to the Asian countries which, in turn, raised profit levels and stimulated investments.



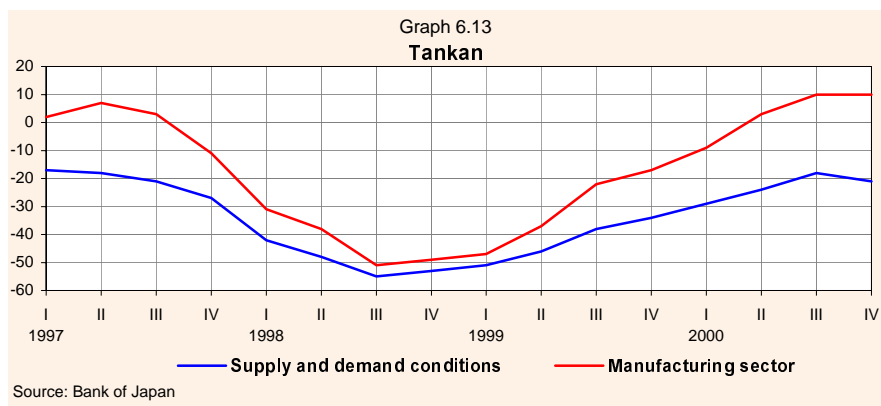
The labor market mirrored economic performance. Unemployment closed in the range of 5% in the first quarter of the year and declined in the following two quarters, returning to the level of 4.8% in both November and December.

Price indices made it clear that the country had not yet emerged from the deflationary environment. Since February 1999, CPI has consistently registered negative 12 month growth and closed at -0.2% in December. The PPI, on the other hand, which had turned in a similar performance in the first half of the year, became positive as of the month of August, registering 1.1% in December, when the same basis of comparison is utilized.



Developments on the international scenario during the year were not favorable to a positive economic performance. In this sense, considering that the economy is a net buyer of petroleum, the rise in the prices of that commodity generated considerable pressures on imports, while the downturn in the United States economy and the contagion impact that this trend had on Asian importer countries dampened exports and neutralized the expected impact of depreciation of the yen.

The perception that the Japanese economic environment has stagnated was reflected in the Tankan business confidence index for the manufacturing sector. Following steady growth since the first quarter of 1999, the index stabilized in December. In terms of supply and demand conditions, the same index registered a trend reversal from -18 in the third quarter to -21 in the fourth.



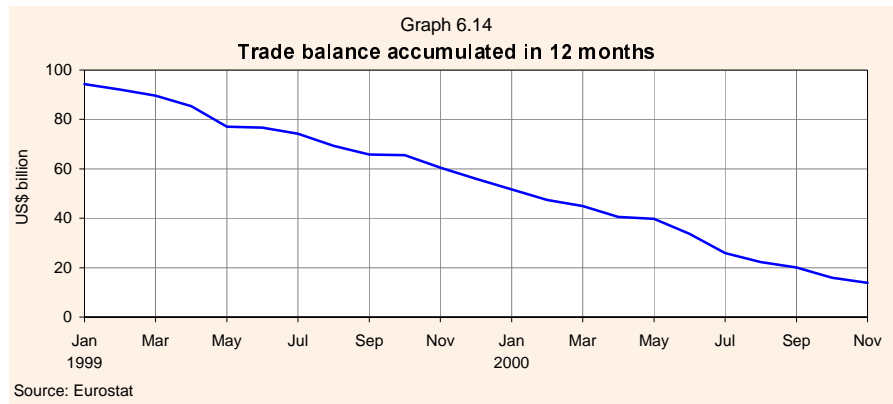
Positive expectations regarding the behavior of the economy in the first half of the year stimulated the Bank of Japan to alter the policy of almost zero interest, raising the rate from 0.03% per year to 0.25% per year. The less favorable scenario that marked the second half of the year was not accompanied by a return to the initial policy.

## Euro Zone

Following GDP growth of 2.7% in 1998 and 2.5% in 1999, expansion is expected to surpass the mark of 3% in 2000 for the Euro Zone countries as a whole. One should underscore the fact that the upturn in growth is a consequence of devaluation of the euro which has had a significant impact, primarily on the trade balance result and on growth in internal demand. In this context, the demand indicator calculated by the ECB on the basis of data released by The Statistical Office of the European Communities (Eurostat), composed basically of data on private consumption, public consumption and gross fixed capital formation, revealed positive quarterly growth rates. However, it should be noted that these rates, while still positive, did move downward from 1% for the final two quarters of 1999 to 0.9%, 0.8% and 0.7% for the first three quarters of 2000, in that order.

Analyzing the performance of these indicators in the final quarter of 2000 in comparison to the same period of 1999, the trend toward deceleration noted in previous quarters continued. Thus, the private consumption indicator of the demand index, which registered 0.4% growth in the last three months of 2000, registered expansion of 0.7% in the corresponding quarter of the previous year, while public consumption increased by 0.2% and 0.4% using the same bases of comparison. In these two periods, gross fixed capital formation increased by 1.4% and 2%, respectively.

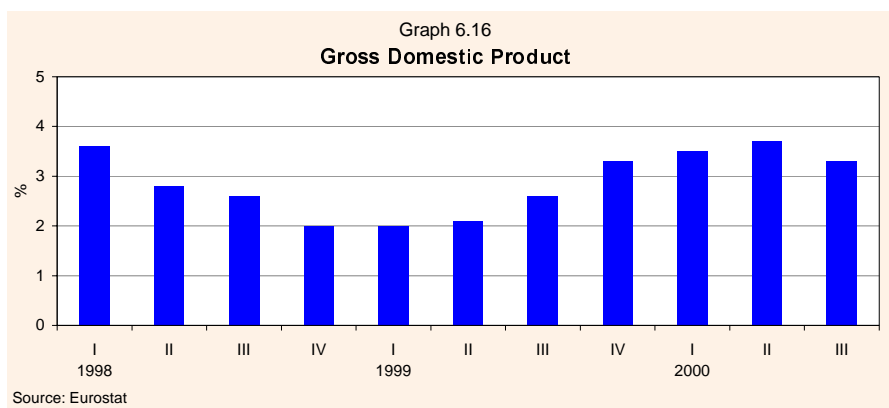
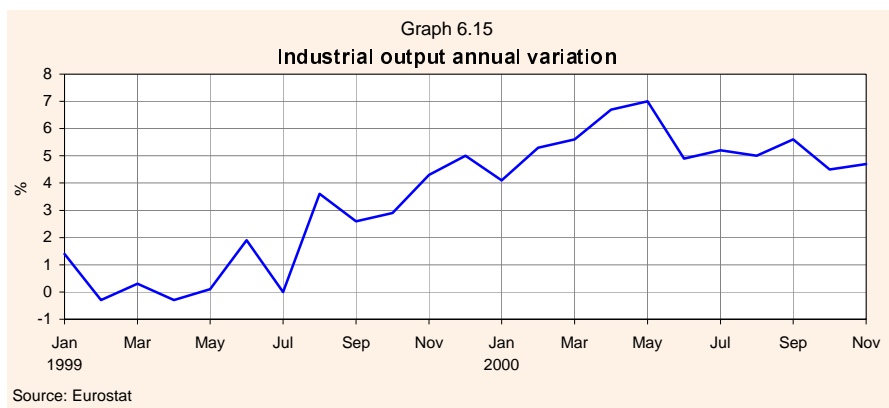
The positive trade balance has benefited from depreciation of the euro and growing international demand, at the same time in which it has been adversely impacted by high world energy prices. Analysis of the accumulated 12 month balance points to a sharp reduction in the surplus, which totaled US\$13.8 billion in November 2000, a figure 77.1% below the corresponding result for the same month in 1999.



This result is based on exports of US\$910.7 billion, for growth of 5% in comparison to the same period of the previous year, coupled with imports of US\$896.8 billion, or 11.3% more than in 1999. This latter result was caused mostly by higher prices for imported goods, particularly petroleum, and the adverse impact of devaluation of the euro.

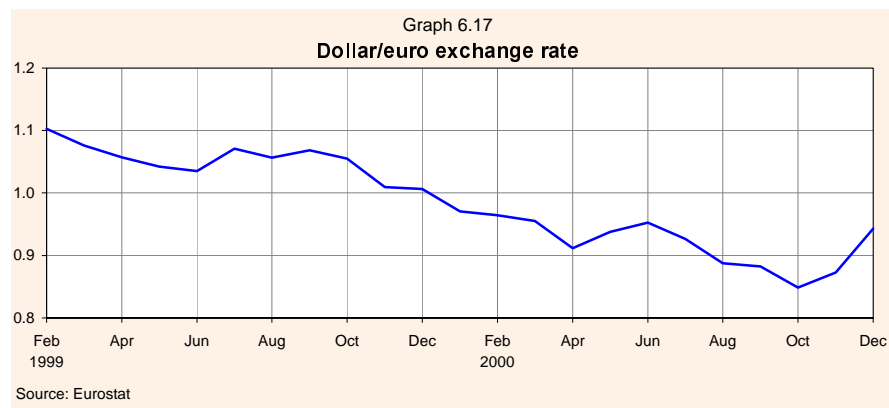
Up to May, industrial output registered steadily higher growth in comparison to the corresponding months of the previous year, closing at 7% in that month. Since June, growth leveled off in the range of 5%, closing November at 4.7%.

In the same sense, GDP growth measured in annual terms fluctuated in the range of 3.5% per year in the first three quarters of the year, with some degree of slowdown. In comparison to previous quarters, an analysis based on annualized rates and data from which seasonal factors have been removed points to percentages of 3.6%, 3.6% and 2.4% in the first three quarters of 2000, respectively.



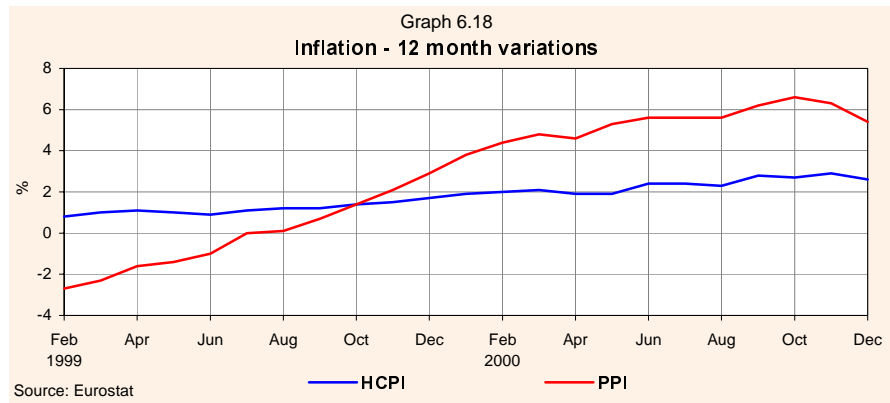
Unemployment continued on a downward curve, moving from 9.5% in January to 8.7% in December. Labor productivity increased by 1.7% and 1.3% in the first two quarters of the year, compared to the same periods of 1999, while the earnings of workers – including both wages and benefits – increased by 2.4% and 1.9% respectively, using the same bases of comparison.

The dollar/euro rate of exchange registered a downward trajectory during the entire year, with some degree of recovery as of the month of October, when depreciation



set a record and closed at 0.8231 dollar/euro. At the end of December 2000, the rate had moved to 0.9427 dollar/euro compared to 1.0062 dollar/euro in December of the preceding year.

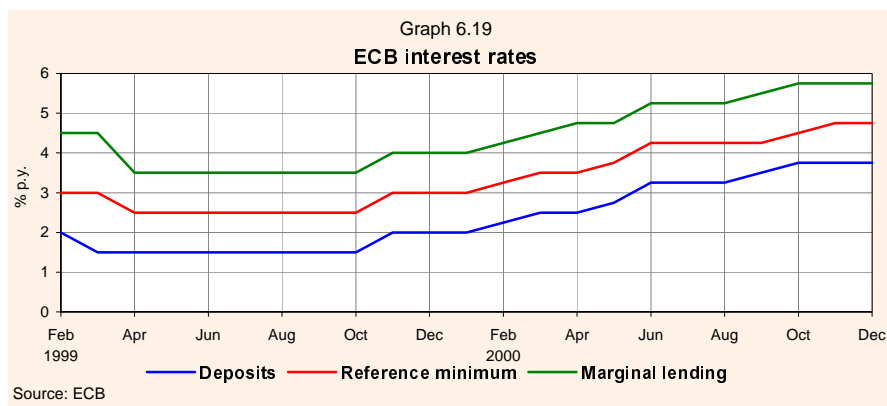
Consumer inflation and, principally, producer inflation registered upward movement throughout the year as a result of exchange devaluation, growth in the activity level and rising oil prices. Annual growth in the Harmonized Consumer Price Index (HCPI) came to 2.9% in November 2000, compared to an accumulated 1.5% in the corresponding period of the previous year. The result was higher than the medium-term reference rate defined by the ECB at 2%. The PPI registered annual growth of 6.3% in November 2000 as against 2.2% in the same month of 1999, pointing to greater sensitivity to external price and exchange pressure.



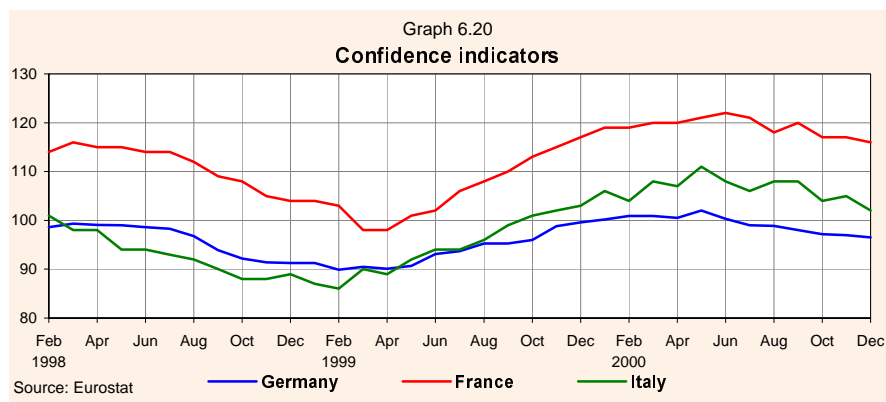
In this context, the ECB raised the basic interest rate for the Euro Zone, with the minimum refinancing rate of the economy at a November level of 4.75%, compared to 3% in January. In annual terms, the M3 aggregate increased by 5.3% in October 2000 and, therefore, above the 4.5% reference rate. However, the ECB allows the growth rate of this aggregate to move within an acceptable margin, particularly because it signals medium-term price growth with convergence following a lag of six quarters.

The expectation indicators used by the ECB for the industrial sector and consumers points to continuation of the growth process. The first moved from 18 in the final quarter of 1999 to 23 in the third quarter of 2000, while the index for consumer perspective remained at 10 in the fourth quarter of 1999 and in the third quarter of 2000.

These results are consistent with the expectations measured by other confidence indicators such as the General Business Climate Index, calculated by the Institute for Economic Research (IFO) in Germany, which closed November 2000 at 97 after



reaching 98.8 in the same month of the previous year; the French Industrial Trends Survey, measured by the *Institut National de la Statistique e des Études Économiques* (Insee) of France, which came to 117 and 115 in the same periods; and the Italian Business Confidence Indicator, measured by the *Istituto di Studi e Analisi Economica* (ISAE), in Italy, which came to 104 in October 2000 and 101 in the same month of the previous year.



## Emerging Asian countries

### South Korea

In 2000, the Korean economy maintained a high rate of economic activity. According to government estimates, growth in the period came to 8.8%, following expansion of 10.9% in 1999. The trajectory of internal and external demand, however, registered signs of a slowdown toward the end of the year, in response to the effects of reductions in liquidity and the credit supply due to the process of financial sector restructuring and deceleration of the growth pace of the world economy.

The internal context has been affected by the restructuring of the financial and business sectors in the wake of the 1997 and 1998 crisis. In this sense, adjustment of the capital requirements of the banking sector above the internationally recommended 8% limit reduced the number of commercial banks and increased state participation in their capital. In contrast, the nonbanking financial sector was significantly lowered, thus diminishing the possibilities of systemic risk, at the same time in which the sector registered advances in the areas of supervision and regulation of the financial system, with adoption of stricter standards of classification and provisioning of credits, capital adequacy, accounting and transparency, crossed guaranties, liquidity in foreign currency and exposure to risk.

The government required a reduction in the degree of business sector indebtedness through sale of assets and subsidiaries and issues of rights. Such large groups as Daewoo and Hyundai were split and the crossed guaranties of the 30 largest *chaebols* and their subsidiaries were eliminated. However, one should note that the sector continued vulnerable and indebtedness is still high and could certainly be negatively affected by the unfavorable international context.

With respect to external trade, the country registered a surplus of US\$11.8 billion in the year, which was 51% below the 1999 level. Exports totaled US\$172.6 billion and imports came to US\$160.5 billion, representing growth rates of 19.9% and 34%, respectively, pointing to a downward trend in exports. When growth under this heading is compared to the same period of the previous year, the result came to 0.1% in December, compared to a rate of 30.1% in August.

## **China**

The Chinese GDP expanded by 8% in 2000, mostly as a result of increased exports. The government announced a 7% annual growth target for the next five years, recognizing that the growth process would slow in comparison to the results achieved during the Ninth Five Year Plan, which registered an annual average of 8.3%. Industrial output surpassed the 1999 mark by 10%.

The balance of trade turned in an annual surplus of US\$24.2 billion, compared to US\$29.2 billion in 1999, as exports closed at US\$249.3 billion and imports ended the period with US\$225 billion, for respective growth rates of 28% and 36% when compared to the previous year's results. Inflows of foreign direct investments totaled US\$40.7 billion, reflecting relative stability in relation to the 1999 inflow.

Several factors have contributed to the favorable prospects of the Chinese economy, including membership in the WTO, liberalization of domestic capital markets, development projects for specific regions of the country and the positive signs of

ongoing internal growth as reflected by a rise of 1.5% in the consumer price index in 2000, as compared to 0.2% deflation in 1999.

## Latin America

### Argentina

The evolution of internal and external economic factors in Argentina in 2000 led the government to adopt measures aimed at achieving fiscal balance and creating conditions for recovering the growth process. In this sense, the month of May witnessed announcement of measures to cut the federal budget by US\$938 million, including reductions in civil service wages, cutbacks in special retirements and restructuring of government organizations. In the month of October, following sharp growth in interest rates in response to a climate of greater uncertainty generated by the resignation of the vice president, the government announced an investment incentive program aimed at shifting the focus of economic policy away for the fiscal adjustment. At the same time, reform proposals were announced in November for the social security and collection systems, reductions in the tax burden and an agreement between the central government and provinces aimed at diminishing public spending.

Announcement of this pact and approval of the 2001 budget in the month of December aided in successfully concluding negotiation of a financial assistance loan with the IMF and other multilateral organizations in a total amount of US\$19.7 billion. Parallel to this agreement, another financial agreement was announced with local private banks and pension funds and is expected to result in inflows of an additional US\$20 billion, raising available funding to a total of US\$39.7 billion.

The pace of growth in aggregate demand turned downward in the first three quarters of the year when compared to the same periods of the previous year. However, according to data included in the *Dirección Nacional de Cuentas Nacionales*, exports of goods and services turned in real growth and gross fixed capital formation declined.

Demand indicators followed a downward curve during the course of the year. Supermarket and shopping center sales accumulated over the 12 month period up to November declined by 1.16% and 2%, respectively. The Synthetic Indicator of Industrial Activity (ISAC), which encompasses sales of building materials, followed a similar trajectory, registering a decline of 12.3% in the year. The behavior of demand indicators over the course of the year led authorities to revise product growth rate estimates downward from 3% at the start of the year to 0.5%.

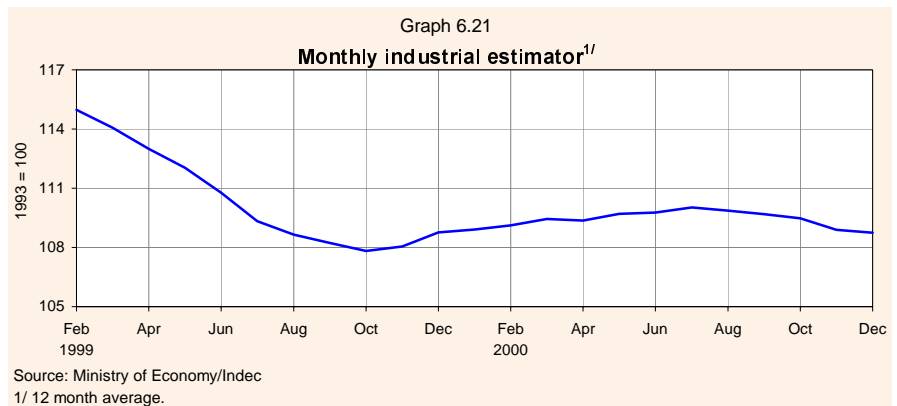


The public sector fiscal result, including privatizations, pointed to a deficit of US\$6.8 billion in 2000 or 42% more than in 1999. Current revenues increased by 1% and total revenues declined by 3.1%, particularly as a result of a drop of 85% in privatization inflows. Current spending increased by 0.8% mostly in response to growth of 17.4% in interest payments, despite the central government's efforts to reduce current outlays. Another important factor underlying the fiscal deficit was the highly adverse impact of the ongoing internal recession, particularly in terms of the tax inflow generated by economic activity.

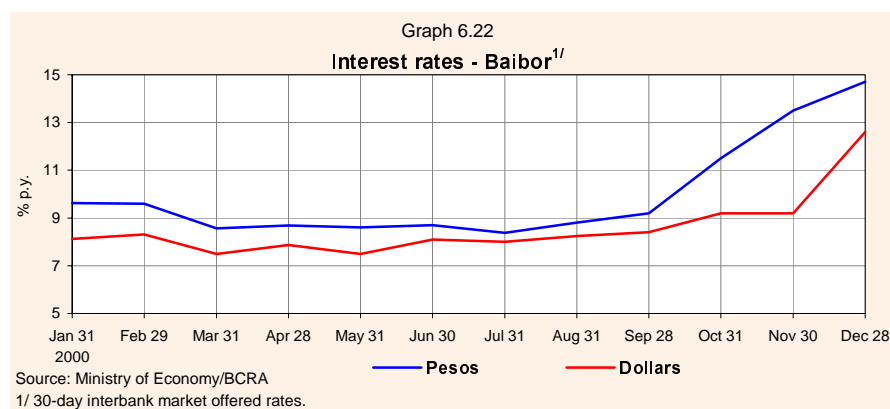
The overall deficit, which includes the central bank result and excludes privatization revenues, totaled US\$6.6 billion in 2000, or less than the US\$6.7 billion revised target in the IMF Agreement.

Ministry of the Economy estimates of the current account result up to the third quarter point to a deficit of US\$7 billion, compared to US\$9 billion in the same 1999 period. One should note that the trade sector turned in considerable improvement in the year as a consequence of higher petroleum prices and continued recovery in the Brazilian economy, Argentina's major trading partner. In this context, the trade surplus for the year accumulated a total of US\$1.1 billion, with exports of US\$26.2 billion and imports of US\$25.1 billion. In 1999, the balance of trade turned in a deficit of US\$2.2 billion.

Measured by the Monthly Industrial Estimator (EMI), industrial output remained at an average level equivalent to 1999, while the jobless rate, which had climbed to 15.4% in May, ended the month of October at 14.7%, compared to an average of 14.3% in the previous year. The price trajectory followed a downward curve throughout the year. The consumer price index accumulated 2.2% deflation in the year, reflecting lesser demand, and the wholesale price index closed with positive growth of 2.6% as a result of higher petroleum prices.



Interest rates moved along a declining trajectory up to October, when increased financial market uncertainties, coupled with the political crisis, provoked an interest rate hike to the same level registered in the second half of 1998, the period in which the emerging economies were still reeling under the weight of the Russian crisis. In this context, the differential between funding rates in local currency and in foreign currency, just as the Argentine sovereign risk, moved to significantly high levels. As of the month of December, with expectations of the signing of a new agreement with the IMF, rates tended to stabilize.



## Chile

In 2000, the Chilean economy showed clear signs of recovery from the period of negative growth in the preceding year when GDP registered a drop of 1.1%. In comparison to the same periods of 1999, GDP growth remained above the 5% level in the first three quarters of 2000, climbing to 6.1% in the second quarter. Following a period of accumulated 12 month negative results that extended from April 1999 to January 2000, the monthly economic activity indicator (Imacec) turned in increasingly positive results during the remainder of the year, moving from 0.19% in February to 5.6% in December.

Signs of recovery in the level of activity were also perceptible in industrial output. Accumulated 12 month growth, which had registered negative results during all of 1999, expanded over the course of the year, moving from 0.1% in January to 6.2% in October. The result of the final two months points to a process of deceleration that was consistent with the international economic scenario, as growth in November and December closed at 5.4% and 4.2%, respectively.

The behavior of the jobless rate reflected labor market reaction to the favorable evolution of the economy. In this sense, in contrast to what occurred in 1999, when

the rate held firm above 10% for five months, unemployment varied between 8.9% and 9.9% in 2000, based on the statistical series free of seasonal factors, and closed at the year's lowest level in the month of December.

Insofar as inflation is concerned, annual growth in the consumer price index, which had reached a level of 2.3% in 1999, increased to 4.5% in 2000. Wholesale prices performed in just the opposite way, with 1999 growth of 13.5% dropping to 7.9% in 2000. To some extent, this result was influenced by 1.2% deflation in the month of December.

With respect to the foreign sector, the trade surplus came to US\$1.4 billion in 2000 or 14.27% less than in 1999. Imports closed at US\$16.7 billion, expanding by 19.93% in the period, while exports closed at US\$18.2 billion, or 16.28% more than in the previous year.

The monetary policy implemented by the Central Bank of Chile in the first half of the year was basically restrictive, as evinced by the two 25 basis point increases introduced into the basic interest rate on January 20 and March 16. In the month of August, however, the rate was cut by 50 basis points and closed at 5% per year above the change in the so-called Development Unit. Following that alteration, interest remained stable to the end of the year.

### **Mexico**

The Mexican economy was strongly impacted by growth in the United States, higher petroleum prices and more favorable funding conditions on international capital markets. This scenario was important to the efforts of the Mexican economy to achieve results considerably better than initially expected at the start of the year.

At market prices, GDP growth increased from 3.8% in 1999 to 6.9% in 2000. However, one should note that growth rates in the first three quarters of the year in relation to the same periods of 1999 closed in the range of 7.5%, reflecting sharp improvement when compared to the final quarter of the year (5.1%), a decline that can be attributed to the slowdown then taking hold in the United States economy.

Comparisons with the corresponding periods of the previous year indicate that industrial output declined sharply in the fourth quarter of the year. This is more than clear in the plunge from a growth mark of 7.1% in October to a negative December result of 0.4%. This decline is attributed to the performance of the manufacturing and construction industries, which registered declines of 2% and 0.9% in December. Moving in the opposite direction, the industries that assemble products for

subsequent export turned in annual growth of more than 13% in the final quarter of the year. In this scenario, the rate of open unemployment remained low during the year, fluctuating between 2.6% in August and 1.9% in December.

Growth in the consumer price index dropped sharply in relation to the 1999 result and closed at 8.96%, the lowest mark of the last six years. With this result, Mexico has complied with its inflation target – defined at 10% for 2000 - for the second consecutive year. Accumulated growth in the producer price index (excluding crude oil for export) in the year registered a small decline and closed at 7.38%, compared to 8.66% in the previous year.

The balance of trade ended 2000 with a negative total of US\$8 billion, representing a 44.2% increase compared to the previous year's deficit. Imports accumulated US\$174.5 billion, for growth of 22.9%, and exports ended at US\$166.4 billion, an increase of 22%. It should be stressed that petroleum sales increased by 64.98% and accounted for 9.84% of the nation's total foreign sales, with an overall total of US\$16.38 billion.

On six different occasions, the central bank of Mexico further tightened its already restrictive monetary policy. Though nominal interest at the end of the year was only slightly higher than at the start of 2000, the falloff in inflation generated an accentuated rise in real rates.