

**ECONOMIC COMMISSION FOR LATIN AMERICA
AND THE CARIBBEAN**

**ECONOMIC SURVEY
OF LATIN AMERICA
AND THE CARIBBEAN
1986**



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Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:

- Three dots (...) indicate that data are not available or are not separately reported.
- A dash (—) indicates that the amounts is nil or negligible.
- A blank space in a table means that the item in question is not applicable.
- A minus sign (-) indicates a deficit or decrease, unless otherwise indicated
- A full stop (.) is used to indicate decimals.
- A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.
- Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.
- References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.
- Unless otherwise stated, references to annual growth rates of variation mean cumulative annual rates.
- Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

PART ONE
THE EVOLUTION OF THE
LATIN AMERICAN ECONOMY IN 1986

THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1986

I. GENERAL TRENDS

In 1986 the evolution of the Latin American economy was marked by contradictory changes. While the main variables used to measure domestic economic performance showed some improvement, the situation of the external sector worsened considerably. Thus, although the rate of economic growth picked up and unemployment and inflation slackened, the terms of trade worsened, the trade surplus fell and the balance-of-payments deficit increased sharply (see figure 1).

1. The recovery of economic activity

Following a recovery in 1984 from the declines of the two preceding years and another slowdown in 1985, the rate of economic growth rose slightly. The region's gross domestic product increased by 3.9%, which was similar to its rate for 1984 and higher than the 2.7% recorded in 1985. As a result, the per capita product rose by 1.6% after having risen by barely 0.4% the previous year. Nevertheless, for the region as a whole it was still 7.6% lower than in 1980—the year before the onset of the crisis—and was only slightly higher than in 1978. On account of the worsening of the terms of trade, and despite the drop in net payments of profits and interest, the trend in national income was less favourable than that of the product, as had also been the case in five of the six preceding years. Consequently, per capita national income—which provides a better indicator of the standard of living than the per capita product—has fallen considerably more than the latter since 1980 (see table 1).

In addition to being somewhat more rapid, the expansion of economic activity was also less concentrated than in 1985. While the gross domestic product rose significantly only in Brazil in 1985, in 1986 it increased at a satisfactory rate not only in Brazil but also in Peru, Uruguay, Argentina, Venezuela, Chile and Colombia; unemployment levels fell significantly in all of these countries as well. Nevertheless, this increase in economic activity was far from being a generalized phenomenon. Indeed, the rise in gross domestic product was insufficient to offset the impact of population growth in Bolivia, Mexico and Paraguay, as well as in all the countries of Central America and the Caribbean except for Costa Rica, Cuba and Panama.

As in 1984, but in contrast with 1985, the rise in the rate of economic growth was based on a relatively rapid increase in the volume of imports of goods and services. While this had risen by less than 1% the preceding year, it increased by 7% in 1986. Nevertheless, due to the enormous decline seen in 1982 and 1983, imports were still 27% lower in real terms than in the years prior to the crisis.

Fixed capital investment also grew more rapidly: 6.5% as against 4.4% in 1985. In this case too, however, the recovery was far from being sufficient to offset the huge drop which had occurred between 1981 and 1984. As a result, in 1986 fixed investment was barely three-quarters of what it had been in 1980, and the investment coefficient was one of the lowest recorded in the last 40 years.

2. The downturn in inflation and the rise of remunerations

The improvement in the internal economic situation was also reflected in the sharp fall in inflation. After having risen steadily during the six preceding years and having reached an all-time peak of 275% in 1985, the average increase in consumer prices fell to 65% in 1986 (see figure 1).

Although this decrease was partly a reflection of the slackening of inflation in the majority of the region's economies, its main cause was the sharp drop in the rate of consumer price increases in

Figure 1
LATIN AMERICA: MAIN ECONOMIC INDICATORS

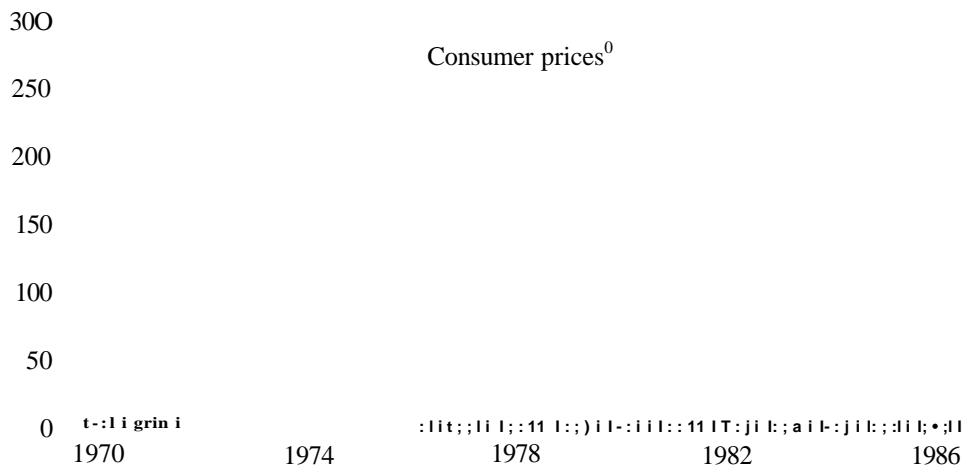
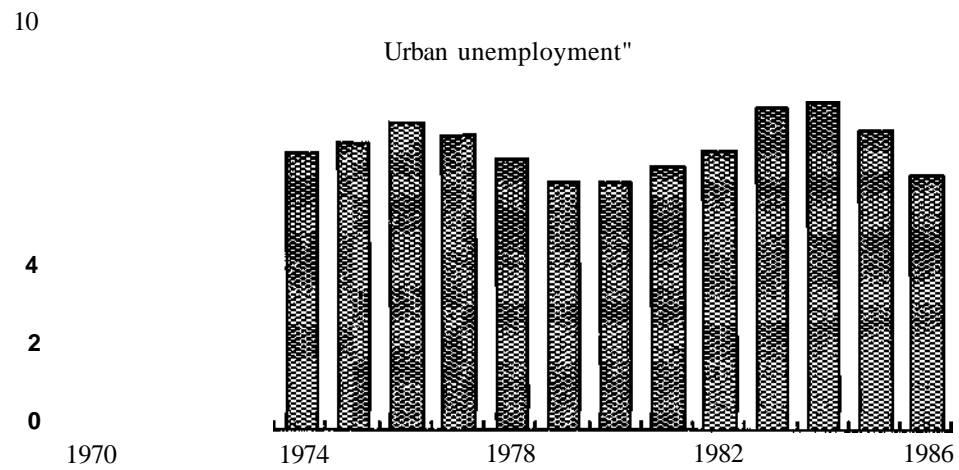
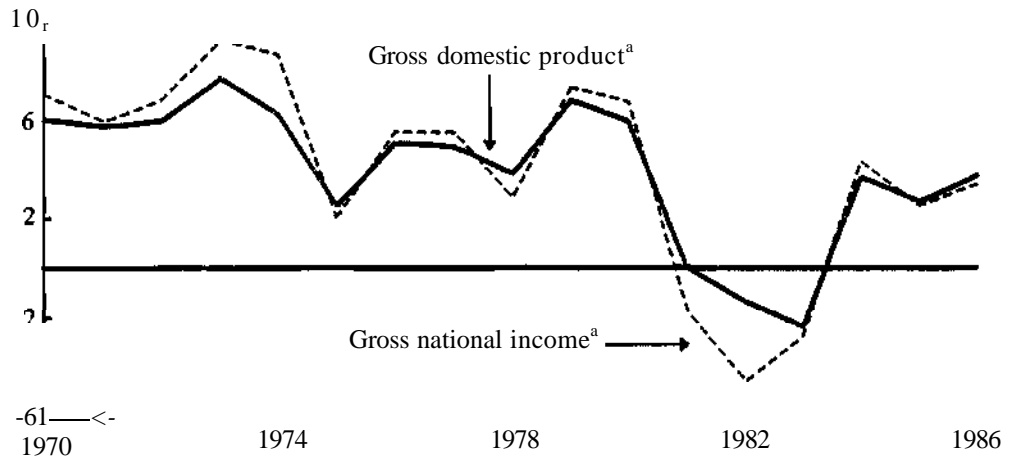
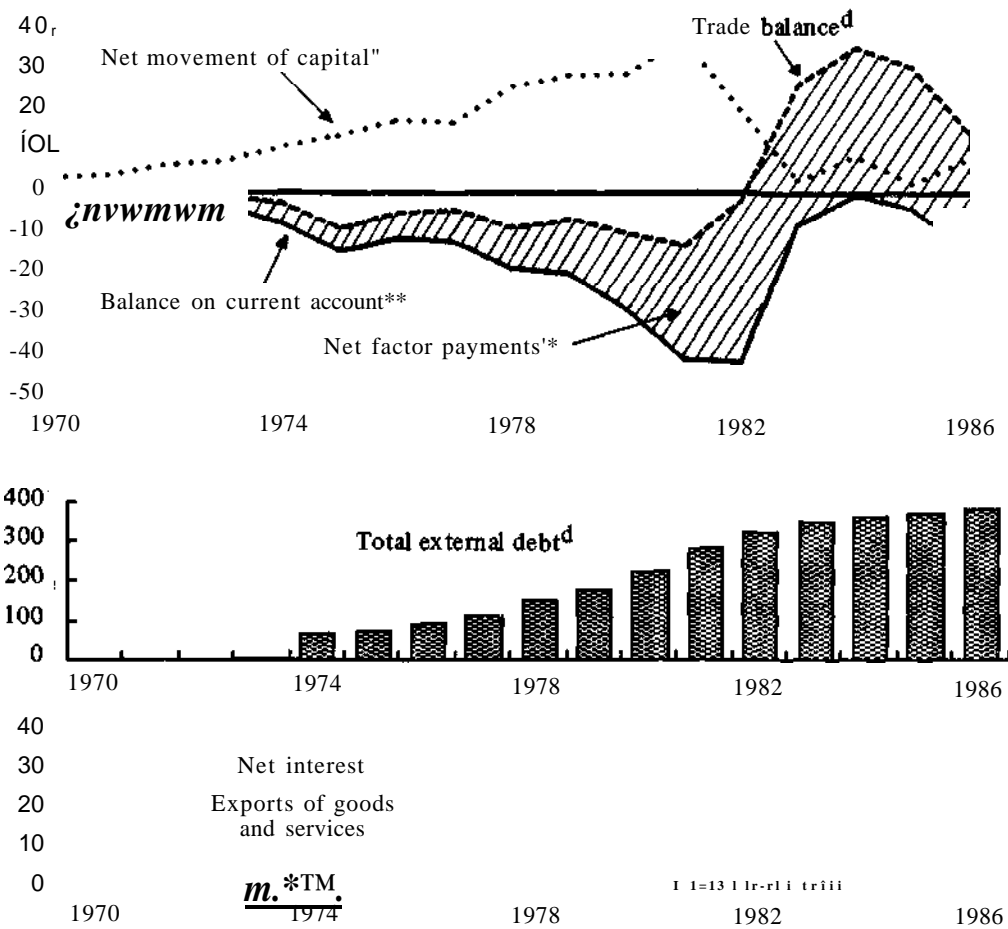


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bWeighted average annual rate for 18 of the 25 most populous cities of Latin America. ^cPercentage variation from December to December. ^dBillions of dollars. Percentages.

Argentina, Brazil, Peru and above all Bolivia, these being the four countries which, together with Nicaragua, had the highest inflation in 1985.

In spite of this progress, inflation continued to represent a serious problem for most of the countries of Latin America. Indeed, it was considerably above its traditional levels in El Salvador, Guatemala and Paraguay, while it remained high in Uruguay, intensified in Mexico and reached almost 750% in Nicaragua. Moreover, in Argentina, Brazil and Peru the sharp reductions in the annual variation of consumer prices brought about by the application of unorthodox stabilization programmes were not accompanied by a comparable slackening of basic inflationary pressures. As a result, the second half of the year saw a reversal in the downward trend followed by the annual rate of inflation since the third quarter of 1985 in Argentina and Peru, and much the same thing occurred in Brazil towards the end of the year.

Due to the slower increase in the overall level of prices and the faster growth of economic activity, real remunerations rose in almost all the countries for which information was available. Nevertheless, in most countries these rises constituted no more than a partial recovery from the considerable declines in the real incomes of wage-earners observed in previous years.

3. The weakening of the external sector

In contrast with the rather more satisfactory trends of domestic variables, external accounts worsened substantially. Due mainly to the collapse of international oil prices, the persistent downward trend in the prices of most other primary products, and the excessive expansion of domestic expenditure in a number of countries, the value of exports fell by 15 %. This downturn was naturally more pronounced (-30%) in the petroleum-exporting countries, but was also appreciable in Argentina and Brazil.

Table 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS"

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986*
Indexes (1980 = 100)											
Basic economic indicators											
Gross domestic product at market prices	81.8	85.3	88.5	94.5	100.0	100.0	98.6	96.2	99.6	102.3	106.1
Gross national income	81.2	85.2	87.5	93.9	100.0	98.2	93.7	91.0	94.8	97.1	100.4
Population (millions)	310	322	330	338	346	354	362	370	379	388	396
Per capita gross domestic product	90.2	91.7	92.8	96.8	100.0	97.7	94.1	89.7	90.8	91.1	92.4
Per capita gross national income	89.5	91.6	91.8	96.1	100.0	95.9	89.4	84.9	86.4	86.5	87.4
Growth rates											
Short-term economic indicators											
Gross domestic product	4.8	4.9	3.8	6.8	5.9	-	-1.4	-2.4	3.7	2.7	3.9
Per capita gross domestic product	2.2	2.3	1.2	4.3	3.4	-2.3	-3.7	-4.6	1.3	0.4	1.6
Per capita gross national income	2.6	3.0	0.3	4.8	4.1	-4.1	-6.8	-5.0	1.9	0.2	1.1
Urban unemployment rate ^c	7.7	7.4	6.8	6.0	6.2	6.6	7.0	8.1	8.2	7.5	6.4
Consumer prices ¹	63.0	40.0	39.0	54.1	56.1	52.6	84.8	131.1	185.2	275.3	64.9
Terms of trade (goods and services)	4.3	5.6	-6.1	5.7	5.6	-5.1	-11.8	-2.9	5.9	-3.9	-8.3
Current value of exports of goods and services	15.2	18.0	9.8	33.8	32.2	7.6	-8.8	0.1	11.6	-6.0	-15.3
Current value of imports of goods and services	4.4	15.3	16.7	26.5	33.3	9.6	-18.8	-28.0	3.8	0.1	1.7
Billions of dollars											
External sector											
Exports of goods and services	47.3	55.8	61.3	82.0	107.6	116.1	103.2	102.4	114.0	109.0	94.6
Imports of goods and services	51.9	59.8	69.8	88.2	117.6	128.7	104.7	75.3	78.2	78.4	79.6
Trade balance (goods and services)	-4.6	-4.0	-8.5	-6.2	-10.0	-12.8	-1.5	27.0	35.8	30.6	15.0
Net payments of profits and interest	5.8	8.2	10.2	13.6	17.9	27.1	38.7	34.3	36.3	34.8	30.5
Balance on current account	-11.0	-11.9	-18.4	-19.7	-28.0	-40.3	-41.0	-7.4	0.1	-3.6	-14.3
Net capital inflow	17.9	17.2	26.1	29.1	29.5	37.5	20.1	3.0	9.5	3.4	8.6
Balance-of-payments position	6.8	5.3	7.8	9.4	14	-2.8	-21.0	-4.4	9.2	-0.2	-6.3
Official international reserves	22.8	27.8	36.5	46.8	53.8	46.1	32.3	30.5	37.1	33.5	34.6
Balance of disbursed external debt											
Gross total external debt	97.1	121.6	152.6	185.3	228.4	284.8	328.5	350.8	364.5	374.1	388.6
Net total external debt*	74.3	93.8	116.1	138.5	174.6	238.7	296.2	320.3	327.4	340.6	354.0

Source: ECLAC, on the basis of official figures.

"All figures refer to the 20 countries listed in table 2, except Cuba. Provisional figures. 'Percentages. Up to 1978 this corresponds to the weighted average rate of 15 Latin American cities. From 1979, it represents the weighted average rate for the 25 largest cities in Latin America excluding Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guatemala City (for want of comparable data). 'December-to-December variation. Foreign exchange, plus Special Drawing Rights (SDRs), monetary gold valued at the London price per troy ounce fine, reserve position in the International Monetary Fund (IMF), less use of IMF credit. 'Gross total disbursed external debt, less official international reserves.

On account of the decline in external sales as well as of a slight increase in the value of imports of goods and services, the trade surplus was slashed by half, thereby continuing the downward trend which had begun the preceding year.

The shrinkage in the trade surplus was also considerably greater than the drop in net payments of interest and profits. As a result, the deficit on current account, which had virtually disappeared in 1984 but had then risen slightly in 1985, increased fourfold. As the growth in the deficit on this account was well in excess of the moderate expansion seen in the net inflow of loans and investment, the balance-of-payments deficit rose from an insignificant figure in 1985 to US\$6.3 billion in 1986 (see table 1).

The increase in net capital inflow, together with the decline in net payments of interest and profits resulting from the gradual but steady fall in international interest rates, helped to reduce the transfer of resources abroad by one-third. Nevertheless, the amount transferred was still very considerable. Moreover, as the value of exports underwent a sharp decline at the same time, this transfer was equal to more than one-fifth the value of exports, which was an only slightly smaller proportion than that recorded, on average, during the four preceding years.

II. PRODUCTION

1. The rate and structure of economic growth

As has already been mentioned, the 3.9% increase in Latin America's gross domestic product was similar to that achieved in 1984 and somewhat higher than the mere 2.7% recorded in 1985.

In a departure from the trend of the two preceding years, the expansion of economic activity in 1986 was mainly concentrated in the non-petroleum-exporting countries, whose product grew by 6.7%, a considerably higher rate than those recorded in each of the previous 10 years. In contrast, notwithstanding the vigorous recovery of economic activity in Peru and its upturn in Venezuela, the product of the petroleum-exporting countries as a whole fell by 1.4%, primarily on account of the almost 4% drop in Mexico's gross domestic product (see table 2).

The uneven behaviour of the region's economies was also mirrored in the contrast between the high rates of growth of the product in Brazil (8.2%), Peru (8.1%), Uruguay (6.7%), Argentina, Colombia, Chile and Venezuela (between 5% and 6%) and the rates below those of the population increase recorded in Bolivia, Mexico and Paraguay and in all the countries of Central America and the Caribbean, except Costa Rica, Panama and Cuba (see table 3).

As a consequence of this trend, the deterioration occurring since the beginning of the 1980s in the living conditions of the majority of the relatively poorest Latin American economies continued to worsen. Thus, in 1981-1986 per capita product fell by nearly 27% in Bolivia, 20% in Guatemala, more than 18% in Nicaragua, 16% in El Salvador and approximately 14% in Honduras and Haiti. During this period it also fell sharply in countries with considerably higher levels of income and development such as Venezuela (-19%), Costa Rica and Mexico (-10%) and, despite a recovery in 1986, in Argentina (-15%), Uruguay (-14%) and Peru (-8%) as well.

As in 1985, the gross domestic product increased by more than 8% in Brazil in spite of the 7% drop in agricultural production caused by a long and severe drought in that country. In contrast, industry and trade—which had already expanded markedly the previous year—grew by more than 11% while construction rose by almost 18% (see table 4). The expansion of economic activity was fueled by the remarkable dynamism of domestic demand and made it possible to absorb most of the installed capacity which had been underutilized as lately as the beginning of 1986. The growth of production was also facilitated by the marked increase in non-petroleum imports for the second year running and by the diversion to the domestic market of a portion of the intermediate goods which had been exported in previous years.

An increase in domestic demand and a better use of installed capacity were also the basic causes of the 8.1% rise in Peru's domestic product. These factors played a particularly significant role in the case of the manufacturing industry, whose production rose by 15%, thereby completely recovering from its sharp fall in 1982-1983. The revival of construction—a sector which had been particularly hard hit by the crisis up to 1985—was even more vigorous (24%). The growth of economic activity

went hand in hand with an exceptionally large (45%) increase in the volume of imports—in particular those of consumer and intermediate goods—which was partly financed by the foreign exchange saved as a result of the government's placement of a ceiling on interest payments on the external debt.

The fuller use of existing installed capacity prompted by the expansion of domestic demand was also the key factor in the 6% increase in economic activity in Argentina, which made up for the 4.6% shrinkage which had occurred the preceding year. This revival was especially pronounced in manufacturing, where production rose by almost 13% after having declined by 10.5% in 1985. In 1986 construction also increased by nearly 9%, thereby bringing to an end its sharp and regular downward trend of the preceding five years, during which it fell by almost 50%. In contrast, the agricultural product declined for the second consecutive year, mainly on account of adverse weather conditions.

In spite of the enormous impact of the steep decline in petroleum prices, the gross domestic product increased by 5.5% in Venezuela, thus halting the continuous drop seen since 1980. As a result, the per capita product rose for the first time in nine years. The recovery of economic activity was also helped by the 5% growth in manufacturing, the 6% increase recorded by the agricultural sector, the more than 7% expansion of mining and the sharp upturn (16%) in construction, following upon nine years of persistent decline. In turn, this progress reflected the policies applied by

Table 2

LATIN AMERICA: TOTAL GROSS DOMESTIC PRODUCT

	Annual growth rates							variation 1981- 1986°
	1979- 1980	1981	1982	1983	1984	1985	1986°	
Latin America (excluding Cuba)	6.3	„	-1.4	-2.4	3.1	2.7	3.9	6.2
Oil-exporting countries	6.2	5.6	-0.3	-5.6	2.5	1.8	-1.4	2.4
Bolivia	0.6	0.4	-2.8	-6.5	-0.8	-1.7	-2.8	-13.8
Ecuador	4.8	3.8	12	-1.2	4.8	4.9	3.1	17.4
Mexico	9.1	8.4	-	-5.1	3.6	2.5	-3.8	4.8
Peru	5.2	4.4	-0.4	-11.7	4.8	2.5	8.1	7.1
Venezuela	-0.4	-1.0	-1.3	-5.6	-1.0	-0.6	5.5	-4.1
Non-oil-exporting countries	6.3	-3.2	-2.2	-0.5	4.1	3.0	6.7	7.8
Argentina	4.5	-7.1	-5.3	2.4	2.4	-4.6	6.0	-6.9
Brazil	8.1	-3.4	0.9	-2.3	5.7	8.3	8.2	17.8
Colombia	4.8	2.3	1.1	1.9	3.8	2.9	5.4	18.4
Costa Rica	5.6	-2.3	-7.2	2.7	7.9	0.9	4.0	5.2
Cuba	0.5	16.0	3.9	4.9	7.2	4.6	12	43.3
Chile	7.7	5.2	-13.0	-0.5	6.1	2.5	5.5	4.2
El Salvador	-5.5	-8.4	-5.6	0.6	2.3	1.8	0.9	8.8
Guatemala	4.4	1.0	-3.3	-2.7	0.1	-0.9	0.3	-5.7
Haiti	7.3	-2.7	-3.4	0.7	0.5	0.5	0.6	-4.0
Honduras	4.6	1.1	-1.6	-0.5	3.2	1.5	1.9	5.0
Nicaragua	-12.3	5.4	-0.8	3.3	-2.6	-4.7	-0.4	-0.5
Panama	9.5	4.0	5.0	-	-0.4	4.1	3.1	16.5
Paraguay	11.2	8.8	-0.7	-2.9	3.3	4.1	-0.3	12.2
Dominican Republic	5.1	4.0	1.3	5.1	0.4	-2.3	1.9	10.4
Uruguay	6.2	1.5	-10.0	-6.0	-1.2	-0.1	6.7	-9.9

Source: ECLAC, on the basis of official figures.

°Preliminary figures. Refers to global social product.

Table 3

LATIN AMERICA: PER CAPITA GROSS DOMESTIC PRODUCT

	Annual growth rates							Cumulative variation
	1979-1980	1981	1982	1983	1984	1985	1986°	1981-1986"
Latin America (excluding Cuba)	3.8	-2.3	-3.1	-4.6	1.3	0.4	1.6	-7.5
Oil-exporting countries	3.3	-3.2	-2.9	-8.1	-0.1	-0.7	-3.8	-12.5
Bolivia	-2.0	-2.2	-5.3	-9.0	-3.5	-4.3	-5.5	-26.6
Ecuador	1.8	0.9	-1.7	-4.0	1.8	2.0	0.2	-1.1
Mexico	6.1	5.5	-2.6	-7.5	1.0	-	-6.1	-10.2
Peru	2.5	1.7	-2.2	-14.0	2.1	-0.1	5.3	-8.4
Venezuela	-3.6	-3.9	-4.0	-8.1	-3.7	-3.2	2.6	-19.1
Non-oil-exporting countries	4.0	-5.3	-4.3	-2.5	1.9	0.9	4.5	-5.1
Argentina	2.9	-8.5	-6.8	0.8	0.8	-6.1	4.4	-15.3
Brazil	5.7	-5.5	-1.3	-4.5	3.4	6.0	5.9	3.1
Colombia	2.6	0.1	-1.1	-0.2	1.6	-0.7	3.3	4.2
Costa Rica	-0.2	-5.0	-9.7	0.1	5.2	-1.6	1.5	-10.1
Cuba	-0.8	15.2	3.3	4.3	6.6	3.8	0.3	37.7
Chile	6.0	3.5	-14.5	-2.2	4.3	0.8	3.7	-5.8
El Salvador	-7.1	-9.5	-6.5	-0.2	1.4	0.5	-0.8	-14.8
Guatemala	1.5	-1.8	-6.0	-5.4	-2.7	-3.7	-2.5	-20.4
Haiti	5.5	-4.4	-5.1	-1.1	-1.3	-1.3	-1.2	-13.8
Honduras	1.0	-2.4	-4.9	-3.8	-0.2	-1.8	-1.4	-14.1
Nicaragua	-14.8	2.1	-4.0	-0.1	-5.8	-7.9	-3.9	-18.5
Panama	6.0	1.8	2.7	-2.2	-2.5	1.9	0.9	2.3
Paraguay	7.6	5.4	-3.9	-6.0	0.1	0.9	-3.3	-7.3
Dominican Republic	2.6	1.5	-1.1	2.6	-2.0	-4.5	-0.4	-4.2
Uruguay	5.5	0.8	-10.6	-6.7	-1.9	-0.9	5.9	-13.6

Source: ECLAC, on the basis of official calculations of the gross domestic product. The population figures used are the CELADE estimates published in the *Demographic Bulletin*, vol. XIX, No. 38, July 1986.

"Preliminary figures.

Refers to global social product.

the government in an effort to cancel out the impact of the drop in petroleum prices on domestic activity. In line with these policies, the special incentives for agricultural products were maintained, and increases were made in the expenditures provided for under the special investment plan for the 1985-1987 period which, mainly for administrative reasons, had been carried out only to a very limited degree in 1985.

The domestic product also increased at relatively satisfactory rates in Colombia, Chile and Uruguay. In contrast to the cases of Argentina, Brazil, Peru and Venezuela, the three countries' economic expansion was accompanied by considerable increases in exports and by significant improvements in their external accounts.

The recovery which had begun in the Uruguayan economy during the last quarter of the preceding year gathered speed in 1986. After having fallen continually since 1982, in 1986 the gross domestic product recorded its first significant increase (6.7%) in the last five years. This expansion of economic activity was mainly accounted for by the highly favourable turnaround which took place in the external sector. After having shrunk by almost one-third between 1981 and 1985, the value of exports of goods rose by 27% in 1986, thanks to the progress made by both traditional and non-traditional exports as well as the extraordinary growth of sales to the European Economic Community (70%) and, above all, to Brazil (135%). The increase in exports made possible a

Table 4
LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY BRANCHES OF
ECONOMIC ACTIVITY AT 1980 MARKET PRICES

(Growth rates)

	Agriculture		Mining and quarrying		Manufacturing		Construction		Subtotal, goods		Basic services		Other services	
	1985	1986°	1985	1986°	1985	1986°	1985	1986°	1985	1986°	1985	1986°	1985	1986°
Latin America	3.9	-2.2	0.4	-0.3	2.7	6.4	3.6	5.8	2.8	3.4	3.4	4.1	2.3	3.4
Argentina	-1.7	-0.9	-2.7	-0.5	-10.5	12.8	-6.8	8.8	-7.5	7.9	-2.1	5.2	-2.8	4.6
Bolivia	3.1	-1.9	-11.9	-19.4	-9.2	1.0	2.6	-0.8	-4.3	-6.5	0.9	12	0.1	-0.2
Brazil	8.8	-7.3	11.5	-3.7	8.2	11.3	11.3	17.7	8.8	7.1	8.7	6.5	6.5 ^e	7.2 ^e
Colombia	0.1	2.1	26.6	27.1	2.3	7.7	3.4	-5.8	3.2	5.6	2.2	6.3	1.8	4.6
Costa Rica	-2.9	0.8	-	-	3.2 ^h	7.1 ⁱ	13	13	0.1	3.6	-1.9	5.8	2.0	4.0
Cuba ^j	0.9	2.9	-	-	1.5 ^k	1.5 ^k	15	0.9	5.3	1.5	15 [*]	0.3 [*]	3.6 [*]	0.6 [*]
Chile	5.6	8.8	2.2	14	12	8.0	16.1	13	3.9	5.8	4.8	7.5	1.8	4.1
Ecuador	9.3	7.8	8.5	4.9	-0.5 ^l	-0.7 ^l	19	-5.0	6.3	3.5	4.6	7.5	2.7	12
El Salvador	-1.1	-4.9	-	2.6	3.7	2.1	4.6	4.4	0.8	-2.0	3.1	1.9	2.5	13
Guatemala	-0.8	-0.2	-14.5	29.2	-0.2	0.3	-9.6	2.4	-1.2	0.3	1.8	1.6	-1.0	-
Haiti	1.1	2.4	18.0	-10.2	-2.9	-2.9	12.7	-6.0	1.2	-0.1	-4.6	3.3	1.2	0.2
Honduras	2.9	1.6	2.3	-4.5	-2.3	1.6	-1.8	-8.3	0.8	0.2	1.2	2.3	2.7	4.0
Mexico	3.8	-2.1	-0.7	-5.8	5.8	-5.6	3.0	-9.1	3.9	-5.4	3.2	-1.0	0.9	-2.7
Nicaragua	-4.8	-5.4	-21.3	31.5	-4.7	1.6	10.0	1.0	-4.1	-1.4	-9.3	2.0	-4.7	-0.1
Panama	4.8	-1.9	-3.9	4.0	1.8	2.2	-1.1	5.0	2.4	1.1	6.5	2.3	3.6	3.4
Paraguay	4.6	-6.1	4.5	11.9	5.0	-1.4	-1.0	1.0	4.1	-3.8	5.4	7.1	3.7	3.0
Peru	3.2	4.5	4.8	-4.0	6.8	14.9	-10.2	24.3	3.6	7.7	1.4	7.5	4.5	7.8
Dominican Republic	-4.8	-2.1	-0.1	-11.3	-5.0	3.9	-15.4	15.5	-6.0	1.2	-2.1	3.0	1.4	2.4
Uruguay	4.5	3.2	18.9	-3.4	-1.6	12.1	28.2	-1.5	-2.5	8.3	-	9.2	1.7	4.9
Venezuela	5.7	6.0	-4.5	7.3	2.2	5.1	-4.1	15.8	-0.7	6.8	4.4	5.1	-0.6	3.4

Source: ECLAC, on the basis of official figures.

^hPreliminary figures.

ⁱExcluding Cuba.

^jDoes not include real estate or social and personal community services.

^kIncluding mining and quarrying.

^lRefers to

social product.

^mIncludes fisheries, mining and quarrying and electricity.

ⁿIncludes transport and communications only.

^oIncludes commerce and other productive activities

in the non-material sphere.

^pIncludes petroleum refining which official figures include under crude oil extraction.

considerable expansion of the volume of imports, which had undergone a huge drop (54%) during the five preceding years and whose extremely low level had come to be the main factor hampering economic recovery. Owing to the fall in the price of petroleum, however, the increase in the value of imports was much less than that of exports. Thus, at the same time that the main constraint on renewed growth eased considerably, the trade surplus expanded. The turnaround in the country's external accounts—to which lower payments of interest and profits also contributed—had a favourable impact on the expectations of economic agents as well. Because of this and of the rise in real wages, both private investment and household consumption made a partial recovery from their huge drops of the preceding four years.

In Chile overall economic activity increased by 5.5%, thereby almost regaining its pre-crisis level. However, due to the increase in the population, the per capita product was still 8% lower than in 1980-1981. As in the preceding two years, growth was mainly accounted for by the sectors producing internationally tradeable goods, whose expansion was spurred by the high real effective exchange rate and by the protection provided for certain agricultural and industrial activities by the policies of agricultural pricebands, tariff surcharges and incentives for minor export items.

In Colombia, where the product grew by 5.4%, the main force galvanizing the economy was the exceptional expansion of exports. One contributing factor was that the fall in Brazilian coffee production sent the international price of coffee up sharply, and Colombia was thus able to increase considerably the volume of its coffee sales. In addition, its exports of coal and petroleum rose substantially as the major investments made in previous years began to bear fruit. As a result, mining grew by 27% for the second year running. In addition, the high level of the real exchange rate stimulated external sales of manufactures. Thus, the total value of exports of goods rose by 49%. The higher earnings of the export sector helped to expand domestic demand, particularly in coffee-producing regions, as well as stimulating industry and commerce.

In contrast to the rapid growth of the gross domestic product in the countries mentioned above, economic activity expanded only moderately in Ecuador, increased very little in the Dominican Republic and Cuba, remained stagnant in Haiti and Paraguay and fell in Bolivia. In all these countries except the Dominican Republic, the fundamental causes of their unsatisfactory economic performance were to be found in quite serious exogenous disturbances. While in Paraguay a severe drought had an adverse effect on the agricultural sector (by far the most important sector in the economy and one whose ups and downs have a decisive impact on its overall performance), Ecuador suffered the consequences of the precipitous fall in the price of petroleum (a product which accounted for almost two-thirds of its merchandise export earnings in 1985) and Bolivia felt the effects of the collapse in the international price of tin and the drop in the price it received for its sales of natural gas, especially since these two products, taken together, generate more than 80% of its export income. Cuba's economic activity was also hurt by the drop in the international price of petroleum—which considerably reduced the value of its re-exports of fuel—and by adverse weather conditions which caused a notable decrease in sugar production. Mainly on account of these changes, import capacity fell sharply, with the consequent detrimental effect on the country's possibilities of economic growth.

The decline in the international price of petroleum affected the performance of the Ecuadorian economy as well; while it had grown at an average rate of almost 5% during the preceding two years, it expanded by only 3% in 1986, a rate similar to that of its population growth. This slowdown sprang from the sharp drop in the growth of petroleum production (from more than 9% in 1985 to 2.5% in 1986), the stagnation of manufacturing and the downturn in construction, whose effects were not offset by the satisfactory performance of the agricultural sector for the third year running.

In the Dominican Republic economic activity increased by less than 2%, as a result of which the per capita product fell for the fourth time in the last five years. The slight increase in overall production was mainly accounted for by the recovery of construction—which rose by more than 15% after having fallen by a similar percentage in 1985—as well as by a moderate upturn in manufacturing. Agriculture and mining declined, however, for the second year in a row. In Cuba, the global social product rose by just 1.4%, the lowest rate recorded in the last six years. The fall in imports—the first to take place in the 1980s—and the shrinkage of investment were particularly important factors in the economy's loss of dynamism. The expansion of economic activity was even weaker (0.6%) in Haiti, which thus saw its per capita product drop for the sixth year running.

The pronounced deterioration in the external environment also contributed to the decline of some 3% in Bolivia's economic activity. The international price of tin, which had already decreased

during the preceding two years, fell to less than half its former level in 1986 as a result of the suspension of the activities of the International Tin Council. Both as a result of this huge drop and as a means of reducing the losses of the State mining sector, operations in a number of mines were either cut back or closed down. Consequently, mining production fell by nearly 20% in 1986; this drop, when taken together with those of the preceding four years, meant that production shrank by more than 50% between 1982 and 1986. The consequences of the steep decrease in the price of tin were compounded by the drop in the price of natural gas and by the negative impact on agricultural production of the floods and adverse weather conditions which prevailed during the first half of the year. In addition, the depressed purchasing power of wage-earners and the high level of real interest rates resulting from the country's stabilization programme, together with keener competition from imported goods, helped account for the slump in industrial production.

The highly unsatisfactory trend of economic activity in the countries of Central America continued in 1986; in all of these countries except Costa Rica and Panama, the per capita product once again fell. In contrast to the situation of the petroleum-exporting countries, this downturn coincided with an improvement in the Central American countries' terms of trade which was due to the rise in the international prices of coffee, bananas and sugar and the collapse of oil prices. Furthermore, most of them saw a decrease in the interest payments on their external debts. However, these changes failed to offset the damage wrought by five years of economic recession and the weakening of intra-regional relations. This situation was further intensified by the uncertainty arising from the serious social and political tension prevalent in most of the countries of the subregion together with the harmful repercussions of the persistence or deepening of inflation in a number of them.

Finally, the gross domestic product fell by almost 4% in Mexico, mainly on account of the sharp contraction of petroleum exports, whose value plummeted by nearly 60% due to the drop in oil prices and an almost 11% shrinkage in the volume exported. In order to counteract the impact of this sharp deterioration in the terms of trade, the government launched an adjustment programme which

Table 5

LATIN AMERICA: TOTAL SUPPLY, DOMESTIC DEMAND
AND GROSS NATIONAL INCOME"

	Indexes (1980 = 100)			Growth rates					Cumulative variation 1981-1986"
	1984	1985	1986	1982	1983	1984	1985	1986 ^o	
1. Total supply (2 + 3)	95.5	97.9	101.8	-3.8	-4.7	3.8	2.5	4.0	1.8
2. Gross domestic product at market prices	99.6	102.3	106.1	-1.4	-2.4	3.7	2.7	3.4	6.1
3. Imports of goods and services	67.5	68.1	72.9	-19.5	-23.1	5.6	0.8	7.0	-27.1
4. Exports of goods and services	125.8	125.9	124.1	-0.2	9.9	7.2	0.1	-1.4	24.1
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	91.5	94.1	98.8	-4.4	-6.9	3.2	2.9	5.0	-1.2
6. Final consumer expenditure"	98.0	100.6	105.3	-2.0	-3.9	4.0	2.6	4.7	5.3
7. Gross fixed capital formation	68.3	71.3	76.0	-23.0	-19.1	-0.6	4.4	6.5	-24.0
8. Terms-of-trade effect	...	...	...	...	...	...	...	...	...
9. Net factor payments to rest of world	200.9	194.3	181.0	39.8	-6.0	6.0	-3.3	-6.9	81.0
10. Real gross national income	94.8	97.1	100.4	-4.6	-2.8	4.3	2.5	3.4	0.4

Source: ECLAC, on the basis of official data.

"Nineteen countries.

Preliminary figures.

Includes variation in stocks.

Table 6

**LATIN AMERICA: RELATIVE SHARES OF COMPONENTS OF
GROSS DOMESTIC PRODUCT AND OF GROSS NATIONAL
INCOME AT 1980 MARKET PRICES^a**

(PIB = 100)

	Total final consumer expend- iture ^b	Gross fixed capital formation	Domestic demand	Exports of goods and services	Imports of goods and services	Terms- of-trade effect	Net factor payments to rest of world	Real gross national income
1971- 1975	76.8	20.8	97.6	15.1	12.7	-3.4	-1.7	94.9
1976- 1979	77.7	22.5	100.2	13.4	13.6	-1.1	-2.0	96.9
1980	79.0	22.3	101.3	13.5	14.8	-	-2.4	97.6
1981	79.0	21.8	100.8	14.5	15.3	-0.7	-3.4	95.9
1982	78.7	19.2	97.9	14.6	12.5	-2.4	-4.8	92.8
1983	77.3	16.0	93.3	16.5	9.8	-3.0	-4.7	92.3
1984	77.6	15.3	92.9	17.1	10.0	-2.4	-4.8	92.8
1985	77.7	15.6	93.3	16.6	9.9	-2.9	-4.5	92.6
1986 ^c	78.4	16.0	94.4	15.8	10.2	-3.8	-4.0	92.2

Source: ECLAC, on the basis of official figures.

^aNineteen countries.

^bIncludes variation in stocks.

^cPreliminary figures.

included major innovations in respect of the plans usually agreed upon with the International Monetary Fund, adopted a highly restrictive monetary and credit policy and introduced new cutbacks in public sector expenditure. As a result of these measures and of the further decline in real wages, domestic demand fell, industrial production dropped by almost 6% —in spite of the extremely rapid growth of exports of manufactures— and activity in the construction sector slowed by 9%.

2. Total supply and demand and the domestic availability of goods and services

Following upon its 2.5% increase in 1985, total supply went up by 4% in 1986. This rise was due to both the greater dynamism of domestic economic activity and a much faster expansion of imports, which increased by 7% in volume as against less than 1% in 1985 (see table 5). As a result, the import coefficient rose slightly after having fallen during the previous three years to the lowest levels recorded in the entire postwar period. Nevertheless, because of the huge drop which had taken place between 1982 and 1983, the volume of imports was still 27% lower than in the years prior to the crisis and was equivalent to barely 10% of the gross domestic product (see table 6).

Partly as a result of the upturn in imports and partly as a result of the shrinkage in the volume of exports, the domestic availability of goods and services rose at a faster rate than the product for the second year running. Even so, it was still below the level it had reached at the beginning of the decade. Due to this fact and, even more importantly, to the region's demographic growth, the per capita availability of goods and services —which in the final reckoning is what determines the real standard of living of the population— was 14% lower in 1986 than in 1980.

As in the preceding year, the greater availability of goods and services made it possible to increase both consumption and fixed capital investment. However, as a result of the huge drop (-32%) observed in such investment in 1981-1984, it was still 24% lower in 1986 than in 1980. For the same reason, even though the investment coefficient was higher than it had been in the preceding two years, it was nonetheless 25% below the average for the 1970-1980 period and was one of the lowest recorded in the last 40 years.

The shrinkage in investment was, moreover, an extremely generalized phenomenon. Indeed, gross fixed capital formation during the 1984-1986 period exceeded that of the 1979-1981 period only in Colombia, Haiti and Nicaragua. In all the other countries fixed investment has been far lower in the last three years than it was at the beginning of the decade. The decrease in fixed capital formation reached particularly vast proportions in Bolivia, Venezuela and Guatemala and, above all, in Argentina and Uruguay (see table 7 and figure 2).

On account of the deterioration in the terms of trade and of the high level of net external factor payments, fixed investment also continued to represent a far lower proportion of the gross domestic product than domestic savings. In fact, even though net payments of interest and profits fell for the second year running, they were nonetheless equivalent to 4% of the gross domestic product and absorbed almost one-quarter of domestic savings (see table 8). Moreover, the impact of the decrease in these payments was more than offset by the deterioration in the terms of trade. Consequently, the gap between the domestic product and national income continued to widen and represented almost 8% of the former.

III. EMPLOYMENT AND UNEMPLOYMENT

In 1986 urban unemployment fell for the second year in a row. In the 25 most heavily populated cities in Latin America as a group, the rate of unemployment declined to 6.4%, the lowest level recorded since 1981 (see table 9).

Nevertheless, as in 1985, this drop was the net outcome of the quite different changes which took place in the various countries for which information was available. While the rates of unemployment fell sharply in Brazil, Chile, Panama, Peru, Uruguay and Venezuela and slightly in Argentina

Table 7

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION

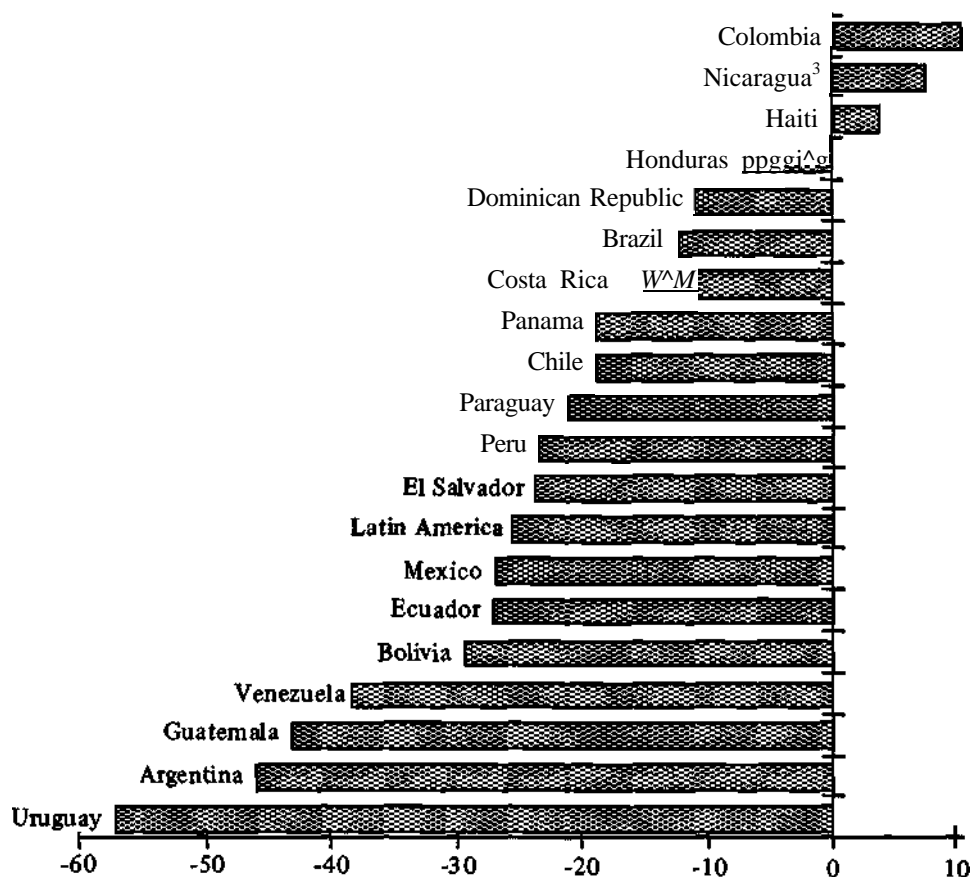
(Indexes 1980= 100)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986°
Latin America	87.2	88.9	93.3	100.0	97.7	85.0	68.8	68.4	71.4	76.0
Argentina	102.0	88.9	95.0	100.0	82.4	59.8	56.7	51.5	46.4	51.5
Bolivia	128.7	141.1	124.8	100.0	97.6	85.0	81.1	75.1	74.9	77.3
Brazil	85.4	88.1	92.2	100.0	86.8	82.1	68.1	70.9	79.2	94.3
Colombia	77.9	85.2	88.4	100.0	106.3	109.5	110.8	112.1	108.4	105.1
Costa Rica	88.6	95.8	110.5	100.0	75.1	54.3	58.7	74.1	77.7	84.7
Chile	59.9	70.3	82.1	100.0	116.8	77.2	65.7	71.6	82.2	88.0
Ecuador	83.5	94.6	94.3	100.0	92.8	93.5	69.0	65.9	70.3	72.5
El Salvador	160.5	164.7	139.0	100.0	89.2	80.3	74.3	76.0	83.8	90.0
Guatemala	109.0	117.0	111.0	100.0	107.8	96.1	70.1	61.9	59.1	59.7
Haiti	85.7	89.7	107.2	100.0	117.5	100.9	102.3	105.6	116.8	115.0
Honduras	75.5	93.1	91.1	100.0	77.3	63.8	73.1	87.9	84.8	75.7
Mexico	62.9	72.4	87.1	100.0	114.8	96.5	69.6	73.4	78.1	68.7
Nicaragua	203.9	113.1	39.7	100.0	160.1	129.3	135.4	138.3	139.9	142.0
Panama	67.0	83.1	82.1	100.0	116.7	117.8	90.2	83.1	77.6	81.2
Paraguay	56.6	68.7	82.2	100.0	118.0	96.3	79.1	74.7	80.0	82.1
Peru	95.3	78.6	82.1	100.0	116.2	113.8	80.8	75.8	68.8	83.2
Dominican Republic	84.7	84.2	95.7	100.0	91.5	81.2	85.6	85.0	83.1	86.8
Uruguay	69.1	79.1	94.1	100.0	97.0	82.6	55.5	48.2	36.7	39.7
Venezuela	146.7	146.3	117.0	100.0	103.1	99.2	73.1	59.3	63.6	73.7

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

Figure 2
 LATIN AMERICA: GROSS FIXED CAPITAL INVESTMENT
 (Percentage variation 1984-1986 average / 1979-1981 average)



Source: ECLAC, on the basis of official data.

³Percentage variation of 1984-1986 average in respect of 1980-1981 average. Data for 1979 were not included due to the enormous drop in investment occurring in that year.

and Colombia, they remained unchanged in Costa Rica and Mexico and rose in Bolivia, Ecuador, Guatemala, Honduras, Paraguay and Nicaragua (see figure 3).

The most noteworthy improvements in the employment situation occurred in Brazil and Peru, which were also the two countries of the region in which economic activity increased most vigorously. The average rate of unemployment in the six largest cities in Brazil—which had already fallen from 7.1% to 5.3% between 1984 and 1985—dropped to just 3.9% in 1986—the lowest level ever recorded—and had decreased to less than 3% by the end of the year in Rio de Janeiro, Sao Paulo and Porto Alegre (see table 10). Although employment increased in all sectors, it rose particularly steeply in the construction sector, where unemployment was almost halved, and was thus brought down to the same rate as the also very low level recorded in commerce (see table 11).

A marked decline also occurred in unemployment in Peru. In the case of non-agricultural activities, the rate of unemployment fell from the unprecedented level of almost 12% recorded the preceding year to slightly over 8% in 1986, the lowest figure in the last 10 years. This decline was largely accounted for by the decrease which took place in Lima, where unemployment fell from 10% in 1985 to 5.4% in 1986 (see figure 4). These changes were not only the result of the vigorous

expansion of domestic activity, but also reflected the effects of the determined employment policy applied by the government. In 1986, government job-creation programmes provided employment for 3% of the labour force in the country as a whole and almost 5% of the economically active population in Lima. The first of these, the Temporary Income Support Programme (PAIT), was set up in September 1985 with the aim of improving income distribution and allows public investment projects to be carried out through the hiring of mostly unskilled workers who are paid the equivalent of the minimum wage. In July 1986 another programme, known as the Emergency Employment Programme (PROEM), was added which gives temporary incentives to private firms in order to encourage them to hire additional manpower. In 1986 these programmes provided jobs for 150 000 and 35 000 people, respectively, more than half of them in Metropolitan Lima. As a result, employment expanded in all sectors for the first time since 1981. Nevertheless, a simultaneous increase occurred in hidden underemployment, which affected almost 39% of the labour force, the highest figure recorded in the country (see table 12).

In Chile and Uruguay, the rates of unemployment—which had risen extremely sharply in 1982-1983—fell steeply for the third year running (see figure 3). In Chile unemployment nationwide went down from an average of almost 13% in 1985 to 10.5% in 1986 and was slightly below 9% in the last quarter of the year, while in the capital it fell from 16.3% to 13.5%. These downturns occurred in spite of the simultaneous reduction in government job-creation programmes, which accounted for 5% of the labour force as against 7.3% in 1985 and 13.6% in 1983. In Uruguay the rate of unemployment—which had fallen gradually during the previous two years—had dropped to 9.2% by the end of 1986, the lowest level recorded since late 1981. The vigorous recovery of overall economic activity and, in particular, the revival of construction in the closing months of the year were important factors in this decrease.

Rates of urban unemployment also declined significantly in Venezuela (from 14.3% to 11.3%) and in Panama (from 12.3% to 10.2%). In the case of Venezuela, this put an end to the rising trend in

Table 8

LATIN AMERICA: FINANCING OF GROSS CAPITAL FORMATION

	1980	1981	1982	1983	1984	1985	1986"
Coefficients in respect of gross domestic product							
1. Gross domestic savings	24.5	23.3	22.7	22.5	21.8	21.8	22.7
2. Net external factor payments	1.7	2.0	2.4	3.4	4.8	4.7	4.8
3. Unrequited private external transfer payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1
4. Terms-of-trade effect	-3.4	-1.0	-	-0.7	-2.4	-3.0	-2.5
5. Gross national savings (1-2 + 3 + 4)	19.6	20.4	20.4	18.5	14.7	14.2	15.7
6. External savings	2.7	3.1	3.6	4.8	5.0	1.0	0.0
7. Gross capital formation (5 + 6)	22.3	23.5	24.0	23.3	19.7	15.2	15.7
Coefficients							
Domestic savings/Gross capital formation	111.1	99.3	94.7	96.6	111.1	143.8	144.8
Deterioration in terms of trade/ Domestic savings	13.5	4.5	-	3.3	10.8	13.7	10.6
Net external factor payments/ Domestic savings	6.7	8.5	10.4	15.1	22.2	21.3	20.9

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 9

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986"
Latin America"	7.4	6.8	6.0	6.2	6.6	7.0	8.1	8.2	7.5	6.4
Argentina'	3.3	3.3	2.5	2.6	4.7	5.3	4.6	4.6	6.1	5.2
Bolivia				5.8	9.7	10.5	14.2	15.1	18.0	20.0
Brazil'		6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3	3.9
Colombia	9.0	9.0	8.9	9.7	8.2	9.3	11.8	13.5	13.9	13.5
Costa Rica*	5.1	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.8	6.7
Chile*	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3	13.5
Ecuador'			5.4	5.7	6.0	6.3	6.7	10.6	10.4	12.0
Guatemala'				2.2	2.7	4.7	7.6	9.7	12.9	14.5
Honduras'				8.8	9.0	9.2	9.5	10.7	11.7	12.0
Mexico'	8.3	6.9	5.7	4.5	4.2	4.1	6.7	6.0	4.8	4.8
Nicaragua				22.4	19.0	19.9	18.9	21.1	20.9	22.1
Panama		9.6	11.6	9.9	11.8	10.1	11.7	12.4	15.6	12.2
Paraguay ¹ "	5.4	4.1	5.9	4.1	2.2	5.6	8.4	7.4	5.2	6.1
Peru"	9.4	10.4	11.2	10.9	10.4	10.6	9.2	10.9	11.8	8.2
Uruguay"	U.8	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1	10.7
Venezuela"	5.5	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3	11.3

Source: ECLAC and PREALC, on the basis of official figures.

"Preliminary figures. 'Weighted average for the 25 most populous cities in Latin America, except for Havana, Santo Domingo, Fortaleza, Guayaquil, San Juan (Puerto Rico) and Guatemala City (for want of comparable data). 'Nationwide urban rate, April-October average; 1986: October only. "National total. 'Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Twelve-month average; 1980: June-December average. ^ Bogotá, Barranquilla, Cali and Medellín. Average for March, June, September and December; 1985: average for March, July, September and December; 1986: average for April, June, September and December. * Nationwide urban rate. Average for March, July and November; 1984: average for March and November; 1986: average for March and July. * Greater Santiago. Average for March, June, September and December. 'National total, according to official estimates. 'Metropolitan areas of México City, Guadalajara and Monterrey. Four-quarter average. * National average. Metropolitan region. August of each year except 1977-1979, for which data refer to nationwide urban unemployment; 1980: on the basis of data from the national census taken in February. "Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo; 1981: first semester; 1982: first quarter; 1983: average for September, October and November; 1984: average for August, September and October; 1985: November-December average; 1986: annual average. "Non-agricultural activities. "Montevideo. Two-semester average; as from 1981, four-quarter average. 'Nationwide urban rate. Two-semester average; 1986: second semester.

unemployment observed since 1979 which had gone hand in hand with a steady decline in economic activity since that same year. The improvement of the employment situation was particularly influenced by the marked recovery in construction, following nine years of unremitting decline, and the less pronounced but nonetheless significant upturns in mining, manufacturing and commerce.

The fall in unemployment in Panama also marked a halt in its upward trend of the preceding four years. However, this change coincided with a fairly pronounced drop in the participation rate, which was apparently associated with the shift of part of the labour force to the informal sector (see table 13).

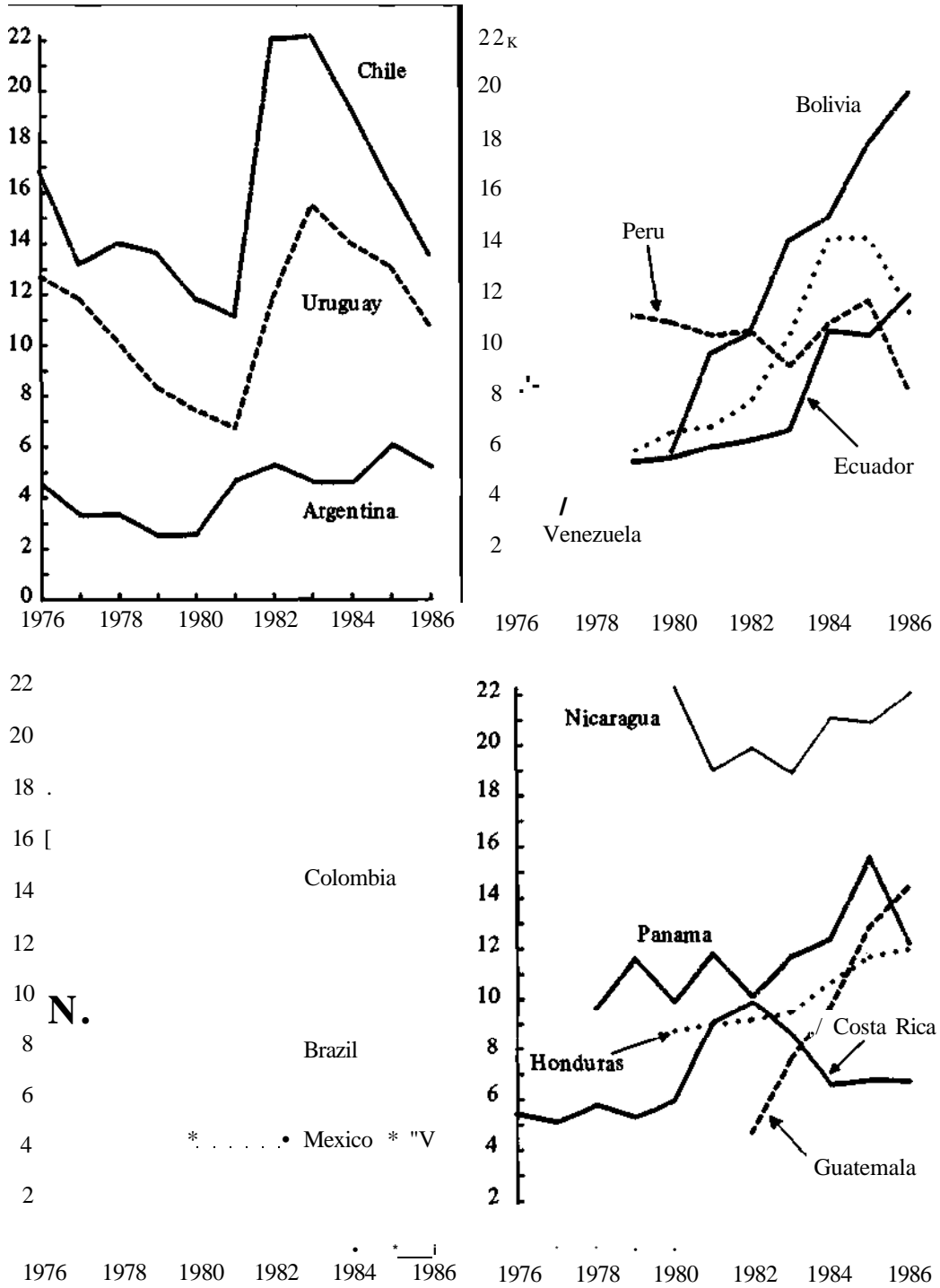
The drop in urban unemployment was considerably more moderate in Argentina and Colombia. In the former, it fell from 6.1% in 1985 to 5.2% in 1986, primarily as a result of the decrease in unemployment in Greater Buenos Aires and Rosario, which more than offset the rises which occurred in Córdoba, Mendoza and Tucumán.

In Colombia the average level of unemployment fell slightly (from 139% to 135%), but was nonetheless considerably higher than the figure recorded at the beginning of the decade (see figure 3). Until the middle of the year unemployment continued to rise in all the country's main cities, with the exception of Cali, due to the fact that the increase in employment brought about by the

Figure 3

LATIN AMERICA: URBAN UNEMPLOYMENT IN SELECTED COUNTRIES

(Annual average rates)



Source: ECLAC, on the basis of official data.

Table 10

**LATIN AMERICA AND THE CARIBBEAN: UNEMPLOYMENT
RATES IN MAJOR CITIES**

	1980	1981	1982	1983	1984	1985	1986°	1985				1986°			
								I	II	III	IV	I	II	III	IV
Latin America	6.2	6.6	7.0	8.1	8.2	7.5	7.0	8.2	7.7	7.5	6.5	7.1	6.9	6.4	5.7
Argentina ^A															
Buenos Aires	2.3	4.5	4.7	4.2	3.8	5.3	4.6		5.7		4.9	4.8		4.4	
Cordoba	2.4	3.8	4.4	5.0	4.8	5.0	5.8		5.3		4.1	6.4		5.1	
Greater Mendoza	2.3	4.8	4.1	4.5	3.5	3.7	4.2		3.6		3.7	4.9		3.4	
Greater Rosario	3.4	5.8	8.4	6.3	6.5	10.7	7.0		10.9		10.2	6.8		7.2	
Brazil															
Rio de Janeiro	7.5	8.6	6.6	6.2	6.8	4.9	3.7	6.0	5.4	4.5	3.6	4.0	3.9	3.5	2.6
São Paulo	5.6	7.3	6.0	6.8	6.8	5.0	3.3	6.1	5.7	4.8	3.5	4.2	3.7	3.1	2.4
Recife	6.8	8.6	7.5	8.0	9.0	7.2	4.6	7.8	8.4	7.3	5.3	4.9	5.0	4.4	3.3
Porto Alegre	4.6	5.8	5.2	6.7	7.0	5.4	4.4	5.8	6.2	5.6	3.9	4.7	4.5	3.7	2.6
Colombia ^A															
Bogotá	7.9	5.5	7.4	9.4	12.2	12.8	13.2	13.7	13.2	12.6	11.7	14.3	14.2	12.6	11.5
Barranquilla	8.1	11.1	10.4	13.8	13.0	15.7	16.4	14.3	17.9	17.5	13.1	16.0	18.1	15.8	15.6
Medellin	14.7		13.3	17.0	16.4	16.0	15.2	16.1	16.5	15.6	15.7	15.1	17.2	14.6	14.0
Cali	10.0		9.6	11.6	13.3	14.4	12.7	13.4	15.4	15.2	13.7	12.4	13.5	12.6	12.1
Mexico															
Mexico City	4.3	3.9	4.0	6.3	5.8	4.9	5.1	5.7	4.3	5.2	4.4	4.9	4.4	5.8	5.1
Guadalajara	5.0	5.8	5.0	7.4	6.1	3.4	3.2	3.9	3.5	3.9	2.4	2.6	2.6	4.2	3.4
Monterrey	5.2	4.2	4.9	9.8	7.5	5.4	5.4	6.9	5.1	5.4	4.0	5.0	4.8	6.0	5.6
Paraguay [*]															
Asunción	3.9	2.2	5.6	8.4	7.4	5.2					5.2				6.1
Venezuela															
Caracas	6.7	5.7	7.0	10.5	11.3	13.2			13.2						
Peru ¹															
Lima	7.1	6.8	6.6	9.0	8.9	10.4	5.4						5.4		
Uruguay ¹															
Montevideo	7.4	6.6	11.9	15.5	14.0	13.1	10.7	13.7	13.2	13.6	12.0	12.0	10.7	10.9	9.2
Costa Rica															
San José	5.6	9.3	10.5	8.5	6.6	6.5		6.3		7.4	5.9				
Chile															
Santiago	11.8	11.1	22.1	22.2	19.3	16.3		18.0	16.2	17.4	13.8	14.5	15.4	13.5	10.6

Source: ECLAC, on the basis of official data.

^APreliminary figures. Weighted average for the 25 most populous cities in Latin America, except for Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guatemala City (for want of comparable data). Figures for April and October. ¹Twelve-month average; 1980: June-December average. ²Figures for March, June, September and December; 1985: March July, September and December; 1986: April, June, September and December. Quarterly averages. ³Includes Fernando de la Mora, Lambaré and the urban areas of Luque and San Fernando. Caracas Metropolitan area. Two-semester averages: 1985: first semester. ⁴Metropolitan Lima. 1985: official estimates. ⁵1980: two-semester average; 1981-1986: four-quarter average. ⁶Metropolitan area. Figures for March, July and November. ⁷Greater Santiago. Figures for March, June, September and December.

growth of the economy was offset by a simultaneous rise in the participation rate. However, as the expansion of economic activity gathered speed in subsequent months, an overall decline occurred in unemployment.

In spite of the slow growth of economic activity in Costa Rica and its shrinkage in Mexico, the average annual rate of urban unemployment remained unchanged in both of these countries. Nevertheless, in Mexico the overall employment situation worsened, particularly in the formal sector. During the course of the year employment in manufacturing fell by almost 4% (despite its 17% rise in in-bond assembly plants) and employment in construction had decreased by 38% up to

September. At the same time, the number of persons registered with the Mexican Social Security Institute was down 2% and a slight drop occurred in the participation rate.

In contrast, urban unemployment rose in the six other countries of the region for which data were available. In Paraguay, the increase over the relatively low level (5%) of the year before was moderate, and the country's gross domestic product fell by a very small amount due to the combined effect of the sharp drop in agricultural production, the partial recovery made by construction and the fairly rapid expansion which continued to be seen in services.

The increase in unemployment was also slight in Honduras but was more pronounced both in Ecuador and Guatemala. However, in these three countries the rises constituted a continuation of the regular upward trend in unemployment of previous years, and the rates were therefore not only extremely high, but also well above the levels which had been usual at the beginning of the decade (see table 9).

As in 1985, the highest rates of unemployment were those of Bolivia and Nicaragua. In Bolivia open unemployment affected the unprecedented proportion of one-fifth of the population and was well over three times the level recorded just six years earlier. The increase in unemployment was mainly the outcome of the serious crisis in mining and of the adjustment policy applied in the public sector with a view to balancing the central government's accounts and improving the competitiveness of State enterprises, which led to a decline in the number of civil servants and of workers in State enterprises.

Unemployment was even higher in Nicaragua, where it reached 22%, a somewhat higher level than those recorded in the two preceding years. This rise was due entirely to the increase in unemployment in non-agricultural activities (from 23% to 28%), since unemployment in agriculture fell markedly for the second year running.

IV. PRICES AND WAGES

1. Prices

Inflation was down sharply in Latin America in 1986. The average rate of consumer price increases, weighted by population, which had increased steadily during the preceding six years and which had attained the record level of 275% in 1985, fell to 65%..

Table 11

LATIN AMERICA (SELECTED COUNTRIES): URBAN UNEMPLOYMENT IN THE MAIN SECTORS OF ECONOMIC ACTIVITY

(Annual average rates)

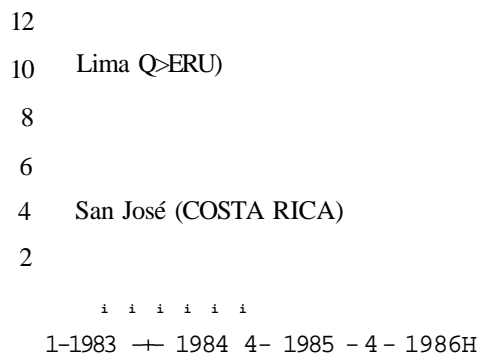
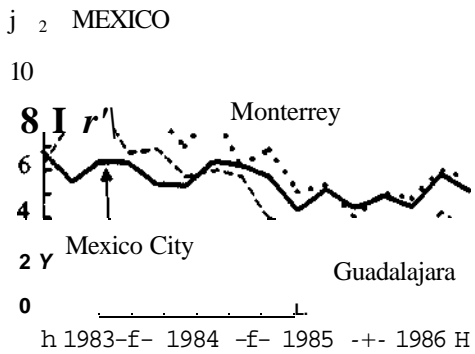
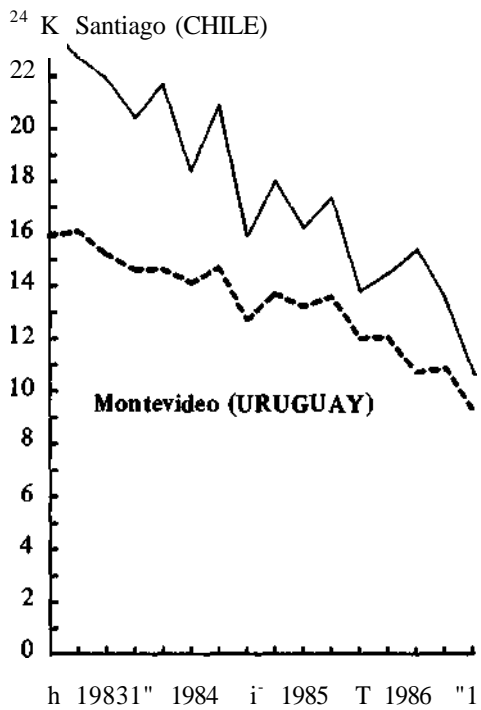
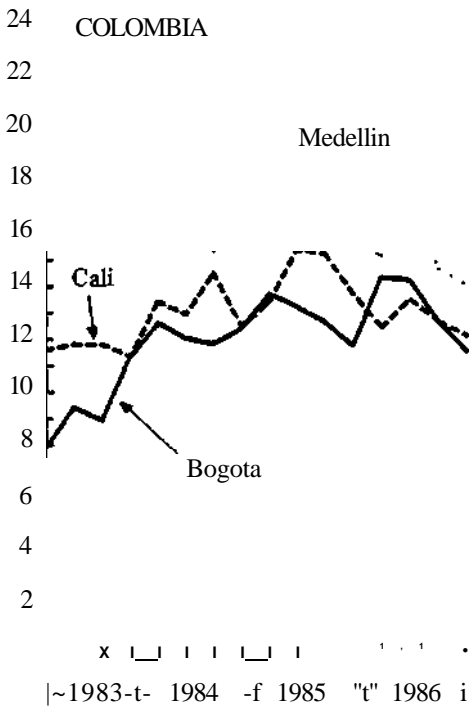
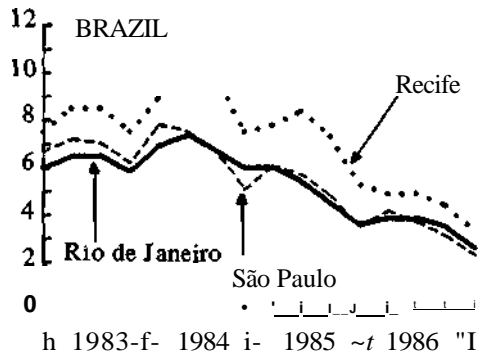
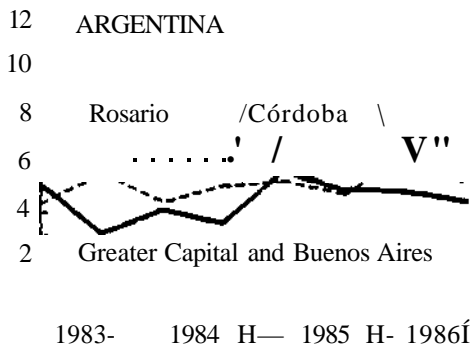
	Manufacturing			Construction			Commerce		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Argentina"	3.8	6.3		8.9	12.7		4.3	4.9	
Brazil"	7.1	5.2	3.7	12.8	7.7	4.0	6.5	5.6	4.0
Costa Rica ^f	6.4	4.7		14.0	8.4		6.6	6.3	
Chile"	19.5	14.9	12.9	34.9	27.9	25.1	13.1	11.1	9.7
Uruguay '	13.3	12.3	10.5	17.5	17.5	14.9	11.3	11.1	9.8
Venezuela	13.0	13.2	10.9	29.3	30.2	23.3	10.3	10.7	9.1

Source: ECLAC, on the basis of official data.

"Nationwide urban rate, April-October average; 1985: April. Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Twelve-month average; 1986: January-November average. ^fMetropolitan area of San José. Data refer to March of each year. Greater Santiago. Average for March, June, September and December. ^hMontevideo. Average for four quarters. Whole country. Average for two semesters.

Figure 4

LATIN AMERICA: UNEMPLOYMENT IN SOME MAJOR CITIES



Source: ECLAC, on the basis of official data.

Table 12

**LATIN AMERICA (SELECTED COUNTRIES): NON-VOLUNTARY
URBAN UNDEREMPLOYMENT**

(Average annual rates)

	1979	1980	1981	1982	1983	1984	1985	1986"
Visible underemployment^b								
Argentina'	4.0	5.6	6.4	6.8	4.8	4.6	6.0	6.3
Colombia	14.0	16.0	11.4	10.9	12.1	14.6		
Costa Rica'	13.8	15.6	19.3	24.2	17.6	16.4	13.7	
Peru ⁷	3.1	14	3.0	4.0	3.8	2.9		4.0
Invisible underemployment*								
Brazil"				7.8	8.5	9.7	9.7	
Costa Rica'		10.2	10.0	21.5	12.1	8.1	13.4	
Peru ⁷	28.6	24.2	21.4	24.0	29.5	33.9		38.8

Source: ECLAC, on the basis of official data.

"Preliminary figures. Percentage of the labour force that would be willing to accept a longer working day than at present. Greater Buenos Aires, April-October average. Bogotá, Barranquilla, Cali and Medellin. Average for March, June, September and December; 1984: average for March, June and December. 'National urban total. Average for March, July and November; 1983: November only; 1984: average for March and November; 1985: March. Metropolitan Lima. Excluding home workers. 'Percentage of wage earners receiving less than the minimum wage. Weighted average for the metropolitan areas of Rio de Janeiro, Sab Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife; twelve-month average; 1982: second semester; 1985: first semester.

Table 13

LATIN AMERICA: GLOBAL PARTICIPATION RATES"

(Annual average rates)

	1980	1981	1982	1983	1984	1985	Wo*
Bolivia'	49.6	49.2	49.1	49.0	48.9	48.7	
Brazil	61.0	62.0	61.9	60.5	61.3	60.7	61.0
Colombia'	54.4	52.3	53.0	54.6	56.2	56.8	57.0
Costa Rica	50.2	49.3	50.9	48.7	48.7	49.3	
Chile*	50.7	51.7	51.7	52.2	52.5	52.3	52.5
Mexico	50.1	50.1	49.5	49.1	49.4	52.6	51.8
Panama'	51.6		53.7	56.1	56.1	56.9	55.5
Uruguay'	56.4	54.6	56.6	56.9	57.9	58.5	58.5
Venezuela	55.0	54.7	54.4	54.2	55.8	56.0	56.1

Source: ECLAC and PREALC, on the basis of official data.

"Economically active population as a percentage of population of working age, according to household survey data. The lower age limit varies slightly from one country to another (see corresponding footnotes).

'Preliminary figures. 'National total. Lower age limit 10 years. "Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Lower age limit 15 years. Average for 12 months; 1986: January-November average. 'Bogotá, Barranquilla, Cali and Medellin. Lower age limit 12 years. Average for March, June, September and December. 'National urban. Lower age limit 12 years. March of each year. 'Greater Santiago. Lower age limit 14 years. Average for March, June, September and December. Metropolitan areas of Mexico City, Guadalajara and Monterrey. Lower age limit 12 years. Average for four quarters; 1986: first quarter. 'National total. Lower age limit 15 years. 'National total. Lower age limit 14 years. Average for four quarters. National total. Lower age limit 15 years. Average for two semesters.

Table 14

LATIN AMERICA: CONSUMER PRICES*(Variations from December to December)*

Country	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Latin America"	40.0	39.0	54.1	56.1	57.6	84.8	131.1	185.2	275.3	64.9
Argentina	150.4	169.8	139.7	87.6	131.2	208.7	433.7	688.0	385.4	81.7
Bolivia	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5	66.0
Brazil	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3	228.0	58.6
Colombia	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.3	20.9
Costa Rica	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	11.1	15.3
Chile	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4	17.4
Ecuador	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4	27.4
El Salvador	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	30.8	30.4
Guatemala	7.4	9.1	13.7	9.1	8.7	2.0	15.4	5.2	31.5	25.6
Haiti	5.5	5.5	15.4	15.3	16.4	4.9	11.2	5.4	17.4	-11.4
Honduras	7.7	5.4	22.5	11.5	9.2	8.8	7.2	3.7	4.2	3.2
Mexico	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7	105.7
Nicaragua	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.3	747.5
Panama	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.4	0.1
Paraguay	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	23.1	24.1
Peru	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3	62.9
Dominican Republic	8.5	1.8	25.6	4.6	7.3	7.2	7.7	38.1	28.4	6.5
Uruguay	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0	70.6
Venezuela	8.1	7.1	20.5	19.6	11.0	7.3	7.0	18.3	9.0	12.9

Source: ECLAC, on the basis of official price indexes provided by the countries. In some cases, these data were supplemented with figures published by the International Monetary Fund, *International Financial Statistics*, May, 1987.

"The totals for Latin America represent the variations in the countries, weighted by their respective populations in each year.

Moreover, this fall was quite widespread. The rate of inflation slackened in 13 of the 19 economies for which data were available, and in most of them the drop was considerable. The downturn in inflation was particularly marked in Argentina, Peru, Brazil and above all Bolivia—the four countries which, together with Nicaragua, had experienced the sharpest inflation in 1985 (see table 14).

This progress notwithstanding, inflation continued to constitute a serious problem in most of the countries of Latin America. Indeed, while consumer prices fell in Haiti, they rose by less than 7% only in Honduras, Panama and the Dominican Republic. Inflation stood at levels well above the traditional rates in El Salvador, Guatemala and Paraguay, remained extremely high in Uruguay, spiraled in Mexico and reached almost 750% in Nicaragua. Moreover, during the second half of the year the downward trend followed by inflation since the third quarter of 1985 in Argentina and Peru was reversed, as also occurred towards the end of the year in Brazil.

Among those countries in which inflation slackened, the most spectacular slowdown occurred in Bolivia. This country—which in 1985 had suffered the first case of hyperinflation in the history of Latin America—saw the annual rate of increase in consumer prices fall steadily from the high of 23 500% recorded in September 1985 to 66% in December 1986. Moreover, two-thirds of this rate were accounted for by the very large increases occurring in the consumer price index during the first two months of the year, which were mainly attributable to the payment of bonuses, for which the necessary financing was not available, to government employees. Subsequently, the monthly variations in prices, although erratic, remained below 2% on average (see figure 5). This sharp reduction of inflation was the outcome of extremely strict fiscal and wage policies as well as of the notable stability of the exchange rate from February onwards, both in the official sector and on the parallel market.

Inflation also plummeted in Argentina, falling from 385% in 1985 to 82% in 1986. However, this decline conceals the considerable differences to be observed between the trends in inflation during these two years. While in 1985 inflation spiraled sharply until June before falling off steeply during the second half of the year as a result of the application of the Austral Plan, in 1986 the monthly price variations were small in January and February, but rose appreciably from March onwards and attained an average level of 6.6% in the second half of the year. As a result, after having fallen to 50% in June—the lowest figure recorded since December 1974—the annual variation in prices rose regularly in subsequent months. Nevertheless, during this period inflation remained considerably lower than prior to the application of the stabilization programme.

One factor which initially contributed to this turnaround in the trend was the changeover from the generalized freeze on prices, wages, utility rates and the exchange rate established by the Austral Plan to a more flexible system of price controls. Thus, in January a wage increase (valid for three months) of 5% in the public sector and of a maximum of 8.5% in the private sector¹ was granted, and at the beginning of April new rules relating to price adjustments were announced. In accordance with these rules, the exchange rate and public utility rates would periodically be raised by small percentages and price controls would be focused on a group of large enterprises through a system of agreements based on changes in costs. A decision was also taken to grant a further quarterly wage increase, and the trade unions and management were encouraged to begin talks aimed at setting basic wages which would incorporate the raises made in these remunerations in the preceding months. Such wages were henceforth to be renegotiated on a quarterly basis within "brackets" set by the government.

In practice, however, wage increases frequently exceeded official guidelines, a fact which led to a considerable rise in the real wage in industry during the second quarter. As a result, business enterprises' costs rose appreciably, and after a time firms transferred this increase to prices. This was, in turn, facilitated by the rapid expansion of the money supply, which increased at a monthly rate of approximately 7% between June 1985 and July 1986. Although this rapid growth of the means of payment did not initially have inflationary effects due to the considerable expansion in the demand for money prompted by the sharp diminution in the rate of price increases, it ultimately surpassed this demand and thus came to constitute a further inflationary factor. The pressure created by the rise in wages and the expansion of the means of payment was compounded by the fact that the demand for food rose faster than supply and, in particular, by the effects of the seasonal rise in the price of meat.

In an attempt to control the resurgence of inflation, at the end of August the government announced a set of measures which, in contrast with those applied during the first phase of the Austral Plan, were designed to gradually bring down the rate of price increases. They included, among others: increases of up to 3% in September in controlled industrial prices and in the rates charged by public enterprises, to be followed by progressively smaller rises in both during subsequent months such that by December the increases would be of 2%; an immediate 3% rise in the exchange rate and its subsequent readjustment by means of a system of small and periodic increases; a tighter monetary policy aimed at rapidly bringing down the growth rate of the means of payment; and a greater regulatory role for the government in wage negotiations between management and trade unions in order to ensure that the increases they agreed upon would be compatible with its gradual stabilization policy. The government also announced that these measures would be accompanied by a continuation of its efforts to diminish the public-sector deficit.

Thanks to these measures, the monthly variation in prices, which had verged on 9% in August, fell regularly in subsequent months, although at a slower rate than forecast by the authorities (see figure 4).

The slackening of the rate of price increases was also notable in Peru, although less so than in Bolivia and Argentina. As a result of the unorthodox stabilization plan implemented by the new government in August 1985, the annual rate of inflation fell from the all-time high of 192% recorded in that month to 63% in December 1986. This slowdown was largely due to the application of abroad programme of price controls, the decrease in production costs resulting from the lowering of interest rates, the reduction in the sales tax and the maintenance of a fixed exchange rate. In order to mitigate the harmful repercussions of the exchange policy on the international competitiveness of sectors producing tradeable goods, the government raised some tariffs, prohibited or restricted certain imports and authorized producers of non-traditional exports to change an increasing proportion of their foreign currency earnings at the highest exchange rate prevailing on the financial market. Partly as a result of these measures and partly on account of the inflationary pressure generated by the

public-sector deficit and the rise in wages, after having fallen to an average of 3 % in the last four months of 1985, monthly variations in consumer prices were around 4% in 1986. Consequently, the annual rate of inflation, which had fallen steadily since September 1985, began to pick up slightly a year later.

In order to deal with this situation, at the beginning of December the government announced a series of measures involving major changes in the stabilization policy hitherto applied. Henceforward most imports were to be paid for at the rate of exchange applying to financial operations (which was at the time 25% higher than the rate for commercial transactions). In addition, the authorities raised the proportion of income from exports that could be changed at the exchange rate prevailing in the financial sector and announced that in 1987 the rate of exchange would increase by 2.2% per month. They also announced that the price policy would henceforth be based on four groups of products. The prices of goods in the first group —made up of some 200 products, including, among others, food, medicines, gasoline and cement— were to be subject to controls; the prices of goods in the second group would be "regulated" and could not initially be increased by more than 6%-8%; the third group included public services and housing rents, whose prices were to be covered by special systems, while the last group was made up of goods whose prices were to be freely set by the market.

Inflation also slackened a great deal in Brazil. As a result of the Cruzado Plan —which came into effect at the beginning of March following an eight-month period of extremely sharp price increases— the monthly variation in consumer prices fell from an average of almost 13% between August 1985 and February 1986 to below 1.5% in the following nine months.

The basic assumption of the Cruzado Plan was that inflation in Brazil at that time was essentially the result of inertia. In other words, the plan was based on the idea that whatever the initial causes of price rises may have been in the past, in recent years they had mainly been the consequence of deeply-rooted inflationary expectations and of a widespread system of indexation. Under these circumstances, any alteration —either in demand or in supply— which, in theory, ought to cause a temporary increase in the level of prices, would, in practice, spark off a permanent increase in the rate of inflation. Furthermore, in the absence of exogenous changes, the effects of the system of indexation and of the interplay of inflationary expectations were such that price rises during a given period would tend to mirror those of the preceding period. This phenomenon was seen as the primary manifestation of the inertial, nature of the inflationary process.

With this basic assumption as its starting point, the plan provided for the elimination of the system of indexation and, among its other main measures, called for: a) the creation of a new currency —the cruzado— equivalent to 1 000 cruzeiros whose value in terms of the latter would rise at a rate of approximately 15% per month for a period of one year in order to prevent unjustified profits or losses on term contracts drawn up prior to the application of the plan; b) the freezing of all prices at their levels as of 27 February until such time as official lists of ceiling prices were published; c) the establishment of a fixed exchange rate of 13.84 cruzados to the dollar (the authorities emphasized, however, that this parity might be revised, depending on the changes which occurred in the external situation); d) the setting of wages at 8% above their real average level during the preceding six months, and the freezing of the minimum wage at a level 15% above its real average for the previous six months; and e) the elimination of the indexation of financial assets having terms of less than one year and the freezing for one year of rents and housing payments owed to the financial system.

With the application of these measures, consumer prices rose by an average of less than 1 % between March and July, while industrial production continued to show rapid growth and unemployment fell sharply. In fact, the main problem which emerged as a result of the application of the plan was not a shrinkage in economic activity, but rather the shortage of certain goods (such as meat, milk and automobiles) that was produced by the huge expansion of demand and by the fact that some prices were frozen at relatively low levels.

To counteract this situation, at the end of July the government decided to reduce consumer credit by 40%, levied a 25% tax on the sale of tickets for international travel and on dollars sold to Brazilian tourists, and introduced a levy in the form of compulsory loans on sales of gasoline and alcohol (equivalent to 28% of the price to the consumer) as well as on purchases of automobiles (30% on new cars, 20% on those with two years of use and 10% on vehicles up to four years old).

In spite of these steps and notwithstanding considerable increases in production and imports, monthly inflation rose slightly but systematically. Consequently, in an attempt to reduce excess demand and to correct the most striking distortions in the price system, in mid-November the

government announced a series of measures which, as a whole, were designed to reduce the public-sector deficit by the equivalent of 3% of the product. They included the following: a) readjustments of 80% in postal rates, of 35% in the price of electricity for residential consumption and of 10% in that used by industry, and of 30% in telephone and drinking-water rates; b) price increases of 80% for new automobiles, 60% for gasoline and gasohol, 25% for sugar, of from 45% to 120% for cigarettes and 100% for beverages; c) the abolition as of March 1987 of treasury bonds which were readjusted in line with inflation and their replacement by non-readjustable floating-rate Central Bank bonds; d) the return to an exchange policy based on mini-devaluations of the cruzado and the adoption of a variety of tax measures designed to promote exports; e) the adoption as the new official inflation index of a consumer price index based on the basic shopping basket typically purchased by families whose income is equal to or lower than five minimum wages; and f) the immediate elimination of a number of State bodies and a ban on hiring in the government service until the end of 1987, together with a variety of other measures designed to cut the fiscal deficit.

Although the impact of these measures was not apparent in the November inflation figures (partly due to the date on which they were adopted and partly as a result of the change in the official index), they did lead to a significant rise in price levels in December and strengthened inflationary expectations.

Inflation also fell in 1986 in the Dominican Republic, Chile and Colombia, although rather less so than in the countries mentioned above.

In the Dominican Republic the annual variation in consumer prices dropped from over 28% in 1985 to just 6.5% in 1986. The downward trend of inflation was influenced by the stability of the exchange rate (following its sharp rise in January 1985), the decrease in the price of fuels, the sharp reduction of inflation in the United States and a greater degree of monetary and fiscal discipline (see figure 6).

The gradual but steady decline of inflation in Chile—from 26% in 1985 to 17% in 1986—was attributable to the very small increase in the prices of imported goods in Chilean pesos (owing to the decrease in external inflation which was mainly brought about by the sharp drop in the price of petroleum and the smaller increase of the nominal exchange rate in 1986); the pronounced reduction in domestic interest rates; the stability of real wages during most of the year; and the improved balance of fiscal accounts.

In contrast, in Colombia the slight drop in inflation from 22.3% in 1985 to 21% in late 1986 was entirely accounted for by the rates for May and June, when consumer prices fell in absolute terms. This drop was, in turn, due to the steep decline in food prices seen during these two months as a result both of more bountiful harvests—thanks to highly favourable weather conditions—and of the considerable contraband trade in agricultural products from Venezuela. Owing to these factors, the annual rate of inflation fell to 13.5% in June, the lowest figure recorded in almost 14 years. Subsequently, however, the rate of inflation rose persistently (see figure 7).

In 1986 inflation remained extremely low in Honduras and Panama, where the rate of increase of domestic prices has traditionally followed that of international inflation, and, in particular, that of the United States.

Inflation increased, however, in Venezuela as a result of the elimination of the preferential exchange rate for some imports, the readjustments made at the beginning of the year in agricultural wages and in the wages of lower-level civil servants and of workers not covered by collective bargaining, and of the more expansionary nature of the monetary policy. Early in 1986 a reversal also occurred in the downward trend followed by inflation in Costa Rica since the end of 1984. A similar turnabout began to take place in Ecuador as of August, mainly on account of the sharp devaluation of the sucre during that month which accompanied the adoption of a free exchange rate (see table 14 and figure 7).

For the second year in a row inflation reached unusually high levels in El Salvador (30%) and Guatemala (26%), in both of which price variations had traditionally been among the lowest in the region. Their currencies had also been perfectly stable until 1986, in the case of the former, and 1985, in the case of the latter, when they sharply increased their exchange rates. Nevertheless, in Guatemala the rate of inflation fell sharply from August onwards.

Price increases were even greater in Uruguay—where inflation jumped to over 70%, which was the highest rate recorded in the past 10 years except for those of 1979 and 1985—and higher yet in Mexico. In this country, the rate of inflation—which had already begun to rise in mid-1985 due

primarily to the sharp devaluation of the peso in July of that year— continued to gather speed unrelentingly in 1986 until reaching an all-time high of 106% by the end of the year. This trend in inflation constituted at one and the same time both the effect and the main cause of the repeated sharp rises in the exchange rate, the large and more frequent readjustments made in the current value of minimum wages, the high level of nominal interest rates and the reinforcement of inflationary expectations.

Finally, in 1986 inflation soared for the second year running in Nicaragua. After having risen from 50% in 1984 to 335% in 1985, the consumer price index leaped by approximately 750% in 1986. In this case too, the factors contributing to the worsening of inflation included the marked increases in the various exchange rates, the rapid expansion of the means of payment and the very considerable deficit of the public sector, which proved difficult to correct on account of, *inter alia*, the inflexibility of fiscal expenditure associated with the country's defence needs. The persistence of supply shortages and parallel markets on which goods were sold at prices far in excess of official ones also helped to intensify speculation and inflationary expectations.

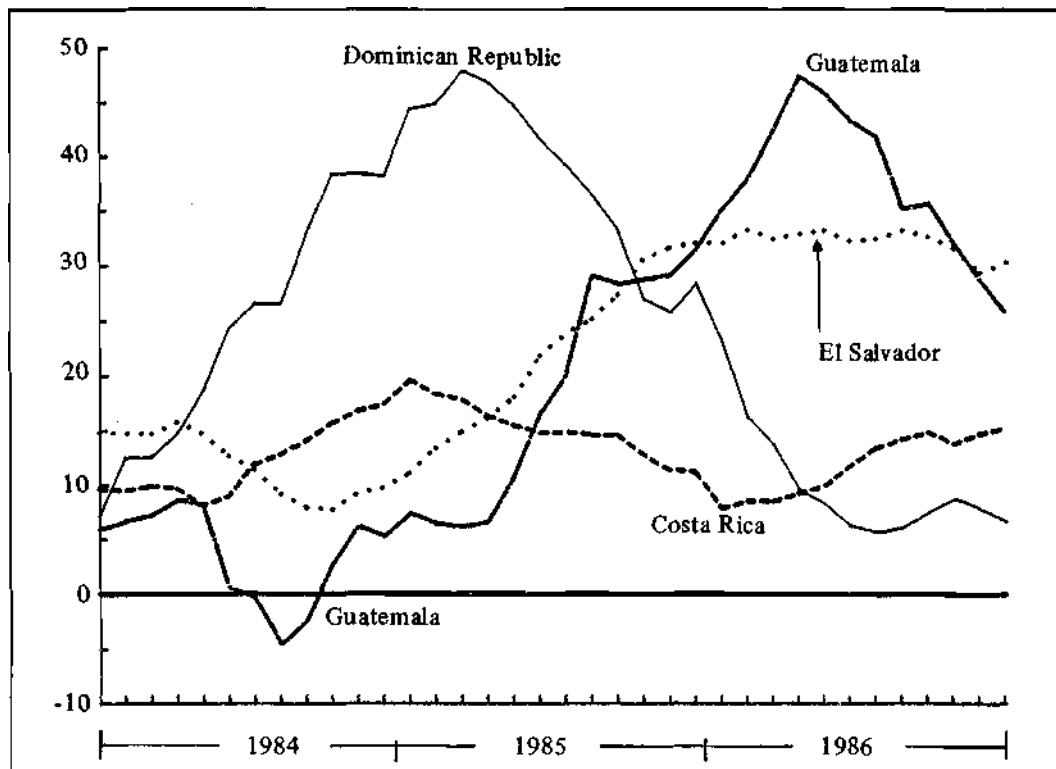
2. Wages

In 1986 real wages generally followed quite positive trends in the countries for which data were available. Nevertheless, in most of them, the increases constituted no more than slight upturns following upon the considerable declines seen in previous years (see figure 8).

Figure 6

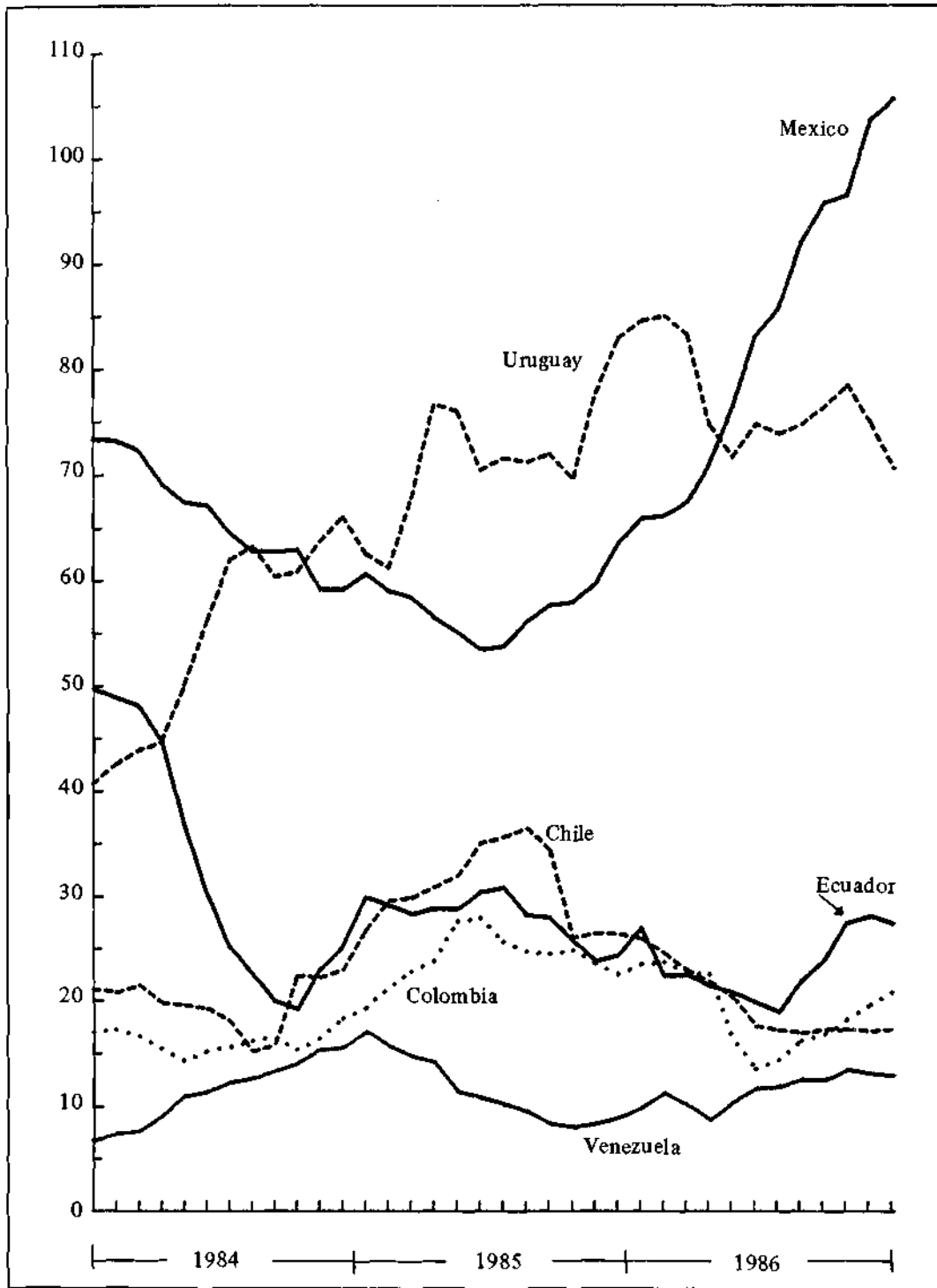
LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX OF SELECTED COUNTRIES

(Percentages)



Source: ECLAC, on the basis of official data.

Figure 7
 LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER
 PRICE INDEX OF SELECTED COUNTRIES
 (Percentages)



Source: ECLAC, on the basis of official data.

Figure 8

LATIN AMERICA: AVERAGE REAL WAGES IN SELECTED COUNTRIES

(Indexes: 1980 = 100)

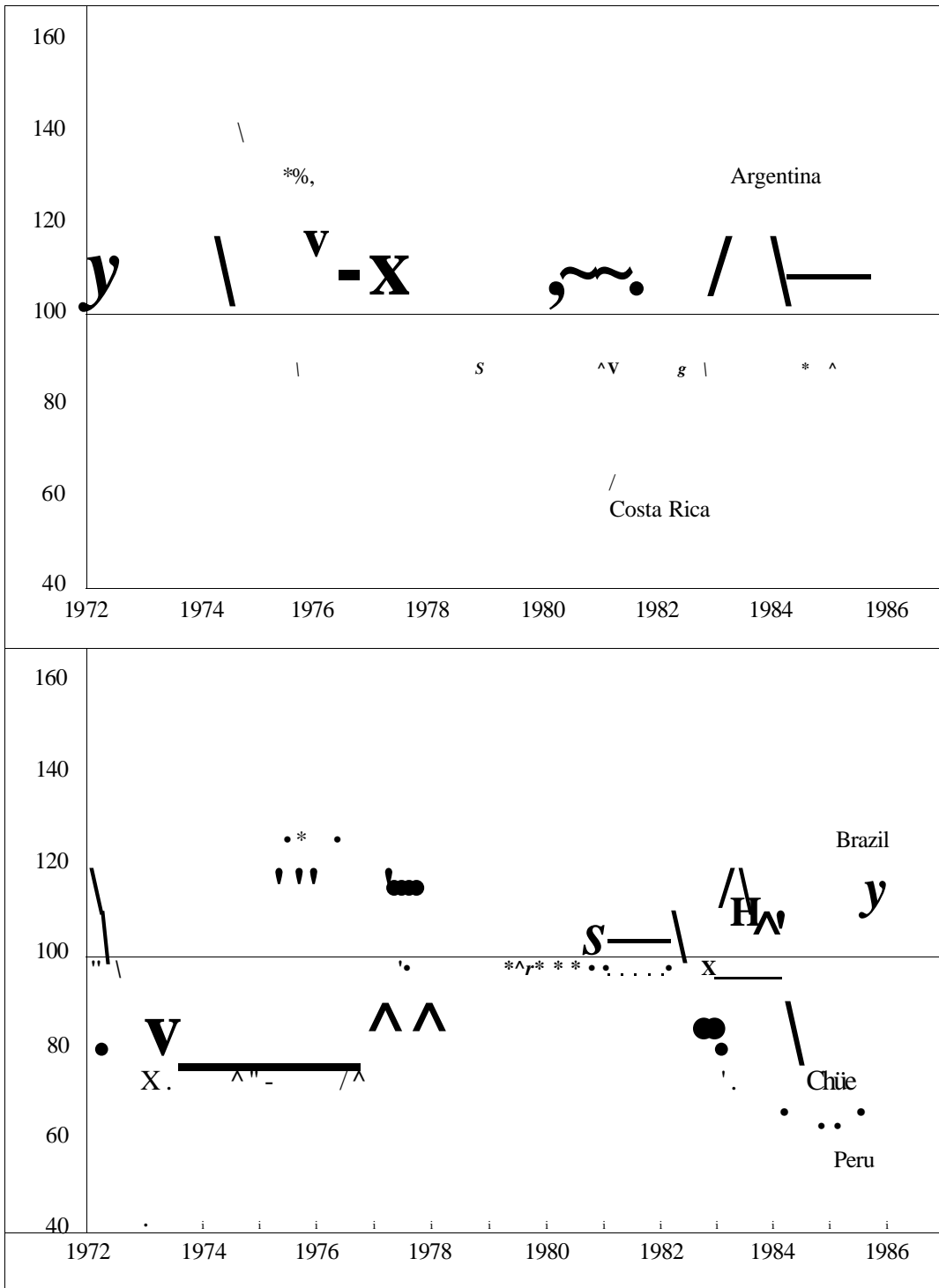
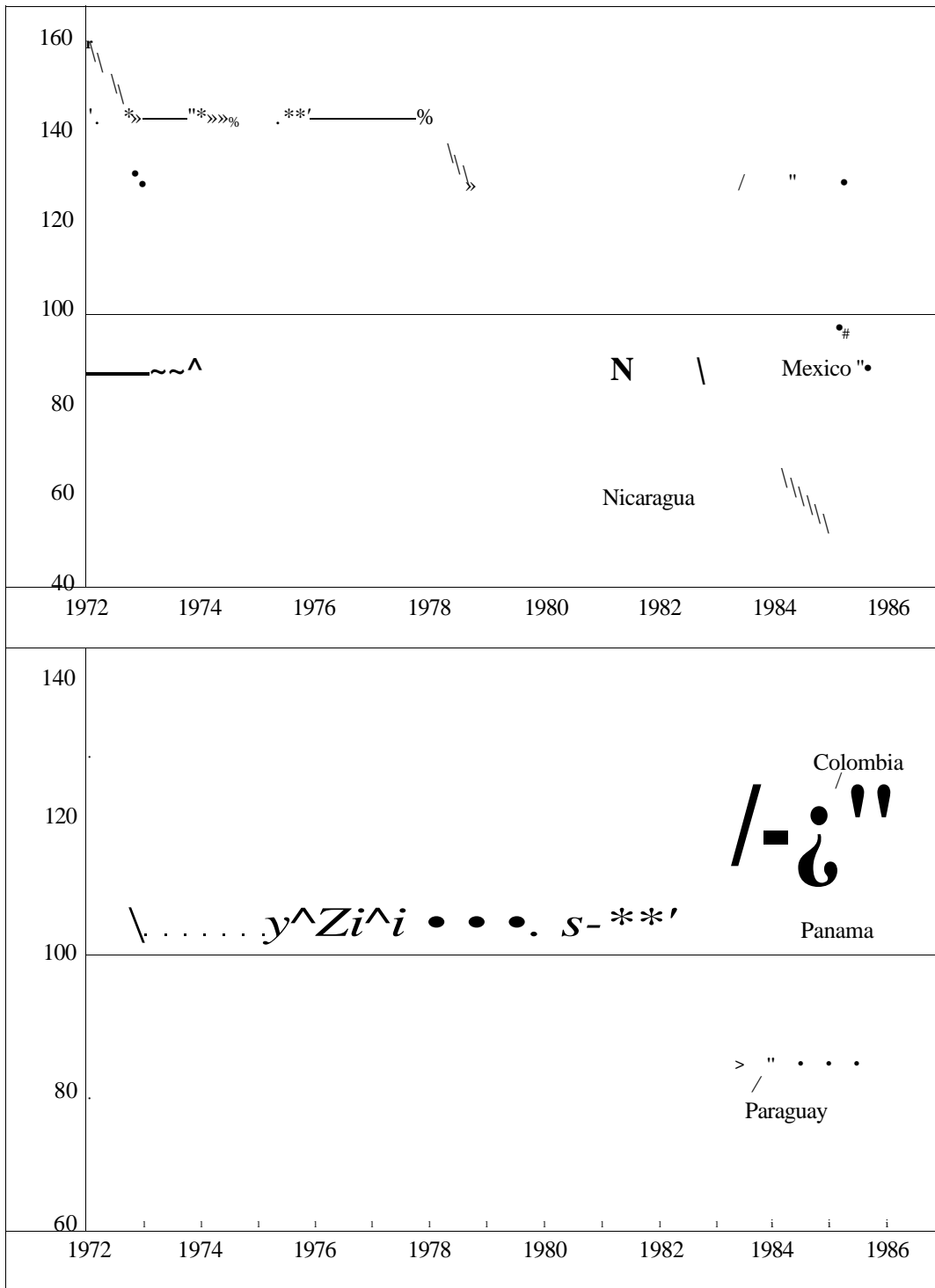


Figure 8 (concluded)



Source: ECLAC, on the basis of official data.

Undoubtedly, the factors which influenced the evolution of wages were different from one country to another. In a number of them —Brazil, Costa Rica, Ecuador, Paraguay and Peru— wage policy was purposefully expansionary with a view to offsetting previous decreases and stimulating domestic demand. Thus, in Costa Rica, the authorities decreed general wage increases, which were scaled so as to be of greatest benefit to workers earning the lowest incomes; in Peru, general wage rises which were higher than both past and projected inflation were granted; in Brazil, together with a price freeze instituted at the beginning of March, average wages were raised 8% above their real level of the previous six months; in Paraguay, the minimum wage was readjusted in January and July by higher percentages than inflation; and in Ecuador the same thing was done in January and August.

Table 15

LATIN AMERICA AND THE CARIBBEAN: REAL
AVERAGE WAGES

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^{''}
Average annual indexes (1980 = 100)										
Argentina	79.3	77.9	89.5	100.0	89.4	80.1	100.5	127.1	107.8	109.5
Brazil										
Rio de Janeiro [']	89.1	93.9	95.1	100.0	108.5	121.6	112.7	105.1	112.7	121.8
São Paulo ^{''}	76.3	85.7	92.3	100.0	104.7	107.2	94.0	96.7	118.9	149.8
Colombia [']	83.5	93.2	99.3	100.0	101.4	105.2	110.4	118.7	114.9	120.2
Costa Rica [']	87.0	94.7	99.2	100.0	88.3	70.8	78.5	84.7	92.2	97.8
Chile [*]	79.6	84.7	91.8	100.0	108.9	108.6	97.1	97.2	93.5	95.1
Guatemala			99.9	100.0	117.6	124.7	126.2	115.0	99.2	81.1
Mexico [']	106.6	104.4	102.9	100.0	103.6	104.4	80.7	75.7	76.6	72.8
Nicaragua			122.7	100.0	91.2	81.0	69.8	66.6	52.5	
Panama ⁷			104.8	100.0	98.7	94.1	98.2	105.8	107.0	110.0
Paraguay			99.4	100.0	105.3	102.4	95.2	91.8	89.9	86.2
Peru	108.7	94.9	88.9	100.0	98.3	100.5	83.7	71.0	60.5	75.8
Uruguay TM	113.2	109.1	100.4	100.0	107.5	107.1	84.9	77.1	88.1	94.0
Percentage variation ⁿ										
Argentina	-1.5	-1.8	14.3	11.8	-10.6	-10.4	25.5	26.4	-15.2	1.6
Brazil										
Rio de Janeiro	4.0	5.4	13	5.2	8.5	12.1	-7.3	-6.7	7.1	8.1
São Paulo	6.5	12.2	7.7	8.4	4.7	2.4	-12.3	2.9	22.9	26.0
Colombia	-5.6	11.5	6.5	0.8	14	3.7	5.0	7.3	-3.0	4.9
Costa Rica	9.4	8.8	4.8	0.8	-11.7	-19.8	10.9	7.8	8.9	6.1
Chile	12.9	6.5	8.3	9.0	9.1	-0.2	-10.7	0.1	-3.8	1.7
Guatemala				0.1	17.6	6.0	-1.2	-9.0	-13.6	-18.3
Mexico	1.6	-2.1	-1.4	-2.9	3.5	0.9	-22.7	-6.6	1.6	-4.9
Nicaragua			-14.3	-18.5	-8.8	-11.2	-13.8	-4.5	-21.2	
Panama			-0.1	-4.6	-1.3	-4.7	4.4	7.7	1.1	2.8
Paraguay			-6.5	0.7	5.3	-2.7	-7.1	-3.5	-2.1	-4.1
Peru	-16.6	-12.7	-6.3	12.4	-1.7	2.3	-16.8	-15.2	-15.3	25.2
Uruguay	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.1	14.1	6.7

Source: ECLAC, on the basis of official data.

Preliminary figures. Average total monthly wages in the manufacturing industry. Twelve-month

average. Average wages in basis industry, deflated by the consumer price index for Rio de Janeiro. Twelve-month

average. Average wages in the manufacturing industry in the State of São Paulo, deflated by the cost-of-living index for

São Paulo. Twelve-month average. Wages of manual workers in the manufacturing industry. Twelve-month

average. Average remunerations declared by persons covered by the social security system. Average

remunerations of wage earners in non-agricultural sectors. Twelve-month average. Average wages of persons covered

by the social security system. Average wages in the manufacturing industry. Twelve-month average. Average

industrial wages in the districts of Panama and Colón. Twelve-month average. Wage of manual workers in Asunción.

Average for June and December. Wages of private-sector manual workers in metropolitan Lima. Average for February,

May, August and November; 1986: average for February, April, August and October. Real average wage index.

Twelve-month average. In comparison with the same period of the preceding year.

The increase in real wages in these countries was also influenced by the moderate rate of inflation in some cases (Costa Rica) and its sharp decline in others (Brazil and Peru). In these last two countries, the rise in wages was further facilitated by the strong expansion of economic activity. As a result, real average wages climbed by 25% in Lima, by between 8% and 26% in the major cities in Brazil and by 6% in Costa Rica, while the purchasing power of the minimum wage increased by almost 18% in Paraguay and 8% in Ecuador (see tables 15 and 16).

The downturn in the rate of inflation —although within the context of rather restrictive wage policies— and the rapid growth of total production were also the main causes of the rise in real wages in Colombia and Chile. In Chile the slight increase in average wages (1.7%) was fairly widespread, the main exception being the construction sector, where wages increased by 5% and the public sector, in which they fell notably (see table 17). The purchasing power of the minimum wage fell, however, for the fourth consecutive year, although by a smaller percentage than in the preceding years (see figure 9). In Colombia, where the minimum wage was increased by 20% at the beginning of the year, the growth of national income and of domestic demand brought about by the rise in the international price of coffee and by the dynamic expansion of industrial and mining exports were contributing factors in the almost 5% increase in the purchasing power of industrial wages.

The slight rise in real wages paid by the manufacturing industry in Argentina as well as the increase of nearly 6% in real wages in Uruguay were largely the result of intense pressure from labour, which prompted higher rises than those laid down by official guidelines. As of January, in Argentina the system of quarterly readjustments was reintroduced and a substantial increase was made in the minimum wage. In spite of this, the purchasing power of average industrial wages rose little, while real wages in construction and in the government service (which possess less wage bargaining power than other sectors) declined for the second year running. This was mainly the result of the revival of inflation during the second half of the year.

In 1986 Uruguayan wage policy was based on four-monthly readjustments in remunerations according to the expected rate of inflation. Nevertheless, the increases granted were, in practice, considerably in excess of official guidelines, as was the actual inflation rate. Thus, real wages remained stable throughout the year. However, as they were considerably higher than those recorded in the first half of 1985, their average annual level was also higher than in that year.

Finally, in 1986 the purchasing power of the minimum wage fell by nearly 7% in Venezuela and almost 9% in Mexico, while in Guatemala the average real wage of workers covered by the social security system fell by 18%. In Venezuela, where the real minimum wage had risen steeply in 1985, the decrease was due to the harmful repercussions of sharper inflation and to the fact that the adjustment to the minimum wage decreed at the beginning of 1986 did not actually enter into effect until November. In Mexico, where the minimum wage was readjusted three times in 1986 instead of the usual two, its purchasing power declined on account of the sharp resurgence of inflation. This was also the main cause of the shrinkage in real wages in Guatemala, although the virtually total stagnation of economic activity was also a factor.

V. THE EXTERNAL SECTOR

The collapse of the international price of petroleum, the continuation of the persistent downward trend in the prices of almost all primary products and the successive reductions in international interest rates had a profound influence on the evolution of Latin America's external sector in 1986. These changes had an extremely diverse impact on the balance of payments of the various countries of the region, whose external-sector performance also reflected the equally marked differences in their policies on exchange rates, trade and external indebtedness.

1. Foreign trade

a) *Exports of goods*

After having fallen by 6% in 1985, the value of exports of goods declined by 15% in 1986 as a result of a decrease of some 14% in their unit value and a 2% shrinkage in the volume exported (see table 18).

Table 16

**LATIN AMERICA AND THE CARIBBEAN: REAL
URBAN MINIMUM WAGE**

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ["]
Average annual indexes (1980 = 100)										
Argentina	99.7	81.0	85.3	100.0	97.8	97.8	136.9	167.7	117.1	111.1
Brazil		97.7	95.7	100.0	104.4	104.9	93.0	86.0	88.8	87.1
Colombia	77.9	89.5	97.5	100.0	98.9	103.2	107.6	113.3	109.1	113.9
Costa Rica	86.2	96.0	98.5	100.0	90.4	85.9	99.3	104.4	112.2	118.6
Chile [']	79.6	100.7	99.8	100.0	115.7	117.2	94.2	80.7	76.4	73.6
Ecuador	53.8	48.1	60.4	100.0	86.2	75.9	63.6	62.8	60.8	65.4
El Salvador [*]	90.3	90.3	87.7	100.0	96.8	86.6	76.5	76.8	66.3	
Guatemala	77.6	70.0	62.5	100.0	107.5	107.5	102.5	99.1	83.6	
Haiti [*]	74.3	94.1	85.8	100.0	93.5	99.3	91.5	86.0	88.3	85.4
Honduras [']	104.6	100.0	109.2	100.0	105.6	104.5	96.6	92.1	88.8	85.1
Mexico ^j	112.5	108.6	107.2	100.0	101.9	92.7	76.6	72.3	71.7	64.9
Nicaragua	118.1	119.8	112.7	100.0	90.2	74.4	56.7	63.6	45.1	
Panama	120.5	115.7	113.6	100.0	93.3	89.4	102.1	100.8	99.7	99.9
Paraguay ^m	92.0	94.8	92.4	100.0	103.6	101.4	93.9	93.7	99.5	110.4
Peru ["]	94.2	72.3	80.8	100.0	84.2	77.8	79.7	61.6	53.9	55.9
Dominican Republic		94.7	105.0	100.0	93.0	86.4	80.8	82.0	80.2	
Uruguay ["]	114.7	113.6	104.8	100.0	103.4	104.6	89.6	89.9	94.1	89.2
Venezuela ["]	74.4	69.3	61.6	100.0	86.8	80.1	75.1	66.7	91.4	85.5
Percentage variation[']										
Argentina	-4.1	-18.8	13.7	17.3	-2.2	0.1	39.9	22.5	-30.2	-5.1
Brazil			-0.2	2.6	4.4	0.4	-11.3	-7.5	3.3	-1.9
Colombia	3.7	13.1	10.7	2.5	-1.1	4.3	4.1	5.6	-3.8	4.4
Costa Rica	8.4	11.4	2.6	14	-9.6	-5.1	15.7	5.2	7.4	5.7
Chile	17.9	26.5	-0.8	0.2	15.9	0.7	-19.5	-14.5	-5.2	-3.3
Ecuador	-11.2	-10.6	25.7	65.5	-13.8	-11.9	-16.2	-1.3	-3.2	7.6
El Salvador	-10.7	-	-2.9	8.6	-3.2	-10.5	-11.7	0.4	-13.6	
Guatemala	-8.7	-9.7	-10.7	59.9	7.5	-	-4.7	-3.3	-15.6	
Haiti		26.6	-8.8	16.5	-6.5	6.2	-7.9	-6.0	2.7	-3.2
Honduras	-6.9	-4.4	11.5	-8.3	5.0	-0.5	-7.7	-4.5	-3.3	-4.2
Mexico	-0.9	-3.4	-1.3	-6.7	1.9	-9.0	-17.4	-5.6	-1.7	-8.8
Nicaragua	1.7		-5.9	-11.3	-9.8	-17.5	-23.8	12.1	-29.1	
Panama	-4.4	-4.0	-1.8	-12.0	-6.7	-4.2	14.2	-1.3	-1.1	0.1
Paraguay	-8.3	3.1	-2.5	8.0	3.6	-2.0	-7.5	-0.2	6.2	17.8
Peru	-12.2	-23.2	11.7	27.5	-15.8	-7.6	2.4	-22.7	-12.5	3.6
Dominican Republic			9.7	-4.8	-7.0	-7.1	-6.5	1.5	-2.2	
Uruguay	-33.5	-0.5	-7.7	-4.6	3.4	1.2	-14.3	0.3	4.7	-5.2
Venezuela	-7.2	-6.8	-11.1	62.3	-16.3	-9.2	-6.6	-13.0	30.0	-6.6

Source: ECLAC, on the basis of official data.

["]Preliminary figures. National minimum wage. [']Minimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. Minimum wage for upper urban sectors. ^jMinimum wage. Minimum overall living wage, calculated on the basis of annual minimum living wages and legal supplementary benefits. ^mMinimum wage for non-agricultural activities in San Salvador. Minimum daily wage paid in industrial firms. ["]Minimum wage in the Central District and San Pedro Sula, for manufacturing. ["]Minimum wage in Mexico City deflated by the corresponding consumer price index. Minimum wage for industrial workers in the Department of Managua. Minimum wage applying to all activities except construction and domestic service. TMMinimum wage in Asunción and Puerto Stroessner. ["]Minimum wage in Metropolitan Lima for non-agricultural activities. ["]National minimum wage for workers over 18 years of age. ["]National minimum wage for non-agricultural activities, deflated by the consumer price index for the lowest income quartile. ["]In comparison to the same period of the preceding.

Table 17

LATIN AMERICA: REAL WAGES IN THE
CONSTRUCTION SECTOR

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Average annual indexes (1980= 100)										
Argentina		84.7	84.6	100.0	91.3	82.5	124.8	147.4	102.2	95.5
Brazil ^c		107.0	99.3	100.0	96.0	94.8	83.0	80.0	82.8	89.5
Colombia		78.9	89.0	100.0	102.0	102.4	106.8	118.7	105.1	105.2
Costa Rica ¹		94.7	103.3	100.0	85.1	66.0	79.8	86.8	95.6	
Chile ²		84.8	91.9	100.0	105.9	101.2	78.5	76.3	64.2	67.1
Honduras [*]		89.7	107.2	100.0	104.5	102.2	94.4	90.1	87.1	83.4
Mexico		103.9	104.6	100.0	103.3	101.1	78.0	72.8	69.5	62.6
Nicaragua ¹		137.1	116.8	100.0	99.5	94.1	96.9	94.9	78.6	
Panama ¹				100.0	98.5	99.7	103.8	105.3	106.3	
Paraguay		116.9	103.8	100.0	104.7	98.5	87.2	89.3	93.1	94.0
Peru		93.0	95.1	100.0	99.0	108.5	91.6	74.3	64.0	92.6
Uruguay ¹		120.5	108.3	100.0	110.5	104.9	80.1	64.7	70.6	78.6
Percentage variation^b										
Argentina		-29.9	-0.1	18.2	-8.7	-9.7	51.2	18.1	-30.7	-6.5
Brazil		-2.8	-7.2	0.7	-4.0	-1.3	-12.4	-3.6	3.5	8.2
Colombia		14.9	12.8	12.3	2.0	0.4	4.3	1.8	-3.4	0.1
Costa Rica		8.8	9.1	-3.2	-14.9	-22.4	20.8	8.7	10.2	
Chile		4.3	8.4	8.8	5.9	-5.1	-21.9	-3.2	-15.9	5.1
Honduras		-5.4	19.0	-6.7	4.5	-2.2	-7.7	-4.5	-3.3	-4.2
Mexico			0.7	-4.4	3.3	-2.1	-22.8	-6.8	-4.5	-9.9
Nicaragua		2.2	-15.2	-14.0	-0.5	-5.4	3.0	-2.1	-17.2	
Panama					-1.5	1.2	4.1	1.5	1.0	
Paraguay		6.3	-11.1	-3.8	4.7	-6.0	-11.5	2.5	4.2	1.0
Peru		12.1	2.3	5.2	-1.0	9.6	-15.5	-14.8	-13.9	44.8
Uruguay		-4.8	-10.1	-7.7	10.5	-5.0	-23.6	-19.2	9.5	12.0

Source: ECLAC, on the basis of official data.

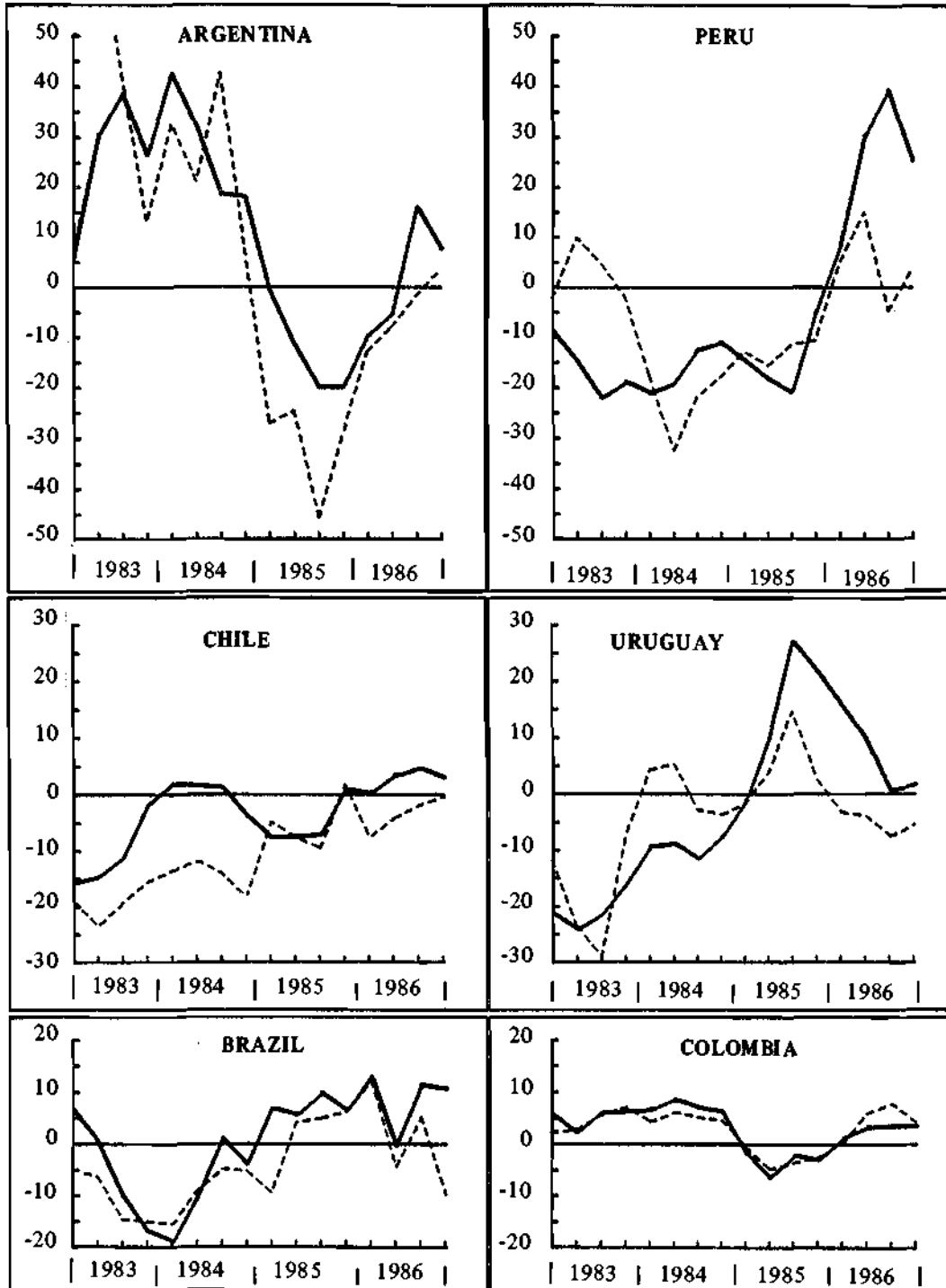
^aPreliminary figures. ^bAverage cost of labour, including social security contributions, in the Federal Capital; 12-month average. ^cHourly labourer's wage in Rio de Janeiro; 12-month average. ^dAverage cost of labour in Bogota; 12-month average. ^eAverage wage according to household surveys. Average for March, June and November; 1984: average for March and November. ^fUp to 1983: salaries and wages for average construction work; from 1984: average wage in the sector; 12-month average. ^gMinimum wage for construction in the Central District and San Pedro Sula. ^hAverage cost of labour in the country; 12-month average. ⁱAverage wage of persons covered by social security; 12-month average; 1985: January-October average. ^jCollective agreement wage in Panama City; annual average. ^kAverage wage of manual workers in Asunción; average for June and December. ^lAverage wage in the Lima Metropolitan area; average for February, May, August and November; 1986: average for February, April, June, August and October. ^mAverage cost of labour in the country; 12-month average; 1986: January-August average. ⁿIn comparison with the same period of the preceding year.

This decline was primarily due to the sharp drop in the exports of the petroleum-producing countries, which fell by 30% in value as a result of the steep reduction in the international price of hydrocarbons, in spite of the considerable expansion of non-petroleum exports from Mexico and Ecuador. However, in 1986 the exports of Paraguay, Brazil, Haiti, Argentina and Nicaragua also fell by between 10% and 20% and those of the Dominican Republic by 2% (see table 19).

In contrast, the value of exports rose spectacularly (49%) in Colombia. This was partly due to the increase in the price of coffee, but an even more important factor was the dynamic growth of the volume of exports of coffee, as well as of petroleum, coal and manufactures. External sales also rose sharply (27%) in Uruguay—which took advantage of the huge expansion of Brazilian imports and also considerably increased its sales of traditional and non-traditional goods to Europe—and in Panama (23%) as a result of a particularly robust expansion of re-exports. The value of exports also

Figure 9
**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN
 REAL WAGES IN SELECTED COUNTRIES**

Average wage in the manufacturing sector
 Minimum urban wage



Source: ECLAC, on the basis of official data.

Table 18

**LATIN AMERICA: VARIATIONS IN EXPORTS
AND IMPORTS OF GOODS**

(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
Latin America						
1972	16.3	4.4	11.4	13.8	7.9	5.6
1973	44.3	8.1	33.3	32.8	13.8	16.6
1974	54.9	-6.5	65.7	72.1	19.3	44.2
1975	-8.0	-10.3	2.6	6.4	-3.4	10.2
1976	16.4	8.3	7.5	3.9	2.6	12
1977	19.4	1.9	17.2	15.1	6.8	7.7
1978	7.6	7.2	0.3	13.8	4.4	9.1
1979	34.5	9.7	22.7	25.8	7.6	16.9
1980	32.3	4.4	26.6	34.9	11.1	21.4
1981	7.6	9.0	-1.3	8.1	2.8	5.1
1982	-8.8	0.8	-9.5	-19.9	-18.8	-1.2
1983	0.1	11.1	-9.9	-28.5	-21.4	-9.1
1984	11.7	7.6	3.7	4.1	8.2	-3.8
1985	-6.0	-1.2	-4.8	0.3	2.1	-1.7
1986°	-15.3	-2.0	-13.6	1.8	7.1	-4.8
Oil-exporting countries²						
1972	4.4	-2.1	6.6	13.3	3.3	9.7
1973	51.4	10.5	37.0	21.0	3.9	16.5
1974	131.2	-12.2	163.3	57.8	20.5	31.0
1975	-19.9	-23.0	4.0	36.7	25.0	9.4
1976	9.3	6.6	2.3	7.4	6.5	0.8
1977	12.4	-1.3	13.8	18.8	11.2	7.0
1978	8.3	6.5	1.8	16.7	4.3	11.9
1979	53.7	11.8	37.5	16.1	4.4	11.3
1980	42.3	0.2	42.0	32.5	16.4	13.8
1981	9.6	6.1	3.4	21.0	16.1	4.2
1982	-5.5	4.6	-9.7	-20.2	-19.2	-1.2
1983	-2.3	12.7	-13.4	-43.1	-34.1	-13.7
1984	8.5	5.4	2.8	15.5	17.6	-1.8
1985	-8.9	-7.4	-1.6	10.0	11.6	-1.3
1986°	-29.5	6.4	-33.8	-4.1	-1.7	-2.6
Non-oil-exporting countries¹						
1972	20.4	10.6	8.9	13.9	8.6	4.9
1973	42.2	6.2	33.9	35.2	16.6	16.0
1974	31.0	-1.6	33.1	74.3	19.1	46.3
1975	-1.2	-0.1	-1.1	1.7	-7.3	9.7
1976	22.0	10.1	10.8	15	0.4	1.1
1977	24.1	5.2	18.1	12.4	4.3	7.8
1978	7.0	7.8	-0.8	11.7	4.4	7.1
1979	22.4	7.8	13.5	33.2	9.5	21.5
1980	24.3	8.6	14.4	36.5	7.9	26.6
1981	5.7	11.6	-5.4	-0.3	-5.8	5.8
1982	-11.8	-2.6	-9.5	-19.5	-18.6	-1.1
1983	2.4	9.5	-6.5	-17.1	-11.2	6.6
1984	14.8	9.6	4.8	-2.2	2.6	-4.6
1985	-3.3	4.4	-7.3	-5.7	-4.3	-1.5
1986°	-3.2	-8.9	6.2	6.2	13.9	-6.8

Source: ECLAC, on the basis of official data.

¹Preliminary figures. Up to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, also includes Mexico and Peru. ²From 1976 onwards, does not include Mexico or Peru.

grew by more than 10% in Costa Rica and Honduras (largely on account of the improved international prices of coffee, sugar and bananas) as well as in Chile, where the expansion was due to a 20% increase in exports other than copper.

b) *Imports*

Notwithstanding the shrinkage in exports, in 1986 the recovery of imports continued for the third consecutive year, following upon its enormous 42% drop of the 1982-1983 period. The increase in the value of imports, albeit weak (1.8%), was quite widespread. In fact, their value fell in only six countries and markedly so only in Mexico, Guatemala and Haiti. While the growth rate of the value of external purchases in the remaining economies of the region varied widely, in most cases the expansion in volume was considerable. This was particularly true in Peru (45%), Uruguay (37%), Argentina (29%), Bolivia (22%) and Brazil (19%), although the increase was also significant in Paraguay, Panama, Chile, Costa Rica and El Salvador. Nevertheless, in most of these countries the volume of imports remained considerably lower than that recorded prior to the crisis (see table 20).

Table 19

LATIN AMERICA: EXPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	In- dex	Growth rates			In- dex	Growth rates			In- dex	Growth rates		
	1986°	1984	1985	1986°	1986°	1984	1985	1986°	1986°	1984	1985	1986°
Latin America	87	11.7	-6.0	-15.3	69	3.7	-4.8	-13.6	127	7.6	-1.2	-2.0
Oil-exporting countries	71	8.5	-8.9	-29.5	54	2.8	-1.6	-33.8	130	5.4	-7.4	6.4
Bolivia	58	-4.1	-13.9	-12.8	61	4.7	-4.6	-36.0	94	-8.4	-9.8	36.1
Ecuador	88	11.7	9.5	-23.8	59	-3.3	-3.4	-25.8	147	15.5	13.3	2.7
Mexico	100	8.4	-9.6	-26.7	56	4.5	0.7	-27.4	178	3.8	-10.2	1.0
Peru	64	4.3	-5.8	-15.4	67	-10.2	-8.5	-11.5	96	16.2	3.0	-4.4
Venezuela	46	9.6	-11.2	-38.7	47	4.0	-3.3	-48.4	96	5.4	-8.2	18.6
Non-oil-export- ing countries	103	14.8	-3.3	-3.2	83	4.8	-7.3	6.2	124	9.6	4.4	-8.9
Argentina	84	3.4	3.7	-16.6	69	13.0	-10.1	-8.7	126	-8.5	15.3	-8.7
Brazil	111	23.3	-5.1	-12.6	83	3.2	-6.1	5.7	134	19.4	1.1	-17.4
Colombia	139	43.9	-13.1	49.3	110	3.5	-5.9	25.2	126	39.0	-7.7	19.3
Costa Rica	108	17.0	-6.7	16.4	93	2.1	-2.4	13.7	116	14.6	-4.5	2.4
Chile	89	-4.7	4.2	10.4	64	-5.5	-11.8	7.6	140	0.8	18.1	2.6
El Salvador	73	-1.3	-6.5	7.1	89	-7.4	-4.2	21.9	76	6.6	-2.4	-12.1
Guatemala	68	3.7	-6.4	-0.2	95	2.8	-7.0	19.6	73	0.9	0.7	-16.5
Haiti	96	11.2	8.6	-14.8	100	20.1	2.7	19.0	89	-7.4	5.7	-28.3
Honduras	103	6.7	4.3	12.9	111	7.1	-4.1	16.8	93	-0.3	8.7	-3.4
Nicaragua	54	-10.1	-21.8	-19.3	97	16.8	-6.0	9.6	55	-23.1	-16.8	-26.3
Panama	106	0.6	16.2	23.1	104	4.0	-0.4	10.0	103	-3.2	16.7	12.0
Paraguay	72	10.8	-10.2	-10.6	74	26.5	-6.9	-11.6	98	-12.4	-3.6	1.1
Dominican Republic	75	10.6	-15.0	-2.2	80	8.2	-15.5	10.0	94	2.2	0.7	-11.1
Uruguay	103	-20.1 ⁶	-7.7	27.4	79	2.3	-7.1	1.5	130	-21.9 ⁶	-0.6	25.5

Source: ECLAC, on the basis of official data.

⁶Preliminary figures. Includes sales of non-monetary gold. If these sales were excluded, the rates would be -11.6 for the value index and -13.6 for the volume index in 1984.

Table 20

LATIN AMERICA: IMPORTS OF GOODS FOB*(Indexes: 1980 = 100 and growth rates)*

	Value				Unit value				Volume			
	In- dex	Growth rates			In- dex	Growth rates			In- dex	Growth rates		
		1986"	1984	1985		1986"	1984	1985		1986"	1986"	1984	1985	1986"
Latin America	66	4.1	0.3	1.8	85	-3.9	-1.7	-4.8	78	8.3	2.1	7.1
Oil-exporting countries	67	15.5	10.0	-4.1	84	-1.8	-1.3	-2.6	80	17.6	11.6	-1.7
Bolivia	101	-16.9	12.3	25.3	89	-10.0	-2.4	2.3	113	-7.7	15.0	22.5
Ecuador	73	11.3	10.0	-5.3	93	-17.4	8.2	0.4	78	34.7	1.7	-5.8
Mexico	60	31.6	19.6	-15.1	87	7.4	-2.7	-2.5	70	22.6	23.0	-12.9
Peru	82	-21.4	-12.7	35.1	79	-7.7	-3.6	-6.8	104	-14.8	-9.5	45.0
Venezuela	71	13.3	1.7	4.2	80	-7.3	-1.5	-1.0	89	22.2	3.2	5.3
Non-oil-exporting countries	65	-2.2	-5.7	6.2	86	-4.7	-1.5	-6.8	76	2.7	-4.3	13.9
Argentina	46	0.0	-14.6	22.2	84	-6.5	3.4	-5.2	55	6.9	-17.4	28.9
Brazil	61	-9.8	-5.4	6.7	84	-6.3	-4.1	-10.1	73	-3.8	-1.3	18.6
Colombia	87	-9.8	-7.3	-0.7	96	-3.2	2.9	0.6	90	-6.8	-9.9	-1.2
Costa Rica	76	11.0	0.8	3.8	85	-3.0	-4.1	-5.2	90	14.4	5.1	9.5
Chile	57	18.0	-12.0	4.9	77	0.9	-5.5	-4.7	73	17.0	-6.8	10.1
El Salvador	105	10.1	-1.7	4.4	101	5.2	0.7	-5.0	104	4.6	-2.4	10.0
Guatemala	62	11.9	-8.9	-14.6	88	-0.7	-1.6	-7.8	71	12.7	-7.5	-7.4
Haiti	95	-1.6	0.9	-13.3	99	-4.6	-3.0	3.7	96	3.1	3.9	-16.3
Honduras	94	16.3	-0.6	3.0	99	3.7	-1.3	-2.7	96	12.1	0.7	5.9
Nicaragua	104	-1.3	8.1	0.7	90	-7.9	1.9	-2.0	116	7.2	6.1	2.8
Panama	99	7.9	8.4	8.9	89	-0.2	-2.0	-5.2	111	8.0	10.6	14.9
Paraguay	86	17.7	-20.5	12.4	71	-21.2	-3.6	-2.2	122	49.4	-17.6	15.0
Dominican Republic	83	-1.7	2.3	-1.6	86	-2.5	2.1	-5.8	97	0.8	0.2	4.5
Uruguay	47	-1.0	-7.8	17.1	76	-4.7	2.6	-14.2	63	3.9	-10.1	36.5

Source: ECLAC, on the basis of official data.

"Preliminary figures.

c) The terms of trade and the purchasing power of exports

In spite of the decline in the unit value of imports for the fifth year running, Latin America's terms of trade fell by 9%, for a total decline of approximately 20% over the last six years (see table 21).

However, unlike what had occurred in 1985, this deterioration was wholly accounted for by the petroleum-exporting economies (whose terms of trade worsened severely); by Argentina (where they fell by 4% on account of further declines in the international prices of cereals and meat); and by Paraguay (whose terms of trade were much less favourable due to the slump in cotton and soya bean prices) (see tables 22 and 23).

In the remaining economies of the region, a marked improvement occurred in the terms of trade. The improvement was particularly pronounced in Brazil (where petroleum constitutes a particularly significant import); in the Central American countries (which drew benefit both from the fall in the international price of petroleum and from the substantial rises in the prices of coffee and bananas, as well as from the partial recovery of sugar prices from their extremely low 1985 level); and above all in Colombia (on account of the considerable significance of coffee in its total exports).

Table 21

LATIN AMERICA: TERMS OF TRADE FOB/FOB (GOODS)*(1980 = 100)*

Year	Latin America		Oil-exporting countries		Non-oil-exporting countries	
	Index	Variation	Index	Variation	Index	Variation
1976	91.4	6.2	66.8	15	116.7	9.6
1977	99.4	8.8	71.2	6.6	127.8	9.5
1978	91.4	-8.0	64.7	-9.1	118.5	-7.3
1979	95.9	4.9	80.1	23.8	110.6	-6.7
1980	100.0	4.3	100.0	24.8	100.0	-9.6
1981	93.9	-6.1	99.2	-0.8	89.4	-10.6
1982	86.0	-8.4	90.8	-8.5	81.8	-8.5
1983	85.2	-0.9	91.1	0.3	81.9	0.1
1984	92.1	8.1	95.4	4.7	90.0	9.9
1985	89.1	-3.3	95.1	-0.3	84.6	-6.0
1986 ^c	81.0	-9.1	64.7	-32.0	96.5	14.1

Source: ECLAC, on the basis of official data.

"Includes Bolivia, Ecuador, Mexico, Peru and Venezuela. Includes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay. ^c Preliminary figures.

Table 22

LATIN AMERICA: TERMS OF TRADE FOB/CIF (GOODS)*Indexes: 1980 = 100 and growth rates)*

	• Indexes (1980=100)						Growth rates			
	1981	1982	1983	1984	1985	1986"	1983	1984	1985	1986"
Latin America	94	86	84	90	87	79	-1.5	7.0	-3.2	-9.4
Oil-exporting countries	99	90	89	93	93	63	-0.9	4.0	-0.4	-32.3
Bolivia	90	93	94	105	102	64	1.3	11.9	-2.9	-37.2
Ecuador	100	98	81	92	83	61	-17.4	13.8	-9.7	-26.1
Mexico	98	88	85	83	86	64	-2.9	-2.9	3.5	-25.8
Peru	89	80	95	91	86	81	19.2	-3.9	-5.4	-6.3
Venezuela	103	94	101	112	109	57	-6.9	11.2	-2.7	-47.9
Non-oil-exporting countries	89	81	81	88	83	95	-0.2	8.7	-5.9	13.7
Argentina	96	85	81	96	84	81	-4.9	18.9	-12.1	-3.8
Brazil	85	80	78	85	83	98	-2.6	9.7	-2.3	17.4
Colombia	85	87	93	99	90	112	7.6	5.9	-8.5	24.6
Costa Rica	85	83	84	87	89	106	2.0	3.5	14	19.5
Chile	87	75	82	76	71	80	9.1	-7.8	-6.0	12.8
El Salvador	91	93	82	71	68	87	-12.4	-12.6	-4.9	27.9
Guatemala	87	82	84	86	81	104	2.7	2.0	-6.1	29.1
Haiti	70	73	65	79	82	94	-11.0	22.2	3.8	15.0
Honduras	89	91	92	94	91	109	0.5	2.2	-3.0	19.8
Nicaragua	90	85	82	103	95	106	-3.6	25.3	-7.8	11.7
Panama	95	83	94	97	98	114	12.8	3.2	15	15.8
Paraguay	106	92	88	138	134	121	-4.3	56.1	-2.8	-9.7
Dominican Republic	114	81	85	93	80	93	5.1	9.8	-14.8	16.7
Uruguay	96	91	90	96	87	102	-1.1	6.6	-9.3	17.0

Source: ECLAC, on the basis of official data.

"Preliminary figures.

Table 23

LATIN AMERICA: PRICES OF MAIN EXPORT PRODUCTS

	Annual averages					Growth rates				
	1970-1980	1983	1984	1985	1986°	1982	1983	1984	1985	1986"
Unrefined sugar	12.8	8.5	5.2	4.1	6.1	-50.3	1.2	38.8	-21.1	48.8
Coffee (mild)	121.8	141.6	147.3	155.9	220.1	2.3	-4.7	4.0	5.8	41.2
Cocoa	86.3	96.1	108.7	102.3	93.8	-16.1	21.6	13.1	-5.9	-8.3
Bananas	11.8	20.4	19.0	18.4	22.1	-4.2	10.9	-6.9	-3.2	20.1
Wheat"	125.1	158.0	153.0	138.0	115.0	-9.0	-2.5	-3.2	-9.8	-16.7
Maize'	127.5	162.2	167.3	135.3	112.9	-24.1	18.0	3.1	-19.1	-16.6
Beef"	82.2	110.7	102.6	97.7	95.0	-3.4	2.1	-7.3	-4.8	-2.8
Fish meal ¹	354.7	453.0	373.0	280.0	321.0	-24.6	28.3	-17.7	-24.9	14.6
Soya beans'	232.4	282.0	282.0	225.0	208.0	-14.9	15.1	-	-20.2	-7.6
Cotton	61.2	84.8	80.3	61.7	52.9	-14.7	16.5	-5.3	-23.2	-14.3
Wool'	131.5	144.0	141.6	140.7	147.7	-13.2	-6.9	-1.7	-0.6	5.0
Copper	69.6	72.2	62.5	64.3	62.3	-14.9	7.4	-13.4	2.9	-3.1
Tin"	3.9	5.9	5.6	5.4	2.6	-9.4	1.7	-5.1	-3.6	-51.9
Iron ore'	17.6	23.7	22.4	22.0	21.6	4.6	-3.3	-5.5	-1.8	-1.8
Lead	25.3	19.3	20.1	17.7	18.4	-24.8	-22.2	4.1	-11.9	4.0
— b	29.7	34.7	40.6	34.3	32.3	-12.0	2.7	17.0	-15.5	-5.8
Zinc										
Bauxite ¹	103.5	179.5	165.0	164.3	165.2	-3.7	-13.8	-8.1	-0.4	0.5
Crude oil'										
Saudi Arabia	10.0	29.3	28.5	28.0	13.7	3.1	-12.5	-2.7	-3.5	-51.0
Venezuela	10.1	28.1	27.0	25.9	13.2	-	-12.2	-3.9	-1.9	-49.0

Source: UNCTAD, *Monthly Bulletin of Commodity Prices*, Supplements, 1960-1980 and July 1987; International Monetary Fund, *International Financial Statistics, Yearbooks*, 1981 and November 1987; Petroleum Intelligence Weekly, 1987 (various issues); ECLAC, on the basis of official data.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market. Coffee, Colombian mild arabica, *ex-dock* New York. Cocoa beans, average of daily prices (futures), New York/London. Central American bananas, CIF Hamburg. Cotton, Mexican M 1-3/32", CIF Northern Europe. Wool, clean, combed, 50's quality United Kingdom. Beef, frozen, boneless, all sources, United States ports. Fish meal.all sources 64%-65% protein, CIF Hamburg. Wheat, United States, No. 2, Hard Red Winter, FOB. Maize, Argentina, CIF, North Sea ports. Soya beans, United States, No. 2, yellow, in bulk, CIF Rotterdam. Copper, tin, lead and zinc, cash quotations on the London Metal Exchange. Iron ore, Liberia, C.61 Fe, CIF, North Sea ports. Bauxite, Guyana (Baltimore). **Oil**, Venezuela (Tía Juana).

¹Preliminary figures. US cents per pound. °Dollars per metric ton. "Dollars per pound.

'Dollars per barrel.

As a result of the deterioration in the terms of trade and, to a much lesser extent, of the drop in export volumes, the purchasing power of exports fell by over 11.%. This contraction was mainly accounted for by the petroleum-exporting countries, where the purchasing power of exports has shrunk by one-third during the last two years (see table 24 and figure 10). In contrast, in most of the other economies in the region, and especially in Uruguay, Chile and the coffee-exporting countries, the purchasing power of external sales recovered significantly (see table 25).

2. The balance of payments

a) The current account

Due to the sharp fall in the value of exports and the slight increase in that of imports, in 1986 the merchandise trade surplus was lower for the second consecutive year. After having followed a sustained upward trend since 1981 and attaining a record high of US\$39.4 billion in 1984 (which had, however, fallen to US\$33.4 billion in 1985), the surplus dropped to US\$18.3 billion in 1986 (see table 26).

Most of this shrinkage was accounted for by the huge decline in the surplus of the petroleum-exporting countries, which fell by 66% from US\$17.6 billion in 1985 to less than US\$6.1 billion in 1986. As was to be expected, the decrease in the trade surplus was particularly staggering in Mexico (-US\$3.8 billion) and above all in Venezuela (-US\$5.8 billion). It was also very large in Brazil (-US\$4.1 billion) and Argentina (-US\$2.2 billion) and was significant in Peru (whose surplus of almost US\$1.1 billion in 1985 was completely wiped out in 1986) and in Ecuador (where it was US\$6 million lower than in 1985).

In contrast, Colombia's external trade underwent a favourable turnaround in 1986 when, after having ended 1985 with a slight deficit, it earned a surplus of more than US\$1.8 billion. Guatemala and Costa Rica also managed to replace the previous year's deficits with surpluses, while the remaining countries in Central America, with the exception of Nicaragua, reduced their deficits and Chile and Uruguay considerably improved upon their 1985 surpluses.

In contrast with the situation in 1984, the surplus on trade in goods failed to cover net transfers of profits and interest, even though the latter fell by US\$4.3 billion as a result of the decline in international interest rates. The proportion of these payments financed by the merchandise trade surplus was also much lower (60%) in 1986 than in 1985 (96%).

As a consequence of the sharp drop in this surplus and the increase in net payments for services, the deficit on current account increased fourfold to over US\$14 billion. This accentuated the turnaround in the trend of the current account deficit, which, after having hit the unprecedented level of US\$41 billion in 1982, was virtually eliminated just two years later, only to re-emerge in 1985 (see table 27).

As in 1985, the increase in the deficit on current account was the result of conflicting changes in the different economies in the region. While Mexico and Venezuela—which in 1985, together with Panama, had been the only countries with surpluses—recorded considerable deficits in 1986 and while the deficit increased sharply in Argentina, Brazil, Bolivia, Ecuador and Peru, it underwent a spectacular turnaround in Colombia and fell for the second year running in Chile (the two economies which had recorded the heaviest deficits in 1985). The deficit also fell in the Dominican Republic and in all the countries of Central America (except Nicaragua) and was done away with completely in Uruguay, where the current account yielded a surplus for the first time since 1973.

Table 24

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(1980 = 100)

Year	Latin America		Oil-exporting countries ^f		Non-oil-exporting countries ^g	
	Index	Variation	Index	Variation	Index	Variation
1976	71.9	16.0	56.4	-17.3	86.1	21.0
1977	80.2	11.5	59.0	4.6	99.5	15.5
1978	79.4	-1.0	57.5	2.5	99.3	-0.2
1979	90.7	14.2	79.6	38.4	100.8	15
1980	100.0	10.2	100.0	25.6	100.0	-0.8
1981	102.1	2.1	105.2	4.9	99.2	-0.8
1982	93.9	-8.0	99.9	-5.0	86.6	-12.7
1983	102.7	9.4	113.3	13.4	96.7	11.7
1984	118.3	15.2	122.8	8.4	115.1	19.0
1985	113.6	-4.0	113.5	-7.6	113.3	-1.6
1986 ^c	100.6	-11.4	81.2	-28.5	118.2	4.2

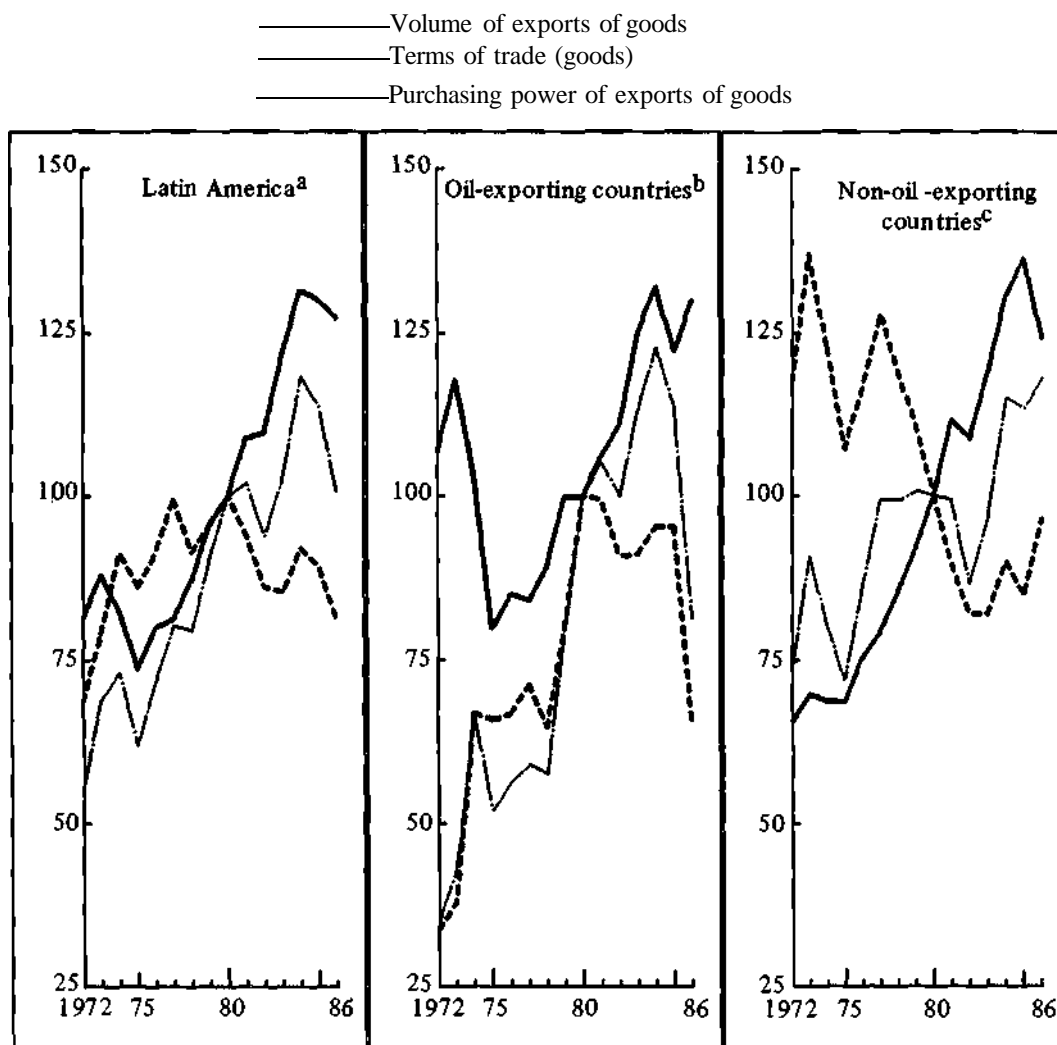
Source:: ECLAC, on the basis of official figures.

^fIncludes Bolivia, Ecuador, Mexico, Peru and Venezuela.

^gIncludes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay.

^cPreliminary figures.

Figure 10
 LATIN AMERICA: SELECTED EXTERNAL TRADE INDICATORS
 (Indexes: 1980 =100)



Source: ECLAC, on the basis of official data.

^aNineteen countries. ^bFrom 1972 to 1975 includes Bolivia, Ecuador and Venezuela; as from 1976 also includes Mexico and Peru. ^cFrom 1972 to 1975 includes 16 countries; as from 1976 excludes Mexico and Peru.

As a result of the increase in the current account deficit and the shrinkage in the value of exports, the relation between the deficit and external sales, which had gone up slightly in 1985, rose sharply in 1986. Nevertheless, this coefficient (15%) although much higher than during the preceding three years, was less than half of what it had been, on average, between 1978 and 1982 (see table 28).

b) *The capital account and the net transfer of resources abroad*

As in the previous three years, net capital income was very low in 1986. Although it was slightly higher than in 1985, this rise, far from representing a significant and generalized expansion in the flow of loans and investment towards the region, largely reflected the turnaround which took place in

Mexico's capital account. After having ended 1985 with a deficit of more than US\$3 billion, this account showed a surplus of US\$2.2 billion in 1986. This about-face was accounted for both by the substantial bridging loans granted to the country by the governments of the industrialized countries, public international financial agencies and commercial banks and by the government's highly restrictive credit policy, which in 1986 led many firms to repatriate funds they had maintained abroad in order to finance their activities.

Moreover, in the region as a whole, the increase in the net flow of loans and investments was considerably lower than that of the current account deficit. Consequently, after having closed 1985 with a small deficit of US\$170 million, the balance of payments yielded a deficit of US\$6.3 billion in 1986.

On account of the expansion of capital inflows and the drop in net payments of interest and profits, the net transfer of resources out of Latin America declined by almost one-third. Nonetheless, at US\$22 billion, it remained extremely high. Furthermore, as a result of the simultaneous decline in exports of goods and services, the transfer of resources out of the region was equal to more than 22% of its exports, which was only slightly less than the figure recorded, on average, for the preceding four years (see table 29).

As in previous years, most of the transfer of resources abroad came from Brazil, Mexico, Venezuela and Argentina, although, especially in Mexico, it fell significantly (see table 30). Nevertheless, in all of these countries the transfer was equivalent to more than 24% of exports. The transfer was also relatively significant in Chile and the Dominican Republic, where, as in Colombia, it rose sharply in absolute terms. In contrast, El Salvador, Honduras, Paraguay and above all, Nicaragua, Bolivia and Haiti were the recipients of a substantial transfer of resources from abroad.

Table 25
LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS
(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1981	1982	1983	1984	1985	1986 ^o	1983	1984	1985	1986 ^o
Latin America	102	94	103	118	114	101	9.4	15.2	-4.0	-11.4
Oil-exporting countries	105	100	113	123	114	81	13.4	8.4	-7.6	-28.5
Bolivia	89	83	78	80	71	60	-5.1	2.6	-12.3	-14.6
Ecuador	102	99	89	117	119	91	-10.0	31.4	2.4	-24.1
Mexico	117	128	161	162	151	113	26.0	0.7	-7.0	-25.1
Peru	80	85	80	89	87	78	-5.7	-11.7	-2.6	-10.4
Venezuela	101	80	85	99	89	55	5.4	17.2	-10.7	-38.1
Non-oil-exporting countries	99	87	97	115	113	118	11.7	19.0	-1.6	4.2
Argentina	113	98	106	115	117	102	8.0	8.8	14	-12.2
Brazil	105	91	104	136	135	131	14.0	30.9	-1.2	-3.0
Colombia	76	73	77	113	95	142	4.4	47.3	-15.6	48.7
Costa Rica	96	85	87	104	100	123	3.3	18.7	-3.2	22.4
Chile	82	82	94	88	97	112	14.5	-6.2	9.9	15.7
El Salvador	70	61	68	63	58	66	10.3	-7.0	-7.2	12.3
Guatemala	78	73	72	75	71	76	-0.5	2.9	-5.4	7.8
Haiti	67	77	82	92	101	84	5.4	13.1	9.8	-17.5
Honduras	85	78	82	83	88	102	5.4	1.8	5.4	15.7
Nicaragua	108	87	96	93	71	59	10.7	-3.5	-23.2	-17.7
Panama	104	101	76	76	90	117	-24.8	0.0	18.5	29.6
Paraguay	98	98	84	115	108	99	-13.5	36.7	-0.6	-8.7
Dominican Republic	115	75	87	98	84	87	15.5	12.3	-14.1	3.9
Uruguay	110	US ^{'''}	120*	100	90	132	19*	-16.7*	-99	46.8

Source: ECLAC, on the basis of official figures.

^oPreliminary figures. Includes sales of non-monetary gold. If these sales were excluded, the indexes and rates would be 96 for 1982 and 109 for 1983, and 13.0 for 1983 and -7.8 for 1984.

Table 26

LATIN AMERICA: TRADE BALANCE

(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments"			Trade balance		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
Latin America (19 countries)	97 713	91 956	77 749	58 285	58 582	59 465	39 427	33 376	18 284	4 262	3 390	3 743	35 167	29 986	14 541
Oil-exporting countries	46 656	42 503	29 955	22 638	24 903	23 868	24 018	17 602	6 087	1 569	1 436	752	22 450	16 166	5 335
Bolivia	724	623	543	412	463	580	312	160	-37	159	149	164	153	11	-201
Ecuador	2 622	2 870	2 186	1 567	1 723	1 631	1 055	1 147	555	441	291	416	614	856	139
Mexico	24 196	21 867	16 031	11 256	13 460	11 432	12 941	8 407	4 599	-1048	-537	-1 192	13 989	8 944	5 791
Peru	3 147	2 965	2 509	2 141	1 869	2 525	1 006	1 097	-16	219	147	304	787	950	-320
Venezuela	15 967	14 178	8 686	7 262	7 388	7 700	8 704	6 791	986	1 798	1 386	1 060	6 907	5 405	-74
Non-oil-exporting countries	51 057	49 453	47 794	35 647	33 679	35 597	15 409	15 774	12 197	2 693	1 954	2 991	12 717	13 820	9 206
Argentina	8 101	8 397	7 000	4 119	3 520	4 300	3 981	4 877	2 700	769	527	900	3 213	4 350	1 800
Brazil	27 001	25 634	22 393	13 915	13 168	14 044	13 086	12 466	8 349	1 743	1 703	2 133	11 343	10 763	6 216
Colombia	4 273	3 713	5 543	4 027	3 734	3 709	246	-21	1 834	437	307	608	-191	-328	1 226
Costa Rica	997	930	1 064	997	1 005	1 016	1	-75	48	-17	-20	-20	17	-55	68
Chile	3 650	3 804	4 199	3 357	2 954	3 099	293	850	1 100	434	338	388	-141	512	712
El Salvador	726	679	727	915	899	939	-189	-220	-212	39	-28	-31	-227	-192	-181
Guatemala	1 132	1 060	1 058	1 182	1 077	920	-50	-17	138	153	84	67	-203	-101	71
Haiti	206	224	191	346	349	303	-140	-125	-112	81	99	69	-221	-224	-181
Honduras	746	835	876	880	954	900	-134	-119	-22	70	79	71	-204	-198	-93
Nicaragua	385	301	243	768	830	836	-383	-529	-593	77	106	70	-460	-635	-663
Panama	1 686	1 959	2 412	2 503	2 712	2 955	-817	-753	-543	-843	-894	-830	26	141	287
Paraguay	361	324	290	649	516	580	-288	-191	-290	-18	-18	-38	-270	-173	-252
Dominican Republic	868	739	708	1 257	1 286	1 205	-389	-547	-497	-202	-274	-349	-187	-273	-148
Uruguay	925	854	1 088	732	675	791	192	178	297	-30	-55	-47	222	233	344

Source: ECLAC, on the basis of official data.

"Excluding net payments of profits and interest.

Table 27
LATIN AMERICA: BALANCE OF PAYMENTS
(Millions of dollars)

	Trade balance			Net payments;of profits; and interest"			Balance on current account"			Balance on capital account ^c			Total balance		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
Latin America (19 countries)	35 167	29 986	14 541	36 254	34 804	30 489	-64	-3 552	-14 316	9 310	3 383	8 577	9 248	-170	-6 301
Oil-exporting countries	22 450	16 166	5 335	13 975	13 405	10 981	8 618	2 966	-5 394	-4 588	-3 648	2 061	4 030	-683	-3 333
Bolivia	153	11	-201	415	373	309	-241	-342	-484	357	299	682	116	-44	198
Ecuador	614	856	139	882	966	826	-268	-110	-687	187	136	635	-81	26	-52
Mexico	13 989	8 944	5 791	10 160	8 853	7 550	4 059	379	-1 444	-1 902	-3 108	2 227	2 157	-2 729	783
Peru	787	950	-320	1 166	1 023	831	-379	-73	-1 151	628	427	692	249	354	-459
Venezuela	6 907	5 405	-74	1 352	2 190	1 465	5 447	3 112	-1 628	-3 858	-1 402	-2 175	1 589	1 710	-3 803
Non-oil-exporting countries	12 717	13 820	9 206	22 279	21 399	19 508	-8 682	-6 518	-8 922	13 898	7 031	6 516	5 218	513	-2 968
Argentina	3 213	4 350	1 800	5 711	5 303	4 400	-2 495	-955	-2 600	2 660	1 992	1 900	165	1 037	-700
Brazil	11 343	10 763	6 216	11 471	11 192	10 330	33	-289	-4 037	5 342	-222	408	5 375	-511	-3 629
Colombia	-191	-328	1 226	1 510	1 527	1 505	-1 411	-1 412	458	1 038	1 567	958	-373	154	1 416
Costa Rica	17	55	68	314	320	268	-265	-338	-165	209	410	215	-56	73	50
Chile	-141	512	712	2 018	1 901	1 887	-2 118	-1 342	-1 135	2 209	1 240	883	91	-102	-252
El Salvador	-227	-192	-181	134	133	135	-243	-199	-173	250	246	158	7	47	-15
Guatemala	-203	-101	71	203	165	178	-378	-247	-32	389	358	55	11	111	23
Haiti	-221	-224	-181	17	-30	15	-196	-145	-144	175	121	170	-20	-24	26
Honduras	-204	-198	-93	178	188	191	-372	-374	-271	382	385	269	11	11	-2
Nicaragua	-460	-635	-663	47	48	25	-505	-681	-685	598	562	805	93	-119	120
Panama	26	141	287	16	-46	-90	-45	131	321	-39	-256	281	-84	-125	40
Paraguay	-270	-173	-252	57	60	30	-325	-231	-280	311	103	117	-14	-128	-163
Dominican Republic	-187	-273	-148	241	286	356	-223	-317	-245	320	342	110	97	25	-135
Uruguay	222	233	344	362	352	278	-139	-119	66	54	183	187	-85	64	253

Source: ECLAC, on the basis of official data.

"Excluding labour and ownership. Including net private unrequited transfers.

^cIncluding long- and short-term capital, official unrequited transfers and errors and omissions.

"Total balance is equal to variation in international reserves (of opposite sign) plus counterpart items.

Table 28

LATIN AMERICA: RELATION BETWEEN THE BALANCE-OF-PAYMENTS
DEFICIT ON CURRENT ACCOUNT AND THE VALUE OF
EXPORTS OF GOODS AND SERVICES"

(Percentages)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986*
Latin America	21.1	29.8	24.0	26.0	34.7	39.8	7.2	0.1	3.3	15.1
Oil-exporting countries	29.0	40.6	14.9	8.4	23.3	26.9	-16.5	-15.8	-5.9	14.2
Bolivia	18.8	50.2	46.6	5.2	48.9	22.2	23.8	29.5	47.5	73.5
Ecuador	23.7	42.9	27.1	23.5	35.3	45.2	4.8	9.3	3.4	27.3
Mexico	24.0	30.3	36.7	35.4	48.7	24.5	-19.3	-13.4	-1.4	6.6
Peru	45.8	10.2	-14.8	1.6	47.0	43.6	29.3	9.9	2.0	34.8
Venezuela	30.8	58.1	-2.5	-23.8	-19.2	24.0	-28.1	-32.4	-20.7	17.2
Non-oil-exporting countries	15.9	22.3	31.5	42.5	46.1	52.6	30.0	14.6	11.1	15.7
Argentina	-17.1	-24.5	5.8	48.3	43.4	25.6	26.2	26.0	9.5	31.3
Brazil	39.3	51.5	62.7	58.8	46.1	74.3	29.0	-0.1	1.1	16.6
Colombia	-12.8	-7.4	-9.6	3.9	45.8	69.1	79.9	27.3	30.1	-7.1
Costa Rica	23.6	36.1	50.5	54.9	34.7	24.6	29.2	20.8	27.7	12.2
Chile	21.8	37.6	26.1	33.9	96.0	51.1	25.1	47.1	30.0	22.6
El Salvador	-2.0	31.6	-1.2	-	29.4	33.0	24.2	27.2	23.3	19.4
Guatemala	2.8	20.9	14.2	9.5	39.7	31.3	19.2	30.8	21.3	2.7
Haiti	40.2	39.8	45.5	45.9	100.3	69.8	71.1	63.7	42.8	49.3
Honduras	23.9	24.7	24.4	35.1	36.3	32.5	31.7	43.4	39.4	27.2
Nicaragua	26.7	4.8	-13.4	99.2	101.8	115.1	112.2	117.4	201.5	234.6
Panama	20.4	25.6	31.9	11.2	0.6	4.2	-10.5	15	-4.0	-8.7
Paraguay	15.2	27.2	40.9	49.1	66.9	61.3	54.4	42.0	21.2	25.9
Dominican Republic	14.2	38.1	31.7	53.1	26.4	40.0	35.3	16.3	24.1	18.2
Uruguay	21.2	14.5	30.4	46.9	27.5	15.9	5.0	10.8	9.5	-4.4

Source: ECLAC, on the basis of official figures.

*Negative figures indicate a surplus on the balance-of-payments current account.

Preliminary figures.

VI. THE EXTERNAL DEBT

1. The evolution of external indebtedness

In 1986 the growth rate of the external debt was low, thereby maintaining the trend of the two preceding years. Indeed, the year-end debt balance was estimated at US\$388 billion, which represented an increase of slightly less than 4% (see table 31). If the almost 2% increase in prices in the industrialized countries is taken into account, then the level of debt in real terms increased only slightly, after having remained stagnant in 1984 and declining in 1985. Moreover, almost the whole of the increase in the debt in 1986 was attributable to the revaluation of liabilities expressed in currencies other than the dollar as a result of the latter's decline in value on international markets during the year. Consequently, the region as a whole did not incur any additional debt in net terms.

The increase in the individual countries' indebtedness was in keeping with the low average rate of growth of the debt. Furthermore, Venezuela's debt fell for the third year running, bringing its level to 10% below that recorded in 1983. The only debts to increase significantly were those of Colombia, Ecuador, Haiti, Bolivia, Nicaragua and the Dominican Republic; this was largely accounted for by loans from official sources and, in the case of the last three countries, the accumulation of arrears with some creditors.

The available information on international capital transactions in 1986 indicates that the evolution of the debt in Latin America continued to be restricted by the virtual cessation of lending activity by private banks in respect of the region and the inability of official sources to offset this trend to any significant extent. Estimates made by the Bank for International Settlements indicate that in 1986 net credit granted by private banks to Latin America increased by merely US\$2 billion in nominal terms (1 %) over 1985 (see table 32). Moreover, this increase was due to the revaluation of loans expressed in currencies other than the dollar; if they are adjusted for variations in exchange rates, it emerges that the amount of credit granted by international banks in fact fell slightly in absolute terms.¹

The net commitments of the private international banking system fell in nominal terms in all the petroleum-exporting countries except Ecuador, where they rose by 3%. In the non-petroleum-exporting countries, these commitments rose significantly only in Argentina, Costa Rica, Haiti and Paraguay, although this phenomenon, here again, was partly due to the revaluation of bank credits expressed in currencies other than the dollar.

The data relating to United States banks provides a number of further criteria for assessing the nature of the cutback in external financing. At the end of 1986, the net commitments of United States banks in Latin America were 5 % lower than at the end of 1985 and 4% below their June 1982 balance (just a few months before the outbreak of the debt crisis) (see table 33). Although the net commitments of the nine principal United States banks increased by 5% between June 1982 and December 1986, medium-sized and small banks reduced their commitments considerably (18%). This illustrates the fact that the largest banks are the creditors with the heaviest exposure in the region inasmuch as they have been compelled to participate in the involuntary package loans which constitute part of both the adjustment programmes sponsored by the IMF and the debt rescheduling

Table 29

**LATIN AMERICA: NET INFLOW OF CAPITAL
AND TRANSFER OF RESOURCES**

(Billions of dollars and percentages)

	Effective net inflow of capital" (1)	Unregistered transactions (2)	Net inflow of capital +2) (3)	2/1 (4)	Net payments of profits and interest (5)	Transfer of resources (1-5) (6) (3-5) (7)		Exports of goods and services (8)	6/8 (9)	7/8 (10)
1976	18.9	-1.0	17.9	-5.3	6.8	12.1	11.1	47.3	25.6	23.5
1977	15.5	1.7	17.2	11.0	8.2	7.3	9.0	55.8	13.1	16.1
1978	24.3	1.8	26.1	7.4	10.2	14.1	15.9	61.3	23.0	25.9
1979	26.9	2.2	29.1	8.2	13.6	13.3	15.5	82.0	16.2	18.9
1980	35.2	-5.7	29.5	-16.2	17.9	17.3	11.6	107.6	16.1	10.8
1981	48.5	-11.0	37.5	-22.7	27.1	21.4	10.4	116.1	18.4	9.0
1982	30.0	-9.9	20.1	-33.0	38.7	-8.7	-18.6	103.2	-8.4	-18.0
1983	6.0	-3.0	3.0	-50.0	34.3	-28.3	-31.3	102.4	-27.6	-30.6
1984	9.4	0.1	9.5	1.1	36.3	-26.9	-26.8	114.1	-23.6	-23.5
1985	5.7	-2.3	3.4	-40.4	34.8	-29.1	-31.4	109.0	-26.7	-28.8
1986 ^c	9.5	-0.9	8.6	-9.5	30.5	-21.0	-21.9	94.6	-22.2	-23.2

Source: 1976-1985: International Monetary Fund, 1986: ECLAC, on the basis of official data.

"Equivalent to net inflow of capital minus unregistered transactions. Corresponds to balance-of-payments item "errors and omissions". ¹Preliminary estimates. Does not include unregistered transactions for Argentina, Costa Rica, Panama and the Dominican Republic.

*The data on the volume of bank assets may to some extent underestimate actual loans due to the existence of writedowns, swaps and debt conversion operations.

Table 30

LATIN AMERICA: NET TRANSFER OF RESOURCES"

	Net transfer of resources (millions of dollars)					Relation between the net transfer of resources and exports of goods and services (percentages)				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986*
Latin America'	-19 744	-32 068	-27 535	-31 687	-22 724	-19.0	-31.3	-24.3	-30.5	-23.6
Oil-exporting countries	-15 113	-19 621	-18 734	-17 132	-8 956	-29.4	-39.1	-34.4	-36.7	-23.6
Bolivia	-184	-119	-61	-76	371	-20.2	-13.9	-7.5	-10.6	56.3
Ecuador	-137	-625	836	-940	-327	-5.1	-23.6	-28.9	-29.1	-13.0
Mexico	-9 972	-12 580	-12 088	-11 936	-5 221	-38.1	-46.3	-40.1	-43.1	-23.7
Peru	654	-74	-538	-596	-139	16.0	-2.0	14.1	-16.3	-4.2
Venezuela	-5 474	-6 223	-5 212	-3 584	-3 640	-31.2	-39.3	-31.0	-23.8	-38.4
Non-oil-exporting countries	-4 631	-12 447	-8 801	-14 555	-13 768	-8.6	-23.8	-15.0	-25.1	-23.5
Argentina	-3 368	-5 935	-3 484	-3 715	-2 900	-36.7	-63.9	-36.3	-37.0	-34.9
Brazil	-2 390	-6 262	-6 131	-11 434	-9 949	-10.9	-26.5	-21.2	-41.3	-40.9
Colombia	1 226	-16	-514	95	-584	27.7	-0.4	-9.9	2.0	-9.0
Costa Rica	23	39	-112	83	-61	2.1	3.4	-9.3	7.0	-4.5
Chile	-1 009	-1 162	152	-696	-1 042	-21.7	-25.1	3.4	-15.5	-21.0
El Salvador	137	114	149	177	113	16.6	13.1	16.7	20.7	12.7
Guatemala	248	163	182	188	-130	19.4	13.9	14.8	16.2	-11.1
Haiti	155	162	158	101	155	57.4	56.3	52.8	29.5	53.1
Honduras	2	55	204	197	78	0.3	6.9	23.8	20.8	7.8
Nicaragua	276	526	551	514	780	61.7	113.6	130.6	152.1	267.1
Paraguay	381	191	273	48	109	61.8	41.2	35.4	4.4	10.1
Dominican Republic	57	5	79	56	-246	5.0	0.4	5.8	4.2	-18.2
Uruguay	-369	-288	-308	-169	-91	-24.0	-20.4	-23.9	-13.5	-6.1

Source: ECLAC, on the basis of data provided by the International Monetary Fund, *Balance of Payments Yearbook, 1987*.

*The net transfer of resources is equal to net capital inflow minus payments for factor services.

Preliminary figures. †excluding Panama.

process. In contrast, small and medium-sized institutions, which in general have far lower commitments in the region, have had much less of an incentive to participate in involuntary lending and have consequently reduced the absolute level of their net commitments. However, it should be pointed out that in 1986 all United States banks, regardless of their size, reduced their net commitments in Latin America.

During the period of almost five years between June 1982 and December 1986, the net commitments of the United States banking system shrank substantially in most of the countries of Latin America. This was even the case in countries which had not been affected by a debt crisis, such as Colombia. The system increased its commitments only in Argentina, Brazil, Chile and Uruguay, as the fresh loans from major banks more than offset the withdrawal of small and medium-sized institutions (see table 33).

The retreat made by private banks means that official lending has become the sole source of additional net credit. Nevertheless, even this sphere has been beset by problems. During 1986, the International Monetary Fund (IMF) emerged as a net recipient of funds from Latin America and the Caribbean, since amortization and interest payments on earlier standby loans exceeded fresh disbursements. Meanwhile, the net transfer of World Bank funds to the region fell to just US\$200 million as against US\$1.2 billion during the previous fiscal year. The Inter-American Development Bank (IDB)

also encountered problems in meeting its credit targets, since many Latin American countries found it necessary to devote a considerable percentage of their domestic savings to financing transfers of resources abroad and thus had little left over for the counterpart funds they would have needed to proceed with investment projects partly financed by the IDB.

The fall in international interest rates which had begun in mid-1984 continued in 1986. During the second half of the year the LIBOR rate stabilized at around 6%, which was its lowest level since 1977 and a far more favourable one than that recorded in 1985 (see table 34). It has been calculated that this drop signified a saving of approximately US\$5 billion for Latin America (excluding Panama) as against the payments of US\$37 billion made in 1985. The countries which saved the most as a result of this lower rate were those which had a high proportion of variable rate loans with commercial banks: Mexico (85%), Chile and Venezuela (84%), Brazil (75%), Argentina (70%) and Ecuador (68%).

Despite the decrease in international interest rates in nominal terms, debt servicing continued to constitute a heavy burden in 1986. The real LIBOR rate (the nominal rate adjusted for world inflation) remained virtually unchanged in comparison with 1985 and, for the sixth consecutive year, was more than double the 2% rate which is the approximate historical average (see figure 11). An alternative way of calculating a real rate is by deflating nominal rates by the price variations in the exports of the debtor countries. In view of the steep decline in export prices in 1986, the real rate of interest, when calculated on this basis, showed a sharp increase over the already high real rate recorded in 1985.

Table 31

LATIN AMERICA: TOTAL DISBURSED EXTERNAL DEBT¹

	End-of-year balances in millions of dollars						Annual growth rates				
	1981	1982	1983	1984	1985	1986 ²	1979-1981	1982-1983	1984	1985	1986 ³
Latin America	284 777	328 527	350 824	364 549	374 064	388 567	23.3	11.0	3.9	2.6	3.9
Oil-exporting countries	126 609	143 202	152 415	155 208	156 462	159 631	25.3	9.7	1.8	0.8	2.0
Bolivia ⁴	2 824	2 889	3 265	3 272	3 323	3 696	15.8	7.7	0.2	1.6	11.2
Ecuador	5 868	6 187	6 908	7 198	7 772	8 626	25.5	8.4	4.2	8.0	11.0
Mexico	74 900	87 600	93 800	96 700	97 800	100 500	30.8	12.0	3.1	1.1	2.8
Peru	9 606	11 465	12 445	13 338	13 721	14 468	1.3	13.4	7.2	2.9	5.4
Venezuela	33 411	35 061	35 997	34 700	33 846	32 341	27.5	3.8	-3.6	-2.5	-4.4
Non-oil-exporting countries	158 168	185 325	198 409	209 341	217 602	228 936	21.8	12.0	5.5	4.0	5.2
Argentina	35 671	43 634	45 087	46 903	48 312	50 300	41.9	12.4	4.0	3.0	4.1
Brazil	79 97 ⁵	91 304 ⁶	97 855 ⁶	102 039	105 126	110 282	14.4	10.7	4.3	3.0	4.9
Colombia	8 042	9 528	10 554	11 611	12 847	14 761	25.6	14.6	10.0	10.6	14.9
Costa Rica	2 687	3 188	3 532	3 752	3 742	3 739	21.6	14.7	1.1	-0.3	-0.1
Chile	15 591	17 159	18 037	19 659	20 403	20 670	30.5	7.6	9.0	3.8	1.3
El Salvador	1 608	1 808	2 023	2 095	2 162	2 200	17.7	13.4	3.6	3.2	1.8
Guatemala	1 385	1 841	2 149	2 505	2 624	2 641	19.0	27.8	16.6	4.8	0.6
Haiti ⁷	372	410	551	607	599	680	26.5	21.7	10.2	-1.3	13.5
Honduras	1 588	1 986	2 162	2 392	2 803	2 931	17.5	17.0	10.6	17.2	4.6
Nicaragua ⁸	2 566	3 139	3 789	4 362	4 936	5 773	27.1	21.5	15.1	13.2	17.0
Panama ⁹	2 333	2 810	3 392	3 644	3 674	3 874	7.5	20.6	7.4	0.8	5.4
Paraguay	949	1 204	1 469	1 654	1 773	1 842	12.4	24.4	12.6	7.2	3.9
Dominican Republic	2 286	3 076	3 237	3 447	3 701	4 050	19.9	19.9	6.5	7.4	9.4
Uruguay	3 112	4 238	4 572	4 671	4 900	5 193	36.1	22.0	2.2	4.9	6.0

Source: ECLAC, on the basis of official data.

¹Includes debt with the IMF.

²Preliminary figures.

³Public debt.

⁴Total debt according to official data and

information supplied by international financial agencies.

⁵Total debt according to World Bank data.

Table 32

PRIVATE BANKS' EXPOSURE IN LATIN AMERICA^a

	End-of-year ^a balances in millions of dollars				Growth rates		
	1983	1984	1985	1986 ^b	1984	1985	1986 ^c
Latin America^c	237 502	238 261	244 165	246 305	0.3	2.5	0.9
Oil-exporting countries	112 517	108 957	111 747	109 834	-3.2	2.6	-1.7
Bolivia	740	685	620	615	-7.4	-9.5	-0.8
Ecuador	5 086	4 937	5 172	5 342	-2.9	4.8	3.3
Mexico	71 955	72 332	74 520	73	964	0.5	3.0
Peru	6 478	5 698	5 608	5 185	-12.0	-1.6	-7.5
Venezuela	28 258	25 305	25 827	24 728	-10.5	2.1	-4.3
Non-oil-exporting countries^c	124 985	129 304	132 418	136 471	3.5	2.4	3.1
Argentina	27 377	26 081	28 937	31 373	-4.7	11.0	8.4
Brazil	71 162	76 871	76 890	78 761	8.0	-	2.4
Colombia	7 554	7 098	6 461	6 564	-6.0	-9.0	1.6
Costa Rica	1 074	860	836	892	-19.9	-3.0	6.7
Chile	13 049	13 639	14 335	13 925	4.5	5.1	-2.9
El Salvador	213	222	218	214	4.2	-1.8	-1.8
Guatemala	580	486	604	505	-16.2	24.3	-16.4
Haiti	40	29	28	30	-27.5	-3.4	7.1
Honduras	396	394	345	339	-0.5	-12.4	-1.7
Nicaragua	663	554	783	782	16.4	41.3	-0.1
Paraguay	401	614	545	645	53.1	-11.2	18.3
Dominican Republic	542	436	447	444	-19.6	2.5	-0.7
Uruguay	1 934	2 020	1 953	1 997	4.4	-3.3	2.3

Source: Bank for International Settlements.

^aTotal assets. No adjustments have been made for changes in the exchange rate between the dollar and other currencies. ^bPreliminary figures. ^cDoes not include Panama.

The lower prices of exports of goods and services in 1986 also helped account for the fall in export income, which virtually cancelled out the foreign exchange savings derived from the lower international rates of interest. As a consequence, the region's interest/export coefficient (excluding Panama) remained at the high level recorded in 1985 (34%), which was roughly double the average ratio for the three-year period 1978-1980 (see table 35).

The level of this coefficient differed depending on whether the debtors were petroleum exporters or not. In the case of the former, with the exceptions of Bolivia and Peru, export income fell as much as or more than interest payments; as a result, the coefficient for this group rose by three percentage points as against 1985 to the onerous figure of 35%. In the case of the non-petroleum-exporting countries, on the other hand, the average coefficient was 34%, which was a drop of two percentage points. In countries such as Uruguay, Costa Rica, Chile and El Salvador, the fall in the interest payments/export ratio reflected a combination of lower interest payments and increased export earnings. The improved figure for Colombia, however, was entirely accounted for by the sharp increase in the value of its exports. In contrast, the fall in Nicaragua's coefficient was exclusively due to its lower interest payments, which more than offset the decline in exports. The rise in the ratio in countries such as the Dominican Republic and Paraguay reflected the repercussions of their increased interest payments and lower external sales; in other countries such as Argentina, Brazil and Haiti, however, the impact of the lower interest payments was cancelled out by the decrease in the value of their exports.

Table 33
UNITED STATES BANKS' EXPOSURE IN LATIN AMERICA

	Millions of dollars									Growth rates					
	June 1982			December 1985			December 1986			December 1986/ December 1985			December 1986/ June 1982		
	Nine largest	Rest	Total	Nine largest	Rest	Total	Nine largest	Rest	Total	Nine largest	Rest	Total	Nine largest	Rest	Total
Latin America	48 714	33 368	82 082	52 237	30 853	83 090	51 209	27 479	78 688	-2.0	-10.9	-5.3	5.1	-17.6	-4.1
Oil-exporting countries	23 567	17 285	40 852	22 909	14 884	37 793	21 645	13 897	35 542	-5.5	-6.6	-6.0	-8.2	-19.6	-13.0
Bolivia	231	137	368	55	48	103	43	46	89	-21.8	-4.2	-13.6	-81.4	-66.4	-75.8
Ecuador	1 257	910	2 167	1 207	749	1 956	1 222	795	2 017	1.2	6.1	3.1	-2.8	-12.6	-6.9
Mexico	13 602	14 619	25 221	13 834	10 606	24 440	13 473	10 072	23 545	-2.6	-5.0	-3.7	-0.9	-13.3	-6.6
Peru	1 330	1 017	2 347	867	640	1 507	652	506	1 158	-24.8	-20.9	-23.2	-51.0	-50.2	-50.7
Venezuela	7 147	3 602	10 749	6 946	2 841	9 787	6 255	2 478	8 733	-9.9	-12.8	-10.8	-12.5	-31.2	-18.8
Non-oil-exporting countries	25 147	16 083	41 230	29 328	15 969	45 297	29 564	13 582	43 146	0.8	-14.9	-4.7	17.6	-15.6	4.6
Argentina	5 595	3 212	8 807	6 203	2 533	8 736	6 425	2 621	9 046	3.6	3.5	3.5	14.8	-18.4	2.7
Brazil	12 336	8 179	20 515	15 837	9 735	25 572	16 160	7 464	23 624	2.0	-23.3	-7.6	31.0	-8.7	15.2
Colombia	2 075	961	3 036	1 843	692	2 535	1 534	621	2 155	-16.8	-10.3	-15.0	-26.1	-35.4	-29.0
Costa Rica	221	259	480	213	208	421	210	189	399	-1.4	-9.1	-5.2	-5.0	-27.0	-16.9
Chile	3 314	2 761	6 075	3 900	2 349	6 249	4 022	2 232	6 254	3.1	-5.0	0.1	21.4	-19.2	2.9
El Salvador	53	16	69	23	26	49	15	40	55	-34.8	53.8	12.2	-71.7	150.0	-20.3
Guatemala	96	53	149	41	27	68	33	13	46	-19.5	-51.9	-32.4	-65.6	-75.5	-69.1
Honduras	139	64	203	60	37	97	66	40	106	10.0	8.1	9.3	-52.5	-37.5	-47.8
Nicaragua	257	168	425	44	46	90	25	41	66	-43.2	-10.9	-26.7	-90.3	-75.6	-84.5
Paraguay	299	28	327	154	17	171	94	13	107	-39.0	-23.5	-37.4	-68.6	-53.6	-67.3
Dominican Republic	338	108	446	317	110	427	300	99	399	-5.4	-10.0	-6.6	-11.2	-8.3	-10.5
Uruguay	424	274	698	693	189	882	680	209	889	-1.9	10.6	0.8	60.4	-23.7	27.4

Source: ECLAC, on the basis of figures supplied by the United States Federal Financial Institutions Examination Council (1982, 1985 and 1986).

Table 34

NOMINAL AND REAL INTERNATIONAL INTEREST RATES

(Percentages)

	Nominal LIBOR ^a	Nominal Prime rate ^b	CPI indus- trial- ized coun- tries (3)	Variation in unit value of Latin American exports (4)	Real LIBOR		Real Prime rate	
					(D)/(3)	^d (D)/(4)	(2)/(3)	(2)/(4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974	11.20	10.81	13.3	65.7	-1.9	-32.9	-2.2	-33.1
1975	7.61	7.86	11.1	2.6	-3.1	4.9	-2.9	5.1
1976	6.12	6.84	8.3	7.5	-2.0	-1.3	-1.3	-0.6
1977	6.42	6.83	8.4	17.2	-1.8	-9.2	-1.4	-8.8
1978	8.33	9.06	7.2	0.3	1.1	8.0	1.7	8.7
1979	11.99	12.67	9.2	22.7	2.6	-8.7	3.2	-8.2
1980	14.15	15.27	11.9	26.6	2.0	-9.8	3.0	-8.9
1981	16.52	18.85	9.9	-0.9	6.0	17.6	8.1	19.9
1982	13.25	14.77	7.5	-9.9	5.3	25.7	6.8	27.4
1983	9.79	10.81	5.0	-7.1	4.6	18.2	5.5	19.3
1984	11.20	12.04	4.8	2.6	6.1	8.4	6.9	9.2
1985	8.64	9.93	4.2	-6.0	4.3	15.6	5.5	16.9
1986	6.82	7.99	2.3	-12.7	4.4	22.4	5.9	23.7
1984								
I	11.10	11.68	5.1		5.7		6.3	
II	11.30	12.40	4.5		6.5		7.6	
1985								
I	9.05	10.37	4.4		4.5		5.6	
II	8.23	9.50	4.0		4.1		5.3	
1986								
I	7.43	8.98	2.8		4.5		6.0	
II	6.20	7.70	1.9		4.2		5.7	

Source: ECLAC, on the basis of data from Morgan Guaranty Trust, *World Financial Markets*, and International Monetary Fund, *International Financial Statistics*.

^aCorresponds to the interest rate for 180-day Eurodollar deposits in London. ^bPreferential rate granted by United States banks to their best clients. ^cNominal rate deflated by the consumer price index of the industrialized countries. ^dLIBOR deflated by the unit value of Latin American exports of goods.

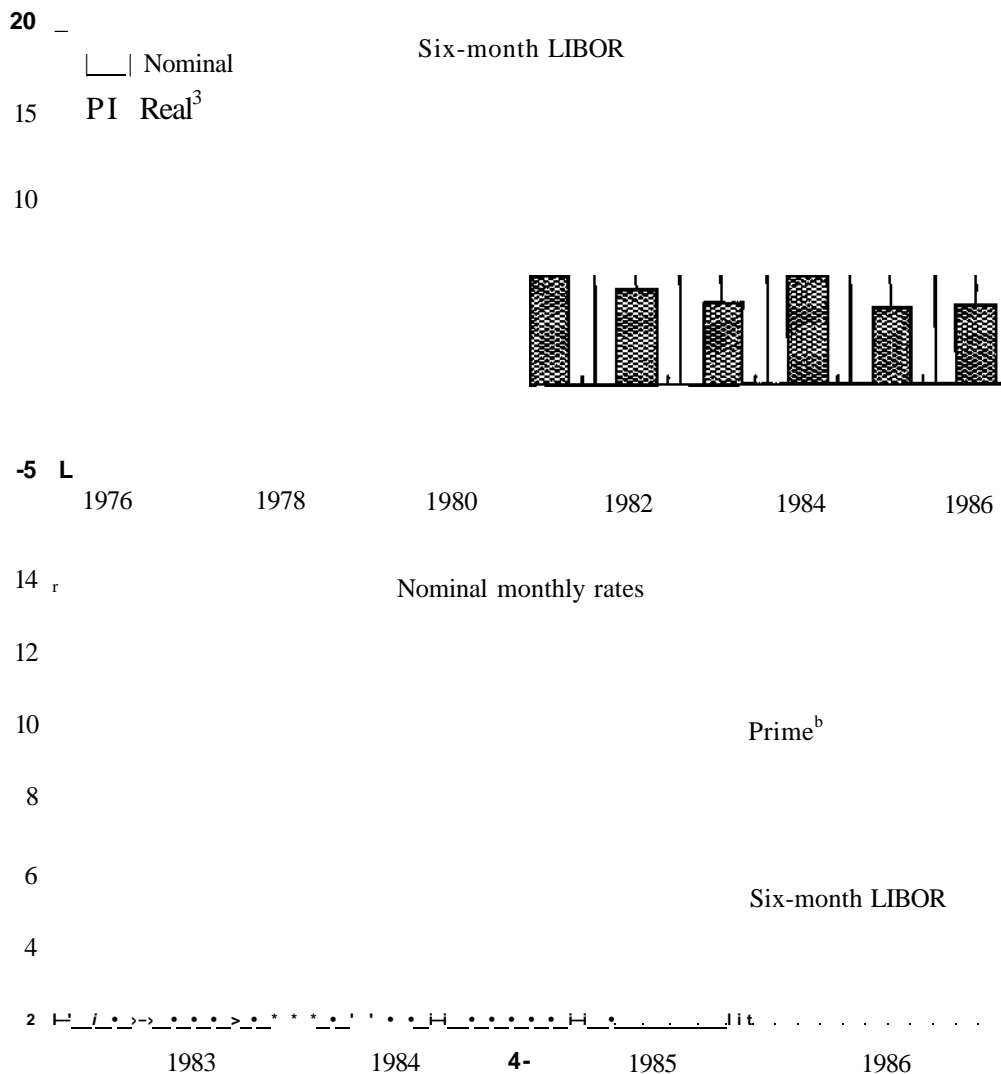
Although interest payments fell in 1986, the region's capacity to finance them with the surplus from its trade in goods and services took a sharp turn for the worse. For Latin America as a whole (excluding Panama) the trade surplus was equivalent to 45% of interest payments, as against 82% and 90% in 1985 and 1984, respectively. This difference was primarily due to the sharp decline in the external sales of the petroleum-exporting countries, as a result of which the average percentage of interest payments financed by the trade surplus fell from 100% in 1985 to 40% in 1986. For the non-petroleum-exporting countries, this figure dropped from 68% to 49% (see table 36).

There were nonetheless striking contrasts among those countries which earned a trade surplus. In the group of petroleum-exporting countries, Mexico and, to a lesser extent, Ecuador managed to obtain substantial surpluses, although they were lower than those recorded in 1985. In contrast, Bolivia, Peru and Venezuela saw their surpluses become deficits. In the group of non-petroleum-exporting countries, Argentina's and Brazil's disappointing external trade performance pushed down their respective coverages from 93% and 97% in 1985 to 52% and 62% in 1986. The percentage of interest payments financed by the trade surplus in Colombia and Uruguay rose sharply, however,

reaching the equivalent of 97% and 93%, respectively. In Chile this percentage rose from 30% to 39% while Costa Rica transformed its negative coverage into a slightly positive one.

The slump in exports and the consequent increase in the debt burden was also apparent in the debt/exports coefficient. For the region as a whole, the ratio climbed steeply from 343% in 1985 to 411% in 1986 (see table 37). This figure constituted an all-time high and was almost double that recorded in 1980. As was to be expected, the fall in petroleum prices led to a substantial rise in this coefficient for all the petroleum-exporting countries: the record average (420%) was 35% higher than in 1985 and was more than double the figure for 1980. Bolivia's coefficient broke the 500% barrier, while that of Mexico edged towards this level.

Figure 11
INTERNATIONAL INTEREST RATES
(Percentages)



Source: ECLAC, on the basis of information from the International Monetary Fund, *International Financial Statistics*.

^aNominal rate deflated by the consumer price index of the industrialized countries. ^bPrime rate granted by United States banks to their best clientes.

Table 35

LATIN AMERICA: RELATION BETWEEN TOTAL INTEREST PAYMENTS
AND EXPORTS OF GOODS AND SERVICES"*(Percentages)*

	1978	1980	1981	1982	1983	1984	1985	1986*
Latin America ⁰	15.7	19.5	27.1	39.6	35.0	34.7	34.1	34.3
Oil-exporting countries	16.1	16.6	22.6	35.6	31.7	32.3	32.2	35.3
Bolivia	13.7	25.0	34.5	43.4	39.9	49.9	46.8	42.6
Ecuador	10.4	18.3	24.3	30.1	27.4	30.7	27.0	30.9
Mexico	24.0	23.3	29.0	47.3	37.5	39.0	36.0	37.9
Peru	21.2	16.0	24.1	25.1	29.8	33.2	30.0	26.7
Venezuela	7.2	8.1	12.7	21.0	21.6	20.1	26.1	32.8
Non-oil-exporting countries ⁰	15.5	22.3	31.6	43.5	38.4	36.9	35.8	33.6
Argentina	9.6	22.0	35.5	53.6	58.4	57.6	51.1	50.6
Brazil	24.5	34.1	40.4	57.1	43.5	39.6	40.0	41.4
Colombia	7.5	11.8	21.8	25.9	26.7	22.8	26.3	19.6
Costa Rica	9.9	18.0	28.0	36.1	33.1	27.9	29.0	19.9
Chile	16.9	19.3	38.8	49.5	38.9	48.0	43.2	38.6
El Salvador	5.3	5.9	7.9	11.9	12.3	12.3	12.9	12.5
Guatemala	3.7	5.3	7.5	7.8	8.7	12.3	14.9	16.4
Haiti	2.8	2.0	2.5	2.2	2.4	5.4	5.3	3.4
Honduras	8.2	10.6	14.5	22.4	16.4	15.8	15.3	15.5
Nicaragua	9.3	17.8	21.9	32.2	14.3	12.1	13.3	8.9
Paraguay	8.4	13.4	14.8	13.5	14.3	10.1	8.3	9.3
Dominican Republic	14.0	14.8	19.0	22.6	24.5	18.0	22.2	28.8
Uruguay	10.4	11.0	12.9	22.4	24.8	34.8	34.2	24.7

Source: ECLAC, on the basis of data from the International Monetary Fund.

Including interest on the short-term debt. Preliminary figures. *Does not include Panama.

In the non-petroleum-exporting countries the debt/exports ratio also rose, although more moderately, to a level of 405 %. This figure also constituted a new record, as it surpassed the highest level registered until that time (381% in 1983) and was 1.7 times higher than the figure for 1980.

However, this regional average conceals the great diversity of circumstances existing in the different countries. Thus, the increase in the debt and the decline in exports caused a sharp rise in the debt/exports coefficient in Nicaragua and Argentina. In Nicaragua the coefficient soared by more than 500 points to almost 2 000%, while in Argentina it jumped by 100 points to 606%. For similar reasons, the coefficient also rose, although more moderately, in Brazil, Paraguay and the Dominican Republic. In contrast, in Colombia, Uruguay, Chile and Costa Rica the debt/exports coefficient fell sharply. In the first two of these countries, the decrease was accounted for by the vigorous expansion of exports, while in the other two it was also due to the growth rate of the debt, which was very low in Chile and nil in Costa Rica. The coefficient also fell, although by less, in El Salvador, Guatemala, Honduras and Panama, where the expansion of exports was greater than the growth rate of the external debt.

To sum up, the most noteworthy features of the region's external indebtedness in 1986 were the complete lack of net disbursements of credit by private banks and the deterioration in major indicators of the debt burden, which reached levels as bad as or even worse than those recorded at the onset of the crisis.

2. Debt renegotiations

The year was an eventful one in respect of debt renegotiations. The opening of the year followed upon the increasingly insistent demands made by the debtor countries in 1985 for a more equitable sharing of the costs of the debt crisis, a sentiment which found its full expression in the "Emergency Proposal for Negotiations on Debt and Growth" presented in the Montevideo Declaration of the Cartagena Consensus in mid-December of that year.

The already difficult circumstances surrounding debt negotiations were further complicated by the spectacular drop in world petroleum prices during the first quarter of 1986. This severely eroded the payment capacity of two of the region's principal debtors —Mexico and Venezuela— as well as that of other smaller debtor countries (Peru, Ecuador and Bolivia). It also precipitated the opening of a fourth round of negotiations on Latin America's external debt (see tables 38 and 39).

Many of the events of the 1986 debt negotiations revolved around the Mexican case. The adjustment programme applied by Mexico began to run into difficulties in 1985. Accordingly, towards the end of that year consideration was given to a new global financial proposal for 1986 which called for fresh loans of approximately US\$4 billion, of which US\$2.5 billion was to come from private banks. Nevertheless, after petroleum prices plummeted at the beginning of 1986, the Mexican authorities suggested during the first quarter of the year that they might need between US\$9 billion and US\$10 billion in fresh financing.

Mexico's creditors put up staunch resistance to its attempts to obtain fresh funds. Negotiations dragged on until mid-1986, when the recessionary conditions implicit in the creditors' counterproposals prompted the Mexican government to harden its position. The resolute negotiating stance

Table 36

LATIN AMERICA: RELATION BETWEEN THE TRADE SURPLUS AND TOTAL INTEREST PAYMENTS"

(Percentages)

	1978	1980	1981	1982	1983	1984	1985	1986 ⁴
Latin America'	-89.3	-47.6	-40.7	-3.6	75.5	90.4	82.2	45.4
Oil-exporting countries'	-155.8	40.8	-15.7	19.0	139.0	128.5	100.3	40.1
Bolivia	-252.1	77.7	-40.1	49.4	35.4	38.0	4.2	-70.5
Ecuador	-263.1	-11.3	-29.8	-25.0	101.7	84.9	110.8	35.4
Mexico	-23.0	-40.6	-55.6	50.9	142.2	119.0	89.5	68.2
Peru	64.8	102.7	-89.7	-72.5	3.5	62.0	86.7	-36.3
Venezuela	-755.8	300.0	144.3	-56.2	196.9	205.0	137.6	-2.4
Non-oil-exporting countries'	-39.5	-108.9	-58.4	-21.9	24.4	60.1	68.2	49.2
Argentina	350.0	-146.7	-19.7	54.1	63.9	65.9	92.6	52.4
Brazil	-84.7	-79.6	-16.3	-22.3	39.7	99.1	97.2	61.8
Colombia	176.4	-20.0	-184.2	-197.8	-194.9	-12.7	-20.7	96.7
Costa Rica	-266.0	-212.5	-38.6	18.1	-4.3	7.1	-12.9	-10.9
Chile	-136.8	-91.7	-167.0	-16.5	31.8	-5.0	30.2	38.7
El Salvador	-581.6	62.5	-324.7	-222.4	-174.8	-236.4	-232.7	-244.1
Guatemala	-783.0	-247.8	-530.3	-348.0	-139.2	-131.8	-55.5	40.4
Haiti	-1 633.	-2 967.0	-4 883.0	-3 717.0	-3 386.0	-1 381.0	-1 244.0	-1 810.0
Honduras	-158.9	-185.0	-138.3	-32.6	-84.7	-151.1	-130.6	-60.0
Nicaragua	94.0	-470.5	-400.0	-265.3	-700.0	-902.0	-1 411.0	-2 550.0
Paraguay	-251.4	-361.8	-514.6	-536.1	-371.2	-370.5	-197.8	-264.0
Dominican Republic	-281.0	-346.0	-106.3	-152.3	-110.5	-75.7	-93.2	-67.1
Uruguay	-61.1	-367.9	-180.5	-14.0	62.0	49.4	54.4	92.7

Source: ECLAC, on the basis of data from the International Monetary Fund

"A minus sign indicates a trade deficit.

'Preliminary figures.

'Does not include Panama.

Table 37

**LATIN AMERICA: RELATION BETWEEN TOTAL DISBURSED
EXTERNAL DEBT AND EXPORTS OF GOODS
AND SERVICES**

(Percentages)

	1978	1980	1981	1982	1983	1984	1985	1986 ^a
Latin America	249	211	245	318	343	320	343	411
Oil-exporting countries	254	186	219	279	303	285	311	421
Bolivia	259	227	281	317	381	400	462	561
Ecuador	175	162	201	230	261	249	240	343
Mexico	316	216	259	335	345	321	353	457
Peru	388	206	239	281	334	349	375	438
Venezuela	167	148	160	200	227	206	225	341
Non-oil-exporting countries	245	234	271	358	381	352	370	404
Argentina	167	275	329	475	485	488	481	606
Brazil	391	320	313	416	414	353	379	454
Colombia	103	121	188	215	279	225	274	228
Costa Rica	186	184	229	286	312	310	311	270
Chile	238	188	311	370	390	437	454	411
El Salvador	107	97	174	220	232	234	253	247
Guatemala	63	61	96	144	183	204	226	225
Haiti*	88	87	155	152	191	203	175	233
Honduras	143	147	180	259	270	279	295	294
Nicaragua	174	369	464	702	818	1 034	1 460	1 977
Panama		65	63	78	115	124	112	105
Paraguay	154	152	171	195	317	214	163	171
Dominican Republic	161	162	151	269	261	252	281	320
Uruguay	136	141	183	276	324	362	392	346

Source: ECLAC, on the basis of official data.

*Preliminary figures. Relation between the external public debt and exports of goods and services.

adopted by Mexico made it necessary for the creditors to give ground, as they feared the direct consequences which a unilateral declaration of a moratorium by Mexico would have for them, as well as the indirect demonstration effect that it, together with a break with the IMF, might have on other debtor countries.

The new plan put forward by Mexico gave concrete expression to the principles set out in the Baker Plan and marked the beginning of the fourth round of debt reschedulings. In exchange for its acceptance of an adjustment programme agreed upon with the IMF involving the introduction of major reforms to liberalize the economy, Mexico received an explicit guarantee that the funds needed to finance growth of not less than 3% in 1987 would be forthcoming.

The main innovation in this agreement was the provision that global financing would conform to the country's economic growth requirements rather than the reverse, as had been the case in the adjustment programmes agreed upon in the first three rounds of reschedulings. Thus, the amount of financing to be made available would be adjusted in accordance with circumstances on the petroleum market and economic growth trends: should the price of petroleum fall below US\$9 per barrel, the supply of credit would automatically be increased; if, on the other hand, it were to rise above US\$14, less credit would be made available. Moreover, if projections indicated that economic growth would fail to attain the minimum target set for 1987 (3%), Mexico would be entitled to US\$500 million in fresh funds to stimulate public investment and economic activity. Within the US\$9-US\$14 petroleum price bracket, the proposal relating to global financing for the 18-month period up to December 1987

Table 38

**LATIN AMERICA (SELECTED COUNTRIES): RENEGOTIATION
OF EXTERNAL DEBT WITH PRIVATE BANKS
(THIRD ROUND OF RENEGOTIATIONS, 1984/1985)^a**

(Millions of dollars)

	Gross bank debt ^b at end of 1985	Start of negoti-	Renegotiation of debt with private banks				Maturities of resched-uled amortizations	Loans granted in 1985		Maintenance of lines of short-term credit	
			Total	Public	Private	IMF ^c		Fresh credit	Com-mercial	Inter-bank	
Argentina	28 937	Dec 1983	13 500 ^b	10 000	3 500	1982-1985	964	4 200; 483 ^d	1 200	1 400	
Bolivia	620	Oct 1982	./	.				-18			
Brazil	76 890	Nov 1984	16 300 ^e			1985-1986		-64	10 000	5 800	
Costa Rica	836	... 1984	280 ^e	280		1985-1986	13	75			
Cuba	1 609	Jan 1985	82 ^f	82		1985			373		
Chile	14 335	Oct 1984	5 700 ^f	4 400	1 300	1985-1987	192	714 ₁ ; 371 ^g *	1 700		
Ecuador	5 172	Nov 1984	4 200 ^f	2 850	1 350	1985-1989	82	200	700		
Honduras	345	... 1984	220 ^m			1985-1986		-16			
Mexico	74 520	Jun 1984	48 700 ⁿ	48 700		1985-1990	289				
Nicaragua	783	... 1984	300 ^o	300		Jun 85-Jun 86		-9			
Panama		Nov 1984	603 ⁿ	603		1985-1986	6	60		50	
Dominican Republic		... 1984	790 ^o			1984-1989	43				
Uruguay	1 953	Dec 1984	1 700 ^f	1 700		1985-1989	90	45			
Venezuela	25 827	Oct 1982	21 200 [*]	21 200		1983-1988					

Source: ECLAC, on the basis of official data from the countries and from various national and international sources.

Note: For detailed information concerning the first and second rounds of renegotiations, see ECLAC, *Economic Survey of Latin America and the Caribbean 1983*, pp. 66-72, and ECLAC, *Economic Survey of Latin America and the Caribbean 1984*, pp. 51-58.

^aIncludes countries which signed final or provisional agreements during 1984 or 1985 covering payments falling due in 1985 and/or preceding years. Also includes countries which had reached no final agreement with international banks during preceding rounds of renegotiations and which signed refinancing agreements during the third round. In addition, includes Bolivia and Honduras, which were in the process of negotiating with private banks in late 1985 but signed no agreement in that year. Does not include the English-speaking countries of the Caribbean.

^bRefers exclusively to each country's short-, medium- and long-term public and private debt with the private commercial banks that provided information to the Bank for International Settlements. Does not, therefore, include debts owed to governments and official agencies, to suppliers, or to those commercial banks which do not report to BIS. In some countries this last item is significant, and the corresponding figures may therefore underestimate the banking system's share in the total external debt.

^cUse of International Monetary Fund credit during 1985.

^dIn December 1984 Argentina reached a preliminary agreement with the committee of creditor banks which provided for: 1) the refinancing of US\$13-5 billion in amortization payments on the external debt corresponding to the period 1982-1985; 2) new loans from international banks in the amount of US\$37 billion and short-term commercial credits totalling US\$500 million; 3) maintenance of lines of short-term commercial credit amounting to US\$1.2 billion at a spread of 1.13% over LIBOR and with a commission of 0.13%, and lines of short-term inter-bank credit for US\$1.4 billion at a spread of 0.25% over LIBOR with a commission of 0.13% ; and 4) a commitment on the part of the government to pay nearly US\$750 million in overdue interest at the end of 1984 and to pay US\$750 million in March 1985 of a bridging credit which had been agreed upon in 1982 (this was done between June and September 1985). In August 1985 the government signed the final contracts for the reprogramming of its external debt.

^eIn June 1985 an agreement was reached with IMF which permitted the award of a US\$483 million bridging credit; the United States Federal Reserve provided US\$250 million of this loan and the remaining US\$200 million was supplied by 12 countries.

^fAfter a number of years of sporadic debt servicing, in April 1984 the government formally suspended amortization and interest payments to private banks. In September 1985 the government announced that it was going to ask the private banks to grant a 15-year grace period for loan amortization payments, a 10-year grace period for interest payments and a fixed annual interest rate of 6%.

Table 38 (continued)

*In early 1985 the government reached a provisional agreement for the rescheduling of US\$45 billion in amortization payments corresponding to the period 1985-1991 which provided for a spread of 1.25% over LIBOR, a 16-year term and a seven-year grace period. This agreement was not finalized, however, because IMF suspended its extended facility arrangement due to the country's non-fulfilment of certain monetary and fiscal policy goals specified therein. Lines of short-term commercial credit in the amount of US\$10 billion and lines of short-term inter-bank credit totalling US\$5.8 billion remained open in 1985. Both of these were granted at a 1 % spread over LIBOR and called for the payment of a commission of 0.13%. In March 1986 the parties reached a provisional agreement for the refinancing of US\$16.3 billion in amortization payments falling due in 1985 and 1986 (US\$6.7 billion in 1985 and US\$9.6 billion in 1986). In addition, the above-mentioned lines of credit remained open until March 1987.

In July 1985 the country reached a provisional agreement with the committee of creditor banks for the refinancing of US\$280 million in amortization payments corresponding to the period 1985-1986 and for US\$75 million in fresh credit.

¹In July 1985 the parties reached an agreement for the refinancing of US\$82 million in payments falling due in 1985. In addition, lines of short-term commercial credit totalling US\$373 million (at a 1.13% spread over LIBOR and with a commission of 0.13%) were renewed until September 1986.

¹In June 1985 a provisional agreement was reached with the committee of creditor banks which provided for the following: 1) The restructuring of US\$5.7 billion in amortization payments owed by the public sector and by the private financial sector on government-guaranteed loans corresponding to the period 1985-1987. Commercial banks may obtain a government guarantee for the private financial sector's debt by paying a guaranty commission of 0.50% in 1987, 0.75% in 1990 and 0.88% in 1994. 2) Fresh loans from private banks for 1985 and 1986 in the amount of US\$1.85 billion (US\$714 million in 1985 and US\$371 million in 1986). Of this amount, US\$300 million was to be disbursed through a co-financing programme with the World Bank, under which the World Bank would guarantee US\$150 million. 3) As in other countries, the international banks improved the terms and conditions of the contracts covering the amounts rescheduled during the first round of renegotiations (the interest rate structure applying to 1982/1983 maturities was modified so as to be equivalent to the structure for 1985/1987 maturities, and the spread over LIBOR was lowered to 1.75% for the new loans obtained in 1983). 4) The maintenance until 1987 of lines of short-term commercial credit in the amount of US\$1.7 billion at a spread of 1.38% over LIBOR and with a commission of 0.13%.

These figures correspond to 1985 and 1986, respectively, and include US\$150 million guaranteed by the World Bank.

In December 1984 Ecuador announced that it had reached a provisional agreement with the committee of creditor banks for the refinancing of US\$4.2 billion of its external debt. This amount included amortization payments which had already been rescheduled during the first and second rounds of negotiations. The US\$431 million in fresh credit granted by the banks in 1983 was also restructured, with a 1.63% spread over LIBOR and a 10-year term with a two-year grace period. Lines of short-term commercial credit totalling US\$700 million were also maintained. In December 1985 the rescheduling of the external debt was completed and new loans for US\$200 million were obtained.

¹In April 1985 the country signed a provisional agreement for the rescheduling of US\$220 million in amortization payments corresponding to the biennium 1985-1986; in the end, however, this agreement did not go into effect.

¹In August 1984 Mexico reached a provisional agreement for the refinancing of US\$48.7 billion of its public external debt. This sum was made up of the following: 1) US\$23.7 billion in payments originally falling due between August 1982 and December 1984 which had already been rescheduled during the first round of negotiations; 2) US\$20 billion in payments originally falling due between 1985 and 1990 which had not yet been rescheduled; and 3) US\$5 billion in additional loans obtained in March 1983. In March 1985 the final contracts for the restructuring of US\$28.6 billion were signed with about 600 creditor banks. These contracts covered the payments mentioned in 1) above as well as the refinancing of the new loan arranged in March 1983 and provided for the prepayment during 1985 of US\$1.2 billion, a spread of 1.50% over LIBOR and a 10-year term with a six-year grace period. In August 1985 final contracts were signed for the restructuring of another US\$20.1 billion. In addition, lines of short-term credit from EXIMBANK amounting to US\$2 billion remained open during 1985.

¹In June 1985 the government reached an agreement with international banks to postpone US\$300 million in amortization payments for one year. The government was to pay US\$24.2 million in interest (i.e., 2%) during the 12 months ending in June 1986. In the past few years, the debt owed to private banks has increased significantly due to interest capitalization agreements and the build-up of arrears.

¹In June 1985 the parties arrived at a provisional agreement for the refinancing of US\$603 million in amortization payments for 1985-1986. Fresh credits in the amount of US\$60 million were also granted.

¹In June 1985 the government reached a provisional agreement for the refinancing of US\$790 million in public and private-sector amortization payments corresponding to the period 1985-1989. This amount included US\$327 million in amortization payments which had been refinanced during the first round on different terms, as well as arrears accumulated during 1984.

¹In December 1984 the committee of creditor banks authorized the deferral of amortization payments for six months; this was later extended until 30 September 1985. In February 1986 a provisional agreement was reached for the refinancing of US\$1.7 billion in amortization payments on the public debt for the period 1985-1989. Also restructured were US\$240 million corresponding to a loan signed in 1983 which was refinanced at a spread of 1.63% over LIBOR. The final contracts for the refinancing of the debt were signed in July 1986. In October 1986 contracts were signed with 35 commercial banks and the World Bank for a US\$90 million co-financing operation; the commercial banks are to provide US\$45 million of this loan, which is to be used for an energy development programme.

¹The international banking system authorized the postponement of payments for three months beginning in October 1982; this deferment was extended on eight different occasions, the last one being up to July 1985. In September 1984 the

Table 38 (concluded)

government announced that it had reached a provisional agreement with its creditors, without signing a stand-by arrangement with the IMF, under which it is to pay US\$21.2 billion of its public external debt over a period of 12 years. In May 1985 it announced that it had reached a final agreement concerning a detailed plan for restructuring the public external debt which included the amortization of US\$750 million in 1986. A novel aspect of this agreement is that it includes a contingency clause under which the terms of the agreement may be modified if the country is faced with an economic crisis. This clause was invoked in 1986 as a result of the drop in oil prices. Accordingly, the government amortized only US\$650 million in 1986 and took steps to secure a new agreement under which its annual debt amortization payments would be reduced.

represented a total figure of US\$12 billion. Approximately half of this amount was to be provided by commercial banks, while the rest would come from official international public sources.

A further innovation, and one which was necessary in order for an expansionary adjustment process to be carried out, was that IMF made its criteria for measuring fiscal deficits more flexible. In Mexico's case, for the first time the Fund excluded the impact of inflation on interest payments due on the domestic debt from its calculations of the operating deficit. As a result, it was estimated that the nominal deficit, which represented around 13% of the gross domestic product, was equal to an operating deficit of barely 3%. In accordance with the programme, Mexico undertook to gradually reduce its operating deficit to zero by the end of 1987. However, on account of the methodological change mentioned above, the reduction in the nominal deficit during the 18-month period would only be from 13% to 10% of the gross domestic product.

The global financial package designed for Mexico constituted a continuation of the trend observed in the previous rounds of reschedulings, each of which had included progressively more favourable clauses for the debtors. In the fourth round, the banks agreed to renegotiate almost US\$44 billion of the debt falling due in 1985-1990 at a spread of 0.81% over LIBOR (in comparison to the spread of 1.13% charged in the third round and to that of 0.50% paid by some of the most solvent non-Latin American developing countries which have independent access to the Eurocurrency market). Moreover, the amortization period offered in respect of the rescheduled maturities was 20 years, with seven years grace, as against a total period of 14 years in the preceding round. Nor was any provision made for the payment of commissions, a precedent which had been established in the third round of negotiations. The fresh bank loans of US\$6 billion were also subject to a spread of 0.81%. The amortization period for these loans was set at 12 years and no commission was charged (see table 40).

However, because the international banking community was reluctant to provide the fresh funding which had been agreed upon, it held up the signature of a definitive agreement as well as the disbursement of the US\$6 billion in additional financing. Consequently, in order to ensure that the country would have the external funding it needed during the intervening period, the creditor banks on the Steering Committee agreed to grant a short-term emergency loan, which was paid off once the country began to receive the US\$12 billion credit.²

Although Mexico was unquestionably the centre of attention during the 1986 debt negotiations, other countries also played leading roles in significant events.

During the first quarter, after prolonged negotiations, Bolivia signed a special drawing rights agreement with IMF. This paved the way for negotiations with its creditors concerning the payment of capital and interest in arrears totalling approximately US\$1 billion which had been accumulated since 1982, mainly with foreign commercial banks. The agreement with IMF also made it possible for the Bolivian government to carry out renegotiations with the Paris Club concerning debts it had contracted with governmental creditors in which it requested a 10-year extension for maturities corresponding to 1986 and 1987.

For its part, towards the middle of the year Brazil signed an agreement to renegotiate with private banks the payment of US\$6 billion in arrears going back to 1985 and of US\$9.5 billion maturing in 1986; in addition, it obtained lines of short-term commercial credit for US\$15.5 billion. A spread of 1.13% over LIBOR was established for the rescheduled credits together with an amortization

²The agreement was not finalized until March 1987, i.e. more than six months after the initial agreement was reached with the Steering Committee of creditor banks.

Table 39

**LATIN AMERICA (SELECTED COUNTRIES): RENEGOTIATION
OF EXTERNAL DEBT WITH PRIVATE BANKS
(FOURTH ROUND OF RENEGOTIATIONS, 1986/1987)^a**

(Millions of dollars)

	Gross bank debt ^b as of 30 September 1986	Start of negotiations	Renegotiation of debt with private banks				Loans granted in 1986 and 1987			Maintenance of short-term credit	
			Amount			to be rescheduled	IMF ^f	Private banks	Gov. and official agencies	Com- cial	Inter- bank
			Total	Public	Private						
Argentina	30 785	Apr 1986	29 500 ^c			1986-1990	149	1 950	500	2 200	
Bolivia	642	Oct 1982	/			1982-...	98		-		
Brazil	78 520	Apr 1986	s			1987-...	-576	4 000	...	10 000	5 800
Gusta Rica	875	Oct 1986				1986-1989	-34				
Cuba	2 050	Apr 1986	'			1986-1987		300*		373	
Chile	13 984	Dec 1986	12 490 ^d			1988-1991	107			1 700	
Ecuador	5 144	Mar 1987					78		150 ^e	700	
Honduras	345	... 1984	218 ^e			1985-1986	-46				
Mexico	74 119	Jan 1986	55 400	43 700 ^o	11 700/	1985-1990	676	6 000	6 400 ^e		5 200
Nicaragua	771	Jun 1986	#								
Panama	1 800	Oct 1986	1 200 ^s	1 200	-	1987-1990	5				
Venezuela	25 736	Jul 1986	26 450	20 450 ^t	6 000 ^u	1986-1988					

Source: ECLAC, on the basis of official data from the countries and from various national and international sources.

Note: For detailed information concerning the first and second rounds of renegotiations, see ECLAC, *Economic Survey of Latin America and the Caribbean 1983*, pp. 66-72 and ECLAC, *Economic Survey of Latin America and the Caribbean 1984*, pp. 51-58.

^aIncludes countries which signed final or provisional agreements during 1986 or 1987 covering payments falling due in 1986 and/or subsequent years and those which obtained additional loans as part of their debt restructuring. Also includes the countries which announced that they intended to negotiate a restructuring of their liabilities, either to eliminate arrears or to refinance debts about to mature. Does not include the English-speaking countries of the Caribbean.

^bRefers exclusively to each country's short-, medium- and long-term public and private debt with the private commercial banks that provide information to the Bank for International Settlements. Does not, therefore, include debts owed to governments and official agencies, to suppliers, or to commercial banks which do not report to BIS. In some countries this last item is significant, and the corresponding figures may therefore underestimate the banking system's share in the total external debt.

^cUse of International Monetary Fund credit during 1986.

Beginning in April 1986 the international banking system twice authorized the postponement of amortization payments for six months. In April 1987 the parties reached a provisional agreement providing for: 1) the refinancing of US\$29.5 billion in amortization payments on the external debt, with US\$4.2 billion of that amount corresponding to the restructuring of fresh credits granted in 1983 and 1984; 2) loans amounting to US\$1.95 billion (US\$400 million of this sum corresponded to lines of short-term credit and another US\$500 million was to be disbursed through a cofinancing programme with the World Bank); and 3) the maintenance of lines of short-term credit totalling US\$2.2 billion.

In February 1987, 15 industrialized countries granted a bridging loan for US\$500 million while the country awaited the disbursement of the credit granted by IMF in response to the drop in export prices.

^dIn April 1984 the government suspended amortization and interest payments to private banks. It continues to engage in talks with its creditor banks concerning the sums owed. As of the end of 1986, its interest payments in arrears amounted to US\$300 million. In April 1987 the government made a formal offer to buy back its debt of US\$670 million from the commercial banks at a tiny fraction of its nominal value.

^eIn mid-1986 the government announced that it wished to negotiate with its creditors in order to reduce its transfer of resources to them from its current level of nearly 4% of the country's gross domestic product to 2.5%. Then, on 20 February 1987, the government suspended amortization and interest payments on its external debt to commercial banks. This measure did not apply, however, to payments on short-term loans. In May 1987 the government requested a 90-day deferral of payments on lines of short-term commercial credit totalling US\$10 billion and on lines of short-term inter-bank credit amounting to US\$5 billion. In June 1987 the government stated that it would lift its partial moratorium if the private banks would agree to refinance 50% of the interest.

The government suspended interest payments to private banks beginning on 7 May 1986. It then proposed a multi-annual reprogramming scheme in December 1986 (a term of 25 years, a grace period of seven years and a reduction of interest rates to 4% in 1986-1987, to 5% in 1988 and to 6% in 1989). As a show of good faith, it also began to pay US\$5 million per month to the private banks in part payment of the interest owed.

Table 39 (concluded)

In July 1986 the government requested the refinancing of its amortization payments for 1986 and 1987, suspended interest payments, and requested fresh loans for around US\$300 million. In December 1986 it was informed that the banks were offering a credit of US\$85 million, the reprogramming of US\$75 million in amortization payments due in 1986 and the rollover of lines of short-term credit for one year.

¹ Loans requested.

In February 1987 the country reached a provisional agreement with the committee of creditor banks which provided for: 1) the restructuring of US\$12.49 billion (US\$10.6 billion of this amount corresponded to amortization payments to be made by the public and private sectors on government-guaranteed loans and payments to be made by the private sector on unguaranteed loans for the period 1988-1991; the remaining US\$1.89 billion corresponded to the restructuring of fresh loans obtained during previous rounds of renegotiations); 2) the maintenance up to 1989 of lines of commercial credit amounting to US\$1.7 billion at a 1.12% spread over LIBOR; and 3) an agreement that interest payments would be made once per year beginning on 1 January 1988. The final contracts for the refinancing of the debt were signed in June 1987. In January 1987 the government began to fall into arrears with its debt payments. In March it formally announced an indefinite suspension of amortization and interest payments. It was estimated that during 1987 interest payments to private banks would total US\$450 million.

² In May 1986 the United States Department of the Treasury granted a short-term (150-day) loan for US\$150 million.

³ The government is once again making arrangements for the refinancing of US\$218 million in amortization payments corresponding to 1985 and 1986 in addition to its 1987-1989 maturities. (In 1985 it had arrived at a provisional agreement, but this was never finalized.) Honduras submitted a proposal to the international banks for the conversion of US\$43.4 million in arrears into fresh loans and the refinancing of 100% of its outstanding maturities for a 19-year term with a three-year grace period at an interest rate equivalent to LIBOR, without surcharges. The banks' counterproposal provided for an amortization period of 14 years and a 1.75% spread over LIBOR, conditional upon the immediate payment of 10% of the debt balance. Early in 1987 the international banks announced that if the country wished to continue the talks it would have to pay its interest arrears and sign an agreement with IMF.

⁴ In March 1986 the committee of creditor banks authorized the postponement of US\$950 million in amortization payments which had been arranged for during the third round of renegotiations. In July 1986 the committee of creditor banks agreed to reschedule maturities and to grant US\$6 billion in financing subject to the signing of an agreement with IMF; this condition was met during the same month. The agreement, which was signed in March 1987, covered the following: 1) the restructuring of US\$43.7 billion in amortization payments on the public external debt which had already been renegotiated during the third round; 2) new loans from private banks for 1986 and 1987 amounting to US\$6 billion, of which US\$500 million are to be cofinanced and hence guaranteed by the World Bank; 3) stand-by financing totalling US\$1.7 billion, with the disbursement of this credit depending upon oil prices and the growth of the product and investment in 1987; 4) maintenance up to 1989 of lines of inter-bank credit for US\$5.2 billion; 5) the option, upon the signing of the agreement, of obtaining an additional US\$6.4 billion from the governments of the creditor countries and international lending agencies.

⁵ Private external debt registered with the exchange-risk coverage trust fund (FICORCA).

⁶ Includes US\$1.6 billion in IMF credits, US\$2 billion in World Bank loans, US\$1 billion in investments by Japan, and the refinancing of debts through the Paris Club representing a saving of US\$1.8 billion in short-term payments.

⁷ The government is in arrears with its interest payments on the external debt.

⁸ In October 1986 the international banks authorized a six-month postponement of payments which was then extended in order to allow the negotiation of a multi-annual external debt restructuring agreement. The attainment of an agreement has been hampered, however, by the difficulties encountered in fulfilling the requirements of a Structural Adjustment Lending (SAL) programme with the World Bank. On 1 June 1987 the government formally suspended payment on interest and capital to government creditors and payments on the capital of debts owed to private banks.

⁹ In March 1987 a provisional agreement was reached for a second restructuring of US\$20.45 billion in public-sector amortization payments which had already been refinanced in February 1986. This agreement permits the government to reduce the amortization payments arranged for under the preceding agreement from around US\$1 billion to US\$250 million in 1987, US\$400 million in 1988 and US\$700 million in 1989.

¹⁰ In December 1986 the government proposed a plan to the private banks for the rescheduling of US\$6 billion in amortization payments on the private debt. This plan provides, *inter alia*, for a term of eight years and for quarterly amortization payments beginning with the first quarter of 1987.

period of 12 years with five years grace, and no commission was charged. These were better terms than those obtained in Brazil's previous rescheduling, which had been carried out during the second round and had included a 2% spread over LIBOR, an amortization period of nine years and a 1% commission (see tables 38 and 40).

Brazil succeeded in rescheduling its debt with commercial banks despite its refusal to accept an IMF programme, which has traditionally been a precondition for undertaking any rescheduling of commitments. However, the Paris Club proved less flexible, and its insistence that the country should sign an agreement with the Fund posed an obstacle to the rescheduling of Brazil's bilateral debt with each of the member governments of the Club. In the absence of a rescheduling agreement, Brazil accumulated arrears in its payments to government creditors; nevertheless, in mid-1986 it unilaterally began to deposit funds in the accounts of its creditors as a provisional solution to the problem. In

Table 40

**LATIN AMERICA (SELECTED COUNTRIES): TERMS OF RESCHEDULING
OF EXTERNAL DEBT OWED TO PRIVATE BANKS
(THIRD AND FOURTH ROUNDS OF RENEGOTIATIONS)"**

	Spread over LIBOR (percentage)		Total period (years) [†]		Grace period (years)		Commissions	
	R (1)	AC (2)	R (3)	AC (4)	R (5)	AC (6)	R (7)	AC (8)
Third round of renegotiations (1984/1985)								
Average'	1.19	1.63	12.9	10.4	1.6	3.3		0.58
Argentina	1.38	1.63	12.0	10.0	3.0	3.0		0.63
Brazil	1.13	-	12.0	-	5.0	-	-	
Costa Rica	1.63	1.75	10.0	7.0	3.0	2.0	1.00	1.00
Cuba	1.50	-	10.0	-	6.0	-	0.38	
Chile	1.38 ^h	1.63	12.0	12.0	6.0	5.0		0.50
Ecuador	1.38	1.63	12.0	10.0	3.0	2.0	-	
Mexico	1.13*	-	14.0	-	^h	-	-	
Panama	1.38	1.63	12.0	9.0	3.5	3.0		0.50
Dominican Republic	1.38	-	13.0	-	5.0	-	-	
Uruguay	1.38	1.63	12.0	12.0	3.0	3.5	-	
Venezuela	1.13	-	12.5	-	^h	-	-	
Fourth round of renegotiations (1986/1987)								
Average'	0.85	0.83	17.8	12.0	5.2	4.2	.	
Argentina ¹	0.81	0.88	19.0 ¹	12.0	7.0	5.0	-	
Chile	1.00*	-	15.0	-	6.0	-	-	
Mexico	0.81	0.81	20.0	12.0	7.0	4.0	-	
Venezuela	0.88		14.0		^h	-	-	

Source: ECLAC, on the basis of official data from the countries and from various national and international sources.

"Column R refers to rescheduled maturities and column AC to the terms and conditions for additional credits.

Calculated as a percentage of the total amount of the transaction and paid once only upon the signing of the loan contracts. There is evidence that some commissions were never declared, and these figures may consequently underestimate the commissions paid.

¹Weighted average determined on the basis of the sums represented by rescheduled amortization payments and additional credits.

Spread over LIBOR applying to rescheduled payments in the event that the commercial banks do not request a guarantee from the Government of Chile for the rescheduling of the private financial sector's debt. If the international banks were to use this option, they would have to pay a guaranty commission of 0.50% in 1987, 0.75% in 1980 and 0.88% in 1994.

^hA refinancing agreement was reached without the government having signed any arrangement with the International Monetary Fund.

Terms for the refinancing of the public-sector debt.

"During the first two years, the average applicable rate is to be 0.88% over LIBOR; during the following five years, the spread over LIBOR is to be 1.13%, and during the final seven years, 1.25%.

Amortization payments are to be very low during the first few years and are then to increase over time.

¹Exit bonds are to be made available to small and medium-sized banks if they did not wish to take part in the lending of fresh funds. The bond has a term of 25 years and a fixed annual interest rate of 3%.

[†]The term for the restructuring of new loans granted in 1983 and 1984 is 12 years.

*The spread over LIBOR is 1.13% for the restructuring of fresh loans obtained during previous external debt renegotiations.

August the government also announced that, in order to support the process of investment and growth, it would seek an agreement with its creditors for the establishment of a negotiated ceiling on debt payments equivalent to 2.5% of the country's gross domestic product, a considerably lower percentage than the approximately 4% of the product recorded in 1984-1985.

In February 1986, as part of the third round of negotiations, Venezuela signed a rescheduling agreement with its creditor banks (see table 38). The agreement provided for the postponement of US\$21 billion in payments originally scheduled for the six-year period between 1983 and 1989. However, in view of the sharp drop in world petroleum prices, few observers believed that the

agreement would be fulfilled. Indeed, in April the government invoked an escape clause contained in the February agreement, which allowed it to renegotiate the terms of the agreement should economic conditions take a turn for the worse.

Towards the middle of the year the Venezuelan Congress drew up a new plan for the management of the registered private-sector debt, which was estimated at approximately US\$7 billion. This plan called for the elimination of the subsidized exchange rate of 4.3 bolívars to the dollar applying to the servicing of this debt. Debtors were also to be required to purchase dollar bonds issued by the government, which would unilaterally take the place of cash payments to banks. The bonds would have an amortization period of 15 years and would pay 5 % interest, which was below the market rate. Venezuela's creditors, together with a number of debtors in the country's private sector, put up determined resistance to the plan, and in August the government withdrew the proposal, although it maintained the devaluation of the exchange rate for the servicing of the private external debt. Along with the devaluation decreed in December, the government announced a fresh plan; while under this plan the government refused to guarantee private-sector debts, it did offer private debtors a guaranteed and subsidized exchange rate of 7.5 bolívars to the dollar (plus the payment of a premium to the Central Bank) for the servicing of their commitments to foreign bankers who offered a repayment period of no less than eight years.

Cuba, which had not fallen behind in the interest payments on its debt, also encountered difficulties in 1986. The fall in sugar production and the decline in its profits from the re-export of petroleum combined to spark off an acute shortage of foreign exchange. Towards the middle of the year amortization payments were suspended together with disbursements in respect of interest. Subsequently, talks were begun with its creditors in order to find the best way of solving the problem. The government sought between US\$300 million and US\$500 million in fresh credit to refinance part of the interest owed and to reschedule amortization payments. Meanwhile, the maturities corresponding to 1986 were rescheduled with the member governments of the Paris Club.

Costa Rica suspended payment of its debt in May due to a foreign exchange shortage. The problem arose partly as a result of the difficulties the country had in complying with the IMF programme, in view of which both this agency and the World Bank suspended the disbursement of previously-arranged credits. Subsequent to new agreements between the government and the creditors in respect of economic conditionality, the disbursements of the loans were resumed and conditions more conducive to solving the problem of payments were established. In October the government submitted an attractive proposal to its creditor banks. This proposal called for the reprogramming of outstanding debts over the next 25 years, with seven years grace. The rate of interest was to be 4% and would gradually rise to a 6% maximum in 1993, while no commission was to be paid. Under this plan total annual debt payments to banks were to be limited to the equivalent of approximately 1.5% of the gross domestic product. As an expression of goodwill, the government began to remit US\$5 million per month to the creditor banks as part payment of the interest on its external debt.

During the first half of the year Peru continued to apply its policy of restricting payments on the medium- and long-term public debt entered into before July 1985 to 10% of the country's export earnings. This policy set no limit on the servicing of the short-term debt, on that of the private-sector debt or on payment in kind. As regards the medium- and long-term public debt, priority was given to servicing commitments to those creditors which were actually providing the country with net loans; in respect of the others—for the most part commercial banks—the refinancing of payments and the capitalization of interest were imposed unilaterally. By the end of 1986, the arrears in interest payments owed to banks—which had in fact begun to build up towards the end of 1984 under the previous government—were in excess of US\$1 billion.

In July, after having assessed the country's payment capacity, the government decided to extend the 10% limit on the servicing of the medium- and long-term public debt for another year. The need to conserve the scant supply of foreign exchange in order to finance the country's growth also prompted the government to introduce a ceiling on payments of the private sector's medium- and long-term debt and to place a two-year restriction on the remittance of profits on foreign investment. Servicing of the short-term debt, however, remained normal.

Further difficulties arose between Peru and the IMF during 1986. The country had actually been making a net transfer of resources to this agency, partly on account of its decision not to sign new

stand-by credit agreements. As a result, the Fund felt itself to be potentially at risk as a consequence of the Peruvian decision to place a limit on debt service payments, and proceeded to set a 15 August deadline for the payment by Peru of US\$180 million in arrears of interest and principal which had been accumulating since September 1985. When the government set a US\$35 million ceiling on payments, the Fund declared Peru to be "ineligible" to receive fresh loans. By the end of 1986, US\$250 million in arrears were owed to the Fund.

Peru continued to experiment with plans to allow it to service its debt through payments in kind. In 1986 this form of payment (mostly to governments of centrally-planned economies) represented US\$110 million, as against US\$160 million the year before. However, a number of banks began talks with the Peruvian government concerning the possibility of payments in kind; Furthermore, negotiations with one United States bank concerning debt payments in the form of non-traditional Peruvian exports were at an advanced stage.

Chile continued to lead the field in taking advantage of the discounts on the nominal value of its external loan securities which are traded on secondary markets. Generally speaking, both foreign investors and Chilean residents and non-residents have the opportunity to use their own foreign exchange resources to purchase the country's debt certificates, which were being sold at a discount of between 30% and 35% on foreign markets in 1986. These certificates can then be converted into pesos in Chile at their nominal value, less a direct or indirect discount applied in the country, which is lower than that in force abroad. The payments in pesos can take the form of financial securities, cash or share capital, depending on the circumstances of the transaction and the preferences of the certificate holders. In 1986 the debt was reduced by approximately US\$800 million by means of this mechanism. A number of foreign banks have made use of this programme in order to transform debts into shares in the Chilean financial sector.

At the end of 1986, Chile also began negotiations with a view to a fourth round of rescheduling. One innovation in the initial proposal made to creditors was that the funds for the 1987-1988 financial programme should not come from fresh loans, but instead from reductions in the interest rate and from the retiming of payments from a half-yearly basis to a yearly one.

Jamaica's relations with its creditors became tenuous in 1986 due to the country's difficulties in meeting the adjustment criteria set by the Fund. Arrears began to build up (approximately US\$60 million) during the year as the government postponed the payment of its debts to the Fund.

Finally, for the first time since the outbreak of the crisis, two Latin American countries whose debt had been rescheduled obtained voluntary private loans in 1986. In October, a French bank announced that it had set up a pre-export financing service for Ecuador involving US\$220 million at a 1.5% spread over LIBOR. This service, which is self-financing and consequently involves little risk, was found so attractive that it was oversubscribed by international banks. Uruguay also received a voluntary loan of US\$45 million from a banking consortium, although this credit had the exceptional feature of being part of a package proposal for cofinancing with the World Bank.

PART TWO
THE ECONOMIC EVOLUTION BY COUNTRIES

ARGENTINA

1. Recent economic trends: Introduction and summary

The recovery of economic activity after six years of recession, the drop of the inflation rate below 100% for the first time since 1980 and a pronounced deterioration in the external sector were the main features of the economy of Argentina in 1986 (see table 1 and figure 1).

The gross domestic product grew by 6.0% and although this figure was slightly higher than that of 1984, it still remained 7% lower than that of 1980. The rise in the production of manufactures (12.8%) was noteworthy and exceeded the increases observed in previous periods of recovery. Fixed investment rose by 11%, thereby breaking the sharp downward trend which began in 1981. The growth of capital formation—which still remained at a very low level—was apparently attributable to relatively widespread decisions in the private sector, prompted by the increased activity and lower degree of uncertainty, and to the continuation of works already started by the public sector.

The consumer price index climbed 82%, which, although high by international standards, was the lowest recorded in the country since the mid-1970s.

In the external sector, the increase in imports, the drop in international export prices and the smaller agricultural production combined to cut the merchandise trade surplus by half. Because of this change, and despite the lower interest payments, the current account deficit increased almost three-fold and international reserves declined by US\$700 million.

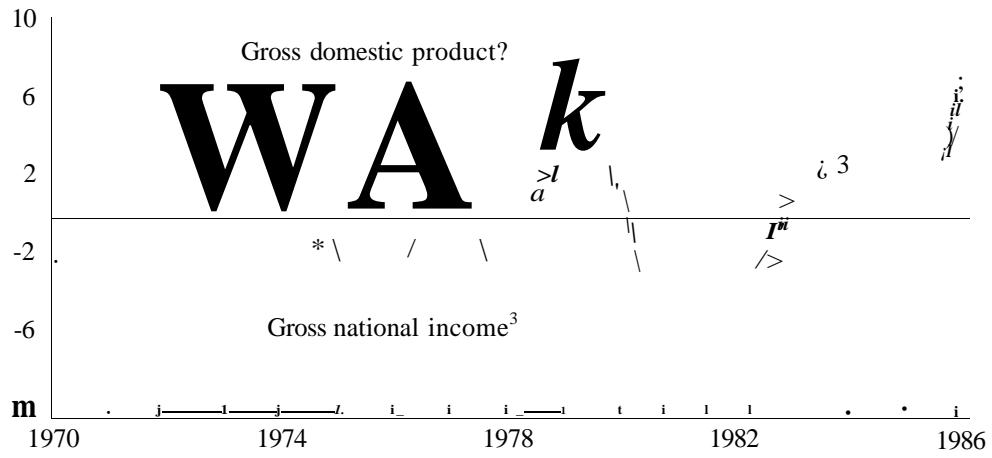
Although these results together compare favourably with those of recent years, the economy has been beset by the considerable tensions that have marked Argentina for a long time.

When the Plan Austral was introduced in June 1985, the inflation rate plummeted but this did not cause a contraction in economic activity as had occurred with previous attempts at stabilization. In fact, after an initial slide, there was a marked recovery in demand and production in late 1985. Nevertheless, the economic policy-makers were faced with difficult decisions. After some months, the higher relative prices of basic consumer goods (meat and in particular fresh vegetables) and of private-sector services had pushed up consumer prices more than had been expected. Seeing that the freeze introduced in June was in force, this price increase set a kind of lower limit or "floor" for inflationary expectations, while it also eroded the initial gain in the purchasing power of wages that had been secured by the reduction in the "inflation tax". Consequently, towards the end of 1985, many private firms began to grant wage adjustments more or less proportionate to the consumer price increase. Strong pressures for wage increases were also felt in the public sector. Although the fiscal deficit had dropped considerably, especially because of the real increase in the amount of tax collected, it was obvious that public finances were going to need continued attention. Moreover, notwithstanding the increase in activity, there was intense pressure to apply more expansionary policies and to reduce the real interest rates, which were still high.

In such circumstances, the attempt to reach an even lower inflation rate could raise several problems. In particular, this would have meant keeping all the prices that are subject most directly to government control (exchange rates, public service rates, and to a lesser extent the prices of manufactured goods), constant, or allowing them to increase only very gradually, at the risk of distorting relative prices if the inflation rate did not approach the targeted level. In addition, tighter fiscal and monetary control would have been required, because if the aggregate demand slowed down while the private sector did not anticipate a further drop in inflation, this could have led to a drop in the level of economic activity. In view of the above, plus the intense distribution struggle and the very deep-rooted inflationary behaviour, it was foreseeable that any attempt to compress prices further could be expected to involve high potential costs.

In the months immediately after the establishment of the stabilization programme, there was a fear that when the price freeze was lifted, this might result in the return of very high inflation rates.

Figure 1
 ARGENTINA: MAIN ECONOMIC INDICATORS



Urban unemployment*⁵

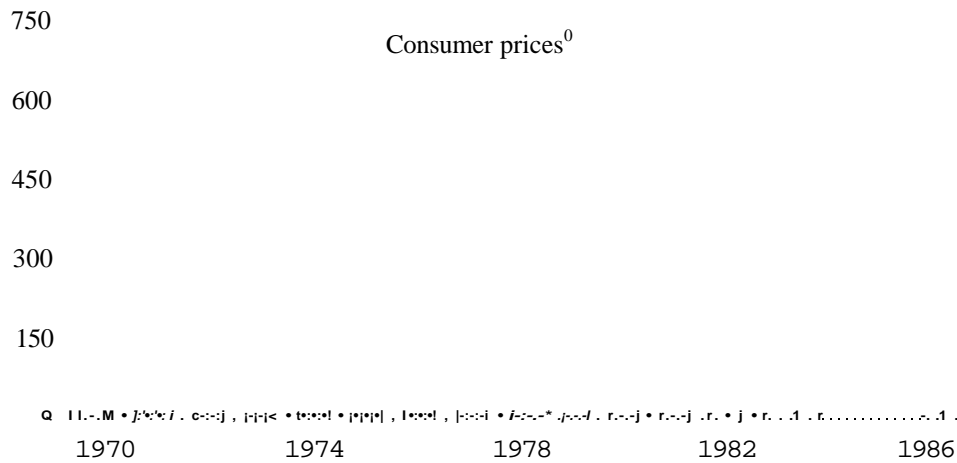
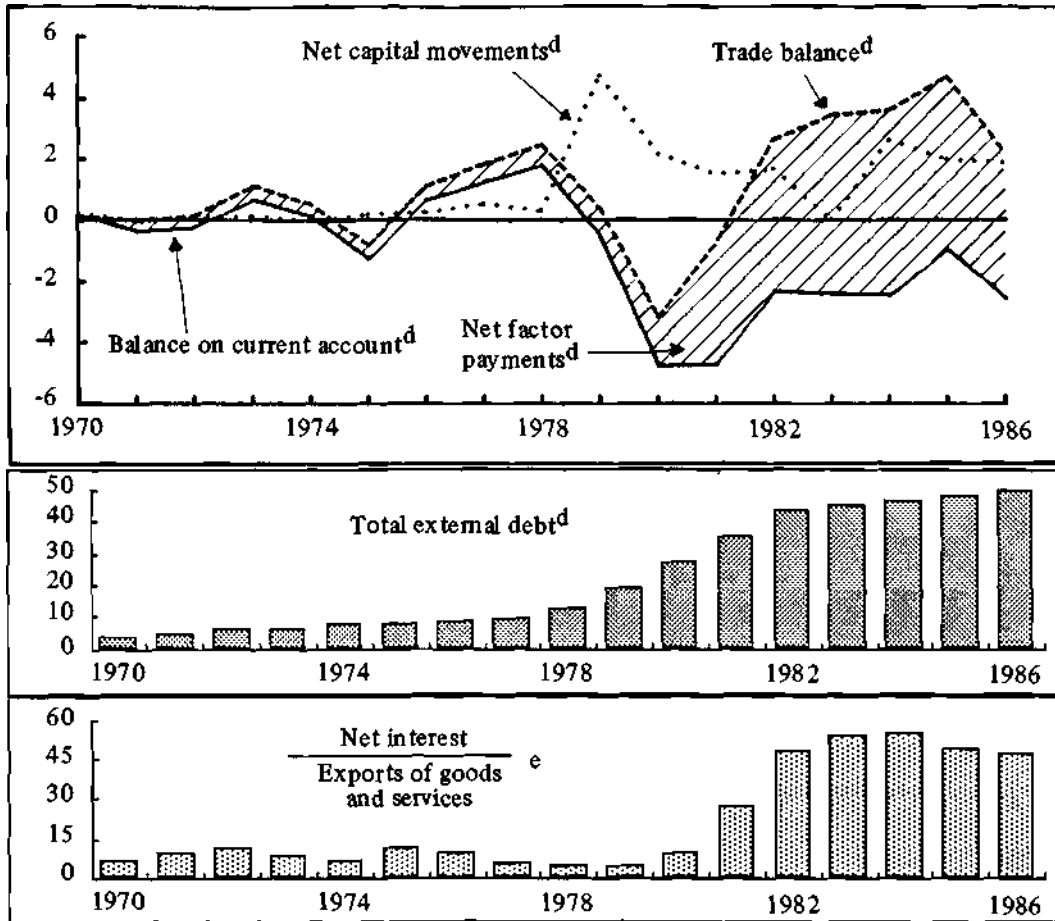


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in the Federal Capital and Greater Buenos Aires.

^cPercentage variation from December to December.

^dBillions of dollars.

^ePercentages.

Consequently, when the government decided to terminate the freeze in order to create a more flexible price and wage system, it tried to maintain guidelines that would forestall any sudden changes and keep inflation at a moderate level. Thus, in April 1986, when the economic authorities raised the exchange rate by 3.7% and increased public service rates, they also decreed that in future both these items would be subject to periodic adjustments. At the same time, they laid down provisions to regulate the prices of manufactures by means of a cost transfer system, concentrated on the largest companies. The authorities further announced that wages, which had been increased by 5% in January, would be adjusted by a further 8.5% in the second half of the year, and companies and labour unions were convened to draw up new basic wage scales, taking into account the increases that had occurred during the freeze.

The deficit of the non-financial public sector was kept low during the second half of the year, albeit with some difficulties. The monetary expansion was, however, significant, particularly because of the expansion of the rediscounts aimed at financing loans for housing and certain regional activities and at helping the banking sector. At the same time, the growth of demand for money (which had been very rapid at the start of the stabilization programme) was slowed down. The greater availability of liquidity pushed down nominal interest rates, but this did not affect the parallel exchange market, as was indicated by the fact that the gap between the parallel and the official market rates shrank to such a point that the difference was non-existent or even negative at times.

Although the lifting of the freeze did not trigger a sudden price increase, the inflation rate accelerated and in the second quarter of the year the consumer price index rose at an average rate of 4.5% per month (see table 2). The rise in prices was fairly widespread and the variation in relative prices was less than in previous months. However, nominal wages substantially exceeded the limits set by the government, because in many cases the agreements between the companies and the labour unions entailed major increases in effective wages rather than merely keeping wages up to their existing level. In addition, public service rates and the exchange rate were gradually increasing although the latter rose more slowly than domestic prices. In a context of growing demand, these cost increases were reflected in prices.

Consequently, inflation speeded up again during the third quarter, because of the way in which the price and wage liberalization instituted in April was carried out and also because of the permissive monetary policy. The announcement that consumer prices had risen by 7% in July caused deep concern. The parallel exchange market reacted swiftly and many companies decided to accelerate their price mark-ups. The resurgence of inflation represented a serious challenge to economic policy because it called the programme's credibility into question and because, at a time when it appeared that indexation on the basis of past inflation was becoming habitual, there was the danger that high rates of price increases would be perpetuated.

The government reacted to this situation by speeding up the rate of devaluation and increasing the regulated interest rate in mid-August. Early in September it announced a series of broader measures, aimed both at preventing a return to automatic indexation and at strengthening its control over monetary issues. These measures included: the slowing down of the increases in the charges for public services, the exchange rate and industrial prices; the application during the fourth quarter of the wage guidelines laid down in July for the second half of the year; a stricter control by the Central Bank of the factors of expansion of the monetary base; and the broadening of bank operations in an attempt to absorb the marginal credit market. During the weeks following these announcements, interest rates moved up sharply and the growth of industrial activity slackened. The rate of price variations also fell: the consumer price index, which had risen by 8.8% in August, recorded an increase of only 4.7% in December, while the growth rate of wholesale prices dipped even more sharply (from 9.4% in August to 3.0% in December).

Nevertheless, the drop in inflation failed to dispel the prevailing uncertainty as to the future performance of the economy. The resurgence of inflation in the third quarter exerted pressure on the exchange market, which gave rise to a considerable gap between the parallel and the official dollar, and this gap did not narrow even after the interest rate climbed steeply and the pace of inflation slowed. This phenomenon manifested itself with particular force during December, when the economy began to feel the impact of economic agents' unfavourable expectations regarding the outcome of the negotiations with creditor banks, the forthcoming wage negotiations and the control of fiscal and monetary policies.

In short, throughout 1986, the country's macroeconomic policy-makers attempted to ensure that the policies on aggregate demand and on price and income regulation would be consistent with one another in an effort to reduce the level of uncertainty. Nonetheless, the economy was subject to shocks, as was only to be expected given the severity of the existing external constraints, the limitations of supply and the intensity of the conflict regarding distribution. Towards the end of the year, the most pressing matters continued to be the control of the fiscal deficit and the definition of the government's policies on income for the coming year, especially in view of the fact that the convening of collective labour negotiations had already been announced. The definition of these policies would have a significant impact not only on future price trends but also on the outlook for economic activity, since the possibility of increasing the volume of available credit would depend on the expectations of economic agents and the public sector's financial requirements. The backdrop for all of these factors was a difficult international context which provided no indication that any recovery of export prices could be expected.

Over and above considerations of short-term economic management and the problems which the debt burden continues to pose, it is obvious that for a long time now the Argentine economy has been bedeviled by serious functional difficulties which have prevented sustained growth. After the stabilization programme was launched, the debate over the reforms needed to change this situation grew more heated. Given the complexity of the issue, it is only natural that this controversy should be

a protracted one, but in 1986 some important measures were nevertheless adopted. These included a number of agreements which were signed with Brazil with a view to heightening the complementarity of the two economies in order to create additional investment opportunities and reduce domestic costs in both. Sectoral programmes aimed at promoting exports of manufactures and encouraging industrial investment were also announced. In addition, towards the end of the year the authorities made known a series of measures designed to reorganize the public sector. These basically consisted of eliminating superfluous jobs, establishing a wage structure within the government service and introducing guidelines aimed at making State entrepreneurial activity more efficient.

2. Trends in economic activity

a) *Total supply and demand*

The wide swings seen in economic activity in Argentina since the beginning of the decade have had numerous but nonetheless clearly distinguishable causes: the adjustment of the economy to the severe external crisis of 1981-1982, the growth of domestic demand spurred by increased consumption in 1983-1984, and the sharpening of inflation in 1985.

The final months of 1985 saw a marked recovery in the level of activity which extended into the third quarter of 1986. This recovery differed from that of the 1983-1984 biennium in two respects. The first was its association with the abrupt subsidence of inflation observed in the second half of 1985, which permitted a return to more normal economic conditions. The second was the fact that it was not based solely on the growth of consumption but also on an upswing in investment which marked a reversal of the steady downward trend of the latter since 1981. Although these two factors tend to place the present recovery on a sounder footing, it cannot be said that the conditions for sustained growth have been restored because the level of gross capital formation remains very low.

The gross domestic product increased by 5.7% in 1986. As tends to be the case during the cyclical recoveries of domestic activity, the growth rate for imports was quite high (21%). Consequently, total supply expanded by 6.6% (see table 3).

The fastest growing component of aggregate demand was gross domestic investment, which rose 18.5% from its depressed level of 1985. Gross fixed capital formation climbed by 11%, which brought the fixed investment coefficient up to 12.3%; this figure was still, however, much lower than those recorded up to 1981. Even though the increase in investment was quite widespread, it was higher in machinery and equipment (21%) than in construction (7%).

The increase in purchases of durable production equipment was associated with a greater utilization of installed capacity, which stimulated the replacement of such equipment. The availability of official lines of credit, as well as the decline in interest rates observed during a good part of the year, also had a positive effect, although interest rates headed back up during the last few months of 1986.

The upswing in construction was attributable to the increased volume of public works (42%), since private construction dropped by 8% due to the fact that the effects of the insufficient supply of housing credit and of the high interest rates that prevailed during the second half of the year outweighed the potentially expansionary impact of the higher level of income.

When the situation is considered from a longer-term perspective, it becomes evident that the functional problems of the Argentine economy continue to have an adverse effect on investment decisions. The greater control of inflation has unquestionably helped to diminish economic uncertainty and instability, thereby stimulating a more active search for and utilization of investment opportunities. Nevertheless, there are problems which continue to stand in the way of a full recovery by capital formation. Specifically, the scarcity of resources caused by the country's external debt obligations and the capital market's lack of success in channelling a sufficient level of savings in this direction continue to restrict the amount of funds available for capital formation. Furthermore, because of the still considerable degree of economic uncertainty, business enterprises remain reluctant to tackle new projects despite the slowdown of inflation and the upturn in economic activity.

The changes observed in inventories once again played a contractive role in the economy, although to a much less significant degree than in 1985. Stocks of industrial products went down sharply with the launching of the stabilization programme in June 1985, and this trend continued into the first part of 1986. When sales slumped towards the end of the year, however, it appears that stocks

may have risen above the desired levels, particularly in view of the upward movement of interest rates.

Consumption climbed by almost 8%, reaching a slightly higher level than that of 1984. The rise in available income contributed to the increase in the consumption of both non-durables and durables; in the case of durable goods (which showed above-average growth), the positive effects of the drop in inflation and the expansion of commercial credit were also factors.

Lastly, Argentina's export performance was diametrically opposed to that of the preceding year: whereas in 1985 exports were the only component of aggregate demand which grew, in 1986 they were the only component which decreased (-14%). This was accounted for by the decline in traditional exports and of cereals in particular, which resulted from the fall in international prices and from especially adverse weather conditions.

b) *The main sectors*

The increase in the gross domestic product was the outcome of a widespread recovery in the various sectors of production, with the exception of agriculture and mining, where activity declined slightly (see table 4).

i) *Agriculture.* Output in this sector slipped by almost 1% due to poorer harvests of cereals and industrial crops, despite the expanded production of vegetables and legumes, wool, milk and farmhouse products (see table 5).

The grain harvest during the 1985/1986 crop year was 12% smaller than the record harvest of 1984/1985. This reduction was primarily attributable to the decline in the cereal harvest, which was due to the decrease in the area under cultivation and to the lower yields resulting from bad weather. In the case of wheat in particular, the heavy rains of late 1985 and early 1986 caused considerable flooding in the province of Buenos Aires and destroyed a large part of the harvest. Furthermore, the amount of land planted during the 1986/1987 crop year was about 2.4 million hectares (-11%) less than in the preceding year and 3.8 million hectares (-16.4%) less than the record land area sown in 1983/1984. Unlike what had occurred during the preceding agricultural year, this contraction was very widespread: a decrease was seen, for the fourth consecutive year, in wheat and sorghum, as well as in all the other winter cereals; in addition, however, the 1986 reduction took in the sunflower and maize crops as well. The exception to the rule was soya, whose area under cultivation was expanded (see table 6).

The decline in cattle herds which had begun in late 1984 became more marked in the 1985/1986 stock-raising year. Between 1985 and 1986 inventories appear to have fallen by 1.5 million head (-2.8%), bringing their level as of June 1986 to 52.5 million head, which was much the same as in 1982 and 11% lower than in 1977, when cattle inventories reached an all-time high (see table 7).

A number of stock-raising indicators provided evidence of this trend in inventories. One of these was slaughtering, which, after having stabilized in the early part of 1986, increased again during the second half of the year, mainly as a consequence of the growth of domestic consumption. The proportion of total slaughtering represented by that of cows and heifers in 1986 did not provide any indication of variations in the trend of this cycle either. Nonetheless, some changes did occur during the year which generally accompany the reversal of such a trend. Firstly, relative livestock prices continued their recovery, which was helped along by, *inter alia*, the increase in international prices. Hence, the price of steers, in terms of industrial goods, soared by 41% between the first six months of 1985 and the same period of 1986 and by 46% between the second half of the former year and the second half of the latter. A similar recovery was also seen in terms of crop prices (see table 7). Secondly, larger export volumes were recorded in the latter part of the year, and there were widespread expectations that Argentina's share of the international market would increase.

As a consequence of the above and of the dissimilar behaviour of grain and meat prices, the prospects for the producers of these two items in 1986 differed. This change in relative prices may have contributed to a transfer of production resources from grain crops to stock-raising, although within the limitations inherent in the financial situation in this sector.

ii) *Mining.* In 1986 both mining and petroleum output fell for the third year in a row (see table 8). Among the various causes of the decrease in oil production, the most important may have been the decision taken by Yacimientos Petrolíferos Fiscales (YPF), a State enterprise, to cut back its drilling programme due to financial constraints. In addition, the drop in international prices constituted a

disincentive to the implementation of risk contracts which would have relied on the use of private capital for the exploration and exploitation of new areas under what is known as the Houston Plan. Nevertheless, a number of contracts were signed with national and international consortiums which provide for an investment of approximately US\$200 million over the next six years.

In contrast, the volume of natural gas injected increased somewhat more than 9%. Because of the relative abundance of natural gas, the country's energy policy continued to give priority to the substitution of natural gas for liquid fuels. The supply was further augmented by the discovery of another large natural gas field which is similar in size to the Loma de La Lata deposit. With respect to the latter, a number of investment proposals have been made by foreign consortiums to build a natural gas pipeline from Neuquén through Bahía Blanca to Buenos Aires. In addition, near the end of the year an agreement in principle was reached between the government and a Dutch consortium, Cogasco S.A., with respect to the current debt and early transfer of the Centro-Oeste gas pipeline to Gas del Estado, which would permit this enterprise to carry out the planned expansion of its transport capacity.

The production of commercial coal—which had fallen by more than 20% in 1985—shrank almost 9%. Because of this decline and the increase in domestic demand, imports had to be raised by 50%.

iii) *Manufacturing*. The vigorous recovery of industrial activity which had begun in late 1985 continued in 1986, especially during the first nine months of the year. The annual variation in the manufacturing industry's gross domestic product (almost 13%) was the highest in recent years and brought activity in the sector back up to its 1984 levels.

The high growth rate of the first quarter decreased notably in the second (chiefly because of trade union conflicts in the metal manufactures and machinery sector), but rose again during the third quarter.¹ Nevertheless, as a result of a slump in sales, the growth of production slackened in the last quarter of the year.

Industrial expansion was widespread although, as is usual, the sectors which manufacture consumer durables and capital goods grew more rapidly than others. Business enterprises reacted cautiously to the increased demand: industrial employment showed little change and there were apparently no large increases in capacity.

This evolution of the industrial sector was influenced by different factors of demand and supply. On the demand side, these factors included an increase in wage-earners' purchasing power and improved financing terms with the impact of the former being felt primarily in the sales of non-durable consumer goods, and the latter spurring the production of consumer durables. Supply-side factors included trade-union conflicts during the second quarter and the constraints represented by the limited availability of production equipment. Indeed, during 1986 the use of installed capacity rose to such an extent that towards the end of the year many sectors were working at near full capacity. This was attributable to the entrepreneurial decision, which was taken on a very wide scale during 1986, to respond to the higher demand by raising the number of hours worked per worker.

The expansion seen in the food and chemicals industries was considerable, but was even greater in the basic metals and the machinery and equipment industries. The textile and the non-metallic minerals industries also experienced vigorous growth. However, because both of these sectors were starting from their very depressed levels of 1985, neither of them managed to regain the level of activity reached in 1984. This was also true of the machinery and equipment sector. In contrast, the food industry far surpassed that level (see table 9).

Food production increased by 8.5%. The domestic demand for these goods was stimulated by the improvement in the purchasing power of wage-earners, especially in the second quarter. The growth of production was also spurred by the increase in exports of oils, soya pellets and sunflowers.

After a pronounced drop in 1985, the production of textile manufactures and clothing rose by 22%. The sector's recovery began in the fourth quarter of 1985 and continued steadily in 1986. The need to replace stocks, combined with the greater purchasing power of wage-earners and the filling of pending orders from abroad, made possible this upsurge in activity. However, towards the end of the year the growth rate declined as a result of a slump in sales.

¹In the third quarter of 1986 the gross domestic industrial product was nearly 27% higher than the cyclical low recorded in the third quarter of 1985.

A similar trend was observed in the non-metallic minerals industry, where production had fallen by 28% during the preceding two years but increased by more than 22% in 1986, mainly due to the rise in construction. For example, the cement industry's deliveries to the domestic market increased by 18% and its sales abroad exhibited a substantial expansion as well.

The increase in construction was also an influential factor in the growth of the iron and steel sector, which was further stimulated by the greater output of durable goods, despite a trade union conflict which crippled activity in this sector during most of June, thereby causing an appreciable decline in the production indexes for the second quarter of the year. Export levels remained high notwithstanding low international prices.

In 1986, the chemical industry, whose production rose by 9%, showed a very marked upturn during the first half of the year which, however, tapered off somewhat towards the end of the year. Four satellite plants were added to the existing ethylene plant in the Bahía Blanca petrochemical complex. Nevertheless, the chemical and petrochemical industry's exports were lower than those of the year before, chiefly as a consequence of the growth of domestic consumption and the decline in international prices.

The automobile industry also recovered from its fall of the preceding year and produced around 170 000 units (23% more than in 1985). One noteworthy event was the 85% increase in sales through pre-purchase savings plans. The production of tractors went up at a moderate rate but even so, its level was far below those of previous years.

iv) *Construction*. Production in construction rose by almost 9% thus breaking the fall which had started in that sector in 1980 (see table 10).

This recovery was attributable to the activity in the public sector, chiefly in the Piedra del Águila and Yaciretá hydroelectric works. In contrast, private works continued their downward slide. The high levels of construction costs in comparison to the depressed sales prices of finished units discouraged entrepreneurial activity. Furthermore, financing restrictions, both in respect of repayment periods and costs, had a dampening effect on demand. Although the Banco Hipotecario Nacional (the national mortgage bank) made resources available through various mechanisms in order to facilitate the acquisition or construction of dwellings, budgetary constraints ruled out a very expansionary credit policy. Nevertheless, government plans for building 40 000 dwellings were launched in 1986, and towards the end of the year the Inter-American Development Bank granted a loan of US\$300 million to the National Housing Fund for the financing of various works indifferent regions of the country.

v) *Electricity*. Electricity generation increased by 8.5%. This growth reflected the higher level of overall economic activity and, in particular, the greater demand of the manufacturing industry, which mounted by almost 18% in the country's capital city and in Greater Buenos Aires. Hydroelectric plants contributed the largest share, producing 46.5% of the total electricity generated. The rise in production by gas turbine (57%) and steam plants (15%) was particularly rapid. In contrast, electricity generation declined in both nuclear power (-1%) and diesel plants (-3.5%).

Work continued in 1986 on the Piedra del Águila and Yaciretá plants. The construction schedule for these projects was revamped, and it is now estimated that the first turbine will come on stream in 1991. In addition, the second line was laid between Alicurá and Abasto, and work proceeded on the extension of the National Interconnected System.

3. The external sector

a) *Overall trends and the financing of the balance-of-payments deficit*

In 1986 the merchandise trade surplus was US\$2.3 billion, which was 52% lower than the record surplus of 1985. This contraction was the result of a decrease of almost 17% in the value of exports and a build-up of 22% in external purchases. In its turn, the decline in exports was caused by both a considerable drop in the external prices of the country's main exports (particularly in those of cereals and oilseeds) and a reduction in the physical volume of the shipments. On the other hand, the increase in the value of imports was wholly accounted for by the substantial expansion of their physical volume which was prompted by the intensification of domestic economic activity (see table 11).

Due to the fact that international interest rates declined for the second consecutive year, net interest payments for 1986 sank to around US\$3.9 billion, which was almost US\$1 billion less than the amount recorded in 1985. Remittances of profits and dividends totalled around US\$500 million. As a consequence of these factors plus the shortfall registered by the real services account, the balance on current account exhibited a deficit of US\$2.6 billion, which was 175% higher than that of the preceding year but only slightly greater than those recorded in 1982-1984. The bulk of this deficit was covered by capital inflows and by a reduction of international reserves of close to US\$700 million (see table 12).

The second quarter was a key period in the country's negotiations with multilateral financial agencies and its creditor banks. In April, after a slight delay caused by Argentina's failure to achieve the monetary and fiscal targets it had agreed upon with the International Monetary Fund (IMF), the country received US\$265 million in funds corresponding to the third tranche of the stand-by credit agreement signed the year before and US\$600 million of the US\$3.7 billion loan which its creditor banks had made conditional on the fulfilment of the above-mentioned targets. In June, after intense negotiations aimed at solving additional problems of non-fulfilment, especially in respect of the fiscal goals, the government sent a letter of intent to the Fund in which it undertook to revise the rate of adjustment of public service charges and of the exchange rate. On the strength of this letter, the Fund issued a waiver which permitted the release of the fourth and final tranche (US\$276 million) of the credit referred to above, thus enabling the banks to disburse another US\$600 million. As the country was practically up-to-date with its international payments at that time, the new funds were added directly to its reserves.

April also marked the beginning of negotiations with private creditor banks for the refinancing of foreign debt obligations. These talks focused on such topics as the inclusion of "Bonods" and promissory notes² in the general negotiations, the capitalization of the debt and the implementation of the onlending system.³ In addition, an inflow of US\$1 046 billion was obtained through negotiations with the countries comprising the Paris Club.

It is estimated that by the end of 1986 the external debt stood at US\$50 billion, which was 3.5 % more than the figure recorded at the end of 1985. Since there was also a decline in the value of external sales of goods and services, the debt/exports coefficient skyrocketed to an all-time high of 600%, thereby doubling its average level as of the beginning of the decade. The interest/exports coefficient, on the other hand, declined slightly from the very high levels recorded during the preceding four years (see table 13).

The amount of arrears, which at the end of 1985 totalled slightly over US\$1.7 billion,⁴ had been reduced to approximately US\$500 million by the end of 1986. Although full information is not available, it seems clear that the proportion of the total foreign debt represented by public external obligations as against private liabilities continued to rise owing to the ongoing use of the transfer mechanisms which had been created in 1981-1982 as a means of paying off matured private debts covered by exchange risk insurance.

b) *Exchange policy*

Exchange policy in 1986 can be separated into two distinct periods, with the termination of the general freeze in April serving as the dividing line. During the first quarter the dollar continued to be quoted at 0.801 australs, which meant that the real exchange rate against the dollar deteriorated. However, as the dollar in its turn underwent a sharp devaluation *vis-à-vis* the other hard currencies, the real effective exchange rate gained slightly during this period (see table 14).

In April the economic authorities launched a new exchange policy in conjunction with the beginning of a phase of administered prices. The exchange rate initially rose by 3.7%; in order to maintain the real level of parity between the austral and the dollar, periodic adjustments of more or

²Debt instruments used by the Argentine Government during the period 1981-1984 to pay for transactions involving private debts covered by exchange risk insurance.

³A credit facility which accounted for two-thirds of the US\$3.7 billion negotiated with creditor banks for 1986 and which these banks may then use to grant onward loans to other Argentine borrowers, making use of funds initially placed at the disposal of the Central Bank.

⁴This includes the interest and non-refinanciable capital obligations which had fallen due as of 31 December 1985.

less 1% were made approximately every 10 days during the first three months and every seven days during the rest of the year. At the same time, larger corrections were made on an irregular basis in order to eliminate discrepancies between the devaluation target and the growth rate of domestic prices.

The percentage between the parallel and official exchange rates for the dollar fluctuated up and down. After reaching double digit figures in the first months of the year, in April the gap gradually began to narrow until it bottomed out at around 2% in July. When inflation speeded up in August, the gap widened again and fluctuated between 10% and 20% during the rest of the year, despite the subsequent drop in the inflation rate and the rise in domestic interest rates. Towards the end of 1986 the gap broadened considerably as a result of increased uncertainty as to the performance of the external sector, the outlook for the country's debt negotiations and the future course of the economy.

In short, during 1986 Argentina's exchange policy had to meet a difficult challenge: on the one hand, the exchange rate had to be kept in line with the evolution of the external sector and incentives had to be provided to the traditional export sectors, which were faced with a difficult situation due to the low level of international commodity prices; on the other hand, sudden exchange rate adjustments which might fuel the inflationary process had to be avoided.

c) *External trade*

i) *Exports.* After having increased at a moderate pace during the three preceding years, the value of exports fell by 17% in 1986. Furthermore, this decrease was quite widespread. While agricultural exports went down by 18%, exports of non-traditional manufactures shrank by 13%. Among the former, the drop in the exports of the crop-farming sector was particularly marked (a contraction of nearly 23% in terms of value), whereas the value of livestock products slipped by only about 3%. In contrast, the sales of fishery products rose by 36% (see table 15).

The general decline in the prices of the main export items contributed to the shrinkage of crop-farming exports. Cereal prices, which had started on a downward trend in late 1984 and had dropped by 16% in 1985, fell by the same amount again in 1986. External sales of crop-farming products were also affected by the contraction of export volumes. There was an especially sharp decline in the volumes of wheat (-58%) and sorghum (-41%) as a result of adverse weather conditions and the disincentive that the decline in international prices represented for producers. Consequently, the value of wheat exports fell to US\$400 million, which was the lowest point reached in the last six years. In the case of maize, even though the volume of exports grew by almost 5%, their value was down by nearly 15% as a consequence of the lower prices obtained for them. An approximately 12% reduction in prices was also the cause of the 5% contraction in the value of oilseed exports.

As mentioned earlier, the value of exports of livestock products went down by almost 3%, despite the fact that meat sales were up slightly as a result of the increase in international prices. On the other hand, the rise in the value of wool exports was due to the 11% expansion in the volume shipped, which offset the slide of around 5% in average wool prices.

As regards non-traditional industrial exports, the 80% contraction in the value of fuel exports was too large to be offset by the 13% increase in the sales of other manufactures. One factor in this increase was the strong growth shown by exports of iron and steel products, which totalled US\$600 million in 1986 as against US\$500 million in 1985. The volume shipped was more than 25% higher than the year before, while semi-finished products jumped 60%, thanks in large part to the sales made to China. Shipments of finished goods and especially of rolled steel sections increased as well. Exports of machinery also made a good showing by rising 23%, while aluminium sales climbed to US\$160 million, US\$40 million more than the preceding year. Exports of transport materials, however, sank 11% due to the drop in sales of ship materials. All in all, industrial exports other than fuels accounted for around 27% of total exports in 1986. The government also announced measures aimed at strengthening their growth, such as drawback schemes, special procedures for the temporary admission of inputs and the improvement of pre-financing terms and conditions.

Finally, the severe contraction of fuel exports was attributable to the widespread drop in both prices and the volumes exported. Thus, gas oil and fuel oil shipments fell by 70% and 72%, respectively, and the export volume of crude oil plummeted from 522 000 m⁵ in 1985 to a mere 115 000 m⁵ in 1986.

ii) *Imports*. There was an upturn in imports in 1986, chiefly because of the higher level of domestic activity. The value of imports rose by 23%, and their physical volume increased even more swiftly. This marked a turnabout of the sharp downward trend which had begun in 1981 following the preceding year's record high of US\$9.4 billion. Thus, the value of imports in 1986 was still only 45% of what it had been in 1980 (see tables 11 and 12).

With the exception of purchases of fuel and lubricants, which declined by 13%, imports increased considerably: purchases of capital goods jumped 31% to their highest point in the last four years, imports of intermediate goods rose 28% and those of consumer goods were up 26% (see table 16).

4. Prices, wages and employment

a) *Prices*

The variation in the consumer price index amounted to 82%, which was the lowest figure in the last 12 years. Wholesale prices climbed by 58%, a rate which was also much lower than those of previous years.⁵ The fastest-growing consumer prices were those of food and services. Within the category of wholesale goods, the variation in the prices of agricultural goods was almost twice as high as that of industrial prices (see table 17).

The price freeze which remained in force from June 1985 to April 1986 can more properly be described as a frame of reference than a strictly-applied system. In fact, the prices of basic consumer goods (some of which were excluded from the freeze) increased so rapidly that between June 1985 and March 1986, the prices of meat, fruit and vegetables grew by almost 45% in relative terms with respect to the general consumer price index. Much the same thing, although to a lesser extent, occurred in the prices of services. Industrial prices, however, while showing some increases (owing, for example, to reductions in the discounts offered) varied very little.

Nevertheless, even though inflation was much lower than during the preceding period, it continued to have some effect on expectations, and the demands for nominal adjustments in a number of variables placed a definite limit on the duration of the freeze (which, in any case, the authorities had presented as a temporary measure). Putting an end to the freeze entailed several problems, however. In the short term, it involved the risk of sparking a sudden increase in inflation and of allowing expectations to set off a price and wage spiral. This suggested the advisability of retaining certain guidelines with a view to maintaining order in the price formation process and achieving sufficient flexibility to permit changes in relative prices. Such a step was particularly necessary because, although the freeze had set a very broad range of nominal values (with the attendant "over-determination"), a system was still needed that would not unduly hinder market operation but would at the same time provide some kind of "ballast" for price changes as a whole.

Accordingly, the policies announced in April provided for the replacement of the freeze by a price administration system, based on the transfer of costs, which focused on the larger firms. At the same time, a wage increase was set for the second quarter and negotiations were convened between trade unions and management to ratify the wage increase which had already occurred. Furthermore, there was an implicit understanding that the administration of the exchange rate and public service charges would be in keeping with the government's inflation target in an attempt to prevent any major lags in respect of the overall increase in prices.

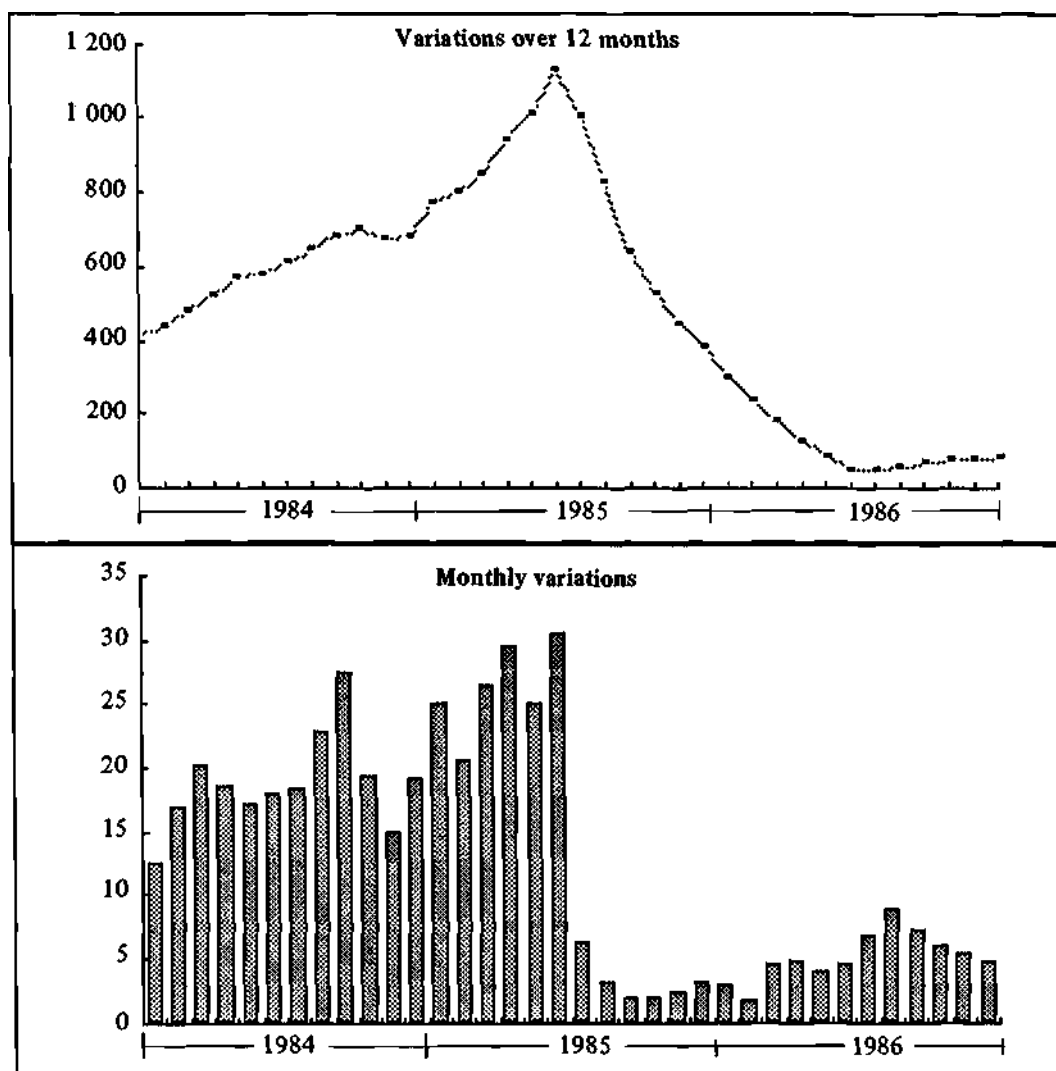
The lifting of the freeze did not involve an abrupt transition nor, despite relatively widespread fears, did it give rise to any sudden turnaround in the price trend. The very flexibility of the guidelines, whose aim was to prevent the development of any major imbalances, made it possible to accommodate any unexpected deviations in the inflation rate and limited the level that prices could be expected to reach. Nonetheless, given the growth of demand, the strong pressure for real wage increases, and the faint prospect of a drop in the relative prices of basic consumer goods, the possibility of an increase in inflation remained. Indeed, during the second quarter of the year the consumer price index

⁵Between 1974 and 1985 the wholesale price index increased at a rate equivalent to 250% per year and between the end of 1980 and June 1985 the growth rate was 450%.

grew at a monthly rate of 4.4% and the wholesale price index mounted by 3.4% per month (see table 18). However, while the gaps among the variations in the different categories of prices did not disappear, at least they were narrower than those observed in the second half of 1985 (see table 19). For example, the wholesale price index for non-agricultural goods rose at a monthly rate of 3.1% between March and June 1986 compared with the increase of somewhat less than 6% for agricultural goods, whereas between June 1985 and March 1986 non-agricultural prices had remained almost steady while agricultural prices had climbed at a rate of approximately 5% per month.

Nevertheless, the upsurge of inflation in the third quarter demonstrated that there were still strong pressures for an increase in prices and revealed the volatility of expectations. Aside from incidental influences such as the further increase in the relative prices of agricultural goods, some of the contributing factors in this acceleration were probably the wage increases decided upon in the

Figure 2
 ARGENTINA: CONSUMER PRICE INDEX
 (Percentages)



Source: ECLAC, on the basis of official data.

negotiations between trade unions and management and the adjustments in the exchange rate and public service charges made by the government after the upward trend had become evident. Moreover, the greater level of uncertainty, combined with the continued presence of a sustained demand, prompted many companies to try to regain their former profit margins or at least to take precautionary steps against what they perceived as a possible price and cost spiral. This behaviour was reflected in the price indexes: in the third quarter the consumer price index rose at an average monthly rate of 7.6% (reaching a high of 8.8% in August) and the wholesale price index increased at the rate of 7.1% (see table 18).

Faced with the risk that the economy might be again indexed to these inflation rates, at the beginning of September the government announced the application of a more stringent monetary policy, the maintenance of the wage guidelines which had been set for the fourth quarter, and a slowdown in the upward adjustments of the exchange rate and public service charges. In addition, authorizations for transferring cost increases to industrial prices were no longer granted so automatically. Although this policy of guidelines (which was applied with some flexibility) was operating within a context of uncertain expectations, it was aided by a lower increase in agricultural prices. Thus, from September onwards the monthly inflation rate slackened notably.

The evolution of prices thus reflected the difficulties involved in achieving a sustained stabilization in an economy with a long history of inflation and of intense distributive conflicts. Because of the way in which the stabilization policy was handled, the authorities managed to lift the price freeze in April without causing any major shocks and later to prevent the consolidation of the upswing in inflation seen during the third quarter. Nevertheless, late in the year there was still much uncertainty as to the future movement of prices. Consequently, the economic authorities had yet to resolve the issue of how to ensure that aggregate demand and the income policy would be consistent with one another and how to design an income policy which would act as a co-ordination mechanism for pricing decisions without impeding the operation of the market.

b) *Wages*

In contradistinction to what had occurred in the preceding years, in 1986 there were striking differences in both the amount and the direction of the variations in real wages in the various sectors and activities. Although this makes it more difficult to attain an overall view of the situation, the growth observed in the consumption of goods and services does appear to indicate an increase in the purchasing power of wage-earners as a whole, which was probably linked to the increase in the total wage per worker in the manufacturing industry and to the higher level of employment in the tertiary sector.

The groups which benefited the most were the workers in the banking sector, manufacturing, and public enterprises, all of whose wages rose by over 5%. As a result of the management decision taken within the manufacturing industry to cope with the upturn in demand without increasing employment, the increase in this sector was attributable to the greater number of hours worked per employee, since hourly wages declined slightly (see table 20). For their part, workers in the commercial sector and in provincial government services apparently maintained the real value of their wages. Wage-earners in the construction sector (whose real wages declined by 10%) and those in the national civil service lost the most ground.

In the private sector, the main causes of these disparities were the dissimilar growth rates of the various production sectors and the unequal bargaining power of the different trade union organizations. In fact, the fluctuations in the level of industrial activity seen throughout the year reflected not only the variations in demand (which on the whole increased) but also labour conflicts, which at some points affected several industrial sectors simultaneously. Thus, in June the number of hours worked in the manufacturing industry declined by almost 20% compared with the preceding month mainly because of strikes. Consequently, both production and wages fell sharply during this period.

With respect to the construction sector, in mid-1986 there was apparently a reversal of the downward trend which real wages had been following for several years. This turnaround, which was chiefly due to the increase in public works, was reflected in a recovery of wages in this sector. Consequently, they showed a positive variation between December 1985 and December 1986, even though their annual average was 10% lower than in 1985.

The wage policy in 1986 had three main features. The first was the lower frequency of wage adjustments, which, after the wage freeze implemented in the second half of 1985, were made on a quarterly rather than a monthly basis as had been the case prior to the introduction of the stabilization plan. The second was the attempt that was made to gradually transfer the responsibility for establishing the amounts and other modalities of the adjustments to the parties directly concerned (trade unions and business enterprises). The third was the marked differences between the wage policies implemented in the private sector and the public sector and, within the latter, among those applying to business enterprises, to agencies having special systems and the rest of the government services.

With respect to the first feature mentioned, it should be recalled that when the anti-inflation plan was introduced in mid-1985, wages as well as the main variables of the economy (the exchange rate, public service charges and industrial prices) were frozen. Since inflation, although it fell dramatically, was not completely eliminated, it became evident that the purchasing power of wages was being eroded. However, notwithstanding the fact that a freeze was officially in force, some groups of workers continued receiving wage increases commensurate with the inflation index. Consequently, at the end of 1985 the government provided for a general increase of wages to 5% above the levels at which they had been frozen in June. A further adjustment was authorized in the private sector of up to 5% for improvements in productivity, while in the civil service a flat wage increase was granted to compensate for the elimination of the refreshment service which was particularly significant for the lower levels of the wage scale. In practice, the increase that was granted to the private sector merely reflected the increases which had in fact already been given and which had been paid either on an irregular basis or in the form of advances. Subsequently, it became the practice to grant quarterly adjustments in keeping with the government's guidelines; these raises were not, however, based on past inflation, but rather on the targeted level of inflation for the quarter in question, which was in turn established within the more general framework of the anti-inflation policy.

As regards the second aspect of the wage policy, it should be noted that a provision enacted by the preceding government was still in force which reserved for the Executive branch the exclusive authority to set wage levels.⁶ This prerogative notwithstanding, when the overall wage increase of the first quarter was announced, entrepreneurs and workers were authorized to decide upon additional raises based on productivity up to a set limit, on the condition that these increases would not be reflected in the final prices of goods and services. Towards the end of the quarter, the government asserted that there was a need for the organizations representing employers and workers to join with it in establishing a tripartite "framework agreement" in respect of the income policy which would tie price and wage variations to one another and to the targets of the anti-inflation plan. Although this goal was not achieved, it was agreed that "mini" joint negotiations would be held among the organizations which had signed the last collective bargaining agreements (in 1975) in order to bring the basic wage agreements as of 31 March into line with reality.⁷ A general increase of 8.5% in these newly "aligned" wages was then set for the private sector. Finally, for the second half of the year, the government once again called on the organizations that had signed the 1975 agreements to hold restricted joint negotiations at which, without altering the other provisions of these conventions, the wage increases for each branch of economic activity would be established; these increases had to fall within a "band" having a lower limit of 14% and a ceiling of 20% for the six months and could not exceed 11% in the third quarter. In addition, the matter of the application of a

⁶The demand for the repeal of this provision and for the reinstatement of free collective bargaining between employer organizations and trade unions has been one of the main causes of conflict between the trade unions and the government during the past three years. In view of the emergency economic situation in the country and the anti-inflation drive on which it has embarked, the government has deemed it inappropriate to permit unrestricted negotiations among the parties and has instead proposed new legislation which would enable it to set the bounds for such negotiations in accordance with the projected variations of the other economic variables.

⁷This process was necessary both because increases in excess of the official guidelines had been granted and because of the frequent omissions in this respect marking the series of wage adjustment decrees, which increased "take home" pay but left basic wages unchanged.

further productivity-based raise of up to 2% per quarter was left for discussion between each company and its employees.

This gradual liberalization was designed to lead to full negotiations among the concerned parties by the end of 1986. However, the failure to reach an agreement concerning the power of the Executive branch to set certain limits during the economic emergencies blocked the parliamentary approval of the relevant legislation and hence the holding of these negotiations.

Lastly, the third striking characteristic of the wage policy in 1986—the differences between the provisions applying to wages in the private and public sectors— was essentially due to the government's decision to reorganize the public sector. This decision was part of a more general strategy of redefining the role of the State which was intended to result in a substantial reduction of public expenditure.

Public-sector wage-earners may be divided into three distinct categories: those covered by the collective labour agreements (mainly workers in government enterprises and banks), those covered by special schemes (i.e., those subject to special wage scales or who receive additional pay over and above the general wage scale) and those subject to the general wage scale. The purpose of the differentiated wage adjustment policy was to bring the relative wages of these three groups into line with one other and with those of the private sector. A parallel aim was to curb expenditures on personnel in keeping with the effort to reduce the fiscal deficit without resorting to drastic lay-offs.

Thus, 5% increases were granted in public enterprises during the first and second quarters which, in both instances, absorbed any raises previously agreed on by the management of such enterprises and the respective trade unions. For the third and fourth quarters, special wage commissions were formed and were given the option either of increasing wages by 7% on each occasion or of deciding how to distribute a 9% increase of the gross wage bill.⁸ The wage-earners covered by special systems were granted quarterly adjustments of 5%, 5%, 7% and 9%, respectively. Workers subject to the general wage scale received, in addition to the increases granted those governed by special systems, compensation for the elimination of the previously mentioned refreshment services; this payment was increased by 83% in the third quarter and 45% in the fourth quarter. During the final quarter they were granted an additional fixed-sum wage adjustment. Beginning in the third quarter, the senior categories were also granted differentiated increases with a view to restructuring the wage pyramid, which by that time had become overly "flat".

In spite of these measures, wages in the public sector did not evolve exactly according to plan. In particular, this was due to the fact that there were large wage increases in some public enterprises during the first quarter as a result of court decisions concerning the payment of sums owed from previous periods. Consequently, in these cases the increases corresponding to government guidelines were applied to the higher wages awarded by the courts. In addition, strong movements were formed in certain State enterprises and in the government banks to demand that wage scales be placed on a par with those of private companies in the same sectors. In some cases this was done, either fully or partially, sometimes through legal rulings. Furthermore, the increase in tax collections, which exceeded the consumer price index by 10%, benefited those workers who received additional remunerations on that basis.

Towards the end of 1986 the government announced a wage equalization and structuring programme for the civil service which was to be implemented over a three-year period beginning in January 1987. Under this programme it was provided that the additional income received by certain groups of agents was no longer to be linked to such variables as tax payments but instead to the "target wage" of the corresponding category set for each quarter. Along with this programme, the government also announced the standardization of working hours (to begin 1 January 1988) as well as a voluntary retirement plan for public employees. Through this plan, which includes a special compensation system, the authorities hope to reduce employment in the public sector by 20% in three years.

⁸The gross wage bill, as defined in this case, did not include retroactive payments, overtime, the reimbursement of expenses, per diem allowances, salary bonuses or allowances for dependents. This option made it possible to give larger raises to the workers of companies which reduced their staff, to grant different percentage increases to different categories of employees and to exercise a stricter control over the enterprises' wage costs.

Employment

In 1986 open unemployment was down in Buenos Aires and especially in Rosario but it increased in Córdoba, Mendoza and Tucumán (see table 21). Employment in manufacturing, after having fallen steeply from the comparatively higher levels achieved in early 1985, appeared to be heading back up at the end of 1986. Be that as it may, it seems clear that manufacturing no longer has the job-creation capacity it used to have. This is not only indicated by the information periodically supplied by government and private surveys, but has also been confirmed by the preliminary results of the 1985 Economic Census (published at the end of 1986), which indicates that between 1973 and 1984 the number of wage-earners in industry rose by only 3%— When this fact is considered in conjunction with the very low level of construction and the small number of jobs generated by primary activities, it is not surprising that there has been an increase in the relative importance of tertiary employment.

5. Monetary and fiscal policy

a) *Monetary and financial policy*

In 1986 the money supply increased by 85%, while the amount of quasi-money expanded by almost 130%. The fact that these variations were well below those recorded in the preceding years was directly traceable to the slackening of the inflationary process (see table 22).

Indeed, the stabilization plan made it possible to begin a remonetization of the economy and to restore the conditions necessary to monetary control through the reorganization of public finances (which included the commitment to refrain from using monetary issues as a means of covering treasury imbalances) and the setting of the main prices of the economy—all of which had an impact on expectations. This remonetization continued up to the middle of the year, when a slight reversion of the trend occurred due to the resurgence of inflation in the third quarter. The monetary policy, which had been relatively permissive during the first half of the year—during which it was rudely shaken by the imbalances in the banking system and in the finances of the provincial governments—tended to become stricter in the final months of 1986.

Although the government stood by its undertaking not to finance its costs through the Central Bank, from the first months of the implementation of the Plan Austral up to the end of 1985 the rate of monetary expansion was far greater than that of price increases. This growth was promoted by events in the external sector, especially the inflow of capital caused by the difference between external and internal interest rates and the reduced foreign exchange risk. Another factor was the credit which was granted to financial institutions, and particularly those loans intended to compensate for changes in the public's demand for assets and those given to help out institutions having financial difficulties.

The response to this expansion was a boom in the demand for money. In consequence, the volume of currency outside banks (which had fallen to an absolute minimum equivalent to 2.5% of the product during the second half of 1985) doubled in real terms towards the end of the year. Although the rate of monetary expansion weakened over the following months, demand continued to increase with the result that the volume of currency outside banks reached the equivalent of almost 6% of the gross domestic product during the first quarter of 1986. Although this figure was still substantially lower than the levels recorded prior to 1977, it was the highest since 1981. Meanwhile, interest rates, which had initially remained very high in real terms, gradually declined as the supply of funds increased and inflationary expectations subsided.

This situation began to change in the second quarter of 1986. On the supply side, the pace of monetary expansion quickened, basically as a result of two factors. The first was the sizeable growth of rediscounts to assist the banking system and to finance loans for housing and for some production activities in various zones of the country; the second was the inflow of capital associated with external refinancing operations (i.e., the tranches of the loan agreed upon with the International Monetary Fund and the loans made by creditor banks). On the other hand, the growth rate of the demand for money began to slow down. Consequently, although the ratio between the amount of money in the private sector and the product continued to increase, it did so at a much slower pace than before. In response to this situation, a further contraction was observed in nominal interest rates, whose real *ex post* values were negative from May onwards, regardless of the deflator used to calculate them. Even

so, this phenomenon did not appear to have an adverse effect on the public's expectations, since the differential between the exchange rate for the dollar on the official and parallel markets gradually narrowed to a minimum of around 2% in July.

The drop in interest rates was assisted by the adoption of measures designed to permit the exercise of greater control over financial institutions. Since the beginning of the year it had become obvious that the provincial government banks were causing major distortions. On the one hand, they were sidestepping the cash reserve requirements laid down by the Central Bank; on the other, under the pressure of the need to obtain resources both in order to back up their highly committed portfolios and in order to meet the fiscal requirements of their respective jurisdictions, they were offering high returns on deposits at non-regulated interest rates which were far above those offered by the other institutions of the system. Faced with this situation, the Central Bank prohibited these banks from receiving deposits at non-regulated rates as of 1 April and, at the same time, reduced their cash reserve requirements for deposits at regulated rates. Furthermore, it announced that rediscounts to these institutions would be made available only in emergency situations and would be limited to special lines of credit for specific purposes. Meanwhile, it augmented the capacity of the rest of the institutions in the system to attract deposits at non-regulated interest rates (by lowering the technical ratios required between non-regulated and regulated deposits and between them and the assets of each institution) so that they could attract the resources that would be freed by the provincial banks. As a counterbalance, it also cancelled out part of the greater lending capacity created by this measure, through a special interest-bearing cash reserve requirement.

Although these steps brought down the average interest rate in the system and reduced the differences among the rates offered by the different entities, it is likely that some of the funds released by the provincial banks added to the volume of operations on the non-institutionalized market, where the returns offered were distinctly higher than those available within the institutional system.

When the authorities realized that monetary expansion was one of the factors responsible for the swifter rise in prices observed in the third quarter, they took a series of steps which marked a turning point in monetary and fiscal policy. These measures consisted, firstly, of increasing the interest-bearing cash reserve requirement for existing deposits at non-regulated interest rates and reducing the reserve requirement applying to increases in them, thus promoting the attraction of new deposits by financial institutions. Secondly, major restrictions were placed on the rediscount policy and the fines for non-compliance with minimum reserve requirements and the other technical ratios stipulated by the Central Bank were considerably increased. Thirdly, in order to absorb excess liquidity, open-market operations were expanded by adding the sale of external bonds to the treasury bill transactions regularly carried out on that market.

These measures, which rapidly had a contractive effect, were followed the next month by others which were basically aimed at neutralizing the informal credit market and shifting its operations to the institutionalized system. Specifically, financial institutions were once again authorized to carry out intermediation operations in third-party financial transactions (acceptances) and to guarantee lending operations involving government securities ("pass" transactions). In addition, increases in deposits at non-regulated interest rates were exempted from any minimum reserve requirement, which substantially increased the financial institutions' capacity to attract deposits. The balances of these deposits as of 30 September would be covered by a special interest-bearing deposit which would replace the reserve requirements in effect up to that date. Furthermore, the minimum reserve requirement for demand deposits in provincial government banks was reduced, thus increasing these institutions' lending capacity. Finally, the authorities once again stiffened the fines for non-fulfillment of the technical ratios applying to financial institutions.

The initial effect of these measures was that the free interest rates offered by financial institutions rose as they attempted to make full use of their increased capacity to attract deposits. At the same time, the Central Bank increased the regulated rate in order to prevent deposits from being drained out of the provincial banks. In the following months, a considerable portion of the informal market was absorbed by the institutionalized system.

In the final months of the year it became apparent that the monetary authorities had gained a greater degree of control over the expansion of the money supply. Furthermore, the resurgence of inflation in the third quarter, along with the concomitant change in expectations, prompted a marked slowing of the increase in the amount of money in the private sector (particularly between August

and October), with the result that the ratio between this variable and the product fell to approximately 5.3% in the last quarter. The interest rate remained high, particularly in terms of its real *ex post* value, as inflation indexes declined month after month. Nevertheless, as the regulated interest rate on deposits was not high enough to compensate savers for the losses caused by inflation, the increase in holdings of monetary assets providing lower returns slowed down, while those affording greater protection against inflation grew.

At the end of the year, the pessimistic expectations prevailing in the exchange market also affected the monetary and financial policy, hampering a reduction of nominal interest rates to levels closer to that of the variation in prices.

b) *Fiscal policy*

In 1986 a further decrease occurred in the non-financial public sector's financing requirements, which brought them down to the equivalent of 3.6% of the gross domestic product. This proportion, which had reached 16.8% in 1983 but had then fallen to 5.9% in 1985, was the lowest in the last 15 years. The deficit was sharply reduced in the national government service and in public enterprises but no significant change was seen in the provincial governments, while the financial imbalances in the social security system increased markedly.

This was primarily due to the increase observed in tax revenues and to the contraction of the operating deficit of public enterprises, inasmuch as public-sector expenditures on goods and services and transfers to the private sector grew moderately.

The operating deficit of the Central Bank (a quasi-fiscal cash shortfall) was further reduced, bringing it down to the equivalent of 1.6% of the product. Nonetheless, it was still considerable, especially during the fourth quarter, as a consequence of the increase in interest rates.

The deficit of the National Treasury was also cut in real terms to less than one-half of what it had been the year before, chiefly because of higher tax revenues (see table 23). The higher real value of the total taxes collected was, in turn, attributable to the reduced significance of the "fiscal lag" (owing to the slower rate of inflation) and to measures that had been being applied since the preceding year, whose basic effect had been to broaden the direct tax base and reduce tax evasion.

Considerable increases were recorded in the collection of direct taxes (45%), internal charges (29%) and the value-added tax (VAT) (22%); in contrast, customs duties fell (-17%), since the increase in the revenue from import duties (53%) occasioned by the larger volume of external purchases, while sizeable, was not large enough to compensate for the drop in tax withholdings on grain exports (-42%). This decrease was caused by the persistent decline of international prices, which made it necessary for the government to reduce the percentage of tax withheld as a means of improving the position of agricultural producers.

As they strove to reduce the deficit, the authorities were faced with a number of problems due to the persistence of demands for greater outlays and the fact that the increase in tax revenues was less than had been expected. Thus, during the first quarter they had difficulty in meeting the fiscal targets that had been agreed upon with the International Monetary Fund. Although these problems were overcome during the second and third quarters, they reemerged in the fourth, as tax collection fell and expenditure rose sharply. Nevertheless, in 1986 the government was able to keep its promise not to use the Central Bank to finance its deficit.

Thus, the Treasury's difficulties were, in the final analysis, the result of the inflexibility characterizing the national government's expenditures and of the imbalances in the rest of the public sector: the provincial governments, public enterprises and the social security system.

The provincial governments' expenditures have climbed in the last few years without there being any matching increase in the local revenues. Moreover, the delay encountered in obtaining legislative approval for a new system of federal co-participation in respect of national taxes—to replace the one which expired at the end of 1984—made it necessary, in both 1985 and 1986, to substitute National Treasury remittances for provincial allocations of the funds which had previously been collected through this system, thereby creating tensions between these two levels of government.

Meanwhile, in an attempt to lessen the operating deficits of public enterprises, the government took specific steps in accordance with the particular situation of each such enterprise, as well as adopting measures of a general nature. To this end, it instituted strict controls over the wage bill

(rather than over the wage rate) in an effort to facilitate the restructuring of wage scales within each company while at the same time curbing total expenditure. The Treasury also assumed responsibility for part of these companies' external debt servicing. For example, in view of the level of the State petroleum company's arrears in payments to its local suppliers and contractors, the government authorized the company to consolidate its debt by issuing one-year bonds that were freely negotiable on the stock exchange and backed by the Treasury. It thus paved the way for the normalization of this enterprise's dealings with the National Taxation Bureau as well as by regularizing the receipts from the fuel tax, which the company is responsible for withholding.

The social security system, for its part, came to figure more prominently in the difficulties of the Treasury due to the progressively deteriorating position of this system. Several factors have contributed to this state of affairs: the rapid increase in the number of persons covered by the system, the effects of the growth in informal employment (and, consequently, in tax evasion) and the cessation of employer contributions since the beginning of the decade (which have been reinstated only in part). In addition, in 1986 this situation was compounded by the government's decision to prevent any widening of the gap between the retirement benefits that are actually paid and those which are provided for under the laws in force.

At the close of 1986, the government announced a series of medium-term measures designed to bring about a substantive change in the situation of the public sector. One major step was the creation of a Board of Directors for Public Enterprises. This board was charged with co-ordinating the operational management of these companies and was empowered to propose any reforms it deemed appropriate as regards the structure of each such enterprise. At the same time, the government spelled out in greater detail the responsibilities of the respective areas of government in the establishment of sectoral policies, explicitly excluding those enterprises whose role was regarded as being merely to execute such policies. In respect of the national government service, a voluntary retirement system was introduced—in which compensatory payments were offered as an incentive—with a view to reducing the total number of civil servants by 20% over a period of three years. In addition, a salary scale programme was set up with the object of phasing out unjustified discrepancies among the wages of civil servants who perform similar duties in different agencies.

All of these measures, whose basic aim was to reorganize public spending, complemented the resource-related measures adopted as part of a comprehensive tax reform whose main purposes were to increase tax revenue (defining the tax burden in such a way as to replace the "inflation tax"), to make the system fairer and to distribute taxes more evenly among the different sectors of activity. Other objectives included the widening of the tax base through the elimination of exemptions and tax relief provisions and a general improvement in the overall efficiency of tax administration. Some of the most significant measures were the elimination of secrecy in banking and stock exchange operations and the requirement that all private securities issued in the country should be registered (the aim of both of those provisions being to facilitate the monitoring of taxpayers), the modification of fiscal procedures with a view to increasing the efficiency of the tax collecting agency, and changes in the VAT system (particularly the use of a single rate and the introduction of a simplified system for small taxpayers) designed to simplify the operation of the tax system and reduce tax evasion.

However, since some of the tax reform laws were enacted late in the year, their effect was not felt in 1986. Their impact can thus not be fully evaluated until 1987, when the government also plans to reduce the public-sector deficit even further (particularly through the achievement by State enterprises of a better operating balance) even though it has programmed a sizeable increase in investment expenditure.

Table 1

ARGENTINA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	92.9	87.9	90.0	92.1	87.8	93.1
Gross national income	100.0	89.4	80.7	80.5	82.1	76.0	80.5
Population (millions of inhabitants)	28.2	28.7	29.2	29.6	30.1	30.6	31.0
Per capita gross domestic product	100.0	91.5	85.2	85.8	86.5	81.2	84.7
Growth rates							
B. Short-run economic indicators							
Gross domestic product	2.2	-7.1	-5.3	2.4	2.3	-4.7	6.0
Per capita gross domestic product	0.6	-8.5	-6.5	0.8	0.8	-6.1	4.4
Gross national income		-9.1	-8.2	1.5	3.6	-5.9	7.6
Rate of unemployment ^c	2.3	4.5	4.8	4.2	3.8	5.3	4.6
Consumer prices							
December to December	87.6	131.3	209.7	433.7	688.0	385.4	81.9
Variation between annual averages	100.8	104.6	164.8	343.8	626.7	672.1	90.1
Industrial workers' wages		-10.8	-14.5	22.8	25.3	-12.1	5.4
Money	97.8	68.6	222.5	370.6	521.6	593.3	85.1
Current income of government	79.8	97.9	168.3	342.2	632.3	1 501.3	84.7
Total government expenditure	110.6	139.2	145.9	568.7	385.0	1-175.8	45.1
Fiscal deficit/total government expenditure ^c		54.5	50.4	67.2	50.5	37.8	20.9
Current value of exports of goods and services	7.8	9.7	-15.4	1.2	3.4	4.5	-17.3
Current value of imports of goods and services	49.1	-11.2	-43.9	-10.7	2.4	-11.3	15.4
Terms of trade (goods and services)	4.2	-6.9	-22.6	-2.0	16.9	-14.6	1.7
ms of dollars							
C. External sector							
Trade balance (goods and services)	-3 191	-757	2 667	3 469	3 648	4 753	2 200
Net payments of profits and interest	1 607	3 932	5 054	5 922	6 144	5 707	4 800
Balance on current account	-4 774	-4 712	-2 354	-2 436	-2 495	-955	-2 600
Balance on capital account	2 176	1 519	1 686	-13	2 660	1 992	1 900
Variation in net international reserves	-2 666	-3 408	-806	-2 379	17		-700
External debt ^b	27162	35 671	43 634	45 087	46 903	48 312	50 000

Source: ECLAC, on the basis of official data.

^aPreliminary figures.^bSimple average of results of surveys for each year in the Federal Capital and Greater Buenos Aires.^cPercentages.^dAnnual average variation in real wages.^eTotal medium- and long-term external debt.

Table 2

**ARGENTINA: QUARTERLY EVOLUTION ON SOME OF THE
MAIN ECONOMIC INDICATORS**

	1985				1986 ^a			
			III	IV			III	IV
Fiscal deficit/total expenditure of Central Government (percentages)	35.6	66.8	4.1	-9.7 ^c	24.6	14.8	11.5	30.6
Unemployment rate		5.7		4.9		4.8		4.4
Terms of trade (index: 1980 = 100/)	84.0	78.8	77.9	84.1	73.5	69.8	70.0	
Trade balance (goods) (in millions of dollars)	827	1 643	1 331	782	592	813	542	353
Growth rates in relation to the previous quarter								
Gross domestic product of manufacturing at factor cost (seasonally adjusted)	-5.6	-4.2	-5.7	13.7	5.1	-0.2	7.0	-2.3
Consumer prices	91.0	111.4	11.6	7.7	9.6	13.9	24.5	17.0
Normal hourly wage of industrial workers (real) ⁸	-9.6	-2.5	-2.0	-1.6	1.8	-0.6	-1.9	0.7
Money (seasonally adjusted)	68.1	87.9	78.4	27.8	21.0	12.2	11.6	22.2

Source: ECLAC Office in Buenos Aires, on the basis of official data.

^aPreliminary figures.

^bBased on cash data supplied by the National Treasury of Argentina.

^cDoes not include the

regularization of arrears in the Servicing of the guaranteed external debt registered in the accounts in December through the transfer of external loans from the Central Bank to the Treasury; this charge considerably raises both the deficit and total expenditures for December (and for the quarter), although it reflects operations which took place during the whole of the year and even during previous financial year. If this regularization is included, the ratio then increases to 44.3%.

^dApril and October surveys in the Federal Capital and Greater Buenos Aires; in 1986, June and November surveys. ^eBased on new estimates of foreign trade price indexes.

^fVariation between the last month of one quarter and the last month of the preceding quarter.

^gVariation in the quarterly averages of monthly values, deflated by the average consumer price index in the month when the wage was payable and the following month.

^hAverage of end-of-month balances, seasonally adjusted. The variations shown are those between the value corresponding to the last month of a quarter and the last month of the preceding quarter.

Table 3

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total supply	88.6	84.1	89.6	108.5	104.5	1.9	2.5	-5.1	6.6
Gross domestic product at market prices	92.1	87.8	93.1	100.0	100.0	2.4	2.3	-4.7	6.0
Imports of goods and services	47.6	40.4	49.2	8.5	4.5	-8.6	5.7	-15.1	21.6
Total demand	88.6	84.1	89.6	108.5	104.5	1.9	2.5	-5.1	6.6
Domestic demand	86.5	80.3	87.5	102.1	96.0	1.5	3.6	-7.1	8.9
Gross domestic investment	49.1	40.0	47.4	22.7	11.6	-10.7	-10.6	-18.5	18.5
Gross fixed investment	51.5	46.4	51.5	22.2	12.3	-5.2	-9.0	-10.0	11.1
Construction	50.6	45.9	49.0	15.5	8.1	-11.3	-16.6	-9.4	6.7
Machinery and equipment	53.5	47.4	57.4	6.7	4.1	19.6	13.8	-11.3	21.0
Total consumption	97.2	91.9	99.0	79.3	84.4	3.9	6.1	-5.4	7.7
Exports of goods and services	122.9	144.0	123.3	6.4	8.5	5.6	-8.7	17.2	-14.4

Source: ECLAC, on the basis of official data.

Note: The figures for exports and imports of goods and services were taken from IMF balance-of payments data expressed in dollars at current prices, which were converted to constant 1980 values using unit value indexes calculated by ECLAC for the purpose.

°Preliminary figures.

Table 4

ARGENTINA: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY"

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986*	1980	1986*	1983	1984	1985	1986'
Gross domestic product	92.1	87.8	93.1	100.0	100.0	2.4	2.3	-4.7	6.0
Goods	89.8	83.1	89.6	43.0	41.4	4.7	1.0	-7.5	7.9
Agriculture ^c	115.0	113.0	112.0	8.6	10.3	1.9	3.6	-1.7	-0.9
Mining	100.8	98.1	97.6	2.4	2.5	0.2	-0.6	-2.7	-0.5
Manufacturing	92.3	82.6	93.2	25.0	25.0	10.8	4.0	-10.5	12.8
Construction	46.7	43.5	47.3	7.1	3.6	-13.1	-20.0	-6.8	8.8
Basic services	105.2	103.0	108.4	10.2	11.9	5.2	5.0	-2.1	5.2
Electricity, gas and water	117.2	118.8	127.8	2.5	3.5	8.0	6.5	1.4	7.5
Transport, storage and communications	101.2	97.8	101.9	7.7	8.4	4.2	4.4	-3.4	4.3
Other services	91.3	88.8	92.9	46.8	46.7	-0.4	2.9	-2.8	4.6
Trade, restaurants and hotels	85.2	78.4	85.0	18.0	16.5	2.1	4.6	-8.0	8.5
Financial institutions, insurance, real estate and business services	83.9	83.1	87.4	13.7	12.9	-5.2	1.3	-0.9	5.2
Ownership of dwellings	106.5	107.8	109.0	5.0	5.8	1.4	1.2	1.2	1.1
Community, social and personal services	105.5	106.5	107.3	15.1	17.4	1.0	2.4	1.0	0.7
Government services	104.8	105.7	106.1	11.1	12.6	0.5	2.3	0.9	0.4

Source: ECLAC, on the basis of official data.

At constant 1980 market prices.

Preliminary figures.

'Includes the livestock sector, forestry and fishing.

Table 5

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Austral at 1970 prices				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Gross domestic product of agricultural sector at factor cost	1394	1442	1 419	1 406	1.9	3.6	-1.7	-0.9
Crop farming	849	910	897	873	2.1	7.2	-1.5	-2.7
Stock raising	498	487	484	492	0.9	-2.3	-0.6	1.7
Fisheries	9	7	9	9	-8.5	-23.1	25.2	3.3

Source: Central Bank of the Republic of Argentina.

Preliminary figures.

Also includes agricultural construction, hunting, forestry and logging.

Table 6

ARGENTINA: AREA SOWN AND CROP PRODUCTION

	Area sown (millions of hectares)				Production					
					Millions of tons			Growth rates		
	Average 1981/1982 1985/1986	1984/ 1985	1985/ 1986	1986/ 1987	Average 1981/1982 1985/1986	1984/ 1985	1985/ 1986	1984	1985	1986
Cereals	16.1	15.2	14.1	12.6	30.3	33.4	26.5	-14.1	7.7	-20.7
Wheat	6.6	6.0	5.7	5.0	11.7	13.6	8.7	-13.3	4.6	-36.0
Sorghum	2.3	2.0	1.5	1.2	5.9	6.2	4.2	-14.8	-10.1	-32.3
Maize	3.6	3.6	3.8	3.6	10.3	11.2	12.4	5.6	25.3	10.7
Oilseeds	6.6	6.6	7.4	6.6	9.4	10.6	11.9	38.4	4.0	12.3
Linseed	0.8	0.6	0.8	0.7	0.6	0.5	0.5	-	-14.3	.
Sunflower	2.3	2.3	3.1	2.1	2.8	3.4	4.1	-8.3	50.0	20.6
Soya	2.8	3.3	3.3	3.6	5.8	6.5	7.1	25.0	-7.1	9.2
Total annual crops	23.8	22.8	22.5	20.1						

Source: Ministry of Agriculture.

Table 7

ARGENTINA: CATTLE SLAUGHTERING AND PRICES

Season July- June	(millions of head)"	Slaugh- tering (millions of head)	Slaugh- • tenng rate (percent- age)'	Yield (kilo- grammes of dressed meat per head)	Percentage of cows and heifers in slaugh- tering analysed (percent- age)'	Annual consump- tion (kilo- grammes)*	Steer prices in terms of:	
							Indus- trial prices ^{dr.} "	Wheat prices ^{ah}
1980-1981	55.8	14.4	25.8	203.0	31.9	86.7	0.71	4.86
1981-1982	54.2	14.1	26.0	202.6	33.4	78.8	0.71	4.15
1982-1983	52.7	11.5	21.8	211.6	33.1	64.0	0.89	5.67
1983-1984	53.8	11.6	21.7	213.2	32.8	69.9	0.79	6.40
1984-1985	54.6	12.9	23.6	203.9	34.4	77.0	0.57	5.90
1985-1986	54.0	13.4	24.8	202.0	33.1	78.4	0.57	5.80
1986-1987	52.5	13.6'	25.9'			77.5'		
First half of 1985"		7.0		199.0	35.9	80.2	0.44	4.62
Second half of 1985"		6.5		206.0	33.0	77.5	0.52	5.61
First half of 1986"		6.9		198.0	33.1	79.2	0.62	6.00
Second half of 1986"		6.8		208.0	34.0	78.8	0.76	8.00

Source: National Meat Board, Ministry of Agriculture and ECLAC Office in Buenos Aires, on the basis of official data.

"To 1 July. "Total slaughtering for the period. "Slaughtering in the period as a percentage of stocks at 1 July. "Average for the period. "Slaughtering under control of the National Meat Board, which represents between 77% and 80% of total (registered) commercial slaughtering. ¹ Refers to registered slaughtering, which differs from the total in that it does not include estimates of slaughtering *in situ* (about 360 000 head per annum). "1970 pesos. * Kilogrammes of wheat needed to purchase 1 kilogramme of live steer. ² Provisional figures and projections. ³ Given the importance of seasonal factors, the six-monthly figures are comparable only with those of the same six months of the preceding year.

Table 8

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986°
Gross domestic product at factor cost (australs at 1970 prices)	250	248	242	240	0.4	-0.6	-2.6	-0.5
Production of some important minerals								
Petroleum	28.5	27.8	26.7	25.2		-2.2	-4.2	-5.6
Marketable coal ^c	486	509	400	365	-5.7	4.8	-21.4	-8.9
Injected natural gas	11.3	12.2	12.6	13.8	15.4	8.2	3.5	9.3

Source: Central Bank of the Republic of Argentina and Ministry of Energy.

"Preliminary figures.

Millions of cubic metres.

"Thousands of tons.

After deducting imports.

Table 9

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Gross domestic product at factor cost (australs at 1970 prices)	2 186	2 274	2 035	2 296	10.8	4.0	-10.5	12.8
Food	492	529	529	574	5.2	7.6	-	8.5
Textiles	219	224	174	213	12.4	2.5	-22.3	22.0
Wood	32	29	25	30	-4.3	-6.5	-14.4	18.6
Paper	113	114	111	116	7.0	1.1	-3.3	4.9
Chemicals	368	387	365	398	10.2	5.2	-5.7	9.2
Non-metallic minerals	111	103	80	98	11.6	-7.3	-22.3	22.5
Basic metal industries	143	138	127	145	6.5	-3.4	-7.9	14.4
Machinery and equipment	559	592	484	563	19.1	6.0	-18.4	16.4
Other industries	151	157	141	159	10.8	4.0	-10.5	12.8
Production of some important manufactures								
Pig iron	1 862	1 791	2 299	2 582	-1.7	-3.8	28.4	12.3
Crude steel	2 966	2 652	2 945	3 246	1.8	-10.6	11.0	10.2
Finished rolled products	2 896	2 852	2 314	2 735	8.6	-1.5	-18.9	18.2
Motor vehicles'	160	167	138	170	21.2	4.4	-17.4	23.2
Tractor/	8 125	12 381	6 377	8 051	112.3	52.4	-48.5	26.3

Source: Central Bank of the Republic of Argentina, Centro de Industriales Siderúrgicos, Asociación de Fábricas de Automotores, and Asociación de Fábricas Argentinas de Tractores.

"Preliminary figures.

Thousands of tons.

'Including sponge iron.

Total finished rolled products in

terms of hot-rolled products.

"Thousands of units.

Units.

Table 10

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Gross domestic product at factor cost (australs at 1970 prices)	380	304	283	308	-13.1	-20.0	-6.8	8.8
Construction permits granted (thousands of square metres)								
Federal Capital	781	998	1 256	978	-23.1	27.8	25.9	-22.1
Paraná	188	155	124	215	39.7	-17.6	-20.0	73.4
Rosario	332	514	474	385 ^e	-8.3	54.8	-7.8	
Salta	112	114	141	131	-11.3	1.8	23.7	7.1
Santa Fé	72	87	60	102	-13.3	20.8	-31.0	70.0
Supplies of some construction materials								
Deliveries of cement to the domestic market^c	5 518	5 161	4 513	5 334	2.3	-6.5	-12.6	18.2
Public works	972	806	652	803	-20.7	-17.1	-19.1	23.2
Private works	4 546	4 355	3 861	4 531	9.0	-4.2	-11.3	17.4
Deliveries to the domestic market of steel products for reinforced and prestressed	310	284	219	306	-4.3	-8.3	-22.9	39.7

Source: National Institute of Statistics and Censuses, Asociación de Fabricantes de Cemento Portland, and Instituto Argentino de Siderurgia.

"Preliminary figures.

Cumulative figures for nine months.

"Thousands of tons.

Table 11

ARGENTINA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
	Growth rates						
Exports							
Value	2.7	14.0	-16.6	2.8	3.4	3.7	-16.6
Volume	-13.8	17.7	-2.1	13.6	-8.5	15.3	-8.7
Unit value	19.2	-3.2	-14.9	-9.5	13.0	-10.1	-8.7
Imports							
Value	55.9	-10.2	-42.4	-15.2	-	-14.6	22.2
Volume	30.9	-10.4	-40.2	-10.5	6.9	-17.4	24.7
Unit value	19.0	0.1	-3.6	-5.2	-6.5	3.4	-2.0
Terms of trade	0.6	-3.7	-11.9	-4.9	18.9	-12.1	-3.2
	Indexes (1980 = 100)						
Purchasing power of exports	100.0	113.4	97.9	105.7	115.0	116.6	102.4
Quantum of exports	100.0	117.4	115.3	131.0	119.8	138.1	126.1
Quantum of imports	100.0	89.6	53.6	47.9	51.3	42.3	54.6
Terms of trade	100.0	96.3	84.9	80.7	96.0	84.4	81.2

Source: ECLAC, on the basis of official data.

"Preliminary figures.

Table 12

ARGENTINA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986 ^c
Balance on current account	-4 774	-4 712	-2 354	-2 436	-2 495	-955	-2 600
Trade balance	-3 191	-757	2 667	3 469	3 648	4 753	2 200
Exports of goods and services	9 891	10 854	9 193	9 291	9 607	10 037	8 300
Goods FOB	8 022	9 142	7 622	7 838	8 101	8 397	7 000
Real services	1 870	1 710	1 560	1 454	1 506	1 642	1 300
Transport and insurance	810	887	713	755	833	891	750
Travel	345	413	610	453	440	522	400
Imports of goods and services	13 081	11 610	6 516	5 822	5 959	5 284	6 100
Goods FOB	9 394	8 432	4 859	4 120	4 119	3 520	4 300
Real services	3 688	3 180	1 655	1 700	1 841	1 766	1 800
Transport and insurance	1 271	1 164	733	737	898	705	700
Travel	1 792	1 472	566	507	600	670	700
Factor services	-1 607	-3 932	-5 054	-5 922	-6 144	-5 707	-4 800
Profits	-585	-738	-317	424	-439	-424	-500
Interest received	1 229	887	526	440	265	253	300
Interest paid	-2 175	-3 851	-4 926	-5 425	-5 537	-5 132	-4 200
Other	-76	-233	-339	-514	-433	-404	-400
Unrequited private transfer payments	23	-21	34	16	2	-	-
Balance on capital account	2 176	1 519	1 686	-13	2 660	1 992	1 900
Unrequited official transfer payments	-	-	-	-	-	-	-
Long-term capital	4 492	9 965	3 844	1 715	-322	4 404 ^d	
Direct investment (net)	788	943	257	183	267	976	
Portfolio investment (net)	153	1 123	1 888	1 140	759	-490	
Other long-term capital	3 550	7 899	1 698	393	-1 349	3 918	
Official sector ^e	478	962	-44	376	1 440	5 501	
Loans received	510	1 034	230	2 497	2 332	6 620	
Amortization payments	-36	-48	-225	-2 110	-541	-964	
Commercial banks ^f	-65	363	267	38	-33	-	
Loans received	89	399	737	264	8	16	> 1 900
Amortization payments	-155	-37	-469	-227	-40	-16	
Other sectors ^g	3 138	6 574	1 475	-22	-2 756	-1 583	
Loans received	4 231	8 795	2 602	2 447	279	559	
Amortization payments	-1 229	-1 696	-650	-2 295	-2 862	-2 151	
Short-term capital (net)	-2 011	-8 244	-1 758	-1 289	3 037	-2 108	
Official sector	313	299	2 682	-91	1 896	-2 772	
Commercial banks	-365	24	351	311	-523	669	
Other sectors	-1 958	-8 567	-4 791	-1 509	1 664	-4	
Errors and omissions (net)	-307	-205	-401	-440	-55	-305 ^j	
Global balance	-2 598	-3 193	-668	-2 450	165	1 037	-700
Total variation in reserves (- sign indicates an increase)	2 666	3 408	806	2 379	-17		700
Monetary gold	-1	-	-	-	-	-	
Special Drawing Rights	-1	-76	404	-	-1		
IMF reserve position	-133	57	178	100	-		
Foreign exchange assets	2 801	3 426	225	1 105	57		
Other assets	-	-	-	-	-	-	
Use made of IMF credit	-	-	-	1 174	-73		

Source: 1980-1985: International Monetary Fund, *Balance of Payment! Yearbook*, April 1987; 1986: ECLAC on the basis of official data.

^dProvisional figures subject to revision. includes other non-factor services. ^eIncludes net loans granted and other assets and liabilities. ^fEquals the total variation in reserves (of opposite sign) plus counterpart items.

Table 13

ARGENTINA: REGISTERED EXTERNAL DEBT AT END OF YEAR

	1979	1980	1981	1982°	1983°	1984°	1985°	1986°
	Millions of dollars							
Total	19 034	27 162	35 671	43 364	45 087	46 903	48 312	50 000
Public	9 960	14 459	20 024	26 341	29 679	32 715	38 206	
Private	9 074	12 703	15 647	14 362	12 186	10 025	8 388	
	Percentages							
Coefficients								
External debt/export of goods and services	207	275	329	472	485	488	481	602
Net interest/exports of goods and services		10	27	48	54	55	49	47

Source: Central Bank of the Republic of Argentina.

°Includes the registered external debt plus arrears in other items.

°Provisional estimates.

Table 14

ARGENTINA: EVOLUTION OF EXCHANGE RATES

Annual and quarterly periods	Nominal exchange rates (australs per dollar)	Indexes of real effective exchange rate"	
		Exports	Imports
1970-1979	0.00003	143.7	148.3
1980	0.0002	100.0	100.0
1981	0.0005*	134.4	143.1
1982	0.0023*	166.3	169.6
1983	0.0105	157.9	166.6
1984	0.068	148.0	163.2
1985	0.602	172.0	190.1
1986	0.943	190.0	190.6
1984			
I	0.028	157.6	173.4
II	0.041	140.1	148.2
III	0.069	137.9	152.5
IV	0.132	156.4	178.8
1985			
I	0.250	162.2	185.5
II	0.557	165.0	193.9
III	0.801	178.5	195.7
IV	0.801	182.1	185.1
1986			
I	0.801	188.9	190.7
II	0.849	188.5	189.6
III	0.972	189.1	189.4
IV	1.151	193.3	192.8

Source: ECLAC, Economic Development Division, on the basis of information from the International Monetary Fund, *International Financial Statistics*.

"Represents an average of the indexes of the real exchange rate of the austral in relation to the currencies of Argentina's main trading partners, weighted by the relative importance of exports or imports, as appropriate, to or from these countries. From 1970 to 1980 these weightings correspond to the average for the period 1975-1979. From 1981 on, they correspond to the average for the period 1982-1985. In these calculations, use has primarily been made of wholesale price indexes. For further information on the methodology and sources used, see the technical appendix to the *Economic Survey of Latin America, 1981*. For the second half of 1981 and 1982 an average of the commercial and financial exchange rates (50% each) was used.

Table 15

ARGENTINA: VALUE AND COMPOSITION OF EXPORTS OF GOODS

	Millions of dollars at current prices				Percentage breakdown		Growth rates		
	1983	1984	1985	1986°	1980	1986°	1984	1985	1986°
General total	7 836	8 107	8 396	7000	100.0	100.0	3.5	3.6	-16.6
Total, agricultural products	6 235	6 471	6 078	4 980	73.4	71.1	3.8	-6.1	-18.1
Livestock products	1 171	1000	946	920	21.8	13.1	-14.6	-5.4	-2.7
Meat	604	406	387	390	12.1	5.6	-32.8	-4.7	0.8
Wool, animal hair and horsehair	188	216	196	200	3.5	2.9	14.9	-9.3	2.0
Hides and skins	264	305	289	290	4.5	4.1	15.5	-5.2	0.3
Other livestock products	115	73	74	40	1.7	0.5	-36.5	1.4	-46.0
Crop-farming products	4 899	5 313	4 985	3 860	49.8	55.1	8.5	-6.2	-22.6
Cereals	2 992	2 326	2 322	1 350	21.7	19.3	-22.3	-0.2	-41.9
Oilseeds	1 360	2 384	2 000	1 900	16.6	27.1	75.3	-16.1	-5.0
Other crop-farming products	547	603	663	610	11.5	8.7	10.2	10.0	-8.0
Fishery products	165	158	147	200	1.8	2.9	-4.2	-7.0	36.1
Non-traditional industrial products	1 601	1 636	2 318	2 020	26.6	28.9	2.2	41.7	-12.9
Fuels	349	347	635	120	3.5	1.7	-0.6	83.0	-81.1
Other	1 252	1 289	1 683	1 900	23.1	27.2	3.0	30.6	12.9

Source: ECLAC Office in Buenos Aires, on the basis of data from the National Institute of Statistics and Censuses, the National Meat Board and other sources.
°Preliminary figures.

Table 16

ARGENTINA: VALUE AND COMPOSITION OF IMPORTS OF GOODS

	Millions of dollars at current prices				Percentage breakdown		Growth rates		
	1983	1984	1985	1986"	1980	1986°	1984	1985	1986°
General total	4 504	4 585	3 814	4 700	100.0	100.0	1.8	-16.8	23.2
Capital goods	769	643	648	850	22.7	18.1	-16.4	1.0	31.2
Fuels and lubricants	470	490	460	400	11.1	8.5	4.3	-6.1	-13.0
Intermediate goods	3 056	3 202	2 508	3 200	48.6	68.1	4.8	-21.7	27.6
Chemical, plastic and rubber products	1 142	1 170	893		12.9		2.5	-23.7	
Paper and pulp	129	85	69		2.9		-34.1	-18.8	
Metals and metal manufactures, electrical equipment and components, spare parts for machinery and transport equipment	1 267	1 393	1 149		21.9		9.9	-17.5	
Other intermediate goods	518	554	397		10.9		6.9	-28.3	
Consumer goods	209	250	198	250	17.6	5.3	19.6	-20.8	26.3

Source: ECLAC Office in Buenos Aires, on the basis of data supplied by the Central Bank of the Republic of Argentina.
°Preliminary figures.

Table 17

ARGENTINA: EVOLUTION OF DOMESTIC PRICES

(Growth rates)

	1979	1980	1981	1982	1983	1984	1985	1986
Variations from December to December								
Consumer prices	139.7	87.6	131.3	209.7	433.7	688.0	385.4	81.9
Food and beverages	137.8	81.7	135.8	218.4	415.2	713.2	366.9	86.0
Clothing	121.0	54.8	104.8	289.4	486.7	749.4	283.3	70.4
Housing, fuel and electricity	133.0	109.0	111.8	181.2	512.1	526.1	420.9	72.7
Wholesale prices	128.9	57.5	180.2	311.3	411.3	624.0	363.9	57.9
Imported products	105.7	59.6	237.5	497.3	342.2	661.5	405.7	53.5
Domestic products	130.1	57.4	177.5	300.7	417.1	620.5	360.0	58.4
Agricultural	115.8	36.1	212.8	314.0	392.3	604.9	336.4	74.4
Non-agricultural	135.9	65.4	166.6	295.9	426.6	624.4	363.9	55.8
Variation between annual averages								
Consumer prices	159.5	100.8	104.5	164.8	343.8	626.7	672.1	90.1
Food and beverages	168.7	95.1	99.2	178.4	339.0	638.9	624.1	98H
Clothing	150.0	69.1	81.4	188.3	411.3	726.7	486.3	88.2
Housing, fuel and electricity	151.0	104.6	111.1	133.8	366.2	525.9	768.1	69.0
Wholesale prices	149.3	75.4	109.6	256.2	360.9	574.8	662.9	63.8
Imported products	93.0	74.5	157.7	377.1	335.7	568.9	766.6	60.2
Domestic products	152.7	75.5	107.4	249.2	362.9	575.1	653.4	64.2
Agricultural	150.8	63.0	93.9	293.4	373.5	550.7	490.0	111.5
Non-agricultural	153.5	80.4	112.2	234.8	358.8	588.6	686.3	57.9

Source: National Institute of Statistics and Censuses.

Table 18

ARGENTINA: EVOLUTION OF THE MAIN NOMINAL VARIABLES"

Period	Wholesale prices index				Consumer price index	Industrial wages ⁶	Public services charges ⁷	Exchange rate	M, ^e	M, ^j
	Total	Agricultural	Domestic non-agricultural	Imported products						
1985	13.6	13.1	13.6	14.5	14.1	11.8	14.1	14.3	17.8	15.5
1986*	3.9	4.7	3.8	3.6	5.1	5.0	3.9	3.5	5.2	6.4
I	0.7	0.9	0.6	1.5	3.1	2.5	0.1		6.5	6.0
II	3.4	5.9	3.1	2.4	4.4	5.6	4.8	2.9	3.9	5.5
III	7.1	12.5	6.2	6.2	7.6	6.0	5.7	6.3	3.7	5.4
IV*	4.4	0.2	5.2	4.5	5.4	6.0	4.9	4.9	6.9	8.9

Source: ECLAC Office in Buenos Aires, on the basis of official data.

^aMonthly rates, equivalent to the variation between extremes for each period, in percentages.
^bworkers in manufacturing. ^cPrices and charges of public enterprises, general level.
^dimports of goods. ^eAverage of month-end balances, seasonally adjusted.
^fbalances. ^gPreliminary figures.

^hNormal hourly wage of
ⁱExchange rate implicit in
Average of month-end

Table 19

**ARGENTINA: PRICE VARIATIONS WITH RESPECT TO
CONSUMER PRICE INDEX"**

Period	Wholesale price index				Public services charges	Ex-change rate'	Measurements of dispersion	
	Total	Agri-cultural	Domestic non-agri-cultural	Imported products			Difference between maximum and minimum variations	Standard deviation of variations
1983	-4.2	-7.8	-1.3	-17.2	18.7	-8.8	35.9	11.1
1984	-7.9	-8.7	-8.1	-3.4	15.7	-4.0	24.4	8.6
1985	-4.4	-10.1	-4.4	4.2	0.1	2.6	14.3	4.9
1986'	-13.2	-4.1	-14.3	-15.6	-13.4	-16.7	16.7	6.4
I	-6.8	-6.3	-7.1	-4.6	-8.6	-8.8	8.8	3.0
II	-2.9	4.2	-3.7	-5.7	1.1	-4.2	9.9	3.5
III	-1.4	14.2	-3.8	-3.8	-5.2	-3.5	19.4	6.7
IV	-2.7	-14.0	-0.4	-2.5	-1.2	-1.2	14.0	4.9

Source: ECLAC Office in Buenos Aires, on the basis of official data.

'Variation between extremes, in percentages. ² Prices and charges of public enterprises, general level. 'Exchange rate implicit in imports of goods. The method of calculating these measures took into account (besides the series shown in the table) a series with a constant value equal to zero, representing, for each period, the variation in the consumer price index in relation to itself. 'Preliminary figures.

Table 20

ARGENTINA: EVOLUTION OF WAGES IN MANUFACTURING"

(Growth rates in relation to the preceding period)

	Total average real wage per worker							
	1979	1980	1981	1982	1983	1984	1985	1986
Variation between averages	14.8	12.0	-10.8	-14.5	22.8	25.3	-12.1	5.4
Variation between extremes	22.5	7.0	-21.2	-3.6	35.1	8.3	-5.3	1.8
	Normal average real wage per hour							
	1985				1986			
	I	II	III	IV	I	II	III	IV
Variation between averages	-9.6	-2.5	-2.0	-1.6	1.8	-0.6	-1.9	0.7
Variation between extremes	-13.3	11.4	-10.2	1.2	-2.5	2.4	-4.5	1.1

Source: ECLAC Office in Buenos Aires, on the basis of data supplied by the National Institute of statistics and Censuses. "Deflated by the average CPI for the month of receipt and the following month; this is therefore a measurement of the purchasing power of wages paid monthly at the time of receipt or of that of wages paid fortnightly and spent uniformly over the period. The normal wage excludes those components showing seasonal variations.

Table 21

ARGENTINA: EVOLUTION OF EMPLOYMENT

	Unemployment rates"							
	1983		1984		1985		1986*	
	April	October	April	October	April	October	April	October
Capital and Greater Buenos Aires	5.2	3.1	4.1	3.5	5.7	4.9	4.8	4.4
Córdoba	4.4	5.6	4.4	5.1	5.3	4.7	6.4	5.1
Greater Mendoza	4.5	4.5	3.3	3.7	3.6	3.7	4.9	3.4
Greater Rosario	6.3		6.8	6.2	10.9	10.2	6.8	7.2
Greater Tucumán	8.1	7.5	8.5	10.6	12.2	11.4	13.6	12.5
	Employment and hours worked in manufacturing ⁰							
	1983	1984	1985	1986	1986			
					I	II	III	IV
Worked employed	75.4	77.6	74.8	71.7	74.8	69.8	69.9	72.1
Hours worked	79.4	80.2	73.7	74.4	67.8	74.3	78.8	76.5

Source: National Institute of Statistics and Censuses.

"As a percentage of the economically active population. The surveys used here were conducted in June and November in the Capital and Greater Buenos Aires and in May and October in the other cities. Indexes: 1970 = 100.

Table 22

ARGENTINA: MONETARY BALANCE

	Year-end balances (millions of australs)			Growth rates"			
	1984	1985	1986*	1983	1984	1985	1986*
Money (M.)	435	3 014	5 580	370.6	521.6	593.3	85.1
Currency outside banks	313	2 022	3 990	430.5	576.3	545.3	97.3
Current account deposits	121	992	1 590	285.3	414.2	717.1	60.3
Factors of expansion	2 062	11 036	23 010	404.5	521.1	435.1	108.5
Net international reserves	-1 140	-5 406	-8 090		-	-	-
Domestic credit	3 202	16 442	31 100	412.2	520.8	413.5	89.2
Government and public institution	1 205	7 129	14 000	713.0	477.3	491.5	96.4
Advances for the Monetary Regulation account	424	2 283	5 440	5 154.8	941.6	438.6	138.3
External financing supplied to Central Government (net)		3 109	5 630				81.1
Other loans to government (net of deposit)	782	1 738	2 930	574.9	364.9	122.4	68.6
Private sector ⁰	1 997	9 313	17 100	309.2	550.4	366.4	83.6
Factors of absorption	1 628	8 021	17 430	414.3	520.9	392.8	117.3
Quasi-money (savings and time deposits)	1 025	4 835	11 070	456.2	598.0	371.9	1290
Other items (net)	603	3 187	6 360	368.8	422.9	428.4	99.6

Source: Central Bank of the Republic of Argentina.

"Growth rates were calculated on the basis of non-rounded figures. Includes accrued resources.

Estimates.

includes credits to financial institutions other than banks.

Table 23

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of australs				Growth rates		
	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Current income	294	4 711	8 700	342.2	632.3	1 501.3	84.7
Tax revenue	276	4 134	8 000	335.3	671.8	1 396.4	93.5
Non-tax revenue	18	577 ^b	700 ^b	408.0	309.7	3 116.0	21.3
Current expenditure	444	4 259	8 700	414.2	427.9	858.4	104.3
Wages and salaries	114	917	1 700	351.0	550.7	705.5	85.3
Non-personal goods and services	19	211	500	335.0	247.7	1 013.4	136.6
Interest	108	984 ^c	1 300	140.2	713.5	813.8	32.2
Transfers	198	2 067	5 000	705.2	338.2	946.4	141.9
Other	6	79	200	426.2	118.1	1 157.4	151.9
Current savings (1-2)	-150	453	-				
Capital expenditure	150	3 320	2 300	1 868.1	290.6	2 117.8	-30.7
Real investment	7	33	100	178.6	2090	375.0	207.6
Loans (net of repayments)	143	3 287 ^d	2 200	3 033.9	295.6	2 201.3	-33.1
Total expenditure ^e + 4)	594	7 578	11 000	568.7	385.0	1 175.8	45.1
Deficit (5-1)	300	2 867	2 300	791.8	264.2	856.3	-19.8
7. Financing of deficit							
Central Bank	268	1 034	-				
Unified Official							
Accounts Fund	22	42	600				
Sales of securities	67	842	900				
Amortization of securities	-57	-795	-700				
Amortization of other debts	-1	-1	-700				
Other	-	1 746 ^e	2 200 ^e				

Source: National Treasury of Argentina.

^aEstimates. ^bincludes financing for the economic emergency (compulsory savings). ^cIncludes regularization of arrears. ^dincludes regularization of arrears in respect of guaranteed debts (especially of public enterprises). ^eIncludes external financing granted to the Central Government, net of government foreign-currency deposits in the Central Bank.

BOLIVIA

1. Recent economic trends: Introduction and summary

The most outstanding achievement marking the management of Bolivia's economy in 1986 was the sharp reduction made in the dizzying speed of price increases. However, the overall economic picture was dimmed by a further decline in the gross domestic product which, in addition to causing an increase in unemployment, heightened the need for a reactivation of the economy. Other landmark events were the approval of the government's general budget; the enactment of tax, monetary and tariff reforms; the reaching of an agreement with the International Monetary Fund and of another with the Paris Club; and the reorganization of the Corporación Minera Boliviana.

The 12-month variation in the general consumer price index amounted to a rate of 66%, compared with 8 170% in 1985, while the variation between annual averages plunged from 11 750% to 275% (see table 1 and figure 1). Public finances, the external sector and the government's policies concerning the exchange rate and wages all played an important role in bringing about this striking change in the inflation rate.

The disequilibrium in public accounts was considerably reduced. The consolidated deficit of the non-financial public sector, which in 1985 has been equivalent to 14% of the product, fluctuated around 7%. The National Treasury, for its part, closed out its accounts with a surplus for the first time in the last 20 years.

Three factors played a decisive role in producing these results: the first was the 16% increase observed in the income of the central government, measured in real terms; the second was the major reduction made in real expenditures in the national currency; and the third was the policy aimed at restructuring State enterprises, which led to the closure of several and forced others to sell their products at prices indexed to the exchange rate and to deposit the proceeds from their operations in the National Treasury.

In keeping with the austerity policy, the authorities refrained from their former practice of financing the public-sector deficit through an expansion of the means of payment. This, in turn, contributed to a sharp deceleration in the growth rate of the money supply. Hence, M₁ increased by around 130% as against 5 900% in 1985, while quasi-money expanded by around 640% thanks to the greater confidence which economic agents had in the government's policies.

At the same time, there was a significant change in the sources of money creation. The increases observed in the amount of external assets held by the monetary authorities and in the funds channelled to the private sector contrasted with the sharp decrease in the level of credit made available to the public sector.

With the slowing down of the inflation rate, the real interest rates were positive for the first time in recent years. Nevertheless, the differential between the interest rates on loans and on deposits was relatively high, and credit for commercial and production activities was therefore quite expensive.

The exchange policy also contributed to the success of the stabilization policy. Although the annual average for the official exchange rate rose by 330%, this rate was nonetheless very stable throughout most of the year. After having been pegged at 1 100 000 pesos to the dollar in September 1985 (an increase of 1 450%), the official exchange rate climbed steeply in the latter part of that year* and in February 1986 it reached approximately 1 900 000 pesos. However, from then on, its increases were minimal and the peso/dollar ratio even dipped during one month of the year.

This stabilization of the exchange rate was promoted by a number of factors: the maintenance of the system for the sale of foreign exchange which had been adopted the previous August; the greater degree of fiscal discipline, which resulted in a more moderate expansion of the monetary

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS

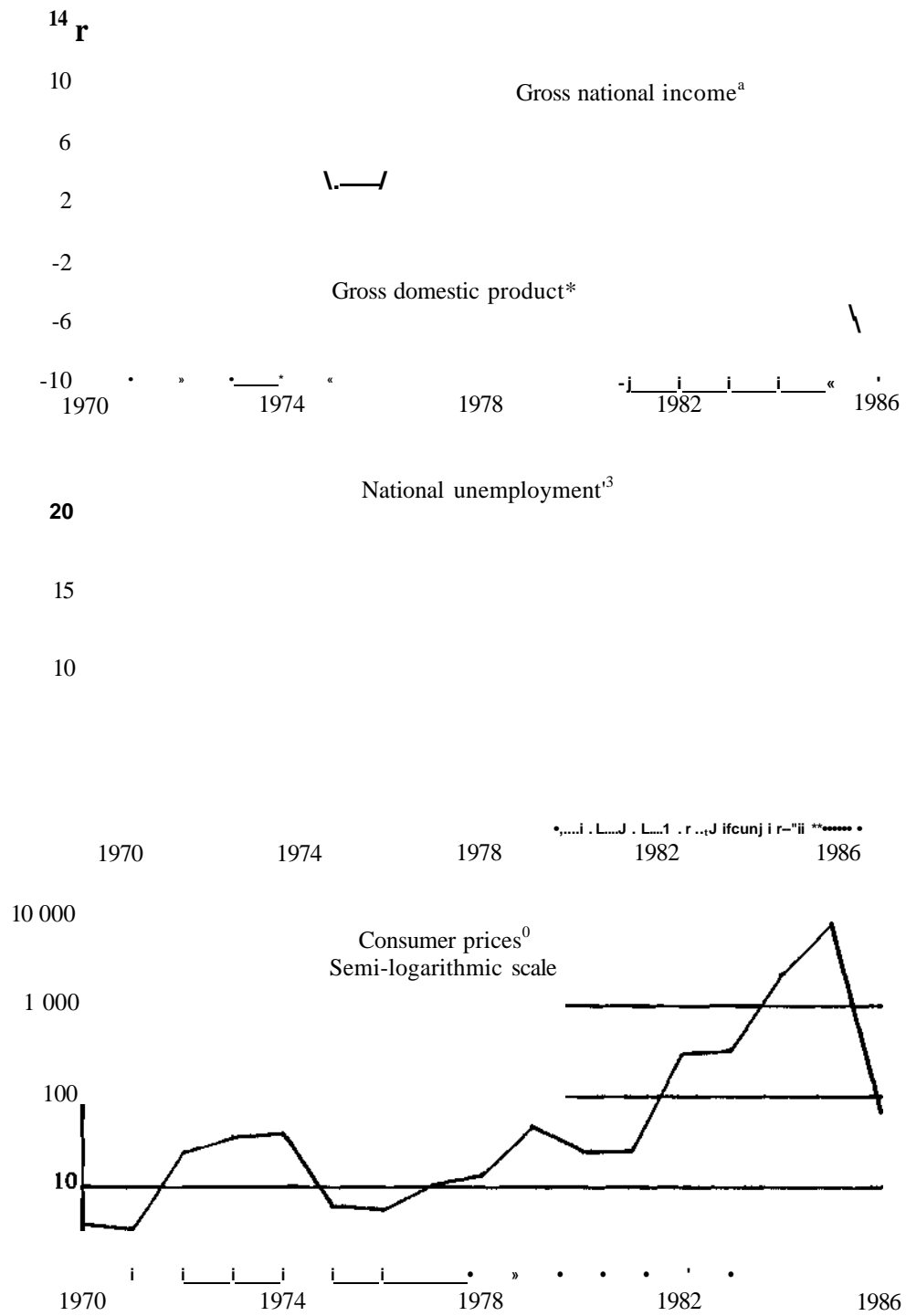
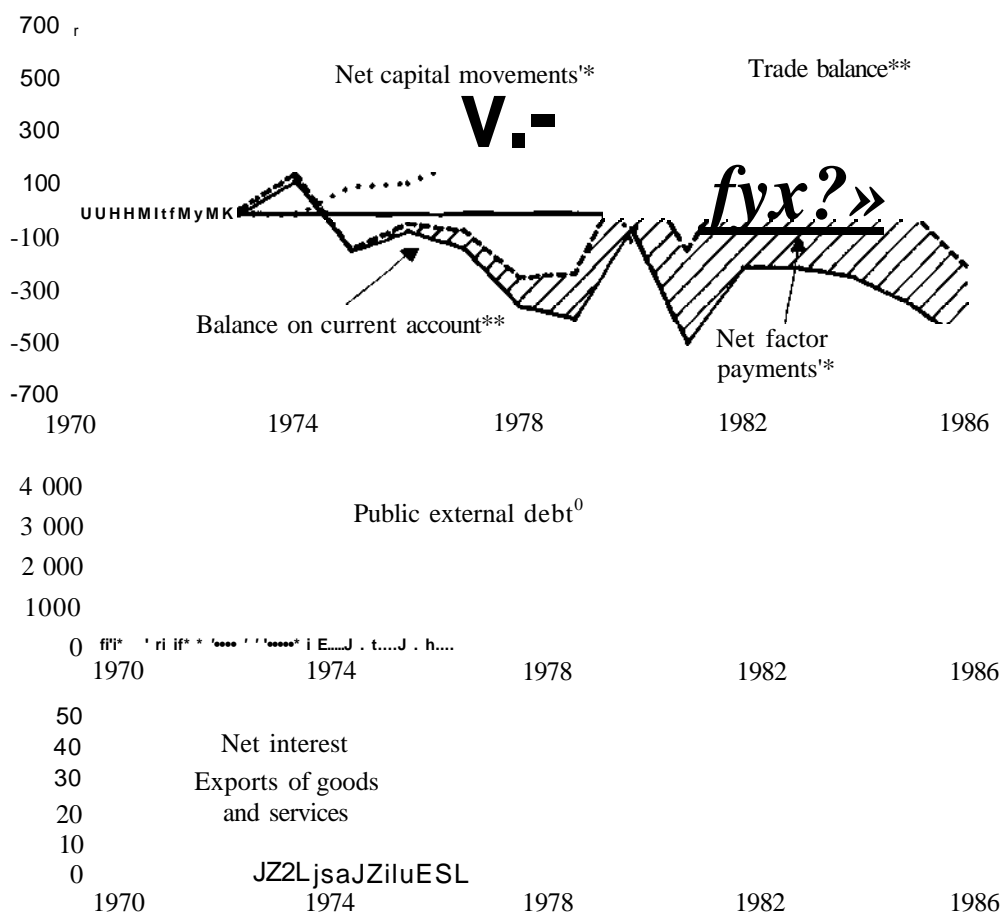


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rates. ^bAnnual nationwide rate. ^cPercentage variation from December to December. ^dMillions of dollars. ^epercentages.

variables and, hence, a slower increase in prices; a greater level of confidence in the government's economic policy, which was reflected in a reversal of expectations; and, finally the Central Bank's swift response to the demand for foreign exchange.

Due to the perception of all these phenomena by economic agents, the exchange rate for the dollar on the parallel market was virtually the same as on the official market. In short, the steadiness exhibited by the foreign exchange market put an end to speculation against the peso and restored its status not only as a means of payment but also as a measurement of value.

Another decisive factor in slowing down inflation was the wage policy. Basically, this policy sought to prevent wage increases from continuing to act as a feedback mechanism for price increases. As part of this effort, when the new government took office in August 1985 it provided that the remunerations of private-sector wage-earners were to be freely negotiated between the parties concerned. Public employees' wages remained frozen until November 1985 but were readjusted in December retroactively to August of that year. At the same time, the minimum wage was raised to 30 000 000 pesos (about US\$20); under the stabilization programme then in force, however, this wage would not be adjusted again until mid-1986.

Meanwhile, the reorganization of staff structures and wage scales was continued and the budgets for staff payments in each public agency were set from that time until the middle of the following year.

In June 1986 the nominal minimum wage was raised by 33% to 40 000 000 pesos; public employees earning less than 300 000 000 pesos were given a proportional increase of 7.5% while those whose wages were below 140 million pesos received an increase of 13%.

Owing to the rise in prices which occurred during the year, the very limited size of the readjustments granted and, particularly, the level at which wages had been frozen between August and December 1985, the average minimum wage plummeted by 30% in 1986.

The evolution of the external sector was marked by the different types of trends displayed by the main components of the balance of payments. The most outstanding feature in this respect was the increase in the net international reserves held by the Central Bank. By the close of 1986 these reserves had risen to US\$330 million, which was almost US\$200 million more than the year before. This increment contrasted sharply with initial estimates, which had indicated a loss of between US\$50 million and US\$150 million, and was due to the fact that the surplus on capital account more than made up for the deficit on current account.

The increase in the current account deficit was due entirely to the unfavourable turnaround in merchandise trade. With the value of imports of goods and services exceeding that of exports by US\$200 million, the imbalance was greater than it had been in any year since the outbreak of the crisis in 1981. Non-traditional exports increased substantially, but not enough to offset the steep drop in traditional exports. Thus, although the quantum of exports increased by 36%, the unit value of exported goods fell by the same percentage. This was basically due to the slump in the price (-12%) of the natural gas sold to Argentina (whose volume, however, remained constant) and to an even greater contraction in the sales of metallic tin, whose volume and unit value plunged 30% and 40%, respectively.

Furthermore, although net payments of profits and interest were lower than in 1985, they continued to represent a significant amount not only in absolute terms (US\$310 million), but also as a percentage of total exports of goods and services.

The surplus on capital account was attributable to short-term capital movements, since long-term movements resulted in an outflow of foreign exchange of around US\$140 million. Official transfers, for their part, represented an inflow of an additional US\$75 million. Finally, inflows under the heading of errors and omissions amounted to somewhat more than double that figure.

In respect of external financing, the year was marked by two quite different events. The medium- and long-term public external debt went up to US\$3.7 billion, which was 10% higher than the year before, and thus continued to weigh heavily on the economy. Net interest payments were equivalent to 40% of the exports of goods and services, but this ratio would have been much higher still if the payments due to private creditors had been made. The amortization and interest payments due to these institutions, which have been suspended since 1984 stood at approximately US\$1.1 billion.

On the other side of the coin, in addition to the new bilateral loans that the country received in 1986, agreements were signed with the International Monetary Fund, the Paris Club and the Andean Reserve Fund under which these institutions granted assistance for the Stabilization Plan implemented by the government.

The progress made in the stabilization effort and in respect of the balance of payments was, however, accompanied by a contraction of the gross domestic product (-3%) for the fifth year running, which brought the level of this variable down to 15% below that of 1980. As a consequence of this further decline and of population growth, the per capita product fell by almost 6%, making it the lowest since 1970.

Although the slump in production was widespread, the goods producing sectors were the hardest hit. All told, these sectors showed a decrease of almost 7% while mining, one of the most vital activities of the economy, plummeted by about 20%.

This situation and the determination of the authorities to reduce the size of the public sector helped to increase unemployment. According to official estimates (which are not always accurate), the unemployment rate rose from 18% in 1985 to 20% in 1986, while underemployment held steady at around 57%.

2. Trends in economic activity

a) *Total supply and demand*

The year 1986 marked the fifth consecutive year of decrease in the total supply of goods and services. Because of this quasi-stagnation, during the year under review supply was at its lowest level since 1974.

The decline in 1986 was due exclusively to a fresh drop (-3%) in the gross domestic product, bringing the cumulative loss during the last five years up to 15%. In contrast, the quantum of imports expanded by around 20%, thereby more than doubling its growth rate of the year before and, for the first time in the 1980s, surpassing the level attained at the end of the preceding decade (see table 2).

The fall of almost 6% in domestic demand reflected the unfavourable economic conditions of the recent past. The total decline in this variable over the period 1982-1986 was close to 20%.

Unlike what had occurred in other years, the contraction in domestic demand was due to the slump in total consumption (-6%), which in turn was attributable to the cutback in consumption made by the government and, especially, by households. The 3% reduction in government consumption, when added to that of previous years, yielded a total drop of over 10% during the five-year period from 1982 to 1986. The 7% decline observed in private consumption was far greater than the slight increases recorded during the two preceding years, with the result that this variable fell to below its 1978 level.

The other component of total demand, gross investment in fixed capital, saw an increase (3%) for the first time since 1978. Nevertheless, because of the enormous cumulative loss suffered in the interim (-58%), the investment coefficient for 1986 (13%) remained far below that achieved during the second half of the 1970s.

Finally, notwithstanding the adverse conditions confronted by the main export items, the volume of exports soared by almost 35%. External sales amounted to 21% of the product, which was the largest percentage since 1977, and thus reached their highest level in the present decade except for 1981.

b) *The main sectors*

The slump in production activity was considerable, but it affected the various sectors in different ways. The production of goods —almost 45% of the product— decreased by almost 7%; this, on top of the other declines recorded since 1978, brought the cumulative drop up to 33%. In contrast, a slight expansion (1%) was noted in basic services. The output of "other services" (46% of GDP) remained virtually at a standstill, thus maintaining the trend of previous years (see table 3).

i) *Agriculture.* After two consecutive years of expansion, agricultural activity slackened by 2%. Basically, this was the result of the flooding caused when Lake Titicaca overflowed. Heavy rains fell at the beginning of the year as well, affecting 150 000 peasants and damaging many high plateau crops. Other factors which hurt production included the high cost of transport and weak demand. Nonetheless, the harvest of the wheat crop, which is one of the most important products in the population's diet, was up 9%.

ii) *Mining.* The crisis in this sector, whose output has been falling steadily since 1977 (with the sole exception of 1980), was deepened in 1986 by a further decline of 19%. The cumulative drop during the period 1974-1986 thus totalled 80%, with more than one-half of this loss having occurred during the last three years. As a result, the sector's share in the gross domestic product (almost 11%) was the lowest since 1970.

There were several reasons for such a poor performance. Some of the factors having a more long-lasting effect were the lower metal content of the ores, the failure to discover new deposits and the obsolescence of the machinery and equipment used. In 1986, this situation was compounded by the slump in the international prices of the vast majority of the minerals exported by Bolivia, the decline in the productivity of virtually all the mines and, in particular, the reforms that were introduced along with the government's new economic policy.

Tin production —which until recently was the most important activity in the economy— fell by almost 35%, bringing the cumulative decline for the five-year period to nearly 90% (see table 4).

In addition to the more general factors which have hurt mining activities as a whole, two other adverse circumstances exacerbated the situation with respect to tin in 1986. Throughout the year, the international market continued to be affected by the uncertainty which had arisen in October 1985 when, due to a complex set of circumstances, the International Tin Council (ITC) halted its operations and international tin prices collapsed. In 1986 the average price quoted was 45% lower than it had been in 1985, when it had already slipped by almost 4%. A downward plunge of this magnitude—which in the opinion of the experts is not merely a cyclical phenomenon—could not fail to have an adverse effect on the value of mining exports and to create serious problems for business enterprises and the economy as a whole (see table 9).

In response to this situation, the authorities embarked upon a plan to make sweeping reforms in the State mining sector. The object of this plan was to streamline the operations of the Corporación Minera Boliviana (COMIBOL) and to cut the enormous losses it had suffered in recent years, which in 1985 alone had been on the order of US\$240 million, while its debts approached US\$500 million.

In order to overcome the problems besetting it, COMIBOL began to decentralize its various units. In those which had recorded the greatest losses, workers were offered the opportunity to set up co-operatives and to rent the production facilities from the corporation. In spite of this initiative, however, around 11 000 out of a total of 27 000 mining workers lost their jobs. Unemployment also rose, although less sharply, in the private mining sector, with some 9 000 workers being laid off.

The trend with respect to other minerals was equally negative in terms of both production and prices. Thus, the volume extracted was down in virtually all the remaining minerals. Although these output volumes have traditionally been small, in 1986 the decreases were dramatic (copper, -80%; lead, -58%; tungsten, -31%). Production of antimony and gold increased (by 16% and 38% respectively), but not enough to regain the levels reached at the beginning of the decade.

The situation in respect of prices was much the same, since the international prices quoted for almost all the minerals also fell (copper, -3%; tungsten, -30%). Even though the international price of gold rose by nearly 15%, the increase was not sufficient to offset the 25% decline of 1984-1985.

iii) *Hydrocarbons*. During the first half of the year, crude petroleum production fell by about 15% compared with the same period in 1985 (see table 5). Since there were no major changes in the sector's performance during the second half of the year, 1986 turned out to be the thirteenth consecutive year in which oil production declined.

Domestic sales of almost all fuels were lower as well. Gasoline was the exception, in that its consumption remained at a standstill, but purchases of kerosene and fuel oil and, to a lesser extent, of diesel oil slumped. This was due in large measure to the depressed level of economic activity and to the considerable increases that were made in the domestic prices of energy products in an attempt to align them with international prices and to curb unregistered trade.

The pricing policy was the same as that introduced during the preceding year. In other words, the domestic price of gasoline continued to be the equivalent of US\$0.30 per litre, which was similar to that of neighbouring countries.

The output volume of natural gas declined somewhat more than 7% during the first half of the year, making 1986 the third year in a row in which production decreased. Nevertheless, this fuel continued to be by far the main item of export.

Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) continued to be required to deposit all its earnings (in both foreign exchange and Bolivian pesos) in the Central Bank, which was responsible for withholding the relevant taxes and royalties; after these deductions were made, the balance, in the national currency, was placed at the disposal of the company. In this way, the income obtained by YPFB from its fuel sales served to finance a part of the implementation of the stabilization plan.

3. The external sector

a) *Overall trends*

The distinguishing features of the external sector's performance in 1986 were the exchange policy's effectiveness in stabilizing the official and parallel exchange rates, the establishment of agreements with the International Monetary Fund and the Paris Club, the new tariff policy, and the substantial increase observed in the country's foreign exchange reserves.

Bolivia signed a stand-by credit arrangement with the IMF and another agreement concerning compensatory financing for the decline in raw materials prices. Furthermore, as a result of the negotiations entered into with the creditor governments, the authorities rescheduled a significant part of the medium- and long-term public debt. Nonetheless, the servicing of the external debt owed to private creditors remained suspended.

The new tariff policy, which was one of the vehicles for the liberalization process begun in late 1985, provided for a uniform tariff on all imports that was lower than the tariffs in effect until that time.

Lastly, thanks to an increase of almost US\$200 million, the net sum of foreign assets held in the Central Bank amounted to some US\$330 million, a level which had not been reached since 1974.

b) *Foreign trade*

i) *Exports of goods.* The further erosion of the value of exports of goods (-13%) resulted in a cumulative loss of around 50% over the last six years. Unlike what had occurred in 1985, the decrease was due entirely to the substantial reduction in unit value (-36%), which thus consolidated the downward trend observed in Bolivian exports since the beginning of the 1980s. The volume of merchandise exports, however, soared 36%, which more than made up for the setbacks of the preceding years (see table 6).

The decline in external sales was particularly great in the case of traditional exports (-17%), which accounted for close to 85% of the total. Within this category, exports of natural gas (more than one-half of total exports) were down by almost 12%, after three years of virtual stagnation. The largest buyer of this product continued to be Argentina, which, although it imported the same volume as before, paid a lower price (-12%) for its natural gas purchases. Furthermore, almost one-half of the value of fuel imports was paid to Bolivia in kind (see table 7).

Exports of metallic tin and tin concentrate, which just one year earlier had accounted for approximately 30% of external sales, plummeted in 1986. The decline of close to 60% in the value of metallic tin exports reduced their relative share in foreign trade from one-fifth to less than one-tenth in the space of a single year. These types of decreases were caused by a drop in both the volume and unit value of exports. After having fallen by 25% in 1985, their volume again declined by 30%, while the decrease in the unit value (-41%) came on top of another of almost 7% in 1985 (see tables 8 and 9).

Although tin concentrate continued to be another of Bolivia's main export products (nearly 8% of the total), the value of the external sales of this metal declined by more than 7%. This was due to a reduction in its unit value (-52%) which was too large to be offset by the expansion in the volume of these exports, even though they almost doubled.

The value of the remaining traditional exports followed an equally unfavourable course, except in the case of silver, where exports almost trebled. Non-traditional exports, however, increased substantially (188%). Exports of wood exhibited particularly vigorous growth and came to represent one-fifth of this category.

ii) *Imports of goods.* Thanks primarily to the forceful expansion in their volume, the value of external purchases rose 25%, following the 12% increase recorded the preceding year. Even so, the value of imports remained below the level it had reached at the beginning of the decade because of the steep decline (-57%) that had occurred between 1982 and 1984 (see table 6). Imports of consumer and capital goods were the items showing the most growth.

iii) *The terms of trade.* As a result of the sharp decline in the unit value of exports, the terms of trade worsened dramatically (-37%). Moreover, since the increase in volume was cancelled out by this deterioration, the purchasing power of merchandise exports also declined (-15%) (see table 6).

c) *The balance of payments*

The deficit on current account approached US\$500 million, which was an increase of 40%. This was chiefly due to the turnabout in the trade balance, since net external payments for factor services were lower and private transfers increased (see table 11).

Indeed, the country's trade in goods and real services showed a deficit of almost US\$200 million. This imbalance, which was the first since 1981, was attributable to the results of Bolivia's trade in both goods and services. Thus, its trade in goods closed the year with a negative balance (US\$-37 million) for the first time in the 1980s, while the trade deficit in real services (US\$-162 million) grew by 9% in what amounted to a continuation of the trend seen in previous years.

Net remittances of profits and interest totalled some US\$310 million, which was not only a decline of 17%, but also the smallest amount that the country had paid out under this heading since 1981. Furthermore, net disbursements of profits and net interest payments to the exterior dropped by 23% and 17%, respectively.

The capital account yielded a surplus of around US\$680 million, which was well above double that of 1985 and the largest since 1980. Long-term capital movements reflected an outflow of almost US\$140 million, which was about US\$100 million less than during the preceding period. In contrast, short-term movements of capital produced a positive balance of somewhat more than US\$580 million; this was twice as much as these movements had generated in 1985 and represented the largest amount of resources obtained by the country at least since the beginning of the decade.

As a consequence of these changes and of the positive balance recorded under "errors and omissions" (US\$165 million), in 1986 the country's international foreign exchange reserves climbed by almost US\$200 million, bringing the total gross foreign assets held by the Central Bank to some US\$410 million by the end of the year, an amount equivalent to two months of imports.

d) *The external debt*

The most significant events to occur with respect to external financing in 1986 were the signing of agreements with the International Monetary Fund and with the member countries of the Paris Club.

Once the authorities' macroeconomic plans had been formulated and the government's general budget and the tax reform law had been approved, the government sought a stand-by agreement with the IMF in order to support its plans for a reactivation of the economy within a framework of price stability and an improved balance of payments. A restructuring of the external debt and the procurement of fresh loans having longer grace periods were regarded as measures which would contribute to the achievement of these goals.

Once the usual fiscal, monetary and external-sector terms and conditions had been established, IMF granted a loan of US\$50 million in support of the stabilization plan. It also made available another US\$57 million in compensatory financing for the decline in the prices of raw materials and a US\$20 million credit on whose use no restrictions were placed.

In addition, the government's negotiations with the Paris Club resulted in the restructuring of approximately US\$645 million of the US\$1.64 billion owed to official creditors in the form of medium- and long-term public debt. Of the amount rescheduled, around US\$440 million corresponded to amortization payments either in arrears or falling due before July 1987, while the balance represented interest owed.

During the renegotiation process, all capital and interest payments due as of 30 June 1986 were deferred, and it was stipulated that the new period of payment would cover a term of five years commencing June 1990, with four years of grace. The capital and interest disbursements for the period June 1986-June 1987 were also rescheduled, it being agreed that at the end of a five-year grace period, these payments would be made over a term of four and one-half years. The arrangement also provided that the interest rate to be charged would be determined in negotiations between the Government of Bolivia and each creditor country.

The level of medium- and long-term public external debt remained very high (US\$3.7 billion). Although this amount was only slightly higher than that of 1985, it was equivalent to 5.5 times the value of exports of goods and services; the coefficient of debt servicing/exports of goods and services also continued to be very high. Total net interest payments alone absorbed close to 40% of exports (see table 12). This ratio would have been much higher still if the debts owed to private creditors had been serviced. These obligations stood at around US\$1.1 billion and their servicing has been suspended since 1984.

e) *Exchange and foreign trade policy*

One of the most striking successes of the authorities' economic policy was the high degree of stability of the exchange rate on both the official and parallel markets. The sale by the government of foreign exchange continued to be carried out according to the procedures which had been laid down at the time the new economic policy was adopted in late 1985. Under this system, the price of the United States dollar was determined in accordance with a weighted average of the sales to the public made by the Central Bank. This procedure was similar to that of an auction, i.e., the quotation for the dollar was set as a function of a base price established by the authorities and of the prices offered by agents prior to the opening of these transactions.

The tight controls placed on fiscal variables and the resultant slower growth of the money supply, plus the greater confidence of agents in the government's economic policy, all helped to stabilize the exchange rate and to put a virtual end to speculation against the peso.

The trend of the official and parallel exchange rates was thus quite similar to the pattern observed since the introduction of the new economic policy in August 1985, when the value of the dollar was set at around 1 100 000 pesos. During the final quarter of that year the average level of the official exchange rate increased moderately (18%), while in 1986 it was quoted at slightly above 1 900 000 pesos, which represented an increase of approximately 320% over the 1985 rate. However, in this case, the annual comparison is not sufficiently representative. The question of whether the exchange rate deteriorated during 1986 must be answered with reference to the value set by the government which assumed office when the second half of 1985 was already well underway. On the basis of this criterion, the depreciation of the peso was fairly well controlled throughout 1986: although during the first quarter the peso/dollar ratio climbed by almost 50% in comparison to the last quarter of 1985, no major variations were observed during the remainder of the year, thereby reflecting a slight tendency for Bolivia's currency to appreciate.

Furthermore, since in 1986 the average annual nominal exchange rate increased more than the inflation rate and, on the whole, the dollar fell against other currencies, exports became more profitable and imports more expensive. In fact, during the course of the year the real effective exchange rate for exports rose considerably, and the corresponding index soared from 55 to 90. Imports, for their part, became much more costly, with the real exchange rate index jumping from 60 to 113 (see table 13).

Nevertheless, the annual averages disguise the conflicting trends observed during the year. The quarterly figures reveal how small increases in prices and the stability of the nominal exchange rate progressively increased the cost of exports, with the result that by the end of the year they were much less attractive than at the beginning. In the case of imports the reverse occurred (see figure 2).

With respect to trade in goods, a new tariff policy was introduced in August. In addition to streamlining the regulations governing this activity, the new policy provided for a uniform customs duty of 20%. In practice, this amounted to a non-discriminatory treatment of imports of consumer goods, raw materials and capital goods. It was also established, however, that exporting firms would be entitled to the reimbursement of the duties paid on imported raw materials.

Finally, early on in the year the government contracted the services of Société Générale de Surveillance, S.A. to monitor both public and private foreign trade and to prevent the underinvoicing of exports and the overinvoicing of imports.

4. Prices, wages and unemployment

a) *Prices*

The greatest achievement of the stabilization policy introduced by the government in the latter part of 1985 was to bring hyperinflation under control. The 12-month growth rate of the general consumer price index plummeted from 8 170% in December 1985 to just 66% in December 1986, while the variation between annual averages slid from 11 750% to 276% (see table 14 and figure 3).

All the components of the general index increased by similar percentages during the year. The prices of food products rose 62% and those of housing services went up by around 45%; larger increases were recorded in clothing and in the category of miscellaneous goods.

Wholesale prices followed a similar pattern. The variation between the annual averages of the general index was slightly over 170%, while the variation from December to December amounted to 47%.

The prices of domestic products rose more than those of imported goods both in terms of annual averages and of 12-month variations. According to the latter measurements, the prices of agricultural products increased by 57% and those of manufactures by 49% whereas those of imported goods only increased by 40%.

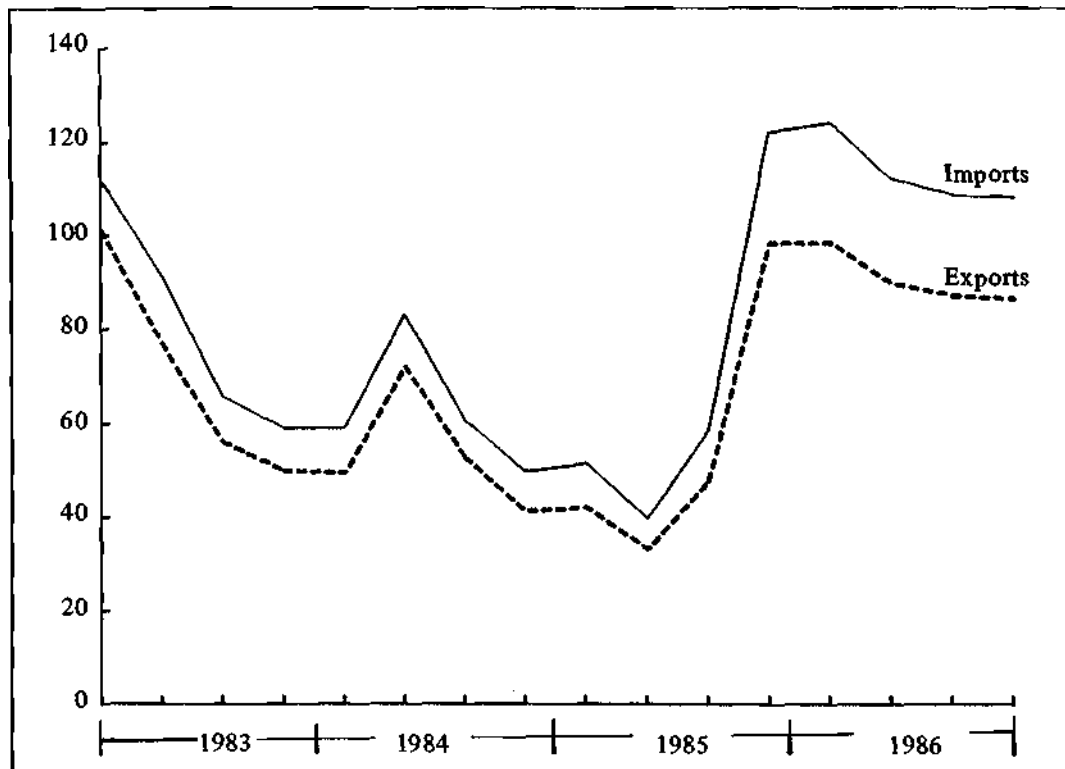
The process of slowing down inflation passed through a number of clearly distinguishable stages following the implementation of the new economic policy. Between August 1985 and January 1986 the monthly rates of variation in the general consumer price index were very erratic, fluctuating between 56% in September and -2% in October. In December 1985 and January 1986, the monthly increases sharpened once again (17% and 33%, respectively). However, thereafter the downward trend became stronger. In three of the subsequent 11 months, the monthly increase in the general consumer price index was lower than 1% and in another three it fluctuated between 1% and 3.5% (see figure 3).

One of the main reasons for this progress was the strict control exercised by the authorities over public-sector expenditure, which in past years had been financed simply by expanding the money supply. The success of the policy aimed at stabilizing the exchange rate and the establishment of a lower and uniform tariff also played a very important role.

Figure 2

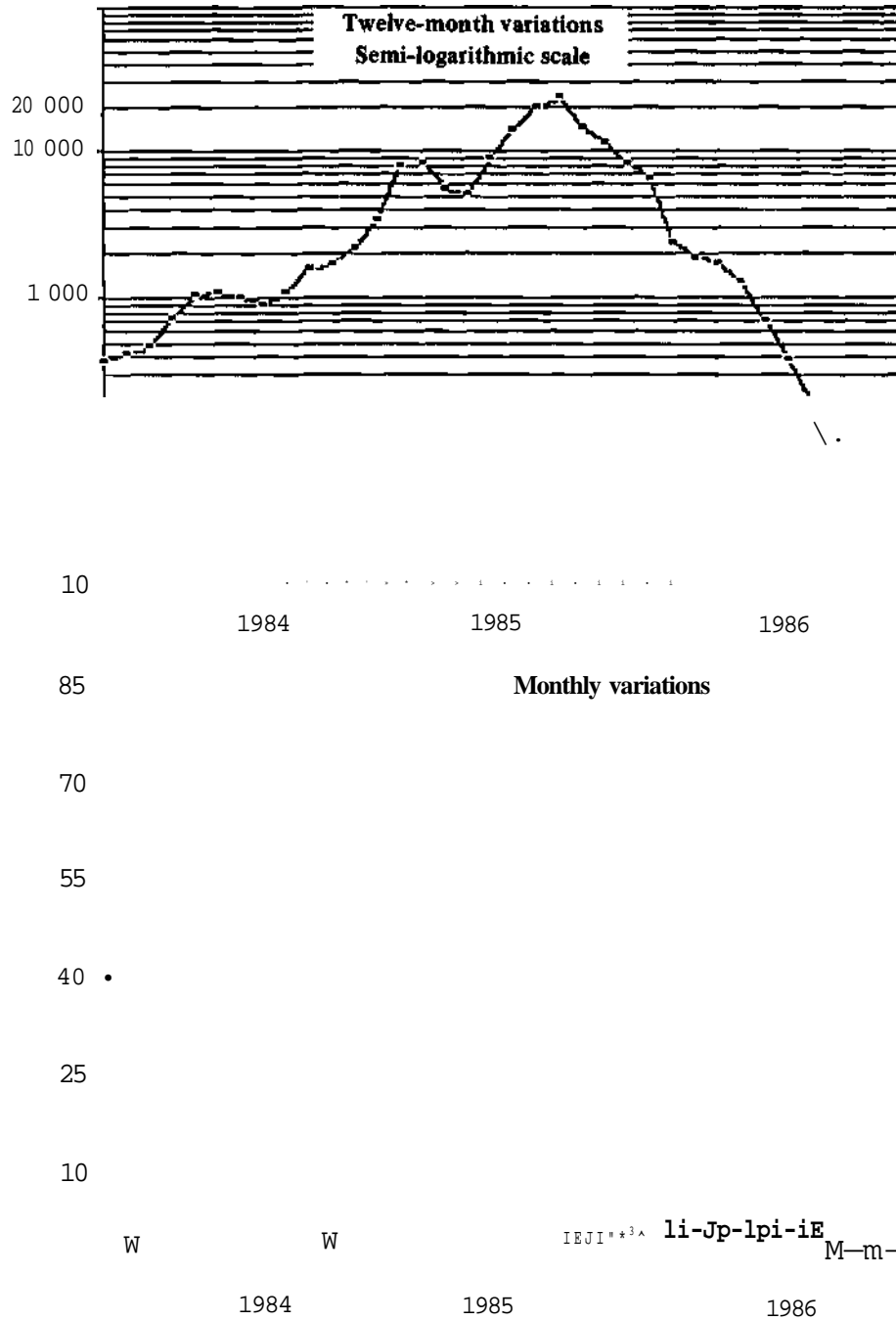
BOLIVIA: INDEXES OF THE REAL EFFECTIVE EXCHANGE RATES FOR EXPORTS AND IMPORTS

(1980 = 100)



Source: ECLAC, on the basis of official figures and data supplied by the International Monetary Fund.

Figure 3
BOLIVIA: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.
 «The monthly variation was 182.8 per cent.

b) Wages

The paramount objective of the government's wage policy was to prevent wage increments from acting as a mechanism which would fuel further price increases, as had occurred in the past.

In late 1985, a new minimum wage of 30 million pesos had been established, which was equivalent to somewhat less than US\$20 according to the official exchange rate for December of that year. At the same time all public-sector wages had been frozen for a six-month period, while those in the private sector had been made subject to free bargaining among the parties involved.

In June 1986, the minimum wage was set at 40 million pesos. Although this represented a nominal raise of 33%, at the official or parallel market exchange rate it was still equivalent to around US\$20. The rest of the wage-earners in the public sector whose remunerations were lower than 300 million pesos were given an increase of 7.5%, except for those earning less than 140 million pesos, who were granted a readjustment of 13%. No raise was given to those receiving salaries above 300 million pesos.

In nominal terms, the average minimum wage increased 250% in 1986. In real terms, however, due to price increases and to the level at which wages had been frozen in December 1985, the average minimum wage declined by 30%. This, in combination with the erosion of purchasing power which had occurred during previous years, meant that the average real minimum wage experienced an overall drop of close to 70% during the three-year period of 1984-1986 (see table 15).

c) Unemployment

Unemployment, which had increased steadily during the preceding years, reached 20% in 1986, thus becoming one of the main problems of the economy. Although the level of underemployment showed little change, it remained very high. In addition to the more long-standing causes of unemployment, the situation in the labour market was exacerbated by a number of short-term factors, some of which were of particular significance.

The rise in unemployment was partly attributable to the implementation of the new economic policy. One of the pivotal features of this programme was the scaling down of the public sector and the attempt that was made to improve the competitiveness of State enterprises. This led to a cutback in the number of civil servants and of workers in State enterprises. The serious crisis affecting the mining industry added to unemployment in both the public and private enterprises of the sector. Finally, the authorities' policy of opening up the economy also contributed in some degree to the worsening of the employment situation since numerous enterprises had to shut down or suspend their operations because they were unable to withstand the foreign competition.

In an effort to solve these problems, the government set up the National Employment Committee to design labour-intensive projects which did not require a long start-up period.

5. Monetary and fiscal policy

a) Monetary policy

The policy applied in this area in 1986 was shaped by the strict control exercised by the authorities over the imbalances in the public sector, which allowed monetary variables to function autonomously once again, and by the monetary reforms undertaken towards the end of the year.

Thus, during the period from January to October, the monetary base expanded slightly more than 140% in nominal terms (i.e., by about 45% after adjusting for inflation). Because of the abrupt decline in the growth rate of prices, the money supply (M_1) increased more than 125%, which in real terms amounted to a bit over 35% (see table 16).

Owing to agents' greater confidence in the government's economic policy, quasi-money grew by 640% in nominal terms, while the expanded money supply (M_2) climbed by 270%, i.e., 125% at constant values.

Two of the factors which, in turn, contributed to the growth of M_2 were the sharp increase in international reserves (360%) and the marked expansion in the credit extended to the private sector (240%). In contrast, the amount of funds made available to the public sector showed a substantial and widespread decrease, even in nominal values (see table 16).

Generally speaking, these trends were strikingly different from those observed in 1984-1985, the biennium during which the country experienced the most acute hyperinflationary process seen in Latin America. The drastic reduction in credit for the public sector and the increase in the funds granted to the private sector constituted one of the mainstays of the new economic policy.

The smaller expansion of the amount of money in the economy and, above all, the dramatic slowdown in the growth rate of prices accounted for the pattern followed by interest rates. The monthly rates charged by the banks on loans fluctuated around 2% in real terms. During the first quarter these rates were slightly negative due to the resurgence of inflation between December 1985 and February 1986, but as the monthly increases in prices became smaller thereafter, the cost of credit in Bolivian currency began to rise (see table 17). Interest rates on deposits followed a similar course: as a result of the size of the price increases seen during the first quarter, the returns on clients' bank deposits were negative, but as soon as inflation slowed down again, real interest rates became positive, although they remained low.

Minimum reserve requirements were modified in September. The requirements on demand deposits were lowered from 50% to 40% for both national and foreign banks, while those applying to both domestic and foreign financial intermediaries with respect to fixed-term deposits were reduced from 10% to 8%.

As part of the government's plan to introduce through-going changes in the economy, a monetary reform entered into effect late in 1986 which replaced the peso with the "boliviano", with the parity between the two being set at 1 million to 1 and the exchange rate for the dollar at 2 to 1.

b) *Fiscal policy*

As mentioned above much of Bolivia's success in its fight against hyperinflation was due to the stringent control exercised by the authorities over the behaviour of fiscal variables.

Some of the main conditions laid down by the International Monetary Fund for the extension of the credits referred to earlier for the country's economic management in 1986 were: the approval of the general public-sector budget; the reduction of the fiscal deficit/gross domestic product coefficient from 28% in 1985 to somewhat less than 6% in 1986; an increase in the proportion of the product represented by fiscal revenue from 1% to 12%; the imposition of a hiring and wage freeze in the government sector until 31 May; and the passing of a tax reform act. However, during the period of hyperinflation, the fiscal situation became so critical that even if the IMF had not stipulated the foregoing requisites for lending its financial support to the government's stabilization plan, it would nevertheless have been imperative to reduce the size of the public-sector disequilibria.

Until recently, the procedure of approving the general budget of the government was not always a clear or well-defined one. The mere fact that it was approved was in itself a way of limiting expenditures.

In addition, although the available figures on the public sector's performance are limited and refer only to the National Treasury, they nonetheless indicate that a number of other substantive changes occurred during the course of 1986 as well.

In real terms the central government's current income expanded by 16% (see table 19). Income from petroleum royalties stagnated, but continued to be the Treasury's principal source of funds (55% of the total), and although this proportion was lower than that of 1985, it was almost four times that of 1984 (around 15%).

In striking contrast to the situation in the period 1983-1985, when a cumulative loss of more than 60% was recorded, in 1986 receipts from inland taxation soared by almost 55% in constant values and thus came to account for almost one-sixth of total tax revenues. Receipts from foreign trade also grew (19%), but they continued to represent a much smaller proportion of total earnings (12%). Finally, owing to the fact that the international tin market remained immersed in a major crisis, mining royalties at constant values fell dramatically for the second year in a row.

As a result of all the above, the current income/product coefficient showed a marked improvement which brought it close to the level that had been agreed upon with the IMF.

The accounts of the National Treasury yielded a surplus for the first time in the last 20 years, and this was accompanied by a decline in the coefficient of the public-sector deficit/product.

The tax reform law which made major changes in the existing legislation, introduced new taxes on the following:

- i) The value added to sales imports and the provision of services (10%), except for the interest generated by financial operations and the purchase and sale of shares and securities in general;
- ii) Personal income from any source (10%) except stock dividends. (It was, however, provided that taxpayers could deduct value-added-tax payments from the tax on personal income.);
- iii) The value of the net assets of public and private enterprises (2%), with the exception of mining, petroleum and electricity companies;
- iv) Rural property, with the rate of this tax depending on the geographical location of the land, the size of the holding and the fertility of the soil;
- v) Urban real estate;
- vi) Ownership of vehicles, automobiles, motorboats and aircraft, with a scale ranging from 1.5% to 5% of the value thereof;
- vii) Commercial transactions (1%); and
- viii) Certain specific consumer goods (alcohol, tobacco, etc.), on which a tax rate of between 30% and 50% was imposed.

The passage of this new tax law was one of the conditions of the IMF for granting the funds needed for the stabilization plan. However, the only levy that became effective in 1986 was the tax regularization scheme, which operated as a tax amnesty. Its aim was to put the taxpayers' situation in order prior to the application of the new economic policy, even though in practice the tax regularization scheme only covered the year 1985. Under this plan public and private enterprises, except for mining, petroleum and electricity companies, were required to pay the equivalent of 3% of the value of their net assets. For their part, individuals owning land, urban real estate or any kind of vehicle had to pay a surcharge of 50% over the rate established for such property in the new law.

In sum, the basic aim of the new law was to increase the government's income, even at the cost of raising indirect taxes, which are usually less progressive.

Along with the above law, a new body of regulations were adopted concerning the procedures for controlling, evaluating and executing the general budget of the government.

Table 1

BOLIVIA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986°
Basic economic indicators							
Gross domestic product at market prices (index: 1980 = 100)	100.0	100.3	97.5	91.1	90.3	88.7	86.2
Population (millions of inhabitants)	5.57	5.72	5.88	6.03	6.20	6.37	6.54
Per capita gross domestic product (index: 1980 = 100)	100.0	97.8	92.5	84.2	81.2	77.6	73.4
Growth rates							
Short-run economic indicators							
Gross domestic product	0.7	0.3	-2.8	-6.6	-0.9	-1.7	-2.9
Per capita gross domestic product	-1.9	-2.2	-5.3	-9.0	-3.5	-4.3	-5.5
Gross national income	1.7	-2.8	-3.6	-5.7	-0.9	-2.1	-9.2
Per capita gross national income	-0.9	-5.4	-6.2	-8.1	-3.6	-4.7	-11.6
Unemployment rate	5.7	9.7	10.9	13.0	15.5	18.2	20.0
Consumer prices							
December to December	23.9	25.1	296.5	328.5	2 176.8	8 170.5	65.9
Variation between annual averages	47.2	32.1	123.5	275.6	1 281.3	11 749.6	276.3
Real wages	-5.4	-8.7	-27.0	2.9	-16.4	-46.0	-30.2
Money (M _i)	41.2	20.5	229.7	207.0	1 783.4	5 927.8	127.6
Current income of central government							
Total expenditure of central government	40.6	19.3	37.3	152.6	1 066.6	34 370.5	337.5
Fiscal deficit/total expenditure of central government	43.1	12.8	423.9	172.5	2 206.7	10 940.5	
Fiscal deficit/gross domestic product	45.2	42.1	85.2	86.5	93.2	78.8	
Current value of exports of goods and services	7.9	6.6	26.4	20.6	35.7	25.8	
Current value of imports of goods and services	19.1	-2.4	-9.5	-5.7	-4.7	-12.0	-8.5
Terms of trade (goods and services)	•26.4	37.7	-37.6	3.2	-10.1	6.6	21.3
	9.2	-8.3	0.8	0.4	10.0	-5.3	-32.5
billions of dollars							
External sector							
Trade balance (goods and services)	199	-139	195	120	155	14	-198
Net payments of profits and interest	262	362	411	363	416	373	309
Balance on current account	-53	-491	-202	-204	-241	-342	-484
Balance on capital account	-105	494	230	246	357	299	682
Variation in international reserves	-148	19	34	25	148		198
External debt	...	3 424	3 485	3 692	3 685	3 323	3 696

Source: ECLAC, on the basis of official data.

°Preliminary figures. National average in pesos at 1970 prices. The rates for the period 1983-1986 were calculated on the basis of the consumer price index for November 1982, when the value of the minimum wage was determined; this is therefore the wage referred to here. Percentages. Disbursed balances of the short-, medium- and long-term public external debt and of the non-guaranteed long-term private debt. The data for 1985 and 1986 refer only to the public debt.

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND*(At 1980 market prices)*

	Index 1980 = 100				Percentage breakdown		Growth rates			
	1983	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total supply	90.1	88.6	88.2	88.4	116.6	119.5	-5.1	-1.7	-0.4	0.2
Gross domestic product at market prices	91.1	90.3	88.7	86.2	100.0	100.0	-6.6	-0.9	-1.7	-2.9
Imports of goods and services	83.9	77.9	84.7	101.4	16.6	19.5	5.6	-7.2	8.7	19.8
Total demand	90.1	88.6	88.2	88.4	116.6	119.5	-5.1	-1.7	-0.4	0.2
Domestic demand	91.2	91.3	91.6	86.6	96.0	96.5	-5.3	-	0.4	-5.5
Gross domestic investment	67.3	63.7	61.3	62.7	14.7	10.7	-19.1	-5.3	-3.8	2.4
Gross fixed investment	81.0	75.1	74.8	77.2	14.2	12.8	-4.7	-7.3	-0.3	3.2
Construction	83.0	77.4	79.4	78.8	8.8	8.0	-4.5	-6.7	2.6	-0.8
Machinery	77.9	71.3	67.5	74.7	5.5	4.8	-5.0	-8.4	-5.4	10.7
Total consumption	95.6	96.2	97.1	90.9	81.3	85.8	-3.2	0.7	0.9	-6.3
General government	104.5	103.5	101.3	98.1	12.9	14.7	-2.7	-0.9	-2.1	-3.2
Private	93.9	94.9	96.3	89.6	68.4	71.1	-3.3	1.0	1.5	-7.0
Exports of goods and services	84.8	75.9	72.0	96.5	20.5	23.0	-4.0	-10.5	-5.2	34.0

Source: ECLAC, on the basis of official figures weighted according to the 1980 current price structure.

"Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were then converted to constant 1980 values based on indexes of unit value calculated by ECLAC for that purpose.

Table 3

**BOLIVIA: GROSS DOMESTIC PRODUCT, BY BRANCHES
OF ECONOMIC ACTIVITY, AT MARKET PRICES**

	Index 1980 = 100				Percentage breakdown		Growth rates			
	1983	1984	1985	1986 ^o	1980	1986 ⁿ	1983	1984	1985	1986 ⁿ
Gross domestic product	91.1	90.3	88.7	86.2	100.0	100.0	-6.6	-0.9	-1.7	-2.9
Goods	81.8	80.2	76.8	71.8	52.4	43.7	-12.8	-2.0	-4.3	-6.5
Agriculture^l	77.6	92.1	94.9	93.1	18.4	19.8	-26.7	18.7	3.1	-1.9
Mining	93.3	80.4	70.9	57.1	15.8	10.5	-1.3	-13.8	-11.9	-19.4
Manufacturing	74.5	65.7	59.7	59.1	14.6	10.0	-6.7	-11.8	-9.2	-1.0
Construction	83.0	77.4	79.4	78.8	3.7	3.4	-4.5	-6.7	2.6	-0.8
Basic services	108.9	109.7	110.8	112.1	6.6	8.6	1.8	0.8	0.9	1.2
Electricity, gas and water	114.0	115.5	116.1	117.2	0.7	0.9	-0.4	1.3	0.5	1.0
Transport, storage and communications	108.3	109.1	110.2	111.5	6.0	7.7	2.1	0.7	1.0	1.2
Other services	99.7	99.5	99.6	99.4	39.9	46.0	-0.5	-0.2	0.1	-0.2
Commerce, restaurants and hotels	98.4	97.5	99.5	101.0	10.8	12.6	-4.0	-1.0	2.1	1.5
Financial institutions, insurance, real estate and business services	96.6	97.0	97.8	98.9	14.0	16.1	0.6	0.5	0.8	1.0
Ownership of dwellings	101.1	101.2	101.3	101.4	8.2	9.6	0.2	0.1	0.1	0.1
Community, social and personal services	103.4	103.3	101.3	98.7	15.0	17.2	1.2	-0.2	-1.9	-2.6
Government services	107.5	107.9	105.8	102.3	10.5	12.5	3.0	0.4	-2.0	-3.3
Minus: imputed bank service charge	78.6	79.4	81.0	83.0	1.6	1.5	1.2	1.0	2.0	2.5
Plus: import duties	95.3	98.0	102.9	106.5	2.7	3.3	-0.9	2.9	5.0	3.5

Source: ECLAC, on the basis of official data.

^lPreliminary figures. These series were calculated on the basis of official figures, which were reweighted according to the 1980 current price structure. ⁿIncludes the livestock sector, forestry and fishing.

Table 4

BOLIVIA: INDICATORS OF MINING PRODUCTION

	Thousands of tons				Growth rates			
	1983	1984	1985	1986 ⁿ	1983	1984	1985	1986 ⁿ
Production of some important minerals								
Antimony	9.9	9.2	8.9	10.3	-28.7	-7.1	-3.3	15.7
Copper	1.9	1.6	1.6	0.3	-13.6	-15.8	-	-81.3
Tin	23.7	18.5	16.3	10.8	-11.2	-21.9	-11.9	-33.7
Silver	191.2	141.8	112.4	88.6	10.1	-25.8	-20.7	-21.2
Lead	12.1	7.4	6.4	2.7	-2.4	-38.8	-13.5	-57.8
Tungsten	3.0	2.3	1.6	1.1	-6.2	-23.3	-30.4	-31.3
Zinc	47.1	37.7	38.2	33.3	3.3	-19.9	1.3	-12.8
Gold ^c	1 582.0	1 270.0	555.0	768.0	26.6	-19.7	-56.3	38.4
Other minerals	4.0	3.1	4.5	5.2	-50.0	-22.5	45.2	15.5

Source: National Association of Medium-Scale Miners.

ⁿPreliminary figures. Tons. ^cKilogrammes.

Table 5

BOLIVIA: HYDROCARBON INDUSTRY INDICATORS

	Thousands of cubic metres				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
Petroleum								
Production of crude petroleum	1 288	1 211	1 152	500	10.3	-5.9	-4.8	-15.4
Exports of crude petroleum	1 039	310	-	270		-70.2		
Processing of petroleum products	1 242	1 235	1 284	552	15	-0.6	3.9	-16.4
Domestic sales of some fuels								
Gasoline	453	434	443	220	0.6	-4.2	2.1	0.7
Kerosene	110	104	91	28	-3.8	-5.5	-12.5	-41.2
Diesel oil	246	238	237	108	-13.0	-3.3	-0.4	-2.7
Fuel oil	145	116	86	28	-12.3	-20.0	-25.8	-43.8
Natural gas'								
Production	5 041	4 905	4 647	2 187"	7.1	-2.7	-5.3	-7.4
Exports	2 227	2 210	2 216	2 214	-3.0	-0.7	0.3	-

Source: Central Bank of Bolivia.

" Preliminary figures. These data refer to the period January-June, and the rates were calculated with respect to the same period of the preceding year. Thousands of barrels. Annual data. ' Thousands of cubic metres. These data refer to the period January-June, and the rates were calculated with respect to the same period of the preceding year.

Table 6

BOLIVIA: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985	1986°
	Growth rates						
Exports of goods							
Value	24.0	-3.2	-9.3	-8.8	-4.1	-13.9	-12.8
Volume	-3.3	-1.0	-10.1	-6.2	-8.4	-9.8	36.1
Unit value	28.2	-2.2	0.9	-2.7	4.7	-4.6	-36.0
Imports of goods							
Value	-22.2	44.1	-40.1	r	-16.9	12.3	25.3
Volume	-35.5	33.1	-38.2	5.6	-7.7	15.0	22.5
Unit value	20.6	8.2	-3.0	-5.3	-10.0	-2.4	2.3
Terms of trade (goods)	9.4	-9.9	2.9	13	11.9	-2.8	-37.2
	Indexes (1980= 100)						
Quantum of exports	100.0	99.0	89.0	83.5	76.5	69.0	93.9
Terms of trade	100.0	90.1	92.8	93.9	105.1	102.1	64.1
Purchasing power of exports of goods	100.0	89.3	82.6	78.4	80.4	70.5	60.2
Purchasing power of exports of goods and services	100.0	133.1	82.3	86.9	80.2	92.3	113.0

Source: ECLAC, on the basis of official data.

"Preliminary figures.

Table 7

BOLIVIA: EXPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
	Total	817	782	672	627	100.0	100.0	-9.0	-4.3	-14.0	-6.7
Main traditional exports	767	753	638	529	85.5	84.4	-6.2	-1.8	-15.3	-17.1
Metallic tin	175	191	134	55	23.1	8.7	-26.2	9.1	-29.8	-58.9
Tin concentrate	32	57	53	49	13.4	7.8	-21.9	78.1	-7.0	-7.5
Silver	58	21	10	27	11.4	4.3	56.7	-63.8	-52.4	170.0
Zinc	33	37	29	28	3.6	4.5	-13.2	12.1	-21.6	-3.4
Tungsten	20	19	10	6	4.5	0.9	-41.2	-5.0	-47.4	-40.0
Antimony	16	23	16	12	2.5	1.9	-11.1	43.7	-30.4	-24.9
Other minerals	13	16	12	20	3.4	3.2	-7.1	23.1	-24.9	66.6
Natural gas	378	376	373	329	21.3	52.5	-1.0	-0.5	-0.8	-11.8
Other hydrocarbons	42	13	2	4	3.3	-	147.1	-69.0	-84.6	100.0
Main non-traditional exports	50	29	34	98	14.5	15.6	-37.5	-42.0	17.2	188.2
Sugar	12	7	2		4.9		50.0	-41.6	-71.4	
Coffee	13	7	14	13	2.0	2.1	-18.7	-46.2	100.0	-7.1
Wood	8	6	7	21	2.9	3.3	-33.3	-25.0	16.6	200.0
Other	17	9	11	64	4.5	10.2	-61.4	-47.1	22.2	481.8

Source: Central Bank of Bolivia.

°Preliminary figures.

Table 8

BOLIVIA: EXPORT VOLUMES OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
Metallic tin	13.5	15.6	11.7	8.2	-27.4	15.5	-24.9	-29.9
Tin concentrate	2.5	4.6	4.4	8.6	-21.8	84.0	-4.4	95.5
Silver	158.0	80.0	52.0	158.0	4.6	-49.4	-35.0	203.8
Zinc	41.3	36.8	33.9	35.5	-7.2	-10.9	-7.8	4.7
Tungsten	2.5	2.4	1.6	1.4	-21.8	-4.0	-33.3	-12.5
Antimony	12.9	10.8	7.7	7.3	19.4	-16.3	-28.7	-5.2
Other minerals	22.4	11.1	7.3		-16.4	-50.4	-34.2	
Natural gas ^c	2 227.1	2 210.3	2 216.1	2 214.5	-3.0	-0.7	0.3	-

Source: Central Bank of Bolivia.

°Preliminary figures.

^aMetric tons; fine.^bMillions of cubic metre!

Table 9

**BOLIVIA: AVERAGE PRICE OF TIN ON THE
LONDON METAL EXCHANGE**

(Dollars per pound)

	Nominal price ^a (D)	Price indexes (1980 = 100)		Real price (1970 dollars)	
		United States wholesale prices (2)	Unit value of imports of goods and services (3)	(1/2)	(1/3)
		1979	6.77	87.6	85.8	7.72	7.88
1980	7.61	100.0	100.0	7.61	7.61
1981	6.39	109.1	108.6	5.85	5.88
1982	5.78	111.3	108.2	5.19	5.34
1983	5.89	112.7	105.8	5.22	5.56
1984	5.54	115.4	102.4	4.80	5.41
1985	5.38	114.9	100.4	4.68	5.35
1986*	2.84	111.5	101.6	2.54	2.79

Source: UNCTAD, International Monetary Fund (IMF), and ECLAC estimates based on official data.
 "Average annual figures. *Preliminary figures.

Table 10

BOLIVIA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
	Total	589	493	553	.	100.0	.	2.3	-16.3	12.2
Consumer goods	66	95	133	.	25.2	.	-31.2	43.9	40.0	
Durable	20	53	80	.	9.8	.	-51.3	165.0	50.9	
Non-durable	46	42	52	.	15.4	.	-19.3	-8.7	23.8	
Raw materials and intermediate goods	282	204	215	.	36.9	.	13.7	-27.7	5.4	
Fuels	4	2	2	.	-	.	-55.5	-50.0	-	
For agriculture	11	18	14	.	1.6	.	57.1	63.6	-22.2	
For industry	224	152	166	.	30.3	.	13.7	-32.1	9.2	
Construction materials	43	32	33	.	4.7	.	19.4	-25.6	3.1	
Capital goods	222	185	199	.	35.4	.	11.5	-16.6	7.6	
For agriculture	7	14	14	.	2.0	.	40.0	100.0	-	
For industry	156	103	110	.	21.4	.	12.2	-33.9	6.8	
Transport equipment	59	68	75	.	11.9	.	7.3	15.3	10.3	
Other*	19			.	2.4	.	-45.7	-52.6	-33.3	

Source: Central Bank of Bolivia
 "Preliminary figures. Includes unregistered imports.

Table 11

BOLIVIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance on current account	-53	-491	-202	-204	-241	-342	-484
Trade balance	199	-139	195	120	155	14	-198
Exports of goods and services	1 030	1 005	910	858	818	720	659
Goods FOB	942	912	828	755	724	623	543
Real services	88	93	82	103	93	96	115
Transport and insurance	30	33	26	35	35	38	27
Travel	36	36	30	42	32	30	35
Imports of goods and services	831	1 145	715	738	663	706	857
Goods FOB	574	828	496	496	412	463	580
Real services	257	317	219	242	251	244	277
Transport and insurance	147	204	123	149	136	149	190
Travel	55	50	40	20	30	30	30
Factor services	-265	-365	-414	-365	-418	-375	-311
Profits	-19	-29	-23	-59	-36	-53	-41
Interest received	14	15	7	39	28	16	13
Interest paid	-257	-347	-394	-342	-408	-337	-281
Other	-3	-3	-3	-2	-2	-2	-2
Unrequited private transfer payments	13	13	17	40	22	20	25
Balance on capital account	-105	494	230	246	357	299	682
Unrequited official transfer payments	47	26	29	66	67	60	74
Long-term capital	304	459	26	288	-147	-235	-138
Direct investment (net)	46	76	31	7	7	10	10
Portfolio investment (net)	-4	-1	-15	-2	-1	-1	
Other long-term capital	261	385	10	283	-154	-244	-148
Official sector'	302	385	62	372	-111	-200	
Loans received	372	517	259	578	143	100	
Amortization payments	-69	-122	-168	-202	-247	-294	
Commercial banks'	-23	-17	-26	-15	-12	-9	
Loans received	13	10	7	7	6	1	
Amortization payments	-36	-27	-33	-22	-18	-9	
Other sectors'	-17	17	-26	-74	-31	-36	
Loans received	85	105	66	21	11	8	
Amortization payments	-102	-88	-92	-95	-42	-44	
Short-term capital (net)	-44	195	141	-181	449	287	583
Official sector	-49	220	257	-149	345	258	
Commercial banks	-20	18	14	1	4	-21	
Other sectors	25	-43	-131	-32	101	50	
Errors and omissions (net)	-412	-187	34	72	-12	186	163
Global balance	-159	3	28	42	116	-44	198
Total variation in reserves (- sign indicates an increase)	148	-19	-34	-25	-148		-198
Monetary gold	-2	-3	-2	-1	-1	-	
Special Drawing Rights	-	-	-	-	-	-	
IMF reserve position	-	-	-	-	-	-	
Foreign exchange assets	72	6	-56	19	-116		
Other assets	18	-13	9	-47	-6	9	
Use made of IMF credit	61	-9	15	3	-25	-12	

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

Preliminary figures subject to revision. Includes other non-factor services. Includes net loans granted and other assets and liabilities. This item is equal to the total variation in reserves (of opposite sign), plus counterpart items.

Table 12

BOLIVIA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1981	1982	1983	1984	1985	1986"
Millions of dollars						
Total disbursed external debt	3 424	3 485	3 692	3 685		
Disbursed medium- and long-term public external debt	2 824	2 889	3 265	3 272	3 323	3 696
Disbursements in each year ^c	354	187	86	158	109	
Disbursed short-term public external debt	520	467	51	73	79	29
Non-guaranteed long-term private debt	80	129	376	340		
Service on the medium- and long-term public debt ^c	279	246	262	304	248	
Amortization payments	103	96	95	122	159	
Interest payments	176	150	167	182	89	
Main indicators (percentages)						
Total disbursed external debt/ exports of goods and services	340.6	382.9	430.3	450.4		
Total disbursed public external debt/exports of goods and services	332.7	368.8	386.5	408.9	472.5	565.2
Service on the medium- and long-term public debt/ exports of goods and services	27.7	27.0	30.5	37.1	34.4	
Service on the medium- and long-term public debt/ annual medium- and long-term public debt disbursements	78.8	1315	304.6	192.4	227.5	
Total interest (net)/exports of goods and services	33.0	42.5	35.3	46.5	44.6	40.6

Source: ECLAC, on the basis of official figures and data supplied by the International Monetary Fund (IMF).

"Preliminary figures. Includes IMF credit. ^cCorresponds to figures published by the Central Bank. "The figures for total net interest payments were taken from the balance of payments and therefore include the interest on the short-, medium- and long-term public and private debt.

Table 13

BOLIVIA: EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (bolivianos per doll.*r)		Indexes of real effective exchange rate	
	Oficial	Paralel	Exports	Imports
1975-1979	0.000018		104.1	110.1
1980	0.000025		100.0	100.0
1981	0.000025		67.7	78.7
1982	0.0001*	0.0002	105.2	130.6
1983	0.0002	0.0007	65.5	77.5
1984	0.0023	0.0083	53.9	63.0
1985	0.445	0.6801	55.4	68.0
1986	1.922	1.9644	90.2	112.8
1984				
I	0.0005	0.0024	49.5	59.0
II	0.0018	0.0032	72.0	82.9
III	0.0020	0.0081	52.6	60.5
IV	0.0050	0.0194	41.3	49.7
1985				
I	0.032	0.1014	42.2	51.6
II	0.063	0.2780	33.1	39.6
III	0.400	0.9753	48.0	58.7
IV	1.275	1.3657	98.3	122.1
1986				
I	1.951	2.0399	98.3	124.1
II	1.905	1.9464	89.5	111.8
III	1.909	1.9306	86.9	108.3
IV	1.923	1.9408	86.2	107.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Bolivia and the International Monetary Fund, *International Financial Statistics*.

"Indexes of the real (official) exchange rate for the boliviano in relation to the currencies of trading partners, weighted according to the relative importance of exports to or imports from these countries, as appropriate. From 1970 to 1980, these weightings correspond to the average for the period 1975-1979; from 1981 onward, they correspond to the average for the period 1982-1985. Wholesale price indexes have primarily been used for these calculations, but in Bolivia's case the consumer price index was employed. For detailed information on the methodology and sources used, see the statistical appendix to the *Economic Survey of Latin America, 1981*.^bThe exchange rate used for the period March-October 1982 was obtained from the average of the official rate (weighted 40%) and the average open-market exchange rate (weighted 60%).

Table 14

BOLIVIA: DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Variation from December to December										
Consumer price index	10.5	13.5	45.4	23.9	25.1	296.5	328.5	2 176.8	8 170.5	65.9
Food	10.3	14.8	45.4	22.6	26.6	313.2	343.6	2 188.9	8 033.5	62.5
Wholesale price index	9.5	18.6	43.5	35.2	27.9	406.1	517.8	2 237.7	7 952.4	47.5
Imported products	14.1	24.5	27.9	36.4	37.2	543.0	693.0	2 312.7	5 698.3	40.4
Domestic products										
Agricultural products	12.0	29.1	44.4	36.2	14.4	274.6	601.1	1 648.1	9 017.4	57.2
Manufactures	5.6	9.1	53.5	33.8	31.1	395.8	344.7	2 521.4	10 404.9	48.8
Variation between annual averages										
Consumer price index	8.1	10.3	19.7	47.2	32.1	123.5	275.6	1 281.3	11 749.6	276.3
Food	8.1	10.0	18.6	47.6	35.2	123.9	303.7	1 315.6	11 275.6	276.7
Wholesale price index	10.2	15.6	23.9	49.3	35.5	227.9	415.9	1 695.4	10 446.9	172.8
Imported products	15.1	23.6	18.0	35.6	43.8	342.4	488.6	1 969.1	7 540.0	152.3
Domestic products										
Agricultural products	13.9	20.5	27.8	54.6	24.7	139.7	517.6	1 190.2	11 635.5	181.6
Manufactures	5.4	8.4	25.5	55.5	37.6	211.1	311.6	1 701.5	13 831.5	184.5

Source: National Statistical Institute and Central Bank of Bolivia.

Table 15

BOLIVIA: MINIMUM WAGES

(Pesos per month)

	Nominal minimum wage	Real minimum wage"
1982		
November-December	8 490	8 187
1983		
January-February	8 490	7 469
March-June	12 400	8 319
July-September	17 484	8 030
October-November	30 100'	9 225
December	47 257	10 235
Annual average	18 874	8 416
1984		
January-March	47 257	7 735
April-July	108 691'	6 536
August-October	123 813	3 968
November-December	935 000	11 599
Annual average	238 769	7 038
1985		
January-February	935 000	3 566
March-April	4 035 000	6 097
May-June	6 240 000	5 120
July-October	10 171 000	2 140
November-December	30 000 000	3 739
Annual average	10 258 867	3 800
1986		
January-May	30 000 000	2 403
June-December	40 000 000	2 834
Annual average	<u>35 833 333</u>	<u>2 654</u>

Source: ECLAC, on the basis of data supplied by the National Commission on Wages (CONALSA) and the Economic Policy Analysis Unit (UDAPE).

"The consumer price index for November 1982 (which was when the value of the minimum wage was determined) was used as a basis for the conversion of nominal wages into real wages. In November a bonus of 22 500 pesos was added; this bonus was payable in three installments, the first of which was to be paid that same month. 'During several days in April, the minimum wage in force was that corresponding to March. The figure shown in the table, however, corresponds to the wage adjustment made in May, which was retroactive to 1 April. In addition, food and transport allowances were granted in April as well. The former amounted to 35 723 pesos, while the latter varied according to the number of daily trips to the place of work.

Table 16

BOLIVIA: MAIN MONETARY INDICATORS

	Year-end balance (billions of pesos)				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
1. Total liquidity (M ₂)	266	3 986	290 318	686 553	168.7	1 398.5	7 183.4	271.9
International reserves (net)	(64)	39	76 946	552 440			197 197.4	358.4
Credit to public sector (net)	276	2 926	(205 632)	(617 519)	240.7	960.1		
Central government	11	(409)	(439 659)	(938 883)				
Local and regional governments	8	110	28 199	21 402	100.0	1 275.0	25 535.5	-11.3
Public enterprises	258	3 226	205 828	293 962	200.0	1 150.4	6 280.3	-12.8
Credit to private sector	192	2 624	409 714	800 674	110.9	1 266.6	15 514.1	239.5
Other variables	(137)	(1 604)	9 290	(49 041)				
2. Quasi-money	91	690	91 640	385 222	116.6	658.3	13 181.2	637.4
3. Money supply (M.) (1-2)	175	3 296	198 678	301 332	207.0	1 783.4	5 927.8	127.6
4. Monetary base	195	3 345	201 194	312 243	204.7	1 615.4	5 914.8	148.9

Source: Central Bank of Bolivia.

"Preliminary figures. The figures given under the heading "year-end balances" refer to the month of October, and the growth rates were calculated in relation to the same month of the preceding year.

Table 17

BOLIVIA: AVERAGE MONTHLY BANK INTEREST RATES"

(Percentages)

	1983	1984	1985	1986 ⁴	1985				1986			
					I	II	III	IV	I	II	III	IV
Loans												
Business and private activities												
Maximum effective nominal rate	4.0	6.9	25.8	7.2	17.0	38.6	36.7	11.2	10.6	6.7	5.2	
Real rate ⁵	-7.7	-16.5	-10.7	2.2	-29.9	0.8	-16.4	5.4	-1.3	3.6	3.6	
Production activities												
Maximum effective nominal rate	3.9	6.8	25.7	7.2	16.8	38.4	36.6	11.1	10.6	6.7	5.2	
Real rate ⁵	-7.8	-16.6	-10.1	2.2	-30.0	0.6	-16.4	5.3	-1.3	3.6	3.6	
Deposits												
Savings bank deposits												
Minimum nominal rate	2.7	5.3	14.7	4.1	10.9	21.6	20.6	5.8	6.6	3.6	2.4	
Real rate ⁵	-8.8	-17.8	-17.8	-0.8	-34.4	-11.4	-26.1	0.4	-4.7	0.7	0.8	
Fixed-term deposits in national currency												
Minimal nominal rate	2.8	6.1	15.1	4.5	11.7	21.6	20.6	6.4	7.3	4.1	2.9	
Real rate ⁵	-8.7	-17.2	-17.7	-0.4	-34.0	-11.4	-26.1	-0.1	-4.2	1.2	1.3	

Source: ECLAC, on the basis of data supplied by the Central Bank of Bolivia.

⁴These rates reflect the monthly cost of or return on loans and deposits during each year and quarter shown. Both annual and quarterly values were calculated as average of the monthly figures. Refers to the first nine months of the year. ⁵Real rates were obtained by deflating the nominal rates according to the monthly variation in the general consumer price index.

Table 18

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Billions of pesos				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986"
Current income	48	560	193 035	844 538	140.0	1 066.6	34 370.5	337.5
Inland revenue	23	216	23 452	137 112	187.5	839.1	10 757.4	484.6
Customs revenue	6	123	22 702	101 225	50.0	1 950.0	18 356.9	345.8
Mining royalties	2	83	5 885	1 391		4 050.0	6 990.4	-76.4
Petroleum royalties	5	79	127 811	475 357	25.0	1 480.0	161 686.0	271.9
Other income	12	59	13 185	129 453	500.0	391.6	22 247.5	881.8
Total expenditure	357	8 235	909 185		172.5	2 206.7	10 940.5	
Personal services	78	1 730	124 332		224.9	2 117.9	7 086.8	
Non-personal services	5	101	14 542		66.6	1 919.9	14 298.0	
Materials and supplies	11	175	14 816		266.6	1 490.9	8 366.3	
Fixed and financial								
assets	5	110	8 201		150.0	2 099.9	7 355.5	
Public debt	172	547	14 405		126.3	218.0	2 533.5	
Transfers and contributions	31	4 481	36 038		416.6	14 354.8	704.2	
Other expenditure	55	1 091	696 851		223.5	1 883.6	63 772.7	
Deficit	309	7 675	716 150	...	178.4	2 383.8	9 230.9	
	Percentages							
Main ratios								
Deficit/ total expenditure	86.5	93.2	78.8					
Deficit/gross domestic product	20.6	35.7	25.8					
Current income/gross domestic products	3.1	6	6.9					
Total expenditure/ gross domestic products	23.7	38.3	32.8					

Source: Central Bank of Bolivia.
 °Preliminary figures.

Table 19

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Millions of 1980 pesos				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
Current income	4 327	3 656	10 630	12 357	-36.1	-15.5	190.7	16.2
Inland revenue	2 073	1 410	1 291	2 006	-23.4	-31.9	-8.4	55.4
Customs revenue	541	803	1 250	1 481	-60.0	48.4	55.6	18.5
Mining royalties	180	542	324	20	-73.4	201.1	-40.2	-93.8
Petroleum royalties	451	516	7 039	6 956	-66.7	14.4	1 264.2	-1.2
Other income	1 082	385	726	1 894	59.8	-64.4	88.6	160.8
Total expenditure	32181	53 739	50 070		-27.4	66.9	-6.8	
Personal services	7 031	11 289	6 847		-13.5	60.6	-39.3	
Non-personal services	451	659	801		-55.6	46.1	21.5	
Materials and supplies	992	1 142	816		-2.3	15.1	-28.5	
Fixed and financial assets	451	718	452		-33.4	59.2	-37.0	
Public debt	15 504	3 569	793		-39.7	-76.9	-77.8	
Transfers and contributions	2 794	29 242	1 985		37.6	946.6	-93.2	
Other expenditure	4 958	7 120	38 376		-13.8	43.6	438.9	
Deficit	27 854	50 083	39 440		-25.8	79.8	-21.3	

Source: ECLAC, on the basis of official data.

°Preliminary figures.

BRAZIL

1. Recent economic trends: Introduction **and** summary

The performance of the Brazilian economy in 1986 was strongly influenced by the implementation of an unorthodox stabilization plan (the Plan Cruzado) which succeeded in bringing down the 12-month rate of price increases from 242% to 75%. At the same time, economic activity expanded by somewhat more than 8%, and the unemployment rate for the main urban centres had fallen to below 3% by the end of the year (see table 1 and figure 1). However, these results proved to be short-lived, as the excessive increase in demand led to a marked deterioration in the balance of payments and a vigorous resurgence of inflation during the last quarter of the year.

The primary aim of the Plan Cruzado, which was unveiled at the end of February, was to make a drastic cut in the rate of price increases, which in the four preceding months had averaged over 14%. In order to minimize the social cost involved, and in view of the strong inertial component of Brazilian inflation, steps were therefore taken to eliminate the system of indexation. Basically, the Plan provided for a freeze on prices at their levels as of 28 February, the fixing of wages and housing rents according to their real average values during the preceding six months; the use of a conversion table which would eliminate the impact of projected inflation on obligations incurred in cruzeiros; the suspension of regular increases in the exchange rate; and the introduction of a new currency, the cruzado, whose initial unit value was set at the equivalent of one thousand cruzeiros.

In order to mitigate the negative impact that these measures might have on economic activity, the government decreed an initial increase of 8% in all wages and on adjustment of 15% in the legal minimum wage in respect of their real average values during the previous six months. The authorities also established an automatic wage readjustment mechanism which was to go into effect whenever the cumulative level of inflation since the most recent wages negotiations reached 20% or more. In addition, unemployment benefits were to be provided to eligible persons for a period of not more than four months.

During the first months of its implementation, the plan achieved its aim of drastically reducing inflation without creating a decline in employment or economic activity or eroding real remunerations. In fact, spurred by the increase in both domestic consumption and investment, the expansion rate of the economy accelerated, unemployment fell rapidly and steadily and real wages rose considerably. The drop in inflation also helped to increase the demand for liquidity, and this in turn facilitated the financing of the public domestic debt.

Because of its dynamic growth, industry quickly achieved the maximum levels permitted by its existing installed capacity. As a matter of fact, the production of capital and consumer goods grew by more than 20% in the course of the year. Nevertheless, during the second half of the year difficulties began to arise in the supply of raw materials as the existing idle capacity in intermediate goods producing activities was exhausted, and as a result, this segment of supply expanded by only 8%. The production of non-durable consumer goods also increased more slowly than overall industrial output, owing primarily to the very steep decline in agricultural activity.

As a consequence of the very rapid growth of domestic demand (retail sales in Rio de Janeiro and São Paulo climbed by 25% and 35% in real terms) and the price freeze, there began to be shortages in a number of products and parallel markets came into being. Goods on these markets were sold at higher prices than those set by the government, which did not begin to revise the price levels it had established until late in the year.

The sharp increase in domestic expenditure also contributed to a deterioration in the performance of the external sector, especially during the last quarter. Up to August, merchandise trade was yielding a surplus of around US\$1 billion per month, which was quite similar to the levels recorded during the two preceding years. However, these surpluses were partly due to the sharp reduction in

the value of fuel imports which was triggered by the steep decline in international oil prices. The surplus fell to just half its former level in September, and disappeared completely in the final three months of the year, when foreign trade showed a deficit of somewhat more than US\$300 million for the quarter.

This dramatic turnaround was chiefly attributable to the enormous decrease in exports, whose value was 46% lower than it had been during the same period of the preceding year. Consequently, the US\$8.3 billion surplus recorded for merchandise trade was 36% lower than the surplus achieved in 1985. As a result, despite the 8% decline in net payments of interest and profits, the current account of the balance of payments (which in the preceding two years had been virtually at equilibrium) showed a deficit of US\$4 billion. Since the net capital inflow amounted to US\$400 million, international reserves shrank by more than US\$3.5 billion.

At the time the authorities announced the launching of the stabilization plan, they believed they would be in a better position than before to manage the public deficit because they expected to obtain higher revenues as a result of the income tax increase which had been approved at the end of 1985, to have greater control over the loans made by the Banco do Brasil (which was no longer authorized to undertake the primary issue of currency), and to see a reduction in the service on the public domestic debt due to the projected drop in real interest rates. However, because of the public sector's financing requirements and the negative impact on the fiscal balance produced by various measures that were adopted during the year in order to maintain the price freeze, the public sector's operating deficit turned out to be far in excess of the level stipulated in the plan and was only a little lower than it had been the year before.

The difficulties encountered in generating enough resources to meet the public sector's financial obligations and to finance a sufficient level of investment in basic sectors to sustain an annual growth rate of 7% prompted the government to set up the National Development Fund in July. This Fund was financed by the so-called compulsory loans which were imposed on sales of automobiles, gasoline and alcohol fuels, which provided some 15.4 billion cruzados (equivalent to more than US\$1 billion) during the last five months of the year.

In an effort to reduce excess demand and increase tax revenues, in November the government substantially raised the tax on a number of non-essential manufactures (automobiles, alcoholic beverages, cigarettes) and decreed major increases in the fuel prices (except for diesel oil) and electricity.

These measures made it necessary to revise many of the prices which by law had remained frozen since February. Moreover, the increases in industrial costs stemming from wage readjustments and from the payment of higher prices for raw materials than those set by the government, as well as the legal restrictions placed on the transfer of these higher costs to prices, prompted manufacturers and merchants to limit the supply of a number of goods, thereby heightening the shortage of various products during the final months of the year. The expectation that the freeze would be lifted exacerbated this situation, which was alleviated only by the increase in interest rates. This, in turn, made it more expensive to maintain large stocks for purposes of speculation. These pressures were ultimately reflected in the price index, which, after increasing at an average monthly rate of 1% between march and October, rose by 3% in November and by over 7% in December.

The resurgence of inflation during the last two months of the year forced the government to establish new rules concerning the system of indexation, especially with respect to financial securities, and to resume the practice of making daily devaluations in the cruzado. Furthermore, as the official rate of inflation between February and December had reached a cumulative level of 22%, in January 1987 the remunerations of those workers whose collective wage negotiations had been conducted between February and May 1986 were readjusted by 20%.

2. Trends in economic activity

a) *Total supply and demand*

The achievement of an annual growth rate of over 8% for the second year in a row was accompanied, for the first time in the 1980s, by an increase in imports of goods and services and by another substantial rise in domestic investment. Indeed, while the volume of imports grew by 16%,

investment expanded by 19% owing to the dynamic growth of construction and to the efforts made to modernize industry. Consumption also expanded at a very high annual rate (11%). The volume of exports, on the other hand, plummeted by more than 17% due to the strong growth of domestic demand and the decline in agricultural production caused by extremely bad weather conditions (see table 2).

b) *The main production sectors*

The greater purchasing power of the population and the attendant increase in domestic consumption stimulated growth in all the sectors of economic activity (except agriculture), which thus achieved growth rates similar to those of 1985. The sectors of production were able to satisfy this increased demand as long as a certain level of idle installed capacity remained, as was the case particularly in industry and construction. The limited financing available for new public investments, however, prevented what might have been an even greater expansion in such basic services as electricity and water and in the production of some minerals, services and goods supplied by State enterprises (see table 3).

i) *Agriculture.* After three years of steadily mounting growth, agricultural production showed a decline of some 7% due to a persistent drought in the southern central region which more than cancelled out the excellent yields obtained in the north-east thanks to the expansion of the area under cultivation and the favourable weather conditions that prevailed in that zone.

The drought caused decreases in the production of peanuts (-36%), soya (-27%), beans (-13%) and maize (-7%). The coffee harvest was also hard hit as the average yield per hectare declined by about 41%. By contrast, the use of new irrigation techniques increased the rice harvest by 15% to a record high of 10.4 million tons, and a 26% expansion in wheat production raised it above the 5-million ton mark (see table 4).

The slump in beef production (-16%) and the drop in milk output (-4%) were largely responsible for the 3% decline in livestock production. Although the stabilization plan boosted the demand for these products, the livestock sector was not in a position to expand its supply at the prices which had been set at the end of February. Hence, producers kept their cattle in the fields in the hope of obtaining better prices. The result was that the demand for beef substitutes became stronger, thereby stimulating poultry and pork production, which increased by nearly 4% and 5%, respectively.

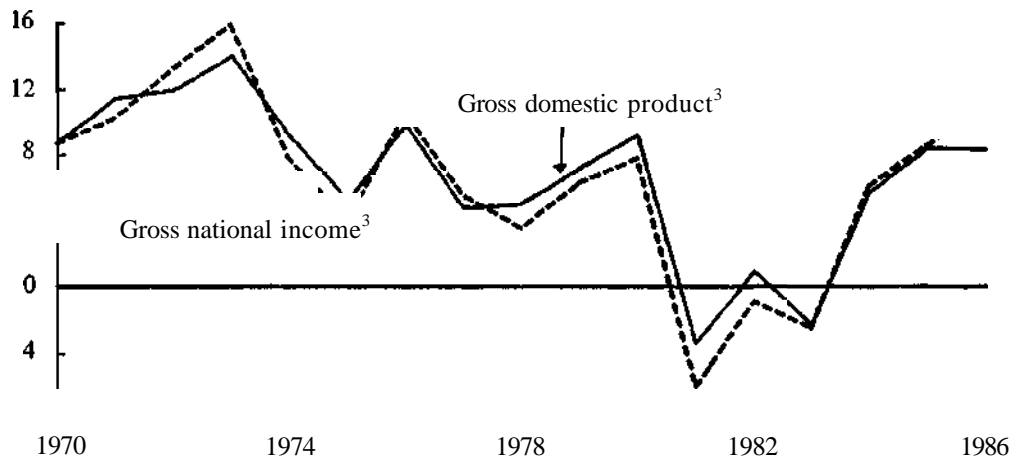
ii) *Mining.* The growth rate of this sector (4%) was substantially lower than the average rate (15%) recorded for the four preceding years due to the sharp decrease in the incorporation of new petroleum deposits. The addition of such deposits had made it possible to expand the extraction of crude oil by 27% in 1983, 40% in 1984 and 18% in 1985, whereas in 1986 output increased by only 5%. Production of the other major minerals was discouraged by the steady decline in their prices on the international market. Thus, coal production fell by 8% and the output of manganese by 16%. In contrast, iron ore extraction rose by 5% (see table 5).

iii) *Manufacturing.* Industrial production went up by 11%, a rate which had not been recorded since 1976. By bringing about sharp increases in both real wages and employment, the stabilization plan enhanced the role of domestic demand in promoting industrial growth.

The production of capital goods and consumer durables experienced particularly vigorous growth (over 20%). As regards specific products, the production of television sets increased by 43%, refrigerators by 16%, trucks by 29%, buses by 38% and tractors by 25%. Some consumer non-durables also saw substantial increases, such as beverages (23%) and toiletries and pharmaceuticals (22% each), as a result of the improvement in the population's purchasing power (see tables 6, 7 and 8).

The manufacturing industry might well have expanded even more, had it not been for the depletion of the idle capacity of the final goods industry and the bottlenecks which arose in the industrial inputs sector. For example, because the annual production of steel ingots increased by only 4%, the volume of exports had to be reduced by 13% in order to meet the needs of the domestic markets. In addition, since the shortfall in domestic supply was not quickly and adequately covered by imports, it became difficult to maintain the prices of end products. Because of these cost pressures and the expectation that the restrictions on domestic prices would be removed, during the last quarter of the year industrial enterprises began to cut back on the supply of the products they sold at the official price or to sell them at higher prices.

Figure 1
 BRAZIL: MAIN ECONOMIC INDICATORS



Urban unemployment³

531

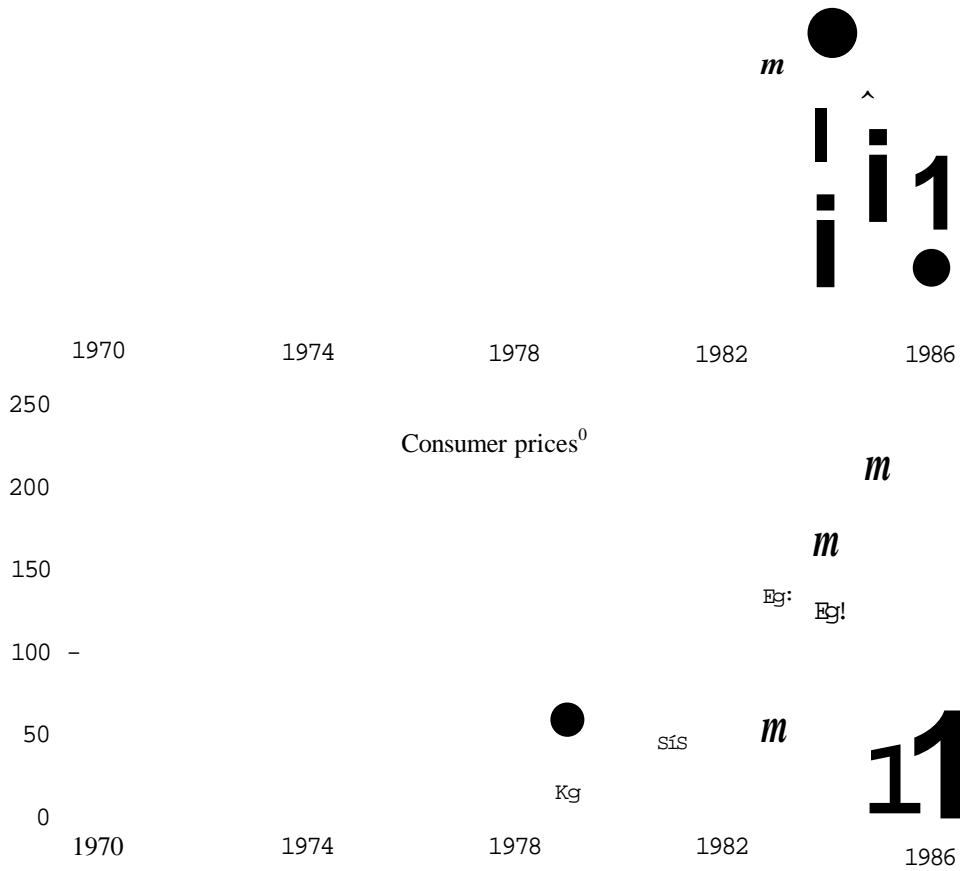
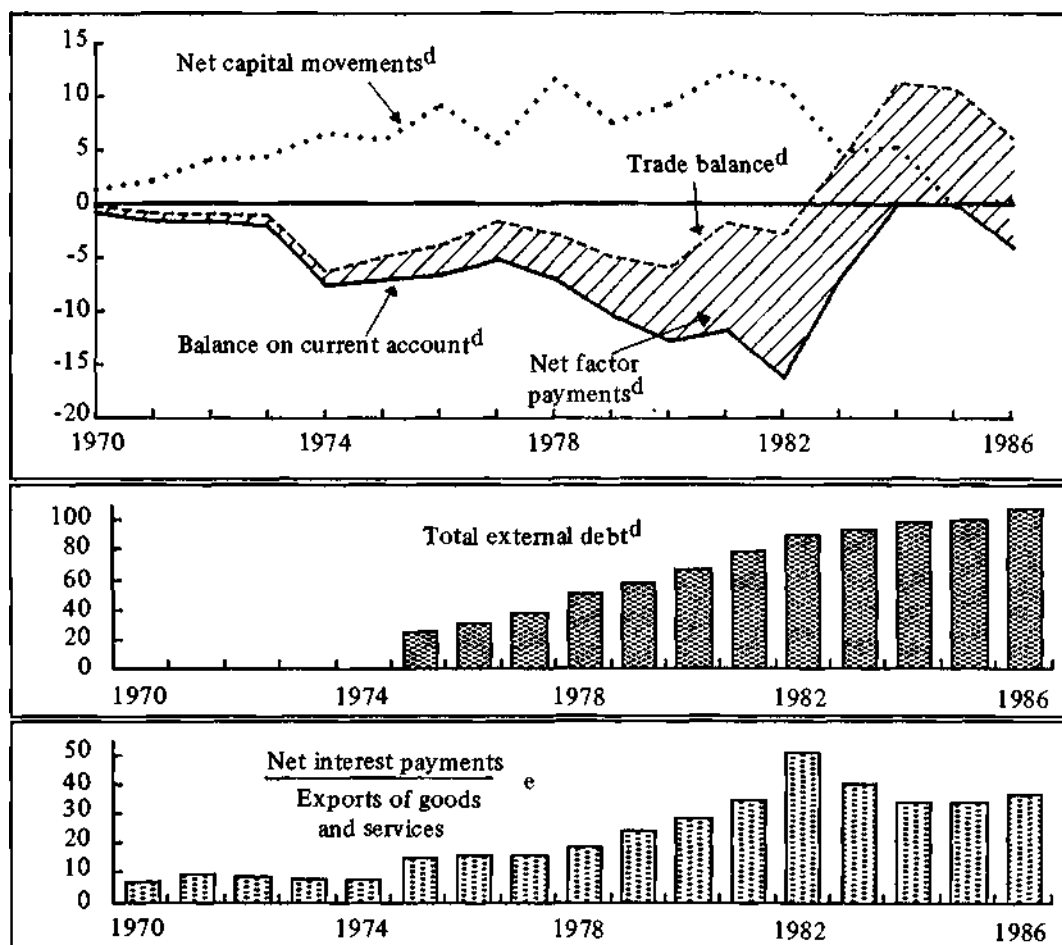


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^{*}> Average annual rate in the metropolitan areas of Rio de Janeiro, SSo Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. ^cThe December-December percentage variation corresponds to the consumer price index for Rio de Janeiro up to 1979 and to the index for the whole country from 1980 onwards. ^dBillions of dollars. ^ePercentages.

c) *Employment and unemployment*

Urban unemployment fell to an average of 4% in 1986, the lowest level thus far in the decade. Indeed, almost one million new jobs were created during the year, thus increasing employment in the formal sector by 5.5% (see table 9).

The faster rate of economic growth pushed up the demand for labour. Processing industries took the lead by expanding their hiring by 9%, while employment in construction and in commerce rose by 8% and 7%, respectively.

The steady decline in unemployment spread to all the main urban centres in the course of the year. Thus, the average unemployment rate in the six largest cities in the country fell to 2.2% in December and was even lower in Sao Paulo (1.8%), which suggests that these cities had succeeded in providing full employment for the economically active population (see table 10).

The improvement in the employment situation was also demonstrated by the fact that few claims were made for the unemployment insurance established under the Plan Cruzado, which provided benefits for up to four months to people who had been without work for more than 30 days.

During this period, unemployed persons were to receive between 70% and 150% of the minimum wage, depending on their previous wage level, provided that they had paid in to the social security system during at least 36 months out of the preceding four years and had been employed during the last six months.

3. The external sector

a) *General trends*

The international climate was conducive to an improvement in the country's external accounts, and thus provided the Plan Cruzado with sufficient leeway to focus on eliminating domestic imbalances. The price of imported petroleum plummeted by 43%, international interest rates declined (the LIBOR rate dropped from 8.2% to 6%), and the value of the dollar fell against the major European currencies and the yen. The first two factors resulted in a substantial savings in foreign exchange disbursements, while the latter enhanced the competitiveness of Brazilian exports *vis-a-vis* products from the European Community and Japan. Although the lower rate of economic growth in the industrialized countries, the difficulties encountered in trade negotiations with the United States and the feeble recovery of the markets of the less industrialized regions had an adverse impact, on balance, the positive factors far outweighed the negative ones.

However, as the year unfolded this favourable external situation was more than offset by the pressure of domestic factors. Consequently, the balance on current account closed with a deficit of US\$4 billion (whereas in 1985 it had registered only a very small negative balance) notwithstanding the fact that in February the experts had been predicting a surplus of US\$500 million. As capital movements yielded a net inflow of US\$400 million, the balance-of-payments deficit turned out to be a little over US\$3.6 billion.

The freeze that was placed on the exchange rate until October in an attempt to bring the inflationary expectations of economic agents into line with the demands of the stabilization plan, resulted in a progressive overvaluation of the cruzado which eroded the competitiveness of exports and stimulated imports (see table 11). Real wage increases also diminished the profitability of external sales. Furthermore, the strong growth of domestic demand, which was boosted by both private consumption and public expenditures, gave rise to two main processes, each of which had a negative impact on the country's foreign trade. The first was the reduction of the amount of manufactures and especially of agricultural products which was left over for export (a situation that was compounded by the fact that the supply of the latter had already declined because of a drop in agricultural production). The second was the increase in imports. Indeed, in order to meet the greater demand while maintaining the level of prices, the government authorized a significant increase in external purchases, especially of foodstuffs and other consumer products. Another contributing factor was the expansion of output, since this heightened the demand for imports of capital goods and intermediate inputs.

b) *External trade*

The total value of exports of goods fell by almost 13%, i.e., by about US\$3.2 billion. This decline was concentrated in the last four months of the year. As a matter of fact, during the first four months exports climbed by more than 10% compared with the same period in 1985, with most of this increase being accounted for by sales of manufactures. However, between May and August external sales reverted to their 1985 levels, and from September onwards they fell so sharply that by December they were equivalent to just one-half of the total recorded for that month in 1985.

The drop in exports was the result of the build-up of various types of pressures for which the implementation of the stabilization plan was chiefly responsible. In addition, beginning in October the growing expectation of a substantial change in the exchange rate led many exporters to postpone their shipments.

The decline in the value of exports was wholly attributable to the sharp drop in their volume (-17%), which was too great to be offset by the rise of almost 6% in their unit value (see table 12). The contraction in the volume of exports was also very widespread: 8% in commodities, 17% in

manufactured goods and even more in the chief agricultural export products (66% in soya beans, 43% in coffee beans and 24% in soya meal).

Nevertheless, the international prices of some products did decline appreciably, with the most striking decreases being in orange juice (-43%), petroleum products (-27%), tin (-43%), soya oil (-49%) and cotton (-48%).

The value of sales of manufactures—which generated two-thirds of export earnings—fell by nearly 12%. The decreases of 7% in exports of transport equipment, 17% in iron and steel manufactures and 9% in machinery, boilers and mechanical apparatus demonstrate the magnitude of the effects of the pressure exerted by domestic demand (see table 13). On the other hand, exports of television sets and radios increased markedly (77%)—bringing their value to over US\$390 million—and aircraft exports expanded by 58%, thereby topping the US\$220 million mark.

Commodity exports, however, fell even more sharply (-14%) as a result of the steep drop in the value of coffee, sugar and soya sales.

In contrast, purchases of goods from abroad increased by 7%, and their total value thus amounted to somewhat more than US\$14 billion. Nevertheless, this overall increase fails to illustrate the major changes which occurred in the trends of the main types of imports. On account of the sharp drop in international oil prices, fuel purchases, which in 1985 had represented over 40% of the total value of imports, dropped to just half that figure. The substantial savings of foreign exchange (US\$2.7 billion) that this entailed was used for capital goods purchases, which rose by 40%, and especially for purchases of foodstuffs, which more than trebled (see table 14). Imports of consumer goods, for their part, were used as a means of maintaining the stability of domestic prices, as is demonstrated by the fact that special imports of powdered milk, beef, rice, maize and a number of processed food products—for a total of over US\$1 billion—accounted for much of the 228% increase observed in external purchases of consumer goods.

In the sphere of trade policy, the Presidents of Brazil and Argentina signed several agreements in June with a view to promoting a greater degree of economic integration between the two countries; under these agreements, emphasis was to be placed initially on developing the capital goods sector and agriculture, especially wheat production. In another step, the Brazilian government decided to include the bulk of Uruguay's exportable supply in its co-operation programme with that country. This signified a substantial reduction in the tariffs on Uruguayan products.

c) *The balance of payments*

In 1986 the balance of payments showed a deficit seven times greater than that of the preceding year, and this led to a sharp decline in net international reserves (see tables 15 and 16).

This was due entirely to the fact that, as shown in figure 2 during the last quarter of the year the country's usually large trade surplus gave way to a deficit. On the other hand, the decline in international interest rates lowered Brazil's interest payments on its external debt by a little more than US\$1 billion. However, this decrease was partially counteracted by a reduction of US\$540 million (almost 40%) in the interest received.

The capital account recorded a net inflow of just US\$400 million. These additional resources were provided by multilateral agencies, whose disbursements increased by 60%, producing a net inflow of around US\$1.3 billion under that heading. By contrast, the prevailing uncertainty as to the course of the exchange rate, the profitability of operations in the country and the future legal treatment of the repatriation of profits was reflected in a large outflow of foreign investment in net terms for the first time in the last 20 years.

d) *The external debt*

Brazil's total external debt rose 6% to nearly US\$ 110 billion by the end of the year. Rather than being the result of greater direct borrowing, this increase was chiefly due to the decline of the United States dollar against the other hard currencies.¹ At the same time, since the value of exports of goods and services fell, both the debt/exports ratio and the debt servicing coefficient rose substantially, reaching their highest levels in the past five years (see tables 17 and 18).

¹Approximately 25% of Brazil's external debt is denominated in currencies other than the United States dollar.

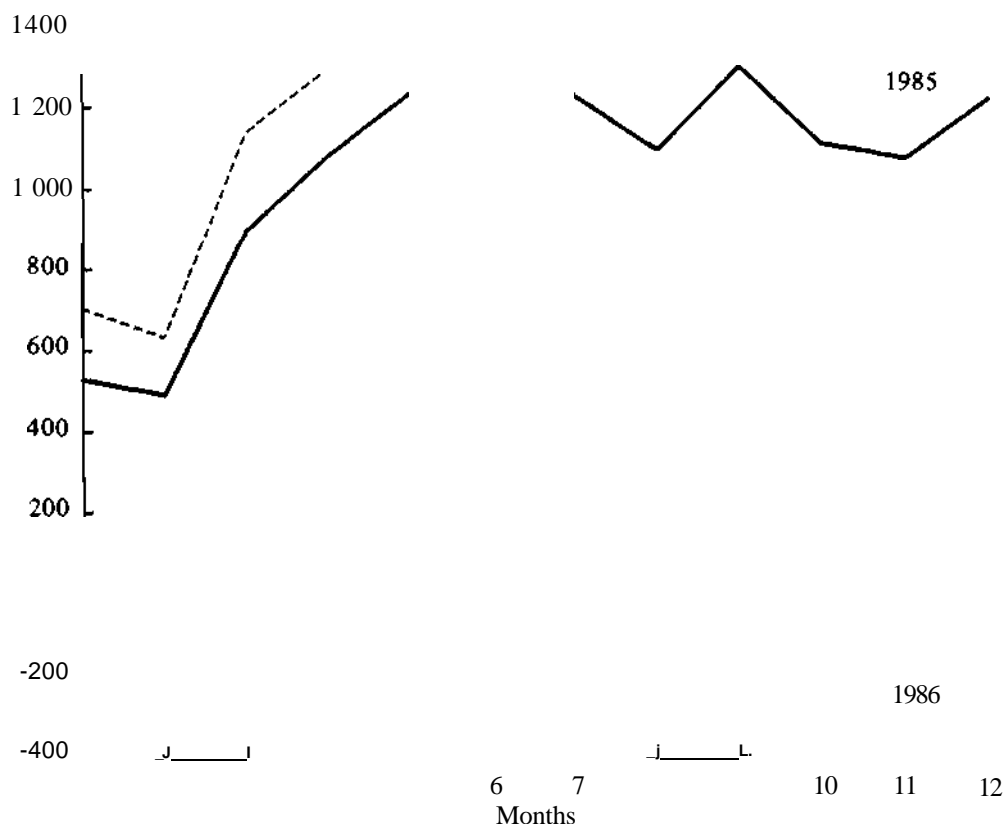
Negotiations with private international banks culminated in March with the roll-over of the US\$6.1 billion in amortization payments corresponding to 1985, which were rescheduled over a seven-year term with a five-year grace period, and of those for 1986 (US\$9.5 billion), which were restructured in the same manner. In both cases the spread over LIBOR was lowered to 1.125. It was also agreed that the lines of short-term credit would remain open up to 1987 (US\$10 billion for trade operations and US\$5.4 billion for inter-bank deposits in agencies of Brazilian banks abroad).

Negotiations with government agencies through the Paris Club did not fare well in 1986. The refusal of the Brazilian government to sign an agreement with the International Monetary Fund was one of the key points of disagreement with the country's governmental creditors which stood in the way of the renegotiation of this debt. Thus, Brazil's cumulative arrears of principal and interest with the member countries of the Paris Club rose to some US\$3.3 billion.

4. Prices and wages

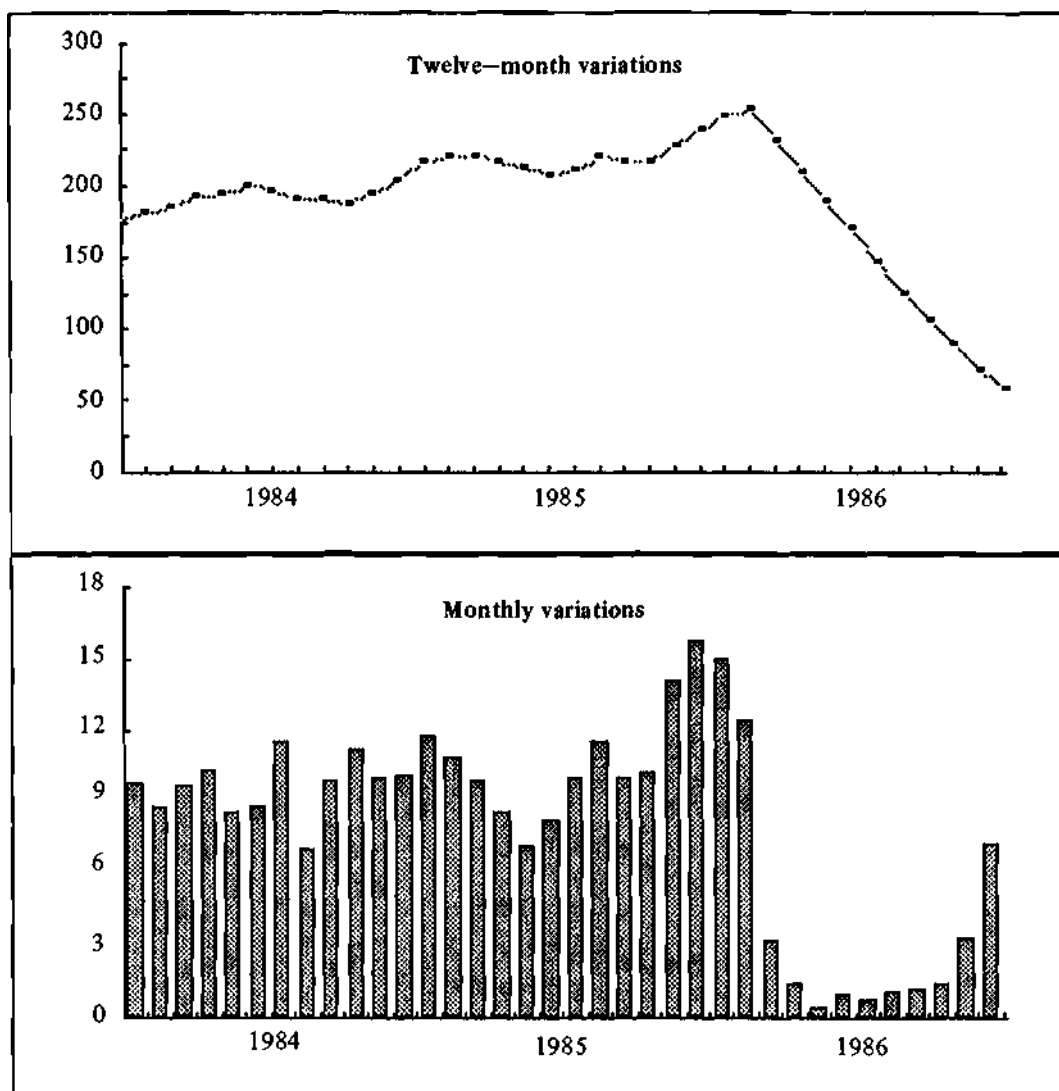
The Plan Cruzado formed the centre piece of the country's economic policy in 1986. This plan, whose objective was to bring inflation quickly to a halt without causing a recession, was founded on the assumption that Brazilian inflation was primarily inertial in nature. Thus, the plan was based on the idea that the continuous rise in prices was attributable to deeply-entrenched inflationary expectations

Figure 2
BRAZIL: MONTHLY TRADE BALANCE
(Millions of dollars)



Source: ECLAC, on the basis of data from the Carteira do Comercio Exterior (CACEX).

Figure 3
 BRAZIL: CONSUMER PRICE INDEX
 (Percentages)



Source: ECLAC, on the basis of official data.

and to the wide-ranging indexation system rather than to excess demand. Another concept embodied in the plan was that the operating deficit (which does not include increases in nominal interest payments caused by inflation) had been relatively low the previous year and would be eliminated by the tax reform approved in late 1985. On the strength of these assumptions the stabilization programme focused on managing the expectations of economic agents and on dismantling indexation mechanisms.

The plan, which was introduced in February, succeeded in lowering the variation in the consumer price index from the rates of over 10% observed during the preceding months to levels of around 1% up until October. It also brought about a considerable increase in real wages. These results were short-lived, however, because the rise in demand which gave such a sharp boost to the levels of production, employment and wages also, during the last quarter, led to a resurgence of inflation and a decline in the purchasing power of workers (see figure 3).

a) *Prices*

Under the Plan Cruzado the government placed price controls on virtually all merchandise. To this end, regional tables were drawn up which fixed maximum retail prices. In respect of those products not included in the tables, the controls sought to keep prices at the levels that were in effect as of 28 February. The prices of some products such as clothing, were not affected by the freeze, however, because of the impossibility of comparing the value of individual items.

When the freeze was extended, difficulties arose in regard to the supply of a number of products whose prices had been frozen before the readjustments programmed for the beginning of March, as this eroded their profitability. The subsequent supply problems first surfaced in connection with dairy products. In response to this situation, the government granted a 30% subsidy to producers of these items and imported additional supplies of powdered milk. These measures made it possible to hold prices steady for a time, although at the cost of increasing the fiscal deficit. In July, beef began to become scarce and this, in turn, resulted in a shortage of beef substitutes such as eggs and chicken.

The maintenance of the freeze in respect of manufactured goods was hampered by the practice of introducing minor changes into such goods so that they might be presented as new products, at higher prices. In addition, due to the great demand for certain goods, illegal surcharges became widespread.

These practices made it more difficult to determine the actual level of inflation. The stabilization plan provided for the creation of a new consumer price index using the prices effective as of 28 February as the basis for the corresponding calculations. This index incorporated the weightings of the extended national consumer price index (IPCA) but changed the period of reference from that extending from the fifteenth day of one month to the fifteenth of the next to a period running from the first to the last day of each calendar month.

The difficulty of measuring the inflation rate accurately increased in July, when the government decided to exclude the effect of "compulsory loans" from the index on the grounds that these resources would be repaid within three years to the persons affected, i.e., purchasers of automobiles, gasoline and alcohol fuels. If the effect of the loans had been taken into account in calculating the index, the variations in prices would have amounted to 1.7% in July and 3.6% in August, instead of 1.2% and 1.7%, which were the official figures. In addition, in order to prevent the tax increases decreed in November in respect of certain non-essential products from being transferred to the rest of the economy through the automatic indexation of wages, the government proposed that a new and more restricted index should be created which excluded such goods. The trade unions rejected this proposal, however, and the government therefore resumed its use of the weightings of the restricted national consumer price index (INPC) as the official inflation indicator. As a result, the official price variation in November was 3.3%, whereas that shown by the IPCA was 5.5%.

In November, increases in the prices of cigarettes (between 50% and 120%), alcoholic beverages (100%), automobiles (80%), gasoline and alcohol (60%), sugar (25%), and in postal (80%), telephone (35%) and electricity (10% for the industrial sector) rates made it imperative to hasten the review of the other prices which had been frozen since February. The government drew up new price tables, but product shortages then forced it to authorize additional increases. As a result, the official inflation index in December (7%) more than doubled that of the preceding month.

Thus, as shown in table 20, even though inflation was much lower in 1986 than during the five preceding years, towards the end of the year inflationary pressures were very strong.

b) *Wages*

The increases in production and in the level of employment as well as the abrupt drop in inflation observed during the first half of the year paved the way for substantial rises in real wages. One of the original features of the Plan Cruzado was that nominal wages were set according to their average real level during the preceding six months. The cumulative variation in the extended consumer price index (IPCA) for the six-month period from September to February was used in calculating this level, to which a premium of 8% was then added. In the case of the minimum wage, the additional adjustment was 15%. Thus, unlike other recent stabilization programmes, the Plan Cruzado did not freeze remunerations or change the annual dates of wage negotiations for the various categories; in addition, it instituted an automatic readjustment system that was to be implemented whenever the cumulative level of inflation reached 20%.

The object of these measures was to safeguard the purchasing power of wages and maintain a suitable level of demand in order to ward off a recession. As it turned out, these mechanisms made it possible for workers to secure further increases through their annual wage negotiations, thanks to the increase in production and the growing shortage of labour. Consequently, although there were significant differences in wage trends from one region to another, on the whole real wages rose sharply: between 8% in Rio de Janeiro and 26% in Sao Paulo (see table 21). As a result of these increases and of the considerable expansion in employment, wage earners' share in national income climbed.

5. Monetary and fiscal policies

The introduction of the fiscal and monetary policy reforms which made the implementation of the stabilization plan possible began in late 1985 with the amendment of legal provisions concerning the income tax. In January 1986, the Banco do Brasil ceased to perform the central banking functions which it had carried out until that time.

a) *Monetary policy*

The country's monetary policy underwent major changes during the course of the year. In January, the government approved the institutional reform of the monetary system, and eliminated the account providing for movements between the Central Bank and the Banco do Brasil through which the latter had obtained resources from the Central Bank to cover various operations, especially those relating to the National Treasury and to certain special programmes. Consequently, from February onwards the federal government's operations with the Banco do Brasil were to be carried out using resources supplied by the National Treasury for that purpose, while the Banco do Brasil was to draw upon its own reserves for its normal operations. By this means the government expected to be able to exercise greater control over monetary expansion.

With the stabilization of price levels, the demand for money shot up. Until that time, high inflation rates had generated such a heavy demand for indexed financial assets that by late 1985 monetary assets (paper money and demand deposits) did not account for even 12% of the total. When the rate of inflation plummeted, however, the tendency was to hold money, thereby producing a "monetization" of the economy. In March alone, the means of payment expanded by 80%, and between February and June this variable soared by almost 190% (see table 23). This growth in the money supply was made possible by the purchase of government securities held by the public, with the result that the annual growth rate in real terms of the federal public debt was brought down from 42% in March to -1.2% in July.

Under the stabilization plan, the indexation mechanisms applying to securities and financial operations having terms of less than one year were eliminated. The plan also proposed the introduction of fluctuating interest rates and of a scheme whereby capital gains would be taxed in inverse proportion to the loan periods involved. However, the prevailing uncertainty as to the results of the plan was not conducive to the creation of such mechanisms. Indeed, the imposition of taxes on financial assets and their low nominal yields prompted a massive withdrawal of funds, especially from passbook savings accounts.

With a view to facilitating its management of monetary policy, in June the government created negotiable Central Bank drafts (LBCs) having the same yield as overnight loans. The Central Bank was thus able to offer a short-term instrument (up to 90 days) which provided a rate of return that was nearly equivalent to the variation in price levels.

During the second half of the year, the Central Bank reverted to a more conservative policy as regards the expansion of the money supply and reduced its purchase of securities. Its adoption of this position was in response to the public sector's financial needs, which were again exerting pressure in respect of the issue of money. At the same time, in an attempt to control domestic demand, the Central Bank gradually raised the interest rate applying to securities markets.

Partly for the purpose of mitigating the impact of this measure, the authorities introduced changes designed to reduce the taxes on private financial securities, on which the sale of LBCs had had a detrimental effect. On another step, when inflation worsened it was decided that the monthly yield on LBCs would be used as the deflator in calculating the real yields of taxable financial operations.

In November, the system for financing housing construction was modified. The National Housing Bank ceased to function, and its regulatory duties were assumed by the Central Bank while the financing operations it had carried out were transferred to the Federal Economic Fund. This reform gave the Central Bank greater control over financial institutions having links with the construction sector. In addition, the transfer of resources from compulsory deposits on passbook savings accounts to the Central Bank eased the pressure being exerted by the public sector for an expansion of the monetary base.

The Central Bank's policy became stricter in December when inflation picked up. In order to prevent the build-up of stocks for speculative purposes, the Central Bank began to reduce the private sector's level of liquidity through the sale of public securities, which it had not done since February; as a result, the monthly interest rate on loans rose to 9% (see table 26).

b) *Fiscal policy*

The fiscal reform introduced in December 1985 was aimed at balancing public accounts in order to permit the implementation of the stabilization plan. The chief reforms consisted of making personal income taxes more progressive, especially in regard to the tax brackets corresponding to incomes in excess of 40 minimum wages, and the levying of new taxes on capital gains from financial operations. In addition, a National Treasury Department was created in January with a view to permitting the exercise of greater control over public administrative expenditures.

These measures, in combination with the sharp decline in interest payments on the public debt, seemed to herald a substantial decline in the public sector deficit. However, in actual fact the expenditures of this sector increased more than its income (74% and 24%, respectively, in real terms).

The expansion of economic activity increased the government's tax receipts, especially from indirect taxes, such as those levied on manufactured goods and imports, whose yields rose by 292% and 237% in nominal terms. The relative share of total receipts provided by the tax on financial operations also increased, with the amount collected from this source soaring by 226%. Income tax receipts went up by only 171%, however, owing to the changes made in the way the tax was applied (see table 27).

The revenues of the various state governments also expanded, particularly as a result of the increase in receipts from the sales tax (213%)-The tax reform introduced in late 1985 gave the states and municipalities a greater share of the revenues from income taxes and from taxes on transactions involving manufactured goods, and this resulted in a real increase of 39% in transfers by the federal government.

The rise in federal tax revenues was not large enough, however, to cover its expenditures. The main source of pressure on treasury outlays was the transfer of resources made to the Central Bank, with the percentage of total revenues represented by such transfers climbing from 6% to 23%. In turn, the main reason for this increase was the fact that the federal government failed to implement the administrative reforms it had announced it would undertake in the public sector and, consequently, the level of its current expenditure remained the same.

State enterprises also encountered difficulties in financing their operations. As the economic authorities had not readjusted the rates charged by these enterprises before the freeze was announced, they were obliged to operate on the basis of rates which, in real terms, were lower than those charged in 1985. On account of this, even though the volume of these companies' operations expanded as a result of the upturn in economic activity, their earnings failed to cover their costs, which rose substantially owing to the increase in real wages and the external debt burden they had to shoulder. This shortfall had to be financed with loans from the Central Bank and through a substantial expansion of the debt owed by these enterprises to institutions within the local financial system (see table 28).

In order to create additional sources of funds so that these imbalances might be eliminated, in July, the government established the National Development Fund using the revenue obtained from so-called "compulsory loans" on sales of gasoline, alcohol fuel and automobiles (both new and used), from the levying of a 25% tax on international ticket sales and on the purchase of dollars for tourism purposes, and from the transfer of 66% of the mandatory reserves maintained by private social security institutions to the Treasury.

The maintenance of the freeze on prices and rates over a long period heightened the inflationary pressures stemming from the more rapid pace of economic growth. Instead of controlling demand and beginning to decontrol prices, the government chose to raise the tax rates applying to certain industrialized goods such as alcoholic beverages, cigarettes and automobiles by as much as 240%. To this same end, electricity and postal rates as well as fuel prices were also readjusted.

The public sector's total operating deficit was equivalent to 3-7 % of the gross domestic product, which was less than it had been the year before (4.3%), but one percentage point higher than it had been in 1984.

Table 1

BRAZIL: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes: 1980 = 100							
Basic economic indicators							
Gross domestic product at market prices	100.0	96.6	97.4	95.1	100.5	108.8	117.7
Gross national income	100.0	94.0	93.1	90.7	96.2	104.3	115.5
Population (millions of inhabitants)	121.3	124.1	126.9	129.8	132.7	135.6	138.5
Per capita gross domestic product	100.0	94.5	93.2	88.9	91.9	97.4	103.1
Growth rates							
Short-run economic indicators							
Gross domestic product	8.0	-3.4	0.9	-2.4	5.7	8.3	8.2
Per capita gross domestic product	6.8	-5.5	-1.3	-4.5	3.4	6.0	5.9
Gross national income	7.8	-6.0	-0.9	-2.5	6.1	8.5	10.7
Terms of trade (goods and services)	-16.5	-13.5	-7.0	-4.8	7.5	-3.1	15.4
Current value of exports of goods and services	30.8	16.8	-13.9	7.5	22.5	-4.2	-12.4
Current value of imports of goods and services	27.9	-2.1	-9.0	-21.1	-10.0	-3.8	6.6
Consumer prices^c							
December to December	99.2	95.6	104.8	164.0	215.3	242.2	75.5
Variation between annual averages		101.7	100.5	135.0	192.1	226.0	144.4
General price index, domestic availability							
December to December	110.2	95.2	99.7	211.0	223.6	235.1	65.0
Variation between annual averages	100.2	109.9	95.4	154.5	220.6	225.5	142.3
Money	70.2	74.7	69.7	92.0	203.5	307.6	303.8
Wages*	92.5	117.1	114.3	117.2	195.1	248.1	184.0
Urban unemployment rate	6.3	7.9	6.3	6.7	7.1	5.3	3.9
Current income of government	139.2	85.4	104.2	145.5	198.1	298.0	193.0
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-5 935	-1 677	-2 795	4 079	11 345	10 784	6 243
Net payment of profits and interest	7 041	10 274	13 509	11 025	11 473	11 212	10 357
Balance on current account	12 848	-11 760	-16 314	-6 842	33	-289	-4 037
Balance on capital account	9 379	12 381	11 119	4 943	5 342	-222	408
Variation in international reserves	-3 322	747	-4 157	-1 214	6 102	-926	-3 515
Total external debt		71 878	83 205	91 362	99 765	103 142	109 379

Source: ECLAC, on the basis of official data.

^aPreliminary figures. Gross domestic product plus the effect of the terms of trade for goods and services.

^bExtended National Consumer Price Index. Data revised on the basis of the information gathered during the latest surveys round.

This price index is a weighted average of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%) and the index of construction costs (10%).

*Average nominal wage in industry. 1986: average nominal wage in industry in São Paulo.

^cWeighted average of the unemployment rates in the main metropolitan regions.

Table 2

BRAZIL: TOTAL SUPPLY AND DEMAND

	Indexes 1980 =: 100			Percentage breakdown		Growth rates			
	1984	1985	1986 ^a	1980	1986 ^a	1983	1984	1985	1986 ^a
Total supply	96.4	103.8	112.8	111.6	106.9	-3.8	4.8	7.6	8.7
Gross domestic product at market prices	100.5	108.8	117.7	100.0	100.0	-2.4	5.7	8.3	8.2
Imports of goods and services	61.4	60.5	70.4	11.6	6.9	-18.5	-6.0	-1.4	16.2
Total demand	96.4	103.8	112.8	111.6	106.9	-3.8	4.8	7.6	8.7
Domestic demand	91.1	99.0	111.2	102.5	96.8	-6.0	2.9	8.6	12.3
Gross domestic investment	*	^b	^b	22.4	^b	-23.3	^b	*	^b
Gross fixed investment	70.9	79.1	94.2	22.0	17.6	-17.0	4.1	11.7	19.0
Construction	82.6	91.9	107.7	13.6	12.4	-15.0	1.3	11.3	17.1
Machinery	52.0	58.6	72.6	8.4	5.2	-22.2	11.9	12.7	23.9
Changes in stocks				0.4	^b				
Total consumption	97.2 ^c	104.9 ^c	116.4 ^c	80.0	79.2 ^c	-2.0	0.9 ^c	8.0 ^c	11.0 ^c
Exports of goods and services	156.1	158.1	130.9	9.1	10.1	16.6	19.0	1.3	-17.2

Source: ECLAC, on the basis of figures supplied by the National Accounts Division of the Brazilian Geographical and Statistical Institute (IBGE), the Central Bank of Brazil and the Getulio Vargas Foundation.

^aPreliminary figures. Changes in stocks are included in private consumption. ^bIncludes changes in stocks. The figures on exports and imports of goods and services were obtained from balance-of-payments data in current dollars, converted to constant 1980 values by means of price indexes calculated by ECLAC for the purpose.

Table 3

BRAZIL: GROSS DOMESTIC PRODUCT BY KIND
OF ECONOMY ACTIVITY

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986"
Gross domestic product	100.5	108.8	117.7	100.0	100.0	-2.4	5.7	8.3	8.2
Goods	92.9	101.1	108.3	48.9	45.0	-5.1	5.4	8.8	7.1
Agriculture	109.3	118.9	110.2	10.3	9.7	1.7	3.2	8.8	-7.3
Mining	156.6	174.6	181.1	0.6	0.9	15.4	30.0	11.5	3.7
Manufacturing	88.9	96.2	107.1	31.4	28.5	-6.2	6.2	8.2	11.3
Construction	80.3	89.4	105.2	6.6	5.9	-14.1	2.6	11.3	17.7
Basic services	119.3	129.7	138.0	6.5	7.7	2.8	7.9	8.7	6.5
Electricity, gas and water	132.9	146.5	158.7	1.8	2.5	7.8	12.2	10.2	8.3
Transport, storage and communications	114.0	123.1	130.0	4.7	5.2	0.8	6.1	8.0	5.6
Other services									
Commerce, restaurants and hotels	94.1	102.3	112.4	17.9	17.1	-5.0	6.4	8.7	9.9
Financial institutions, insurance, real estate, and business services	126.4	139.0	149.8		11.6	5.6	7.7	10.0	7.2
Ownership of dwellings									
Community, social and personal services									
Government services	110.0	112.6	115.3		12.0	2.4	2.4	2.4	2.4
Adjustment for banking services									

Source: ECLAC, on the basis of figures supplied by the National Accounts Division of IBGE.
°Preliminary figures.

Table 4

BRAZIL: INDICATORS OF AGRICULTURAL PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986°
Index of the agricultural product (1980 = 100)	105.9	109.3	118.9	110.2	1.7	3.2	8.8	-7.3
Production of main crops (thousands of tons)								
Export crops								
Coffee beans	3 331	2 679	3 753	2 007	79.7	-18.8	40.1	-46.5
Soya	14 582	15 536	18 278	13 335	13.6	6.5	17.7	-27.0
Oranges	58 661	64 613	70 996	66 607	1.2	14.0	9.9	-6.2
Sugar cane	216 534	222 716	245 904	249 277	16.2	11.5	10.4	1.1
Cocoa	380	345	419	459	4.6	-8.9	21.5	9.4
Tobacco	395	415	411	386	-6.2	5.1	-1.0	-6.1
Cotton	1 599	2 158	2 836	2 198	-17.1	35.1	31.4	-17.1
Peanuts	284	247	339	216	-10.4	-13.7	37.3	-36.3
Castor beans	172	225	416	263	-10.8	30.8	84.9	-36.8
Crops for domestic consumption								
Rice	7 741	9 022	9 019	10 399	-20.3	16.6	-	15.3
Beans	1 587	2 614	2 547	2 221	-45.4	65.2	-2.6	-12.8
Maize	18 744	21 174	22 017	20 510	-14.4	13.0	4.0	-6.9
Cassava	21 568	21 289	23 073	25 542	-10.2	-1.4	8.4	10.5
Potatoes	1 818	2 172	1 989	1 834	-15.3	21.6	-8.4	-7.8
Tomatoes	1 552	1 820	1 932	1 838	-10.7	15.4	6.2	-4.8
Wheat	2 236	1 956	4 247	5 433	20.9	-18.2	117.1	25.7
Selected livestock production (thousands of tons)								
Beef	2 441	2 096	2 165	1 870	2.0	-10.3	3.3	-15.8
Pork	654	559	573	599	5.1	-12.2	2.5	4.6
Poultry meat	1 216	1 372	1 150	1 193	4.1	-7.7	-16.2	3.7
Milk	10 729	8 010	7 865	7 584	3.5	-25.3	-3.6	-3.7

Source: Brazilian Geographical and Statistical Institute (IBGE), *Levantamento sistemático da produção agrícola*.

"Preliminary figures. Millions of units.

Table 5

BRAZIL: INDICATORS OF MINING PRODUCTION

	1983	1984	1985	1986 ["]	Growth rates			
					1983	1984	1985	1986 ^a
Index of mining production (1980 = 100)	120.5	156.6	174.6	181.1	15.4	30.0	11.5	3.7
Production of some important minerals (thousands of tons)								
Oil*	19.1	26.8	31.7	33.2	26.9	40.2	18.3	4.7
Natural gas ^c	4.0	4.9	5.5	5.7	32.5	22.2	12.2	3.6
Coal	21.4	22.8	24.6	22.7	11.7	6.5	7.7	-7.7
Iron ore	89.2	1130	123.0	129.2	-5.0	26.7	8.8	5.0
Nickel	10.7	12.7	13.2	13.5	36.3	18.7	3.9	2.3

Source: Brazilian Geographical and Statistical Institute (IBGE), National Petroleum Council, National Department of Mineral Production, Central Bank of Brazil and Non-Ferrous Metals and Iron and Steel Council (CONSIDER).
["]Preliminary figures. ^cThousands of cubic metres. ^aMillions of cubic metres.

Table 6

BRAZIL: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes ^a : 1981 = 100				Growth rates			
	1983	1984	1985	1986	1983	1984	1985	1986
Manufacturing production ^b	94.4	101.2	116.1	120.3	-5.4	7.0	8.5	10.9
Categories of goods								
Capital goods	68.7	92.6	128.8	136.6	-19.3	14.7	12.3	21.6
Intermediate goods	70.7	107.0	118.2	116.2	-3.0	10.3	7.2	8.4
Consumer durables	107.1	91.8	106.5	138.5	-0.8	-7.5	15.1	20.3
Consumer non-durables	97.4	97.2	110.0	117.5	-4.6	1.9	7.9	8.9
Industry								
Foodstuffs	104.3	102.2	99.3	100.3	3.0	-0.8	0.1	0.2
Beverages	92.5	94.3	110.3	136.8	-5.1	-0.6	11.0	23.2
Tobacco	102.5	101.4	114.1	118.7	-1.8	3.3	10.5	7.4
Textiles	94.1	86.3	109.5	128.9	-10.5	-3.6	13.6	13.5
Clothings	91.2	90.2	109.5	114.4	-11.5	1.9	7.5	6.4
Paper and paperboard	109.0	108.6	113.6	117.6	1.7	6.8	6.4	10.5
Petroleum products	98.6	103.6	107.6	106.6	-3.6	7.5	0.1	6.5
Other chemicals	106.8	106.5	121.6	109.1	-3.4	10.3	10.2	-1.0
Pharmaceuticals	93.0	100.5	114.5	128.7	-7.6	8.8	5.2	22.3
Perfumery, soaps and candles	104.8	100.2	111.6	137.6	1.3	-1.1	12.8	22.0
Rubber	94.6	109.8	117.8	123.5	0.8	8.9	8.2	14.1
Plastic articles	97.1	93.6	115.5	135.5	-9.8	3.8	11.3	21.7
Non-metallic minerals	81.2	83.3	107.3	127.1	-16.5	-0.2	7.5	18.2
Metallurgy	93.9	111.1	121.8	119.6	-2.4	13.6	7.0	11.8
Machinery	71.8	103.2	130.6	134.0	-13.0	18.6	10.1	21.7
Electrical equipment	91.5	91.7	122.5	145.8	-10.7	2.7	19.3	22.2
Transport equipment	90.5	97.5	116.7	125.7	-6.7	4.5	11.7	12.5
Other indicators of manufacturing production								
Industrial consumption of electricity ^c	68.0	80.3	90.9	99.4	6.4	18.2	13.2	9.3
Employment	88.1	85.9	87.0	-	-6.8	-2.2	1.3	-

Source: Brazilian Geographical and Statistical Institute (IBGE). Indexes of Industrial Production, revised series 1975-1986. ^aIndexes calculated on the basis of figures at constant 1980 prices. Includes mining. ^bBillions of kWh consumed by the manufacturing sector. Indexes: 1976 = 100.

Table 7

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units					Growth rates				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Motor vehicles in general	860	896	865	967	1057	10.1	4.3	-0.1	18.5	9.3
Automobiles	475	576	538	759	816	16.9	21.3	-6.8	40.5	7.5
Light trucks and utility vehicles	328	278	272	134	146	15.9	-15.1	2.2	-28.7	9.0
Trucks	47	36	49	65	84	-38.2	-24.0	36.1	32.7	29.2
Buses	10	6	7	8	11	-26.2	-36.9	16.7	14.3	37.5
Vehicles fueled by alcohol"	238	592	561	642	699	80.6	149.1	-5.1	18.7	8.9
Exports of motor vehicles	173	169	196	208	183	-18.5	-2.7	16.4	5.8	-12.1

Source: National Association of Motor Vehicle Manufacturers (ANFAVEA).

"Included in the total number of vehicles.

Includes exports of CKD vehicles.

Table 8

BRAZIL: PRODUCTION OF METALS

	Thousands of tons				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Iron and steel								
Pig iron	13 200	17 464	19 245	20 464	19.4	32.3	10.2	6.3
Steel ingots	14 671	18 385	20 450	21 240	12.9	25.3	11.2	3.9
Rolled products								
Flats	7 251	7 924	8 239	8 980	16.9	9.3	4.0	9.0
Non-flats	4 581	5 725	6 264	6 635	-1.1	25.0	9.4	5.9
Steel alloy	578	666	743	111	-0.3	15.2	11.6	4.6
Non-ferrous metals								
Aluminium	443.7	503.9	594.0	805.6	28.4	13.6	17.9	35.6
Copper	103.0	101.7	142.9	166.0	81.3	-1.3	40.5	16.2
Tin	12.9	18.9	24.7	25.1	39.3	46.5	30.7	1.6
Nickel	10.7	12.7	13.2	13.5	122.9	18.7	3.9	2.2
Lead	63.1	71.6	81.6	85.4	18.1	13.4	14.0	4.7
Zinc	111.0	114.4	120.7	135.6	0.5	3.0	5.5	12.3

Source: Non-ferrous Metals and Iron and Steel Council (CONSIDER).

"Preliminary figures.

Primary and secondary metal.

Table 9

BRAZIL: FORMAL URBAN EMPLOYMENT*(Percentage variation between annual averages in 1986)*

Regions and metropolitan areas	Sectors of economic activity				
	Industry"	Construction	Commerce	Services	Total"
Brazil	9.2	8.0	7.4	4.0	5.5
North	14.8	-10.0	10.3	6.0	5.4
Northeast	7.0	2.5	8.7	5.1	4.5
Southeast	9.7	11.3	8.0	3.9	6.0
South	8.3	11.8	7.4	2.9	4.8
West Central	8.5	3.5	6.3	4.6	4.3
Metropolitan areas	9.8	9.9	7.3	4.1	5.6
Be le m	9.8	7.5	11.5	5.8	6.0
Fortaleza	10.6	16.2	9.0	6.3	6.6
Recife	10.1	-3.4	7.5	5.3	4.6
Salvador	3.6	0.1	5.8	5.1	3.1
Belo Horizonte	13.2	12.6	8.5	7.2	7.3
Rio de Janeiro	6.5	7.7	5.3	3.3	4.1
Sao Paulo	10.7	13.9	8.6	3.8	6.8
Curitiba	12.2	26.4	7.6	2.2	6.8
Porto Alegre	5.9	-2.1	5.6	2.8	3.3

Source: *Cadastro Geral de Empregados e Desempregados* - Act 4.923, Ministry of Labour.

"Processing industry. This total also includes the mining extraction, public services and government service sectors.

Table 10

BRAZIL: UNEMPLOYMENT RATES IN MAIN URBAN CENTRES

Main cities	1983	1984	1985	1986	1985				1986			
					I	II	III	IV	I	II	III	IV
Rio de Janeiro	6.2	6.8	4.9	3.5	6.0	5.4	4.5	3.6	4.0	3.9	3.5	2.6
Sao Paulo	6.8	6.8	5.0	3.3	6.1	5.7	4.8	3.5	4.2	3.7	3.1	2.4
Belo Horizonte	7.8	8.3	5.7	3.7	7.5	6.2	5.2	4.1	4.9	4.2	3.4	2.4
Porto Alegre	6.7	6.9	5.4	3.9	5.8	6.2	5.6	3.9	4.7	4.5	3.7	2.6
Salvador	5.6	7.7	6.0	4.5	6.8	6.0	6.3	4.9	4.8	4.8	4.8	3.8
Recife	8.0	9.0	7.2	4.4	7.8	8.4	7.3	5.3	4.9	5.0	4.4	3.3
Averages for urban centres"	6.7	7.1	5.3	3.9	6.3	5.9	5.1	3.8	4.6	4.4	3.8	2.9

Source: Brazilian Geographical and Statistical Institute Foundation (FIBGE), monthly employment survey.

"Weighted by the economically active population of each city.

Table 11

BRAZIL: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (cruzaos per dollar)	Indexes of real effective exchange rate"		
		Exports	(1)	(2) ^o
1970-1979	0.01	78.5	65.9	80.1
1980	0.05	100.0	100.0	100.0
1981	0.09	83.3	89.4	86.3
1982	0.18	80.9	85.7	82.7
1983	0.58	96.4	96.5	98.8
1984	1.85	91.1	90.8	94.3
1985	6.20	92.2	91.4	85.8
1986	13.65	93.1	73.3	92.1
1984				
I	1.14	93.0	92.4	96.1
II	1.51	93.4	92.0	95.6
III	2.01	90.9	91.0	94.3
IV	2.73	86.9	87.8	91.0
1985				
I	3.76	85.0	86.6	89.7
II	5.23	94.7	95.0	99.5
III	6.80	95.6	94.1	98.8
IV	9.01	93.5	89.7	95.2
1986				
I	12.73	89.4	75.3	89.5
II	13.84	94.3	71.6	93.3
III	13.84	95.3	74.5	94.0
IV	14.21	93.3	72.5	91.7

Source: ECLAC, on the basis of information from the International Monetary Fund, *International i*mandai Statistics*.
 "Corresponds to the average of the indexes of the real exchange rate of the cruzado with respect to the currencies of Brazil's main trading partners, weighted according to the relative importance of exports or imports to or from these countries, as appropriate. From 1970 to 1980 these weightings correspond to the average for the period 1975-1979. From 1981 they correspond to the average for the period 1982-1985. For the most part, wholesale price indexes were used in making these calculations. For the methodology and sources used, see the technical appendix to the *liconomic Survey of Latin America, 1981*. Does not include the following petroleum-exporting countries: Saudi Arabia, Iraq and Nigeria.

Table 12

BRAZIL: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
	Growth rates						
Exports of goods							
Value	32.1	15.6	-13.3	8.6	23.3	-5.1	-12.6
Volume	21.0	23.0	-6.9	17.0	19.4	1.1	-17.4
Unit value	9.2	-6.0	-6.9	-7.2	3.2	-6.1	5.7
Imports of goods							
Value	27.8	-3.8	-12.2	-20.4	-9.8	-5.4	6.7
Volume	-4.3	-13.0	-11.3	-16.4	-3.8	-1.3	18.6
Unit value	33.6	-10.6	-1.0	-4.9	-6.3	-4.1	-10.1
Terms of trade (goods)	-17.8	-15.0	-6.2	-2.6	9.6	-2.3	17.4
	Indexes: 1980 = 100						
Terms of trade (goods)	100.0	85.0	79.8	77.7	85.2	83.2	97.7
Purchasing power of exports of goods	100.0	86.5	80.4	76.5	82.3	79.7	92.0
Purchasing power of exports of goods and services	100.0	105.7	90.4	100.4	128.4	126.0	120.4
Volume of exports	100.0	123.0	114.5	134.0	160.1	161.8	133.7
Volume of imports	100.0	87.0	77.1	64.5	62.1	61.3	72.7

Source: ECLAC, on the basis of official data.
 "Preliminary figures.

Table 13

BRAZIL: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	21 899	27 005	25 639	22 393	100.0	100.0	8.5	23.3	-5.1	-12.7
Commodities	8 535	8 755	8 538	7 349	42.2	32.8	3.6	2.6	-2.5	-13.9
Coffee beans	2 096	2 564	2 369	2 063	12.3	9.2	12.8	22.3	-7.6	-12.9
Iron ore	1 428	1 445	1 402	1 234	7.8	5.5	-22.7	1.2	-3.0	-12.0
Soya meal and cake	1 793	1 460	1 175	1 181	7.2	5.3	10.7	-18.6	-19.5	0.5
Soya beans	309	454	764	243	2.0	1.1	151.2	46.9	68.3	-68.2
Unrefined sugar	323	326	166	138	3.1	0.6	24.7	0.9	-49.1	-16.9
Others	2 586	2 506	2 662	2 490	9.8	11.1	2.1	-3.1	6.2	-6.5
Industrial products	13 057	17 955	16 822	14 867	56.5	66.4	11.7	37.5	-6.3	-11.6
Semimanufactures	1 782	2 824	2 758	2 481	11.6	11.1	24.4	58.5	-2.3	-10.0
Manufactures	11 275	15 131	14 064	12 386	44.8	55.3	10.0	34.2	-7.1	-11.9
Processed coffee	252	292	263	297	1.4	1.3	-1.6	15.9	-9.9	12.9
Orange juice	608	1 415	749	636	1.7	2.8	5.7	132.7	-47.1	-15.1
Footwear	713	1 072	968	1 017	2.0	4.5	36.1	50.4	-9.7	5.1
Transport equipment	1 452	1 354	1 694	1 568	7.5	7.0	-15.5	-6.7	25.1	-7.4
Machinery, boilers and mechanical apparatus	1 106	1 396	1 590	1 443	6.9	6.4	-7.7	26.2	13.9	-9.2
Electrical machinery and equipment	448	591	581	794	2.3	3.5	10.3	31.9	-1.7	36.7
Manufactured iron and steel products	1 249	1 548	1 206	999	3.1	4.5	57.1	23.9	-22.1	-17.2
Others	5 447	7 463	7 013	5 632	19.9	25.3	-74.4	37.0	-6.0	-19.7
Other products"	307	295	279	177	1.3	0.8	-6.8	-3.9	-5.4	-36.6

Source: Banco do Brasil, Carteira de Comércio Exterior (CACEX) and Central Bank of Brazil.

"Preliminary figures. Does not include itabirite. Includes consumption on board aircraft and ships, re-exports and special transactions.

Table 14

BRAZIL: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986	1983	1984	1985	1986
Total	15 429	13 916	13 154	14 044	100.0	100.0	-20.4	-9.8	-5.5	6.8
Consumer goods	796	700	794	2 606	5.7	18.6	-20.3	-12.1	13.4	228.2
Intermediate goods	12 128	11 065	9 880	7 974	75.2	56.8	-19.8	-8.8	-10.7	-19.3
Fuels and lubricants	8 607	6 735	5 694	3 020	44.4	21.5	-17.7	-21.7	-15.5	-47.0
Others	3 521	4 330	4 486	4 954	30.8	35.3	-24.6	23.0	3.6	10.4
Capital goods	2 505	2 151	2 480	3 464	19.1	24.7	-23.4	-14.1	15.3	39.7

Source: Central Bank of Brazil.

"Preliminary figures.

Table 15

BRAZIL: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986°
Balance on current account	-12 848	-11 760	-16 314	-6 842	33	-289	-4 037
Trade balance	-5 935	-1 677	-2 795	4 079	11 345	10 784	6 243
Exports of goods and services	21 857	25 523	21 967	23 619	28 939	27 713	24 284
Goods FOB	20 132	23 275	20 172	21 906	27 001	25 634	22 393
Real services	1 726	2 248	1 791	1 712	1 937	2 078	1 891
Transport and insurance	843	1 102	1 013	1 119	1 309	1 517	1 318
Travel	125	242	66	40	64	67	85
Imports of goods and services	27 792	27 200	24 762	19 540	17 594	16 929	18 041
Goods FOB	22 955	22 091	19 395	15 434	13 915	13 168	14 044
Real services	4 838	5 109	5 365	4 106	3 678	3 761	3 997
Transport and insurance	2 758	2 786	2 460	2 025	2 070	1 872	1 871
Travel	367	407	913	431	218	442	572
Factor services	-7 041	-10 274	-13 509	-11 025	-11 473	-11 212	-10 357
Profits	-720	-1 112	-2 141	-1 453	-1 267	-1 603	-1 237
Interest received	1 146	1 144	1 198	707	1 245	1 503	961
Interest paid	-7 456	-10 306	-12 550	-10 267	-11 449	-11 092	-10 054
Others	-9	-1	-14	-13	-2	-20	-27
Unrequited private transfer payments	128	189	-11	106	161	139	77
Balance on capital account	9 379	12 381	11 119	4 943	5 342	-222	408
Unrequited official transfer payments	42	10	2	2	10	16	9
Long-term capital	7 104	11 659	8 011	7 997	9 773	2 291	">
Direct investment (net)	1 544	2 313	2 534	1 372	1 557	1 267	
Portfolio investment (net)	354	-2	-1	-286	-272	-237	
Other long-term capital	5 206	9 348	5 478	6 911	8 489	1 261	
Official sector ^c	-14	60	1 744	9 279	11 283	6 325	
Loans received	1 841	1 650	3 368	13 329	20 561	15 205	
Amortization payments	-1 366	-1 319	-1 286	-4 153	-9 427	-8 694	>m
Commercial banks ^c	2 105	4 054	1 681	-1 520	-1 404	-2 643	
Loans received	4 005	6 409	4 239	1 136	1 230	323	
Amortization payments	-1 917	-2 361	-2 559	-2 656	-2 631	-2 966	
Other sectors ⁷	3 115	5 234	2 053	-848	-1 390	-2 420	
Loans received	6 085	9 633	6 675	2 527	2 079	2 122	
Amortization payments	-3 394	-3 761	-4 264	-3 358	-4 128	-5 135	J
Short-term capital (net)	2 572	1 132	3 476	-2 464	-4 844	-1 999	428
Official sector	-31	-6	3 879	-1 390	-1 942	-404	
Commercial banks	608	1 039	-136	-710	1 001	-594	
Other sectors	1 996	99	-267	-364	-3 903	-1 002	
Errors and omissions (net)	-343	-418	-369	-592	404	-530	-540
Global balance	-3 469	621	-5 195	-1 899	5 375	-511	-3 629
Total variation in reserves (- sign indicates an increase)	3 322	-747	4 157	1 214	-6 102	926	3 515
Monetary gold	-103	-130	824	-156	-336	-541	
Special Drawing Rights	-1	-68	452	-	-1	-	
IMF reserve position	-103	80	-23	287	-	-	
Foreign exchange assets	3 301	-844	2 245	-714	-7 173	903	3 857
Other assets	228	215	109	-297	-141	115	
Use made of IMF credit	-	-	550	2 094	1 549	449	-613

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*; April 1987; 1986: ECLAC, on the basis of official figures.

"Preliminary figures subject to revision. Includes other non-factor services. Includes net loans granted and other assets and liabilities. "Equals the total variation in reserves (of opposite sign), plus counterpart items.

Table 16

BRAZIL: VARIATION IN INTERNATIONAL RESERVES

(Year-end balances in millions of dollars)

	1983	1984	1985 ^a	1986 ^b	Absolute variation		
					1984	1985 ^a	1986 ^b
I. International liquidity	4 563	11 995	10 482	6 760	7 432	-1 513	-3 722
Reserves, excluding gold ^c	4 355	11 508	9 478	5 621	7 153	-2 030	-3 857
Special Drawing Rights	-	-	-	-	-	-	-
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange	4 355	11 508	9 478	5 621	7 153	-2 030	-3 857
Gold, national valuation	207	488	1 004	1 139	281	516	135
II. Net reserves of monetary authority							
A. Assets	3 757	11 033	9 273	5 330	7 276	-1 760	-3 943
B. Liabilities	7 053	6 791	4 873	5 150	-262	-1 918	277
Short term	4 408	2 606	254	660	-1 803	-2 352	406
Use of IMF credit ^d	2 645	4 185	4 619	4 490	1 541	434	-129
C. Net reserves (A-B)	-3 296	4 242	4 400	180	7 538	158	-4 220
D. Counterpart adjustments	-	-	-	-591	-	-	-591
E. Net adjusted reserves (C-D)	-3 296	4 242	4 400	771	7 034	158	-3 629

Source: Central Bank of Brazil, *Brasil. Programa Económico. Ajustamento interno e externo*, vol. 14, February 1987.

^aPreliminary figures. Data published by the Central Bank of Brazil. ^bData published by IMF. Method of calculation used to calculate balance-of-payments performance within the framework of the corresponding goal agreed with IMF. ^cRepurchase obligations. Balance of payments result according to the methodology agreed with IMF.

Table 17

BRAZIL: EXTERNAL DEBT*{Year-end balances in millions of dollars}*

	1980	1981	1982	1983	1984	1985	1986°
Total external debt, registered and unregistered		71 878	83 205	91 362	99 765	103 142	109 374
I. Medium- and long-term debt (registered)							
Total	53 848	61 411	70 198	81 319	91 091	95 857	101 540
Compensatory loans			544	2 645	3 967	4 608	
United States Government							
International Monetary Fund			544	2 645	3 967	4 608	
Others							
Bonds	3 236	2 896	2 610	2 226	1 737	1 919	
International agencies	3 485	3 583	3 847	4 326	5 714	7 411	
World Bank	2 246	2 264	2 341	2 588	3 905	5 057	
Inter-American Development Bank	1 047	1 071	1 203	1 367	1 397	1 920	
International Finance Corporation	192	248	301	303	285	279	
Official bilateral agencies	3 485	3 894	4 160	4 855	6 603	7 793	
Agency for International Development (USAID)	1 050	1 019	989	967	895	886	
Programme loans	512	490	470	449	429	410	
Project loans	538	529	519	518	466	476	
Wheat"	514	568	889	1 212	1 375	1 155	
United States Export-Import Bank (Eximbank)	931	955	934	981	789	674	
Export-Import bank of Japan	489	508	477	502	384	349	
Kreditanstalt für Wiederaufbau (FRG)	498	624	613	722	644	796	
Others'	3	220	258	471	2 516	4 341	
Supplier credits	5 631	5 894	5 983	7 513	6 492	7 427	
Financial credits	37 820	44 984	52 918	59 626	66 467	66 195	
Resolution No. 63	9 924	13 456	16 146	15 115	13 630	11 379	
Law No. 4131	27 887	31 520	36 763	44 511	52 830	54 809	
Other credits	171	160	136	128	111	504	
II. Short-term debt (unregistered)							
Total	...	10 467	13 007	10 313	8 674	7 285	7 839
Traditional operations			9 292	7 973	8 374	7 285	
Commercial credit lines			5 034	4 377	3 779	3 126	3 291
Brazilian commercial banks			4 306	3 596	4 595	4 023	4 012
Assets			2 099	1 924	2 274	1 984	1 422
Liabilities			6 405	5 520	6 869	6 007	5 434
Special operations			3 715	2 340	300		
Bridging loans			3 715	-	-		
Arrears in debt payments				2 340			
Paris Club and other operations					300	134	536

Source: Central Bank of Brazil, *Brasil, Programa Económico. Ajustamento interno e externo*, vol. 14, February 1987.

°Preliminary figures. Law No. 480 of the United States, loans from the Canadian Wheat Board and other credits for wheat. "The bulk of this item represents financing which until 1980 was included under the heading "suppliercredits".

Table 18

BRAZIL: INDICATORS OF EXTERNAL INDEBTEDNESS

	1982	1983	1984	1985	1986°
	ms of dollars				
Registered debt service	20 765	20 066	20 123	21 399	23 231
Amortization payments	8 215	10 403	8 888	10 160	13 176
Interest payments	12550	10 263	11 235	11 239	10 055
Disbursements	14207	14 518	16 799	12 794	17 494
	percentages				
Registered external debt/exports of goods and services	319.6	344.4	324.1	345.7	417.9
Registered external debt service/exports of goods and services	94.5	87.5	69.4	77.2	95.6
Net interest/exports of goods and services	51.7	40.4	34.8	34.8	37.4
Registered debt service/disbursements	146.2	142.4	119.8	167.3	132.8

Source: ECLAC, with data from the International Monetary Fund and the Central Bank of Brazil.
°Preliminary figures.

Table 19

BRAZIL: PUBLIC EXTERNAL DEBT

(Excluding State banks, millions of dollars)

	1982	1983	1984	1985	1986°
Total	51 578	65 962	74 387	80 396	86 051
Registered debt	45 502	58 975	70 569	77 444	84 641
Federal government	5 562	16 922	25 942	27 040	38 427
States and municipalities	3 060	3 213	3 787	5 152	5 507
Autonomous, public and semi-public enterprises	36 880	38 840	40 840	45 252	40 707
Unregistered debt	8 701	6 716	4 078	3 262	3 686
Private-sector registered foreign-currency deposits	4 638	6 938	5 799	4 881	3 042
Foreign-currency loans from official banks	-7 263	-6 667	-6 059	-5 191	-4 688

Source: Central Bank of Brazil, *Brasil, Programa Económico. Ajustamento interno e externo*, vol. 14, February 1987.
°Preliminary figures. Commercial lines of credit.

Table 20
BRAZIL: DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986
December-to-December variation							
General price index"							
Total supply	108.5	92.8	99.2	212.9	225.6	241.4	63.3
Domestic availability	110.2	95.2	99.7	211.0	223.8	235.1	65.0
Wholesale price index							
Total supply	118.7	90.5	96.8	238.4	233.2	234.6	59.9
Agricultural products	138.2	70.7	89.0	335.8	230.5	267.7	86.2
Industrial products	110.3	99.7	99.8	200.5	233.2	221.1	50.6
Domestic availability	121.3	94.3	97.7	234.0	230.3	225.7	62.6
Raw materials	110.7	86.1	81.5	214.4	230.6	198.6	45.9
Foodstuffs	130.8	85.9	98.9	299.5	223.6	238.1	87.5
Consumer price index,							
Rio de Janeiro	86.3	100.6	101.8	177.9	208.7	248.5	63.5
Food	90.9	96.0	99.9	256.9	224.5	265.9	62.8
Construction costs,							
Rio de Janeiro	113.0	86.1	108.0	148.9	213.4	283.6	81.3
National consumer price indexes							
Restricted INPC ^C	99.7	93.5	100.3	178.0	209.1	239.1	58.6
Extended IPCA	99.2	95.6	104.8	164.0	215.3	242.2	75.5
Official CPI*							22.2
Variation between annual average							
General price index							
Total supply	98.4	106.8	94.2	156.3	222.5	229.4	142.6
Domestic availability	100.2	109.9	95.4	154.5	220.6	225.5	142.3
Wholesale price index							
Total supply	106.5	108.2	92.0	168.3	236.2	228.9	139.8
Domestic availability	109.2	113.1	94.0	164.9	232.9	223.4	138.7
Consumer price index,							
Rio de Janeiro	82.8	105.6	98.0	142.0	196.7	227.0	143.7
Construction costs,							
Rio de Janeiro	96.9	101.0	98.2	119.6	195.1	241.3	161.3
National consumer price index							
INPC ^C		102.8	97.0	140.7	195.8	218.2	137.4
IPC A		101.7	100.5	135.0	192.1	226.0	144.4

Source: Getulio Vargas Foundation, *Conjuntura econômica*, and Central Bank of Brazil, *Informativo Mensal*, (several issues). "This price index is a weighted average of the indexes of wholesale prices (60%), the cost of living in Rio de Janeiro (30%) and construction costs (10%). Up to February 1985, this entry corresponds to the index of building costs in Rio de Janeiro. From February 1985 onwards, it represents construction costs in Brazil. The two indexes use different weightings. The weighting of the INPC include the expenditures of families having incomes of up to five minimum wages, whereas the IPCA is weighted for the expenditures of families having incomes of up to 30 minimum wages. These data were revised on the basis of the information gathered during the latest survey round (see text). Variation from 28 February to December 1986.

Table 21

BRAZIL: AVERAGE WAGES IN THE MANUFACTURING INDUSTRY*(Base: 1980 = 100)*

	Average nominal wage		Consumer prices		Average real wage	
	Index	Variation	Index	Variation	Index	Variation
São Paulo"						
1981	197.5	97.5	188.6	86.4	104.7	4.7
1982	397.5	101.3	371.1	96.8	107.1	2.4
1983	806.5	102.9	858.9	131.4	93.9	-12.3
1984	2 345.6	190.9	2 428.2	182.7	96.5	2.9
1985	8 658.5	269.1	7 288.3	200.2	118.8	22.9
1986	24 594.5	184.0	16 440.2	125.6	149.6	25.9
Rio de Janeiro						
1981	223.1	123.1	205.5	105.5	108.6	8.6
1982	494.8	121.8	406.8	98.0	121.6	12.0
1983	1 109.8	124.3	984.5	142.0	112.7	-7.3
1984	3 070.5	176.7	2 922.4	196.8	105.1	-6.8
1985	10 761.3	250.5	9 552.3	226.9	112.7	7.2
1986	28 356.6	163.5	23 283.1	143.7	121.8	8.1

Source: Industrial Federation of the State of Sao Paulo (FIESP); ABDIB.

"Cost-of-living index for the city of SSo Paulo.

Cost-of-living index for the city of Rio de Janeiro.

Table 22

BRAZIL: PRIVATE SECTOR LIQUIDITY*(Percentage variations between end- of-December balances)*

	M ₁	M ₂	M ₃	M ₄
1981	87.2	104.7	120.0	
1982	65.0	83.8	100.9	
1983	97.4	135.9	170.0	150.5
1984	201.8	256.0	250.3	292.7
1985	304.2	290.0	269.8	303.9
1986	303.8	209.0	137.1	102.7

Source: Getulio Vargas Foundation, *Conjuntura económica*, February 1987.

Note: M₂ = M₁ + demand deposits.

M₃ = M₂ + deposits.

M₄ = M₃ + securities outside the Central Bank.

Table 23

BRAZIL: MONETARY BASE AND MEANS OF PAYMENT*(Percentage variations)*

	Monetary base		Means of payment	
	During the year	Over 12 months	During the year	Over 12 months
1984				
March	13	70.8	9.6	115.9
June	65.4	144.9	41.1	121.6
September	121.6	191.1	89.7	157.4
December	264.1	264.1	201.9	201.9
1985				
March	13.4	307.7	11.9	208.3
June	40.1	208.4	59.8	241.0
September	102.5	232.7	134.7	273.6
December	257.3	257.3	304.3	304.3
1986				
March	54.0	385.4	87.4	577.0
June	165.1	576.2	198.6	655.3
September	229.6	481.7	236.2	479.0
December	293.5	293.5	303.8	303.8

Source: Central Bank of Brazil.

"New definitions which take into account the changed situation resulting from the termination of the BancodoBrasil's central banking functions.

Table 24

BRAZIL: MAIN FACTORS OF EXPANSION AND CONTRACTION
OF THE MONETARY BASE

(Variations in billions of cruzados)

	1984	1985	1986"
A. Factors of expansion	27.4	100.8	144.9
Credit to agricultural sector	7.4	35.9	16.3
Export credits	-0.3	4.5	
Credit to public sector	5.4	6.6	98.9
Public debt*			92.5
Special operations'	5.4	6.6	6.4
Credit from Central Bank	0.6	1.0	10.9
Other credits from Banco do Brasil	4.1	11.8	12.8
Exchange operations'	6.4	36.2	3.0
Other accounts (net variation)	3.7	5.0	3.0
B. Factors of contraction	16.8	63.1	11.5
National Treasury	5.7	20.7	-15.4
Cash balance		13.3	-106.1
Transfers	5.7	7.5	90.7
Resources of Central Bank			5.0
Time deposits in Banco do Brasil	1.2	16.7	
Public Debt	9.8	25.7	
Obligatory deposit on savings deposits			6.6
Compulsory loans and travel tax			15.4
C. Monetary base (A-B)	10.6	37.8	133.4

Source: Central Bank of Brazil, *Informativo mensal*, January 1987, and the Getulio Vargas Foundation, *Conjuntura Económica*, February 1987.

"Preliminary figures. Net purchases of federal government public debt securities. ' Refers to payments made by the Banco do Brasil on the external debt of State enterprises and other National Treasury operations with the monetary authorities. ' As of February 1986, the Banco do Brasil ceased to be a part of the monetary authority. ^Refers to reserve operations plus variations in foreign-currency deposits in the Central Bank.

Table 25

BRAZIL: DEPOSITS AND OTHER DOMESTIC OBLIGATIONS OF
THE FINANCIAL SYSTEM WITH THE PRIVATE SECTOR

(Billions of cruzados)

	Year-end balances				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Total	38.2	133.2	488.1	1 099.3	186.7	248.0	266.2	125.2
Demand deposits	7.3	21.6	88.5	367.9	100.8	195.9	309.7	315.7
Fixed-term deposits	9.6	39.3	149.2	354.7	189.8	309.4	279.6	137.7
Saving deposits	18.1	62.5	217.6	328.5	217.3	245.3	248.2	51.0
Bills of exchange	3.2	9.8	32.8	48.2	146.5	206.3	234.7	47.0

Source: Central Bank of Brazil, *Boletim mensal*, December 1986.

"Preliminary figures.

Table 26

BRAZIL: MONTHLY INTEREST RATES"*(Percentages)*

	Rates on deposits			Rates on loans		Inflation rate ^h
	Open market operations;	Certificates of deposit	Savings deposits	Working capital	Consumer credit	
1984						
I	10.6	12.3	11.2	11.9	10.1	10.7
II	9.4	12.2	9.5	12.5	11.8	9.0
III	11.0	12.5	11.0	13.4	12.4	10.5
IV	10.9	12.6	11.6	14.4	13.5	11.0
1985						
I	14.1	13.2	12.4	14.7	14.6	11.8
II	10.9	12.3	10.9	14.0	14.7	7.6
III	9.5	10.8	8.9	12.5	13.5	10.7
IV	10.8	11.5	11.7	12.8	13.9	12.4
1986						
January	16.2	14.1	15.0	14.9	15.7	14.4
February	16.0	14.3	13.2	15.5	16.4	12.7
March	12	2.2	0.5	2.9	3.4	-0.1
April	13	1.5	1.3	2.3	3.1	0.8
May	12	1.7	1.9	2.4	3.1	1.4
June	14	1.8	1.8	2.6	3.1	1.3
July	1.9	2.1	1.7	2.8	3.3	1.2
August	2.5	2.7	2.1	3.2	4.0	1.7
September	2.9	3.0	2.2	4.0	5.1	1.7
October	1.9	3.3	2.4	4.3	5.4	1.5
November	2.4	4.4	3.8	5.4	6.4	3.3
December	5.5	8.0	7.8	9.1	9.8	7.3

Source: ECLAC, on the basis of official data.

^hAverage monthly rates. 1985: General price index, with reference to domestic availability 1986: Extended national consumer price index (January and February) and consumer price index, from February onwards.

Table 27

**BRAZIL: CURRENT INCOME OF THE NATIONAL TREASURY
AND OF STATE AND MUNICIPAL GOVERNMENTS**

	Billions of cruzaos				Growth rates			
	1984	1985	1986	1982	1983	1984 _v	1985	1986
Current income of National Treasury	33.8	134.5	394.0	104.2	145.5	198.1	298.0	193.0
Taxes	29.5	110.1	342.1	101.6	135.2	208.3	273.6	210.7
Income tax	12.0	52.9	143.5	111.5	158.0	244.8	339.2	171.2
Gross tax revenues	15.5	59.2	160.6	116.3	163.1	255.6	283.2	171.2
Physical persons	0.8	2.4	5.9	69.5	245.1	132.7	196.2	150.9
Legal persons	4.1	11.9	42.0	147.5	248.3	172.3	192.1	252.3
Taxes withheld at source	10.6	44.9	112.7	111.3	123.1	322.3	325.0	150.7
Refunds	-3.4	-6.3	-17.1	127.9	156.9	121.7	85.8	170.5
Manufactured products	4.1	19.2	75.2	97.6	91.6	116.8	366.4	291.9
Gross tax revenues	6.5	24.2	82.4	113.1	102.0	154.6	273.8	240.2
Tobacco and cigar retes	2.4	6.1	19.2	126.1	107.6	129.2	152.1	216.5
Others	4.1	18.1	63.2	105.2	98.2	172.4	345.8	248.2
Refunds	-2.4	-5.0	-7.2	199.3	140.1	265.3	113.0	43.7
Financial operations	3.1	7.2	23.4	96.8	41.4	287.7	135.4	226.0
Electrical energy	0.7	2.5	8.2	112.1	113.6	157.3	254.0	228.0
Lubricants and fuels	0.6	1.9	5.0	125.9	4.7	114.8	200.5	157.4
Imports	1.3	4.7	16.0	66.2	107.9	163.4	277.0	236.3
Exports	2.3	3.3 ¹	1.6	27.0	2 132.6	276.1	4<1.0	-54.7
Telecommunications	0.6	1.8	5.2	109.6	114.6	160.6	212.0	190.2
Taxes earmarked for social programmes [^]	3.2	10.2	36.3	76.6	571.4	228.9	222.5	254.3
Other taxes	1.7	6.3	27.9	114.4	116.9	212.0	275.8	344.1
Other current income	4.3	24.4	52.0	125.9	220.9	143.1	464.4	113.3
Rates	0.8	2.2	2.0	78.5	109.8	137.2	185.1	-9.1
Miscellaneous income	3.6	22.2	50.0	151.2	263.1	144.3	524.0	125.2
Tax on goods traffic	18.3	70.9	222.2	104.0	122.2	233.9	286.7	213.4
Sab Paulo	6.9	27.1	87.6	103.4	117.9	217.1	293.2	223.8
Rio de Janeiro	1.9	6.8	21.8	104.3	111.3	242.9	254.2	221.0
Minas Gerais	1.6	6.6	20.1	102.2	106.7	252.6	303.3	203.1
Southern region"	3.4	13.5	40.8	99.2	125.0	233.5	291.0	203.0
Other states	4.4	16.9	51.9	110.2	140.2	252.4	281.4	206.1
National treasury transfers in respect of taxes destined for states and municipalities	6.3	29.7	91.0	112.5	120.0	237.7	371.8	206.1

Source: Central Bank of Brazil, *Boletim mensal*, January 1987.

¹Comprises the States of Paraná, Santa Catarina and Rio Grande do Sul.

Table 28

BRAZIL: PUBLIC SECTOR FINANCING NEEDS*(Millions of cruzados)*

	1984	1985	1986
A. Nominal financing	90.1	380.0	355.0
Federal government	37.8	191.0	231.9
Federal public securities	31.9	174.8	193.3
Credit from Central Bank	-2.2	-0.6	15.4
External changes ²	5.0	12.9	27.0
Financial system	1.9	7.5	-1.1
External financing ¹	1.2	-3.6	-2.6
State and municipal governments	18.0	78.4	60.9
State government public securities	4.4	17.1	16.8
Credit from Central Bank	0.7	4.7	10.1
Financial system	13.9	51.1	33.0
External financing ¹	-1.0	5.5	1.0
State enterprises	37.3	156.7	124.0
Federal public securities ³	-1.6	-7.2	-16.7
Credit from Central Bank	6.0	63.0	117.5
Financial system	29.2	97.4	59.7
External financing ¹	2.0	2.2	-37.7
Suppliers	1.7	1.3	1.2
Social security system and other agencies	2.6	0.7	-12.5
Federal public securities ³	-0.3	-6.3	-14.2
Financial system	2.9	7.0	1.7
Funds and programmes	-5.7	-46.8	-49.3
Credit from Central Bank	-4.3	-38.3	-48.4
Financial system	-2.4	-9.0	-6.1
External financing ¹	1.0	0.5	5.2
B. Monetary and exchange correction	79.5	321.9	251.9
C. Operational financing (A-B) (%)	10.6	58.1	103.1
Nominal financing/gross domestic product	23.3	27.8	10.8
Operational financing/gross domestic product	2.7	4.3	3.7

Source: Central Bank of Brazil.

¹Includes interest on foreign-currency deposits in the Central Bank, interest on deposits, projects and renegotiated short-term loans. ²Operations outside the Central Bank. Includes Banco do Brasil and other financial institutions. ³Net result of the withdrawal of funds deposited in foreign currency and relending operations minus amortization payments. "Net debt. ⁴Outlay on federal securities.

COLOMBIA

1. Recent economic trends: Introduction and summary

In 1986, the Colombian economy benefitted from the sharp rise in the international price of coffee. Thanks to that, and to the strong growth in external sales of petroleum and coal, the value of exports of goods increased by almost 50% and the external position of the country strengthened considerably. For the first time since 1979, both the trade balance and the balance-of-payments current account showed surpluses and net international reserves increased by more than US\$1 400 million (see table 1).

Even so, the macroeconomic policy maintained the guidelines defined the previous year, with the aim of consolidating the long-term adjustment of the economy. The exchange policy continued to assign importance to the regular devaluation of the national currency, with the result that the real effective rate of exchange increased markedly for the second year running. The fiscal policy continued to be of a rather restrictive nature and the budget deficit fell to only 1.4% of the domestic product: the lowest level in recent years. At the same time, the monetary policy succeeded in moderating the expansionary effect the increase in international reserves had on liquidity.

In this way, the economic policy helped to achieve a slight drop in inflation from 23% in 1985 to 21% in 1986. At the same time, economic activity recovered from the relative stagnation experienced in previous years and grew by 5.4%, the highest figure recorded since 1979. As the terms of trade improved considerably at the same time, the increase in national income was a good deal greater (see figure 1). The domestic recovery had positive effects in almost all economic sectors, the increases in mining (27%), manufacturing (7%) and commerce (6%) being the most prominent. The agricultural product showed a more moderate increase (2%). In contrast, construction fell by almost 5%, mainly due to the drop in public investment.

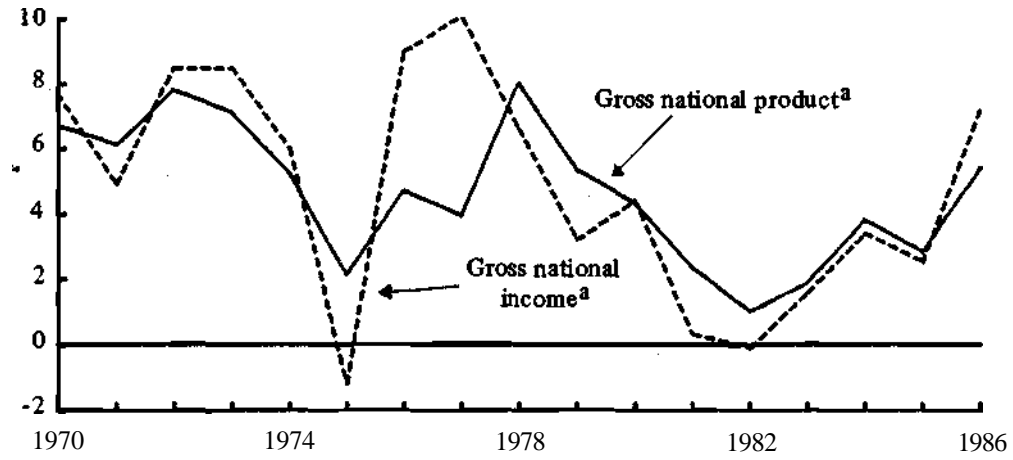
The upturn in the economy had a favourable effect on labour force indicators. Because of the greater economic activity and the slowdown in inflation, real wages rose in all sectors excepting construction. Economic growth also helped to increase urban employment. However, due to the increase in the rates of participation, unemployment fell only slightly.

2. Trends in economic activity

In 1986, total supply increased by 5%. Contrary to what occurred in the three previous years, when it grew at a very slow rate and the volume of imports experienced a noteworthy and sustained decline, the increase in 1986 was due both to the expansion of the product and to the partial recovery of the volume of imports (see table 2). The growth in the economy originated mainly in the strong expansion of the volume of exports (17%) and in the improvement of the terms of trade. The resulting increase in income from exports favoured, in turn, a moderate increase in domestic demand. In these circumstances, all sectors, excepting construction, grew in 1986 at rates higher than those recorded in 1985 (see table 3).

Following its complete stagnation the previous year, the agricultural product increased by 2% in 1986. This greater dynamism originated in the increased production of those crops used as industrial inputs (especially sorghum and soya) (see table 4). Harvests of food crops for direct consumption also increased, although more moderately. In contrast, production of the main export crops dropped slightly, including coffee production, which fell by almost 5%. However, owing to the use of the big stocks accumulated from previous years, the volume of external coffee sales increased significantly, thereby making it possible to take advantage of the marked rise in the international

Figure 1
 COLOMBIA: MAIN ECONOMIC INDICATORS



15 ^r
 Urban unemployment[^]

10

1970 1974 1978 1982 1986

Consumer prices⁰

30

20

10

1970

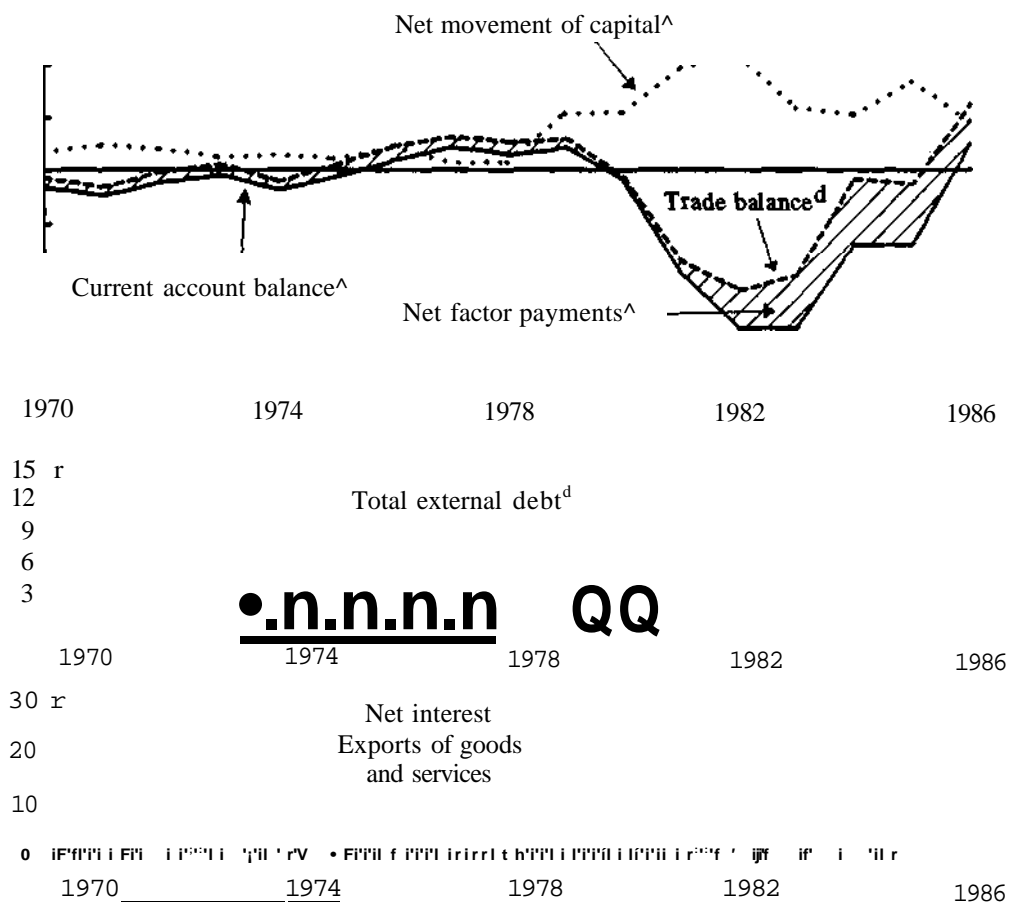
1974

1978

1982

1986

Figure 1 (conclusión)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^b Average annual rate in Bogotá, Barranquilla, Medellín and Call.
 Percentage variation from December to December. ^cBillions of dollars. ^dPercentages.

price of coffee (see table 5 and figure 2). Domestic coffee prices, for their part, were adjusted regularly as from January and at the end of the year they were almost double those recorded 12 months earlier (see table 6).

Mining was again the most dynamic area of activity showing an increase of 27%. Due to this rise, together with the very rapid growth in previous years, mining production almost doubled over the last three years. This remarkable expansion reflected the high level of investment carried out in previous years. Thus, coal production—which had already grown rapidly in the previous three years—grew by 19% and was more than double that achieved in 1981. At the same time, exploitation of the oil deposits discovered in the eastern plains area enabled extraction of petroleum to increase by more than 70% to over 110 million barrels, the highest figure in the country's history (see table 7). In turn, the greater availability of crude oil made it possible to increase output of petroleum products, to eliminate imports of crude and to achieve a 44% increase in the value of external sales of hydrocarbons. Due to this, the energy balance was markedly positive for the first time in the present decade (see table 8).

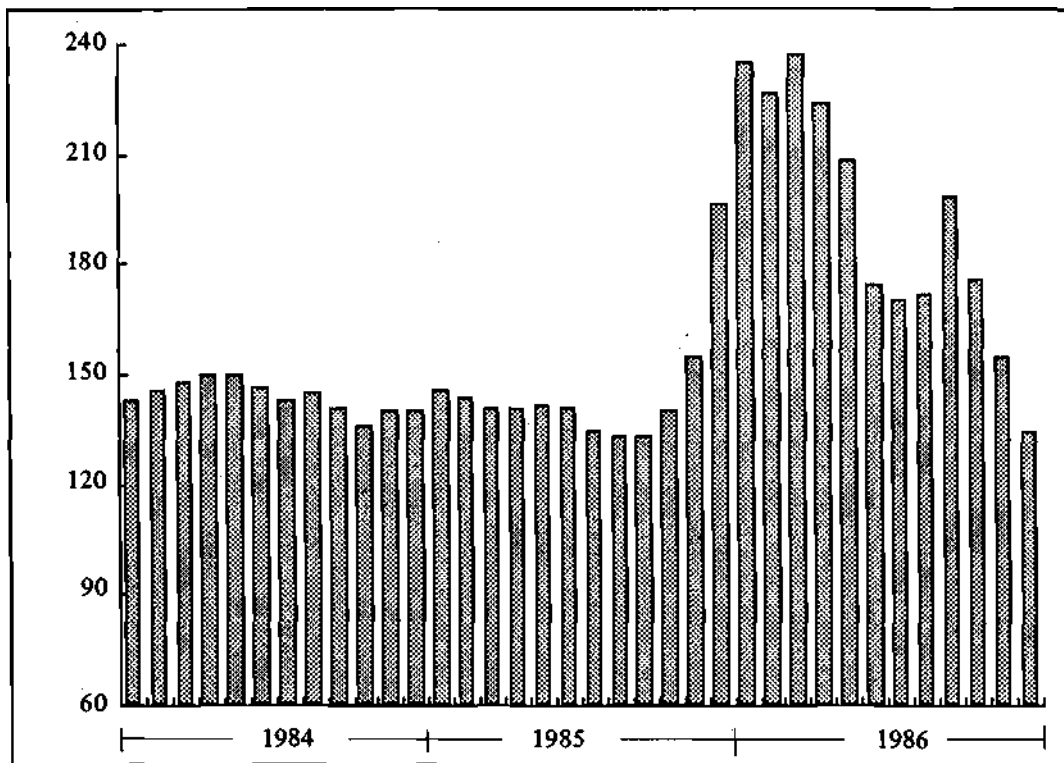
The reactivation was also noteworthy in manufacturing and commerce, in both of which the growth rates achieved (7% and 6%, respectively) were the highest in recent years. Commerce benefited mainly from the increased internal demand brought about by the rise in income from coffee.

In the industrial sector, the most dynamic branches were those directed towards exports: textiles, leather, petroleum products and chemicals. Production of consumer goods for the domestic market grew at a more moderate rate, since a significant part of the increased demand for consumer goods was satisfied through imports, legal or clandestine¹ (see table 9).

On the other hand, construction, which had been declining over the last three years, fell by almost 6% in 1986. This decline was due especially to the termination of various public investment projects —the impact of which was especially marked in medium-sized cities— and to the slight contraction in housing construction (see table 10).

The recovery in levels of domestic activity allowed some improvement to occur in the labour force situation, which had been manifestly worsening since 1982. Thus, employment began to increase once more in most economic sectors following four consecutive years of generalized falls. However, as the rate of participation continued to increase at the same time, the average unemployment rate only went down from 13.9% in 1985 to 13.5% in 1986. Indeed, during the first half of the year unemployment continued to rise, especially in Bogotá and Barranquilla. Nevertheless, it did fall considerably in all the main cities in the second half of the year (see table 11 and figure 3).

Figure 2
 COLOMBIA: COFFEE PRICES ON THE NEW YORK COMMODITY EXCHANGE⁸
 (Dollars per pound)

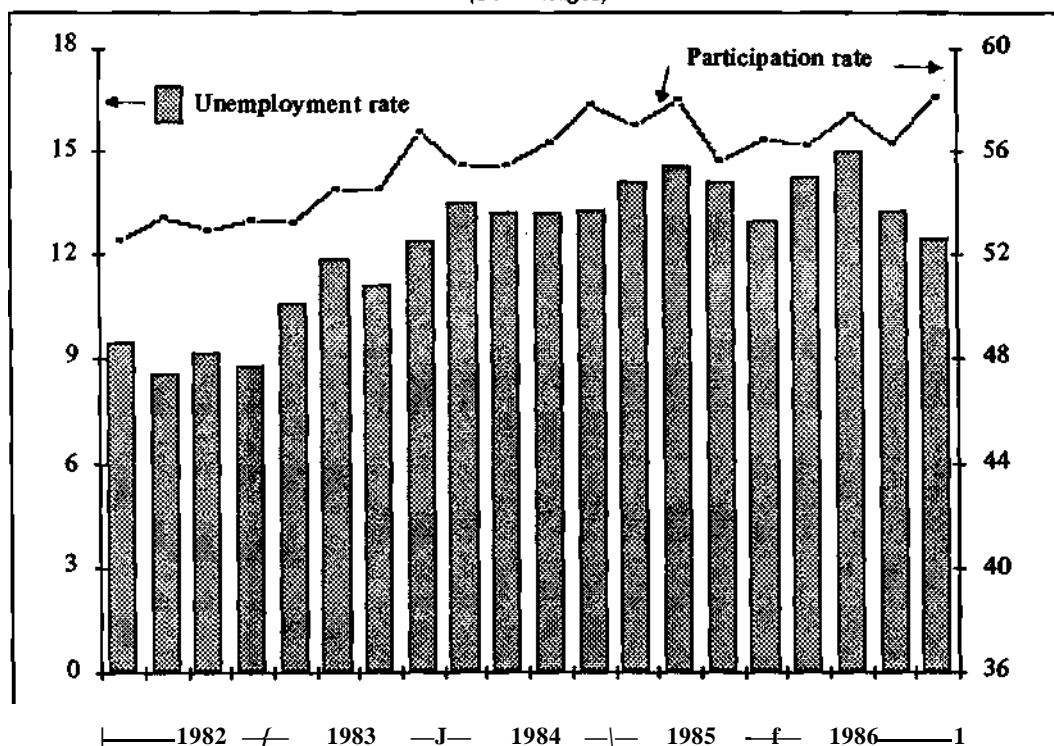


Source: ECLAC, on the basis of data supplied by the National Coffee-Growers' Federation.
^a"Other milds" variety.

¹During 1986, smuggling of consumer goods —in particular foodstuffs— from Venezuela became noticeably more intense due to the pronounced difference in prices between the two countries throughout most of the year.

Figure 3

COLOMBIA: QUARTERLY EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT
IN THE FOUR MAIN CITIES
(Percentages)



Source: EC LAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

3. The external sector

The external position markedly improved in 1986 owing to the large increase in coffee exports, the effects of the exchange policy, and easier access to external financing.

Due to the drought which affected Brazil, the world's leading coffee producer, the price of coffee on the international market rose substantially as from the end of 1985, soaring in a few months to its highest level in this decade. Because of this, in February 1986 the quota-fixing mechanism agreed upon in accordance with the International Coffee Agreement was suspended. Although as a result of this change the price fell slowly in the ensuing months, so that towards the end of the year it had fallen below the level recorded at the start of 1985, its yearly average was nevertheless a third higher than that recorded the previous year (see figure 2). Consequently, both the terms of trade and the purchasing power of exports rose sharply, and for the first time during the decade the terms of trade exceeded the level reached in 1980 (see table 12).

The rise in the price of coffee on the international market and the considerable expansion of the volume of this commodity exported helped coffee sales abroad to increase to almost US\$3 billion: 74% more than the previous year.

Despite the improvement in the terms of trade, the policy of regular devaluation of the Colombian peso with respect to the dollar at a rate exceeding internal inflation was maintained. Due to this and to the fall in the United States currency with respect to other main currencies, the real effective exchange rate rose considerably for the second year running, registering an increase of almost 50% over the last three years (see table 13).

This policy particularly benefitted exports of manufactures, the value of which rose by more than 30%. Even greater was the increase recorded in external sales of coal, which rose by 75% and were well over five times higher than those registered only two years earlier. The value of hydrocarbon exports also rose markedly as a result of the considerable increase in the domestic production of crude, despite the great fall in the price of oil on world markets. Altogether, non-coffee exports increased by nearly 23% and accounted for 47% of the total value of sales to the exterior (see table 14).

The increase in domestic production of crude and petroleum products and the fall in the international price of oil also allowed external oil purchases to be reduced to one-third of their former level. In contrast, imports of finished goods increased greatly, both because of the domestic reactivation and as a result of the policy of liberalizing imports applied during 1986. Thus, although the system of monthly budgeting of the amount of foreign exchange to be made available for imports continued to be used, the foreign exchange supplied for this purpose increased by 15% with respect to the previous year. At the same time, the number of tariff items governed by the prior licensing system was reduced considerably. This particularly benefitted purchases of consumer goods, which increased by 37%, whilst purchases of capital goods increased by 7%. Despite this, the total value of imports declined by about 7%. Due to this fall and to the even greater declines recorded in the three previous years, which were a result of the adjustment policies applied, the value of imports was 35% lower in 1986 than in 1982 (see table 15).

As a result, the trade balance for goods—which in 1982 had exceeded US\$2.2 billion—experienced a dramatic upturn, moving from a slight deficit of US\$20 million in 1985 to a surplus of nearly US\$2 billion in 1986, and despite the deficit registered once again in respect of real services, the overall trade balance recorded a surplus of US\$1.2 billion, the first in the present decade (see table 16).

In contrast, net payments of interest and profits did not vary greatly with respect to the previous year, since the effect of the fall in international interest rates was almost completely offset by the increase in the external debt balance. At the same time, private transfers increased markedly, mainly as a result of the repatriation of capital in response to the improved expectations of the economic agents and the increase in the real level of the exchange rate. Consequently, the balance-of-payments current account closed with a surplus of almost US\$500 million after six consecutive years of deficits.

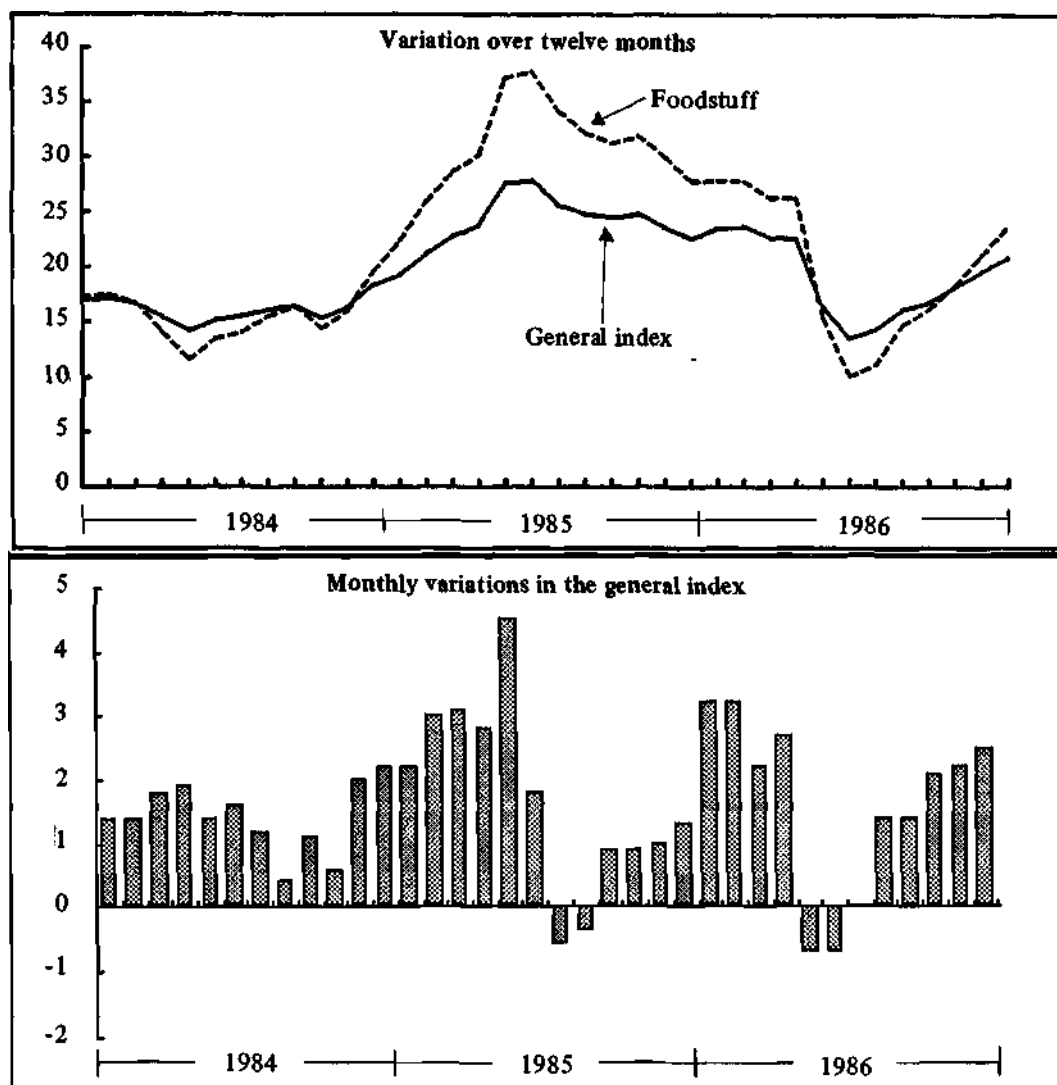
The capital account continued to show a surplus, but it was a good deal less than in previous years. This was due to the higher sums paid out in respect of amortization of the external public debt and to the policy followed in relation to indebtedness, which was directed towards reducing short-term commitments through the advance payment of some of these credits.² As a result, short-term financial operations showed a negative balance of US\$1.3 billion. At the same time, however, the long-term debt flows were maintained, including the disbursement of credit amounting to US\$1 billion contracted in 1985 with the commercial banks (the first voluntary loan granted by those banks in Latin America since 1982) and the placement of public bonds worth US\$40 million on the Japanese market.

Hence, the total external debt increased very sharply (15%), so that at the end of 1986 it stood at nearly US\$15 billion. This very large increase was due exclusively to the expansion of the public debt, since that of the private sector diminished slightly. However, due to the even greater increase which exports of goods and services experienced at the same time, the indicators which measure the debt burden improved markedly, even though their levels were double those existing at the beginning of the decade (see table 17).

The increase in the net external debt for its part, was less than 5%, since the net international reserves increased by more than US\$1.4 billion to a year-end figure of almost US\$35 billion, equivalent to eight months of imports (see tables 17 and 18).

²For example, payments were made in respect of part of the external debt of the National Coffee Fund, part of the balance-of-payments loan granted by the Andean Reserve Fund in 1985, and a significant part of the outstanding debts of a commercial nature in the public and private sectors.

Figure 4
COLOMBIA: CONSUMER PRICE INDEX
 (Percentages)



Source: ECLAC, on the basis of official data.

, 4. Prices and wages

In 1986, inflation went down slightly. The annual variation in consumer prices was 19% and that of wholesale prices 22%, both rates being somewhat lower than those recorded the previous year (see table 19). The slowdown in inflation was due almost exclusively to the reduction in the rate of increase of food prices, which in turn reflected the substantially greater availability of agricultural products, due both to the intensive smuggling of these products, especially from Venezuela, and to climatic factors. Owing to the drop in food prices, inflation fell markedly during the first half of 1986, reaching its lowest level for almost 14 years in June. In contrast, during the second half of the year prices again started to increase steadily (see figure 4).

After a year of generalized falls, wages began to increase once again in real terms as a result of the domestic reactivation and the slowdown in the rate of inflation. The most noticeable increase was recorded in commerce, reflecting the dynamism of this sector in 1986. Agricultural wages also increased significantly, thus recovering from the marked falls of the previous year. In contrast, in construction—an activity which stagnated in 1986—real wages did not vary at all (see tables 20, 21 and 22).

5. Monetary and fiscal policy

Both monetary and fiscal policies were aimed at absorbing the excess liquidity generated by the increase in income from coffee, through the raising of public and private saving levels. Thus, sales of public bonds on the financial markets increased more than three-fold and an agreement was entered into with the National Coffee-Growers' Federation to channel the bulk of the surpluses from the National Coffee Fund³ into the Central Bank. Through these measures, it was possible to absorb a large part of the expansive effect caused by the marked growth in international reserves, with the result that finally the 28% increase in the monetary base was only slightly greater than that recorded in 1985 (see table 23).

The means of payment, for their part, grew a little more slowly (23%) due to the application of a somewhat restrictive credit policy, under which credit granted to the government decreased by more than 20% whilst that given to the private sector increased at a much slower rate than in the previous year. Even so, the temporary application of ceilings on interest rates during the first half of the year caused some reactivation of the domestic credit market and in particular a significant increase in loans by the commercial banks. In these circumstances, interest rates remained at lower levels than in 1985, even after the controls imposed on them were removed at the end of June (see table 24).

As in the case of monetary affairs, fiscal policy was relatively restrictive. Due to the termination of various public works projects, especially in the energy sector, investment expenditure grew by only 20% as compared with 47% in the previous year. In contrast, the growth rate of current expenditure increased noticeably, mainly as a result of the expansionary effect of the devaluation on external debt interest payments (see table 25).

Current earnings, for their part, grew much more markedly than expenditure. Tax revenue increased by more than 40% for the second year running, benefitting this time from the domestic reactivation, the greater volume of imports of consumer goods and the increase in coffee earnings. For its part, non-tax income—profits due to exchange rate movements and income from sales of gold—was more than double that of the previous year.

As a result of these changes, the government deficit was reduced considerably for the second year running, sinking to only 1.4% of the product: the lowest figure in the last five years.

³This agreement, signed in January 1986, allowed part of the value of coffee sales to be handed over to the producers in the form of Coffee Savings Certificates (TAC), placements of which increased by 28 billion pesos in 1986.

Table 1

COLOMBIA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	102.3	103.4	105.3	109.3	112.4	118.4
Gross national income	100.0	100.3	100.2	101.7	105.1	107.3	115.5
Population (millions of inhabitants)	25.8	26.4	26.9	27.5	28.1	28.7	29.3
Per capita gross domestic product	100.0	100.1	99.0	98.7	100.3	101.0	104.2
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.3	2.3	1.0	1.9	3.8	2.8	5.4
Per capita gross domestic product	2.1	0.1	-1.1	-0.3	1.6	0.7	3.2
Gross national income	4.5	0.3	-0.1	1.6	3.4	2.1	7.7
Urban unemployment rate ^{be}	9.6	8.2	9.2	11.8	13.5	13.9	13.5
Consumer prices							
December to December	26.5	26.7	23.9	16.7	18.3	22.7	20.7
Variation between annual averages	27.2	28.1	24.6	19.8	15.9	24.6	18.6
Real wages and salaries ^c	0.8	1.4	3.7	5.0	7.5	-3.2	4.9
Money	27.9	21.2	25.4	25.5	23.2	27.5	22.8
Current income of government	32.5	18.6	21.2	25.8	26.6	46.1	46.5
Total expenditure of government	50.3	31.6	35.5	18.4	34.8	23.8	30.5
Fiscal deficit/total expenditure of government	7.0	27.1	34.9	30.8	34.8	23.3	13.9
Fiscal deficit/gross domestic product	0.7	0.5	4.1	3.5	4.2	2.6	1.4
Current value of exports of goods and services	17.3	-19.4	3.2	-14.5	36.5	-9.2	38.2
Current value of imports of goods and services	38.9	10.5	11.3	-14.0	-7.6	-6.9	6.3
Terms of trade (goods and services)	-1.9	-11.4	2.6	3.2	2.1	-8.9	6.2
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-126	-1726	-2 269	-1970	-149	-255	1 226
Net payment of profits and interest	245	478	954	1 197	1 552	1 599	1 505
Balance on current account	-207	-1 962	-3 056	-3 022	-1 411	-1 412	495
Balance on capital account	1 115	1 941	2 180	1 181	1 038	1 694	921
Variation in net international reserves	1 302	220	-719	-1 748	-1 039	281	1 466
External debt	6 457	8 042	9 528	10 554	11 611	12 847	14 761

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bPercentages. ^cAnnual average rate in Bogotá, Baianquilla, Medellin and Cali. National index for manual workers. ^dAverage real wages of manual workers in manufacturing. ^eSurplus.

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown			Growth rates			
	1984	1985	1986°	1975	1980	1986°	1983	1984	1985	1986°
Total supply	107.6	108.9	114.4	111.7	116.3	112.4	0.4	2.3	1.2	5.1
Gross domestic product at market prices	109.3	112.3	118.4	100.0	100.0	100.0	1.9	3.8	2.8	5.6
Imports of goods and services	97.5	87.9	90.1	11.7	16.3	12.4	-8.1	-6.9	-9.8	2.6
Total demand	107.6	108.9	114.4	111.7	116.3	112.4	0.4	2.3	1.2	5.1
Domestic demand	108.6	110.7	114.4	94.4	100.4	97.0	1.8	-1.2	1.9	3.4
Gross domestic investment	109.8	96.9	94.9	16.1	18.7	15.0	-2.2	-5.9	-11.7	-2.1
Gross fixed investment	112.1	108.3		15.3	16.8		1.2	1.2	-3.3	
Construction	119.4	119.4		9.3	9.1		4.6	2.0	-	
Machinery and equipment	103.4	95.3		6.0	7.7		-3.0	0.3	-7.9	
Changes in stocks				0.8	1.9					
Total consumption	108.3	113.8	118.9	78.4	81.7	82.0	2.9	-0.1	5.1	4.4
General government	112.3	111.7	115.1	8.7	10.1	9.8	-0.6	4.1'	-0.5	3.0
Private	107.8	114.1	119.4	69.7	71.6	72.2	3.4	-0.7	5.9	4.6
Exports of goods and services	101.2	97.7	114.6	17.3	15.9	15.4	-11.4	34.8	-3.5	17.3

Source: ECLAC, on the basis of official figures.

'Preliminary figures.

Table 3

**COLOMBIA: GROSS DOMESTIC PRODUCT,
BY KIND OF ECONOMIC ACTIVITY"**

	Indexes (1980 = 100)			Percentage breakdown			Growth rates			
	1984	1985	1986*	1975	1980	1986*	1983	1984	1985	1986*
Gross domestic product	109.3	112.3	118.4	100.0	100.0	100.0	1.9	3.8	2.8	5.4
Goods	109.1	112.6	118.8	52.0	49.6	49.8	3.7	5.2	3.1	5.6
Agriculture ^c	105.9	106.1	108.3	20.3	19.4	17.7	2.8	1.8	0.1	2.1
Mining	149.3	189.1	240.3	3.1	2.3	4.6	14.2	22.0	26.6	27.1
Manufacturing	102.9	105.2	113.3	24.0	23.3	22.3	1.1	6.0	2.3	7.7
Construction	133.9	138.5	130.4	4.7	4.7	5.2	13.0	6.4	3.4	-5.8
Basic services	111.6	114.1	121.2	9.2	10.2	10.5	-0.5	2.9	2.2	6.3
Electricity, gas and water	113.8	117.0	122.0	12	13	14	15	5.1	2.8	4.3
Transport, storage and communications	111.3	113.6	121.1	8.0	8.9	9.1	-0.8	2.6	2.1	6.6
Other services	110.2	112.3	117.8	39.7	39.9	39.4	1.4	1.5	1.8	4.6
Commerce, restaurants and hotels	105.0	107.8	114.5	13.8	13.3	12.8	-0.4	2.0	2.7	6.2
Financial institutions, insurance, real estate and business services	111.5	114.6	119.1	13.7	13.7	13.8	4.5	-2.7	2.8	3.9
Ownership of dwellings	115.0	119.0	123.5	7.4	7.0	7.3	4.0	3.5	3.5	3.7
Community, social and personal services	113.1	113.0	117.2	12.2	12.9	12.8	-0.3	5.7	-0.1	3.7
Government services	115.7	115.8	119.8	6.9	7.7	7.8	-2.0	8.9	0.1	3.5
Adjustments										
Minus: commission for bank services	110.0	109.7	113.0	2.6	2.5	2.4	3.7	-18.7	-0.3	3.0
Plus: import duties	95.1	106.4	115.7	1.7	2.8	2.7	-8.5	-10.5	11.8	8.8

Source: ECLAC, on the basis of official figures.

"At constant 1980 market prices.

Preliminary figures.

^cIncludes livestock sector, forestry and fishing.

Table 4
COLOMBIA: INDICATORS OF AGRICULTURE PRODUCTION

	1980	1983	1984	1985	1986 ^a	Growth rates				
						1982	1983	1984	1985	1986 ^a
Index of agricultural production (1980= 100)	100.0	104.1	105.9	106.1	108.3	-1.9	2.8	1.8	0.1	2.1
Production of the main crops (thousands of tons)										
Cereals										
Rice	1 798	1 780	1 696	1 798	1 632	12.9	-11.8	-4.7	6.0	-9.2
Maize	854	864	864	763	788	2.0	-3.8	-	-11.7	3.3
Sorghum	431	595	590	499	600	8.3	3.3	-0.8	-15.4	20.2
Wheat	46	78	59	76	82	14.5	9.9	-24.4	28.8	7.9
Oilseeds										
Raw cotton	353	130	243	340	338	-57.9	-15.6	86.9	39.9	-0.6
Soya	155	122	94	104	167	11.2	23.2	-23.0	10.6	60.6
African palm ^c	70	102	119	125	133	6.5	20.0	16.7	5.0	6.4
Subsistence foods										
Beans	84	82	80	99	104	-1.4	12.3	-2.4	23.8	5.1
Potatoes	1 727	2 188	2 463	1 910	2 091	2.1	1.8	12.6	-22.5	9.5
Cassava	2 150	1 615	1 386	1 367	1 338	-27.8	4.1	-14.2	-1.4	-2.1
Others										
Sugar cane	1 164	1 351	1 118	1 367	1 288	15.9	1.5	-17.2	22.3	-5.8
Cane for panela (unrefined sugar)	988	780	794	1 161	1 218	-5.5	-11.8	1.8	46.2	4.9
Coffee ^e	931	824	694	676	643	-9.9	13.2	-15.8	-2.6	-4.9
Bananas	944	964	1 104	999	1 026	3.3	-16.0	14.5	-9.5	2.7
Tobacco	47	48	35	27	25	-2.0	-2.0	-27.1	-22.9	-7.4
Slaughtering of livestock (thousands of head)										
Beef ^f	1 554	1 484	1 580	1 549	1 511	-5.2	-4.8	6.5	-2.0	-2.5
Pork	766	709	739	693	751	-6.8	8.8	4.2	-6.2	8.4

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture, the Banco de la República and the National Coffee-Growers' Federation.

^aPreliminary figures. Agricultural year. ^eProduction of oil pulp. Production of raw sugar. ^fCoffee-growing year: 1 October to 30 September. Does not include slaughtering of livestock for export.

Table 5

COLOMBIA: PHYSICAL INDICATORS OF THE COFFEE SECTOR

	Thousands of 60-kilo bags					Growth rates			
	1980	1983	1984	1985	1986"	1983	1984	1985	1986"
Production	12 073	13 746	11 562	11 260	10 712	13.4	-15.9	-2.6	-4.9
Domestic consumption	1 689	1 640	1 622	1 849	1 969	2.8	-1.1	14.0	6.5
Exports	11 103	9 210	10 198	10 037	11 120	4.0	10.7	-1.6	10.8
Stocks		12 747	12 643	12 015	9 339	28.6	-0.8	-5.0	-22.3

Source: ECLAC, on the basis of data supplied by the National Coffee-Growers' Federation.
 "Preliminary figures. At the end of the period.

Table 6

COLOMBIA: EVOLUTION OF COFFEE PRICES

	External price"	Repayment price	Domestic price ^c
Annual averages			
1980	1.56	252.3	8 663
1981	1.30	188.8	9 453
1982	1.42	208.6	11 171
1983	1.34	195.7	13 010
1984	1.46	206.1	15 429
1985	1.48	210.3	19 509
1986	1.95	319.3	37 507
At end of period:			
1985			
March	1.43	206.0	18 100
June	1.43	209.0	19 350
September	1.35	204.0	20 700
December	2.00	315.0	24 375
1986			
March	2.40	370.0	37 875
June	1.77	271.3	39 500
September	2.00	294.4	39 500
December	1.36	232.8	41 250

Source: ECLAC, on the basis of statistics from the Banco de la República.

"Dollars per pound. Corresponds to the New York commodity market quotation for the variety "other milds", plus \$0.02.
 Minimum price in dollars per 70-kilo bag of unroasted coffee that the exporter must repay to the Central Bank.
^c Pesos per 125-kilo load of parchment coffee.

Table 7

COLOMBIA: INDICATORS OF MINING PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates				
						1982	1983	1984	1985	1986"
Gross mining product (index: 1980 = 100)	100.0	130.7	149.3	189.1	240.3	1.8	14.2	22.0	26.6	27.1
Volume of output of the principal products (thousands of tons)										
Coal	3 901	5 990	6 637	8 974	10 703	10.3	10.8	14.3	35.2	19.3
Iron ore	491	453	444	439	508	8.5	-2.1	1.8	-1.1	11.6
Nickel ore		108	684	482			532.1	25.4	-29.5	
Petroleum	45.9	57.0	61.2	64.4	110.3	5.5	7.3	10.1	5.3	71.3
Gold'	497	779	731	1 142	1 279	-11.0	-6.2	69.5	56.5	12.0
Silver^	40.5	143.9	153.4	168.7	186.8	-6.8	6.6	15.9	10.0	10.7
Platinum^	14.3	11.7	10.1	11.6	14.4	-19.7	-13.4	-1.9	13.9	23.3
Salt	887	684	800	730	729	-40.9	16.9	15.3	-8.7	-0.2

Source: ECLAC, on the basis of statistics supplied by the Banco de la República.

"Preliminary figures. Millions of 42-gallon barrels. ' Thousands of Troy ounces.

Table 8

COLOMBIA: PETROLEUM INDUSTRY INDICATORS

	1980	1983	1984	1985	1986"	Growth rates				
						1982	1983	1984	1985	1986"
Millions of barrels										
Production										
Extraction of crude oil	45.6	55.5	61.2	64.4	110.3	6.0	7.3	10.1	5.3	71.3
Output of petroleum products	58.7	69.2	69.1	69.3	79.9	1.5	9.3	-0.2	0.3	15.3
External trade										
Imports of crude oil	7.3	13.8	9.8	6.7	-	-5.0	88.8	-29.2	-31.1	
Imports of petroleum products	13.0	7.4	5.7	9.4	7.7	-0.8	-33.4	-22.7	63.8	-17.8
Exports of crude oil	-	-	-	-	31.3					
Exports of petroleum products	9.5	15.7	16.9	19.0	20.5	15.2	30.9	7.2	12.5	8.1
Millions of dollars										
Total exports	241	383	445	454	651	7.5	31.4	16.3	1.9	43.6
Total imports	701	622	443	454	126	-2.9	-6.2	-28.8	2.4	-72.3
Energy balance	-460	-239	2	-	525					

Source: ECLAC, on the basis of statistics supplied by the Banco de la República and the Ministry of Mining and Energy.

"Preliminary figures.

Table 9

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION

(Growth rates)

	1981	1982	1983	1984	1985	1986"
Total	-2.8	-3.1	-1.1	9.8	3.0	7.1
Consumer goods	-2.7	-4.5	0.4	8.8	6.0	
Food	-6.5	-1.5	3.4	12.3	9.7	0.9
Beverages	-2.6	-6.1	6.1	4.4	6.8	2.9
Tobacco	8.1	4.9	1.9	13.8	6.7	1.0
Textiles	2.3	-6.5	-7.6	12.6	4.9	10.1
Clothing	1.1	-7.8	-9.4	9.3	-9.9	3.0
Leather and leather products	2.9	-7.2	-18.9	2.2	-2.3	18.8
Footwear	2.7	-9.9	1.6	-14.9	-2.6	6.1
Wooden furniture	-8.5	-22.3	-14.6	4.5	4.8	-8.4
Printing, publishing and allied activities	-5.9	1.8	-7.1	-18.3	-8.0	6.3
Earthenware, pottery and porcelain articles	-4.0	-3.4	-9.3	5.2	9.7	15.4
Miscellaneous industries	-6.6	-26.1	12.3	23.4	9.5	6.5
Intermediate goods	-2.5	0.9	4.3	8.0	7.0	...
Wood industry	6.0	6.7	-3.8	1.3	2.2	3.3
Paper and paper products	-2.1	-4.1	-1.7	12.1	7.8	4.3
Industrial chemicals	-12.4	0.8	14.3	23.3	8.8	10.9
Other chemical products	-5.3	6.8	-3.7	7.4	14.4	12.4
Petroleum products	12.8	0.1	10.0	1.4	4.6	14.4
Other petroleum and coal products	-2.2	5.3	7.6	-0.5	22.9	-1.9
Rubber products	5.5	-10.0	-6.1	8.6	3.1	-1.2
Plastic products	-6.2	-	7.1	-7.1	-7.9	18.2
Glass and glass products	-2.9	-0.8	-3.5	-4.2	23.2	1.3
Other non-metallic mineral products	-2.1	4.1	-2.7	14.8	-2.7	6.6
Basic iron and steel industries	3.9	5.5	8.9	-7.8	1.8	7.7
Basic non-ferrous metal industries	0.2	-9.6	0.4	-8.9	-0.1	19.8
Capital goods	-3.5	-7.2	-11.3	20.1	-14.0	>
Metal products, excepting machinery	-5.7	-5.4	-0.7	7.0	-1.5	13.1
Machinery, excepting electrical equipment	-1.1	-2.6	-16.6	-2.2	-28.4	16.1
Electrical machinery and equipment	7.2	-2.5	-15.7	0.8	-3.1	5.3
Transport equipment	-11.6	-15.5	-13.7	55.5	-20.0	12.4
Professional and scientific equipment	19.3	1.3	-0.7	28.4	13.2	6.2

Source: ECLAC, on the basis of data from the National Bureau of Statistics (DANE).

"Preliminary figures. Excluding coffee processing.

Table 10

COLOMBIA: CONSTRUCTION PERMITS APPROVED

	Thousands; of square metres					Growth rates				
	1980	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Total area	4 874	7 209	6 724	7 478	7 465	2.6	47.9	-6.7	11.2	-0.2
Ten principal cities	4 653	6 310	6 128	6 805	7 059	-0.5	22.5	-2.9	11.0	3.7
Bogotá	1 893	2 711	2 484	2 988	3 134	21.2	16.9	-8.4	20.3	4.9
Barranquilla	218	424	172	138	146	2.5	74.1	-59.3	-19.8	5.5
Bucaramanga	263	128	148	150	101	-48.8	-25.7	15.3	1.8	-32.9
Cali*	763	776	1 326	1 074	1 348	-33.5	29.7	70.9	-19.0	25.5
Cartagena	113	333	170	257	150	-23.3	382.6	-48.9	51.2	-41.6
Cúcuta	97	84	84	97	91	166.7	-30.0	-1.2	16.9	-5.6
Manizales	163	210	136	124	137	34.3	69.6	-35.3	-8.5	10.7
Medellin ^c	1 033	1 474	1 437	1 732	1 716	-7.0	7.6	-2.5	20.6	-0.9
Neiva	42	106	118	107	144	73.4	113.0	11.4	-9.5	35.0
Pasto	69	64	53	138	92	-5.0	14.7	-16.6	160.3	-33.6
Total area of new housing	3 836	6 033	5 960	6 427	6 341	-0.4	36.8	-1.2	7.8	-1.3
Ten principal cities	3 672	5 186	5 386	5 816	6 005	-4.9	29.9	3.9	8.0	3.2
Bogotá	1 566	2 125	2 237	2 594	2 852	15.6	16.7	5.3	15.9	9.9
Barranquilla	178	383	145	98	105	-15.8	198.4	-62.3	-32.6	7.4
Bucaramanga	236	85	104	89	86	-56.4	-32.7	22.2	-14.7	-3.5
Cali*	563	697	1 201	965	1 212	-33.5	36.6	72.4	-19.7	25.7
Cartagena	60	268	161	210	120	-43.8	553.7	-40.3	30.8	-42.7
Cúcuta	53	65	78	69	77	205.0	-35.0	20.0	-11.0	10.9
Manizales	136	171	111	89	124	-49.8	120.0	-35.2	-19.9	39.2
Medellin ^c	787	1 248	1 210	1 474	1 241	-6.2	13.2	-3.1	21.9	-15.8
Neiva	39	90	92	96	116	39.3	165.7	2.5	3.7	21.4
Pasto	54	54	47	132	72	0.8	6.9	12.2	177.0	-45.3

Source: ECLAC, on the basis of statistics supplied by the National Bureau of Statistics (DANE).

"Preliminary figures.

Includes permits approved in the metropolitan area of Yumbo.

Includes permits

approved in the metropolitan areas of Bello, Envigado and Itagüí.

Table 11

COLOMBIA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

(Percentages)

	1983	1984	1985	1986 ^e	1985				1986			
					March	July	Sep- tem- ber	De- cem- ber	April	June	Sep- tem- ber	De- cem- ber
Employment (percentage variation)												
Industry	-6.6	-1.2	-1.6	0.1	-0.7	-1.2	-1.8	-1.8	-1.3	-	0.7	3.2
Manual workers	-8.1	-1.6	-1.9	-0.5	-1.5	-1.4	-2.5	-2.4	-2.0	-0.6	0.3	3.2
Non-manual workers	-3.1	-0.5	-0.2	1.2	-0.1	-0.5	-0.2	-0.4	0.1	1.4	1.6	3.2
Commerce	-4.4	-2.7	-1.5	1.9	-0.6	-1.9	-1.7	-0.8	-0.2	2.3	3.3	3.8
Rate of participation'	54.7	56.2	56.8	57.0	57.0	58.0	55.6	56.4	56.2	57.4	56.3	58.1
Unemployment	11.8	13.5	13.9	13.5	14.0	14.5	14.0	12.9	14.1	14.7	13.0	12.3
Bogotá	9.4	12.2	12.8	13.2	13.7	13.2	12.6	11.7	14.3	14.2	12.6	11.5
Barranquilla	13.8	13.9	15.7	16.4	14.3	17.9	17.5	13.1	16.0	18.1	15.8	15.6
Medellin	17.0	16.4	16.0	15.2	16.1	16.5	15.6	15.7	15.1	17.2	14.6	14.0
Cali	11.6	13.3	14.3	12.7	13.4	15.4	15.2	13.7	12.4	13.5	12.6	12.1
Bucaramanga		9.9	10.5	8.1	11.9	10.8	10.6	8.7	9.0	7.8	7.2	8.4
Manizales		14.9	16.4	13.8	15.9	17.7	14.9	17.4	15.6	14.1	14.0	11.6
Pasto		12.2	12.7	12.9	11.0	11.5	15.8	12.5	12.0	15.6	11.7	12.3

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

"Preliminary figures. Excluding coffee processing. ^fIn the four principal cities. Percentage of economically active population of working age. In the four principal cities.

Table 12

COLOMBIA: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
	Growth rates						
Exports (FOB)							
Value	15.9	-20.8	-1.4	-4.6	43.9	-13.1	47.5
Volume	-2.8	-10.8	-4.9	-2.9	39.0	-7.7	17.8
Unit value	19.2	-11.2	3.7	-1.7	3.5	-5.9	25.2
Imports (FOB)							
Value	43.8	10.4	13.3	-16.7	-9.8	-7.3	-6.7
Volume	17.3	5.8	11.7	-8.2	-6.8	-9.9	-6.7
Unit value	22.6	4.4	1.4	-9.3	-3.2	-2.9	0.1
Terms of trade	-2.3	-15.2	2.1	7.6	5.9	-8.6	24.7
	Indexes (1980 = 100)						
Terms of trade (FOB/CIF)	100.0	84.8	86.6	93.1	98.6	90.2	112.4
Volume of exports	100.0	89.2	84.8	82.3	114.4	105.6	124.4
Volume of imports	100.0	105.8	118.1	108.5	101.1	91.1	85.0
Purchasing power of exports	100.0	75.7	73.4	76.6	112.8	95.2	139.9

Source: ECLAC, on the basis of official figures.

Preliminary figures. Volume of exports of goods, adjusted by the respective terms-of-trade index.

Table 13

COLOMBIA: EVOLUTION OF THE EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (pesos per dollar)	Indexes of the real effective exchange rate ^a	
		Exports	Imports
1970-1979	29.40	111.8	113.9
1980	47.28	100.0	100.0
1981	54.49	92.2	97.4
1982	64.08	85.9	91.2
1983	78.85	85.5	90.6
1984	100.82	90.3	97.1
1985	142.30	102.6	110.4
1986 ^o	194.31	128.2	132.8
1984			
I	91.61	90.1	96.4
II	97.43	89.8	95.6
III	103.80	90.0	97.1
IV	110.44	91.3	99.3
1985			
I	118.88	89.4	98.0
II	135.38	96.6	104.5
III	150.28	105.9	113.3
IV	164.65	118.4	125.7
1986 ^o			
I	176.88	122.7	128.7
II	188.44	124.9	130.1
III	199.40	130.7	135.0
IV	212.50	134.3	137.3

Source: ECLAC, on the basis of data supplied by the International Monetary Fund.

^aThis corresponds to the average of the indexes of the real exchange rate of the peso with respect to the currencies of the main trading partners of Colombia, weighted according to the relative importance of exports or imports, as the case may be, to or from those countries. From 1970 to 1980 these weightings correspond to the average of the period 1975-1979 and from 1981, to the average of the period 1982-1985. In the calculation the use of wholesale price indexes has been preferred. For information regarding the methodology and sources used, see the technical appendix of the *Economic Survey of Latin America 1981*. Preliminary figures.

Table 14

COLOMBIA: EXPORTS OF GOODS

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	3 147	3 623	3 883	5 638	100.0	100.0	-4.1	15.1	7.2	45.2
Coffee	1 443	1 734	1 844	2 870	51.4	52.7	-4.8	20.2	-1.3	73.7
Other products	1 704	1 889	2 171	2 665	48.6	47.3	-3.6	10.9	14.9	22.8
Petroleum and petroleum products	434	445	410	604	2.3	10.7	103.8	2.5	-7.9	47.3
Coal	17	38	121	212	0.2	3.8	21.4	123.5	218.4	75.2
Ferronickel	46	62	58	70	-	1.2	-	34.8	-6.4	20.7
Gold	177	245	365	453	7.2	8.0	4.7	38.4	49.0	24.1
Others	1 030	1 099	1 217	1 326	38.9	23.5	-24.9	6.7	10.7	9.0

Source: ECLAC, on the basis of figures supplied by the Banco de la República.

°Preliminary figures.

Table 15

COLOMBIA: IMPORTS OF GOODS

	Millions (af dollars)				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	4 464	4 027	3 734	3 486	100.0	100.0	-16.7	-9.8	-7.3	•6.6
Consumer goods	487	387	347	476	13.3	13.7	-27.9	-20.5	-2.6	37.2
Intermediate goods	2 286	2 231	2 106	1 637	52.7	47.0	-15.7	-2.4	-5.6	-22.3
Petroleum	639	445	459	155	13.1	4.4	-2.7	-30.4	-3.1	-66.2
Others	1 647	1 786	1 647	1 482	39.6	42.5	-19.8	8.4	-7.8	-10.0
Capital goods	1 691	1 409	1 281	1 373	34.0	39.4	'-14.2	-16.7	-9.1	7.2

Source: ECLAC, on the basis of figures supplied by the National Bureau of Statistics (DANE).

°Preliminary figures.

;"?"

Table 16

COLOMBIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance on current account	-207	-1962	-3 056	-3 022	-1411	-1412	495
Trade balance	-126	-1726	-2 269	-1 970	-149	-255	1 226
Exports of goods and services	5 318	4 289	4 424	3 784	5 167	4 693	6 484
Goods FOB	3 987	3 158	3 113	2 970	4 273	3 713	5 477
Real services	1 331	1 131	1 309	815	894	980	1 007
Transport and insurance	432	480	436	390	395	428	437
Travel	478	437	484	235	245	281	221
Imports of goods and services	5 444	6 015	6 693	5 754	5 316	4 948	5 258
Goods FOB	4 283	4 730	5 358	4 464	4 027	3 734	3 486
Real services	1 161	1 284	1 335	1 290	1 288	1 214	1 772
Transport and insurance	648	726	794	639	596	573	627
Travel	239	287	259	315	329	306	340
Factor services	-245	-478	-954	-1 197	-1 552	-1 599	-1 505
Profits	-87	-185	-300	-437	-441	-385	-368
Interest received	471	631	498	272	108	91	132
Interest paid	-629	-937	-1 147	-1 011	-1 177	-1 234	-1 269
Other	-1	14	-4	-21	-42	-72	-
Unrequited private transfer payments	164	242	167	145	289	442	774
Balance on capital account	1 115	1941	2 180	1 181	1 038	1694	921
Unrequited official transfer payments	1	1	2	19	10	22	-
Long-term capital	816	1641	1 615	1 528	1 821	2 057	2 402
Direct investment (net)	51	228	337	514	561	729	673
Portfolio investment (net)	-3	-2	-7	-2	-3	-1	39
Other long-term capital	768	1416	1 285	1 016	1 264	1 329	1 690
Official sector'	472	650	329	102	355	304	1 637
Loans received	639	761	505	290	645	634	2 565
Amortization payments	-128	-143	-172	-188	-290	-330	-928
Commercial banks'	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors'	295	766	956	914	909	1 025	53
Loans received	430	1 176	1 208	1 360	1 419	1 526	378
Amortization payments	-135	-410	-252	-446	-510	-500	-325
Short-term capital (net)	129	397	617	-93	-878	-206	-1 267
Official sector	-59	29	36	90	22	14	-766
Commercial banks	200	83	119	64	-188	-253	-267
Other sectors	-13	285	461	-247	-712	32	-234
Errors and omissions (net)	169	-99	-53	-273	84	180	-214
Global balance"	908	-21	-875	-1 841	-373	281	1416
Total variation in reserves (- sign indicates an increase)	-1 302	-220	719	1 748	1 039	-281	-1 466
Monetary gold	-311	-239	-169	-177	651	-170	-61
Special Drawing Rights	-14	-31	-40	-19	198	-	-140
IMF reserve position	-49	-30	-16	-81	274	-	-
Foreign exchange assets	-925	151	936	2060	-54	-231	-961
Other assets	-4	-71	8	-34	-30	120	-304
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

" Preliminary figures, subject to revision. Includes other non-factor services. 'Includes net loans granted and other assets and liabilities. Equivalent to the total variation in reserves (of opposite sign) plus counterpart items.

Table 17

COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1979	1980	1981	1982	1983	1984	1985	1986 ^a
Millions of dollars								
Balances								
Total external debt	5 303	6 457	8 042	9 528	10 554	11 611	12 847	14 761
Public ^b	3 456	4 179	5 168	6 078	6 958	8 090	9 432	11 512
Private	1 847	2 278	2 874	3 450	3 596	3 521	3 415	3 249
Servicing								
Total external debt	916	962	1 315	1 577	1 647	1 881	1 984	2 353
Amortization payments	460	333	378	430	636	704	750	1 084
Interest	456	629	937	1 147	1 011	1 177	1 234	1 269
External public debt ^c	649	542	668	936	980	1 182	1 449	1 843
Amortization payments	418	258	266	336	415	562	654	936
Interests	231	284	402	600	565	620	795	907
Percentages								
Total external debt/exports of goods and services	117.0	121.4	187.5	215.4	278.9	224.7	273.7	227.7
Servicing of debt/exports of goods and services	20.2	18.1	30.7	35.6	43.5	36.4	42.3	36.3
Net interest/exports of goods and services	4.4	3.0	7.1	14.7	19.5	20.7	24.4	17.5

Source: ECLAC, on the basis of data supplied by the Banco de la República and the International Monetary Fund
^aAt the end of September 1986. ^bAt the end of each year. 1986: at the end of September. ^cIncludes private debts
guaranteed by the public sector ^dCorresponds to the item "interest paid" in the balance-of-payments current
account. ^eInterest paid, less interest received

Table 18

COLOMBIA: NET INTERNATIONAL RESERVES^a

	1980	1981	1982	1983	1984	1985	1986
Net international reserves (millions of dollars)	5 416	5 630	4 991	3 079	1 796	2 067	3 478
Months of imports	12	11	9	6	4	5	8

Source: ECLAC, on the basis of data supplied by the Banco de la República.
^aAt the end of each year.

Table 19

COLOMBIA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986"
Variation from December to December							
Consumer price index							
Total, manual workers	26.5	26.7	23.9	16.7	18.3	22.7	20.7
Food	25.4	28.2	24.9	17.2	19.6	27.9	23.2
Total, non-manual workers	24.5	25.6	24.5	16.5	18.3	21.8	21.6
Food	26.7	28.8	25.1	17.4	18.6	28.2	24.5
Wholesale price index							
Average	25.4	23.5	24.6	18.0	21.2	23.0	24.4
Imported products	23.6	22.4	18.5	23.4	35.6	33.1	21.5
Domestic products	26.5	25.3	27.0	18.4	19.3	22.6	25.0
Agricultural products	21.3	29.3	32.3	18.5	17.8	24.4	25.0
Manufactures	30.0	20.9	20.2	16.1	22.0	20.0	24.2
Index of housing construction costs							
Whole country	26.9	22.0	21.7	16.2	21.5	20.3	27.4
Bogotá	27.4	20.2	22.0	17.2	21.1	20.6	29.1
Variation between annual averages							
Consumer price index							
Total, manual workers	27.2	28.1	24.6	19.8	15.9	24.6	18.6
Food	28.7	28.5	25.4	20.6	15.7	31.3	19.3
Total, non-manual workers	24.9	26.0	24.5	19.5	16.0	22.5	19.6
Food	28.9	29.3	25.6	20.2	15.6	29.8	20.5
Wholesale price index							
Average	24.2	53.9	15.4	6.9	18.3	24.9	22.0
Import products	25.1	25.2	28.3	23.1	16.5	25.1	21.0
Domestic products	21.9	23.5	19.0	20.4	31.9	33.3	26.8
Agricultural products	23.1	23.2	35.4	24.3	14.2	29.8	18.3
Manufactures	27.4	25.4	20.8	19.8	19.2	21.8	22.4
Index of housing construction costs							
Whole country	26.7	24.7	20.6	17.6	21.4	20.4	24.8
Bogotá	27.4	22.9	19.8	18.7	20.6	21.4	25.7

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

"Preliminary figures National average.

Table 20

COLOMBIA: LEGAL MINIMUM DAILY WAGES

(Averages)

	Pesos					Real growth rates				
	1982	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Rural wages'	234	292	371	452	560	6.1	4.2	9.6	-2.2	4.4
Urban sector										
Upper'	247	308	377	452	560	4.3	4.1	5.6	-3.8	4.4
Lower	234	292	371	452	560	6.1	4.2	9.6	-3.4	4.4

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

'Preliminary figures. Percentage variation in nominal wages, deflated by the consumer price index for manual workers. 'Crop farming, stock-raising, forestry, hunting and fishing. Applicable to the remaining economic activities. 'In the departmental capital cities and adjacent municipalities. In the remaining municipalities.

Table 21

COLOMBIA: EVOLUTION OF REAL WAGES
IN SOME ECONOMIC SECTORS

	1978	1979	1980	1981	1982	1983	1984	1985	1986"
	Index, 1980 = 100								
Industry									
Non-manual workers	97.0	98.6	100.0	102.5	105.5	110.2	115.6	113.6	116.3
Manual workers'	93.1	99.2	100.0	101.3	104.7	110.1	118.1	114.6	120.2
Construction	78.9	89.0	100.0	105.6	105.9	111.3	115.2	108.4	108.4
Commerce	93.9	97.5	100.0	103.2	108.3	108.1	109.1	104.6	113.2
	Percentage variation								
Industry									
Non-manual workers	4.2	1.6	1.4	2.5	2.9	4.5	4.9	-1.7	2.4
Manual workers'	11.5	6.5	0.8	1.3	3.4	5.2	7.3	-3.0	4.9
Construction	14.9	12.8	12.3	5.6	0.3	5.1	3.5	5.9	-
Commerce	6.8	3.8	2.6	3.2	4.9	-0.2	1.0	-4.2	8.2

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

"Preliminary figures. Average wages, deflated by the consumer price index for non-manual workers. 'Average wages, deflated by the consumer price index for manual workers. Average cost of labour in Bogotá, deflated by the consumer price index for manual workers for the same city.

Table 22

COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURAL AND STOCK-RAISING

	Current pesos					Real growth rates				
	1982	1983	1984	1985	1986°	1982	1983	1984	1985	1986"
Crop farming										
Cold (upland) areas										
With food	193	236	273	322	396	-2.0	2.1	-0.2	-5.3	6.5
Without food	275	333	392	465	578	-2.8	1.1	1.6	-4.8	7.7
Hot (lowland) areas										
With food	207	249	288	344	420	-3.4	0.4	-0.2	-4.1	5.8
Without food	291	349	408	490	604	-3.1	0.1	0.9	-3.6	7.1
Stock-raising										
Cold (upland) areas										
With food	196	238	277	327	402	-2.3	1.4	0.4	-5.3	6.1
Without food	279	334	394	466	580	-2.2	-0.1	1.8	-5.1	7.6
Hot (lowland) areas										
With food	222	268	311	370	455	-3.2	0.8	0.1	-4.5	6.5
Without food	310	371	436	522	644	-2.8	-0.1	1.4	3.9	6.9

Source: ECLAC, on the basis of data supplied by the National Bureau of Statistics (DANE).

"Preliminary figures. Average for three quarters and percentage variation with respect to same period in 1985. Percentage variation in nominal wages, deflated by the consumer price index for manual workers.

Table 25

COLOMBIA: EFFECTIVE INCOME AND EXPENDITURE
OF THE CENTRAL GOVERNMENT

	Billions of pesos				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986"
1. Current income	238.7	302.7	441.1	646.4	25.8	26.6	46.1	46.5
Tax revenue	231.6	292.0	424.5	607.3	25.3	26.1	45.4	43.1
Direct taxes	98.6	119.0	158.0	218.1	48.3	20.7	33.2	38.0
Income and complementary taxes	98.2	118.6	158.0	218.1	49.0	20.8	33.2	38.0
Others	0.4	0.4	-	-	-33.0	-	-	-
Indirect taxes	133.0	173.0	266.5	389.1	12.4	30.1	54.0	46.0
Non-tax revenue	7.1	10.7	16.1	39.1	44.9	42.3	64.4	135.5
2. Current expenditure	262.9	362.2	425.1	570.5	24.6	37.8	17.4	34.2
Consumption and transfers	242.9	325.4	375.5	502.4	26.6	34.0	15.4	33.8
Interests	20.0	36.8	49.6	68.1	19.6	84.0	34.8	37.3
External debt	16.9	27.9	36.9	52.3	10.4	65.1	32.3	41.7
Internal debt	3.2	8.9	12.7	15.8	47.2	178.1	42.7	24.4
3. Current savings (1-2)	-24.2	-60.1	16.0	75.9				
4. Capital expenditure	81.8	102.4	150.3*	180.3	2.0	25.2	46.8	20.0
5. Total expenditure (2+4)	344.7	464.6	575.4	750.8	18.4	34.8	23.8	30.5
6. Surplus or deficit (1-5)	-106.0	-161.9	-134.3	-104.4	4.4	56.3	-17.4	-22.3
7. Financing	106	161.9	134.3	104.4				
External credit	9.4	25.8	48.5	101.8				
Domestic credit	125.9	114.4	114.3	75.3				
Variation in reserves (- indicates increase)	-29.3	21.7	-28.5	-72.7				
	Coefficients (percentages)							
Current savings/capital expenditure	-296	-58.7	10.6	42.1				
Deficit (or surplus)/total expenditure	30.8	34.8	23.3	13.9				
Deficit (or surplus)/GDP	3.5	4.2	2.6	1.4				

Source: ECLAC, on the basis of statistics supplied by the Banco de la República and the Tesorería General de la República.
"Preliminary figures. Includes loans to non-financial public enterprises.

COSTA RICA

1. Recent economic trends: Introduction and summary

The economic performance of Costa Rica improved considerably over the past four years after the sharp decline in production during the period 1980-1982. During that period, inflation grew at an unprecedented rate, the exchange rate parity underwent abrupt changes, and financial imbalances reached critical proportions. This led to a drop of approximately 15 % in the per capita gross domestic product and to a widespread climate of uncertainty.

In the period from 1983 to 1985, economic policy was aimed primarily at achieving domestic stability and reducing the external payments imbalance. This objective was partially achieved, through the establishment of controls on the various factors that determine price increases and through management of the exchange rate. The implementation of this policy received substantial support from the international financial community through loans and donations from abroad. However, it was not possible to return to the rate of economic activity or to the per capita income levels that prevailed in the late 1970s.

During 1986 the economy grew by 4%, within the context of a somewhat more favourable external environment and a slight reduction in domestic financial imbalances. However, the per capita product was 10% less than the 1980 level, unemployment levels remained almost unchanged and inflation picked up again during the second half of the year (see table 1 and figure 1).

All sectors recorded better performances than in 1985, except agriculture, which was affected by the drop in production of coffee and rice, although in the first case the effects of lower output were offset by the increase in the price of this commodity in international markets. Growth in the industrial sector was particularly vigorous, aided by the favourable trend in domestic demand; in contrast, exports of manufactured goods to the rest of Central America continued to decline.

The acceleration of growth in productive activity was reflected only to a limited extent in employment levels. Such new jobs as were created were mainly in housing construction, agriculture and commerce. There are indications, however, that the informal sector continued to expand.

The factors that contributed to this economic recovery include in particular growth in private sector expenditure on investment and consumption and the marked improvement in the terms of trade. Gross investment was the most dynamic component of domestic demand, due primarily to the increase in expenditure on machinery and equipment and, to a lesser extent, on private construction. However, the overall investment coefficient continued to be lower than the 1980 level. For its part, private consumption once again increased, encouraged by a further rise in real wages and salaries and greater export earnings.

Although the net flow of resources from abroad declined significantly, the considerable reduction in the balance-of-payments current account deficit made possible an increase in international reserves. Higher coffee prices and the sharp drop in the international price of petroleum led to a marked improvement in the terms of trade. The drop in petroleum prices also permitted considerable savings in foreign exchange and facilitated the reconstitution and expansion of reserve stocks of crude. As a result, fiscal income increased both on account of greater revenue from export taxes and increased transfers from the national refining company. The drop in international interest rates also had a favourable impact on public finances and on the balance of payments.

Generally speaking, economic policy continued to be geared towards the liberalization of the economy so that market forces would determine the allocation of resources and the setting of relative prices. This involves the privatization of a number of public enterprises and services, the cessation of subsidies and other forms of State interference, and the reduction of the protection given to the system of production. The general trend was towards an open external policy, the assumption being that, in this way, the various sectors will achieve higher levels of efficiency.

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS

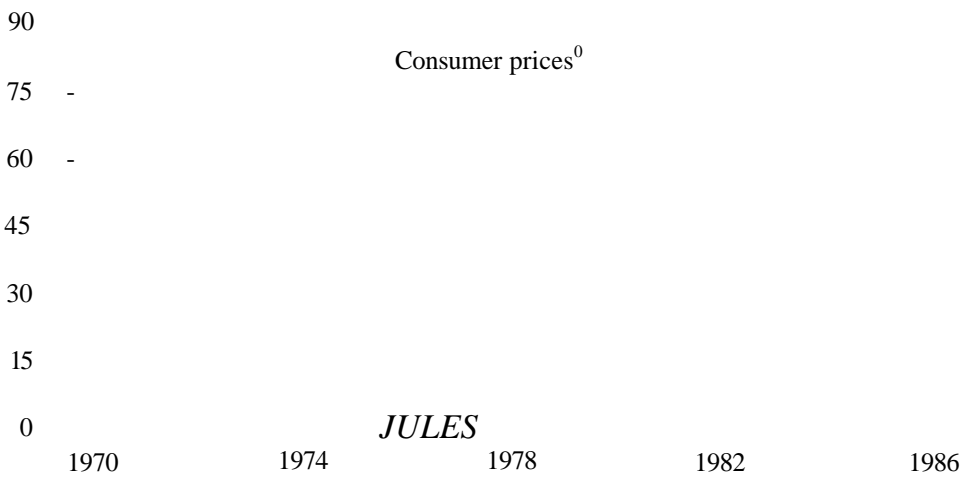
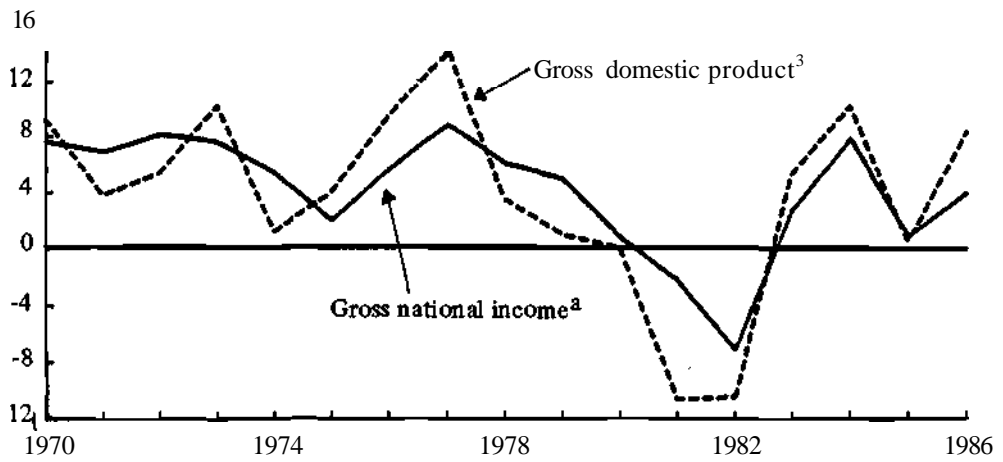
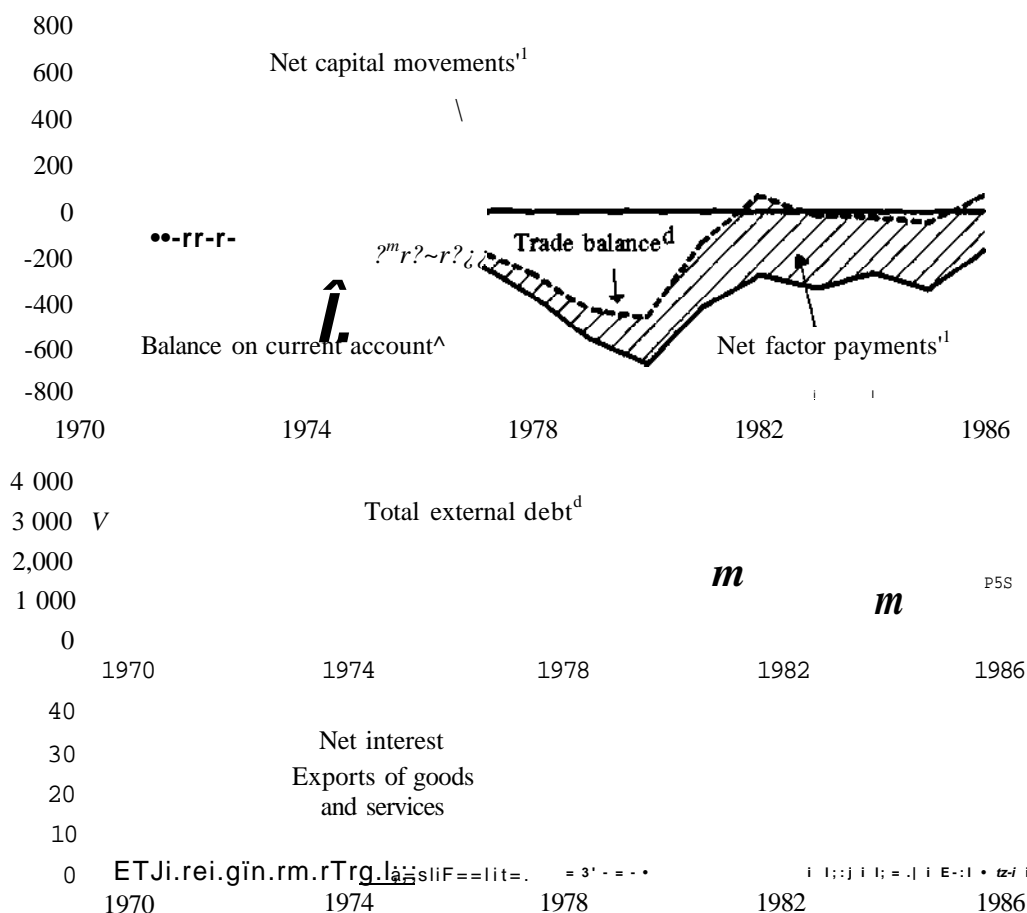


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.
^aAnnual growth rate. ^bAnnual average rate, nationwide. ^cPercentage variation from December to December. ^dMillions of dollars. Percentages.

Although in reality only limited progress was made in the desired direction, this led to controversies among the economic agents. Some of the measures adopted by the authorities stem from commitments undertaken with the international organizations with a view to renegotiating the debt and securing an increase in net inflows of capital. However, grave difficulties were encountered in attempting to fulfil those conditions,¹ since the resultant economic policy did not conform to the expectations of various social groups: a fact of special importance in a country with a long tradition of broad political participation.

A cautious monetary policy was pursued for most of the year. The practice of seeking to restrain central government financing was continued; moreover, up until November overall limits on credit for the private sector continued to be applied. The increase in the volume of money in circulation was due mainly to the substantial rise in the level of net international monetary reserves, the monetization of the resources provided by the Agency for International Development—which were channelled to the private sector—and to an expansion in net domestic credit to the National Production Council (CNP).

¹ Early in the year an allocation of US\$40 million was obtained under a structural adjustment agreement with the World Bank. At the same time steps were taken to conclude a new agreement for US\$200 million. In March a stand-by agreement with the IMF expired and negotiations were begun with a view to concluding a new agreement.

The wages policy, which sought to restore the purchasing power of wages and salaries, was a factor that stimulated demand and forestalled a further deterioration in the income distribution profile, at least as far as the labour sector was concerned.

In the area of fiscal policy, the increase in current expenditure during the first months of the year prevented any significant reduction of the central government deficit, measured as a proportion of the gross domestic product. However, this coefficient did fall for the public sector as a whole, thanks to the efforts to place the finances of public enterprises and decentralized units on a sound footing. At the same time, the policy aimed at reducing the relative size of the public sector continued to be pursued through the sale of companies which were subsidiaries of the Costa Rican Development Co-operation (CODESA).

In keeping with the economic policy agreed upon with the international financial organizations, the undervaluation of the colón was maintained, a new tariff schedule (on average offering lower nominal protection) was introduced, and new reductions in import surcharges were decreed.

Despite the relatively satisfactory performance of the economy, a number of deep-seated problems persisted and are expected to continue to affect the development of the economy in the years ahead. Firstly, servicing of the external debt continued to be a major obstacle to sustained growth, since the country had to devote a very high proportion of its export earnings to honouring its external obligations. Against this background, a new round of negotiations related to those being held with the international financial agencies was initiated with the private banks and the Paris Club during the year.

On the other hand, although the size of the public sector deficit in relation to the gross domestic product was successfully reduced, the relative size of the central government deficit once again increased. In order to halt this trend, the authorities submitted to the Legislative Assembly a tax reform proposal whose implementation would, according to official sources, reduce the size of the consolidated public sector deficit from nearly 6% of the GDP to 4%. In 1986, however, the central government had to finance a high proportion of its expenditure by placing bonds on the domestic stock market. This move, apart from channelling a sizeable share of national savings to the central government, obliged the monetary authorities to transfer a large part of the resources of the financial market to the public treasury, which made it difficult to sell the monetary stability bonds.

At the same time, there was heightened debate on the question of the new development strategy, which seeks to reduce the economic role of the State and to increase the process of opening up the economy to the outside world. In fact, the aimed liberalization measures have already created a number of problems. For example, the reduction of agricultural subsidies has affected the production of staple grains, while the lowering of tariff protection may have severe repercussions on the emerging industrial sector. The dispute concerns not only the objectives of the measures already adopted and those planned for the future, but also the rate at which they should be implemented. In essence, the debate reflects the difficulties involved in the attempt to reconcile a new model of a more open economy—which seeks to achieve a high level of efficiency—with the traditional form of organization in Costa Rica, where the State has played a decisive role in bringing about past achievements in the areas of equity and fairness of distribution.

2. Trends in economic activity

a) *Total supply and demand*

Total supply grew by more than 5% as a result of the slight increase in domestic economic activity and the considerable increase in the volume of imports (see table 2). The gross domestic product, for its part, grew by 4% following its slight increase the previous year. Purchases of goods and services grew by more than 10% in real terms, thus continuing for the fourth consecutive year their trend towards recovery after the drastic decline (-40%) suffered in the 1980-1981 biennium. Contributing to this increase were the high elasticity of imports for the productive sector, increased foreign exchange earnings on account of the recovery of the international prices for some of the main traditional export products, and the high rate at which exports of new products requiring imported inputs continued to grow.

As in 1985, the increase in total demand was due largely to the strength of domestic demand. On this occasion, however, the effects of the recovery of exports of goods and services also played a part.

Gross domestic investment grew very rapidly (15 %), on account of the large build-up of stocks, particularly of coffee, and the 9% increase in fixed investment. Private sector capital formation increased substantially, more than compensating for the slight decline recorded in public sector investment. While residential construction expanded considerably, investment in major public works was restricted by the smaller availability of external resources and the limitations imposed by the need to control the fiscal deficit. The last-mentioned factors also explain why government consumption once again grew only slightly. Indeed, it is likely that its increase of barely 2% may have led to some deterioration in the quantity and quality of a number of public services (such as education, health, social security, family allowances, etc.) which directly affect the level of well-being of a broad sector of the population.

Private consumption, in contrast, increased by more than 4% thanks to the growth in real wages and salaries and the higher incomes received by own-account workers in the export sectors. Even so, however, because of the steep decline suffered in the 1981-1982 biennium it still did not recover its 1980 level.

b) *Evolution of the main sectors*

In almost all sectors, production grew faster than in 1985 (see table 3). This was particularly true of the basic services activities (6%), in which the production of electrical energy recovered from the previous year's decline. The goods-producing sectors grew more slowly than services, on account of the virtual stagnation of agriculture, which was in contrast with the vigorous growth of manufacturing.

i) *The agricultural sector.* The changes in the direction of economic policy were also largely reflected in the agricultural sector. Since early in the past decade a policy had begun to be structured which was aimed at achieving a satisfactory level of food security and, through the provision of subsidies, correcting distortions created by the market forces themselves. In contrast, the new economic policy, which reinforces that applied since the start of the present decade, tends to severely limit subsidies and other forms of State intervention, even when this involves the temporary reduction of certain activities which are not internationally competitive.

While the sectoral product failed to record even a 1% increase, the performance of the individual items was very dissimilar (see table 4). Coffee production fell by 6%, mainly owing to cyclical factors which brought about a decline in productivity, whereas the production of bananas increased by 7% following its sharp drop in the previous year. This increase was due both to greater productivity resulting from technical improvements to the fertilization and drainage systems, and to the rehabilitation of a large banana-growing area that had been damaged by heavy winds during the previous season. Export taxes on this product, which had already been lowered the previous year, were further reduced from 55 cents per box on 31 December 1985 to 27 cents in 1986. These measures were supplemented by an export promotion plan which provided for the establishment of a US\$10 million fund to finance the planting of crops in high yield areas, in replacement of areas with lower yields. These efforts were designed to restore the production levels and the jobs lost in 1985, when a transnational corporation suspended its operations owing to the financial problems of its parent company.

Sugar cane production declined by almost 1%, mainly through reduction of the area under cultivation in face of the uncertainty which the cut in the quota granted by the United States created in the international market. This quota was set at only 35 000 tons, as against just over 52 000 tons in 1985, and it is likely to be reduced still further. The cocoa crop, on the other hand, again increased (9%), due to a sizeable expansion of the area in which modern methods of cultivation are used.

As regards the production of staple grains, only that of rice fell (-7%), as a result of the policy aimed at reducing the accumulation of excess stocks and at avoiding exports at prices below production costs, and also due to shortfalls in anticipated yields. In contrast, the bean harvest increased by 16% to unprecedented volumes, thanks to the use of better production techniques and to the price-support policy. After a two-year upward trend, sorghum production almost stagnated; the 1985/1986 harvest was very favourable, since there were increases in both the area cultivated and in yields, but the 1986/1987 harvest is expected to yield much less, since the gradual elimination of

subsidies will lead to a significant contraction of the area sown and yields will decline. Short-cycle oilseeds—cotton and soya—suffered a sharp drop in international prices. Cultivation of the African palm, for its part, continued to expand on account of the favourable evolution of both domestic and export prices.

Among the new agricultural items, increases were recorded in the production of macadamia nuts, cardamom, ornamental plants, and flowers, whose prospects in external markets are good.

Stock-raising activity grew slightly, mainly on account of increased slaughtering of beef cattle for meat exports and the authorization to sell cows abroad. Although there was no shortage of supply on the domestic market, it is likely that the national stock of cattle diminished.

The agricultural policy pursued by the new administration reflected substantial changes in the institutional support framework for the sector. The National Production Council (CNP), a body set up to regulate the production of staple grains, was transformed into the executing agency of the development policy aimed at making agriculture more efficient. Also of importance was the commencement of operations by the National Rice Bureau, which completely severed the CNP's connection with the production of this staple. Lastly, the Ministry of Agriculture and Stock-raising underwent substantial restructuring, including the setting up of a Planning Board to co-ordinate and focus institutional efforts in the area of agricultural activity.

ii) *Manufacturing.* Following its recovery in the previous three years from the severe crisis that affected it during the 1981-1982 biennium, manufacturing activities expanded by over 7%, making it the most dynamic sector in the economy (see table 5). This growth was helped by efforts to strengthen the domestic market and by the stimulus of external demand, particularly from extra-regional markets, within the framework of the government policy of promoting exports. In contrast, exports to the countries of the Central American Common Market declined even more than in 1985.²

Of particular note was the dynamic growth in the metal products and machinery industry and in the production of intermediate goods, especially petroleum refining. The metal products and machinery branch increased its production by 15%, although levels of output continued to be lower than in 1980. The spectacular growth in petroleum refining (51%) is due to the policy aimed at reconstituting stocks of hydrocarbons, taking advantage of the drop in the prices of crude on the international market.

With regard to consumer goods, the printing and publishing sector grew at a faster rate than the sector as a whole. Lastly, the rate of expansion in the sector of foodstuffs, beverages and tobacco, which has a heavy weighting among manufactured goods, fell to around 3%, due to contractions in sugar refining and coffee processing.

The employment created through manufacturing activity rose by only by 1%. This feeble increase, which was a good deal less than that of the labour force, shows the scant possibilities of relieving unemployment offered by the manufacturing sector, with the possible exception of the emerging subcontracting industry.

iii) *Construction.* The value added in this sector increased by only a little over 1% for the second year running.³ This result was due to the sluggishness of public investment, mainly caused by the completion of a number of infrastructural works, budgetary limitations and the reduced inflow of resources from abroad. In contrast, the area constructed expanded by more than 17% (see table 6). This result was helped by the measures adopted by the government to streamline the procedures for requesting loans and the availability of credit resources for housing. In this regard, the establishment of the Housing Bank and the Credit System of the National Institute of Housing and Urban Affairs (INVU), played an important role.

iv) *The electricity sector.* The generation of electrical energy rose by almost 4.5% as the result of a recovery in the production of hydroelectricity. Nevertheless, this output was much lower than in 1984, when heavy rainfall, which considerably increased the water level in reservoirs, coincided with the start-up of operations of the Arenal-Corobici plant (see table 7).

²In line with this growth profile, the importance of the manufacturing branches which are most closely linked to the Central American market—and which have not been able to adapt to the decline of that market—has been decreasing. This is the case, for example, of textiles, leather and footwear, where the increase in domestic demand has not been able to compensate for the above-mentioned decline.

³For methodological reasons this estimate did not include improvement work in agriculture, which in 1986 came to an appreciable amount. If this had been taken into account, construction would have registered an increase of approximately 6%.

Work continued on the 97 000 kW Ventanas-Garita hydroelectric project (scheduled to begin operations in the second half of 1987) as well as on the related transmission facilities. Another noteworthy achievement was the completion of work on the interconnection of the electricity system with Panama, which included the expansion of substations and the construction of a transmission line. Work was also completed on the project designed to supply adequate energy to the southern part of the Nicoya peninsula.

Domestic consumption of energy, particularly for residential purposes, again rose rapidly. The increase in the consumption of energy for residential purposes has been largely due to subsidized tariffs and extensive programmes to provide electricity services to rural areas. As a result of this, and notwithstanding its increased output, the country over the last few years has become for the first time a net importer of electrical energy to cover its domestic needs, purchasing electricity from Honduras.

c) *Employment and unemployment*

According to official reports,⁴ between July 1985 and July 1986 more than 30 000 new jobs were created, thus reducing the national unemployment rate for the fourth consecutive year so that it stood at 6% (see table 8).

Unemployment has been reduced in both rural and urban areas thanks to the establishment of new companies whose production is exported out of the Central American area, as well as to the vigorous growth of the private construction sector, commerce and finance. The decline of unemployment in rural areas seems to be related to improvements to the agricultural sector achieved through the expansion of the credit programme for the sector, using resources provided by the Agency for International Development (AID), which were allocated through co-operatives. Other factors that helped to expand job opportunities were the cocoa development programme, improvements in some crops—coffee and African palm—and the undertaking of other labour-intensive activities.

According to official information,⁵ public sector employment in December was slightly less (422 fewer jobs, out of a total of slightly more than 140 000) than the level recorded 12 months previously. In keeping with the provisions of the first phase of the Structural Adjustment Programme concluded with the World Bank, the government is sticking to its commitment to reduce these posts to the number at which they stood in March 1984.

3. The external sector

In the field of external trade, 1986 witnessed a significant increase in foreign exchange earnings from exports and a moderate increase in the value of imports. The terms of trade for goods improved by almost 20%, on account of the substantial increase in coffee prices, a slight upturn in the prices of bananas and a drop in petroleum prices (see table 9). These factors, combined with a drop in international interest rates, partly offset the marked contraction in the inflow of external capital. For their part, the international reserves again increased, although to a lesser extent than in 1985. This increase, however, may turn out to be only temporary, bearing in mind the delays which have occurred in the servicing of the external debt.

As a result of the export promotion programme, exports of non-traditional products to countries outside of the Central American area recorded a further considerable increase, but it did not prove possible to halt the downward trend in sales of manufactured goods to the Central American market. For its part, the external debt continued to constitute one of the most intractable problems facing the country, since debt servicing absorbed more than half of the income earned from exports of goods and services.

a) *Evolution of the exchange rate*

The policy of gradually raising the exchange rate continued to be applied in 1986 in order to promote the growth of exports. By the end of the year, the colón had depreciated 10% in nominal

⁴See *Primer informe de gobierno*, a progress report by President Arias to the Legislative Assembly, published in the newspaper *La República* on 2 May 1987.

⁵Technical Secretariat of the Ministry of Finance, Office of the Budget.

terms against the dollar; however, the competitive position of the Costa Rican currency deteriorated slightly since the rate of depreciation was lower than the evolution of the ratio between domestic prices and prices in the United States. Furthermore, in real terms the colón appreciated against the currencies of Guatemala and El Salvador—the principal trading partners of Costa Rica in Central America—on account of the substantial devaluations of the currencies of these countries. Nevertheless, mainly as a result of the depreciation of the dollar against the yen and against the principal European currencies, the real effective exchange rate again climbed and attained its highest level since 1981 (see table 10).

b) *Merchandise trade*

The value of merchandise exports rose by more than 15%, thus substantially exceeding for the first time the levels recorded in the 1980-1981 period. This good performance was due to exports to countries outside the region, the increase in which more than compensated for the sharp drop in exports to Central America (see table 11).

Coffee exports rose by nearly 18%, thanks to the fact that the average price of this product was almost double the 1985 level. This increase more than offset the drop in the volume exported caused by the ill-advised withholding of stocks by producers in the hope of receiving better prices. In fact, prices began to decline towards the end of the year (see table 12). After the suspension of the quota system in February, negotiations were begun for a higher quota more consistent with the volume of national production, since the quota covered barely 50% of this.

In contrast with the sharp decline of the previous year, banana exports rose 10% following the rehabilitation of plantations that had been damaged by storms in 1984 and the substantial government assistance which this sector received through the Banana Development Plan. Meat exports rose substantially, thus offsetting the decline in international prices, while the value of sugar exports also increased significantly—mainly due to higher export volumes—though it remained far below the 1984 level.

Non-traditional exports to countries outside of Central America grew markedly. The vigorous government programme to promote such exports was largely responsible for their increase to a value of approximately US\$300 million: an amount higher than that received from exports of bananas. Among other products, this category includes flowers, ornamental plants, fresh fruit and wooden furniture. The promotion policy followed in previous years was supplemented in 1986 by, *inter alia*, 100% exemption from taxes on income earned from subcontracting activities. Moreover, Tax Return Certificates (CATS), which cover 15% of the FOB value of exports and which are negotiable in the stock market, continued to be used. The Free Port régime was also strengthened (with freedom in the use of currency) and, generally speaking, the entire institutional framework for promoting exports was reinforced. Substantial financial assistance was received for this purpose from the Agency for International Development (AID).

The value of merchandise imports increased by almost 4%. However, mainly as a result of the drop in the price of petroleum—which resulted in savings of approximately US\$60 million—, this modest rise concealed a considerable increase in the volume of imports for the fourth year running. Even so, this volume was still 10% less than that of 1980 (see table 13). Although detailed figures are not available, it is estimated that a large part of the increase in purchases from abroad corresponded to inputs for industry and construction, together with machinery and agricultural equipment. Imports of non-durable consumer goods, in contrast, probably remained at the same level as the year before.

Trade with other Central American countries continued to decline in 1986. The value of exports fell by 29% and the large amounts owed to Costa Rica by El Salvador, Honduras and Nicaragua obliged the Central Bank to refuse to authorize the export of certain products to these countries.

c) *Factor payments*

The negative balance on factor services decreased from almost US\$330 million in 1985 to less than US\$290 million in 1986, mainly on account of the reduction in effective payments of interest on the external public debt. From July onward, payment of interest on the public debt contracted with the commercial banks was suspended until the rates originally agreed upon are renegotiated. Despite the

fact that the servicing of this debt was resumed in October, arrears of interest amounted to US\$35 million. The drop in international interest rates —as a result of which the country saved approximately US\$30 million— prevented this amount from being greater (see table 14).

d) *The current account balance and its financing*

The negative balance on current account was reduced by more than a third, thus reaching its lowest level in the present decade. This result was due to the upswing in the merchandise trade balance and to the delays in the payment of interest. At the same time, however, the net flow of financial resources from abroad declined considerably owing to the lower transfers to the public sector and, in particular, to the sharp reduction in the inflow of long-term capital. The decrease in transfers, particularly those from the AID, was due to the suspension of planned disbursements in face of the difficulties which the country was experiencing in concluding a new agreement with the IMF. For its part, the turnaround in the performance of the long term capital account —which from a surplus of almost US\$400 million in 1985 fell to a negative balance of over US\$30 million in 1986— was due to a more than 50% decline in the value of loans received by the official sector and to a further considerable increase in amortization payments. In contrast, short-term capital movements, which during the previous three years had shown substantial negative balances, generated a surplus of US\$130 million.

The sharp drop in flows of external capital to the public sector, resulting partly from the contraction in the total amount negotiated and partly from the suspension of transfers from the commercial banks, far exceeded the increase in loans to the private sector. This led to serious problems of international liquidity, which were reflected in delays in the processing of requests for foreign exchange for import purposes.

e) *The external debt*

Although the external debt decreased for the first time in 17 years, it continued to be one of the most serious obstacles to the country's growth, since debt servicing continued to absorb more than 50 % of foreign exchange earnings. By the end of the year, the external debt stood at US\$3.7 billion, of which approximately 90% corresponded to public sector debt (see table 15).

In order to lighten the debt burden, the government requested in September a new round of negotiations with the creditor commercial banks in order to secure better conditions as regards repayment periods and rates of interest for the US\$1.6 billion owed to these entities. Using the argument that the servicing of the debt should be consistent with the country's capacity to pay, the government proposed a term of 25 years (with a seven year grace period) and the payment of a fixed rate of interest lower than the market rate. However, the negotiations were hampered by difficulties in concluding a new agreement with the IMF.

4. Prices and wages

a) *Prices*

During 1986 the modest inflation recorded since 1984 continued. The average annual increase in the consumer price index declined from 15% to 12%, but the 12-month variation to December rose from 11% to 15%, following the acceleration of the inflationary process during the second half of the year (see table 16 and figure 2).

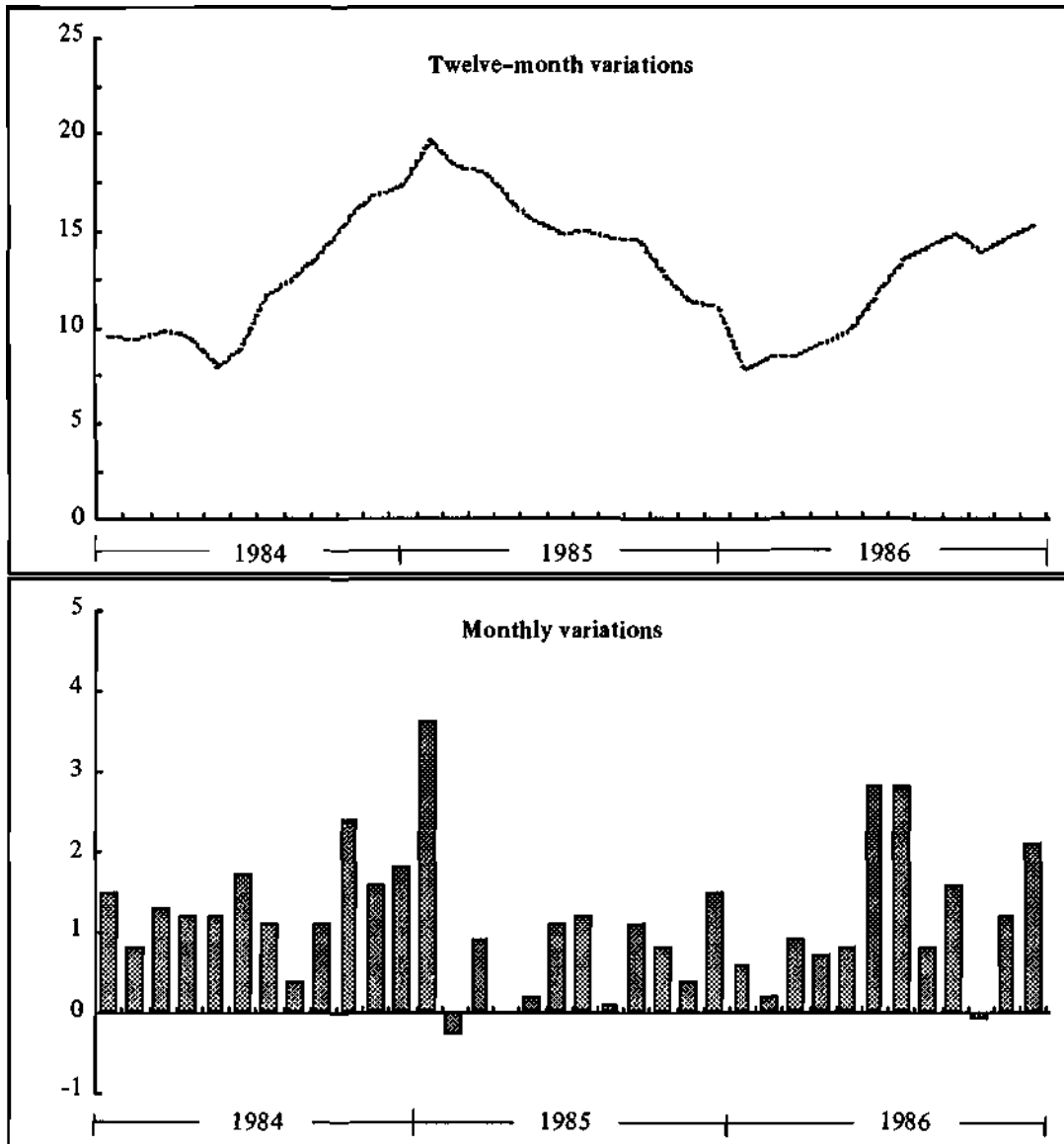
The factors that caused this trend include the excessive expansion of the means of payment associated with the fiscal deficit, and the removal of price controls for some widely-used products, for which subsidies were eliminated in keeping with the new economic policy. Moreover, devaluation continued to raise the prices of imported inputs. These factors were compounded by increases in the tariffs and prices of goods and services supplied by the public sector, particularly electrical energy (15%) and drinking water (33%), which were applied with effect from September.

Food prices rose much more than the average, on account of the marked increases in the price of basic goods such as rice, eggs and sugar, particularly in June and July.

b) *Wages*

The objective of the wages policy continued to be to restore to wages and salaries the purchasing power which they had had prior to the crisis. Under this policy, the variations in the prices of a set of widely-used products, known as the "basic wage basket", are used to determine adjustments to wages and salaries. The increase in the value of this basket, into which new products have been incorporated, exceeded for the fourth year running the increases in the consumer price index. As a result, real wages and salaries again rose, even though their purchasing power continued to be lower than before the crisis (see table 17).

Figure 2
COSTA RICA: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.

With regard to wages and salaries paid by the private sector, during the second half of the year the consumer price index began to be used as an element in determining wage increases, and from 1987 this method will be used to fix wage adjustments in the public sector.

The wages policy has enabled the economic adjustment programme to have a positive effect on production and has permitted costs to be distributed in a more or less equitable manner among the various economic agents. These results underline the effectiveness of the present labour organization in the country.

The lower minimum wage increased by almost 6% in real terms, bringing it up to a level that was 19% higher than that of 1980. However, the upper minimum wage fell by 5%, resulting in an overall loss of more than 9% in the last biennium.

5. Fiscal and monetary policy

a) *Fiscal policy*

The financial situation of the public sector improved, and the ratio between its deficit and the gross domestic product fell from 7.3% in 1985 to 5.6% in 1986. This was due to the reduction of exchange rate losses by the Central Bank and, above all, to the major effort of financial reorganization made by public corporations, which enabled them to register surpluses. Of particular note in this respect was the favourable balance of the National Production Council (CNP), which was achieved through the reduction of subsidies on staple grains and the termination of this agency's involvement in the marketing of rice.

In contrast, the central government's deficit rose from 4.1% to 7.1% of the gross domestic product (see table 18). This deterioration was due to the rapid increase in expenditure during the first quarter, when an attempt was made to complete a number of infrastructural works begun by the previous administration.

Consumption expenditure increased considerably (47%), both under the head of wages and salaries and under that of purchases of goods and services. Wage adjustments and transfers approved at the end of 1985 were implemented in 1986. The rigidities which these measures introduced into the budget were compounded by those resulting from the increases granted during the course of the year. At the same time, expenditure in respect of both current and capital transfers to public corporations and decentralized institutions rose sharply. Investment expenditure, however, underwent a further significant contraction, even in terms of current values (-10%), after its slump of the previous year (-25%), as a result of the reduced availability of external resources.

Although the current income of the central government increased by 20% in real terms, it was not sufficient to finance the sharp rise in expenditure. As regards tax revenue, income from export duties rose significantly owing to greater inflows of the *ad valorem* tax on the increased coffee sales. On the other hand, earnings from the banana tax fell by half following the reduction of the duty levied on each box exported; real earnings from import taxes also declined following the implementation of the new schedule of customs duties, whose tariffs on average offer lower nominal protection.

A factor which contributed to current income was the unscheduled transfers to the central government by the Costa Rican Petroleum Refinery (RECOPE), resulting from savings made on petroleum purchases.

The fiscal deficit of the central government constituted one of the principal obstacles to the negotiation of a new agreement with the International Monetary Fund, and it also hampered the renegotiation of that part of the external debt that was contracted with the private banks. In order to correct this situation, in December the government submitted a proposal to reduce the deficit through tax reforms designed to compensate for the lower tax earnings of recent years attributable to the incentives granted in order to promote exports and to develop tourism and activities in the areas of forestry, banana growing and co-operatives. This additional income was expected to come mainly from a tax on luxury consumption.

The fiscal deficit of the central government was financed mainly from the sale of bonds on the financial market. While such sales have led to a substantial transfer of financial resources from the private to the public sector, they have helped to push up interest rates.

As regards the para-State sector, the policy of selling off the subsidiary companies of the government-owned Corporación de Desarrollo (CODESA) was continued. Thus, several of these subsidiaries were sold, liquidated or relocated within the public sector. This process is expected to be concluded in mid-1988.

b) *Monetary policy*

Monetary and credit policy remained within the general guidelines of the agreements with the international financial organizations and was applied cautiously during most of the year, in order to keep inflation under control. During the first nine months the money supply (M_1) remained stable at about 35 billion colones, but it rose sharply in the last quarter, reaching almost 42 billion colones in December. Thus, despite efforts to implement a restrained monetary policy, the means of payment expanded by 31 % during the course of the year (see table 19). This expansion, which was largely due to the considerable increase in net international reserves, far exceeded the needs of the productive system and contributed to the resurgence of inflation in the last quarter.⁶

The monetary authorities resorted mainly to the quantitative control of credit and to open market operations (sale of stabilization bonds by the Central Bank). On the other hand, the increase in bank reserves decreed by law the previous year influenced the monetary performance in 1986 and was largely responsible for the reduction of the multiplier which relates the money supply to the monetary base. As regards credit to the public sector, an item of particular significance was the financing granted by the Central Bank to the National Production Council —both directly and through the issue of bonds— and to the commercial banks. However, a large part of the increase in credit to the public sector took the form of loans for renegotiation of the external debt; public institutions may thus appear as owing money to the Central Bank, while the latter may show up in the records as owing money to foreign creditors.

Credit to the private sector grew at a rate which was similar to that of 1985 and was slightly higher than the rate of inflation. Of particular note were loans to the construction sector, especially for the construction of dwellings. Progress continued to be made towards the gradual elimination of limits on the credit granted by the commercial banks: in fact, the monetary authorities decided to completely eliminate portfolio limits according to the destination of loans and only maintained overall limits on credit. In November, however, the latter limits were eliminated too in order to enable the banks to decide on the amount of credit which they would grant in line with the volume of deposits by the public.

In order to enhance the role of the market in the allocation of resources, in late 1986 the economic authorities authorized financial intermediaries to freely determine interest rates on loans and deposits in national currency.⁷ Partly as a result of this, interest rates throughout most of the banking system were positive in real terms. In fact, preferential rates were granted only to the agricultural sector, and transactions in this area represented only a negligible proportion of the total credit granted to the private sector.

Despite the more favourable interest rates offered, savings and term deposits in the banking system increased by only 14%, as compared with more than 20% in 1985. This slow growth was largely due to the central government's active efforts to attract financial resources by offering interest rates higher than those given by the national banking system. This reduced the possibility of providing more financing for the private sector and of the Central Bank absorbing the excess money in circulation through net sales of stabilization bonds, which represented only a quarter of the total amount of bonds issued by the central government. Furthermore, central government deposits in the Central Bank declined during the year.

⁶The build-up of the debt owed to the Central Bank by a number of public sector institutions also contributed to the growth of the means of payment. As well as suspending the servicing of the debt owed to the commercial banks, the public institutions delayed their deposits in the issuing entity, maintaining extra balances in their current accounts.

⁷In order to avoid excessive dispersion, it was laid down that the minimum lending rate should be equal to the interest rate for six-month deposits, while the maximum lending rate should be 10 percentage points greater than the minimum lending rate, with this spread being gradually reduced to eight points.

It is estimated that the inflationary impact of the exchange rate losses borne by the Central Bank⁸ was not significant, since only a small percentage of those losses was monetized, another portion was financed from external resources and its equivalent in national currency remained on deposit in that bank, and the remainder was recorded as an accounting adjustment without any monetary consequences whatsoever. As in 1985, the issuing agency tried to lessen the inflationary effect of the losses and to reduce their amount. To this end, the Central Bank increased the rate of interest paid on deposits in foreign currency and raised the rate charged to commercial banks for certain loans. In addition, the issuing agency began to use the resources of the Exchange Losses Fund, to which only the commercial banks had had access previously.

"Exchange rate losses were mainly due to the gap between the interest received on assets and the interest on liabilities in foreign currency resulting from the growing external indebtedness contracted by the Central Bank to cover the disequilibria in the balance of payments.

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
A. Basic economic indicators							
Domestic product at market prices	100.0	97.6	90.5	92.9	100.2	101.1	105.2
Gross national income	100.0	89.4	80.0	84.2	92.8	93.3	101.1
Population (millions of inhabitants)	2.28	2.34	2.41	2.47	2.53	2.60	2.67
Per capita gross domestic product	100.0	95.0	85.8	85.8	90.2	88.7	89.9
Growth rates							
8. Short-run economic indicators							
Gross domestic product	0.7	-2.4	-7.3	2.7	7.8	0.9	4.0
Per capita gross domestic product	-2.2	-5.0	-9.7	-	5.2	-1.6	1.5
Gross national income	-	-10.6	-10.4	5.4	10.2	0.6	8.4
Rate of unemployment ^c	5.3	8.3	8.4	7.9	6.4	6.3	6.1
Consumer prices							
December to December	17.8	65.1	81.7	10.7	17.4	10.9	15.4
Variation between annual averages	18.1	37.1	90.1	32.6	12.0	15.0	11.8
Real wages and salaries	0.8	-11.7	-19.8	10.9	7.8	9.0	6.1
Money	15.0	52.2	67.5	35.9	15.5	13.0	30.6
Current income of government	21.0	41.8	73.7	62.6	29.6	9.0	34.3
Total government expenditure	26.8	9.8	64.4	69.7	26.1	8.0	50.8
Fiscal deficit/total government expenditure ^b	41.8	24.8	20.5	23.9	21.8	21.0	29.7
Fiscal deficit/gross domestic product	9.1	4.3	3.4	5.1	4.7	4.1	7.1
Current value of exports of goods and services	9.2	-1.9	-5.1	1.6	12.5	-4.4	13.8
Current value of imports of goods and services	9.1	-21.4	-19.9	10.2	8.9	1.0	6.5
Terms of trade (goods and services)	0.8	-21.8	-3.0	5.7	4.0	1.5	14.3
M of dollars							
C. External sector							
Trade balance (goods and services)	-459	-127	73	-16	24	-45	42
Net payments of profits and interest	-216	-304	-374	-333	-314	-319	-276
Balance on current account	-658	-408	-274	-330	-265	-338	-209
Balance on capital account	749	358	400	377	209	410	266
Variation in net international reserves	33	-65	125	64	-84		57
Total disbursed external debt	2 209	2 687	3 188	3 532	3 752	3 742	3 739

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. Percentages. ^bAnnual average of rates based on four-monthly household surveys.

^cRefers to disbursed medium- and long-term debt.

Table 2

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1984	1985	1986 ^o	1980	1986 ^o	1983	1984	1985	1986 ^o
Total supply	94.1	95.5	100.6	134.3	128.5	4.9	8.4	1.5	5.3
Gross domestic product at market prices	100.2	101.1	105.2	100.0	100.0	2.7	7.9	0.9	4.0
Imports of goods and services	76.1	79.1	87.3	34.3	28.5	14.8	10.3	4.0	10.4
Total demand	94.1	95.5	100.6	134.3	128.5	4.9	8.4	1.5	5.3
Domestic demand	86.3	88.9	94.2	109.5	98.1	6.6	7.9	3.1	6.0
Gross domestic investment	68.5	75.4	86.7	26.6	21.9	33.1	10.9	10.1	14.9
Gross fixed investment	74.0	77.6	84.6	23.9	19.2	8.3	26.2	4.9	9.0
Construction	73.6	75.7	80.4	13.7	10.5	4.6	19.8	2.9	6.2
Machinery	74.7	80.2	90.3	10.2	8.7	14.4	35.7	7.5	12.5
Public	66.0	74.7	74.4	4.8	3.4	13.1	7.2	13.2	-0.3
Private	76.1	78.4	87.2	19.1	15.8	7.1	31.2	3.0	11.2
Changes in stocks	19.3	55.9	105.4	2.7	2.7				
Total consumption	91.9	93.2	96.6	82.9	76.2	1.9	7.2	1.4	3.7
General government	92.8	93.7	95.7	18.2	16.6	-2.9	3.9	1.1	2.1
Private	91.7	93.1	96.9	64.7	59.6	3.5	8.2	1.5	4.1
Exports of goods and services	128.5	124.7	128.7	24.8	30.4	0.1	9.6	-4.0	2.8

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

^oPreliminary figures. ^oThe figures for exports and imports of goods and services were obtained from balance of payments data expressed in current dollars, converted to current 1980 values using price indexes calculated by ECLAC for the purpose.

Table 3

**COSTA RICA: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT MARKET PRICES**

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	100.2	101.1	105.2	100.0	100.0	2.7	7.8	0.9	4.0
Goods	101.2	101.3	105.0	42.6	42.6	3.1	11.4	0.1	3.6
Agriculture	114.6	111.4	112.3	17.8	19.0	4.0	10.1	-2.9	0.8
Manufacturing'	99.1	102.2	109.5	18.6	19.4	1.8	10.4	3.2	7.1
Construction	69.0	69.9	70.8	6.2	4.2	4.7	23.6	13	13
Basic services	115.6	113.4	119.9	6.3	7.2	8.3	3.4	-1.9	5.8
Electricity, gas and water	139.3	129.0	136.7	2.1	2.8	20.2	3.2	-7.4	6.0
Transport, storage and communications	103.6	105.5	111.5	4.2	4.5	15	3.6	19	5.6
Other services	97.5	99.4	103.4	51.0	50.2	1.5	5.6	2.0	4.0
Commerce, resturants and hotels	90.8	93.2	99.4	20.1	19.0	3.2	11.4	2.7	6.6
Financial institutions, insurance, real estate and business services	107.6	110.8	115.2	11.3	12.4	3.1	3.5	3.0	4.0
Ownership of dwellings	105.3	106.9	109.6	6.0	6.3	1.0	1.6	1.5	2.5
Community, social and personal services	98.6	99.2	100.8	19.6	18.8	-0.8	1.8	0.6	1.6
Government services	98.7	99.2	100.7	15.2	14.5	-1.6	1.5	0.5	1.5

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica.

'Preliminary figures.

Includes stock raising, forestry and fisheries.

Includes the mining sector.

Table 4

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986 ^o	Growth rates			
						1983	1984	1985	1986 ^o
Index of production (1980 = 100)	100.0	99.8	109.1	105.5	107.0	2.6	9.3	-3.3	14
Crop farming	100.0	109.0	116.8	106.7	106.5	9.2	7.2	-8.6	-0.2
Stock-raising	100.0	91.1	104.4	114.3	116.5	-9.2	14.6	9.5	1.9
Forestry	100.0	55.2	58.6	58.6	77.9	-26.5	6.2	-	32.9
Fisheries	100.0	67.1	88.5	101.9	114.3	-5.3	31.9	15.1	12.2
Production of main crops									
For export									
Coffee	106	124	137	124	116	7.8	10.4	-9.5	-6.3
Bananas	1 108	1 155	1 169	1 008	1 080	0.2	1.1	-13.8	7.2
Sugar cane	2 516	2 543	2 936	2 949	2 926	4.0	15.4	0.5	-0.8
Cocoa	5	2	4	4	5	-39.0	91.5	7.5	8.6
For domestic consumption									
Rice	231	247	263	213	197	68.8	6.4	-19.0	-7.3
Maize	75	94	110	120	128	14.4	17.2	8.8	6.7
Beans	12	14	21	23	27	-12.0	44.7	10.2	16.3
Sorghum	42	32	48	54	55	15.7	52.4	13.0	0.7
Tobacco	2	2	2	2	2	46.3	22.8	-19.8	-14.3
Plantains	90	93	81	80	82	-5.1	-13.0	-1.2	2.5
Indicators of stock- raising production									
Animals slaughtered									
Cattle	118	98	123	158	161	-18.2	25.9	28.5	15
Pigs	19	19	23	25	21	5.8	22.2	11.3	-17.0
Poultry	5	5	6	6	6	36.6	21.5	0.4	-0.6
Other products									
Milk ^c	308	327	346	361	379	9.8	5.8	4.3	5.1
Eggs ["]	430	278	316	228	251	-13.3	13.7	-28.0	10.5
Indicators of forestry production									
Wood ^e	687	379	402	402	534	-26.5	6.1	-	32.9
Volume of fishery production	19	13	17	19	21	-5.3	32.0	15.1	12.2

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Thousands of tons.

"Millions of litres.

Millions of units.

Thousands of

cubic metres.

Table 5
COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1984	1985	1986''	Growth rates			
					1983	1984	1985	1986''
Index of value added (1977 = 100)	112.0	110.9	114.5	122.6	1.8	10.3	3.2	7.1
Consumer goods								
Food, beverages and tobacco	116.3	129.8	134.8	138.3	5.7	13.4	3.9	2.6
Coffee processing	134.2	173.0	156.6	146.7	7.7	10.4	-9.5	-6.3
Meat	128.2	135.7	170.3	186.5	-9.7	25.9	25.5	9.5
Sugar	104.2	132.2	132.9	125.7	6.6	24.7	0.5	-5.4
Other foodstuffs	117.0	119.5	126.6	133.3	8.4	11.0	5.6	5.6
Textiles, leather and footwear	105.7	108.1	105.8	101.2	2.5	-5.6	-2.1	-4.3
Furniture and wood	118.2	77.4	84.5	83.8	-14.1	9.5	9.2	-0.8
Printing, publishing and related industries	121.6	132.5	144.9	158.1	25.6	16.8	9.4	9.1
Other	80.7	72.2	77.7	73.0	5.0	10.1	7.6	-6.0
Intermediate goods								
Paper and paper products	145.0	163.5	163.0	165.0	23.7	-7.1	-0.3	1.2
Chemicals and rubber products	123.8	98.4	99.2	103.0	0.8	7.4	0.8	3.8
Petroleum refining	210.2	182.9	183.8	278.1	-24.6	29.9	0.5	51.3
Non-metallic minerals	128.1	124.0	128.0	136.7	13.7	30.7	3.2	6.8
Metal manufactures and machinery	138.7	72.4	77.6	88.6	-7.0	2.3	7.2	14.2
Other indicators of manufacturing production								
Consumption of electricity by industry (1970= 100)	314.7	352.1	352.8	383.9	14.5	10.3	0.2	8.8
Employment (1968 = 100)	187.6	186.3	187.2	188.3	3.8	3.2	0.5	0.6

Source: ECLAC, on the basis of figures supplied by the Central Bank of Costa Rica.
''Preliminary figures.

Table 6
COSTA RICA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1984	1985	1986''	Growth rates			
					1983	1984	1985	1986''
Area constructed (thousands of m ²)								
Permits		1 084	909	939		28.9	-16.1	3.3
Actual construction ⁰	1 110	782	963	1 132	-18.6	4.7	23.1	17.5
Cement production								
Total	431	468	475	533	-3.6	45.3	15	12.2
Sales for domestic consumption ¹	428	436	451	523	0.5	57.4	3.4	16.0

Source: ECLAC, on the basis of official figures.

⁰ Preliminary figures. ¹ Permits granted for building, extension and remodelling. ² On the basis of an estimate of the Chamber of Construction. ³ Thousands of tons. ⁴ Mainly for private construction.

Table 7

**COSTA RICA: EVOLUTION OF ELECTRICITY PRODUCTION,
CONSUMPTION AND EXPORTS**

	Millions of kWh					Growth rates			
	1982	1983	1984	1985	1986"	1983	1984	1985	1986"
Production	2 411	2 860	3 011	2 776	2 898	18.6	5.3	-7.8	4.3
Hydroelectricity	2 377	2 817	2 966	2 766	2 892	18.5	5.3	-6.7	4.5
Thermal	34	43	45	10	6	26.5	5.4	-77.7	-40.0
Consumption	2060	2 203	2 345	2 471	2 691	6.9	6.5	5.3	8.9
Residential	945	1 007	1 053	1 122	1 242	6.6	4.6	6.5	10.6
Industrial	532	610	673	675	735	14.5	10.3	0.2	8.8
Public lighting	74	74	77	81	81	0.5	4.0	5.1	
Shops and business	509	512	542	593	633	0.6	5.6	9.4	6.7
Exports	108	477	415	60	-1	343.4	-13.0	-85.5	...
Consumption plus exports	2 168	2 680	2 761	2 531	2 692	23.6	3.0	-8.3	6.3

Source: ECLAC, on the basis of figures provided by the Costa Rican Electricity Institute (ICE) and the Central Bank of Costa Rica.

"Preliminary figures.

Including electricity consumed in ICE construction projects.

Table 8

COSTA RICA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT"

	Thousands of persons				Rates		
	Labour force	Employment	Unem- ployment	Partici- pation	Unemployment		
					National	Urban	Rural
1980	779.7	738.1	41.6	35.1	5.3	6.0	4.7
1981	819.4	751.6	67.8	36.1	8.3	9.1	7.5
1982	849.4	777.6	71.8	36.6	8.4	9.9	7.1
1983	844.6	778.0	66.6	35.5	7.9	8.6	7.2
1984 ^c	859.7	805.1	54.6	35.4	6.4	6.6	6.2
1985	893.4	837.4	56.0	35.9	6.3	6.8	5.8
1986 ^d	907.6	852.2	55.4	35.8	6.1	6.7	5.5

Source: ECLAC, on the basis of figures supplied by the Ministry of Labour and Social Security and the Statistics and Census Bureau.

"Annual average of the figures recorded in the household surveys which are carried out every four months in the country. Labour force as a percentage of total population. Average of surveys carried out in March and November.

Preliminary figures for the average of the surveys for March and July.

Table 9

COSTA RICA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports							
Value	6.2	0.2	-13.3	-1.9	17.0	-6.7	15.4
Volume	-8.3	12.7	-9.2	1.2	14.6	-4.5	2.4
Unit value	15.9	-11.1	-4.5	-3.1	2.1	-2.4	12.7
Imports							
Value	9.4	-20.7	-26.2	11.6	11.0	0.8	3.8
Volume	-6.1	-23.9	-24.2	18.3	14.4	5.1	9.5
Unit value	16.5	4.2	-2.6	-5.7	-3.0	-4.1	-5.2
Terms of trade	0.2	-15.1	-2.6	2.0	3.5	1.3	18.9
Indexes (1980 = 100)							
Purchasing power of exports	100.0	95.7	84.5	87.3	103.6	100.3	122.8
Volume of exports	100.0	112.7	102.3	103.5	118.6	113.4	116.1
Volume of imports	100.0	76.1	57.6	68.2	78.0	82.0	89.8
Terms of trade	100.0	84.9	82.7	84.3	87.3	88.5	105.2

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 10

COSTA RICA: EVOLUTION OF EXCHANGE RATE

Yearly and quarterly averages	Nominal exchange rate (colones per dollar)	Real effective exchange rate indexes ^a	
		Exports	Imports
1970-1979	7.74	106.7	104.5
1980	9.23	100.0	100.0
1981	20.58	145.1	150.4
1982	38.93	128.1	129.7
1983	42.20	113.0	112.7
1984	44.52	112.8	112.3
1985	50.62	121.3	120.3
1986	56.00	130.4	125.3
1984			
I	43.40	113.6	113.8
II	43.53	112.8	110.9
III	44.18	110.8	110.2
IV	46.98	113.8	114.4
1985			
I	48.30	112.9	113.8
II	49.49	116.8	117.4
III	51.27	123.6	121.6
IV	53.42	131.7	128.5
1986			
I	54.00	126.5	123.9
II	55.29	128.0	123.3
III	56.62	132.4	126.6
IV	58.03	134.5	127.4

Source: ECLAC, on the basis of data from the International Monetary Fund, *International Financial Statistics*.

^a Corresponds to the average real exchange rate indexes for the colón in respect of the currencies of the principal countries with which Costa Rica trades, weighted by the relative importance of exports or imports to or from these countries, as the case may be. Between 1970 and 1980, these weightings correspond to the average for the period 1975-1979, while from 1981 onwards they correspond to the average for the 1982-1985 period. Wholesale price indexes were primarily used in the calculations. For the methodologies and sources used, see the Statistical Appendix to the *Economic Survey of Latin America*, 1981. Data supplied by the IMF, except for the period October 1980-December 1983, when exchange rates provided by the Central Bank of Costa Rica were used.

Table 11

COSTA RICA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	997	939	1 083	100.0	100.0	-1.8	16.9	-5.8	15.4
To Central America	193	144	102	21.3	9.4	12.0	3.2	-25.4	-29.2
To the rest of the world	804	795	981	78.7	90.6	-2.1	16.5	-1.1	23.4
Main traditional exports	600	595	687	60.0	63.5	-1.8	13.5	-0.9	15.7
Coffee	267	316	372	26.2	34.3	-2.9	16.2	18.2	17.7
Bananas	251	208	228	27.5	21.1	5.3	4.4	-17.1	9.7
Meat	44	54	66	3.5	6.1	-38.9	36.4	23.4	23.3
Sugar	36	14	19	2.7	1.8	44.0	48.5	-62.0	37.0
Cocoa	2	3	2	0.1	0.2	-58.3	50.0	66.7	-16.0
Other	204	200	294	18.7	27.1	-1.2	25.1	-2.0	47.0

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica and the Statistics and Census Bureau.
 °Preliminary figures.

Table 12

COSTA RICA: VOLUME OF MAIN EXPORT PRODUCTS

	Thousands of tons				Growth rates		
	1984	1985	1986°	1983	1984	1985	1986°
Coffee	113	123	90	14.9	4.6	8.8	-26.8
Bananas	1 020	851	941	-	0.8	-16.6	10.6
Meat	21	27	35	-41.7	50.0	28.6	29.6
Sugar	103	45	59	-1.8	90.7	-56.3	31.1
Fertilizers	30	46	33	-26.7	-14.3	53.3	-28.3

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.
 °Preliminary figures.

Table 13

COSTA RICA: IMPORTS OF GOOD, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	1 094	1 098	1 142	100.0	100.0	10.6	10.7	0.4	4.0
Consumer goods	244	244		25.5		28.9	13.2	0.3	
Durables	73	78		9.4		46.0	52.5	7.7	
Non-durables	171	166		16.1		24.8	2.1	-2.9	
Raw materials and intermediate goods	638	623		53.2		11.0	2.8	-2.4	
Petroleum and fuels	163	177	102	13.2	8.9	-2.6	-8.6	8.6	-42.4
Other	475	446		40.0		17.4	7.9	6.1	
Capital goods	212	231		21.3	»•	-9.2	39.4	9.1	
For agriculture	20	17		15		65.3	24.2	-13.8	
For manufacturing and mining	69	79		6.9		25.7	28.9	15.3	
For construction	26	21		2.6		105.7	45.3	-21.3	
Transport equipment	50	62		5.6		-49.6	62.8	22.7	
Other	47	52		4.7		-25.0	38.3	11.9	

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica and the Statistics and Census Bureau.
"Preliminary figures.

Table 14

COSTA RICA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986°
Balance on current account	-658	-408	-274	-330	-265	-338	-209
Trade balance	-459	-127	73	-16	24	-45	42
Exports of goods and services	1 198	1 175	1 116	1 133	1 275	1 220	1 388
Goods, FOB	1 001	1 002	869	853	997	939	1 083
Real services	197	173	248	280	278	281	305
Transport and insurance	48	33	57	59	60	60	55
Travel	85	96	133	133	121	122	129
Imports of goods and services	1 657	1 302	1 043	1 149	1 252	1 264	1 346
Goods, FOB	1 375	1 091	805	898	997	1 005	1 043
Real services	283	213	238	250	255	259	303
Transport and insurance	177	128	130	133	134	137	152
Travel	60	48	44	52	55	58	67
Factor services	-218	-308	-377	-337	-321	-327	-286
Profits	-16	5	5	7	-8	-31	-23
Interest received	16	20	24	34	33	45	41
Interest paid	-216	-329	-403	-374	-340	-333	-294
Other	-2	-4	-3	-4	-7	-8	-10
Unrequited private transfer payments	20	27	30	23	32	34	35
Balance on capital account	749	358	400	377	209	410	266
Unrequited official transfer payments	-5	-	6	46	111	176	92
Long-term capital	402	212	24	1 190	65	390	-34
Direct investment (net)	48	66	26	55	52	67	62
Portfolio investment (net)	122	-2	-2	-3	-	-13	-
Other long-term capital	232	149	-	1 137	13	337	-96
Official sector ^c	83	113	-32	1 189	126	394	-50
Loans received	112	169	126	1 362	384	664	278
Amortization payments	-23	-45	-146	-180	-231	-268	-328
Commercial banks ¹	9	-18	-20	-15	-27	-26	-14
Loans received	32	11	6	1	-	-	-
Amortization payments	-23	-29	-26	-16	-27	-26	-14
Other sectors ⁷	140	53	52	-37	-86	-31	-32
Loans received	267	186	168	64	41	69	68
Amortization payments	-127	-133	-116	-101	-127	-100	-100
Short-term capital (net)	422	48	208	-927	-72	-270	130
Official sector	287	51	398	-530	-3	-181	-142
Commercial banks	32	5	42	-97	12	-27	2
Other sectors	104	-8	-231	-301	-81	-62	-14
Errors and omissions (net)	-71	-98	162	68	111	111	78
Global balance	92	-50	125	47	-56	73	57
Total change in reserves							
(- sign indicated and increase)	-33	65	-125	-64	84		-57
Monetary gold	-	28	-7	-1	14	-10	-7
Special Drawing Rights	6	-	-	-3	3	-	-
IMF reserve position	10	-	-	-	-	-	-
Foreign exchange assets	-43	14	-95	-170	82		
Other <i>assets</i>	-5	-23	-14	11	21	-9	
Use made of IMF credit	-1	46	-10	99	-36	32	-16

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, June 1987; 1986: ECLAC, on the basis of official figures.

"Preliminary figures subject to revision. Including other non-factor services. Including net loans granted and other assets and liabilities. Equals total variation in reserves (of opposite sign), plus counterpart items.

Table 15

COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985	1986"
Millions of dollars							
Total external debt							
Balances	2 209	2 687	3 188	3 532	3 752	3 742	3 739
Public	1 797	2 315	2 807	3 184	3 419	3 425	3 432
Private	412	• 372	381	348	332	317	307
Disbursements	535	449	299	481	272	315	
Servicing	389	540	807	680	725	692	736
Principal'	173	211	404	305	386	387	442
Interest	216	329	403	375	339	304	294
External public debt							
Disbursements	426	405	235	461	254	300	175
Servicing	258	419	748	600	653	680	668
Principal	80	126	350	252	339	400	392
Interest	178	293	398	348	314	280	276
Percentages							
Ratios							
Total external debt/exports of goods and services	184.4	228.7	285.7	311.7	294.3	306.5	269.4
Debt servicing/exports of goods and services	32.5	46.0	72.3	60.0	56.9	56.7	53.0
Interest/exports of goods and services	18.0	28.0	36.1	33.1	26.6	24.9	21.2
Debt servicing/public debt disbursements	60.6	103.5	318.3	130.2	257.1	226.7	381.7

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.
 "Preliminary figures. Medium- and long-term disbursed external debt.

Table 16

COSTA RICA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986
Variation December to December							
Consumer price index	17.8	65.1	81.7	10.7	17.4	10.9	15.4
Food	18.7	70.4	101.1	8.2	15.7	5.0	17.7
Wholesale price index	19.3	117.2	79.1	5.9	12.2	7.6	11.9
Imported products	21.8	154.6	66.9	3.0	10.9	4.7	10.5
Domestic products	17.3	93.3	89.4	8.3	13.2	9.7	12.8
Variation between annual averages							
Consumer price index	18.1	37.1	90.1	32.6	12.0	15.0	11.8
Food	21.8	36.7	113.6	32.2	8.8	12.3	11.9
Wholesale price index	23.7	65.3	108.3	26.2	7.7	10.4	9.0
Imported products	27.6	90.4	109.2	18.0	6.1	8.0	7.3
Domestic products	21.5	49.5	107.5	32.7	8.8	12.1	10.3

Source: ECLAC, on the basis of figures provided by the Statistic and Census Bureau and the Central Bank of Costa Rica.
 "Corresponds to middle- and low-income consumers in the San José metropolitan area; the base year is 1975. Base year 1978 = 100.

Table 17

COSTA RICA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100)				Growth rates				
	1983	1984	1985	1986°	1982	1983	1984	1985	1986°
Average wages and salaries									
Total (nominal)	565.0	682.1	855.8	1 015.2	52.6	47.1	20.7	25.5	18.6
Public sector	510.5	600.3	778.5	927.7	44.8	45.6	17.6	29.7	19.2
Central government	486.4	588.4	694.2	837.7	44.0	38.2	21.0	18.0	20.7
Autonomous institutions	528.7	607.6	836.2	986.6	45.3	50.8	14.9	37.6	18.0
Private sector	604.2	734.5	910.0	1 070.5	60.4	48.9	21.6	23.9	17.6
Total (real)	110.9	119.6	130.4	138.3	-19.8	10.9	7.8	9.0	6.1
Public sector	100.2	105.3	118.7	126.4	-23.8	9.8	5.1	12.7	6.5
Central government	95.5	103.2	105.8	114.2	-24.3	4.3	8.1	2.5	7.9
Autonomous institutions	103.8	106.5	127.5	134.5	-23.6	13.7	2.6	19.7	5.5
Private sector	118.6	128.8	138.7	145.9	-15.6	12.2	8.6	7.7	5.2
Minimum wage									
Nominal									
Upper level	459.6	541.0	596.9	633.6	69.0	44.2	17.7	10.3	6.1
Lower level	729.5	858.8	1 061.2	1 253.9	80.4	53.4	17.7	23.6	18.2
Real ⁴									
Upper level	90.2	94.9	91.0	86.3	-11.1	8.7	5.2	-4.1	-5.2
Lower level	143.2	150.6	161.7	170.9	-5.1	15.7	5.2	7.4	5.7

Source: ECLAC, on the basis of figures provided by the Ministry of Labour and Social Security.

Preliminary figures. Deflated by the consumer price index for middle- and low-income consumers in the San José metropolitan area.

Table 18

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of colones				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
1. Current income	21.1	27.3	29.7	39.9	2.6	29.6	9.0	34.3
Tax revenue	19.9	24.4	26.8	33.7	1.8	22.9	9.6	25.9
Direct	4.9	4.9	5.2	5.9	1.2	0.7	5.3	14.4
Indirect	8.3	11.2	12.1	14.7	1.3	35.8	7.6	22.0
On foreign trade	6.7	8.3	9.5	13.1	8.5	23.2	14.7	37.0
2. Current expenditure	21.5	26.0	29.6	43.6	64.1	20.8	13.8	47.3
Wages and salaries	7.5	9.1	10.7	13.5	46.6	20.4	17.6	26.9
Other current expenditure	14.0	16.9	18.9	30.1	75.4	21.1	11.8	58.8
3. Current saving (1-2)	-0.4	1.3	0.1	-3.7				
4. Capital expenditure	6.1	8.9	8.1	13.2	92.8	44.4	-9.2	63.6
Real investment	2.8	4.3	3.2	2.9	96.9	49.6	-25.5	-9.7
Debt amortization payments	1.2	2.8	2.5	3.5	44.2	143.9	-12.5	42.2
Other capital expenditure	2.1	1.8	2.4	6.8	128.3	-16.8	35.1	182.5
5. Total expenditure (2 + 4)	27.6	34.9	37.6	56.8	69.7	26.1	8.0	50.8
6. Fiscal deficit or surplus (1-5)	-6.6	-1.6	-1.5	-16.8	97.2	15.0	4.4	112.6
7. Financing of deficit								
Domestic financing	4.7	5.1	4.0	13.5	104.5	8.0	-22.2	240.1
Central Bank	-0.8	-0.4	-2.1	-1.0	-45.5	-58.7	505.8	-50.0
Sale of securities	4.1	4.1	3.2	8.6	108.4	0.1	-21.7	168.7
Other	1.5	1.4	2.9	6.0	-1.9	-7.2	108.1	108.1
External financing	1.9	2.5	3.9	3.3	35.5	32.5	59.5	-15.8
Ratios (percentages)								
Current saving/capital expenditure	-7.4	14.5	1.6	-27.8				
Fiscal deficit/current expenditure	-30.7	-29.2	-26.8	-38.6				
Fiscal deficit/total expenditure	-23.9	-21.8	-21.0	-29.7				
Tax revenue/GDP	15.4	15.0	13.9	14.1				
Total expenditure/GDP	21.4	21.4	19.6	23.8				
Fiscal deficit/GDP	5.1	4.7	4.1	7.1				
Domestic financing/deficit	-71.7	-67.4	-50.2	-80.3				
External financing/deficit	-28.3	-32.6	-49.8	-19.7				

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.
"Preliminary figures.

Table 19

COSTA RICA: MONETARY POSITION AND INDICATORS

	Balance at end of year (billions of colones)				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
Money (M ₁)	24.6	28.4	32.1	41.9	35.9	15.5	13.0	30.6
Currency outside banks	6.9	8.6	9.9	13.2	27.7	23.7	15.7	33.2
Demand deposits	17.7	19.8	22.2	28.7	39.5	12.3	11.9	29.4
Factors of expansion	61.8	75.2	88.7	111.6	103.3	21.7	18.0	25.9
Net international reserves	4.6	8.3	16.7	21.8				
Domestic credit	57.2	66.9	72.0	89.8	77.1	16.9	7.7	24.8
To public sector	29.6	34.4	34.3	45.7	110.7	16.4	-0.2	33.0
Central government (net)	9.0	10.0	9.0	14.0	40.0	11.0	-10.1	56.3
Public institutions	20.6	24.4	25.4	31.7	170.5	18.8	3.9	24.7
To private sector	27.6	32.5	37.7	44.2	51.3	17.4	16.0	17.3
Factors of absorption	37.2	46.8	56.6	69.7	202.7	25.8	21.0	23.2
Quasi-money (savings and time deposits)	40.1	46.3	55.7	63.6	27.0	15.3	20.4	14.1
Long-term external loans	76.3	89.1	111.8	129.3	147.3	16.9	25.4	15.7
Other items (net) ¹	-79.2	-88.6	-110.9	-123.2	58.0	11.9	25.1	11.0
Other indicators								
Monetary base ²	10.9	13.1	16.7	24.0				
Money (M ₁)	20.2	25.5	28.4	36.2				
Money plus quasi-money (M ₂)	59.6	69.0	81.6	95.7				
Coefficients								
Monetary multipliers								
M ₁ /monetary base	1.85	1.95	1.70	1.51				
M ₂ /monetary base	5.49	5.27	4.89	3.99				
Velocity of circulation:								
GDP/M ₁	6.28	5.94	6.80	6.60				

Source: ECLAC, on the basis of figures provided by the Central Bank of Costa Rica.

¹Preliminary figures. Includes buns. ²Includes adjustments for variation in the rate of exchange.

³Calculated on the basis of the annual averages (of the end-of-month balances) for the monetary base, money (M₁), and money plus quasi-money (M₂). ⁴For the purposes of this table, the monetary base is defined as monetary issue plus demand deposits by commercial banks in the Central Bank of Costa Rica.

CUBA

1. Recent economic trends: Introduction and summary

After a period of sustained growth (albeit with some fluctuations) during the first half of the decade, Cuba's global social product increased by only 1.4% in 1986. This rate was lower than that forecast in the Plan and was reflected in an almost negligible increase in the per capita product (see table 1).

Hurricane Kate, which struck the island in November 1985, caused serious damage to the sugar cane harvest and to other agricultural products, while in 1986 the country experienced the worst drought in the last decade and there were other serious disturbances in rainfall which damaged tobacco production in particular. These natural phenomena adversely affected the supply of goods for export and for domestic consumption and increased the need to import certain items.

A number of factors of external origin also contributed to this crisis. Foremost among these was the deterioration of the terms of trade with the free market economy countries. Although the international price of sugar was somewhat higher than that of the previous year it still failed to offset the combined effect of the sharp slump in oil prices and the increase in the prices of imported goods.¹

Furthermore, the weakening of the dollar against the currencies of the OECD countries hurt the Cuban economy on account of the large volume of trade and external financing with countries whose currency appreciated. This factor made trade relations with Japan, Canada and some European countries especially difficult.

The reduction in the exportable supply of sugar contributed to a radical change in the patterns of Cuba's trade with the rest of the world. In the case of the Socialist-bloc countries, the sugar quota commitments were respected to high degree. Consequently, the balance that could be exported to other countries was reduced, to the detriment of Cuba's import capacity.

The external strangulation in terms of the shortage of freely convertible currency has thus been steadily becoming the main problem facing the economy, and it worsened at the end of 1986. The process of debt renegotiation, including the talks with the Paris Club, was slow and arduous because the country's monetary authorities had failed to meet the targets which they had set themselves. The situation became critical in the last months of the year, when Cuba was in arrears in respect of certain commitments because of the persistent erosion of its international monetary reserves.

These factors severely hindered the implementation of the State budget, and a series of corrective measures had to be adopted. An attempt was made to adjust the incomes policy to the new situation. However, the increases in rates and prices ordered towards the end of 1986 for the dual purpose of increasing government income and recovering some liquidity from the public would only begin to have some effect in the following year. Furthermore, these increases were partially cancelled out by some salary rises.

With regard to expenditure policy, one of the most noteworthy events was the decision to speed up works that could help to promote the export of goods or services —such as hotel construction— or which were of major social importance. On the other hand, it was decided even to halt entirely work on some investment projects that were regarded as not being of high priority.

According to official information, the loss of dynamism of the global social product was not, at least in 1986, accompanied by any reduction in the capacity to meet the basic requirements of the population such as food and health.

¹ In recent years, the sale of petroleum products has been second only to sugar among export items. Under agreements signed with the Soviet Union, crude oil imported from that country which is surplus to requirements as a result of the domestic attempt to save oil and substitute other energy sources can be refined and exported by Cuba in accordance with international market conditions. Thus, although the raw material is imported at a reduced price, the refined petroleum can be exported at a substantially higher one.

Finally, a heightened interest in streamlining and efficiency was observed. This was the issue of greatest concern in both the debates and resolutions of the Third Congress of the Communist Party of Cuba and at all levels of State activity. The functioning of the systems for the control and regulation of labour and wages was critically examined, as were the methods of management and administration. The critical financial situation —especially the shortage of freely convertible currency— possibly helped to highlight the shortcomings in the performance of a large number of variables, the execution of production programmes, the fulfilment of goals and the exercise of regulatory functions.

2. Trends in economic activity

a) *The use of the global social product*

Although the global social product was lower than stipulated in the annual plan, the decision not to restrict consumption, especially that of the masses, was respected. A number of policy measures were therefore applied in order to reach that target, especially in the area of the production and the distribution of staple items. Similarly, intermediate consumption increased rather more than global activity.

Despite the critical economic situation, the main indicators of the population's well-being increased once again in 1986. Thus daily per capita calorie consumption came to 2 967 units per day and protein consumption to 79.9 grammes per day. Among food items, there was a sharp increase in fish consumption —which had declined over the last two years— and a smaller increase in fruit consumption. The consumption of meat products also increased (see table 2). Cuba thus persisted in its effort to improve the main indicators with regard to the satisfaction of staple food requirements, to which end it has recently been forced to sacrifice other important goals in its development programmes.

There was an increase in the provision of clothing, substantial in the case of certain items. Furthermore, in line with the criteria of selectivity in the use of resources, it was decided to give higher priority to direct consumption by persons than that by organizations which provide services to the population or which meet collective needs.²

On the other hand, both fixed and variable net capital formation declined. The difficulties caused by the shortage of freely convertible currency and the dispersion of the investment projects, which was excessive in view of the limited financial and physical resources, made greater selectivity and strictness in the use of these resources imperative. It was decided to concentrate on completing priority projects in the shortest possible time and to postpone for the medium and long term less important ones which were already in progress or about to be started. Consequently, despite the fact that the full impact of these measures will not be felt immediately, there was already in 1986 a decline of 1.5 points in the fixed investment coefficient, which in turn caused a 2 % reduction in the real fixed capital formation. At the same time, the stocks of both intermediate goods and of others destined for consumption or export contracted sharply (see table 3).

Industry continued to be the sector with the largest concentration of investment, although the absolute amount of the latter fell by 12%, in contrast with the higher investment observed in the agricultural and transport sectors. In the non-productive sphere, the main works executed were in the social sectors such as education, health and housing. In the last-named sector, this was partly to repair the damage to dwellings caused by the hurricane. At the same time, an effort was made to begin work on priority projects such as the Cienfuegos nuclear power plant, the oil refineries at Cienfuegos and Santiago de Cuba, and the nickel plant at Punta Gorda.

b) *Evolution of the main sectors*

The material product (which represents close to two-thirds of the global social product) and the non-material product both expanded at similar rates (see table 4). Within the first-named, the

²This refers to consumption by institutions responsible for education, public health, sports, tourism, etc. (including the depreciation of buildings, equipment and installations of these institutions) and by bodies responsible for furthering science, public administration, finance and other non-productive activities (including the annual depreciation of their basic facilities).

agricultural sector as a whole increased more rapidly than construction and even more than industry, despite the unfavourable climatic conditions. In industry, mining, metallurgy and electricity production grew satisfactorily, but manufacturing stagnated after a long period of sustained expansion. It was precisely in this activity that the effects of the external liquidity crisis were felt more keenly, and this triggered off a significant drop in the supplies of raw materials and intermediate products from abroad.

In the area of the non-material product —of which commerce generates some two-thirds of the total— the communications sector maintained its dynamism, while transport and commerce increased at lower rates than in previous years.

i) *The agricultural sector.* Climatic conditions once again adversely affected results in this sector. The period of rainfall was very irregular for the second consecutive year—with unusual spells of both intense drought and unseasonal rainfall— resulting in damage to various crops and to the livestock subsector. Furthermore, the weather created serious problems in the operation of the sector's basic infrastructure —such as dams— and in the storage of vital inputs or of products which were already harvested and were awaiting distribution. On top of this, the effects of Hurricane Kate were keenly felt in the case of several export items. Added to this, the shortage of foreign exchange created difficulties in respect of some inputs, including fodder for cattle.

The introduction of modern methods and mechanization in sugar cane cutting and processing increased the output of sugar cane, despite the natural disasters already described. Because of the bad weather, however, it was impossible to bring in the harvest with the available machinery, and once again it was necessary to use a much larger work force to harvest the cane manually, with the attendant administrative and financial problems, apart from the need to take away resources from other sectors. Furthermore, because of the drop in the industrial yield, sugar production declined by 10% even though the volume of cane milled increased by somewhat more than 2% (see table 9 below).

The cereals harvest yielded the best results in non-sugar cane agriculture, amply making up for the previous decline. Rice and maize production increased by between 9% and 10%, while the production of beans rose by 25% (see table 5). The good performance in the case of the first-named items was attributable to the fact that in Granma province unprecedented harvests were obtained through the use of modern technology and the availability of adequate dam capacity, and this amply compensated for the considerable decline in the harvest in Pinar del Rio province on account of the drought. Improvements in productivity were also the determining factor in the success achieved in maize and bean cultivation, since the area that could be cultivated was reduced because of the drought. In some cases, substitute crops had to be planted, for example, beans instead of rice in Pinar del Rio province.

In contrast, there was a generalized decline in vegetable production, although the harvest of potatoes (the main root crop) increased for the third consecutive year.

With respect to fruit, the citrus harvest improved on account of the continued expansion of the area under cultivation as part of the export promotion programme. In addition, the introduction of modern agricultural methods has produced better yields. The hurricane damaged a large area of banana plantations, while the drought adversely affected the flowering and growth of other fruits such as mango and guava. Coffee plantations were also affected by these climatic disturbances.

After three years of decline in the area of pastures and fodder, 1986 witnessed a reversal of this trend. Nevertheless, the increase in the areas allocated to pasture failed to compensate for the damage caused by the drought, and cattle-raising was seriously affected. For some time, half a million head of cattle had to be kept enclosed and fed on sugar cane refuse, under a joint programme of the Ministries of Agriculture and Sugar. In the face of this situation, over the last two or three years dozens of centres have been established to conduct research and experiments in order to exploit more fully the various sugar cane by-products which can be used as inputs in raising livestock.

Pig-raising was not affected by the problems described above, because for some years now pigs have been reared in special installations. Poultry rearing did not escape the effects of the climatic disturbances, however, even though a considerable part of this activity takes place in specialized plants. As a result, there was greater growth in the pig-rearing industry both in terms of stocks and slaughtering.

Production of two key food items —milk and eggs— declined once again. This downturn generated a major deficit in national food production and increased the demand for imports at a time when the country was suffering serious problems of external liquidity.

ii) *Fisheries*. The total fish and shellfish catch went up from 220 000 tons to 245 000 tons. This increase of over 11% was substantially higher than that of the global social product, although it was not as great as the growth recorded in the previous two years. The government continued its policy of developing this sector both in order to provide the population with a larger supply of seafood products of high protein content and to increase foreign exchange earnings through exports.

iii) *Petroleum, mining and metallurgy*. There has been a gradual increase in petroleum activity in recent years. Thus, in addition to exploration and extraction, the energy saving programme was continued, under which the surplus imported crude is processed and re-exported at international prices. The slump in the international price of hydrocarbons was one of the greatest setbacks during the period. Crude oil extraction, which at the beginning of the decade accounted for only 4% of the petroleum processed, has continued to increase and in 1986 accounted for over 14% of the total. On the other hand, over the last three years crude petroleum processing has virtually stagnated (see table 6), although construction work on the Santiago and Cienfuegos refineries has proceeded.

In the non-ferrous mining metals sector, the production of nickel and cobalt increased, after falling sharply in 1984 and stagnating in 1985, while that of copper concentrate continued to show some dynamism. As regards ferrous mining and metallurgy, the production of refractory chromite showed a significant increase.

iv) *Manufacturing*. Notwithstanding Cuba's efforts in the field of import substitution, the manufacturing sector still remains heavily reliant on external sources of supply, and to a significant degree these inputs come from the market economies. Manufacturing was thus one of the sectors most severely hurt by the country's financial problems, which triggered off a decline in imports of essential inputs and made it necessary to concentrate on priority investment projects.

For the first time in the decade, the material product of the sector stagnated, even though its level was 53% higher than that of 1980 (see tables 7,8 and 9). The industry most affected was that of non-durable consumer goods, because a high proportion of it was occupied by the sugar industry and, to a lesser extent, the tobacco industry. Clothing production, on the other hand, registered rapid growth.

The performance of the various components of the intermediate goods sub-sector was very uneven. Textile activity showed encouraging growth, because the plants which had come into operation in recent years were used to full capacity.

Finally, the production of durable consumer and capital goods stagnated in 1986. Within this sector, the electrical equipment and electronics industry continued to expand in line with the application of a policy designed to increase the supply of these products and as a result of the promotion of an industrial profile which has been increasingly linked to certain CMEA countries in this field of activity. Nevertheless, the supply of intermediate goods from countries within the freely convertible currency area is still fairly significant (although declining), and has become increasingly difficult because of financial problems. However, the opening of trade relations with Brazil and the signing of a partial tariff agreement with Uruguay are worthy of mention in this connection. Similarly, some agreements for the supply of agro-food products and various kinds of installations have been signed with Argentina.

v) *Construction*. The construction sector has become one of the most dynamic in the Cuban economy and its share of the global social product increased to almost 9% in 1986, despite the fact that over the last two years its growth rate has declined noticeably (see table 10). The difficult economic situation led to a rather uneven performance as regards the supply of the imported inputs required by this sector. At all events, however, cement production expanded at a higher rate than that of the global social product as a whole, partly because it was sometimes possible to export a certain percentage of it. Textured steel rods were another of the inputs that maintained their dynamism. On the other hand, the production of some construction materials was seriously affected, mainly because of the external bottleneck. This was so, for example, in the case of the production of sheet glass and to a lesser extent that of prefabricated concrete elements and tiles.

Housing construction appears to have suffered a decline after having increased up to 1985, when over 74 000 units were erected. However, the exact size of this decline cannot be determined because the figure of approximately 66 000 which has been given excludes the units for the defence sector. Construction in connection with energy generation and improvements in the agricultural sector and in roads and communications maintained its level. The evolution of the construction sector as a whole was affected by the enforcement in 1986 of a strict order of priorities in the capital formation process which gave preference to the execution and termination of projects that will make possible import substitution or the expansion of production for export in the future. On the other hand, the activities of Cuban construction enterprises abroad, particularly in the African countries, remained at a high level.

vi) *Electricity*. Both gross generation and electricity consumption regained their dynamism in 1986 after a slight downturn the previous year (see table 11). Consumption by type of user grew at a steady rate (between 7% and 8%), except in the case of commercial users, which are of minor importance.

During the year the "Tenth of October" thermoelectric plant came into operation with a capacity of 125 megawatts. Towards the end of the year, several energy projects were under way, of these the Havana thermoelectric plant (with a capacity of 300 megawatts) and the Matanzas thermoelectric plant (with a capacity of 330 megawatts) were scheduled to be completed in 1987.

3. The external sector

From the standpoint of the external variables, 1986 was another difficult year for Cuba, for although the balance-of-payments current account deficit in freely convertible currency was lower than that of 1985 (of the order of 400 million pesos, compared to somewhat more than 500 million), difficulties of a much more serious nature began to emerge during the year.

This situation was the result of a decline in the volume of exportable supply, the movements in the international prices of certain products (both exports and imports), and the depreciation of the dollar. These factors combined to worsen the scarcity of freely convertible currency, and this state of affairs was further aggravated by the external debt situation with the market economy countries, which reached the point of suspension of payment on the principal.

a) *Trade in goods*

i) *Exports of goods*. The current value of exports of goods declined by 11 %, primarily because of the reduction of the volume of sales of sugar and to a lesser extent to the substantial decrease in re-exports of petroleum and petroleum products. Although the policy of expanding non-traditional exports and diversifying markets did not overall achieve satisfactory results, in the cases of citrus and fish there was unprecedented success and there was also a very encouraging increase (40%, equivalent to 60 million Cuban pesos) in a series of products whose importance had previously been negligible (see table 12).

As already mentioned, sugar production fell to a level similar to that of 1983 (7.5 million tons), thus reducing the exportable supply. Furthermore, as a result of the price and mutual supply programmes agreed on with the socialist countries, especially with the Soviet Union, a new price for purchases made by the latter country came into effect, which was 15 % lower than that of the previous year. Even so, this price of 38 U.S. cents per pound was more than five times that which Cuba received in convertible currency and more than six times the average world market price (see table 13).

Although there was no significant variation in the percentage breakdown between the volume exported to the market economy countries and that sold to the socialist countries, within the latter group the volume of sugar exported to the Soviet Union rose considerably, whereas the amount shipped to the other CMEA member countries fell substantially.

Fluctuations in the international price of sugar continued. Although between 1985 and 1986 the price rose from four to just over six U.S. cents per pound (which in any event was less than what Cuba obtained in freely convertible currency), the world sugar market grew increasingly unstable. Moreover, the protection given to producers unable to withstand the test of comparative advantages,

combined with the high world sugar stocks and the increase in the number of suppliers, explain the skepticism prevailing with regard to the future outlook. The fact that the CMEA member countries provide Cuba with a virtually guaranteed market at prices much higher than those on the world market explains the increase in the volumes sold to them, especially to the Soviet Union (see table 14).

ii) *Imports of goods.* After an increase of over 70% in their current value during the first five years of the decade, external purchases of goods went down by 5% in 1986 (see table 15). This change was the direct consequence of the weakening of external liquidity which especially affected trade with the market economy countries. Although in relative terms purchases of consumer goods suffered the steepest decline, in absolute terms the sharpest fall was in intermediate goods (see table 16).

In the face of the restriction on external purchases of intermediate goods, Cuba tried to exploit its stocks to the maximum, keeping them at the lowest levels compatible with the requirements of the productive process; this explains why so much emphasis was placed on improving the organizational and administrative system. At the same time, however, the restriction in question severely affected a number of industrial activities, such as the production of steel plate.

On the other hand, external purchases of capital goods declined relatively slightly, despite the sharp drop in imports of transport equipment for both cargo and passengers (see table 17). The effects of this contraction were mitigated because the fleet of such vehicles had evolved positively in previous years and the number of units in circulation had increased.

iii) *The terms of trade.* The terms of trade with the market economy countries deteriorated slightly. The relative improvement in the price of sugar was offset by a marked decline in the average price of petroleum, which for some years past has accounted for a significant proportion of external sales to this area. Moreover, the average dollar price of imports, the bulk of which are supplied by the European countries and Japan, increased with the revaluation of the yen and the main European currencies against the dollar. This produced a major decline in the terms of trade in freely convertible currency.

Concerning trade links with the socialist countries, during the year a number of changes were agreed upon in the five-year forecasts previously established, but the principle of maintaining the terms of trade was always respected. Thus, while the price of sugar exported to the Soviet Union fell, the prices of other imported goods declined in the same proportion.

b) *The balance of payments in freely convertible currency*[^]

For the third consecutive year there was a large deficit on current account—this time of almost 400 million pesos—which could not be covered by the net capital income. This deficit was reflected in a considerable decline of 144 million pesos in the international reserves. This meant that the decline in the year 1986 alone was greater than the total cumulative deficit during the first five years of the 1980s (see table 18). This result was attributable to a combination of several factors.

In the first place, there was the already mentioned decline in the total value of exports as a result of supply problems. On the one hand, the fall-off in the sugar harvest and the fulfilment of the growing export commitments with the socialist countries led to a drastic reduction in the supply available for the countries in the area of freely convertible currency (see table 19). Similarly, in order to meet a number of commitments previously made with the market-economy countries, a certain amount of sugar had to be purchased on the New York Commodity Exchange, with the attendant financial cost. Furthermore, the deterioration in prices—as in the case of exports of crude petroleum or the sale of refined petroleum in the country—eroded the foreign exchange earnings from external sales. In addition to this, there was a decline in the production of a number of other export items such as tobacco and nickel. The increase in exports of manufactures as part of the effort to diversify external sales compensated only minimally for the decline in export earnings due to these changes.

[^]In Cuba the balance of payments in freely convertible currency records the transactions in goods and services and it capital with the market-economy countries and the exports to the CMEA countries which the latter pay for in transferrable roubles or in freely convertible currency.

The current value of imports declined by a much smaller percentage than that of exports. As has been planned, during the first half of the year an attempt was made to maintain a level of imports which would not depress consumption or the supply of various types of equipment and inputs. However, this level of imports could not be maintained in the second half of 1986, when the shortage of liquidity became more acute and made it necessary to modify some aspects of the economic policy adopted. Even so, the value of imports in freely convertible currency could only be brought down by approximately 100 million pesos, or 9%.

The devaluation of the dollar affected the Cuban balance of payments in freely convertible currency more seriously than the corresponding accounts of other Latin American countries because, on the one hand, commitments contracted in currencies other than the U.S. dollar have greater relative weight in the Cuban external debt, yet on the other hand most income is received in U.S. dollars. Thus, for example, the higher value of the yen and the German mark meant that the average price of imports as a whole did not go down, but as this coincided with a drop in export prices there was a deterioration in the terms of trade in freely convertible currency.

On top of the elements referred to above, there was additional financial strain as the negotiations to renegotiate the external debt became more complex. Consequently, in 1986 the current account balance in freely convertible currency showed two significant changes compared with the previous year. On the one hand, the net long-term capital income, which had been 360 million pesos, showed a negative balance of over 110 million, and on the other, the short-term capital income almost doubled (from 194 million pesos to 367 million), due partly to the reduction in amortization payments⁴ (see table 20).

c) *External indebtedness in freely convertible currency*

Because of the decline in the external sector, a much more extensive renegotiation of the external debt than those made since 1983 became imperative (see table 21). Cuba asked its creditors to postpone the amortization payments on the total debt due in 1986 and 1987, the short-term deposits due in September 1986 and the interest payable in 1986 and 1987 except that corresponding to the debt renegotiated in 1983. It also requested additional financing to cover the balance-of-payments deficit, which, if the above conditions had been met, would have verged on 180 million pesos.

However, these requests were not granted. The renegotiation agreement signed in July postponed for 10 1/2 years (with a grace period of six years) the payment of principal and interest due in 1986 on the debt outstanding in 1982 and 95% of the debt renegotiated in 1983, but the creditor banks laid down new conditions. Fundamentally, these were that the interest payments would not be postponed in the same way as the principal, and instead Cuba was offered lines of credit of between 150 and 170 million marks to meet these payments. Additionally, the creditors only accepted a one-year postponement in respect of the short-term deposits mentioned above.

The additional financial requirements would therefore have increased to 300 million pesos and in July the country entered into arrears of payments, which would have already occurred in May if it had not been for the co-operation of the socialist countries.

4. Employment, wages and prices

From the middle of the decade a number of imbalances began to be perceived in the equilibrium of average wages, employment, prices, productivity and profitability and between the monetary income of the population and the resources available for consumption. A series of measures had, therefore, to be adopted to rectify these imbalances, and one of the principal measures taken was a review of the labour standards system and the procedures for its execution and control.

⁴According to official information, the exchange rate of the U.S dollar went from 0.9174 Cuban pesos in 1985 to 0.8664 pesos in 1986.

a) *Employment*

Despite the fact that in 1986 the growth rate of the global social product at 1981 prices fell to only 1.4%, the number of workers in the State civil sector increased by almost 3%, and the rate was even somewhat higher in the non-productive sphere (see table 22). As early as 1985 it had been pointed out that although the employment provided by the economic system appeared to be satisfactory, the government was concerned that the system was not being fully exploited,⁵ especially in some services. This led to the application of a strict policy to prevent any expansion of employment which did not exactly correspond to increases in production or investment in productive enterprises. According to official information, this policy was intensified during 1986, within the framework of the goal of improving the efficiency of the productive units and putting their finances on a sounder basis.

Given these circumstances, it is noteworthy that the number of civil workers has increased more than production. This could be explained by the principle that there must not be any open unemployment.⁶ Similarly, because of the upheavals in production caused by the climatic disturbances, a large number of workers had to be used in agriculture, especially in sugar cane harvesting, because it became impossible to do such work mechanically. This factor explains almost 40% of the increase in the labour force in the State civil sector. In the case of the non-productive sector, the increase could be explained by the uninterrupted expansion of public health, social welfare, sport and tourism services.

Although no detailed information is available, it is also possible that the statistical data under analysis may have included the State civil sector workers who previously worked in the non-civil area but performed duties belonging to the former. This would be a result of the administrative reorganization efforts made in search of greater efficiency and productivity, as previously mentioned.

b) *Wages*

In 1986, the policy of revising labour regulations begun in 1982 was more strictly applied. As a result, the elasticity of the wage mass declined further with respect to the global social product. The average wage level remained practically stable throughout the entire economy, declining by 0.6% in the productive area compared with an increase of almost 2% in the non-productive area (see table 23). From these results, it could be inferred that controls on additional payments for over-fulfilment of the minimum working standards have been more effective in the productive sphere, but problems persist in the case of certain services, where anomalies are more difficult to detect.

In 1986, the tendency towards uniformity of remunerations between the productive and non-productive areas reached its culmination, although a number of differences still persist due partly to changes in the relative importance of their components, i.e., transfers of workers to other sectors or branches in pursuance of the reorganization and administrative improvement policy.

c) *Prices*

In Cuba, the same product may be distributed at different prices on four different markets: the regulated or rationed market; the parallel State market, on which rationed goods are sold, but without restriction as to quantity or price; the free State market, on which any goods may be sold without any form of restriction; and finally the so-called "free peasant market", where individual peasants can market their own products in accordance with the market laws. This latter system has had very little impact on the total flow of goods distributed. Since the distribution methods for the same item are so diverse, it is difficult to trace the weighted variation of the consumer prices of certain specific goods.

However, according to official information, in 1986 no major fluctuations were recorded in retail prices, which for the most part have remained officially frozen since 1982, when the parallel market emerged. Although there have been some price variations in the overall group of products,

⁵See ECLAC, *Notas para el estudio económico de América Latina, 1988*, Cuba, LC/MEX/R.43, 11 July 1986.

⁶According to official information, in Cuba the unemployment rate is minimal and purely "fictional". See ECLAC, *Economic Survey of Latin America and the Caribbean, 1985*.

these have generally been due to changes in the structure of the products offered to the public. These changes may be due either to the priority given to the purchase of raw materials that can enable improvement to be made to certain items such as clothing, or to the substitution of some foreign suppliers for financial reasons.

Some changes have been made in the distribution and prices policy with the aim of encouraging distribution through the parallel markets and eventually eliminating the controlled market.

Moreover, in May the free peasant market was eliminated. The State assumed responsibility for the collection and sale of the products which until then had been sold by the peasants themselves, and it incorporated these sales into the parallel market. It was expected that the elimination of the peasant market would bring a reduction in the sales price of certain consumer products, with the removal of a series of additional intermediaries. The application of this measure forced some companies to reorganize and expand the distribution network nationwide. Moreover, in order to simplify that task and prevent the price range from becoming too broad,⁷ during the year a series of purchasing and storage enterprises of the Ministry of Agriculture which until then had been under the Ministry of Domestic Trade were brought under the Ministry of Agriculture.

5. Monetary and fiscal policy

In a situation where the availability of freely convertible currencies has become the main financial constraint, it is increasingly important to ensure that monetary and fiscal policy is coherent with foreign trade and other macroeconomic policies. Consequently, the steps being taken to renegotiate the debt and its consequences have become the primary concern of the monetary and fiscal authorities.

a) *Monetary policy*

Apparently, growth of the factors of expansion has continued to be more rapid than growth in production. There were also significant increases in income in the private sector (this embraces the peasants, transport workers, craftsmen and other organizations) and in the "others" category (which includes retirement benefits, benefits granted to individuals, loans by the banking system, interest on savings exchange of foreign currency, and drafts and transfers received). Both these types of income increased faster than workers' wages (see table 24).

The measures adopted by the monetary authorities gave priority to factors of contraction and this sharply decreased the amount of money in the hands of the public, while there was an increase in savings deposits. In this connection, there was renewed activity by the People's Savings Bank (BPA), which was established in 1983 and which extended its coverage throughout the country and succeeded in securing a growing volume of savings from the population. At the same time, although the number and value of personal loans granted was smaller, priority continued to be given to loans for the purchase of electrical appliances (see table 25). The interest rates on these loans continued to range from 10% for motor-vehicle purchases and a minimum of 3% for the building of dwelling units by the population.

Another aspect of these policies that should be highlighted was the assumption by the People's Savings Bank, as from the middle of 1985, of responsibility for granting housing ownership titles under the conditions stipulated in the General Housing Law.

b) *Fiscal policy*

Since 1984, a very stringent expenditure policy has been applied through the State Finance Committee as part of the government's goal of increasing economic efficiency and reducing the foreign trade deficit. The aim has been to generate saving by improving the administrative organiza-

⁷In Cuba not all domestic trade comes under the Ministry of Domestic Trade. This Ministry is responsible for approximately 70% of distribution, and some products come under other State agencies such as the Ministry of the Food Industry, the Ministry of Agriculture, the Ministry of Basic Industry (which governs activities in respect of certain fuels) or the Ministry of Public Health (which regulates pharmaceuticals).

tion and controls. The same guidelines will continue to be applied in 1986, perhaps with even greater rigour. During the year, current income fell by almost 5% (see table 26). Although a variety of reasons may have combined to produce this result, the main one is undoubtedly the weakening of the resources obtained from foreign trade. As the total outlay evolved in a similar manner to income, the deficit remained more or less the same.

In view of the persistence of this imbalance, towards the end of 1986 a series of measures was adopted whose impact will be felt in due course. One of them was the Basic Law on the Budgetary System, which has been applied experimentally since January 1986 and which contains provisions designed to link income and expenditure more closely in specific areas of the country. In some cases, the actual income of these areas is not enough to meet the cost of certain activities in health or education, and these have to be met from the national budget; whereas in other areas the income is higher than their needs. The main object is to improve the financial ratios within a given locality and to improve efficiency. With the same aim in view, a number of measures were also adopted to improve the financial ratios within enterprises.

At the end of the year the scales of charges for certain services, such as urban transport and electricity, were also increased, with a view to increasing the saving and improving the incomes of the enterprises providing these services. Similarly, it was decided to make changes for some services which had previously been provided free at the workplace and to apply certain wage measures which would encourage greater worker participation.

Table 1

CUBA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Basic economic indicators							
Global social product (millions of 1981 pesos) ^b	19 109	22 173	23 024	24 153	25 890	27 092	27 458
Population (thousands of inhabitants) ^c	9 724	9 724	9 801	9 897	9 994	10 098	10 200
Per capita global social product (1981 pesos)	1965	2 280	2 349	2 440	2 591	2 683	2 692
Growth rates							
Global social product	•0.5	16.0	3.8	4.9	7.2	4.6	1.4
Per capita global social product	0.6	16.0	3.0	3.9	6.2	3.6	0.3
Current State income	2.8	15.0	-7.5	21.4	-2.3	3.7	-4.8
Total State expenditure	5.4	20.0	-12.2	12.2	4.7	5.2	-4.8
Budgetary deficit/total State expenditure	2.6	6.7	1.7	-6.4	-0.6	2.0	2.0
Budgetary deficit/global social product	1.5	3.5	0.7	-3.0	0.3	-0.4	
Average annual wage	3.1	14.7	3.8	2.2	3.3	1.0	0.1
Current value of exports of goods							
Total	13.4	6.5	16.8	12.2	-1.1	9.2	-11.0
Sugar	10.4	14.3	15.4	8.1	1.1	8.0	-8.0
Current value of imports of goods							
Total	25.5	10.5	8.2	12.4	16.2	10.5	-5.2
Petroleum and petroleum products	20.0	27.6	28.3	24.3	19.4	19.5	
Millions of pesos							
External sector							
Trade balance (goods)	-660	-890	-597	-697	-1 752	-2 000	-2 244
Soviet Union	-651	-877	-459	-363	-830	-894	-1 380
Other socialist countries	-175	-58	-271	-286	-334	-501	-333
Rest of world	166	45	133	-38	-588	-605	-531
Balance on current account ^d	-46	51	297	263	-212	-510	-399
Balance on capital account ^d	60	-52	-297	-74	106	506	398
Variation in international reserves ^d	14	-1	-242	189	-106	48	-144
Disbursed external debt ^d	3 227	3 170	2 669	2 790	2 989	3 621	3 870

Source: ECLAC, on the basis of data supplied by the State Statistical Committee, the National Bank of Cuba and other international statistics.

^aPreliminary figures. See footnote " of table 4. ^c Annual average. Percentages. ^dIn freely convertible currency. Excludes much of the trade with member countries of the Council for Mutual Economic Assistance (CMEA).

Table 2

CUBA: INDICATORS OF PER CAPITA CONSUMPTION

	1983	1984	1985	1986 ^a	Growth rates			
					1983	1984	1985	1986 ^a
Foodstuffs								
Calories (units per day)	2 910	2 955	2 952	2 967	1.3	1.5	-0.1	0.5
Proteins (grammes per day)	77.4	79.8	79.0	79.9	1.6	3.1	0.1	1.1
Meat ^c	40.8	41.7	41.9	42.9	3.8	2.2	0.5	2.4
Fish ^c	16.2	16.1	15.3	16.7	3.8	-0.6	-5.0	9.2
Milk and milk products ^b	150.7	153.3	151.3	150.8	-1.4	1.7	-1.3	-0.3
Eggs (units)	246	250	242	243	8.8	1.6	-3.2	0.4
Cereals	108.7	112.0	112.3	112.9	2.2	3.0	0.3	0.5
Fats ^c	17.4	17.4	18.2	17.6	-2.8	-	4.6	-3.3
Vegetables	53.0	55.4	56.9	53.7	-10.5	4.5	2.7	-5.4
Roots and tubers	76.4	79.6	78.2	80.6	4.9	4.2	-1.8	3.1
Fruits	62.7	56.9	57.5	60.4	0.5	-9.3	1.1	5.0
Beans	11.5	11.9	12.3	12.1	4.5	3.5	3.4	-1.6
Sugar	54.4	54.8	52.4	53.9	0.7	0.7	-4.4	2.9
Industrial products								
Outer clothing (units)	4.7	4.8	4.2	5.5	-	2.1	-12.5	31.0
Underclothing (units)	6.6	6.8	6.2	7.0	-13.2	3.0	-8.8	12.9
Footwear (pairs)	2.9	2.6	2.6	2.3	-3.3	-10.3	-	-11.5
Durable goods^d								
Television sets	74	76	76	79	10.4	2.7	-	3.9
Refrigerators	36	40	46	50	-	11.1	15.0	8.7
Washing machines	42	47	50	54	13.5	11.9	6.4	8.0
Ratios	125	126	136	134	2.5	0.8	7.9	-1.5

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

^aPreliminary figures. ^bKilogrammes. ^cOwnership per 100 homes, in units.

Table 3

CUBA: USE OF GLOBAL SOCIAL PRODUCT AT 1981 PRICES

(Percentages)

	1980	1981	1982	1983	1984	1985	1986 ^o
Global social product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Intermediate consumption	50.2	48.1	47.5	47.2	47.1	47.1	47.6
Final consumption	46.1	42.5	42.0	41.3	40.3	39.7	40.1
Consumption by the population	42.6	38.8	38.3	37.2	36.0	35.4	35.7
Personal consumption	37.3	33.4	33.1	31.9	30.7	30.1	30.4
Consumption by organizations serving the population	5.3	5.4	5.2	5.2	5.3	5.3	5.3
Consumption by organizations meeting collective needs	3.5	3.7	4.2	4.1	4.3	4.3	4.4
Net capital formation	11.7	13.3	10.4	11.5	13.3	13.7	10.7
Fixed capital	8.5	10.1	7.9	9.3	11.1	11.4	9.9
Stocks	3.3	3.2	2.5	2.2	2.2	2.3	0.8
Losses	0.1	0.2	0.2	0.2	0.2	0.3	0.1
Exports minus imports	-7.6	-3.5	-0.8	-0.1	-1.5	-0.9	1.5
Statistical discrepancies	-0.6	-0.7	0.7	-0.1	0.6	0.1	-

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.
 'Preliminary figures. Of productive goods and services.

Table 4

CUBA: GLOBAL SOCIAL PRODUCT BY ECONOMIC SECTORS"

	Millions of Cuban pesos at 1981 prices			Percentage breakdown ^c			Growth rates ^c			
	1984	1985	1986*	1970 ^h	1980	1956 ^b	1983	1984	1985	1986*
Global social product	25 890	27 092	27 458	100.0	100.0	100.0	4.9	7.2	4.6	1.4
Material product	17 261	18 190	18 422	67.8	66.6	67.1	4.0	9.0	5.4	1.3
Agriculture, forestry and fishing	3 917	3 986	4 099	14.7	17.7	14.9	-0.5	6.3	1.8	2.8
Agriculture	3 507	3 554	3 653	13.9	16.2	13.3	-1.8	5.8	1.3	2.8
Sugar cane agriculture	1 003	1 009	1 064	6.7	5.1	3.9	-8.1	3.4	0.6	5.5
Non-sugar-cane agriculture	903	939	953	3.1	3.9	3.5	-5.2	6.0	3.8	1.5
Stock-raising	1 564	1 569	1 596	4.1	7.1	5.8	5.4	7.0	0.3	1.7
Agricultural services	37	37	40	-	0.1	0.1	-5.7	12.1	-	8.1
Forestry	118	121	121	0.2	0.4	0.4	28.6	9.3	2.5	-
Fishing	292	311	325	0.6	1.1	1.2	7.4	11.9	6.5	4.5
Industrial	11 037	11 862	11 937	47.9	41.1	43.5	4.5	8.6	7.5	0.6
Electric energy	535	536	574	1.5	2.0	2.1	2.9	6.6	0.2	7.1
Mining and metallurgy	266	292	329	0.8	1.2	1.2	8.8	-2.2	9.8	12.7
Manufacturing	10 236	11 034	11 034	45.5	37.9	40.2	4.5	9.0	7.8	-
Construction	2 307	2 342	2 386	5.2	7.8	8.7	10.4	16.0	1.5	1.9
Non-material product	8 629	8 902	9 036	32.2	33.4	32.9	6.6	3.8	3.2	1.5
Transport	1 855	1 880	1 887	9.4	7.2	6.9	3.5	7.5	1.3	0.4
Communications	227	240	256	0.8	0.8	0.9	9.6	10.2	5.7	6.7
Commerce'	6 386	6 594	6 669	22.0	25.0	24.3	7.2	2.3	3.3	1.1
Other productive activities	161	188	224	-	0.4	0.8	17.5	14.2	16.7	19.1

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"The global social product is equivalent to the value of gross production. According to official sources "the basic criterion for recognizing gross production and ascribing it to a given sector, branch and sub-branch is the nature of the basic activities carried out by the enterprise, establishment or department with an independent balance in which the economic activity is carried out" (see State Statistical Committee, *Bases metodológicas del sistema de balances de la economía nacional*, Havana, November 1981, p. 9). Consequently, the information contained in this table does not relate solely to sectors and branches of origin; the classification adopted records not only the main production of the entrepreneurial units but also the secondary production carried out in those units, whether or not it corresponds, by origin, to the same branch of activity. If a system of classification based strictly on sectors of origin were adopted (in accordance with the criterion adopted by the United Nations in the ISIC), the conclusions at sectoral and branch levels would be different. Thus the data on the agricultural sector included secondary production of industry and construction not computed in these sectors. Nevertheless, these differences are cancelled out in the total material products. Preliminary figures. ^Corresponds to real, not rounded-off figures.

^JAt 1965 prices. ^IIncludes public food supply, external trade, technical and material supplies, collection and storage of agricultural products, collection of scrap iron and useful raw materials as well as domestic wholesale and retail trade. ^{*}includes: work on technical projects, mechanical and automatic data processing and other productive activities.

Table 5

CUBA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986 ^o	Growth rates ^b				
						1982	1983	1984	1985	1986 ^o
Crop production^c										
Grains										
Rice	478	518	555	524	571	14.4	-0.4	7.2	-5.6	9.0
Maize	23	30	29	33	36	-7.2	38.7	-	12.8	10.1
Beans	9	13	12	11	14	48.9	4.6	-7.9	-8.3	25.0
Vegetables										
Tomatoes	207	153	228	273	254	-27.3	-32.3	53.6	19.4	-6.8
Onions	10	10	14	32	18	-7.1	-32.9	40.0	114.1	-42.4
Peppers	45	23	27	35	32	14	-33.7	17.4	31.6	-9.6
Roots and tubers										
Potatoes	239	207	259	307	317	-5.4	-20.0	25.1	18.5	3.0
Boniato	228	201	163	173	150	-11.2	13.3	-18.9	6.1	-13.2
Malanga	161	45	53	48	64	-54.1	-0.8	17.8	-9.9	35.9
Fruits										
Citrus fruit										
Oranges	298	400	371	408	447	31.5	18.0	-6.2	10.0	9.6
Lemons	25	30	48	60	59	34.2	-26.4	17.1	25.0	-2.0
Grapefruit	84	165	155	237	250	-11.1	29.2	-6.0	53.4	5.4
Bananas	233	313	392	345	317	4.2	15.4	25.4	12.2	-8.0
Mangoes	59	39	38	85	61	-8.7	-25.3	-2.6	123.6	-28.0
Guavas	46	50	50	59	47	-	17.8	0.6	16.3	-19.5
Tobacco	8	30	45	45	45	-17.7	-32.7	50.0	-	-
Coffee	19	18	22	24	23	32.5	-35.8	22.2	8.6	-5.0
Cocoa	1	2	2	2	2	-2.3	16.9	11.1	-5.3	16.6
Fibre crops										
Kenaf	10	20	20	19	17	-4.5	26.1	-0.5	-5.0	-12.0
Henequén	206	228	226	233	247	56.5	9.2	-0.9	3.1	5.9
Cultivated pasture and fodder										
	43	38	34	31	35	0.9	-	-10.5	-8.8	12.8
Livestock										
Stocks										
Beef cattle ¹	5 059	5 099	5 115	5 020	5 007	0.3	-0.3	0.3	-1.9	-0.2
Dairy cows ¹	398	412	408	406	392	1.7	-1.3	-1.0	-0.5	-3.6
Swine	765	911	1 009	1 038	1 101	1.5	6.7	10.8	2.9	6.1
Poultry ¹	25	26	27	26	26	-3.9	11.7	3.8	-3.7	-0.8
Animals slaughtered ²										
Cattle	293	303	302	299	302	-1.4	0.9	-0.3	-1.0	1.1
Swine	58	76	86	95	100	3.7	7.2	13.2	10.5	5.7
Poultry	91	90	107	113	113	-26.1	18.4	18.9	5.6	0.3
Other production										
Milk ³	889	948	943	929	926	-0.3	2.1	-0.5	-1.5	-0.3
Eggs ³	2 327	2 493	2 557	2 524	2 519	-4.8	11.0	2.6	-1.3	-0.2
Honey ⁴	7	10	9	10	9	13.5	1.0	-10.0	11.1	-10.3

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

¹Preliminary figures. Correspond to real, not rounded figures. Thousands of tons, with the exception of henequén (expressed in millions of bunches) and cultivated pasture and fodder (millions of tons). In State firms. ²Thousands of head. Millions of head, final stock. ³Thousands of tons of live weight. Millions of units. ⁴Tons. ^oIncluding the non-State sector.

Table 6

**CUBA: PRINCIPAL PETROLEUM, MINING AND
METALLURGICAL PRODUCTION**

	Thousands of tons					Growth rates				
	1980	1983	1984	1985	1986"	1982	1983	1984	1985	1986°
Petroleum and petroleum products										
Crude petroleum extraction	274	742	770	868	938	13.7	37.0	3.8	12.7	8.1
Crude petroleum refining	6 233	6 580	6 616	6 587	6 584	1.6	0.1	0.5	-0.4	-0.1
Fuel oil	3 026	3 414	3 340	3 318	3 314	2.2	6.8	-1.2	-0.7	-0.1
Diesel fuel	1 099	1 060	1 020	979	994	-0.1	-5.2	-3.8	-4.0	1.5
Natural gas	18	8	3	7	6	-19.5	-22.4	-22.4	133.3	-17.4
Gasoline	807	890	984	953	980	-14.4	5.1	10.6	-3.2	2.8
Ferrous mining and metallurgy										
Refractory chromite	29	34	38	38	50	33.2	23.1	12.8	-	32.6
Ordinary steel	304	364	325	401	412	-8.6	20.8	-10.7	23.4	2.5
Textured steel bars	260	241	270	301	312	-26.0	18.4	12.2	12.0	3.8
Non-ferrous mining and metallurgy										
Nickel plus cobalt (metal content)	38	39	33	33	35	-6.6	4.4	-15.6	-	4.5
Copper concentrate ⁰ (metal content)	3 305	2 667	2 701	3 076	3 257	-9.0	0.8	12	13.9	5.9

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"Preliminary figures. Millions of cubic metres. "Tons.

Table 7

CUBA: INDICATORS OF MANUFACTURING PRODUCTION"

	Index: of material product (1975 = 100)			Growth rates ^c			
	1980	1985	1986*	1983	1984	1985	1986*
Total"	110.5	168.9	168.9	4.5	9.2	7.8	-
Non-durable consumer goods industry	104.2	161.7	159.7	2.1	8.3	7.8	-1.2
Foodstuffs (excluding sugar)	115.5	156.8	158.4	7.6	5.1	5.7	1.0
Sugar and sugar products	112.6	139.2	131.5	-3.7	5.8	15	-5.5
Beverages and tobacco	84.0	182.0	178.4	0.5	13.8	13.4	-2.0
Ready-made clothing	115.9	172.4	188.9	15.8	15	8.0	9.6
Printed matter	128.8	182.3	192.8	-12.9	14.6	12.4	5.7
Intermediate goods industry	107.1	131.4	133.8	3.5	6.0	7.5	1.8
Textiles	115.0	175.6	192.8	5.6	2.8	25.4	9.7
Chemicals	109.8	141.3	141.2	9.1	11.1	9.7	-
Fuels	97.8	107.4	106.7	1.0	0.7	0.4	-0.6
Construction materials	137.6	136.2	141.8	-2.5	7.4	5.6	4.1
Consumer durables and capital goods industry	164.3	330.9	336.4	17.5	17.6	11.1	-0.1
Construction of non-electrical machinery	175.5	360.4	345.7	16.0	18.1	8.5	-4.1
Electrotechnical and electronic goods	148.7	351.1	386.2	28.4	24.8	22.5	10.0
Metal products"	140.3	260.1	281.2	17.5	10.8	13.9	8.1
Other manufactures'	127.0	196.7	205.7	8.7	10.8	5.0	4.6

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"At constant 1981 prices. Preliminary figures. 'Correspond to real, not rounded figures. Excluding basic metals. Including, *inter alia*, the leather, glass and pottery, paper and pulp and forestry and timber processing industries.

Table 8

CUBA: MAIN INDUSTRIAL PRODUCTS

	Thousands of tons				Growth rates				
	1980	1984	1985	1986"	1982	1983	1984	1985	1986"
Non-durable consumer goods									
(excluding sugar)									
Canned meat	35	62	64	66	17.6	13.3	12.7	3.2	2.8
Wheat flour	271	422	442	443	9.0	11.0	-1.4	4.7	0.4
Canned fruit and vegetables	122	162	182	179	-7.9	12.6	9.5	12.3	-1.6
Alcoholic beverages	402	656	618	580	48.2	2.7	11.9	-5.3	-6.2
Twisted tobacco	167	302	366	341	55.6	-7.1	-9.4	21.2	-7.0
Fisheries									
Gross catch	186	200	220	245	18.7	1.6	1.0	10.0	11.2
Total catch landed	152	171	183	194	21.4	8.0	3.5	7.1	6.0
Outer clothing ⁰	44	51	52	58	10.7	2.4	-2.3	2.0	12.4
Intermediate consumer goods									
Textiles	159	172	205	221	-10.8	11.1	-1.1	19.2	7.4
Gray cement	2 831	3 347	3 182	3 305	-3.9	2.1	3.6	-4.9	3.9
Paints, enamels and varnishes	149	236	234	212	-53.4	140.4	45.8	-0.8	-9.7
Sulphuric acid 98%	402	336	374	396	-19.4	7.0	-5.7	11.3	5.9
Sodium hydroxide	3	18	14	21	-39.3	46.5	7.3	-22.2	51.8
Superphosphate	18	10	15	3	-22.8	-60.6	10.6	50.0	-78.8
Ammonium nitrate	312	336	328	330	-42.0	-15.1	91.3	-2.4	0.7
Compound fertilizers	1 059	1 036	1 160	1 045	-3.8	5.4	-4.2	12.0	-9.9
Urea	16	65	81	75	-43.0	13.8	101.6	24.6	-7.5
Bottles'	176	265	263	308	47.9	-19.5	41.4	-0.8	17.0
Unbleached cardboard and paperboard	22	19	16	21	4.4	-19.0	-11.7	-15.8	30.7
Consumer durables and capital goods									
Refrigerators'	26	24	28	18	-56.5	-11.4	54.1	16.7	-33.8
Radio receivers'	200	253	236	237	-6.6	14.3	-7.3	-6.7	0.3
Television sets'	40	92	94	102	-35.2	80.4	0.8	2.2	8.5
Sugar-cane combines	501	631	606	613	-0.5	8.0	-2.9	-4.0	1.2
Buses	1 846	2 219	2 393	2 351	-3.8	16.2	192	7.8	-1.8
Electric wires and cables									
Uninsulated	2 547	2 069	2 800	3 000	-41.5	42.8	1.8	35.3	7.1
Insulated*	38	52	64	77	-37.4	24.5	24.9	23.1	196
Sanitary appliances'	298	336	338	371	12.8	-2.4	-3.9	0.6	9.7

Source: ECLAC, on the basis of figures supplied by the State Statistical Committee.

"Preliminary figures. Thousands of hectolitres; 'Millions of units. Millions of square metres.

'Thousands of units. Units. 'Thousands of kilometres.

Table 9

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons)"		Indus- trial yield (base 96°) (percen- tages)	Days		Sugar-cane milled per day (thousarids of tons)	
	Sugar-cane milled	Raw sugar (base 96°)		Nominal harvest	Actual	Nominal harvest	Actual
1960	47 492	5 943	12.51	103	88	466.3	542.3
1965	56 687	6 156	12.15	130	105	388.4	482.1
1970	79 678	8 538	10.71	217	143	367.4	557.8
1975	50 770	6 314	12.44	123	99	413.7	513.5
1976	51 999	6 156	11.84	130	99	399.1	526.9
1977	56 149	6 485	11.55	142	104	395.8	543.0
1978	67 043	7 351	10.96	168	119	400.1	563.2
1979	73 050	7 992	10.94	182	128	402.3	571.4
1980	61 600	6 665	10.82	149	109	412.7	565.8
1981	66 408	7 359	11.08	136	114	489.1	580.3
1982	73 500	8 210	11.17	152	124	484.6	594.1
1983	68 687	7 109	10.35	160	113	429.6	608.9
1984	78 358	8 207	10.47	166	126	471.1	620.2
1985	66 756	8 004	11.99	135	103	495.2	646.5
1986*	68 300	7 255	10.62	137	104	497.8	656.6

Source: 1960-1970: Central Planning Board, Statistical Bureau, *Boletín Estadístico*, 1970; 1975-1984: *Anuario Estadístico de Cuba*, 1984; 1985: data provided by the State Statistic'il Committee.

*Harvest year (end of November of one year to beginning of May of the following year).

Preliminary figures.

Table 10

CUBA: INDICATORS OF CONSTRUCTION ACTIVITY

	Gross production (thousands of pesos at 1981 prices)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	2 307	2 342	2 386			10.4	16.0	1.5	1.9
Construction and installation	2 077	2 091	2 120	100.0	100.0	9.4	15.9	0.6	1.4
Agriculture	42	42	43	4.5	2.0	60.6	7.7		3.4
Housing and urbanization	179	178	195	8.1	9.2	20.4	16.2	0.2	9.3
Education	74	53	56	7.6	2.7	23.4	51.0	27.5	4.9
Industry	440	477	430	22.9	20.3	20.2	16.4	8.4	-9.1
Hidraulic works	69	75	73	7.9	3.4	-2.2	-2.8	8.2	-2.8
Highways (excluding railways)	182	139	140	8.0	6.6	5.9	23.8	-23.6	0.4
Railways	40	39	40	4.4	1.9	9.2	17.6	-4.0	3.9
Hidrological works	35	39	51	1.9	2.4	20.6	16.7	11.4	30.1
Maritime facilities	45	42	47	2.1	2.2	-18.5	25.0	-6.7	13.3
Health facilities	44	40	59	2.3	2.8	-22.2	15.8	-9.1	49.4
Electricity networks	20	19	17	1.0	0.8	15.5	5.3	-5.0	-11.9
Communication networks	13	12	13	0.4	0.6	6.9	-13.3	-7.7	7.4
Maintenance	381	416	418	10.4	19.7	27.0	22.9	9.2	0.5
Other buildings	292	277	297	10.3	14.0	-16.5	6.5	-5.2	7.4
Other production marketed	221	229	228	7.6	10.8	14.9	14.5	3.7	-0.3
Geological exploration, drilling and geodesic surveys	148	160	173			30.7	12.1	7.7	8.2
Design of construction projects	81	92	93			4.5	17.4	12.4	1.4
Production of selected building materials									
Textured steel bars ^c	270	301	312			18.4	12.0	11.5	3.8
Steel bars ^c	271	335				16.5	-8.8	23.6	
Gray cement ^c	3 347	3 182	3 305			2.1	3.6	-4.9	3.9
Prefabricated concrete products	905	961	954			8.7	8.6	6.1	-0.8
Clay bricks ^c	128	147	148			12.5	2.4	14.8	0.7
Tiles ¹	66	72	72			17.0	13.8	9.1	-0.1
Sheet glass	284	600	400			21.9	-17.7	111.3	-33.3

Source: ECLAC, on the basis of data from the State Statistical Committee, *Anuario Estadístico de Cuba, 1984*.

¹Preliminary figures. ²Correspond to real, not rounded figures. ³Thousands of tons. ⁴Thousands of cubic metres. ⁵Millions of units. ⁶Thousands of square metres.

Table 11

CUBA: ELECTRICITY INDICATORS

	GWh					Growth rates				
	1980	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Gross generation	9 805	11 551	12 292	12 199	13 166	4.8	4.4	6.4	-0.7	7.9
Ministry of the Electricity Industry	8 679	10 107	10 803	10 739	11 638	4.8	4.8	6.9	-0.6	8.4
Ministry of the Sugar Industry	954	1 085	1 125	1 131	1 176	7.2	3.8	3.7	0.5	4.0
Nickel-producing enterprises	170	270	251	209	233	3.0	1.5	-7.0	-16.7	11.4
Other producers	92	89	113	120	119	-8.0	-19.9	27.0	6.2	-0.7
Consumption [^]	7 330	8 100	8 722	8 635	9 267	9.8	0.7	7.7	-0.9	7.3
Industrial	3 003	3 621	3 314	3 229	3 471	21.2	-0.5	-8.5	-2.6	7.5
Agricultural	312	169	253	234	253	-30.4	-22.6	49.7	-7.5	8.2
Commercial	1 851	1 884	1 942	1 829		1.9	-0.1	3.1	-5.8	
Residential	2 087	2 312	2 485	2 682	2 892	5.2	5.3	7.4	7.9	7.8
Others	77	115	126	101		39.0	7.5	9.6	-19.8	

Source: ECLAC, on the basis of statistics supplied by the State Statistical Committee.

"Preliminary figures. Correspond to real, not rounded figures. Excluding the consumption of the Ministry of the Sugar Industry, the nickel-producing enterprises and that corresponding to "other producers".

Table 12

CUBA: EVOLUTION OF EXPORTS OF GOODS (FOB)

	Millions isf pesos				Percentage breakdown		Growth rates ^b			
	1983	1984	1985	1986 ^c	1980	1986 ^d	1983	1984	1985	1986 ^e
Total	5 535	5 477	5 983	5 325	100.0	100.0	12.2	-1.3	9.2	-11.0
Soviet Union	3 882	3 952	4 479	3 934	56.8	73.9	18.0	1.5	13.3	-12.2
Other socialist countries	883	956	844	765	13.5	14.4	-	13.5	-11.7	-9.3
Other countries	770	568	660	626	29.7	11.7	14	-26.2	16.2	-5.2
Re-exports¹	493	501	507	229	2.4	4.3	87.5	-2.6	1.2	-54.8
Rest of sales	5 042	4 976	5 476	5 096	97.6	95.7	8.0	-1.3	10.0	-6.9
Soviet Union	3 389	3 452	3 985	3 716	54.4	69.8	12.0	1.9	15.5	-6.8
Other socialist countries	883	956	844	754	13.5	14.2	-	8.3	-11.7	-10.7
Other countries	770	568	647	626	29.7	11.7	1.3	-26.2	13.9	-3.3
Sugar sales	4 078	4 123	4 454	4 100	82.7	77.0	8.1	1.1	8.0	-8.0
Soviet Union	3 093	3 168	3 659	3 343	51.1	62.8	11.8	2.5	15.5	-8.6
Other socialist countries	714	770	638	523	10.8	9.8	14	7.8	-17.7	-18.1
Other countries	271	185	157	234	20.8	4.4	-10.0	-31.7	-15.1	48.8
Non-sugar sales	964	853	1 022	997	14.9	18.7	7.3	-11.5	19.9	-2.5
Soviet Union	296	284	326	373	3.3	7.0	13.8	-4.1	15.0	14.3
Other socialist countries	169	186	206	231	2.6	4.3	-5.6	10.1	10.7	12.4
Other countries	499	383	490	392	9.0	7.4	8.7	-23.2	28.0	-20.0
Metallic minerals and scrap	307	299	331	318	4.8	6.0	-5.8	-2.4	10.7	-4.1
Tobacco	103	57	93	79	0.9	1.5	-0.9	-44.7	64.3	-15.5
Citrus fruit	120	118	144	149	1.0	2.8	22.4	-1.7	22.0	3.8
Fishery products	105	92	119	126	2.2	2.4	6.1	-12.4	29.6	5.5
Naphtha	70	32	54	22	1.8	0.4	6.0	-54.3	68.7	-58.7
Coffee, cocoa, etc.	47	20	39	47	0.6	0.9	20.5	-57.4	94.0	20.8
Alcoholic beverages	29	35	22	16	0.6	0.3	11.5	20.6	-38.2	-26.6
Others	183	164	161	226	2.9	4.2	30.7	-10.4	-1.9	40.3

Source: ECLAC, on the basis of official figures.

^cPreliminary figures.
convertible currency.^dCorrespond to real, not rounded figures.^eRe-exports of fuel to the Soviet Union in freely

Table 13

CUBA: PRODUCTION, EXPORTS AND EXPORT PRICES OF SUGAR

	Thousands of tons"		US cents per pound		World market price'
	Sugar production	Sugar exports	Price paid by the Soviet Union'	Price received by Cuba in freely convertible currency	
1970	7 559	6 906	5.94		3.68
1971	5 950	5 511	6.41		4.50
1972	4 685	4 140	6.45		7.27
1973	5 383	4 797	11.82		9.45
1974	5 926	5 491	19.30		29.66
1975	6 427	5 744	26.36		20.37
1976	6 151	5 764	27.43		11.51
1977	6 953	6 238	26.94		8.10
1978	7 662	7 197	36.71		7.82
1979	7 800	7 199	37.17		9.65
1980	6 805	6 170	47.39	24.20	28.15
1981	7 926	7 055	35.10		16.88
1982	8 039	7 727	39.00	11.20	8.38
1983	7 460	7 011	46.00	9.00	8.56
1984	7 783	7 007	44.00	6.46	5.18
1985	7 889	7 206	45.00	3.92	4.05
1986 ^f	7 467	6 703	38.00	7.04	6.05

Source: ECLAC, on the basis of figures from the *Anuarios Estadísticos de Cuba*, the Statistical Committee, the *Statistical Yearbook of the Soviet Union* and other international data.

"Raw sugar, base 96° of polarization. Calendar year. ' Price paid for sales of sugar covered by agreements. These exclude sales to the USSR, in convertible currency, at market prices. Price of shipments of sugar in the current year, occasionally agreed upon previously at fixed prices. 'Prices under the International Sugar Agreement. Preliminary figures.

Table 14

**CUBA: VALUE AND VOLUME OF RAW SUGAR EXPORTS,
BY COUNTRIES**

(Percentage breakdown)

	1980	1981	1982	1983	1984	1985	1986"
Value	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	61.8	58.7	72.7	75.9	77.5	82.5	83.8
Rest of socialist countries	12.7	13.9	18.4	17.5	18.1	14.1	10.6
Rest of world	25.5	27.4	8.9	6.6	4.4	3.4	5.7
Volume	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	44.2	45.4	57.3	50.5	52.1	51.4	60.0
Rest of socialist countries	20.5	20.8	22.3	26.8	27.6	24.2	18.0
Rest of world	35.3	33.8	20.4	22.7	20.3	24.4	20.0

Source: ECLAC, on the basis of figures from the State Statistical Committee.
"Preliminary figures.

Table 15

CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

	Millions of pesos						Growth rates			
	1980	1983	1984	1985	1986"	1982*	1983	1984	1985	1986"
Total exports	3 967	5 535	5 476	5 983	5 325	16.8	12.2	-1.1	9.2	-11.0
Soviet Union	2 253	3 882	3 952	4 479	3 934	39.5	18.0	1.8	13.3	-12.0
Rest of socialist countries	534	883	956	844	765	0.1	-	8.3	-11.7	-9.3
Rest of world	1 180	770	568	660	626	27.1	1.4	-26.2	16.2	-5.2
Total imports	4 627	6 222	7 228	7 983	7 569	8.2	12.5	16.2	10.5	-5.2
Soviet Union	2 904	4 245	4 782	5 373	5 314	15.8	13.4	12.7	12.3	-1.1
Rest of socialist countries	709	1 169	1 290	1 345	1 098	32.3	0.4	10.4	4.3	-18.3
Rest of world	1 014	808	1 156	1 265	1 157	-37.7	29.7	43.1	19.5	-8.6
Overall trade balance	-660	-687	-1 752	-2 000	-2 244					
Soviet Union	-651	-363	-830	-894	-1 380					
Rest of socialist countries	-175	-286	-334	-501	-333					
Rest of world	166	-38	-588	-605	-531					

Source: ECLAC, on the basis of data from the State Statistical Committee, the National Bank of Cuba and other international sources including *Comercio Exterior* (Soviet Union).

"Preliminary figures. Annual average.

Table 16

CUBA: IMPORTS OF GOODS (CIF)

	Millions of pesos				Percentage breakdown		Growth rates				
	1980	1984	1985	1986 ^o	1980	1986 ^o	1982	1983	1984	1985	1986 ^o
Total	4 627	7 228	7 983	7 569	100.0	100.0	8.2	12.4	16.2	10.5	-5.2
According to use and economic purpose											
Consumer goods	535	794	865	755	11.6	10.0	13.5	-0.8	4.9	9.0	-12.7
Intermediate goods	2 823	4 846	5 417	5 143	61.0	67.9	9.3	16.5	18.9	11.8	-5.1
Petroleum and petroleum products	898	2 201	2 629		19.4		28.3	24.3	19.4	19.5	
Fertilizers	81	130	136	126	1.8	1.7	9.7	11.6	4.0	4.8	-7.3
Herbicides and pesticides	60	53	64	52	1.3	0.7	5.0	-10.5	-22.1	21.5	-20.1
Rolled steel products	114	221	234	156	2.5	2.1	-1.7	27.8	24.2	5.7	-33.1
Accessories and spare parts	86	524	631	597	1.8	7.9	4.0	22.9	106.2	20.3	-5.3
Others	1 584	1 717	1 723		34.2		-3.1	9.3	-1.0	0.4	
Capital goods	1 269	1 587	1 701	1 672	27.4	22.1	2.2	9.6	14.3	7.1	-1.7
Complete plants	535	646	734	723	11.6	9.6	-10.3	10.2	9.7	13.6	-1.5
Tractors	37	90	87	60	0.8	0.8	49.6	-15.0	45.2	-3.9	-30.6
Buses and tracks	115	192	203	116	2.5	1.5	24.8	-1.9	21.5	5.7	-43.0
Others	582	659	677	773	12.5	10.2	6.9	16.5	13.8	2.8	14.0
On the basis of SITC sections											
Food and live animals	746	823	873		16.1		5.7	-2.7	4.4	6.2	
Beverages and tobacco	16	8	8		0.3		-11.5	-5.3	-11.1	13	
Inedible raw materials, except fuels	188	270	309		4.1		-15.9	6.4	31.1	14.4	
Fuels and lubricants, minerals and related products	912	2 219	2 650		19.7		28.4	23.9	19.5	19.4	
Animal and vegetable oils and fats	57	79	82		1.2		-16.6	36.2	21.5	3.0	
Chemical products	289	442	441		6.3		14.0	16.2	6.3	-0.2	
Manufactured goods, classified chiefly by material	679	968	1 003		14.7		-4.9	6.4	26.9	3.6	
Machinery and transport equipment	1 639	2 201	2 412		35.4		-0.4	11.1	15.7	9.6	
Miscellaneous manufactured articles	101	218	205		2.2		74.5	16.6	-31	-5.8	

Source: ECLAC, on the basis of figures from the Sute Statistical Committee.

^o Preliminary figures.

Table 17

CUBA: IMPORTS OF GOODS (CIF), BY AREAS OF ORIGIN,
USE AND ECONOMIC PURPOSE

	1984			1985			1986 ^a					
	Total	Con- sumer goods	Inter- mediate goods	Capi- tal goods	Total	Con- sumer goods	Inter- mediate goods	Capi- tal goods	Total	Con- sumer goods	Inter- mediate goods	Capi- tal goods
Millions of pesos												
Total	7 228	794	4 846	1 587	7 983	865	5 417	1 701	7 569	755	5 143	1 672
Soviet Union	4 782	345	3 575	862	5 373	403	4 078	892	5 314	397	3 987	930
Other socialist countries	1 290	365	482	442	1 345	373	489	483	1 099	246	393	460
Rest of world	1 156	84	789	284	1 265	89	850	326	1 157	112	763	282
Growth rates												
Total	16.2	4.9	18.9	14.3	10.4	8.9	11.8	7.2	-5.2	-12.7	-5.1	-1.7
Soviet Union	12.7	-0.9	15.8	6.3	12.4	16.8	14.1	3.5	-1.1	-1.5	-2.2	-4.3
Other socialist countries	10.4	4.0	21.4	5.0	4.3	2.2	15	9.3	-18.3	-34.0	-19.6	-4.8
Rest of world	43.1	44.8	32.8	82.0	9.4	6.0	7.7	14.8	-8.5	25.8	-10.2	-13.5
Percentages												
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Soviet Union	66.7	43.5	73.8	54.3	67.3	46.6	75.3	52.4	70.2	52.6	77.5	55.6
Other socialist countries	17.8	46.0	9.9	27.8	16.8	43.1	9.0	28.4	14.5	32.6	7.7	27.5
Rest of world	16.0	10.5	16.3	17.9	15.9	10.3	15.7	19.2	15.3	14.8	14.8	16.9

Source: ECLAC, on the basis of figures from the State Statistical Committee.

^aPreliminary figures.

Table 18

CUBA: BALANCE OF PAYMENTS IN FREELY CONVERTIBLE CURRENCY"

(Millions of pesos)

	1979	1980	1981	1982	1983	1984	1985	1986 ⁶
Balance on current account	-139	-46	51	297	263	-212	-506	-399
Merchandise balance	99	367	285	606	441	73	67	-164
Exports FOB	680	1 248	1 406	1 356	1 234	1 136	1 244	907
Imports FOB	-581	-881	-1 121	-750	-793	-1 063	-1 177	-1 071
Services balance	-237	-414	-235	-306	-179	-294	-577	-235
Income	227	237	344	267	342	264		
Transport and insurance	72	95	126	121	125	124		
Tourism	6	30	38	42	53	80		
Interest received	17	34	28	23	32	23		
Other	132	78	152	81	132	37		
Expenditure	-404	-651	-579	-573	-521	-558		
Transport and insurance	-122	-173	-181	-184	-190	-190		
Interest paid	-176	-263	-339	-341	-248	-241		
Other	-166	-215	-59	-48	-83	-127		
Other net transfers	-1	1	1	-2	1	9	4	1
Balance on capital account	133	60	-52	-539	-74	106	506	398
Long-term capital'	86	-16	-116	-136	93	138	360	-113
Loans received	187	80	26	29	253	291		
Amortizations payments	-101	-96	-142	-166	-160	-153		
Official sector	6	7	-	1	3	1	-1	9
Private banks	179	18	-92	-84	66	-3	546	-244
Other sectors	-99	-42	-26	-54	24	140	-185	122
Short-term capital'	47	76	64	-403	-167	-32	194	367
Loans received	173	134	203	119	98	279		
Amortization payments	-126	-58	-139	-522	-265	-311		
Official sector	-	-	69	-50	8	-5	1	-10
Commercial banks	68	-20	47	-408	-68	-134	141	54
Other sectors	-21	96	-53	56	-106	107	52	323
Total variation in reserves								
(- sign indicates an increase)	6	-14	1	242	-189	106	-48	144

Source: ECLAC, on the basis of figures from the National Bank of Cuba.

"Includes all commercial and financial movements with market economy countries but only some of the movements with socialist countries. Preliminary figures. These balances also include the net movements of other assets and liabilities in freely convertible currency, along with the adjustments for variations in the exchange rates of the currencies in which they are expressed.

Table 19

CUBA: STRUCTURE OF GROSS INTERNATIONAL RESERVES*(Millions of pesos)*

	1982	1983	1984	1985	1986°
Total⁰	139.2	332.2	262.8	350.0	218.0
Gold and precious metals	15.2	13.5	13.5	14.0	14.0
Cash and deposits in freely convertible currency in foreign banks	80.6	271.4	165.8	213.4	696
Deposits in transferable roubles in foreign banks	43.4	47.3	83.5	122.6	134.4

Source: ECLAC, on the basis of statistics from the National Bank of Cuba.
 "Preliminary figures. End-of-year balance in millions of pesos.

Table 20

CUBA: EVOLUTION OF THE EXCHANGE RATE*(Pesos per unit of foreign currency)*

	US dollars	Pounds sterling	Swiss francs	German marks	Yen"
Averages					
1980	0.7113	1.6432	0.4294	0.3968	0.3113
1981	0.7814	1.6071	0.4001	0.3510	0.3572
1982	0.8333	1.4686	0.4139	0.3443	0.3372
1983	0.8598	1.3167	0.4128	0.3411	0.3609
1984	0.8861	1.1999	0.3820	0.3141	0.3755
1985	0.9174	1.1777	0.3731	0.3096	0.3829
1986	0.8664	1.2100	0.4587	0.3802	0.4901

Source: ECLAC, on the basis of figures from the National Bank of Cuba.
 "100 yen.

Table 21

**CUBA: INDICATORS OF EXTERNAL INDEBTEDNESS
IN FREELY CONVERTIBLE CURRENCY"**

(Millions of pesos)

	1980	1981	1982	1983	1984	1985	1986"
Total disbursed debt	3 227	3 170	2 669	2 790	2 989	3 621	3 870
Bilateral official debt	1 354	1 294	1 276	1 333	1 579	1 820	1 628
Multilateral official debt	8	15	18	25	17	22	18
Suppliers	27	33	47	97	229	433	362
Financial institutions	1 837	1 826	1 327	1 335	1 164	1 346	1 363
Medium-term bilateral loans and loans from consortia	563	505	417	495	453	496	457
Short-term deposits	1 238	1 282	860	789	623	742	742
Credits for current imports	36	39	50	50	88	108	164
Other credits	1	1	1	1	-	-	-
Disbursements'	214	229	148	351	570		
Service				319	403		
Interest paid	263	338	341	248	241		
Amortization payments medium- and long-term debts				71	162		
Ratios (percentages)							
Total disbursed debt/global social product	18.5	14.3	11.6	11.5	11.4		
Total debt service/exports of goods and services				20.2	28.8		
Total debt service/disbursements				90.9	70.7		
Total debt service/global social product				1.3	1.6		

Source: ECLAC, on the basis of data from the National Bank of Cuba.

"Includes commitments with maturities of one year or less. Preliminary figures. 'Includes long- and short-term loans received, according to the balance of payments. Previous notes included the long- and short-term capital amortization payments, as given in the balance-of-payments in freely convertible currency. From 1985 onwards, more accurate information is given on amortization payments on the medium- and long-term debt: such information has been available only since 1983.

Table 22

CUBA: AVERAGE NUMBER OF WORKERS"

	Thousands of workers				Percentage breakdown		Growth rates					
	1983	1984	1985	1986'	1980	1986'	1982	1983	1984	1985	1986'	
Total	3 000	3 115	3 170	3 263	100.0	100.0	2.0	4.1	3.8	1.8	2.9	
Productive sphere	2 106	2 177	2 203	2 265	72.0	69.4	1.5	3.4	3.4	1.2	2.8	
Agriculture	595	564	552	573	22.8	17.6	-0.5	-3.4	-5.2	2.1	3.7	
Forestry	26	27	29	29	0.7	0.9	-1.0	25.6	3.8	8.6	0.7	
Industry	631	684	709	726	20.0	22.2	4.1	5.2	8.4	3.8	2.3	
Construction	284	309	315	322	10.0	9.9	-2.1	8.8	8.8	2.0	2.3	
Transport	185	187	140	197	6.3	6.0	-8.0	2.8	1.1	15	3.8	
Communications	25	26	26	27	0.8	0.8	3.5	4.7	3.7	-	3.1	
Commerce	348	367	367	371	11.1	11.4	4.3	7.3	5.6	-	1.1	
Other activities	14	14	14	20	0.3	0.6	15.2	7.8	3.6		39.7	
Non-productive sphere	894	938	967	998	28.0	30.6	3.4	5.7	5.0	3.1	3.2	
Community and personal services	97	108	112	115	3.4	3.5	-5.6	13.1	11.5	3.4	2.8	
Science and technology	23	26	27	28	0.7	0.9	4.9	5.6	13.3	6.3	1.8	
Education, culture and art	408	418	422	423	13.2	13.0	3.2	4.1	2.5	1.0	2.6	
Public health and social welfare, sports and tourism	170	185	197	211	4.6	6.5	11.2	10.5	8.9	6.4	7.1	
Finance and insurance	15	17	19	21	0.4	0.6	11.8	11.3	14.9	10.0	9.6	
Administration	155	156	161	169	5.2	5.2	-0.3	2.2	0.8	3.3	4.6	
Other activities	26	28	30	32	0.5	1.0	16.7	-2.6	5.6	5.3	8.4	

Source: ECLAC, on the basis of figures from the State Statistical Committee.

"Includes only civilian employment in the State sector. Preliminary figures.

Table 23

CUBA: AVERAGE WAGES"

	Pesos					Growth rates				
	1982	1983	1984	1985	1986*	1982	1983	1984	1985	1986 ^k
Total	2 113	2 159	2 230	2 252	2 255	3.8	1.8	3.3	1.0	0.1
Productive sphere	2 120	2 173	2 252	2 269	2 256	3.2	2.5	3.6	0.8	-0.6
Agriculture	2 000	2 004	2 100	2 155	2 173	4.0	0.2	4.8	2.6	0.8
Forestry	1 986	1 988	2 097	2 120	2 170	4.0	0.2	5.4	1.1	2.4
Industry	2 209	2 267	2 309	2 329	2 285	3.3	2.6	1.9	0.9	-1.9
Construction	2 241	2 346	2 468	2 442	2 407	-0.1	4.7	5.2	-1.1	-1.4
Transport	2 479	2 551	2 606	2 591	2 616	3.2	2.9	2.2	-0.6	1.0
Communications	2 021	2 041	2 106	2 137	2 143	3.1	1.0	3.2	1.5	0.3
Commerce	1 895	1 959	2 033	2 023	2 012	4.4	3.4	3.8	-0.5	-1.0
Other activities	2 380	2 482	2 472	2 454	2 473	6.2	4.3	-0.4	-0.7	0.8
Non-productive sphere	2 095	2 126	2 177	2 214	2 255	10.2	1.5	2.4	1.7	1.9
Community and personal services	1 864	1 900	1 966	1 955	1 983	2.8	1.9	3.5	-0.6	1.4
Science and technology	2 402	2 396	2 416	2 531	2 514	6.7	-0.2	0.8	4.8	-0.7
Education, culture and art	2 102	2 148	2 193	2 230	2 263	7.2	2.2	2.1	1.7	
Public health and social welfare, sports and tourism	2 216	2 027	2 077	2 124	2 175	13.4	-8.5	2.5	2.3	2.4
Finance and insurance	2 213	2 209	2 194	2 235	2 243	4.5	-0.2	-0.7	1.9	0.4
Administration	2 243	2 261	2 346	2 404	2 471	-5.7	0.8	3.7	2.5	2.8
Other activities	2 059	2 184	2 260	2 257	2 302	-	6.1	3.5	-0.1	2.0

Source: ECLAC, on the basis of figures from the State Statistical Committee.

*Includes only civilian employment in the State sector. Preliminary figures.

Table 24

CUBA: MONETARY LIQUIDITY

	Millions of pesos					Growth rates				
	1982	1983	1984	1985	1986°	1982	1983	1984	1985	1986°
Factors of expansion	8 583	9 155	9 927	10 315	10 766	6.6	6.7	8.6	3.9	4.4
Workers income	6 842	7 330	7 928	8 122	8 404	7.0	7.1	8.2	2.4	3.5
Private sector income	518	538	574	600	652	0.4	3.3	7.3	4.5	8.7
Other income'	1 223	1 287	1 425	1 593	1 710	6.8	5.2	11.3	11.8	7.3
Factors of contraction	8 467	9 086	9 721	10 150	10 676	11.3	7.3	7.0	4.4	5.2
Expenditure on goods and services	8 086	8 654	9 242	9 641	10 136	11.3	7.1	6.8	4.3	5.1
Other expenditure"	381	432	480	509	540	11.1	13.4	11.1	6.0	6.3
Variation in liquidity	116	69	205	165	90					
Cash	-80	-6	89	45	-172					
Savings deposits	196	75	116	120	262					

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes income earned by peasants, transport workers and artisans from sales of goods and services to the State, to co-operatives and to other organizations. 'Includes retirement benefits, pensions, grants to individuals, loans granted by the banking system, interest on savings, foreign currency exchange by bank draft and transfer received. Includes amortization and interest on loans, subscriptions to political, sporting and social organizations, drafts and transfers.

Table 25

CUBA: BANKING SYSTEM AND PERSONAL SAVINGS
AND CREDIT OPERATIONS

	1980	1981	1982	1983	1984	1985	1986
Number of banking agencies specializing in service to the public, at end of year		192	326	421	448	467	476
Municipal		69	115	143	154	165	167
Auxiliary		63	71	76	77	79	80
Savings banks		60	140	185	206	219	227
Non-specialized				17	11	4	2
Monetary savings of the population (1974 = 100)	101	120	147	157	172	189	224
Number of loans to the population (thousands)	178	252	215	268	296	385	335
Electrical appliances	139	212	166	216	237	324	362
Motor vehicles	15	12	17	18	15	15	12
Construction material and house repairs	9	11	10	11	18	17	24
Others	14	17	22	23	26	29	37
Value of personal credits (millions of pesos)	104	160	146	161	185	298	265
Electrical appliances	70	117	92	114	137	245	206
Motor vehicles	17	16	27	22	21	24	21
Construction material and house repairs	9	13	12	10	14	14	19
Others	8	14	15	35	19	15	19
Other items (millions of pesos)							
Payments collected	107	115	124	139	156	174	191
Balances due	176	217	233	249	272	388	455

Source: ECLAC, on the basis of figures from the People's Saving Bank.

Table 26

CUBA: BUDGET OF STATE INCOME AND EXPENDITURE

	Millions of pesos				Growth rates				
	1983	1984	1985	1986"	1982	1983	1984	1985	1986°
Current income	12 128	11854	12 294	11699	-7.5	21.4	-2.3	3.7	-4.8
Contributions from the State sector			12 086	11 493					-4.9
Taxes and other contributions from the non-State sector			28	42					51.4
Taxes and duties paid by the population			180	164					-8.8
Total expenditure	11 394	11930	12 547	11938	12.2	12.2	4.7	5.2	-4.8
Productive sphere	4 592	4 378	4 941	4 420	-33.3	20.1	4.7	12.9	-10.5
Housing and community services	623	773	734	718	13	31.7	24.1	-5.0	-2.2
Education and public health	2 210	2 425	2 548	2 693	4.5	5.4	9.7	5.1	5.7
Other socio-cultural and scientific activities	1 683	1 855	1 965	1 830	6.6	12.6	10.2	5.9	-6.9
"Poder Popular", Central State Government, Tribunals and Public Prosecutor's Office	610	688	643	640	3.9	-1.6	12.8	6.5	-0.5
Defence and domestic law and order	1 133	1 386	1 336	1 332	19.1	2.2	22.3	-3.6	-0.3
Other activities	542	426	381	306	22.3	-0.2	-21.4	10.6	-19.5
Reserves	-	-	-	-	-	-	-	-	-
Surplus (or deficit)	735	-76	-253	-239	-77.1				

Source: ECLAC, on the basis of figures from the State Statistical Committee, the National Bank of Cuba and the State Finance Committee.

"Preliminary figures.

CHILE

1. Recent economic trends: Introduction and summary

Three main factors had a strong influence on the performance of the Chilean economy in 1986. The first was the extended Fund facility programme which the government agreed upon with the International Monetary Fund, together with the structural adjustment loan granted by the World Bank in 1985. The second was the government's macroeconomic programme, which called for a major expansion of production activity in 1986 and for a suitable form of financing for the country's external accounts. This programme was based on a consistent set of exchange, fiscal and monetary policies which were in keeping with the objectives and restrictions set forth in the arrangement with the Fund. Finally, a third very important factor was that the external trade situation was much more favourable than had been expected; this resulted in a significant improvement in the terms of trade and permitted the government to apply a more expansionary monetary policy than it had initially projected without compromising its balance-of-payments position.

The priority goals of the authorities' economic policy concerned three main areas. In the macroeconomic sphere, the targets included a sustained growth rate of 3%-5% per year; the reduction of external credit requirements through a lowering of the deficit on the balance-of-payments current account to approximately US\$1.3 billion; and a decrease in the annual rate of inflation to 15%-20%. As regards the structural adjustment of the economy, the policy objective was to speed up capital accumulation, with the public sector and foreign investment being called upon to play a particularly significant role in achieving this end. Finally, the government's economic programme was also aimed at making rapid progress in the normalization, recapitalization and reprivatization of the banking and industrial enterprises that had been the hardest hit by the crisis of 1982-1983.

All of the authorities' macroeconomic goals were either fulfilled or surpassed, with aggregate indicators reflecting the best economic showing of recent years. The gross domestic product grew by 5.4% and thus came quite near to the record high achieved in 1981; inflation as measured by the consumer price index fell from 26.4% to 17.4%; the deficit on current account was brought down to US\$1.135 billion; and, although a reduction in unemployment did not figure among the explicit goals of the programme, the average nationwide level of unemployment dropped to 10.5%. The decrease in unemployment was all the more significant because it was accompanied by a considerable reduction in the number of persons enrolled in the government's emergency job programmes. The counterbalance to this increase in employment was the fact that real wages, rose less than 2%, thus making no more than a very slight recovery from the cumulative drop of around 15% recorded during the preceding four years (see table 1 and figures 1 and 2).

The targets of the adjustment programme agreed upon with the International Monetary Fund were, in general, amply met as well. By the end of 1986 the Central Bank's net international reserves stood at nearly US\$110 million more than the projected level, while the margin with respect to its domestic assets amounted to 27 billion pesos. The deficit of the non-financial public sector was also lower than had initially been anticipated.

The maintenance of a high real exchange rate played an important part in the expansion of the sectors of the economy which produce tradeable goods (both exportable and importable) and in the growth of agricultural and industrial exports. In keeping with the policy of reconverting the production structure, some of the fastest-growing sectors were fishing (10%), agriculture (9%) and manufacturing (8%).

The international economic situation contributed to the good showing made by Chile in respect of its external accounts, since the drop of over 40% in oil prices saved the country about US\$150 million on its fuel imports bill. There was also an increase in the international prices of fish meal,

Figure 1
CHILE: MAIN ECONOMIC INDICATORS

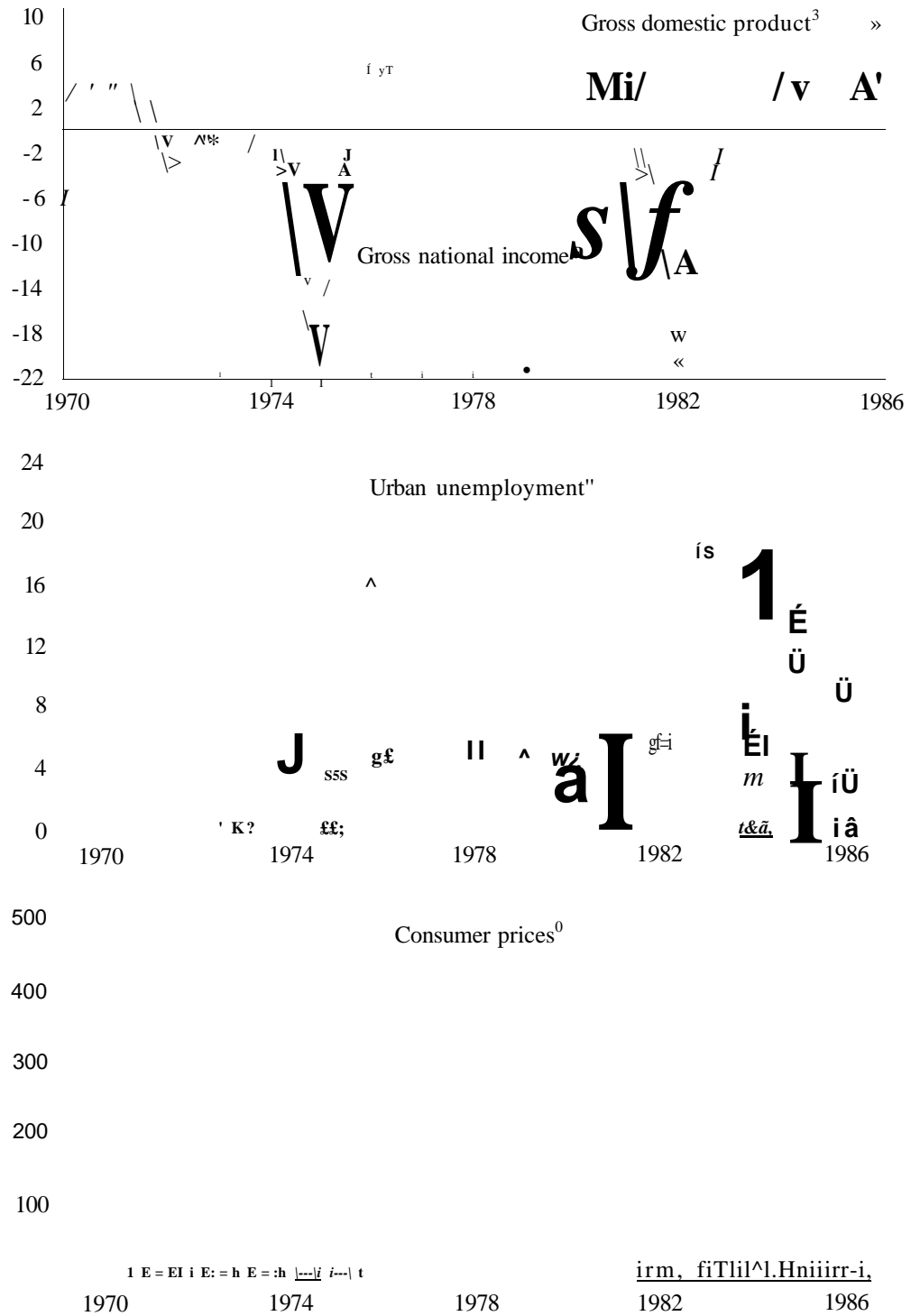
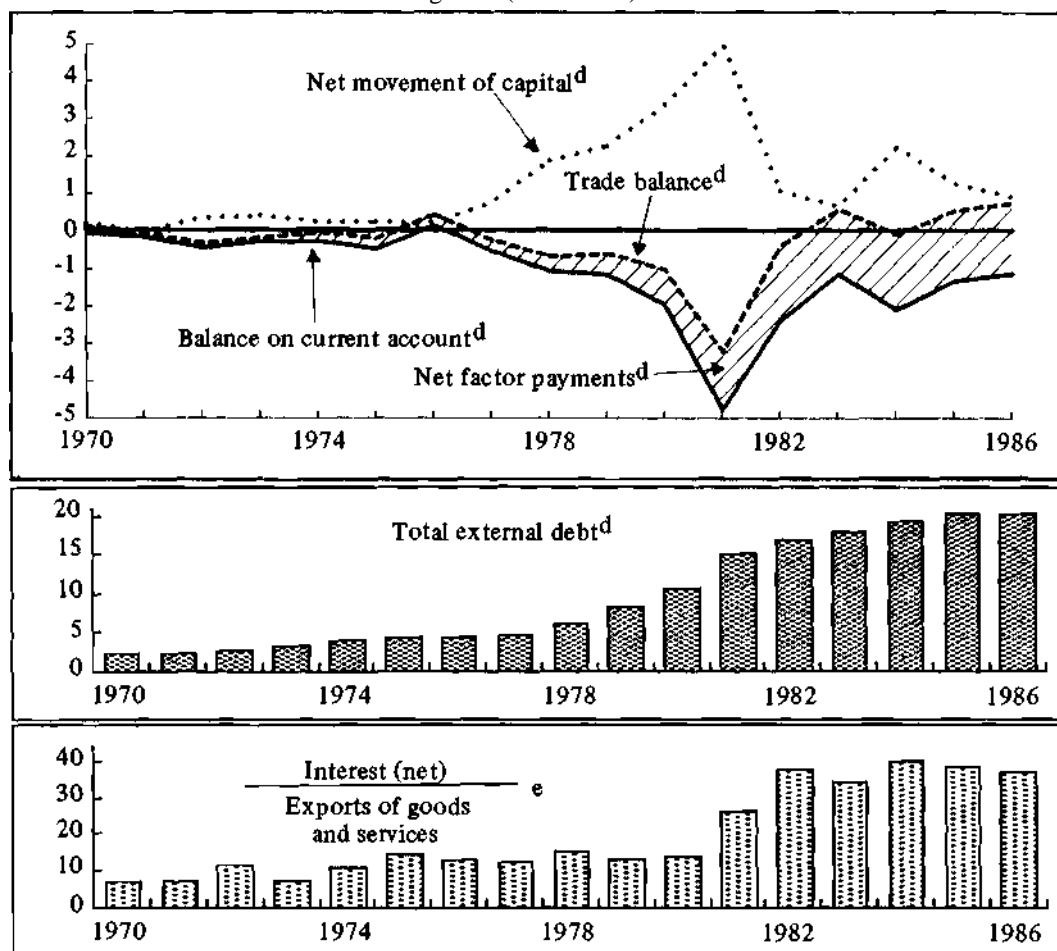


Figure 1 (conclusion)



Source: EC LAC, on the basis of official data.

^aAnnual growth rate. ^bAnnual average rate for Greater Santiago. ^cPercentage variation from December to December. ^dBillions of dollars. ^ePercentage.

wood pulp and other major Chilean exports. These changes resulted in a 12% improvement in the terms of trade for goods despite the fact that the average price of copper, which is by far the country's largest export item, decreased almost 3%. In all, agricultural and industrial exports climbed 21% in nominal terms. In contrast, even though the volume of merchandise imports rose 15%, their value increased by only 5% thanks to the decline in international fuel prices.

The deficit on the current account of the balance of payments of slightly over US\$ 1.1 billion did not lead to a like increase in the external debt, which grew by only US\$300 million, owing to the considerable expansion in debt paper conversion transactions. These operations accounted for an amount bordering on US\$1 billion during 1986, for a cumulative total of nearly US\$1.3 billion since such transactions were first begun in September 1985.

The government's fiscal policy did its part in helping to accomplish the goal of increasing capital accumulation. As a proportion of the product, public-sector investment rose from 7% to 7.7%, while public savings climbed from 3.8% to 4.4%. Nevertheless, the coefficient of fixed capital investment remained very low (13%), thereby showing that much remains to be done if investment is to serve as a means of speeding up the country's growth.

Taking advantage of the subsidence of inflationary expectations and the favourable trend in the balance of payments, the authorities directed their monetary policy along clearly expansionary lines.

The basic monetary aggregates rose by over 20% in real terms, while real interest rates on operations denominated in the local currency dropped to the lowest levels observed since interest rates were decontrolled in 1975.

The process of applying various measures in order to put the financial sector back on a normal footing was virtually completed in 1986, as the recapitalization of banks and financial institutions and further portfolio sales to the Central Bank restored the financial system to solvency. In addition, in November a number of major amendments to the banking laws were promulgated whose purpose was to limit the risk positions of banks and financial institutions and to increase their transparency, as well as to ensure that the effects of any future problems of solvency would be confined to the system's investors and depositors. Thus, by the end of the year it was thought that the steps taken to promote the purchase of shares in the country's two largest private banks (by means of a system referred to as "people's capitalism") would make it possible for the process of reprivatizing the banking system to culminate in the total return of this system to the private sector by early 1987.

2. Trends in economic activity

a) *The product and income*

In 1986 the Chilean economy maintained the dynamism which it had begun to exhibit towards the end of the preceding year. The rate of increase of the gross domestic product (5.4%), which was more than double the rate recorded in 1985, surpassed the initial projections. This growth was led by the sectors producing tradeable goods, which expanded by 6.5%, and by basic services, which showed an increase of 7.5%.

Gross national income rose 7% thanks to the partial recovery of the terms of trade for goods and services (which improved by nearly 9%) from the substantial deterioration suffered during the two preceding years (see table 1). Two factors that played a decisive part in this upturn in the terms of trade were the drop in oil prices and the rise in the international prices of some export products, such as fish meal, wood and wood pulp.

b) *Total supply and demand*

The expansion in the gross domestic product was accompanied by a sharp increase (16%) in the volume of imports. As a result, the total supply of goods and services (which was virtually stagnant in 1985 due to the scant increase in the product and a 10% drop in imports) climbed 7% in 1986 (see table 2).

Among the various components of total demand, exports again attained a vigorous growth rate (10%). As a result, export activity generated almost 30% of the gross domestic product; this unprecedented percentage provides compelling evidence of the degree to which the economy has been opened up to international trade. Government consumption, on the other hand, dropped once again (-2%), bringing its share of the product down to 11%. This was in line with the policy applied by the authorities, which was aimed at reducing current government expenditure for the dual purpose of lessening the relative weight of the public sector in the economy and of raising government saving. In contrast, private consumption increased 6%, which more than made up for its decrease during the preceding year. Finally, gross fixed capital investment rose 7%, for a cumulative increase during the three-year period from 1984 to 1986 of over 30%. Nevertheless, owing to the steep decline in such investment in 1982-1983, it was still far lower than it had been during the boom of 1980-1981.

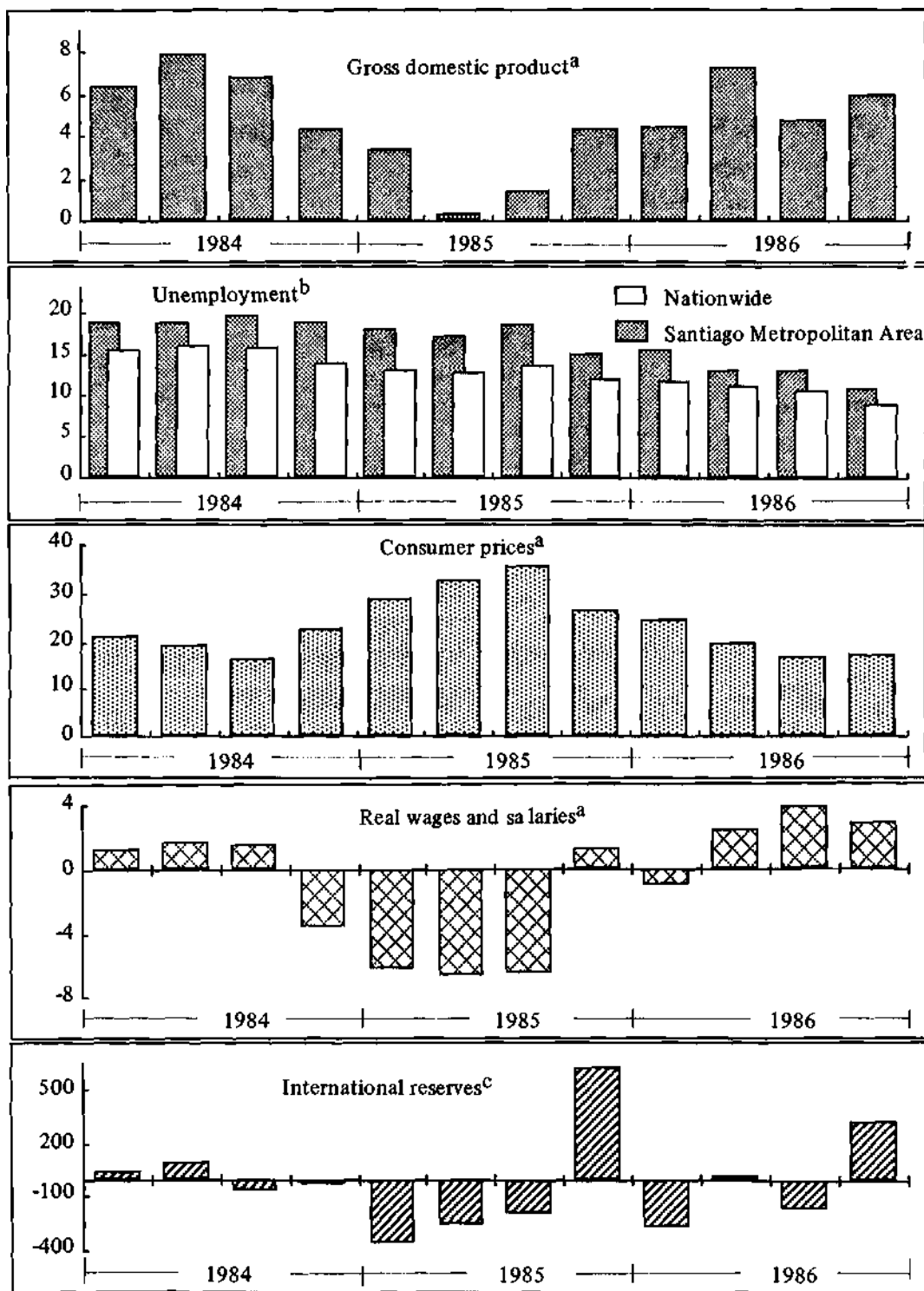
Gross domestic saving continued to rise, verging on 23% of the gross domestic product, which was the largest percentage recorded in the past 20 years. The improvement in the terms of trade and the decrease in net payments of profits and interest both contributed to the recovery made by gross national savings, which, although they did not regain their 1979-1980 level, nevertheless did show an increase for the fourth year running. The effects of this rise were partly offset, however, by the decline in external savings (see table 3).

c) *The main sectors of production*

As noted earlier, the growth of the Chilean economy in 1986 was primarily due to the good performance turned in by the sectors that produce tradeable goods, including agriculture and manufacturing, which expanded by 9% and 8%, respectively. The mining sector was an exception, in

Figure 2

CHILE: QUARTERLY TRENDS OF MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official data.

^aPercentage variation with respect to corresponding quarter of previous year.

^bAverage^{rate}.

^cVariation, in millions of dollars, with respect to the preceding quarter.

that it showed an increase of less than 1.5%. The dynamism displayed by the tradeable-goods production sectors was a direct consequence of the country's structural adjustment policy, which provided for a high and stable real exchange rate as an incentive for both export and import-substitution activities. The effects of this policy were, moreover, heightened in 1986 by the partial recovery of the terms of trade. This expansion was also buttressed by the increase in basic services, whose growth rate was higher than that of economic activity as a whole for the third year in a row (see table 4).

i) *Agriculture*. With an increase of 9%, agriculture rounded off three years of rapid growth. Traditional crops, fruit production and fishery activity all contributed to this achievement in 1986.

The value (at constant prices), of Chile's traditional crops climbed 18% to an all-time high (see table 5). This rise was chiefly attributable to the 40% increase in the wheat harvest (whose volume has trebled over the past three years) and to the exceedingly rapid expansion of industrial crops —rape (204%), sunflower (67%) and sugar beets (24%). These increases were largely a result of the expansion of the area planted, which, when considered in conjunction with the reduction in the land area devoted to other crops, indicates that there is a trend towards specialization in these items. The cultivation of rice and sugar beets was also encouraged by the continuation of the policy of establishing price bands and, as was also true of most of the other crops, by the maintenance of a high real exchange rate.

The impact of this last factor was also reflected in the boom in fruit production, an activity that is closely related to the external market. Strong growth continued to be seen in 1986 both in the output of all the main fruit crops and in the land areas devoted to them (see table 6).

Production increases were also seen in 1986 in all livestock items except for mutton. Particularly large rises were achieved in the output of eggs and pork, which marked up record production volumes. The increases observed in the production of milk, beef and poultry meat were not great enough, however, to make up for the sharp decreases of previous years, and these items therefore failed to regain the levels they had reached early in the decade (see table 7).

Finally, following four years of steady growth, the rate of expansion in the area covered by forests slowed markedly. To a large extent, this was a result of the fact that the National Forestry Corporation did not carry out any additional planting in 1986 (see table 8).

ii) *Fisheries*. The output of this sector, which is also closely linked to external markets, rose 10%. Combined with the strong growth seen in this sector during the preceding years, this brought its production level to almost double what it had been in 1980. As regards fishing activities as such, the catches of fish and shellfish for use in industry showed particularly striking increases (17% and 14%, respectively). Fishery production for industrial purposes also achieved a notable growth rate (17%) owing to another large increase in the production of fish meal, a sharp jump in the output of tinned fish and the partial recovery observed in that of frozen fish (see table 9).

iii) *Mining*. The output of the mining sector rose by 1.4%, which was the lowest growth rate recorded in the past three years. Copper production was up by 3%, but the value of copper exports fell slightly, due to the drop in copper prices on international markets. The extraction of iron ore, coal and gold also showed increases (8%, 16% and 8%, respectively). In contrast, there was a marked slackening in the production of iron pellets (-14%), petroleum (-7%) and molybdenum (-11%), all of whose international prices declined (see table 10).

iv) *Manufacturing*. In contrast to the virtual stagnation of manufacturing in 1985, in 1986 the industrial product grew at so rapid a rate (8%) that it surpassed its pre-crisis levels by a slight margin. The recovery of the manufacturing sector was also evident in industrial sales, which expanded by nearly 7% (see table 11).

The jump in the production of consumer durables was particularly sharp (42%), but its level was still 30% lower than it had been in 1980. The sectors producing mass consumption goods and capital goods showed notable increases as well (10% and 14%, respectively). Nevertheless, the latter has still not completely recovered from the slump it suffered during the crisis years. In 1986 the output of intermediate goods also rose and, within this category, those products intended for use in forestry and agriculture once again exhibited particularly strong growth. On the other hand, the production of transport equipment continued to follow an erratic trend, with a 7% drop which brought it down to less than half of its 1980 level.

v) *Construction*. The increase of slightly over 1% in the construction product constituted a continuation of the pronounced fluctuations displayed by this sector over the past 10 years. Construe -

tion was one of the leading activities during the economic expansion of 1977-1981, suffered an enormous contraction during the 1982 crisis, and was one of the driving forces behind the recovery in 1984 and 1985; however, in 1986 it surrendered this leadership position the tradeable-goods sectors.

The main factor in this loss of dynamism was the decrease in housing construction. This subsector, which had received a strong boost the year before from government subsidies aimed at mitigating the effects of the March 1985 earthquake, was hurt in 1986 by the conclusion of the emergency programmes carried out by the government for this purpose. Non-residential construction, on the other hand, expanded for the third consecutive year, but it was still far below its 1980-1981 levels (see table 12).

d) *Employment trends*

The employment situation, which had seriously deteriorated during the 1982-1983 crisis, continued to improve in 1986. Thus, the nationwide unemployment rate— which had reached record highs of around 22% during the crisis, fell to below 14% in 1986 according to surveys conducted by the Department of Economics of the University of Chile. This trend was also reflected in the figures compiled by the National Statistical Institute, which indicated that the average level of unemployment in the country was 10.5% in 1986 and that the rate moved a steadily downward throughout the course of the year (see table 13).

Unemployment was higher in urban zones than in rural areas —although the difference between the two rates narrowed considerably— and, as in 1985, was substantially lower in the south than in the central and northern parts of the country. Among the main urban centres, Valparaiso had the highest unemployment rate (13.5%). However, it is also the city which has recorded the most rapid decline in unemployment.

Unemployment decreased in all the sectors of the economy (two percentage points in industry, almost three points in construction and one and one-half in commerce) but the decline was particularly sharp in services. Unemployment continued to be much greater among manual workers (16%) than among non-manual workers (9%). In both cases, however, unemployment amounted to just slightly over half of the exceptionally high levels recorded during the period 1982-1983 (see table 14).

As during the two preceding years, the fall in unemployment was accompanied by a decline in the relative importance of the government's emergency job programmes as a means of absorbing manpower. Indeed, the Minimum Employment Programme (PEM), which had provided jobs for the equivalent of 8.6% of the labour force in 1982, accounted for less than 2% of the labour force in 1986. Similarly, the percentage of the labour force employed in the Job Programme for Heads of Household (POJH), in which higher wages are paid and more productive employment is provided than in the PEM, fell to 3.3% in comparison to somewhat over 6% in 1983 (see table 15 and figure 3).

As a consequence of these changes, "self-sustaining" employment —i.e., excluding persons enrolled in the government's emergency employment plans— climbed 16%. Since this rate was much higher than the growth rate of economic activity as a whole, the average productivity of the employed labour force decreased substantially.

3. The external sector

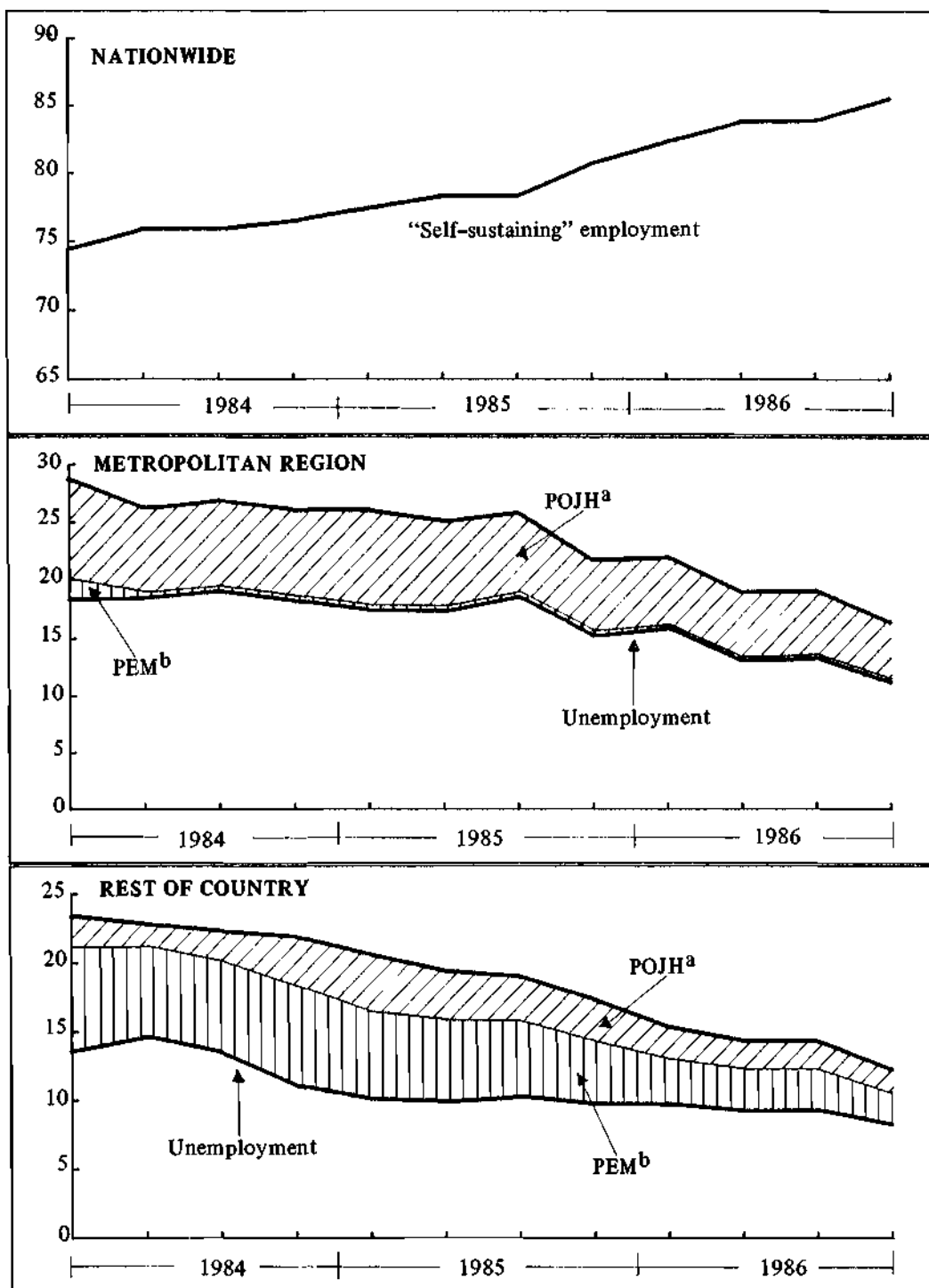
a) *External trade*

i) *Exports of goods.* Thanks to another considerable increase in the real effective exchange rate and to measures designed to offset the implicit tax on exports represented by tariffs, external sales of merchandise rose by more than 10%. This increase was chiefly due to the further substantial expansion in the volume exported and, to a lesser extent, to the rise in unit value, which went up by 2.5% after five years of uninterrupted decreases (see table 16).

The greater value of exports was wholly accounted for by non-copper exports, since external sales of copper dipped 2% as a result of the drop in its international price (see table 17). The value of copper exports thus continued to fluctuate sharply (increases of over 11% in 1983 and 1985 and decreases of 14.5% in 1984 and of 2% in 1986). The fastest-growing items among the other traditional exports were paper, wood pulp, paperboard and related products (30%), fish meal (13%) and nitrates and iodine (9%), all of which benefitted from higher international prices (see table 18).

Figure 3

**CHILE: EMPLOYMENT, UNEMPLOYMENT AND GOVERNMENT
EMPLOYMENT PROGRAMMES**
(As percentages of total labour force)



Source: ECLAC, on the basis of data from the National Statistical Institute.

^aJob Programme for Heads of Household.

^bMinimum Employment Programme.

In the category of non-traditional exports—whose growth rate (24%) was eight times higher than that of traditional exports—external sales of agricultural and marine products increased nearly 33%, while exports of manufactures climbed almost 23%. Among the latter, external sales of foodstuffs and beverages soared by 51% while wood exports jumped 21% thanks to the almost 12% expansion in their volume and a rise of around 8% in the international price.

ii) *Imports of goods.* After dropping steeply in three of the last four years, the physical volume of imports expanded 15%, which was nearly three times as fast as the growth rate of the product and twice that of the volume of exports. However, owing to the notable decline in the prices of imported products (especially petroleum), the value of external purchases rose only 5% (see table 16).

The import items that showed appreciable growth were capital goods, non-food consumer goods and intermediate industrial products, which rose 13%, 16% and 23%, respectively, and thus continued their recovery from the dramatic downturns observed in these categories during the period 1982-1983. In contrast, and primarily as a result of the rapid expansion seen in crop-farming output, food imports fell sharply for the second year in a row, to less than one-third of their 1982 level. At the same time, the value of external purchases of fuels and lubricants dropped by 24% as a consequence of the sharp slide in international oil prices (see table 20).

iii) *The terms of trade and the purchasing power of exports.* Following marked decreases in four out of the last five years, the terms of trade made a partial recovery in 1986. This improvement was mainly attributable to the significant drop in the average cost of imports and, to a much lesser degree, to the increase in the unit value of exports. As a result of this and of the strong growth seen in the volume of exports, the purchasing power of exports jumped by more than 20% to the highest level achieved so far this decade (see table 16).

b) *The current account position and capital movements*

Thanks to the improvement in the terms of trade, the trade surplus grew from somewhat less than US\$550 million to US\$750 million. By virtue of this increase in the trade surplus and a slight decline in net payments of profits and interest, the deficit on current account was reduced to US\$1.135 billion, which was US\$200 million less than it had been the year before (see table 21). The country's current account position was thus even stronger than the target level that had been agreed upon at the beginning of the year in negotiations with the International Monetary Fund, when a deficit on current account of US\$1.3 billion had been projected. This was made possible by the reduction in the nominal international interest rate, the increase in the trade surplus (which was greater than expected) and the decline in interest payments brought about through the retiming of the repayment period from 90 to 180 days (which is estimated to have represented a savings of about US\$140 million).

The net inflow of capital was the source of financing for over 70% of the deficit on current account even though this inflow was US\$350 million less than in 1985 and US\$1.35 billion less than in 1984. The net flow of loans fell once again despite the fact that during 1986 the country had at its disposition the US\$250 million corresponding to the second tranche of the structural adjustment credit granted by the World Bank. In contrast, foreign investment rose sharply. The whole of this increase was attributable, however, to the trading of external debt paper in accordance with chapter XIX of the Exchange Control Law, as may be seen by the fact that, whereas direct investment dropped by US\$5 million, portfolio investment soared by US\$210 million to a total of slightly more than US\$260 million.

As a consequence of the reduction of external financing, there was a substantial increase—from US\$700 million to US\$1.06 billion—in the transfer of resources out of the country (i.e., the difference between payments of interest and profits and the net inflow of capital). In addition, the proportion of interest paid out of the trade balance rose from 28% to almost 39%.

c) *The external debt*

The policy of financing part of the deficit on current account by resorting to further borrowing was continued in 1986. At the same time, transactions involving external debt notes (which may be used to pay domestic debts or to buy assets within the country) were stepped up in an effort to lessen the impact of external financing on the overall debt level.

The total external debt therefore rose only slightly, from US\$20.4 billion to US\$20.7 billion (see table 22). The nominal medium- and long-term debt was augmented by the flow of fresh credit (somewhat over US\$800 million) and by exchange adjustments stemming from the drop in the international quotation for the dollar which added another US\$220 million, approximately. These increases were, however, offset in large part by regular amortization payments and by the decrease in the debt brought about through debt capitalization operations.

As a result of the fact that the debt increased very little while exports soared, the debt/exports coefficient declined, thereby putting a stop to the steep and uninterrupted ascent of this indicator over the preceding six years. Furthermore, the proportion of exports represented by the service on the debt fell for the third year running.

The debt renegotiation agreement which had been reached the year before remained in force. This arrangement provided for the restructuring of somewhat more than US\$59 billion in amortization payments corresponding to the 1985-1987 triennium and the rescheduling of these payments over 12 years with a six-year grace period.

4. Prices and wages

a) *Prices*

Inflation was down in 1986. The December-December variation in the consumer price index was slightly over 17%, compared to 26% in 1985, and the increase in the wholesale price index slowed from 30% to 18% (see table 23).

Factors making a significant contribution to the slackening of inflation included the decrease of more than 40% in oil prices and the considerable drop in real domestic interest rates. Another factor was that the inflationary effects of the adjustments in exchange rate parities decreed in February and July 1985 had already been transferred to the prices of imported products by early 1986, as illustrated by the profile of the monthly and 12-month variations in wholesale prices. Hence, within the framework of the government's policy of making "mini-devaluations" in the peso, the factors working to hold back inflation tended to result in a stabilization of the 12-month variations in consumer and wholesale prices at levels below 20% during the second half of 1986 (see figures 4 and 5). As a result, in 1986 the rate of inflation was lower than it had been at any time during the past two decades with the sole exception of the year 1981 (when the consumer price index increased less than 10% and the wholesale price index dipped by nearly 4%).

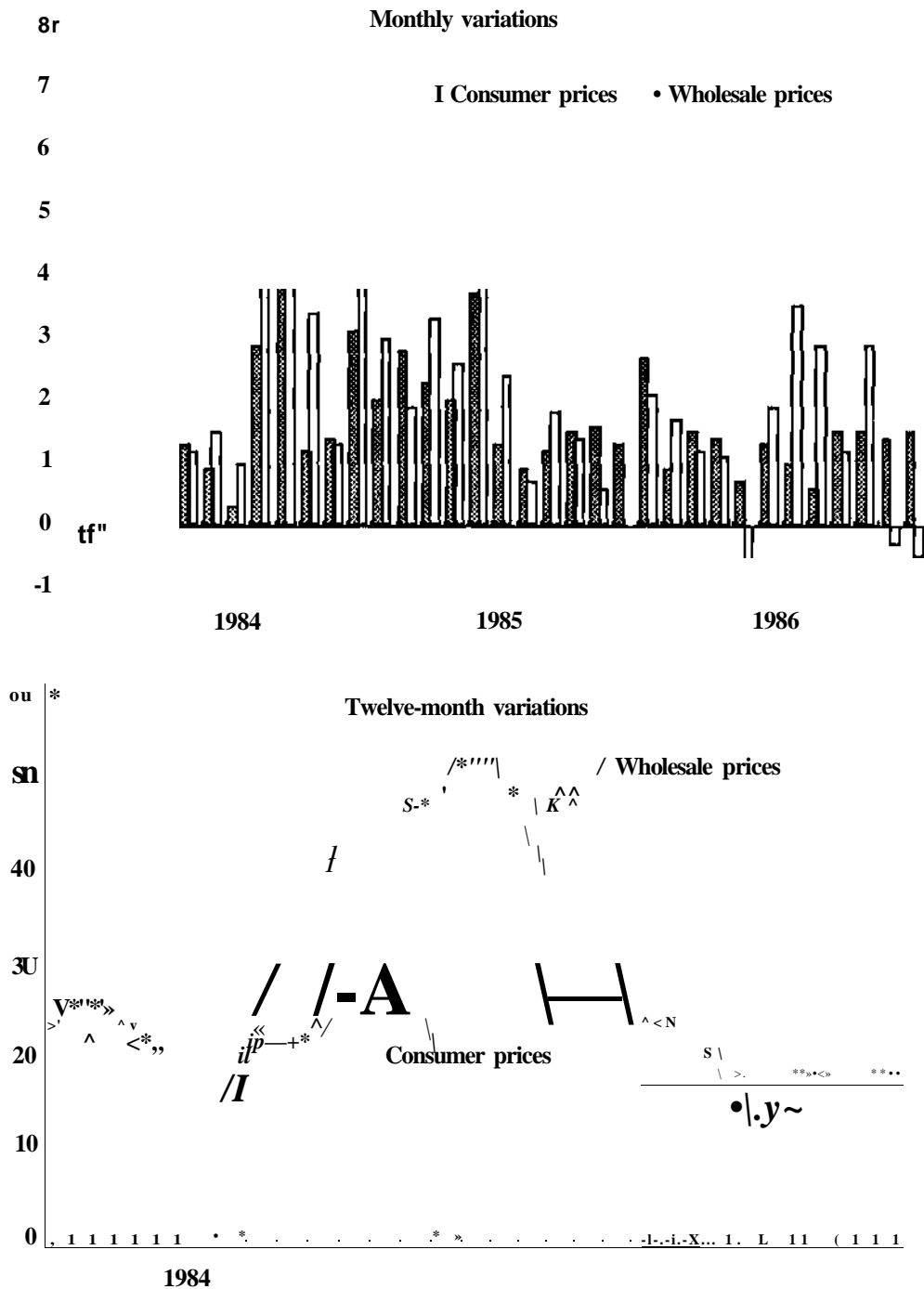
b) *Wages*

Real average wages rose by almost 2%, which marked a break in the downward trend followed by wages ever since 1982 (see table 24). The relatively small size of this increase in comparison to the growth of the product (about 6%) was in part a reflection of the decision taken by the economic authorities to place priority on raising employment.

The trends in real wages varied substantially from one sector of the economy to another. Thus, largely as a consequence of the government's fiscal policy of curbing public-sector current expenditure, wages fell 3% in the sector of community and social services (which includes the government). On the other hand, they rose 3% in manufacturing and 5% in construction, thereby halting the sharp and steady decrease observed in real wages in these two sectors during the five preceding years (see table 24).

The cumulative 12-month variations in the real wages paid in the production sectors of the economy (see figures 6 and 7) reinforced the reversal seen in the trend of wages and salaries negotiated in the marketplace. This turnabout contrasted with the situation in respect of the minimum wage and of the various subsidies provided under government employment plans, since the minimum wage dropped 3% in real terms in 1986 and the purchasing power of the monthly subsidies received by the various categories of workers employed in emergency job programmes was down 4% (see table 25). This latter decrease constituted an inherent part of the government's policy of encouraging the transfer of manpower out of these programmes and into the productive sectors of the economy.

Figure 4
CHILE: DOMESTIC PRICE TRENDS
(Percentages)



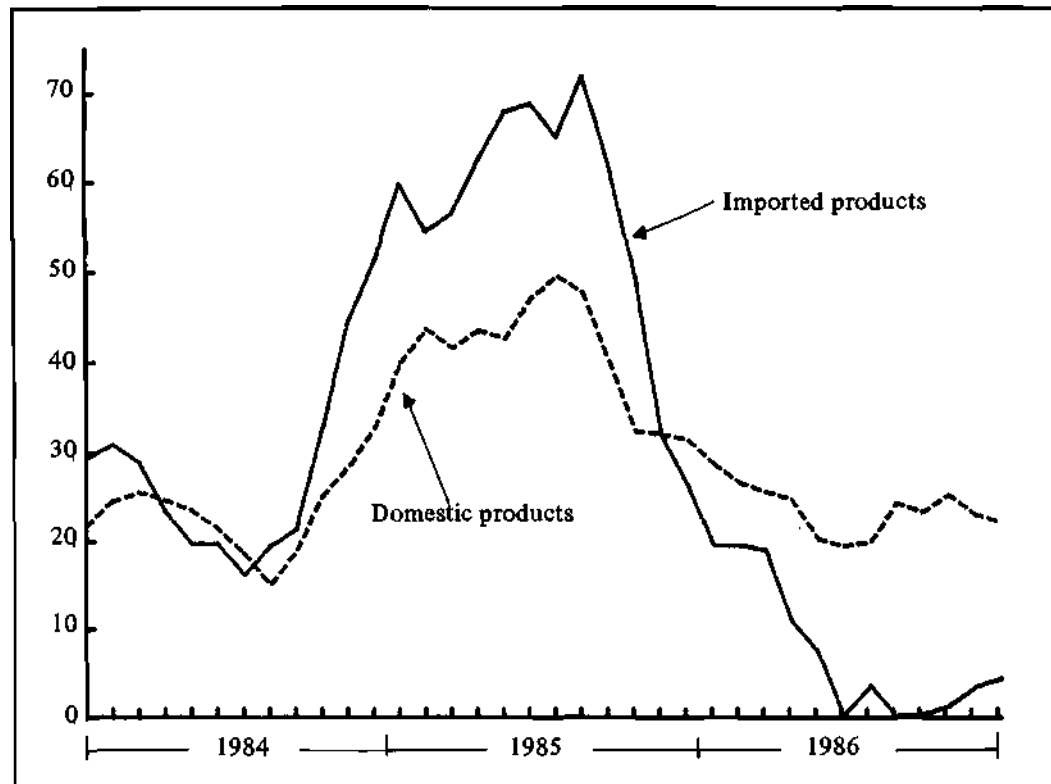
Source: ECLAC, on the basis of data from the National Statistical Institute.

5. Monetary, fiscal and financial policy

The authorities' macroeconomic scheme was aimed at co-ordinating the objectives of the structural adjustment programme (i.e., increasing saving and investment and reconverting the production structure in line with the rapid growth of tradeable-goods production activities) with a stabilization programme capable of taking advantage of the situation created by the combination of a more comfortable balance-of-payments position with the subsidence of inflationary expectations. In addition, the steps taken by the authorities to normalize the financial system resulted in the virtual completion of this process in 1986.

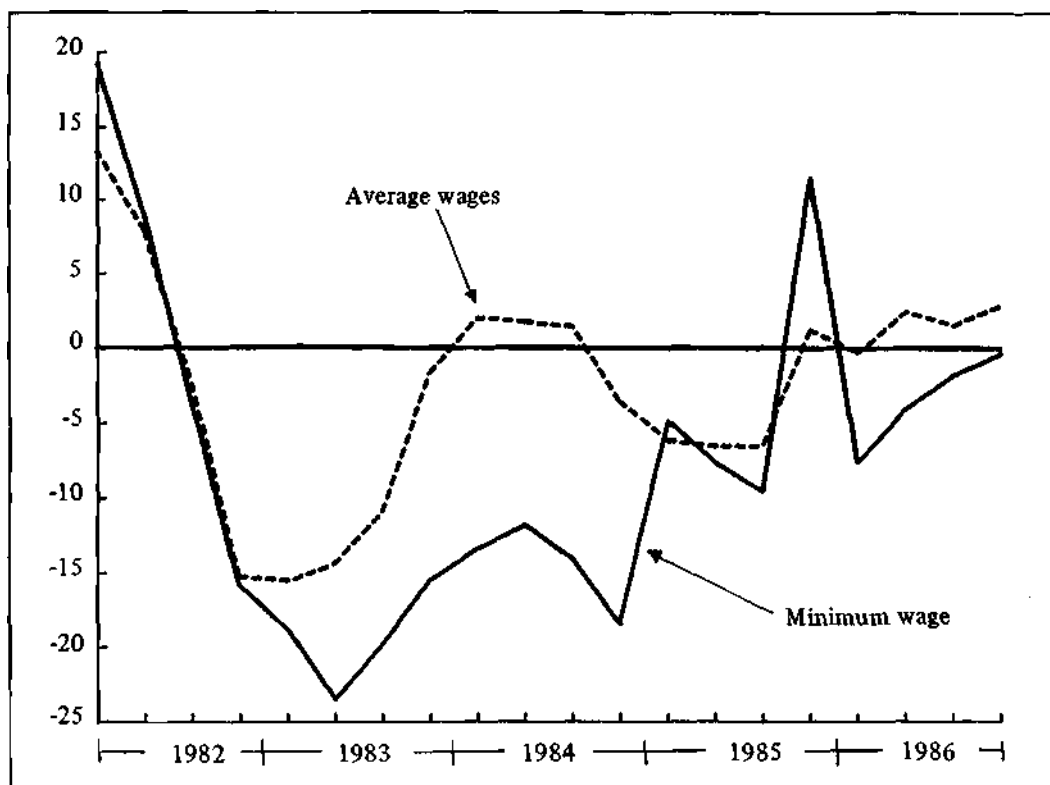
The macroeconomic programme incorporated the policy objectives and performance standards set forth in the extended facility arrangement for US\$6,675 billion signed with the International Monetary Fund in August 1985. As mentioned earlier, all these objectives were achieved in 1986. Indeed, the country's international reserves surpassed the target figure, while the Central Bank's net holdings of domestic assets, the non-financial public-sector deficit and the cumulative short- and long-term debt of the public sector were all below the respective ceilings which had been established (see table 26). Moreover, the deficit on the current account of the balance of payments was lower than the projected figure, the growth of the product was greater than expected and inflation was within the projected range of 15%-20% per year.

Figure 5
CHILE: TWELVE-MONTH VARIATIONS IN WHOLESALE PRICES
(Percentages)



Source: ECLAC, on the basis of data from the National Statistical Institute.

Figure 6

CHILE: TWELVE-MONTH VARIATIONS IN REAL WAGES*(Percentages)*

Source: ECLAC, on the basis of data from the National Statistical Institute.

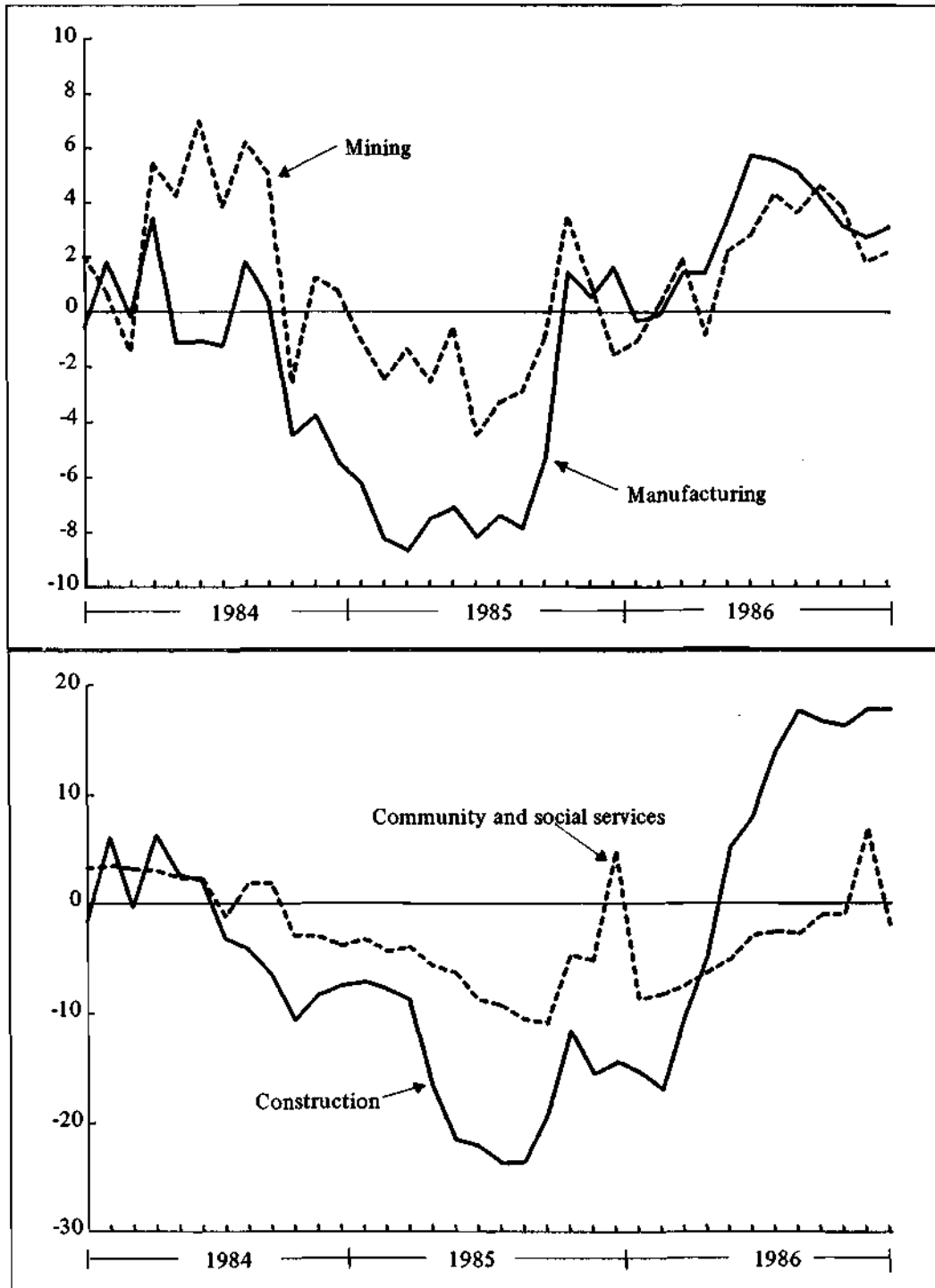
a) *Monetary policy and interest rates*

The country's achievement of a trade surplus which exceeded the original projections by around US\$250 million and the easing of cost-push inflationary factors provided the basis for an aggressively expansionary monetary policy. The money supply of the private sector (M_1), the money supply of the public sector (PS) and the sum of the former and term deposits (M_2) increased between December 1985 and December 1986 by 44%, 66% and 24%, respectively. In real terms, these rates were equivalent to 23%, 41% and 5% (see table 27).

The authorities applied a flexible monetary policy directed towards raising the real levels of liquidity in the economy while, at the same time, preventing such an increase from exerting pressure on the balance of payments or jeopardizing the reserve position agreed upon as part of the International Monetary Fund programme. The fiscal policy, however, continued to follow a stringent line aimed at increasing saving in the public sector and reducing its demand for credit. The combination of these two policies was successful in bringing about a substantial decrease in the cost of money. Real interest rates on readjustable loan and deposit operations—which are freely determined by the market—declined steadily throughout the year (see table 28). In fact, during the second half of the year the interest rate on deposits stood below 4% per annum and the rate on loans was below 7%; these were the lowest levels recorded since the decontrol of interest rates in 1975. As a consequence of the easing of inflationary expectations, real interest rates on short-term non-readjustable loan and deposit operations followed a similar course. This seemed to indicate that the abnormally high interest rates characteristic of the economy ever since their deregulation had become a thing of the past.

Figure 7
**CHILE: TWELVE-MONTH VARIATIONS IN REAL WAGES
 IN SELECTED ECONOMIC SECTORS**

(Percentages)



Source: ECLAC, on the basis of data from the National Statistical Institute.

b) *Fiscal policy, saving and investment*

As part of the authorities' structural adjustment policy, the public sector was assigned a major role in raising the coefficients of saving and investment. Indeed, public-sector investment did rise—from 7% to 7.7% of the gross domestic product—and thus made a major contribution to the increase in gross fixed capital formation.

The domestic saving effort required to bring about this rise in investment had to be substantially greater than would otherwise have been necessary owing to the slackening of external saving. Whereas the latter fell by the equivalent of nearly one percentage point of the product, the proportion of the product represented by national saving climbed from 6.8% to 8.7%. Public saving, for its part, rose from 3.8% of the gross domestic product in 1985 to 4.4% in 1986 (see table 29).

The fiscal adjustment was thus marked by an increase in capital accumulation by the public sector; this was made possible by stricter tax controls, the improved management of public enterprises and the decrease in current government expenditure, which dropped from 30% to 27% of the product. At the same time, the overall public-sector deficit was lowered from 2.7% to 2.2% of the gross domestic product.

c) *The normalization and evolution of the financial system*

The steps taken by the authorities in an effort to normalize the situation in the financial system laid the groundwork for the main events occurring in this sector in 1986. These measures concerned the following principal aspects:

i) Recapitalization of the financial system. This was accomplished by means of: the sale, under the system referred to as "people's capitalism", of shares in the Banco de Chile and Banco de Santiago, the two largest private banks in the country; the recapitalization and sale of other banks that had been placed in receivership; the establishment of incentives for capitalization involving portfolio sales under the provisions of Law 18519; and the input of capital by some banks on their own initiative. The recapitalization of the Banco de Chile and Banco de Santiago was based on a heavily-subsidized programme under which the emergency loans furnished by the Central Bank were converted into shares which could be purchased with a mere 5% down payment. The sale of these shares was then further encouraged by the granting of substantial tax incentives and the immediate payment of preferential dividends to purchasers.

The recapitalization of the financial system and the additional Central Bank portfolio sales made it possible to restore the solvency of the private national banking system and to improve the capital position of the financial system as a whole. Between December 1985 and December 1986 the real increases in the capital and reserves of the banking system and in the loans sold to the Central Bank amounted to 26% and 14%, respectively (see table 30). These additional portfolio sales helped eliminate the shortfall in bad debt reserves. Thus, whereas 10 financial institutions had insufficient contingency reserves as of late 1985, in December 1986 all such institutions had brought their reserves up to the requisite levels.

ii) The promulgation in November of substantive amendments to the General Banking Law. The main such amendment established the principle of the sharing of risk by shareholders and depositors should problems of solvency arise. To this end, the Superintendency of Banks was to issue periodic reports to the public concerning the risk entailed in the various assets and the actual capital position of banks and financial associations. Another amendment provided for the withdrawal, within a maximum period of two years, of the State guarantee on deposits, with the exception of small demand and term deposits. It was further provided that, should problems of solvency arise in the future, the shareholders in financial institutions would be called upon to replenish these institutions' capital and that, in certain cases, depositors could lose their money. In addition, the granting of related credits was to be strictly regulated in order to limit credit risks.

iii) The virtual completion of the debt renegotiation process set in motion by the economic authorities. By the end of the year over half of the total amount of the commitments of small-scale debtors eligible for renegotiation on a case-by-case basis had been restructured.

The financial system (banks and financial institutions) was also reduced in size during 1986. This was evidenced by the fact that, despite the expansion of economic activity, the issue of loans, circulating assets and outstanding liabilities all fell slightly in real terms (see table 30). The figures

are not changed to any significant degree by the inclusion of the loans held by the Central Bank (i.e., the product of portfolio sales). When this is done, the level of total lending turns out to have remained virtually unchanged in real terms. At the same time, surpluses declined moderately in real terms as a consequence of the competitive spreads with which the banks operated (see the interest rates on loans and deposits in table 28).

The trend in credit balances reflected the decrease which occurred in the production sectors' high levels of indebtedness in 1986. In fact, the expansion of economic activity made it possible for business enterprises to recoup working capital in a highly competitive credit market that maintained its liquidity. Nevertheless, as the year neared its end, the question remained as to whether or not some banks would be able to generate sufficient reserves to enable them, in accordance with the programme that had been laid out, to gradually buy back the enormous volume of poor-quality portfolio loans which they had found it necessary to sell to the Central Bank during the worst stage of the crisis.

Table 1

CHILE: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^o
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	105.2	91.4	90.9	96.4	98.8	104.1
Gross national income	100.0	101.3	81.4	81.6	85.1	84.9	91.0
Population (millions)	11.1	11.3	11.5	11.7	11.9	12.1	12.3
Per capita gross domestic product	100.0	103.5	88.5	86.5	90.2	90.9	94.2
Growth rates							
B. Short-run economic indicators							
Gross domestic product	7.4	5.2	-13.1	-0.5	6.0	2.4	5.4
Per capita gross domestic product	5.7	3.5	-14.5	-2.2	4.3	0.8	3.7
Gross national income	7.3	1.3	-19.6	0.4	4.3	-0.2	7.1
Rate of unemployment							
Greater Santiago	11.8	11.1	22.1	22.2	19.3	16.3	13.5
Nationwide	10.4	11.2	19.6	16.7	15.4	12.9	10.5
Consumer prices							
December-December	31.2	9.5	20.7	23.1	23.0	26.4	17.4
Variation between annual averages	35.1	19.7	9.9	27.3	19.9	30.7	19.5
Real wages and salaries	9.0	9.1	-0.4	-10.6	0.3	-3.8	1.7
Money	77.9	2.1	-19.7	21.1	7.1	34.4	51.4
General government income	39.2	19.1	4.3	6.1	22.6	39.0	
General government expenditure	38.3	29.1	20.7	8.3	23.2	36.6	
Public sector deficit/gross domestic product	-5.4	-0.8	3.4	2.5	4.4	2.7	2.2
Current value of exports of goods and services	29.2	-16.1	-7.3	-0.3	-2.9	-0.6	12.6
Current value of imports of goods and services	34.6	17.5	-39.2	-19.3	13.5	-14.7	9.2
Terms of trade (goods and services)	4.0	-8.4	-15.9	2.5	-5.4	-8.6	8.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-1 056	-3 245	-379	578	-102	547	750
Net payments of profits and interest	929	1463	1 921	1 748	2 018	1 901	1 887
Balance on current account	-2 020	-4 805	-2 373	-1 160	-2 118	-1 342	-1 135
Balance on capital account	3 341	4 941	1 032	644	2 209	1 240	883
Variation in net international reserves ⁷	1 402	93	-1 112	-652	263	196	-113
General external debt (gross)	11 084	15 591	17 159	18 037	19 659	20 403	20 716
General external debt (net)	7 010	11 767	14 575	15 408	16 821	17 451	17 610

Source: ECLAC, on the basis of official figures.
 "Preliminary figures. Percentages.

⁷Excluding variations in reserves due to revaluation of gold.

Table 2

CHILE: TOTAL SUPPLY AND DEMAND

	Indexes (1980=100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986°	1983	1984	1985	1986"
Total supply	90.6	90.9	97.2	127.1	118.7	-2.9	7.0	0.3	6.9
Gross domestic product at market prices	96.4	98.8	104.1	100.0	100.0	-0.5	6.0	2.4	5.4
Imports of goods and services ^b	69.2	62.0	71.8	27.1	18.7	-13.8	12.2	-10.4	15.8
Total demand	90.6	90.9	97.2	127.1	118.7	-2.9	7.0	0.3	6.9
Domestic demand	87.1	84.1	89.1	104.1	89.0	-4.7	8.6	-3.4	5.9
Gross domestic investment	61.2	57.2	65.2	21.0	13.1	-17.6	75.5	-6.6	14.1
Gross fixed investment	71.6	82.1	87.9	16.6	14.1	-14.9	9.0	14.8	7.1
Construction	84.8	97.7	99.7	9.8	9.3	-6.4	4.8	15.1	2.0
Machinery	52.7	60.1	71.3	6.9	4.7	-31.2	19.9	13.9	18.7
Changes in stocks				4.3	-0.9				
Total consumption	93.6	90.9	95.1	83.1	75.9	-3.2	2.2	-2.9	4.6
General government	96.4	96.2	94.2	12.5	11.3	-0.6	1.5	-0.3	-2.1
Private	93.1	90.0	95.3	70.6	64.6	-3.7	2.3	-3.4	5.9
Exports of goods and services ^b	106.6	121.8	134.0	23.0	29.6	3.9	1.5	14.2	10.0

Source: ECLAC, on the basis of data supplied by the Central Bank of Chile and the International Monetary Fund.

"Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were converted into dollars at constant 1980 values using unit price indexes calculated by ECLAC for the purpose.

Table 3

CHILE: ORIGIN, COMPOSITION AND FINANCING OF GROSS DOMESTIC INVESTMENT

(As a percentage of the gross domestic product)"

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986*
Gross domestic investment	12.5	14.4	17.2	21.0	24.3	9.7	8.0	13.3	12.1	13.1
Construction	7.4	7.8	8.6	9.8	10.8	9.2	8.7	8.6	9.7	9.3
Machinery and equipment	5.0	5.7	6.1	6.9	7.6	4.8	3.3	3.8	4.2	4.7
Changes in stocks	0.1	0.8	2.5	4.3	5.9	-4.3	-4.0	1.0	-1.7	-0.9
Gross domestic saving	13.4	10.5	15.2	17.2	15.3	13.7	15.7	18.8	22.8	22.9
Net income from factor services [^]	-2.0	-2.6	-2.8	-3.5	-5.3	-8.1	-7.8	-8.1	-7.9	-7.6
Terms-of-trade effect	2.7	-0.3	-0.7	-	-1.6	-5.5	-5.3	-6.1	-8.5	-6.8
Gross national saving	8.7	8.2	11.7	13.7	5.3	0.4	2.9	4.8	6.8'	8.7
External saving	3.8	6.2	5.5	7.3	19.0	9.3	5.1	8.5	5.3	4.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Chile.

°At market prices, in constant 1980 dollars, at the parity exchange rate.
^Includes unrequited private transfers.

Preliminary figures.

'Includes

Table 4

**CHILE: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT MARKET PRICES**

	Indexes (1980=100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	96.4	98.8	104.1	100.0	100.0	-0.5	6.0	2.4	5.4
Goods	99.4	103.3	109.2	42.4	44.5	-0.2	7.4	3.9	5.8
Agriculture	103.8	109.6	119.1	6.7	7.7	-3.6	7.1	5.6	8.7
Fishing	156.8	165.6	182.1	0.5	0.9	8.8	11.5	5.6	10.0
Mining	116.6	119.2	120.9	8.6	9.9	-1.9	4.4	2.2	1.4
Manufacturing	91.7	92.8	100.2	21.4	20.6	3.1	9.8	12	8.0
Construction	91.3	106.0	107.4	5.2	5.3	-5.0	4.2	16.1	13
Basic services	99.9	104.7	112.6	7.0	7.6	0.5	6.3	4.8	7.5
Electricity, gas and water	114.0	118.0	125.7	2.1	2.6	4.3	7.0	3.5	6.5
Transport, storage and communications	93.7	98.9	106.9	4.9	5.0	-1.5	6.0	5.5	8.1
Other services	40.9	92.5	96.4	50.2	46.4	-7.0	3.0	1.8	4.1
Commerce, restaurants and hotels	87.4	88.8	93.7	16.3	14.7	-3.5	5.0	1.7	5.5
Financial institutions, insurance, real estate and business services	88.4	89.4	93.9	17.2	15.5	-17.1	2.2	1.1	5.0
Ownership of dwellings	104.2	103.5	106.0	7.4	7.6	0.6	1.0	-0.7	2.5
Community, social and personal services	97.0	99.3	101.5	16.7	16.3	14	2.1	2.4	2.2
Government services	96.3	96.8	94.8	5.1	4.6	2.1	-1.1	0.5	-2.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Chile.

"Preliminary figures. Includes the livestock and forestry sectors.

Table 5

CHILE: INDICATORS OF TRADITIONAL CROPS

	1980	1983	1984	1985	1986°	Growth rates			
						1983	1984	1985	1986°
Production									
Value	130.4	113.8	165.0	181.8	213.8	-7.3	45.0	10.2	17.6
Volume ^f									
Wheat	686.0	586.0	988.3	1 164.7	1 625.8	-9.9	68.7	17.8	39.6
Oats	130.7	146.3	163.0	170.4	124.4	24.4	11.4	4.5	-27.0
Barley	91.4	73.2	73.5	85.0	88.1	-37.9	0.4	15.6	3.6
Rye	9.2	4.5	4.4	11.5	8.6	-26.2	-2.2	161.9	-25.0
Rice	99.7	115.6	165.0	156.6	126.7	-11.9	42.7	-5.1	-19.1
Maize	518.2	511.6	721.4	771.8	721.3	5.7	41.0	7.0	-6.5
Potatoes	1 007.7	683.6	1 036.2	908.6	791.1	-18.5	51.6	-12.3	-12.9
Beans	138.2	84.4	94.1	100.7	89.2	-48.1	11.5	7.0	-11.4
Lentils	17.7	13.8	16.0	24.7	29.0	-12.7	15.9	54.1	17.6
Peas	11.0	5.7	6.3	6.3	4.8	-23.0	10.5	-	-24.9
Chickpeas	6.4	3.2	6.9	9.2	8.9	-22.0	115.6	32.6	-3.3
Sugar beets	1 460.5	1 642.8	2 194.0	2 124.4	2 638.4	70.6	33.6	-3.3	24.2
Rape	26.9	2.9	4.1	31.9	97.1	-78.0	41.4	678.0	204.4
Sunflower	7.4	4.6	7.4	32.5	54.4	-14.8	60.9	336.4	67.4
Area sown	1079	871	1 051	1083	1 136	-7.8	20.7	3.0	4.9
Wheat	432	359	471	506	569	-4.0	31.2	7.4	12.5
Oats	80	85	96	85	64	25.0	12.9	-11.5	-24.7
Barley	46	38	33	35	23	-34.5	13.2	6.1	-34.3
Rye	9	5	4	5	5	-16.7	20.0	25.0	-
Rice	31	30	40	39	32	-18.9	33.3	-2.5	-18.0
Maize	126	118	138	131	105	10.3	16.9	-5.1	-19.9
Potatoes	90	67	81	63	53	-13.0	20.9	-22.2	-15.9
Beans	118	86	85	83	90	-29.5	-1.2	-2.4	8.4
Lentils	48	23	24	36	37	-41.0	4.3	50.0	2.8
Peas	18	10	10	6	8	-16.7	-	-40.0	33.3
Chickpeas	16	8	12	11	12	-20.0	50.0	-8.3	9.1
Sugar beets	37	36	48	44	51	63.6	33.3	-8.3	15.9
Rape	24	3	4	19	57	-70.0	33.3	275.0	200.0
Sunflower	5	3	5	20	30	-	66.7	300.0	50.0
Real prices¹									
Wheat	80.8	94.3	96.0	101.2	97.9	21.1	1.8	5.4	-3.3
Oats	86.0	67.8	65.6	45.3	60.5	-10.4	-3.2	-30.9	33.6
Barley	84.4	77.7	93.1	75.8	90.0	1.6	19.8	-18.6	18.7
Rice	78.5	58.9	68.4	62.0	72.5	-10.1	16.1	-9.4	16.9
Maize	71.2	88.0	89.2	73.3	65.7	18.4	1.4	-17.8	-10.4
Potatoes	113.0	166.9	100.2	72.6	140.7	8.3	-40.0	-27.5	93.8
Beans	281.3	145.5	177.2	132.3	181.5	13.3	21.8	-25.3	37.2
Lentils	60.2	56.6	58.8	59.2	80.7	27.5	3.9	0.7	36.3
Chickpeas	29.1	53.0	47.9	44.6	48.1	48.5	-9.6	-6.9	7.8
Sugar beets	106.3	130.0	131.7	150.5	152.0	15.6	1.3	14.3	1.0
Rape	61.2	44.6	72.5	80.1	70.5	2.8	62.6	10.5	-12.0
Sunflower	98.8	124.0	111.9	117.6	106.7	66.2	-9.8	5.1	-9.3

Source: ECLAC, on the basis of data supplied by the National Statistical Institute (INE) of Chile.

^fPreliminary figures.

[^]Millions of pesos at 1974 prices.

[']Thousands of tons.

[']Thousands of hectares.

¹Indexes: 1978 = 100.

Table 6

CHILE: INDICATORS OF FRUIT-GROWING ACTIVITY

	1981	1982	1983	1984	1985	1986"	Growth rates			
							1983	1984	1985	1986'
Production										
Plums	18.2	22.7	26.0	34.5	42.0	50.0	14.5	32.7	21.7	19.0
Apricots	13.0	13.2	12.9	13.3	12.0	14.7	-2.3	3.1	-9.8	22.5
Peaches	81.0	82.6	83.5	80.0	76.7	80.2	1.1	-4.2	-4.1	4.6
Lemons	70.7	71.6	69.6	58.0	64.8	71.0	-2.8	-16.7	11.7	9.6
Apples	298.0	345.0	365.0	410.0	425.0	515.0	5.8	12.3	3.7	21.2
Oranges	58.8	65.4	68.0	72.0	70.0	73.2	4.0	5.9	-2.8	4.6
Avocados	25.0	27.7	29.6	31.5	29.8	35.0	6.9	6.4	-5.4	17.5
Pears	45.5	50.6	57.0	66.0	71.0	78.0	12.6	15.8	7.8	9.9
Table grapes	121.7	162.7	196.4	225.0	276.2	307.5	20.7	14.6	22.8	11.3
Area planted'										
Total	68.4	73.7	79.7	86.7	94.3	99.1	8.1	8.9	8.5	5.2
Plums	4.7	5.5	6.4	7.2	7.9	8.0	16.4	12.5	9.4	13
Apricots	14	15	15	16	16	17	2.7	2.6	3.2	3.1
Peaches	7.1	7.0	6.9	6.9	7.0	7.3	-1.4	0.6	0.6	4.5
Lemons	5.7	5.3	5.2	5.2	5.3	5.4	-2.8	1.0	1.1	1.8
Apples	16.9	17.6	18.1	18.6	19.0	19.9	2.8	3.0	1.7	4.9
Oranges	5.6	5.8	6.0	6.2	6.5	6.5	3.6	3.2	4.8	0.4
Avocados	6.5	6.8	7.1	7.5	7.8	7.9	4.4	5.6	3.4	1.9
Pears	3.6	3.9	4.4	4.8	5.8	6.4	12.8	9.1	21.1	10.1
Table grapes	16.9	20.3	24.1	28.7	33.4	36.0	18.7	19.1	16.2	7.9

Source: Ministry of Agriculture, Agricultural Planning Office (ODEPA).

"Preliminary figures. 'Thousands of tons. 'Thousands of hectares.

Table 7

CHILE: LIVESTOCK PRODUCTION

	Thousands of tons					Growth rates				
	1980	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Beef	162.3	208.1	196.8	174.8	177.1	5.4	6.9	-5.4	-11.2	1.3
Poultry meat	109.6	87.4	74.3	72.6	79.8	-6.0	-27.2	-15.0	-2.3	9.9
Pork	49.7	59.2	59.1	66.1	75.5	3.4	2.6	-0.2	11.8	14.3
Mutton	15.5	13.3	11.9	13.5	13.1	-4.5	-10.7	-10.5	13.4	-2.5
Milk*	1 080.0	900.0	880.0	1 000.0	1 093.0	-12.0	-14.8	-2.2	13.6	9.3
Eggs'	1 425.0	1 430.0	1 440.0	1 577.0	1 800.0	-4.8	-3.7	0.7	9.5	14.1
Greasy wool	20.6	21.6	21.4	20.3	21.3	-	-	-0.9	-5.1	4.7

Source: Beef, pork and mutton: National Statistical Institute (INE); other livestock items: Agricultural Planning Office (ODEPA).

"Preliminary figures. Millions of litres. 'Millions of units.

Table 8

CHILE: AREA AFFORESTED

(Thousands of hectares)

	1975	1977	1979	1980	1981	1982	1983	1984	1985	1986"
Total	82.6	93.2	52.0	72.3	93.2	68.6	76.3	93.6	96.3	66.5
National Forestry Corporation	44.1	44.6	0.4	0.2	0.1	-	21.8	40.3	24.2	
Private enterprises	38.5	48.6	51.6	72.1	93.1	68.6	54.5	53.3	72.1	66.5

Source: National Forestry Corporation (CONAF).

"Preliminary figures.

Table 9

CHILE: INDICATORS OF FISHERY PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates				
						1982	1983	1984	1985	1986"
Fishery product	54.7	77.3	86.2	91.0	100.1	9.6	8.7	11.5	5.6	10.0
Fishing catch'	2 892	4 168	4 674	4 986	5 696	9.8	8.4	12.1	6.7	14.2
Fish	2 700	3 852	4 363	4 660	5 415	8.7	7.7	13.3	6.8	16.2
Fresh consumption	75	55	54	123	114	-57.0	-14.1	-1.8	127.8	-7.3
Industrial processing	2 625	3 797	4 309	4 537	5 301	11.8	8.1	13.5	5.3	16.8
Shellfish	117	126	136	145	157	-5.9	31.3	7.9	6.6	8.3
Fresh consumption	54	48	44	47	45	-4.3	9.1	-8.3	6.8	-4.3
Industrial processing	63	78	92	98	112	-7.1	50.0	17.9	6.5	14.3
Seaweed	75	190	175	182	124	57.3	9.8	-7.9	4.0	-31.9
Output of fishery products	734.6	978.9	1 307.3	1 360.1	1 593.6	19.1	-4.5	33.5	4.0	17.2
Frozen	13.5	52.4	51.2	21.7	31.8	294.8	-13.8	-2.3	-57.6	46.5
Tinned	38.0	41.7	49.2	44.7	62.2	-20.3	77.4	18.0	-9.1	39.1
Fishmeal	571.9	827.7	1 022.7	1 109.2	1 273.8	15.6	4.0	23.6	8.5	14.8
Fish oil	111.0	57.0	184.0	184.1	224.9	13.9	-60.7	222.8	0.1	24.2
Other	0.2	0.1	0.2	0.5	0.9	-	-	100.0	150.0	350.0

Source: Ministry of the Economy, Development and Reconstruction - National Fisheries Service.

"Preliminary figures.

Millions of dollars at 1970 prices.

Thousands of tons.

Thousands of tons of finished products.

Table 10

CHILE: MINING PRODUCTION

	Production					Growth rates				
	1980	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Mining product	1 124	1 257	1 311	1 340	1 321	5.7	-2.0	4.3	2.2	1.4
Copper'	1 068	1 257	1290	1 357	1400	14.8	1.3	2.6	5.2	3.2
Large-scale mining	905	1 012	1050	1078	1 102	15.5	-2.0	3.7	2.7	2.2
Medium- and small-scale mining	163	245	240	279	298	10.6	17.8	2.0	16.3	6.8
Iron'										
Ore	8 835	5 974	7 116	6 494	7 020	-24.0	-7.7	19.1	-8.7	8.1
Pellets	3 179	3 072	3 375	3 605	3 102	3.4	-9.0	9.9	6.8	-14.0
Coal"	1 024	1 095	1 323	1 256	1454	-14.7	9.8	20.8	-5.1	15.8
Nitrate ¹	620	623	713	770		-7.5	8.0	14.4	8.0	
Iodine'	2 601	2 793	2 661			-3.4	7.5	-4.7		
Sodium sulphate'	70 100	51 300	56 700			-18.4	7.8	10.5		
Petroleumr	1933	2 284	2 237	2 074	1940	3.5	-8.1	-2.0	-7.3	-6.5
MoJibdenum'	13 668	15 267	16 861	18 389	16 317	30.5	-23.8	10.4	9.1	-11.3
Gold*	6 836	17 760	16 829	17 240	17 938	35.7	4.8	-5.4	2.4	7.8
Silver'	299	468	491	517	500	5.8	22.5	4.9	5.3	-3.3

Source: Copper: Chilean Copper Commission and State Department of Mines; iron: National Statistical Institute; coal: National Coal Corporation; nitrate, iodine and sodium sulphate: Chilean Chemical Corporation; petroleum: National Petroleum Corporation; molibdenum: State Department of Mines and National Statistical Institute; gold and Silver: National Statistical Institute.

¹Preliminary figures. Millions of dollars at 1970 prices. 'Thousands of tons. Thousands of gross tons.
 'Tons. thousands of cubic metres. 'Kilogrammes fine.

Table 11

CHILE: INDICATORS OF MANUFACTURING ACTIVITY

	Indexes (1980 = 100)					Growth rates			
	1982	1983	1984	1985	1986"	1983	1984	1985	1986"
Industrial product	1 883	1942	2 131	2 159	2 332	3.1	9.8	1.2	8.0
Industrial output									
INE ^C	90.1	94.5	103.9	104.0	112.4	4.9	9.9	0.1	8.1
SOFOFA	86.4	895	98.7	98.8	106.8	3.6	10.3	0.1	8.1
Mass consumption goods	91.7	92.5	100.3	98.3	108.3	0.9	8.4	-2.0	10.1
Consumer durables	52.1	40.7	54.3	48.7	69.3	-22.0	33.5	-10.3	42.4
Transport equipment	45.2	35.8	52.5	53.3	49.4	-20.9	46.9	1.4	-7.2
Capkal goods	61.8	62.2	72.7	84.1	95.1	0.7	16.7	15.8	13.5
Intermediate products for:									
Industry	105.2	105.1	114.0	116.0	121.8	-0.1	8.4	1.7	5.0
Construction	68.8	79.4	95.2	92.8	103.9	15.5	19.9	-2.4	12.0
Mining	78.1	91.7	98.7	100.8	116.2	17.4	7.6	2.2	15.3
Forestry and agriculture	129.3	142.6	178.6	182.1	219.2	10.2	25.3	1.9	20.4
Packaging and accessories	80.4	95.5	106.1	106.4	111.8	18.7	11.1	0.3	5.1
Energy, fuels and lubricants	74.5	84.1	84.4	84.5	88.7	11.7	0.4	-	5.0
Furniture and office materials	75.1	79.2	104.3	93.0	82.9	5.4	31.7	-10.8	-10.8
Industrial sales									
INE ^C	90.3	94.2	101.1	104.3	111.4	4.3	7.3	3.2	6.8
SOFOFA	88.2	90.7	98.8	100.9	107.9	2.8	8.9	2.1	6.9

Source: Industrial product: National PlanningOffice (ODEPLAN); industrial output: National Statistical Institute (INE) and Sociedad de Fomento Fabril (SOFOFA); industrial sales: Sociedad de Fomento Fabril.

"Preliminary figures. 'Millions of dollars at 1970 prices. 'Indexes 1979 = 100.

Table 12

CHILE: CONSTRUCTION INDICATORS

	1980	1983	1984	1985	1986"	Growth rates		
						1984	1985	1986"
Construction product	418	366	381	443	449	4.2	16.2	13
Building materials								
Deliveries of cement for the domestic market ^c	35.4	29.6	32.9	33.5	33.8	11.1	1.8	0.8
Deliveries of round bars for construction	107.6	45.6	65.6	66.9	85.2	43.9	2.0	27.4
Index of real sales of intermediate goods for construction (1980= 100)	100.0	80.1	95.7	97.0		19.5	1.4	10.0
Building								
Total area'	4 297	2 412	2 737	3 261	3 247	13.5	19.1	-0.4
Public sector'	265	119	81	87	205	-31.9	7.4	135.6
Private sector ⁸	4 032	2 293	2 656	3 174	3 042	15.8	19.5	-4.2
Residential	3 058	1 832	2 122	2 603	2 413	15.8	22.7	-7.3
Non-residential	1 239	580	615	658	834	6.0	7.0	26.7
Total number of dwellings	43 310	34 322	41 676	51 306	42 332	21.4	23.1	-17.5
Public sector	1 589	845	196	324	657	-76.8	65.3	102.8
Private sector ⁸	41 721	33 477	41 480	50 982	41 675	23.9	22.9	-18.3

Source; Construction product: ECLAC, on the basis of data provided by the National Planning Office; building materials: Chilean Chamber of Construction; building: National Statistical Institute (INE).

"Preliminary figures. Millions of dollars at 1970 prices. Millions of sacks. Thousands of tons. Thousands of m². Building starts in 80 administrative districts. Permits approved.

Table 13

CHILE: RATES OF PARTICIPATION AND UNEMPLOYMENT, BY REGIONS

	1982	1983	1984	1985	1986	1985				1986 ^o				
						III	IV	I	II	III	IV			
Global participation														
.. ^b														
rate														
Nationwide	47.8	48.4	48.6	48.6	48.6	48.9	...	48.3	...	48.8	...	48.3		
Greater Santiago	51.7	52.2	52.5	52.3	52.5	52.4	50.9	52.1	53.6	53.6	51.1	52.8	52.4	
Unemployment rate ^c														
Nationwide	21.1	22.3	18.8	16.3	13.9	16.0	...	16.6	...	13.9	...	13.9		
Urban	22.7	23.8	20.3	17.5	14.6	17.6	...	17.3	...	14.7	...	14.4		
Rural	14.5	15.4	12.5	11.5	11.1	9.5	...	13.4	...	10.5	...	11.7		
Greater Santiago	22.1	22.2	19.3	16.3	13.5	18.0	16.2	17.4	138	14.5	15.4	13.5	10.6	
Unemployment rate														
Nationwide	19.6	16.7	15.4	12.9	10.5	13.0	12.9	13.6	11.9	11.8	11.0	10.5	8.8	
Northern zone														
(Regions I to IV)	18.4	16.7	14.0	12.1	10.4	11.3	12.6	12.6	11.7	12.6	11.8	9.2	7.9	
Central zone														
(Regions V to VII) ^e	19.4	19.1	16.1	11.7	10.0	11.6	11.9	12.8	10.6	10.2	10.6	9.9	9.1	
Southern zone														
(Regions VIII to XII)	14.3	13.5	10.5	7.7	7.1	8.2	7.1	7.3	8.1	7.2	7.8	7.6	5.9	
Greater Santiago	21.9	19.2	19.0	17.2	13.2	18.0	17.1	18.6	15.1	15.8	12.9	13.2	11.0	
Greater Valparaiso		23.4	22.8	16.0	13.5	18.4	15.4	16.5	13.5	13.3	13.3	10.8	16.7	
Greater Concepción		14.7	12.3	11.6	10.1	12.1	10.5	9.9	13.7	10.3	11.2	11.3	7.5	

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bLabor force, as a percentage of the population aged 14 or over.

^cAccording to the

Department of Economics of the University of Chile, on the basis of surveys carried out for Greater Santiago in March and September of each year.

^dAccording to the National Statistical Institute: 1981, October-December; 1982, October-

November; 1983, average May-July, July-September and October-December; 1984, 1985 and 1986, quarterly averages.

^eNot including the Santiago Metropolitan Region.

Table 14

CHILE: UNEMPLOYMENT RATES IN GREATER SANTIAGO

(Percentages)

	Annual averages										
	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total rate of unemployment according to:											
Department of Economics of the University of Chile	16.8	13.2	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3	13.5
National Statistical Institute	17.0	13.9	13.7	13.4	11.8	9.0	20.0	19.2	19.0	17.2	13.2
Rate of unemployment among the established labour force"											
(i.e., excluding persons seeking work for the first time)											
Total	12.6	9.9	10.5	10.1	8.7	8.5	18.8	18.4	15.7	13.0	10.8
Industry	15.5	11.8	11.8	13.1	11.9	11.8	26.7	25.9	19.5	14.9	12.9
Construction	34.1	38.7	23.5	24.5	16.5	16.4	49.4	49.0	34.9	27.9	25.1
Commerce	9.7	7.4	8.8	8.3	6.4	5.9	14.5	16.0	13.1	11.1	9.7
Government and financial services	6.5	6.0	7.5	5.4	5.8	5.9	9.9	11.7	15.8	13.7	9.7
Personal and household services	13.7	8.5	10.8	8.9	8.4	7.0	12.9	15.6	12.5	11.5	9.7
Community and social services	6.0	6.8	7.0	5.9	5.6	4.8	10.3	10.7	11.0	8.2	6.6
Non-manual workers	8.3	6.7	8.0	7.5	5.3	6.3	15.6	17.9	14.3	11.8	8.9
Manual workers	20.7	16.3	16.5	16.0	14.5	14.4	28.9	24.9	22.0	18.4	15.8
Own-account workers	8.5	5.7	6.0	6.1	4.5	3.1	9.1	10.3	9.3	7.4	7.1
Percentage breakdown of unemployed											
Non-manual workers	22.4	25.0	25.9	25.2	25.0	26.7	30.1	34.3	31.2	31.6	29.7
Manual workers	65.7	64.8	63.1	63.3	64.9	66.0	61.1	56.3	57.6	57.3	58.2
Own-account workers	11.6	10.0	10.9	11.3	9.7	7.1	8.3	8.9	10.7	10.4	11.8

Source: Department of Economics of the University of Chile and National Statistical Institute (INE).

"According to data supplied by the Department of Economics of the University of Chile.

Table 15

CHILE: GOVERNMENT EMPLOYMENT PROGRAMMES

	Number of persons employed (thousands)"			Number of persons employed, as a percentage of the labour force		
	Nation-wide	Metropolitan Region	Rest of country	Nation-wide	Metropolitan Region	Rest of country
Minimum Employment Programme						
1975 ^c	72.7	19.6	53.1	3.8		
1976	157.8	34.9	122.9	5.9	3.2	7.7
1977	177.2	36.4	140.8	5.3	2.5	7.1
1978	132.2	29.0	103.2	3.2	1.7	4.2
1979	120.8	21.8	99.0	4.0	1.7	5.6
1980	178.0	28.1	149.9	5.4	2.0	7.8
1981	171.3	23.2	148.1	4.9	1.6	6.9
1982	225.3	35.6	189.7	8.6	4.1	11.6
1983	341.6	80.9	260.7	7.5	4.3	9.7
1984	167.6	130	154.6	4.4	0.5	7.3
1985	134.3	8.3	126.0	2.9	0.5	4.7
<i>m</i> ^d	81.0	7.2	73.8	1.9	0.4	2.9
Job programme for Heads of Household						
1982 ^e	81.2	30.6	50.6	1.9	1.7	2.1
1983	161.2	110.6	50.6	6.1	10.1	3.3
1984	168.7	117.7	51.0	5.1	7.4	3.5
1985	190.0	113.7	76.3	4.4	6.5	3.0
WM ^f	140.4	91.6	48.8	3.3	5.3	1.9

Source: ECLAC, on the basis of data from the National Statistical Institute (INE).

^cAnnual averages. For the period October-December of each year, due to the lack of complete information on the labour force nationwide prior to the second half of 1983. For 1982, figures correspond to the period October-November. Figures for 1985 are an ECLAC estimate because of the lack of comparable figures due to changes in the INE survey methodology. The Minimum Employment Programme was set up in March 1975. Consequently, the figures for that year are an average based on the period March-December. Preliminary figures. ^dThis programme was set up in October 1982. Consequently, the figures for that year are an average based on the last quarter.

Table 16

CHILE: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986°
	Growth rates						
Exports, FOB							
Value	22.7	-18.5	-3.4	3.4	-4.7	4.2	10.4
Volume	2.0	-6.5	16.7	5.0	0.8	18.1	7.7
Unit value	20.3	-12.8	-17.2	-1.5	-5.5	-11.8	2.5
Imports, FOB							
Value	30.5	19.1	-44.1	-21.9	18.0	-12.0	4.9
Volume	11.5	20.1	-41.4	-13.1	17.0	-6.8	15.0
Unit value	17.1	-0.8	-4.5	-10.2	0.9	-5.5	-8.8
Terms of trade, FOB/CIF	3.2	-12.6	-13.8	9.1	-7.0	-6.9	12.1
	Indexes (1980 = 100)						
Purchasing power of exports	100.0	81.7	82.1	94.0	88.2	96.9	117.0
Volume of exports	100.0	93.5	109.1	114.5	115.4	136.3	146.8
Volume of imports	100.0	120.1	70.4	61.1	71.5	66.6	76.6
Terms of trade	100.0	87.4	75.3	82.1	76.4	71.1	79.7

Source: ECLAC, on the basis of official figures.
 °Preliminary figures.

Table 17

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE*(Percentages)*

	Nominal price (US cents of each year)	(1970 == 100)		Real price (US cents at 1970 prices)	
		United States whole- sale prices	Unit value of Chilean imports of goods and services	(1/2)	(1/3)
	(1)	(2)	(3)	(4)	(5)
1960-1964	32.4	86.3	84.1	37.5	38.5
1965-1970	61.0	93.0	93.5	65.5	65.3
1971-1972	49.0	105.6	106.1	46.4	46.2
1973-1974	87.1	133.6	152.3	65.2	57.2
1975-1986	69.7	233.7	293.3	29.8	23.8
1980	99.2	243.4	346.6	40.8	28.6
1981	79.0	265.5	350.8	29.8	22.5
1982	67.2	271.1	346.3	24.8	19.4
1983	72.2	274.8	324.1	26.3	22.3
1984	62.5	281.6	327.9	22.2	19.1
1985	64.3	280.1	312.3	23.0	20.6
1986	62.3	271.8	294.3	22.9	21.2
First quarter	64.5	276.2		23.4	
Second quarter	64.5	270.8		23.8	
Third quarter	60.5	269.6		22.4	
Fourth quarter	59.8	270.6		22.1	

Source: Central Bank of Chile, International Monetary Fund, and ECLAC estimates.

Table 18

CHILE: VALUE AND BRAKDOWN OF EXPORTS OF GOODS

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total exports of goods	3 831	3 650	3 804	4 199	100.0	100.0	3.3	-4.7	4.2	10.4
Traditional products	2 586	2 324	2 455	2 524	61.6	60.1	8.1	-10.1	5.6	2.9
Copper	1 875	1 604	1 789	1 757	45.1	41.8	11.3	-14.5	11.5	-1.8
Iron ore	112	111	92	88	3.3	2.1	-29.2	-1.2	-17.3	-3.4
Nitrates and iodine	84	74	85	92	1.9	2.2	12.2	-11.2	14.4	8.6
Fishmeal	307	276	279	315	5.0	7.5	20.0	-10.2	1.2	12.9
Paper, wood pulp, paperboard and related products	208	259	-210	272	6.3	6.5	-5.3	24.7	-18.9	29.5
Non-traditional products	1 245	1 328	1 350	1674	38.4	39.9	-5.2	6.6	1.7	24.0
Mining products	265	173	156	158	5.2	3.8	28.4	-34.7	-10.1	1.8
Agricultural and marine products	327	429	515	683	7.2	16.3	-12.6	30.8	20.3	32.6
Crop-farming products	254	346	423	563	5.2	13.4	8.8	36.3	22.9	32.5
Livestock products	26	29	27	39	0.8	0.9	-21.2	9.5	-7.3	47.0
Forestry products	2	2	1	2	-	0.1	4.5	-21.7	-27.8	30.8
Fishery products	45	52	62	79	1.2	1.9	-26.2	15.1	19.5	27.3
Manufactured products	653	726	679	833	26.0	19.8	-10.8	11.2	-6.4	22.6
Food and beverages	128	145	142	215	3.5	5.1	3.8	13.5	-1.7	51.2
Wood	116	116	112	135	6.1	3.2	-4.8	-0.1	-3.7	20.5
Chemical and petroleum products	59	80	96	89	3.5	2.1	-33.0	36.0	20.5	-7.6
Basic metal industries	292	302	280	281	10.0	6.7	-10.3	3.5	-7.3	0.3
Metal products, machinery, electronic articles, etc.	20	20	18	31	1.4	0.7	-43.3	-3.9	-8.2	72.1
Transport equipment	29	42	17	54	0.9	1.3	27.8	45.2	-59.4	214.6
Other	9	21	14	28	0.6	0.7	-40.8	140.2	-35.4	105.9

Source: Central Bank of Chile.
"Preliminary figures.

Table 19

CHILE: EXCHANGE RATES

Annin1 and quarterly averages	Nominal exchange rates (pesos per dollar)		Real effective exchange rate indexes"			
	Official	Parallel ¹	Exports		Imports	
			A	B	A	B
1970-1979	10.9		128.2	98.1	123.7	94.8
1980	39.0		100.0	100.0	100.0	100.0
1981	39.0		90.1	82.9	92.9	85.4
1982	50.9		107.2	95.5	112.3	99.9
1983	78.8	92	113.8	112.9	117.9	117.0
1984	98.7	113	113.9	116.0	118.4	120.6
1985	161.1	180	132.0	144.7	138.1	151.4
1986	193.0	206	146.4	165.6	146.8	165.9
1984						
I	88.1	97	117.2	114.1	121.9	118.6
II	90.0	113	112.4	112.4	114.8	114.8
III	95.6	116	108.0	112.3	112.5	116.9
IV	121.0	124	118.1	125.3	124.4	132.0
1985						
I	135.8	139	119.9	128.3	127.5	136.5
II	152.1	172	125.5	136.4	132.1	143.7
III	175.5	200	137.5	153.4	143.3	159.9
IV	180.9	210	145.2	160.7	149.5	165.6
1986						
I	187.0	202	150.8	164.6	153.0	167.0
II	188.6	199	147.4	162.3	147.7	162.6
III	194.5	207	143.5	167.5	142.9	166.7
IV	201.9	216	144.0	167.9	143.5	167.3

Source: ECLAC, on the basis of information from the Central Bank of Chile and the International Monetary Fund, *International Financial Statistics*.

Note: A: For deflation, the domestic products sub-index of the wholesale price index was used.

B: For deflation, the consumer price index prepared by J. Yáñez was used for the years 1970-1973, the consumer price index prepared by R. Cortázar and J. Marshall was used for the years 1974-1978, and the INE consumer price index was used from 1979 onwards.

"These indexes correspond to the average of the real peso exchange rate indexes (main official) *vis-à-vis* the currencies of Chile's main trading partners, weighted by the relative importance of the exports to or imports from those countries, as appropriate. From 1970 to 1980, these weightings correspond to the average for the period 1975-1979, while from 1981 on, they correspond to the average for the period 1982-1985. For further details on the methodology and sources used, see the technical appendix of the *Economic Survey of Latin America, 1981*. "ECLAC estimates.

Table 20

CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS, CIF

	Millions cif dollar:				Percentage breakdown		Growth rates			
	1983	1984	1985	1986"	1980	1986°	1983	1984	1985	1986°
Total	3 171	3 739	3 269	3 436	100.0	100.0	-22.6	18.0	-12.6	4.9
Consumer goods	1024	1044	729	754	33.7	21.9	31.0	2.0	30.2	3.4
Non-food	493	552	505	585	20.7	17.0	-44.9	12.0	-8.6	15.8
Motor vehicles	31	27	16		3.3		-75.0	-12.9	-40.7	
Industrial products	462	525	438		17.4		-40.0	13.6	-16.6	
Food	531	492	271	169	13.0	4.9	-10.0	-7.3	-44.9	-37.6
Intermediate goods	1 755	2 097	1 866	1951	45.6	56.8	-8.7	20.0	-11.0	4.6
Fuels and lubricants	592	594	564	428	15.7	12.5	-8.3	0.3	-5.1	-24.1
Raw materials	504	608	574	628	10.3	18.3	12.0	20.6	-5.6	9.4
Spare parts and intermediate industrial products	659	895	728	895	19.6	26.0	-20.7	35.8	18.7	22.9
Capital goods	392	597	646	732	20.7	21.3	-43.8	52.3	8.2	13.3

Source: Central Bank of Chile.
 "Preliminary figures.

Table 21

CHILE: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986 ^a
Balance on current account	-2 020	-4 805	-2 373	-1 160	-2 118	-1 342	1 135
Trade balance	-1 056	-3 245	-379	578	-102	547	750
Exports of goods and services	5 968	5 008	4 641	4 628	4 493	4 468	5 030
Goods FOB	4 705	3 836	3 706	3 831	3 650	3 804	4 199
Real services	1 262	1 172	936	796	843	664	831
Transport and insurance	433	373	318	292	307	301	359
Travel	174	200	125	98	129	116	145
Imports of goods and services	7 023	8 253	5 020	4 049	4 595	3 921	4 280
Goods FOB	5 469	6 513	3 643	2 845	3 357	2 954	3 099
Real services	1 554	1 740	1 377	1 204	1 238	967	1 181
Transport and insurance	872	941	624	537	615	513	591
Travel	200	221	195	243	327	269	319
Factor services	-1 028	-1 595	-2 035	-1 793	-2 057	-1 936	-1925
Profits	-82	-121	-128	-136	-176	-155	-168
Interest received	305	601	506	189	316	197	221
Interest paid	-1 152	-1943	-2 299	-1 801	-2 158	-1 943	-1 940
Other	-99	-132	-114	-45	-39	-35	-38
Unrequited private transfer payments	64	37	41	55	41	47	40
Balance on capital account	3 341	4 941	1 032	644	2 209	1 240	883
Unrequited official transfer payments	49	72	68	43	58	14	44
Long-term capital	2 243	3 579	1 680	31	3 553	1 014	836
Direct investment (net)	171	362	384	131	67	62	57
Portfolio investment (net)	-	-	-	-	-	50	262
Other long-term capital	2 072	3 217	1 296	-100	3 486	902	517
Official sector ^b	-193	-496	134	1 257	1 504	1 210	
Loans received	280	154	296	1 432	1 640	1431	
Amortization payments	-472	-641	-162	-139	-136	-221	
Commercial banks ^c	1438	2 496	327	-800	1 557	-69	-126
Loans received	1 617	2 730	701	135	2 138	1 072	1 297
Amortization payments	-147	-216	-309	-952	-589	-1 198	-1439
Other sectors ^d	826	1 217	836	-558	425	-239	
Loans received	1645	2 205	1613	367	1206	794	
Amortization payments	-819	-961	-788	-925	-781	-1033	
Short-term capital (net)	1 000	1 190	-647	489	-1 501	215	52
Official sector	100	126	15	320	32	-159	-350
Commercial banks	469	252	68	316	-1 405	36	130
Other sectors	431	811	-731	-148	-128	338	272
Errors and omissions (net)	51	100	-70	80	99	-3	49
Global balance	1 321	136	-1340	-516	91	-102	-252
Total variation in reserves (- sign indicates an increase)	-1 402	-93	1 112	652	-263	-196	113
Monetary gold	-90	-	-2	46	27	22	-149
Special Drawing Rights	25	-15	-1	14	-6	11	-1
IMF reserve position	-33	7	-3	78	-	-	-
Foreign exchange assets	-1 248	-10	1 160	-87	-458	-145	21
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-56	-74	-42	600	175	307	242

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

^aPreliminary figures subject to revision. Includes other non-factor services. ^bIncludes net loans granted and other assets and liabilities. Equals the total variation in reserves (of opposite sign) plus counterpart items.

Table 22

CHILE: INDICATORS OF EXTERNAL INDEBTEDNESS

	1981	1982	1983	1984	1985	1986 ¹
Millions of dollars						
Balances						
I. Total external debt						
(II + III + IV)^{1c}	15 591	17 159	18 037	19 659	20 403	20 716
II. Medium- and long-term external debt	12 553	13 815	14 832	16 963	17 650	17 814
State-guaranteed public and private debt	4 415	5 157	8 090	10 601	12 515	14 379
Private debt	8 138	8 658	6 742	6 362	5 135	3 435
Supplier credits	463	413	318	246	162	129
Lines of credit for importation of capital goods	499	457	404	173	155	40
Financial credits	7 176	7 788	6 020	5 943	4 818	3 266
III. Short-term external debt^c	2 989	3 338	2 599 ^e	1914'	1 668	1 574
Public sector	1 050	1 503	1 705	1 742	1 564	1 384
Private sector	1 939	1 835	894	172	104	190
IV. Debt with IMF	49	6	606	782	1 085	1 328
V. Net international reserves	3 775	2 578	2 023	2 056	1 867	1 778
VI. Net total external debt (II + III - V)	11 767	14 575	15 408	16 821	17 451	17 610
Total servicing	3 134	3 041	3 247	3 015*	2 398*	2 23?
Principal	1 792	1 248	1 635*	1 173*	652*	514'
Interest ¹	1 342	1 793	1 612	1 842	1 746	1 719
Total disbursements	6 425	2 943	1 948	1 592	1 476	1 212
Percentages						
Ratios						
Total external debt/exports of goods and services	311.3	369.6	389.7	437.5	456.6	411.8
Net total external debt/exports of goods and services	235.0	314.0	332.9	374.4	390.6	350.0
Servicing/exports of goods and services	62.6	65.5	70.2	67.1	53.7	44.4
Net interest/exports of goods and services	26.8	38.6	34.8	41.0	39.1	34.2
Servicing/disbursements	48.8	103.3	166.7	1 894	162.5	184.2

Source: Central Bank of Chile, Deuda externa de Chile, 1986, *Boletín Mensual*, November 1987.

¹Preliminary figures. Amounts disbursed and pending payment at 31 December of each year. ¹Excluding short-term credits for external trade operations of the non-financial private sector. Credits entering under articles 14,15 and 16 of the International Exchange Law and credits under Decree-Law 600. ¹The drop is due to the conversion of short-term debt to medium- and long-term debt. Corresponds to the international assets of the Central Bank, less liabilities with the International Monetary Fund. Gold is valued at market prices and swaps at their "net" value. ¹The servicing is lower because of the renegotiation of the external debt. * Before the renegotiation of the external debt, amortization payments came to US\$2 063 million in 1983, US\$1 666 million in 1984, US\$2 393 million in 1985, and US\$2 675 million in 1986. ¹Interest paid, less interest received, according to the balance-of-payments current account.

Table 23

CHILE: DOMESTIC PRICE TRENDS

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Variation from December to December											
Consumer price index	174.3	63.5	30.3	38.9	31.2	9.5	20.7	23.1	23.0	26.4	17.4
Food	167.4	59.4	25.5	41.9	30.8	0.1	16.3	26.8	19.8	27.5	23.7
Corrected consumer price index"	197.9	84.2	37.2								
Wholesale price index	151.5	65.0	38.9	58.3	28.1	-3.9	39.6	25.2	36.5	30.3	18.2
Imported products	130.1	79.2	22.2	67.5	12.5	0.5	49.5	33.1	51.3	26.4	4.5
Domestic products	157.1	61.7	43.2	56.3	31.9	-4.8	37.5	23.3	32.7	31.4	22.0
Agricultural products	148.6	53.0	48.9	52.2	27.7	-14.5	41.7	27.1	19.3	34.8	37.4
Mining products	147.7	46.6	40.6	85.6	37.8	12.1	33.9	23.5	48.2	19.6	-3.1
Manufactures	165.7	70.8	39.6	55.3	33.9	-0.9	35.6	20.9	38.6	31.8	17.8
Index of building costs	195.1	78.1	43.7	44.8	31.8	14.5	5.2	10.3	18.9	23.1	17.0
Variation between annual averages											
Consumer price index	211.9	92.0	40.1	33.4	35.1	19.7	9.9	27.3	19.9	30.7	19.5
Food	212.8	86.2	34.6	31.1	36.1	14.2	3.6	25.8	21.1	28.3	23.9
Corrected consumer price index	232.8	113.8	50.0								
Wholesale price index 221.1	86.0	42.9	49.4	39.6	9.1	7.2	45.5	24.3	43.4	19.8	
Imported products	201.6	99.8	34.9	41.7	37.7	4.4	10.9	62.6	28.4	54.8	7.2
Domestic products	226.1	82.8	45.0	51.3	40.0	10.1	6.4	41.8	23.3	40.4	23.4
Agricultural products	245.9	79.3	34.7	51.8	41.4	2.7	0.7	51.3	21.0	33.1	36.1
Mining products	191.7	73.2	51.1	70.1	54.0	22.3	7.3	40.0	27.4	48.9	1.8
Manufactures	215.5	87.4	52.7	48.3	41.3	13.3	9.9	36.5	24.1	43.5	20.2
Index of building costs	233.2	1090	54.9	42.7	40.7	22.5	5.6	9.7	12.9	25.8	18.6

Source: National Statistical Institute; Chilean Chambers of Construction; José Yáñez, "Una corrección del índice de precios al consumidor, 1971-1977", in *Comentarios sobre la situación económica*, Department of Economics of the University of Chile; and René Cortázar and Jorge Marshall, "Índice de precios al consumidor en Chile: 1970-1978", *Estudios CIEPLAN*, No 4, November 1980.

"1975-1978: based on the index prepared by Cortázar and Marshall.

Table 24

CHILE: REAL WAGES AND SALARIES

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
	Indexes(1980 = 100) [†]										
Minimum wage	67.5	79.6	100.7	99.8	100.0	115.9	116.6	93.9	80.3	76.1	73.6
Average wages	70.5	79.6	84.7	91.8	100.0	109.1	108.7	97.1	94.4	93.5	95.1
Mining	79.7	91.0	88.7	97.5	100.0	103.2	94.8	89.7	92.0	90.8	92.8
Manufacturing	66.9	75.3	83.3	89.9	100.0	109.6	105.4	94.6	93.8	88.7	91.4
Electricity, gas and water	70.6	70.7	79.1	88.8	100.0	114.7	111.6	101.5	101.5	101.0	105.5
Community and social services	73.8	83.9	86.6	93.1	100.0	109.0	116.3	100.2	100.7	94.9	91.6
Construction ^c	78.0	81.3	84.8	91.9	100.0	105.6	100.2	78.3	75.8	63.8	67.0
	Percentage variation										
Minimum wage	10.8	17.9	26.4	-0.8	0.2	15.9	0.7	-19.5	-14.6	-5.1	-3.3
Average wages	0.5	12.9	6.4	8.3	9.0	9.1	-0.4	-10.6	0.3	-3.8	1.7
Mining	4.3	14.1	-2.5	9.9	2.6	3.2	-8.2	-5.1	2.6	-1.3	2.1
Manufacturing	8.2	12.5	10.5	7.9	11.2	9.6	-3.8	-10.2	-0.9	-5.1	3.0
Electricity, gas and water	0.8	0.1	11.9	12.3	12.6	14.6	-2.7	-9.1	-0.2	-0.1	4.5
Community and social services	-12.8	13.7	3.2	7.5	7.4	8.9	6.7	-13.9	0.7	-5.8	-3.4
Construction	4.8	4.2	4.3	8.4	8.8	5.9	-5.1	-21.9	-3.2	-15.9	5.1

Source: ECLAC, on the basis of data from the National Statistical Institute and the Chilean Chamber of Construction.
[†]Deflated on the basis of the consumer price index given in table 23. From 1975 to 1978: average for January, April, July and October. Subsequently, average for 12 months. Applicable to private sector manual and non-manual workers not subject to special arrangements. ^c1975-1983: wages in middle-level building activities. 1984-1986: average wages.

Table 25

**CHILE: MINIMUM WAGE AND ALLOWANCES PAID IN
GOVERNMENT EMPLOYMENT PROGRAMMES**

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 ^e
Minimum monthly wage										
Nominal*	1 279	2 265	2 996	4 056	5 625	6 223	6 378	6 534	8 100	9 353
Real ^c	2 195	2 592	2 511	2 515	2 914	2 933	2 362	2 019	1915	1838
Monthly allowance paid in Minimum Employment Programme										
Nominal	704	834	992	1 275	1 300	1 650	2 000	2 000	3 000	3 000
Real ^c	209	954	831	791	674	778	741	618	709	680
Monthly allowance paid in job Programme for Heads of Household										
Labourers										
Nominal						4 000	4 000	4 000	5 000	5 000
Real ^c						1 690	1 481	1 236	1 182	1 134
Foremen										
Nominal						8 000	8 000	8 000	9 000	9 000
Real ^c						3 380	2 963	2 472	2 128	2 042
Supervisors										
Nominal*							15 000	15 000	16 000	16 000
Real ^c							5 456	4 634	3 782	3 629
Senior Staff										
Nominal ¹							30 000	30 000	31 000	31 000
Real ^c							10 911	9 269	7 328	7 033

Source: ECLAC, on the basis of data from the National Statistical Institute.

^aPreliminary figures. ^bPesos. ^cPesos of December 1978, on the basis of the corrected consumer price index shown in table 23.

Table 26

**CHILE: FULFILMENT OF INTERNATIONAL MONETARY
FUND PROGRAMME TARGETS**

Objectives and criteria	Target (December 1986)	Actual figures (December 1986)
Net international reserves ^a	1 130	1 239
Net domestic assets of Central Bank ^b	730	713
Deficit of non-financial public sector ^c	59	53
Short-term indebtedness of non-financial public sector and Banco del Estado	990	901
External debt incurred and guaranteed by public sector ^d		
1-10 years	500	102
1- 5 years	200	33
Rescheduling	170	105

Source: Central Bank of Chile.

^aThousands of dollars. ^bBillions of pesos. ^cAs of end of September.

Table 27

CHILE: MONETARY INDICATORS

	December averages for each year (billions of pesos)				Growth rates			
	1983	1984	1985	1986 ¹	1983	1984	1985	1986 ¹
Money issue (E)	70.1	82.5	110.5	151.8	13.6	17.6	33.9	37.4
Total money supply	138.7	148.6	199.7	302.4	21.1	7.1	34.4	51.4
Private sector (M ₁)	95.2	102.4	131.4	189.3	26.8	7.6	28.3	44.1
Public sector (PS)	43.5	46.2	60.3	113.1	10.3	6.1	47.8	65.6
Terms deposits (TD)*	262.2	347.8	496.1	586.5	-4.2	32.6	42.6	18.2
From 30 to 89 days	128.2	159.9	218.6	252.0	-42.1	24.7	36.7	15.3
From 90 to 365 days	80.2	132.4	209.7	243.2	182.4	65.1	58.4	16.0
Readjustable	73.6	121.1	201.7	237.2	202.0	64.6	66.6	17.6
Non-readjustable	6.6	11.3	8.0	6.0	-31.1	70.1	-29.2	-25.0
Over one year	53.8	55.5	67.8	91.3	127.4	3.1	22.2	34.7
Private money + term deposits (M ₂ = M ₁ + TD)	357.4	450.2	627.5	775.8	9.6	26.0	39.4	23.6
Bank quasi-money (D ₂) ^c	339.8	462.3	665.5	806.1	-4.8	36.1	44.0	21.1
Terms deposits	262.2	347.8	496.1	586.5	20.7	32.6	42.6	18.2
Savings deposits	80.1	101.2	142.4	219.6	67.6	26.3	40.7	54.2
Loans by the banking system								
National currency	636.4	924.4	1 315.1	1 506.9	22.5	45.3	42.3	14.6
Foreign currency	4 838.1	3 825.0	2 703.2	2 578.8	-24.8	-21.0	-29.3	-4.6

Source: Central Bank of Chile, *Síntesis Monetaria*.¹Preliminary figures. Includes bonds of the Department of Savings and Investments (DAI).
deposits for less than 30 days. Millions of dollars^cIncludes other

Table 28

CHILE: BANK INTEREST RATES

	1980	1981	1982	1983	1984	1985	1986	1986 ^t			
								I	II	III	IV
Nominal											
Short-term deposits	37.4	40.8	47.8	27.9	26.1	31.6	18.9	20.2	16.5	14.0	19.2
Short-term loans	46.9	51.9	63.1	42.7	37.2	40.4	26.2	27.5	22.6	19.9	23.9
Real											
Non-readjustable operations											
Short-term deposits	4.7	28.6	22.4	3.9	2.3	4.1	1.3	-0.2	2.8	1.6	1.6
Short-term loans	12.0	38.7	35.1	15.9	11.4	11.4	7.5	7.0	9.0	7.4	6.2
Readjustable operations											
Deposits	8.4	13.1	12.0	7.7	8.4	8.2	4.1	5.5	4.3	3.4	3.3
Loans	15.4	14.5	16.9	9.8	9.0	9.4	7.7	8.7	7.9	7.2	6.9

Source: Central Bank of Chile.

^tAnnual rates projected on the basis of quarterly data. Calculated on the basis of the nominal rates published by the Central Bank, the corrected consumer price index given in table 23, and the consumer price index of the National Statistical Institute (period 1979-1982).

Table 29

CHILE: PUBLIC SECTOR INCOME AND EXPENDITURE

(Percentages of gross domestic product)

	1984	1985	1986
A. General government			
1. Current income	28.7	28.6	27.9
2. Current expenditure	30.7	29.5	27.2
3. Current surplus (1-2)	-2.0	-0.9	0.7
B. State enterprises			
4. Operating surplus	10.8	14.3	13.0
5. Net transfers to general government	8.3	9.6	9.3
6. Current surplus (4-5)	2.5	4.7	3.7
C. Public sector			
7. Current surplus (3+6)	0.5	3.8	4.4
8. Net capital income	1.5	0.6	1.1
9. Gross capital formation (9a+9b)	6.4	7.0	7.7
9a General government	(2.7)		
9b State enterprises	(3.7)		
10. Capital surplus (8-9)	-4.9	-6.4	-6.6
11. Global surplus (7+10)	-4.4	-2.7	-2.2

Source: Ministry of Finance and Central Bank of Chile.

Table 30

CHILE: EVOLUTION OF THE FINANCIAL SYSTEM"*(Year-end balances in billions of pesos)*

	1985	1986	Percentage variation in real terms
Assets			
1. Loans in national currency	1 335	1 544	-1.5
2. Loans in foreign currency	474	516	-7.3
3. Total loans (1 + 2)	1 809	2 060	-3.0
4. Financial investments	1 325	1 569	0.9
5. Circulating assets	3 920	4 513	-2.0
Liabilities			
6. Deposits and other funds attracted	1 065	1 388	11.0
7. Loans obtained in the country	1 113	1 170	-10.5
8. Loans obtained outside the country	1 181	1 252	-9.7
9. Outstanding liabilities	3 848	4 339	-4.0
10. Contingency funds	162	190	-0.1
11. Capital and reserves	235	348	26.1
Balances			
12. Surplus before taxes	47.0	46.9	-15.0
13. Surplus after taxes	33.5	36.1	-8.2
14. Net balance	13.5	13.7	-13.6
Suspense accounts			
15. Loans sold to Central Bank	479	643	14.3
16. Total loans (3 + 15)	2 288	<u>2 703</u>	0.6

Source: Office of the Superintendent of Banks and Financial institutions.

"Includes banks and financial associations. Nominal variations deflated on the basis of the variation in the consumer price index.

ECUADOR

1. Recent economic trends: Introduction and summary

In 1986, despite serious problems Ecuador registered an increase in economic activity for the third consecutive year. The gross domestic product increased once again, and although the inflation rate accelerated slightly, real minimum wages improved. The worst difficulties arose from the slump in the price of petroleum, which heightened the balance-of-payments current account imbalance and created a major fiscal distortion.

The 3% expansion in the product, coupled with the improvement of the two previous years, brought the cumulative increase for the three-year period to 12%. The crisis of the period 1982-1983 was thus overcome and the trend observed in the economy as a whole up to the beginning of the decade was resumed. On the other hand, the per capita product virtually stagnated and thus did not fully recover from the loss suffered during the crisis years (see table 1 and figure 1).

The growth in the product was due primarily to the good results registered in agricultural activity, which expanded by almost 8%, and the considerable increase (5%) in mining and petroleum production.

The growth of domestic demand in 1986 (1.5%) was similar to that of the previous year and was likewise attributable basically to the increase in fixed capital investment. Nevertheless, it was still not possible to recover from the decline of over 30% accumulated during the 1983-1984 biennium, and the investment coefficient was one of the lowest in the current decade (14.5%).

Total consumption, for its part, registered a slight upturn (1.7%). This was attributable solely to the fact that the growth rate of family consumption doubled, thus giving an increase of over 13% in the last three years. Government consumption in contrast, shrank for the fourth consecutive year, resulting in an accumulated decrease of approximately 15%.

The twelve-month variation in the consumer price index rose from 24% to 27%. This reactivation of inflation, which speeded up in the second half of the year, was due to the increases in interest and exchange rates, as well as the higher rates charged for certain public services. The inflationary pressures were moderated, however, by the good yields in the agricultural sector and the strict control exercised by the government over the monetary variables.

The nominal money supply (M₁) increased by 20%, but in real terms it declined because the accumulated increase in prices during the year was higher. This demonstrated the government's determination to contain price increases and reflected a contraction in the domestic credit supply.

With regard to wages, the real minimum wage registered a significant improvement (4%), which compares favourably with the virtual stagnation of the previous biennium but constitutes a very modest increase in the light of the deterioration of close to 35% recorded during the 1981-1983 triennium.

As already noted the most serious problem which beset the economy was the steep decline in petroleum prices. Because of the glut on the international market and the price war unleashed between the OPEC member countries and the non-OPEC producers, the average quotation for Ecuadorian petroleum plunged to US\$12.50 per barrel, with the lowest level (US\$8.50) being recorded in July, in contrast with the selling price of US\$25.80 per barrel registered in 1985. The upshot was that total petroleum and petroleum product exports—which the previous year had generated 60% of total sales of goods and services and a similar percentage of government revenue—fell by almost half (from US\$1 930 million to less than US\$990 million).

This plunge, added to the slump in some other exports, had an adverse impact on the trade balance. Thus, the total exports of goods and services fell considerably (-22%), whereas imports declined by only 1%. As a result, the trade surplus declined by almost US\$700 million, and since the

Figure 1
 ECUADOR: MAIN ECONOMIC INDICATORS

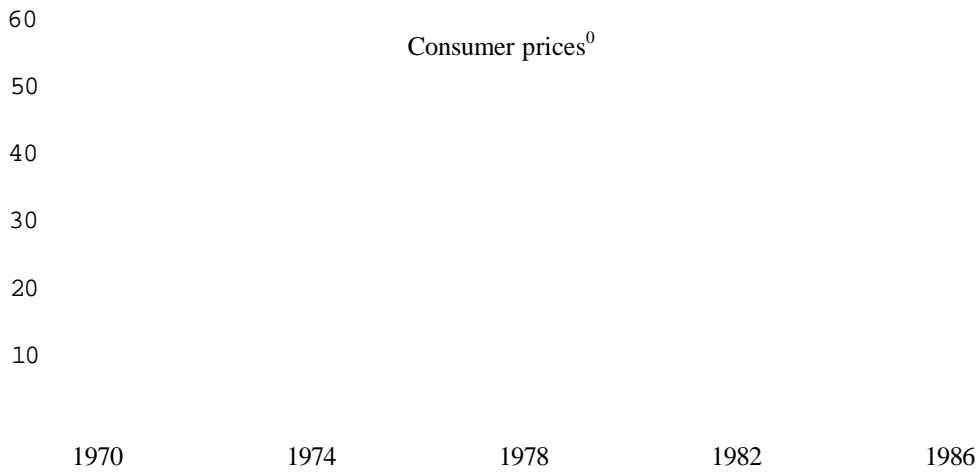
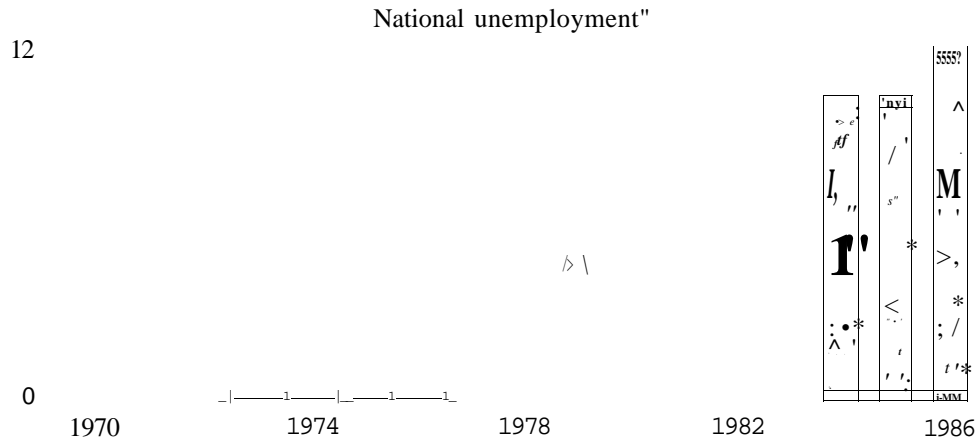
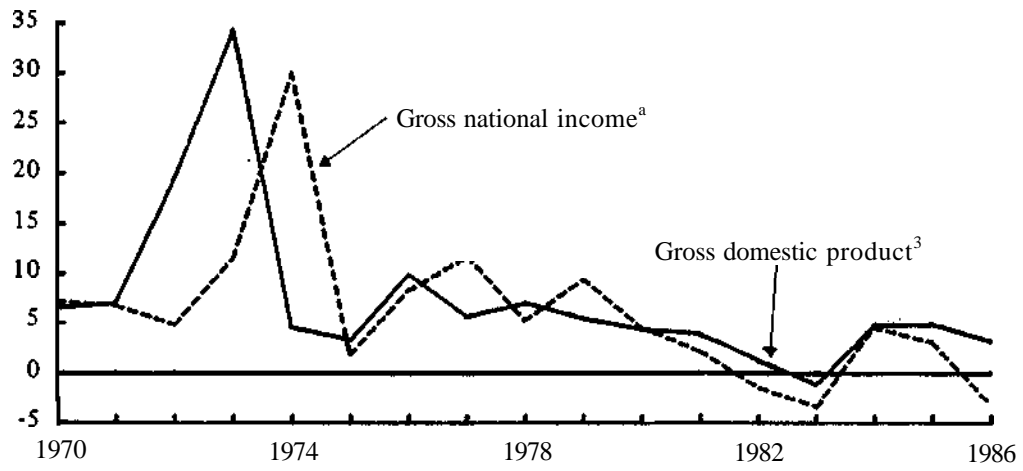
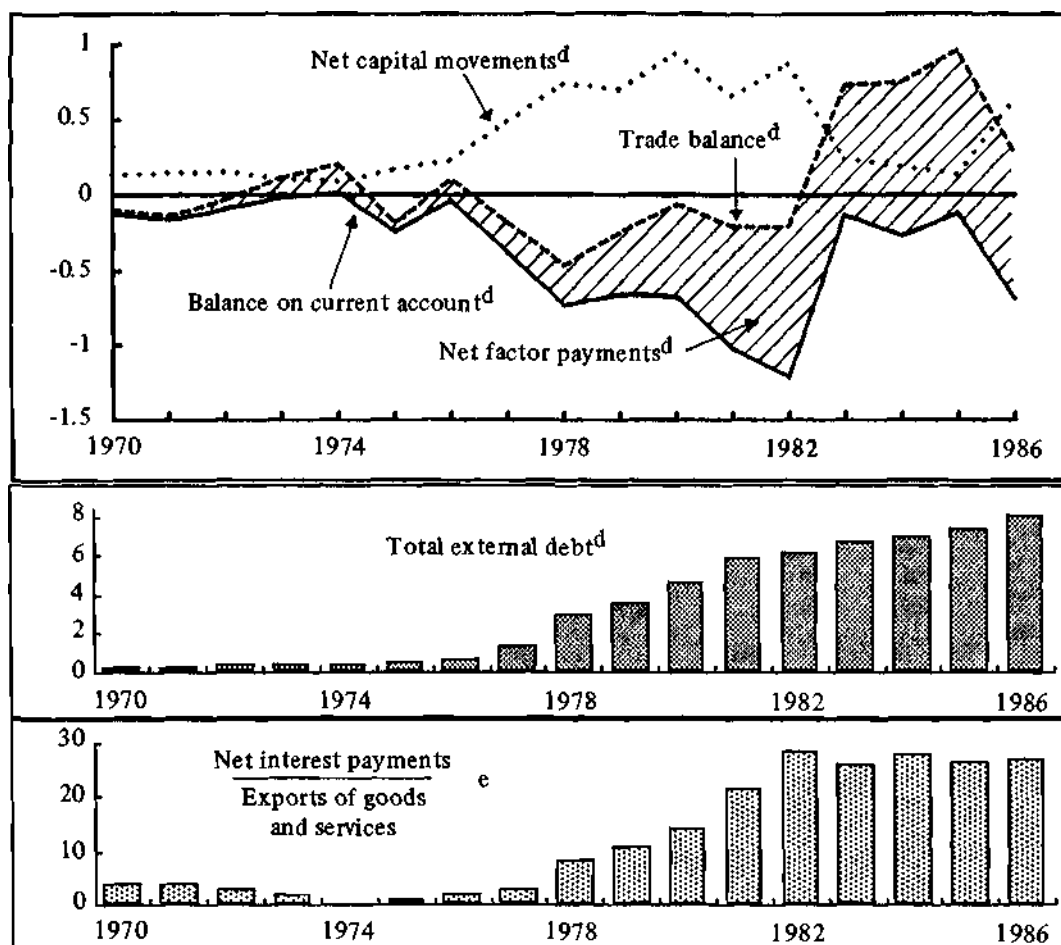


Figure 1 (conclusion)



Source: ECLAC, on the basis of official information.

^aAnnual growth rate. ^bAnnual average rate for the whole country. Official estimates.
^cPercentage variation from December to December. ^dBillions of dollars. ^ePercentages.

net payments of profits and interest verged on US\$960 million, the current account deficit increased more than sixfold, coming close to US\$690 million. For their part the terms of trade in goods and services fell yet again, as had happened systematically during the present decade, except for 1984. This year, however, the decline was of unprecedented magnitude (-27%). For its part, the capital account showed a surplus of almost US\$640 million. This was largely due to the fresh credits that Ecuador received from sources such as the United States government, its creditors and a number of multilateral agencies.

As a result of the above, the country suffered a US\$50 million loss of reserves, bringing the net external assets of the Central Bank at the end of the year to around US\$150 million, which was equivalent to slightly more than one month of imports.

The progressive shortage of foreign exchange had an impact on, *inter alia*, the exchange rate. Thus, the sucre/dollar ratio in January had already risen to 14% on the intervention market, where the dollar was sold for 110 sucres by the Central Bank. The sucre continued to depreciate, and in December the issuing agency quoted the dollar at 147 sucres. On the free market, the exchange rate fluctuated in the course of the year, especially during the first half, but in December it was only 15% more than at the same time the year before and was similar to the rate being quoted on the intervention market. Because of the devaluation of the sucre, the real effective exchange rate rose and

this acted as an incentive to exports, especially non-traditional ones, while it increased the cost of imports.

The drop in petroleum prices also had a negative impact on the fiscal accounts, to such an extent that current State income fell by 1.5% after having risen by 65% and 90% in 1984 and 1985. The growth rate of total expenditure, for its part, slackened because although its expansion was considerable (31%), it had been much greater in previous years.

As a result of these trends, the deficit/total expenditure ratio stood at around 16%, whereas in the previous year there had been a surplus (6.5%). Likewise, the deficit/gross domestic product ratio was 2%, compared with a similar surplus the year before.

In order to curb price increases, the government sought to control monetary expansion. Consequently, although the amount issued increased by 37%, the money supply increased by only 20% (that is to say a good deal less than inflation) because of the raising of the reserve requirement rate. Furthermore, in order to reduce the foreign exchange demand on the free market, the authorities completely freed interest rates.

There were two clearly distinguishable stages in the economic policy. During the first stage, which lasted until July, the government tried to adapt the evolution of economic activity to the situation created by the decline in the price of petroleum. Thus, in addition to raising the exchange rate, it established a foreign exchange insurance commission and prior deposits for imports. It also increased the price of some public services and the rates of some taxes and carried out a tariff reform which not only reduced the existing dispersion of tariff rates but also rationalized the duties charged on different types of imports.

As the decline in oil prices persisted during the first half of the year, in August the government radically changed the direction of the country's economic policy. With respect to exchange rates, the public sector foreign exchange market was made completely independent of the private sector market. Whereas in the former the foreign exchange requirements would be met from petroleum export incomes, in the latter the foreign exchange for financing private sector imports would come from the sector's own exports. The dollar rate on the intervention market was also raised, bringing it closer to that of the free market dollar. At the same time, an effort was made to ensure that the public sector, and particularly the State petroleum company, was not adversely affected by the wide disparity existing between the two exchange rates.

To prevent the creation of these two foreign exchange markets from triggering off speculation against the sucre, the government allowed the interest rates on bank loans and deposits to float freely. In this way, it was hoped to encourage saving in national currency and at the same time to relieve the pressure on the available foreign exchange. However, this did not mean eliminating the lines of credit that were rediscounted by the Central Bank at preferential interest rates.

2. Trends in economic activity

a) *Total supply and demand*

The total supply of goods and services increased by slightly more than 2%, bringing down the growth rate for the second consecutive year. Whereas the gross domestic product grew by 3%, the volume of imports fell by an equal percentage because of the gradual increase in the real effective exchange rate and the poor performance of domestic demand, which grew by around 1.5%: a rate similar to that recorded in 1985 and much lower than the 6% achieved in 1984. As a result of this, the accumulated increase over the last three years was not sufficient to compensate for the decline of over 12% suffered in 1983 (see table 2).

In 1986 there was an upturn in both consumption and gross fixed investment. The latter, which had begun to recover in 1985, increased by 3%, but as its level continued to be much lower than before the crisis, the investment coefficient (14.5%) was still one of the lowest since 1980.

The 1.5% expansion of total consumption was the net result of the opposite trends observed in government and family expenditure. In the first case, the decline of close to 1% represented the fourth year of negative evolution, making an accumulated decrease of the order of 15% during that period. For its part, private consumption went up by 2%, which was a higher rate than that of 1985 but much lower than that recorded in 1984 (10%).

Lastly, the growth rate of the volume of exports slowed down considerably, failing to reach even one-third of the rate observed in the two previous years. This was attributable to the marked decline in petroleum sales, as a result of the dramatic slump in the international price, although on the other hand the increase in the real effective exchange rate was an incentive to non-traditional exports.

b) *Evolution of the main sectors*

The slackening of overall economic activity was due to the drop in the growth rates of the goods-producing sectors and "other services" (see table 3). The increase in the former (3.5%) was based on the performance of agriculture, mining and the petroleum industry; in contrast, manufacturing and construction experienced a decline. In almost all cases, the activities falling under the heading of "other services" expanded only modestly, at rates lower than those of 1985. On the other hand, basic services grew by 7.5%, which was considerably faster than the year before.

i) *The agricultural sector.* Agricultural production increased satisfactorily (8%) for the third consecutive year, thus more than compensating for the heavy losses caused by the climatic disasters at the beginning of the decade (see table 3).

The growth rate of agricultural production was double that of 1985. This was attributable to the fact that the majority of crops —especially those destined for the domestic market— registered significant increases, making it possible to reduce imports of food and inputs for industry (see table 4).

Among agricultural exports, banana production continued its upward trend. Thus, after the record expansion of 17% recorded in 1985, output increased by a further 7% as a result, *inter alia*, of good climatic conditions. The overall increase during the period 1984-1986 more than made up for the severe losses (-18%) suffered during the period 1982-1983. However, major problems continued to plague this crop and the shortcomings in the irrigation, drainage, transport and shipment systems persisted, with a result that after having improved by more than 10% in 1984 yields once again fell, this time by 3.7%.

The decline in coffee production (-2.5%) came after the boom of the previous two years, when an increase of almost 45% was recorded. The area under cultivation remained constant and the yield declined slightly; furthermore, outbreaks of rust and coffee-bean borer attacks affected some growing areas.

Cocoa, another of the main export products, also turned in a poorer harvest (-14.5%), due both to the smaller area under cultivation and the lower yield (-6.5%). As in the other cases, the small size of the majority of holdings prevented farmers from modernizing their crops through the use of more advanced techniques.

Among the products destined for the domestic market, cotton and barley gave outstanding results. Cotton production rose by 95%, which, when added to the even greater increases during the previous two-year period, raised output to almost 10 times that observed in 1983. In addition to the expansion of the area cultivated, there was a notable improvement in yields (100% in 1984, 39% in 1985 and 44% in 1986).

The barley harvest also increased substantially (52%), while soya, rice and wheat production grew by around 27%. The growth of soya output, plus the upswing during the previous two years, meant that it was almost six times the volume of the 1983 harvest. For its part, the rice harvest amply compensated for the decline observed during the previous crop year. Wheat production, for its part, although it improved substantially, was well below that achieved at the beginning of the decade.

In short, the excellent yields obtained by the agricultural sector were due to the favourable climatic conditions and the special attention given to the sector by the government through the expansion or opening of special lines of credit for rice, maize, cotton, soya, palm and sugar cane cultivation. In addition, during the year the Banco Nacional de Productos Agropecuarios and Almacopio S.A. was set up to facilitate the marketing of products and to prevent abuses by middlemen.

ii) *Fisheries.* As a result of the tariff and credit assistance given to the sector by the government, the product of the fisheries sector improved for the third consecutive year, although even so the growth rate (10%) was only half of the extraordinarily high rate achieved during the 1984-1985 biennium (see table 5).

As a result of the improvement in the supply of bait, the excellent climatic conditions and the better exploitation of the resource through the establishment of a closed season, the shrimp catch improved by 7%. Although this improvement was not enough to compensate for the losses of the previous year, the upward trend observed during the early years of the decade was resumed. On the other hand, as in 1985, there was a smaller tuna fish catch because of the restrictions deriving from the biological cycle of the tuna.

Exports performed exceptionally well during the year. Shrimp sales increased by (32%), far outweighing the accumulated decline (-9%) of the previous two years. There was an even greater increase in exports of frozen fish, which expanded by around 90%, thus quadrupling the 1983 volume. In contrast, fish meal sales fell by slightly more than 11% in 1986, although their total amount was double that recorded in 1984 and 7.5 times greater than that of 1983.

iii) *The petroleum industry.* The radical changes that occurred on the international petroleum market during the year left their mark on this sector, which in 1985 had generated about 60% of the value of exports of goods and services as well as of total State income.

The growth rate of crude petroleum production—which had averaged 10% per year during the three previous years— slackened to 4% (see table 6). This increase derived from the expansion of the daily output, which came to some 293 000 barrels, as against 260 000 the year before.

This increment was due to the incorporation of new wells and the reconditioning of existing ones in the CEPE-ORIENTE field and to the rise in daily output in the CEPE-CITY field. On the other hand, production fell in the oilfields of the CEPE-TEXACO consortium because, *inter alia*, of a decline in the yield of the wells being exploited.

For its part, the volume of crude petroleum exports grew by only 1%, compared with a 15% increase in 1985. This marked decline, which led to a drop of some US\$900 million in income from crude petroleum exports, was the result of a glut on the world petroleum market and to the price war unleashed among the exporting countries.

The macroeconomic forecasts for 1986 had been made on the basis of a crude oil price equal to that obtained the previous year (US\$25.85 per barrel). Even as early as January, however, the quotation fell below US\$20, and the slide continued during most of the year, reaching a minimum of US\$8.54 in July.

In order to cope with this steady decline, a series of changes were made in the system of fixing crude oil prices. Thus, in February the practice of linking 25 % of the price of Ecuadorian petroleum to the value of the official OPEC type of petroleum and the remaining 75 % to the price of Alaskan North Slope oil was abandoned. The new formula was now pegged to the price of the Alaskan North Slope variety, less US\$1.34 for freight and transport. In April, a third form of calculation was inserted in some sales contracts, namely, the delivery of crude to refining companies for marketing after processing. Under this system, CEPE obtained the value of sales of the resulting output, less an agreed rate for refining, the incentive being that under this procedure ("netback") the sales price of petroleum products declined less than that of crude petroleum.

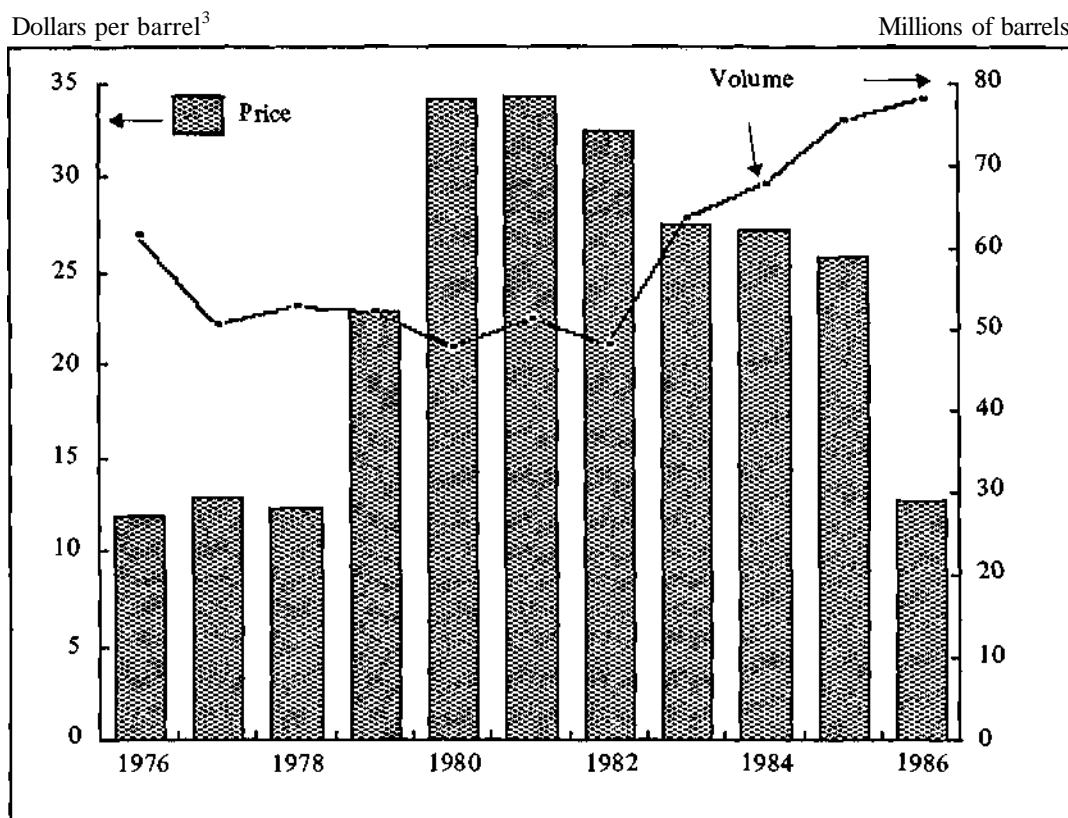
From August onwards, the situation on the international market began to stabilize and in December the price of Ecuadorian crude reached US\$13.64. All in all, the average price per barrel of the oil exported in 1986 was US\$12.69, that is to say, 51% less than in 1985 (see figure 2).

The volume of refined products exported rose spectacularly (38%), amply offsetting the decline of over 20% registered the previous year. This was attributable partly to the increase in output (2%) as well as to smaller domestic demand for electrical energy. For their part, imports of petroleum products shrank by almost 30% to half the 1983 total. Lastly, domestic consumption of petroleum products, which had completely stagnated in 1985, recovered by 3% because the price of these products was maintained during the year and there was an upswing in industrial activity.

The government redoubled its efforts to boost foreign investment in the sector, which had been virtually paralysed in previous years.¹ Thus, in January an exploration contract was signed with a

¹Whereas in 1971 there were 36 companies exploring some 10 million hectares, in 1981 only five of these remained, exploring around 600 thousand hectares and in 1982 only, Texaco and City Investing are still operating. The government which took office at the end of 1984 tried to reverse this situation, and the first step taken was the application in September 1985 of a new hydrocarbons law which eliminated the import taxes on equipment for exploration and extraction.

Figure 2
ECUADOR: EXPORTS OF PETROLEUM AND PETROLEUM PRODUCTS



Source: Central Bank of Ecuador.
aCrude oil export prices FOB.

consortium comprising Conoco, Diamond, Shamrock, Nomeco and Overseas Petroleum Investment Company, providing for the investment of US\$44 million in the exploration of some 200 000 hectares. In order to pave the way for the signing of such agreements, the restrictions which prevented a company from entering into more than one exploration or exploitation contract were lifted. Preliminary steps were also taken for the signing of other contracts, covering 800 000 hectares and involving rather more than US\$100 million, with a number of consortia formed by Tenneco, Pecten Clyde, Unocal, Fred Parks Inc., Petro-Canada, Braspetro, Elf-Aquitaine, Yacimientos Petrolíferos Fiscales Argentinos and Hispanoil. For its part, the State oil company (CEPE) will prospect in another area of 600 000 hectares. It is expected that the total area explored will thus be in the region of 3 million hectares.

iv) *Manufacturing*. The product of this sector recovered by 1%, after the 5% decline accumulated over the previous three years (see table 7). This slight recovery took place despite the persistence of unfavourable factors and the emergence of new ones which could influence its development in the medium term.

The performance of the various branches of manufacturing activity was affected by the policy of making the economy more flexible, which entailed the reduction of tariffs, the freeing of interest rates and the raising of the exchange rate. The performance of industry was also affected by the establishment at the beginning of the year of advance deposits of 100% of the value of imports and of a foreign exchange risk commission.

The production of foodstuffs increased by 1%, but this rate was not enough to offset the 3% decline in 1985 and another even greater one in 1983, with the result that the accumulated overall decline during the last four years came to 6%. Production of beverages and tobacco went down for the second consecutive year, this time by 3%, and this decline, coming on top of the negative performance observed since 1983, resulted in an accumulated drop of 16%. The other industrial activities, except clothing, registered increases of between 1% and 5%, but some of these advances were not enough to compensate for the losses suffered in previous years.

v) *Construction*. This was the sector of activity which experienced the most severe contraction in 1986 (-5%), bringing the accumulated decline in the last four years to nearly 13%. Among the factors behind this decline were the higher interest rates (with the attendant increase in the financial costs of companies); the cutbacks made in public investment programmes because of the loss of income suffered by the State, and, to a lesser extent, the increase in the price of certain inputs. The decline in activity in the sector was reflected in growing unemployment, since construction is one of the most labour-intensive sectors.

vi) *Mining*. There was once again modest growth in the mining product, similar to that of the previous year (1%). In keeping with the strategy of increasing the openness of the economy and promoting exports, private investment (both national and foreign) continued to be encouraged, mainly through the removal of all taxes and duties on imports of capital goods and a 50% reduction in taxes on profits.

In addition, some 300 exploration contracts were signed, most of them with Ecuadorian companies, in order to promote the development of the country's vast and varied mineral resources (gold, silver, copper, iron, zinc, uranium, molybdenum, etc.). The extraction of gold, one of the pillars of mining policy, yielded satisfactory results and the Central Bank began to purchase gold in order to prevent its illegal exportation.

3. The external sector

a) *Merchandise trade*

Income from exports of goods suffered a decline of close to 24%, because the drastic deterioration in the unit value (-26%) could not be cancelled out by the increase of almost 3% in volume. The value of imports of goods also went down (-5%), but in this case the unit value hardly changed whereas the volume dropped by 5% (see table 8).

Mainly as a result of the sharp downturn in the price of petroleum, the terms of trade in goods declined by 26%, bringing the overall decrease to 35% in the last two years. Since the increase in the volume of exports did not offset the deterioration of the terms of trade, the purchasing power of exports of goods plunged by 24% to one of the lowest levels ever recorded.

i) *Exports of goods*. The decline in exports was due to the drop in sales of both commodities and manufactured goods. The slump in the former (-27%), which account for some 85% of total exports, was due basically to the performance of petroleum sales (see table 9).

The volume of crude exported rose slightly (1%) to the record level of 71 million barrels. However, the proceeds from this item dropped by half to only 40% of total export income.

Once the conditions on the international cocoa market returned to normal, exports of this product reached a slightly higher level than at the beginning of the decade. Because of the deterioration of the unit value (-5.5%) and the much greater decline in the volume (-45%), income from cocoa sales plunged by 50%, compared with the increase of almost 600% recorded during the previous two years.

The remaining export commodities evolved positively. Thus, sales of coffee—the second most important export product—rose by more than 55%, thus marking five years of growth and reaching a level three times that of 1981. This vigorous growth was attributable to the considerable increase (31%) in the volume sold, accompanied by a major increment in unit value (19-5%).

The income earned from shrimp sales, for its part, came to account for one-eighth of total export receipts. This extraordinary increase (over 80%) in these receipts derived mainly from the substantial expansion of volume, although the unit value also increased (19%).

Lastly, banana sales also expanded (20%). Thanks to this improvement and to that registered in 1985, which was three times greater, this item became one of the major exports.

The decline observed in exports of manufactures (-9%) affected virtually all its components. Thus, despite the fact that the volume of exports of petroleum products went up by some 40%, their value deteriorated by more than 30%. In turn, receipts from processed cocoa products and from fisheries products declined by 3% and 25%, respectively, in the first case because the fall in unit value was greater than the increase in volume, and in the second because the volume sold plunged by 30%.

To sum up, in 1986 there was vigorous growth in products which until recently had been of little importance in total external sales (see table 10). Among the reasons for this was the fact that the increase in the real effective exchange rate helped to make exports of these products more competitive on international markets.

ii) *Imports of goods.* Purchases of goods abroad increased at less than half of the rate recorded the previous year, and their level continued to be lower than that recorded at the beginning of the decade (see table 11).

The only imports which showed any growth (29%) were those of capital goods, which expanded for the third year in a row (65% in all), so that they surpassed the level reached at the beginning of the decade. The greatest increase was in imports of transport equipment (55%), bringing the total increment to almost 100% during 1984 and 1985. Purchases of equipment for industry, for their part, which had already expanded more than 28% during the previous biennium, again saw vigorous growth (20%). Lastly, purchases of machinery for agriculture, after registering a partial recovery in 1984 and soaring by over 100% in 1985 increased by 7% in 1986.

In contrast, there was a decline in imports of consumer goods, raw materials and intermediate goods. The 2% slide in the first-named came on top of the decline of the three previous years and was due entirely to the slump of close to 9% in purchases of durable goods, for purchases of non-durable consumer goods increased by 9% to their highest value since 1982.

Imports of raw materials and intermediate goods for their part, fell by 12%, thus cancelling out the recovery observed during 1984 and 1985. The only item in which there was growth was construction materials (28%), but this increase, together with the 21% rise registered between 1984 and 1985, still failed to offset completely the great drop of 60% recorded in 1983. The downturn in purchases of raw materials for industry (-6%) was the most significant, as these materials account for 40% of the total value of imports.

Finally, major changes were made in import policy during the year.

Among the most important measures taken between January and July was the adoption of a new tariff system. In order to boost the functioning of the economy and enhance the competitiveness of Ecuadorian products, the authorities reduced the tariff spread by eliminating the unnecessary protection afforded some goods, while increasing the protection of others. Thus, the tariff on raw materials and essential products not produced in the country (Schedule Ia) was reduced from 0-50% to 0-20%, whereas the tariff on goods competing with national products (Schedule Ib) was raised from 0-60% to 20-90%. For their part, import duties on luxury items (Schedule II) and on pharmaceutical products and the raw materials for producing them (Schedule I, special) were reduced from 60-200% to 55-80% and from 0-20% to 0-10%, respectively.

Soon afterwards, with a view to increasing public sector income and reducing excessive liquidity, an advance deposit of 100% of the value of imports was introduced and an exchange risk commission was established ranging in value from 25% to 30%, depending on whether the products in question were included in tariff Schedule Ia or Ib and on the payment period agreed with the supplier. Imports of some vehicles up to a certain engine capacity were also authorized.

The exchange and trade policies were modified during the second part of the year. Thus, under the exchange regulations adopted in August, whereby the foreign transactions of the private sector were completely divorced from those of the public sector, two separate foreign exchange markets were created. At the same time, the exchange risk commission and the prior deposit on imports were eliminated, but authorization from the Central Bank was still required for all imports.

b) *The current account deficit and its financing*

The deficit on current account rose considerably, going from US\$110 million in 1985 to around US\$690 million, which reflected the downward course of both the trade balance and the factor services account (see table 12).

The trade surplus went down by US\$690 million as a result of the trends in trade in goods and, to a lesser extent, transactions of real services. Exports of goods fell much more than imports, so that the merchandise trade surplus was a little over US\$550 million instead of the US\$1.1 billion around which it had fluctuated in 1984-1985. For its part, the traditional imbalance in the trade in real services grew by US\$100 million because of the 9% fall in export receipts and the 11.5% increase in payments made under this heading.

During the year, Ecuador's net payments for factor services came to some US\$960 million. Although this amount represents a decline of US\$115 million compared with 1985, it was equivalent to almost 40% of exports of goods and services. Net interest payments alone came to US\$675 million, which represents 27% of total exports of goods and services and 70% of total petroleum exports.

The capital account, for its part, registered a surplus of some US\$630 million: an amount 4.5 times greater than that of 1985 and attributable *inter alia* to the virtual doubling of official transfers and a 16% increase in direct investment, partly due to the more favourable treatment recently accorded foreign investment. The main cause, however, was the fact that US\$760 million in long-term loans were granted to the government.

As a result of the transactions mentioned above and the figure of some US\$200 million registered by the "errors and omissions" item, the loss of foreign exchange to the country was in excess of US\$50 million. The net reserves of the Central Bank fell to US\$145 million, in sharp contrast with the almost US\$860 which it held in 1980.

c) *The external debt*

The total outstanding external debt came to US\$8 160 million, which represented an annual increase of US\$720 million: the greatest since 1981. The total amount paid out for debt servicing was some US\$1 000 million, of which US\$300 million constituted payments of principal: 30% more than the previous year. The remaining US\$700 million were disbursed under the head of interest payments, which decreased by some 10% (see table 13).

The total external debt was easily three times the total value of exports of goods and services, and the relevant coefficient therefore reached its highest level since the beginning of the decade.

As a result of the increase in amortization payments and the decline in external sales, the debt/exports of goods and services ratio went up from around 30% in 1985 to almost 40%. On the other hand, as a result of the decline in international interest rates, the ratio of interest payments to exports of goods and services changed only slightly, standing at 27%.

As debt servicing remained virtually unchanged and the new loans received increased by US\$270 million to over US\$2 billion, the ratio of these two variables fell for the second consecutive year, this time from 56% to 49%.

On the other hand, as the external debt continued to be serviced during the year and yet at the same time it was necessary to reduce the balance-of-payments disequilibrium caused by the slump in exports, the government was faced with the need to secure additional financial resources. Consequently, in May it obtained credit from the United States government in the amount of US\$150 million to compensate for the drop in the price of petroleum. At the same time, the World Bank granted a loan for a further US\$145 million.

The government also signed an agreement with the International Monetary Fund which enabled it to obtain a stand-by credit for around US\$75 million as well as another credit of some US\$40 million to compensate for the decline in the price of crude. The Andean Reserve Fund, for its part, granted Ecuador resources in the amount of US\$170 million over a period of four years. Lastly, the country received a further US\$200 million from a syndicated loan granted by its main creditors at 1.5% over LIBOR or 1% over the prime rate. The granting of these loans led to the view in various circles that Ecuador had been one of the first beneficiaries of the Baker Plan.

Before the end of the year, the government adopted an initial external debt capitalization plan along the lines of those applied in other countries of the region, so that creditors could convert their credits into equity. However, the plan was quickly abandoned and replaced by another which came into effect at the beginning of 1987.

d) *Exchange and foreign trade policy*

With a view to promoting exports, especially non-traditional ones, and to discouraging imports by, *inter alia*, eliminating under-invoicing or over-invoicing, the official and intervention foreign exchange markets had been unified at the end of the previous year. The official exchange rate rose by around 42%, and all public and private transactions relating to exports and imports, debt servicing, credit disbursements, capital repatriation and remittance of profits abroad had to be carried out on the intervention market.

During the first half of 1986, the main principles of the policy established the previous November were followed on the whole. The official exchange rate for buyers was maintained at 95 sucres per dollar. In January, however, the intervention market rate was raised yet again, this time by 14%, so that the sucre/dollar ratio rose to 108.5 for buyers and 110 for sellers. The purpose of this measure was not only to promote exports and restrict imports but also —what was much more, important at that time— to reduce the imbalance that the drop in the international price of petroleum would create in the public sector accounts and in the balance of payments.

During the year, the price of petroleum continued to slide and it became increasingly difficult to service the external debt and at the same time import the most essential items.

Furthermore, the price of the dollar on the parallel market was gradually increasing. Speculation against the sucre forced the dollar value up by around 30% between January and July, creating signs of instability on the exchange market.

In view of this situation, in August the authorities modified the exchange rate policy by creating two transaction areas. The first —consisting of the intervention market of the Central Bank— would deal only with the public sector's foreign trade operations. In other words, that market sold foreign exchange only for government imports, servicing of the public external debt and other services essential to the State. The foreign exchange on this market would come from petroleum exports and from the disbursement of the external loans secured by the government. At the same time, as a result of an increase of some 35%, the sucre/dollar ratio was fixed at 146 and 147 sucres for buyers and sellers respectively. The government also decided to allow the currency to float, in order to keep the exchange rate in line with the free market rate.

In the second market, made up of the private banks and the exchange houses, only purchases and sales of foreign exchange for the private sector were transacted. The value of the United States dollar was left to be determined by the free interaction of supply and demand, and exporters were obliged to convert the foreign assets proceeding from their operations into sucres. As from July there was a reversal of the upward trend observed in this area, and this became more marked with the application of the new exchange policy. Consequently, in December 1986 the value of the dollar was only 15% more than at the same time in 1985.

The object of creating these two areas was fundamentally to make the market in public sector assets independent of that of the private sector, thus placing the State in a better position to pay for its own imports and service the external debt. For its part, the permission given to the private sector to liquidate its foreign exchange at the parallel market exchange rate increased the profitability of exports, although importers, on the other hand, had to face an initial increase in the price of their purchases abroad expressed in sucres.

The exchange reform did not modify the designated official exchange rate, the value of which remained unchanged throughout the year at 95 sucres per dollar. However, this rate is used purely for accounting purposes by the Central Bank.

Finally, because of the increases in the nominal exchange rate already indicated and the modest rate of price increases, the average variations in the real effective exchange rate indexes for exports and imports were 2% and 12%, respectively. This contrasted with the upward trend of export prices and the lowering of import prices observed in 1985 (see table 14).

4. Prices and wages

a) *Trends in prices*

The variation between annual averages of the consumer price index was 23%, compared with 28% the previous year, due fundamentally to the slowing down of the increases in food prices (31% to 23%), thanks to the excellent crop yields, especially in respect of products intended for the domestic market. However, the year closed with a 12-month variation which, at 27% was higher than that observed for December 1984-December 1985.

The prices of foodstuffs and beverages increased by a similar percentage to that of the overall index. On the other hand, in December the prices of housing services showed a 12-month variation which was almost double that of 1985, while clothing increased by 34.5% compared with 24.5% one year before.

During the first half of the year there was a definite downward trend in the consumer price index, especially from February onwards (see figure 3). The prices of foodstuffs followed a similar course and even fell in absolute terms in May and June. The general index began to rise again in August, and this tendency was especially marked during the period from August to October, but subsequently it slowed down (see table 15 and figure 3).

Generally speaking, it is likely that the price increases were connected with some of the measures adopted during the year. Thus, the increases during the early months of the year were probably influenced by the devaluations at the end of 1985 and in January 1986, plus the creation of the exchange risk commission and the introduction of the prior deposit for imports. The increases in the charges made for certain public services (domestic air transport, electricity, water and telephone installations) must also have contributed to this.

The resurgence of inflation in August and subsequent months, for its part, is traceable to the freeing of interest rates and the transfer of all private imports to the intervention market. To some extent, however, this effect must have been offset by the tariff reductions adopted during the year.

b) *Wages*

The minimum living wage (8 500 sucres per month), which had been in effect since the beginning of 1985, was raised to 10 000 sucres in January and to 12 000 as from August. Its annual average was therefore slightly more than 10 800 sucres, which represented a nominal increase of 30% and an increase of 7.5% in real terms. Even so, it failed to offset the sharp falls suffered in the previous four years, which taken together came to around 33% (see table 16).

The minimum wages of the other wage-earners, measured in constant values, also improved. The greatest increases were registered by craft workers (10.5%), wage-earners in the Sierra region (13%) and workers in small-scale industry (15%). The real minimum wages of agricultural workers in the coastal and Oriente regions and of domestic servants also rose but by smaller amounts (5.5% and 8%, respectively). In none of these cases did the rises make up for the sharp decline in real wages during the previous years.

If the premiums and bonuses also received are taken into account, the average minimum living wage came to somewhat more than 17 000 sucres per month. In nominal terms, this represented an increase of almost 28%, but in constant-value currency it amounted in fact to only 4%, so that there was no real recovery from the losses accumulated in previous years.

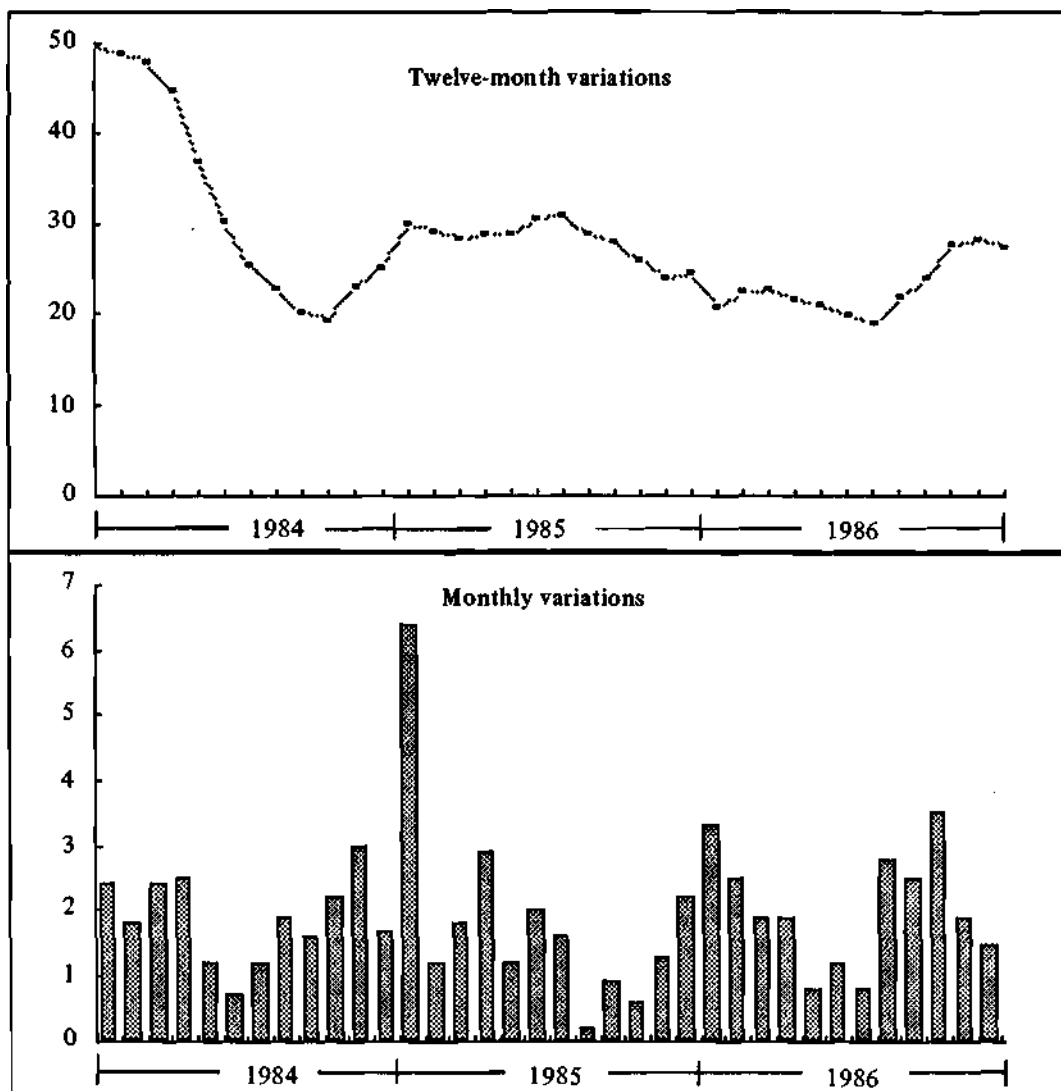
5. Monetary and fiscal policies

a) *Monetary developments*

As in the previous year, the monetary policy sought to prevent the existing liquidity from increasing inflation, to maintain the restrictions on the public sector's access to credit from the Central Bank, to reduce the private banking system's dependence on the issuing agency.

Thus, the growth rate of the money supply in the strictest sense of the term (M_1) slackened once again falling to 20%, compared with 25% in 1985 and 42% in 1984. As quasi-money increased by

Figure 3
ECUADOR: CONSUMER PRICE INDEX
 (Percentages)



Source: ECLAC, on the basis of official information.

30%, the expanded money supply (M_2) increased somewhat more than 25%. The monetary base, for its part, grew by 37% (see table 17).

Among the main changes in the factors of expansion of the money supply was the decline in foreign assets monetized by the Central Bank, this phenomenon being due to the loss of income suffered by the government on account of the slump in petroleum prices. Moreover, the growth rate of domestic credit slackened to 17% after having risen to 49% and 42% in 1984 and 1985, respectively. This performance was attributable to a further contraction in the amount of funds received by the public sector and to the smaller supply of credit granted to the private sector.

For the third consecutive year, the net credit received by the central government showed a negative balance. The resources procured by the rest of the public sector followed a relatively similar course. Conversely, the credit received by other agents increased (16%), although at a lower rate than

in 1985 (25%). A similar situation occurred with the private financing entities, which increased their financial resources by only 12%, compared with annual average expansion of 190% during the two-year period 1983-1984.

The slackening in the rate of nominal variation of the main monetary aggregates and in price increases meant that in real terms the amount of money was only just enough to meet the needs of the economy. This was evident to some extent in the performance of interest rates. At the end of the year, the effective interest rate on credit operations on the whole was 26%, or three percentage points higher than in 1985; for their part, the rates paid by banks on savings and time deposits increased from 20-22% to 21-27% in 1986. Notwithstanding these increases, interest rates continued to be negative in real terms (see table 18).

The measures adopted in this area sought to consolidate the reforms introduced the previous year. Thus, in January the establishment of readjustable interest rates for loan and deposit operations of the financial system with a minimum term of two years was approved and the minimum value of accumulation policies was reduced to 750 000 sucres.² The most radical measure was taken in August, when in order to stimulate saving in national currency and to reduce the financial system's dependence on the Central Bank, all interest rates were completely freed. The object of this decision was to permit the market to determine the price of money and to offer private savers other options besides the US dollar.

The freeing of interest rates occurred at the same time as the division of the foreign exchange market into two areas. As was originally hoped, the rise in the dollar quotation on the parallel market slackened while the average value of nominal interest rates paid annually on the accumulation policies increased. In any event, the credits to the private sector that were rediscounted in the Central Bank at preferential interest rates continued in effect.

During the year, the minimum reserve rate was changed several times, in order to regulate the surplus liquidity and the corresponding pressure on the foreign exchange market. At the end of 1986, the reserve rate for demand deposits in private banks was set at 27%, two percentage points above the rate for December the year before.

Lastly, alongside the other decisions aimed at further liberalizing the monetary system without interfering with the Central Bank's supervisory duty, special rediscount lines were created in some cases and expanded in others, particularly in order to give support to the agricultural sector.

b) *Government income and expenditure*

The public sector budget had for long been based on petroleum income, which in 1985 accounted for 60% of net revenue (see table 19). The sudden decline in the price of crude therefore drastically affected the public income and expenditure programmes and made the management of the fiscal variables one of the most conflictive aspects of economic policy.

The net current income of the State fell by almost 2% in nominal terms, after the 90% increase recorded in 1985 and the 65% rise registered in 1984, and as a proportion of the domestic product it dropped from 17% to 14%. In turn, the income from petroleum took a spectacular downward turn (-35%), after a period of continued rapid growth. The decline affected with equal force both the tax and non-tax income from petroleum. However, it was traditionally the latter which constituted the largest source of income, and despite such a sharp fall they continued to represent more than 95% of total earnings from crude.

²Through the creation in March 1985 of a new kind of financial asset known as special accumulation policies, sold in minimum amounts of one million sucres and yielding readjustable interest rates, the government sought to channel the resources negotiated in the non-banking market to the banking system. Besides encouraging saving, this enabled greater control to be exercised over the monetary variables and at the same time made it more difficult to divert the resources in question towards the parallel external assets market.

These policies sold well on the capital market, and at the end of 1985 the funds obtained by the banks represented approximately a quarter of the money supply. The majority of these funds were, however, placed on short-term deposit (less than nine months) and the annual yield—which declined during the year—fluctuated in nominal terms between 24% for three to four-month policies and 21% for policies of over one year.

These losses were partly offset by the performance of non-petroleum income and, to a much lesser extent, by the developments in capital income. The former expanded by around 55% in nominal terms (equivalent to approximately half this in real terms). Thanks to this increase, its share in net current income climbed from 40% in 1985 to nearly 65%.

The greatest increases were recorded in income from direct and indirect taxation. The changes made in the income tax scale were reflected in the 47% increment recorded in revenue from direct taxation, while the upsurge of 77% in indirect taxes was attributable to the increase in the sales tax. Revenue from taxes on foreign trade, however, grew less than the previous year (39%).

The corrections made during the year in order to bring expenditure into line with income meant that the former grew by only 3% in real terms and increased only slightly as a percentage of the product. A similar trend was observed in current and capital disbursements. The former increased by about 20%, as against 53% one year before, while the latter rose by about 40%, whereas in 1985 they had expanded by 55%. As a percentage of the product, current expenditure increased more than capital outlays.

The overall result was that the State budget turned in a deficit of some 38 billion sucres, in contrast with the surplus of close to 12 billion sucres registered in 1985. There was thus a resurgence of the trend towards an imbalance which had appeared in 1981 and had only been interrupted during 1985, and the surplus GDP ratio of 2% registered in that year became a deficit or almost equal value in 1986.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
A. Basic economic indicators							
Gross domestic product at market prices	100.0	103.8	104.9	103.6	108.6	113.9	117.4
Population (thousands of inhabitants)	8 123	8 361	8 606	8 857	9 115	9 378	9 647
Per capita gross domestic product	100.0	100.9	99.1	95.1	96.8	98.7	98.9
Growth rates							
B. Short-term economic indicators							
Gross domestic product	4.2	3.8	1.1	-1.2	4.8	4.9	3.0
Per capita gross domestic product	1.3	0.9	-1.7	-4.0	1.8	2.0	0.2
Gross national income	4.5	2.1	-1.5	-3.4	4.6	3.0	-3.2
Per capita gross national income	1.5	-0.8	-4.3	-6.2	1.6	0.1	-5.9
Unemployment rate				13.5	10.6	10.4	12.0
Consumer prices							
December to December	14.5	17.2	24.4	52.5	25.1	24.4	27.3
Variation between annual averages	13.0	16.0	16.3	48.4	31.2	28.0	23.0
Real minimum wage		-13.8	-8.2	-12.5	0.3	0.8	3.7
Money (M.)'	28.0	11.7	20.2	30.4	42.2	23.8	20.1
Net current income of government	62.7	4.6	17.0	30.8	65.9	89.7	-1.4
Total expenditure of government		28.0	18.7	12.5	45.4	53.3	31.5
Fiscal deficit/total expenditure of government	20.2	34.7	-35.7	14.6	14.6	6.5'	16.3
Fiscal deficit/gross domestic product	14	4.8	4.3	2.5	0.8	2.0'	2.2
Current value of exports of goods and services	18.9	1.6	-7.7	-1.7	9.5	11.7	-22.3
Current value of imports of goods and services	10.2	6.8	-7.4	-34.1	12.2	6.0	-1.3
Terms of trade (goods)	5.6	-0.4	-1.7	-17.4	13.8	-9.7	-26.1
Terms of trade (goods and services)	5.1	-0.3	-3.1	-16.3	9.7	-7.1	-26.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-59	-210	-203	735	755	966	275
Net payments of profits and interest	614	816	1 012	863	1 023	1 076	962
Balance on current account	-673	-1 027	-1 215	-128	-268	-110	-687
Balance on capital account	943	657	875	238	187	136	635
Variation in net international reserves	291	-381	-328	127	-58		-52
Total external debt	4 652	5 868	6 186	6 690	6 949	7 440	8 160

Source: ECLAC, on the basis of official figures.

"Provisional figures. 'Including various allowances and bonuses. ' From December to December.

Percentages. ^Fiscal surplus. ^End-year balances, excluding the debt with the international Monetary Fund.

Table 2

ECUADOR: TOTAL SUPPLY AND DEMAND"

	Indexes (1980= 100)				Percentage breakdown		Growth rates			
	1983	1984	1985	1986*	1980	1986*	1983	1984	1985	1986*
Total supply	95.0	102.3	106.5	108.8	124.9	115.9	-8.9	7.7	4.2	2.2
Gross domestic product at market prices	103.6	108.6	113.9	117.4	100.0	100.0	-1.2	4.8	4.9	3.0
Imports of goods and services	60.2	77.0	77.0	74.6	24.9	15.9	-40.7	27.8	-	-3.0
Total demand	95.0	102.3	106.5	108.8	124.9	115.9	-8.9	7.7	4.2	2.2
Domestic demand	92.5	98.0	99.4	100.9	100.5	86.4	-12.2	6.0	14	1.6
Gross domestic investment	67.0	66.1	70.1	70.9	26.1	15.8	-31.2	-1.4	6.1	1.2
Gross fixed investment	69.0	65.9	70.2	72.5	23.6	14.6	-26.1	-4.5	6.6	3.2
Construction	85.9	75.2	76.6		12.6		-12.5	-12.4	1.8	
Machinery and equipment	49.7	55.2	63.0		11.0		-43.5	11.0	14.1	
Changes in stocks	48.7	68.2	69.1	56.2	2.5	12				
Total consumption	101.4	109.2	109.6	111.5	74.4	70.6	-6.2	7.7	0.4	1.7
General government	96.7	93.2	89.1	88.4	14.5	10.9	-6.1	-3.6	-4.4	-0.8
Private	102.5	113.1	114.6	117.1	59.9	59.7	-6.3	10.3	1.3	2.1
Exports of goods and services	105.4	119.8	136.0	141.4	24.4	29.4	5.6	13.7	13.5	4.0

Source: ECLAC, on the basis of figures supplied by the Central Bank of Ecuador.

"These series are calculated on the basis of official figures, re-weighted with the structure at current 1980 prices. Consequently, the results obtained do not necessarily coincide with those published by the countries in their calculations at constant prices. Likewise, the figures for exports and imports of goods and services were taken from IMF balance-of-payments figures in current dollars, converted to constant 1980 values using unit value indexes calculated by ECLAC for the purpose. Preliminary figures.

Table 3

**ECUADOR: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY"**

	Indexes (1980= 100)				Percentage breakdown		Growth rates			
	1983	1984	1985	1986*	1980	1986*	1983	1984	1985	1986*
Gross domestic product	103.6	108.6	113.9	117.4	100.0	100.0	-1.2	4.8	4.9	3.0
Goods	109.4	115.5	122.9	127.2	49.4	53.5	2.5	5.6	6.3	3.5
Agriculture	93.8	103.8	113.4	122.3	12.1	12.6	-13.9	10.6	9.3	7.8
Mining and petroleum industry'	121.1	132.2	143.4	150.5	21.0	26.9	16.6	9.1	8.5	4.9
Manufacturing	113.3	109.1	108.5	107.8	8.8	8.1	1.5	-3.7	-0.5	-0.7
Construction	97.4	95.3	97.2	92.4	7.4	5.8	-7.6	-2.2	1.9	-4.9
Basic services	106.9	114.0	119.2	128.2	8.7	9.5	-	6.7	4.6	7.5
Electricity, gas and water	127.9	164.7	172.7	189.2	0.8	1.3	14.9	28.8	4.9	9.6
Transport, storage and communications	104.7	108.7	113.6	121.8	7.9	8.2	-1.6	3.8	4.5	7.2
Other services	102.6	103.0	105.7	107.0	40.9	37.3	-2.5	0.3	2.7	1.2
Commerce	90.9	94.7	99.1	100.1	14.6	12.4	-11.8	4.1	4.7	1.0
Financial institutions, insurance, real estate and business services	107.4	100.7	103.4	104.9	11.7	10.4	2.1	-6.2	2.7	1.4
Ownership of dwellings	109.7	113.0	116.1	117.7	4.8	4.8	2.8	3.0	2.8	1.4
Community, social and personal services	110.5	113.0	114.2	115.7	14.6	14.4	2.8	2.3	1.0	1.4
Government services	105.7	107.8	108.8	109.9	9.1	8.5	1.9	2.0	0.9	1.0
Adjustments										
Less: imputed charges for banking services	123.0	89.6	92.8	92.8	3.0	2.4	15.9	-27.2	3.6	-0.1
Plus: import duties	51.4	54.9	60.2	60.7	4.1	2.1	-32.9	6.7	9.8	0.7

Source: ECLAC, on the basis of official figures supplied by the Central Bank of Ecuador.

"These series are calculated on the basis of official figures, re-weighted with the structure at current 1980 prices. Consequently, the results obtained do not necessarily coincide with those published by the countries in their calculations at constant prices. Preliminary figures. ' Petroleum refining has been included in the petroleum industry and excluded from manufacturing.

Table 4

ECUADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1983	1984	1985	1986°	Growth rates			
					1983	1984	1985	1986°
Millions of sucres at 1975 prices								
Agricultural product	19 891	21 645	22 687	23 680	-13.9	8.8	4.8	4.4
Crop farming	8 175	9 233	9 421	9 843	-27.8	12.9	2.1	4.5
Livestock production	8 043	8 413	8 746	9 017	-	4.6	4.0	3.1
Forestry	1 724	1 659	1 688	1 705	-0.9	-3.8	1.7	1.0
Fishing and hunting	1 949	2 340	2 832	3 115	-2.5	20.1	21.0	10.0
Production (thousands of tons)								
Main products								
Bananas	1 648	1 678	1 970	2 100	-17.8	2.2	17.4	6.6
Coffee	81	97	121	118	-3.6	19.7	24.7	-2.5
Cocoa	45	49	131	112	-53.6	8.8	167.3	-14.5
Sugar-cane	2 626	3 042	2 694	3 000	6.7	15.8	-11.4	11.4
Cotton	4	8	19	37	-84.0	100.0	137.5	94.7
Soya	14	47	63	80	-62.2	235.7	34.0	26.9
African palm	354	372	458	490	14.6	5.1	23.1	6.9
Rice	273	437	397	510	-28.9	60.1	-9.2	28.5
Wheat	27	25	18	23	-30.7	-7.4	-28.0	27.7
Hard maize	185	269	300	328	-31.2	45.4	11.5	9.3
Soft maize	44	57	72	55	-20.0	29.5	26.3	-23.6
Barley	30	25	27	41	-14.3	-16.6	8.0	51.8
Potatoes	314	390	423	505	-24.5	24.2	8.5	19.4
Primary products								
Beef	97	99	94	97	1.0	2.1	-5.1	3.2
Poultry meat	30	42	41	43	-34.8	40.0	-2.4	4.8
Milk (millions of litres)	965	1 019	1 233		3.2	5.6	21.0	
Area harvested (thousands of hectares)								
Main products								
Bananas	59	61	65	72	-9.2	3.4	6.5	10.7
Coffee	339	345	427	427	5.3	1.7	23.7	-
Cocoa	270	265	287	263	-2.5	-1.8	8.3	-8.4
Sugar cane	22	37	41	41	-31.3	68.2	10.8	-
Cotton	10	10	17	23	-41.2	-	70.0	35.3
Soya	10	28	35	46	-52.4	179.9	25.0	31.4
African palm	29	29	34	38	7.4	-	17.2	11.7
Rice	95	139	150	158	-28.0	46.3	7.9	5.3
Wheat	26	24	18	20	-21.2	-7.7	-24.9	11.1
Hard maize	145	183	180	181	-6.5	26.2	-1.6	0.5
Soft maize	61	62	75	61	-	1.6	20.9	-18.6
Barley	30	31	29	36	-11.7	3.3	-6.5	24.1
Potatoes	27	33	37	38	-22.8	22.2	12.1	2.7
Total	1 123	1 247	1 395	1 404				

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador, the Ministry of Agriculture and the National Development Council.

°Preliminary figures.

Table 5

ECUADOR: INDICATORS OF FISHERY PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Millions of sucres at 1975 prices								
Gross fishery product	1 949	2 340	2 832	3 115	-2.5	20.1	21.0	9.9
Thousands of tons								
Catch								
Shrimps	36.6	39.9	35.0	37.5	24.1	9.0	-12.3	7.1
Tunnyfish	16.0	35.0	30.0	29.4	-27.9	118.8	-14.3	-2.0
Other fish	230.0	780.2	880.0		-61.4	239.2	12.8	
Exports								
Shrimps	21.6	21.3	19.7	26.0	30.9	-1.4	-7.5	31.9
Frozen fish	5.1	7.8	10.7	20.0	-21.5	52.9	37.2	86.9
Canned fish	13.2	32.7	49.3		-61.9	147.7	50.7	
Fish meal	26.6	97.5	2299	204.0	-73.2	266.5	135.8	-11.3

Source: CONADE, Department of Fisheries, and Central Bank of Ecuador.

" Preliminary figures. Includes fishing and hunting.

Table 6

ECUADOR: INDICATORS OF THE PETROLEUM INDUSTRY

	Thousands of barrels				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Crude oil								
Production	86 691	93 880	102 534	106 600	12.5	8.3	9.2	4.0
Exports	59 303	61 346	70 579	71 416	38.9	3.4	15.0	1.2
Refined products								
Production of petroleum products	27 021	32 225	31 022	31 600	-17.6	19.3	-3.7	1.8
Exports of petroleum products	4 111	6 244	4 844	6 676	-23.0	51.8	-22.4	37.8
Imports of petroleum products	6 898	4 249	4 855	3 500	23.8	-38.4	14.3	-27.8
Consumption of petroleum products	27 741	29 861	30 036	30 117	-8.5	7.6	0.6	2.7
Gasoline	9 512	10 004	10 054	10 350	-13.3	5.2	0.5	2.9
Others	18 229	19 857	19 982	19 767	-5.8	8.9	0.6	-1.1

Source: Central Bank of Ecuador.

"Preliminary figures.

Table 7

ECUADOR: GROSS MANUFACTURING PRODUCT

	Millions of sucres at 1975 prices				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Manufacturing	29 183	28 646	28 120	28 373	-1.4	-1.8	-1.8	0.9
Food	8 272	8 388	8 158	8 257	-6.0	1.4	-2.7	1.2
Beverages and tobacco	3 246	3 273	3 064	2 974	-7.5	0.8	-6.4	-2.9
Textiles, clothing and leather goods	6 752	6 676	6 770	6 736	3.3	-1.1	1.4	-0.5
Wood and wood products	1 614	1 563	1 484	1 499	2.2	-3.2	-5.1	1.0
Paper and printed matter	1 803	1 768	1 799	1 852	-3.9	-1.9	1.8	3.0
Chemical and rubber products	1 970	1 899	1 912	1 952	8.6	-3.6	0.7	2.1
Basic metal and non-metallic products	3 563	3 171	3 051	3 127	-2.9	-11.0	-3.8	2.5
Machinery, equipment and transport material	932	803	750	1 976	0.6	-13.8	-6.6	4.9
Other manufactures	1 031	1 105	1 132		19.2	7.2	2.4	

Source: Central Bank of Ecuador.

"Preliminary figures. Excludes oil refining.

Table 8

ECUADOR: MAIN INDICATORS OF FOREIGN TRADE

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports of goods							
Value	17.2	0.3	-7.9	0.9	11.7	9.5	-23.8
Volume	-3.7	2.6	-1.9	8.9	15.5	13.3	2.7
Unit value	21.7	-2.3	-6.1	-7.3	-3.3	-3.4	-25.8
Imports of goods							
Value	6.9	5.3	-7.6	-35.4	11.3	10.0	-5.3
Volume	-7.8	8.5	-2.9	-42.7	34.7	1.7	-5.8
Unit value	15.9	-2.9	-4.9	12.7	-17.4	8.2	0.4
Terms of trade (goods)	5.6	-0.4	-1.7	-17.4	13.8	-9.7	-26.1
Indexes (1980 = 100)							
Purchasing power of exports of goods	100.0	102.2	98.6	88.7	116.5	119.3	90.5
Purchasing power of exports of goods and services	100.0	101.7	96.3	85.1	106.3	112.0	85.5
Indexes of volume							
Exports of goods	100.0	102.6	100.7	109.6	126.6	143.4	147.3
Imports of goods	100.0	108.5	105.3	60.4	81.3	82.6	77.9
Terms of trade (goods)	100.0	99.6	97.9	80.9	92.0	83.1	61.4

Source: ECLAC, on the basis of official information.

"Preliminary figures.

Table 9
ECUADOR: EXPORTS OF GOODS, FOB

	Millions of dollar;				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	2 348	2 622	2 905	2 186	100.0	100.0	0.9	11.7	10.8	-24.7
Primary products	2 149	2 277	2 566	1 878	76.2	85.9	9.6	5.9	12.7	-26.8
Petroleum	1 639	1 679	1 825	912	56.1	41.7	18.1	2.4	8.7	-50.0
Coffee	149	175	191	299	5.3	13.6	7.1	17.5	9.2	56.5
Shrimps	175	160	157	288	2.3	13.2	43.1	-8.6	-1.9	83.4
Bananas	153	136	220	263	9.6	12.0	-28.3	-11.1	61.7	19.5
Cocoa	8	96	138	71	1.2	3.2	-86.7	1100.0	43.7	-48.5
Others	25	31	35	45	1.7	2.0	-27.4	24.0	12.9	28.6
Manufactured products	199	344	339	308	23.8	14.1	-45.7	72.9	-1.5	-9.1
Petroleum products	94	156	102	70	6.8	3.2	-22.0	65.9	-34.6	-31.4
Processed marine products	28	64	97	73	3.6	3.3	-66.7	128.6	51.6	-24.7
Processed cocoa products	26	50	79	77	7.3	3.5	-52.8	42.3	58.0	-2.5
Others	51	74	61	88	6.1	4.0	-52.6	45.1	-17.6	44.3

Source: Central Bank of Ecuador.

"Preliminary figures. Includes fish meal and other products.

Table 10
ECUADOR: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
Petroleum	59.3	61.3	70.6	71.4	38.8	3.4	15.2	1.1
Coffee	75.0	72.0	78.3	102.7	15	-4.0	8.7	31.2
Bananas	910.0	924.0	1 278.2	1 399.6	-27.8	15	38.3	9.5
Cocoa	6.0	46.9	70.4	38.3	-86.0	681.6	50.1	-45.6
Shrimps	21.6	21.3	20.0	31.1	30.9	-1.4	-6.1	55.5
Processed cocoa products	27.0	28.4	34.1	35.4	-43.7	5.2	20.1	3.8
Petroleum products	4.1	6.2	4.8	6.7	-22.6	51.2	-22.6	39.6
Processed marine products	39.8	130.2	284.0	198.8	-70.3	227.1	118.1	-30.0

Source: Central Bank of Ecuador.

"Preliminary figures. Millions of barrels.

Table 11

ECUADOR: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	1 421	1 567	1611	1632	100.0	100.0	-35.0	10.3	2.8	1.3
Consumer goods	260	306	223	219	18.2	13.8	-43.1	17.7	-27.1	-1.8
Non-durable	52	76	85	93	4.6	5.3	-39.5	46.2	11.8	9.4
Durable	208	230	138	126	13.5	8.5	-43.9	10.6	-40.0	-8.7
Raw materials and intermediate goods	827	889	921	810	42.6	57.2	-18.7	7.5	3.6	-12.1
For agriculture	36	54	64	54	2.0	3.9	-20.0	50.0	18.5	-15.6
For industry	490	654	660	624	27.5	40.9	-26.5	33.5	0.9	-5.5
For construction	32	37	39	50	4.2	2.4	-59.5	15.6	5.4	28.2
Fuels and lubricants	269	144	158	82	8.9	9.8	19.0	-46.5	9.7	-48.1
Capital goods	334	372	467	603	39.2	28.9	-53.2	11.4	25.5	29.1
For agriculture	9	14	29	31	1.2	1.8	-68.9	55.5	107.1	6.9
For industry	237	246	307	369	21.7	19.1	-45.4	3.8	24.8	20.2
Transport equipment	88	112	131	203	16.3	8.1	-64.8	27.3	16.9	54.9

Source: Central Bank of Ecuador.

"Preliminary figures.

Table 12

ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986 ^o
Balance on current account	-673	-1 027	-1 215	-128	-268	-110	-687
Trade balance	-59	-210	-203	735	755	966	275
Exports of goods and services	2 866	2 913	2 690	2 643	2 895	3 234	2 514
Goods FOB	2 520	2 527	2 327	2 348	2 622	2 870	2 186
Real services	346	386	363	295	273	364	328
Transport and insurance	136	168	139	112	95	144	110
Travel	131	131	131	120	120	143	133
Imports of goods and services	2 925	3 124	2 893	1 908	2 140	2 268	2 239
Goods FOB	2 242	2 362	2 181	1 408	1 567	1 723	1 631
Real services	683	762	712	500	573	545	608
Transport and insurance	328	368	320	238	296	241	228
Travel	228	250	250	152	155	167	210
Factor services	-614	-816	-1 012	-863	-1 023	-1 076	-962
Profits	-111	-100	-80	-60	-70	-120	-151
Interest received	109	87	44	45	77	26	103
Interest paid	-523	-709	-811	-723	-889	-872	-777
Others	-89	-94	-165	-125	-141	-110	-137
Unrequited private transfer payments	-	-	-	-	-	-	-
Balance on capital account	943	657	875	238	187	136	635
Unrequited official transfer payments	30	25	20	24	20	25	45
Long-term capital	763	1 077	164	1 372	358	479	
Direct investment (net)	70	60	40	50	50	60	70
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	693	1 017	124	1 322	308	419	
Official sector ¹	609	898	-245	2 265	879	499	757
Loans received	795	1 283	213	2 641	1 531	1 731	2 004
Amortization payments	-176	-378	-442	-363	-643	-1 232	-1 247
Commercial banks ²	5	2	-	-7	-9	-	-38
Loans received	8	7	8	-	1	-	18
Amortization payments	-1	-1	-1	-1	-1	-	-56
Other sectors ³	79	117	369	-936	-562	-80	
Loans received	496	462	1 112	150	78	22	
Amortization payments	-416	-345	-742	-1 085	-639	-102	
Short-term capital (net)	217	-360	919	-1 073	-200	-283	
Official sector	-30	1	572	-520	-95	-	
Commercial banks	-17	-5	50	7	34	-	
Other sectors	264	-356	297	-560	-139	-283	
Errors and omissions (net)	-68	-85	-228	-85	9	-85	-199
Global balance	270	-370	-340	110	-81	26	-52
Total variation in reserves (- sign indicates an increase)	-291	-381	328	-127	58		52
Monetary gold	-	-	-	-	-	-	
Special Drawing Rights	1	-9	34	-	-		
IMF reserve position	-15	-1	29	-12	12		
Foreign exchange assets	-277	391	266	-328	21		
Other assets	-	-	-	-	-	-	
Use made of IMF credit	-	-	-	213	25		

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

¹Preliminary figures subject to revision.

²Includes other non-factor services.

³Includes net loans granted and other

assets and liabilities.

⁴Equals the total variation in reserves (of opposite sign), plus counterpart items.

Table 13

ECUADOR: EXTERNAL DEBT

	1980	1981	1982	1983	1984	1985	1986 ^m	1981	1982	1983	1984	1985	1986 ^o
	Millions of dollars							Annual growth rates					
A. Total external debt ⁿ	4 652	5 868	6 186	6 690	6 949	7 440	8 160	26.2	5.4	8.2	3.8	7.1	9.7
Medium and long-term	4 167	5 272	5 365	6 690	6 949	7 440		26.8	1.8	24.7	3.8	7.1	
Short-term	495	596	821	-	-	-		20.4	37.7	-	-	-	
Public ^r	3 530	4 416	4 558	6 021	6 772	7 343	8 100	25.1	3.2	32.1	12.5	8.4	10.3
Private ^r	1 122	1 452	1 629	670	177	97	60	29.4	12.2	-58.8	-73.6	-45.2	-38.2
B. Total debt service	1 409	2 139	2 652	2 965	2 144	2 095	2 001	51.8	23.9	11.8	-27.7	-2.3	-4.5
Principal	898	1 513	1 885	2 254	1 309	1 333	1 304	68.5	24.6	19.6	-41.9	1.8	-2.2
Refinanced	-	-	667	2 016	1 098	1 101	1 004	-	-	202.3	-45.5	0.3	-8.8
Effective	898	1 513	1 218	238	211	233	300	68.5	-19.5	-80.5	-11.3	10.4	28.7
Interest	511	626	767	711	835	762	697	22.5	22.5	-7.3	17.4	-8.7	-8.5
Refinanced	-	-	-	44	16	-	-	-	-	-	-63.6	-	-
Effective	511	626	767	667	819	762	697	22.5	22.5	-13.0	22.8	-6.9	-8.5
C. Total disbursements ⁿ	1 950	2 768	2 245	2 801	1 610	1 753	2 022	41.9	-18.9	24.7	-42.5	8.9	15.4
	Percentages												
D. Ratios													
Total external debt/ exports of goods and services	162.3	201.4	230.0	253.1	240.0	230.1	324.6						
Service/exports of goods and services ^r	69.2	73.4	73.8	34.2	35.6	30.7	39.6						
Net interest payments/ exports of goods and service/	14.4	21.4	28.5	25.7	28.0	26.2	26.8						
Service/disbursements ^r	72.3	77.3	88.4	32.3	64.0	56.7	49.3						

Source: ÉCLAC, on the basis of data supplied by the Central Bank of Ecuador.

^mPreliminary figures. End-of-year balances, excluding debt owed to the International Monetary Fund. ^rFrom November 1982, the refinancing of the external debt owed to foreign banks was assumed as debt by the Central Bank. From June 1983, the refinancing of the external debt owed to the Paris Club became part of the government external debt. The figures for disbursements include the amounts refinanced during the respective years. ^rService does not include the amounts refinanced. Refers to total net interest payments as given in the balance of payments.

Table 14

ECUADOR: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rate" (sucres per dollar)			Indexes of real effective exchange rate	
	Official	Central Bank free rate ^c	Free market	Exports	Imports
1970-1979	25.00			116.7	110.8
1980	25.00		27.78	100.0	100.0
1981	25.00		30.76	93.2	90.4
1982	30.03		49.81	97.7	92.2
1983	44.12	83.22	83.47	97.1	90.0
1984	62.54	92.68	98.68	132.3	120.7
1985	71.07	96.50	117.32	127.4	115.9
1986	95.75	123.40	151.40	129.8	129.7
1985					
I	67.18	96.50	121.46	140.8	125.8
II	67.18	96.50	115.41	132.4	119.0
III	67.18	96.50	109.77	126.7	115.9
IV	82.73	96.50	122.64	124.4	117.3
1986					
I	95.75	105.90	139.51	122.1	119.0
II	95.75	110.00	163.76	118.8	118.2
III	95.75	130.70	157.48	135.0	137.1
IV	95.75	147.00	144.83	141.1	143.0

Source: ECLAC, on the basis of information from the Central Bank of Ecuador, *Información Estadística* and the IMF, *International Financial Statistics*.

^aRefers to the average of the buyer's and seller's rate in the case of the official market and the seller's rate in the case of the Central Bank free rate and the free market proper. ^bCorresponds to the average index of the real exchange rate for the currencies of Ecuador's, main trading partners, weighted by the relative importance of exports or imports, as appropriate, to or from these countries. From 1970 to 1980, these weightings correspond to the average for the period 1975-1979, and from 1981, to the average for the period 1982-1985. The exchange rate used in Ecuador was as follows: up to 1983 the official quotation was used; in 1984, an average of the official and the Central Bank free rates was used, and from 1985 onwards the Central bank free rate. See the Technical Appendix to the *Economic Survey of Latin America*, 1981 for the methodology and sources used.

Table 15

ECUADOR: CONSUMER PRICE INDEX"

	1980	1981	1982	1983	1984	1985	1986
Variation from December to December							
Consumer price index	14.5	17.2	24.4	52.5	25.1	24.4	27.3
Food	12.3	16.8	26.3	86.1	27.1	27.0	26.5
Variation between annual averages							
Consumer price index	13.0	16.0	16.3	48.4	31.2	28.0	23.0
Food	11.0	13.9	17.1	77.9	37.0	30.7	23.2

Source: Central Bank of Ecuador.

^aUp to 1980, corresponds to the consumer price index for Quito. As from 1981, corresponds to the national consumer price index for urban areas.

Table 16

ECUADOR: EVOLUTION OF MINIMUM MONTHLY WAGES

	Sucre at current prices and at constant 1980 prices"					Growth rates				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Workers in general										
Nominal	4 100	5 100	6 600	8 183	10 833	2.5	24.4	29.4	24.0	32.4
Real	3 039	2 547	2 513	2 434	2 620	-11.9	-16.2	-1.3	-3.2	7.6
Agricultural workers, Sierra region										
Nominal	2 617	3 550	4 400	5 733	7 979	4.7	35.7	23.9	30.3	39.2
Real	1 940	1 773	1 675	1 705	1 930	-10.0	-8.6	-5.5	1.8	13.2
Agricultural workers, Coastal region										
Nominal	3 100	4 000	5 000	6 250	8 125	3.3	29.0	25.0	25.0	30.0
Real	2 298	1 998	1 904	1 859	1 965	-11.1	-13.1	-4.7	-2.4	5.7
Agricultural workers, Oriente region										
Nominal	2 617	3 550	5 000	6 250	8 125	4.7	35.7	40.8	25.0	30.0
Real	1 940	1 773	1 904	1 859	1 965	-10.0	-8.6	7.4	-2.4	5.7
Small-scale industry										
Nominal	3 100	3 750	5 000	6 250	8 833	3.3	21.0	33.3	25.0	41.3
Real	2 298	1 873	1 904	1 859	2 136	-11.1	-18.5	1.7	-2.4	14.9
Craft workers										
Nominal	2 900	3 775	4 600	5 767	7 854	3.6	30.2	21.9	26.0	36.2
Real	2 150	1 886	1 751	1 715	1 899	-10.9	-12.3	-7.2	-2.1	10.7
Domestic servants										
Nominal	1 617	2 450	3 000	3 750	4 983	7.8	51.5	22.4	25.0	32.8
Real	1 199	1 224	1 142	1 115	1 205	-7.3	2.1	-6.7	-2.4	8.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

"Annual averages. The nominal wages were deflated by the national urban consumer price index.

Table 17

ECUADOR: MONETARY INDICATORS

	End-of-year ^a balance (billions of sucres)				Growth rates			
	1983	1984	1985	1986 ^b	1983	1984	1985	1986 ^b
Monetary base	39.7	57.5	74.3	101.9	17.1	44.8	29.2	37.2
Money (M ₁)	78.5	111.5	138.1	165.8	30.4	42.0	23.9	20.1
Currencies outside banks	24.9	34.6	41.7	53.3	24.5	38.9	20.5	27.8
Deposits	53.5	76.9	96.3	112.5	33.4	43.7	25.2	16.8
Quasi-money	75.7	116.4	162.8	212.5	38.9	53.7	39.8	30.5
Money plus quasi-money (M ₂)	154.2	227.9	300.9	378.3	34.4	47.8	32.0	25.7
Determinants of M ₂								
Factors of expansion	302.8	474.7	681.3	792.8	124.9	56.7	43.5	16.4
Net international assets	2.9	4.5	19.2	14.4	-12.1	55.2	326.6	-24.9
Domestic credit	307.5	457.9	649.6	761.5	136.2	48.9	41.9	17.2
Central Government (net)	1.6	-3.7	-19.9	-27.9				
Rest of public sector (net)	-24.9	-33.1	-57.3	-54.3				
Private financial institutions	15.1	34.9	38.9	43.4	251.2	131.2	11.5	11.6
Private sector	171.6	229.0	286.6	334.3	59.5	33.5	25.2	16.6
Net unclassified assets	144.1	230.8	401.3	466.0	230.5	60.2	73.9	16.1
Others	-7.6	12.3	12.5	16.9			1.6	35.2
Factors of contraction	148.6	246.9	380.5	414.4	650.5	66.2	54.1	8.9
Medium and long-term external liabilities	127.3	219.6	346.4	372.9	7 856.3	72.5	57.7	7.6
Capital and reserves	21.3	27.3	34.1	41.5	17.0	28.2	24.9	21.7

Source: Central Bank of Ecuador.

Table 18

ECUADOR: SHORT-TERM BANK INTEREST RATES^a*(Percentages at end of each year)*

	1980	1981	1982	1983	1984	1985	1986
Nominal							
On loans	12.0	12.0	15.0	19.0	23.0	23.0	26.0
On deposits	10.0	14.0	14.0	19.0	22.0	22.0	27.0
Real							
On loans		-4.4	-7.5	-21.9	-1.7	-1.1	-1.0
On deposits		-2.7	-8.4	-21.9	-2.5	-1.9	-0.2

Source: ECLAC, on the basis of data supplied by the Central Bank of Ecuador.

^aThe deflator used is the consumer price index (December-December).

Table 19

ECUADOR: GENERAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of sucres				Growth rates			
	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
A. Total net income (1+6)	68 676	99 873	191 068	197 287	0.1	45.4	91.3	3.3
1. Net current income	60 188	99 873	189 472	186 825	30.8	65.9	89.7	-1.4
2. Gross current income (3+4 + 5)	60 852	99 925	190 596	191 984	27.3	64.2	90.7	0.7
3. Income from petroleum	28 950	46 804	113 975	73 612	33.8	61.7	143.5	-35.4
Tax revenue	5 135	4 234	4 971	3 167	73.6	-17.5	17.4	-36.3
Non-tax revenue	23 815	42 570	109 004	70 445	27.5	78.8	156.1	-35.4
4. Non-petroleum income	31 902	51 053	74 925	117 290	21.9	60.0	46.7	56.5
Tax revenue	30 521	48 111	70 830	111 377	30.1	57.6	47.2	57.3
Direct	7 154	9 428	13 978	20 593	19.1	31.8	48.3	47.3
Indirect	12 734	21 262	30 839	54 674	40.9	66.4	45.0	77.3
Foreign trade	10 633	17 421	26 013	36 109	26.4	63.8	49.3	38.8
Non-tax revenue	1 381	2 942	4 095	5 913	-48.9	113.0	39.2	44.4
5. Transfers	-	2 068	1 696	1 083			-17.9	-36.1
6. Capital income	8 488	-	1 596	10 462	-62.5			555.5
B. Total expenditure (1+2)	80 462	116 964	179 326	235 797	12.5	45.4	53.3	31.5
1. Current expenditure	61 634	88 097	134 743	172 842	19.6	42.9	52.9	28.3
Wages and salaries	16 550	18 765	24 926	51 736	15.8	13.4	32.8	107.5
Interest payments	16 760	23 743	35 919	36 202	40.3	41.6	51.3	0.8
Transfers	21 050	30 999	51 328	66 157	9.7	47.3	65.6	28.9
Other expenditure	7 274	14 590	22 570	18 747	18.8	100.6	54.7	-16.9
2. Capital expenditure	18 828	28 867	44 583	62 955	-5.7	53.3	54.4	41.2
Deficit/Surplus (A - B)	-11 786	-17 091	11742	-38 510				
Ratios (percentages)								
Net current income/GDP	10.7	12.3	17.0	13.7				
Total expenditure/GDP ^c	13.2	13.1	15.1	15.8				
Deficit or surplus/GDP	-2.5	-0.8	2.0	-2.2				

Source: Central Bank of Ecuador.

^aPreliminary figures.

Includes amortization payments.

^cDoes not include amortizations payments.

EL SALVADOR

1. Recent economic trends: Introduction and summary

The weak economic recovery made by El Salvador during the preceding two years slowed down even further in 1986, with the gross domestic product increasing by less than 1%. This led to a greater decline in employment and income in many sectors and to the persistence of a marked underutilization of installed capacity. The emergence of temporary difficulties with respect to the domestic supply of some goods also intensified inflationary pressures. Furthermore, the country continued to suffer from huge deficits in its balance of payments and public finances (see table 1 and figure 1).

The armed conflict, which dragged on for the seventh consecutive year, continued to take its toll in the form of the destruction of physical capital and basic infrastructure, production losses and a reduction in usable farmland, the obstruction and irregularity of support services, the disarticulation of some productive activities, the discouragement of private investment and the diversion of financial resources to the conflict, with the concomitant adverse impact of such a situation on the bulk of productive activities. In the political arena, the growing polarization caused by the conflict further hampered any attempt by the different groups in the country to reach agreement as to a concerted course of national action. In the social sphere, the displacement of vast numbers of people within the country continued, and there was an increasing exodus of skilled manpower.

The government attempted to deal with this highly complex crisis, in which both structural and cyclical factors are at work, through the application of the Economic Stabilization and Reactivation Plan which it introduced at the start of the year. The aim of this plan, in addition to seeking a means of financial adjustment, was to boost production and exports. To these ends, the measures provided for under the plan included: the devaluation of the colón, a fiscal reform consisting of an increase in the selective tax on consumption and wealth, the adoption of a policy of monetary restraint, increases in interest rates, the raising of transport charges and fuel prices, and wage adjustments for year-round agricultural workers and both manual and non-manual workers in industry and urban services. The plan also provided for the facilitation of credit to the private sector, but in real terms the level of such credit proved to be less than in 1985.

Because of the growing polarization created by the armed conflict and the ensuing difficulties in respect of the mounting of any concerted social effort, only some of the measures included in the plan could be executed. The measures that were implemented, together with a number of positive factors deriving from the external sector, helped to maintain a moderate growth rate during the first nine months of the year which was much the same as that of the previous biennium. Growth was interrupted early in October, however, by the devastating earthquake which struck the city of San Salvador, where the bulk of the population and of the country's productive activities are located.¹ This natural disaster was largely responsible for the sharp decline in output which resulted in a very low economic growth rate for the year as a whole.

The problems created by the conflict continued to have a serious effect on the exportable supply of farm products. Unlike what had occurred in previous years, there was a marked improvement in the terms of trade, primarily as a consequence of the increase in coffee prices and the drop in oil prices. Nevertheless, the total volume of merchandise exports contracted by 17%, largely because of the decline in sales to the countries of the Central American Common Market.

Once again, external donations (which were augmented by the international assistance given in the aftermath of the earthquake) constituted the main source of support for the overall functioning of

¹See ECLAC, *1986 San Salvador earthquake: damage, repercussions and assistance* (LC/MEX/L.9/Rev.1), 21 November 1986.

Figure 1
 EL SALVADOR: MAIN ECONOMIC INDICATORS

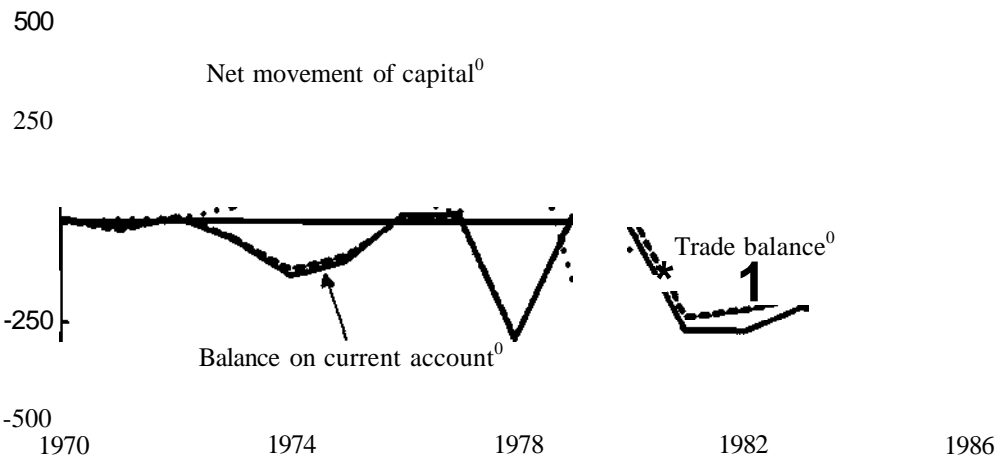
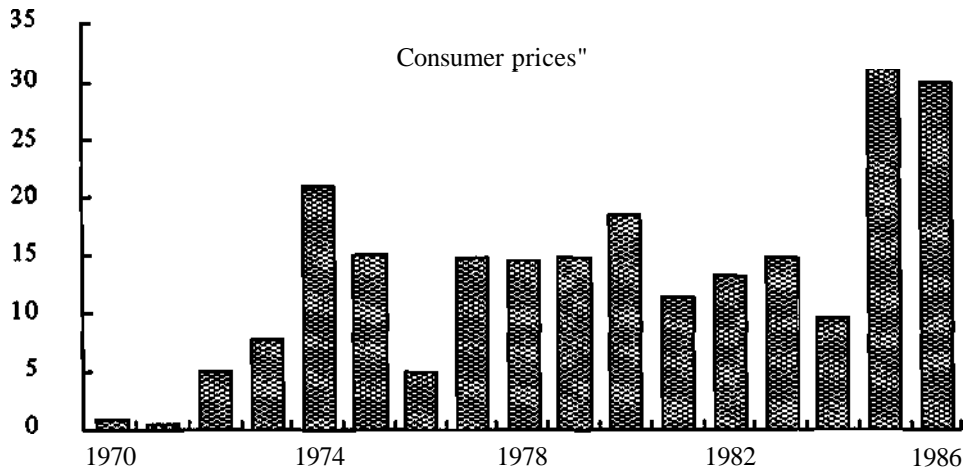
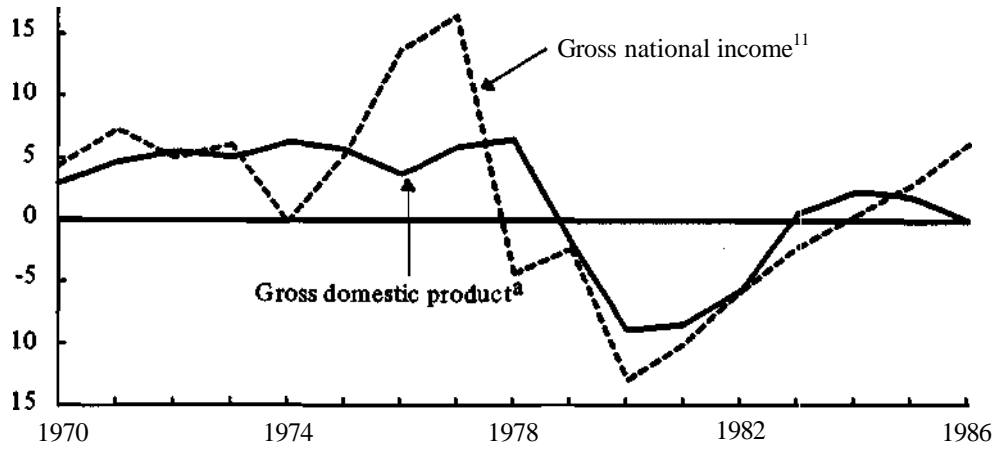
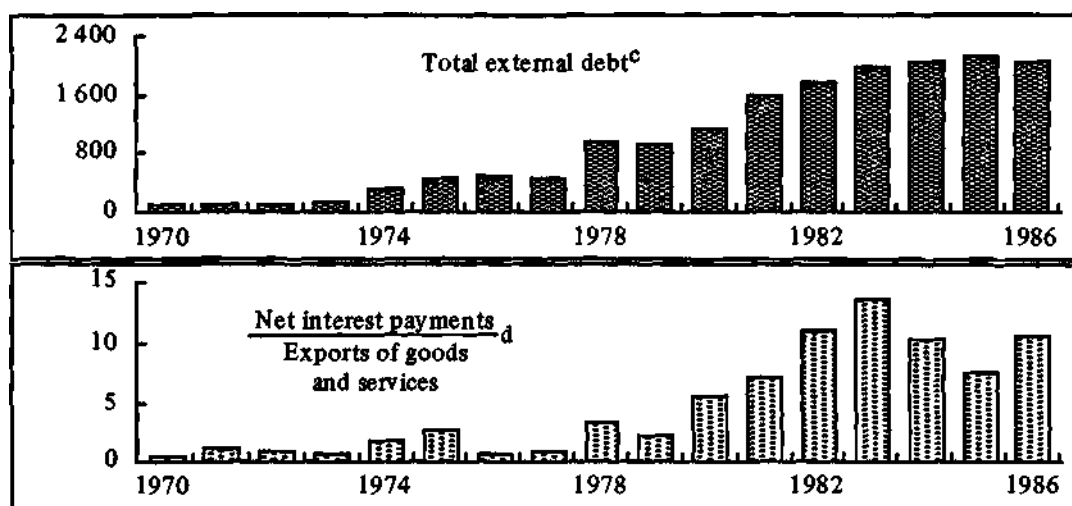


Figure 1 (concluded)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. [^]Percentage variation from December to December. ^cMillions of dollars. ^dPercentages.

the economy. This provided the economy with some degree of liquidity in respect of external transactions and raised public-sector revenues. In terms of aggregate demand, the greater flow of donations from abroad made it possible to increase public consumption and investment; in turn, remittances from residents abroad helped to boost private consumption. These factors notwithstanding, the per capita level of this variable remained below that of 1963-

In addition, unilateral external assistance also made it possible to meet overdue short-term commitments. As a result, the overall level of the external debt fell and its structure in terms of repayment periods and interest rates improved.

The shrinkage of the volume of exports and a growing demand for machinery and equipment helped to generate the largest trade deficit in the last six years. Aside from the capital goods required for reconstruction work, from the very outset of the year the public sector began to step up its external purchases of transport and construction equipment for use in, among other things, repairing some public works, building rural access routes to the main zone of armed clashes and rehabilitating sites for settlement by displaced persons.

The growth previously observed in the output of all sectors of the economy began to level off (except for construction) and, in some cases as in agriculture, even declined. Adverse weather conditions —strong winds at the beginning of the year and a prolonged mid-year drought— were partly to blame for the contraction of agriculture, as was the fact that the conflict spread to a larger area. Industrial production, for its part, slackened as a result of the lack of incentives in both domestic and external markets, difficulties in obtaining inputs and the irregular provision of support services.

In the course of the year some temporary problems arose because certain goods were in short supply on the domestic market. This, coupled with the increases in the prices of imports caused by the devaluation, heightened inflationary pressures. These pressures eased towards the end of the year, however, thanks to the donations in kind that were received and the restoration of the distribution network, which made it possible to put a stop to the supply shortages and dislocation of the commercial system. Nonetheless, the average increase in prices far exceeded that of the preceding year.

The continued uprooting of the population from the war zones aggravated the unemployment problem. The agricultural sector's diminished capacity to absorb manpower and the damage caused by the earthquake in urban areas raised the level of unemployment, especially in the capital. It had been hoped that the reconstruction work would provide jobs for some of the unemployed, but the execution of such projects went more slowly than expected due to institutional difficulties and to the country's limited operational capacity for mobilizing external assistance.

The central government had greater financial resources at its command owing to the exceptionally high level of income from coffee sales and of external donations and thus was able to increase total expenditure significantly. Furthermore, the deficit was partly covered by the sale of securities both through the banking system and directly to the public, without there being a need (as there had been during the previous two years) to rely on credit from the Central Bank. The rise in expenditure was, to a large extent, accounted for by the very high level of service payments on the domestic and external debts and by the increase in current transfer payments, with the result that the deficit was 80% larger than that of 1985.

As has already been stated, the Economic Stabilization and Reactivation Plan was only partially implemented. The magnitude of the devaluation of the colón (from 2.5 to 5 colones to the United States dollar on the official market) sparked off controversy, since exporters of manufactures, who had been carrying out transactions using the exchange rate for the dollar on the parallel market, thought that it was not large enough, while on the other hand, it appears to have resulted in an excessive increase in the costs borne by manufacturers producing for the domestic market. In addition, the wealth tax provided for under the plan was never applied because of the opposition that this measure aroused, while the imposition of new excise taxes and the raising of charges and service rates heightened inflationary pressures. Furthermore, the wage readjustments failed to offset the decline in the incomes of the various sectors of the labour force, thus prolonging a situation which dates back almost to the beginning of the decade. Although the private sector had greater access to credit, it made use of this opportunity to only a limited degree owing to the country's domestic instability and to a climate of uncertainty on the external market with the result that investment levels remained very low. Lastly, the moderate improvement in international liquidity was partly siphoned off for the purchase of war matériel or the repair of equipment damaged during military operations, with total purchases abroad exceeding the levels of previous years. Consequently, because the plan was applied only in part, in some cases it had relatively little effect while in others it actually exacerbated the imbalances it sought to correct.

To sum up, during 1986 both the economic difficulties which the country has been experiencing since the beginning of the decade and the tensions associated with the armed conflict grew worse. These problems were compounded by the adverse effects of natural phenomena which seriously hurt agricultural production and, in particular, by the damage caused later in the year by the earthquake in El Salvador's capital city. Yet another factor was the private sector's reserved attitude towards the Economic Stabilization and Reactivation Programme. It is likely that the armed conflict and the prevailing uncertainty as to when it would end continued to influence the decisions of economic agents. Thus, they failed to take full advantage of the more favourable external economic environment, which led, *inter alia*, to an improvement in the terms of trade, a decline in interest rates and a steady and growing flow of remittances and donations from abroad.

2. Trends in economic activity

a) *Total supply and demand*

After having remained stagnant the year before, total supply increased by almost 3%, chiefly due to the considerable growth (9%) observed in the volume of imports (see table 2).

The slowness and uncertainty of the recovery of economic activity was reflected in the fact that the level of the product was nine percentage points lower than it had been in 1980 even though it increased for the fourth consecutive year. The escalation of the war—which has led to a growing disarticulation of the productive sectors of the economy, the destruction of fixed capital, the dampening of investment and the diversion of resources to military operations—was one of the main factors responsible for this unsatisfactory result.

Moreover, the violent earthquake that devastated the city of San Salvador in October inflicted heavy losses in terms of lives, capital and production. Preliminary estimates indicated that the gross domestic product would have grown by 2% if it had not been for the earthquake.²

'bid.

The above factors were compounded by the poor weather conditions that severely hurt agriculture, the country's main production activity. At the beginning of the crop year, strong winds damaged the coffee blossoms and in mid-year a protracted drought caused the yields of other crops to plummet.

Finally, the meagre results of the adjustment and economic reactivation plan constituted yet another negative factor, especially since the armed conflict continued to absorb a huge amount of resources and no effective agreement could be reached with the entrepreneurial sector.

The volume of imports of goods and services grew by almost 10% and served as the main source of momentum for the moderate increase in total supply. This expansion primarily stemmed from the reconstruction work undertaken following the earthquake, which called for an exceedingly large volume of inputs and equipment. Even so, external purchases were only slightly higher than during the two preceding years due to foreign exchange constraints and the ban on imports of some luxury items.

The trend in overall demand was just the opposite of that of supply, since, although domestic demand picked up (6%), real exports contracted substantially (-8%). The fastest-growing variable was investment in fixed capital (7%). This reflected the upturn observed in public investment, after five years of unrelenting decreases, thanks to the increase in the demand for equipment and materials for use in the reconstruction and repair of basic infrastructure and, to a lesser extent, to the heightened demand for transport equipment to replace the machinery damaged as a result of the fighting. Private investment also grew (nearly 8%) but more slowly than during the preceding two years.

Lastly, the recovery in gross investment was mainly attributable to the accumulation of coffee stocks which occurred as a consequence of the fact that the sharp drop in international coffee prices from September onward brought exports of this product to a halt during the final months of the year.

Despite this upturn, however, capital formation has fallen off considerably during the years of the armed struggle. The investment coefficient declined by seven points during the period 1978-1986, and the present coefficient (just 14%) may prove insufficient to keep domestic production moving forward and to maintain external competitiveness.

Both private and public consumption grew by 4%. In addition to the greater requirements of the government as it strove to repair the damage caused by the earthquake, there is reason to believe that both the number of troops and their supply needs also increased. As a result of the continued expansion of consumption by this sector, its coefficient in respect of the gross domestic product (19%) was almost twice what it had been in 1975 (11%), while the share of the government budget devoted to defence and public security expenditures continued to mount.

The increase in private consumption (4%) was somewhat faster than the growth rate of the population, but in per capita terms it was nonetheless fairly similar to the level recorded during the preceding biennium, which was the lowest in the last quarter of a century. If this fact is considered in conjunction with the rise in unemployment and underemployment, the conclusion is that the living conditions of vast sectors of the population deteriorated significantly. The above-mentioned increase in consumption was largely based on remittances from Salvadorans abroad. These remittances augmented the purchasing power of certain strata of the population after the devaluation, but it may reasonably be assumed that other sectors—particularly the informal sector, which grew in size as a consequence of the earthquake—did not play a part in this upturn in consumption.

The steep decline in exports was accounted for by the inelasticity of crop-farming production, a number of weaknesses in external marketing activities, and the irregular rains which prevented farmers from taking advantage of such favourable factors as the substantial rise seen in the international price of coffee before its downward slide during the final quarter of the year.

b) *The main sectors of production*

The gross domestic product showed virtually no increase (see table 3), mainly because of the decline in crop-farming output and the repercussions of the earthquake in San Salvador. The earthquake caused property losses and disrupted some services, thus generally slowing down their expansion. Nevertheless, the work of reconstructing and repairing the damaged infrastructure during the last two months of 1986 did generate some growth.

i) *Agriculture*. The downward trend observed in agriculture during the last few years persisted, largely because this sector has been one of those most seriously affected by the fighting in the country (see table 4). Other factors included bad weather conditions, higher production costs —stemming from the increase in the price of the foreign exchange needed to purchase inputs from abroad and the requirement that they be paid for in advance— and the financial constraints arising out of delays in the granting of credits, as well as the extension of the conflict zone and the intensification of the fighting in the eastern part of the country (where staple grains and cotton are produced), which heightened the exodus of agricultural workers and the abandonment of crops.

Among the exportable products, coffee output suffered a significant decline (-7%) because heavy winds in March damaged the blossoms of the coffee plants and because; less care was given to upkeep and to the applications of fertilizers and fungicides, all of which continued to result in a lower yield. The administrative and financial problems which have been affecting the marketing of coffee ever since the beginning of the decade also grew worse in 1986. Consequently, the incentives represented by the higher price brought by coffee on the international market —40% more than the average price in recent years— and the devaluation of the colón⁵ were partially undermined by a number of factors: firstly, a 15% surtax was levied on coffee exports when the price rose above US\$140 per quintal; secondly the cost, in terms of the local currency, of fertilizers and pesticides doubled; and finally, a portion of the payment made to producers for their exports was received on a delayed basis.

Cotton production plummeted by 35%, which brought the cumulative drop over a three-year period to more than 75 %. Once again, the area under cultivation decreased, and the yield slumped as a result of the drought in the middle of the year. The decline of this crop was also associated with the extension of the conflict zone and with problems relating to the profitability of cotton.

The area under sugar cane cultivation expanded and production increased by 6% even though the yield was lower in the eastern part of the country due to the drought. This crop is in an uncertain position because of the progressive reductions in the United States import quota, which dropped from an annual average of 73 000 tons in 1983 and 1984 to 50 000 tons in 1985 and 1986 and is to be reduced to 26 000 tons in 1987. However, the entry into operation of a processing plant for cane-based alcohol fuel and, to a lesser extent, a better domestic market price constitute production incentives.

The prolonged drought in mid-year did damage to more than 50% of the land area planted with crops for domestic consumption. The maize and rice harvests were nearly 12% and 23% smaller, respectively, but the sorghum harvest partially recovered from its decline of the preceding year. Only bean production increased significantly, due to the fact that a larger area was sown with this crop and that the drought affected only one-seventh of the planted area. The poor showing made by crop-farming activity resulted in a 7% drop in the domestic supply of grains, which rendered the staple food supply of the population even more precarious.

The decrease in crop-farming production was partially offset by the good performance turned in by stock-raising activity (3%). The fact that the volume of meat production was quite similar to that of 1980 represented a significant recovery from the sharp and sustained decreases seen in previous years. The main factor in this upturn was the promotion of poultry raising, which was once again the fastest-growing activity in the subsector.

The number of pigs slaughtered declined by more than 12% as a consequence of the cysticercosis which has been attacking these animals during the past three years. In contrast, as a result of the increase in the cattle herd, cattle slaughtering recovered (5%) from its drop of the preceding year and milk production showed some growth. Because of the fighting, the cattle herd has had to be transferred to the western part of the country, where there is less pastureland. This has made it necessary to stable the cattle and to use more sophisticated reproduction techniques; as a result, a higher productivity rate is now beginning to be observed.

The third stage of the agrarian reform effort was completed in 1986, bringing the total area involved in this process to some 340 000 hectares. Nevertheless, the land now being worked which is

⁵Because of the devaluation, coffee producers' export earnings rose only 18%. This was due to the fact that, by official decree, since 1985 producers have been paid for the coffee they sell abroad according to the exchange rate on the parallel market.

covered by the reform was reduced by almost 50 000 hectares in the space of one year because some of the beneficiaries of this programme abandoned farms located in the conflict zone and because the government took back land for various reasons. Due to its importance in the production of basic grains, the reformed sector played an important role in the farming production system.

ii) *Manufacturing*. Production in this sector expanded for the fourth consecutive year, although more slowly (2%) than in 1985 (see table 5). Difficulties in obtaining supplies of various inputs contributed to this slowdown: in the case of imports, the main factors were the higher cost of foreign exchange and the unwieldiness of the regional market; with respect to domestic products, the problem was the drop in crop-farming production. Finally, other negative factors were the irregularity in the provision of electrical energy and transport services and the above-mentioned slackening of both domestic and regional demand.

The performance of the various sectors was uneven; only the food industry grew significantly (almost 5%) and for the third consecutive year, as a result of which this industry finally regained the level of production volumes that it had reached early in the decade. Since this subsector generates 65 % of the aggregate value of manufactures, its dynamism compensated for the stagnation or decline observed in the others. In the days following the earthquake, industrial activity started on a steep downward slide which was only halted when a regular supply of electricity was gradually restored.

The potential of the industrial and construction sectors is being hurt by the emigration of skilled human resources. Furthermore, the weakening of the accumulation process in the private sector has also contributed to the decapitalization of some manufacturing subsectors. Both of these elements are holding back the reactivation of industry.

iii) *Construction*. Along with government services, construction was one of the most dynamic sectors in the economy, since it grew by close to 4%. Nonetheless, the level of construction remained below that of 1980.

The public sector attempted to fuel the growth which this activity has achieved since 1985 thanks to the building of low-cost housing by carrying forward the repair of roads and other infrastructure damaged as a result of military operations.

External emergency financial aid received after the earthquake (a total of US\$50 million) provided support for the sector in the form of loans for housing reconstruction and repair and credits to small enterprises.⁴ In addition, a total of 18% of the donated funds were used to build temporary shelters and provisional housing.⁵

Consequently, the impetus given to construction activity came mainly from the private sector, autonomous institutions and co-operatives, in the form of the building of urban housing begun the year before. In addition, following the earthquake the work of restoring dwellings in marginal urban areas was stepped up, as were resettlement projects in rural areas for persons displaced by the armed conflict.

iv) *Services*. On the whole, the growth of services slowed as a result of the war, the decline in the total supply of goods, and the disruption of distribution channels caused by the earthquake. Thus, basic services grew by only 2% and the others by just 1%.

The generation of electrical energy was affected by reservoir supply problems (due to the long summer drought) and by the drop in the output of the Ahuachapán geothermal plant. Electricity generation therefore increased by only 3%, while consumption is calculated to have fallen—by nearly 2% in the case of industry—because of interruptions in supply (see table 6).

The earthquake also had a strong impact on non-basic services and on the informal sector of the economy because it destroyed or severely damaged the infrastructure used by these activities. San Salvador's established businesses and financial and administrative services were also concentrated in the area of the city most affected by the earthquake. In addition, many of the dwellings that were damaged were being used as workshops and retail stores. In any event, even during the first half of the

⁴The earthquake resulted in the destruction of 23 000 dwellings and seriously damaged 30 000 other buildings in the area of San Salvador, which was the most severely affected zone. See World Bank, *Resumen de las conclusiones de la misión del Banco Mundial sobre el terremoto de San Salvador y la estrategia de reconstrucción*, San Salvador, 25 October 1986, and ECLAC, *1986 San Salvador earthquake op. cit.*

⁵In 1987, the reconstruction work, which was still in its initial stages, was expected to involve bilateral external financing in the amount of US\$234 million; this financing was to be made available subject to the submission of formal project proposals.

year the commercial sector was already experiencing supply difficulties, which partly accounts for the fact that it remained stagnant for the second year in a row. The banks and, to a lesser extent, the government service quickly recovered from the disaster and resumed their operations. The emergency work that had to be carried out as a result of the earthquake thus helped to make government services one of the fastest-growing sectors of the economy (4%).

c) *Employment*

Open unemployment and underemployment continued to be two of the most serious manifestations of the crisis afflicting the country. Although official 1986 figures were not available, a series of factors indicate that the employment situation deteriorated considerably. Foremost among these were the forced removal of the population from the conflict zone, the decline observed in the capacity to absorb agricultural manpower and the destruction by the earthquake of the sources of employment of a large number of urban workers.

Unemployment in rural areas spread as the fighting in the eastern and central zones of the country took in a larger area than before, thereby augmenting the exodus of peasants from these areas and making their resettlement more difficult. According to official sources, from the start of the conflict up to the end of 1986, more than 600 000 persons had been displaced from their places of origin, with many workers emigrating out of the country, especially to the United States. Poor harvests and the decline in the number of jobs provided by crop upkeep and preparation activities have further aggravated the problem of unemployment in agriculture.

In urban areas the dynamism of some activities, such as construction and the food and wood industries, provided more jobs, but not in sufficient numbers to offset the adverse effect on employment in net terms (the number of jobs fell by 38 000) of the earthquake and the slowdown in other sectors. In the area of government administration employment remained stagnant because of the prevailing budgetary constraints. Towards the end of the year, however, US\$4 million from the earthquake emergency fund was used to contract labour for clearing rubble

3. The external sector

a) *General trends*

The improvement of the terms of trade, which was chiefly due to the increase in coffee prices and the reduction in the prices of hydrocarbons, and the moderate decline seen in interest rates created a more favourable climate for the external sector (see table 7). Nevertheless, the drop in the output of exportable products and the difficulties encountered in finding external markets for certain articles caused the volume of foreign sales to plummet. The purchasing power of exports of goods was consequently lower than it had been in 1980. Furthermore, as imports increased, the trade deficit reached the highest level recorded so far in the 1980s. Nevertheless, as a result of a greater income from private transfer payments, the country's enormous deficit on current account was reduced slightly. Finally, despite sizeable donations from official sources, net capital inflows were substantially lower and international reserves were drawn down by US\$15 million (see table 8).

b) *Merchandise trade*

i) *Exports.* After two years of decreases, the value of exports made a recovery (7%) thanks to the growth shown by traditional products (12%). By contrast, the value of sales of manufactures decreased by 55% and the remaining export items remained stagnant. On average, the unit value of traditional goods increased by 38%, while the exported volume of these products—coffee, cotton, sugar and shrimp—slumped by 19% in overall terms (see table 9).

Only coffee sales, as a result of the extraordinary increase in the price of this product on the external market, lent some dynamism to export earnings. As from the end of 1985, following this rise, the quotas allocated by the International Coffee Organization were thrown open and, in consequence, the supply on the traditional market gradually increased. Then, by around the second half of 1986, difficulties began to be encountered in placing this product on the market as its international price fell without there being a reassignment of quotas, pushing the sales volume down

by 17%. Because of the higher prices (the annual average was approximately US\$183 per quintal), however, the value of coffee exports nonetheless represented almost 73% of total sales.

Cotton exports dropped substantially due to the combined effect of a steep decline in the volume of sales (one-fifth of that of 1985) and a further downturn in the average price on the international market, which in two years showed a cumulative decrease of 57%.

The quota for sugar exports assigned to El Salvador by the United States was cut from 75 000 to 50 000 short tons, and the total volume of sales therefore went down as well. This product has ceased to be competitive in external markets despite the increase in the average effective price, which continued to be exceedingly low (US\$11.80 per quintal) in comparison to its production costs.⁶ For its part, shrimp —whose price has remained virtually unchanged over the past three years— was sold at a price 25% lower than the quotation on the international market. Nevertheless, because of the substantial increase in the volume exported (37%), the value of shrimp exports increased.

Taken as a whole, the remaining exports (mainly textile, leather and chemical manufactures) declined. As has already been indicated, the high content of imported inputs (between 20% and 50%) in the manufactures exported by El Salvador and the resurgence of domestic inflation reduced the competitiveness of these products on the Central American Common Market, particularly as regards trade with Guatemala.

Although the export promotion policy —which is one of the core elements of the national reactivation programme— has yet to produce results, institutional efforts continued to be made to strengthen it. Such initiatives included the application of the Central American tariff, the introduction of fiscal incentives for exports of manufactures —e.g., a 10-year tax exemption and tax discount certificates— and the creation of an agency whose purpose is to centralize and simplify administrative procedures with respect to exports (CENTREX).

ii) *Imports.* External purchases increased by 4% in nominal terms, thus recovering from the decline recorded in 1985, although in real terms this represented a return to the 1984 level, which was itself 27% lower than the level reached before the outbreak of the armed conflict. The greater availability of foreign exchange, due in large measure to the donations received by the country, made it possible to increase purchases both from Central America and from the rest of the world, since a number of payment problems, particularly with trading partners in the region, were thus resolved (see table 10).

External purchases of consumer goods again slumped (-6%), this time owing to the ban on the importation of luxury articles, with the result that imports of durable goods decreased by one-third. Purchases of non-durable goods followed a downward trend until the last quarter of the year, when food imports had to be increased in order to alleviate the supply problems caused by the earthquake.

As the shortage of foreign exchange was mitigated by the reduction in the country's oil bill, it became possible to increase imports of intermediate goods for agriculture, particularly fertilizers, pesticides and fungicides. Repair and reconstruction work undertaken following the earthquake also boosted the importation of materials (46%), and purchases of intermediate goods consequently rose by more than 6%.

Imports of certain capital goods (mainly office equipment and equipment to replace the stocks destroyed by the earthquake) increased once again, although at a slower rate than that of the preceding year. A larger number of motor vehicles (12%) was imported due to the need to replace those vehicles destroyed in the fighting and by acts of sabotage,⁷ thus helping to maintain the growth of this import item, although the rate of increase was lower than in previous years. The purchase of construction equipment also helped to push up total imports during the last quarter of the year. Exchange controls and the marked underutilization of production capacity in agriculture and manufacturing were both factors in the contraction of the demand for equipment for use in these activities.

iii) *Terms of trade and the purchasing power of merchandise exports.* The terms of trade for merchandise improved by 28%, owing in large measure to the extraordinary increase in the price of coffee. Nevertheless, this upturn failed to offset the whole of the cumulative decline recorded during the decade. Moreover, the favourable trend in the average price of exports was accompanied by a

⁶In Malawi, the country which has the lowest costs on the market, the production costs of raw sugar cane amounted to US\$8.70 per quintal. (*GEPLACEA*. Bulletin No. 1, vol. IV, January 1987.)

⁷A loan was placed on imports of all motor vehicles except for work vehicles.

further decrease in the volume of sales (-12%) due to the drop in the exportable supply of a number of items and the slump in external demand for others. Consequently, these higher prices were ultimately reflected in no more than a slight recovery in the purchasing power of exports, which in any event was far less than it had been in 1980 (see table 7).

c) *The trade and current account balances*

The trade deficit (-US\$271 million) was the highest of the decade and stemmed from both the persistent merchandise trade imbalance and the growth of the deficit in the real services account. Trade with the Central American Common Market was responsible for more than 60% of the imbalance in merchandise trade (-US\$212 million). Although there has been a deficit in trade with Central America since 1980, during the last three years it has grown worse because the value of exports to the subregion has been halved, whereas imports have, on average, held steady at their 1984 level. The loss of competitiveness of Salvadoran manufactures caused by the overvaluation of the colón appears to have added to the contraction in such exports, which has been further compounded by the problems in respect of reciprocal payments being experienced by the severely weakened Common Market.

d) *The current account position and its financing*

The deficit on current account was reduced thanks to the remittances —whose recorded amount was equivalent to 20% of merchandise export earnings— sent by Salvadorans abroad and to the reinsurance payments covering the losses and damage caused by the earthquake which were received in the country towards the end of the year. This improvement may prove to be only temporary, however, since the danger exists that unrequited private transfer payments,⁸ which was the main factor working against the deterioration of the trade account, may show a decrease in the future.

The net inflow of capital decreased by almost US\$90 million, due largely to the outflow of US\$69 million in the form of overdue interest payments and to the lower level of long-term capital inflows.

Official donations have constituted an increasingly important component of capital inflows; in 1986, receipts under this heading amounted to 45% more than the deficit on current account and to 60% more than the net balance on capital account. These donations have thus been, to a great extent, what has sustained the country's relative solvency *vis-à-vis* the exterior. The large sum of official donations received (US\$251 million)⁹ by the country enabled it to meet its external commitments and to ease short-term pressures without having to resort to external commercial financing.

According to official estimates, the net result of the capital operations (including net assistance from AID) figuring in the balance of payments was an increase equivalent to US\$75 million in gross reserves. However, the actual inflow of capital totalled only US\$158 million, while the deficit on current account amounted to US\$ 173 million and a decline equivalent to US\$ 15 million was recorded in international reserves. The difference between these two sets of figures accounted for by the fact that the monetary authorities revalued the country's gold holdings during the course of the year.¹⁰

e) *Exchange policy*

In 1986 the colón was devalued from 2.50 to 5 per dollar in an effort to restore the competitiveness of Salvadoran products on the Central American Common Market and to encourage the export sector. By making this and other complementary changes in the exchange system, the Central

⁸The entry into force in the United States of what is known as the Simpson-Rodino Act beginning in September 1987 and the United States government's refusal to grant exceptions in this connection mean that more than one million Salvadorans who are thought to have settled in that country are threatened with deportation.

⁹This total includes US\$51 million in emergency aid received from the Agency for International Development (AID) of the United States government after the earthquake.

¹⁰This revaluation was not included in the balance of payments because IMF accounting procedures dictate that such revaluations should only be taken into account if there has actually been a sale of gold. The revaluation amounted to US\$90 million inasmuch as the recorded value of the gold reserves had remained unchanged since 1978. See IMF, *Balance of Payments Manual*, fourth edition, Washington, D.C., 1977.

Reserve Bank of El Salvador regained a greater measure of control over transactions on the parallel market, particularly in respect of incoming transfer payments.

These steps were taken in response to the fact that since the second half of 1985 inflation had been increasing at double the historical rate, with the result that the bulk of exports and nearly 60% of imports had been shifted to the non-official exchange market, where the average exchange rate was 4.5 colones to the dollar.

The devaluation was long overdue, since as early as 1981 serious imbalances had begun to appear in the trade and current accounts of the balance of payments, and capital flight had been mounting. The stimulus provided by the devaluation for the traditional agricultural export sector is thought to have been slight, however, since all such transactions were being carried out on the parallel market. Thus, the gross benefit derived by export agriculture from the devaluation came to approximately 18% in real terms. The effect of the duplication of the cost of the inputs which were previously traded on the official market would have to be subtracted from this figure. Similarly, the impact on exports of manufactures was smaller than the devaluation because the increase in the cost, in local currency, of imported materials would also have to be subtracted. Consequently, on average, the positive effect of the devaluation on total exports was counteracted by the impact of imports on domestic prices, which amounted to 14%. However, the conversion to a single exchange rate did make it possible to recover a sizeable portion of transfer payments since it resulted in the disappearance of the parallel market.

f) *External indebtedness*

The total external debt was reduced by US\$69 million, mainly through the efforts made by the authorities to restructure the debt owed to external creditors by using medium-term lines of credit to bring about a significant decrease in the Central Bank's commitments and to consolidate external liabilities (see table 11). Furthermore, the private sector amortized US\$28 million of its long-term debt, whereas its short-term debt rose by US\$14 million. This latter increase was possible because new lines of credit were made available as a result of the favourable situation with respect to the country's main export item. Be this as it may, the level of the external debt, when measured as a percentage of the country's exports of goods and services (235%) remained high.

The drive to relieve the pressure deriving from the external debt load of the government and the long-term debt burden of the private sector gave rise to a considerable increase in amortization payments, thus bringing the sum total of the debt service to US\$427 million, i.e., nearly 48% of the country's exports of goods and services. As the international banks restricted the flow of short-term loans to the government sector and maintained disbursements at almost the same level as in 1985 (US\$260 million), a high percentage of these service payments were covered with funds provided by donations.

4. Prices and wages

a) *Prices*

The average consumer price index recorded a 32% increase (see table 12). The inflationary trend which had begun the previous year and then continued on into 1986 was compounded by the devaluation of the colón, the shortage of products for the domestic market and speculative trading. When a single-tiered exchange rate of five colones to the dollar was officially decreed at the end of January, the prices of a large number of the products in the basic shopping basket began to rise. In the case of those imports which were still being traded on the official market (petroleum and petroleum products, medicines, staple foods and some production inputs), the devaluation resulted in a 100% price increase in terms of the local currency. In the case of those that had been shifted to the parallel market since mid-1985, the impact was 18% according to official estimates.

In order to hold down the rise in the prices of certain products in the shopping basket of mass-consumption goods, the government instituted a subsidy for fuel used in public transport—which was financed by a surtax on gasoline for private consumption—and placed price controls on essential goods. These measures were counteracted, however, by the decline in the supply of grains and of some manufactures (textiles and leather products) and the increases observed after the October earthquake in low-income housing rents, which had formerly been frozen.

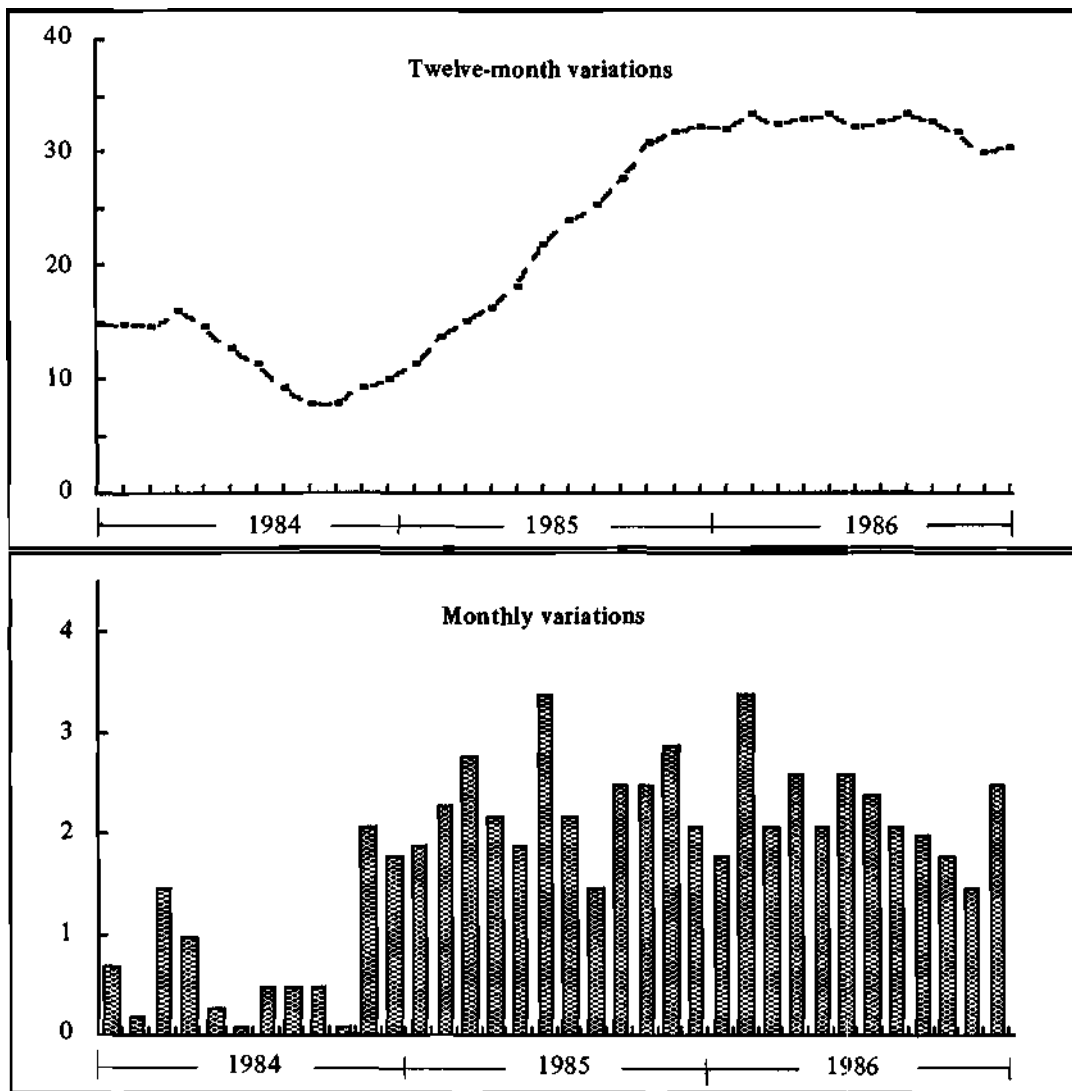
The situation was aggravated by speculation in essential products, especially poultry and sugar. Whereas in October and November the general price index showed a slight decrease (probably as a result of the receipt of donations in kind after the earthquake), in December prices began to increase once again.

In an attempt to lessen inflationary pressures, the government directed its monetary policy towards controlling the expansion of the means of payments, which had exerted pressure on the supply of goods and services in previous years.

b) *Wages*

The wage policy was aimed at halting the loss of purchasing power by certain sectors of the work force. To this end, the government decreed an across-the-board adjustment in the minimum daily wage (54% for men and 74% for women) as well as differentiated wage increases for

Figure 2
EL SALVADOR: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.

year-round agricultural jobs (55%) and urban occupations (15%). This measure proved to be no more than a temporary palliative, however, since although the increase in the minimum wage and in those earned by year-round rural workers exceeded the average rate of inflation for the year (27 % and 14%, respectively), it was not enough to offset the cumulative drop in the real wage, which on average was 40% lower than that of 1980 (see table 13).

The government had, since the beginning of the decade, followed a policy of wage freezes on account of the financial constraints entailed by military spending in connection with the armed conflict. It was not until 1984 that urban workers —mainly those in the public sector— had through the mobilization of the labour force and mass strikes, won some wage adjustments (which, during the past two years, have amounted to 14% less than the growth of consumer prices). The wage level of this group was thus the lowest of the last six years and represented a 55 % loss of purchasing power compared with 1980.

Rural wages continued to decline even more rapidly: coffee-pickers and workers in coffee processing plants and in cotton and sugar mills suffered an accumulated wage decrease of 62 % during the period 1980-1986.

5. Monetary and fiscal policy

a) *Monetary policy*

The monetary policy was aimed at restraining the expansion of the means of payment, establishing a more realistic external exchange rate, giving priority to financial support for the productive sector, restoring control over external transactions to the central authority and restricting credit to the public sector. In order to achieve these objectives, early in the year three measures were implemented: the devaluation of the colón, the strengthening of exchange controls and the framing of a legal definition of exchange-related offenses. Beginning in April, when it was ascertained that there was an excess of liquidity in the intermediation system, the minimum reserve requirement was raised for a period of four months and the borrowing and lending rates of the system were increased. These measures failed to check the inflationary process, however, which continued for reasons unrelated to monetary policy.

The increase in official transfer payments, which was to some extent linked to the reconstruction of the city of San Salvador, and remittances of foreign exchange by residents abroad tended to add to the liquidity of the system. Nonetheless, other elements of the authorities' monetary policy, particularly that relating to credit for the public sector, helped to control the expansion of the money supply, which on average grew more slowly (21%) than prices (see table 14).

The banking system recorded an increase in net international reserves, partly because of the revaluation of monetary gold holdings (despite the drop in long-term loans) and the steady expansion of credit to the private sector. Consequently, early in the year the monetary base showed an increase which had to be regulated, and this was done by raising the minimum reserve requirement from 20% to 25% during the period 1 April to 31 July. However, the credit multiplier nonetheless grew slightly because the minimum reserve requirement for commercial and mortgage banks were relaxed considerably in subsequent months." In addition, the public displayed less of a preference for the more liquid means of payment. Indeed, quasi-money expanded substantially (36%), despite the negative yields in real terms of medium-term accounts, since interest rates only rose from 15% to 17%. Among the factors of absorption, long-term external loans declined due to the financial relief afforded by the greater inflow of donations from abroad.

The driving force behind the monetary expansion was the 22% increase in credit to the private sector, in line with the authorities' policy of reactivating production. The provision of funds, taken out of external resources, for low-interest loans continued to be subject to the condition that they be used to promote agricultural production, exports or housing construction and repair. Credits were also granted at preferential rates as part of the policy of refinancing the overdue debts of the export crop-farming sector and of the industrial activities which had imported machinery and equipment for use in their operations.

"The coefficient of commercial bank reserves in respect of total deposits gradually declined from 0.24 in July to 0.14 in December.

The credit supplied by the Central Bank to public institutions expanded (4%) less than during the preceding year. Meanwhile, the amount of credit furnished to the central government dropped by 10%, as a result of which it decided to sell bond to the public.

b) *Fiscal policy*

The government's fiscal imbalance grew worse in 1986 due to the greater outlays made in connection with the armed conflict, the extraordinary expenditures required after the earthquake and the servicing of the public debt. This occurred despite the fact that the tax burden climbed from 12% to 13% and that tax receipts increased by an unusually large amount, thereby generating a current savings of 105 million colones, which was far more than the year before (see table 15).

Among the means used to finance the huge fiscal deficit, which almost doubled, external funds continued to feature prominently. The chief source of such funds was donations from AID, which were used to cover more than 80% of this deficit. With respect to domestic financing, although there was a decline in Central Bank lending in keeping with the aims of the government's monetary policy, the sale of securities on the open market increased markedly.

The substantial rise (48%) in current income was attributable, *inter alia*, to the imposition of a temporary tax on windfall earnings from coffee sales—which brought in 635 million colones of extra income—and the additional tax revenues from imports deriving from the devaluation of the colón. At the same time, reforms made in the law governing the selective tax on consumption and on sales augmented the receipts from domestic transactions.

Furthermore, the stricter supervision of taxpayers—especially those providing services on an independent basis—generated a 34% increase in income-tax revenues. Non-tax income also rose once again as further adjustments were made in the prices of goods and services provided by the government.

Inasmuch as it had foreseen that the public deficit was going to be larger as a result of expenditures relating to the armed conflict, in October the government submitted a fiscal reform bill (the National Defence Taxation Act) providing for a tax on wealth. This bill was challenged as being unconstitutional by various entrepreneurial and political groups in the Legislative Assembly and was subsequently disallowed on legal grounds. The government was thus prevented from receiving the estimated 120 million colones which it had hoped to collect by this means.

Although the administration of public services was theoretically subject to strict spending guidelines, current outlays increased by 43%, mainly because of expenditures on wages and on the purchase of goods and services. The deferred adjustment of civil servants' wages and, presumably, the recruitment of new personnel for defence-related work and, to a lesser extent, of public-health staff after the earthquake¹² helped to raise spending under this heading by 29%.

The increase in interest payments (66% more than in 1985) and in transfer payments, which practically doubled, also contributed to the growth of expenditure. The interest on the public debt rose sharply as well, primarily as a consequence of the sale of securities paying attractive interest rates and of the effect in terms of local currency of exchange modifications. Furthermore, the granting of larger subsidies to public enterprises (3-5 times more than in 1985) and to the private sector prompted a considerable expansion of current transfer payments.

Capital expenditure increased at an even faster rate (more than double) than current spending (94%), due to the amortization of both the domestic and external debts and to the transfer payments made to public financial institutions, particularly those providing support for crop-farming production and construction. Public investment, for its part, showed an exceptionally steep upturn (62%) in relation to the level which has generally prevailed since the conflict began. Before the earthquake struck, the expansion seen in public works primarily corresponded to the construction and repair of communication channels,¹⁵ while during the last quarter of the year, the repairs made to

¹²According to official figures, current expenditure on defence and public security increased by 35% while current outlays in the health sector rose by 42%. In the functional allocation of central government expenditure, defence is the largest item and absorbs 45% of the total, whereas education and health account for 21% and 11%, respectively. (Ministry of Finance, *Gasto corriente del Gobierno Central, 1986*.)

¹⁵During the first half of the year, road works amounting to a total of 243 million colones were begun. These included the repair of highways and bridges providing access to the conflict zone and the construction of rural roads.

installations and to the for supply network for basic services that had been damaged by the earthquake helped to raise the figure for direct investment expenditure.

As noted earlier, it proved possible to finance the public deficit—which was equivalent to 6% of the gross domestic product, as against 5% the year before—on soft terms, thanks to the external transfer payments and, to a lesser extent, the net long-term external credit which the country received.

To sum up, despite the favourable effects of the temporary upturn in coffee prices, the introduction of tax changes and the continued external financial support provided on soft terms to the government, a deterioration was seen in fiscal variables as a result of the inordinate expenses incurred by the government in financing its military operations and meeting the needs created by the earthquake. Nonetheless, the trend in these variables had less of a direct impact on inflationary pressures.

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^o
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	91.6	86.4	86.9	88.9	90.4	91.2
Gross national income	100.0	90.0	84.9	83.1	83.4	85.8	91.1
Population (millions of inhabitants)	4.53	4.58	4.63	4.66	4.71	4.77	4.85
Per capita gross domestic product	100.0	90.5	84.6	84.4	85.5	85.9	84.4
Growth rates							
B. Short-run economic indicators							
Gross domestic product	-9.0	-8.4	-5.7	0.6	2.3	1.8	0.8
Per capita gross domestic product	-10.4	-9.5	-6.5	-0.2	1.4	0.5	-1.7
Gross domestic income	-12.9	-10.0	-5.6	-2.1	0.4	2.9	6.2
Unemployment rate ^c	16.2	21.2	27.4	32.2	32.9	33.0	
Consumer prices							
December - December	18.6	11.6	13.4	14.8	9.8	31.9	30.2
Variation between annual averages	17.4	14.7	11.7	13.1	11.7	22.4	31.9
Real wages and salaries	15.7	-7.3	-10.5	-11.6	0.4	-13.8	-13.2
Money	7.2	-0.8	4.7	-1.5	17.3	26.9	21.1
Current government income	-14.4	6.4	0.6	13.3	22.4	23.7	47.8
Total government expenditure	17.6	13.3	9.2	45.3	-1.3	-4.2	56.5
Fiscal deficit/total government expenditure ⁶	32.3	36.4	39.0	54.3	43.2	26.7	30.8
Fiscal deficit/gross domestic product	5.6	7.3	7.9	14.8	10.1	4.9	6.4
Current value of exports (goods and services)							
	-4.0	-23.9	-11.0	6.2	2.3	-4.4	4.2
Current value of imports (goods and services)							
	-6.8	-0.8	-10.4	1.9	8.7	-3.8	4.6
Terms of trade (goods and services)	-7.7	-7.3	1.9	-10.3	-9.7	-2.1	18.3
Millions of dollars							
C. External sector							
Trade balance (goods and services)	45	-237	-218	-187	-260	-256	-271
Net payments of profits and interest	-94	-100	-129	-131	-133	-133	-135
Balance on current account	-1	-272	-271	-211	-243	-199	-173
Balance on capital account	-74	223	242	235	250	242	158
Variation in net international reserves	-69	-43	-27	39	19	30	-15
Total disbursed external debt	1 176	1 608	1 808	2 023	2 095	2 162	2 093

Source: ECLAC, on the basis of official figures.

^oPreliminary figures. Percentages. ^cRefers to the number of openly unemployed and underemployed persons, as a percentage of the economically active population. Real minimum wages of workers in industry and services in San Salvador.

Table 2

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Indexes (1980 == 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total supply	89.0	89.2	91.6	132.8	133.4	1.9	2.4	0.2	2.8
Gross domestic product at market prices	88.9	90.4	91.2	100.0	100.0	0.6	2.3	1.8	0.8
Imports of goods and services	89.4	85.3	93.0	32.8	33.4	6.1	2.9	-4.7	9.0
Total demand	89.0	89.2	91.6	132.8	133.4	1.9	2.4	0.2	2.8
Domestic demand	89.6	90.8	96.5	98.7	104.5	-3.4	0.9	1.4	6.3
Gross deomestic investment	81.4	76.9	95.8	13.3	13.9	-8.5	3.0	-5.6	24.6
Gross fixed investment	76.0	83.7	90.0	13.6	13.4	-7.5	2.3	10.2	7.5
Construction	75.7	78.6	81.4	7.2	6.4	-3.1	-5.0	3.8	3.6
Machinery	76.3	89.5	99.6	6.4	7.0	-12.6	11.9	17.3	11.4
Public	52.1	48.0	51.4	7.1	4.0	-22.6	-10.4	-8.0	7.1
Private	102.3	123.2	132.7	6.4	9.4	7.2	11.2	20.5	7.7
Variation in stocks	-159.6	381.7	-160.6	-0.3	0.5				
Total consumption	90.9	93.0	96.7	85.5	90.6	-2.7	0.6	2.3	4.0
General government	109.1	116.5	120.9	14.0	18.5	1.0	4.8	6.8	3.7
Private	87.3	88.4	91.9	71.5	72.1	-3.5	-0.3	1.2	4.0
Exports of goods and services	87.3	84.4	77.4	34.1	28.9	23.3	7.2	-3.3	-8.2

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

"Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, which were then converted to constant 1980 values using unit-value indexes calculated for this purpose by ECLAC.

Table 3

**EL SALVADOR: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT MARKET PRICES**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	88.9	90.4	91.2	100.0	100.0	0.6	2.3	1.8	0.8
Goods	87.0	87.7	87.5	46.4	44.5	-1.2	2.0	0.8	-0.2
Agriculture	89.3	88.3	86.4	27.8	26.4	-3.2	3.3	-1.1	-2.1
Mining	97.6	97.6	100.0	0.1	0.1	-2.7	2.3	-	2.5
Manufacturing	84.8	87.9	90.0	15.0	14.8	2.0	1.3	3.7	2.4
Construction	78.0	81.6	85.2	3.4	3.2	2.0	-5.3	4.6	4.4
Basic services	94.9	97.8	99.6	5.6	6.2	5.6	2.7	3.1	1.9
Electricity, gas and water	101.8	106.9	108.9	2.1	2.5	5.0	2.7	5.0	1.9
Other services	90.0	92.2	93.8	48.0	49.3	1.7	2.5	2.5	1.7
Commerce, restaurants and hotels	77.9	78.3	79.0	22.9	19.8	2.1	1.9	0.5	0.8
Financial institutions, insurance, real estate and business services	104.1	106.2	106.8	7.7	9.0	1.3	1.3	2.1	0.6
Ownership of dwellings	109.5	111.1	110.3	4.3	5.2	2.0	1.6	1.5	-0.7
Community, social and personal services	99.5	104.2	107.4	17.4	20.5	1.4	3.6	4.8	3.1
Government services	112.5	120.4	125.5	10.3	14.1	2.8	5.0	7.0	4.3

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador
 "Preliminary figures. "includes the livestock sector, forestry and fisheries.

Table 4

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Index of agricultural production (1978 = 100)	104.6	87.7	86./	82.5 ⁶	-5.6	2.0	-1.1*	-4.9 ⁶
Crop farming	107.4	89.4	86.7 ⁶	78.5 ⁶	-5.0	0.7	-3.0*	-9.5 ⁶
Livestock raising	88.3	77.7	80.8 ⁶	83.2 ⁶	-9.6	12.0	4.0 ⁶	3.0 ⁶
Production of main crops'								
For export								
Coffee	186	147	147	136	-11.5	-3.4	-0.3	-7.1
Cotton	61	31	25	16	1.8	-22.8	-20.7	-35.3
Sugarcane	2 564	3 402	3 455	3 655	27.1	12.8	1.6	5.8
For domestic consumption								
Maize	521	520	488	432	7.0	19.0	-6.1	-11.5
Beans	39	48	34	48	10.5	15.4	-29.5	43.7
Milled rice	39	39	42	32	22.1	46.5	8.8	-22.9
Sorghum	138	139	131	133	-0.8	14.1	-5.6	1.4
Stock-raising indicators								
Number of animals slaughtered								
Cattle"	185	148	141	148	-1.3	0.7	-4.6	4.9
Pigs'	126	140	140	123	9.2	-9.7	-	-12.5
Poultry'	14	21	27	29	18.7	10.5	28.6	7.4
Other products								
Milk'	331	275	311	330	-22.1	32.2	13.1	6.1
Egg/	818	854	659	700	0.6	0.6	-22.8	6.2

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador and the Ministry of Agriculture.
 "Preliminary figures. "Estimated on the basis of variations in value added at constant prices. "Thousands of tons. ^Thousands of head. 'Millions of bottles. ^Millions of units.

Table 5

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Index of value added (1980 = 100)	83.7	848	87.9	90.1	2.0	1.3	3.7	2.1
Foodstuffs, beverages and tobacco	87.6	90.6	96.6	100.6	-0.1	3.4	6.6	4.2
Textiles, clothing and leather products	63-8	63.3	58.1	57.0	-8.3	-0.8	-8.2	-2.0
Textiles	57.4	55.1	46.9	46.0	5.8	-4.0	-14.9	-2.0
Clothing, footwear and other leather products	69.9	71.2	69.0	67.6	-17.5	1.8	-3.1	-2.0
Wood and paper	89.7	82.4	81.4	80.0	23.1	-8.1	-1.3	-1.7
Wood and wood manufactures	124.1	114.8	117.7	119.5	32.5	-7.5	2.5	1.5
Paper and paper products	63.7	57.9	53.9	50.3	11.7	-9.1	-6.9	-6.8
Chemicals and petroleum and rubber products	88.1	87.2	82.6	81.4	6.2	-1.1	-5.3	-1.4
Chemicals	105.3	108.3	96.1	97.7	12.4	2.8	-11.2	1.6
Petroleum and rubber products	80.6	77.9	76.6	74.3	3.0	-3.4	-1.7	-3.0
Non-metallic mineral products	88.7	80.6	84.6	85.6	5.8	-9.1	5.0	1.1
Machinery and metal products	65.5	67.5	72.7	66.6	8.1	3.1	7.7	-8.4
Metal products	70.2	80.6	90.4	90.5	8.7	14.8	12.1	0.2
Machinery and equipment	63.2	61.4	64.5	55.4	7.8	-2.9	5.0	-14.0
Other manufactures	62.4	68.7	63.2	64.0	-0.4	10.1	-8.1	13
Other indicators of manufacturing production								
Consumption of electricity by industry	482	484	499	489 ^e	-0.4	0.4	3.1	-2.1

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

"Preliminary figures. Millions of kWh. 'Estimated on the basis of the variation in the period January-October, according to the records of CAESS, which distributes nearly 65% of the electricity consumed by industry in the country.

Table 6

EL SALVADOR: INDICATORS OF ELECTRICITY GENERATION AND CONSUMPTION

	Millones de kWh					Growth rates			
	1980	1983	1984	1985	1986"	1983	1984	1985	1986"
Output	1 540	1 600	1 671	1 784	1 839	7.5	4.4	6.7	3.1
Total consumption	1 338	1 354	1 415	1 486	...	5.0	4.5	5.0	
Residential	388	435	461	474		8.7	5.9	2.9	
Commercial	174	191	182	195		11.5	-4.5	7.0	
Industrial	557	482	484	499		-0.5	0.4	3.1	
Government and other	219	246	288	318		5.8	17.0	10.4	

Source: ECLAC, on the basis of data supplied by the Department of Energy and Mining Resources.

"Preliminary figures estimated on the basis of the annual variation in the gross amount of electricity generated according to the records of the Lempa River Hydropower Executive Commission (CEL).

Table 7

EL SALVADOR: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
	Growth rates						
Exports							
Value	-5.0	-25.8	-11.8	4.5	-1.3	-6.5	7.1
Volume	-14.7	-23.7	-13.6	25.8	6.6	-2.4	-12.1
Unit value	11.4	-2.7	2.2	-17.0	-7.4	-4.2	21.9
Imports							
Value	-6.0	0.2	-8.1	0.6	10.1	-1.7	4.4
Volume	-24.7	-5.8	-8.1	6.9	4.6	-2.4	10.0
Unit value	24.8	6.3	-	-5.9	5.2	0.7	-5.0
Terms of trade	-9.7	-8.7	1.9	-12.3	-12.7	-5.0	28.0
	Indexes (1980= 100)						
Purchasing power of exports	100.0	69.6	61.3	67.6	62.9	58.4	65.6
Volume of exports	100.0	76.3	65.9	82.9	88.4	86.3	75.8
Volume of imports	100.0	94.2	86.6	92.6	96.8	94.5	104.0
Terms of trade	100.0	91.3	93.0	81.5	71.2	67.7	86.6

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 8

EL SALVADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance of current account	-1	-272	-271	-211	-243	-199	-173
Trade balance	45	-237	-218	-187	-260	-256	-271
Exports of goods and services	1 215	924	822	873	894	854	890
Goods, FOB	1 075	798	704	735	726	679	727
Real services	140	126	118	138	168	175	163
Transport and insurance	25	20	23	30	44	46	43
Travel	13	14	20	24	30	31	29
Imports of goods and services	1 170	1 161	1 041	1 061	1 153	1 110	1 161
Goods, FOB	897	898	826	831	915	899	939
Real services	273	263	215	230	239	211	222
Transport and insurance	84	113	72	81	86	67	70
Travel	106	69	60	74	74	82	87
Factor services	-63	-74	-105	-121	-101	-69	-45
Profits	-41	-40	-45	-36	-40	-42	-43
Interests received	18	13	14	13	17	19	19
Interests paid	-72	-73	-98	-107	-110	-110	-111
Others	31	26	24	10	32	64	90
Unrequited private transfer payments	17	39	52	97	118	126	143
Balance on capital account	-74	223	242	235	250	242	158
Unrequited official transfer payments	31	21	119	174	190	220	251
Long-term capital	174	185	189	317	74		
Direct investment (net)	6	-6	-1	28	12		
Portfolio investment (net)	-1	-	-1	-	-		
Other long-term capital	169	191	191	289	62		
Official sector ⁰	167	191	185	283	72	88	50
Loans received	201	257	291	421	257	135	101
Amortization payments	-29	-62	-84	-137	-183	-47	-51
Commercial banks ^c	3	-	-	-1	-1		
Loans received	4	-	1	-	-		
Amortization payments	-1	-	-1	-1	-1		
Other sectors ⁰	-1	-	6	6	-10		
Loans received	36	28	36	28	9		
Amortization payments	-37	-28	-30	-22	-18		
Short-term capital (net)	38	76	-36	-215	28	-41	-60
Official sector	194	96	-65	-121	10	-	-54
Commercial banks	-67	-11	29	-33	-7	-36	-20
Other sectors	-89	-10	-	-61	26	-5	14
Errors and omissions (net)	-317	-60	-30	-41	-42	-21	-83
Global balance	-75	-49	-29	24	7	47	-15
Total variation in reserves (- sign indicates an increase)	69	43	27	-39	-19	-30	15
Monetary gold	-	-	-	2	-	-	
Special Drawing Rights	17	-	-2	2	-	-	
IMF reserve position	11	-	-	-	-	-	
Foreign exchange assets	34	6	-35	-53	-6	-14	
Other assets	-	-	-	-	-	-	
Use of IMF credit	7	37	64	11	-13		

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

⁰Preliminary figures subject to revision.
granted and other assets and liabilities.
entries.

Includes other non-factor services. This entry includes net loans
^aEquals the total variation in reserves (of opposite sign) plus counterpart

Table 9

EL SALVADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	726	679	727	100.0	100.0	4.5	-1.3	-6.5	7.1
Central America	157	96	84	27.5	11.6	-3.5	-6.3	-39.1	-11.7
Rest of world	569	583	643	72.5	88.4	7.1	0.2	2.5	10.2
Main traditional exports	505	510	570	71.2	78.4	6.2	0.5	0.9	11.8
Coffee	450	448	527	60.9	72.5	-	11.9	-0.5	17.7
Cotton	9	29	4	7.9	0.5	22.8	-83.7	218.7	-87.9
Sugar	26	23	25	12	3.5	152.4	-35.4	-10.4	8.6
Shrimp	20	10	14	1.2	1.9	-24.4	37.3	-51.5	42.9
Main non-traditional exports	37	24	11*	5.9	1.5	-6.9	0.8	-33.0	-54.5"
Perfumery, toiletries and cosmetics	11	7	-	1.4	-	7.9	20.4	-36.3	-
Insecticides, fungicides and disinfectants	5	5	A"	0.6	0.6	-	-8.7	8.5	-23.5 ^{fr}
Cotton yarns and thread	13	9	f	1.0	0.9	24.7	7.4	-27.3	-25.8*
Clothing	8	3	.	2.9	-	-53.9	-20.8	-63.2	-
Other	184	145	146	22.9	20.1	3.8	-2.6	-21.2	0.7*

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.
 "Preliminary figures. Estimated on the basis of the period January-August.

Table 10

EL SALVADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	978	961	1003	100.0	100.0	4.0	9.5	-1.7	4.4
Central America	254	217	228	33.3	22.7	-10.6	9.0	-14.7	5.2
Rest of world	724	744	775	66.7	77.3	10.7	9.7	2.9	4.1
Consumer goods	277	259	244	31.9	24.4	0.6	5.2	-6.4	-5.6
Durables	38	48	29	3.5	2.9	10.4	32.4	26.1	-39.2
Non-durables	239	211	215	28.4	21.5	-0.5	1.8	-11.6	2.1
Raw materials and intermediate products	569	545	579	56.6	57.7	5.0	6.8	-4.2	6.2
Petroleum and fuels	130	133	77	15.7	7.7	0.4	-3.7	2.5	-42.2
Construction materials	51	46	67	5.9	6.7	12.2	-1.6	-8.7	45.9
Fertilizers	25	40	50	35.0	4.9	45.1	-6.4	58.0	25.3
Other	363	326	385		38.4	3.6	13.5	-10.2	18.1
Capital goods	132	157	180	11.6	17.9	4.4	27.0	19.3	14.1
Manufacturing	43	43		4.7		17.1	13.0	1.6	
Transport	53	68	76	3.5	7.6	-7.2	54.3	27.2	11.9
Agriculture	13	14	13	0.8	1.3	45.6	31.3	3.8	-1.5
Construction	5	6	9	1.3	0.8	-32.1	-5.5	19.2	37.1
Other	18	27		1.4		7.2	9.8	48.9	

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.
 "Preliminary figures.

Table 11

EL SALVADOR: INDICATORS OF EXTERNAL INDEBTEDNESS

	1981	1982	1983	1984	1985	1986 ^a
Millions of dollars						
Total external debt	1 608	1 808	2 023	2 095	2 162	2 093
Balances						
By institutional sectors						
Public	1 391	1 615	1 839	1 909	1 982	1 927
Central Reserve Bank of El Salvador	738	799	844	824	789	684
Central government and autonomous institutions	653	816	995	1 085	1 193	1 243
Private	217	193	184	186	180	166
By repayment periods						
Medium- and long-term	1 168	1 445	1 740	1 798	1 870	1 815
Public	1 021	1 311	1 619	1 684	1 757	1 730
Private	147	134	121	114	113	85
Short-term	440	363	283	297	292	278
Public	370	304	220	225	225	197
Private	70	59	63	72	67	81
Disbursements		331	612	340	256	261
Public		323	604	330	252	218
Central Reserve Bank of El Salvador		139	401	201	96	117
Central government and autonomous institutions		184	203	129	156	101
Private	16	8	8	10	4	43
Servicing	301	223	519	364	255	427
Amortization payments	234	130	397	269	189	330
Interest payments	67	93	122	95	66	97
Percentages						
Total external debt/exports of goods and services	174.0	219.7	231.7	234.3	253.2	235.2
Servicing/exports of goods and services	32.6	27.1	59.5	40.7	29.9	48.0
Interests payments/exports of goods and services	7.3	11.3	14.0	10.6	7.7	10.9
Servicing/disbursements		67.4	84.8	107.1	99.6	163.6

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador in respect of the public external debt and by the Ministry of Planning in respect of the private external debt.

Preliminary figures. * Year-end balances of disbursed debt.

Table 12

EL SALVADOR: DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986
Variation from December to December							
Consumer price index	18.6	11.6	13.4	14.8	9.8	31.9	30.2
Food	22.5	14.4	11.0	17.9	10.6	27.5	30.3
Wholesale price index	16.7	10.0	9.2	8.1	14.0	16.4	22.7"
Imported products	12.1	7.3	12.7	3.4	14.0	23.5	23.9"
Domestic products	24.0	14.8	7.6	12.2	7.1	9.2	26.2"
Variation between annual averages							
Consumer price index	17.4	14.7	11.7	13.1	1.1.7	22.4	31.9
Food	19.7	17.7	10.6	13.4	14.1	18.9	31.8
Wholesale price index	18.3	12.5	8.4	8.0	7.1	17.9	25.0 ⁶
Imported products	17.3	8.1	12.0	5.3	5.1	23.5	25.7*
Domestic products	23.5	18.4	7.4	10.5	6.7	8.5	25.4 ⁶

Source: ECLAC, on the basis of official figures.

"Variation from July to July. Variation from January to July.

Table 13

EL SALVADOR: WAGES

	Indexes (December 1978 = 100)				Growth rates							
	1983	1984	1985	1986	1980	1981	1982	1983	1984	1985	1986	
	Nominal minimum wages"											
Agricultural workers	122.4	122.4	122.4	184.1	10.1	-	-	-	-	-	50.4	
Harvesting												
Coffee	146.2	146.2	146.2	146.2	35.1	-	-	-	-	-	-	
Sugar cane	209.1	209.1	209.1	209.1	56.3	21.4	-	-	-	-	-	
Cotton	161.5	161.5	161.5	161.5	23.2	26.3	-	-	-	-	-	
Seasonal crop-farming industries												
Coffee processing	200.0	200.0	200.0	200.0	82.0	-	-	-	-	-	-	
Sugar refining	133.3	133.3	133.3	133.3	24.0	-	-	-	-	-	-	
Cotton processing	128.0	128.0	128.0	128.0	20.4	-	-	-	-	-	-	
Other activities in San Salvador												
Industry and services	157.1	176.2	185.7	212.5	35.7	6.4	-	-	12.2	5.4	14.4	
Commerce	152.8	171.3	180.6	206.6	28.1	6.4	-	-	12.2	5.4	14.4	
Real minimum wages												
Agricultural workers	66.1	59.2	48.4	55.2	-6.3	-12.8	-10.5	-11.6	-10.4	-18.2	14.0	
Harvesting												
Coffee	79.0	70.7	57.8	43.8	15.2	-12.8	-10.5	-11.6	-10.5	-18.2	-24.2	
Sugar cane	113.0	101.2	82.7	62.7	33.1	5.8	-10.5	-11.6	-10.4	-18.3	-24.2	
Cotton	87.3	78.1	63.9	48.4	4.9	10.1	-10.5	-11.6	-10.5	-18.2	-24.3	
Seasonal crop-farming industry												
Coffee processing	108.0	96.8	79.1	60.0	55.0	-12.8	-10.5	-11.6	-10.4	-18.3	-24.1	
Sugar refining	72.0	64.5	52.7	40.0	5.7	-12.8	-10.5	-11.7	-10.4	-18.3	-24.1	
Cotton processing	69.2	61.9	50.6	38.4	2.6	-12.9	-10.5	-11.5	-10.5	-18.3	-24.1	
Other activities in San Salvador												
Industry and services	84.9	85.2	73.4	63.7	15.7	-7.3	-10.5	-11.6	0.4	-13.8	-13.2	
Commerce	82.5	82.9	71.4	61.9	9.2	-7.2	-10.5	-11.7	0.5	-13.9	-13.3	

Source: ECLAC, on the basis of official figures.

"Calculated on the basis of the average annual wage.

Deflated on the basis of the consumer price index.

Table 14

EL SALVADOR: MONETARY INDICATORS

	Year-end balances (millions of colones)				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
Monetary base	1426	1 629	1993	2 004	4.5	14.2	22.3	0.6
Money (M [^])	1448	1699	2 156	2 611	-1.5	17.3	26.9	21.1
Quasi-money	2 004	2 496	3 208	4 348	22.7	24.6	28.5	35.6
Money plus quasi-money (M ₂)	3 452	4 195	5 364	6 959	11.2	21.6	27.8	29.8
Domestic credit	5 223	5 856	7 025	7 792	-1.2	12.1	20.0	10.9
To the public sector	2 205	2 534	2 832	2 684	-13.1	14.9	11.8	-5.2
Central government (net)	1 373	1614	1821	1634	-9.7	•17.6	12.8	-10.3
Public institutions	832	920	1 011	1050	-18.1	10.6	9.9	3.8
To the private sector	3 018	3 322	4 193	5 108	9.7	10.1	26.2	21.8
	Coefficients ⁰							
Monetary multipliers								
M ₁ /monetary base	1.01	1.01	1.06	1.01				
M ₂ /monetary base	2.45	2.67	2.88	2.95				
Speed of circulation:								
GDP/M ₁	7.01	6.86	6.65	7.54				

Source: ECLAC, on the basis of figures supplied by the Central Reserve Bank of El Salvador.

⁰Preliminary figures.

°Includes cash plus deposits made by commercial and mortgage banks in the Central Reserve

Bank of El Salvador.

⁰Calculated on the basis of annual averages.

Table 15

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates			
	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
1. Current income	1262	1546	1913	2 826	13.3	22.4	23.7	47.8
Tax revenue	1080	1 351	1660	2 545	13.4	25.1	22.9	53.4
Direct	306	341	385	489	4.0	11.4	12.8	27.1
Indirect	774	1010	1 275	2 056	17.6	30.5	26.3	61.3
On foreign trade	279	373	533	1 205	-0.1	33.8	43.0	126.0
Non-tax revenues	182	195	253	281	12.9	6.8	29.6	11.2
2. Current expenditure	1 507	1770	1909	2 721	14.9	17.5	7.8	42.6
Remunerations	789	1005	1 182	1 526	8.3	27.3	17.6	29.1
Purchase of goods and services	285	295	271	395	28.7	3.5	-8.2	45.7
Interest payments	205	165	172	284	120.9	-19.4	3.8	65.7
Transfer and other payments	228	305	284	516	-15.4	34.1	-6.8	81.6
3. Current savings (1-2)	-245	-224	4	105	...	...	...	...
4. Capital expenditure	1254	953	700	1 361	113.4	-24.0	-26.6	94.4
Real investment	395	346	370	600	11.3	-12.2	6.7	62.4
Debt amortization	607	267	152	350	686.7	-56.1	-42.9	129.8
Other capital expenditure*	252	340	178	411	14.1	35.0	-47.6	130.3
5. Total expenditure (2 + 4)	2 761	2 723	2 609	4 082	45.3	-1.3	-4.2	56.5
6. Fiscal deficit (1-5)	-1499	-1 177	-696	-1256	90.7	-21.4	-40.9	80.2
7. Financing of deficit								
Domestic financing (net)	47	324	118	237				
Central Bank	-147	147	215	-302				
Sale of securities	-	41	45	115				
Other	194	136	-142	424				
External financing	1452	853	578	1 019				
Credit received	287	262	321	407				
Other ^c	1 165	591	257	612				
Ratio (percentages)								
Current savings/capital expenditure	-19.5	-23.5	0.6	7.7				
Fiscal deficit/total expenditure	54.3	43.2	26.7	30.8				
Tax revenue/GDP	10.6	11.6	11.6	12.9				
Total expenditure/GDP	27.2	23.4	18.2	20.7				
Fiscal deficit/GDP	14.8	10.1	4.9	6.4				
Domestic financing/deficit	3.1	27.5	17.0	18.9				
External financing/deficit	96.9	72.5	83.0	81.1				

Source: ECLAC, on the basis of figures supplied by the Ministry of Finance and the Central Reserve Bank of El Salvador.

^aPreliminary figures. Includes capital transfer, net loans granted and net shares acquired. Includes net sales of bonds and other means of financing.

GUATEMALA

1. Recent economic trends: Introduction and summary

The severe depression which has been affecting the Guatemalan economy for the past six years continued during 1986. The economic situation has been characterized by a steady fall in the per capita domestic product, intense inflationary tensions, balance-of-payments disequilibria, a deterioration of public finances and worsening employment conditions. Thus, the real gross domestic product remained at its low level of the preceding year (6% less than in 1980), which in per capita terms was equivalent to a 20% drop. This was coupled with a steep decline (-13%) in imports of goods and services as a result of the severe adjustment being undergone by the economy, which contributed to a contraction in total supply for the second year in a row (see table 1 and figure 1).

Most of the variables of total demand showed signs of a decline or of virtual stagnation as part of a reciprocal chain reaction that accentuated the depressive trends. Private investment in fixed capital showed a slight upswing, but even so it was 30% lower than in 1980.

Given the existence of a considerable amount of idle capacity, mainly in industry, the chief obstacle to reactivating production and promoting new investment projects was the loss of dynamism of both domestic and regional demand. The continued decrease in the real incomes of large segments of the population led to an additional deterioration in per capita private consumption, which sank to a level last observed 15 years ago. Overseas sales of new products were not sufficient to activate the productive apparatus or to encourage investment.

Furthermore, the deterioration of public finances prevented the State from continuing to stimulate productive activities, inasmuch as, despite the fact that there was again a budget deficit, it was not possible for government spending to perform the compensatory role it had played in the past. Even so, the systematic downward trend in public investment reversed itself (with a rise of 3%, following a cumulative drop of more than 60% during the preceding three-year period), and the increase in general government consumption was substantially greater than the decrease observed during the preceding period.

Finally, the unsatisfactory performance of exports of goods and services reflected the existence of adverse conditions for some products on the international market, as well as the productive sector's feeble response to the difficulties experienced in adapting supply and shortcomings in the area of marketing.

Nevertheless, in contrast to what had occurred in previous years, foreign trade showed some favourable signs which allowed the sector to function more smoothly, even though this did not modify its recessive trends to any appreciable extent. The oil bill was lower due to the decrease in the international price of hydrocarbons and to a diminished need for oil imports as the Chixoy hydroelectric plant went into full operation. International coffee prices rose significantly, offsetting the unfavourable effects of the continuous downturn in the prices of other agricultural export products. Consequently, the terms of trade improved substantially (29%).

However, the foreign debt continued to absorb a high percentage of the available foreign exchange, and the marked decline in net loans persisted. Along with this, there was an even greater weakening of demand by the Central American Common Market as a result of the crisis of recent years.

At the domestic level, the considerable rise in the variation between the annual averages of the consumer price index (37%), the surge in unemployment and the steep drop-off in real wages adversely influenced productive activity. Moreover, even though the government launched a reorganization programme designed to give its economic policy greater continuity and coherence and to clarify the "rules of the game", during a good part of the period the business sector maintained the "wait and see" attitude that has characterized it for years now. In addition, some productive activities

Figure 1
 GUATEMALA: MAIN ECONOMIC INDICATORS

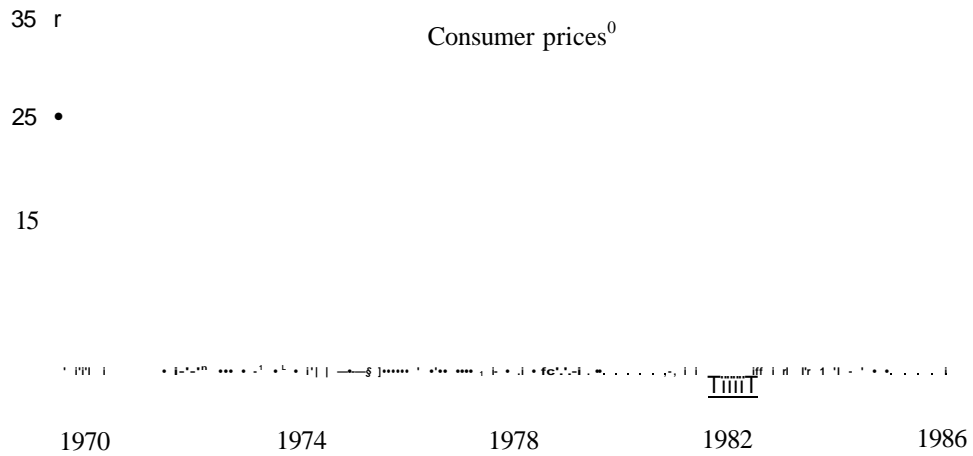
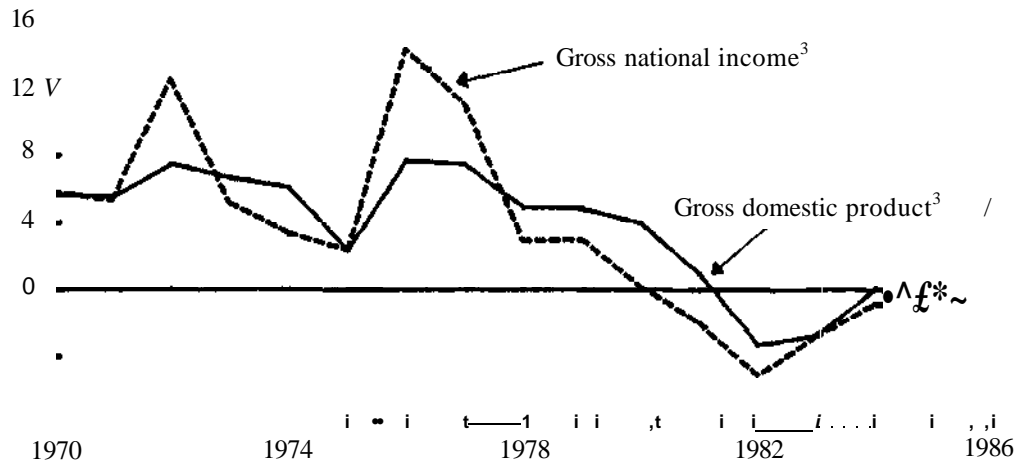
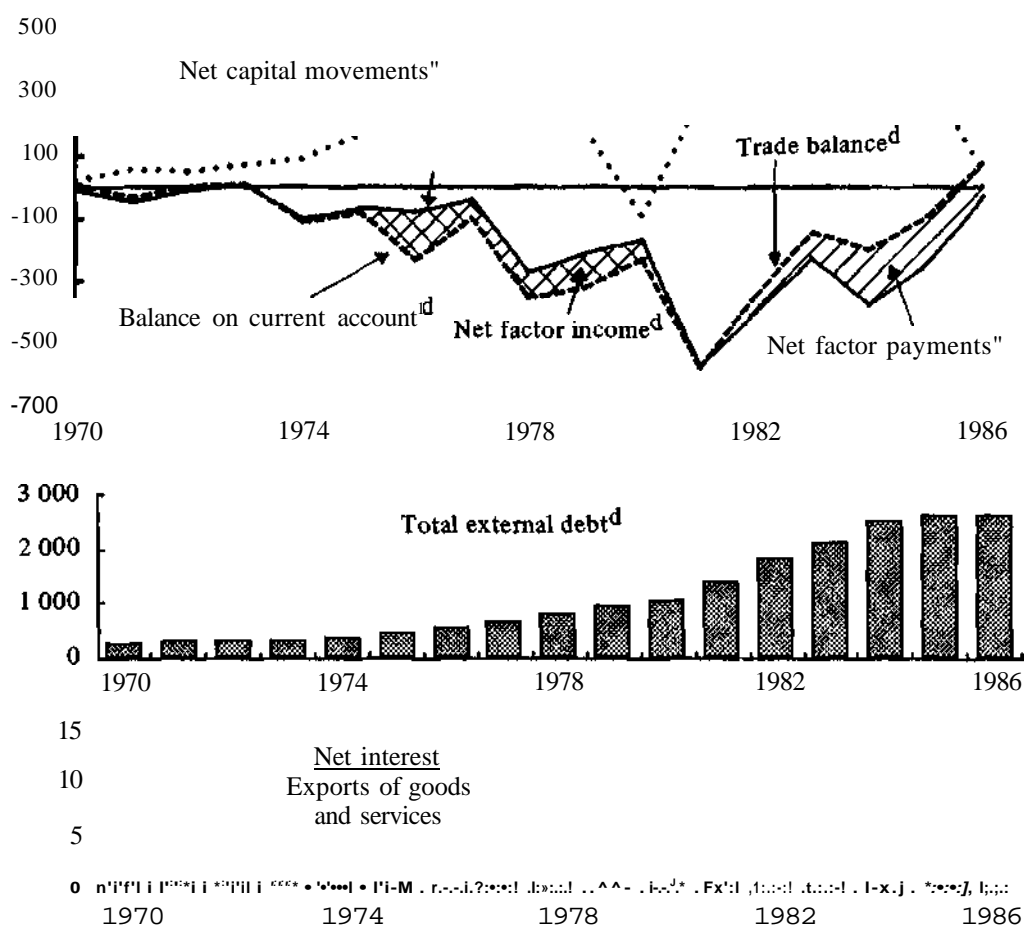


Figure 1 (concluded)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. ^bAverage annual rate nationwide. Official estimates. Percentage variation from December to December. ^din millions of dollars. ^ePercentages.

encountered problems in obtaining supplies of imported inputs. Furthermore, the slackening of investment seems to have had structural effects on some segments of the productive apparatus; this is especially disturbing because the implications of such a development would extend beyond the current economic scenario. For example, cotton production activities were reduced to a minimum, and among the country's exportable goods no other product of similar value materialized. Some industries have gone for several years now without renewing machinery and equipment, and some chains of production have been weakened or have become disarticulated.

The recommencement of the democratization process with the rise to power of a new civilian government in mid-January and the improvement of some aspects of foreign trade generated an optimistic outlook. Some of this government's initial economic measures were a liberalization of prices aimed at spurring production and ensuring the supply of mass consumer goods, restrictions on budget performance (at least for the central government) and a prudent monetary policy. Nevertheless, the incongruity or lack of continuity of the economic strategy that had been applied during the preceding period created distortions in the productive and financial system which sharpened the adverse effects of the overall economic crisis.¹

¹See ECLAC, *Notas para el Estudio Económico de América Latina y el Caribe 1981, Guatemala* (LC/MEX/L.29), 13 June 1986.

The authorities then designed the Short-Term Economic and Social Reorganization Plan, which took effect in July and was to be applied for at least one year. The dual purpose of this plan was to ease inflationary pressures and to help raise the level of employment. The measures provided for by the plan included a lowering of the fiscal deficit, the limitation of the money supply and a reduction of pressures on the exchange rate through, among other steps, the establishment of a regulated exchange rate of 2.50 quetzales to the dollar for most external trade transactions; the creation of an extra tax on exports; the application of a special tax on international telephone services; an increase in other public service rates and charges, especially for water and power; the granting of some subsidies; the implementation of a programme designed to create 40 000 jobs; and a curbing of credit to the public sector.

Although the six months during which this plan had been applied at the time of writing is not a sufficient basis for an evaluation, it should be noted that by the end of the year the exchange rate on the parallel market had dropped to only slightly above the controlled rate, which led to the virtual disappearance of that market. In addition, the fall in production was arrested; in the opinion of the authorities, this decline would have amounted to around -2% had the plan not been applied. The deficit on the current account of the balance of payments was nearly eliminated, and the growth of monetary variables tapered off. In contrast, however, the fiscal deficit rose once again, inflation accelerated sharply, although late in the year its rate was slowing down; unemployment escalated and real wages shrank.

Some short-term indicators suggest that in the last quarter there were signs of a stabilization and some improvement in the macroeconomic situation. Private investment reacted timidly, but was stimulated by the dynamism of the inbond assembly (*maquiladora*) industry, and there was thus some intimation of a change in the downward trend of production.

2. Trends in economic activity

a) *Total supply and demand*

Economic activity did not come out of the depression in which it has been enveloped since 1982. The gross domestic product remained stagnant, despite the determined efforts undertaken without delay by the new government. Specifically, its economic policy sought to stimulate supply by loosening restrictions on the prices of a considerable number of goods which according to the entrepreneurial sector, involved high production *costs*. A more realistic exchange rate was also applied, which undoubtedly benefitted export activities, and the government did succeed in reducing the pressure exerted by the public sector on domestic credit thereby encouraging the allotment of credit to the private sector. In addition, it maintained a cautious attitude regarding wages in order to hold back inflation.

Because of the adjustment measures applied to the productive system, imports of goods and services slid once again, thus heightening the strain on the productive apparatus. As a result, the import coefficient, which in 1985 was around 25% (a level that could be considered normal), slipped to 15%. As a consequence of the stagnation of the product and the decline in external purchases, overall supply decreased for the second consecutive year, this time by approximately 1% (see table 2).

On the demand side, almost all the variables continued to show negative signs, as they also had during the four preceding years. Gross domestic investment, which the year before had plummeted 16%, dipped by slightly more than 1%, partially due to the persistence of a significant degree of unused productive capacity. The obsolescence and deterioration of installed capital, as well as the literal decapitalization of some sectors or segments thereof, may have limited the capacity of the productive complex to react to the appearance of more favourable circumstances. Due to the fact that it has been at a virtual standstill for the last three years, private fixed investment was even 30% lower than it had been in 1980. In its turn, the rise (3%) in public investment was insignificant in comparison to its steep decrease of the preceding years. As a consequence of financial setbacks suffered by the sector and the efforts being made to lower the fiscal deficit—as part of the adjustment policy that had been adopted—the accumulation of fixed capital was 40% less than in 1980, and thus constituted yet another factor in the contraction of the productive system.

Private consumption expanded slightly more than 2%, but waned again in per capita terms. This decrease, when added to those of the past six years, brought this variable down to a level lower than that of 1972. The middle and lower income strata have had to alter their consumption patterns and thus to find new ways of surviving on the fringes of the formal economy. At the same time, critical poverty has sharpened and the critically poor population has increased.

General government consumption rose more than enough to offset its 1985 decrease, principally as a result of the fact that social services (education and health) were restored to their former levels. Nonetheless, partial indicators suggest that the provision of some of these services continued to decline since they were probably the first expenditures to be cut in the past in an attempt to balance the fiscal budget.

The exportation of goods and services was the component of overall demand that showed the greatest contraction (-17%) in 1986. This was partly attributable to the losses sustained by some productive sectors, to the uncertainty still prevailing among some entrepreneurial groups, and to the constraints stemming from agricultural cycles.

b) *Trends in the main sectors*

The product of the main sectors generally remained stagnant, with only some activities of little significance showing increases, such as mining, construction, energy and finance (see table 3).

i) *Agriculture.* This activity, which continues to be the most important in the economy, has remained virtually stagnant since the beginning of the decade (see table 4). Structural problems were compounded by difficulties associated with the present economic situation, which included weak external demand, price instability, rising production costs and, in some cases, financial constraints. Consequently, despite a conjunctural improvement in international coffee prices and exchange rate advantages, it proved impossible to boost the volume of foreign sales of exportable agricultural products.

Coffee, the main export crop, enjoyed a temporary incentive in the form of an international price hike of over 40%, as well as being benefitted, as were all exportable goods, by the government's exchange rate policy. Nevertheless, the increase in production (around 2%) was insufficient to offset the preceding year's contraction. This rise does, however, appear to foreshadow a more sustained recovery, to which the easing of some social conflicts relating to coffee production is also likely to contribute.

The amount of land sown with cotton decreased to a little more than one-half its former figure, with the consequent drop in the harvest amounting to approximately 36%, chiefly because of a sharp slump in the international price. Other factors in this poor performance included technological limitations, increases in the prices of imported inputs and insufficient credit.

The sugar cane harvest rose almost 3%, triggered by a domestic price hike of slightly more than 30%. Given the unfavourable outlook on the international market and the existence of a large amount of idle processing capacity, for several years now the experts have been studying the possibility of producing a sugar-based alcohol fuel, which would also make it possible to save foreign exchange that would otherwise be expended on energy imports. However, the fall in the international price of oil may reduce the justification for this project.

Basic grain harvests rose considerably (5% in the case of maize and beans) due to the increase in the area of land under cultivation and generally favourable weather conditions. Nonetheless, it was still necessary to import grain to supply the domestic market, which signalled a dwindling capacity to maintain a satisfactory margin of food security.

ii) *Mining and hydrocarbons.* Although this sector's contribution continued to be scant, the dynamism it exhibited in 1986 (29%) helped to compensate for decreases in other sectors (see table 5). Once again, a decisive factor in the sector's performance was oil production, which is gradually —although on a somewhat unstable basis— becoming one of the country's principal non-traditional export products. A boost in the output of oil wells, drilling activities yielded 1.9 million barrels as compared to 0.9 million the year before.

Furthermore, the outlook for oil-production activity improved. The legal modifications introduced in 1985² permitted the signing of five new contracts for the prospecting and exploitation of an area of 275 000 hectares.

²ECLAC, *Notas para el Estudio Económico op. cit.*

iii) *Manufacturing*. The value added of the sector continued to be virtually stagnant, making the absolute level much lower than that of 1980; this is an indication of a discouraging structural change, as is the decline in the industrialization coefficient. In fact, this is one of the activities that has been most affected by the crisis. The loss of dynamism marking both Central American and domestic demand is a disincentive for the entrepreneurial sector. The increase in the cost of imported inputs and the difficulties encountered in obtaining the foreign exchange necessary to purchase such supplies have also become serious obstacles to a rise in production (see table 3).

Partial indicators suggest that the food and textile subsectors showed a slight recovery, while clothing, chemicals and metals and metal machinery underwent a further contraction (see table 6).

Apparently, during the latter part of the year manufacturing rallied to some extent. In the business opinion survey covering the first six months of the year, almost one-third of the enterprises reported that they were using less than 50% of their installed capacity and that their output had been lower than during the same period of the preceding year. In the survey, corresponding to the final six months of the year, however, only 15% of the entrepreneurs questioned said that there had been a decrease in output, and the percentage of businesses utilizing less than 50% of their installed capacity also declined (see table 7). Finally, it should be mentioned that there was also an upturn in the inbound assembly (*maquiladora*) industry, which has been receiving special support.

iv) *Construction*. After four years of steady and substantial downturns, construction saw a slight recovery (3%). This was based on the performance of private construction, which, for the second consecutive year, expanded enough to effect a turnaround in the overall trend of the sector and reflected a certain change in attitude on the part of savers in the entrepreneurial sector. The surface area covered by building permits in the capital city rose 18%, and the cement production index climbed 8%, although its absolute level was only 3% higher than in 1980 (see table 8).

c) *Employment*

According to official estimates, open unemployment continued to rise, reaching 14.5% of the labour force. This reflects the difficulties which the productive apparatus is having in creating the additional jobs called for by the rapid rate of population growth. The figure for equivalent unemployment (30%), which shows the high level of underemployment, was an even more disturbing indicator (see table 9)- Although direct estimates in this regard were not available, some indicators suggest that the situation is even more critical in the metropolitan area, where marginalization and the informal sector have expanded.

The deterioration of labour conditions was demonstrated by the fact that only 28 000 of the 70 000 people who joined the economically active population during the year were covered by the social security system (see table 10).

3. The external sector

Although the conditions prevailing in the external sector had conflicting effects, overall they were favourable for the first time in the 1980s. However, the precarious position of the economy persisted, above all with regard to international liquidity. The positive factors included the significant increase in the unit value of exports (20%), along with a drop in the unit value of imports (8%), which resulted in a substantial improvement (29%) in the terms of trade. In addition, as the macroeconomic situation grew better and exchange rate advantages stimulated the export sector, an upturn was seen in non-traditional sales. On the other hand, the sector did not succeed in taking advantage of the boost in the prices of some traditional goods, sales to the Central American Common Market continued to taper off, and the debt servicing burden grew, while difficulties in obtaining net financing were also encountered.

a) *Merchandise trade*

The value of merchandise exports waned slightly (-0.2%), following their contraction in 1985. The decline was not greater only because of the upswing in their unit value, since their volume fell sharply (-17%), after having been at a standstill during the preceding two years (see table 11).

Coffee sales expanded by 11%, owing to an international price hike of over 40%, which was partly offset by the drop in the volume exported (-27%), despite a slight increase in production. The benefits derived from the exchange rate adjustments made in the last quarter of 1985 boosted forward sales, and it was thus not possible to take advantage of the favourable market for coffee that prevailed during 1986 (see table 12).

Particularly adverse conditions in international markets caused a further downturn in the value of cotton sales. Due to the slide in output, the exported volume declined 20%, and this was compounded by a 40% contraction in the unit price. In contrast, despite a price slump, sugar exports rose by around 11%; this was primarily attributable to sales to countries other than the United States, since the quota for that market was lowered as a result of the protectionist measures adopted in order to favour corn syrup. Banana exports also rose (by nearly 4%), thanks to the increase in their volume, since the price remained virtually unchanged.

External meat sales dropped off drastically, thus following the pronounced downward trend observed during the preceding five years. Production problems and what was possibly a deterioration of the cattle herd were compounded by a ban on meat exports during the month of April which was applied in an effort to ensure a supply for the domestic market and to keep domestic prices from rising further.

Oil exports doubled owing to the greater volume sold. Although the contribution of this product to total exports continued to be moderate (US\$25 million), its dynamic performance in 1986 and the efforts that have been made to stimulate national production would appear to presage the appearance of a new driving force for the external sector.

After a downturn (-6%) in 1985, the category of "other" non-traditional products, which is made up of a variety of chiefly industrial goods, showed a slight rally (2%), which to some extent reflects the moderate reactivation of production that occurred during the final quarter. With the help of exchange-rate modifications and other incentives, a new sector of small-scale exporters seems to be beginning to take shape which could eventually make significant contributions to production and to the generation of foreign exchange.

Finally, exports to the Central American Common Market fell by 4%, in line with the trend that began in 1980. Some of the factors contributing to this decrease were the defensive measures being implemented by the other countries of the subregion in an attempt to correct their balance-of-payments disequilibria; the fact that it was impossible for the Guatemalan authorities to increase the credits they granted to their trading partners because of their shortage of foreign exchange; and the low level of Central American demand in general. In any event, the small volume of intra-regional trade is a phenomenon affecting all the countries of the area and reflects the present crisis in economic integration, which, during the two preceding decades, had proved its capacity for generating reciprocal productive incentives.

The value of merchandise imports declined again (-15%), for a cumulative decrease of over 22% in the two-year period; this was attributable to the constraints stemming from the shortage of foreign exchange and the adjustment being made in the productive apparatus. Yet another factor was a slight descent in the average price index, which was largely a result of the deterioration of the price of hydrocarbons, as well as the reduced need for this product due to the opening of the Chixoy hydroelectric plant.

Almost all the various categories of imports showed a decrease. The marked contraction (-26%) in consumer goods—including a good part of the purchases from Central America—was particularly notable. This phenomenon was associated with the weakness of private consumption and the rationing made necessary by the shortage of foreign exchange (see table 13).

Capital goods imports fell off again (-8%), after a slight rally during the preceding two-year period. The drop in external purchases of goods for investment during a number of the last seven years has been so great that their share in total imports slid from 23% in 1975 to 18% in 1980, and to only 14% in 1986. This trend indicates that some sectors or segments thereof have been undergoing what is virtually a decapitalization process, which compromises the productive apparatus' future response capacity.

In their turn, imports of intermediate goods also slipped (-2%), as a direct consequence of the stagnation of productive activity; another factor, however, was the decline—in terms of both volume and price—in the oil bill, although this was partially offset by a recovery in the purchases of goods for construction in the last quarter of the year.

Imports of goods underwent a more pronounced contraction than did exports of goods. The merchandise trade balance thus showed a surplus of almost US\$140 million (15% of imports), in contrast to the customary deficit in this respect (see table 14).

b) *Services trade and factor payments*

The traditional trade deficit in real services was down sharply because of the more moderate level of payments, especially for transport and insurance and tourism services, and a slight rally in the external sales of the latter. Thus, for the first time in the last 10 years, the economy showed a surplus (US\$78 million) in its trade balance, which reflected the adjustment efforts undertaken during the year.

On the other hand, the deficit in factor services continued to grow, mainly as a consequence of interest payments on the short-term foreign debt, which, along with amortization payments, has gradually become one of the chief obstacles to the structuring of an economic recovery plan. Hence, despite the advances made with respect to real services in an effort to restore the external sector's capacity to contribute to economic growth, the current account of the balance of payments once again showed a deficit (US\$-32 million), although it was the lowest of the last 15 years.

c) *The deficit and its financing*

Net external financing amounted to US\$55 million, which was equivalent to one-seventh of the annual average for the preceding two-year period. Owing to the small size of the deficit on current account, gross international reserves grew moderately (US\$23 million). However, it has not been possible to make up for the losses of the 1979-1982 period, so net reserves remained negative.

The net balance of capital flows was particularly low in comparison to prior years, reflecting the problems that the financial area of the external sector is posing for domestic economic policy. Since 1985 the amount of private short-term foreign debt which has been falling due has begun to lead to major increases in amortization payments. In addition, net credits diminished, as the crisis in international financing persisted.

During 1986 some changes were seen in capital movements. Even though total gross inflows in this connection were similar to those of the preceding year, the net balance represented only a tiny fraction of that of 1985 due to the noticeable rise in debits. The Banco de Guatemala continued to use short-term financing (more than US\$130 million), but the volume of its amortization payments was US\$78 million higher; it also cut its medium- and long-term borrowing by US\$26 million.

d) *Exchange policy*

One of the key objectives of the Economic and Social Reorganization Plan was to restore to monetary authorities part of the control that they had traditionally exercised over exchange rate policy. The idea was to eliminate the multiplicity of exchange rates, which was skewing productive activity and promoting the development of speculative activities that were destabilizing the country's currency.

Accordingly, three well-defined markets were established. The official market maintained the official parity of one quetzal to the United States dollar; this rate was used only for official operations relating to the payment of the existing public debt. In what may be referred to as the regulated market, a parity of 2.50 quetzales to the United States dollar was established. This rate was to be guaranteed by the Banco de Guatemala for a series of commercial operations, which at the beginning of the second half of the year involved 615 products and by the end of the period, 1 000. Finally, the banking market, on which all the remaining external transactions were carried out, had a buying rate of 2.78 quetzales in January, reached its highest point in August (2.98) and closed in December very close to the rate of the regulated market (see tables 15 and 16).

The favourable trend in reserves, above all during the fourth quarter, made it possible for the demand for foreign exchange to be met fairly promptly, which eased the uncertainty that had prevailed as regards the exchange market. Thanks to this and to the moderateness of the expansion of the means of payment during the final months of the year, a sustained revaluation of the quetzal on the banking market and the disappearance of the unofficial market were achieved. This is undoubtedly the area in which the reorganization plan has been most successful. However, the existence of

three different currency markets, one of which —the official— did not involve operations that contributed to the supply of foreign exchange, caused the Central Bank to once again register exchange losses, which led it to undertake primary currency issues.

e) *The external debt*

The external debt has begun to figure as one of the chief obstacles to a reactivation policy; this is due less to its volume than to its structure, since almost half of the debt is made up of short-term liabilities.

In 1986, the total foreign debt approached US\$2.65 billion, which put Guatemala—in terms of the ratio of its debt to exports and the product— among the Latin American countries having a mid-range level of indebtedness. Aside from some temporary arrears involving small amounts, which were reprogrammed on a case-by-case basis, Guatemala is one of the countries which usually meets the servicing of its foreign debt. However, this has had recessionary effects on its economy which have been more severe than those suffered by other countries in a more difficult position with respect to external indebtedness.

Since 1983 foreign debt servicing has absorbed more than one-fourth of the country's goods and services exports, and in 1986 this coefficient reached 34%. The situation is all the more serious in view of the fact that its debt service payments were 77% greater than its use of foreign loans, which reflects the country's problems in gaining access to fresh capital. Although this situation is largely due to the tightening of the international credit market referred to earlier, it is also attributable in part to the public sector's difficulties in proposing projects that are acceptable to international lending agencies—which loan funds on better terms—and even its operational and financial shortcomings as regards the use of loans that have already been obtained (see table 17).

4. Prices and wages

The consumer price index witnessed an unprecedented average increase (37%). This translated into a deterioration in the real income of most of the population and generated a series of distortions in the price system that will require a realignment among the different microeconomic and macroeconomic variables and among productive agents (see table 18 and figure 2).

Although this acceleration of the inflationary process could be attributed to exchange measures, which supposedly affected production costs in the local currency, in reality the bulk of the country's productive activities were already operating on the basis of higher and more unstable exchange rates. Consequently, a considerable part of the inflation was due to the substantial expansion of the money supply observed in 1985, to the liberalization of prices that was implemented with a view to spurring the production of higher-cost goods, and to what might be described as a speculative attitude on the part of producers and consumers. This was coupled with a hike in some public service rates and prices which was aimed at restoring the financial standing of business enterprises and lessening the burden they represented for the State's weakened public finances.

Consequently, the economy was subject to inflationary pressures which only began to subside during the third quarter, when the relative slowdown of price rises combined with other indicators to form a more stable macroeconomic picture.

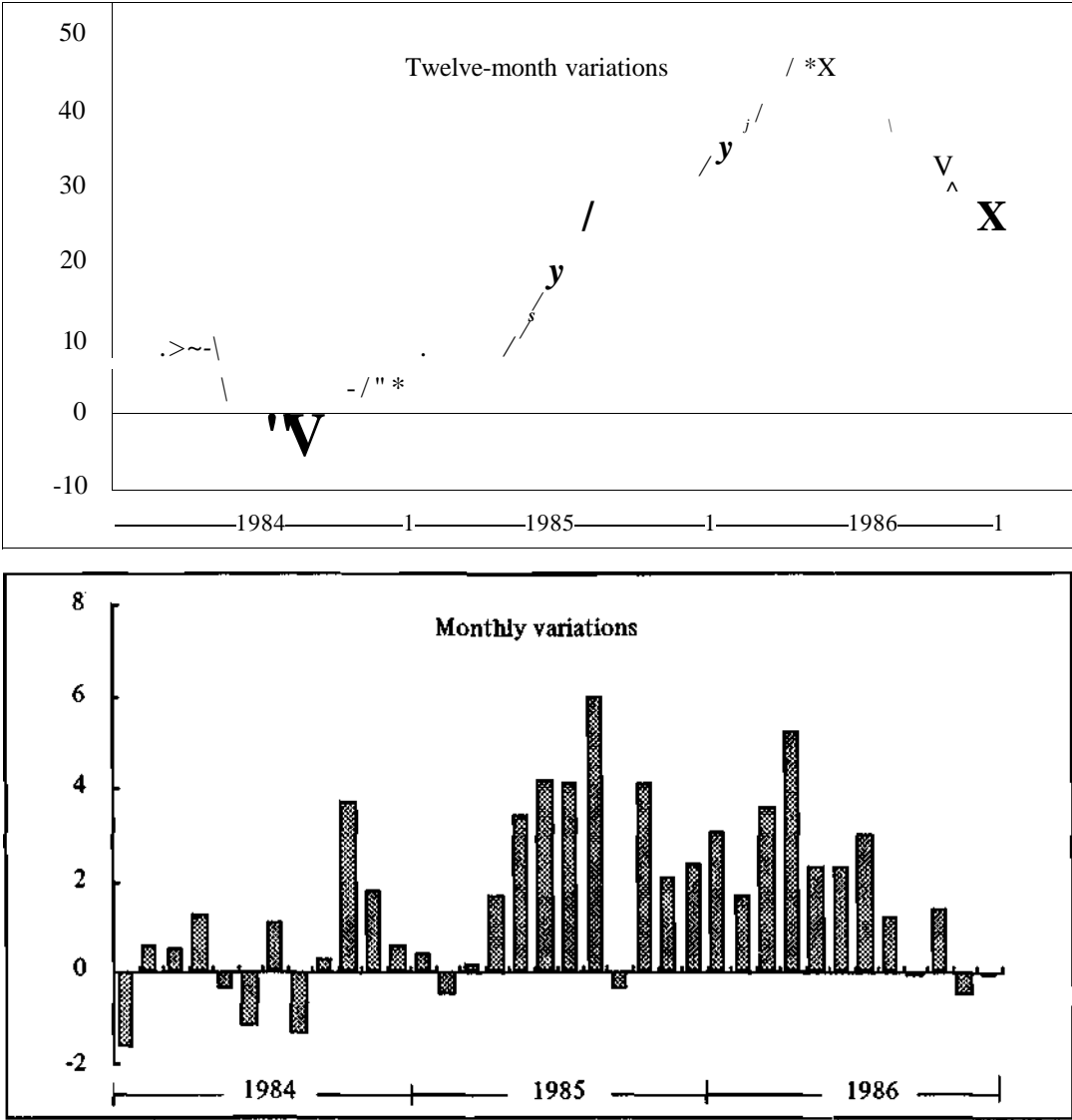
Wage policy continued to hold to the cautious strategy that has been followed since the start of the crisis. In the first quarter the government granted a moderate wage adjustment to civil servants and encouraged the private sector to give raises in accordance with the financial situation of each enterprise. Although no official data were available in this connection, it is known that some enterprises, especially those that renegotiated collective contracts, granted wage increases; however, due to the sharp jump in the general price level, the real income of wage earners is thought to have deteriorated again in 1986; in combination with the rise in unemployment, this meant that the income of the labour sector dropped considerably. Thus, for example, social security statistics³

³ The data concerning persons covered by social security generally correspond to the more organized productive sectors, in which labour possesses greater negotiating power.

indicate that in nominal terms average wages and salaries rose by 12%. This represents an 18% decline in wages in real terms, which, together with the decrease registered during the preceding two-year period, is equivalent to an approximate loss of 36%. The same data also indicate that over the last four years, the wage bill has shrunk by approximately 30% in real terms (see table 19).

This is probably one of the areas to which economic policy-makers will have to devote greater attention in the future, both because a continued deterioration in real wages would run counter to the expectations being generated by the new political process and because, among other elements, the strengthening of domestic demand could become an important factor for economic reactivation.

Figure 2
 GUATEMALA: CONSUMER PRICE INDEX
 (Percentages)



Source: ECLAC, on the basis of official figures.

5. Fiscal and monetary policy

a) *Fiscal policy*

The new government's fiscal budget —approved in December of the preceding year— called for a moderate boost in current income (13%) but a pronounced increase in spending (44%), with operating expenditures going up by 21%, investment spending rising by 83%, and expenditures relating to the amortization of the debt more than doubling. Hence, a fiscal deficit of 733 million quetzales was predicted, which would have been more than twice that of 1985. In the final analysis, then, the budget was an expansionary one, which, *inter alia*, provided for constitutionally mandated fiscal contributions to the local governments and some decentralized institutions, a wage hike for civil servants and some subsidies.

During the year, however, two important events caused income to increase more than had been expected. Firstly, towards the end of 1985 import duties and the value added tax on the sum in local currency represented by external purchases began to be applied on the basis of the actual exchange rate at which the corresponding transactions had been made.⁴ Secondly, with the implementation of the Short-Term Economic and Social Reorganization Plan, several measures went into effect which produced greater revenues for the public treasury. These provisions included the imposition of a temporary and decreasing tax, effective for a period of 18 months, on windfall profits from exports, which at the outset was equivalent to an average rate of 30%; an increase in international telephone service rates designed to bring them into line with the new regulated exchange rate, and an increase in the rates for other public services, particularly water and electricity.

On the other hand, the budgeted expenditures also rose, as a result of the readjustment (50 quetzales per month) of the wages of civil servants; the granting of some subsidies, especially for public transportation, school lunches, medicines and fertilizers; the allocation of a fund of approximately 100 million quetzales for the implementation of an emergency programme aimed at creating 40 000 new jobs; and the creation of the Ministry of Culture and Sports and the Ministry of Urban and Rural Development.

As compared to 1985, all the fiscal variables escalated due to the above-mentioned modifications and inflation. Thus, current income climbed 69%, particularly because taxes on foreign trade tripled; however, the new taxes on exports were a temporary and decreasing levy, which meant that in the near future the revenue they provided would dwindle (see table 20).

Current expenditure went up (64%) less than income, producing a current-account savings which, while greater than that recorded in 1985 (95 million quetzales), was still quite moderate as compared to other fiscal variables.

Although capital spending doubled, direct investment by the government climbed only 39%, which in real terms was equivalent to no more than a slight increase. Public debt payments more than tripled, which reflected the fact that the accumulation of financial imbalances was beginning to pose problems for the country's economic management, even though the amortization of the foreign debt continued to be made at the official exchange rate. As a result, the fiscal deficit (619 million quetzales) nearly doubled.

In sum, during 1986 the imbalance in public finances intensified, with the deficit reaching a level equal to 4% of the product (2.8% in 1985), notwithstanding the fact that the above-mentioned temporary tax modifications boosted the tax burden from 6% to 7% and that public investment grew only moderately. This was due in large part to the growing public debt load.

b) *Monetary policy*

After an inordinate increase in liquidity in 1985 —when the Central Bank had to monetize considerable exchange losses— an effort was made during 1986 to regain control over this variable by means of a restrained and cautious monetary policy both as regards the expansion of credit, especially for the public sector, and the reduction of exchange losses. The application of a more orderly, realistic exchange policy contributed to the achievement of the latter goal. The end result was deflationary, in

⁴ Previously these taxes had been levied on the value of such operations as calculated according to the official exchange rate (one quetzal to the dollar).

line with the overall adjustment scheme, since almost all the monetary variables grew at slower rates than the general price increase; thus, the productive system tightened up, and the velocity of circulation therefore rose from 8.4 in 1985 to 10.5 in 1986 (see table 21).

During the second half of the year a series of steps were taken in an effort to limit the excess liquidity in the economy and stabilize the exchange rate. The most outstanding measures were the exchange rate reorganization discussed earlier; a two-point hike in the interest rate ceilings on banking system lending and deposit operations, which was aimed at encouraging saving; the approval of a line of credit at preferential rates for certain activities that were considered to be of high priority;⁵ a gradual increase in bank reserve requirements, during a period of three months, on monetary deposits (2% monthly) and savings deposits (1% monthly) which brought the new rates up to 41% and 13%, respectively; the authorization of the Banco de Guatemala to increase its open-market operations; and the transfer of funds from the social security institute (IGSS), as well as deposits and investments in the banking system, to investments in public bonds. Finally, the services of an international firm⁶ were contracted to supervise foreign trade operations and to reduce capital flight and tax evasion effected through the over-invoicing of imports and the under-invoicing of exports.

The means of payment (M_2) expanded by 19%, but due to a reduced liquidity preference on the part of the public—probably owing to an improvement in the outlook as regards the exchange rate—quasi-money rose by 22%, and hence the money supply (M^1) increased by only 13%. Its expansion was thus quite limited as compared to the preceding year and the trend of the price level.

Domestic factors were the predominate force behind the monetary expansion, while external factors once again had a contractionary effect. Domestic credit was curtailed by almost 8%, as the requirements of the public sector were reduced, and net credit therefore shrank by 28% in relation to the particularly high level of the year before. Financing for the private sector, for its part, climbed at a moderate rate (around 9%); this was apparently due more to factors relating to demand than to any resource constraints in the banking system, which was building up a wide margin of liquidity. Consequently, Central Bank accounts were the principal source of monetary expansion, that, even though exchange losses fell off appreciably, they continued to be monetized, due to the existence of different foreign exchange markets. Among these, demand was the only force in the official market, since all incoming foreign exchange was sold on either the controlled market or the banking market.

⁵Housing and the cultivation of basic grains, soybeans and cotton.

⁶ La Société Générale de Surveillance, S.A. (SGS).

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	101.0	97.6	94.9	94.9	94.4	94.5
Gross national income	100.0	98.0	92.9	90.2	89.5	88.7	93.3
Population (millions of inhabitants)	6.9	7.1	7.3	7.5	7.7	8.0	8.2
Per capita gross domestic product	100.0	98.2	92.3	87.3	84.9	82.0	79.9
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.0	1.0	-3.3	-2.7	-	-0.6	0.2
Per capita gross domestic product	1.1	-1.8	-6.0	-5.4	-2.7	-3.3	-2.6
Gross national income	0.2	-2.0	-5.1	-2.8	-0.8	-0.8	5.3
Unemployment rate	2.2	1.5	6.3	10.3	9.4	12.3	14.5
Consumer prices							
December to December	9.1	8.7	-2.0	8.4	5.2	31.5	25.7
Variation between annual averages	10.7	11.4	0.2	4.7	3.4	18.7	36.9
Real wages and salaries	0.1	17.6	6.0	1.2	-9.0	-13.6	-18.3
Money	2.5	4.1	1.5	5.2	7.4	56.3	13.2
Current income of government	11.8	-0.8	-1.5	-1.5	-10.1	30.2	69.2
Total expenditure of government	29.4	24.3	-15.2	-12.8	3.2	4.9	75.6
Fiscal deficit/total government expenditure	37.4	50.0	42.0	32.5	41.2	27.0	29.7
Fiscal deficit/gross domestic product	5.7	8.6	6.0	3.9	4.9	2.8	4.0
Current value of exports of goods and services	19.4	-16.4	-11.6	-8.3	4.8	-5.5	1.1
Current value of imports of goods and services	9.8	3.3	-19.7	-19.2	8.6	-12.0	-12.8
Terms of trade (goods and services)	0.2	-11.7	-6.9	1.4	2.7	-3.9	29.4
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-228	-578	-348	-142	-199	-96	78
Net payment of profits and interest	-45	-86	-114	-113	-207	-170	-185
Balance on current account	-165	-574	-400	-225	-378	-247	-32
Balance on capital account	-93	273	361	276	389	358	55
Variation in net international reserves	251	305	16	-64	-27	102	-23
Total external debt	053	1 385	1 841	2 149	2 505	2 624	2 641

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. Percentages.

Table 2

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 == 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total supply	90.2	88.3	87.6	124.9	115.6	-4.7	1.2	-2.1	-0.8
Gross domestic product at market prices	94.9	94.4	94.5	100.0	100.0	-2.7	-	-0.6	0.2
Imports of goods and services	71.3	63.8	59.5	24.9	15.6	-14.9	8.2	-10.5	-6.8
Total demand	90.2	88.3	87.6	124.9	115.6	-4.7	1.2	-2.1	-0.8
Domestic demand	92.2	89.8	91.8	102.9	99.9	-4.7	1.2	-2.5	2.2
Gross domestic investment	78.9	66.4	65.5	15.9	11.0	-17.5	2.6	-15.9	-1.4
Gross fixed investment	61.8	59.1	59.7	16.4	10.4	-27.0	-11.8	-4.4	1.0
Construction	58.9	51.7		7.5		-25.4	-22.1	-12.2	
Machinery	64.2	65.2		9.0		-28.5	-1.8	1.6	
Public	46.6	40.3	41.5	5.9	2.6	-32.2	-35.7	-13.5	3.0
Private	70.4	69.7	69.9	10.5	7.8	-23.5	2.6	-1.0	0.3
Variation in stocks	-430.6	-151.3	-108.5	-0.6	0.6				
Total consumption	94.6	94.1	96.6	87.0	88.9	-2.4	1.0	-0.5	2.7
General government	106.1	103.6	108.8	7.9	9.1	14	14	-2.4	5.0
Private	93.4	93.2	95.4	79.1	79.8	-2.9	0.9	-0.3	2.4
Exports of good and services	81.1	81.1	67.7	22.0	15.7	-4.8	1.6	-	-16.5

Source: ECLAC, on the basis of official figures.

°Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments figures in current dollars, which were then converted into constant 1980 values by means of unit value indexes calculated by ECLAC for that purpose and expressed in indexes.

Table 3

**GUATEMALA: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT MARKET PRICES**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	94.9	94.4	94.5	100.0	100.0	-2.7	-	-0.6	0.2
Goods	90.7	90.2	90.2	50.1	47.8	-4A	-1.4	-0.7	0.1
Agriculture	98.0	98.4	97.5	27.1	27.9	-1.7	1.5	0.4	-0.9
Mining	51.4	43.9	56.8	0.7	0.4	-12.2	-19.1	-14.5	29.2
Manufacturing	90.5	89.9	90.2	17.6	16.9	-1.9	0.5	-0.8	0.3
Construction	55.4	50.7	52.3	4.6	2.6	-26.4	-28.4	-8.5	3.2
Basic services	96.9	99.1	101.6	5.7	6.1	-0.7	3.6	2.3	2.5
Electricity, gas and water	101.5	105.8	118.6	1.3	1.6	-0.6	4.6	4.3	12.1
Transport, storage and communications	95.6	97.2	96.8	4.4	4.5	-0.7	3.3	1.7	-0.5
Other services	99.3	98.5	98.5	44.3	46.2	-1.2	1.1	-0.8	-
Commerce, restaurants and hotels	92.1	89.0	86.9	22.5	20.7	-4.1	1.1	-3.4	-2.4
Financial institutions, insurance, real estate and business services	105.9	108.2	110.7	7.7	9.1	0.9	0.6	2.2	2.3
Ownership of dwellings	110.0	112.2	114.6	4.9	5.9	2.6	1.8	2.0	2.1
Community, social and personal services	107.3	108.5	110.4	14.0	16.4	2.0	1.2	1.1	1.8
Government services	115.8	117.8	122.0	6.9	9.0	4.7	2.1	1.7	3.5

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes the livestock sector, forestry and fishing.

Table 4

GUATEMALA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1980	1983	1984	1985	1986"	Growth rates				
							1982	1983	1984	1985	1986"
							Indexes of agricultural production (1975 = 100)	100.0	116.9	112.8	115.1	114.2	114.0	-3.0	-1.7	2.0	-0.8	-0.2
Crop farming	100.0	114.2	106.8	110.9	110.0	110.9	-3.4	-4.5	3.8	-0.8	0.8
Stock raising	100.0	118.7	118.8	117.8	116.1	114.9	-1.3	1.0	-0.8	-1.5	-1.0
Production of the main crops											
For export											
Coffee'	3 570	3 628	3 650	3 840	3 616	3 677	-1.7	-1.8	5.2	-5.9	1.7
Cotton ^c	2 277	3 140	1 323	1 348	1476	952	-39.9	-23.2	4.1	9.5	-35.5
Bananas	11 494	16 260	13 492	13 538	15 773	16 372	2.8	-20.8	-0.4	16.5	3.4
Sugar cane ^c	92	101	120	120	121	124	14.3	-11.7	1.1	0.6	2.5
For domestic consumption											
Maize ^c	20 294	20 602	22 004	25 063	24 173	25 342	9.2	-6.1	13.9	-3.5	4.8
Beans'	3 270	1 319	2 018	2 285	2 517	2 645	18.7	-6.4	13.2	10.2	5.1
Rice ^c	1 002	917	995	981	835	803	48.6	-3.6	-1.5	-14.8	-3.8
Indicators of stock-raising production											
Stocks											
Cattle [^]		2 374	2 276	2 356			4.4	-12.8	3.5		
Slaughtering											
Cattle [^]		323	316	315			-10.1	8.2	-0.4		
Other products											
Milk ⁸		275	243	248			3.9	-17.9	2.1		
Eggs [*]		71	83	90			-	6.4	8.4		

Source: ECLAC, on the basis of official figures.

"Preliminary figures. "On the basis of figures at 1958 prices. "Thousands of quintals. Thousands of bunches.

'Millions of quintals. Thousands of head. 'Millions of litres. 'Millions; of dozens.

Table 5

GUATEMALA: INDICATORS OF MINING PRODUCTION

	Value added index (1970 = 100)					Growth rates				
	1980	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
	Mining production index	171.3	109.3	89.0	76.1	98.3	12.8	-11.0	-18.6	-14.5	29.2
Production of some important minerals										
Petroleum	263.1	378.7	254.9	158.7	267.9	39.3	4.0	-32.7	-37.7	68.8
Minerals	193.7	43.0	42.8	36.5	42.6	6.5	-36.5	-0.5	-14.8	16.8
Gravel and sand	116.5	119.1	112.4	120.2	132.7	-9.1	2.0	-5.6	6.9	10.4
Salt	88.9	166.6	171.4	178.6	202.4	20.0	25.0	2.9	4.2	13.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 6

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985	1986°	Growth rates				
						1982	1983	1984	1985	1986°
						Manufacturing production index (1977 = 100)	119.3	107.3	107.7	107.5	107.8	-5.6	-1.7	0.4	-0.2	0.3
Food	121.7	104.1	105.0	105.3	105.3	-8.8	-1.6	0.9	0.3	-
Textiles	113.6	96.7	95.5	95.7	96.1	-9.4	1.8	-1.2	0.2	0.4
Clothing	109.3	99.7	100.2	100.6	100.4	-4.5	-3.5	0.5	0.4	-0.2
Chemicals	117.6	110.5	109.8	106.0	104.9	-9.3	-0.6	-0.6	-3.5	-1.0
Other	120.9	114.5	115.0	114.5	115.2	-1.9	-2.0	0.4	-0.5	0.6
Other manufacturing production indicators										
Industrial consumption of electricity (thousands of kWh)	515 006	362 118	370 228	401273	447 392	-20.3	-6.3	2.2	8.4	11.5
Employment (number of persons)	83 066	77 842	69 506	78 205	78 251	0.2	5.4	-10.7	12.5	0.1

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

Table 7

**GUATEMALA: RESULTS OF THE SURVEY OF ENTREPRENEURS CONCERNING
INDUSTRIAL ACTIVITY DURING THE FIRST HALF OF 1986**

(Percentages)

Branch of activity	Production volume						Wages"		
	Same period of preceding year			Previous six months			In-creased	Same	De-creased
	In-creased	Same	De-creased	In-creased	Same	De-creased			
Manufacturing	35.0	32.7	32.3	30.2	36.5	33.3	80.9	19.0	0.1
Food processing	40.5	33.3	26.2	35.7	42.9	21.4	85.7	14.3	-
Beverages and tobacco	27.3	27.3	45.4	27.3	18.2	54.5	72.7	27.3	-
Textiles	22.7	45.5	31.8	18.2	50.0	31.8	95.5	4.5	-
Wearing apparel and leather goods	28.6	32.6	38.8	22.5	32.6	44.9	71.4	28.6	-
Wood and furniture	30.6	36.1	33.3	19.4	41.7	38.9	77.8	19.4	2.8
Paper, printing and publishing	34.5	41.4	24.1	34.5	37.9	27.6	86.2	13.8	-
Rubber and plastics	50.0	25.0	25.0	45.0	25.0	30.0	70.0	30.0	-
Chemicals	31.7	31.7	36.6	24.4	31.7	43.9	80.5	19.5	-
Glass and non-metallic minerals	32.0	40.0	28.0	24.0	52.0	24.0	84.0	16.0	-
Basic metals industries	10.0	20.0	70.0	10.0	30.0	60.0	80.0	20.0	-
Manufacture of metal products	51.4	25.7	22.9	45.7	34.3	20.0	74.3	25.7	-
Other industries	37.5	25.0	37.5	12.5	37.5	50.0	50.0	50.0	-

Branch of activity	Employment			Use of installed capacity					
	In-creased	Same	creased	51-60	61-70	71-80	81-90	91-100	
Manufacturing	17.1	70.8	12.1	32.0	17.5	18.0	16.9	7.4	8.2
Food processing	23.8	71.4	4.8	23.8	21.4	19.1	23.8	7.1	4.8
Beverages and tobacco	-	81.8	18.2	54.5	-	18.2	-	9.1	18.2
Textiles	18.2	63.6	18.2	27.3	-	13.6	36.4	13.6	9.1
Wearing apparel and leather goods	24.5	55.1	20.4	36.7	14.3	20.4	10.2	12.3	6.1
Wood and furniture	5.4	77.8	16.6	27.8	16.7	11.1	22.2	8.3	13.9
Paper, printing and publishing	27.6	58.6	13.8	37.9	13.8	24.1	10.4	3.5	10.3
Rubber and plastics	15.0	70.0	15.0	30.0	20.0	25.0	15.0	5.0	5.0
Chemicals	16.4	80.5	4.9	26.8	24.4	19.5	12.2	7.3	9.8
Glass and non-metallic minerals	24.0	54.0	20.0	48.0	16.0	4.0	20.0	8.0	4.0
Basic metals industries	-	80.0	20.0	30.0	40.0	30.0	-	-	-
Manufacture of metal products	20.0	62.9	17.1	17.1	34.3	20.0	20.0	2.9	5.7
Other industries	-	62.5	37.5	25.0	20.0	-	37.5	-	12.5

Source: ECLAC, on the basis of figures supplied by the Banco de Guatemala.

"Compared to the previous six months.

Table 8

GUATEMALA: CONSTRUCTION INDICATORS

	1980	1983	1984	1985	1986 ^a	Growth rates				
						1982	1983	1984	1985	1986 ^a
Area constructed (thousands of m ²)										
Total	228	219	228	245	290	46.2	-0.9	4.1	7.6	18.3
Residential	128	126	129	165	197	69.0	-14.3	-0.4	27.9	19.1
Cement production (1972 = 100)	228.4	183.3	157.7	216.7	234.3	-9.6	-10.8	-14.0	37.4	8.1
Employment [*]	27 738	17 817	13 041	14 077	15 702	14.7	-33.8	-26.8	7.9	11.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.
by Social Security,

^bRefers to private building permits issued in the capital city.

^cNumber of people covered

Table 9

GUATEMALA: EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1984	1985	1986 ^a
	Thousands of persons						
Economically active population	2 183	2 251	2 314	2 378	2 445	2 513	2 584
Employment	2 136	2 218	2 169	2 133	2 216	2 204	2 209
Unemployment	47	33	145	246	229	309	375
	Percentages						
Participation	54.5	54.5	54.3	54.2	54.0	53.9	53.7
Unemployment							
Open	2.2	1.4	6.3	10.3	9.4	12.3	14.5
Equivalent [*]	29.0	31.1	30.3	29.5	31.4	30.5	29.7

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. Economically active population as a percentage of the working-age population (15 years and over). ^{*}Includes underemployment.

Table 10

GUATEMALA. SOCIAL SECURITY COVERAGE

	1981	1982	1983	1984	1985	1986"	Growth rates					
							1981	1982	1983	1984	1985	1986"
Thousands of persons												
Total	591.0	609.1	583.5	594.9	631.7	660.4	-21.8	3.1	-4.2	2.0	6.2	4.5
Agriculture	225.7	215.7	199.8	205.5	233.6	239.1	-39.6	-4.4	-7.4	2.9	13.7	2.4
Manufacturing and mining	77.1	77.0	81.2	71.7	80.3	80.8	-11.2	-	5.5	-11.7	12.0	0.6
Construction	23.4	26.9	17.8	13.0	14.1	15.7	-15.5	15.0	-33.8	-27.0	8.5	11.3
Commerce	58.9	61.3	63.4	59.4	58.4	61.8	-	4.1	3.4	-6.3	-1.7	5.8
Other services	205.9	228.2	221.3	245.3	245.3	263.0	-1.3	10.8	-3.0	10.8	-	7.2
Indexes(1975 = 100)												
Total	113.5	117.0	112.1	114.2	121.3	126.8						
Agriculture	86.8	82.9	76.8	79.0	89.8	91.9						
Manufacturing and mining	119.5	119.3	125.8	111.1	124.4	125.2						
Construction	112.2	128.9	85.4	62.3	67.6	75.2						
Commerce	154.1	160.3	165.9	155.4	152.7	161.6						
Other services	150.3	166.6	161.5	178.9	179.1	192.0						

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes the civil service.

Table 11

GUATEMALA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports							
Value	24.4	-15.0	-9.4	-6.7	3.7	-6.4	-0.2
Volume	8.6	-9.8	-1.2	-3.1	0.9	0.7	-16.5
Unit value	14.5	-5.8	-8.3	-3.7	2.8	-7.0	19.6
Imports							
Value	5.1	4.6	-16.6	-17.8	11.9	-8.9	-14.6
Volume	-20.0	-3.3	-14.1	-11.7	12.7	-7.5	-7.4
Unit value	31.3	8.2	-3.0	-6.8	-0.7	-1.6	-7.8
Terms of trade	-11.6	-13.0	-6.0	2.7	2.0	-6.1	29.2
Indexes (1980 = 100)							
Purchasing power of exports	100.0	78.4	72.9	72.5	74.6	70.6	76.1
Volume of exports	100.0	90.2	89.1	86.4	87.1	87.7	73.2
Volume of imports	100.0	96.7	83.1	73.4	82.7	76.5	70.8
Terms of trade	100.0	87.0	81.7	84.0	85.7	80.5	103.9

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 12

GUATEMALA: EXPORTS OF GOODS, FOB

	Millions of dollar;				Percentage breakdown			Growth rates				
	1983	1984	1985	1986"	1975	1980	1986"	1982	1983	1984	1985	1986"
Total	1 092	1 132	1060	1 058	100.0	100.0	100.0	-7.6	-9.0	3.7	-6.4	-0.2
Exports to Central America	321	291	208	200	26.4	29.0	18.9	-11.1	-4.9	-9.3	-28.7	-3.8
Exports to rest of world	771	841	852	858	73.6	71.0	81.1	-6.2	-10.6	9.1	1.3	0.7
Traditional	541	572	652	656	63.8	50.6	62.0	-9.3	-10.1	5.7	14.0	0.6
Processed coffee	309	361	452	502	25.6	30.6	47.4	15.0	-17.6	16.8	25.8	11.0
Ginned cotton	67	72	73	24	11.6	10.7	2.3	-45.5	-29.1	6.8	1.0	-66.7
Bananas	54	55	71	73	5.4	2.9	6.9	42.0	-25.0	3.0	29.2	3.5
Meat	16	13	10	5	2.6	1.9	0.5	-41.4	-7.1	-18.6	-21.4	-47.0
Sugar	95	71	46	52	18.6	4.5	4.9	-48.2	118.1	-25.2	-34.9	11.4
Non-traditional	230	269	200	202	9.8	20.4	19.1	-1.9	-12.2	17.0	-25.7	1.0
Cardamom	59	100	61	47	1.6	3.7	4.4	29.4	34.4	695	-39.5	-22.5
Petroleum	60	34	12	25	-	1.6	2.4	109.1	30.2	-42.8	-64.8	108.3
Other	111	135	127	130	8.2	15.1	12.3	-14.8	-35.5	21.6	-5.9	2.4

Source: ECLAC, on the basis of official figures.
"Preliminary figures.

Table 13

GUATEMALA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates				
	1983	1984	1985	1986"	1975	1980	1986"	1982	1983	1984	1985	1986"
Total	1 135	1 278	1 175	1 005	100.0	100.0	100.0	-17.1	-18.2	12.6	-8.1	-14.5
Consumer goods	254	264	225	166	22.4	21.3	16.5	-12.5	-15.0	3.9	-14.7	-26.2
Durable	68	55	58		7.3	7.7		-34.6	-11.2	-19.1	6.6	
Non-durable	186	209	167		15.1	13.6		-1.0	-16.3	12.4	-20.3	
Intermediate goods	744	863	792	695	53.6	59.8	69.2	-18.7	-9.5	16.0	-8.2	-2.1
Petroleum and fuels	250	300	272		14.0	21.2		-19.6	-15.7	20.0	-9.3	
Building materials	54	56	50	58	5.1	5.8	5.8	-20.9	-31.1	3.7	-10.6	14.7
Other	439	507	470		34.5	32.8		-17.7	-1.5	15.5	-7.2	
Capital goods	127	147	154	142	23.4	17.9	14.1	-14.5	-50.5	15.7	4.9	-7.6
For agriculture	7	14	11		2.6	1.2		-46.0	-22.7	100.0	-18.8	
For industry	94	101	107		13.6	12.1		-5.1	-55.1	7.4	5.8	
For transport	26	32	36		7.2	4.6		-39.2	-31.4	23.1	12.1	
Other	10	4	4	2	0.6	1.0	0.2	-50.0	-6.7	-61.9	-4.2	-59.5

Source: ECLAC, on the basis of official figures.
"Preliminary figures.

Table 14

GUATEMALA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986''
Balance on current account	-165	-574	-400	-225	-378	-247	-32
Trade balance	-228	-578	-348	-142	-199	-96	78
Exports of goods and services	1 730	1446	1 278	1 172	11 228	1 161	1 174
Goods FOB	1 520	1 291	1 170	1 092	11 132	1 060	1058
Real services	211	155	107	80	96	101	116
Transport and insurance	43	33	26	18	10	7	7
Travel	62	30	12	7	11	13	29
Imports of goods and services	1 958	2 024	1 626	1 314	11 427	1 257	1 096
Goods FOB	1 473	1 540	1 284	1056	11 182	1 077	920
Real services	486	484	342	257	245	180	176
Transport and insurance	187	188	139	99	112	108	99
Travel	164	133	100	89	62	23	15
Factor services	-45	-86	-114	-113	-207	-170	-185
Profits	-42	-49	-41	-39	-81	-21	-10
Interest received	75	55	20	27	29	29	25
Interest paid	-92	-109	-100	-102	-151	-173	-193
Other	14	17	7	-	-4	-5	-7
Unrequited private transfer payments	109	89	62	30	28	19	75
Balance on capital account	-93	273	361	276	389	358	55
Unrequited official transfer payments	1	1	1	1	1	1	
Long-term capital	247	398	339	283	201	242	162
Direct investment (net)	111	127	77	45	38	62	65
Portfolio investment (net)	4	-	1	77	59	142	
Other long-term capital	132	270	262	161	104	38	
Official sector ^c	106	201	147	167	151	38	83
Loans received	121	228	186	310	274	281	249
Amortization payments	-18	-27	-37	-143	-126	-220	-166
Commercial banks ¹	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	26	69	114	-6	-46	-	14
Loans received	25	100	124	11	6	15	
Amortization payments	-10	-42	-15	-18	-52	-14	
Commercial banks	2	-7	14	71	9	-64	
Other sectors	-384	-178	-14	-67	255	224	
Errors and omissions (net)	-18	4	-18	-37	16	44	17
Global balance	-258	-301	-38	51	11	HI	23
Total variation in reserves (- sign indicates an increase)	251	305	16	-64	-27	102	-23
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	2	20	3	-1	-1	2	
IMF reserve position	-9	18	10	-8	8	-	
Foreign exchange assets	259	257	25	-89	-72	167	
Other assets	-1	-102	-15	-	27	-22	
Use made of IMF credit	-	111	-6	35	10	-45	

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

"Preliminary figures subject to revision. Includes other non-factor services. Includes net loans granted and other assets and liabilities. Equals the total variation in reserves (of opposite sign) plus counterpart items.

Table 15

GUATEMALA: EXCHANGE RATES

	Nominal exchange rate (quetzales per colJar) (D)	Exchange rate index"		Wholesale price index"			Index of real exchange rate"	
		Nominal (2)	Official (3)	Domestic (4)	United States (5)	Ratio (4/5) (6)	Effective (2/6) (7)	Official (3/6) (8)
1980	1.00	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	1.10	110.0	100.0	111.7	109.1	102.4	107.4	97.7
1982	1.15	115.0	100.0	105.3	111.3	94.6	121.6	105.7
1983	1.18	118.0	100.0	106.2	112.7	94.2	125.3	106.2
1984	1.24	124.0	100.0	112.2	115.4	97.2	127.6	102.9
1985	1.78	178.0	100.0	137.6	114.9	119.8	148.6	83.5
1986	2.19	219.0	100.0	197.7	111.5	177.3	123.5	56.4

Source: ECLAC, on the basis of official figures.
 "Base 1980 = 100.

Table 16

GUATEMALA. TREND IN THE EXCHANGE RATE OF THE
US DOLLAR IN THE DIFFERENT MARKETS, 1986

	Banking market (parallel) (buyer rate)	Non-banking market"
January	2.78	2.67
February	2.92	2.94
March	2.96	2.89
April	2.94	2.85
May	2.97	3.02
June	2.93	2.89
July	2.96	2.97
August	2.98	2.97
September	2.95	2.91
October	2.72	2.68
November	2.67	2.63
December	2.60	2.58

"Unofficial figures, based on special surveys.

Table 17

GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985	1986"
Millions of dollars							
Total external debt							
Balance	1 053	1 385	1 841	2 149	2 505	2 624	2 641
Public	764	1 148	1 435	2 000	2 387	2 548	2 470
Private	289	237	406	149	118	76	171
Disbursements	202	509	620	501	577	448	228
Servicing	120	286	265	295	372	502	404
Principal	28	177	164	193	221	329	211
Interest	92	109	101	102	151	173	193
Public external debt							
Disbursements	271	461	436	740	701	381	372
Servicing	60	127	221	260	345	363	355
Principal	18	77	149	175	220	220	195
Interest	42	50	72	85	125	143	160
Percentages							
Ratios							
Total external debt/exports of goods and services	72.7	95.8	144.1	183.4	203.3	225.8	225.0
Servicing/exports of goods and services	6.9	19.8	18.3	25.2	30.2	43.2	34.4
Net interest payments/exports of goods and services	1.0	3.7	6.3	6.4	9.9	12.4	13.7
Servicing/disbursements	59.4	56.2	42.7	58.9	64.5	112.1	177.2

Source: ECLAC, on the basis of official figures.

"Preliminary figures. All the ratios refer to the total external debt.

Table 18

GUATEMALA: DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986"
December to December variation							
Consumer price index	9.1	8.7	-2.0	8.4	5.2	31.5	25.7
Foodstuffs	8.2	4.8	-2.6	5.5	7.7	30.1	29.3
Wholesale price index	12.0	4.0	-4.4	0.4	3.4	43.7	33.9
Imported products	6.8	10.8	4.2	-2.8	12.5	33.5	0.5
Domestic products	12.4	3.4	-5.3	0.8	130	44.7	37.2
Building materials	3.5	-3.0	-1.3	0.4	7.2	17.2	25.0
Variation between annual averages							
Consumer price index	10.7	11.4	0.2	4.7	3.4	18.7	36.9
Foodstuffs	11.2	11.3	-2.8	3.3	2.0	20.5	39.3
Wholesale price index	16.0	11.7	-5.8	0.9	5.6	22.6	43.7
Imported products	19.0	10.1	3.8	4.9	4.7	19.0	13.2
Domestic products	15.7	11.9	-6.7	0.8	5.4	23.4	46.4
Building materials	12.4	4.7	-5.2	0.1	5.5	7.1	26.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 19

GUATEMALA: WAGES AND SALARIES

	1980	1981	1982	1983	1984	1985	1986°
	Indexes(1975 = 100)						
Wages and salaries							
Nominal	148.5	194.8	206.8	219.0	206.2	211.2	236.4
Real	89.4	105.2	111.5	112.8	102.7	88.7	72.5
Wage bill							
Nominal	215.4	221.1	242.0	245.5	235.6	256.2	299.8
Real	129.7	119.5	130.5	126.5	117.4	107.6	92.0
	Growth rates						
Wages and salaries							
Nominal	10.9	31.2	6.2	5.9	-5.8	2.4	11.9
Real	0.1	17.6	6.0	1.2	-9.0	-13.6	-18.3
Wage bill							
Nominal	10.8	2.6	9.5	1.4	-4.0	8.7	17.0
Real		-7.9	9.2	-3.1	-7.2	-8.3	-14.5

Source: ECLAC, on the basis of information supplied by the Guatemalan Social Security Institute concerning the number of people registered and their wages and salaries.

°Preliminary figures.

Table 20

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of quetzales					Growth rates					
	1982	1983	1984	1985	1986"	1981	1982	1983	1984	1985	1986"
1. Current income	730	741	666	867	1467	-0.8	-1.5	-1.5	-10.1	30.2	69.2
Tax revenue	626	573	498	679	1 111	-3.9	-3.9	-8.5	-13.1	36.4	63.5
Direct	108	134	86	126	186	9.4	-1.8	24.1	-35.8	47.6	47.6
Indirect	518	439	412	553	955	-6.2	-4.4	-15.3	-6.2	34.1	72.7
On foreign trade	125	106	107	88	380	-34.0	-26.9	-15.2	0.9	-17.4	331.8
2. Current expenditure	710	721	767	838	1 372	11.9	-6.5	1.5	6.3	9.3	63.7
3. Current savings (1-2)	20	20	-101	29	95						
4. Capital expenditure	548	376	365	350	714	40.6	-24.3	-31.4	-2.9	-4.2	104.0
Real investment	432	316	263	231	322	41.8	-30.4	-26.9	-16.8	-12.4	39.4
Debt amortization payments	116	60	102	119	392	33.8	12.6	-48.3	70.0	16.6	229.9
5. Total expenditure (2 + 4)	1 258	1 097	1 132	1 188	2 086	24.3	-15.2	-12.8	3.2	4.9	75.6
6. Fiscal deficit (or surplus) (1-5)	-528	-356	-466	-321	-619						
7. Financing of deficit	528	356	466	321	619	66A	-28.8	-32.6	30.9	-30.1	92.8
Domestic financing ¹⁷	416	256	413	222	492	93.3	-34.4	-38.5	61.3	-46.2	121.6
External financing	112	100	53	99	127	-8.5	3.7	-11.1	-47.0	86.8	28.3
Ratios (percentages)											
Current savings/capital expenditure	3.6	5.3	-27.7	8.3	13.3						
Fiscal deficit/total expenditure	42.0	32.5	41.2	27.0	29.7						
Tax revenue/gross domestic product	7.2	6.3	5.3	6.1	7.1						
Total expenditure/gross domestic product	14.4	12.1	12.0	10.7	13.3						
Fiscal deficit/gross domestic product	6.0	3.9	4.9	2.8	4.0						
Domestic financing/deficit	78.8	71.9	88.6	69.2	79.3						
External financing/deficit	21.2	28.1	11.4	30.8	20.5						

Source: ECLAC, on the basis of official figures.

¹⁷Preliminary figures.

"includes other capital expenditures.

'Includes other capital income.

Table 21

GUATEMALA: MONETARY INDICATORS

	End-year balance (millions of quetzals)					Growth rates				
	1982	1983	1984	1985	1986 ^e	1982	1983	1984	1985	1986 ^e
Monetary base	802	734	783	1 274	1 547	16.7	-8.5	6.7	62.7	21.4
Money (M ₁)	749	788	846	1 322	1 496	15	5.2	7.4	56.3	13.2
Quasi-money	1 532	1 540	1 781	2 050	2 504	20.7	0.5	15.6	15.1	22.1
Money plus quasi-money (M ₂)	2 281	2 328	2 627	3 372	4 000	13.7	2.1	12.8	28.4	18.6
Domestic credit	2 766	3 107	3 623	3 972	3 669	13.1	12.3	16.6	9.6	-7.6
To public sector	1 097	1 254	1 568	1 733	1 240	36.4	14.3	25.0	10.5	-28.4
Central government (net)	1 274	1 447	1 740	1 940	1 541	51.5	13.6	20.2	11.5	-20.5
Public institutions	-177	-193	-172	-207	-301	378.4	9.0	-10.9	2.3	45.4
To private sector	1 669	1 853	2 055	2 239	2 429	1.7	11.0	10.9	9.0	8.5
Coefficients										
Monetary multipliers										
M ₁ /monetary base ^c	0.93	1.07	1.08	1.04	0.97					
M ₂ /monetary base	2.84	3.17	3.35	2.65	2.59					
Velocity of circulation:										
GDP/M ₁	8.6	8.7	11.2	8.4	10.5					

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bOn the basis of balances as of the end of the period. ^cEquivalent to notes and coins outside banks.

HAITI

1. Recent economic trends: Introduction and summary

In 1986¹ the Haitian economy was virtually stagnant. Indeed, the per capita gross domestic product fell by slightly over 1 %, which, coupled with the declines of the five preceding years, amounted to a contraction of 14% during the 1980s. This deterioration was even more serious in view of the fact that Haiti is one of the countries least able to meet the basic needs of its population (see table 1 and figure 1).

This was a situation unlike that of previous years. In analysing its causes, various non-economic events must be taken into account, including the social disturbances which preceded the change of government midway through the fiscal year (February 1986). These factors had an adverse impact on production activities even though greater international co-operation began to be made available in support of the new administration.

When the new government took office, it had to divide its attention between the long-standing structural problems affecting the country and its short-term financial difficulties which external co-operation and grants have usually succeeded in mitigating.

As a rule, systematic efforts had not been made in the past to develop and replenish natural resources subject to deterioration or to strengthen the country's production sectors on a sustained basis. Consequently, the country had to resort to mounting food imports while its crop-farming exports continued to fall and the disarticulation of its production apparatus became ever more apparent. Moreover, unemployment increased, real wages fell and the living standards of the bulk of the population deteriorated. Steady progress was made, on the other hand, in developing the inbond assembly industry, and part of the roadway infrastructure was modernized as a first step towards laying the foundations for the integration of the country and thus preventing excessive centralization in the capital.

The economic crisis and the ever more serious fiscal problems it brought in its wake, had led the previous administration to request international financial co-operation and the support of the International Monetary Fund (IMF). At the urging of the Fund, the authorities in question had attempted to apply an adjustment policy during the early part of the fiscal year (October 1985). Given the low levels of income and the high unemployment and underemployment rates in the country, however, a policy of this type naturally encountered opposition from the various agents in the society, and this increasingly restricted the government's manoeuvring room.

Growing social dissatisfaction with the previous régime created severe tension within the society from mid-1985 onward, and this affected economic activity in both the countryside and the city, thus leading, *inter alia*, to the closure of some industries (especially inbond assembly enterprises) and to the increased emigration of human resources.

As the country's balance-of-payments problems were worsening, at the same time, it found itself in a difficult situation with respect to foreign liquidity. As a result, early in the year petroleum imports had to be interrupted for a short period, and the country was therefore unable to reap the benefits of the low oil prices being charged at that time.

It was in these circumstances that a new transitional government took office in February 1986 for a period of two years. This government received some technical and financial assistance from the international community and there were indications that it could expect to obtain financing for future development projects as well.

¹The statistical and qualitative data used in this chapter cover the period October 1985-September 1986, which corresponds to the fiscal rather than the calendar year.

Figure 1
HAITI: MAIN ECONOMIC INDICATORS

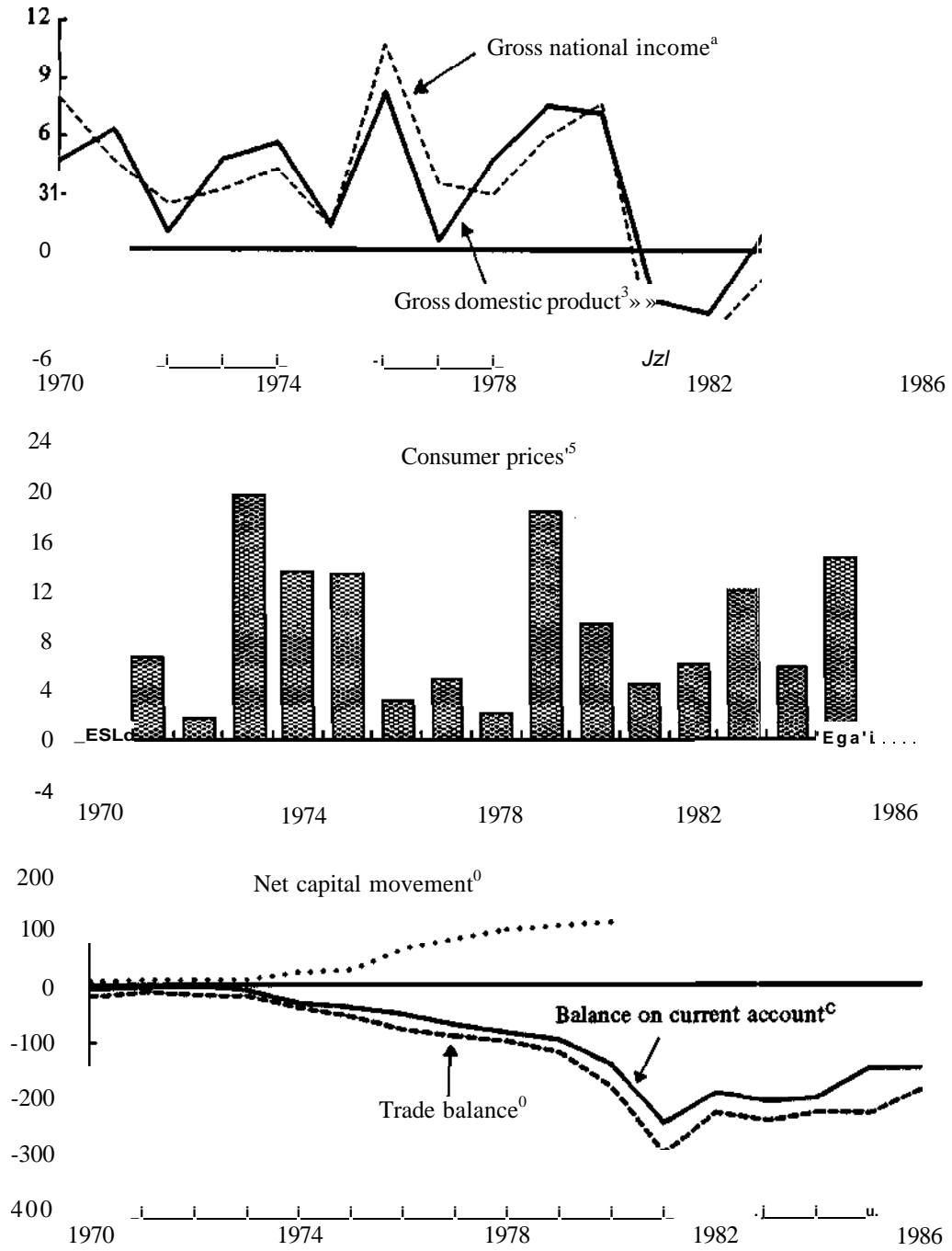
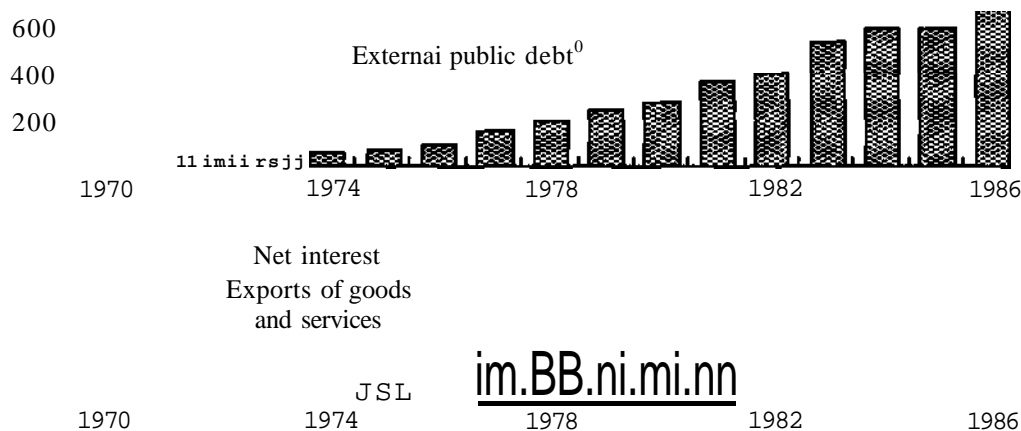


Figure 1 (concluded)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. [^]Percentage variation from September to September. [^]Millions of dollars. ^dpercentages.

Despite the change in administration, political and social tensions persisted because of the difficulty of reducing, at least in the short term, the wide gap which exists in respect of the satisfaction of basic needs. Nevertheless, the government did take a number of steps immediately, the chief one being to lower the prices of some basic grains. It also adopted some other economic policy measures having short-term effects which were aimed at putting public finances on a sounder footing (i.e., the elimination of unwarranted budget items), reducing the size of the public sector (especially in regard to public enterprises), applying a strict monetary policy and liberalizing foreign trade (i.e., the termination of the import monopoly). Furthermore, at the social level, emphasis was placed on improving health and education by increasing public expenditure in this area on an exceptional basis.

The government's long-term priorities included a reactivation policy based on agriculture and on labour-intensive light industries whose main purpose was to alleviate poverty and boost the production of essential goods.

Thus, in 1986 two key policy objectives played a decisive role in the evolution of the economy: the reduction of the fiscal deficit and the lowering of the external deficit. In fact, public finances did improve appreciably, largely as a result of the inclusion of incomes which had not previously been considered as such, but also because some investment expenditures were forgone. Consequently, the public deficit, which represented almost 8% of the gross domestic product in 1985, dropped to 5%. Simultaneously, at the external level, for the first time following 12 years of declines, the country's international monetary reserves showed an increase —of US\$30 million. This was attributable not only to a greater inflow of grants and to arrangements for fresh financing, but also to the substantial reduction made in the deficit on current account as a result of the sharper contraction of imports than of exports, which was mainly due to the temporary closure of many assembly plants.

The country's reduced import capacity and the low level of public expenditure adversely affected its production apparatus, especially in industry, construction and commerce, sectors which account for almost 40% of the gross domestic product and which together declined by 11%. On the other hand, owing to favourable weather conditions, agriculture expanded by over 2%, thus compensating for this contraction to a large extent.

As a result of the easing of the pressure on the Central Bank to finance the public deficit and the reduction of the prices of some basic grains, other essential goods and fuels, consumer prices fell virtually without interruption from January onward, declining by more than 11% during the year.

Private per capita consumption again contracted slightly and the real income of wage-earners, whose wages were not readjusted, was once again eroded. (Haiti's wage policy is one of offering attractive conditions in this field in an attempt to encourage the establishment of inbond assembly

plants.) The extreme poverty of a large part of the population and the country's widespread shortages of resources became more marked during the first part of the year, and the new government attempted to deal with this situation by taking a number of steps, many of which could only bear fruit in the long term. Haiti's financial difficulties limit its chances of applying a more aggressive reactivation policy in the immediate future, unless the country receive a greater flow of external co-operation.

2. Trends in economic activity

a) *Total supply and demand*

In 1986 total supply declined considerably, following three years of weak growth. This downturn was caused by the sharp drop in imports of goods and services (18%), since the gross domestic product remained virtually at a standstill. In the final months of 1985, the country found itself in a difficult external liquidity position because of the slump in its exports, and this made it necessary for the new government to follow a highly selective policy as regards imports. Furthermore, purchases from Europe and Japan also fell because the prices of goods from both these sources increased (see table 2).

External demand fell by 25 %, primarily because of the slowdown in the assembly industry. This sector, which accounts for one-third of Haiti's exports of goods and whose external sales thus surpassed even those of coffee, was profoundly affected by the tensions of a non-economic character that were felt during the year. Tourism was down by almost 10% for similar reasons.

Domestic demand slackened slightly as a net result of the differing trends observed in this area. A decline was seen in investment, which in previous years had been the moving force behind the economy, primarily on account of the execution of road works. In contrast, consumption increased, although more slowly than the rate of population growth. Capital formation decreased due to the combined effect of the government's austerity policy in respect of its capital expenditures and the reluctance of private, national and foreign economic agents to invest in the country because of the tensions referred to above. Private consumption, for its part, rose slightly thanks to the existence of a larger supply of crop-farming products than in 1985 to meet a demand for foodstuffs which has usually gone unsatisfied in the past. The government's consumption expenditure also showed a slight upturn after three years of declines, although in per capita terms it remained virtually stable.

b) *The main sectors of production*

Economic activity, as has already been stated, followed a generally uneven trend during the fiscal year. Early in the year, the worsening situation as regards the country's financial imbalances hampered production. At the same time, social and political tensions in Haiti deepened, culminating in a change of government four months into the fiscal year. The subsequent reorientation of economic policy, combined with the provision of international co-operation, boosted the country's economic activity.

Indicators concerning the trends in the various sectors during the two periods in question were unavailable, but according to official information, the virtual stagnation of the economy as a whole in 1986 was the result of two opposing trends in respect of goods and of services, whereby the goods-producing sectors of the economy, with the exception of agriculture saw their level of activity decline, while the services sectors, except for commerce, offset this slowdown. The growth of various services sectors in conjunction with a downturn in commerce is a somewhat puzzling phenomenon, since logic would seem to dictate that the latter should have expanded more or less on a par with the output of farm products for domestic consumption (see table 3).

i) *Agriculture.* The rate of growth in this sector was somewhat faster than in 1985, with its aggregate value increasing by 2% in constant terms. This slight upturn was observed both in production intended for sale abroad and in virtually all the categories of output destined for domestic consumption and was also in keeping with some indicators of livestock activity. These results should be viewed in relative terms, however, given the small production volumes involved (see table 4).

The financial difficulties and a number of organizational problems which have existed for some years grew worse in 1986 because of the conflicts mentioned previously. This limited the possibilities

of applying a pragmatic policy of credit or other incentives for crop-farming production. Nevertheless, a good rainfall pattern and normal weather conditions compensated for the above obstacles.

With respect to exportable crops, coffee production—which is the most important item—improved slightly, but coffee exports nonetheless fell sharply due to the disruption of work during the processing stage owing to social disturbances and a breakdown in the production-processing-external marketing chain, which considerably reduced the possibility of capitalizing on the improved international market conditions.

The situation was somewhat similar in respect of cocoa production; despite the expansion of output (11%), exports declined in terms of both current value and volume. This might, however, be a reflection of unrecorded external sales.

The output of some farm products for domestic consumption increased thanks primarily to favourable weather conditions, thereby more than making up for the damage done in this sector as a consequence of the social disturbances previously mentioned.² This was a highly positive outcome in view of the fact that, traditionally, supply has been less than that needed to maintain adequate nutritional levels. The crops showing an upturn were maize (5%), rice (4%) and bananas (3%), which are basic items in the daily diet of the population. On the other hand, sorghum output fell.

Furthermore, despite difficult economic circumstances, livestock activity increased by 7%, owing mainly to the policy of restocking the pig herd after its virtual extinction some years previously as a result of the extermination campaign that was mounted to fight outbreaks of swine fever. Some fairly large-scale initiatives were also undertaken in the area of poultry-raising which is one of the subsectors where growth can most easily be promoted. As regards cattle production, on the other hand, a number of extremely disquieting distortions of various kinds hindered the policy of expanding this activity.

ii) *Manufacturing.* Manufacturing output continued to decline. As a result, the share of this sector in the gross domestic product—which had increased in the early 1980s—was the same as it had been in the mid-1970s, before the "take-off" of the inbond assembly industries. Although a slower pace of activity was observed in all branches of industry, official data indicate that the largest decreases were those seen in two of the main articles produced by this sector: sugar and edible oils. This was due to the fact that even though the Darbonne sugar mill and the National Oil Seeds Company (both of which were part of the public sector and suffered from serious financial imbalances) were converted into worker-run co-operatives, they did not manage to raise their level of profitability and had to be closed down (see table 5).

The value added generated by the assembly industries fell by almost 15%. This decline was recorded in almost all branches of the sector, except for exports of radio receivers and accessories, travel items, handbags and handicrafts. The strikes held in late 1985 and early 1986 contributed to the decline of activity in the assembly plants, as did the greater protectionism practiced by their major export market, which had a direct impact on the sector. The closure of many plants due to the political unrest in the country was another very important factor in the slowdown of the assembly plants, although towards the end of the period most of them resumed their operations.

iii) *Construction.* After the exceptional boom of 1985, construction slumped, although its value added nonetheless remained higher than that of 1984. The unfavourable investment climate directly affected this branch of activity, especially in the metropolitan area, as evidenced by the very small number of construction permits requested and approved for this area. This was reflected in a decrease in cement production. No major infrastructure works were undertaken during the year; indeed the only projects carried out, especially in the provinces, were some enlargements of drainage and irrigation systems and some road repairs.

iv) *The electrical sector.* Electricity generation continued to grow at a similar rate to that of previous years (close to 4%), thanks to an expansion programme aimed at meeting the huge unsatisfied demand, especially in residential consumption. This latter category of consumption grew at a satisfactory rate as a result of the increased supply. Industrial consumption, on the other hand, declined (-8%) in line with the performance of that sector. The closure of the Darbonne mill partly accounts for the decline in electrical energy consumption in the sugar industry. At the same time, the

*The agricultural infrastructure and the storehouse and garage in Damien were destroyed; there was looting of food warehouses and experimental development centres; and there were reports of a considerable amount of theft of livestock.

decline in activity in the construction sector led to lower electricity consumption in the cement industry. The falling-off in production in the assembly industries was also reflected in the decrease in the industrial consumption of electrical energy (see table 6).

c) *Employment trends*

No recent official figures were available on unemployment. There are, however, indications that both open unemployment and underemployment increased, because of the unfavourable economic situation and the weakening of the productive apparatus. The closure of the industrial firms mentioned above undoubtedly produced greater unemployment in those regions where they were located. Furthermore, every year the labour market is swollen by hordes of people who cannot be absorbed in productive activities. In view of the growing unemployment, the new government decided to promote highly labour-intensive programmes. As might be expected, however, only a fraction of these show positive results because of the short time they have been in existence.

3. The external sector

a) *General features*

The external sector closely mirrors the critical economic situation of the country. Trade volumes—both imports and exports—plunged dramatically. However, for the first time in 12 years, the balance of payments showed an overall surplus and the total movement of reserves increased, with the result that the government decided to make a more drastic adjustment than in the past. This took the form, *inter alia*, of a restriction on foreign purchases which will be maintained until the external imbalance is adjusted (see table 10 below). The target set was to double the amount of reserves between February 1986 and September 1987. This policy of the new government is intended, according to statements made in official circles, to reactivate the economy and to ensure the building-up of the reserves required for the smooth functioning of the external sector, along with a measure of growth in domestic production. However, it is likely that such a rigorous adjustment policy will not enable the desired reactivation to be secured in the short term unless, *inter alia*, external co-operation is substantially increased.

b) *Trade in goods*

The evolution of trade in goods followed a different trend from that observed of the four previous years, since there was a decline in the current values and volume of exports as well as a reduction in external purchases. The drop in the volume of exports made it extremely difficult to procure foreign exchange (see table 7).

Overall exports of the main agricultural products increased slightly in current values, primarily on account of the rise in international coffee prices, which outweighed the decline in the export volumes of coffee and of some less important agricultural export items. It should be highlighted that in the case of coffee, exports declined in spite of certain fiscal incentives offered.³ Furthermore, foreign sales of goods manufactured in the free zone have already outstripped coffee sales and have thus become the main export item and chief foreign exchange earner. The decline in activity in the agricultural sector was due to domestic tensions and to the unfavourable external climate, especially the growing protectionism practiced by the United States (see table 8).

Imports of goods fell markedly (13%) in current values, both as a whole and by groups. Overall, this was the result of a deliberate policy aimed at restoring balance-of-payments equilibrium because of the shortage of foreign exchange. With respect to hydrocarbon imports, these declined because of the drop in the international price of petroleum and the cessation of foreign purchases for several weeks—at the end of 1985 and the beginning of 1986—because of difficulties caused by short-term indebtedness and lack of foreign exchange (see table 9).

³A reduction of 15% in the export tax on coffee beans was granted.

c) *Services trade and factor payments*

Trade in real services declined sharply, as did the number of tourists. In the case of the latter, this decline was due first and foremost to extra-economic tensions which directly affected the tourist sector. Expenditure by Haitian tourists abroad also declined, but to a lesser extent. A 75 gourde tax was charged for the pass required to travel to the Dominican Republic by land, in order to discourage the outflow of foreign exchange by this route. Finally, freight and insurance payments to foreign companies also went down considerably (33%) because of a drop in the volumes of goods traded.

The trade deficit came to US\$181 million: a figure only slightly higher than that of 1980, and 19% less than in the previous year. Factor service payments also decreased, whilst capital transfers from Haitian emigrants recovered to their 1980 level (see table 10).

d) *The current account position and its financing*

The current account deficit was reduced by approximately 25 % to a level close to that of 1980 (US\$140 million). This negative balance was more than covered with external financial resources, the inflow of which increased more than in the past, perhaps in an attempt to alleviate to a certain extent the precarious financial situation prevailing when the new government took office. The improvement in the current account situation reflected the government's determination to adjust its external accounts, the equilibrium of which is considered in official circles as a pre-requisite for restoring the international community's confidence and obtaining more solid credit support on more favourable terms. Furthermore, within the framework of the policy aimed at putting the government's finances on a sounder basis, it was considered necessary to rebuild the international monetary reserves and draw more heavily on external than internal financing to cover the public deficit.

The amount of official grants (US\$100 million) surpassed even that received in 1985. The procurement of loans from abroad also increased considerably, and it is difficult to determine what proportion of the soft loans contain elements of free aid. On the other hand, direct foreign investment remained at the low volumes of the previous biennium, discouraged by the uncertainty and fear generated by the socio-political events.

To sum up, the overall balance-of-payments situation was positive (by US\$26 million) for the first time in the last 12 years, thus permitting an upturn in the international reserves, which had shrunk almost to nothing (see table 10).

e) *External indebtedness*

As a result of the foregoing, the total external debt rose by US\$100 million to US\$700 million. Some of this increase was attributable to the rescheduling of credits, which was necessary because the country was unable to meet its external commitments in full. Also partly responsible for this increase were the exchange-rate modifications affecting the debt expressed in European currency and in yens. Consequently, although a part of this debt was concessionary, unlike what had occurred in the past, the debt has now become a relatively serious problem, as its servicing absorbs increasing proportions of export income. It is worth repeating that although the amount paid in debt servicing fell in 1986, this was simply due to the inability to make the scheduled service payments (see table 11).

4. Prices and wages

After climbing quite rapidly in 1985, consumer prices went down steadily as from January 1986 and the total accumulated decline was more than 11 % for the year (see table 12 and figure 2). This change in trend was attributable to the abrupt fall in international petroleum prices—which made it possible to reduce the domestic prices of diesel oil, gasoline and kerosene—the lower fiscal imbalance and the reduction in the price of basic consumer goods such as flour, sugar and evaporated milk.

Nevertheless, however, as the annual average variation in consumer prices was still positive because of the delayed effect of the high inflation registered the previous year, and as nominal wages were not readjusted, their purchasing power fell by rather more than 3% (see table 13).

5. Monetary and fiscal policies

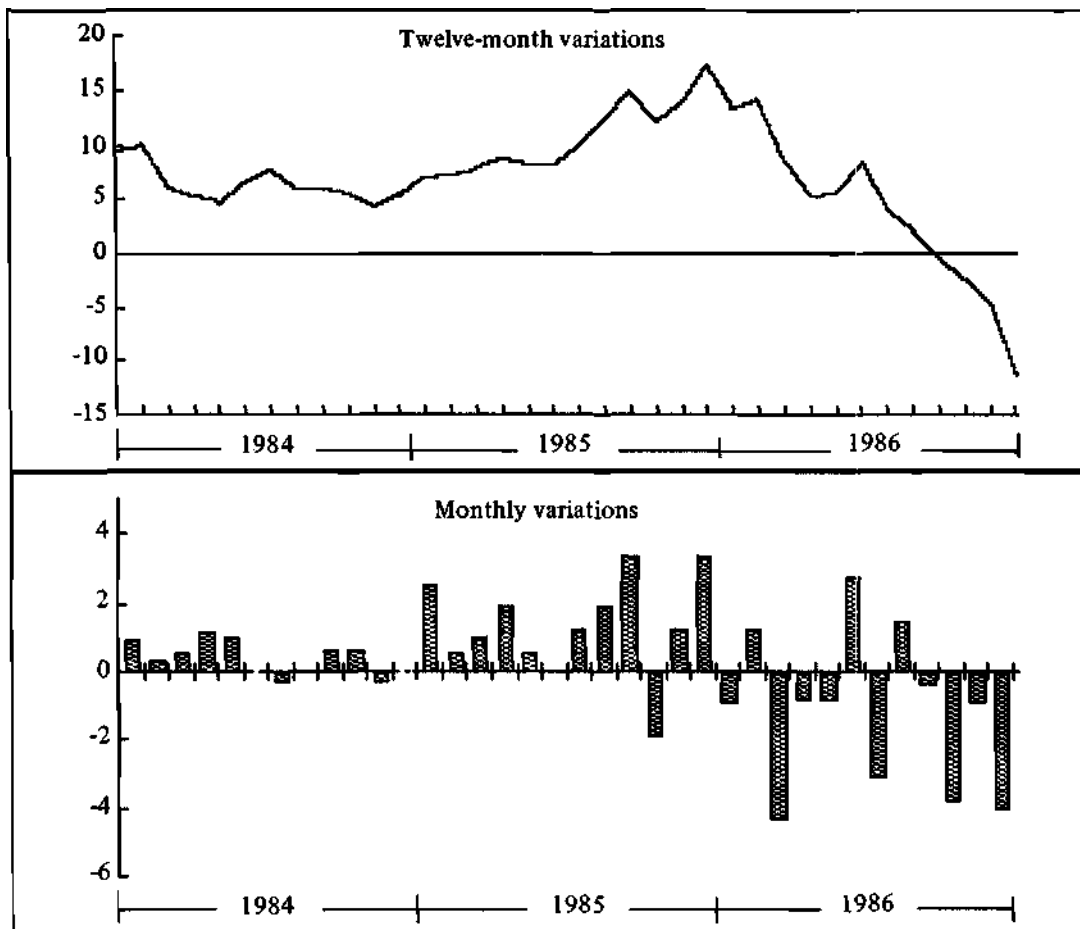
a) *Monetary policy*

During 1986, there was an increase in the money supply and in factors of absorption in general, while domestic credit contracted.

Although the monetary base decreased in real terms with the decline in the reserves of the commercial banks, the amount of money in circulation registered quite a large nominal increase (16%). The greater demand deposits in the banking system (20%), the issue of paper money (13%) and coins (6%) all contributed to this (see table 14).

Quasi-money, for its part, grew by 9% because of the 18% increase in savings deposits even though interest rates were not sufficiently advantageous. On the other hand, despite the improved rates, term deposits continued their downward trend (-13%) because of the reluctance of the banks to accept them. As a result, the excessive liquidity of the banking system continued, as in the previous year. Hence, ironically, although the level of interest rates was increased in order to make them competitive with those abroad—especially in the United States—and so prevent the outflow of resources, depositors were forced to deposit in savings accounts abroad because they were unable to do so at home.

Figure 2
HAITI: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official information.

The 2% contraction in domestic credit was one of the root causes of this situation. The restrictive credit policy which was applied coincided with a weak demand for loans on account of the decline in investment. The loans granted to the public sector dropped slightly, for although the central government received 4% more financing than in 1985, the resources channelled to public enterprises fell drastically (-46%) because some of these companies closed down, while others obtained their resources from abroad. The credit absorbed by the private sector declined by more than 4%. By branch of activity, credit to the electrical sector went down most, followed to a lesser degree by transport and communications.

Even though the exchange rate was undervalued because domestic inflation rates were higher than those abroad, the pressures on the gourde eased appreciably. At the beginning of 1986, the dollar was quoted on the parallel market at 20% above the official value, but by the end of the year the gap had fallen to less than 10% because of the improvements in the balance-of-payments situation and the replenishment of the international monetary reserves.

b) *Fiscal policy*

The policy aimed at putting the public finances on a sounder basis, which had been started by the previous government, was continued according to the guidelines agreed with the international financial community. After the change of government, greater efforts were made to present more accurate fiscal accounts and reduce the public deficit, and significant progress was made in both areas.⁴ Thus, as a percentage of the gross domestic product, the fiscal deficit was reduced from almost 8% in 1985 to 5% in 1986 (see table 15).

As a result, government income increased more than expenditure (25% as compared with 10%). However, the greater dynamism of income was due to the inclusion of items not previously considered, not only of budgetary income but also, and especially, of extrabudgetary resources, as part of the above-mentioned effort to present more accurate public financial statistics. Indeed, income from direct, indirect and foreign trade taxes grew only slightly, owing both to the scant domestic economic activity and the contraction in external trade flows. Furthermore, the 15% decline in the income from coffee exports and the reduction in import duties on several products were also factors in this poor performance, as were the difficulties in collecting the taxes stemming from the climate of social unrest.

Current budgetary expenditure remained virtually unchanged in real terms (7% nominal growth). The real wages paid by the public administration were eroded by the deterioration in the purchasing power of wages. Other government consumption expenditure increased slightly in real terms, but because of scarcity of resources and budgetary austerity, public investment was severely curtailed (-13%) although the larger flow of donations mitigated the decline.

There was less reliance on domestic sources for financing the fiscal deficit of 550 million gourde, because a deliberate policy to alleviate the pressures on the Central Bank was pursued. Consequently the deficit was financed primarily by donations from abroad, especially official loans.

⁴The fact that in 1986 income or expenditure not previously considered has now been included means that there is frequently a distortion in the fiscal statistics. This factor should be taken into account when interpreting the data contained in table 16.

Table 1

HAITI: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	97.3	93.9	94.5	94.9	95.4	95.9
Gross national income	100.0	94.3	89.9	88.5	91.5	96.0	96.2
Population (millions of inhabitants)	5.41	5.51	5.61	5.71	5.82	5.92	6.03
Per capita gross domestic product	100.0	95.6	90.7	89.6	88.4	87.2	86.1
Growth rates							
B. Short-run economic indicators							
Gross domestic product	7.1	-2.7	-3.5	0.6	0.4	0.5	0.6
Per capita gross domestic product	5.3	-4.4	-5.1	-1.1	-1.3	-1.3	-1.2
Gross national income	7.8	-5.7	-4.6	-1.6	3.5	5.0	0.3
Consumer prices							
December-December	15.3	16.4	4.9	11.2	5.4	17.4	-11.4
Variation between annual averages	17.8	10.9	7.4	10.2	6.4	10.7	3.3
Real wages and salaries		-6.5	6.2	-7.9	-6.0	2.7	-3.2
Money	11.1	21.3	14.9	-2.2	16.3	8.1	16.0
Current income of government		-3.8	12.9	11.1	12.9	18.9	25.3
Total expenditure of government	21.5	19.2	34.3	2.1	6.4	1.1	7.1
Fiscal deficit/total expenditure of government'				49.1	45.9	36.5	25.7
Fiscal deficit/gross domestic product ⁰	6.7	8.2	13.1	11.3	10.1	7.6	4.9
Current value of exports of goods and services	43.5	-21.3	12.2	6.9	6.5	10.4	-13.8
Current value of imports of goods and services	46.5	10.2	-7.5	6.6	0.5	6.5	-15.9
Terms of trade (goods and services)	-1.4	-20.0	1.6	-7.0	15.8	4.7	12.2
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-178	-292	-223	-237	-221	-224	-181
Net payments of profits and interest	-14	-13	-14	-14	-17	-20	-15
Balance on current account	-140	-241	-188	-205	-196	-195	-144
Balance on capital account	111	204	169	176	175	121	170
Variation in net international reserves	-26	-50	-3	-32	-6	-5	30
Total disbursed external debt	290	372	410	551	607	600	700

Source: ECLAC, on the basis of official figures.

"Preliminary figures. 'Refers to the minimum paid by industrial enterprises.

Percentages.

Disbursed

external public debt.

Table 2

HAITI: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total supply	96.4	98.4	93.9	133.1	130.2	1.7	0.5	2.0	-4.6
Gross domestic product at market prices	94.9	95.4	95.9	100.0	100.0	0.6	0.4	0.5	0.6
Imports of goods and services	101.0	107.4	87.7	33.1	30.2	4.8	0.9	6.3	-18.4
Total demand	96.4	98.4	93.9	133.1	130.2	1.7	0.5	2.0	-4.6
Domestic demand	94.6	95.9	95.8	112.2	112.1	-0.6	2.4	1.3	-0.1
Gross domestic investment	103.6	115.4	113.6	18.9	22.3	5.4	4.7	11.5	-1.6
Gross fixed investment	105.5	116.8	114.9	16.9	20.3	1.4	3.2	10.9	-1.6
Changes in stocks	86.3	103.9	102.1	1.9	2.1				
Total consumption	92.8	91.9	92.2	93.3	89.7	-1.8	2.0	-1.0	0.3
General government	102.7	94.7	95.9	9.6	9.6	-1.3	-2.3	-7.8	1.3
Private	91.7	91.6	91.8	83.8	80.2	-1.9	2.5	-0.1	0.2
Exports of goods and services	106.2	111.7	83.3	20.9	18.1	12.9	-7.6	5.2	-25.4

Source: ECLAC, on the basis of official figures.

"Preliminary figures. *The figures on exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values using price indexes calculated by ECLAC for the purpose.

Table 3

**HAITI: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC
ACTIVITY, AT MARKET PRICES**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	94.9	95.4	95.9	100.0	100.0	0.6	0.4	0.5	0.6
Goods	90.3	91.4	91.3	57.4	54.6	-2.4	0.5	1.2	-0.1
Agriculture	94.1	95.1	97.4	33.4	33.9	-3.7	3.5	1.1	2.4
Mining	7.4	8.8	7.9	1.3	0.1	-93.4	6.2	18.2	-9.9
Manufacturing	85.6	83.1	80.7	17.2	14.5	5.4	-5.8	-2.9	-2.9
Construction	100.9	113.7	106.8	5.4	6.1	6.0	1.8	12.7	-6.0
Basic services	101.0	96.4	99.6	2.7	2.8	7.3	-7.8	-4.6	3.3
Electricity, gas and water	124.6	127.8	130.2	0.7	0.9	3.7	6.2	2.5	1.9
Transport, storage and communications	93.1	85.9	89.3	2.0	1.9	8.7	-12.9	-7.7	4.0
Other services	101.5	102.7	103.0	35.6	38.2	3.1	1.8	1.2	0.2
Commerce, restaurants and hotels	90.6	91.6	89.4	18.3	17.1	4.7	-3.5	1.1	-2.4
Financial institutions, insurance, real estate and business services	108.2	110.0	112.0	4.9	5.8	2.2	1.8	1.7	1.8
Ownership of dwellings	107.7	109.7	111.6	4.7	5.5	1.9	1.9	1.8	1.8
Community, social and personal services	115.0	116.4	119.5	12.3	15.4	1.4	8.9	1.2	2.7
Government services	111.6	112.7	115.7	9.5	11.5	-1.5	6.4	1.0	2.6
Import duties	98.1	87.2	96.8	4.4	4.4	-16.4	-6.2	-11.1	11.0

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes livestock, forestry and fishing.

Table 4

HAITI: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1980	1984	1985	1986"	1983	1984	1985	1986"
Production of the main crops								
For export								
Coffee	42.9	36.6	36.9	37.8	11.6	1.7	0.8	2.4
Cotton	5.9	7.5	8.0	8.4	11.1	25.0	6.7	5.0
Cocoa	3.4	4.7	5.1	5.6	2.4	2.4	8.5	10.9
For domestic consumption								
Rice	124.1	121.9	124.2	129.2	-2.1	7.5	1.1	4.0
Maize	186.2	186.0	186.4	196.3	-2.7	8.8	0.3	5.3
Sorghum	125.2	118.2	121.4	119.2	-9.5	10.9	2.7	-1.8
Beans	52.6	47.2	47.6	48.2	-7.2	1.1	0.8	1.3
Bananas	519.7	500.4	510.4	525.4	1.1	-1.8	2.0	2.9
Sugar cane	5 640.8	5 700.0	5 727.5	5 772.5	4.3	0.5	0.5	0.8
Livestock production								
Total meat produced				73.8				
Other products								
Eggs	17.6	18.9		17.0	1.9	7.4		

Source: ECLAC, on the basis of figures provided by the Ministry of Agriculture, Natural Resources and Rural Development.
 "Preliminary figures. Million dozea

Table 5

HAITI: INDICATORS OF MANUFACTURING PRODUCTIONS

	1980	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Indexes (1976 = 100)								
Indexes of value added	147	119	122	118	5.4	-7.5	2.7	-2.9
Foodstuffs	135	128	133	130	26.3	-12.8	4.2	-2.3
Beverages	143	139	137	133	9.9	-7.7	-1.5	-2.9
Tobacco	152	127	109	106	-3.2	-2.4	-14.5	-2.7
Textiles, clothing and leather products	99	89	87	85	4.7	-2.1	-2.3	-2.3
Chemicals	187	98	50	49	-3.7	-19.6	-48.5	-2.0
Non-metallic minerals	110	108	125	121	6.7	7.0	15.5	-3.2
Metal product and machinery	268	202	212	206	-15.5	-2.8	5.2	-2.8
Miscellaneous	126	125	108	105	6.6	6.9	-13.3	-2.7
Thousands of tons								
Production of some important manufactures								
Flour	85	114	113	128	33.9	-3.9	-0.6	12.8
Sugar	54	41	58	41	-2.8	-5.6	42.9	-28.7
Lard	3	3	3	4	7.1	6.7	6.3	5.6
Edible oil	19	13	26	21	-25.7	-16.8	100.8	-19.3
Carbonated beverages (millions of bottles)	74	72	61	65	16.8	-0.7	-16.0	7.2
Beer (millions of bottles)	5	4	4	4	8.2	-28.2	-15.5	-3.1
Cigarettes (millions of units)	1 064	938	786	846	-3.4	0.6	-16.2	7.6
Shoes (thousands of pairs)	795	528			-11.7	1.7		
Soap	13	14	10	10	0.8	9.4	-27.1	2.0
Detergent (tons)	579	936	1 111	2 069	18.1	35.1	18.8	86.2
Assential oils (tons)	242	206	175		22.5	-27.9	-15.2	
Cement	243	230	263	221	9.0	2.5	14.1	-15.7
Other indicators of manufacturing production								
Commercial and industrial electricity consumption (millions of kWh)								
	156	162	174	160	-2.1	8.4	7.4	-8.0
Sugar industry	18	9	10	9	35.6	6.2	11.1	-9.9
Cement industry	21	22	22	20	13.0	0.2	1.8	-12.1

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti and of the Haitian Statistical Institute. "Preliminary figures.

Table 6

HAITI: EVOLUTION OF ELECTRICITY GENERATION AND CONSUMPTION

	Millions of kWh				Growth rates			
	1980	1984	1985	1986 ^o	1983	1984	1985	1986 ["]
Generation	336	408	425	440	4.0	3.9	4.2	3.5
Consumption	256	305	323	319	4.4	6.6	5.9	-1.1
Commercial and industrial	156	162	174	160	-2.1	8.4	7.4	-8.0
Residential	81	110	114	123	10.9	-0.5	3.6	8.0
Street lighting	9	8	8	8	13.2	-17.0	-4.6	2.1
Public and community services	10	25	27	28	25.4	53.9	8.0	4.0

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

"Preliminary figures. The difference between generation and consumption is due to losses and unregistered consumption.

Table 7

HAITI: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985	1986 ^o
	Growth rates						
Exports							
Value	56.3	-30.3	15.5	6.8	11.2	8.6	-14.8
Volume	41.0	-4.8	12.2	18.4	-7.4	5.7	-28.3
Unit value	10.9	-26.8	3.0	-9.8	20.1	2.7	19.0
Imports							
Value	45.0	17.2	-13.3	8.6	-1.6	0.9	-13.3
Volume	24.0	13.7	-12.8	7.5	3.1	3.9	-16.3
Unit value	16.9	3.1	-0.6	1.0	-4.6	-3.0	3.7
Terms of trade	-4.1	-29.6	3.0	-11.0	22.2	3.8	15.1
	Indexes (1980 = 100)						
Purchasing power of exports	100.0	67.0	77.4	81.6	92.3	101.3	83.6
Volume of exports	100.0	95.2	106.8	126.4	117.1	123.8	88.7
Volume of imports	100.0	113.7	99.2	106.6	110.0	114.3	95.6
Terms of trade	100.0	70.4	72.5	64.5	78.9	81.9	94.2

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 8

HAITI: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	215	223	191	100.0	100.0	5.3	15.0	3.9	-14.4
Agricultural products	57	60	61	50.4	32.2	42.6	-15.3	5.5	2.0
Coffee	46	49	52	42.1	27.3	46.3	-12.8	6.1	7.4
Cocoa	4	7	5	2.1	2.5	110.8	-2.6	51.6	-30.3
Sugar	1	-	-	3.0	-	-	-70.9	-	-
Sisal	-	-	-	0.7	0.2	-89.5	-	111.1	-
Essential oils	6	4	4	2.5	2.2	34.9	-26.4	-23.8	-4.2
Goods manufactured in the Free Zone	64	82	65	25.3	34.1	-1.1	34.2	28.3	-21.1
Handicraft manufactures	42	47	47	9.8	24.8	14.8	13.5	10.4	1.5
Others	51	34	18	14.5	8.9	-9.8	49.6	-33.8	-49.7
	Thousands of tons								
Coffee	18.7	18.2	16.5			61.2	-21.1	-2.7	-9.3
Cocoa	2.4	3.8	2.0			146.7	-35.1	58.3	-47.4
Sugar	5.0	-	-			-	-29.6	-	-
Essential oils	0.2	0.2	0.2			100.0	-50.0	-	-
Meat	0.2	-	-			-71.4	-	-	-
Manufactured articles (Free Zone)	16.8	17.5	11.0			-2.9	23.5	4.2	-37.1
Handicraft manufactures	6.0	4.0	3.8			-	15.4	-50.0	-5.0

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.
 "Preliminary figures.

Table 9

HAITI: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	435	449	397	100.0	100.0	6.3	5.7	3.2	-11.6
Foodstuffs, beverages and tobacco	89	95	73	16.9	18.4	12.9	7.9	6.7	-23.2
Hydrocarbons	74	76	67	16.7	16.9	23.8	4.2	2.7	11.8
Oils and fats	34	31	29	7.0	7.3	90.5	7.6	-7.0	-6.5
Chemicals	43	42	41	8.4	10.3	10.9	8.2	-2.3	-2.4
Manufactured articles	74	78	68	20.7	17.1	1.3	1.4	5.6	-12.8
Machinery and transport equipment	81	83	81	17.4	20.4	-16.7	8.8	2.4	-2.4
Miscellaneous manufactured articles ⁷	38	41	36	8.2	9.1	-18.1	8.6	7.6	-12.2
Others"	2	3	2	4.7	0.5	•	-	-	-

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

"Preliminary figures. Including manufactures of textiles, leather, rubber, wood, paper and metallic and non-metallic mineral products. Including articles of clothing, footwear, travel goods, furniture, professional instruments and sanitary and electro-domestic articles. Including non-edible raw materials.

Table 10

HAITI: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance on current account	-140	-241	-188	-205	-196	-195	-144
Trade balance	-178	-292	-223	-237	-221	-224	-181
Exports of goods and services	306	240	270	288	307	339	292
Goods FOB	216	150	174	186	206	224	191
Real services	90	90	96	103	101	115	101
Transport and insurance	6	7	7	7	7	8	7
Travel	76	75	80	85	81	94	82
Imports of goods and services	484	533	493	525	528	563	473
Goods FOB	319	374	324	352	346	349	303
Real services	165	159	169	173	182	213	170
Transport and insurance	83	89	77	88	94	114	76
Travel	41	31	41	39	39	43	37
Factor services	-14	-13	-14	-14	-17	-20	-15
Profits	-8	-7	-8	-8	-2	5	-5
Interest received	1	1	1	1	-	-	-
Interest paid	-6	-6	-7	-7	-16	-25	-10
Unrequited private transfer payments	52	64	49	46	43	49	52
Balance on capital account	111	204	169	176	175	121	170
Unrequited official transfer payments	37	74	61	64	75	97	100
Long-term capital	67	91	43	59	58	21	31
Direct investment (net)	13	8	7	8	4	5	5
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	54	83	37	51	54	16	26
Official sector ¹⁷	52	26	33	30	51	10	9
Loans received	47	32	38	36	61	36	34
Amortization payments	-2	-6	-5	-5	-8	-16	-25
Commercial banks ¹⁷	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ¹⁷	3	57	4	20	3	7	17
Loans received	10	61	8	27	20	14	21
Amortization payments	-7	-4	-5	-7	-17	-8	-4
Short-term capital (net)	-1	-2	-12	2	5	5	-11
Official sector	2	-	-	1	11	17	-1
Commercial banks	-3	-2	-12	2	-5	-12	-10
Other sectors	-	-	-	-	-	-	-
Errors and omissions (net)	8	41	77	51	37	-2	50
Global balance	-29	-37	-19	-29	-20	-74	26
Total variation in reserves (- sign indicates an increase)	26	50	3	32	6	5	-30
Monetary gold	-4	2	1	-	-	-	-
Special Drawing Rights	4	3	-	-1	1	-	-5
IMF reserve position	6	-	-	-	-	-	-
Foreign exchange assets	22	15	-16	10	-5	-	-1
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-3	30	18	22	11	-	-13

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook, June 1987*; 1986: ECLAC, on the basis of official figures.

"Preliminary figures, subject to revision. Including other non-factor services. Includes net loans granted and other assets and liabilities. Equivalent to the total variation in reserves (of opposite sign) plus counterpart items.

Table 11

HAITI: INDICATORS OF EXTERNAL INDEBTEDNESS"

	1981	1982	1983	1984	1985	1986"
Millions of dollars						
Disbursed external public debt						
Balances	372	410	551	607	600	700
Government	248	282	402	454	453	498
Public enterprises	124	128	149	153	147	201
Disbursements	93	48	47	83	50	130
Servicing	16	17	23	37	64	40
Principal	11	10	12	28	56	30
Interest	5	7	11	9	8	10
Percentages						
Ratios						
External public debt/exports of goods and services	154.4	149.1	190.0	189.7	178.0	239.7
Servicing/exports of goods and services	6.6	6.2	7.9	11.6	19.0	13.7
Net interest payments/exports of goods and services	2.1	2.5	3.8	2.8	2.4	3.4
Servicing/disbursements	17.2	35.4	48.9	44.6	128.0	30.8

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

"Amount of the external debt with a term of over one year disbursed at 30 September of each year. Preliminary figures.

Table 12

HAITI: EVOLUTION OF DOMESTIC PRICES

	1981	1982	1983	1984	1985	1986"
Variation from December to December						
Consumer price index	16.4	4.9	11.2	5.4	17.4	-11.4
Food			12.8	4.7	22.7	-18.5
Variation between annual averages						
Consumer price index	10.9	7.4	10.2	6.4	10.7	3.3
Food				6.1	11.9	3.4

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti and the Haitian Statistical Institute.
"Preliminary figures.

Table 13

HAITI: EVOLUTION OF WAGES AND SALARIES

	1981	1982	1983	1984	1985	1986 ^a
Gourdes						
Minimum daily wage	11.4	13.0	13.2	13.2	15.0	15.0
Indexes (1980= 100)						
Wages						
Nominal	103.6	118.2	120.0	120.0	136.4	136.4
Real ^b	93.5	99.3	91.5	86.0	88.3	85.4
Growth rates						
Wages						
Nominal	3.6	14.1	1.5	-	13.7	.
Real ^c	-6.5	6.2	-7.9	-6.0	2.7	-3.2

Source: ECLAC, on the basis of figures supplied by the Haitian Statistical Institute.

^aPreliminary figures. Refers to the minimum daily wage paid in industrial enterprises. ^cDeflated by the consumer price index.

Table 14

HAITI: MONETARY INDICATORS

	End-September balances (millions of gourdes)				Growth rates			
	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Monetary base	981	1 351	1 500	1 536	-11.8	37.8	11.1	2.4
Money (M ₁)	929	1 080	1 167	1 353	-2.2	16.3	8.1	16.0
Quasi-money	1 166	1 255	1 358	1 475	8.1	7.6	8.2	8.7
Money plus quasi-money (M ₂)	2 095	2 335	2 525	2 828	3.3	11.4	8.1	12.0
Domestic credit	3 213	3 670	4 025	3 956	16.3	14.2	9.7	-1.7
To the public sector	2 093	2 448	2 738	2 726	32.0	17.0	11.9	-0.5
Central government (net)	1911	2 263	2 515	2 605	47.1	18.4	11.1	3.6
Public institutions	182	185	223	121	-36.4	14	20.9	-45.9
To the private sector	1 120	1 222	1 287	1 230	-4.8	9.0	5.3	-4.4
Coefficients								
Monetary multipliers								
M ₁ /monetary base	0.95	0.80	0.78	0.88				
M ₂ /monetary base	2.14	1.73	1.68	1.84				
Velocity of circulation								
GDP/M ₁	8.8	8.4	8.2	8.3				

Source: ECLAC, on the basis of figures supplied by the Bank of the Republic of Haiti.

^aPreliminary figures. Excluding interbank operations.

HONDURAS

1. Recent economic trends: Introduction and summary

The international crisis has been having a severe impact on the Honduran economy for several years now. Despite the economic policy applied and relatively broad external financing, there has been no success in adjusting the economy, much less reactivating it. On the contrary, to a certain degree, this policy—chiefly oriented toward softening financial imbalances—has been partially responsible for a slow down in productive activity and investment in some branches, heightening unemployment. The degree of well-being of the population has deteriorated severely during the past five years, and poverty and the concentration of income have increased. The fiscal deficit has been considerable and difficult to master, since it is due, on the one hand, to the growing cost of debt servicing, defense and public security, and, on the other, to the difficulties experienced by the public sector in a period of stupendous unemployment, in reducing its spending on remunerations, which constitute a substantial share of public expenditure. Moreover, in spite of the restrictions imposed by the trade and exchange rate policies, the external gap has been wide.

In 1986, the economy continued to grow at the slow rate of the preceding two-year period. The gross domestic product rose by slightly less than 2%, and the per capita product dropped for the seventh year in a row, making it 14% lower than in 1979 (see table 1 and figure 1). Although the inflation continued to be low (4.4%), real wages again deteriorated, accruing a loss of around 20% in the last four years. The fiscal deficit and current account deficit of the balance of payments decreased, but their share in the gross domestic product remained substantial (7.3% in both cases).

Some external factors had a positive impact on economic development. In the first place, the rise in international coffee prices and in the exportable supply of grain increased the value of goods exports significantly (12%). This increase was also due to the increased value of the sale of shrimp, lobsters and meat. However, the volume of goods exports dropped by 3%, mainly because of decreases in sales of bananas, minerals and wood. In the second place, co-operation continued to be received from the Government of the United States in the form both of transfers and subsidized credits, and that co-operation represented 55% of the balance-of-payments deficit on current account. On the other hand, the fall in international oil prices made it possible to effect a sizeable savings of foreign exchange, which was greatly enhanced by the substitution of oil derivatives by hydroelectric energy. Thus, the terms of trade improved significantly (18%), which increased the purchasing power of exports. Finally, the decline in international interest rates reduced debt servicing with international banks to a certain extent and lowered the costs of new external financing, which encouraged the private sector recourse to it, above all for pre-export activities.

All these factors contributed to an increase in both liquidity and the volume of goods and services imports (5%), particularly consumer items and capital goods for agriculture and transport. Thus, it was possible to meet the increased private and public consumer demand, part of which was due to the higher earnings of coffee growers and to the readjustment of the remunerations of government employees.

The deterioration of productive capacity lessened the possibilities to expanding the exportable supply of goods and services, which declined by 3%. This drop reduced the positive effects of the high prices obtained by some of the main export products. The slow growth of overall production was also caused by steep production costs and in particular by high real domestic interest rates (over 13%) and the continuance of certain restrictions on external purchases, especially in the industrial sector and some trade activities. In spite of the production incentives granted through tax subsidies, the policies on exchange rates, interest rates and tariffs continued to put a damper on productive activity, particularly exports.

Figure 1
 HONDURAS: MAIN ECONOMIC INDICATORS

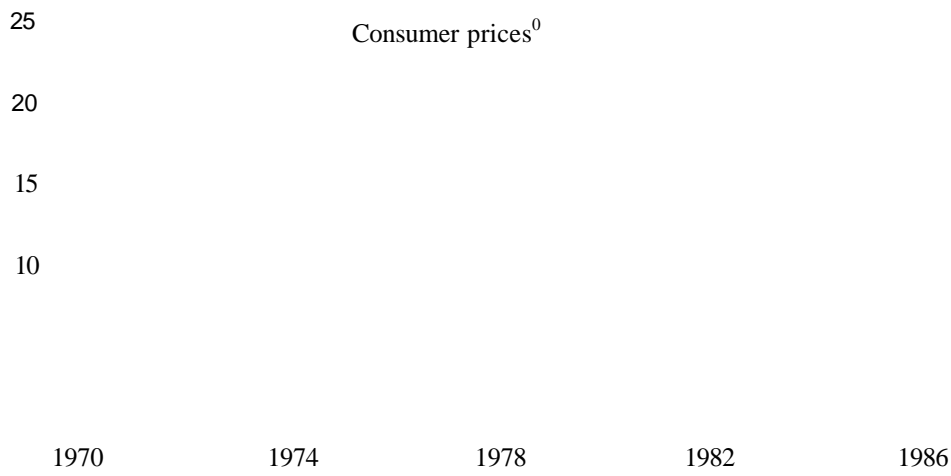
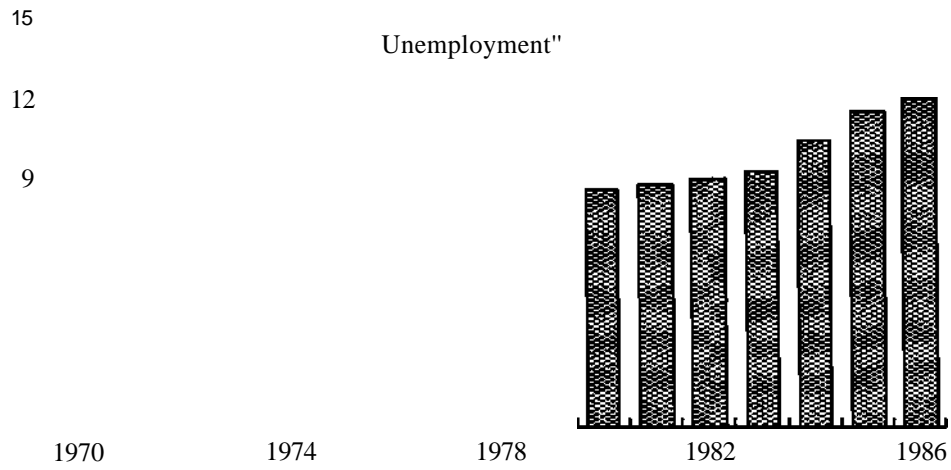
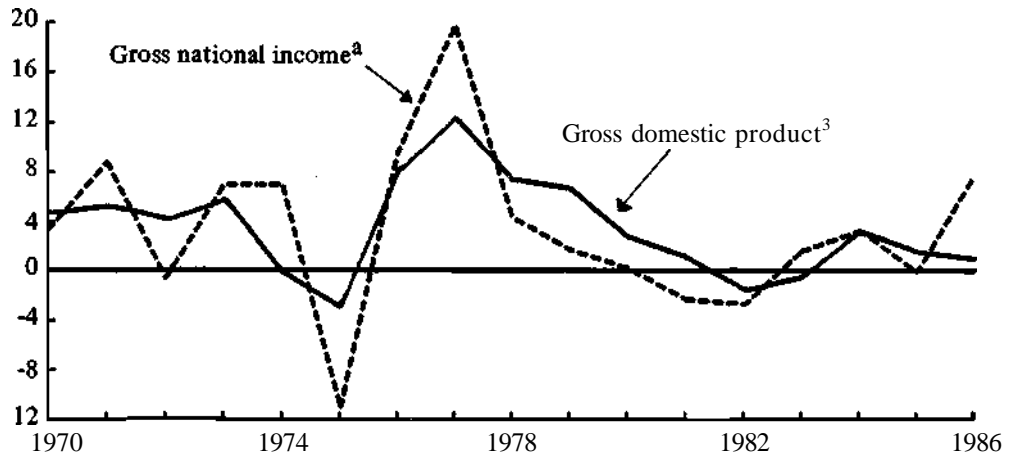
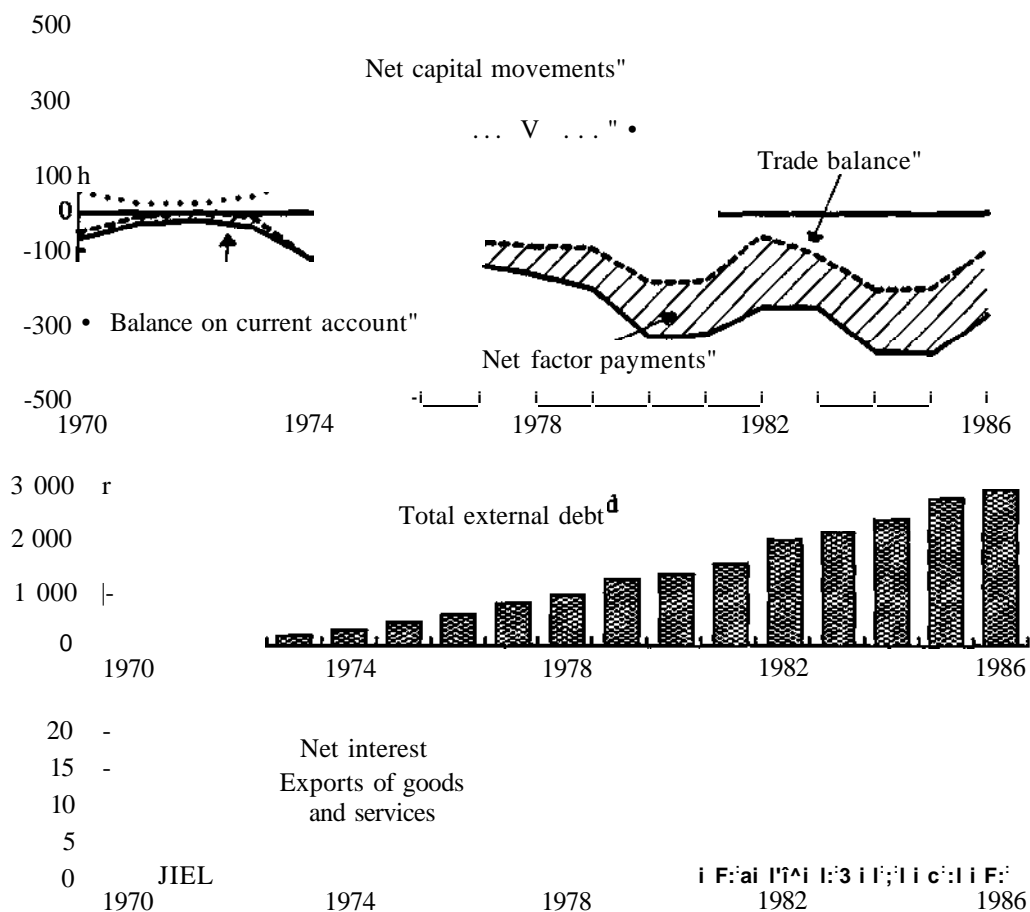


Figure 1 (concluded)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. ^baverage annual rate nationwide. ^cPercentage variation from December to December. ^dMillions of dollars. ^ePercentages.

The output of the sector producing goods was completely stagnant. In the agricultural sector, the increases in the production of coffee, rice, African palm and livestock were neutralized by the persistent deterioration of the international prices of various commodities, while decreased investment had a damaging effect on the production of bananas, cotton and sugar cane. The impact of these factors was compounded by the after-effects of the drought, a decline in State credit support and the high prices of chemicals used in agriculture, all of which affected the cultivation of basic grains, in particular. Manufacturing contracted slightly, owing to the continued decline of sales to the rest of Central America and limited domestic demand, which slowed a further decrease because of tough competition with imported products. Behind these trends was the overvaluation of the exchange rate *vis-a-vis* other Central American currencies. The forestry industry suffered a downturn owing to the scant supply of raw materials, institutional problems and a policy aimed at the privatization of mixed enterprises and the external marketing of wood, which had previously been handled by the Forestry Development Corporation of Honduras (COHDEFOR). Construction and mining experienced sharp reversals. Thus, the modest growth shown by the product was attributable to the growth recorded in services, mainly electricity, governmental services, financial services and trade.

Fixed capital formation also slid considerably (-11%), owing to the 25% drop in public investment. This was offset only partially by the growth of private investment (8%).

The external sector continued to show an important current account deficit, although this was nearly 16% lower than 1985. The imbalance persisted because although the trade account improved considerably, interest payments on the debt and remittances of profits increased. As in prior years, the current account deficit was financed by means of a large flow of resources from the United States. However, the net inflow of capital fell abruptly (-48%), impeding the adjustment and recovery programme and raising its costs.

External debt servicing continued to absorb a considerable share of domestic savings and export revenue (48%). The servicing of the debt was 12% higher than disbursements. In net financial terms, this means that the country's commitments were paid by resorting to external indebtedness, it being necessary also to sacrifice part of the country's own resources.

The long process of renegotiating the debt continued although it proved impossible to reach any kind of agreement with the creditor banks. Consequently, the renegotiation of overdue accounts (almost US\$200 million) —the equivalent of 7.4% of the total external debt—, was pursued. Negotiations were also begun with the International Monetary Fund in an effort to obtain stand-by credit. The main subjects of those negotiations were the reduction of the fiscal deficit and the exchange-rate policy. However, the points of disagreement, especially in matters of fiscal policy, prevented a new agreement.

The fiscal policy was, in fact, contractive, and central government finances evolved differently than predicted. Current expenditure showed more growth (10%) than income (8%), thus increasing the deficit. Despite the 7% reduction in capital expenditure, the overall net deficit continued to be high (7% of GDP). On the other hand, debt servicing amounted to the equivalent of 67% of the fiscal deficit. In other words, more than two-thirds of the new debt was used to service the public debt.

The consumer price index rose slightly. This was because the world inflation rate was moderate, the exchange rate remained the same, petroleum prices were reduced and there was a heavy flow of unregistered goods imports from other countries in Central America.

The government's economic policy was influenced by the favourable expectations which prevailed at the beginning of the year (a rise in coffee prices, a cutback in oil prices and lower international interest rates). Within this framework, the subsidies granted to different areas of the private sector continued to grow, central government spending climbed in order to satisfy the wage demands of some groups of public employees, the interest payments rate on the debt mounted and defense and public security allocations rose sharply. Therefore, in the face of a smaller flow of financing from the exterior, the central government needed more domestic credit, and this need had to be met by reducing the net credit available to the rest of the public sector.

The policy of a fixed exchange rate was continued. This negatively affected sales to the rest of Central America and favoured imports and unregistered imports, in particular, despite the fact that a parallel exchange rate for use in commercial transactions with this area continued to operate. During the year the non-bank exchange rate averaged around 2.30 lempiras per dollar, as compared to 2 lempiras on the official market. The government kept the volume of imports under control although it made the restrictions adopted in 1984 more flexible.

The monetary authorities tried to limit the credit granted by the banking system to the public sector with the objective of favouring the allocation of resources to the private sector and rediscount and financing lines for specific purposes were expanded. The banking system accumulated an excess of liquidity due to the fact that the private sector's demand for credit was relatively low.

Within the framework of the short-term and structural measures agreed upon with the International Development Association (IDA), the policy of privatization was pursued by selling off State assets and increasing the private sector's participation in activities previously reserved for the public sector (e.g., the external marketing of wood). In addition, the new tariffs continued to be negotiated with the business sector, exports were promoted under the protection of laws enacted the preceding year and an attempt was made to stimulate private investment through tax changes.

In the social sector, 1986 was characterized by the intensification of certain phenomena. For instance, in addition to the labour problems experienced in the mining sector and in some public-sector institutions, some of the tensions unrelated to the economic situation experienced in the Central American countries were heightened. This made it harder for the government to handle the serious financial, economic and social problems that were accumulating and gave rise to unfavourable expectations with regard to private activity.

2. Trends in economic activity

a) *Total supply and demand*

The growth rate of total supply (2.8%) was nearly twice as high as in 1985 (see table 2). This was attributable primarily to the increase of over 5% in the volume of imports of goods and services, which can be accounted for by the decline in the prices of imports, the greater availability of foreign currency and the relaxation of administrative controls in the foreign exchange market and on external purchases. Nevertheless, the import coefficient was five percentage points lower than in 1980, which suggests that external restrictions continued to be a stumbling block for the recovery of the economy.

Among the components of total demand, exports of goods and services dropped by 3%, primarily because of the drop in the exportable production of bananas, sugar, metals and tobacco and the continuing decline in the country's Central American market.

On the other hand, domestic demand expanded by close to 5%, chiefly as a result of the dynamism shown by total consumption. The expectations of significant growth in tax revenue prompted the expansion of public consumption in response to demands made on and commitments entered into with government officials, mainly with regard to health and education. Not only was a general wage increase granted to central government employees, but special raises were also given to teachers and doctors, and new posts in education and transport were created. Another important factor in the rise in public consumption was the mounting expenditure on defense and security, which reduced the possibilities for extending the coverage and improving the quality of the productive and social services. As for private consumption, it rose by 8.5% owing to the higher earnings of coffee growers and the slight increase in the number of wage earners.

Conversely, the gross domestic formation of fixed capital plummeted by nearly 11%, owing to the severe financial constraints on public enterprises, the weakening of executive capacity found when a new administration takes office, an insufficient number of new projects and limitations on counterpart governmental funds. Nevertheless, perhaps the greatest obstacle to public investment continued to be the growing burden represented by foreign debt servicing, which amounted to the equivalent of 120% of national savings.

Private investment continued to recover from the fall experienced at the beginning of the decade, when stocks of raw materials and consumer goods had been replenished and equipment changed in a process that was favoured by increases in exports and in the availability of credits for industry. Fixed private capital formation rose, primarily in such activities as construction; the food, footwear, clothing and wood derivatives industries, and the breeding of shrimps for export. As for the sharp increase in inventories, it reflected the replenishment of stocks of imported goods, which more than offset the depletion of stocks of export commodities (chiefly wood and coffee).

Nonetheless, several factors continued to affect private investment. Among them, the following should be singled out: the expectations of a low external and domestic demand for some products, high financial costs and the uncertainty associated with regional tensions. This situation was compounded by an exchange rate policy which deprived producers of exportable goods of incentives.

b) *Evolution of the main sectors*

The growth rate of the product was bolstered by the growth of services, particularly government and financial services, while goods production remained stagnant, ostensibly owing to the persistence of the systematic slump in construction (see table 3). It would seem that the economic policy and especially the fiscal and credit inducements provided in it did not succeed in improving the expectations of entrepreneurs, while the exchange rate policy continued to erode the competitiveness of products geared toward the Central American market and blocked the possibilities for traditional exports.

i) *Agriculture.* The agricultural gross domestic product rose by a scant 1.6% so that per capita food production was again reduced (see table 4). This was attributable to adverse weather conditions, which especially affected the production of bananas, cotton, sugar cane and basic grains; the continued decline in international prices of meat, tobacco, cotton, and wood; difficulties in obtaining long-term financing and the rise in the price of fertilizers and other chemical inputs used in agriculture.

Consequently, exportable production contracted despite the sharp increase in the coffee harvest. The production of grains for basic domestic consumption also fell off.

With the purpose of stimulating agricultural activity, the government broadened its fiscal support policy, principally through subsidies (to meat and cotton) and in some cases through tax reductions (coffee and bananas). Moreover, the interest rate applied to the special funds for agricultural development and the marketing of agricultural products dropped. However, their credit support of the sector sank substantially, to the point that the credit coverage of the National Agricultural Development Bank (BANADESA), which is in a critical financial situation, dropped from 10% to 7%. Those most affected were medium- and small-scale farmers and the beneficiaries of the agrarian reform. On the other hand, financing from the rest of the banking system rose by 12% to the benefit primarily of producers of bananas, coffee, tobacco and sugar cane. Private credit thus offset the cutback in State credit to a certain degree.

The agricultural sector was also affected by a delayed rainy season, which began almost one month later than usual, and then by irregular rainfall. The greatest damage was suffered in the southern region of the country, which is one of its most densely populated areas and has the worst indexes of extreme poverty and malnutrition. Here nearly 90% of the crops were lost, affecting some 58 000 families.

After two years during which bananas had recovered, their production fell, mainly as a consequence of the intense drought, and this caused the share of Honduran exports in the growing world trade in bananas to shrink. The enterprises involved in the production and export of bananas consider that the devaluations of the exchange rate in competitor countries and the subsidies and tax advantages they provide are incessantly eroding Honduran competitiveness, a process that the tax exemption policy of the last six years has not been able to offset.¹

The upward trend of international coffee prices in the last four years and the technification of grain farming contributed to a 9% rise in grain production. Furthermore, the policy promoted by the Coffee Institute of Honduras (IHCAFE) of diversifying crops in low-productivity coffee areas, which stimulates cocoa and cardamon production, in particular, remained in force. However, important problems still existed. Despite more effective controls, coffee rust continued to affect 73% and coffee berry beetle, 29% of the 122 500 hectares cultivated; debt and delay continued to characterize producers' co-operatives, which impeded their access to credit; and in the eastern part of the country, the war and the presence of foreign armed groups caused losses amounting to around US\$50 million (15% of exports).

The level of sugar cane production was only slightly higher than that of 1980 because the surface sown was reduced. This reflected the reduction in the import quota of the United States,² low sugar prices on the world market (lower than production costs) and the contraction of bank financing. Then too, the crop continued to be affected by the financial problems in the sugar industry, where three out of seven companies are experiencing great losses on a continuous basis.

Since 1979, the area in which cotton is harvested has been declining and in 1986 cotton production experienced another drop, amounting to 48% of that which occurred in 1980. The main cause for this trend is the persistent downturn of prices to the producer due to the sustained drop in international prices, which was compounded in 1986 by higher input costs, the reduction of the financing granted to cotton producers and the effects of the drought. In these circumstances, production fell by 28%.

Since the beginning of the 1980s, the government has given high priority to basic grain production. Credit incentives, guaranteed prices, marketing services and technical assistance—along with relatively favourable rainfall—contributed to the rise in the domestic grain supply, the surface harvested and the yield having increased. However, in the past two years, this situation has changed. BANADESA financing was lower, which chiefly affected peasants working in co-operatives; the financial constraints on the Agricultural Marketing Institute of Honduras (IHMA) reduced its purchas-

¹ According to the estimates of the main producer-exporter firm, the share of Honduran exports in the world market decreased from 219% in 1973 to 169% in 1986, while Panama, Costa Rica and Guatemala maintained their share and that of Colombia rose from 5.49% to 18.39%. The FOB costs of Honduras were 15% higher than those of Panama, whose costs ranked second highest in a sample of major producers; and 92% higher than those of Nicaragua. These differences are lessened by the smaller transport costs of the Honduran product.

² The quota assigned to Honduras for 1986 was 35% lower than in 1984, and for 1987, it could be 64% lower.

ing capacity and ultimately, the possibilities for maintaining guaranteed prices, technical assistance and mechanization services; also the rainfall was unfavourable. Thus, in 1986 the production of both maize and beans sank, and it was necessary to resort to maize imports to meet the domestic demand. In the case of rice, which is cultivated in areas under irrigation, ample credit support from private banks made it possible to obtain a rise in the harvest (19%), but the volumes attained three years before were just barely recovered.

The enlargement of the area under cultivation of the African palm made it possible to increase production by 6%. However, this crop still raises problems, since the oil production costs of the co-operatives were nearly twice the international price. This would seem to be due to defects in the methods used in gathering and transporting the fruit and to organizational problems caused by friction between those exploiting the crop and the State.

Several public and private institutions are making efforts to consolidate and develop non-traditional exports, which was reflected in increases in the production of some of them, mainly cardamon and melons.

In spite of the financial support the National Agrarian Institute received from the Central Government, activities relating to the allocation and auctioning of land under the agrarian reform slumped, because of serious labour-related unrest within that body. In addition, the agrarian policy was still not very explicit; it produced uncertainty among peasants and agricultural entrepreneurs and discouraged investment. Mobilized efforts to press demands for new land¹ lacked intensity because Decree-Law 33 penalized moves of this kind and the major peasant organizations concentrated their efforts on obtaining State support for production.

Producer organizations benefiting from the agrarian reform continued to consolidate their accomplishments in the area of productivity and, primarily, in crop diversification. Nevertheless, there are still problems like high levels of payments in arrears, limited access to credit and a high incidence of defection by their members.

ii) *Manufacturing*. Industrial production recovered partially from its fall of the previous year, owing to the larger volume of credit granted to the sector and to other promotional policies. The effects of these policies were, however, neutralized appreciably by certain negative factors. Thus, despite the increased flexibility of exchange rate controls, the timely acquisition of foreign exchange for the purchase of raw materials continued to be difficult; the loss of competitiveness of Honduran products curtailed the industry's participation in the Central American market and provided a stimulus for contraband from neighbouring countries, to the detriment of certain industrial goods produced domestically; trade with some Central American countries was interrupted, provoking a shortage of some raw materials and, in certain cases a decline in exports; and finally, an atmosphere of uncertainty in terms of investment prevailed.

In spite of these adverse factors, productive activity rallied in the second half of the year and investments in some manufacturing branches rose (see table 5). This improvement was partially attributable to measures adopted by the State, especially in certain industries associated with the National Investment Corporation, such as the measure aimed at the recovery of private enterprises carried out in the main by the Foundation for Research and Entrepreneurial Development (FIDE).

Activities engaged in food production expanded under the impetus of greater domestic demand. The meat industry boosted its income as the result of a government subsidy; nevertheless, production dropped because of the continued decline of the international price, the smaller export quota, and sales of cattle on the hoof to other Central American countries; consequently, the level of idle installed capacity continued to be very high.

Sugar refining picked up; nonetheless, problems related to external demand, mounting operation costs and the heavy financial burden persisted because of the large short-term debts entered into by some refineries.

In the lumber and wood derivatives sector, the sawn wood industry diminished due to a sharp dive in the international price, insufficient supplies of raw materials resulting from the depletion of the forests in some areas and the decapitalization that the industry has been undergoing. However, in the furniture and other wood processing branches some firms were reactivated thanks to the diversification of their market and production.

¹According to official estimates, the number of families without land comes to more than 150 000 families (21% of the economically active agricultural population). See SECPLAN, *Plan Nacional de Desarrollo del Sector Agropecuario, 1987/ 990*.

The textile, garment, paper and cardboard and chemicals industries were affected by competition with unregistered imports coming from the rest of Central America as a result of the overvaluation of the lempira *vis-à-vis* other currencies and despite less rigid exchange rate controls. The manufacture of paper and cardboard articles was also affected by foreign exchange restrictions and the downturn in banana exports, which had an impact on the production of cardboard boxes. In the chemical industries, interruptions of trade with other Central American countries limited imports of raw materials, which production and sales adversely affected.

iii) *Construction*. During 1986, the government formulated a national housing policy, under which the Housing Fund (FOVI) was expanded by 30 million lempiras and foreign loans were contracted by over US\$25 million. These initiatives generated an atmosphere conducive to the construction of housing by private enterprise (see table 6). Regardless of the dynamism experienced by building and by residential building in particular, reduced public investment caused the sector's activity to fall by 8%.

iv) *Mining*. Mining production again contracted owing to the persistent deterioration of the international price of metals. This caused serious labour problems at the Mochito mine, whose activities were paralyzed twice.

v) *Basic services*. Basic services grew by slightly more than 2%, mainly because of the sustained increase in electric power production. In fact, the operation of the "El Cajón" hydroelectric plant permitted the substitution of all electricity imports (see table 7). On the other hand, the underutilization of the average production capacity of 2 billion kWh was very high (30%), showing the need to expand the distribution system. The low volume of domestic demand and, in some cases, the limited distribution capacity impeded the generation of more hydroelectric power despite the expansion of sales to Central America. For this reason, the National Electric Energy Corporation suffered serious financial problems.

The favourable growth of transport (2%) was due to the increase in urban and interurban passenger movement, and in sea freight, which offset the drop in land and air freight as a result of the stagnation of goods production and the rise of air transport costs.

vi) *Other services*. Other services, which represented almost 40% of the total GDP, constituted the most dynamic sector of the economy, showing a growth rate of 4%. Thus, stimulated by increased demand, commerce improved after several years of deterioration and stagnation. Financial activities escalated as a consequence of the attractive returns achieved, while governmental services rose significantly (7%) because of larger defense and public security allocations and some increase in central government employee openings.

c) *Evolution of employment and unemployment*

Even in major growth years, a structural feature of the Honduran economy has been a labour absorption capacity which fails to match the increase in the labour force, which expands at an annual rate of 3.7%. This has resulted in increasingly higher rates of open unemployment and underemployment, above all in the forestry and services sectors. The rate of open unemployment rose to 12% in urban areas; underemployment increased, especially in the rural sector as a result of the drought, whose effects were very severe in the southern part of the country (see table 8).

The government continued to apply the National Employment Programme, which includes labour-intensive projects. It also created over 3 000 permanent jobs for people under temporary contract.

When problems related to unemployment are considered in conjunction with those due to the persistent decline in income, it may be assumed that the degree of poverty has risen and that general well-being has seriously degenerated.

3. The external sector

The growth shown by the external sector was not as unfavourable as that recorded in 1985, primarily because of price changes in the principal foreign trade commodities. Consequently, the coefficient of the current account deficit with respect to the gross domestic product shrank, although it was still high (7.3%).

The unit value of exports rose considerably (17%), while that of imports slid (-3%), with the result that the terms of trade showed an improvement of nearly 20% (see table 9). The sharp increase in the value of exports of goods and services (13%) allowed the trade deficit to drop by 44% in a situation in which external purchases showed little dynamism. Factor servicing continued to climb, however, and was solely responsible for 70% of the negative balance on current account (see table 10).

An important feature of the performance of the external sector was the marked reduction in the net inflow of capital. Thus, despite the smaller deficit on current account and the increase in unrequited official transfer payments, there was a slight loss of international reserves.

In sum, regardless of the improvement of some external conditions (coffee, bananas and petroleum prices), exports were unable to give a forward thrust to the economy. The deterioration of the productive capacity in respect of exportable goods made it impossible to respond quickly to such changes as those described above and to take advantage of the favourable conditions in the international economy. Moreover, the positive effects of the improvement in the purchasing power of exports were eroded by burdensome payments of interest to the exterior.

a) *Merchandise trade*

i) *Exports.* The value of exports of goods rose by 13%, owing to the behaviour of international prices, while their volume fell, with part of that reduction being covered by existing stocks of coffee, wood and meat (see table 9).

Despite the government's export promotion policy, particularly as regards the subsidies granted for some items, the exportable supply declined. This was due to the decreased competitiveness of Honduran products intended for the Central American market (mainly meat and industrial goods) and the adverse conditions affecting the demand for some other goods (minerals, sugar and cotton). Non-traditional exports grew, although only slightly, owing to the fact that a sharp increase in wood manufactures offset the downturn in the other items in this category (see table 11). The efforts made by the Honduran Forestry Development Corporation to promote the industrialization of forestry activities were a factor in this regard.

External banana sales dropped as a result of the contraction of the exportable supply (see table 12). The factors contributing to this reduction in supply included the problems mentioned above, the temporary dip in consumption and the low prices which prevailed in European and North American markets during the major part of the year.

Coffee was the main export item thanks to a rise in international coffee prices and the significant increase in the volume exported, which was made possible by the high level of stocks on hand. As a result, the value of external sales rose by 74%. Due to the fact that better prices were expected, exporters paid high domestic prices to producers and held back sales; the subsequent fall of international coffee prices thus created problems for exporters, in response to which the government decided to decrease the export tax by 20 lempiras per 46-kilogram sack. There were uncontrolled sales to Guatemala.

The value of lumber exports sank by nearly 3% as a consequence of a lower international price, even though the volume rose slightly owing primarily to a reduction in inventories. The depletion of forestry resources in the most accessible areas, the sector's institutional problems, its heavy financial burden, the depreciation of its physical capital and the gradual dissolution of mixed-capital lumber companies resulted in a cumulative reduction of 27% in the exportable supply during the three-year period from 1983 to 1985. Acting through the Honduran Forestry Development Corporation, the State therefore undertook a review of its existing policies, especially those relating to the external marketing of lumber. As a result, the private sector was given a greater role in this process, and by the end of the year a proposal for a new forestry policy was under study.

Both the value and the volume of meat exports climbed considerably (16% and 14%, respectively). Nonetheless, the exported volume was still 66% less than in 1980. One factor contributing to its contraction during the period 1981-1985 was the stagnation of international prices, which led meat packing firms to pay lower prices to producers, thereby discouraging production and spurring unregistered sales of livestock to neighbouring countries. Thus, the utilization of the installed capacity of the meat export industry was still low in 1986. In line with the fiscal subsidy policy, the government granted \$0.12 lempira per pound of livestock.

As a result of the 16% increase in the value of shrimp and lobster exports, the share of total exports represented by these items —although small— doubled between 1980 and 1986, putting them in third place in external sales, after coffee and bananas. On the other hand, the value of mineral exports fell 55 % due to the drop in their volume, which, in turn, was a consequence of the progressive deterioration of world market prices during the 1980s. Finally, bank credits for exporters rose 57%.

ii) *Imports.* According to preliminary estimates, external purchases rose 3%; most of this increase occurred during the second half of the year as a result of greater domestic demand, particularly for consumer goods.

Thanks to the inflow of foreign exchange occasioned by burgeoning coffee sales and to the decrease in the country's petroleum bill, additional resources were available. These resources were used to expand the country's external purchases of consumer goods (12%) in order to satisfy the mounting demand and to replenish inventories. Capital goods imports (especially for transport and agriculture) also grew, above all due to the needs of the private sector. Nevertheless, the share of total imports accounted for by capital goods was still much lower than it had been in 1980 (see table 13).

The value of purchases of raw materials and intermediate goods dipped 5% due to the drop in the price of petroleum and the substitution of electricity for this energy source, as a result of which the oil bill was lowered by 30%.

The overvaluation of the lempira with respect to other Central American currencies spurred the entry (in some cases, unrecorded) of merchandise from neighbouring countries. Imports and exchange rate controls tended to be more liberal, as is illustrated by the fact that the partial operation of a parallel market was permitted. On the other hand, the credit made available by the banking system for purchases abroad increased only 5%.

iii) *Subregional trade.* The country's trade with the rest of Central America declined once again in respect to both imports and exports, with the latter dropping to just 28% of the 1980 volume. Honduras' trade deficit with the area was consequently reduced by 60%.

Trade relations with Guatemala were interrupted several times. In June, Guatemala announced its withdrawal from the Central American Clearinghouse and demanded that payment for its exports be made in dollars. In response to this decision, the Government of Honduras suspended trade transactions, with that country, some of which were then diverted to Mexico. The above situation as regards Honduran trade relations with Guatemala had the effect of reducing its trade deficit with that country by 30%.

Trade with Nicaragua also decreased, chiefly as a result of payment problems and reduced energy sales. The level of debt corresponding to the accumulated deficits with this country thus reached 57 million Central American pesos. In May, the two governments signed a mutual assistance agreement whose object was to regularize the commerce between their countries by means of countertrade operations totalling US\$10 million. A mechanism was established for the repayment of the debt over a 10-year period, with a three-year grace period, at an interest rate of 7.5%, and an arrangement was reached with regard to fishing by Honduran boats in Nicaraguan territorial waters. In addition, Honduras agreed to continue to export electrical energy.

The existing tariff system, which can be said to be of a protectionist character that discourages exports, remained in force, while efforts were made within the country to define a new tariff régime. This process has been slower than in the rest of Central America due to the fact that 28% of Honduran tax revenues come from import duties (in the other Central American countries this proportion ranges between 8% and 13%).

iv) *The terms of trade.* The significant improvement in the terms of trade (20%) was mainly due to the increase in the price of coffee and the drop in petroleum prices. However, with the exception of bananas, shrimp and lobster, the prices of the country's main export products declined. Thus, for most of Honduras' exportable goods, external market conditions continued to be unfavourable.

The improvement in the terms of trade nonetheless more than offset the reduction in the volume of exports, thereby significantly increasing their purchasing power.

b) *Services trade and factor payments*

Overseas sales of real services were stimulated by electricity exports, especially to Costa Rica and Nicaragua, following the agreement reached with the latter country. For their part, imports of services grew slightly, in line with the expansion of purchases of goods (see table 10).

Factor services showed a rise of 14%, since, although the international interest rate fell, the level of interest payments made internationally climbed as the debt became concentrated in the hands of multilateral and bilateral creditors.

Additionally, returns on direct foreign investments went up by 30%. Thus, factor servicing once again absorbed the significant inflow of unrequited official transfer payments and continued to be the main element contributing to the maladjustment of the balance-of-payments current account.

c) *The current account position and its financing*

As a result of the trends outlined above, the deficit on the current account of the balance of payments fell to US\$270 million. A considerable portion of this amount was covered by unrequited official transfer payments.

The main aspect to be noted in the behaviour of the variables of the capital account was the drastic decline in net receipts of external credits. Long-term capital inflows plunged 56% to their lowest level in the last 10 years. This decline was caused by the decrease in public investments and, consequently, by the reduced disbursement of external funds. In fact, in so far as its relations with some financial agencies were concerned, the country became a net exporter of capital. Thus, net capital inflows to the official sector slumped 50%. Loans to the banking sector also dropped sharply (-65%) as a result of a cutback in the disbursement of regular credits contracted among the Central Bank, the Inter-American Development Bank and the World Bank. Indeed, in the case of the latter institution, the net flow was negative. In contrast, loans to the private sector surged due to the increased external credit support made available for coffee pre-export activities.

Funds from the Agency for International Development continued their upward trend, whereas the net utilization of compensatory credits was negative due to the decrease in the disbursements made by the Venezuelan Investment Fund and the Banco de México. Furthermore, International Monetary Fund resources have not been used since 1974 owing to Honduras' failure to reach an agreement with that agency; as a result, the country's activity in this regard has been limited to making amortization payments.

The capital account balance was slightly less than the current account deficit and a small loss of reserves took place. Despite optimistic expectations at the beginning of the year, in the end the overall performance of the external sector was poor and was largely based on the inflow of bilateral resources made available within the framework of external financial co-operation, whose continuation in the future would appear to be uncertain (see table 10).

d) *External indebtedness*

The country's total debt reached US\$2.93 billion, which was almost three times the value of its exports of goods and services and equivalent to nearly 80% of the gross domestic product. The external debt continued to be concentrated in medium- and long-term credits with official lending agencies (75%) and in the public-sector portfolio (see table 14).⁴

For the second time in the present decade, the service on Honduras' foreign debt exceeded disbursements and reached 48% of the earnings from goods and services exports. One factor of significance in this regard was the expiration of the grace period of a number of credits, chiefly those related to the "El Cajón" project.

External debt servicing thus hindered private and public capital formation. The decreased flow of financing has diminished the prospects of completing large-scale projects (pulp and paper) and has limited the possibilities of taking advantage of others (distribution network for the use of

⁴ At the end of 1986, the public debt balance (90% of the total debt) was made up of the following components: 53% with official multilateral lending agencies; 22% with official bilateral agencies, mainly of the United States. The remainder was composed of commercial bank credits (17%) and supplier credits (18%). See Secretaría de Hacienda y Crédito Público, *Memoria 1986*, Tegucigalpa, February 1987.

hydroelectric capacity) as well as making it more difficult to pay off the credits used to finance these investments. The mounting burden of the debt has thus been compounded by the impossibility of taking full advantage of previous loans.

In addition, amortization and interest payments put strong pressure on public finances, restricting the resources available for providing social and productive services. This has been exacerbated in recent years by the growing use of external resources for defense and public security-related expenditures.

The new government recommenced the renegotiation of its external debt with the private international banking system, with which it was on the point of reaching an agreement in July. Honduras proposed the renegotiation of 100% of its debt, a 16-year repayment period, a three-year grace period, and the application of the London interbank rate without surcharges. The Banking Committee proposed the renegotiation of 90% of the total debt, the immediate payment of the remaining 10%, a 14-year repayment period, to include three years grace, and the use of the LIBOR rate with a spread of 1.75 %. However, the parties were not able to reach an agreement. Consequently, by the end of 1986 the country was US\$243 million in arrears in its debt servicing payments, of which US\$226 million corresponded to arrears in amortization payments.

Preliminary talks were undertaken with the International Monetary Fund, in 1986 with the goal of establishing the basis for a possible stand-by credit arrangement. The main issues were the reduction of the fiscal deficit and exchange rate policy options. However, the differences between the parties' positions, above all with respect to the first topic, continued to block the signing of a new stand-by credit agreement.

4. Prices and wages

a) *Prices*

During the last three years, domestic prices have risen relatively moderately. This could well be primarily a reflection of world inflation and of the maintenance of the lempira's exchange rate. In 1986, the variation between annual averages of the consumer price index (4.4%) was somewhat higher and the December-to-December increase (3.2%) was less than in 1985 (see table 15).

These subtle changes were the net result of various conflicting phenomena. On the one hand, international petroleum prices and the unit value of merchandise imports declined, which had a positive effect on the prices of manufactures. Nevertheless, the impact of the drop in petroleum prices was less than what it would otherwise have been because the government maintained the consumer prices of petroleum derivatives at their existing levels and modified only those of bunker fuel and kerosene, which benefitted certain branches of industry and some urban households. On the other hand, the increase in liquidity and especially the problems that affected the production of basic grains pushed up the prices of farm products and foodstuffs. These higher prices increased the income of agricultural producers, who in the past had received lower prices relative to those of urban productive activities. Both rents and the prices of beverages and tobacco climbed more than the overall price level (7% and 12%, respectively).

b) *Wages*

The purchasing power of minimum wages dropped for the fourth consecutive year in 1986, for a cumulative loss during the last four years of around 20% (see table 16).

Early in the year, labour unions engaged in talks with the government concerning a review of the official minimum wage, which has been frozen since June 1981. However, no agreement was reached in this regard, due to the slow expansion of productive activity and mounting unemployment. Additionally, the low levels of productivity existing in various branches of production resulted in wages that were inadequate for satisfying minimum needs.

Given these circumstances, labour tensions escalated. Thus, in a number of institutions within the public sector conflicts arose over layoffs or wage demands. The problems experienced within the National Agrarian Institute were particularly severe and affected both workers and the peasant sector. In mining, activities were also suspended, and this had major repercussions on employment

and production, despite the fact that the government granted a subsidy of 5 million lempiras to the workers at the Mochito mine.

Nonetheless, wages did rise in certain activities. According to a survey carried out in Tegucigalpa between July 1985 and July 1986 the manufacturing wage index climbed by slightly less than 6%, while the wage index rose by 8% in commerce and by 6% in financial institutions; the increase was somewhat less than 2% in construction, and less than 1% in transport services. Within the central government structure, special raises were granted to teachers and doctors, as well as to dayworkers in the transport communications and public works sectors. The wage bill also grew as a result of the increase in the number of jobs in the public sector.

5. Fiscal and monetary policy

a) *Fiscal policy*

In 1986 serious fiscal problems persisted. Although the tax burden grew slightly and the coefficient of the global deficit with respect to the GDP dropped somewhat less than two points, the latter remained high (7.3%). Moreover, inasmuch as current spending increased more than current income, the maladjustment in the central government's current account grew more acute, and it was necessary to engage in greater domestic borrowing in order to finance this deficit (see table 17).

For the third year running, current income expanded considerably, although at a slower rate (8%) than in 1984 and 1985. This was mainly due to the changes observed in tax revenues (see table 18). Tax receipts from coffee exports rose substantially (thereby more than offsetting the reduction in receipts from exports of bananas and other products), and fiscal revenues increased significantly as a consequence of the differential between international oil prices and the prices of petroleum products within the country. On the other hand, income tax revenues rose only 4%, despite the wage adjustments granted to government employees and the creation of new jobs in the public sector, as well as the introduction of measures to improve tax administration.

In fact, if the revenues corresponding to the differential between international and domestic oil prices are excluded, it becomes apparent that indirect tax receipts stagnated, as they climbed only slightly in certain categories and fell in others. Thus, the general sales tax increased less than private consumption, in opposition to the historical trend and despite the preventive auditing plans that began to be applied during the year. The income from indirect taxes also declined as a consequence of the tax deductions granted in the form of Export Promotion Certificates as an incentive for private export activity.

Revenues from import duties diminished 5% due to the lower receipts from the duty on fuels and lubricants⁵ and to a certain amount of tax evasion, despite the progress made in monitoring valuations under the new auditing plan.

As a result of both the decline in the export volumes of various products (bananas and minerals) and the elimination of the export tax on non-traditional products—as provided for by the Export Promotion Act—the tax receipts from exports were lower than in 1985 for all items except coffee. The taxes collected on coffee exports rose significantly (38%), despite the partial deferment of their payment.⁶

One feature of the country's fiscal policy in recent years which became more noticeable in 1986 has been the modification and adjustment of the tax structure without any prior assessment of the possible costs and benefits of these changes as regards production activity, income distribution and public finances. On the one hand, the intensity of the external disturbances and in general, of the crisis that the country has been undergoing has prompted the introduction of partial reforms to the tax structure with a view to raising government revenues and improving its financial situation. On the other hand, through its economic policy, the government has attempted to reactivate production and

⁵This is accounted for by the following factors: i) tax revenues from oil imports in 1985 included 25.2 million lempiras of receipts corresponding to 1984; and ii) the oil bill was lower owing to reduced oil prices and the smaller volume imported.

⁶By means of Decree No. 90-86 of 23 July 1986, a deferment was granted for the payment of coffee export taxes owed prior to the decree's entry into force. In addition, a discount of 20 lempiras per 46-kg sack was granted; this discount was deductible from the export tax and applied to the exports of the 1985/1986 and 1986/1987 harvests.

exports by granting various tax exemptions and subsidies to private enterprises which have had a deleterious effect on public finances.

Current spending continued to expand for the fourth year in a row, this time by 10%. This was attributable to the fact that both government wages and the number of government jobs rose, interest payments on the domestic and external debts climbed, and subsidies rose, principally due to transfers to the National Agrarian Institute and to meat exporters.

In its efforts to curtail spending, the government has encountered obstacles due to its lack of manoeuvring room. In fact, a significant cutback in government spending would only be possible at the expense of greater unemployment and/or a reduction in its debt servicing payments. For example, in 1986, 63% of total government spending corresponded to the payment of wages and to amortization and interest payments on the total debt.

Capital expenditure dropped around 7% as a result of the negative trend in real investment and of the lower level of transfers and loans to decentralized institutions, despite the rise in amortization payments. This is accounted for by the completion of the "El Cajón" hydroelectric project (and the consequent decrease in transfers and credits to the National Electricity Company), the lack of major projects with approved financing, and the relatively scant ability to execute projects inherent to a new government. Furthermore, the share of total capital expenditure represented by debt amortization payments continued to climb, reaching a level of 55%, which seriously lessens the possibility of expanding spending on the accumulation of fixed capital.

Despite the decrease in capital spending, the considerable increase in the deficit on current account contributed to a large net global deficit. In addition, the smaller inflow of external resources made it necessary to significantly modify the composition of its financing. The burden of providing this financing therefore had to be borne by domestic credit, which limited the amount of domestic financial resources available to the private sector and drastically reduced the amount of credit at the disposal of the rest of the public sector.

In terms of its end uses, expenditure continued to be directed largely (44%) toward debt servicing and outlays for defence and public security. Consequently, since 1980 there has been a decrease in the share of spending allocated to public health and welfare, labour and social security, communications, public works and transport, and the promotion of agricultural production and the conservation of natural resources (see table 19).

b) *Monetary policy*

Given the favourable external outlook at the beginning of the year, the government's monetary policy was geared toward maintaining the exchange rate and diminishing the external imbalance, and thereby preventing the increase in income from abroad, which mainly stemmed from the improvement in coffee sales, from putting pressure on the money supply. By means of positive interest rates, an attempt was also made to discourage capital flight, curb inflationary pressures, and provide more resources to the private sector, especially to exporters and to producers of raw materials and of essential goods for the population.

In order to achieve these goals, the credit supplied by the Central Bank to the public sector was increased moderately, interest rates on loans were maintained at positive levels in real terms, and the rediscount rates for production in general and for the domestic and external marketing of agricultural products were lowered by two percentage points. In addition, exchange and import controls were retained and an attempt was made to make them more operative.

However, the foreign exchange earnings generated by increased exports and the expansion of domestic credit spurred a rise in liquidity. Thus, the amount of money in the economy grew by around 9% and quasi-money climbed even more sharply (14%), outstripping the increase in the nominal product.

The growth rate of net domestic credit to the public sector was, in contrast, lower than the rate of inflation. This was due to the fact that the sharp jump in the central government's demand for credit (16%) was to a great degree offset by the more sluggish demand for credit of the rest of the public sector. In fact, deposits by decentralized public institutions exceeded loan requests (see table 20).

Domestic credit to the private sector rose substantially (8%), but by less than during the preceding year, owing to the fact that the difference existing between domestic and external real

interest rates encouraged borrowers to turn to external credit sources. In addition, the private sector made greater use of rediscounts and special credit programmes whose finance costs for producers were lower.

The rise in savings and time deposits (due to greater liquidity), in combination with the slower growth rate of the demand for loans, made it possible to use bond sales to finance a larger fiscal deficit.

Of the credit granted to the private sector, 36% was devoted to financing trade, principally coffee exports; consumer loans also rose significantly (23%). As a consequence of the sluggish activity of the manufacturing industry, new loans to this sector climbed 50% less than they had the preceding year.

An important element of the government's monetary policy during 1986 was the maintenance of steep real interest rates, even though international rates diminished. This meant that finance costs for productive enterprises were high —since many businesses did not have access to financing from private international banks— and discouraged investment. Indeed the cost of credit came to represent as much as 30% of total costs in some industries, and the difference between the interest rates on loans and deposits fluctuated between five and nine points; this was a reflection of the national banking system's inefficiency and/or of a very high profit margin that was maintained at the cost of a lower level of productivity as regards the output of real goods and services (see table 21).

Table 1

HONDURAS: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	101.0	99.1	99.0	101.3	103.1	105.6
Gross national income	100.0	47.6	94.8	96.8	99.1	100.4	107.6
Population (millions of inhabitants)	3.69	3.82	3.96	4.09	4.23	4.37	4.51
Per capita gross domestic product	100.0	97.6	92.6	89.3	88.4	87.1	85.9
Growth rates							
B. Short-run economic indicators							
Gross domestic product	19	1.0	-1.8	-0.2	2.3	1.8	1.8
Per capita gross domestic product	-1.6	-2.4	-5.1	-3.5	-1.0	-1.4	-1.3
Gross national income	-8.7	-2.4	-2.9	2.2	2.5	1.3	7.2
Unemployment rate	8.8	9.0	9.2	9.5	10.7	11.7	12.2
Consumer prices							
December to December	11.5	9.2	8.8	7.8	3.7	4.2	3.2
Variation between annual averages	18.1	9.4	9.0	8.3	4.7	3.4	4.4
Real wages and salaries							
Agriculture	0.7	16.5	3.0	-7.7	-4.5	-3.3	-4.2
Manufacturing	-8.3	5.0	-0.5	-7.7	-4.5	-3.3	-4.2
Money	10.8	4.4	10.9	14.2	4.1	1.4	8.6
Current government income	20.1	-2.3	3.9	1.0	22.0	12.1	8.2
Total government expenditure	38.7	0.2	7.8	19.2	22.2	7.7	2.6
Fiscal deficit/total government expenditure ^b	40.0	41.4	51.6	50.9	50.9	48.9	46.2
Fiscal deficit/gross domestic product	10.2	9.9	14.8	13.3	15.2	14.7	13.3
Current value of exports of goods and services	12.4	-6.2	-13.2	4.4	6.9	4.4	11.6
Current value of imports of goods and services	21.1	-5.8	-22.4	10.9	16.2	-	2.9
Terms of trade (goods and services)	-5.1	-10.2	2.7	1.0	1.9	-2.7	17.8
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-185	-177	-56	-111	-204	-166	-93
Net payment of profits and interest	-153	-153	-202	-152	-178		-191
Balance on current account	-331	-321	-249	-254	-372	-322	-271
Balance on capital account	253	249	203	207	382	336	269
Variation in international reserves	-73	•69	-53	-39	4	14	-2
Total disbursed external debt ^c	1 388	1 588	1 748	1 543	2 159	2 492	2 612

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Percentages.

^cTotal medium- and long-term external debt.

Table 2

HONDURAS: TOTAL SUPPLY AND DEMAND

	Indexes (1980 == 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total supply	97.0	98.4	101.2	145.2	139.9	2.9	4.6	1.5	2.8
Gross domestic product at market prices	101.3	103.1	105.0	100.0	100.0	-0.2	2.3	1.8	1.8
Imports of goods and services	87.6	88.1	92.7	45.2	39.9	12.6	10.9	0.5	5.2
Total demand	97.0	98.4	101.2	145.2	139.9	2.9	4.6	1.5	2.8
Domestic demand	99.8	99.2	103.9	107.4	106.3	2.3	6.1	-0.5	4.8
Gross domestic investment	86.0	85.0	78.2	25.0	18.6	21.3	41.6	-1.2	-8.1
Gross fixed investment	87.8	84.8	75.7	24.8	17.9	14.6	20.2	-3.5	-10.7
Construction	104.0	98.5		12.2		1.2	4.0	-5.3	
Machinery	72.2	71.5		12.6		57.0	53.3	-1.0	
Public	144.5	123.8	92.9	9.6	8.5	13.8	34.8	-14.3	-25.0
Private	52.2	60.2	64.9	15.2	9.4	15.7	1.1	15.3	7.7
Changes in stocks	-87.7	107.7	315.4	0.3	0.8				
Total consumption	103.9	103.5	111.8	82.4	87.7	-0.5	-0.2	-0.4	8.0
General government	103.9	109.4	115.0	13.6	14.9	1.2	3.7	5.3	5.2
Private	103.9	102.4	111.1	68.8	72.8	-0.8	-1.0	-1.5	8.5
Exports of goods and services	89.2	96.3	93.3	37.8	33.6	5.0	0.1	7.9	-3.1

Source: ECLAC, on the basis of official figures.

"Preliminary figures. The figures for exports and imports of goods and services were taken from the IMF balance-of-payments data expressed in dollars at current prices, which were converted into constant 1980 values using unit value indexes calculated by ECLAC for that purpose.

Table 3

HONDURAS: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY, AT MARKET PRICES

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986 ^o	1980	1986 ["]	1983	1984	1985	1986 ["]
Gross domestic product	101.3	103.1	105.0	100.0	100.0	-0.2	2.3	1.8	1.8
Goods	104.2	105.0	105.2	47.3	47.4	0.7	3.6	0.8	0.2
Agriculture	103.8	106.9	108.6	25.0	25.9	-0.7	1.3	2.9	1.6
Mining	131.8	134.9	128.8	2.2	2.7	8.3	11.5	2.3	-4.5
Manufacturing	107.4	105.0	106.7	14.0	14.3	5.3	8.4	-2.2	1.6
Construction	88.4	86.9	79.7	6.1	4.6	-6.6	-1.3	-1.8	-8.3
Basic services	120.4	121.8	124.7	8.5	10.1	3.1	3.0	1.2	2.3
Electricity, gas and water	106.1	112.3	116.3	2.0	2.2	-	4.0	5.8	3.6
Transport, storage and communications	124.7	124.7	127.2	6.6	8.0	3.9	2.7	-	2.0
Other services	94.8	97.4	101.2	41.0	39.5	-2.8	-0.1	2.7	4.0
Commerce, restaurants and hotels	82.0	82.2	84.4	15.6	12.6	-7.4	-4.0	0.2	2.6
Financial institutions, insurance, real estate and business services	108.9	112.4	117.5	10.7	12.0	2.4	2.7	3.2	4.6
Ownership of dwellings	112.9	118.2	125.4	5.0	6.0	5.2	-3.3	4.7	6.1
Community, social and personal services	98.1	102.6	107.3	14.6	15.0	-2.1	1.4	4.6	4.6
Government services	106.7	115.2	123.2	4.4	5.1	-3.6	7.4	8.0	6.9

Source: ECLAC, on the basis of official figures.

^oPreliminary figures. Includes livestock, forestry and fishing.

Table 4

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986 ⁿ	Growth rates			
						1983	1984	1985	1986 ^o
Indexes of agricultural production* (1980 = 100)	100.0	102.5	103.8	106.8	108.5	-0.7	1.3	2.9	1.6
Crop farming	100.0	100.7	102.3	106.3	107.6	-2.8	1.6	3.9	1.2
Stock raising	100.0	104.1	106.2	111.0	115.8	3.4	2.0	4.5	4.3
Poultry	100.0	130.3	127.3	118.3	121.4	10.3	-2.3	-7.1	2.6
Forestry	100.0	95.8	95.0	96.6	94.7	-0.9	-0.8	1.7	-2.0
Production of the main crops ^c									
For export									
Bananas	1 097	875	991	1 089	1018	-16.7	13.2	9.9	-6.5
Coffee	73	78	72	75	82	10.8	-6.3	3.5	9.0
Sugar cane	2 865	3 150	3 048	2 989	2 989	3.2	-3.2	-1.9	-
Cotton	21	13	18	15	10	57.2	39.6	-18.7	-28.1
Tobacco	7	7	8	8	8	-	4.3	2.4	0.6
For domestic consumption									
Maize	334	388	430	427	412	-3.9	10.8	-0.8	-3.5
Beans	45	45	50	51	49	-17.6	11.2	1.5	-3.0
Paddy rice	29	41	38	34	40	27.9	-7.8	-11.1	18.6
Plantains	145	162	164	171	179	6.0	1.2	4.5	4.3
African palm	83	171	260	310	328	21.8	51.5	19.3	5.8
Indicators of Stock-raising production									
STOCR									
Cattle	2 154	2 278	2 371	2 494	2 621	4.1	4.1	5.2	5.1
Pigs	703	712	714	717	720	0.4	0.4	0.4	4.2
Sheep	24	24	23	22	22	-1.3	-1.3	-	-
Poultry	5 869	6 942	7 346	8 004	8 206	4.3	4.3	8.9	2.5
Slaughtering ¹									
Cattle	62	67	69	73	76	2.5	2.6	4.6	4.1
Pigs	8	9	10	10		2.7	4.4	4.4	2.3
Poultry	11	15	16	17	17	3.3	11.0	3.7	2.9
Other products									
Milk ¹	221	225	230	237	249	2.5	2.6	3.0	5.1
Eggs ⁷	38	43	45	47	48	2.3	4.6	3.8	3.6

Source: ECLAC, on the basis of official figures supplied by the Central Bank of Honduras.

¹Preliminary figures. Estimated on the basis of the value added. ²Thousands of tons. ³Thousands of head. ⁴Millions of litres ⁵Millions of dozens.

Table 5

HONDURAS: PRODUCTION OF SELECTED INDUSTRIAL GOODS

	1983	1984	1985	1986"	Growth rates				
					1982	1983	1984	1985	1986"
Cement	485	534	348	360	-10.8	75.0	10.0	-34.9	3.6
Fibre-cement panels'	1 878	2 090	2 470	2 294	-8.5	22.1	11.3	18.2	-7.1
Cloth"	14	16	14	12	-26.9	42.5	13.2	-14.3	-15.0
Wheat flour'	62	63	67	74	-2.3	12.6	2.1	6.3	10.1
Sugar cane'	210	218	213	227	10.1	1.1	3.5	-2.4	6.8
Cigarette/	101	107	116	107	5.6	-11.3	5.6	8.1	-7.7
Matches*	64	60	65	68	-2.6	6.0	-6.3	8.6	4.7
Beer*	45	48	45	49	-4.8	18.6	8.6	-7.2	9.5
Beverages (carbonated)'	167	176	163	159	-14.9	10.1	5.4	-7.2	-2.5
Aguardiente'	1 705	1 546	1 555	1 693	-6.8	-8.9	-9.3	-0.6	8.9
Constitute liquor	4 882	4 483	4 272	4 305	-6.8	-10.9	-8.2	-4.7	0.8
Industrial consumption of electricity'	162	169	166	147	-7.3	6.5	4.6	-2.1	-11.3

Source: ECLAC, on the basis of official figures supplied by the Central Bank of Honduras.

Preliminary figures. Millions of tons. 'Thousands of square metres. Millions of yards. 'Thousands of tons. Millions of packs of 20. 'Millions of boxes of \$0. Millions of litres. 'Thousands of litres. Millions of kWh.

Table 6

HONDURAS: CONSTRUCTION INDICATORS

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Area constructed (thousands of m ²)									
Total	322	198	277	280	312	-40.4	39.9	1.1	11.4
Residential	238	154	195	181	214	-42.5	26.6	-7.2	18.0
Production of some building materials									
Cement'	7 229	11 422	12 569	8 177	8 470	75.0	10.0	-34.9	3.6
Fibre-cement panels (m ²)	2 030	1 878	2 090	2 470	2 294	22.1	11.3	18.2	-7.1

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Refers to applications for private urban building permits in the Central District, San Pedro Sula and La Ceiba; covers the period from 1 October of the preceding year to 30 September of the year in question. May differ from actual building. 'Thousands of 42.5-kg sacks.

Table 7

HONDURAS: ELECTRICITY SUPPLY AND DEMAND

	Millions of kWh				Growth rates				
	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Total supply	1 125	1 157	1 378	1 374	5.9	8.5	2.8	19.2	-0.3
Net production	977	985	1 286	1 374	5.6	-4.5	0.9	30.6	6.8
Imports	148	172	92	-	35.8	903.4	15.6	-46.5	-
Total demand	1 125	1 157	1 378	1 374	5.9	8.5	2.8	19.2	-0.3
Domestic consumption	921	978	1 065	1 057	1.7	7.7	6.2	8.9	-0.8
Residential	281	291	330	340	10.3	6.5	3.3	13.5	3.0
Commercial	137	151	181	193	6.7	4.3	10.1	19.4	7.3
Industrial	162	169	166	147	-7.3	6.5	4.6	-2.1	-11.3
High-volume consumption*	253	268	282	262	1.5	15.4	6.2	5.0	-7.0
Public offices	62	66	79	88	1.9	3.6	5.4	21.0	11.2
Street lighting	25	28	27	27	-10.3	28.1	13.4	-3.2	-1.6
Other"	1	5	-	-	-50.0	-90.0	400.0	-	-
Exports	2	6	134	158	-50.3	-81.8	243.8	2 338.2	18.1
Losses'	202	173	179	159	43.8	16.8	-14.4	3.5	-11.2

Source: ECLAC, on the basis of official figures supplied by the National Electrical Energy Corporation of Honduras (ENEE) and the Central Bank of Honduras.

Note: Electrical energy supply and demand refers only to the ENEE system.

"Preliminary figures. Net production = gross production - power station consumption. 'Refers to large enterprises in various sectors of economic activity (agriculture, mining, manufacturing, etc.). 'Refers to sales to other systems and free consumption. 'Refers to transmission and distribution losses.

Table 8

HONDURAS: ECONOMICALLY ACTIVE POPULATION AND UNEMPLOYMENT

	1980	1981	1982	1983	1984	1985	1986"
Total population (thousands of inhabitants)	3 691	3 821	3 955	4 092	4 231	4 372	4 510
Economically active population							
Thousands of persons	1 224	1 270	1 317	1 367	1 418	1 471	1 526
Index	100.0	103.7	107.6	111.6	115.8	120.2	124.7
Open urban unemployment							
Thousands of persons	108	114	121	130	152	172	186
Index	100.0	106.1	112.5	120.5	140.9	159.8	172.9
Unemployment rates							
Equivalent	15.2	18.3	21.1	22.9	23.9	24.5	26.5
Open	8.8	9.0	9.2	9.5	10.7	11.7	12.2
Manufacturing	9.1	9.6	10.2	10.7	11.3	11.9	12.5
Construction	9.6	10.6	11.5	12.9	13.4	14.5	15.8

Source: ECLAC, on the basis of figures supplied by the Department of Planning, Co-ordination and the Budget.

"Preliminary figures. On the basis of preliminary information taken from the September 1986 urban labour force survey. 'Includes open unemployment and underemployment.

Table 9

HONDURAS: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports							
Value	12.4	-7.8	-13.7	3.3	6.7	4.3	12.9
Volume	0.8	-4.0	-11.5	5.0	-0.3	8.7	-3.4
Unit value	11.5	-4.0	-2.5	-1.6	7.1	-4.1	16.8
Imports							
Value	21.8	-5.8	-24.2	11.1	16.3	-0.6	3.0
Volume	1.9	-12.9	-19.4	13.9	12.1	0.7	5.9
Unit value	19.5	8.2	-6.0	-2.5	3.7	-1.3	-2.7
Terms of trade	-5.9	-11.4	2.8	0.5	2.2	-3.0	198
Indexes (1980 = 100)							
Purchasing power of exports	100.0	85.1	77.5	81.7	83.2	107.7	101.5
Volume of exports	100.0	96.0	85.0	89.2	88.9	96.7	93.4
Volume of imports	100.0	87.1	70.2	79.9	89.6	90.2	95.5
Terms of trade	100.0	88.8	92.0	92.8	95.8	93.2	111.9

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 10

HONDURAS: BALANCE OF PAYMENTS*(Millions of dollars)*

	1980	1981	1982	1983	1984	1985	1986 ^o
Balance on current account	-331	-321	-249	-254	-372	-322	-271
Trade balance	-185	-177	-56	-111	-204	-166	-93
Exports of goods and services	942	884	767	801	856	894	998
Goods FOB	850	784	677	699	746	778	878
Real services*	91	100	90	102	110	116	120
Transport and insurance	B40	39	37	44	51	54	56
Travel	24	31	25	22	23	25	26
Imports of goods and services	1 126	1061	823	912	1060	1060	1091
Goods FOB	954	899	681	756	880	874	900
Real services	172	162	142	156	181	186	191
Transport and insurance	98	90	69	78	87	98	101
Travel	31	27	23	21	25	26	30
Factor services	-153	-153	-202	-152	-178	-168	-191
Profits	-78	-44	-45	-33	-57	-36	-47
Interest received	24	18	15	12	14	13	11
Interest paid	-100	-127	-172	-131	-135	-145	-155
Unrequited private transfer payments	8	9	9	10	10	12	13
Balance on capital account	253	249	203	207	382	336	269
Unrequited official transfer payments	14	19	21	35	70	112	116
Long-term capital	266	209	168	148	269	257	112
Direct investment (net)	6	-4	14	21	21	28	30
Portfolio investment (net)	-	-	-	-	-2	-	-
Other long-term capital	260	213	155	127	250	229	82
Official sector ⁷	53	23	77	53	91	180	90
Loan received	94	77	125	104	128	269	171
Amortization payments	-30	-41	-38	-43	-34	-61	-64
Commercial banks ⁷	2	5	-2	-3	-4	85	30
Loans received	12	18	3	3	2	93	43
Amortization payments	-11	-14	-5	-6	-6	-8	-13
Other sectors ⁷	205	186	80	77	163	-36	-38
Loans received	278	245	142	177	263	25	46
Amortization payments	-72	-78	-62	-100	-100	-47	-63
Short-term capital (net)	12	28	19	11	74	-	37
Official sector	-9	49	39	-2	64	-32	35
Commercial banks	-8	-35	18	8	-6	-	-
Other sectors	29	14	-37	5	16	32	2
Errors and omissions (net)	-39	-7	-5	13	-30	-33	4
Global balance^d	-78	-72	-46	-47	11	14	-2
Total variation in reserves (- sign indicates an increase)	73	69	53	39	-4	-14	2
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	10	-2	-	-	2	-	-
IMF reserve position	8	-	-	-4	4	-	-
Foreign exchange assets	41	50	-11	3	-	-	-10
Other assets	-1	-3	-2	-2	-1	-2	-
Use made of IMF credit	15	23	66	43	-11	-2	-35

Source: 1980-1984: International Monetary Fund, *Balance of Payments Yearbook*, *Jxine* 1987; 1985-1986: ECLAC, on the basis of official figures.

^o Preliminary figures subject to revision. Includes other non-factor services. Includes net loans granted and other assets and liabilities. ^d is equal to the total variation in reserves (of opposite sign) plus counterpart items.

Table 11

HONDURAS: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	719	778	878	100.0	100.0	3.2	2.9	8.2	12.9
Central America	48	26	23	10.2	2.6	18.2	-22.2	-46.6	-8.0
United States	378	369	427	52.0	48.6	7.0	4.2	-2.2	15.6
Federal Republic of Germany	33	59	111	11.6	12.6	-42.1	-3.9	78.9	89.2
Italy	33	61	64	1.9	7.3	-5.2	135.6	80.8	5.8
Japan	58	51	94	4.3	10.7	8.8	45.9	-11.7	82.1
Rest of world	169	212	159	20.0	18.1	4.1	-5.6	25.4	-25.0
Main traditional exports	566	622	720	75.5	82.0	-1.9	11.7	9.9	15.8
Bananas	228	272	262	27.7	29.8	-6.7	12.3	19.4	-3.9
Coffee	169	185	322	24.8	36.7	-1.2	11.8	9.5	73.9
Lumber	35	34	33	4.4	3.7	-9.6	-14.6	-1.3	-2.6
Cold meats	21	18	21	7.4	2.4	-7.6	-34.0	-13.3	15.9
Shrimp and lobsters	49	41	47	2.8	5.4	28.6	36.3	-17.1	15.5
Zinc	32	40	17	1.2	1.9	68.9	57.2	25.1	-56.2
Silver	16	16	8	3.9	0.9	88.8	-11.7	3.2	-48.5
Cotton	8	7	5	1.6	0.6	-35.0	83.1	-11.8	-31.6
Tobacco	8	9	5	1.7	0.6	0.3	-22.7	3.7	-41.6
Non-traditional exports	153	156	158	24.5	18.0	19.4	-7.3	2.0	1.3
Wood manufactures	9	6	15	2.0	1.7	0.1	-12.4	-34.1	150.0
Unrefined sugar	26	21	14	3.6	1.6	28.9	-7.8	-16.4	-37.1
Soap	6	3	2	2.5	0.2	13.1	-49.1	-58.1	-22.0
Other	112	126	127	16.4	14.5	19.9	-3.1	12.5	0.8

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras.

"Preliminary figures.

Table 12

HONDURAS: VOLUME OF EXPORTS OF MAIN PRODUCTS

	Thousands of tons				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Bananas	638	750	846	772	-21.6	17.5	12.8	-8.6
Coffee	74	68	72	79	29.5	-8.7	5.5	11.1
Sugar	106	90	119	103	21.4	-15.8	33.1	-13.8
Cold meats	15	10	9	10	-4.5	-38.5	-9.2	14.3
Zinc	23	31	47	23	57.8	34.8	51.6	-52.6
Shrimp and lobsters	4	4	3	3	18.5	-7.5	-12.0	0.2
Cotton	3	5	5	5	-53.1	56.4	7.8	-6.1
Lead	12	14	19	8	34.1	18.9	37.3	-56.5
Tobacco	3	3	2	1	-1.4	-19.8	-7.5	-38.4
Lumber ⁰	111	92	82	84	-15.4	-17.1	-11.3	2.8
Silver ^c	1 629	2 022	2 754	1 542	34.5	24.1	36.2	-44.0

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras and the Department of Planning, Co-ordination and the Budget.

"Preliminary figures.

Millions of board feet.

"Thousands of troy ounces.

Table 13

HONDURAS: IMPORTS OF GOODS, CIF

	Millions of dollars			breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986°
Total*	893	888	907	100.0	100.0	12.7	11.3	-0.6	2.2
Consumer goods	198	193	216	23.3	23.8	8.7	15.3	-3.1	11.9
Durables	69	68	77	8.2	8.5	-9.3	39.7	-3.4	13.7
Non-durables	129	125	139	15.1	15.3	18.2	5.3	-2.9	11.0
Raw materials and intermediate goods	524	526	503	50.8	55.5	10.0	4.3	0.7	-4.5
Fuels and lubricants	181	170	119	16.4	13.1	-2.9	10.3	-5.8	-30.4
Materials for agriculture	57	49	65	4.6	7.2	14.2	6.4	-13.6	32.7
Materials for industry	246	266	282	24.7	31.1	21.2	4.3	8.3	6.0
Building materials	40	41	37	5.1	4.1	88.2	-18.8	4.3	-9.2
Capital goods	169	164	183	25.7	20.2	9.4	34.7	-3.3	12.0
For agriculture	14	19	21	2.2	2.3	19.5	37.6	35.3	15.7
For industry	129	118	127	17.5	14.0	16.0	32.8	-7.1	10.0
For transport	26	27	35	6.0	3.9	-17.7	37.1	0.9	32.8
Other products				0.2	0.5	41.7	-23.5	135.9	4.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures. "These figures differ from the balance-of-payments figures because they refer to CIF values and do not include adjustments for undervaluation.

Table 14

HONDURAS: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980 ^a	1981 ^o	1982	1983	1984	1985	1986 [*]
Millions of dollars							
Total external debt							
Balances ¹	1 388	1 588	1986	2 162	2 392 ^{''}	2 803	2 931
Public	971	1 162	1 552	1766	2 041 ^{o'}	2 538	2 655
Private	417	426	434	396	351	265	276
Long- and medium-term ^c	1 388	1 588	1 748	1543	2 159 ^a	2 492	2 612
Short-term ^c			238	607	233	312	319
Disbursements	379	333	364 ¹	363	506	471	428
Servicing	193	142	371 ¹	305	334	375	481
Principal	114	133	236	187	222	259	337
ínteres/ interest/	80	95	135	118	112	117	144
Public external debt							
Disbursements	211	252	270 ^o	258	458	457	355
Servicing	102	129	231	158	208	296	360
Principal	48	61	110 ^o	72	128	197	237
Interest	54	68	121 ^o	86	80	99	123
Percentages							
Ratios⁸							
Total external debt/exports of goods and services	147.3	179.6	258.9	269.9	287.5	313.6	293.7
Debt service/exports of goods and services	20.5	16.1	48.4	30.1	40.2	42.0	48.2
Net interests/exports of goods and services	8.1	12.4	20.5	14.9	14.5	14.8	14.4
Debt service/disbursements	51.0	42.6	101.9	84.0	66.0	79.7	112.3

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras.

¹Includes only medium- and long-term debt. ^{o'}Preliminary figures. ^oEnd-of-year balances of debt disbursed. ^aincludes adjustment for exchange rate. ^aIncludes only the total long-term debt and the short-term private sector debt. Includes amortization payments on short-term debt. ^{''}Corresponds to the actual interest paid, excluding interest accrued but not paid; hence the difference between these figures and the corresponding item of the balance of payments. ⁸All ratios refer to the total external debt. ^{*}Refers to the corresponding entry (net) of the balance of payments.

Table 15

HONDURAS: DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986
December-to-December variation							
Consumer price index	11.5	9.2	8.8	7.8	3.7	4.2	3.2
Food	12.3	5.2	6.8	3.2	1.7	1.6	1.5
Wholesale price index"	11.4	8.4	12.1	6.2	-	0.5*	2.6*
Imported products	8.9	16.1	17.9	9.4	-2.0	-1.4*	1.7*
Domestic products	12.8	4.8	9.3	4.3	1.3	1.6*	3.1*
Agricultural	13.5	2.4	6.1	4.7	-	2.3*	5.2*
Manufactures	12.4	6.4	11.4	4.4	1.9	1.1*	1.8*
Building materials	16.1	8.5	4.1	3.3	-0.3	-0.2*	0.2*
Variation between annual averages							
Consumer price index	18.1	9.4	9.0	8.3	4.7	3.4	4.4
Food	17.1	7.3	5.9	6.2	0.4	1.5	2.7
Wholesale price index	14.5	8.6	10.1	7.9	1.2	1.2	2.0
Imported products	6.9	16.8	15.7	11.1	1.7	-0.4	1.4
Domestic products	18.2	5.1	7.4	6.0	1.2	2.0	2.3
Agricultural	17.7	3.1	2.6	7.5	-1.4	2.6	4.3
Manufactures	18.7	6.4	10.6	5.2	2.6	1.6	1.2
Building materials	15.5	12.1	3.3	5.5	1.1	0.6	-0.8

Source: ECLAC, on the basis of official figures supplied by the Central Bank of Honduras.

° Refers to the variation between the final quarter of the year and the same period of the preceding year.

Refers to the

variation between the third quarter of the year and the same period of the preceding year.

Table 16

HONDURAS: WAGES AND SALARIES

	1980	1981	1982	1983	1984	1985	1986
Indexes (1978 = 100)							
Official minimum wages"							
Nominal							
Crop-farming and stock-raising	179	228	256	256	256	256	256
Manufacturing and mining	135	155	168	168	168	168	168
Handicrafts	140	165	181	181	181	181	181
Construction	147	168	179	179	179	179	179
Commerce and services	130	153	169	169	169	169	169
Real							
Crop-farming and stock-raising	118	138	142	131	125	121	116
Manufacturing and mining	89	94	93	86	82	79	76
Handicrafts	92	104	104	96	92	87	83
Construction	97	101	103	95	91	88	84
Commerce and services	86	95	96	87	83	80	77
Growth rates							
Official minimum wages"							
Nominal							
Crop-farming and stock-raising	19.3	28.2	12.4	-	-	-	-
Manufacturing and mining	8.2	15.1	8.3	-	-	-	-
Handicrafts	10.8	18.2	9.5	-	-	-	-
Construction	10.3	14.8	6.5	-	-	-	-
Commerce and services	8.5	17.8	10.4	-	-	-	-
Real							
Crop-farming and stock-raising	0.7	16.5	3.0	-7.7	-4.5	-3.3	-4.2
Manufacturing and mining	-8.3	5.0	-0.5	-7.7	-4.5	-3.3	-4.2
Handicrafts	-6.2	12.6	0.7	-7.7	-4.5	-3.3	-4.2
Construction	-6.7	4.5	2.2	-7.7	-4.5	-3.3	-4.2
Commerce and services	-7.9	7.6	1.4	-7.7	-4.5	-3.3	-4.2

Source: ECLAC, on the basis of official figures.

"The minimum wages correspond to the annual averages for the Central District and San Pedro Sula. After May 1974, minimum wages were updated by decree in December 1978, May 1980 and June 1981.

Table 17

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates				
	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
1. Current income	778	950	1064	1 152	3.9	1.0	22.0	22.1	8.2
Tax revenue	723	888	997	1087	3.0	1.1	22.8	12.3	9.0
Direct	197	242	249	258	10.8	-4.3	22.6	3.1	3.6
Indirect'	526	646	748	829	0.2	3.3	22.8	15.7	10.8
On foreign trade	279	346	409	404	-13.0	2.9	23.9	18.2	-1.1
Non-tax revenue	55	62	67	65	17.4	-	12.6	8.9	-3.9
2. Current expenditure	977	1057	1205	1326	4.1	13.4	8.2	13.9	10.0
Wages and salaries	515	551	621	702	15	8.6	7.0	12.7	13.1
Purchase of non-personal goods and services	204	237	260	241	-6.1	26.4	16.4	9.8	-7.6
Interest	127	145	163	204	26.6	46.2	14.3	11.8	25.1
Transfers	131	124	161	179	15.8	-5.9	-5.9	30.3	11.3
3. Current savings (1-2)	-199	-107	-141	-174					
4. Capital expenditure	606	878	879	814	15.3	29.9	44.8	0.2	-7.4
Real investment	155	158	163	155	6.0	15.4	1.7	3.7	-5.1
Debt amortization payments	202	312	384	451	25.5	40.4	54.7	23.1	17.4
External	32	44	53	73	14.5	26.2	37.1	22.5	37.1
Domestic	170	268	331	378	28.1	43.4	58.0	23.2	14.3
Other capital expenditure	249	408	332	208	15.6	32.1	63.9	-18.6	-37.4
5. Total expenditure	1583	1935	2 084	2 140	7.8	19.2	22.2	7.7	2.6
6. Fiscal deficit (or surplus) (1-5)	-805	-985	-1 020	-988					
7. Financing of deficit									
Domestic	444	427	511	629	11.3	42.5	-3.8	19.5	23.2
External	361	558	509	359	23.1	45.8	54.6	-8.7	-29.5
Ratios (percentages)									
Current savings/capital expenditure	-32.8	-12.2	-16.0	-21.4					
Fiscal deficit/total expenditure	50.9	50.9	48.9	46.2					
Tax revenue/GDP	12.0	13.7	14.3	14.6					
Total expenditure/GDP	26.2	29.9	29.9	28.7					
Fiscal deficit/GDP ^e									
Gross	13.3	15.2	14.7	13.2					
Net	10.0	10.4	9.1	7.3					
Domestic financing/deficit	55.2	43.4	50.1	63.7					
External financing/deficit	44.8	56.6	49.9	36.3					

Source: ECLAC, on the basis of figures supplied by the Office of the Budget.

"Preliminary figures. Corresponds to real, not rounded, figures. 'Include income attributable to the oil price differential. Capital inflows representing a limited amount of income have been deducted from this item. 'The gross indicator takes into account expenditures on debt amortization; the net indicator does not.

Table 18

HONDURAS: CURRENT INCOME OF THE CENTRAL GOVERNMENT

	Millions of lempiras			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Current income	950	1064	1 152	100.0	100.0	1.0	22.0	12.1	8.2
Tax revenue	888	997	1 087	91.9	94.4	1.1	22.8	12.3	9.0
Direct	242	249	258	31.2	22.4	-4.3	22.6	3.1	3.6
Income tax	234	241	250	30.2	21.7	-4.3	22.9	2.9	4.0
Indirect	646	748	829	60.7	72.0	3.3	22.8	15.7	10.8
Production, consumption and sales taxes	264	293	380	21.7	33.0	3.2	16.6	11.0	29.7
Beer	44	48	47	4.7	4.1	-2.5	25.1	8.9	-0.6
General sales tax	116	129	135	11.2	11.7	-4.7	33.0	11.4	4.4
Taxes on services and specific activities	35	45	43	2.2	3.7	10.6	77.8	26.7	-3.4
Import duties	259	317	301	19.7	26.1	13.1	28.4	22.3	-4.9
Export taxes	87	92	103	17.1	8.9	-16.5	12.2	6.0	11.8
Bananas	37	41	36	6.6	3.1	-23.1	5.4	12.2	-12.6
Coffee	43	45	62	8.5	5.4	-13.5	21.2	5.8	38.2
Others	7	6	5	2.0	0.4	7.8	3.6	-20.9	-10.3
Non-tax revenue	62	67	65	8.1	5.6	-	12.6	8.9	-3.9
Services	17	15	16	1.0	1.4	39.2	15.5	-11.0	10.3
Transfers from the public sector	17	18	19	2.6	1.6	-11.8	15.3	5.2	1.6
Other income	28	34	30	4.5	2.6	-7.3	9.4	22.9	-12.8

Source: ECLAC, on the basis of figures supplied by the Office of the Budget.

"Preliminary figures. "includes income attributable to the oil price differential.

Table 19

**HONDURAS: INDICATORS OF CENTRAL GOVERNMENT
EXPENDITURE BY INSTITUTION (NATIONAL FUNDS)**

	Percentage breakdown			Growth rates ^a			
	1980	1985	1986 ^c	1983	1984	1985	1986 ^c
Total	100.0	100.0	100.0	11.6	6.3	12.6	18.3
Legislative branch	0.5	1.1	1.3	-	2.1	6.2	40.0
Judicial branch	1.2	0.9	1.0	1.5	11.8	8.3	30.8
Electoral agency	0.9	2.8	0.9	68.6	40.7	144.6	-59.4
Office of the President of the Republic	3.7	3.4	1.5	33.2	31.7	39.0	-46.0
Ministry of the Interior and Justice	1.5	1.0	0.9	-5.7	-5.3	12.8	13.5
Foreign Relations	1.2	1.1	1.0	17.9	9.1	9.7	5.1
Defence and Public Security	12.8	13.9	12.4	5.5	19.0	13.0	5.2
Economy and Commerce	1.3	0.5	0.8	-6.4	-10.3	-35.2	105.9
Treasury and Public Credit	5.0	2.6	2.5	-5.3	14.5	-12.4	11.1
Attorney General of the Republic	-	0.1	0.1	80.0	-	44.4	7.7
Public Education	17.3	20.1	20.0	3.9	6.1	15.2	17.5
Public Health and Social Welfare	10.3	8.3	9.4	10.5	-9.2	4.9	34.1
Culture and Tourism	0.8	0.3	0.4	3.3	-31.8	2.3	36.4
Labour and Social Security	2.7	1.6	1.6	-3.9	-5.3	2.2	14.8
Communications, Public Works and Transport	11.0	4.9	5.4	3.9	-11.5	-3.8	31.2
Natural Resources	9.2	4.3	5.4	0.1	-14.0	3.3	48.2
Public Debt ^d	17.0	26.6	31.3	33.8	14.5	8.5	38.9
Centralized Services	3.6	6.5	4.1	12.2	9.1	49.2	-25.2

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

^bCorrespond to absolute figures.

^cExcludes the amortization of financial bonds.

Table 20

HONDURAS: MONETARY BALANCE AND INDICATORS

	End-year balance in millions of lempiras				Growth rates			
	1983	1984	1985	1986 ^c	1983	1984	1985	1986 ^c
Money (M ₁)	799	832	844	916	14.2	4.1	1.4	8.6
Currency outside banks	355	377	404	417	15.3	6.3	7.2	3.3
Demand deposits	444	455	440	499	13.3	2.4	-3.4	13.5
Factors of expansion	2 915	3 206	3 428	3 666	17.6	10.0	6.9	7.0
Gross international reserves	280	310	269	286	-3.3	10.7	-13.3	6.6
Domestic credit	2 635	2 896	3 159	3 380	20.3	9.9	9.1	7.0
To public sector (net)	669	718	730	753	47.9	7.3	1.6	3.2
Central government	633	710	810	943	36.0	12.2	14.0	16.4
Public institutions	36	8	-80	-190		-78.5		
To private sector	1 966	2 178	2 429	2 627	13.1	10.8	11.5	8.2
Factors of absorption	2 116	2 374	2 584	2 750	18.9	12.2	8.8	6.4
Quasi-money (savings and time deposits)	929	1 027	1 076	1 225	21.9	10.6	4.8	13.9
Bonds	74	89	85	94	11.2	19.3	-4.8	10.6
Other items (net)	1 113	1 258	1 423	1 431	17.0	13.1	13.1	0.6
Monetary base	466	469	500	443 ^c	6.6	0.6	6.5	7.5 ["]
Other indicators ¹								
Monetary base	394	436	454	487 ^c				
Money (M _j)	693	783	796	830 ^c				
Money plus quasi-money (M ₂)	1 541	1 787	1 817	1 878 ^c				
Coefficients								
Monetary multipliers								
M ₁ /Monetary base	1.76	1.80	1.75	1.70				
M ₂ /Monetary base	3.91	4.10	4.00	3.86				
Velocity of circulation GDP/M;	7.55	7.77	8.25	8.15				

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras and the International Monetary Fund.
["]Preliminary figures. The monetary base is not included in the balance. ¹Average up to September. ^cRefers to the September variation as compared to the same month of the preceding year. ["]Annual averages.

Table 21

HONDURAS: SHORT-TERM BANK INTEREST RATES

(Percentages)

	1982	1983	1984	1985	1986	1986			
						I	II	III	IV
Nominal rates"									
Deposits									
Savings deposits	7.5	7.1	7.2	7.1	7.3	7.3	7.3	7.3	7.3
Time deposits	10.6	11.3	10.3	9.9	9.6	9.6	9.6	9.6	9.6
Lending									
Loans	16.5	16.1	16.2	16.3	16.1	16.1	16.1	16.1	16.1
Real rates" *									
Deposits									
Savings deposits	-1.5	-1.2	2.5	3.7	2.9	2.9	2.2	3.1	3.5
Time deposits	1.6	3.0	5.6	6.5	5.2	5.2	4.5	5.4	5.8
Lending									
Loans	7.5	7.8	11.5	12.9	11.7	11.7	11.0	11.9	12.3

Source: ECLAC, on the basis of figures supplied by the Central Bank of Honduras.

"Averages. Obtained by subtracting the growth rate of the consumer price index.

MEXICO

1. Recent economic trends: Introduction and summary

After a brief and limited upswing, the Mexican economy suffered a marked decline in 1986, due mainly to two factors. Firstly, from the second half of 1985 there was an intensification of the policy aimed at reducing the external and fiscal deficits and curbing inflation. However, it was not possible to achieve these objectives on account of the sudden drop, early that year, in the world price of petroleum: a product which had assumed great importance in the development of the country since the end of the previous decade. The shortfall of US\$8.5 billion in exports of hydrocarbons and the need to pay a similar amount in interest on the foreign debt created severe problems in meeting external payments. Secondly, the public finances—which are heavily dependent on earnings from petroleum exports—deteriorated substantially and the effect of this decline was soon felt in all economic activities, thus deepening the recession.

This critical situation required the urgent assistance of the international financial community. The external public and private debt, amounting to almost US\$80 billion, was successfully renegotiated under new arrangements and the country was able to maintain its debt service payments. However, the additional external credits that had been agreed upon were not received and the plan to achieve a moderate reactivation of the economy had to be postponed.

In these circumstances the evolution of the principal macroeconomic variables was unfavourable. The gross domestic product fell by 3.8% resulting in a 6% drop in the per capita product (see table 1). The latter indicator thus declined to its 1978 level, wiping out the progress that had been made during the 1978-1981 "petroleum boom". The slowdown in economic activity was widespread. While industrial activities suffered the greatest decline, the primary and services sectors were also affected. Consequently, it was not possible to productively absorb the labour force which is entering into the labour market and which is growing at an annual rate of 3.2%. While it is difficult to make a precise determination on the basis of available employment indicators, the latter do suggest some increase in unemployment, as a result of lay-offs in the manufacturing and the construction sectors, and a considerable increase in underemployment.

The depression in the international petroleum market led to a sharp turnaround in the external sector, and a deficit of more than US\$1.4 billion was registered on the current account, following three years of surplus. The 40% increase in exports of non-petroleum products was insufficient to make up for the shortfall in sales of hydrocarbons. The value of total exports of goods thus fell by 26%, which limited the capacity to import. The authorities sought to promote exports and discourage imports by a substantial devaluation of the peso against the dollar, even though this accentuated inflationary pressures and reduced the incomes of broad sectors of the population. Partly as a result of this and partly owing to the decline in economic activity, purchases of goods from abroad fell by 13%. Even so, the surplus on the trade balance for goods and the larger surplus earned on the trade balance for services were insufficient to cover external factor payments.

The foreign exchange market remained calm despite the worsening balance-of-payments situation on current account. The inflows of capital made it possible to increase the international reserves by almost US\$1 billion from the low levels to which they had fallen at the end of 1985. In contrast with previous years, there was a surplus of US\$2.2 billion on capital account, due to the increase in direct foreign investment and, particularly, to the repatriation of the deposits of Mexicans abroad. The limited availability of domestic credits for the private business sector forced the repatriation of a part of these resources, which were used to maintain the level of working capital rather than to finance new investments. In these circumstances, private capital formation was unable to maintain the dynamism of the previous biennium and declined by 9%.

One of the objectives of fiscal policy was to reduce by half the public sector deficit, which had amounted to 10% of gross domestic product in 1985. The sharp drop in earnings of Mexican Petroleum (PEMEX) and, consequently, in the taxes paid by this enterprise, together with the monetary effects of devaluation on the payment of interest on the external debt, made the achievement of this target impossible. Moreover, the cost of servicing the domestic debt increased considerably on account of higher domestic interest rates. Interest payments on the total debt increased by 27% in real terms, equivalent to 17% of gross domestic product. Overall, the fiscal deficit represented more than 16% of gross domestic product despite a rigorous policy of austerity in public spending; government spending increased by barely 1% and public investment continued its downward trend, declining this time by 16%. However, if the fiscal deficit were adjusted for the inflation resulting from the increase in interest payments on the domestic debt, the final result would be a "primary" surplus of over 2% of the gross domestic product.

In keeping with the policy of rationalization of government finances and reduction of the size of the public sector, the sale or liquidation of State-owned enterprises continued, which, with a few exceptions, were able to significantly reduce their deficits through frequent adjustments of prices and tariffs.

In the absence of external resources, the public deficit was financed mainly from domestic sources. Largely on account of this, the banking system severely restricted private credit. While the mining and energy sectors and some services still benefitted from increased financing, the same was not true for other activities, particularly agriculture and construction.

In fact, there were significant increases only in the credit extended to the government and to State-owned companies while credit to the other financial sectors was reduced, in some cases by substantial margins. There was therefore a decline in real terms in both monetary variables and the amount of private domestic resources attracted. Consequently, the decline in deposits attracted by the banking system continued; a trend which, with the exception of 1984, had been present during the last five years, despite the attractive interest rates offered by the banks. In contrast, stock exchanges took on a more important role as a parallel banking system and as agents for the sale of government securities to private enterprises. In addition, the rate of return in the limited equity-investment market increased more than two-fold in real terms, even though one-third of the companies registered on the stock exchange incurred losses. This climate of speculation contrasted with the decline in productive activity.

As already mentioned, the unfavourable external situation made it necessary to accelerate the rate of devaluation of the peso in order to rapidly generate trade advantages. This was accompanied by a marked reduction in the difference between the two existing exchange rates. The "controlled" rate—applicable to 80% of foreign transactions—increased by an average of 138%, almost equal to the rate of increase of the "free" dollar which went up by 106%.

The accelerated rate of devaluation—a key aspect of the short-term policy—had a consequential effect on inflation. The average annual variation in consumer prices increased sharply from 58% in 1985 to 86% in 1986 and the variation from December to December rose even more rapidly (from 64% to 106%) (see figure 1). Active interest rates increased owing to the movements in the rates of exchange and inflation. Interest rates also influenced inflation, by way of prices, in a spiral of inert pressures. Moreover, prices and tariffs for goods and public services increased faster than the average rate of inflation, which they also fuelled, thus completing a cycle of expectations that favoured the continuation of the generalized increase in prices.

In contrast with the previous biennium, the rate of increase in prices for rural produce was less than the average inflation rate, thus weakening a form of support for one of the least developed sectors of the economy. Nominal wages in both urban and rural areas also increased by less than the general level of prices, although they were readjusted more frequently than in previous years. Minimum wage earners were, moreover, faced with the cost of a "basket" of essential items, which increased faster than the average rate of inflation. During the year the minimum wage suffered a real decline of 11%, which meant that its purchasing power was 45% less than the historical maximum recorded in 1976 and was equivalent to the level achieved 23 years previously.

This decline, together with problems of unemployment, caused the share of salaries in the gross domestic product to drop to 26%, in comparison with the 40% which it represented before the crisis of 1982. At the same time, private per capita consumption declined by 9% to the level recorded in the

Figure 1
 MEXICO: MAIN ECONOMIC INDICATORS

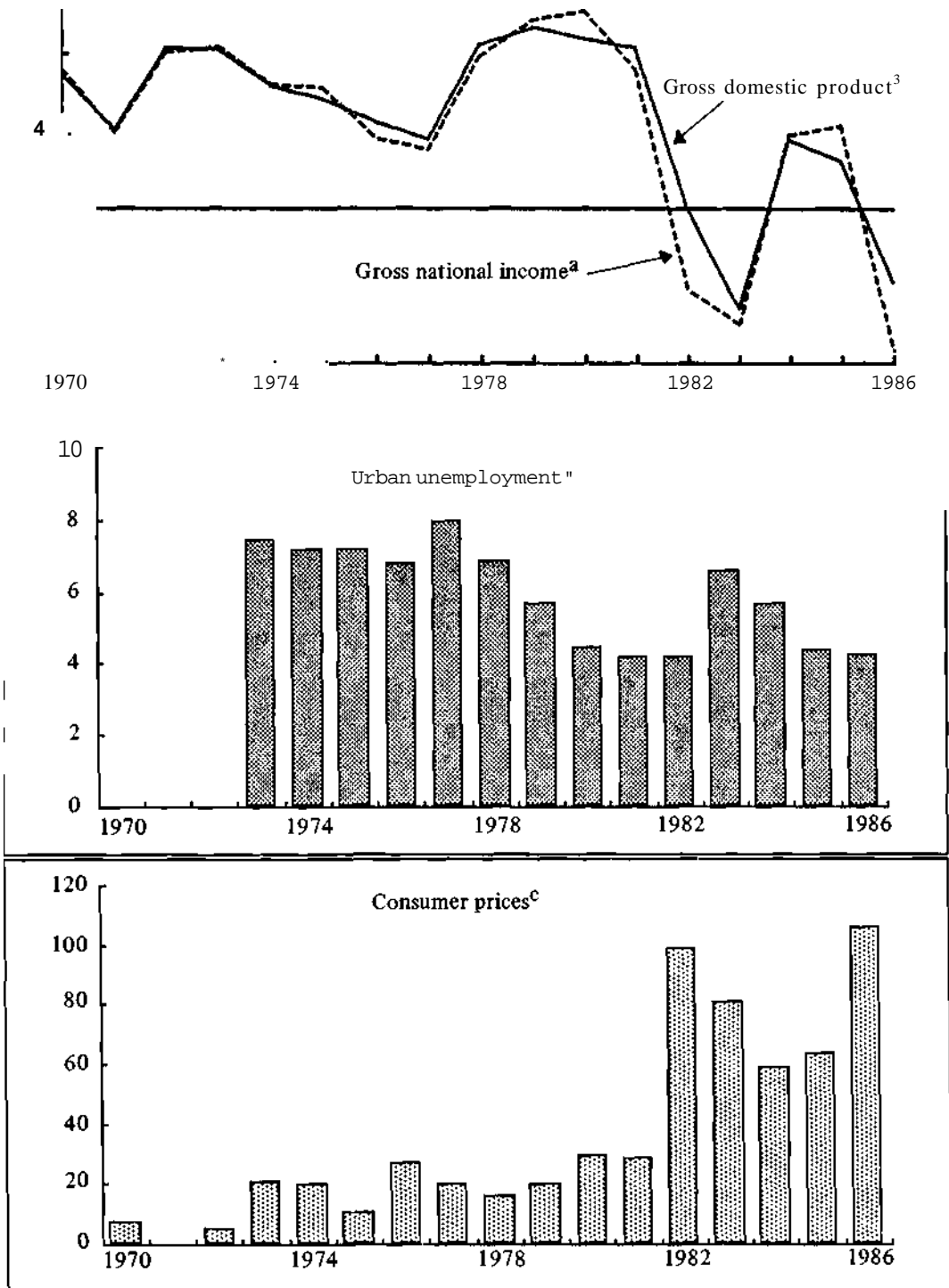
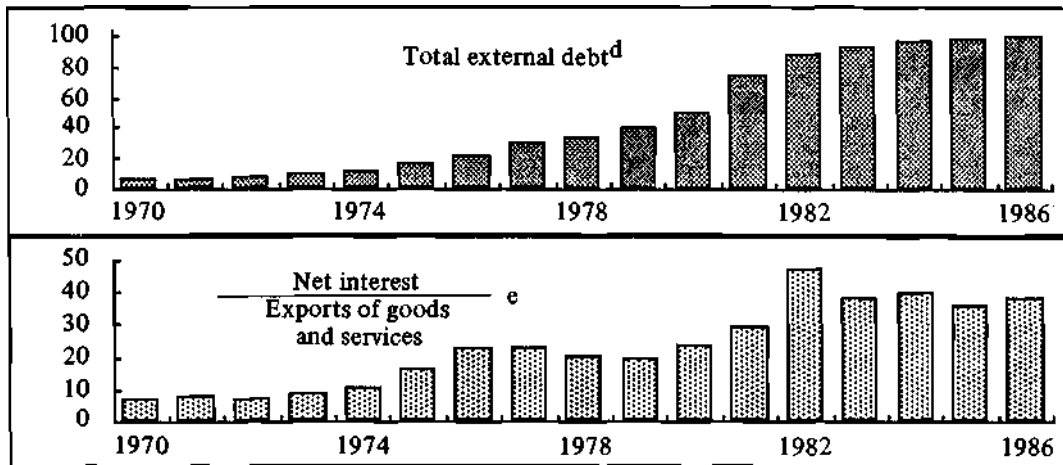
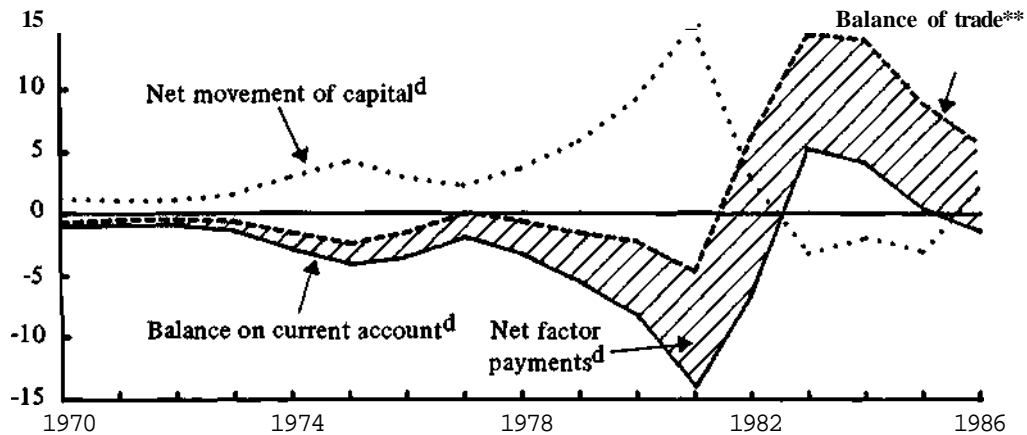


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^b1970-1983, average annual rate in Metropolitan areas of Mexico City, Guadalajara and Monterrey. Since 1984, weighted average for the 16 principal cities. ^cDecember - December percentage variation. ^dBJU_jons of dollars. ^ePercentages.

mid-1970s. Thus, on account of inflation, the domestic impact of the recession was unequally distributed to the detriment of the labour factor. In contrast, capital was favoured largely due to the high returns on savings and, in general, to the climate of speculation.

In summary, the adverse external situation brought about by the slump in the petroleum market—which accounts for more than 6% of gross domestic product— had a severe impact on the economy. This impact was felt most strongly in the goods sector, on account of the decline in production in most branches, and in the social sector, since the standards of living of the disadvantaged sectors of the population declined even further. In contrast, despite the accelerated devaluation of the currency, financial circuits and the currency exchange market suffered little disruption. Moreover, with support from abroad, servicing of the external debt continued. However, the resulting decline in investments led to a drop in economic activity and to a deterioration in the prospects for future growth.

2. Trends in economic activity

a) *Total supply and demand*

In 1986 the main macroeconomic variables suffered a decline which, though widespread, was less severe than that experienced during the 1983 recession, the worst in the last half century. The expansion of the economy in 1984 and during the first half of 1985 had been accompanied by an increase in the external and fiscal deficits, which the government attempted to control by intensifying its austerity measures, reducing public expenditure and gradually restricting credit. The year 1986 thus began in unfavourable circumstances, which soon worsened with the collapse of the petroleum market.

Despite this, the volume of exports was one of the few variables which recorded some growth (6%). The reduced volume of petrol sold abroad was more than offset by the increase in the volume of exports of other products and services. This expansion was achieved thanks to the undervaluation of the peso as well as to the greater volumes of exportable surpluses available as a result of the contraction of domestic consumption. However, the sharp drop in the prices of petroleum drastically reduced the country's capacity to import, which led to a decline in economic activity, imports fell by 12%; gross domestic product by almost 4% and total supply by 4.5% (see table 2).

With respect to total demand, there were significant declines in all variables, with the exception of exports. Gross investment fell by 14%, to levels similar to those recorded 10 years previously. In contrast with the previous biennium, during which private investment had recovered fairly rapidly, in 1986 it declined by 9%. The unavailability of credit and the weakening of the domestic market were the main causes for this decline, although high interest rates and the reduction of some tax incentives were also contributory factors. Despite official efforts to halt its decline, public investment dropped even more sharply (-16%) and amounted to less than the 1975 total.

Following a slight increase in the previous biennium, consumption again fell by more than 4%, even though government consumption was slightly higher than the level of the previous year. On the contrary, private consumption declined by 5.5%, largely on account of the new drop in real wages. Private per capita consumption was thus 16% lower than the historical maximum achieved in 1981, the high point of the "petroleum boom".

b) *Evolution of the main sectors*

The 3.8% decline in gross domestic product reflected a rather widespread deterioration. The goods-producing sectors were most affected, declining by more than 5%. The sharp drop in industrial activities, owing to the unavailability of investment and credit and the limited domestic market, was compounded by a poor year for agriculture. The output of basic services declined by only 1%, due to the fact that the moderate growth in the electricity, gas and water sectors offset the effects of the decline in the transport and communications sectors. The other services suffered a decline of almost 3%, largely as a result of the drop in commercial activity, which accounts for a large part of total services (see table 3).

i) *Agriculture.* During 1986, agricultural production declined by 2% in comparison with the previous year, in which the agricultural sector had had a relatively good performance. The 5% decline in crop farming was mainly responsible for this poor performance, since livestock raising activities expanded by 3% (see table 4).

The unfavourable pattern of rainfall was among the factors most responsible for the reduced size of the harvests. Prolonged droughts in the northeast of the country, late rains and, subsequently, excessive rainfall in some producing areas, particularly affected yields of maize and sorghum. The total harvested areas decreased by more than half a million hectares owing to the lack of water. Moreover, the support price policy acted as a disincentive to production since, with the exception of beans, increases in these prices were lower than the rate of inflation. Also, the level of credit disbursed fell by 12% in comparison with 1985. In contrast, adequate supplies of inputs were available: there was an increase in the production of improved seeds as well as in the total area fertilized.

Consequently, while production of maize and sorghum fell by 16% and 26% respectively, production of beans went up by 20%. Wheat was a special case since the surplus of a million tons accumulated during the previous cycle made it possible to implement restrictive measures to

discourage production. Oilseed production fell by 21% while safflower production increased only on account of the higher yields per hectare. Cotton production continued to decline as a reflection of the unfavourable international prices prevailing since 1984. On the other hand, the projected production targets for vegetables were not met; export prices for some crops fell, while the crops also suffered from the effects of a tropical storm which affected the northeast, the most important producing region.

In the cattle farming subsector, the slaughter of cows and sheep increased for the second consecutive year (by 16% and 9%, respectively); pork production again dropped (-16%), while poultry production maintained its upward trend, although the increase was a good deal less (5%) than the previous year (12%). Much of the increase in beef production, which expanded by 68% (although total stock declined slightly) went for export. The reduction in the slaughter of pigs was due to the increased cost of inputs, which made this activity less profitable.

The fisheries subsector continued to receive official support in the marketing of its production. At the same time, fish consumption was promoted through price control measures for popular species. However, only limited measures to maintain the fleet were undertaken. The total volume of the catch increased by 8%, although this was not reflected in the total value since it included species of widely different prices. Although there was a rapid rise in the catch of anchoveta and tuna, the catch of shrimp and sardines declined.

In the forestry subsector, the volume of production decreased both with respect to lumber and non-lumber products. In the first case, there was a slump in the market, with the exception of the demand for sleepers; in the case of non-lumber goods production was adversely affected by the lack of credit support and competition from cheaper substitutes.

ii) *Mining*. In recent years, mining production —with the exception of petroleum— has been somewhat sluggish or even declined. In 1986 it fell by 3%, partly on account of long-standing problems but also owing to a sharp drop in the industrial consumption of mineral products. There was also a sharp slump in external demand during the first months, although towards the end of the year demand picked up, leading to an increase in prices. The production of minerals for the iron and steel industry —coke and iron ore— was the most severely affected, but production of some non-ferrous industrial metals, such as lead and copper, also declined considerably (see table 5). In recent years, production of iron ore has been affected by problems in the iron and steel industry, which have even led to the closure of plants. The slump in domestic demand for this product resulted in large surpluses for exports. In contrast, the extraction of precious metals increased, largely owing to the incentive provided by the increase in international prices. Lastly, the exploitation of quarries and the extraction of sand, gravel and clay declined by 8%, owing to a contraction of demand resulting from the sharp drop in the construction sector.

iii) *Petroleum*. The gradual deterioration of the international hydrocarbon market, which had been taking place in previous years, worsened in early 1986. As a result, the volume of petroleum exported fell by 10% and its prices by 55%. Domestic consumption also declined slightly on account of the slowdown in economic activity (see table 6). This situation was made worse by the financial problems of PEMEX, which were reflected in fewer investments and in a cutback in operations. Activity in the industry as a whole declined by 5%, on account both of the extraction of smaller volumes of petroleum and gas and the drop in the output of refined products. The exhaustion of the surpluses of exportable gas also had a negative impact. Prospecting activity also declined during the year, and only a few new deposits were discovered in the Tabasco-Chiapas area and in the Campeche Sound. Although the rate of extraction was reduced, it surpassed the 1985 level, bringing the proven hydrocarbon reserves down to 70 billion barrels.

iv) *Manufacturing*. Following two years of growth, manufacturing activity declined by nearly 5%. This decline was mainly due to the drop in investment, the weakness of domestic demand and the sharp contraction of credit.

As a result of the drop in investment, the trend in the sectors producing capital goods —which had been markedly upward during 1984 and 1985— was downward throughout the year, during which an average decline of 13% was recorded.

The production of consumer durables followed a similar pattern, declining by more than 11%. This was partly due to the slump in the automobile industry (-28%), which had far-reaching

consequences for many of the other sectors and was attributable to the fact that the industry no longer enjoyed the fiscal provisions that had artificially encouraged the purchase of vehicles by companies during the previous biennium. Credit restrictions and insufficiently high private demand also made domestic sales fall in contrast with the unusually high rate of growth shown by exports. The production of electro-domestic appliances also declined, though to a lesser extent.

The production of non-durable consumer goods (mainly foodstuffs, beverages, clothing and footwear) declined by 1%, primarily because of weak demand (see table 7). Overall, the output of manufactured consumer goods fell by 3% -

As for intermediate goods, their production declined by 5%. The most notable decreases were observed in the manufacture of inputs based on wood, paper, chemical products, plastics and non-metallic minerals. In contrast, the basic petrochemicals industry expanded considerably following extensions to and the opening of sulphur, polyethylene and tetra plants, among others.

The manufacturing industry was also affected by the measures to liberalize trade and abolish the system of prior permits, which were adopted in part to facilitate the entry of Mexico into GATT. Nonetheless, the sharp devaluation of the peso had a compensatory effect and provided greater real protection. The liberalization of trade, while gradual, still led to major disruptions in certain branches or companies facing an adverse economic and financial situation and represented an obstacle to their reconversion. Private agents also came up against credit restrictions when attempting to introduce technological changes. In contrast, transnational corporations with branches in the country expanded their operations, both in re-exports and in supplying the domestic market. A part of the foreign investment consisted of the purchase of shares in payment of the foreign debt. As part of the trend towards greater internationalization of the production of certain goods, the subcontracting industry located primarily along the northern border continued to expand rapidly.

v) *Construction.* The construction industry suffered the worst decline of all the sectors of the economy (see tables 3 and 8). This decline had already begun in the second half of 1985, in spite of the demolition and reconstruction projects which had to be carried out following the earthquakes and accelerated during 1986. The contraction of credit added to the problem caused by the drop in public investments over the preceding four years and by the substantial decline in private investments in 1986. Consequently, only a few public works were continued, among them the Mexico City underground railway and a number of provincial airports.

In contrast with previous years, private construction was hampered not only by a drop in investment, but also by the contraction of credit for low-income housing, which lost its priority rating owing to a more rigorous implementation of the policy of reducing all forms of subsidies. Residential construction and irrigation and transport works were the hardest hit. The decline was, however, less significant in the case of projects in the energy sector (electricity and petroleum) and civil non-residential construction.

vi) *Basic services.* The growth of the basic services group declined by only 1% because the electricity, gas and water sector expanded by almost 5%, a percentage which nevertheless represented a decline in the historical growth rate of the sector, which had been over 7% per annum.

Hydroelectricity generation fell by about 24% on account of insufficient supplies of water in the dams resulting from the lower level of rainfall in 1985. This made it necessary to have greater recourse to thermoelectricity whose production increased by 17% to represent 78% of the total. The total production of electricity increased by almost 5% and domestic consumption by only 3%, owing to weak industrial demand. Energy exports grew more than tenfold on account of the increase in the production of the géothermie plants on the northern border.

The transport, storage and communications sector showed a decline of 2%. Transport alone fell by 5%. Both the number of passengers and the volume of freight transported by rail declined significantly. The number of air passengers also declined (-10%). In contrast, the maritime transport industry maintained some dynamism. Highway and urban road transportation and the underground railway in Mexico City expanded at moderate rates by comparison with communications, which grew by 7%. After long distance telephone service, which had been suspended on account of the earthquakes in September 1985, had been reestablished, national calls increased by 9% and international calls by an even greater percentage.

vii) *Other services*. Other services on the whole fell by about 3%, largely as a result of the poor performance of commercial activity, which declined by almost 6%, the reduced purchasing power of the population and the increased cost and scarcity of credit. The deterioration in the restaurant and hotel industry was less significant (-3%) since the number of tourists entering the country showed some improvement. Financial services also declined (-1%) since the degree of financial intermediation by the banking system was less than it had been. On the other hand rentals of dwellings increased by just under 2%. In the community, social and personal services sector, there were increases only in professional and educational services (particularly the latter which expanded by almost 4%), while other areas, including medical and recreational services and public administration, declined.

c) *Employment*

The drop in investments, the poor agricultural year, the major downturns in the industrial and construction sectors and the relative reduction in the size of the public sector have combined to create conditions in which enough new jobs cannot be created, particularly when account is taken of the high annual rate of increase of the economically active population (3.2%).

There is no official estimate of open unemployment at the national level.¹ Surveys are confined to the urban areas (the 16 largest cities), in which the rate of open unemployment (4.3%) seem to reflect a slight improvement over the previous year. However, other indicators point to a significant deterioration of the employment situation in the formal sector. For example, in the manufacturing industry employment fell by almost 4% and the number of man-hours worked decreased by more than 5%. In the construction industry employment fell by 38% during the first three quarters of the year. On the other hand, employment in subcontracting plants producing goods for export increased by 17% in confirmation of its very rapid expansion over the preceding three years (see table 9).

The number of members of the Mexican Social Security Institute remained virtually the same. This was due to an increase of almost 3% in the membership of permanent workers—a rate lower than the growth rate for the economically active population—and to a 10% decline in the membership of casual workers, a group largely composed of construction workers.

3. The external sector

a) *General features*

The influence of the external sector on the economy was particularly adverse. Already in 1985 a deterioration had been observed in the balance of payments partly as a result of increased imports brought about by the upswing in economic activity, following the rigorous adjustment to which the latter had been previously subjected. This situation, to which the heavy burden of servicing the foreign debt had also contributed was compounded in 1986 by the effects of the slump in the international petroleum market. As a result of this slump, the value of exports of crude fell by almost US\$8.5 billion, an amount equivalent to more than 6% of the gross domestic product and slightly higher than the interest payments on the debt.

This loss in earnings called for a tremendous effort to adjust the trade and financial variables. The export of non-petroleum products was promoted and imports curbed through a policy of accelerated devaluation. In the financial sphere, an appeal was made to the international community for help in renegotiating a huge credit package, which enabled the country to continue to meet its external debt servicing obligations. Within the framework of these negotiations, commercial banks were asked for additional loans amounting to US\$7.7 billion during the 1986-1987 biennium, none of which were received in 1986, however.

¹The only available estimate is not an official one and comes from an international firm of consultants which uses a macroeconomic model for Mexico, according to which the rate of open unemployment rose from close to 9% in the period 1983-1985 to nearly 12% in 1986.

Despite the lack of external resources and the current account deficit of more than US\$1.4 billion, there were no sudden fluctuations in the exchange rate. This relative stability was due to the large inflow of foreign exchange mainly from the repatriation of capital motivated by the strict domestic credit policy and to the increase in direct foreign investment. Thus in the last months of the year, international monetary reserves recovered after having dropped to extremely low levels. At the end of the year, they stood at approximately US\$6.8 billion, an amount equivalent to the value of seven months of imports.

b) *The current account*

The main external trade variables contracted in 1986. The drastic decline in the price of petroleum (-55%) and the decrease in the volume of crude petroleum sold abroad (-10%) were only partially offset by the increase in prices in the international market for some traditional goods and by the favourable response of non-petroleum exports to tax, institutional and, particularly, exchange-rate incentives.² The value of total exports thus fell by 26%, a decline wholly attributable to the marked reduction (-27%) in unit value since the volume exported increased by 1%. As a result of the sharp drop in the price of exports, the terms of trade deteriorated by almost 26% in 1986. This deterioration—the fifth in the last six years—caused the corresponding index to fall by 36% in comparison with 1980 (see table 10).

The higher value put on foreign currency increased the cost of imports, which, following a partial recovery in the preceding biennium, fell by 15%. This drop, which was due mainly to a contraction in their physical volume, occurred although the external trade of the country had been made more liberal as a result of its entry into GATT in September.³

The total value of exports rose to US\$ 16 billion. Sales of hydrocarbons accounted for less than 40% of these earnings in contrast with a share of almost 70% in previous years. On the other hand, exports of non-petroleum products showed considerable dynamism, increasing by 40% (see table 11). This increase was mainly due to the exchange-rate and export-promotion policies, the facilities granted for the temporary importation of goods to be re-exported and the exportable surpluses achieved through increased production or as a result of the contraction in domestic consumption. Increases due to this last phenomenon included those in exports of beef cattle (up by 42%), cars and trucks (up by 290%) and iron and steel products (up by 85%). With respect to coffee, tomatoes and silver, the higher value of external sales was due rather to the much more favourable prices obtained abroad. In general, exports of non-traditional products grew faster than exports of traditional products (44% as against 33%).

As for imports they dropped to just under US\$11.5 billion. Particularly severe was the drop in imports by the public sector, which shrank by 24% on account of substantial reduction in government expenditure and especially in public investment. The drop in private investment also affected private sector imports, which fell by 8% (see table 12). Imports of consumer goods declined more markedly (-22%) than imports of intermediate goods (-15%) and capital goods (-6%), on account of sluggish demand or adequate domestic supply. The decline in imports of intermediate goods was due in part to the contraction of the manufacturing industry, the larger domestic supply of agricultural raw materials owing to the good 1985 crop cycle and, to the general decline in economic activity.

As a result of these changes, the surplus on merchandise trade was only US\$4.6 billion, 45% less than the 1985 figure. Conversely, the favourable balance of trade in real services increased significantly, rising from US\$500 million in 1985 to almost US\$1.1 billion in 1986 (see table 13). This increase was due to a contraction of imports, since sales of services abroad increased by less than 3%. In fact, although assembly-type services expanded, their value increased by very little in comparison with the 1985 level of US\$1.3 billion. This stagnation was largely due to the compara-

²The main export promotion measures adopted during the year include the introduction of a domestic letter of credit, the establishment of temporary import facilities, the reimbursement of the value-added tax and the granting of incentives for marketing firms.

³During 1986 progress continued to be made towards the elimination of the license required prior to importation with the exemption of another 190 items from this requirement. This brought the total number of items exempted to 7 542, or 92% of the items subject to tariff, representing 69% of the total value of imports.

lively lower cost in dollar terms of domestic inputs and to the negligible increase in foreign currency earned from tourism, even though the number of visitors rose by 10% (to 4.6 million) and the average length of stay increased. On the other hand, the relative increase in the cost of external services discouraged Mexicans from travelling and purchasing abroad. The corresponding positive balance thus increased by 36%, rising to US\$870 million; other services, such as transport, freight and insurance, declined partly as a result of the weakening of trade relations with the exterior.

In contrast with the preceding three years, the positive balance of trade in goods and services (approximately US\$5.7 billion) was not large enough to cover factor payments (US\$7.5 billion), even though they decreased by 15%. This reduction was due to the drop in interest rates on the international markets and to the improved terms obtained in renegotiating the debt. Even so, close to US\$8.4 billion was paid out under this heading (see table 13).

c) *The capital account*

The capital account produced a favourable balance of over US\$2.2 billion, which more than made up for the deficit on the current account, thereby making it possible to recover some international monetary reserves. The inflow of capital was partly due to an increase in direct foreign investment, which rose to US\$900 million, of which US\$360 million corresponded to the conversion of public external debt into capital.

There was a higher level of net inflows of short-term capital. These resources were channelled both to development banks and to the public sector. In addition, almost US\$1.6 billion entered the country as a result of the repatriation of capital by the private sector. As pointed out above, the unavailability of domestic credit forced a number of entrepreneurs to repatriate their savings abroad to be used as working capital. The high returns on certain securities, particularly listed securities, also proved attractive in this regard.

d) *The external debt*

The sharp drop in the prices of petroleum made it necessary to reformulate the strategy of servicing the external debt. The Mexican position in the prolonged negotiations with the international financial community was to make debt servicing compatible with the real possibilities of the economy in order to ensure that adjustment did not preclude growth. This position was clearly outlined in the Programme of Recovery and Growth (PAC), which was announced in the second half of the year for implementation over the next two years.

Eighty billion dollars of the total external debt of more than US\$100 billion was renegotiated. The agreements reached concern international financial organizations, the governments of the industrialized countries and private foreign banks.

First support from the International Monetary Fund was obtained in an amount of US\$1.7 billion, with quarterly disbursements scheduled over an 18-month period. The agreement with the Fund contained novel features which promote growth and structural change in the economy. These include the change in the criterion used in evaluating fiscal performance in terms of the "primary" balance (which is obtained by subtracting the inflationary component of the interest payments made on the domestic debt from the "financial deficit") and the possibility of the Fund's lending US\$720 million if the price of Mexican petroleum were to fall below US\$9 per barrel, US\$500 million if the economy performed poorly during the first quarter of 1987 and an additional US\$1.2 billion should there be an extraordinary decline in the external earnings of the public sector.

The agreement with the Fund was tied to the agreement with the World Bank, which envisaged loans worth US\$2.3 billion for the 1986-1987 biennium and included the signing of a letter of intent centered on the structural changes made in the economy. At the same time, renegotiation and support agreements were reached with the Bank for International Settlements, the Paris Club and Japan in respect of amounts totalling some US\$5.3 billion.

The negotiations held with international private banks presented greater difficulties, not so much with respect to the maturity dates for interest and amortization payments corresponding to the contracted debt, but rather with regard to new financing. As already mentioned, new funds could not be obtained in 1986 since a financial agreement involving numerous creditor banks required the

approval of a very large percentage of them before the private banks could disburse the new credits agreed upon, which amounted to US\$6 billion, that is to say an additional US\$1.7 billion of a contingent nature.⁴

The renegotiation made it possible to extend the payback period of US\$43.7 billion of the debt contracted by the government with private banks and to reduce the corresponding interest rate. Thus, the periods of fourteen years with a one-year grace period agreed upon previously were extended to twenty years, with a seven-year grace period, while the margin above the LIBOR rate fell from 1.125% to 0.8125%. The rate of interest applicable to loans contracted in 1983 and 1984 also fell, first because of the drop in the margin above the LIBOR rate from 1.5% to 0.8125% and secondly because of the replacement of the United States preferential rate by the LIBOR rate. The maturity dates were, however, not changed. With regard to the private external debt, on the other hand, longer repayment periods were negotiated for the US\$11.7 million in the Trust Fund to Cover Exchange Risks (FICORCA), the term of maturity being extended from eight to twenty years and the grace period from four to seven years. Finally, a commitment was obtained to maintain a minimum of US\$5.2 billion in inter-bank lines.

The additional financing that entered the country increased the external debt by US\$2.7 billion. Of this amount, some US\$1.4 billion corresponded to the net flow of resources to the public sector. As for the banks, their debt increased by US\$700 million, while the private sector debt fell by US\$2 billion. The remainder of the increase corresponded to exchange rate adjustments on account of the revaluation of the debt expressed in European and Japanese currencies (see table 14).

Some US\$400 million of the amortization payments made were effected through the sale of assets of enterprises with debts. This procedure represented another innovation, particularly as regards the creation of facilities by which international financial corporations can intervene in this type of operation. These corporations showed a preference for the purchase of assets in the automobile, metal-products and hotel industries.

As a consequence of the increase in the debt and, above all, of the pronounced drop in the value of exports, the indicators of indebtedness deteriorated significantly. The ratio of debt to exports thus reached the unprecedented level of 4.6 and, in spite of the decrease in interest payments, their ratio to exports also increased.

4. Prices and wages

a) *Prices*

Efforts to bring inflation down from an annual rate of about 60% in 1985 to one of 45% or 50% in 1986 began to prove unsuccessful early in the year when the petroleum market collapsed. The increased rapidity with which devaluations were effected constituted an inflationary factor of the first magnitude. In addition to its direct effects on the cost of imports, it made it necessary to increase the nominal interest rates to a level that would be competitive with prevailing external rates. This in turn augmented the financial costs of enterprises. In practice, moreover, many prices were "indexed" to the exchange rate. A vicious circle was thus set in motion since greater inflation, apart from putting new pressures on the exchange rate, caused interest rates to rise. As a result, the rate of increase in the national consumer price index rose steadily, reaching the unprecedented level of 106% in the month of December. As a result the variation between annual averages in respect of consumer prices rose from 58% in 1985 to 86% in 1986 (see table 15 and figure 2).

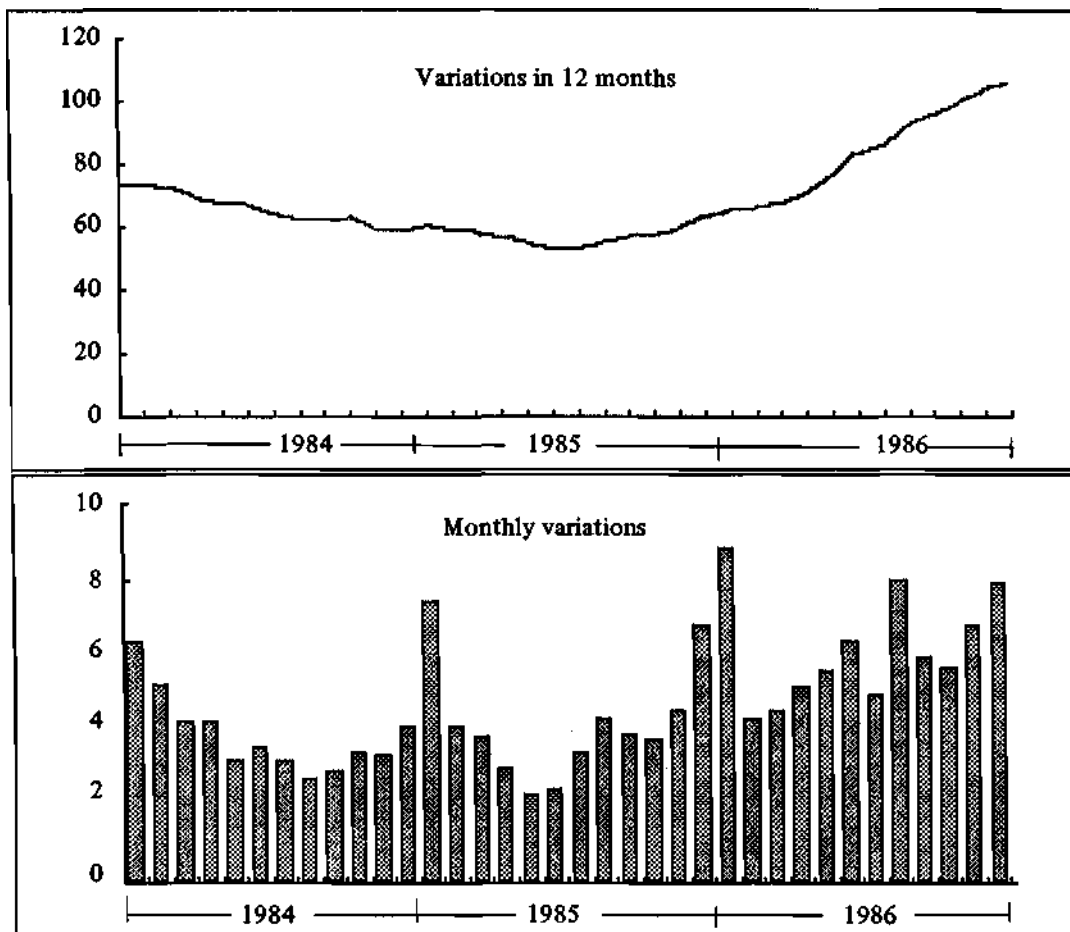
The reduction or removal of numerous subsidies and the active revision of the prices and rates of goods and public services were among the factors that caused the price of controlled articles to increase more (94%) than those of articles that were not controlled (82%). In particular, the prices of certain basic food items (such as bread and tortillas) and of transport increased faster than the rate of

⁴The credits which could not be disbursed in 1986 and which, it is estimated, will enter the country in 1987 will be subject to a surcharge of 0.8125 % above the LIBOR rate. It is expected that the first US\$5 billion will be granted for a period of 12 years with a five-year grace period and the remaining US\$1 billion for a period of 15 years with a seven-year grace period.

inflation (92%), which pushed up the cost of the family "food basket" of wage-earners in the lower-income groups.⁵ Nonetheless, the overall increase in the price of foodstuffs, both controlled and non-controlled was in keeping with the average rate of inflation. This was mainly due to the fact that the costs of various agricultural products increased more slowly. In fact, in the producer price index (whose rate of increase has been consistently lower than that of the consumer price index), the guarantee prices paid to farmers recorded the slowest rate of increase (74%). In contrast, raw materials, have the greatest responsibility for the increase in the general index, partly because some of them were imported.

The effects of these inertial factors on the inflation were compounded by those of the above-mentioned modifications to the exchange rate and increases in interest rates, which not only accelerated the rate of inflation but also promoted inflationary expectations.

Figure 2
MEXICO: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official figures.

⁵The average price of bread increased almost threefold and that of tortilla by 110%, both increases being much higher than the average rate of inflation. Even so, as from May, the subsidy on tortilla was granted on a highly selective basis, through the so-called "tortibonos".

b) *Wages*

The wage policy continued to reflect the limitations imposed by the targets of the adjustment programme. Two other factors also affected this policy negatively, one of them being the moderation of wage demands by trade unions in the light of the prospects of a worsening of the unemployment situation and the other, higher inflation. Even so, the authorities attempted to partially correct the deterioration in the purchasing power of wages by means of a third revision, which took place in October and came on top of the two half-yearly adjustments granted in previous years. Despite this, the purchasing power of the minimum wage fell again, this time by almost 11 % (see table 16). This loss followed those experienced in previous years so that in real terms the accumulated deterioration of the minimum wage amounted to 45 % in terms of the historical maximum reached in 1976 and the purchasing power of the wage was equivalent to that recorded in 1963.

Moreover, in January two of the four geographical minimum-wage zones were merged in keeping with efforts to unify the minimum wage nationally. This meant that those in the zone with the lowest minimum wages received a higher than average increase with the result that their real wage deteriorated much less (-2%) than average. On the other hand, during the year the remaining zones lost more than 12% of their purchasing power.

The daily wage for agricultural workers followed a similar pattern, and real incomes in rural areas also declined, partly as a result of the inadequate increase in the support prices paid for agricultural products. However, this did not cause food prices to rise more slowly and hence did not make that the nutrition levels of the urban groups deteriorated further. Lastly, workers with access to supplementary benefits of various kinds (most of whom may be found in the middle-income strata) tended to rely more on those benefits than in the past, in consequence of the drop in their wages.

On account both of the further deterioration of wages and the inadequate supply of jobs, the share of the gross domestic product represented by labour factor payments dropped to 26%, as compared to almost 40% prior to the crisis of 1982. The cost of the squeeze in national wages was thus unequally distributed within the society, to the detriment of wage-earners. In contrast, those receiving income from capital were in a relatively favourable position owing, among other things, to the high real interest rates they earned on their savings.

5. Monetary and fiscal policies

a) *Monetary policy*

The drop in petroleum prices had immediate effects on the financial sector. On the one hand, the accelerated rate of devaluation of the currency helped to push up domestic interest rates. On the other hand, while credit was generally available, the greater financial needs of the public sector, brought about by the decline in its income, reduced the amount of credit available for financing other sectors of the economy. These two factors together made it necessary to maintain restrictions on private credit, and this, in turn, contributed to the contraction of the economy.

With regard to the exchange rate, apart from achieving a substantial increase in the effective exchange rate, the authorities had by the end of the year almost succeeded in unifying the two exchange rates in force, the gap between which had been very wide in the past. Thus the exchange rate for the "controlled" dollar (used in 80% of external transactions) increased by an average of 141%, while the exchange rate of the "free" dollar climbed by 106%, both increases being much higher than the average rate of inflation (see table 17).

As a result of the restrictive monetary policy applied by the authorities, the main financial variables underwent substantial real contractions. Hence, between December 1985 and December 1986, the monetary base expanded by 48%, and money by 68%, both of these figures being much lower than the rise of 106% shown by the consumer price index during this period (see table 18). Nonetheless, as table 19 illustrates, although interest rates on savings deposits were attractive, the procurement of deposits by the banking system was weak, with the result that the trend began some

years previously towards a decline in the financial intermediation.⁶ This decline was to a large extent, due to the contraction in economic activity and to the increased dynamism of stockbroking firms, most of which are privately owned. These firms act as a parallel banking system, accepting deposits and undertaking financing operations, and participate in the sale of common stock, as well as government-issued fixed-income securities, such as Treasury Certificates (CEIES) (which have expanded spectacularly) and the new dollar-denominated promissory notes (PAGAFES) issued by the Treasury of Mexico. The yield from these securities, with which the public sector finances its deficit domestically, was in general higher than the yield from banking instruments. In contrast with the depressive tone of the economy, the stock market offered large profits. In fact, the share index rose by more than 250% in real terms, in a highly speculative environment.

Inadequate external financing again forced the public sector to seek financing from domestic sources. The financing granted to it by the banking system expanded by 11% in real terms,⁷ a rate sufficiently high to give the overall picture with regard to domestic credit to the economy a slightly positive tone. However, this diverted away resources from the private sector which had been suffering the effects of a severe contraction of credit since late 1985 and experienced a drop in loans of 15% in real terms in 1986. The productive sectors that were most affected were construction, agriculture and commerce. On the other hand support to mining, including the petroleum industry; electricity and services increased (see table 20).

b) *Fiscal policy*

Public spending was once again regulated by a strict policy of austerity. The termination of the extended service agreement with the International Monetary Fund corresponding to the preceding three years did not mark the end of the commitments entered into with this organization. Actually, the earthquakes of September 1985 had increased the Treasury's difficulties, and at the end of the year, it had been necessary to seek credit from the Fund while a new extended fund facility was being established.

Prior to the petroleum crisis, when the budget was being prepared, it was felt that the financial deficit of the public sector should be brought down from the equivalent of 10% of the gross domestic product it had represented in 1985 to less than 5% in 1986; on the assumption that this target could be reached by levying higher taxes and conducting an active review of public prices and rates, and by putting stricter limits on current expenditure. Thus, for the purpose of obtaining additional funds to repair the damage caused by the earthquake in 1985, taxes on medium and high incomes were increased and taxes on new cars and on gasoline were raised substantially.

The drop in petroleum prices profoundly altered the public finance picture, not only because the earnings of PEMEX were reduced but also because of the taxes which this decentralized agency ceased paying to the federal government. Moreover, the accelerated rate of devaluation of the peso, the higher interest rates and the price increases caused serious dyssymmetry in respect of public finances. Since the tax system had not been adequately adjusted for inflation and expenditure, particularly expenditure on interest payments on the domestic and external public debt increased, the financial deficit of the public sector represented somewhat more than 16% of the gross domestic product (see table 21). The greater part of this negative balance, which amounted to 12.7 billion pesos, was imputable to the federal government. While PEMEX no longer produced a surplus, the real deficit of the other State entities and enterprises, which are subject to budgetary control, was substantially reduced. On the other hand, the deficit of the official sector not subject to such control expanded considerably.

The federal government deficit rose by 55% in real terms. This was due both to the contraction of income and to increases in interest payments on the debt, which represented 38% of total expenditure. In contrast, the remaining expenditure (current and investment spending) experienced a real decline of 6% (see table 22).

⁶Savings deposits effected through banking instruments shrank by 9% in real terms. On the other hand, they remained stable if account is also taken of deposits of "other financial assets" (a category composed largely of government securities), which increased by 45% in real terms.

⁷Credit to the government grew by 13%, while credit to the semi-official sector increased by only 5%.

With regard to tax earnings, those from PEMEX experienced a real drop of 42%, while tax income from the rest of the economy declined by just under 2%. With regard to the latter, earnings from direct taxes, particularly those on the incomes of physical persons, showed greater rigidity, since, in spite of the higher rates, lower real wages and salaries and the fact that the tax system was ill-adopted to a climate of high inflation reduced their intake. If indirect tax earnings did not decline that was basically because higher taxes on gasoline and new cars provided a source of additional revenue. On the other hand, income from VAT declined significantly as a result of weak domestic demand. The effects of the increases in the exchange rate and the more widespread application of tariffs served to increase tax earnings from external trade, which rose by 18% in real terms. Finally, non-tax income declined slightly.

As regards government expenditure, current disbursements (excluding interest payments) decreased by approximately 17% in real terms. This was due to the drop in real wages, the freeze on the hiring of government employees, austerity in purchasing and the reduction or suspension of numerous subsidies. On the other hand, interest payments were 40% higher than in 1985 in real terms as a result of the higher cost of domestic credit and the surtaxes on government securities. In addition, the higher rate of devaluation had an impact on the interest on the external debt, even though its nominal rates declined. As for capital expenditure, it fell by 19%, a drop which was compounded by those which had occurred over the previous four years.

In the semi-official sector the policy of selling, dissolving, transforming or merging unprofitable enterprises with a view to obtaining better financial results continued.⁸ In spite of the substantial contraction in transfers received from the government, this sector's deficit was reduced on account of the disproportionate increase in its prices and rates. Nevertheless, the increase in its income was insufficient since its sales declined because of weak domestic demand. Public entity expenditure, both operating and capital, was maintained at minimum levels. Only interest payments, the main anomaly in public finances, continued to increase, particularly interest payments by PEMEX.

In short, 1986 saw the continuation of the tremendously tight budgetary situation caused largely, as in previous years, by the burden of interest payments on the debt and made substantially worse this time by the lower oil income. While this made it necessary to pursue greater rationality in public sector operations, it also called for a further reduction in the investment programme, with adverse effects on the economic situation and also on the rate of economic growth achievable in the medium term.

⁸Of the 1 155 entities inexistence in 1982, 205 had been eliminated and 261 were in the process of liquidation, leaving some 700 in operation.

Table 1

MEXICO: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
Basic economic indicators							
Gross domestic product at market prices	100.0	108.3	108.3	102.7	106.3	108.9	104.7
Gross national income	100.0	107.3	102.7	96.5	100.1	104.4	96.6
Population (millions of inhabitants)	69.4	71.3	73.2	75.1	77.0	79.0	81.0
Per capita gross domestic product	100.0	105.5	102.7	94.9	95.8	95.7	89.8
Growth rates							
Short-term economic indicators							
Gross domestic product	8.8	8.3	.	-5.2	3.5	2.4	-3.8
Per capita gross domestic product	6.0	5.5	-2.6	-7.5	1.0	-	-6.1
Gross national income	10.4	7.3	-4.2	-6.0	3.8	4.3	-7.4
Rate of unemployment	4.5	4.2	4.2	6.6	5.7	4.4	4.3
Consumer prices							
December to December	29.8	28.7	98.8	80.8	59.2	63.7	105.7
Variation between annual averages	26.3	27.9	58.9	101.9	65.4	57.7	86.2
Real wages and salaries	-7.4	1.3	3.3	-25.2	-8.3	-1.2	-10.9
Money	33.5	32.8	62.1	41.4	63.0	50.8	68.0
Current income of government	65.6	36.7	63.9	107.6	56.4	60.6	57.1
Total government expenditure	56.5	62.9	101.7	73.0	47.2	62.1	93.1
Fiscal deficit/total government expenditure*	16.4	30.3	44.1	30.8	29.8	30.8	46.0
Public sector financial deficit/GDP	6.5	14.5	17.6	8.9	8.7	9.9	16.3
Current value of exports of goods and services							
	55.1	23.1	-9.4	3.9	10.9	-8.2	-20.5
Current value of imports of goods and services							
	53.8	30.6	-40.8	-36.1	27.1	16.2	-13.0
Terms of trade (goods and services)	19.5	1.3	-17.2	-5.9	0.5	3.4	-24.4
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-2 225	-4 658	6 302	14 493	14 016	8 917	5 689
Net factor payments	6 209	9 531	12 815	9 373	10 186	8 828	7 448
Balance on current account	-8 305	-14 074	-6 416	5 242	4 059	379	-1 444
Balance on capital account	9 262	15 151	2 843	-3 207	-1 902	-3 108	2 227
Variation in gross international reserves	938	762	-3 469	2 046	2 146	-2 900	985
Total external debt	50 700	74 900	87 600	93 800	96 700	97 800	100 500

Source: ECLAC, on the basis of official data.

^aPreliminary figures. Percentages. *Weighted average for the 16 largest cities. Up to 1983 only the metropolitan areas of Mexico City, Guadalajara and Monterrey were taken into consideration. Weighted average of general minimum wages, deflated by the national consumer price index for low-income groups.

Table 2

MEXICO: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total supply	101.0	104.7	99.9	113.8	108.6	-7.1	4.6	3.6	-4.5
Gross domestic product at market prices	106.3	108.9	104.7	100.0	100.0	-5.2	3.5	2.4	-3.8
Imports of goods and services	62.6	74.2	65.1	13.8	8.6	-28.0	19.6	18.6	-12.3
Total demand	101.0	104.7	99.9	113.8	108.6	-7.1	4.6	3.6	-4.5
Domestic demand	93.5	99.5	93.1	101.2	90.0	-11.9	4.8	6.4	-6.5
Gross domestic investment	66.6	75.5	64.7	28.1	17.4	-24.9	7.5	13.5	-14.3
Gross fixed investment	73.4	78.0	68.7	24.2	15.8	-27.9	5.5	6.4	-12.0
Construction	87.5	90.7	81.8	13.7	10.7	-19.9	3.3	3.7	-9.8
Machinery	54.8	61.4	51.4	10.4	5.1	-41.2	10.6	12.1	-16.3
Public	67.4	64.5	54.4	13.3	6.9	-32.5	0.6	-4.4	-15.6
Private	80.6	94.6	86.1	10.9	8.9	-21.9	11.1	17.4	-9.0
Inventory changes	25.1	60.3	40.8	4.0	15				
Total consumption	103.9	108.8	104.0	73.1	72.6	-8.1	4.1	4.7	-4.4
General government	118.7	120.3	121.9	10.8	12.6	-1.3	6.8	1.3	1.3
Private	101.3	106.8	100.9	62.2	60.0	-9.4	3.6	5.4	-5.5
Exports of goods and services	161.2	146.0	154.8	12.6	18.6	24.4	3.8	-9.4	6.0

Source: ECLAC, on the basis of official data.

°Preliminary figures.

Table 3

**MEXICO: GROSS DOMESTIC PRODUCT BY ECONOMIC
ACTIVITY, AT MARKET PRICES**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Gross domestic product	106.3	108.9	104.7	100.0	100.0	-5.2	3.5	2.4	-3.8
Goods	104.9	109.0	103.1	44.7	44.0	-6.1	3.6	3.9	-5.4
Agriculture	111.2	115.4	113.0	8.4	9.0	2.9	2.5	3.8	-2.1
Mining	124.7	123.9	116.7	6.8	7.6	-2.7	1.8	-0.7	-5.8
Manufacturing	101.0	106.8	100.8	23.0	22.2	-7.3	4.8	5.8	-5.6
Construction	90.1	92.8	84.3	6.5	5.2	-18.0	3.4	3.0	-9.1
Basic services	110.1	113.7	112.5	7.5	8.1	-4.0	6.5	3.2	-1.0
Electricity, gas and water	125.0	135.4	141.8	1.0	1.3	0.7	7.4	8.3	4.7
Other services	107.4	108.3	105.4	47.8	47.9	-4.3	3.0	0.9	-2.7
Trade, restaurants and hotels	98.6	100.3	94.8	23.4	21.1	-10.0	3.0	1.7	-5.5
Financial institutions, insurance, real estate and business services	113.9	116.7	117.8	7.9	8.9	2.1	3.0	2.4	1.0
Ownership of dwellings	111.2	114.4	116.2	5.9	6.5	1.9	2.7	2.8	1.6
Community, social and personal services	116.0	115.2	114.0	17.7	19.3	0.2	3.1	-0.7	-1.0
Government services	123.6	121.9	121.1	3.3	3.8	3.0	5.3	-1.4	-0.6
Less: commission on bank services	123.9	120.0	124.1	12	14	4.2	4.2	-3.1	3.4

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes the livestock sector, forestry and fishing.

Table 4

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1984	1985	1986 ^o	Growth rates			
					1983	1984	1985	1986 ^o
Index of agricultural production (1970 = 100)	139.9	155.5	161.4	158.0	2.9	2.4	3.8	-2.1
Agriculture	138.4	155.3	163.4	155.3	4.2	2.6	5.2	-5.0
Livestock	138.2	151.3	154.0	158.3	1.9	1.5	1.7	2.9
Forestry	135.5	137.7	140.1	136.8	0.5	1.7	1.8	-2.4
Hunting and fishing	245.6	309.6	320.5	314.7	-5.0	12.0	3.5	1.8
Production of main crops								
For export								
Unginned cotton	329	280	216	143	16.4	22.2	-22.9	-33.5
Coffee	193	294	264	286	-	14.0	-10.2	8.3
Tomatoes	1 458	1 574	1 469	1 454	128.4	6.9	-6.7	-1.0
For domestic consumption								
Maize	12 383	12 932	13 957	11 721	28.9	-1.0	7.9	-16.0
Beans	971	974	906	1 085	35.9	-24.1	-7.0	19.8
Wheat	2 785	4 506	5 207	4 770	-22.5	30.2	15.6	-8.4
Sorghum	4 812	4 974	6 550	4 833	2.7	2.6	31.7	-26.2
Sugar cane	36 480	34 810	35 689	37 613	0.1	2.1	2.5	5.4
Soya	312	685	928	709	5.9	-0.2	35.5	-23.6
Indicators of livestock production								
Slaughter								
Beef cattle	1 016	963	980	1 139	-14.2	-6.5	1.7	16.3
Pigs	1 251	1 455	1 293	1 088	8.8	-2.1	-11.1	-15.9
Sheep and goats	22	21	24	26	-5.3	-6.1	14.5	9.3
Poultry	429	525	589	618	4.1	4.4	12.2	5.0
Other products								
Milk ^c	7 021	7 140	7 474	6 389	-2.3	1.2	4.7	-14.5
Eggs ^{*b}	9 666	11 105	12 396	14 100	3.6	3.5	11.6	13.7

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.^bThousands of tons.^cThousands of litres.^dMillions of units.

Table 5
MEXICO: INDICATORS OF MINING PRODUCTION"

	1980	1984	1985	1986*	Growth rates			
					1983	1984	1985	1986*
General indexes of mining production (1970 = 100)	148.5	160.7	161.5	156.2	-3.4	1.6	0.5	-3.3
Precious metals	109.6	146.2	158.2	167.7	22.5	3.8	8.2	6.0
Non-ferrous industrial metals	154.6	170.1	168.1	158.7	-6.7	-2.3	-1.2	-5.6
Metals and minerals for the iron and steel industry	184.7	194.6	184.3	173.4	-4.5	4.7	-5.3	-5.9
Non-metallic minerals	125.3	106.3	117.6	117.2	-10.2	14.1	10.6	-0.3
Production of some important minerals								
Precious metals								
Gold ^c	6 096	7 058	7 524	7 741	13.5	1.8	6.6	2.9
Silver	1473	1987	2 153	2 287	23.3	3.9	8.4	6.2
Non-ferrous industrial metals								
Lead*	146	183	207	183	14.4	9.0	13.1	-11.6
Copper*	175	189	179	170	-13.7	-7.8	-5.3	-5.0
Zinc*	238	290	275	270	10.8	13.3	-5.2	-1.8
Bismuth	770	433	925	749	-10.1	-20.6	113.6	-19.0
Cadmium	1 791	1 136	1 140	1 116	-7.1	-18.0	0.4	-2.1
Metals and minerals for the iron and steel industry								
Coke*	2 409	2 375	2 390	2 058	-1.0	-2.0	0.6	-13.9
Iron*	5 087	5 489	5 161	4 903	-1.4	4.0	-6.0	-5.0
Manganese*	161	189	151	170	-27.3	36.1	-20.1	12.6
Non-metallic minerals								
Sulphur*	2 102	1 826	2 020	2 050	-11.8	14.0	10.6	15
Fluorite*	916	627	697	736	-11.7	12.6	11.2	5.6
Barite*	269	426	468	318	10.2	19.3	9.9	-32.1

Source: ECLAC, on the basis of figures provided by the Ministry of Programming and the Budget.

"Does not include the quarrying or the extraction of sand,, gravel and clay. Petroleum activity is also excluded. Preliminary figures. Kilogrames. Tons. Thousands of tons.

Table 6

MEXICO: INDICATORS OF PETROLEUM ACTIVITY

	1980	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Index of extraction of crude oil and natural gas (1970 = 100)	381.8	532.2	518.0	490.3	-1.9	2.6	-2.7	-5.3
Production of main items								
Petroleum ⁶	779	1 118	1 090	1 031	-1.6	3.7	-2.5	-5.4
Crude and condensate	708	1 024	987	913	-2.2	4.4	-3.7	-7.5
Gas liquids	71	94	103	118	4.1	-3.2	9.6	14.5
Natural gas ^c	36 772	38 893	37 247	35 463	-4.6	-7.2	-4.2	-4.8
Refined products	416	502	519	505	-1.1	7.5	3.4	-2.7
Gasoline	120	132	134	135	2.4	2.1	1.0	1.2
Diesel	89	85	90	89	-4.7	4.1	5.4	-1.3
Fuel-oil	113	137	145	148	-1.5	7.1	6.2	1.9
Others	94	148	150	133	6.7	16.5	1.4	-11.3
Exports								
Crude oil	303	558	524	471	3.0	-0.5	-5.9	-10.2
Natural gas ¹	2 903	1 534	-	-	-16.4	-31.8	-100.0	-
Other indicators								
Proven reserves	60 126	71 750	70 900	70 000	0.7	1.0	-1.2	-1.3
Domestic consumption of petroleum	476	560	566	560	-6.2	8.3	0.8	-1.1

Source: ECLAC, on the basis of figures supplied by Petróleos Mexicanos.

¹Preliminary figures.

²Millions of barrels.

³Millions of cubic metres.

Table 7

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1984	1985	1986"	Growth. rates			
					1983	1984	1985	1986"
Index of manufacturing production (1970 = 100)	198.8	199.4	212.0	202.2	-8.0	4.9	6.3	-4.6
Food, beverages and tobacco	166.6	184.3	192.7	191.8	-0.3	1.4	4.6	-0.5
Textiles and clothing	168.6	159.0	167.8	161.1	-7.5	1.4	5.5	-4.0
Wood	180.0	193.4	202.4	191.9	-3.8	3.8	4.7	-5.2
Paper and printing	192.2	208.6	226.4	219.9	-5.5	8.4	8.5	-2.9
Chemicals, rubber and plastics	242.7	282.2	293.4	288.3	-0.3	6.2	-4.0	-1.7
Non-metallic minerals	193.4	170.2	185.5	158.5	-18.7	7.6	9.0	-14.6
Basic metals	202.1	201.5	196.5	178.9	-7.1	13.6	-2.5	-9.0
Metal products and machinery	242.8	188.3	215.7	191.5	-24.9	7.6	14.6	-12.2
Production of some important manufactures								
Beer	187.2	180.0	199.6	204.8	-13.2	6.1	10.9	2.6
Basic petrochemical products	325.3	544.3	555.9	658.6	26.2	1.1	2.1	18.5
Fertilizers	190.5	285.0	309.7	277.8	-3.6	-2.1	8.7	-10.3
Cast iron	227.7	232.3	214.9	218.3	-1.3	6.8	-7.5	1.6
Motor-vehicles	300.3	195.6	248.0	178.9	-41.0	22.9	26.8	-27.9
Other indicators of manufacturing production								
Consumption of electricity by industry	28.7	37.3	40.1	40.1	3.1	8.6	7.5	

Source: ECLAC, on the basis of figures supplied by the Ministry of Programming and the Budget, and the Banco de México. "Preliminary figures. Billions of kWh. Does not include energy for pumping.

Table 8

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Index of volume of construction (1970 = 100)	208.2	182.1	187.8	164.1	-20.4	3.8	3.1	-12.6
Production of the main inputs								
Cement	228.3	257.8	289.2	275.9	-11.6	8.5	12.2	-4.6
Reinforcing rod	262.9	255.6	225.3	240.9	-7.9	7.9	-10.8	6.9
Structural profiles	262.0	196.6	188.0	159.9	-16.9	12.2	-4.4	-14.9
Seamless steel tubes	129.7	176.2	157.7	109.9	-11.2	39.4	-10.5	-30.3
Flat, smooth and worked glass	238.6	177.6	193.7	146.8	-21.6	3.1	9.1	-24.2
Refractory bricks and panels	136.9	109.5	108.4	86.7	-7.4	9.4	-1.0	-20.0

Source: ECLAC, on the basis of figures provided by the Banco de México and the Ministry of Programming and the Budget. "Preliminary figures.

Table 9

MEXICO: EMPLOYMENT INDICATORS

	1980	1984	1985	1986°	Growth rates			
					1983	1984	1985	1986°
Urban unemployment	6.6	-5.7	4A	4.3				
First quarter	6.9	5.5	5.2	4.1				
Second quarter	6.1	5.2	3.9	3.8				
Third quarter	7.0	6.3	4.6	4.9				
Fourth quarter	6.5	5.8	3.7	4.4				
Members of the Mexican Social Security Institute¹								
Permanent	116.7	122.4	132.9	133.6	-2.0	4.9	8.5	0.5
Casual	117.8	124.6	132.8	136.4	-	5.7	6.6	2.7
Casual	111.1	112.0	133.3	120.0	-10.8	0.8	19.0	-10.0
Employment in the manufacturing industry¹	142.3	140.8	144.1	138.3	-9.6	-1.1	2.3	-4.0
Man-hours worked in the manufacturing industry¹	133.1	132.6	137.2	129.8	-9.9	-0.4	3.5	-5.4
Employment in the export sub-contracting industry¹	126.2	167.0	177.3	207.6	18.7	32.3	6.2	17.1

Source: ECLAC, on the basis of official figures.

°Preliminary figures. Percentages. Weighted average for the 16 principal cities. Index 1980 = 100.

Table 10

MEXICO: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985	1986°
Growth rates							
Exports							
Value	72.8	24.1	6.5	5.1	8.4	-9.6	-26.7
Volume	23.3	19.6	21.7	29.7	3.8	-10.2	1.0
Unit value	40.1	3.8	-12.5	-18.9	4.5	0.7	-27.4
Imports							
Value	55.8	27.2	-40.0	-40.7	31.6	19.6	-15.1
Volume	38.1	20.4	-38.3	-28.3	22.6	23.0	-12.9
Unit value	12.8	5.6	-2.6	-17.4	7.4	-2.7	-2.5
Terms of trade	24.5	-1.9	-10.4	-2.9	-2.9	3.6	-25.7
Indexes (1980= 100)							
Purchasing power of exports	100.0	117.3	127.9	161.2	162.3	150.9	113.1
Volume of exports	100.0	119.6	145.5	188.8	195.8	175.8	177.5
Volume of imports	100.0	120.4	74.3	53.3	65.3	80.3	69.9
Terms of trade	100.0	98.1	87.9	85.4	82.9	85.8	63.7

Source: ECLAC, on the basis of official figures.

°Preliminary figures.

Table 11
MEXICO: EXPORTS OF GOODS, FOB"

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986*	1980	1986*	1983	1984	1985	1986*
Total exports (merchandise FOB)	24 196	21 664	16 031	100.0	100.0	5.1	8.4	-10.5	-26.0
Hydrocarbons	16 441	14 660	6 220	64.1	38.8	-2.3	3.5	-10.8	-57.6
Crude petroleum	14 968	13 309	5 580	58.7	34.8	-5.3	1.2	-11.1	-58.1
Petroleum by-products	1 244	1 351	640	2.7	4.0	182.7	68.6	8.6	-52.7
Natural gas	229	-	-	2.8	-	-26.8	-34.6	-	-
Non-petroleum products	7 755	7 004	9 811	35.9	61.2	12.6	20.4	-9.7	40.1
Main traditional exports	2 238	2 129	2 839	10.5	17.7	4.2	7.5	-4.9	33.3
Raw coffee beans	424	492	825	2.6	5.1	11.6	10.1	16.0	67.7
Shrimps	402	323	354	2.4	2.2	3.3	5.7	-19.7	9.6
Silver	335	262	308		1.9	34.1	-15.6	-21.8	17.6
Tomatoes	221	214	408	1.2	2.5	-27.3	97.3	-3.2	90.7
Copper	184	148	162	1.0	1.0	1.8	-17.2	-19.6	9.5
Pulses and fresh vegetables	179	214	198	1.0	1.2	-16.3	20.1	19.6	-7.5
Beef cattle	112	187	265	0.5	1.7	54.1	-32.5	67.0	41.7
Sulphur	93	113	135	0.7	0.8	45.9	-13.9	21.5	19.5
Cotton	208	90	74	2.0	0.5	-37.0	79.3	-56.7	-17.8
Fresh fruit	80	86	110	0.6	0.8	-33.8	70.2	7.5	27.9
Main non-traditional exports	4 076	3 890	5 601	12.7	34.9	32.5	51.0	-4.6	44.0
Metal products, machinery and equipment	2 074	2 129	3 283	5.9	20.5	19.7	95.1	2.7	54.2
Motor-vehicle parts	1 157	1 432	1 779	1.6	11.1	118.8	41.8	23.8	24.2
Automobiles and trucks	148	140	596	0.8	3.4	51.9	20.3	-5.4	290.0
Chemical products	755	674	830	2.5	5.2	42.1	20.2	-10.7	23.1
Food and beverages ^c	419	428	583	2.4	3.6	2.4	13.4	2.1	36.2
Non-metallic mineral products	289	313	375	0.8	2.3	50.0	37.6	8.3	19.8
Iron and steel products	378	239	443	0.4	2.8	184.8	18.5	-26.8	85.4
Petrochemical products	161	107	87	0.7	0.5	17.2	18.4	-33.5	-18.7
Rest	1 441	985	1 371	12.7	8.6	1.6	-13.0	-31.6	39.2

Source: ECLAC, on the basis of official figures.

"Excluding subcontracting.

'Preliminary figures.

'Excluding deep-frozen shrimps.

Table 12

MEXICO: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates		
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total imports									
(merchandise FOB)	11 254	13 212	11 432	100.0	100.0	-40.7	31.9	17.3	-13.5
Public sector	4 790	4 387	3 344	43.3	29.3	-20.2	11.2	-8.4	-23.8
Private sector	6 464	8 825	8 088	56.7	70.7	-53.0	53.1	36.5	-8.4
Consumer goods	848	1 082	846	12.8	7.4	-59.5	38.1	27.6	-21.8
Processed foodstuffs	286	301	264	5.0	2.3	-21.7	-24.9	5.2	-12.3
Butane and propane gas	227	318	171	0.8	1.5	-62.4	453.5	40.1	-46.2
Intermediate goods	7 833	8 966	7 632	58.4	66.8	-31.8	36.5	14.5	-14.8
Agricultural products	1 553	1 170	679	8.0	5.9	103.4	-1.5	-24.7	-42.0
Soybean seeds	403	275	167	1.6	1.5	39.7	84.8	-31.8	-39.3
Sorghum	363	264	78	0.9	0.7	122.6	16.4	-27.3	-70.5
Maize	367	255	166	3.1	1.5	602.7	-41.7	-30.5	-34.9
Paper, printing and publishing	315	339	342	2.7	3.0	-27.1	26.0	7.6	0.9
Petroleum by-products	235	331	267	0.8	2.3	-28.4	27.7	40.9	-19.4
Petrochemical products	468	690	490	2.8	4.3	15.0	21.6	47.4	-29.0
Chemical products	1 176	1 342	1 184	7.5	10.4	29.1	36.3	14.1	-11.8
Iron and steel products	738	720	599	9.4	5.2	-59.8	76.6	-2.4	-16.8
Metal products	2 189	2 894	2 855	18.7	25.0	-54.4	58.9	32.2	-1.5
Automobile equipment	573	841	715	7.6	6.3	-63.3	60.5	46.7	-15.0
Capital goods	2 573	3 164	2 954	26.6	25.8	-51.2	17.1	23.0	-6.4
Metal products, machinery and equipment	2 453	2 908	2 767	26.1	24.2	-51.8	16.0	18.5	-4.8
Other unclassified goods	-	-	-	2.2	-	-	-	-	-

Source: ECLAC, on the basis of figures provided by the Banco de México.
 "Preliminary figures.

Table 13

MEXICO: BALANCE OF PAYMENTS*(Millions of dollars)*

	1980	1981	1982	1983	1984	1985	1986 ^a
Balance on current account	-8 305	-14 074	-6 416	5 242	4 059	379	-1 444
Trade balance	-2225	-4 658	6 302	14 493	14 016	8 917	5 689
Exports of goods and services	23 458	28 884	26 168	27 188	30 157	27 671	21 996
Goods, FOB	16 067	19 938	21 230	22 320	24 196	21 867	16 031
Real services	7 390	8 947	4 938	4 867	5 961	5 805	5 965
Transport and insurance	446	476	425	471	570	549	565
Travel	5 243	6 347	2 639	2 727	3 284	2 900	2 983
Imports of goods and services	25 683	33 542	19 866	12 695	16 142	18 754	16 307
Goods, FOB	18 897	24 038	14 434	8 553	11 256	13 460	11 432
Real services	6 789	9 505	5 431	4 141	4 887	5 294	4 875
Transport and insurance	1934	2 389	1 730	1 279	1 387	1 379	1 309
Travel	4 174	6 155	2 208	1 582	2 168	2 262	2 113
Factor services	-6 209	-9 531	-12 815	-9 373	-10 186	-8 828	-7 448
Profits	-1387	-1 898	-1 390	-383	-458	-617	-627
Interest received	1 022	1 386	1 324	1 281	2 073	1 729	1 420
Interest paid	-5 476	-8 384	-12 373	-10 190	-11 775	-9 965	-8 343
Other	-368	-635	-377	-81	-26	26	102
Unrequited private transfer payments	132	114	98	121	230	289	315
Balance on capital account	9 262	15 151	2 843	-3 207	-1902	-3 108	2 227
Unrequited official transfer payments	144	175	198	180	180	160	175
Long-term capital	7 776	13 044	10 404	4 742	2 504	-281	850
Direct investment (net)	2 185	2 537	1 656	462	389	491	906
Portfolio investment (net)	-75	987	946	-625	-757	-879	-
Other long-term capital	5 666	9 521	7 803	4 904	2 872	106	-56
Official sector ^c	655	618	2 775	4 256	2 826	727	-56
Loans received	1 149	1803	3 158	5 195	2 827	975	1 363
Amortization payments	-494	-1 185	-384	-938	-1	-248	-1 419
Commercial banks ^c	1 134	2 973	604	1 431	459	6	-
Loans received	2 559	4 736	3 819	2 382	1461	1 621	-
Amortization payments	-1425	-1 764	-3 215	-951	-1 003	-1 615	-
Other sectors ^c	3 877	5 929	4 424	-782	-414	-627	-
Loans received	5 491	7 912	7 979	1 417	913	1 020	-
Amortization payments	-1 627	-1 624	-3 387	-2 080	-1 354	-1 694	-
Short-term capital (net)	5 113	10 163	-2 442	-7 050	-3 579	-1 574	1 412
Official sector	-	-	1 217	-1 216	-	-	-
Commercial banks	2 317	6 127	-1 417	-576	342	-41	-
Other sectors	2 796	4 036	-2 242	-5 258	-3 921	-1 532	-
Errors and omissions (net)	-3 770	-8 235	-5 316	-1 074	-1006	-1 415	-210
Global balance^b	956	1076	-3 573	2 034	2 157	-2 729	783
Total variation in reserves (- sign indicates an increase)	-938	-762	3 469	-2 046	-2 146	2 900	-985
Monetary gold	-4	-7	7	-6	122	-25	-
Special Drawing Rights	56	-34	172	-17	20	3	-
IMF reserve position	-128	-60	187	-95	95	-	-
Foreign exchange assets	-727	-662	2 881	-2 967	-3 488	2 363	-
Other assets	-	-	-	-	-	-	-
Use made of IMF credit	-136	-	222	1039	1 104	610	-

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*; April 1987; 1986: ECLAC on the basis of official data.

^aPreliminary figures subject to change. ^bincludes other non-factor services. ^cIncludes net loans granted and other assets and liabilities. ^dEquivalent to total variation in reserves (with the opposite sign) plus counterpart items.

Table 14

MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985	1986"
Billions of dollars							
Total external debt							
Balances outstanding	50.7	74.9	87.6	93.8	96.7	97.8	100.5
Disbursements	14.5	28.8	17.5	12.5	5.3	4.2	6.1
Servicing	9.0	13.0	19.7	10.2	14.3	13.0	11.8
Amortization payments	3.5	4.6	7.0	4.0	2.4	3.1	3.4
Interest payments	5.5	8.4	12.4	10.3	11.9	9.9	8.4
Public external debt							
Balance outstanding	33.8	53.0	58.9	62.6	69.4	72.1	75.4
Medium- and long-term	38.3	42.2	49.6	52.8	69.0	71.6	74.0
Short-term	1.5	10.8	9.3	9.8	0.4	0.5	1.4
Disbursements	4.5	20.4	6.3	4.6	7.8	4.7	4.7
Servicing	4.5	6.6	8.8	8.2	9.6	6.3	7.5
Amortization payments	0.5	1.2	0.4	0.9	1.0	2.0	1.4
Interest payments	4.0	5.4	8.4	7.3	8.6	4.3	6.1
Percentages							
Ratios							
Total external debt/exports of goods and services	216.1	259.3	334.8	345.1	222.1	353.6	456.9
Servicing/exports of goods and services	38.3	22.9	75.3	37.5	59.1	47.0	53.6
Net interest payments/exports of goods and services	23.4	29.1	47.4	38.0	39.6	35.8	38.2
Servicing/disbursements	62.1	45.1	112.6	81.6	269.8	309.5	193.4

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit, the Banco de México and the International Monetary Fund.

"Preliminary figures.

Table 15

MEXICO: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986
Variation December to December							
Consumer price index"	29.8	28.7	98.8	80.8	59.2	63.7	105.7
Food	29.4	24.7	89.8	77.9	70.6	57.5	108.7
Goods subject to price control						61.8	121.8
Goods not subject to price control						64.7	97.3
Family food basket, minimum-wage earners		27.9	92.8	78.4	63.3	60.9	112.5
Wholesale price index	26.4	27.2	92.6	88.0	63.2	63.4	101.6
Producer price index"			93.5	80.2	60.1	61.1	102.3
Agricultural goods ^c						61.4	70.6
Goods produced by private enterprises						60.0	109.8
Goods produced by public enterprises						71.7	104.9
Raw materials						55.9	111.3
Building cost index'	29.5	31.2	73.7	75.6	56.0	60.6	96.6
Variation between annual averages							
Consumer price index"	26.3	27.9	58.9	101.9	65.4	57.7	86.2
Food	25.0	26.2	53.5	91.1	74.9	59.8	85.7
Goods subject to price control						59.4	94.0
Goods not subject to price control						56.9	82.0
Family food basket, minimum-wage earners		28.5	54.9	97.0	69.8	57.7	91.6
Wholesale price index	24.5	24.5	56.1	107.4	70.3	53.6	87.3
Producer price index"		25.5	57.5	99.3	63.6	55.2	79.5
Agricultural goods ^c		36.8	35.1	78.7	97.4	60.0	73.5
Goods produced by private enterprises		27.2	53.3	97.2	66.4	54.6	77.8
Goods produced by public enterprises		23.0	76.6	146.9	76.6	51.6	78.8
Raw materials		22.6	56.4	116.2	71.8	53.3	81.2
Building cost index'	29.1	29.0	54.8	83.9	56.4	55.2	78.5

Source: ECLAC, on the basis of figures provided by the Banco de México.

"National. 'in Mexico City.

'Guaranteed prices paid to farmers.

Excludes petroleum for exports.

'National, for low-income housing.

Table 16

MEXICO: EVOLUTION OF MINIMUM WAGES

	Indexes (1976 = 100)		Growth rates	
	Nominal wages	Real wages	Nominal wages	Real wages
1977	128.2	99.5	28.2	-0.5
1978	145.5	96.0	13.5	-3.6
1979	168.3	94.7	15.7	-1.4
1980	197.7	87.7	17.5	-7.4
1981	257.3	88.8	30.1	1.3
1982*	412.0	91.7	60.1	3.3
1983	606.7	68.6	47.3	-25.2
1984	935.7	62.9	54.2	-8.3
1985	1 456.7	62.1	55.7	-1.2
1986	2 486.5	55.3	70.7	-10.9

Source: ECLAC, on the basis of figures provided by the National Commission on Minimum Wages and the Banco de México.

* Refers to general minimum wages. Reflects the annual average of the wages paid in the different wage zones, weighted by the wage-earning population in each zone according to census data. The results were deflated by the national consumer price index for low-income strata. It was assumed that the presidential recommendation (non-binding) that minimum wages should be raised by 30% as from 18 February was followed by only 40% of the enterprises in the country and that the adjustment was gradually generalized before it became law on 1 November.

Table 17

MEXICO: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Official exchange rate (peso per dollar)		Indexes of the effective real exchange rate			
	Free	Controlled ^a	Exports		Imports	
			A ^c	B ^c	A ^c	B ^c
1970-1979	15.86		109.4		108.0	
1980	22.95		100.0		100.0	
1981	24.52		90.5		91.1	
1982	57.18		133.2		135.0	
1983	150.30	120.09	169.8	135.7	173.8	138.9
1984	185.19	167.83	124.9	113.2	128.1	116.0
1985	310.17	256.87	133.1	111.2	136.0	113.5
1986	637.38	611.73	158.4	151.2	159.3	152.0
1984						
I	167.33	149.96	135.1	121.1	138.4	124.0
II	179.16	161.87	126.0	113.8	128.9	116.5
III	191.10	173.73	122.2	111.1	125.4	114.0
IV	203.17	185.74	116.6	106.6	119.8	109.5
1985						
I	217.86	200.57	109.7	101.0	112.8	103.9
II	235.97	218.57	107.4	99.5	110.1	102.0
III	336.20	274.75	142.6	116.5	145.5	118.9
IV	450.63	333.60	172.5	127.7	175.4	129.2
1986						
I	462.84	423.64	147.3	134.8	148.8	136.2
II	553.54	522.15	172.2	162.5	173.2	163.4
III	686.63	665.69	155.7	151.0	156.0	151.2
IV	846.51	835.61	158.5	156.5	159.1	157.0

Source: ECLAC, Economic Development Division, on the basis of information provided by the Banco de México, and International Monetary Fund, *International Financial Statistics*.

^aAs from August 1982 a dual exchange rate was adopted, known first as the "preferential" and later as the "controlled" rate. This corresponds to the average for the real peso exchange rate indexes against the currencies of Mexico's main trading partners, weighted by the relative importance of exports or imports, as applicable, towards or from these countries. Between 1970 and 1980 these weightings correspond to the average for the period 1975-1979, and from 1981 to the average for the period 1982-1985. Preference has been given to wholesale prices in the calculations. For the methodology and sources used, see the technical appendix in the *Economic Survey of Latin America, 1981*. ^cCalculated on the basis of the free exchange rate. ^bCalculated on the basis of the controlled exchange rate.

Table 18
MEXICO: MONETARY INDICATORS

	End-year balance (billions of pesos)				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
1. Monetary base	3 136	4 834	5 679	8 390	58.1	54.1	17.5	47.7
2. Money (M ₁)	1 402	2 287	3 449	5 793	41.4	63.0	50.8	68.0
Currency outside banks	678	1 119	1 732	3 103	34.5	65.0	54.8	79.2
Current account deposits	725	1 168	1 717	2 690	48.6	61.1	47.0	56.7
3. Quasi-money	1 241	3 893	6 572	10 785	57.3	213.7	68.8	64.1
4. Total of money plus quasi-money (M ₂)	2 670	6 214	8 289	13 475	48.3	132.7	33.4	62.6
5. Time deposits	2 670	2 691	4 544	10 040	73.6	0.8	68.9	121.0
6. Bank savings instruments (4 + 5)	5 340	8 904	12 834	23 514	59.9	66.7	44.1	83.2
7. Other financial assets'	605	1 082	1 949	5 836	99.0	78.8	80.1	199.4
8. Total savings instruments (6 + 7)	5 945	9 987	14 783	29 350	63.2	68.0	48.0	98.6
9. Domestic credit	10229	15 183	27 131	58 268	52.6	48.4	78.7	114.8
Claims on public sector	7 605	10 432	19 520	44 582	52.9	37.1	87.1	128.4
Government	5 632	7 530	14 939	34 684	51.1	33.7	98.4	132.2
Public institutions	1973	2 902	4 581	9 898	54.6	47.1	57.9	116.1
Claims on private sector	2 251	4 196	6 670	11 708	49.6	86.4	59.0	75.5
Claims on financial sectors	286	433	733	1 452	45.4	51.4	69.3	98.1
Other claims	87	122	208	526	186.7	40.2	70.5	152.9
	Coefficients							
Monetary multipliers								
M ₁ /monetary base	0.45	0.47	0.61	69.0				
M ₂ /monetary base	0.85	1.29	1.46	160.6				
Velocity of circulation: GDP/M ₁	16.60	18.00	18.21	20.52				

Source: ECLAC, on the basis of figures provided by the Banco de México.

"Preliminary figures. Three months or more. 'CETES, bank certificates of acceptance, commercial documents, petrobonds, etc. held by non-banking sectors. Includes the Federal Government, the state and municipal governments and the Federal District Department.

Table 19

MEXICO: RATES OF BANK INTEREST

	Average cost of procuring deposits ^a	3-month promisory notes issued by banks and convertible to liquid assets at maturity		3-month treasury certificates	
		Nominal ^b	Real ^c	Nominal	Real ^c
1983	56.7			59.2	0.8
I	53.3			61.6	-3.2
II	58.0			62.9	9.5
III	58.2			58.4	7.8
IV	56.8	57.3	8.9	54.0	-11.1
1984	50.9	49.9	1.0	49.3	0.3
I	54.1	51.4	-	49.7	-1.2
II	50.5	50.4	10.0	49.1	8.2
III	50.7	50.4	7.8	50.3	7.8
IV	48.4	47.5	14.0	48.2	-13.6
1985	56.1	59.5	4.9	62.4	8.5
I	48.0	48.9	9.5	51.3	11.7
II	53.5	56.0	13.0	58.1	18.3
III	59.0	64.2	7.8	70.5	13.9
IV	63.8	68.8	10.7	69.8	-10.0
1986	80.9	84.7	3.1	88.6 ^d	6.2
I	70.2	75.2	8.2	76.0	9.1
II	75.2	80.9	2.4	81.7	2.8
III	84.5	88.3	4.5	91.1 ^d	6.1
IV	93.7	94.3	-2.8	105.5	6.6

Source: ECLAC, on the basis of figures provided by the Banco de México.

^aNo real rates are given for the average cost of procuring deposits because of the impossibility of deflating that cost on an adequate time base and because it represent an average of interest rates for capital deposited for periods of varying lengths. ^bNet rates expressed in annual terms. ^cYearly rates. In order to deflate these, national quarterly consumer price indexes were used. ^dRates not set in August and September.

Table 20

**MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES
AND INDIVIDUALS"**

	End-year balances (billions of pesos)				Growth rates			
	1983	1984	1985	1986*	1983	1984	1985	1986*
Total	4 647	7 778	12 562	24 819	62.8	67.4	61.5	97.6
Primary activities	591	1 148	2 016	3 726	53.5	94.2	75.6	84.8
Agriculture	427	801	1 267	1 818	37.3	87.6	58.2	43.4
Mining and other	164	347	749	1 908	121.6	115.9	115.9	154.7
Industry	2 216	3 397	5 370	10 552	51.6	53.3	58.1	96.5
Energy sector	880	1 225	1 940	4 210	46.9	39.2	58.4	117.0
Manufacturing	1 151	1 873	3 044	5 808	53.2	62.7	62.5	90.8
Construction	185	299	386	534	65.2	61.6	29.1	38.3
Low-cost housing	168	374	657	1 241	250.0	122.6	75.7	88.9
Services and other activities	1 201	1 838	3 144	6 857	85.6	53.0	71.1	118.1
Commerce	471	1 021	1 375	2 443	50.5	116.8	34.7	77.7

Source: ECLAC, on the basis of figures provided by the Banco de México.

*Includes public and private enterprises. Excludes financing from the Banco de México and from development funds. Preliminary figures.

Table 21

MEXICO: CONSOLIDATED PUBLIC SECTOR INCOME AND EXPENDITURE

	Billions of pesos				Growth rates				
	1983	1984	1985	1986 ^a	1982	1983	1984	1985	1986 ^a
Total income	5 895	9 818	14 788	23 991	74.3	109.3	66.5	50.6	62.2
Federal government	3 181	4 975	7 991	12 551	63.9	107.6	56.4	60.6	57.1
Bodies and enterprises under government control	4 434	7 348	10 932	15 789	92.4	125.0	65.7	48.8	44.4
PEMEX	2 545	3 844	5 464	7 134	115.6	162.9	51.0	42.1	30.6
Others	1 889	3 504	5 468	8 655	74.4	88.3	85.5	55.2	58.3
Unbudgeted sector	296	529	757	1 369	39.0	73.1	78.7	43.1	80.8
Less: compensated operations	2 016	3 034	4 891	5 718	84.3	134.7	50.5	61.2	16.9
Total expenditure	7 321	11 925	18 596	35 322	80.1	68.6	62.9	55.9	89.9
Federal government	4 599	7 111	11 572	22 892	102.5	70.1	54.6	62.7	97.8
Bodies and enterprises under government control	4 314	7 133	10 713	16 041	61.3	98.0	65.3	50.2	49.7
PEMEX	2 217	3 340	5 045	7 146	63.9	101.0	50.7	51.0	41.6
Others	2 097	3 793	5 668	8 895	58.7	94.9	80.9	49.4	56.9
Unbudgeted sector	424	714	1 204	2 107	65.8	32.5	68.4	68.6	75.0
Less: compensated operations	2 016	3 034	4 891	5 718	84.3	134.7	50.5	61.2	16.9
Economic deficit	1 426	2 106	3 809	11 805 ^c	91.6	42.6	47.7	80.9	209.9
Federal government	1 418	2 136	3 581	10 341	192.8	21.1	50.6	67.6	188.8
Bodies and enterprises under government control	-121	-215	-219	251	-26.4		77.7	-12.6	
PEMEX	-328	-504	-419	12	-39.7		53.7	-16.8	
Others	207	289	200	239	-20.1	183.6	39.6	-31.8	19.5
Unbudgeted sector [*]	128	185	446	738	112.9	-14.1	44.6	141.1	65.5
Financial intermediation	95	399	726	881	87.0	-26.4	320.0	82.0	21.3
Financial deficit	1 521	2 505	4 535	12 685	91.1	-8.1	64.7	81.0	179.7
Financing									
Domestic	1 011	2 128	4 413	11 604					
Banco de México	911	1 029	1 854	3 431					
Others	100	1 099	2 559	8 173					
External	510	377	122	964					
Ratios (percentages)									
Total income/GDP	34.4	34.2	32.4	30.8					
Total expenditure/GDP	42.7	41.5	40.8	45.4					
Total expenditure without interest payments/GDP	30.0	24.9	28.5	29.3					
Financial deficit/GDP	8.9	8.7	9.9	16.3					
Domestic financing/deficit	66.4	85.0	105.4	91.5					
External financing/deficit	33.6	15.0	-5.4	8.5					

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit and by the Banco de México. ^aPreliminary figures. ^bincludes the telephone company, the collective transport system, the Federal District Department and, up to the end of 1983, Altos Hornos de México.S.A. ^cIncludes deficit of 479 billion pesos with sources of financing. ^dDevelopment trust funds and funds operated by development banks to benefit the private social sector.

Table 22

MEXICO: FEDERAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of pesos				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
1. Current income	3 181	4 975	7990	12 551	107.6	56.4	60.6	57.1
Income from PEMEX	1 170	1 708	2 741	2 936	155.5	46.0	60.5	7.1
Income excluding PEMEX	2 011	3 267	5 249	9 615	87.2	62.5	60.7	83.2
Tax revenue	1 828	3 036	4 837	8 859	89.0	66.1	59.3	83.2
Direct	727	1 204	1923	3 335	56.7	65.6	59.7	73.4
Indirect	1015	1695	2 608	4 852	142.8	67.0	53.9	86.0
On foreign trade	86	137	306	672	12	64.0	123.4	119.6
Non-tax revenue	183	231	413	756	71.0	26.2	78.8	83.1
2. Current expenditure	3 916	6 226	9 840	19 753	79.5	59.0	58.0	100.7
Wages and salaries	580	999	1 549	2 488	45.4	72.2	55.1	60.6
Interest payments	1 595	2 573	4 217	11 040	79.0	61.3	63.9	161.8
Transfers	997	1319	2 142	3 223	97.8	32.2	62.4	50.5
Other current expenditure	744	1 335	1932	3 002	91.8	79.4	44.7	55.4
3. Saving on the current account (1-2)	-735	-1251	-1 850	-7 202				
4. Capital expenditure	680	951	1792	2 705	43.2	39.9	88.4	50.9
Real investment	139	263	451	797	-4.1	89.2	71.5	76.7
Capital transfers	441	540	1077	1790	74.3	22.4	99.4	66.2
Other capital expenditure	100	148	265	118	44.2	48.0	79.1	-55.5
5. Total expenditure (2 + 4)	4 597	7 177	11632	22 458	73.0	47.2	62.1	93.1
6. Budget deficit (1-5)	1415	2 202	3 642	9 907	25.9	55.6	65.4	172.0
7. Account not under budgetary control	-3	66	61	-434				
8. Total deficit (6 + 7)	1418	2 136	3 581	10 341	21.2	50.6	67.6	188.8
Ratios (percentages)								
Savings on current account/capital expenditure	-108.1	-131.5	-103.2	-266.2				
Fiscal deficit/total expenditure	30.8	29.8	30.8	46.0				
Tax revenue (with (PEMEX)/GDP	17.5	17.3	17.5	16.1				
Tax revenue (excluding PEMEX)/GDP	10.7	11.4	11.5	12.4				
Total expenditure/GDP	26.9	25.0	25.5	28.9				
Fiscal deficit/GDP	8.3	7.4	7.9	13.3				

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and Public Credit and the Banco de México. "Preliminary figures.

NICARAGUA

1. Recent economic trends: Introduction and summary

In 1986 Nicaragua's economy remained stagnant in nearly all sectors of production. The gross domestic product dropped slightly, to a level below that reached in 1982, and as a result the per capita product declined by nearly 4%, which brought it down to a point lower than that reached 30 years before (see table 1).

Within this critical framework, the intensification of the armed conflict continued to hamper efforts to achieve economic objectives and to implement economic policy. This gave rise to a situation marked by major conjunctural disturbances, in which it was difficult to single out the economic causes from among the other factors at work and in which all the various elements fueled one another. Under such circumstances, it is not easy to analyse the current economic situation or to assess the economic policy that has been applied, especially in terms of the rationale underlying the standards applicable to economies free from this type of political conflict.

In the first place, mention should be made of the severe bottlenecks existing in the supply of goods and services, particularly in the export sector, as a result of the fact that low international prices—except for coffee—were coupled with a relative price pattern which favoured production for domestic consumption.

Secondly, the economic depression in the Central American countries continued to play a major role in generating an external imbalance in Nicaragua, as it further reduced the country's already very low level of trade with the subregion, in contrast to the great dynamism exhibited by the Common Market's demand in earlier periods.

Thirdly, the shortage of convertible foreign exchange grew more acute. The substantial fall in export earnings, the discontinuation of many investments oriented towards import substitution, the demands of the war effort and the halting of credit flows from the Western countries all reduced the amount of financing available for priority purchases of goods and services abroad, and this was only partly offset by aid from a number of other countries.

In addition, the lavish subsidization policy implemented ever since the early years of the present decade has not had the expected impact in terms of actual production performance, and has instead produced serious distortions in government finance and monetary policy.

Finally, a large percentage of public expenditure had to be assigned to defence, and this became one of the main factors in the deterioration of the economy's capacity for adjustment and growth.

In 1986 the above factors contributed, to varying degrees, to the country's traditional fiscal and balance-of-payments disequilibria, as well as speeding up the price spiral (see figure 1). Thus, an unprecedented situation of hyperinflation was created, in which the price level went up by over 700%, giving rise to a number of misadjustments that were very difficult to control, both in the patterns of relative prices and wages and in the distribution and marketing of basic goods.

In order to rectify this state of affairs, government authorities started to implement policies different from those applied in past years. As a result, although the fiscal deficit remained high, as a percentage of the gross domestic product it dropped from 23% in 1985 to 16% in 1986. This was partly due to an increase in non-tax income—mainly owing to adjustments in prices and rates in the public sector—and to the maintenance, despite the stagnation of the economy, of the prevailing tax level, thanks to an improvement in tax administration and control systems. Furthermore, total government expenditure was reduced, with priority being given to allocations for defence, health and education. Indeed, wages rose less than the price level, and investment was mainly oriented towards following up projects begun in previous years and towards undeferrable replacement and maintenance programmes. In spite of negative interest rates on the domestic public debt and the absorption by the Central Bank of foreign exchange transfers, public expenditure nonetheless remained high.

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS

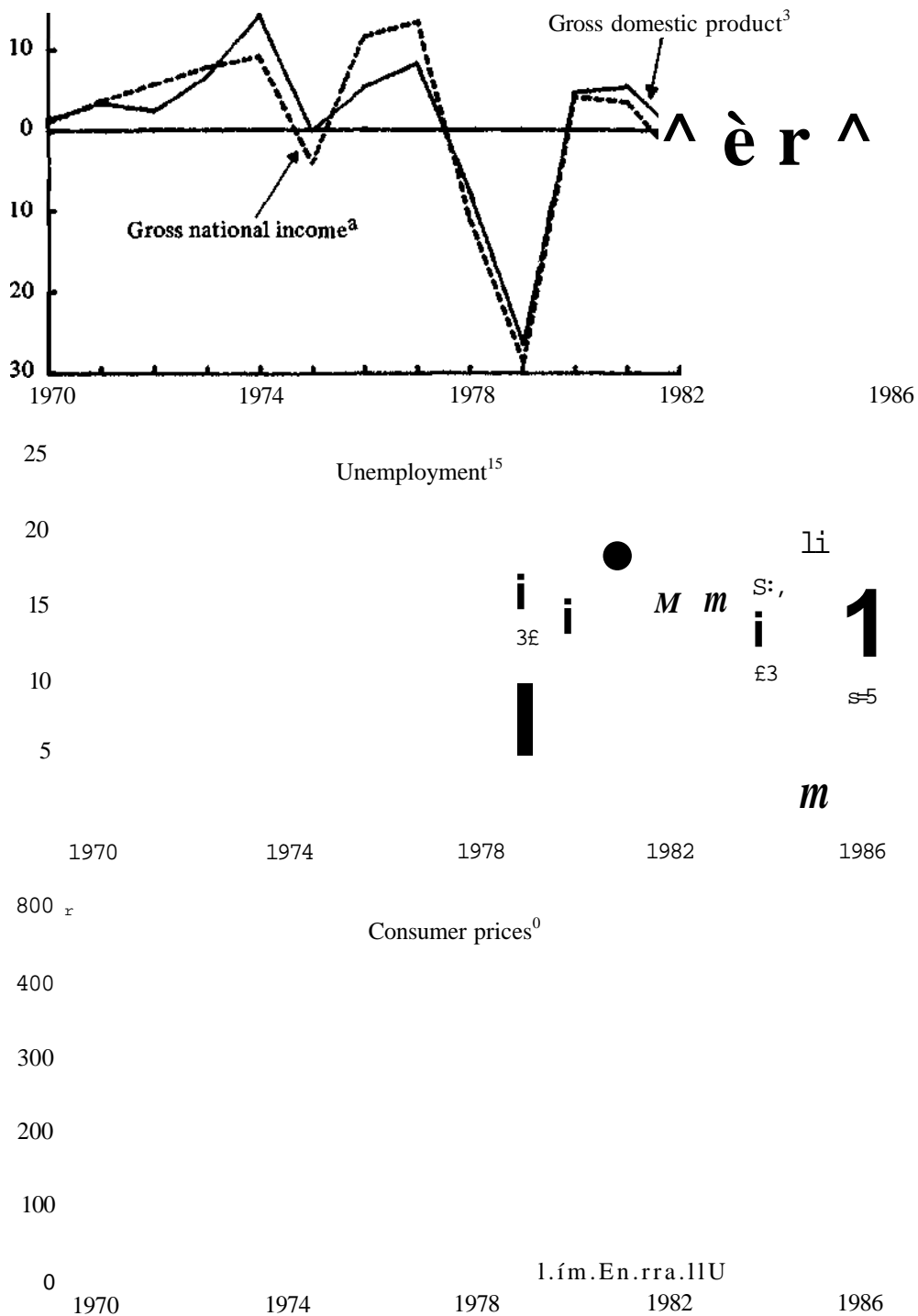
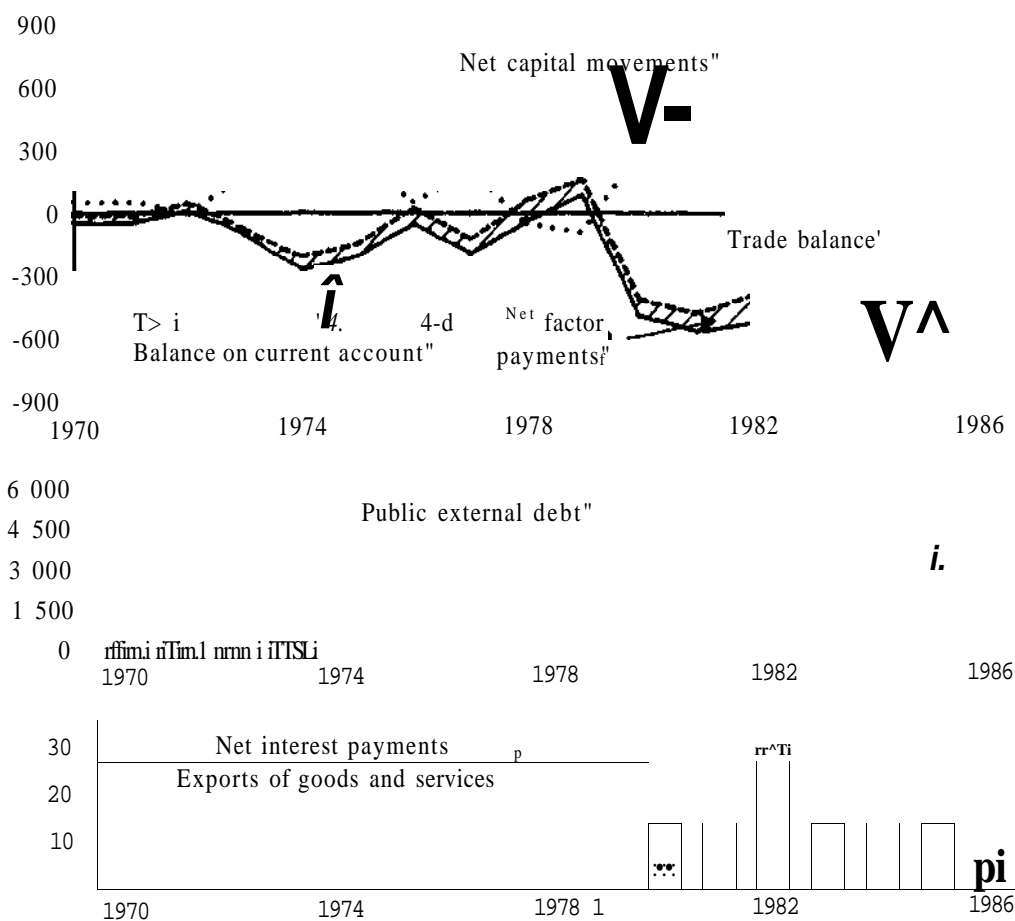


Figure 1 (concluded)



Source: ECLAC, on the basis of official information.

aAnnual growth rate. bAnnual average rate for the whole country. cpercentage variation from December to December. dMillions of dollars. epercentages.

In the external sector, both the trade balance and the current account continued to deteriorate despite a minimal level of external debt servicing and a sharp drop in international oil prices. Some of the factors exerting an adverse impact were the continuation of a pricing policy that was unfavourable to exports, the difficulties encountered in obtaining external financing in convertible currencies and a steady rise in the cost of foreign trade operations as a result of the fact that the country was forced to search for new and more distant markets. The latter was aggravated as the country began to feel the full effects of the trade blockade decreed by the United States in May 1985.

Some of the measures adopted to correct the external imbalance contributed to the intensification of the inflationary process. Most important among them were the rise in the official exchange rate from 28 to 70 córdobas per dollar, an increase in the support prices for basic products and the rate readjustment of some services, such as electricity and drinking water. In spite of these adjustments, the spread between prices in the controlled market—subject to official regulation—and the informal market continued to widen.

The dualism prevailing in the domestic market gave rise to the coexistence of various price systems which tended to produce significant distortions in factor payments and to discourage truly productive activities in favour of speculative commercial intermediation. This situation exacerbated the shortage in the supply of agricultural and manufactured goods.

The slight increase in open unemployment in the city of Managua suggests that such distortions also existed in the labour market. The employment structure was also affected by military recruiting, the underutilization of productive capacity in combat zones and the destruction of harvests, facilities and infrastructure works.

The intensification of inflationary pressures, the domestic supply shortage, the decrease in the purchasing power of wages and the proliferation of speculative activities all contributed to regressive changes in income distribution. This was one of the most serious problems faced by economy, because it reduced the effectiveness of government policies and hampered progress towards the primary goal of achieving greater social equality.

In fact, in view of the drop in real wages resulting from hyperinflation, two adjustments were made in the so-called National Labour and Wage Scales System (SNOTS) during the year. However, these adjustments turned out to be 30% below the rise in the consumer price index in the Managua metropolitan area. The wage policy was supplemented by incentives for workers in enterprises within what is referred to as the People's Property Area.

Measures aimed at easing inflationary pressures and putting public finances on a sound footing had contradictory effects, since at the same time an attempt was made to stabilize and protect the incomes of majority groups in the population. Thus, although the price increases for goods and services in the public sector helped to limit the fiscal deficit, they also curbed the purchasing power of most consumers. Conversely, the overvaluation of the córdoba and the existence of differential exchange rates mitigated certain inflationary pressures in the short run, but at the cost of raising subsidies, which had a destabilizing effect on public finances that will tend to aggravate inflation in the medium term. Finally, the policy of maintaining highly negative interest rates, which was applied for budgetary reasons and with a view to reducing production costs, also discouraged savings channelled through the banking system and prompted an increase in the liquid assets available for speculation in goods and foreign exchange markets. This heightened pressures on domestic prices and foreign exchange quotations and made it necessary to allocate credit resources on a purely administrative basis.

There is no question but that many of these trade-offs and difficulties could have been resolved at a lower cost if it were not for the armed conflict in which the country is enveloped. Military expenditure absorbed a high percentage of the national budget and increasing volumes of human and material resources had to be allocated to defence, thereby impairing efforts to attain the goals of development and equitable distribution. Moreover, the destruction of infrastructure works and the abandonment of productive activities in combat zones aggravated the supply bottlenecks affecting certain goods and services.

2. Trends in economic activity

a) *Total supply and demand*

The recessive trend which begun in 1984 persisted in 1986. The gross domestic product—which had declined by over 5 % during the two preceding years—dropped slightly, leading to a fall of nearly 4% in the per capita product. On the other hand, in spite of financial difficulties and the partial trade blockade, the volume of imports of goods and services was maintained, thanks to the use of new credit lines and unrequited official transfer payments. Therefore, the total supply of goods and services remained at the same level reached the year before (see table 2).

Domestic production continued to be affected by the constraints that have been experienced in recent years. These included the effects of the international crisis, some difficulties in implementing economic policy relating to the armed conflict and to the economic and trade blockade, and the limitations that these situations placed on the recovery capacity of the economy. In this setting, the responsiveness of private supply continued to decline, due either to the unfavourable expectations prevailing in the private sector or to the lack of real resources. In addition, the war has caused widespread and severe damage, thus making it necessary to allocate an increasing amount of human and material resources to defence activities. The conflict has also led to a gradual population shift towards the Pacific area as people seek safety, and, in the process, abandon productive activities in their home areas.

Private consumption increased by 2%, following a steady decline in previous years. The main factors which allowed this slight upturn in demand to be met were an increase in agricultural

production for domestic consumption and the greater efficiency and coverage of the State system for the marketing of commodities at official prices, thereby expediting their distribution. Government consumption also rose in real terms, but at a substantially lower rate (4%) than the very high increases recorded in previous fiscal years. This was due to an employment freeze in the State sector, a reduction in the real wages of civil servants and the establishment of more selective criteria in regard to current expenditure, whereby priority was placed on disbursements for defence and basic social services. Nevertheless, general government consumption continued to account for a very large share of the gross domestic product (45%), largely because of the huge volume of resources assigned to defence.

Gross fixed investment grew moderately. The very limited availability of foreign exchange forced the government to be more selective in its investment expenditure. This was essentially oriented towards projects already in progress and to replacement and maintenance outlays, thereby halting the modernization effort in some sectors, especially in agriculture.

Exports, however, fell sharply once again (-27%), due to a decline in the production of some items (mainly cotton, coffee and meat), as well as to the trade boycott imposed by the United States government in May 1985. The sharp drop in the volume of coffee sales prevented the country from profiting from the substantial rise in the price of this product in the international market.

b) *The main sectors*

The slight variation in the overall gross domestic product was mainly due to the fact that the decline in agricultural production was neutralized by a slight upturn in almost all the other sectors (see table 3).

i) *The agricultural sector.* The product of the agricultural sector shrank for the third year in a row, due both to a fall in agricultural production for export and to a sharp decline in the slaughtering of beef cattle. However, the production of basic grains for domestic consumption increased significantly, thanks to the incentives provided for by the market liberalization policy (see table 4).

The production of some export items was hurt by persistently low international prices and by the shortage of foreign exchange for the purchase of inputs. In fact, the output of ginned cotton—almost all of which was for export—went down by over 20% for the second year running. Due to changes in relative domestic prices and to a drop in quotations on the international market, the area under cultivation was reduced even further, with production thus being confined to the highest-yield zones.

Coffee output also declined sharply (-12%) as a result of excessive rainfall in some areas and the escalation of the armed conflict in a number of what have traditionally been coffee-growing zones. The failure to maintain coffee plantations in recent years also had an adverse effect.

In contrast, the production of basic grains showed a favourable trend, with record harvests of maize and sorghum, and very substantial ones of rice and beans. This achievement was partly due to the furtherance of the National Food Programme, which, among other measures, promoted the exploitation of high-yield irrigated land. Bean cultivation surpassed its production target thanks to substantial second harvests, which were encouraged, in part, by a free marketing policy for the crop that allowed producers to sell their harvests on the market. Maize production also increased considerably—after having decreased for two years in a row—due to the expansion of the area under cultivation. The market liberalization policy, the use of land previously assigned to cotton growing and good weather conditions helped to bring about this change. For the second year running sorghum production showed substantial growth (an average of 25%), in spite of decreased yields as a consequence of irregular rainfall. Thus, the adequate supply of balanced-food processing plants was ensured.

The livestock sector continued to be marked by a decline in the cattle herd, which has been seriously affected since 1978 by illegal cattle exports and indiscriminate slaughtering. In addition, production was again hurt by poor weather conditions which damaged grazing lands, as well as by a lack of inputs and a shortage of investment. As a result, slaughtering dropped by 20%, although it is estimated that clandestine slaughtering increased by 24% due to the better prices paid outside official channels. The large number of cows slaughtered in previous years also had a negative effect. In view of this situation, strict measures relating to cattle breeding and conservation were enacted. In addition, official meat and milk prices were raised in order to promote livestock activity, but these

prices nevertheless continued to be lower than those paid on the speculative market. On the other hand, the modernization of this sector proceeded with the establishment of new high-technology enterprises.

ii) *Fisheries*. Fishery output declined because most fishing activity was carried out in war-ravaged areas as well as because the fleet was in bad condition and inputs were lacking (see table 5). In order to reverse this situation, new fishing boats were purchased and the prices at which the State enterprise purchased the catch for subsequent marketing abroad were raised.

iii) *Mining*. The recovery of the mining sector was based on an increase in gold output —its major product— whose export was fostered by a rise in international market prices (see table 6).

Besides the problems stemming from the armed conflict, the sector confronted technological difficulties (due to outdated equipment), financial problems (a lack of resources for replacement purposes) and labour shortage (a lack of skilled manpower resulting from the exodus of staff from enterprises which were nationalized and a shortage of unskilled manpower because of the risks involved in working in mining zones). However, through mutual assistance agreements with CMEA member countries and Sweden, some mining projects and geological surveys were undertaken which indicated the existence of great mining potential. Thus, the development of a mining complex for the extraction of lead and zinc concentrates was initiated in 1986.

iv) *Manufacturing*. The volume of industrial production recovered slightly thanks to the greater dynamism exhibited by enterprises in the People's Property Area (see table 7). However, the difficulties experienced in previous years continued to curb industrial operations: the shortage of foreign exchange for importing raw materials; the impact of the armed conflict on production and the supply of basic inputs; the high personnel turnover occasioned by the requirements of the war effort; the shift of workers towards the informal sector; and the private sector's reluctance to invest in industry.

Food, beverage and tobacco output declined for the second year running, due to difficulties relating to the supply of agricultural inputs and to an unfavourable price ratio. The latter factor prevented the increase in agricultural production for domestic consumption from being reflected in an adequate supply for the industrial sector. As for footwear and leather, production declined again, largely due to a drop in slaughtering, which was compounded by the fact that clandestine slaughtering involves a great waste of cattle byproducts such as leather. In order to make up for the shortage of this input, priority was given to the production of canvas shoes. The wood and furniture industry was another of the most seriously affected subsectors, since many of these enterprises, located in areas where sabotage was frequent, suffered problems associated with an inadequate supply of machinery and means of transport. In contrast, textile and clothing production made a recovery, after declining during the two preceding years, thanks to investments made as part of a rehabilitation programme under which foreign technical and financial co-operation was provided. The metals and metal machinery industry grew for the second year in a row, owing to an increase in the manufacturing of rods, wiredrawing products, storage tanks and agricultural equipment.

In addition, progress continued to be made in the diversification of the manufacturing industry, as evidenced by the entry into operation of a plant for the production of cardboard boxes —which significantly increased output capacity and will make it possible to save foreign exchange and to support other industrial activities— and a physiological serum plant with enough capacity to meet domestic demand for several years. In order to support the Valle del Sébaco agroindustrial project, a sanitary metal container plant was also put into operation which will help to expand the processing of vegetables and other exportable agricultural products.

v) *Electricity*. The net generation of electrical power grew by nearly 16% (see table 8). This increase did not correspond to an expansion of domestic demand, but was instead used in the place of energy purchases from neighbouring countries and as a means of offsetting the notable increase in transmission and supply losses. The substantial growth in energy generation by steam plants (41%) and the somewhat less marked increase (11%) in generation by hydroelectric power plants made up for the decline in that of geothermal power plants, which were affected by the insufficient maintenance of wells and pipelines. According to official data, the rise in the loss coefficient was mainly due to an intensification of acts of sabotage. Most of the work on the Asturias hydroelectric project was completed in 1986. These facilities will increase water catchment and will therefore make it possible to generate more power even without any expansion of installed capacity.

c) *Employment and unemployment*

According to the available official figures, unemployment reached 22%, a rate somewhat higher than those of the two preceding years. This increase was wholly due to a rise in unemployment in non-agricultural activities (from 23% to 28%),¹ since in agriculture unemployment dropped sharply for the second year in a row (see table 9). The rise in unemployment in the former category reflected the special conditions existing in the Nicaraguan economy. Indeed, there was an increasingly sharp division between the formal labour market—which operates on the basis of officially established wages—and informal commerce, in which speculative activities have become an important factor. In the formal market, real wages deteriorated sharply over the preceding two years, giving rise—in spite of the high level of open unemployment—to a relative shortage of skilled manpower in enterprises within the People's Property Area. Thus, a growing percentage of the economically active population has been entering the informal sector, where these people perform activities—many of which are linked to the underground economy—that provide them with a higher real income.

In contrast, in the agricultural sector unemployment rates decreased substantially due to an increase in activities directed towards the cultivation of products for domestic consumption (maize, rice, beans and sorghum). Even though the level of unemployment in this sector was still high, there was a serious manpower shortage in agricultural export activities as a consequence of the seasonal nature of crop farming and of the implementation of land reform measures which, by giving the peasants land, have reduced their mobility. Furthermore, the armed conflict has forced peasants to migrate to the Pacific zone, and thus to move away from the areas where agricultural export products are grown—except in the case of cotton, which is cultivated there—and has required an ongoing transfer of members of the work force from productive activities to defence.

On the other hand, the total number of workers registered with the Nicaraguan Social Security and Welfare Institute (INSSBI) increased by 8%, in keeping with the upward trend observed since 1980. In that year, social security coverage (i.e., the workers covered by social security, as a percentage of the total number of employed workers) was 22%, whereas in 1986 it reached 37%.

3. The external sector

As in the two preceding years, in 1986 both the volume and value of exports dropped sharply. Imports, on the other hand, climbed slightly (see table 10). Nevertheless, the moratorium on debt payments and the donations and official transfer payments received from abroad resulted in an increase in international reserves.

The economic boycott decreed by the United States in May 1985 spurred the diversification of export and import markets. However, the remoteness of these new markets raised the cost of insurance and freight and reduced the competitiveness of exports.

The córdoba continued to be overvalued on the official exchange market, in spite of the adjustment made in February. However, a larger number of operations were based on the exchange rate in the parallel market, which was considerably higher than the official rate.

a) *Trade in real goods and services*

The growth in the trade deficit was exclusively due to a decline in the value of exports, since imports of goods and services decreased slightly. In turn, the sole cause of the decrease in the value of exports was the sharp fall in their volume (-26%), which was not entirely offset by a recovery of nearly 10% in their unit value.

Among merchandise exports, coffee exports remained paramount, accounting for nearly half of the total value of external sales. Nonetheless, their value did decrease by nearly 8% because of a sharp contraction (-23%) in the exported volume (see tables 13 and 14). Thus, difficulties in harvesting the crop caused by the armed conflict and the diversion of most of the harvest to the domestic market, due

¹The actual figures may be higher, given the statistical under-reporting of persons employed in such activities as informal commerce, repair shops or miscellaneous services. The shift towards such activities of persons employed in the formal labour market, which is subject to SNOTS system, should also be taken into account.

to the high prices being paid there, made it impossible to take full advantage of the rise in the international price of coffee.

Cotton exports fell to less than half their previous level, with the exportable supply decreasing as this crop became confined to the highest-yield areas. This was basically the outcome of an insufficient allocation of foreign exchange for the purchase of inputs, an unfavourable relationship between domestic and external prices and, to a lesser extent, of the shrinkage of the international cotton market.

The value of meat exports also dropped by over 50%. The decrease in the cattle herd which occurred in the second half of the last decade—due to an excessive increase in consumption and cattle smuggling to Costa Rica and Honduras—continued to be a factor in this regard, and has been compounded in recent years by a price differential which has encouraged clandestine slaughtering for domestic consumption.

Shellfish exports also fell off sharply (-46%), but an upswing in this item was expected in the short run as a result of the renewal and expansion of the fishing fleet provided for in a project financed by the Inter-American Development Bank.

Imports (FOB) of goods went up slightly, especially as a consequence of purchases of basic consumer goods within the framework of a policy designed to give priority to the satisfaction of basic needs. There was also a further increase in the relative weight of imports from member nations of the Council for Mutual Economic Assistance (CMEA), which, together with other Western European countries became the main suppliers of fuels, industrial inputs and equipment. New commercial credits and barter operations were arranged with these countries. In contrast, in 1986 purchases from the United States ceased because of the trade embargo decreed by that nation.

The downward trend in foreign trade with the rest of the Central American countries persisted. This trend began in 1982 as a consequence of payment problems which have affected the subregion as a whole (see tables 11 and 12). However, the country did take an active part in negotiations concerning the revival of the Central American Common Market. To this end, trade agreements were signed with Costa Rica and Honduras which included debt renegotiations. Nicaragua also participated in the design of new ways to finance mutual trade based on Central American Import Documents (DICA), which function as central bank securities and make it possible to avoid the use of foreign exchange.

On another front, the search for new markets continued through co-investment schemes undertaken with foreign marketing firms. This was the means used to maintain the level of banana sales, particularly in Europe.

b) *The current account position and its financing*

In 1986 there was a slight increase in the deficit on current account which was primarily due to a sharp drop in the value of exports of goods and services. At the same time, payments for transport and insurance continued to account for a high percentage of CIF imports, since these purchases had to be made in ever more distant markets (see table 16).

On the other hand, payments for factor services decreased by nearly one half in relation to 1985. The drop in interest payments was especially notable, thanks to their refinancing and, above all, to the extension of the moratorium. In addition, the payment of non-bank capital and of short-term bank capital was deferred, thus helping to increase international reserves.

c) *The external debt*

Once again, a large part of the service on the external debt could not be met due to the country's foreign exchange shortage. This situation, which has existed for several years now, made it difficult to obtain medium- and long-term external financing and new lines of credit in convertible currencies. However, new loans were obtained from some Western European countries and from CMEA members. Furthermore, the payment of US\$200 million, which included part of the debt owed to other Central American countries, was renegotiated. This measure represented no more than a partial alleviation, however, of the problems faced by Nicaragua in respect to the payment of its external liabilities.

By the end of 1986, the total public external debt amounted to almost US\$5.8 billion. A large percentage of the increase in this debt that was recorded during the year (US\$837 million) was due to the rising amount of arrears (US\$548 million). Therefore, the debt/export ratio continued to climb very rapidly, reaching the extraordinarily high level of nearly 20. However, owing to the moratorium, real debt servicing represented a very small fraction both of external sales and disbursements (see table 18).

4. Prices and wages

a) *Prices*

Inflation reached record levels. Indeed, the average growth rate of consumer prices in the Managua metropolitan area jumped from 220% in 1985 to 680% in 1986, while the December-to-December variation rose from 335% to nearly 750% (see table 19 and figure 2). Price increases were steeper in the first half of the year due, among other factors, to a greater shortage of basic products, variations in exchange parities and rises in wages. In addition, early in the year official prices were raised in order to bring them into line with real production costs and to discourage the speculative market. Beginning in August, however, inflation slowed down as a result of an increase in the production of goods for domestic consumption (mainly maize, beans and sorghum), as well as of some perishable products.

It is estimated that inflation was higher in Managua than in other areas, chiefly because the supply of war zones was given priority and because of increasing price distortions.

The authorities' anti-inflationary policy failed to counteract the consequences of the fact that total supply expanded very little, of the increasing allocation of resources to national defence, the acceleration of the upward trend in monetary issues and the steady increase in the velocity of the circulation of money.

In 1986 an attempt was made to improve the distribution network by eliminating middlemen in order to lower costs, ensuring the financial stability of business enterprises and maintaining official prices. However, production problems gave rise to supply shortages, mainly of lard, meat and dairy products. The stocks of the State distribution enterprise were generally below the programmed levels, and in some cases this made it necessary to reduce the established consumption quotas. This further encouraged the speculative market, particularly in Managua, despite the enforcement of a strict Commercial Regulation and Consumer Defence Law.

b) *Wages*

The purchasing power of wages again deteriorated, but this time by considerably more than it had in the five preceding years. Although the nominal increase in average wages was higher than in 1985, it was not large enough to offset the higher rate of inflation. Given these circumstances, the real average wage dropped by at least 30% (see table 21).

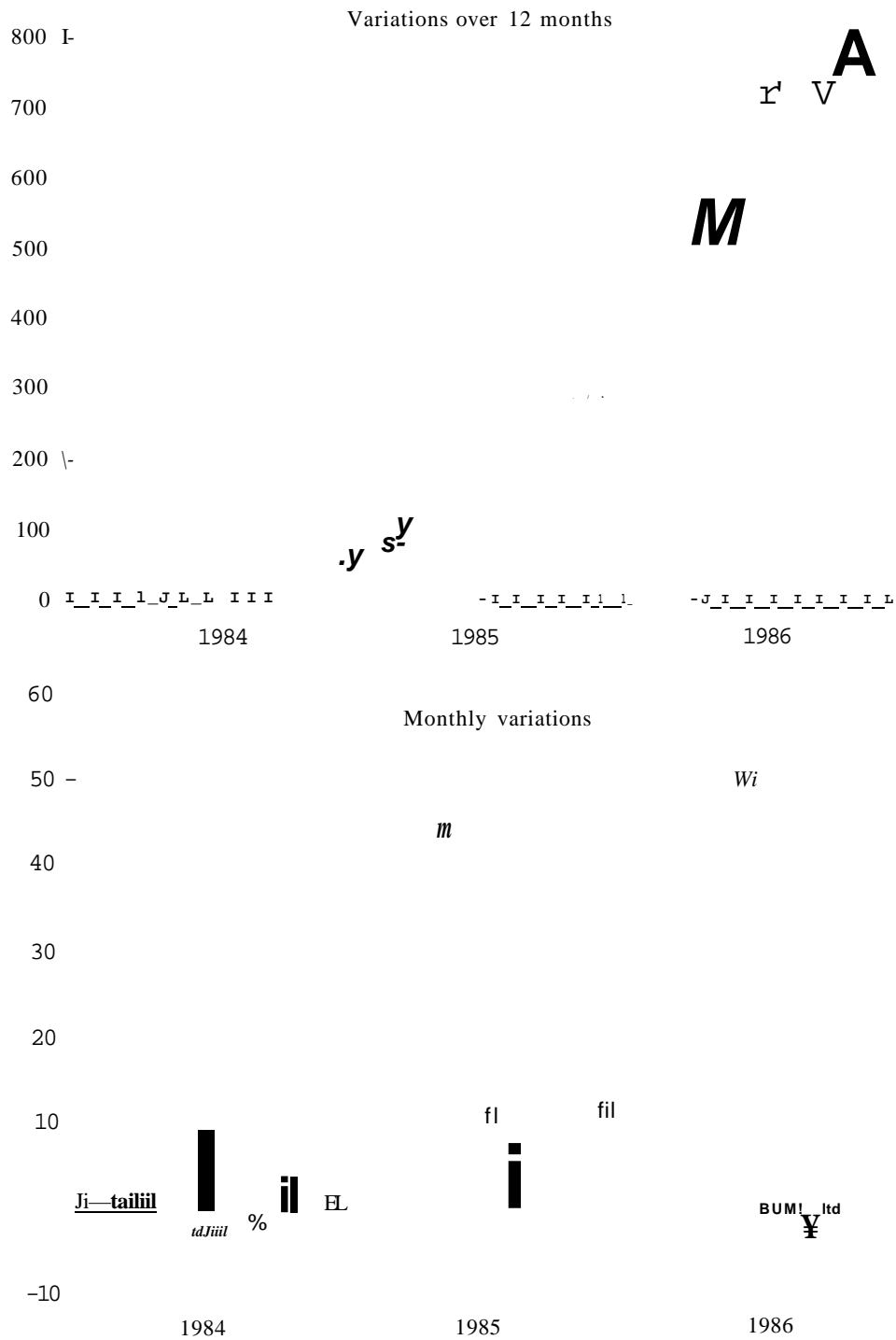
The progressive intensification of the inflationary process has eroded the progress achieved through the establishment of the Labour and Wage Scales System (SNOTS), which since 1984 has governed the payment of wages in the formal sector of the economy and through which an attempt has been made to rationalize wages and make them more equitable.

In 1986 wages were adjusted in January and March. The first increase—90%, on average—was granted primarily to more highly skilled personnel as part of a policy aimed at retaining technical and administrative staff in enterprises within the People's Property Area.² The second one—of 50%—was of the same amount for all categories and its object was to protect wages from the inflationary effect of the devaluation of the córdoba in February. However, this increment in nominal wages was soon outstripped by subsequent price increases.

Despite the exceedingly steep rate of inflation, wage indexing was not introduced. Instead, the authorities opted for a combination of wage hikes that were below the level of price increases and

² In January the last of the 28 categories included in SNOTS (comprising the most highly skilled personnel) received a 102% increase (in respect of wages in effect since May 1985) whereas the first category (the least skilled workers) was granted a wage hike of only 58%.

Figure 2
NICARAGUA: CONSUMER PRICE INDEX
(Percentages)



Source: KCLAC, on the basis of official data.

policies designed to ensure the supply of basic goods at official prices.³ However, this objective was not fully achieved because of problems in distribution systems.

As from October, the coverage of what are referred to as "wage flexibilization mechanisms" (i.e., incentives equivalent to up to 50% of their wages for manual workers who exceed certain production targets) was expanded. In order to offset the smaller increases established in the wage scale for agricultural workers, they received bonuses of up to 40% if they exceeded the production goals for agricultural export crops. Administrators and technical personnel were given incentives based on their academic qualifications and, generally, in occupational categories job seniority was taken into account.

5. Fiscal and monetary policy

a) *Fiscal policy*

The fiscal deficit decreased in terms of the percentage of the domestic product which it represented in 1986 by an even greater amount than the goal set at the beginning of the year. This was due both to a restrictive spending policy and to the government decision to apply a stricter income policy, as well as to the fact that certain items of expenditure were transferred out of the government budget. However, the fiscal deficit still amounted to almost 16% of the gross domestic product (see table 21).

Within the inflationary environment of the economy, total expenditure increased at a slower rate than prices. As in previous years, a large share of resources was allocated, directly or indirectly, to security and defence (see table 22).

The greatest reduction in real terms was in capital expenditure.⁴ The austerity policy that was followed was applied in response to a shortage of external resources which prevented new projects from being undertaken. Expenditure on infrastructure was restricted to projects already in progress.

Current expenditure was very strictly controlled, both as regards the purchase of goods and services and wage matters. Thus, a decision was taken to freeze employment in the central government, except for the recruitment of physicians, paramedics and elementary school teachers, and around 700 vacant posts were eliminated in the State sector, mainly in service or administrative activities. At the same time, the policy of gradually eliminating subsidies continued to be applied. Accordingly, the subsidies that had previously been granted for the production of basic grains remained suspended, and the only subsidies that continued to be paid were those for mass transit⁵ and railway transport.

As regards income, the tax burden was maintained at its 1985 level, but only thanks to a comprehensive administrative effort on the part of fiscal authorities, since in a context of severe inflation, the effectiveness of collection systems is affected by the delay between the time when a tax obligation is incurred and the time when the corresponding tax is paid. Moreover, in an economic crisis collections usually tend to drop. Tax revenues increased, however, as a result of the fact that new taxpayers were added to the tax rolls thanks to monitoring and auditing procedures. Payments were also regularized in the country's most densely populated areas (Masaya, Granada, Managua, León and Chinandega) and real estate values were updated in both urban and rural areas, although the practice of setting tax valuations at a lower level than the commercial values persisted.

One of the most important measures in the economic realignment carried out in 1986 was the regularization of the tax obligations of enterprises within the People's Property Area (APP). This resulted in an increase in the collection of income and real estate taxes. However, the central government drew up agreements with each APP enterprise on a case-by-case basis in order to prevent the payment of these taxes from reducing the firms' working capital.

³The government made a special effort to ensure access to five basic goods —rice, foodstuffs, sugar, soap and salt— which were distributed by retail establishments through a system of rationing cards.

⁴In real terms, the reduction appears to be greater if the nominal figures are adjusted on the basis of the consumer price index for the Managua metropolitan area. If, however, the nominal figures are deflated on the basis of the gross domestic product, then the resulting drop is smaller.

⁵Although urban transport fares were raised from 3 to 10 córdobas per trip, they remained below the average cost (25 córdobas).

Another factor that contributed to the increase in tax revenues was the rise in the selective excise taxes levied on non-essential consumer goods. Tax rates on bottled water, tobacco and beer were revised on three different occasions, and those levied on rum were modified four times. Taxes in the form of road vehicle permits and the stamp tax were raised by 100%.

In order to allow low-income wage earners (those included in the first 19 categories of SNOTS) to remain exempt from income tax, it was necessary to raise the tax deductible. In addition, an income tax reform was enacted in October with a view to retaining the most highly qualified employees. Instead of a progressive tax system with rates of from 2% to 50%, a proportional system at a 6% rate was applied. Tax progressivity in respect of non-wage income was maintained.

Corporate tax rates were increased towards the year's end, and this was expected to have an impact on 1987 tax revenues.

With a view to raising import duties, another measure was enacted in April, whereby foreign purchases made by what are known as "hawkers" (*buhoneros*) using their own funds were henceforward valued at the parallel exchange rate, instead of the official one. On the other hand, officially registered importers were only required to value 40% of their operations at the parallel exchange rate.

The prices of basic services were revised. Electricity rates were raised because operating costs increased when oil purchases had to be paid for at a higher exchange rate after the February devaluation. The rise in electricity rates eliminated the operating deficit of the electrical power company, which until then had found it necessary to resort to the use of central government funds. The State telecommunications enterprise (TELCOR) adjusted its rates, making it possible for this firm to transfer surplus income to the public treasury. Water and sewerage services required less support from the central government, except for cases of more or less sizeable investment expenditures.

b) *Monetary policy*

The monetary policy was somewhat less expansionary than in 1985. Measures adopted in the past two years to reorganize the economy's tax situation, together with the austerity policy relating to public expenditure, brought about a reduction in monetary variables in real terms (see table 24). However, exchange losses again distorted the government's financial policy and the rate at which money circulated increased considerably.

Given the shortage of external resources and the inflexibility of expenditure on such items as defence, the central government continued to rely almost entirely on issues by the Central Bank for the financing of its deficit. However, the growth rates of the credit granted to the central government and, particularly, of the credit extended to local governments were lower than in 1985. In contrast, the share of the total credit volume accounted for by marketing firms climbed sharply due to the government's export promotion efforts.

The multiplier of the monetary base, which relates to current account deposits and money outside banks, increased slightly; on the other hand, the multiplier which includes time deposits declined.

Interest rates on loans and deposits went up during the year, but both remained highly negative in real terms. However, this policy, which was aimed at avoiding further price increases linked to rising costs, contributed to the decrease in real terms of the deposits attracted by banks.

In February, the official exchange rate was raised from 28 to 70 córdobas to the dollar, and foreign trade operations became more closely linked to the authorized parallel exchange rate. The authorities maintained the policy of providing foreign exchange to supplement the support prices for the main agricultural export products, and this resulted in exchange losses. The support prices for each product were reviewed, and exporters were paid a share of the foreign exchange at the parallel exchange rate and the remainder at the official one. Seventy-five per cent of the returns from exports of non-traditional products were paid at the official exchange rate and the remaining 25% at the parallel exchange rate. It is estimated that the monetization of the exchange losses attributed to total external transactions represented about 7% of the gross domestic product, and this neutralized the steps taken to restrict the expansion of domestic credit.

The deficits occasioned by the use of differential exchange rates for foreign trade operations—in order to encourage exports and to make imports less costly in terms of the local currency—contributed to the over-monetization of the financial system. It was therefore necessary to increase the cash reserve requirement and deposits of non-financial institutions; in spite of this, however, efforts to curb the increase in liquidity were unsuccessful.

6. The effects of some non-economic factors

One of the major obstacles confronted by the Nicaraguan economy in recent years has been harassment by armed groups. This was compounded in 1986 by the losses sustained as a result of the United States trade embargo imposed in May 1985 and by the progressive weakening of external financial support.

The most serious damage caused by the military conflict was the loss in human lives (35 000 up to 1986) and the forced shift of the civilian population away from war zones. Additional damage included the direct destruction of infrastructure and obstacles to production. However, government sources indicated that such losses have gradually decreased since 1984, thanks to improved defence operations.

According to official estimates, direct damage to fixed assets and production amounted to over US\$100 million and was equivalent to 42% of the country's exports of goods. This proportion is even greater if the indirect damage caused by the trade embargo and by the difficulties encountered in obtaining external credit are taken into account. In turn, the damage sustained during the period 1980-1986 in terms of the destruction of accrued capital and the production losses arising from the abandonment of enterprises and crops in combat areas as well as from delays in project implementation caused by the armed conflict, has been estimated at approximately US\$620 million. About 78% of this amount corresponded to production losses, and the remainder to the damage done to physical assets. The main sectors affected were agriculture, forestry and construction (see table 24).

In addition, official sources have estimated that in 1980-1986 the country failed to receive around US\$350 million in credits that would otherwise have been forthcoming for the financing of projects, most of which were oriented towards the private sector. The difficulties involved in obtaining already technically approved credits from multilateral agencies have also been increasing. In fact, such loans, which have low interest rates and are mostly earmarked for infrastructure works, have practically been suspended during the past two years, whereas in 1979 they represented 78% of total external financing.

The indirect damage also included the impact of trade barriers, which began to be erected in 1983 with the reduction in the United States sugar quota and which intensified in 1984 when it was frozen altogether. The mining of exports in that year also impaired shipping. In addition, in May 1985 a trade embargo was imposed whose full effects were felt in 1986 in the form of serious problems and delays in the supply of essential inputs.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
exes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	105.4	104.5	109.3	107.6	103.2	102.8
Gross national income	100.0	103.3	99.2	106.3	111.0	104.8	108.3
Population (millions of inhabitants)	2.8	2.9	3.0	3.1	3.2	3.3	3.4
Per capita gross domestic product	100.0	102.1	98.0	99.1	94.3	87.5	84.2
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.7	5.4	-0.8	4.7	-1.5	-4.0	0.4
Per capita gross domestic product	1.6	2.1	-4.0	1.2	-4.8	-7.2	-3.7
Gross national income	4.0	3.3	-3.9	7.2	4.5	-5.5	3.4
Unemployment rate	22.4	19.0	19.9	18.9	21.1	20.9	22.1
Consumer prices							
Decem ber-Decem ber	-2.9	23.2	22.2	32.9	50.2	334.3	747.4
Variation between annual averages	5.3	23.9	24.8	31.1	35.4	219.5	681.6
Real wages and salaries'		1.1	-5.0	1.7	-6.9	-5.7	-30.0
Money	15.0	28.0	22.1	66.1	81.5	179.4	256.7
Current income of government	139.2	21.4	34.6	40.9	54.2	136.9	278.2
Total expenditure of government	113.4	32.2	32.1	80.8	33.9	138.8	227.0
Fiscal deficit/total expenditure of government	30.3	36.0	34.8	49.1	41.4	41.9	32.8
Fiscal deficit/gross domestic product	9.2	12.4	13.6	30.0	24.8	23.3	15.8
Current value of exports of goods and services	-26.4	11.8	-19.2	3.6	-7.1	-21.4	-13.6
Current value of imports of goods and services	77.9	14.1	-20.0	11.6	-3.8	9.3	-1.8
Terms of trade (goods and services)	-3.6	-8.4	-4.4	-4.4	28.1	-7.1	21.5
of dollars							
C. External sector							
Trade balance (goods and services)	•414	-484	-382	-462	-460	-635	-663
Net payment of profits and interest	-89	-93	-140	-61	-47	-48	-25
Balance on current account	•491	-563	-514	-520	-505	-681	-685
Balance on capital account	289	617	416	587	598	562	805
Variation in net international reserves	•235	62	-97	150	93	-119	119
Disbursed public external debt	825	2 566	3 139	3 788	4 362	4 936	5 773

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Percentages.

"Total average monthly wage received by workers registered with the Nicaraguan Social Security and Welfare Institui e.

"Short, medium- and long-term debt.

Table 2

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total supply	106.5	105.6	105.5	143.9	147.7	7.6	-0.3	-0.9	-0.1
Gross domestic product at market prices	107.6	103.2	102.8	100.0	100.0	4.6	-1.6	-4.1	-0.4
Imports of goods and services	104.0	111.0	111.6	43.9	47.7	15.6	3.0	6.7	0.6
Total demand	106.5	105.6	105.5	143.9	147.7	7.6	-0.3	-0.9	-0.1
Domestic demand	110.6	112.5	116.2	120.0	135.6	6.6	4.4	1.7	3.3
Gross domestic investment	138.2	137.4	145.0	16.8	23.7	8.7	0.9	-0.6	5.5
Gross fixed investment	138.3	139.8	141.9	14.6	20.1	4.7	2.2	1.1	1.5
Construction	104.3	114.7	114.7	5.5	6.1	16.7	8.7	9.9	-
Machinery	158.9	155.1	158.4	9.1	14.0	0.9	-0.2	-2.4	2.2
Changes in stocks	137.8	121.3	165.1	2.2	3.5				
Total consumption	106.1	108.4	111.5	103.2	112.0	6.2	5.1	2.2	2.9
General government	213.2	228.2	237.3	19.7	45.5	37.1	17.3	7.0	4.0
Private	80.8	80.1	81.8	83.5	66.4	-5.0	-1.2	-0.8	2.1
Exports of goods and services	85.9	71.0	51.8	23.9	12.0	12.2	-22.5	-17.4	-27.1

Source: ECLAC, on the basis of figures supplied by the Nicaraguan Ministry of Planning.

"Preliminary figures. The figures for exports and imports of goods and services were obtained from IMF balance-of-payments data expressed in current dollars which were then converted into constant 1980 values by using unit value indexes calculated by ECLAC for the purpose.

Table 3

NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT MARKET PRICES

	Indexes (1980= 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	107.6	103.2	102.8	100.0	100.0	4.6	-1.6	-4.1	-0.4
Goods	110.0	105.5	104.0	52.5	53.1	6.1	-2.2	-4.1	-1.4
Agriculture	112.7	107.3	101.5	23.2	22.9	5.8	-5.3	-4.8	-5.4
Mining	71.8	56.5	74.3	0.7	0.5	1.9	-23.1	-21.3	31.5
Manufacturing	109.3	104.2	105.8	25.6	26.4	5.6	0.4	-4.7	1.6
Construction	104.4	114.8	114.8	2.9	3.3	16.7	8.8	10.0	-
Basic services	99.3	90.0	91.8	7.9	7.0	-0.4	1.5	-9.4	2.0
Electricity, gas and water	88.1	95.2	100.9	2.1	2.1	-4.8	6.8	8.1	6.0
Transport, storage and communications	103.4	88.1	88.4	5.7	4.9	0.9	-	-14.8	0.4
Other services	106.1	102.8	103.3	39.6	39.8	3.5	-1.3	3.0	0.5
Commerce, restaurants and hotels	98.6	93.1	93.5	18.9	17.2	0.9	-4.8	-5.5	0.4
Financial institutions, insurance, real estate and business services	97.8	95.6	95.7	7.1	6.6	-2.5	-0.7	-2.3	0.1
Ownership of dwellings	100.4	101.5	101.5	3.7	3.7	-9.3	1.0	1.1	-
Community, social and personal services	120.8	120.1	121.0	13.6	16.0	9.9	2.3	-0.5	0.8
Government services	133.9	135.7	138.4	8.7	11.7	14.9	6.2	1.3	2.0

Source: ECLAC, on the basis of figures supplied by the Nicaraguan Ministry of Planning.

"Preliminary figures. Includes the livestock sector, forestry and fishing.

Table 4

NICARAGUA. INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986 ["]	Growth rates			
						1983	1984	1985	1986 ^o
Production indexes (1980 = 100)									
Crop farming	100.0	139.2	136.6	138.0	136.4	12.8	-1.9	1.0	-1.2
Livestock	100.0	101.1	103.5	102.5	90.0	0.4	2.4	-1.0	-12.2
Forestry	100.0	143.0	106.5	98.2	98.2	4.4	-25.5	-7.8	-
Production of main crops									
For export									
Ginned cotton	34.8	81.0	81.0	64.0	49.0	20.7	-	-21.0	-23.4
Cotton seed	52.6	120.4	119.0	93.0	76.5	19.4	-1.2	-21.8	-17.7
Processed coffee	55.8	64.5	46.0	47.7	41.9	2.4	-28.7	3.7	-12.2
Sugar cane	2 233.0	2 789.0	2 814.1	2 641.5	2 673.2	1.4	0.9	-6.1	1.2
Bananas	121.7	128.1	128.2	142.0	122.2	-8.9	0.1	10.8	-13.9
Havana tobacco	1.6	1.3	0.7	0.7	0.7	-	-46.2	-	-
Sesame	9.4	10.7	10.2	3.3	12.2	114.0	-4.7	-67.6	269.7
For domestic consumption									
Maize	194.2	218.2	214.7	212.5	231.7	22.8	-1.6	-1.0	9.0
Milled rice	55.2	98.7	94.7	85.1	90.1	8.2	-4.1	-10.1	5.9
Beans	38.4	57.2	57.9	52.5	56.2	14.6	1.2	-9.3	7.0
Sorghum	90.2	95.7	102.3	125.1	170.5	69.1	6.9	22.3	36.3
Blonde tobacco	2.0	3.3	2.5	2.9	4.3	135.7	-24.2	16.0	48.3
Indicators of livestock production									
Variation in stocks									
Beef cattle ["]	56		75	75	75				
Pigs ^c	40		45	49	49				
Poultry [']			375	375	375				
Slaughtering									
Beef cattle ¹	372	341	341	359	286	9.6	-	5.3	-20.3
Pigs ^c	204	270	271	227	241	-3.2	0.4	-16.2	6.2
Poultry		14.2	13.3	10.3	10.0	6.8	-6.3	-22.6	-2.9
Other products									
Milk ^y	346	301	318	162	186	-4.4	5.6	-49.1	14.8
Eggs [']	29	42	41	21	22	-2.3	-2.4	-48.8	4.8

Source: ECLAC, on the basis of official figures supplied by the Ministry of Planning and the Budget.

["]Preliminary figures. Thousands of tons. ^cThousands of head. Millions of litres. [']Millions of dozens.

Table 5

NICARAGUA: INDICATORS OF FISHERY PRODUCTION

	1980	1983	1984	1985	1986 ^a	Growth rates			
						1983	1984	1985	1986 ^a
Production indexes (1975 = 100)	57.8	33.0	32.3	36.1	32.6	15.2	-2.1	11.8	-9.7
Catch*									
Fish	16 300	23 800	23 000	22 000	22 295	25.3	-3.4	-4.3	1.3
Shellfish									
Shrimp	5 811	2 000	2 100	2 286	2 008	43.6	5.0	8.9	-12.2
Lobsters	1 636	1 000	900	725	624	<u>12.5</u>	-10.0	-19.4	-13.9

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

^aPreliminary figures. Thousands of pounds.

Table 6

NICARAGUA: INDICATORS OF MINING PRODUCTION

	1980	1983	1984	1985	1986 ^a	Growth rates			
						1983	1984	1985	1986 ^a
Production indexes (1970 = 100)	56.4	48.3	37.2	27.9	36.8	-9.3	-22.9	-25.1	31.8
Production of some major minerals (thousands of Troy ounces)									
Gold	60	46	33	25	29	-14.6	-29.6	-25.0	17.2
Silver	164	63	48	30	21	-16.1	-24.8	-37.0	-31.1

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget and the National Institute of Statistics and the census, *Anuario Estadístico de Nicaragua, 198*.

^aPreliminary figures.

Table 7

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	1983	1984	1985	1986°	Growth rates			
					1983	1984	1985	1986°
Production indexes (1980 = 100)	108.9	109.6	103.3	105.2	5.6	0.7	-5.8	1.8
Food, beverages and tobacco	108.1	113.0	106.6	104.2	2.0	4.5	-5.7	-2.2
Textiles and clothing	125.1	122.4	111.6	127.1	19.4	-2.1	-8.8	13.9
Footwear and leather	86.3	73.7	68.7	57.7	-8.5	-14.6	-6.8	-16.0
Wood and furniture	89.2	90.8	65.7	57.6	5.3	1.8	-27.6	-12.3
Chemicals and rubber	118.3	121.9	103.7	105.7	24.9	3.1	-14.9	1.9
Petroleum products	88.8	74.6	79.3	83.7	-9.4	-16.0	6.3	5.6
Non-metallic minerals	124.4	131.9	119.1	127.0	39.2	6.0	-9.7	6.6
Metal products	133.5	130.0	137.0	154.0	21.0	-2.7	5.4	12.4
Machinery and transport equipment	131.3	115.6	121.1	112.4	30.1	-11.9	4.7	-7.2
Miscellaneous	106.8	103.1	104.0	119.9	-4.8	-3.5	0.8	15.3
Other indicators of manufacturing production								
Electricity consumption by industry	311	322	298	283	13.1	3.5	-7.5	-5.0
Employment [^]	98	90	85	85	13.9	-8.2	-5.6	-
Steel production for construction"	32 573	31 013	26 771	33 130	24.4	-4.8	-13.7	23.8
Cement production	265	263	246	275	44.8	-0.8	-6.5	11.8

Source: ECLAC, on the basis of figures supplied by the Ministry of Planning and the Budget.

"Preliminary figures. Millions of kWh. "Thousands of persons. Tons. "Thousands of tons

Table 8

**NICARAGUA: SUPPLY AND DEMAND OF
PUBLIC SERVICE ELECTRICITY**

	Thousands of MWh				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Total supply	1 143	1 116	1 129	1 158	9.7	-2.4	1.2	2.6
Net generation	813	851	942	1 089	-12.7	4.7	10.7	15.6
Gross generation	853	895	986	1 140	-12.1	4.9	10.2	15.6
Hydroelectric	239	226	256	284	-42.0	-5.4	13.3	10.9
Steam	537	387	412	583	-1.3	-27.9	6.5	41.5
Geothermal	67	272	301	260	-	306.0	10.7	-13.6
Diesel and other	10	10	17	13	-28.6	-	70.0	-23.5
Minus: Inputs	40	44	44	51*	2.6	10.0	-	15.9*
Net imports	330	265	187	69	197.3	-19.7	-29.4	-63.1
Total demand	1 143	1 116	1 129	1 158	9.7	-2.4	1.2	2.6
Domestic consumption	971	988	979	973	10.2	1.8	-0.9	-0.6
Residential	271	285	302	300	8.0	5.2	6.0	-0.7
Commercial	73	71	69	70	7.4	-2.7	-2.8	1.4
Industrial	311	322	298	283	13.1	3.5	-7.5	-5.0
Government	120	115	111	115	9.1	-4.2	-3.5	3.6
Public lighting	26	24	22	19	8.3	-7.7	-8.3	-13.6
Irrigation	108	105	110	118	17.4	-2.8	4.8	7.3
Pumping	62	66	67	68	3.3	6.5	1.5	1.5
Exports								
Losses ^f	172	128	150	185	6.8	-25.6	17.2	23.3
Other indicators								
Ratio of losses/ total supply	15.0	11.5	13.3	16.0				
Consumption of fuel oil as an input for economic activity ^g	1 020	760	822	1 159	-2.4	-25.5	8.2	41.0

Source: ECLAC, on the basis of figures supplied by the Nicaraguan Energy Institute and the Ministry of Planning and the Budget.

"Preliminary figures. Estimated (in the basis of the input/gross generation ratio of the preceding year. ' Refers to transmission and distribution losses. Percentages. *Thousands of barrels.

Table 9

NICARAGUA: EMPLOYMENT AND UNEMPLOYMENT

	1980	1981	1982	1983	1984	1985	1986°
Thousands of persons							
Labour force	872	904	939	974	1 010	1 047	1086
Agriculture	380	386	392	399	406	412	419
Other activities	492	518	547	575	604	635	667
Employed	677	732	752	789	797	828	846
Agriculture	275	296	281	302	304	339	367
Other activities	402	436	471	487	493	489	479
Unemployed	195	172	187	184	213	219	240
Agriculture	105	90	111	97	102	73	52
Other activities	90	82	76	87	111	146	188
Indexes							
Labour force	100.0	103.7	107.7	111.7	115.8	120.1	124.5
Employed	100.0	108.1	111.1	116.5	117.7	122.3	125.0
Unemployed	100.0	88.2	95.9	94.4	109.2	112.3	123.1
Rates							
Unemployed	22.4	19.0	19.9	18.9	21.1	20.9	22.1
Agriculture	27.6	23.3	28.3	24.3	25.1	17.7	12.4
Other activities	18.3	15.8	13.9	15.1	18.4	23.0	28.2

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.
 °Preliminary figures. Includes forestry, livestock and fisheries.

Table 10

NICARAGUA: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports							
Value	-26.9	12.8	-20.1	5.5	-10.1	-21.8	-19.3
Volume	-42.4	19.5	-14.4	14.9	-23.1	-16.8	-26.3
Unit value	27.1	-5.6	-6.7	-8.2	16.8	-6.0	9.6
Imports							
Value	106.5	14.9	-21.6	7.6	-1.3	8.1	0.7
Volume	50.2	10.1	-20.4	13.3	7.2	6.1	2.8
Unit value	37.5	4.3	-1.5	-5.1	-7.9	1.9	-2.0
Terms of trade	-6.9	-9.8	-5.7	-3.6	25.3	-7.8	11.7
Indexes (1980 = 100)							
Purchasing power of exports	100.0	107.9	87.1	96.4	93.0	71.3	58.7
Volume of exports	100.0	119.5	102.3	117.5	90.4	75.2	55.4
Volume of imports	100.0	110.1	87.7	99.4	106.5	113.0	116.1
Terms of trade	100.0	90.5	85.7	82.9	105.2	97.0	108.5

Source: ECLAC, on the basis of official figures.
 "Preliminary figures.

Table 11

NICARAGUA: EXPORTS AND IMPORTS OF GOODS, BY COUNTRY

	Millions of dollars					Percentage breakdown			
	1977	1983	1984	1985	1986°	1977	1980	1985	1986°
Exports FOB	637	429	385	301	243	100.0	100.0	100.0	100.0
CACM ⁶	134	33	37	24	11	21.0	16.7	8.0	4.5
ALADI ^c	17	9	7	-	3	2.7	0.1	-	1.2
Argentina	-	-	-	-	-	-	-	-	-
Brazil	-	-	-	-	-	-	-	-	-
Mexico	8	9	7	-	3	1.3	-	-	1.2
Venezuela	9	-	-	-	-	1.4	-	-	-
Other	-	-	-	-	-	-	-	-	-
EEC ¹	181	111	113	118	115	28.4	28.8	39.2	47.3
United States	145	77	47	20	-	22.8	36.0	6.6	-
Japan	70	66	95	60	34	11.0	2.8	19.9	14.0
Canada	3	6	11	9	8	0.4	6.3	3.0	3.3
CMEA ^e	6	55	24	16	47	1.0	1.9	5.3	19.4
Other	81	72	51	54	25	12.7	7.4	18.0	10.3
Imports CIF	762	807	826	892	880	100.0	100.0	100.0	100.0
CACM	164	123	74	57	43	21.5	33.9	6.4	4.9
ALADI	113	189	147	101	60	14.9	20.3	11.3	6.8
Argentina	1	5	28	32		0.1	0.4	3.6	
Brazil	5	13	14	13		0.7	0.6	1.5	
Mexico	15	160	80	35		2.0	2.2	3.9	
Venezuela	87	5	5	6		11.4	16.8	0.7	
Other	5	6	20	15		0.7	0.3	1.6	
EEC	96	78	103	109	159	12.6	7.9	12.2	18.1
United States	220	157	133	67		28.8	27.5	7.5	-
Japan	77	19	24	31		10.1	3.3	3.5	
Canada	6	20	24	10		0.8	1.2	1.1	
CMEA	2	133	213	382	478	0.3	0.2	42.8	54.3
Other	84	88	108	135	140	11.0	5.7	15.2	15.9

Source: ECLAC, on the basis of figures supplied by the Ministry of Foreign Trade and the Central Bank of Nicaragua
⁶Preliminary figures. ^cCentral American Common Market. ¹Latin American Integration Association.
¹European Economic Community. ^eCouncil for Mutual Economic Assistance.

Table 12

NICARAGUA: FOREIGN TRADE WITH CENTRAL AMERICAN COUNTRIES

	Millions of dollars					Percentage breakdown:			
	1977	1980	1984	1985	1986°	1977	1980	1985	1986°
Exports FOB	134.0	75.4	37.0	24.2	11.1	100.0	100.0	100.0	100.0
Costa Rica	48.3	36.7	14.5	9.0	4.3	36.1	48.6	37.2	38.7
El Salvador	33.7	10.0	3.2	2.7	1.0	25.1	13.2	11.1	9.0
Guatemala	34.7	16.2	15.6	11.1	4.8	25.9	21.6	45.9	43.3
Honduras	17.3	12.5	3.6	14	1.0	12.9	16.6	5.8	9.0
Import CIF	164.5	300.6	74.5	57.2	43.0	100.0	100.0	100.0	100.0
Costa Rica	58.3	116.7	19.3	15.1	13.1	35.5	38.9	26.4	30.5
El Salvador	38.4	50.5	11.6	9.1	6.6	23.3	16.8	15.9	15.3
Guatemala	52.3	102.9	29.2	26.0	17.4	31.8	34.2	45.5	40.5
Honduras	15.5	30.4	14.4	7.0	5.9	9.4	10.1	12.2	13.7
Balance of trade in goods	-30.5	-225.1	-37.5	-33.0	-31.9	100.0	100.0	100.0	100.0
Costa Rica	-10.0	-80.1	-4.8	-6.1	-8.8	32.8	35.4	18.5	27.5
El Salvador	-4.7	-40.6	-8.4	-6.4	-5.6	15.4	18.1	19.4	17.6
Guatemala	-17.6	-86.6	-14.6	-14.9	-12.6	57.7	38.5	45.2	39.5
Honduras	1.8	-17.8	-10.7	-5.6	-4.9	-5.9	8.0	16.9	15.4

Source: ECLAC, on the basis of figures supplied by the Ministry of Foreign Trade.
 °Preliminary figures.

Table 13

NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	429	385	301	243	100.0	100.0	5.7	-10.3	-21.8	-19.3
Central America	33	37	24	11	16.8	4.5	-36.5	12.1	-35.1	-54.2
Rest of world	396	348	277	232	83.2	95.5	11.9	-12.1	-20.4	-16.2
Main exports	383	347	271	202	78.8	83.1	7.9	-9.4	-21.9	-25.5
Ginned cotton	110	134	91	44	6.7	18.1	26.4	21.8	-32.1	-51.6
Coffee	154	122	118	109	36.9	44.8	24.2	-20.8	-3.3	-7.6
Sugar	34	21	7	18	4.4	7.4	-5.6	-38.2	-66.7	157.1
Meat	31	18	11	5	13.1	2.1	-8.8	-41.9	-38.9	-54.5
Shrimp, lobsters and other fishery products	17	13	13	7	6.0	2.9	-22.7	-23.5	-	-46.2
Sesame	6	6	5	2	1.3	0.8	-	-	-16.7	-60.0
Bananas	15	12	16	16	1.8	6.6	50.0	-20.0	33.3	-
Molasses	1	3	1	1	1.3	0.4	-66.7	200.0	-66.7	-
Chemicals	15	18	9		7.3		-16.7	20.0	-50.0	
Rest	46	38	30	41	21.2	16.9	-5.9	-17.4	-21.1	36.7

Source: ECLAC, on the basis of figures provided by the Ministry of Foreign Trade and the Central Bank of Nicaragua.
 °Preliminary figures.

Table 14

NICARAGUA: VOLUME OF EXPORTS OF MAIN PRODUCTS

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986°
Cotton	1 724	1 809	1 457	1 067	27.7	4.9	-19.5	-26.8
Coffee ⁰	1 418	892	868	665	40.1	-37.1	-2.7	-23.4
Sugar	2 376	2 220	1 250	1 540	15.0	-6.6	-43.7	23.2
Meat ^c	31 332	19 826	10 204	5 770	-2.2	-36.7	-48.5	-43.5
Shrimp, lobsters and other ¹	2 921	2 264	2 581	1 446	-34.8	-22.5	14.0	-44.0
Sesame	100	147	122	56	-7.4	47.0	-17.0	-54.1
Bananas	4 288	4 166	4 465	4 321	88.4	-2.8	7.2	-3.2
Molasses ¹	41	45	15	20	-37.9	9.8	-66.7	33.3

Source: ECLAC, on the basis of figures supplied by the Ministry of Foreign Trade

"Preliminary figures. Thousands of quintals. Thousands of pounds. Thousands of 42-pound boxes. Thousands of tons.

Table 15

NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	826	892	880	100.0	100.0	4.0	2.4	8.0	-1.3
Central America	74	57	43	33.9	4.9	5.7	-40.3	-23.0	-24.6
Rest of world	752	835	837	66.1	95.1	3.8	10.1	11.0	0.2
Consumer goods	156	187	200	29.0	22.7	7.7	-9.8	19.9	7.0
Non-durable	107	132		24.2		12.3	-18.3	23.4	
Durable	49	55		4.8		-4.3	16.7	12.2	
Raw materials and intermediate goods	456	480	...	58.6	...	-4.1	6.0	5.3	
Petroleum and fuels	145	165	151	19.6	17.1	-17.4	-2.0	13.8	-8.5
Other	311	315		39.0	...	4.7	10.3	1.3	
For agriculture	59	75		7.0		59.6	5.4	27.1	
For manufacturing	229	214		28.0		8.9	12.3	-6.6	
For construction	22	26		3.3		-53.1	-	18.2	
Miscellaneous	1	-		0.7		-	-	-	
Capital goods	214	225		12.4		22.4	4.9	5.1	
For agriculture	28	25		2.7		-31.0	64.7	-10.7	
For manufacturing	145	150		6.9		35.2	-1.4	3.4	
For transport	40	50		2.8		20.2	-	25.0	

Source: ECLAC, on the basis of figures provided by the Ministry of Foreign Trade.

"Preliminary figures.

Table 16

NICARAGUA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986 ^a
Balance on current account	-491	-563	-514	-520	-505	-681	-685
Trade balance	-414	-484	-382	-462	-460	-635	-663
Exports of goods and services	495	553	447	463	430	338	292
Goods FOB	450	508	406	428	385	301	243
Real services	44	45	41	35	45	37	49
Transport and insurance	13	15	12	10	5	4	3
Travel	22	23	20	5	13	7	8
Imports of goods and services	909	1 037	829	925	890	973	955
Goods FOB	803	922	723	778	768	830	836
Real services	106	114	106	147	122	143	119
Transport and insurance	51	58	49	50	49	86	74
Travel	31	15	20	7	12	6	4
Factor services	-89	-93	-140	-61	-47	-48	-25
Profits	-21	-	-5	-1	-1	-5	-
Interest received	19	28	9	7	5	2	1
Interest paid	-88	-121	-144	-66	-51	-45	-26
Unrequited private transfer payments	12	13	8	4	2	2	3
Balance on capital account	289	617	416	587	598	562	805
Unrequited official transfer payments	112	57	43	76	88	80	90
Long-term capital	343	596	439	545	245	440	545
Direct investment (net)	-	-	-	8	2	-	-
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	343	596	439	537	243	440	545
Official sector ^b	321	509	423	540	280	415	595
Loans received	335	566	469	580	393	526	817
Amortization payments	-14	-57	-44	-28	-113	-111	-222
Commencal banks ^c	17	82	20	33	-33	31	-49
Loans received	22	86	29	38	61	112	86
Amortization payments	-4	-4	-8	-4	-94	-81	-135
Other sectors ^d	4	5	-4	-36	-4	-6	-1
Loans received	9	15	17	14	-	-	-
Amortization payments	-5	-9	-21	-50	-4	-6	-1
Short-term capital (net)	-137	-37	-47	-7	268	119	151
Official sector	-	-	2	13	71	129	19
Commercial banks	-	-	-	-	174	25	143
Other sectors	-137	-37	-49	-20	23	-35	-11
Errors and omissions (net)	-28	1	-20	-26	-3	-77	19
Global balance	-201	54	-98	67	93	-119	120
Total variation in reserves (- sign indicates an increase)	235	-62	97	-150	-93	119	-119
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-	-	-1	1	-	-	-
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	120	-47	-59	-86	-	-	-
Other assets	123	9	162	-59	-	-	-
Use made of IMF credit	-8	-25	-5	-5	-5	-	-

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

^aPreliminary figures subject to revision.

^bIncludes other non-factor services.

^cIncludes net loans granted and other

assets and liabilities.

^dEqual to the total variation in reserves (opposite sign) plus counterpart items.

Table 17

NICARAGUA: EXCHANGE RATES

	Nominal exchange rate" (córdobas per dollar)		Exchange rate index (1980=100)		Consumer price index (1980=100)	Nicaragua/ United State price ratio	Index of real adjusted exchange rate (1980=100)		1980 parity exchange rate (córdobas per dollar)		
	Official	Parallel	Official	Parallel	Nicaragua	V ¹ , (1980=100)	Official	Parallel	Official	Parallel	
1980	10.00	17.68	100.0	100.0	100.0	100.0	100.0	100.0	10.00	17.68	
1981	10.00	25.96	100.0	146.8	123.9	110.4	112.2	89.1	130.8	11.22	19.84
1982	10.00	28.50	100.0	161.2	154.6	117.1	132.0	75.8	122.1	13.20	23.34
1983	10.00	28.50	100.0	161.2	202.6	120.9	167.6	59.7	96.2	16.76	29.63
1984	10.00	-	100.0	-	274.4	126.1	217.6	46.0	-	21.76	38.47
1985	26.50	651.88	265.0	3 687.1	876.7	130.5	671.8	39.4	548.8	67.18	118.77
January	10.00	-	100.0	-	349.7	128.1	273.0	36.6	-	27.30	48.27
February	28.00	-	280.0	-	398.6	128.6	310.0	90.3	-	31.00	54.81
March	28.00	-	280.0	-	448.1	129.2	346.8	80.7	-	34.68	61.31
April	28.00	-	280.0	-	528.9	129.7	407.8	68.7	-	40.78	72.10
May	28.00	640.00	280.0	3 619.9	773.0	130.2	593.7	47.2	609.7	59.37	104.97
June	28.00	350.00	280.0	1 979.6	926.6	130.6	709.5	39.5	279.0	70.95	125.44
July	28.00	670.00	280.0	3 789.6	1 035.8	130.8	791.9	35.4	478.5	79.19	140.01
August	28.00	675.00	280.0	3 817.9	1 098.0	131.1	837.5	33.4	455.9	83.75	148.07
September	28.00	700.00	280.0	3 959.3	1 134.3	131.5	862.6	32.5	459.0	86.26	152.51
October	28.00	700.00	280.0	3 959.3	1 158.9	131.9	878.6	31.9	450.6	87.86	155.34
November	28.00	730.00	280.0	4 129.0	1 255.6	132.3	949.1	29.5	435.0	94.91	167.80
December	28.00	750.00	280.0	4 242.1	1 412.9	132.7	1 064.7	26.3	398.4	106.47	188.24
1986"	66.50	1 337.50	665.0	7 565.0	6 852.5	133.1	5 148.4	12.9	146.9	514.84	910.24
January	28.00	750.00	280.0	4 242.1	1 498.9	132.7	1 129.5	24.8	375.6	112.95	199.70
February	70.00	950.00	700.0	5 373.3	1 756.2	132.1	1 329.4	52.7	404.2	132.94	235.04
March	70.00	950.00	700.0	5 373.3	2 529.8	131.8	1 919.4	36.5	279.9	191.94	339.35
April	70.00	950.00	700.0	5 373.3	3 597.2	132.2	2 721.0	25.7	197.5	272.10	481.07
May	70.00	950.00	700.0	5 373.3	4 612.8	132.9	3 470.9	20.2	154.8	347.09	613.66
June	70.00	1 300.00	700.0	7 352.9	6 987.6	132.9	5 257.8	13.3	139.8	525.78	929.58
July	70.00	1 300.00	700.0	7 352.9	9 06a4	132.9	6 823.5	10.3	107.8	682.35	1 206.39
August	70.00	1 300.00	700.0	7 352.9	9 448.1	133.1	7 098.5	9.9	103.6	709.85	1 255.01
September	70.00	1 800.00	700.0	10 181.0	9 200.2	133.8	6 876.1	10.2	148.1	687.61	1 215.69
October	70.00	1 800.00	700.0	10 181.0	10 170.3	133.9	7 595.4	9.2	134.0	759.54	1 342.87
November	70.00	1 800.00	700.0	10 181.0	11 386.9	134.0	8 497.7	8.2	119.8	849.77	1 502.39
December	70.00	2 200.00	700.0	12 443.4	11 973.3	134.2	8 922.0	7.8	139.5	892.20	1 577.41

Source: ECLAC, on the basis of figures supplied by the Central Bank of Nicaragua.

"Average for the period. Preliminary figures.

Table 18

NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985	1986"
Millions of dollars							
Public external debt	1 825	2 566	3 139	3 788	4 362	4 936	5 773
Long- and medium-term	1 571	2 163	2 578	3 263	3 901	4 496	5 293
Short-term	254	403	561	525	461	440	480
Disbursements ¹	295	424	455	375	347	598	577
Debt servicing	110	192	203	103	79	68	38
Amortization payments	22	71	59	40	28	23	13
Interest payments	88	121	144	63	51	45	25
Percentages							
Ratios'							
Total external debt/exports of goods and services	369.5	464.0	702.2	804.4	1 014.5	1 460.3	1 977.1
Debt servicing/exports of goods and services	22.3	34.7	45.4	21.8	18.4	20.0	13.2
Net interest payment// exports of goods and services	13.9	16.8	30.2	12.0	10.7	12.7	8.3
Debt servicing/disbursements	37.4	45.2	44.6	27.4	22.8	11.3	6.7

Source: ECLAC, on the basis of figures supplied by the Central Bank of Nicaragua.

¹Preliminary figures. ²End-year balances. ³Refers to long-term debt. ⁴Amortization payments on the long-term debt. ⁵All ratios refer to the public external debt. ⁶Correspond to the net balance-of-payments figure.

Table 19

NICARAGUA: CONSUMER PRICES IN THE MANAGUA METROPOLITAN AREA

	1980	1981	1982	1983	1984	1985	1986"
December-December variation							
Consumer price index	-2.9	23.2	22.2	32.9	50.2	334.3	747.4
By item of expenditure							
Food, beverages and tobacco	5.0	25.9	23.9	45.1	58.6	386.9	955.6
Clothing	4.2	24.0	23.2	23.5	64.7	141.5	315.3
Housing	•7.8	23.7	21.5	14.3	43.3	218.5	230.8
Miscellaneous	•4.5	16.0	17.9	18.0	24.0	285.0	104.3
By origin of products							
National			25.0	34.9	62.3	265.2	708.1
Imported	8.4	26.7	30.2	7.6	24.5	201.3	114.8
Variation between annual averages							
Consumer price index	5.3	23.9	24.8	31.1	35.4	219.5	681.6
By item of expenditure							
Food, beverages and tobacco	3.6	29.0	29.1	41.5	41.5	246.7	887.0
Clothing	14.2	19.7	28.8	18.1	45.0	126.4	226.3
Housing	-4.3	35.5	8.0	16.0	28.6	158.4	260.7
Miscellaneous	7.2	15.2	16.5	17.6	18.3	192.6	138.8
By origin of product							
National	5.6	23.4	26.3	36.8	37.1	206.9	563.7
Imported	196	22.7	28.7	16.8	16.4	124.5	143.3

Source: ECLAC, on the basis of figures provided by the Ministry of Planning and the Budget.

¹Preliminary figures. ²Products for domestic consumption

Table 20

NICARAGUA: WAGES"

	1980	1981	1982	1983	1984	1985	1986"
	Córdobas						
Average monthly wage, total'							
Received, nominal	2 338	2 641	2 927	3 304	4 275	10 769	28 608
Real, at 1980 prices"	2 338	2 132	1 893	1 631	1 558	1 228	418
Real, at 1980 prices'	2 338	2 364	2 245	2 282	2 125	2 003	1 403
	Indexes (1980 = 100)						
Average monthly wage, total'							
Received, nominal	100.0	113.0	125.2	141.3	182.8	460.6	1 223.6
Real, at 1980 prices"	100.0	91.2	81.0	69.8	66.6	52.5	17.9
Real, at 1980 prices'	100.0	101.1	96.0	97.6	90.9	85.7	60.0
	Growth rates						
Average monthly wage, total'							
Received, nominal		13.0	10.8	12.9	29.4	151.9	165.7
Real, at 1980 prices"		-8.8	-11.2	-13.8	-4.5	-21.2	-66.0
Real, at 1980 prices'		1.1	-5.0	1.7	-6.9	-5.7	-30.0

Source: ECLAC, on the basis of figures supplied by the Ministry of Planning and the Budget.

"Refers to the total average monthly wage received by workers registered with the Nicaraguan Social Security and Welfare Institute. In 1985 (February, March and May) and in 1986 (January and March) there were variations in the nominal wages. Preliminary figures. 'Excluding incentives. Deflated on the basis of the consumer price index for the Managua metropolitan area. "Deflated on the basis of the implicit price index of the gross domestic product.

Table 21

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas					Growth rates				
	1983	1984	1985	1986°	1982	1983	1984	1985	1986"	
1. Current income	10 215	15 750	37 306	141 081	34.6	40.9	54.2	136.9	278.2	
Tax revenue	8 533	13 836	32 063	120 009	26.0	48.0	62.1	131.7	274.3	
Direct	1 849	3 217	7 550	30 659	8.7	41.9	74.0	134.7	306.1	
On income	1 283	2 425	6 445	28 134	25.8	62.4	89.0	165.8	336.5	
On property	274	468	749	2 453	10.7	-17.5	70.8	60.0	227.5	
On exports	4	11	26	21	-90.1	-77.8	175.0	136.4	-19.2	
Other	288	313	330	51	83.1	76.7	8.7	5.4	-84.5	
Indirect	6 683	10 619	24 513	89 350	32.2	49.7	58.9	130.8	264.5	
On sales	1 177	1 946	5 320	20 196	10.8	43.0	65.3	173.4	279.6	
On imports	739	1 050	2 926	11 304	4.7	4.1	42.1	178.7	286.3	
On consumption and production	3 494	6 022	15 801	55 855	23.0	52.2	72.4	162.4	253.5	
Other	1 273	1 601	466	1 995	612.4	100.8	25.8	-70.9	328.1	
Non-tax revenue	1 680	1 914	5 243	21 072	83.6	13.5	13.9	173.9	301.9	
2. Current expenditure	12 699	19 223	52 034	185 229	-23.1	39.7	51.4	170.7	256.0	
Wages and salaries	2 774	3 950	11 069	39 949	15.0	26.7	42.4	180.2	260.9	
Goods and services	6 708	10 311	32 301	119 384	29.3	72.0	53.7	213.3	269.6	
Transfers	2 186	3 762	5 559	21 545	32.6	35.1	72.1	47.8	287.6	
Interest payments	1 030	1 200	3 105	4 351	63.6	-25.6	16.5	158.8	40.1	
Domestic debt	769	902	2 596	3 646	167.9	46.5	17.3	187.8	40.4	
External debt	261	298	509	705	32.2	-69.6	14.2	70.8	38.5	
3. Current savings (1-2)	-2 485	-3 473	-14 728	-44 148	15.0	34.8	39.8	324.1	199.8	
4. Capital expenditure	7 385	7 675	12 188	24 808	41.6	265.8	3.9	58.8	103.5	
Real investment	2 216	3 622	8 668	17 204	28.7	95.2	63.4	139.3	98.5	
Debt amortization payments	399	491	974	1 447	13.1	28.7	23.1	98.4	48.6	
Domestic debt	235	196	391	524	37.0	111.7	-16.6	99.5	34.0	
External debt	164	295	583	923	3.1	-17.6	79.9	97.6	58.3	
Other	4 770	3 561	2 546	6 157	112.6	731.0	-25.4	-28.5	141.8	
5. Total expenditure (2 + 4)	20 083	26 898	64 222	210 037	32.1	80.8	33.9	138.8	227.0	
6. Fiscal deficit (1-5)	-9 870	-11 148	-26 916	-68 956	27.5	155.5	12.9	141.4	156.2	
7. Financing of the deficit										
External financing	1 659	1 904	1 381	7 307	65.1	7.6	14.8	-27.5	429.1	
Credit	1 256	1 558	701	1 020		19	24.0	-55.0	45.5	
Grants	403	346	680	6 287		30.4	-14.1	96.5	824.6	
Domestic financing	8 211	9 244	25 535	61 649	10.7	253.8	12.6	176.2	141.4	
Central Bank	8 214	8 784	24 589	66 763	73.4	140.3	6.9	179.9	171.5	
Other sources	-3	460	946	-5 114				105.7		
Ratios (percentages)										
Current savings/capital expenditure	33.6	45.3	120.8	178.0						
Fiscal deficit/total expenditure	49.1	41.4	41.9	32.8						
Tax revenue/GDP	26.0	30.7	27.8	27.5						
Total expenditure/GDP	61.1	59.8	55.6	48.2						
Fiscal deficit/GDP	30.0	24.8	23.3	15.8						
Domestic financing/deficit	83.2	82.9	94.9	89.4						
External financing/deficit	16.8	17.1	5.1	10.6						

Source: ECLAC, on the basis of figures provided by the Ministry of Finance and the Central Bank of Nicaragua.

"Preliminary figures. On the basis of absolute values.

Table 22

NICARAGUA: GOVERNMENT EXPENDITURE, BY MAIN AREAS

	Millions of córdobas				Percentage breakdown			
	1983	1984	1985"	1986"	1983	1984	1985"	1986"
Total	20 084	26 898	64 222	210 037	100.0	100.0	100.0	100.0
Social sector	3 892	5 491	15 156		19.3	20.4	23.6	...
Education and culture	1 813	2 837	7 064		9.0	10.5	11.0	
Health and social welfare	1 584	1 944	5 908		7.9	7.2	9.2	
Housing	495	710	2 184		2.5	2.6	3.4	
Infrastructure and production	6 826	5 561	10 468		34.0	20.7	16.3	
Primary activities	4 444	2 506	5 009		22.1	9.3	7.8	
Manufacturing	420	140	128		2.1	0.5	0.2	
Construction and transport	1963	2 917	5 203		9.8	10.8	8.1	
Energy			128				0.2	
Commerce and tourism	1 478	2 018	1349	...	7.4	7.5	2.1	
General administration and defence	6 431	11 944	32 497	...	32.0	44.4	50.6	...
General administration	2 804	5 693	9 633		14.0	21.2	15.0	
Defence and security	3 627	6 251	22 864		18.0	23.2	35.6	
Other	1 457	1 883	4 752		7.3	7.0	7.4	
Public debt servicing	1 429	1 691	4 079	5 798	7.1	6.3	6.4	2.8
Other	28	192	673		0.1	0.7	1.0	

Source: ECLAC, on the basis of figures supplied by the Ministry of Finance.
 Preliminary figures.

Table 23

NICARAGUA: MONETARY INDICATORS

	End-of-year balances (millions of córdobas)				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986"
Monetary base	7 124	14 794	42 338	142 010	56.5	107.7	186.2	235.4
Money (M ₁)	11 513	20 897	58 379	208 224	66.1	81.5	179.4	256.7
Currency outside banks	5 575	11 374	28 713	102 194	80.1	104.0	152.4	255.9
Current account deposits	5 938	9 523	29 666	106 030	54.8	60.4	211.5	257.4
Quasi-money	5 128	7 989	12 741	34 530	37.7	55.8	59.5	171.0
Saving deposits	1 776	3 051	5 682	15 977	37.4	71.8	86.2	181.2
Time deposits	3 352	4 938	7 059	18 553	37.9	47.3	43.0	162.8
Money plus quasi-money (M ₂)	16 641	28 886	71 120	242 754	56.2	73.6	146.2	241.3
External liabilities ¹	20 416	26 317	81 857	215 112	47.2	28.9	211.0	162.8
Long-term loans	14 230	17 756	46 085	133 308	88.7	24.8	159.5	189.3
Short-term loans	6 186	8 561	35 772	81 804	-2.2	38.4	317.8	128.7
Other financial liabilities (net)	363	-948	-40 749	-188 166	...			...
Domestic credit	35 176	49 542	98 875	249 626	37.0	40.8	99.6	152.5
To the public sector	23 789	37 094	79 902	182 850	62.1	55.9	115.4	128.8
Central Government	14 347	21 254	46 783	94 022	128.4	48.1	20.1	101.0
Local government and official agencies'	316	441	1 094	1 346	-8.1	39.6	148.1	23.0
State marketing firms	731	1 288	4 784	21 235	-47.0	76.2	271.4	343.9
People's Property Area	8 395	14 111	27 241	66 247	25.8	68.1	93.0	143.2
To the private sector	10 391	11 331	18 973	66 776	3.5	9.0	67.4	252.0
Gross international reserves	2 244	4 713	13 354	20 074	11.4	110.0	183.3	50.3
	Ratios							
M ¹ /monetary base	1.58	1.48	1.39	1.45				
M ₂ /monetary base	2.34	2.08	1.75	1.70				
Velocity of circulation: GDP/M ₁	3.57	2.78	2.91	3.27				

Source: ECLAC, on the basis of figures provided by the Central Bank of Nicaragua, the Ministry of Planning and the Budget, and the International Monetary Fund.

¹Preliminary figures. ²including devaluations in 1985 (from 10 to 28 córdobas per dollar) and in 1986 (from 28 to 70).
³Excluding State marketing firms. In the absence of monthly data, annual averages were estimated by averaging the sums of the end-of-year balances.

Table 24

NICARAGUA: PROPERTY DAMAGE AND PRODUCTION LOSSES*(Millions of dollars)*

	Total	1980	1981	1982	1983	1984	1985	1986
Total	622.0"	1.5	7.4	32.1	165.2	197.6	114.7	103.5
Property damage	133.8	0.6	4.0	11.0	58.6	27.6	18.3	13.7
By economic activity								
Agriculture	42.4	-	0.1	2.3	12.2	13.9	10.4	3.5
Logging and forestry	30.8	-	-	0.1	24.3	5.4	1.0	-
Fisheries	12.9	0.6	2.2	1.6	4.8	2.6	0.6	0.5
Mining	2.7	-	-	-	1.7	1.0	-	-
Construction	17.8	-	-	6.9	5.9	1.8	2.3	0.9
Services	27.2	-	1.7	0.1	9.7	2.9	4.0	8.8
Production losses	488.2	0.9	3.4	21.1	106.6	170.0	96.4	89.8
By economic activity								
Agriculture	124.1	-	-	0.2	37.1	54.9	22.3	9.6
Logging and forestry	168.6	-	-	-	25.0	52.2	41.5	49.9
Fisheries	53.4	0.9	1.2	2.8	13.2	15.9	15.7	3.7
Mining	15.6	-	2.2	3.1	1.3	2.0	4.5	2.5
Construction	126.5	-	-	15.0	30.0	45.0	12.4	24.1
By destination								
For export	337.7	0.9	3.4	6.1	74.5	113.1	82.7	57.0
For domestic consumption	150.5	-	-	15.0	32.1	56.9	13.7	32.8

Source: ECLAC, on the basis of official figures.

"This total does not include around US\$500 million which, according to preliminary estimates, were lost due to the trade embargo and external credit restrictions.

PANAMA

1. Recent economic trends: Introduction and summary

During 1986, Panama's gross domestic product underwent an expansion of almost 3.0%, which rate, even though lower than that of 1985, was higher than that of demographic growth for the second consecutive year. Despite the fact that the country's economic activity showed signs of slowing down, the great imbalances within its public finances and external sector were attenuated thanks to stimuli coming mostly from abroad, and having great repercussions on an open economy such as Panama's (see table 1 and figure 1).

During the year, the Panama Canal, the Colón Free Zone and the international financial centre all experienced very positive development in their operations, which helped to improve domestic activity. On the one hand, the favourable economic situation of the centre countries gave rise to an increase in world trade, which, among the other positive effects it had, was largely responsible for the increase shown in the utilization of the services of the Panama Canal. On the other hand, since a large number of Latin American countries faced less adverse conditions than in previous years, an increase was registered in the operations of the Colón Free Zone, which depends to a great extent precisely on trade with those countries.

Both these factors combined with a general feeling of optimism to promote a notable expansion in the operations of both the international financial centre established in the country and the national banking system; in particular, very considerable increases were noted in export and import credit.

At the same time, terms of trade in goods and services were very favourable for the third consecutive year. In 1985 this was due to the convergence of various trends, including, on the one hand, the drop in oil prices and, to a lesser extent, the decline in the prices of other imported goods, and on the other the rise in the prices of exported goods, especially coffee, and the increase in some of the rates charged for services of great importance to the Panamanian economy, such as those relating to the oil pipeline.

Finally, the difficult external debt situation of the public sector experienced moderate relief. Firstly, the lowering of the interest rates in the international markets partially eased the pressure exerted by the servicing of the external debt. Secondly, during the latter part of the year, financial support was received both from the World Bank and from private commercial sources, the economic effects of which will be fully realized in 1987.

Despite the decline in interest rates, there was an increase both in the remittance of profits by resident foreign companies and in the payment of interest on the external debt. Thus the ratio of servicing to disbursements rose. On the other hand, as a result of the devaluation of the U.S. dollar, there was a rise in the value of credits in currencies other than the dollar. This was of the greatest significance in the case of the yen, given that commercial and financial ties with Japan have increased in the present decade.

The above-mentioned factors, most of which were positive in nature, were offset by other factors which had a negative impact, although in general they were of lesser importance. First, although the drop in prices of hydrocarbons was favourable up to a certain point, it gave rise to a decrease in the amount of oil transported by the trans-Isthmian pipeline since the United States supplied its East Coast market with oil from the Middle East instead of using its Alaska reserves.

In addition, the gradual return of the Canal, as provided for in the Torrijos-Carter treaties, meant that Panama had to finance some of the expenditure on maintenance (an item previously the responsibility of the United States), whose cost, according to official sources, has increased due to the deterioration of part of the infrastructure. This has had repercussions on the public coffers and has diminished the favourable effects of the process of the return of the Canal. Nevertheless, as the return process continues, the benefits which will accrue to the country will grow, despite the increased expenditure referred to.

Figure 1
 PANAMA: MAIN ECONOMIC INDICATORS

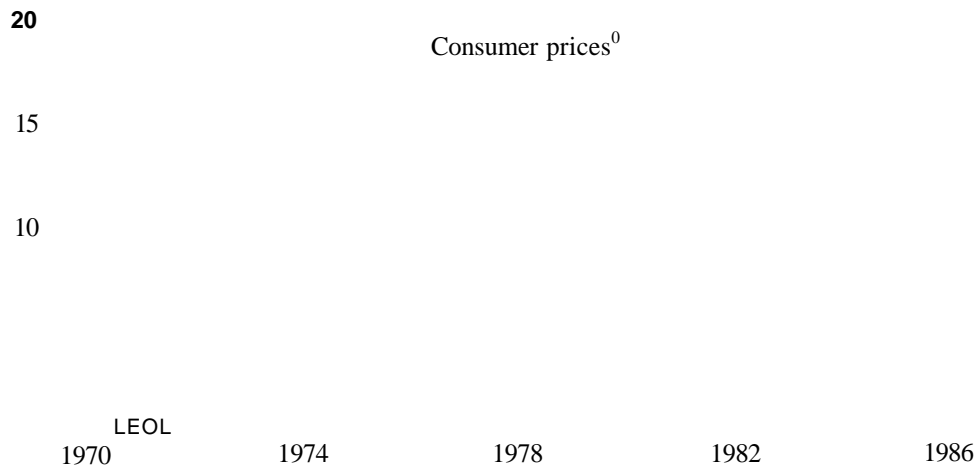
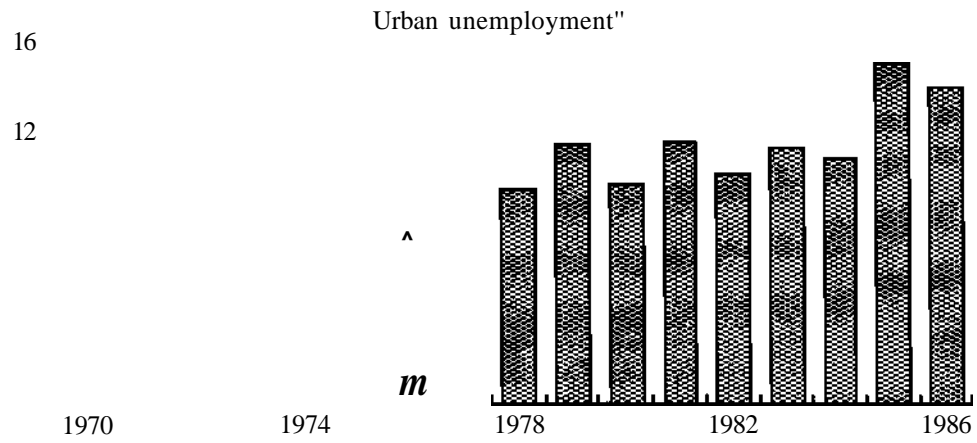
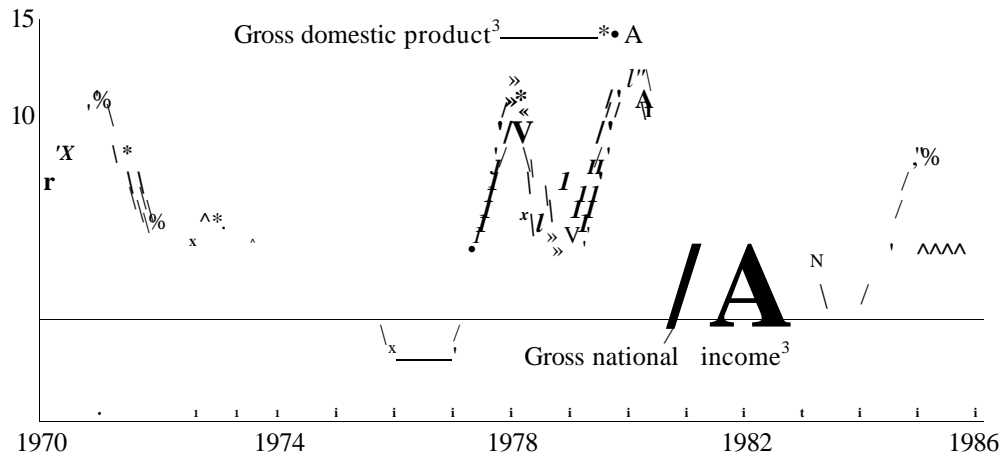
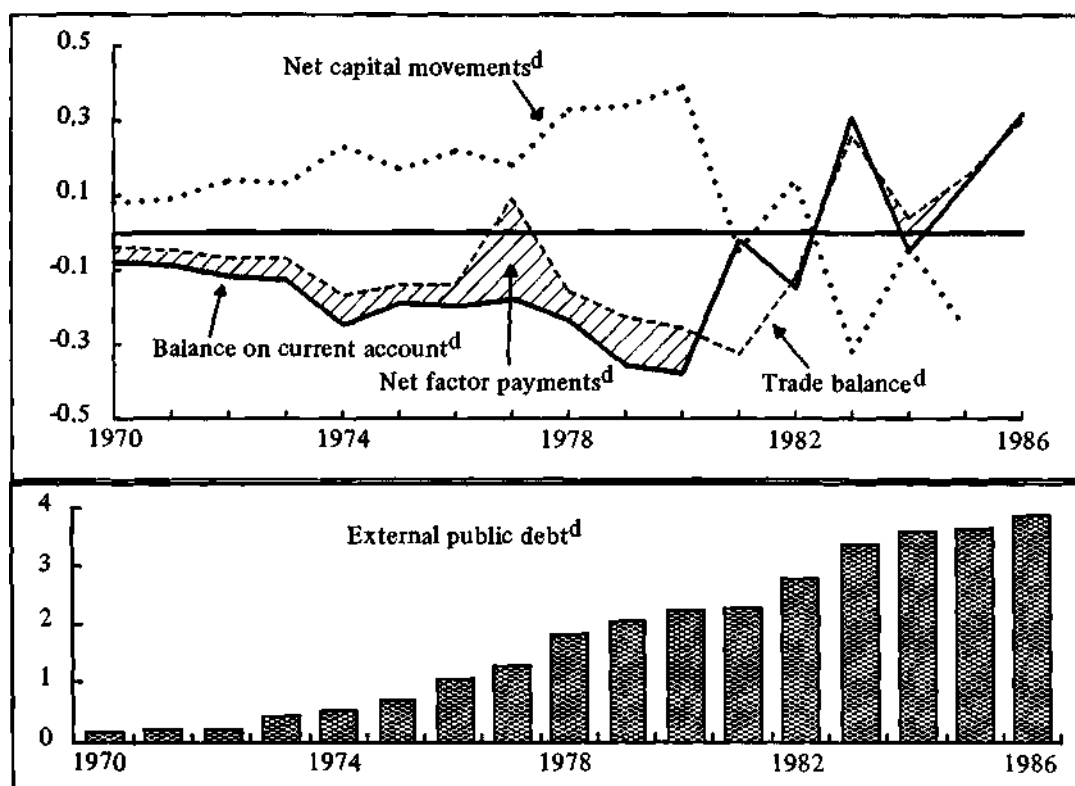


Figure 1 (concluded)



Source: ECLAC, on the basis of official figures.

^aAnnual growth rate. ^bAnnual average national urban rate. ^cPercentage variation from December to December. ^dBillions of dollars.

Another occurrence with a negative effect in 1985 was the intense drought, followed by irregular rainfall, which affected the production of such important crops as sugar cane and certain grains, including rice and maize. On the other hand, the remaining economic sectors showed an upward trend.

Certain tensions, in many cases non-economic in nature, began to arise towards the end of 1986. If these continue, they may erode the functioning of the international financial centre and may also have a harmful effect on economic activity in the more general meaning of the term.

Against a rather positive international backdrop, the authorities continued to apply an economic policy congruent with the adjustment programme agreed upon with the International Monetary Fund. This policy was accompanied by measures aimed at economic openness (elimination of agricultural subsidies, establishment of a new tariffs structure and attempts to lower the level of protection) and by labour and industrial legislation favourable to the business sector.

The structural adjustment programme provided for incentives for both industrial production and agriculture. With regard to the latter, measures have been in effect since 1983 aimed at eliminating the restrictions on external sales of meat and coffee, which had been established to keep their prices from rising on the national markets, and at ending the price controls on certain food products. Import quotas on some agricultural products were also eliminated.

With regard to industry, production incentive laws and certain modifications in the labour code were enacted in 1986. Also, the substitution of the quota system by tariffs was given more general application, in order to provide added protection for industry. Construction incentives were provided by lowering nominal interest rates, offering tax exemptions for new buildings, and applying prime interest rates to mortgage loans. This gave a boost to private sector housing construction, with the result that the total value of building permits granted increased considerably.

Within the framework of this policy, the government budgeted public spending more austere than in the preceding year; current spending was reduced, although investment was increased in order to reestablish some equilibrium.

It should be noted that open unemployment fell below its 1985 level, although it remained higher than the levels usual in the past. The growth rate of the labour force was lower than that of previous years, which may have been partially due to an increase in informal activities. All these factors helped to reduce the pressure on formal work sources.

In summary, the 1986 economic results gave evidences of being essentially satisfactory, within a favourable international context which had definite positive effects on an economy as open to the exterior as that of Panama. The basic result was a moderate growth of economic activity, as well as of fixed investment and accumulation of stocks. At the same time, financial imbalances were relieved and domestic prices remained stable. In this favourable climate, it was possible to apply the adjustment programme without major tensions, although these could return if the positive factors experienced throughout the year were to suffer a reversal.

2. Trends in economic activity

a) *Total supply and demand*

According to the estimates available, the total supply of goods and services increased by 6% (a rate similar to that attained the previous year), thanks mainly to favourable international circumstances.

On the supply side, the gross domestic product grew more slowly than in 1985, barely exceeding population growth, due to a weakening in the performance of those activities which had been primarily responsible for the impetus behind overall economic activity. These activities included agricultural production for domestic consumption (which was affected by various phenomena that will be considered further on), the generation of hydroelectric power, and the transport sector, whose performance was weakened by a decline in the volume of oil conveyed through the pipeline. As for foreign purchases, they rose to a higher level than that attained in 1985, mainly as a result of an increase in the transactions related to the free zones. This increase again had a great impact domestically, although it did not reach the high levels attained early in the 1980s.

On the demand side, exports of goods and services rose more slowly than in 1985, as a result of the above-mentioned recovery of the free zone prompted by the dynamism shown by sales to other Latin American countries.

Noteworthy within domestic demand were, on the one hand, the change in the trend of investment, which had undergone a sustained decline and, on the other hand, the fact that it was possible to maintain the growth trend in private consumption, although this increased at a much slower rate.

In investments, two outstanding developments took place. First, the trend in gross fixed capital formation was reversed, so that it grew after several years of decline, owing in particular to an increase in public sector investment (attributable in part to new flows of external capital), and second, there was an upturn in private sector construction, owing to the policy aimed at promoting building activity through the granting of mortgage loans on favourable terms. Moreover, thanks to the improved prospects associated with the upturn in foreign trade, merchandise stocks increased, especially in the Colón Free Zone.

Private consumption continued to follow the upward trend observed in recent years, although its growth rate fell to 4%, in contrast with the impressive average annual growth rate of 7% registered in the period 1981-1985 (see table 2). This drop is explained in part by the contraction in agricultural activity (particularly in basic grains and sugar cane) which appears to have caused a reduction in the income of rural workers. Also, it is estimated that the consumption pattern of the high-income groups has changed, especially as regards durables, with more resources being channelled into saving.

Government consumption continued to rise (2%), although more slowly than the economy as a whole (see table 2). This rise was related to an increase in remunerations and to the reduction of purchases of non-personal goods and services due to a policy of restraint on current expenditure associated with the commitments assumed with international finance agencies and as part of the stabilization policy in effect since 1984.

b) Evolution of the main sectors

i) *Agriculture.* After three years of sustained growth, the agricultural sector declined by almost 2%, reflecting differing trends within its main components (see table 3). Thus, in contrast with the marked deterioration shown by the majority of crops, livestock performed favourably, and fisheries even more so. The share of the latter in value added was only slight, but it achieved some prominence in export activity. Agricultural output declined by nearly 5%, thus turning in its least favourable performance since 1982. Climatic factors contributed to this, as did the labour problems which arose once again in the banana subsector, both of which meant that this crop continued to perform at below its potential.

Sugar cane production also declined due to the contraction, once again, of the area cultivated in response to a decrease in quotas within the North American preferential market and to the continued low world prices (see table 4).

Among traditional export products, only in the case of coffee was there an increase in production, but it was not possible to take advantage of the improved conditions in the international market because no policies aimed at improving, applying higher technology and expanding plantations have been implemented in the 1980s.

The severe droughts which occurred at the beginning of the agricultural cycle affected the first sowing of most of the crops intended for domestic consumption, and the floods which occurred subsequently reduced the harvest from the second sowing, especially in the Azuero region. This had an impact on the overall production of grains, particularly rice and maize. In addition to the climatic factors referred to, agriculture suffered the effects of the economic adjustment programme implemented by the government, which liberalized imports of basic foodstuffs and began to eliminate subsidies. For this reason, although the food price index showed a greater increase than consumer prices on average, producer prices of certain goods, especially rice and beans, fell.

Although there was a slight increase in the credits available for agriculture, these remained below the level of those granted during the period 1982-1984. The credits allocated to the cultivation of rice and sugar cane decreased, but loans for stock-raising increased.

The increase registered in the livestock subsector was due primarily to the production of pigs and poultry, which was stimulated by the liberalization of the relative prices of these products in the domestic market and by the deterioration of beef production, the slaughter of beef cattle having undergone a gradual decline.

The fishery subsector experienced a significant recovery for the second consecutive year, being spurred, although only temporarily, by the external market and especially by the demand for shrimp and shellfish in the United States. The increase in the credits obtained by this subsector was notable, although even so the volume of loans obtained in 1981 and 1984 was not equalled (see table 5).

On the other hand, the contribution of industrial-scale fishery to the sector's added value declined, owing to the decrease in export prices of fishmeal brought about in part by the substitution of soy flour for this on the world market. This was compounded by a decline in the catch attributable to changes in ocean currents and to ecological deterioration in coastal areas (see table 5).

ii) *Manufacturing.* After the stagnation registered in 1984, the value added by manufacturing increased by 2% for the second consecutive year, thus only returning to the volume of production, already attained in 1980 (see table 6). In this respect it should be noted that the loss of dynamism experienced by this sector so far in the present decade has been reflected in a noticeable drop in the coefficient of industrialization, which has fallen from 11% in 1975 to less than 9% in the year under review.

As regards specific industrial branches, attention should be drawn first to the increases registered in the manufacture of clothing, footwear and leather goods and, second, to the decline in the manufacture of chemicals and petroleum products. The dynamism shown by the first-named items was a first reflection of the recently-adopted policy measures, including among others the application of incentives for industrial production, amendments to the labour code¹ and the gradual introduction of new tariffs from mid-1985. These measures also contributed to a slight increase in investment in various export-oriented activities.

¹See ECLAC, *Notas para el estudio económico de América Latina y el Caribe 198*: Panamá (LC/L.390/Add. 17), January 1987.

The dynamism shown by the construction sector, for its part, also stimulated the basic metals branch and the production of other inputs used in construction.

Furthermore, the marked drop in international oil prices has brought about geographic changes in refining and marketing activities, and this appears to have been responsible for a decrease in the utilization of oil refining facilities in Panama, which had been on the increase.

The new legislation on industrial promotion is part of the structural adjustment programme agreed to with financial institutions in the second renegotiation of the external debt. The strategy behind it was primarily aimed at boosting export activities, expanding subcontracting in the Colón Free Zone, and achieving greater competitiveness on the basis of the comparative advantages which the country possesses.² The need to keep prices competitive was responsible for the stagnation of wages, since in Panama labour is traditionally paid more than in neighbouring countries.

Noteworthy among the promotion mechanisms adopted were, firstly, the extension to small industry of the benefits enjoyed by the rest of the industrial sector in respect of the allocation of credits, and, secondly, the maintenance of a register of firms eligible for special fiscal treatment in the Ministry of Trade and Industry. Even so, credits granted to manufacturing decreased for the fifth consecutive year, bringing their share in total domestic loans granted by the banking system down to little more than 7%.

iii) *Construction*. Following a marked decline in the preceding three years, construction, which at times has been one of the driving forces behind overall activity, showed some dynamism. Value added increased by almost 5%, although the level attained was nearly 40% lower than in 1982' (see table 7). The increase was the result of an incentive policy based on credit instruments —prime interest rates were applied to loans granted for the construction of dwellings, the number of which increased substantially. Another positive factor was the decline in the prices of building materials.

The private sector responded favourably to such incentives, concentrating on the construction of housing for middle-income families and non-residential buildings, although the latter were not connected with the operations of the international finance centre, as in previous years. The amount of luxury building, which had been substantial in the period 1978-1981 and was part of the process of modernization of the main cities, especially the capital, seemed to have begun to decline.

Direct public investment barely increased since the effect produced by the execution of major projects, such as the oil pipeline, on which work concluded in 1984, and other energy-related projects which were completed in 1985, had already slackened off substantially. Prefeasibility studies were conducted to identify a number of important projects on which work could begin towards the end of the present decade or the beginning of the next. In this respect, special mention may be made of the studies on container terminals in Balboa and Colón, a "dry" canal (rail or road) between these cities and the integral development of the zones gradually being handed back as provided for in the Torrijos-Carter treaties. Projects in the longer term include studies on alternatives to the present Canal, currently under negotiation by a tripartite commission comprising the United States, Japan and Panama.

iv) *Electricity*. This sector grew by close to 7% thanks to the continuing boost in hydroelectric power production (see table 8). Since 1984, when the La Fortuna hydroelectric power stations began to operate, a significant structural change has taken place in this sector. Thus, while in 1980 46% of the power produced came from thermal sources, in 1986 their share fell to 19%. The dynamism shown by this sector would have been still greater had it not been for the drought during the first months of the year, which affected reservoir levels.

v) *Transport and storage*. The product generated by transport, storage and communications increased by almost 2%, compared with 6% in 1985 (see table 9). This was due to the stagnation in the land transport of freight following the decrease in the flow of farm commodities. A case in point was the drop in the volumes of sugar produced.

Furthermore, the trans-Isthmian oil pipeline and other services relating to water transportation decreased by 12.5% as a result of the decision by the United States (the main user) to conserve its

²The government has associated this competitiveness with the training and skills of the Panamanian labour force, the strategic location of the country within the world transport network and its access to financial resources through the international financial centre. See *Plan de lineamientos, objetivos y acciones para el desarrollo de Panamá*, 29 January 1986.

¹In the period 1982-1986 only 3 230 new jobs were created directly in the sector. The Panamanian Chamber of Commerce estimated that 20 232 people were employed in the sector in 1984 and 23 462 in 1986.

reserves of Alaska crude, which must be transported through the pipeline in order to reach the East Coast, and instead to temporarily import cheaper oil from the Middle East.

The economic activity of the Panama Canal itself rose by 6% as the freight transported increased. This was due to the intensification of deep-draft vessel traffic and to the movement of a larger number of vessels per day. Most of the variables relating to traffic passing through the Canal, as well as the revenue collected by the Canal Commission from tolls, increased to unprecedented levels, surpassing those reached in the preceding fiscal year (August to September). The main factor underlying the expansion in 1986 was the substantial increase in the number of ships transporting automobiles, especially those coming from Asia. There was also a considerable increase in the movement of containers. Interoceanic traffic during this fiscal year grew by 3.2% to slightly over 12 000 vessels. At the same time, there was an increase in the size of the ships, which meant that net tonnage passing through the Canal increased by 8% as compared to 1985, attaining a volume of 184 million tons.

Tolls rose by 7%, so that US\$323 million was collected compared with US\$301 million in the same fiscal period of 1985.

There was a decline in the movement of bulk merchandise, but cargoes classified as low density increased due to the greater use being made of ships for containers and automobiles. This explains the relatively smaller increase observed in the tonnage of ships by comparison with the greater growth in other elements of Canal through-traffic.

The main item, in terms of tonnage, continued to be petroleum and petroleum products, which accounted for 22% of the commercial cargo moved. Grains continued to occupy second place, despite their having declined for the fourth consecutive year, this time by 2.7%. This occurred because wheat shipments from the United States to the Far East were shipped primarily from West Coast ports in the United States, thus avoiding passage through the Canal. Other significant grain cargoes, such as corn and soya, showed increases.

The volumes of coal and coke, which made up the third major group of goods in 1986, decreased by 11%, due primarily to a drop in shipments to Japan.

Despite the continued decline in trade between the East Coast of the United States and Asia, this continues to be the main route serviced by Canal traffic, accounting for 36% of the total cargo, although the tonnage transported declined by 3%.

Given the Canal Commission's special characteristics, which stem from its being jointly administered by the Governments of Panama and the United States, there has been debate and negotiation over what the Canal's traffic has meant to the Panamanian economy. Part of the controversy has centered on the application of the pertinent North American legislation, especially the Public Law whereby North American investments are deposited in the United States general treasury fund as miscellaneous revenue, instead of going into the Canal Commission's fund.⁴ On the other hand, funds destined for construction contracts which are not yet completed and for purchase orders to be effected increased to US\$40 million as of 30 September 1986, compared with US\$26 million for the same period in the preceding year. This reflects a new boost in maintenance works on the part of the Commission.

Business activity in the Colón Free Zone increased its contribution to the national product by 27%, thanks to the recovery of some traditional markets for re-exports to Latin America and the opening of new enterprises which took advantage of the new labour and industrial legislation.

vi) *Other services.* Financial services pertaining to insurance, real estate and other services experienced growth of almost 5%, the greatest in the last five years (see table 9). The factors underlying this performance comprised the greater activity shown by banks operating under general licence,⁵ whose credit operations expanded for the first time in five years, the greatest volumes of financing being destined for the business sector, housing construction and industry. Simultaneously,

⁴ As of 1 January 1986, the interest generated by the Canal, amounting to almost US\$7 million, was deposited primarily in the United States general treasury fund (around US\$5 million). Income-generating United States investment declined from US\$84 million to US\$50 million between 1982 and 1986, based on the capital movements which occurred (income/expenditure and net transfers of property).

⁵ The international financial centre of Panama is composed of i) banks under general licence, which may operate both inside and outside the country; ii) banks under international licence, which may only operate outside the country, and iii) field offices which are agents for foreign banks (see table 21 below).

demand deposits increased markedly (by 32%) and investment in securities grew by 96% as compared with 1985.

The greater activity shown by real estate and the increase in ownership of dwellings reflected, in part, the increase in the construction of rental housing. The expansion in wholesale trade, after the drop in recent years, meant that there was a partial recovery of historic levels and retail business was able to market surplus stocks which had accumulated in previous periods.

Commerce and tourism contributed US\$254 million, representing an upturn of 4% (see table 9). These activities have been affected in recent years by growing competition from Caribbean countries. In effect, there has been a decline both in the number of tourists and in-transit travellers as well as in the average duration of stays. All the same, spending by tourists and in-transit travellers increased slightly.

c) *Employment*

Out of a potential labour force of 719 000 persons, open unemployment came to around 74 000 (see table 10). A noteworthy fact is that, according to the household survey carried out in August 1986, the growth rate of the labour force has decreased, which is probably why the labour market participation rate of the population 15 years and over dropped from 57% in 1985 to 55% in 1986. This phenomenon could well be due to the fact that the labour force exerted less pressure on the labour market because part of it shifted to the informal market. Based on the survey in question, unemployment decreased by almost 14 700 persons, giving a rate of 10%. In 1986 18 400 jobs were created in the entire country, almost all in the metropolitan region. Although complete statistical information was not available, it can be stated that migration from the countryside to the city increased faster than the growth rate of the rural population. This appears to have been due to the decrease in agricultural and stock-raising activity.

As already indicated,⁶ the reforms which have been made in the labour code allowed for increased flexibility in hiring procedures and contributed to the shift of part of the labour force to the informal sector. Among the changes made was a reduction in overtime pay, with the application instead of a single overtime payment of 25% of the basic wage in small industrial enterprises, in agriculture and stock-raising, and in firms devoted entirely to export. In addition, the new law permitted piecework, home employment without the generation of permanent job status, and the payment of bonuses, not incorporated into wages, for increased production.

3. The external sector

The expansion of international trade in 1986 reflected an upturn in exports, including those of services, and their net contribution to the economy was the greatest in the decade (see table 11).

The trade imbalance between exports and imports of merchandise was significantly reduced during the year, falling from 753 million balboas in 1985 to 542 million in 1986 (see table 12). If only the total for national exports (excluding re-exports) and national imports (excluding those destined for the free zones)⁷ is taken into account, the merchandise trade deficit rises to 822 million balboas in 1986, but even so this is a lower figure than that for 1985, which exceeded 1 090 million balboas.

The terms of trade improved markedly due to the rise in the unit value of exports (especially those of coffee) and the reduction in the average price of external purchases. Thus, the significant rise registered in the volume of exports was further strengthened by their greater purchasing power.

⁶ECLAC, *Notas para el estudio económico de América Latina y el Caribe, 1985. Panamá (LC/MEX/LA0)*, 10 December 1986.

⁷ Given the importance of the value of the imports and re-exports made through the Colón Free Zone, and on the basis of international recommendations on the matter, these transactions are registered in the balance of payments, even when the enterprises whose capital is the property of non-residents are considered as engaging in direct foreign investment. The value of these imports and re-exports recorded in the external sector accounts, corresponds to the "transaction value", which does not necessarily coincide with the FOB or CIF values. In turn, in the case of the estimation of the gross domestic product, it does not correspond exactly with the totals of re-exports and imports referred to. In effect, methodologically speaking, the calculation of Panama's gross domestic product only includes the profits from operations in the country by all firms, together with the profits from the overseas operation of firms whose capital belongs to residents; it does not represent the total added value generated in the Free Zone.

With regard to tariffs, legislation passed in 1985 eliminated the quota system and incorporated specific and *ad valorem* duties which gave a relatively high level of protection. As of 1986, this level began to diminish, however, and within a period of five years should reach 60% over the CIF value of products imported for industries already in existence, and 90% in the case of some industries rated as being important to the country. For those industries which start operating after the law is promulgated, protection may not exceed 20% *ad valorem*, except in the case of agricultural and livestock products, in which case it could reach 30%.

Possibly as a consequence of this change in foreign trade policy, external purchases imported into the country decreased, while purchases for the free zones surpassed the growth rate of the preceding year, so that the overall trend in the performance of imports of goods did not vary from that of the last two years.

a) *Trade in goods*

According to preliminary estimates, total exports increased by 23% as compared with those of 1985 (see table 13). This resulted from an expansion of almost 26% in re-exports (which account for more than 85% of goods leaving the country). Sales of Panamanian products grew by almost 9%, mainly through exports of coffee, shrimp and shell grit (conchuela), since those of other traditional exports declined. Shell grit, a non-traditional product, ranked among the four main export items, reaching a total of US\$18 million up to the third quarter (sales of shellfish in 1985 were estimated at US\$6 million).

As a consequence of droughts occurring in the coffee-growing areas of Brazil, coffee prices experienced a sharp rise, followed by a temporary suspension of the quota system. This allowed the Panamanian coffee producers, as well as those of other countries in the region, to gain greater access to markets, causing the total value of coffee exports to double.

Also contributing to the improved trade balance was a decrease in the value of imports (excluding those into the free zones, which instead recorded the greatest growth of the decade) (see table 14). A significant factor in this result was the combination of lower prices and smaller imports of hydrocarbons, which caused the oil bill to drop by more than US\$ 130 million. Only in capital goods was there an increase (7%) due to the dynamism shown by the construction sector and to the expansion of public investment which occurred during the year.

With regard to the trade in goods, it should be noted that this involves, on the one hand, the trade carried out in the free zones (i.e., re-exports less imports), which gave a surplus of more than US\$280 million in the year, and, on the other hand, domestically produced exports and effective imports of goods into the country. The latter showed a deficit of more than US\$800 million. Although this exceeded the figure for national exports by a factor of more than 2.5, however, it was considerably lower than the figures for the previous two years. It should be noted that in the Panamanian economy a high ratio between the deficit and exports of goods is usual, being due to the development pattern followed by the country, in which the trade balance depends to a high degree on exports of services (more than 35% of external sales). The surplus on the trade in services came to a little more than the deficit on the trade in goods (US\$839 million and US\$822 million, respectively), so that the balance on goods and services (including the free zones) was positive by almost US\$300 million (see table 15).

b) *Trade in services*

As already indicated, the determining element in the balance of trade continued to be sales of services. To income from the trans-Isthmian oil pipeline was added income from the Canal tolls and the value added in the Colón Free Zone. These three sources of foreign exchange accounted for 53% of total exports of services. Fiscal revenue from the oil pipeline fell by US\$20 million, but this drop was more than offset by the increases in the other two items, with income from tolls increasing by almost US\$22 million and the value added in the free zones surpassing that of the preceding year by more than US\$16 million. Other items which contributed to the growth in the value of exports included direct sales to non-residents, consisting mainly of tourist expenditure, and purchases made in the United States military zone located in the country, which together exceeded US\$202 million.

c) *External indebtedness*

At the end of 1986 the external public debt came to 3 882 million balboas (see tables 16 and 17).

Given the characteristics of the Panamanian financial sector and the special features of the way the transactions of the banking centre are recorded, it is difficult to make a proper estimate of the private external debt.

The composition of the external debt has changed slightly over the last three years: while in 1984 60% corresponded to private sources, in 1986 this share had dropped to 57%. This decrease resulted from the financial policy followed by the government since 1984, which consisted of increasing the participation of international agencies, thus achieving an improvement in the debt profile, especially with regard to interest rates and periods of payment.

A reduction was achieved in the burden of public debt servicing as a proportion of exports of goods and services (14% compared with 16% in 1984), but because of a drop in new resources obtained, the ratio of servicing to disbursements rose to a level similar to that of 1980.

Another change in the debt structure was the growing weight of currencies other than the dollar, due to the devaluation of the United States currency. This also contributed to the increase in the burden of debt servicing in those other currencies, when expressed in dollars.

In December 1986, following the signing of a structural adjustment agreement, a new loan was obtained from the World Bank for US\$100 million. This is the second credit granted by that organization to the country within the last three years. Disbursement was to be in two payments of US\$50 million each: the first one in the same month (December) and the second one six months later. According to World Bank estimates, this loan will cover 10% of the country's total gross external capital needs during the period 1986-1987.

A US\$60 million loan was obtained from private sources (Bank of America) for the 1986-1987 public investment fund, to be disbursed on a quarterly basis, and on 30 December the first installment of almost US\$20 million was received. At the same time, refinancing of the 1985-1986 external debt for US\$577 million was negotiated with the Bank of America, and US\$34.5 million of this was received during the year.

4. Prices and wages

a) *Prices*

Due to the very open nature of the Panamanian economy and to the fact that monetary conditions are largely determined by external operations, prices have traditionally been very closely tied to world inflation. Thus, since 1981 there has been a moderate increase in prices, and during 1986 the average growth rate of the consumer price index was practically zero, since the drop in some prices (especially those of oil), offset other price rises.

Among the main components of this index, foodstuffs and beverages rose somewhat over 2% in the period from December to December, while the annual mean was -0.4% (see table 18). This could indicate that in the last months of the year prices of these items rose more rapidly than the annual mean. If this trend continues, it could affect the population at lower income levels, since food has greater weight in their spending patterns. It should be noted that prices of both the "other products" group and those of the transportation (miscellaneous) item dropped on average by 2% and 5.5%, respectively. The latter drop is significant, since it implies a decrease in an item of great weight in the popular budget and could partially offset the increase in foodstuffs.

The wholesale price index recorded a drop of more than 16% between annual averages and 18% from December to December (see table 18). The difference between these results and those of the consumer price index are worthy of note.⁸ The national index of imported products dropped by more than 22%.

⁸In 1986 the wholesale price index was calculated using a new methodology. It may be noted that when this index was calculated using the previous methodology for the period 1980-1985, it was more or less in line with the consumer price index results, but in contrast, the new one differs from the latter over practically the entire period indicated.

b) *Wages*

Although minimum wages have not been readjusted since 1983, average nominal salaries in the private sector increased by nearly 3% in 1986. The largest increases were observed in average nominal remunerations in the international banking centre, which primarily employs highly-qualified and qualified personnel, but wages in the Colón Free Zone have gradually dropped since 1982, by an annual average of 4% between that year and 1986, and by 9.2% in the last-named year above. This could be due to the fact that there is a large unemployed labour force available for work in that zone, while unionized groups are few in number.

Nominal and real wages in the private sector evolved in a very similar manner, both rising by close to 3% (see table 19). In contrast, minimum wages have remained frozen since 1983. Since in 1986 general prices remained almost stable it could be said—if one takes into account only this indicator—that their purchasing power has been maintained, but in fact the cumulative effect of price and wage trends has meant that minimum wages have stayed at practically 1980 levels, while average real salaries have improved 10 points in the index (a real average annual increase of 1.6% over the last six years).

5. Fiscal and financial policies

In 1986 four elements affected economic performance: the drop in international interest rates (which directly affect those observed in the country), the drop in oil prices, the short-term incentives granted by the government to reactivate the construction sector, and the increase in credit extended by the banking system to the private sector (12% between 1985 and 1986).

Within its programme of adjustment and rationalization of public expenditure, the government continued to be bent on meeting the commitments contracted with the international financial institutions in their second phase. Thus, the central government's fiscal deficit, as a proportion of the gross domestic product, was reduced from 13% in 1984 to 8% in 1985 and to 7% in 1986. Current expenditure decreased by 5.6%, investment expenditure increased by 19.4% (in contrast with a drop of 29.3% in 1985), public employment grew less, and the wage component in total expenditure declined.

a) *Financial policy*

There was a recovery in financial deposits, especially those placed by foreign banks. At the same time, the banking system's liabilities increased by US\$2 600 million (10% more than in 1985), due primarily to increases in external deposits. The expansion of the domestic component, made up of individuals' savings and time deposits, was one of the consequences of the improvement by two percentage points in the interest rate paid on savings deposits larger than 3 000 balboas as of 1 January 1986, as decided by the National Banking Commission (see table 20). Lowering of the minimum amount required for fixed-term deposits also had a favourable effect. These elements partially compensated savers for the drop in international interest rates.

Total assets increased once again (this time by 9%) after having decreased in the period 1982-1984 (see table 22). Although the levels existing at the beginning of the decade were not regained, the external credit portfolio decreased less than in the last three years. Increases in the domestic credit portfolio were registered primarily in loans granted to the housing sector, for personal consumption, to businesses and for construction. In contrast, credits for industry contracted by 2.6%, although they still accounted for more than 7% of the resources loaned by the banking system.

Borrowing for housing grew mainly as a result of the incentives established by the State since 1985, especially the law pertaining to prime rates. Participation by Panamanian private banks was on the increase, accounting for around 33% of the total amount loaned.

Personal consumption borrowing was stimulated by the drop in interest rates as well as by the greater dissemination of credit cards.

The recovery of the commerce sector was due to the a greater buoyancy of domestic activity and to import and export credits of the Colón Free Zone. Loans for agricultural, cattle raising and fishing activities together accounted for only 3% of the total, with virtually no change from the overall figure

for the previous year despite the great increase in loans to the fishery sector (see table 23). In agriculture, this result was due primarily to the decrease in credits for the cultivation of rice and sugar cane.

There was also a marked increase in the banking system's investment in foreign securities. The external credit portfolio declined once again, although not as fast as in the immediately preceding financial years.

In the last few years, the Panamanian banking system has significantly reduced its external credit portfolio. Because of the recession which Latin America is experiencing, the region has become less attractive for banks as far as the granting of credits is concerned. For this reason, the composition of the system's assets has changed and the domestic credit portfolio has increased by about 6% per year since 1982, the 1986 growth rate being 6.8%. This does not imply however, that the external credit portfolio has ceased being the item of highest value among the system's assets, since in 1986 it accounted for 42% of the latter and more than 50% of loans granted during the year.

The increase in investment in securities as a proportion of total assets which has been observed for several half-year periods reached a total of US\$2 259 million at the end of the year, 96% more than in 1985 (see table 22). This type of investment has increased especially in the form of debt bonds. These have become part of the external debt of some countries, taking the form of instruments designated in national currencies. Purchase of this type of document expanded especially fast in 1986, with investments in securities rising from 6% of total investment in 1985 to 11% in 1986.

Finally, there are indications that some circles overseas, have pressed for the adoption in Panama of certain control mechanisms on the international financial centre's operations. The reason for this appears to be the fear that, by taking advantage of the ease of financial movements and the confidentiality of operations, large amounts of resources stemming from illicit activities abroad could be deposited through the financial Centre.⁹

b) *Fiscal policy*

The public finances were managed in an austere manner thanks to customs reforms, the reformulation of the investment programme in terms of both size and composition, and greater control over the management of the public debt. Other measures adopted by the government involved a review of the integrated health system and of the Social Security Fund, whose actuarial viability was questioned in the light of external evaluations carried out during the year.

Current tax revenue increased by 9-4% with respect to 1985 (see table 24). This was due, *inter alia*, not only to the growth of the product but also to an improvement in collection procedures and to the effect of the fiscal measures in effect since 1985. The remainder of the current income registered in the official accounts included US\$484 million in capital income, made up of both domestic financing (from the decentralized sector, the National Bank of Panama and the Social Security Fund), and of official external resources (US\$84.3 million) and private resources (US\$320 million from external banks and financial consortia). Taking these items into account within the capital account, this gives a final deficit of the order of US\$340 million, which was slightly lower than that of 1985.

Since March 1985, various measures have been implemented, such as a 10% surcharge for two years on corporate income tax and the incorporation of representation expenses into the salaries of public employees for income tax purposes. At the same time, the import tax exemption previously granted on government purchases was eliminated. These measures began to have their full effect in 1986.

Another measure adopted was the change in the basis for measuring import tax, so that tariffs are calculated on the OF and not the FOB value. As a result of this amendment, which was in effect throughout the year, the collection of indirect taxes rose by 13%.

If current capital income is subtracted from non-tax income, the collection of the latter is seen to be lower, due to the drop in the profits of State enterprises and of the operation of the trans-Isthmian oil pipeline. The profits from the pipeline went down despite the increase in the rate charged per barrel transported through the pipeline, as provided for by Law 14 of 2 July 1981.¹⁰ Within non-tax

⁹Press release from the National Banking Commission (NBC), quoted in *Inforpress*, No. 697, 10 July 1986.

¹⁰Ministry of Planning and Economic Policy, *Inforviación Económica y Social de Panama*, 1986, p. 43.

income, the item for rates and duties grew by 16%. This was due in part to an increase in the charge for the right to fly the Panamanian flag on merchant ships and to the greater collection of corporation tax, which came to 16 million.

Total expenditure rose by only 1 %, out of which 44% corresponded to remunerations together with the purchase of goods; 38% to debt-related payments (interest, principal and other expenses) and 18% to the investment programme.

It should be noted however, that the government was able to save US\$23 million on the amount budgeted for operating expenses. The saving basically corresponded to two items, personal services and payment of the public debt. The authorities felt that the savings on payment of the public debt servicing could have been larger had it not been for the revaluation of the yen, which entailed extra disbursements of the order of US\$8.6 million. The operations of the decentralized entities caused a deficit of 89 million balboas, in contrast with surpluses of 130 million in 1985 and nearly 170 million in 1984. Of this negative balance, close to 77 million balboas corresponded to the Social Security Fund.

Table 1

PANAMA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^o
Indexes (1980= 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	104.0	109.1	109.0	108.6	113.0	116.4
Gross national income	100.0	104.8	106.6	110.9	112.2	122.2	130.4
Population (millions of inhabitants)	1.96	2.00	2.04	2.09	2.13	2.18	2.23
Per capita gross domestic product	100.0	101.8	104.5	102.2	99.6	104.4	102.3
Growth rates							
B. Short-run economic indicators							
Gross domestic product	15.2	4.0	5.0	-0.1	-0.4	4.1	3.0
Per capita gross domestic product	10.6	1.8	2.7	-2.2	-2.5	1.9	0.9
Gross national income	13.0	4.8	1.7	4.1	1.2	8.9	6.8
Unemployment rate	8.4		8.4	9.7	10.1	12.3	10.2
Consumer prices							
December to December	14.4	4.8	3.7	2.0	0.9	0.4	0.4
Variation between annual averages	13.8	7.3	4.2	2.1	1.6	1.1	-0.1
Real wages and salaries'	2.5	3.3	9.2	4.8	3.3	7.0	
Current income of government	42.0	13.5	7.3	6.8	1.1	9.8	3.9
Total expenditure of government	14.1	14.3	33.5	-15.7	9.0	-8.6	14
Fiscal deficit/total expenditure of government	34.6	35.1	47.8	33.9	38.7	26.3	24.5
Fiscal deficit/gross domestic product	10.4	11.0	18.2	10.6	13.2	7.5	6.9
Current value of exports of goods and services	196.4	9.4	-3.0	-17.6	-0.6	11.7	12.3
Current value of imports of goods and services	166.0	10.6	-7.8	-27.2	7.5	7.8	8.2
Terms of trade (goods and services)	-9.1	-3.8	-7.4	14.0	3.0	1.3	11.1
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-261	-329	-124	255	35	150	296
Net payments of profits and interest	-56	362	37	126	-15	46	90
Balance on current account	-377	-23	-152	311	-45	131	321
Balance on capital account	389	-52	136	-323	-39	-256	
Variation in net international reserves	17	-68	-9	-3	-70		
Disbursed public external debt	2 210	2 333	2 820	3 392	3 644	3 674	3 882

Source: ECLAC, on the basis of official figures.

^oPreliminary figures.

Percentages.

Wages and salaries at national level.

Table 2

PANAMA: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)»			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total supply	105.2	110.9	117.8	147.4	149.2	-3.2	1.9	5.5	6.3
Gross domestic product at market prices	108.6	113.0	116.4	100.0	100.0	-0.1	-0.4	4.1	3.0
Imports of goods and services	97.9	106.5	120.9	47.4	49.2	-10.2	7.8	8.7	13.6
Total demand	105.2	110.9	117.8	147.4	149.2	-3.2	1.9	5.5	6.3
Domestic demand	108.5	112.7	119.9	103.3	106.4	-4.1	5.5	3.9	6.3
Gross domestic investment	71.9	66.4	80.5	27.7	19.2	-21.5	-12.5	-7.6	21.2
Gross fixed investment	83.1	77.5	81.2	24.3	17.0	-23.4	-7.9	-6.7	4.7
Construction	73.3	72.7	76.1	15.9	10.4	-29.9	-17.8	-0.9	4.7
Machinery	101.3	86.6	90.6	8.5	6.6	-7.7	10.2	-14.5	4.7
Public	64.3	42.2		9.9		-35.6	-12.7	-34.4	
Private	96.0	101.8		14.4		-15.4	-5.5	6.1	
Changes in stocks	-8.8	-13.6	75.4	3.4	2.2				
Total consumption	122.0	129.7	134.3	75.6	87.2	2.0	10.4	6.4	3.5
General government	122.3	124.3	126.8	19.1	20.8	-5.9	1.3	1.6	2.0
Private	121.8	131.6	136.9	56.5	66.4	5.4	13.8	8.0	4.0
Exports of goods and services	97.3	106.6	113.1	44.0	42.8	-0.8	-6.3	9.6	6.1

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office. "Preliminary figures. The figures for exports and imports of goods; and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values using price indexes calculated by ECLAC for the purpose.

Table 3

**PANAMA: GROSS DOMESTIC PRODUCT BY KIND OF
ECONOMIC ACTIVITY AT MARKET PRICES**

	Indexes 1980 = 100			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	108.6	113.0	116.4	100.0	100.0	-0.1	-0.4	4.1	3.0
Goods	94.6	96.8	97.8	26.5	22.2	-9.5	-3.9	2.3	1.1
Agriculture	111.8	117.2	115.0	9.0	8.9	3.1	1.7	4.8	-1.9
Mining	83.9	80.7	83.9	0.2	0.1	-17.1	-23.5	-3.9	4.0
Manufacturing	96.5	98.2	100.4	10.0	8.6	-1.8	-0.5	1.8	2.2
Construction	70.7	69.9	73.4	7.3	4.6	-31.2	-17.4	-1.1	4.9
Basic services	124.5	132.6	135.7	23.4	27.3	8.9	-3.0	6.5	2.3
Electricity, gas and water	120.0	129.2	137.2	3.2	3.8	9.6	-1.1	7.6	6.2
Transport, storage and communications	125.2	133.2	135.4	20.2	23.6	8.8	-3.3	6.4	1.7
Other services	112.7	116.7	120.7	52.0	53.9	1.1	2.8	3.6	3.4
Commerce, restaurants and hotels	93.8	95.4	98.9	17.4	14.8	-4.6	0.4	1.8	3.6
Financial establishments, insurance, real estate and business services	120.4	125.5	131.5	14.1	16.0	4.1	3.6	4.2	4.7
Ownership of dwellings	111.9	115.0	119.9	7.0	7.2	2.8	2.7	2.8	4.3
Community, social and personal services	123.4	128.7	131.6	20.5	23.2	3.4	3.9	4.3	2.3
Government services	123.4	129.7	131.8	12.5	14.2	3.7	3.2	5.1	1.6

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 "Preliminary figures. Including livestock, forestry and fishing.

Table 4

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986 ^a	Growth rates			
						1983	1984	1985	1986 ^a
Index of agricultural production (millions of 1970 balboas)	174	191	194	204	200	3.1	1.7	4.8	-1.9
Crop-farming	115	124	124	129	123	2.7	-0.1	4.3	-4.6
Stock-raising	47	55	58	59	61	3.8	6.4	2.1	2.0
Forestry	5	6	6	6	5	7.8	1.8		-3.6
Fishing	7	7	7	9	11	1.5	-4.3	42.4	12.8
Production of main crops									
For export									
Bananas	1 035	1 045	1 056	1 067	1 078	1.1	1.1	1.0	1.0
Sugar cane	2 048	2 135	1 821	1 597	1 501 ^f	2.0	-14.7	-12.3	-6.0 ^g
Coffee	8		11			12.5	22.2	-18.2	
For domestic consumption									
Rice	170	199	175	186		13.1	-12.1	6.3	-5.0 ^h
Maize	55	74	71	96	92 ^f	19.4	-4.1	35.2	U.0 ^c
Beans	3	3	3	4		50.0		33.3	
Tobacco	2	1	1	1					
Cassava	32	34	34	35	35	3.0		2.9	
Pineapples	7	6	7	7	7		16.7		
Coconuts	23	22	21	21	21		-4.5		
Indicators of stock-raising production									
Stocks									
Cattle	1 405	1 459	1 452	1 453		0.2	-0.5	0.1	
Pigs	212	197	195	208		-4.4	-1.0	6.7	
Poultry	4 797	5 706	6 009	5 789		25.4	5.3	-3.7	
Number of animals slaughtered									
Cattle	215	277	284	295	294		2.5	3.2	-0.3
Pigs	121	122	144	156	176	-6.2	18.0	8.3	12.8
Poultry	13906	17 888	19 402	17 602	19 186 ^f	496	8.5	-9.3	9.0 ^h
Other products									
Milk ¹	91	85	93	93	93 ^f	-5.6	9.4		
Eggs ⁷	188	214	211	201	211 ^c	8.1	-1.4	-4.7	5.0 ^c

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.

^aPreliminary figures. ^bThousands of tons. ^cFigures estimated by ECLAC on the basis of qualitative official information available. ^dThousands of head. ^eMillions of litres. ^fMillions of units.

Table 5

PANAMA: INDICATORS OF FISHERY PRODUCTION

	1980	1983	1984	1985	1986 ^o	Growth rates			
						1983	1984	1985	1986 ^o
Index of fishery production (1970= 100)	152.1	143.8	137.5	195.8	220.8	1.5	-4.3	42.4	12.8
	Thousands of tons								
Catch									
Fish									
Ftresh	3.5	2.2	1.1	1.9	2.8	1.1	-5.0	72.7	47.4
Industrial	179.5	132.7	106.5	244.1	90.8	78.4	-19.7	129.2	-62.8
Shellfish	6.2	8.0	5.7	8.8	7.4	6.7	-28.7	54.4	-15.9
Industrial production									
Fish meal	35.2	26.3	22.5	45.7	17.1	74.2	14.4	103.1	-62.6
Oil	18.0	5.5	7.5	33.7	14.5	161.9	36.4	349.3	-57.0
Export									
Frozen fish	0.2	0.1	0.2	1.0		-	100.0	400.0	
Shrimps		6.9	5.9	7.7	8.6		-14.5	30.5	11.7
Canned fish	0.8	1.4	1.5	1.7		-6.7	7.0	13.0	
Fish meal	28.1	14.8	6.9	35.4		236.4	-53.0	413.0	
Oil	13.1	2.8	1.6	27.8		154.5	-43.0	1638.0	
Others	0.1	-	-	-		-	-	-	

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
^oPreliminary figures.

Table 6

PANAMA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Index of manufacturing production (1971 = 100)	130.5	138.0	137.2	...	...	-1.3	-0.6	...	...
Food, beverages and tobacco	158.9	168.2	166.5	173.4	179.1	0.1	-0.1	4.2	3.3
Footwear, clothing and leather products	138.9	123.0	132.1	147.3	161.5	-20.3	7.4	11.5	9.6
Wood, furniture and fittings	69.5	75.5	80.6	89.5	93.3	-7.1	6.8	11.0	4.2
Paper, printing and publishing	110.0	138.9	142.6	147.7	142.5	11.2	2.7	3.6	-3.5
Chemicals and petroleum products	111.1	126.2	125.0	105.3	96.0	7.9	-1.0	-15.8	-8.9
Non-metallic minerals	110.6	110.2	95.6	83.2	111.7	-9.4	-13.2	-13.0	34.2
Basic metal industries	144.7	77.4	80.2	91.5	134.7	-26.5	3.6	14.1	47.2
Metal products	101.6	114.8	115.7	113.1	116.2	-3.6	0.8	-2.3	2.7
Other manufactures	100.9	160.7	161.9	139.3	198.2	38.9	0.4	-13.7	42.3
Production of some important manufactures									
Sugar	174.3	178.0	167.0	151.4	130.9	-9.5	-6.2	-9.3	-13.5
Alcoholic beverages'	76.3	79.3	82.3	87.7	100.5	-0.8	3.8	6.6	14.6
Beer	67.0	70.8	73.4	79.7	92.5	-0.7	3.7	8.5	16.1
Rum and "seco"	8.0	6.5	6.5	5.9	5.6	-6.3	0.1	-9.5	-5.1
Carbonated beverages'	83.1	81.2	85.8	89.6	102.9	5.7	5.7	4.4	14.8
Evaporated, condensed and powdered milk	24.7	18.0	17.8	19.2	22.2	7.8	-1.1	7.9	15.6
Cigarettes	1 083.6	981.0	911.2	873.0	873.0	-2.0	-7.1	-4.2	-
Footwear'	1 562.0	1 562.0	1 794.3	1 587.5	2 155.1	-26.3	10.9	-11.5	35.8
Other indicators of manufacturing activity									
Gas consumption'	97.4	109.0	118.3	122.3	128.1	3.8	8.5	3.4	4.7
Industrial consumption of electricity	184.0	219.0	229.0	252.0	266.4	0.5	4.6	10.0	5.7
Employment ⁸	52.9	36.5				2.5			

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office. "Figures estimated on the basis of information for the third quarter, compared with the same period of the preceding year. ^Thousands of tons. 'Millions of litres. "Millions of units. "Thousandsofpairs. 'Millionsof kWh. "Thousands of workers.

Table 7

PANAMA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1983	1984	1985	1986 ¹	Growth rates			
						1983	1984	1985	1986 ¹
Area constructed (thousands of m ²)	401	323	378	484	678	-43.7	17.0	28.0	40.1
Dwellings	208	175	302	341	481	-42.4	72.6	12.9	41.1
Value of constructions (millions of balboas)	123.5	116.6	140.2	161.5	173.7	-31.6	20.2	15.2	7.6
Production of some construction materials									
Structural steel (thousands of tons)	22	12	11	14	15	-33.3	-8.3	27.3	7.1
Cement (thousands of tons)	322	335	304	308	354	-4.3	-9.3	1.3	14.9
Employed population ¹ (persons)	30 565	34 820	31 555	••		-9.5	-9.4	••	...

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
¹Preliminary figures. According to building permits requested. ¹ Household survey data.

Table 8

PANAMA: INDICATORS OF ELECTRICITY
PRODUCTION AND CONSUMPTION

	1980	1983	1984	1985	1986 ^o	Growth rates			
						1983	1984	1985	1986 ^o
Production*	1 812	2 238	2 211	2 420	2 586	7.2	-1.2	9.5	6.9
Hydroelectric	964	866	1 491	1 929	2 095	-19.5	72.4	29.4	8.6
Thermal	846	1 372	720	491	491	35.4	-47.6	-31.8	
Capacity of generating plants¹	527	545	840	858		54.2	54.1	2.1	
Total consumption	1 472	1 851	1 817	1 944	2 064	10.5	-1.8	7.0	6.2
Residential	459	528	522	560	612	5.0	-1.1	7.3	9.3
Commercial	479	568	574	610	647	6.6	1.1	6.3	6.1
Industrial	184	219	229	252	266	0.5	4.6	10.0	5.7
Public and others	352	492	492	522	538	27.3	-8.2	6.1	3.0

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office, and electricity statistics of the Institute of Water Resources and Elearification (IRHE).

¹Preliminary figures estimated on the basis of data up to the month of October. ^oMillions of kWh. ¹Megawatts.

Table 9

PANAMA: INDICATORS OF SELECTED SERVICES

	1980	1983	1984	1985	1986"	Growth rates		
						1984	1985	1986"
Millions of balboas at 1970 prices								
Gross domestic product								
Transport, storage and communications services	383.1	496.1	479.7	510.2	518.8	-3.3	6.4	1.7
Pipelines and other water transportation services	29.3	166.2	137.9	158.7	138.8	-17.0	15.1	-12.5
Panama Canal Commission	175.5	175.0	174.6	177.2	188.0	-0.2	1.5	6.1
Colón Free Zone	83.1	50.8	54.8	60.8	77.0	7.9	10.9	26.6
Financial services	227.2	262.7	271.9	283.1	297.5	3.5	4.1	5.1
Banking	41.2	22.1	23.5	25.4	28.0	6.3	8.1	10.2
Insurance	12.3	14.3	14.3	15.0	15.2	-	4.9	1.3
Ownership of dwellings	121.9	132.8	136.4	140.2	146.0	2.7	2.8	4.1
Others	51.8	93.5	97.7	102.5	108.3	4.5	4.9	5.7
Commerce and tourism	256.4	239.4	240.4	244.7	253.6	0.4	1.8	3.6
Wholesale	90.4	86.5	87.0	85.2	87.6	1.4	-2.5	2.5
Retail	128.5	121.1	119.0	123.9	129.7	-1.7	4.1	4.7
Restaurants and hotels	37.5	31.8	33.7	35.3	36.3	6.0	4.7	2.8
Millions of balboas								
Other indicators								
Total deposits of the Banking system	21 145	26 132	23 809	24 323	26 665	-8.9	2.2	9.6
Interbank deposits	16 978	19 586	16 755	16 612	17 495	-14.5	-8.5	5.3
By foreigners	2 563	4 297	4 673	5 193	6 118	8.8	11.1	17.8
By citizens	1 604	2 249	2 381	3 518	3 052	5.9	5.8	21.2
Insurance								
Income from premiums	118.5	166.6	167.3	180.9		0.4	8.1	
Claims paid	67.3	84.1	85.7	92.3		1.9	7.7	
Tourism								
Expenditure by tourists and in-transit travellers	171.2	171.8	188.6	200.3	202.8	9.8	6.2	1.2
Tourists	375	297	304	316	324	2.4	4.0	2.7
Hotel capacity"			2 849	2 878	2 857		1.0	-7.0

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 "Preliminary figures. ^Thousands of persons. 'Rooms in luxury and first class hotels in Panamá City.

Table 10

PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1980	1982	1983	1984	1985	1986°
Thousands of persons						
Labour force	537.3	612.6	661.6	682.7	715.2	719.0
Employed	492.4	561.1	597.3	613.9	627.0	645.4
Unemployed	44.9	51.5	64.2	68.8	88.3	73.6
Participation'	51.6	53.7	56.1	56.1	56.9	55.5
Unemployment rates						
National	8.4	8.4	9.7	10.1	12.3	10.2
Urban	9.9	10.3	11.5	11.8	15.7	12.2"
Rural	6.2	5.9	7.4	7.8	8.0	7.7"

Source: ECLAC, on the basis of figures from the 1980 National Population Census; household surveys performed by the Comptroller-General of the Republic, Statistics and Census Office, and the Ministry of Labour and Social Welfare.

"Preliminary figures. Population 15 years and over. 'Economically active population as a percentage of the working-age population (15 years and over). Figure estimated on the basis of performance of the metropolitan area. 'Figure estimated on the basis of performance of the rest of the country.

Table 11

PANAMA: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985	1986°
Growth rates							
Exports							
Value	537.6	12.0	-5.1	-30.5	0.6	16.2	23.1
Volume	496.2	10.2	10.2	-33.0	-3.2	16.7	12.0
Unit value	7.0	1.7	-13.9	3.8	4.0	-0.4	10.0
Imports							
Value	175.8	10.7	-8.2	-23.8	7.9	8.4	8.9
Volume	118.6	3.4	-5.4	-17.2	8.0	10.6	14.9
Unit value	26.2	7.0	-3.0	-7.9	-0.2	-2.0	-5.2
Terms of trade	-13.9	-5.3	-12.1	12.8	3.2	1.6	15.8
Indexes (1980 = 100)							
Purchasing power of exports	100.0	104.3	101.1	76.3	76.3	90.4	117.2
Volume of exports	100.0	110.2	121.4	81.3	78.7	91.8	102.8
Volume of imports	100.0	103.4	97.9	81.0	87.5	96.8	111.2
Terms of trade	100.0	94.7	83.3	93.9	96.9	98.4	114.0

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
"Preliminary figures.

Table 12

PANAMA: EXTERNAL TRADE BALANCE (GOODS AND SERVICES)

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Expon	3 373	3 689	3 580	2 951	2 932	3 274	3 675
Total goods (FOB)	2 267	2 540	2 411	1 676	1 686	1 959	2 412
From free zones (or re-exports)'	1 914	2 221	2 101	1 372	1 428	1 658	2 085
Domestically produced goods	353	319	310	304	258	301	327
Services (non-factor)	1 106	1 149	1 169	1 276	1 247	1 315	1 263
Imports	3 634	4 018	3 703	2 696	2 897	3 123	3 378
Total goods (FOB)	2 995	3 315	3 045	2 321	2 503	2 712	2 954
From free zones	1 546	1 753	1 477	908	1 073	1 321	1 805
To the country	1 449	1 562	1 568	1 413	1 430	1 391	1 149
Services (non-factor)	640	703	659	375	394	411	424
Balances	-261	-329	-123	255	35	151	297
Total balance (goods)	-728	-775	-634	-645	-817	-753	-542
Balance from the free zones	368	468	624	464	355	337	280
Domestic balance	-1 096	1 243	-1 258	-1 109	-1 172	-1 090	-822
Balance of services	466	446	510	901	853	904	839

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 "Preliminary figures. Estimates by difference

Table 13

PANAMA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total"	1 686	1 959	2 412	-	-	-27.7	0.9	16.9	23.1
Re-exports from free zones ^c	1 428	1 658	2 085	-	-	-31.4	4.1	16.1	25.8
Subtotal	258	301	327	100.0	100.0	-1.9	-15.1	16.7	8.6
Main traditional exports	182	212	220	78.6	67.3	-2.9	-22.2	16.5	3.8
Sugar	33	27	20	18.6	6.1	70.8	-19.5	-18.2	-25.9
Bananas	75	78	70	17.4	21.4	13.6	-	4.0	-10.3
Coffee beans	13	16	31	2.9	9.5	33.3	-18.8	23.1	93.8
Fresh shrimps	49	60	68	12.4	20.8	-3.8	-3.9	22.4	13.3
Beef	2	-	-	0.9	-	-55.6	-50.0	-	-
Cattle	2	2	1	0.3	0.3	33.3	-50.0	-	-50.0
Fish meal	3	6	2	2.9	0.6	200.0	-50.0	100.0	-68.4
Petroleum products	5	23	-	23.2	-	-47.1	-86.5	360.0	-
Main non-traditional exports	36	38	58	8.3	17.7	-15.0	5.9	5.6	52.6
Cocoa beans	-	-	-	3.4	-	-	-	-	-
Raw cattle hides	-	-	9	0.6	2.8	-	-	-	-
Scrap metal	2	1	-	0.3	-	100.0	-	-50.0	-
Clothing	9	11	15	2.7	4.2	-52.9	12.5	22.2	37.4
Processed shellfish	6	6	3	0.2	0.9	20.0	-	-	-50.0
Fruit extracts	3	1	2	0.4	0.6	100.0	50.0	-66.7	100.0
Banana pulp	2	3	3	0.6	0.9	50.0	-33.3	50.0	-
Cocoa butter and paste	4	3	3	0.2	0.9	-	100.0	-85.0	-
Rum	2	2	2	1.1	0.6	50.0	-33.3	-	-
Leaf tobacco	2	3	2	0.4	0.6	-	-	50.0	-33.3
Medicines	2	4	5	0.4	1.5	-	-	100.0	25.0
Cosmetics	1	1	2	0.3	0.6	-	-	-	100.0
Cardboard boxes	1	1	2	0.8	0.6	-50.0	-	-	100.0
Footwear	2	1	2	0.3	0.6	-50.0	100.0	-50.0	100.0
Other	40	51	49	13.1	15.0	-16.1	11.1	27.5	-3.9

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 "Estimates on the basis of the third quarter. Taken from the balance of payments. 'Estimates by difference.

Table 14

PANAMA: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	2 503.1	2 712.3	2 954.7	-	-	-22.0	8.5	8.4	8.9
Free zones	1 073	1 321	1 805	-	-	-33.1	17.5	23.1	36.6
Into the country, according to tariff sections	1430	1 391	1 149	100.0	100.0	-9.9	1.2	-2.7	-17.4
Food products	122	138	136	7.5	10.8	5.0	-4.0	13.1	-1.7
Beverages and tobacco	9	9		0.6		10.0	-	-	
Non-edible raw materials, except for fuels	10	11		0.6		-18.2	11.1	10.0	
Fuels and lubricants, minerals and allied products	367	327		32.1		-6.0	-6.4	-10.9	
Oils and fats of vegetable origin, except for edible margarine and lard	17	16		1.4		6.7	6.2	-5.9	
Chemical products	180	168		10.2		5.0	7.8	-6.7	
Manufactured articles, according to material used	260	262		18.2		-19.0	9.2	0.8	
Machinery and transport equipment	302	328		20.1		20.4	-5.3	8.6	
Others	163	151		9.2		-2.8	19.0	-7.4	

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 °Preliminary figures on the basis of the third quarter. As of August 1985, Panama changed the tariff nomenclature.
 Estimates by difference.

Table 15

PANAMA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986°
Balance on current account	-377	-23	-152	311	-45	131	321
Trade balance	-261	-329	-124	255	35	150	296
Exports of goods and services	3 373	3 689	3 580	2 951	2 932	3 274	3 675
Goods FOB	2 267	2 540	2 411	1 676	1 686	1 959	2 412
Real services	1 106	1 149	1 169	1 276	1 247	1 315	1 263
Transport and insurance	613	611	633	717	676	703	661
Travel	171	175	174	172	189	200	205
Imports of goods and services	3 634	4 018	3 703	2 696	2 897	3 123	3 379
Goods FOB	2 995	3 315	3 045	2 321	2 503	2 712	2 955
Real services	640	703	659	375	394	411	424
Transport and insurance	480	527	479	203	223	219	235
Travel	56	65	81	71	67	65	73
Factor services	-64	354	27	116	-25	36	81
Profits	-71	-39	-46	-81	-121	-113	-95
Interest received	4 362	6 231	5 826	4 326	3 592	3 006	2 502
Interest paid	-4 347	-5 830	-5 743	-4 119	-3 487	-2 847	-2 317
Others	-8	-8	-10	-10	-10	-10	-9
Unrequited private transfer payments	-52	-48	-55	-60	-54	-56	-56
Balance on capital account	389	-52	136	-323	-39	-256	
Unrequited official transfer payments	67	79	101	104	144	141	121
Long-term capital	-721	570	1 199	412	302	-288	
Direct investment (net)	-47	6	3	72	103	60	
Portfolio investment (net)	-885	203	352	63	13	-182	
Other long-term capital	211	361	845	278	186	-166	
Official sector'	215	84	368	162	102	31	
Loans received	284	217	553	232	287	60	
Amortization payments	-66	-131	-183	-70	-180	-30	
Commercial banks'	42	134	256	204	115	-161	
Loans received	42	135	256	221	115	2	
Amortization payments	-	-	-	-17	-	-163	
Other sectors'	-45	142	221	-88	-31	-36	
Loans received	111	303	334	143	160	85	
Amortization payments	-159	-166	-114	-233	-175	-117	
Short-term capital (net)	380	-459	-1 123	-275	-232	154	
Official sector	2	2	5	-	2	-5	
Commercial banks	-385	-87	-630	-149	-83	-137	
Other sectors	763	-374	-499	-126	-151	296	
Errors and omissions (net)	663	-242	-40	-565	-253	-262	
Global balance	11	-75	-15	-12	-84	-125	
Total variation in reserves (- sign indicates an increase)	-17	68	9	3	70		
Monetary gold	-	-	-	-	-	-	
Special Drawing Rights	4	-2	-1	4	-	-	
IMF reserve position	-7	10	-	-9	9	-	
Foreign exchange assets	5	-11	20	-100	-19	-	
Other assets	-	-	-	-	-	-	
Use made of IMF credit	-18	71	-10	109	79	-	

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official figures.

'Preliminary figures subject to revision. Including other non-factor services. 'Including net loans granted and other assets and liabilities. Equal total variation in reserves (of opposite sign) plus counterpart items.

Table 16

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985	1986
Millions of dollars							
External public debt	2 210	2 333	2 820	3 392	3 644	3 674	3 882
Long- and medium-term	2 196	2 297	2 793	3 363	3 632	3 642	3 831
Short-term	14	36	27	29	12	32	51
Disbursements	397	391	334	731	803	625	417
Services	466	493	614	517	613	511	498
Principal	214	214	282	235	308	212	207
Interest	252	279	332	282	305	299	291
Interest'	4 347	5 830	5 743	4 119	3 487	2 847	2 317
Percentages							
Ratios							
Servicing/disbursement	117.4	126.1	183.8	70.7	76.3	81.8	119.4
External public debt/exports of goods and services	65.1	62.3	78.0	113.3	123.9	111.3	105.6
Servicing/exports of goods and services	13.8	13.4	17.2	17.5	20.9	15.6	13.6

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 "Preliminary figures. Refers to external public debt. ' Refers to "interest paid" item of the balance-of-payments current account.

Table 17

PANAMA: EVOLUTION OF THE EXTERNAL DEBT"*(Millions of balboas)*

	Total	Official sources	Private sources
Balance as of 31 December, 1985	3 641.7	1 504.6	2 137.2
Income			
Loans received	298.4	204.5	93.8
Adjustments	99.7	60.0	39.7
Expenditures			
Principal payments	208.8	126.0	87.8
Interest payments	285.5	74.5	212.1
Commission and other expenses	4.5	2.4	2.1
Adjustments to interest and commission	-0.2		-0.2
Balance as of 31 December, 1986	3 831.0	1 643.1	2 187.9

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 "Medium- and long-term contractual debt of the public sector. Includes the central government and decentralized enterprises and entities.

Table 18

PANAMA: EVOLUTION OF DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986 ^o
Variation from December to December							
Consumer price index	14.4	4.8	3.7	2.0	0.9	0.4	0.4
Food	15.6	6.5	4.9	1.3	1.3	-0.8	2.2
Wholesale price index ^{*n7}	34.3	9.3	1.4	-4.5	2.1	-1.1	-17.9
Imported products	23.4	7.4	-0.7	-4.3	2.1	-1.8	-19.8
Domestic products							
Agricultural	6.6	6.4	4.3	2.4	14.5	-3.8	5.2
Manufactured	51.5	11.2	2.7	-5.7	-0.1	0.1	-20.9
Variation between annual averages							
Consumer price index	13.8	7.3	4.2	2.1	1.6	1.1	-0.1
Food	12.6	9.2	5.9	2.3	1.5	0.3	-0.4
Wholesale price index ^{*n7}	36.7	13.1	2.3	-3.8	1.1	-0.4	-16.1
Imported products	25.1	13.0	0.9	-5.2	1.9	-1.5	-22.6
Domestic products							
Agricultural	6.4	7.9	3.1	2.1	13.2	2.6	4.1
Manufactured	55.8	14.1	3.3	-3.9	-1.6	-	-15.2

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
^aPreliminary figures. ^bIn 1986 the base year for the wholesale price index was changed from 1961 to 1975. The figures refer to the new index prepared by the government. ^cFrom 1980 to 1985 the December-December variation of the previous index (base year 1961) was 13.8%, 8.9%, 7.4%, 1.3%, 2.1% and 4.6%. The annual mean for the same period was 15.3% 10%, 8.3%, 2.4%, 1% and 3.8%.

Table 19

PANAMA: EVOLUTION OF WAGES

	1981	1982	1983	1984	1985	1986
Balboas per year						
Average wages and salaries						
General average	4 118	4 404	4 620	4 716	4 992	
Public sector	4 106	4 295	4 699	4 857		
Private sector	4 276	4 256	4 534	4 962"	5 064"	5 206"
Canal Zone	12 710	15 260	15 390	15 883		
Banana-producing areas	4 339	4 080	4 246	4 357		
Colón Free Zone		6 278		6 054	5 865	5 328
Panama and San Miguelito district	3 758	4 651	4 833	4 998	5 102	5 180
Minimum wages						
Panama City	1 900	1 900	2 246"	2 246	2 246	2 246
Rest of country	1 440	1 440	1 699"	1 699	1 699	1 699
Indexes (1980 = 100)						
Average and minimum wages						
(Nomina)						
Average mean wage	103.4	105.4	116.0	118.4	125.3	
Average public sector wage	104.9	109.7	120.0	124.1		
Average private sector wage	105.9	105.3	112.2	122.8	125.4	128.9
General minimum wage						
Panama City	100.0	100.0	118.2	118.2	118.2	118.2
Rest of country	100.0	100.0	118.0	118.0	118.0	118.0
Kcal						
Average mean wage	96.4	94.2	101.6	102.1	106.9	
Average public sector wage	97.8	98.1	105.1	107.0		
Average private sector wage	98.7	94.1	98.2	105.8	107.0	110.0
General minimum wage						
Panama City	93.3	89.4	103.5	101.9	100.8	100.9
Rest of country	93.3	89.4	103.3	101.7	100.6	100.7
Growth rates						
Nominal						
Average private sector wage	59	-0.6	6.6	9.4	2.1	2.8
General minimum wage,						
Panama City	-	-	18.2	-	-	-
General minimum wage, rest of country	-	-	18.0	-	-	-
Real						
Average private sector wage	-1.3	-4.7	4.4	7.7	1.1	2.8
General minimum wage,						
Panama City	-6.7	-4.2	15.8	-1.5	-1.1	0.1
General minimum wage, rest of country	-6.7	-4.2	15.5	-1.5	-1.1	0.1

Source: ECLAC, on the basis of figures provided by the Ministry of Labour and Social Welfare and the Comptroller-General of the Republic.

"From 1 February. National average for manufacturing industry.

Table 20

PANAMA: SHORT-TERM BANK INTEREST RATES"

	1980	1981	1982	1983	1984	1985	1986	1986 (quarters)			
								II	III	IV	
Nominal											
Deposits											
Prime rate (New York)	19-98	15.77	14.47	10.75	12.05	9.88	8.29	9.33	8.50	7.83	7.50
LIBOR (London)											
90-day rate	19.50	13.29	12.93	9.81	10.83	8.43	6.78	7.83	6.96	6.15	6.16
Loans											
Loans for agriculture'	15.42	15.67	14.89	10.35	10.60	11.05	10.90	10.52	10.64	. . . . .
Loans for commerce	15.82	18.88	16.37	12.79	13.60	12.18	10.73	11.05	10.77	. . . . .
Loans for industry	16.02	19.23	16.15	12.60	13.84	12.73	10.81	11.41	10.89	. . . . .
Loans for housing	13.44	15.47	14.54	12.42	12.69	11.64	10.98	12.17	10.76	. . . . .
Loans for consumption	14.13	17.04	16.22	12.71	13.25	11.80	10.30	11.20	10.33	. . . . .
Maximum local market reference rate (LMRR)	17.25	19.67	16.52	12.83	13.73	13.25	12.00			12.00	
Real'											
Deposits											
(simple average)	1.43	1.99	3.26	4.90	7.15	8.32	7.54				
Loans											
(LMRR)	1.25	2.69	3.93	6.11	8.58	12.05	12.01				

Source: ECLAC, on the basis of figures from the National Banking Commission.

"Average for the period. Average rate for loans under one year. 'According to Law 20/80, the National Banking Commission fixes a discount for agricultural loans of between 3 and 4 point on the average reference rate, for which banking entities are compensated. As of 1986 there is an interest bracket (%) which is the borrower is not charged and which the Ministry of Finance passes to the bank as a tax credit (law 3 of 20 May 1985). 'Deflated by the mean annual inflation rate (variation in the national consumer price index).

Table 21

PANAMA: COMPOSITION OF THE INTERNATIONAL BANKING CENTRE"

	1983	1984	1985	1986
Total number of establishments	124	123	122	119
Official	2	2	2	2
Under general licence	67	68	67	70
Under international licence	43	41	41	33
As field offices	12	12	12	14
Total assets of the Centre (billions of balboas)	42.8	38.0	39.0	40.4
Assets of the national banking system (billions of balboas)	29.7	26.2	28.3	30.9

Source: National Banking Commission and Banco Nacional de Panamá.

"At December of each year.

Table 22

**PANAMA: CONSOLIDATED BALANCE OF THE
NATIONAL BANKING SYSTEM¹**

	Year-end balance (millions of balboas)				Growth rates			
	1983	1984	1985	% ^b	1983	1984	1985	% ^b
Assets	29 746	26 210	28 293	30 918	-4.7	-11.9	7.9	9.3
Liquid	8 722	6 552	8 482	9 852	23.1	-24.9	29.5	16.2
Cash	75	81	249	202	0.8	8.0	3.1	-18.9
Other liquid assets								
Domestic	1 221	148	1 115	1 249	502.6	-87.9	653.4	12.0
External	7 426	6 323	7 118	8 401	9.1	-14.9	11.4	18.0
Deposits in banks								
Demand deposits	432	298	707	725	-28.7	-31.0	137.3	2.6
Time deposits	6 970	6 013	6 761	8 925	12.7	-13.7	12.4	32.0
Deposits in IMF (SDR)	20	4	11		377.3	-80.0	175.0	
Other	4	8			-66.1	100.0		
Investments	19 714	18 168	18 349	19 394	-12.5	-7.8	1.0	5.7
Credit portfolio	18 367	17 029	17 198	17 235	-13.5	-7.3	0.9	0.2
Domestic	3 533	3 764	3 923	4 189	5.4	6.5	4.2	6.8
External	14 834	13 265	13 275	13 046	-17.0	-10.6	0.1	-1.7
Securities	1 347	1 139	1 151	2 259	4.3	-15.4	1.1	96.3
Other assets	1 310	1 490	1 461	1 572	-18.0	13.7	-2.0	7.6
Liabilities and capital ¹	29 746	26 166	27 100	29 695	-2.6	-12.0	3.6	9.6
Demand deposits	1 257	1 474	1 480	1 955	11.9	17.3	0.4	32.1
Private citizens	375	332	414	458	-	-11.5	24.7	10.6
Official entities	240	251	223	265	8.1	4.6	-11.2	18.8
Foreign individuals	341	296	322	458	32.7	-13.2	9.1	42.2
Foreign banks	301	595	521	774	11.9	97.7	-12.4	48.6
Time and savings deposits	24 461	20 631	21 652	23 487	7.6	-15.7	5.0	8.5
Private	2 639	1 785	1 882	2 329	67.7	-32.4	5.4	23.8
Foreign individuals	2 248	4 051	4 871	5 660	-41.5	80.2	20.2	16.2
Foreign banks	19 574	14 795	14 899	15 498	-7.1	-24.4	0.6	4.0
Liabilities	1 002	1 353	1 070	1 051	36.1	35.0	-20.9	-1.8
Other liabilities, capital and reserves	3 026	2 708	2 898	3 202	37.3	-10.5	7.0	10.5
International reserves of the banking system	79	107	119		5.5	36.1	11.1	
Gold	-	-	-		33.3	-50.0	-	
Currency	79	107	119		5.5	36.2	11.2	
U.S. dollars	76	100	115		4.0	30.8	15.0	
Other currencies and bills	2	7	4		112.9	225.6	-42.9	

Source: ECLAC, on the basis of figures supplied by the National Banking Commission and the Comptroller-General of the Republic, Statistics and Census Office.

¹Refers to a total of 70 banks (17 Panamanian and 5} foreign) which operate under general licence in the country. Estimated figures. ²Excluding operations between local banks.

Table 23

**PANAMA: CREDITS GRANTED BY THE NATIONAL BANKING SYSTEM,
BY ECONOMIC ACTIVITY**

	Millions of balboas				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986"
Total	24 061	15 174	14 347	14 542*	-15.9	-36.9	-5.5	14
Domestic	4 658	6 044	6 489	7 166	-10.1	29.8	7.4	10.4
Public sector	551	1 804	2 091	2 251	-13.9	127.4	15.9	7.7
Private sector	4 107	4 240	4 398	4 915	-9.6	3.2	3.7	11.8
By branches of activity								
Agriculture	155	158	147	148	-2.5	19	-7.0	0.7
Cattle raising	78	94	67	71	-23.5	20.5	-28.7	6.0
Fishing	16	29	11	16	100.0	81.3	-62.1	45.5
Commerce	2 393	2 466	2 680	2 897	-18.5	3.1	8.7	8.1
Industry	585	561	539	525	-1.5	-4.1	-3.9	-2.6
Housing	188	356	391	517	-	894	98	32.6
Other construction	192	161	117	130	-3.5	-16.1	-27.3	11.1
Personal consumption	346	294	323	459	43.0	-15.0	10.6	42.1
Non-profit organizations	6	10	4	1	100.0	66.7	-60.0	-75.0
Others (by difference)	148	111	119	151	321	-25.0	7.2	26.9
External	19 403	9 130	7 858	7 376	-17.2	-52.9	-13.9	-6.1

Source: ECLAC, on the basis of figures supplied by the Nacional Banking Commission and reports from the Banco Nacional de Panama.

"Preliminary figures.

*Based on the evolution of credits up to June 1986, compared with the same period in 1985.

Table 24

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas					Growth rates				
	1983	1984	1985	1986°	1982	1983	1984	1985	1986°	
1. Current income	906	916	1006	1 045	7.3	6.8	1.1	9.8	3.9	
Tax revenue	662	635	689	753	5.7	7.7	-4.1	8.5	9.4	
Direct	367	321	363	385	5.3	10.7	-12.4	12.8	6.2	
Indirect	295	313	326	368	6.1	4.1	6.3	4.1	12.9	
On foreign trade	115	121	130	146	7.0	8.5	5.3	7.1	12.5	
Non-tax income	244	281	318	292	12.0	4.7	15.2	12.9	-8.0	
2. Current expenditure	929	955	985	930	29.6	-11.0	6.0	3.1	-5.6	
Salaries and wages	356	351	424	446	6.9	11.7	15	20.8	5.3	
Operational and management expenditure	286	296	240	156	41.3	-199	10.1	-19.1	-34.9	
Debt interest and expenditure	287	308	322	328	37.4	-8.0	7.3	4.4	1.9	
3. Current savings (1-2)	-23	-39	21	116						
4. Capital expenditure	441	538	381	455	55.8	-36.6	22.0	-29.3	19.4	
Real investment	240	282	194	252	47.2	-51.6	17.5	-31.2	29.8	
Amortization payments on debt	201	256	187	203	82.6	1.0	27.4	-27.1	8.6	
5. Total expenditure (2+4)	1 370	1493	1366	1 385	33.5	-15.7	9.0	-8.6	1.4	
6. Fiscal deficit (or surplus) (1-5)	-464	-577	-359	-339						
Net domestic financing	107	121	89	111	-38.8	14.6	13.9	-26.6	24.4	
Credit received	103	111	89	110	12.2	12.0	7.8	-20.3	24.5	
Bond placements	4	10	1	1	200.0	288.9	194.3	-95.1	-	
Net external financing (credit received)	133	166	95	92	66.0	-67.7	24.7	-42.5	-3.6	
Bond placements	-	-	-	-						
Other sources	225	290	176	-137						
Ratios: (percentages)										
Current saving/capital expenditure	-5.2	-7.3	5.6	25.4						
Fiscal deficit/total expenditure	33.9	38.7	26.3	24.5						
Tax revenue/GDP	15.1	13.9	14.4	15.3						
Total expenditure/GDP	31.3	31.9	28.5	28.1						
Fiscal deficit/GDP	10.6	13.2	7.5	6.9						
Net domestic financing/deficit	23.0	21.0	24.8	32.6						
Net external financing/deficit	28.6	28.7	26.5	27.1						

Source: ECLAC, on the basis of figures supplied by the Comptroller-General of the Republic, Statistics and Census Office.
 °Estimated figures. Includes the cash balance of banks and the discrepancy between the deficit registered and the financing obtained.

PARAGUAY

1. Recent economic trends: Introduction and summary

According to statistics compiled by the Central Bank of Paraguay, the revival of activity in the Paraguayan economy came to a halt in 1986. The gross domestic product stagnated, after having recovered during the two preceding years from the recession of 1982/1983 (see table 1 and figure 1). At the same time, both the rate of unemployment and inflation rose slightly, while real average wages again deteriorated. The worsening situation with respect to domestic imbalances was accompanied by a widening of the resource gap, according to Central Bank figures, as well as by a further and sharp decrease in official holdings of external assets. Nevertheless, the expansion of the net external debt slowed markedly, as the growth rate of the gross external debt fell to the lowest figure recorded in many years.

The country's economic performance was thus poorer in spite of the improvement in the external environment. Brazil's and Argentina's demand for Paraguayan products and services rose sharply, and exports of livestock products and incoming tourism reached unprecedented levels, while exports of forestry products were the highest in terms of volume that they had been since 1980. In addition, the steady devaluation of the dollar gave a marked impetus to sales of Paraguayan products on European and Japanese markets. Simultaneously, in spite of the considerable fall in the prices of the country's two principal export products, a slight improvement occurred in the terms of trade thanks to the notable decrease in the price of petroleum. Furthermore, the average level of import prices dropped, and international interest rates again fell appreciably, thereby helping to ease pressure on the rate of exchange and to increase Paraguay's import capacity.

However, in contrast to the preceding two seasons, when weather conditions were extremely good, the harvest for the 1985/1986 agricultural year was substantially smaller, mainly on account of the prolonged drought which affected the country during the second half of 1985. The value added by the crop-farming subsector fell by approximately 13% in 1986, after having led the 1984/1985 recovery with a growth rate of almost 14%. Furthermore, the sharp fall in the harvest of raw materials such as cotton brought down production in the manufacturing sector, despite the stimulus provided by the spectacular increase in tourism and the acceleration of construction work on the Yacyretá hydroelectric dam. Both forestry and electricity generation showed significant increases which, together with the moderate expansion of trade, offset most of the recessionary impact of the drop in the harvest of the main crops.

During the first quarter the level of consumer prices rose at the fastest rate recorded in the last 25 years in spite of the fall in the level of import prices. In contrast, and notwithstanding the application of expansionary monetary and wage policies throughout 1986, the consumer price index stabilized during the last two months of the year, mainly as a result of the direct and indirect effects of the sustained fall in the parallel exchange rate. Readjustments in the minimum wage increased its purchasing power by 11%, but real average wages deteriorated for the fifth year running.

Following the adjustments to which the economy had been subjected the year before, the gap between absorption and the product again widened markedly due to a considerable increase in the volume of imports and the sharp decrease in the harvests of the two main export products. Thus, as a percentage of the gross domestic product, it rose from 1% in 1985 to 4.2%, according to Central Bank external trade statistics. Although part of the real increase in the trade deficit was offset by the improvement in the terms of trade and the marked fall in profit remittances, the already rapid decline in international reserves gathered speed, inasmuch as the net inflow of external financing was barely higher than the year before.

Consequently, official holdings of external assets fell to a level equivalent to less than four months of imports, which was the lowest proportion recorded since the beginning of the preceding

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS

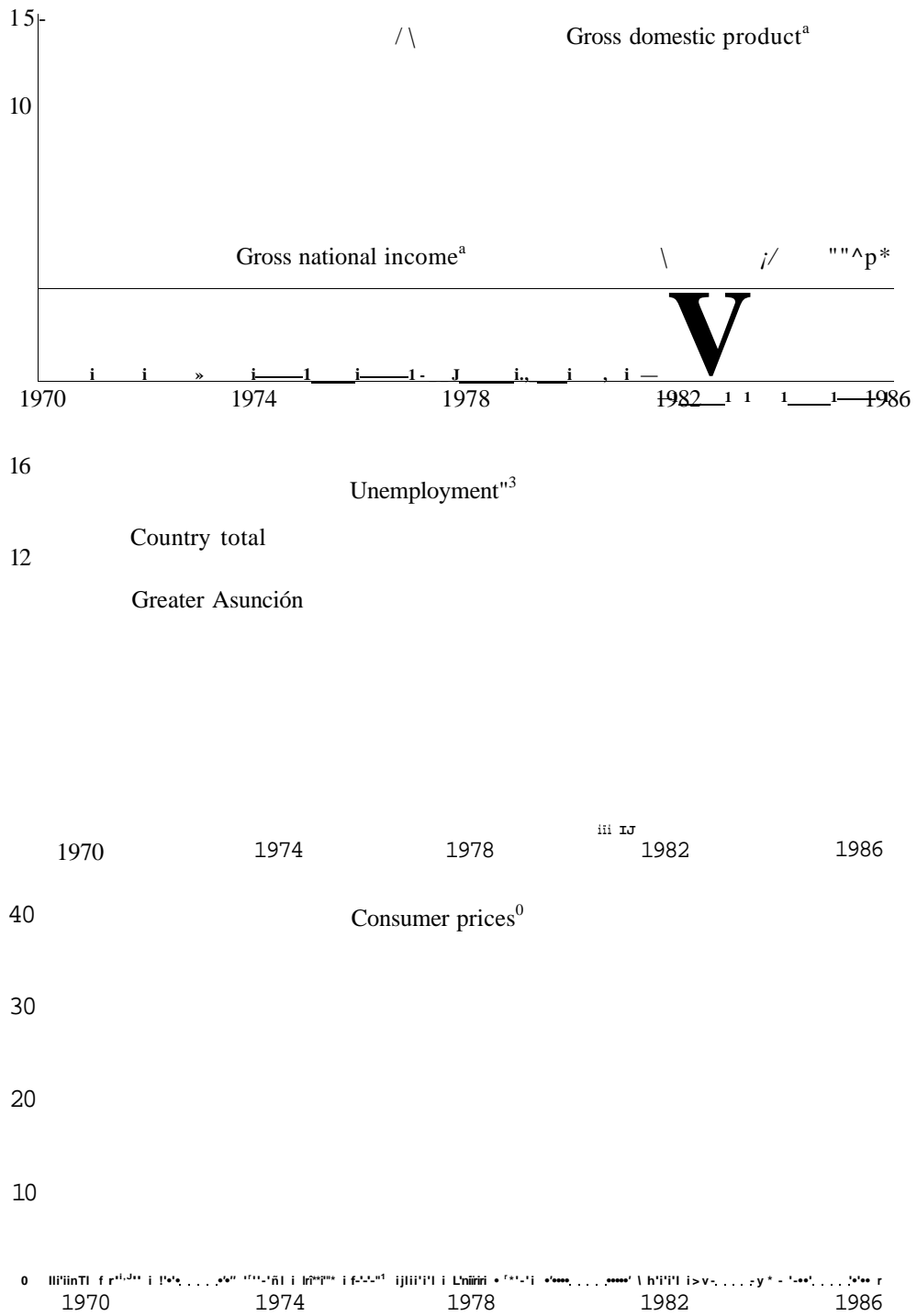


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bAnnual average rate. Percentage variation from December to December. [^]Millions of dollars. Percentages.

decade. This figure still left the authorities with some manoeuvring room, but if arrears in payments are taken into account, then the net holdings of international reserves were sufficient to finance only 1.2 months of imports. As a result of the suspension of the disbursement of loans by the World Bank during the first eight months of the year and the accounting reduction made in the State-guaranteed private external debt, the gross medium- and long-term disbursed external debt rose by less than 4 %.

In the course of the year the government drew up a series of adjustment programmes, but failed to implement a policy that was in keeping with a narrowing of the gap between national savings and domestic investment or with the type of structural changes needed to permit sustained growth. During the second half of the year, however, the authorities did apply a policy which was successful in increasing the inflow of external financing from multilateral sources, thereby giving the country the capability to sustain a larger deficit on the balance-of-payments current account. Towards the end of 1986 the government also managed to reverse the steep rise in inflation recorded during the first half of the year, although both the rate at which means of payment were created during the closing months of 1986 and the steepness of the increase in prices during the early part of 1987 suggested that this achievement was only temporary.

The nominal official rate of exchange for exports was adjusted by more than 50% between the end of 1985 and the end of 1986 with a view to increasing the amount of foreign exchange taken in by

the Central Bank. However, no significant change occurred in the rate actually received by exporters, since valuation levels —the minimum export prices set by the Central Bank for foreign exchange earnings from external sales— were increased by a proportion similar to the rises in the exchange rate. As the real effective official exchange rate worsened during the first quarter while the parallel exchange rate fell, the rate of return on both unregistered exports and the production of importable goods also took a turn for the worse.

As a consequence of the drop in the market exchange rate, the gap between it and the average official exchange rate actually received by exporters narrowed. Nevertheless, the proliferation of different official exchange rates for exports, accentuated the instability of relative prices, and thus had a negative impact on the efficiency of resource allocation. Furthermore, the readjustment of the exchange rates at which the Central Bank sold foreign exchange to the non-financial public sector was lower than the adjustment made in its buying rate, and government exchange subsidies therefore increased, thereby augmenting the creation of liquidity generated by the system of exchange rates. However, in August the government reached an agreement with the World Bank in respect of the exchange rate to be applied to disbursements of its loans, which had been suspended since the year before as a result of the Bank's dissatisfaction with the widening gap between the market rate of exchange and the rate used by the Central Bank for disbursements of external loans. In November, a similar agreement with the Inter-American Development Bank opened the way to a renewal of lending by this agency.

In view of the time lag experienced during a considerable part of the year between the initiation of new public investment projects and the completion of other major projects, as well as of the shortage of external funds for those already under way —which can be attributed to the exchange policy that was in force— in practice, the government followed a clearly procyclical fiscal policy, in that it cut back its investments by approximately 20% in nominal terms and by 40% in real terms, thereby reducing such investment to the lowest level registered in the present decade. Furthermore, most public investment continued to be channelled towards the production of non-tradeables and of capital-intensive importable goods, whereas a growth-oriented structural adjustment would require a reallocation of investment to projects designed to promote the production of exportable goods and efficient import substitution. In contrast, public saving increased by almost 28% in nominal terms, due to the marked contraction of current expenditure by the non-financial public sector in terms of the gross domestic product. Consequently, the unadjusted State deficit fell sharply for the third year running (2.1% of the gross domestic product in 1985; 0.6% in 1986). However, if exchange subsidies are taken into account, the public-sector deficit rose slightly, although as a percentage of the gross domestic product it fell from 39% to 3-2%. As net external financing was once again down sharply, issues deriving from State operations expanded from a figure equivalent, in 1985, to 32% of the monetary base existing at the end of 1984 to a level of 39% in 1986.

The growth of domestic means of payment rose steeply beginning in April, on account of both the direct expansion of net domestic credit from the Central Bank and of the expansion of exchange subsidies. The growth rate of direct net domestic credit from the Central Bank climbed from an annual pace of 15% in December 1985 to 18% in April 1986, almost 51% in July and 70% in October, before falling to 60% in December. This pattern mainly reflected the extraordinary increase (154%) in the subsidized credits provided by the Central Bank to commercial banks and the jump of 115% in those which it supplied to the Banco Nacional de Fomento in line with a policy adopted by the economic authorities in an effort to check the depressionary impact of the drought and the exchange policy on the profitability of the production of tradeable goods. Exchange subsidies to the State, for their part, increased by 80% and financed four-fifths of its global deficit, as against 47% in 1985, as a result of the marked shrinkage in net external financing and the authorities' continuing reluctance to resort to explicit tax increases or to the realignment of the rates charged by State enterprises.

Although the expansion of the monetary base in 1986 far exceeded that which occurred in 1985 (38% and 14.5% respectively), it was nevertheless considerably lower than the increase in net domestic credit granted by the Central Bank owing to the steep decline in international reserves. Furthermore, the money supply (M_1) rose by a smaller amount (26.5%) than the preceding year (28%). In contrast, M_2 grew by 27% as against 19.5% in 1985. Finally, the government pursued an expansionary wage policy and for the first time in many years granted adjustments for the minimum wage which were higher than the cumulative rate of inflation.

2. Trends in economic activity

a) *The product and income*

In 1986, economic activity remained at a similar level to that of the year before. Hence, the per capita product fell by approximately 3%, and was 11% below the peak attained in 1981, while the production gap —i.e., the difference between the effective and the potential gross domestic products— widened to an estimated figure of somewhat more than 26% (as against 21% the previous year). In turn, the gross national product rose slightly, due to the fall in remittances of profits abroad, and gross national income increased by almost 1%, thanks to the improvement in the terms of trade¹ (see table 2).

b) *Absorption and saving*

The almost 3% increase in domestic absorption was financed by using a considerable proportion of the reserves left over from the major boom which occurred in 1973-1981 and reflected a slight upturn in investment as well as an increase in consumption (see tables 4 and 5). Following the 10% revival recorded in 1985, private investment continued its brisk recovery (15%), based on a substantial increase in bank credit at rates of interest markedly below the prevailing level of inflation and on a resumption of construction work on the Yacyretá hydroelectric dam.

Even so, private capital formation was barely half that recorded in the final year of the boom (see table 5). State investment, for its part, fell sharply, to the lowest level of the decade, due to the suspension during the first eight months of the year of the disbursement of loans already arranged for with the World Bank, which was compounded by the refusal of both this agency and the Inter-American Development Bank to consider funding new investment projects as a result of differences with the Paraguayan authorities over the exchange rate applicable to such operations. The government insisted on maintaining an exchange rate of 160 guaraníes to the dollar for disbursements of external public-sector loans, even though the parallel exchange rate had been over 700 guaraníes to the dollar ever since the third quarter of the preceding year; the World Bank and the IDB, for their part, insisted on an exchange rate similar to that applied to exports. The government finally accepted this position in respect of World Bank disbursements in August and did so a few months later in respect of those of the Inter-American Development Bank.

The substantial increase in the collection of import duties, together with the positive impact during the first half of the year of the updating, decreed in 1985, of the rates charged by a number of the principal State enterprises and the considerable reduction of expenditure in real terms, helped to bring about a major rise in nominal government saving. However, this mainly served to alleviate the non-financial public-sector deficit, given the acute shortage of external financing for investment projects which prevailed throughout most of the year. Thus, the gap between investment and public saving fell from a figure equivalent to 2.4% of the product in 1985 to 0.7% in 1986.²

Despite the maintenance of markedly negative real interest rates, private-sector financial savings increased by somewhat more than 2% in real terms, thanks to the persistent fall in the parallel exchange rate. Nevertheless, real private savings fell slightly, according to the statistics provided by national accounts; as a result, and mainly on account of the increase in investment, the private-sector balance saw an increase in the deficit from the equivalent of just 0.2% of the gross domestic product in 1985 to almost 4% in 1986. When measured as a percentage of the product, external savings climbed from 4.6% to 5.7% (see table 5). This would seem to reflect both the repatriation of savings by residents in order to take advantage of the effects which the steady decline in the parallel exchange rate had on the rate of return in dollars on investments made in the local currency, as well as the government's success in attracting a considerable flow of short-term commercial credits.

¹ It should be borne in mind that the national accounts prepared for the Paraguayan economy are somewhat imprecise in a number of areas, especially as regards the statistics on the external sector (there have been cases where foreign trade has been underestimated by as much as 50%) and on absorption and its financing. (For analysis of this problem, see Richard Lynn Ground, "Las cuentas nacionales del Paraguay", *Revista Paraguaya de Sociología*, vol. 19, No. 5, September-December, pp. 27-50.)

² However, if the exchange subsidies given to the government by the Central Bank in the form of preferential exchange and interest rates are taken into account, then the deficit amounted to 1.2% of the product, in comparison to 0.7% in 1985.

c) *Sectoral trends in the product*

The economic recovery was halted by a fall of almost 4% in the production of goods. In contrast, the growth rate in the value added by the basic services production sectors was the highest since 1982, while non-basic services grew at rates similar to the expansion of the labour force (see table 6).

The diminished output of goods was essentially attributable to the disappointing performance of agriculture, which shrank by over 12% (see table 7). The cotton harvest, which had doubled between 1983 and 1985, fell by over 32%, while the soya harvest, which had expanded by 50% during the same period, dropped by almost 29%. The decline in these two items, whose dynamism directly accounted for almost one-half of the upturn in economic activity observed during the two preceding years, brought about a drop of slightly more than 2% in the gross domestic product. Production of most of the other principal items also decreased, including beans (-29%), cassava, sweet potatoes, sugar cane and tung.

The drought which affected the country in the closing months of 1985 and the early months of 1986, i.e., during the sowing and the growth period of the main crops, left its mark both in terms of the amount of land harvested and the yields obtained. By way of example, the land area planted with soya which was harvested fell by 25%, whereas the area sown had expanded by 4%; and the yield of cotton per hectare harvested declined by over 26% (see table 8). However, the losses attributable to the drought would have been even higher if it had not been for the effort that was made to resow, which was supported by the extension of subsidized credits.

In a departure from this trend, the harvest of wheat (a winter crop which is grown on part of the land devoted to soya cultivation in summer), which was unaffected by the drought, increased by no less than 66%, and production was consequently great enough, for the first time, to satisfy domestic demand. Thus, a target was met that had been set many years before, when the government launched its wheat-production campaign, which was supported by an abundant supply of subsidized credits and, more recently, by the substantial rise in the parallel exchange rate.

The actual prices paid to the producers of the principal crops worsened in most cases during the sowing period, but moved back up during the harvest itself in spite of the downward trend in their international prices and the drop in the parallel exchange rate thanks to the substantial reductions made in the valuation levels set by the Central Bank. These changes in valuation levels had the effect of raising the exchange rates actually received for the main export products and, consequently, their domestic prices. Thus, while the actual domestic price of soya fell by more than 33% between 1984 and 1985, during the first half of 1986 it rose by 36.5% in comparison with the price recorded during the second half of the preceding year, even though on the international market its price continued to decline. An appreciable upturn was also seen in the actual domestic prices of sugar cane, maize and cassava, while that of cotton barely rose at all and that of tung continued its steep decline. The actual domestic price paid to producers of wheat, for its part, once again dropped slightly (see table 9).

Up until the end of the year a preferential exchange rate of 240 guaraníes to the dollar was maintained for imports of agricultural inputs. However, the greatest support for crop-farming production came from an unprecedented expansion in the supply of subsidized credit to the sector. Domestic bank financing for agricultural activities expanded by over 120%, i.e., by 68% in real terms. The interest rates on these operations fluctuated between 16% below the prevailing rate of inflation in June and 6% below in December. This policy should have more than offset the depressionary impact which the drought, the downturn in international prices and the fall in the real effective exchange rate had on the profitability of agricultural production. Nevertheless, it led to an overall expansion of bank credit which was far higher than that which would have been compatible with a more lasting decrease in inflation, as well as giving rise to instability in relative prices and a sharp restriction of the supply of credit for other activities, without having a proportional impact on agricultural production, with the exception of wheat. In addition, the real prices of agricultural land again dropped (see table 10).

The value added by the manufacturing sector also declined, mainly due to the large decrease in the production of raw materials, as well as to the reduction of over 25%, in real terms, in the allocation of credit to the sector. However, some branches grew rapidly, thanks to the stimulus provided by the huge rise observed the year before in the real effective market exchange rate, which was the one that applied to most imports of manufactured goods, as well as because of the striking

expansion in tourism and the increase in demand for industrial products on the part of the Yacyretá binational enterprise, which was constructing the new dam on the Paraná River (see table 12).

In contrast, forestry increased by nearly 12% —thus exhibiting genuine growth for the first time since 1981. This was chiefly a result of the dynamism of external demand, which was in turn attributable to maladjustments in relative prices and to the extraordinary expansion of Brazilian and, to a lesser extent, Argentine demand following the implementation of unorthodox stabilization programmes in those countries. This same factor also provided a stimulus for stock-raising production, although this sector only recorded a 2% increase in its value added (see table 7).

The production of basic services also rose appreciably, owing to the steep increase in the generation of electrical power at Itaipú (see table 13).

The boom in tourism, which was attributable to the substantial increase in the parallel exchange rate in 1985 as well as to the marked rise in spending by residents of neighbouring countries, made it possible for commercial activities to maintain a modest growth rate, in spite of the steep fall in the harvest of the main crops. Furthermore, the increased demand stemming from the execution of engineering works for the Yacyretá hydroelectric dam gave rise to a slight increase in the value added by the construction sector, thereby halting the downward trend observed ever since the completion of the main works of the Itaipú hydroelectric dam in 1981 (see table 6).

Although the gross domestic product remained at a standstill, the Central Bank calculated that the rate of open unemployment at the national level only climbed from 8% to 9% of the labour force. In addition, the rate of open unemployment in the Asunción metropolitan area rose only very slightly from 5.2% in November-December 1985 to 6.1% in June-August 1986, according to the household surveys sporadically carried out by the Department of Statistics and Censuses (see table 14).

3. The external sector

a) *The main trends*

The official balance of payments showed a deficit for the fifth year running. The loss of external assets by the Central Bank to which this gave rise was the largest in the past five years and was equal to one-quarter of its holdings as of the end of 1985 and to 3.3% of the gross domestic product. Gross international reserves thus fell to a level which —given the rate of official external purchases recorded in 1986— was only sufficient to finance less than four months of imports of goods and services (see table 15). If delinquent payment and non-transferable reserves are also taken into account, it then becomes apparent that —unless an unexpected and unusually large rise in the terms of trade were to take place— it may soon become impossible to continue to provide the State with foreign exchange at rates of exchange below the prevailing market rate and, consequently, to maintain the prices of the goods and services provided by the public sector at levels far below those of the market.

Towards the end of 1986, the authorities considerably narrowed the gaps existing between the market exchange rate and the official exchange rates applied to imports and to the servicing of the external debt of almost all State agencies —with the exceptions being the two most heavily indebted enterprises. Moreover, they also raised a number of public rates and charges sharply. However, they did not correct the asymmetry of the exchange rate system, and the changes made had the effect of increasing exchange subsidies and the creation of liquidity.

As in 1985, when holdings of external assets accumulated during the 1973-1981 boom were used to mitigate the harshness of the adjustment of the external imbalance, the widening gap between saving and investment in 1986 was financed by a huge loss of reserves, despite the economic authorities' announcement of a variety of adjustment programmes during the course of the year. Indeed, the balance-of-payments trade account deficit recorded by the Central Bank reached a level equivalent to 4.2% of the gross domestic product, which was four times that of the year before. The volume of imports of goods and services rose by 8% following the fall in the real effective exchange rate, while the volume of external sales declined by 5%, mainly on account of the drought. The increase in the deficit on current account was considerably lower, due to the sharp fall in the international price of petroleum and the marked drop in remittances of profits abroad which accompanied the shrinkage of exports. However, the net inflow of external financing was only

marginally higher than the low figure registered in 1985. External borrowing by the government from commercial sources of short-term credit barely balanced the impact of the suspension of loan disbursements from the World Bank and the freeze on the initiation of new investment projects with the Inter-American Development Bank resulting from the differences over exchange policy which had arisen between the Paraguayan authorities and these two institutions. Together with the accounting reduction of the private State-guaranteed external debt, this led to the lowest growth rate for the medium- and long-term gross disbursed external debt recorded since the 1960s and for the first time since the onset of the crisis, it declined in relation to the gross domestic product. In addition, the debt of the State steel enterprise, Aceros del Paraguay (ACEPAR), with the Banco do Brasil was the object of the first formal external debt renegotiation to take place.

In view of the deterioration in the international prices of the principal export products, the rise in domestic production costs and the slump in yields, during the harvest period the Central Bank decided to raise the exchange rate that was actually received in this connection and, hence, the domestic prices of these products also increased. In order to accomplish this, it relied almost exclusively on a reduction in the minimum export prices. Thus, although the exchange rate applied to foreign exchange export earnings remained in the region of 320 guaraníes to the dollar during the first half of the year (see table 16), the rate actually received by exporters ranged between 482 guaraníes for cotton and 688 guaraníes for wood. At the same time, the rates of return on the main exportable items improved, as commercial banks were encouraged to increase considerably the loans they provided to producers at subsidized interest rates.

This exchange policy relieved pressure on the exchange rate and on price levels, as it diverted a greater proportion of foreign exchange earnings to the parallel market. It also made it possible to avoid expanding exchange subsidies and/or to postpone increasing public rates and charges, which would have been tantamount to outright adjustments, such as those decreed in previous years in the official exchange rates. And since the parallel exchange rate did in fact begin to weaken, owing both to these measures and to the boom in tourism, expectations of such increases began to subside.

Such considerations might well have proved decisive, in the light of the spectacular surge in the parallel exchange rate between the beginning of 1985 and the beginning of 1986 and the jump in inflation to an annual figure of over 40% by the end of the first quarter of 1986. However, this policy naturally sped up the decline in the Central Bank's international reserves. In view of this fact, and of the constriction of the flow of financing from multilateral institutions, together with the sustained downturn in the parallel exchange rate and the levelling off and subsequent steep fall of inflation during the second half of the year, steps were taken to increase the valuation levels set by the Central Bank and to readjust the official exchange rates. Consequently, a large proportion of the earnings from recorded volumes of external sales were deposited in the Central Bank, but the exchange rates actually received by exporters did not change significantly.

Although the gap between the average official exchange rate actually applied to exports and the parallel exchange rate narrowed in comparison to what it had been at the end of 1985, the new exchange policy had the effect of increasing the number of official rates applied to export products, as well as the differences among them. Furthermore, the highly undervalued rates at which the Central Bank provided foreign exchange to the non-financial public sector were raised substantially, and steps were taken to eliminate part of the gap between the going rate and the exceedingly low prices charged for public goods and services by phasing in adjustments of around 40% in these charges beginning in December 1985. However, as the rise in the exchange rates applying to State operations was lower than the increase in the Central Bank's average purchase rate, the unwarranted creation of liquidity resulting from the system of exchange rates increased considerably, thereby exerting further pressure on the exchange rate and the level of prices, rather than a sustainable adjustment being applied. Indeed, while towards the end of the year the exchange rate used for imports by public agencies was increased from 240 to 400 guaraníes to the dollar and the rate applied to the servicing of the public external debt was raised from 160 to 240 guaraníes (with the exception of certain State bodies which retained lower rates), the average Central Bank purchase rate was increased from around 310 to 550 guaraníes. Thus, for example, each dollar sold by the Central Bank to the non-financial public sector for the purposes of servicing its external debt signified a loss of 300 guaraníes (or more), as against the previous figure of 150 guaraníes.

The real effective official exchange rate for exports remained at an average level similar to that of the preceding year; in other words, it remained far below the rate prevailing during the major

boom of the previous decade. The rate for imports fell by 10%, which brought it back down to the level it had reached before economic performance had taken a sharp turn for the worse in 1981. The real effective parallel exchange rate, for its part, fell markedly, thereby eroding the profitability of the production of tradeables in general and of unregistered exports and import substitutes in particular (see table 17). In the final analysis, then, the exchange policy tended to accentuate macroeconomic disequilibrium rather than facilitating a structural adjustment aimed at restoring a sustainable form of growth in economic activity.

In August an agreement was finally reached with the World Bank regarding the exchange rate to be applied to pending disbursements loans already arranged for with the Bank, which amounted to US\$137 million, US\$20 million more than the surplus recorded on the balance-of-payments capital account in 1986. The new exchange rate was set at 320 guaraníes to the dollar up until the end of 1986, which brought it up to the level nominally in force at the time for exports, and at 400 guaraníes to the dollar as from January 1987. During the last quarter of the year, the government reached a similar agreement with the Inter-American Development Bank. However, another dispute arose in December, when the government raised the nominal exchange rate for exports to 550 guaraníes to the dollar. In the end, the rate applying to loan disbursements was readjusted to 550 guaraníes as well, thereby definitively normalizing the country's access to financing from the two above-mentioned multilateral institutions.

On another front, at the beginning of 1986, following protracted negotiations, the authorities signed an important agreement with the Brazilian government. This arrangement provided for the application of a readjustment factor to the nominal values of the fees established in the 1973 Itaipú Treaty; this treaty governs the operation of the hydroelectric dam of the same name, which is owned by both countries. Accordingly, the fee to be received by Paraguay for transferring its half of the power generated by Itaipú to Brazil was readjusted from US\$650 per gigawatt-hour to US\$2 275 in 1985/1986, US\$2 327 in 1987, US\$2 379 in 1988, US\$2 431 in 1989, US\$2 483 in 1990, US\$2 535 in 1991 and US\$2 600 in 1992. Moreover, the parties agreed to defer the payment of 100% of the fees due from 1985 until the beginning of the coming decade, as well as 71.6% of those corresponding to 1986 and a considerable proportion of the fees for 1987. Consequently, Paraguay was to receive its first fees for Itaipú, some US\$9 million, in 1987.

b) *External trade and the balance of payments*

The current value of exports shrank by 23.5% according to preliminary figures provided by the Central Bank (see table 18).⁵

This drop was brought about by the sharp fall in the value of soya seeds (-56%) and of cotton fibres (-43%), the two main export items. The volume of soya seeds recorded by the Central Bank fell by almost 11%, which was considerably less than the decline in its harvest, while the volume of cotton fibres fell by 30%, an amount similar to the decrease in production. In turn, the valuation level set for the former crop was cut by 49%, while its international price fell by 7%; the valuation level for the latter crop was lowered by 18%, as against a 15.5% reduction in its international price (see table 19).

In contrast, the current value of exports of livestock products reached US\$44 million, in comparison to the US\$7 million recorded the year before and an average of less than US\$9 million for the period 1980-1985, thanks to Brazil's unusually large demand for these items. This was the highest level of income from exports of meat products to be recorded since 1973, while the volume of these exports, which was eight times greater than in 1985, was the highest ever. Similarly, external sales of wood increased fivefold, thus representing the largest volume since 1980, once again on account of the exceptional demand from Brazil.

Trends in tourism also helped to offset part of the harmful repercussions of the drought on the value of exports. The number of tourists increased by 41% to the unprecedented level of 371 000, owing to the maladjustment of relative prices, the boom in expenditure by residents of neighbouring countries and the sharp rise in the parallel exchange rate which occurred during the second half of 1985. Consequently, for the first time income from tourism exceeded that obtained from any

⁵This figure does not take into account what are referred to as "unregistered" exports or the sales made by Paraguay to the Itaipú and Yacretá binational enterprises. These are, however, included in the balance of payments shown in table 23.

individual export product (see table 20). Taken together, the increases in exports of livestock products and timber and the higher income from tourism were equivalent to almost two-thirds of the fall in the value of external sales of cotton and soya.

Despite the slump in recorded exports, the current value of merchandise imports rose by over 15%, according to Central Bank figures (see table 21).⁴ This increase principally reflected the unusually marked expansion of external purchases of machinery, equipment and engines. Imports of durable consumer goods also rose by an exceptional amount, particularly in the case of electrical appliances. In contrast, imports of intermediate goods shrank for the fourth year running, mainly as a result of the decline in the prices of hydrocarbons.

Thanks to the downturn in import prices, which fell to a level below that of 1980, and to the drop in the parallel exchange rate, the terms of trade improved in spite of the deterioration in the international prices of the principal export items (see table 22). Together with the sharp reduction in payments for factor services, this counteracted a considerable portion of the marked growth in the resource gap, and the balance-of-payments current account deficit therefore increased by substantially less (from US\$231 million in 1985 to US\$280 million in 1986) than it otherwise would have. On the other hand, net external financing increased by only US\$14 million due to the drop in disbursements by multilateral institutions, in spite of heavy short-term borrowing by the State. Hence, another large overall balance-of-payments deficit was recorded (see table 23).

If the operations of the Itaipú and Yacyretá binational enterprises are excluded, then the growth of the current account deficit turns out to be lower, and the increase in the capital account surplus turns out to be greater. When considered on this basis, the global deficit barely rose at all, although it remained at an unsustainable level, inasmuch as it was equivalent to 60% of the Central Bank's remaining holdings of external assets (see table 24). The direct contribution made by the construction of the Itaipú project to the balance of payments decreased substantially once again as work progressed according to schedule. In contrast, the contribution made by Yacyretá increased, due to the gradual normalization of its financial position. Furthermore, due to the new method adopted in respect of foreign exchange inflows for financing this project's expenditures in Paraguay, which had been agreed upon by Paraguay and Argentina the year before, the Central Bank's figures underestimate its actual contribution, since a considerable proportion of such foreign exchange was liquidated on the open market.

c) *The external debt*

The gross contracted external debt shrank by almost 3% to US\$2.43 billion as a result of the use of a new method for quantifying the State-guaranteed private external debt, which was valued at US\$30 million, as against US\$145 million in 1985. Simultaneously, the State virtually ceased to contract for any fresh medium- and long-term credits due to its disagreements with multilateral lending agencies (see table 25).

Although the gross disbursed medium- and long-term external debt continued to grow, it did so at the lowest rate recorded since 1963. Furthermore, in spite of the further loss of external assets, the expansion of the net external debt slowed down to less than 7% at current prices, as against an increase of almost 18% in 1985 and of 31% in 1984. Nevertheless, the net external debt was 19 times greater than it had been in 1980, when it was less than US\$100 million.

In real terms the gross disbursed external debt fell slightly if it is measured in terms of the variation in the index of export prices. If it is deflated on the basis of the index of import prices, however, then a real increase of around 6% is shown. The corresponding figures for the net external debt are 3-6% and 10% (see table 26).

Even though economic activity remained at a standstill, the gross external debt fell in relation to the gross domestic product for the first time since 1981. The net debt also shrank, following its spectacular increase over the previous five years, inasmuch as the gross external debt represented

⁴These figures do not include unrecorded merchandise imports or the half of the imports made by the Itaipú and Yacyretá binational enterprises, which are entered on Paraguay's accounts. Nor do they include imports financed by external loans, unrequited official transfer payments or direct foreign investment. The latter items are, however, taken into account in the balance-of-payments statistics appearing in table 2V

50% of the gross domestic product at the weighted average official exchange rate or almost 70% at the parallel rate, as compared to 56% and nearly 76%, respectively, in 1985. In turn, at the weighted average official exchange rate, the net external debt fell to less than 47% of the gross domestic product (50% in 1985) and to 65% at the parallel rate (67.5% the preceding year). The departure from the previous trend (in a five-year period the gross external debt burden had trebled and that of the net external debt had increased thirtyfold) was attributable both to the drop in the real effective exchange rate and to the slower growth of the debt. In its turn, debt servicing also stabilized in 1986 (see tables 25 and 26).

For the first time, the government held formal renegotiations during 1986 in respect of its external commitments, reaching an agreement with the Banco do Brasil to reschedule US\$50 million in maturities corresponding to part of the debt owed by the State steel enterprise, Aceros del Paraguay (ACEPAR), to the above-mentioned bank. In actual fact, this debt, which alone represented one-sixth of the disbursed external public debt as of the end of 1986, was apparently not being serviced.

4. Prices and wages

During the first quarter inflation again picked up sharply, after having diminished towards the close of 1985. During the first three months of the year the level of consumer prices surged by more than 15%, thereby bringing the level of inflation as measured over 12 months to 40% in March, almost double the December rate and the highest since 1960 (see figure 2). The rise in the level of wholesale prices was even greater (43%), bringing it near to an annual rate of almost 55% in March, as against one of 16% in December 1985 (see tables 27 and 28). However, the upward trend in consumer prices underwent a sharp turnaround in April, and in the following eight months the increase in the relevant Central Bank index was not even half that recorded in the first three months of the year. During the last two months price levels remained virtually stable. Consequently, the 12-month increase in this index (24%) was barely higher than it had been the year before. For its part, the rate of increase in wholesale prices fell to somewhat less than 11% between March and September, while in October-December the absolute level of wholesale prices declined by almost 7%.

The inflationary spiral seen early in the year largely reflected the jump in the prices of food products, attributable in its turn to the impact of the drought on the production of the main crops. In terms of consumer prices, this led to a 27% rise in food prices between December and March, whereas the increase in wholesale prices of agricultural products was over 66%. By way of example, the price of maize almost doubled between the last quarter of 1985 and the first of 1986, while the prices of cassava and sweet potatoes rose by 56% and 39%, respectively.

As far as costs are concerned, the increases in the minimum wage decreed in November 1985 (20%) and January 1986 (15%) contributed to the resurgence of inflation. For the first time in many years the minimum wage was adjusted by a higher percentage than inflation and at a time when the rate of price increases had fallen off sharply. Between January 1985 and January 1986 the minimum wage was increased by 38%, whereas the cumulative level of inflation was 27%. Moreover, the 15% readjustment made in mid-January 1986 was well above the cumulative rate of inflation as of that date, since the level of prices had stabilized during the last two months of 1985, according to the Central Bank index.

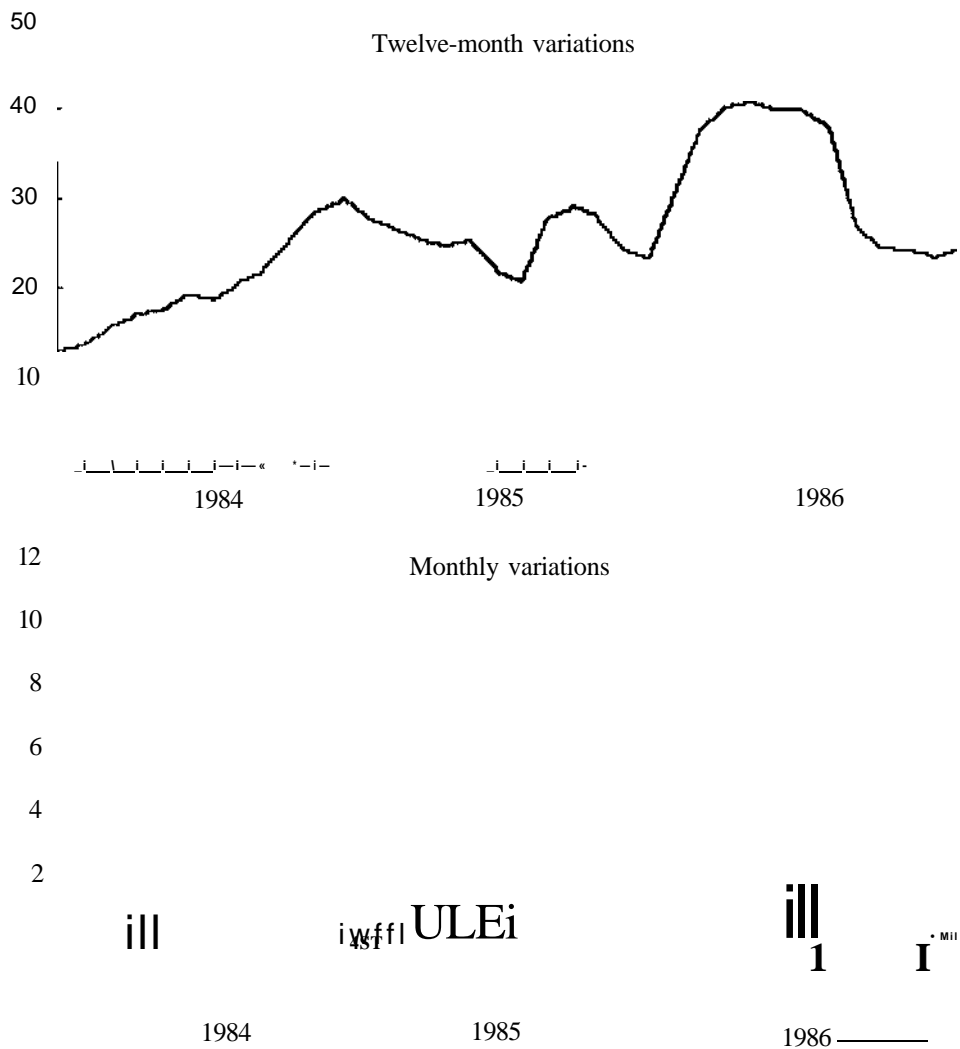
On the demand side, towards the middle of 1985 the Central Bank had introduced an exceptionally restrictive monetary policy with a view to stabilizing the exchange rate—which had risen by more than 100% between the end of 1984 and August 1985 as a result of the implementation of expansionary fiscal and monetary policies—as well as to reversing adverse expectations. The parallel exchange rate did indeed fall by nearly 20% during the closing months of 1985, as harsh monetary restrictions compelled firms and individuals to restructure the currency composition of their financial assets in order to cover their working capital and current expenditures. Once the exchange rate began to decline, speculative operations continued to exert downward pressure until the end of the year. Given these circumstances, price levels stabilized, but the reduction in liquidity tended to depress the level of economic activity, particularly once the drought had generated additional demand for credit. In the last two months of the year, the Central Bank loosened the credit restrictions applying to commercial banks, although, in any case, part of the upturn in liquidity during this period was due to

seasonal factors. In addition, the public sector's demand for fresh credit rose during the closing months of the year, after having been frozen between April and July.

This renewed growth of liquidity may have played a part in the sharp rise in price levels observed during the first quarter, especially through the further and considerable rise in the exchange rate. However, prices subsequently tended to stabilize, despite the fact that throughout most of the year the Central Bank maintained a clearly expansionary monetary policy. Furthermore, between December 1985 and February 1986, a period during which the rise in price levels was over 15%, the Central Bank supply of net domestic credit did not expand. In contrast, between February and December, when the level of consumer prices rose by a little less than 11%, net domestic credit increased by 61% (see table 28).

A considerable proportion of this increase was counterbalanced by the huge loss of international reserves sustained by the Central Bank between March and November. After expanding

Figure 2
PARAGUAY: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.

sharply during the first two months of the year, the monetary base shrank between June and October and its 12-month increase was no higher than that recorded at the beginning of the year, although this trend was reversed in December, when it rose steeply (by almost 20%). Meanwhile, the means of payment grew rapidly between March and May, following their January contraction, but during the following eight months the money supply again shrank, before expanding by over 14% in December. Finally, the growth of quasi-money (6%) was not even half that recorded the preceding year.

On the cost side, the further and persistent drop in the market exchange rate—following the 20% rise recorded in January and February—also helped to bring down inflation and, eventually, to stabilize price levels. Between March and December the parallel exchange rate fell by almost 23%, reaching its lowest level since June 1985. (In contrast, in the June 1985-December 1986 period, the level of consumer prices rose by over 46%.)

The authorities maintained a price freeze on public goods and services or allowed only minor adjustments, once again resorting to this means of absorbing part of the inflationary pressure created by the excessively expansionary fiscal and monetary policies. Thus, for example, the real prices of electricity, water and telephone service fell by around 24% and the rates for electricity and telephone service thus dropped to less than half what they had been before the onset of the economic crisis (see table 34). However, in December it became necessary to make a series of major readjustments in public rates and charges due to the rise in the official exchange rates.

In addition, price controls were tightened up on goods and services provided by the private sector which carried significant weight in the consumer price index. Finally, the further fall in the level of import prices also helped to stabilize prices, as did the boom in tourism from Brazil and Argentina, owing to its depressionary effect on the parallel exchange rate. However, this stability seems to have been rather transitory, since the level of consumer prices again rose sharply during the first months of 1987 (almost 9% in January-February).

For the second year running, legal minimum wages improved in real terms (see table 29). While the increase received in 1985 (6%) reflected the slowdown of inflation, as readjustments were similar to the past rate of inflation, in 1986 the sharp rise in real legal minimum wages (11%) was the outcome of a new wage policy. This policy involved the granting of readjustments in excess of the cumulative variation in consumer prices. Furthermore, in contrast with what had hitherto been the norm, minimum wages were readjusted before cumulative inflation reached 15%. Thus, a 15% wage increase was granted in January, while the cumulative level of inflation (from November, the month of the previous readjustment) was 5.6% and a 20% rise was decreed in July, while the cumulative rate of inflation was 11%. In early 1987 this new method of readjustment was maintained: in January the minimum wage was once again readjusted by 20%, whereas the variation in the consumer price index since July had been only 11%.

Nonetheless, the new wage policy did not lead to a real improvement in average wages. On the contrary, the purchasing power of the average manual worker's wage in Asunción declined for the fifth year in a row, falling by somewhat more than 4% to a level 15% lower than in 1981. Average daily wages in agriculture, for their part, remained at a standstill in relation to the average annual rise in prices (the daily wage which did not include meals rose by 1.5% and the wage including meals fell by 1.5%). Consequently, the above-mentioned wages were worth only 70%, 71% and 76%, respectively, of those paid before the onset of the economic crisis. On the other hand, as a result of the sharp increases of the past two years, the real minimum wage was 6.6% higher than in 1981. In comparison, gross national income was about 1% less than the figure recorded five years before.

Table 1

PARAGUAY: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980= 100)							
Basic economic indicators							
Gross domestic product at market prices	100.0	108.8	107.9	104.7	108.1	112.5	112.1
Gross national income	100.0	110.6	108.9	104.2	110.2	109.7	110.4
Population (millions of inhabitants)	3.17	3.27	3.37	3.47	3.58	3.68	3.78
Per capita gross domestic product	100.0	105.5	101.5	95.7	95.7	96.9	94.0
Growth rates							
B. Short-run economic indicators							
Gross domestic product	11.3	8.8	-0.8	-3.0	3.2	4.0	-0.3
Per capita gross domestic product	7.9	5.5	-3.8	-5.7	-	1.2	-3.0
Gross national income	9.7	10.6	-1.5	-4.3	5.8	-0.5	0.6
Unemployment rate ^c	3.9	2.2	5.6	8.4	7.4	5.2	6.1
Consumer prices							
December to December	8.9	8.1	8.9	14.1	29.8	23.1	24.1
Variation between annual averages	22.4	14.0	6.8	13.5	20.3	25.2	31.7
Real salaries and wages							
Money (M.)	25.8	0.1	-3.9	26.4	29.6	28.0	38.4
Current income of government	18.3	14.9	15.0	3.8	29.9	29.3	30.0
Total expenditure of government	30.4	14.5	22.2	14.4	-3.5	37.8	-
Global balance/total expenditure of central government							
Global balance of central government/GDP	-2.6	-25.1	-14.4	-35.2	-10.9	-16.2	5.0
Global balance of non-financial public sector/GDP							
Global balance of non-financial public sector/GDP	-1.1	-2.6	-1.7	-4.3	-1.0	-1.5	0.4
Current value of exports of goods and services							
Current value of exports of goods and services	10.0	-1.8	11.2	-24.7	66.4'	40.9	-0.7
Current value of imports of goods and services							
Current value of imports of goods and services	14.9	16.1	8.7	-33.2	49.7'	19.4	5.7
Terms of trade (goods and services)	-8.8	-4.4	8.4	-20.7	84.6'	26.9	13
Millions of dollars							
C. External sector							
Trade balance (goods and services) ^f	-275	-422	-445	-245	-289	-178	-259
Factor services ^g	-2	44	67	-8	-36	-53	-21
Balance on current account	-278	-377	-378	-253	-325	-231	-280
Balance on capital account	428	420	316	200	311	103	117
Variation in international reserves	154	44	-122	-14	-4	-132	-117
Gross external debt disbursed ^h	861	949	1 204	1 469	1 654	1 773	1 841
Net external debt disbursed ⁱ	88	131	514	1 029'	1 345'	1 582'	1 706'

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bPercentages. ^cAnnual average rate in Greater Asunción. ^dReal wages of manual workers in Greater Asunción. ^eNew series. The base figures for the former series (up to 1983) and the new series (from 1984) are no comparable. ^fIncludes unrequited private transfer payments. ^gMedium- and long-term public and State-guaranteed private debt. ^hGross external debt disbursed less holdings of net foreign assets. ⁱAdjusted for delinquent public-sector payments.

Table 2

**PARAGUAY: SUMMARY OF ACCOUNTS ON THE PRODUCT,
EXPENDITURE AND INCOME**

(Millions of dollars at constant 1980 prices)^a

	1982	1983	1984	1985	1986* •	Growth rates				
						1982	1983	1984	1985	1986*
Gross domestic product at factor cost	4 488	4 367	4 565	4 749	4 734	-1.2	-2.7	4.5	4.0	-0.3
Indirect taxes, less subsidies	312	261	245	255	255	5.9	-16.4	-6.0	4.0	-
Gross domestic product at market prices	4 800	4 658	4 810	5 004	4 989	-0.8	-3.0	3.2	4.0	-0.3
Net imports of goods and services ¹	403	226	449	51	210	-9.2	-43.9	98.4	-88.6	308.8
Net factor payments from rest of world	63	-8	-40	-53	-24					
Terms-of-trade effect	-20	-19	128	-127	-55					
Gross domestic expenditure	5 203	4 884	5 259	5 055	5 199	-1.5	-6.1	7.7	-3.9	2.8
Gross national product	4 863	4 650	4 770	4 951	4 965	-0.4	-3.4	2.6	3.8	0.3
Gross national income	4 843	4 631	4 898	4 877	4 910	-1.5	-4.4	5.8	-0.4	0.7

Source: ECLAC, on the basis of official data.

¹Exchange rate calculated by the International Monetary Fund. "includes unrequited private transfer payments.

Preliminary figures.

^aNot attributable to factors.

Table 3

PARAGUAY: SUPPLY AND DEMAND

	Indexes (1980=100)					Growth rates				
	1982	1983	1984	1985	1986"	1982	1983	1984	1985	1986"
Total supply	109.8	101.5	113.2	118.6	120.2	0.3	-7.6	11.6	4.7	1.4
Gross domestic product at market prices	107.9	104.7	108.1	112.5	112.1	-0.8	-3.0	3.2	4.0	-0.3
Imports of goods and services	120.0	84.5	140.3	150.7	162.7	6.1	-29.6	66.0	7.4	8.0
Total demand	109.8	101.5	113.2	118.6	120.2	0.3	-7.6	11.6	4.7	1.4
Domestic absorption	110.2	103.4	111.3	107.0	110.0	-1.5	-6.1	7.7	-3.9	2.8
Gross domestic investment	97.1	79.5	75.9	81.6	84.2	-17.0	-18.2	-4.6	7.5	3.2
Gross fixed investment	96.3	79.0	74.6	80.0	82.1	-18.4	-17.9	-5.6	7.2	2.6
Variation in stocks	112.5	87.8	98.7	110.0	122.6					
Total consumption	115.0	112.3	124.5	116.5	119.6	4.6	-2.3	10.9	-6.4	2.7
General government	122.1	126.0	118.6	123.4	126.6	2.2	3.1	-5.9	4.0	2.6
Private	114.4	111.1	125.0	115.9	119.0	4.9	-2.9	12.5	-7.3	2.7
Exports of goods and services	107.2	85.6	129.2	215.1	204.9	19.3	-20.1	50.9	66.5	-4.7

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Figures for exports of goods; and services were obtained from IMF balance-of-payments figures in current dollar, which were then converted to constant 1980 values using unit value indexes calculated by ECLAC for the purpose.

Table 4

PARAGUAY: STRUCTURE OF TOTAL SUPPLY AND DEMAND

(As a percentage of the gross domestic product)^a

	1970	1979	1980	1981	1982	1983	1984	1985	1986*
Total supply	118.1	122.1	118.9	119.7	121.0	115.2	124.5	125.3	127.4
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports of goods and services	18.1	22.1	18.9	19.7	21.0	15.2	24.5	25.3	27.4
Total demand	118.1	122.1	118.9	119.7	121.0	115.2	124.5	125.3	127.4
Domestic absorption	103.7	109.1	106.2	109.2	108.4	104.9	109.3	101.0	104.2
Gross domestic investment	12.4	26.5	28.8	30.9	25.9	21.8	20.2	20.9	21.6
Total consumption	91.2	82.5	77.4	78.2	82.5	83.0	89.2	80.2	82.6
General government	8.6	6.0	6.2	6.8	7.0	7.5	6.8	6.8	7.0
Private	82.7	76.5	71.2	71.4	75.5	75.6	82.4	73.4	75.6
Exports of goods and services ^b	14.4	13.0	12.7	10.5	12.6	10.4	15.2	24.3	23.2
Terms-of-trade effect	2.0	2.5	-	0.7	-0.4	-0.4	2.7	-2.5	-1.1

Source: ECLAC, on the basis of figures supplied by the Central Bank of Paraguay.

^a At market prices in constant 1980 dollars, using the parity exchange rate. Preliminary figures. ^cThe figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values through deflation based on price indexes calculated by ECLAC for the purpose.

Table 5

PARAGUAY: ORIGIN, COMPOSITION AND FINANCING OF GROSS DOMESTIC INVESTMENT

(As a percentage of the gross domestic product)^a

	1970	1979	1980	1981	1982	1983	1984	1985	1986 ^b
Gross domestic investment	12.4	26.5	28.8	30.9	25.9	21.8	20.2	20.9	21.6
Origin									
Private sector		20.9	25.2	27.3	20.2	16.4	15.6	16.4	18.9
Public sector ^c		5.6	3.6	3.6	5.7	5.4	4.6	4.5	2.7
Composition									
Construction	5.5	13.1	16.1	18.7	15.9	16.0	12.5	11.9	12.1
Machinery and equipment	6.8	11.8	11.1	10.8	8.4	4.5	6.3	7.5	7.9
Changes in stocks	0.2	1.6	1.5	1.4	1.6	1.3	1.4	1.5	1.7
Financing									
Gross domestic saving	8.8	17.5	22.6	21.8	17.5	16.4	10.8	19.8	17.4
Net factor payments ^d	-1.9	0.2	-0.1	0.9	1.3	-0.2	-0.8	-1.1	-0.4
Terms-of-trade effect	2.0	2.5	-	0.7	-0.4	-0.4	2.7	-2.5	-1.1
Gross national saving	8.9	20.2	22.5	23.3	18.4	15.7	12.7	16.2	15.9
Private sector		12.3	19.7	21.8	16.4	14.4	10.6	14.1	13.9
Public sector		7.9	2.8	2.5	2.0	1.3	2.1	2.1	2.0
External saving	3.5	6.3	6.2	7.6	7.5	5.4	7.5	4.6	5.7

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the Technical Planning Office.

^aAt market prices in constant 1980 dollars at the exchange rate calculated by the International Monetary Fund.

^bPreliminary figures.

^cIncludes State enterprises, except Itaipu Binacional and Yacyretá Binacional.

^dRefers to livestock sector only.

^eIncluding unrequited private transfer payments.

Table 6

**PARAGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT 1980 MARKET PRICES**

	Indexes (1980 = 100)				Percentage breakdown		Growth rates			
	1983	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Gross domestic product	104.7	108.1	112.5	112.1	100.0	100.0	-3.0	3.2	4.0	-0.3
Goods	103.7	108.3	112.8	108.4	52.5	50.7	-3.4	4.5	4.1	-3.8
Agriculture	107.8	114.2	119.4	112.1	29.5	29.5	-2.4	5.9	4.6	-6.1
Mining	109.1	110.2	115.1	128.9	0.4	0.5	-7.3	1.0	4.5	12.0
Manufacturing	96.2	100.5	105.6	104.1	16.5	15.3	-4.2	4.5	5.0	-1.4
Construction	103.4	101.0	100.0	101.0	6.1	5.5	-5.7	-2.4	-1.0	1.0
Basic services	112.0	115.4	121.7	130.3	6.5	7.6	-1.5	3.0	5.4	7.1
Electricity, gas and water	126.8	129.5	137.2	151.3	2.3	3.1	-1.9	2.2	6.0	10.2
Transport, storage and communications	104.0	107.8	113.3	118.9	4.2	4.5	-1.2	3.6	5.1	5.0
Other services	104.9	106.7	110.7	114.0	41.0	41.7	-2.7	1.7	3.7	3.0
Commerce, restaurants and hotels	101.4	103.2	107.8	111.3	25.0	24.8	-2.8	1.8	4.4	3.3
Financial institutions, insurance, real estate and business services	110.6	111.8	115.3	118.4	7.0	7.4	-3.5	1.1	3.1	2.7
Ownership of dwellings	99.9	99.9	100.8	102.9	2.7	2.5	-4.7	-	1.0	2.0
Community, social and personal services	110.2	112.4	115.1	118.0	9.0	9.5	-1.6	2.0	2.4	2.5
Government services	125.0	128.1	131.9	134.9	3.4	4.1	-2.1	2.4	3.0	2.0

Source: ECLAC, on the basis of official figures.

Note: These series were calculated on the basis of official figures which were re-weighted on the basis of the structure of current 1980 prices. Consequently the results do not necessarily coincide with those published by the countries in their calculations at constant prices.

"Preliminary figures. Including livestock, forestry and fishing.

Table 7

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of guaraníes at 1982 prices					Growth rates				
	1982	1983	1984	1985	1986 ^a	1982	1983	1984	1985	1986 ^a
Total^d	190.6	186.0	197.0	206.0	193.5	0.4	-2.4	5.9	4.6	-6.1
Crop farming	114.7	111.4	119.7	126.9	110.9	0.6	-2.8	7.5	6.0	-12.4
Stock raising	56.5	55.5	57.8	59.4	60.6	2.0	-1.8	4.1	1.6	2.0
Forestry	18.4	18.0	18.5	18.6	20.8	-5.7	-1.8	2.8	4.3	11.7
	Thousands of tons									
Production of the main items										
Cotton	260	228	320	460	312	-18.0	-12.3	40.2	43.8	-32.2
Rice	63	35	39	47	60	28.6	-44.4	8.6	20.5	27.7
Sweet potatoes	220	227	205	211	189	3.3	3.2	-9.7	2.9	-10.4
Sugar cane	2 216	2 823	2 541	2 330	2 100	-3.6	27.4	-10.0	-8.3	-9.9
Maize	553	36	414	455	450	33.9	-34.9	15.0	9.9	-1.1
Cassava	2 401	1 933	1 741	1 758	1 582	12.2	-19.5	-9.9	1.0	-10.0
Beans	43	64	47	51	36	34.4	48.8	-26.6	8.5	-29.4
Soya	757	650	748	980	700	-1.6	-14.1	15.0	31.0	-28.6
Wheat	84	107	130	140	233	37.7	27.4	21.5	7.7	66.4
Bananas ⁷	15	16	17	18	17	15.4	6.7	6.3	5.9	-5.6
Coconuts	243	417	430	335	369	-2.0	71.6	3.1	-22.1	10.1
Oranges	1 549	1 435	1 363	1 431	1 645	-12.5	-7.4	-5.0	5.0	15.0
Pineapples	22	23	24	25	26	4.8	4.5	4.3	4.2	4.0
Tung	100	140	147	161	145	5.3	40.0	5.0	9.5	-9.9
Cattle ^e	544	558	531	539	550	-1.8	2.6	-4.8	1.5	2.0
Pigs ^f	1 638	1 677	1 728	1 780	1 788	5.0	2.4	3.0	3.0	0.4
Poultry ^g	4 332	4 394	4 705	5 059	7 210	4.7	14	7.1	7.5	42.5
Round logs	1 754	1 722	1 745	1 742	2 095	-2.1	-1.8	1.3	-0.2	20.3
Firewood	2 791	2 744	2 808	2 884	2 911	-0.3	-1.7	2.3	2.7	0.9

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the Ministry of Agriculture.

^aPreliminary figures. Includes hunting and fishing. ^hThousands of bunches. ⁱThousands of units.

^jThousands of head.

Table 8

PARAGUAY: AREA CULTIVATED, AREA HARVESTED
AND YIELDS OF THE MAIN CROPS

	1983	1984	1985	1986	Growth rates			
					1983	1984	1985	1986
Area cultivated"								
Cotton	298	302	401	399	2.9	1.3	32.8	-0.5
Rice	35	37	40	32	8.5	7.5	7.5	-20.0
Sweet potatoes	12	12	13	13	3.2	3.1	8.3	
Sugar cane			56	62				10.7
Maize	418	448	482	385	11.6	7.0	7.6	-20.1
Peanuts	38	39	40	32	5.6	2.9	2.0	-20.0
Cassava	186	192	203	217	1.8	2.8	5.6	6.9
Beans	52	55	59		1.0	5.2	7.6	
Soya	650	679	747	718	21.9	4.5	10.0	3.9
Wheat	80	125		170	13.5	56.6		
Area harvested"								
Cotton	263	294	386	385	6.7	12.0	31.3	-0.3
Rice	34	36	39	31	8.0	7.7	6.8	-20.5
Sweet potatoes	12	12	13	11	3.2	3.0	6.2	-15.4
Sugar cane	52	55	55	59	3.8	5.4	1.1	7.2
Maize	399	436	470	376	8.1	9.1	8.0	-20.0
Peanuts	37	38	39	32	4.9	3.5	2.9	-17.9
Cassava	181	183	186	197	0.7	1.5	1.6	5.9
Beans	52	54	57		3.8	4.3	4.8	
Soya	568	639	719	539	13.1	12.5	12.5	-25.0
Wheat	80	106	134	170	14.3	32.6	27.2	26.9
Yield"								
Cotton	958	1 088	1 216	892	-9.5	13.6	11.8	-26.4
Rice	2 143	2 187	2 468	2 013	6.8	2.1	12.8	-18.4
Sweet potatoes	7 365	7 532	7 848	7 850	2.1	2.2	4.2	
Sugar cane	46 000	47 000	49 000	47 000		2.2	4.3	-4.1
Maize	1 552	1 676	1 702	1 245	3.7	8.0	1.6	-26.9
Peanuts	1 104	1 101	1 130	772	8.4	-0.3	2.6	-31.7
Cassava	14 441	15 126	15 347	14 625	3.2	4.7	1.5	-4.7
Beans	854	858	807		1.1	0.5	-5.9	
Soya	1 497	1 527	1 631	1 228	-0.6	2.0	6.8	-24.7
Wheat	1 241	1 316	1 388	1 487	3.4	6.0	5.5	7.1

Source: Ministry of Agriculture.

"Thousands of hectares. Kilogrammes per hectare.

Table 9

**PARAGUAY: NOMINAL AND REAL PRODUCER PRICES
FOR THE MAIN CROPS**

(1980 = 100)

	Rice	Cotton	potatoes	Maize	Cassava	Soya	* cane	Coconuts	Tunc o	Wheat
Nominal prices"										
1970	29.6	22.9	21.4	20.0	23.1	25.3	24.6	37.5	44.4	38.0
1979	103.7	84.7	85.7	96.0	76.9	136.8	82.3	100.0	100.0	92.9
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	96.3	91.5	114.3	88.0	100.0	147.4	100.0	100.0	88.9	92.9
1982	118.5	79.7	100.0	88.0	76.9	131.6	100.0	175.0	133.3	125.0
1983	203.7	147.5	78.6	336.0	76.9	157.9	100.0	175.0	166.7	160.7
1984	211.1	208.5	135.7	260.0	107.8	321.1	122.3	275.0	311.1	182.1
1985	251.9	194.9	164.3	252.0	123.1	268.4	148.3	375.0	277.8	225.0
I	203.7	194.9	185.7	212.0	123.1	273.7	143.4	350.0	-	214.3
II	214.8	194.9	164.3	232.0	153.8	268.4	148.4	350.0	333.3	214.3
III	251.9	194.9	142.9	212.0	92.3	263.2	150.9	400.0	222.2	242.9
IV	344.4	-	164.3	352.0	123.1	-	150.9	400.0	277.8	242.9
1986	311.0	245.8	271.4	1 056.0	261.5	452.6	226.4	350.0	222.2	285.7
I	370.0	228.8	228.6	732.0	192.3	421.1	150.9	300.0	222.2	-
II	351.9	254.2	250.0	920.0	207.7	468.4	201.2	350.0	-	228.6
III	285.2	254.2	285.7	1 292.0	253.8	447.4	226.4	350.0	-	264.3
IV	277.8	-	307.0	1 280.0	400.0	-	226.4	375.0	-	285.7
Real prices"										
1970	101.4	78.4	73.3	68.4	79.1	86.6	84.2	28.4	52.1	30.1
1979	126.9	103.6	104.9	117.5	94.1	167.4	100.7	122.4	122.4	113.7
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	84.4	80.3	100.3	77.2	87.7	129.3	87.7	87.7	78.0	81.5
1982	97.4	65.5	82.2	72.3	63.2	108.1	82.2	143.7	109.5	102.7
1983	146.4	106.8	56.9	243.3	55.7	114.3	72.4	126.7	120.7	116.4
1984	127.1	125.5	81.7	156.5	64.9	193.3	73.6	165.6	187.3	109.6
1985	121.1	93.7	79.0	121.2	59.2	129.0	71.3	180.3	133.6	108.2
I	107.3	102.6	97.8	111.6	64.8	144.1	75.5	184.3	-	112.8
II	110.2	100.1	84.3	119.1	79.0	137.8	76.2	179.7	171.1	110.0
III	117.4	90.9	66.6	98.8	43.0	122.7	70.3	186.5	103.6	113.2
IV	148.0	-	70.6	151.3	52.9	-	64.8	172.0	119.4	104.4
1986	113.5	89.7	99.1	385.4	95.4	165.2	82.6	127.7	81.1	104.3
I	143.4	88.6	88.6	283.6	74.5	163.2	58.4	116.2	86.1	-
II	129.1	93.3	91.7	337.5	76.2	171.8	73.8	128.4	-	83.9
III	102.8	91.6	103.0	465.8	91.5	161.3	81.6	126.2	-	95.3
IV	96.5	-	106.6	444.6	138.9	-	78.6	130.3	-	99.2

Source: ECLAC, on the basis of data supplied by the Ministry of Agriculture, the Department of Agricultural Marketing and Economics, and the Central Bank of Paraguay.

"The annual averages may not coincide with the quarterly averages owing to the frequency of the observations or errors in rounding. ^ Calculated by deflating the nominal prices by the consumer price index, the base year of which is 1980.

Table 10

**PARAGUAY: NOMINAL AND REAL PRICES
IN THE RURAL LAND MARKET**

(1970 = 100)

	Nominal price			Real price"		
	Crop-farming land	Stock-raising land	Forestry land	Crop-farming land	Stock-raising land	Forestry
1975	350.9	500.0	311.2	202.9	289.2	180.0
1976	518.6	686.0	442.1	287.3	380.1	244.9
1977	711.7	644.8	448.5	360.7	326.8	227.3
1978	872.5	877.0	448.5	399.7	401.7	205.5
1979	1 023.6	966.3	892.9	365.7	345.2	319.0
1980	1 550.1	1 793.7	1 317.1	452.6	523.7	384.6
1981	1 467.2	1 821.4	1 367.6	375.8	466.5	350.3
1982	1 615.9	2 142.8	1 381.8	387.7	514.1	331.5
1983	1 543.2	2 425.5	1 389.6	326.3	512.9	293.8
I	1 451.8	2 451.9	1 280.1	320.0	540.4	282.1
II	1 636.5	2 399.0	1 499.1	332.6	487.6	304.5
1984	1 917.1	2 569.4	1 432.1	337.0	451.7	234.3
I	1 657.3	2 447.2	1 262.6	314.8	464.9	239.9
II	2 176.9	2 691.7	1 601.4	356.2	440.4	262.0
1985	2 264.6	2 794.2	1 675.1	317.9	392.3	235.1
I	2 112.3	2 711.5	1 481.4	320.7	411.6	224.9
II	2 415.0	2 877.0	1 868.7	315.4	375.7	244.0
1986	2 863.7	3 703.5	2 104.4	305.2	394.7	224.3
I	3 170.6	3 910.0	2 491.7	348.9	430.3	274.2
II	2 820.7	3 133.1	2 020.1	291.4	323.7	208.7

Source: ECLAC, on the basis of data supply by the Ministry of Agriculture, the Department of Agricultural Marketing and Economics, and the Central Bank of Paraguay.

"Calculated by deflating the nominal prices by the consumer price index, the base year of which is 1980.

Table 11

PARAGUAY: AGRARIAN REFORM INDICATORS

	1956-1985	1979	1980	1981	1982	1983	1984	1985	1986
Total awards^a									
Number of lots	111 506	2 506	3 931	4 316	3 036	2 604	5 026	4966	4 536
Surface area (thousands of hectares)	9 957	422	717	473	598	302	816	310	253
Average (hectares)	89	168	182	110	197	116	162	63	56
Crop-farming awards									
Number of lots		2 313	3 720	4 163	2 898	2 505	4 817	4 877	4 435
Surface area (thousands of hectares)		38	51	49	39	28	62	59	51
Average (hectares)		16	14	12	13	11	13	12	12
Stock-raising awards									
Number of lots		193	211	153	138	99	209	89	101
Surface area (thousands of hectares)		385	666	424	560	273	755	251	201
Average (hectares)		1994	3 155	2 773	4 058	2 756	3 612	2 822	1996
Final title deeds									
Number of recipients	110 331	3 814	3 836	4 054	4 224	4 093	5 090	6 068	4 824
Surface area (thousands of hectares)	7 600	284	719	729	460	410	500	437	404
Average	69	74	187	180	109	100	98	72	84
Communal fields									
Number	171			8	7	2	6	12	14
Surface area (thousands of hectares)	183			16	5	<i>b</i>	2	13	2
Nationalized and expropriated land (thousands of hectares)									
Nationalized	579	-	-	-	-	-	-	-	-
Expropriated	403	1	7	4	-	13	-	-	-
Occupied	521				19	12			

Source: ECLAC, on the basis of data from the Institute for Rural Welfare, *Report (several years)* and Juan Manuel Frutos. *Con el hombre y la tierra hacia el bienestar rural*. Cuadernos Republicanos, Asunción, 1982, and from figures provided by the Institute for Rural Welfare, Department for Land and Colonies and Department of Planning.

^aIncludes awards to public institutions. 339 hectares.

Table 12

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1982 = 100)				Growth rates			
	1983	1984	1985	1986"	1983	1984	1985	1986°
Total	95.8	101.1	105.1	103.6	-4.2	4.5	4.0	-1.4
Foodstuffs	103.6	109.2	111.9	122.2	3.6	5.4	2.5	9.2
Beverages	98.6	110.2	112.5	113.4	-1.4	11.8	2.1	0.8
Tobacco	121.8	119.2	121.4	109.7	21.8	-2.1	1.8	-9.4
Textiles	83.4	106.1	157.0	107.0	-16.6	27.2	48.0	-31.8
Clothing	95.9	112.4	128.6	105.8	-4.1	17.2	14.4	-17.7
Shoes	103.0	106.1	100.8	103.8	3.0	3.0	-5.0	3.0
Wood, manufactures, (excluding furniture)	94.0	92.0	83.1	85.1	-6.0	-2.1	-9.7	2.4
Furniture	121.4	125.8	128.4	131.2	21.4	3.6	2.1	2.2
Paper and paper products	91.4	94.3	98.1	112.4	-8.6	3.2	4.0	14.6
Printing and publishing	60.6	69.2	70.4	64.5	-39.4	14.2	1.7	-8.4
Leather and fur products, except footwear	103.7	78.9	70.8	90.2	3.7	23.9	-10.3	27.4
Chemical industry	118.6	134.0	149.1	116.8	18.6	13.0	11.3	-21.7
Other chemical products	95.9	127.5	153.9	124.2	-4.1	33.0	20.7	-19.3
Petroleum products	96.1	74.5	84.8	83.2	-3.9	-22.5	13.8	-1.9
Plastic products	97.5	116.2	117.5	102.4	-2.5	19.2	1.1	-12.9
Non-metallic mineral products	107.7	100.6	88.4	116.2	7.7	-6.6	-12.1	31.4
Iron and non-ferrous metals	99.8	116.4	123.3	124.0	-4.2	16.6	5.9	0.6
Metallic products, excluding machinery	97.8	113.1	128.4	114.9	-2.2	15.6	13.5	-10.5
Machinery (domestic), electrical appliances and transport equipment	99.1	139.1	204.9	172.3	-0.9	40.4	47.3	-15.9
Other	101.1	124.6	139.7	117.4	1.1	23.2	12.1	-16.0
Handicrafts	80.2	88.0	96.0	81.4	-19.8	9.7	9.1	-15.2
Production of some of the main manufactures (thousands of tons)								
Cotton cloth	5.8	6.1	9.2	11.8	-37.0	5.2	50.8	28.3
Cotton fibres	77.2	105.3	160.0	99.9	-15.0	36.4	51.9	-37.6
Tannin	12.9	11.2	10.9	5.7	-20.6	-13.2	-2.7	-47.7
Husked coconuts	4.5	8.2	4.7	4.9	-30.8	82.2	-42.7	4.3
Tung	17.0	9.0	9.4	7.2	32.8	-47.1	4.4	-23.4
Cement	153.0	109.0	45.6	178.7	37.6	-28.8	-58.2	291.9
Cigarettes'	46.6	43.9	41.7	37.5	23.0	-5.8	-5.0	-10.1
Carbonated beverages	122.1	137.3	138.7	124.8	-23.8	12.4	1.0	-10.0
Wheat flour	100.2	89.9	99.5	107.8	3.5	10.3	10.7	8.3
Sugar	98.2	85.2	73.1	68.7	21.1	-13.2	-14.2	-6.0
Leather	11.0	8.3	7.7	10.1	15.8	-24.6	-7.2	31.2
Pure alcohol'	9.3	11.0	15.0		-26.2	18.3	36.3	

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

Iminary figures.

Thousands of metres.

Thousands of packets.

Thousands of litres.

'Millions of litres.

Table 13

**PARAGUAY: INDICATORS OF ELECTRICAL ENERGY
CAPACITY, GENERATION AND CONSUMPTION**

	1970	1980	1981	1982	1983	1984	1985	1986"
Installed capacity	123.7	272.5	274.1	274.1	274.1	274.4	274.4	274.4
Hydraulic	90.0	190.0	190.0	190.0	190.0	190.0	190.0	190.0
Thermal	33.7	82.5	84.1	84.1	84.1	84.4	84.4	84.4
Electrical energy generation'								
Gross	159.2	697.4	720.4	916.0	793.0	1 056.0	1 259.2	1 642.6
Net	154.2	692.1	716.8	912.7	790.5	1 053.5	1 256.5	1 639.7
Net imports of electrical energy ^c	-	5.4	103.0	-40.0	202.0	34.3	-47.8	1.8
Domestic electrical energy supply ^c								
Gross	159.2	703.1	824.0	876.0	995.0	1 090.4	1 211.4	1 644.4
Net	154.2	697.5	819.8	872.6	992.5	1 087.7	1 208.8	1 641.5
Domestic electrical energy consumption'	129.8	658.0	751.7	800.6	827.2	907.3	999.9	1 102.0
Residential'	76.4	344.3	390.7	473.9	492.2	540.7	565.7	637.5
Industrial	33.8	263.3	300.1	253.3	260.1	286.1	343.4	374.8
Other ⁸	14.6	44.8	56.7	70.0	72.4	80.5	86.6	97.7
Percentage of population receiving electrical energy service	10.9	29.0	31.5	37.7	39.5	41.2	42.8	45.5

Source: National Electricity Administration (ANDE), *Compilación Estadística*, 1960-1981, Asunción, 1982, and other statistics also supplied by ANDE.

"Preliminary figures. Thousands of kW. 'Millions of kWh. Excluding sales of Paraguayan energy from Itaipu to Brazil. 'Includes commercial consumption (a new category included in Rates List No. 4 of 1/8/1984). *includes "undefined" (a new category included in Rates List No. 4 of 1/8/1984). "Includes government, municipal, trams, public lighting, and, as from 1983, "rural" (a new category included in Rates List No. 4 of 1/8/1984).

Table 14

PARAGUAY: OPEN UNEMPLOYMENT RATES

(Percentages)

Country	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986"
10131*	3.7	3.1	2.6	2.1	4.6	9.4	13.8	8.3	8.0	9.0
Asunción'	5.4	4.1	5.9	3.9	2.2"	5.6	8.4'		5.2*	6.1*

Source: On the basis of data supplied by the Central Bank of Paraguay and the Ministry of Finance, Department of Statistics and Censuses. *Encuesta de Hogares* (several issues), and information supplied to ECLAC.

" Preliminary figures. Estimate by the Central Bank of Paraguay. 'In addition to Asunción, includes Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo up to 1982. As from 1983, includes, in-addition to Asunción, the urban areas of San Lorenzo, Lambaré, Fernando de la Mora, Villa Haya and the urban and rural areas of Villa Lisa, San Antonio, Ñenby, Luque, Limpio and Mariano Roque Alonzo. First half of year. 'Average of the months of September, October and November. Average of the months of August, September and October. * Average of the months of November and December. Average of the months of June, July and August.

Table 15

PARAGUAY: MAIN EXTERNAL SECTOR INDICATORS

	1970	1980	1981	1982	1983	1984	1985	1986 ^h
	1970 = 100 ^h							
Volume of exports of goods and services ⁰	49.3	100.0	89.8	107.2	85.6	129.2 ^h	215.1 ^{h*}	205.0
Purchasing power of exports of goods and services ⁰	56.0	100.0	95.7	101.9	82.3	151.8 ^h	192.6 ^h	195.2
Net payments for factor services ¹	408.3	100.0	/	/	1329.2	1554.2 ^h	2112.5 ^{h*}	795.8
Purchasing power of net imports of capital	22.0	100.0	112.2	60.0	47.7	83.4 ^h	32.9 ^h	26.9
Total import capacity	37.8	100.0	100.4	90.5	66.7	122.6 ^h	118.7 ^h	121.1
Volume of imports of goods and services ⁰	41.5	100.0	113.2	120.0	84.5	140.3 ^h	150.7 ^h	162.7
Gross international reserves Index*	8.1	100.0	103.0	92.2	89.4	97.0	71.8	60.1
In months of imports	2.1	10.9	10.0	7.8	11.4	7.6	5.1	3.8
Gross external debt disbursed	55.1	100.0	107.4	132.9	171.0	213.4	205.9	218.4
	Gross domestic product = 100^h							
Volume of exports of goods and services ⁰	14.4	12.7	10.5	12.6	10.4	15.2	24.3	23.2
Terms-of-trade effect	2.0		0.7	-0.4	-0.4	2.7	-2.5	-1.1
Net payments for factor services ¹	-1.9	-0.1	0.9	1.3	-0.2	-0.8	-1.1	-0.4
Purchasing power of net imports of capital	4.9	9.6	8.7	5.4	4.4	7.4	2.8	2.3
Total import capacity	19.4	22.3	20.6	18.7	14.2	25.3	23.5	24.0
Volume of imports of goods and services ⁰	18.1	18.9	19.7	21.0	15.2	24.5	25.3	27.4
Trade balance ¹	-3.7	-6.2	-9.2	-8.4	-4.9	-9.3	-1.1	-4.2
Current account balance	-3.5	-6.2	-7.6	-7.5	-5.4	-7.5	-4.8	-5.7
Global balance	1.0	3.3	0.9	-1.2	-1.1	-0.3	-2.9	-3.3
Gross international reserves	3.2	17.2	16.3	14.7	14.7	15.5	11.0	9.2
Gross external debt disbursed	27.9	20.7	20.5	33.5	56.0	58.9	75.7	69.8

Source: ECLAC, on the basis of official data.

⁰Preliminary figures. ¹1980 prices. ^hNon-factor. ^hAs from May 1984 commercial banks were authorized to operate on the parallel exchange market. Based on information obtained on these commercial-bank operations, the Central Bank began to draw up a new series for external trade in goods and non-factor services. This series is, of course, not compatible with the previous one. ^{*}Includes unrequited private transfers. ^hPositive balances. ^hDeflated by the index of import prices for goods and non-factor services. ^hGross international reserves and imports of goods and services for each year. ^hAt market prices in 1970 dollars; at parity exchange rate. ^hExcluding terms-of-trade effect. ^hAt the parallel exchange rate.

Table 16

PARAGUAY: OFFICIAL EXCHANGE RATES*(Guaraníes per dollar at the end of each period)*

	1982	1983	1984	1985				1986			
				I	II	III	IV	I	II	III	IV
				Current account							
Exports of goods"	143	160	228	320	320	318	320	328	325	458	483
Traditional	141	147	229	320	320	320	320	330	324	471	509
Wood	141	143	225	320	320	320	319	337	325	442	487
Oils	142	156	234	320	320	320	320	320	320	390	467
Livestock products	145	145	215	320	319	320	320	320	320	513	535
Tobacco	135	143	237	320	321	320	320	320	320	320	545
Quebracho extract	140	143	230	-	320	320	305	320	319	320	517
Other	141	145	231	320	320	320	320	339	349	436	473
Non-traditional	144	166	229	320	320	318	320	327	268	445	441
Cotton fibres	144	168	234	320	320	319	320	337	330	402	445
Oilseeds (soya)	143	165	220	320	322	316	320	320	320	354	334
Fruits and vegetables	160	160	239	-	-	320	317	-	-	566	554
Feed-cake and expellers	143	160	230	320	320	320	321	320	320	412	567
Imports of goods	137	146	232	304	344	443	447	472	528	443	454
Public sector	132	144	170				242				249 ^c
Private sector	140	147	313				515				626
Consumer goods											
Basic											
Wheat	126	143	240	240	240	240	240	240	240	240	240
Other	160	342	382	420	561	743	648	761	690	593	626
Non-basic	160	342	382	420	561	743	648	761	690	593	626
Intermediate goods											
Petroleum and its products	126	143	240	240	240	240	240	240	240	240	400
For agricultural and industry	126	160	240	240	240	240	240	240	240	240	550
Capital goods	126	342	382	420	561	743	648	761	690	593	626
Non-factor services											
Private sector											
Travel	239	342	382	420	561	743	648	761	690	593	626
Other	160	342	382	420	561	743	648	761	690	593	626
Public sector	126	160	240*	240*	240*	240*	240*	240*	240*	240'	626'
Factor services											
Public sector	126	126	160	160	160	160	160	160	160	160	240
Private sector											
State-guaranteed	126	126	160	160	160	160	160	160	160	160	240
Non-State-guaranteed	239	342	382	420	561	743	648	761	690	593	626
Capital account											
Public sector	126	126	160	160	160	160	160	160	160	160	240 [^]
Private sector											
State-guaranteed	126	126	160	160	160	160	160	160	160	160	240 [^]
Non-State-guaranteed	239	342	382	420	561	743	648	761	690	593	626
Transaction of the binational enterprises	126	143		240	240	240	240	240	240	240	240
Parallel market	239	342	382	420	561	743	648	761	690	593	626

Source: ECLAC, on the basis of official statistics.

"These exchange rate apply to the valuation levels set by the Central Bank, which may differ from the actual international prices. Average exchange rate for the year. ^cIn December the exchange rate for public-sector imports of goods was raised to 400 guaraníes to the dollar, with the exception of imports for the National Electricity Administration (ANDE), the National Sanitary Corporation and the State Merchant Fleet, which were left at 240 guaraníes to the dollar. The exchange rate applied to the Central Government is 160 guaraníes to the dollar. [']Imports of non-factor services by the central government remained at 240 guaraníes to the dollar, with the exception of freight and insurance, which were raised to 400 guaraníes to the dollar. The exchange rate for disbursements of public-sector loans (including State-guaranteed loans) was raised to 320 guaraníes to the dollar.

Table 17

PARAGUAY: EXCHANGE RATES

Annual and quarterly averages	Exchange rates (guaraníes to the dollar)			Indexes of the real effective exchange rate			
	Official		Parallel	Oficiii ^u c		Parallel ^d	
	Exports ^{''}	Imports ^{'''}		Exports	Imports	Exports	Imports
1970-1979	126	126	139 ^e	110.6	106.4	109. y	113.2 [']
1980	126	126	135	100.0	100.0	100.0	100.0
1981	126	126	153	85.6	89.5	99.7	107.6
1982	142	137	205	89.7	88.2	125.7	134.2
1983	158	146	312	76.0	69.8	150.1	150.1
1984	222	245	381	82.7	92.6	143.7	150.3
1985	312	387	595	91.3	114.0	177.1	180.3
1986	389	474	695	92.8	102.3	165.2	159.2
1984							
I	180	146	341	79.8	64.9	151.3	155.2
II	227	198	368	94.9	83.2	153.0	158.3
III	240	306	421	86.2	112.3	150.9	159.8
IV	240	328	395	72.1	101.2	119.4	127.7
1985							
I	288	304	414	83.6	91.6	122.2	132.1
II	320	344	546	98.4	108.2	172.8	177.0
III	320	443	740	94.2	130.9	223.0	222.9
IV	320	444	678	88.8	121.4	190.3	189.0
1986							
I	333	472	787	80.9	106.0	191.2	189.8
II	327	528	729	78.7	115.8	174.1	168.7
III	439	443	658	103.8	93.6	153.6	146.1
IV	458	454	608	107.6	93.7	141.7	132.3

Source: ECLAC, Economic Development Division, based on information from the Central Bank of Paraguay and the International Monetary Fund, *International Financial Statistics*.

^{''}As from 1982 the average exchange rate was used. ^{'''}As from 1982 the average exchange rate was used. However, the figures concern imports authorized by the Central Bank, i.e., they do not represent the true average rate. ^yRelates to the average for the indexes of the real exchange rate for the guaraní against the currencies of Paraguay's main trading partners, weighted by the relative significance of the *registered* trade flows, to or from these countries, as appropriate. Between 1970 and 1980 these weightings correspond to the average for the 1975-1979 period, and from 1981, to the average for 1982-1985. Official exchange rates were used in these calculations as well as wholesale price indexes, whenever possible. In the case of Paraguay this latter index was used. For the methodology and sources used, see the technical appendix to the *Economic Survey of Latin America*, 1981. [']These indexes correspond to a weighted average for the indexes of the real exchange rate in respect of the Federal Republic of Germany, Argentina, Brazil, the United States, France, Italy and Japan, based on their share of *non-recorded* trade flows with Paraguay. The parallel exchange rate was used to calculate these indexes. ['] 1973-1979 average.

Table 18

PARAGUAY: EXPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	<i>m</i> ^b	1980	1986 ^c	1983	1984	1985	1986 ^c
Total	269	335	304	232	100.0	100.0	-18.4	24.3	-9.1	-23.5
Main traditional exports	83	89	54	94	42.5	40.5	-13.9	5.7	-38.3	74.1
Livestock products	13	12	7	44	1.4	19.0	40.5	-6.7	-42.4	546.2
Timber	20	22	10	18	21.4	7.8	-53.5	9.1	-55.3	81.5
Oils	21	22	19	13	5.5	5.6	-4.4	4.0	-12.7	-31.5
Tobacco	10	15	6	5	3.3	2.2	71.0	50.0	-60.8	-10.7
Quebracho extract	5	6	4	4	1.4	1.7	8.1	4.9	-28.6	-6.5
Other exports	14	12	8	10	9.5	4.3	25.8	-18.7	-22.2	
Main non-traditional exports	186	246	250	138	57.5	59.5	-20.2	32.6	1.2	-44.8
Cotton fibre	85	131	142	80	34.1	34.5	-30.5	54.1	8.1	-43.1
Oilseeds (soya)	84	99	101	44	13.6	19.0	-5.8	17.6	1.2	-56.3
Feed-cake and expellers	14	12	6	9	7.1	3.9	9.7	-10.5	-48.4	37.1
Fruits and vegetables	3	4	1	5	2.7	2.2	-68.5	40.9	-73.7	430.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aIncludes only exports appearing in the exchange records of the Central Bank.

^cPreliminary figures.

Table 19

PARAGUAY: EXTERNAL PRICES OF THE MAIN EXPORT PRODUCTS*(1980 = 100)*

	Soybeans ["]		Soya oil [']		Cotton		Wood [']	
	Nominal	Real*	Nominal	Real*	Nominal	Real*	Nominal	Real*
1970	40.9	126.2	47.8	147.5	32.6	100.6	25.2	77.8
1979	100.7	114.3	110.7	125.7	82.2	93.3	85.2	96.7
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	97.3	101.1	84.8	88.1	90.5	94.1	92.6	96.3
1982	82.8	89.3	74.7	80.6	77.3	83.4	87.3	94.2
1983	95.3	106.1	88.1	98.1	90.0	100.2	83.1	92.5
1984	95.3	109.0	121.1	138.5	85.3	97.6	78.7	90.0
I	102.7	114.6	116.1	129.6	92.2	102.9	83.4	93.1
II	108.1	120.6	141.0	157.4	91.3	101.9	81.7	91.2
III	87.5	101.6	115.4	134.0	80.0	92.9	76.3	88.9
IV	82.8	98.3	111.9	132.9	77.6	92.2	73.4	87.2
1985	76.0	87.4	95.7	110.0	65.6	75.4	77.7	89.3
I	81.4	99.6	109.4	133.9	73.0	89.4	70.4	86.3
II	79.1	93.2	110.0	129.6	72.0	84.8	77.8	91.6
III	73.3	83.0	86.6	98.1	62.7	71.0	80.5	91.2
IV	70.6	76.1	76.6	82.5	54.5	58.7	82.1	88.5
1986	70.3	70.9	57.4	57.9	56.1	56.5	87.6	88.3
I	73.6	76.1	68.1	70.4	59.3	61.3	83.5	86.3
II	72.6	74.1	58.2	59.4	55.8	56.9	89.3	91.1
III	68.2	67.9	49.2	49.0	47.3	47.1	89.1	88.7
IV	67.5	66.4	53.7	52.9	62.1	61.1	88.6	87.2

Source: ECLAC, on the basis of UNCTAD, *Monthly Commodity Price Bulletin*, various volumes, and International Monetary Fund, *International Financial Statistics*, various issues.

["]United States, No. 2 yellow, CIF, Rotterdam. [']The nominal prices were deflated by the export prices of the industrialized countries. [']All origins, crude oil, FOB, ex-works, Netherlands. Mexican, medium grade, CIF, Northern Europe. [']Tropical, wholesale price, United Kingdom.

Table 20

PARAGUAY: INDICATORS OF TOURISM

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Number of tourists (thousands)	201.9	301.9	302.1	267.1	178.4	147.8	292.0	262.7	370.7
From Argentina	86.8	132.2	132.6	122.5	56.9	47.1	141.3	107.2	155.7
From Brazil	68.2	106.9	104.8	92.1	93.8	70.3	97.6	93.4	124.5
From United States	4.4	3.6	3.3	4.3	3.9	3.5	7.5	6.2	7.8
From Japan	4.0	5.1	3.9	2.5	1.0	1.9	2.7	2.8	3.4
From Uruguay	4.6	3.6	3.9	7.5	5.4	3.1	10.2	4.6	18.4
From other countries	33.9	50.5	53.6	38.2	17.9	22.1	32.7	40.9	60.9
Average stay (days)	3.0	3.3	3.3	3.3	3.3	3.3	3.0	3.0	3.0
Average expenditure (dollars) ^c	200	230	300	300	330	332	330	399	351"
Total expenditure (millions of dollars) [']	40.4	69.5	90.7	80.2	59.0	49.0	96.3	105.0	130.0"
Supply of rooms (number) [']	2 442	2 326	2 750	2 769	3 076	3 177	3 280	3 302	3 892
Supply of beds (number) [']	5 691	5 434	6 329	6 243	6 806	6 985	6 938	7 075	8 209
Average occupation rate									
Of rooms (percentage)	68.0	117.3	99.3	87.2	52.4	42.1	73.2	65.4	78.1
Of beds (percentage)	29.1	50.2	43.2	38.7	23.7	19.1	34.6	30.5	37.0

Source: ECLAC, on the basis of data supplied by the Department of Tourism, Ministry of Public Works and Communications and the Central Bank.

"The total number of tourists was calculated on the basis of tourist cards, and includes only persons over 12 years of age. The distribution of tourist by country of origin was calculated on the basis of hotel registers. For 1972, the distribution refers to the nationality of the tourists; subsequently it refers to their point of departure. 'From the balance of payments. Preliminary figures. 'Refers to hotels, motels hostels and boarding houses regarded by the Department of Tourism as "of tourist level".

Table 21

PARAGUAY: IMPORTS OF GOODS, FOB^a

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986	1980	1986	1983	1984	1985	1986
Total	478	513	442	509	100.0	100.0	-17.7	7.3	-13.8	15.2
Consumer goods	119	113	118	133	29.4	26.1	-24.4	-4.6	0.9	12.6
Non-durable	90	82	97	100	22.8	19.6	-23.0	-8.4	18.3	2.4
Foodstuffs	41	14	20	17	4.6	3.3	30.8	-54.2	42.9	-14.1
Beverages and tobacco	15	25	25	34	7.7	6.7	-59.2	63.7	-	35.5
Other ⁶	44	43	52	49	10.5	9.6	-21.3	-1.3	20.9	-7.1
Durable ¹	29	31	21	33	6.6	6.5	-28.5	7.3	-45.2	61.0
Automobiles	7	16	10	11	3.5	2.2	-44.7	127.7	-62.5	14.8
Electrical appliances	22	15	11	22	3.1	4.3	-21.2	-31.0	-26.7	102.4
Intermediate goods	187	175	153	142	32.3	27.9	-18.3	-6.0	-12.6	-6.5
Fuels and lubricants	120	138	115	97	25.1	19.1	-22.2	14.6	-16.7	-15.4
Other ²	67	37	38	45	7.2	8.8	-10.2	-43.2	2.7	20.6
Capital goods	144	198	171	234	38.3	46.0	-8.7	37.6	-11.6	36.1
Machinery, equipment and engines	108	92	102	164	15.5	32.2	2.3	-14.5	10.9	60.8
Transport elements and accessories ¹	22	87	21	20	14.5	3.9	-35.9	285.7	-75.9	-6.1
Other ⁷	14	19	16	12	2.7	2.4	-20.7	39.2	-15.8	-25.6
Unclassified	28	27	32	38	5.6	7.5	-24.5	-8.9	18.5	17.5

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

^aIncludes only those imports which appear in the exchange record, plus imports with deferred payments and those carried out with long-term external loans. ¹includes paperboard and cardboard products, pharmaceuticals and chemicals, and textiles and textile manufactures. ²Includes jeeps and rural vans. ³Includes iron and iron manufactures (with the exception of hardware), ordinary metals and their manufactures, stones, earth and earth manufactures, cement, asphalt and wood and its manufactures. ⁴Excludes automobiles, jeeps and rural vans. ⁵Includes agricultural implements and accessories, hardware and animals on the hoof.

Table 22

PARAGUAY: ANNUAL GROWTH OF TRADE IN GOODS AND SERVICES

(Percentages)

	1980	1981	1982	1983	1984	1985	1986 ^a
Exports of good (FOB)							
Value	4.1	-0.4	-0.6	-17.7	10.8	-10.2	-10.6
Volume	10.3	-7.5	14.7	-9.7	-12.4	-3.6	21.1
Unit value	-5.6	7.6	-13.3	8.9	26.5	-6.9	-26.2
Exports of services							
Value	27.7	-5.2	41.0	-37.4	^c	^c	3.4
Volume	4.6	-16.7	32.0	-44.7	^c	^c	-14.1
Unit value	22.0	13.8	6.9	13.2	^c	^c	20.4
Exports of goods and services							
Value	10.0	-1.8	11.2	-24.7	^c	^c	-0.7
Volume	8.6	-10.2	19.3	-20.1	^c	^c	-4.7
Unit value	1.4	9.3	-6.9	-5.7	^c	^c	4.2
Imports of goods (FOB)							
Value	17.0	14.4	-7.9	-22.5	17.7	-20.5	12.4
Volume	-5.3	13.3	-7.1	-18.2	49.4	-17.6	15.0
Unit value	23.6	1.0	-0.9	-6.0	-21.2	-3.6	-2.2
Imports of services							
Value	7.2	23.4	71.1	-55.1	^c	^c	1.1
Volume	-2.5	12.8	60.1	-56.7	^c	^c	-1.2
Unit value	9.9	9.4	7.3	3.9	^c	^c	2.3
Imports of goods and services							
Value	14.9	16.1	8.7	-33.2	^c	^c	5.7
Volume	-4.8	13.2	6.1	-29.6	^c	^c	8.0
Unit value	20.7	2.6	2.5	-5.1	^c	^c	-2.1
Terms of trade (goods) (FOB/CIF)	-22.3	5.6	-12.9	-4.3	56.1 ^c	-2.8 ^c	-24.6
Terms of trade (goods and services)	-16.0	6.5	-9.1	-0.7	22.3 ^c	-23.8 ^c	6.4
Purchasing power of exports of goods and services	-8.8	-4.4	8.4	-20.7	84.6 ^c	26.9 ^c	1.3

Source: ECLAC, on the basis of official data.

^aPreliminary figures. ^bNon-factor. ^cAs from May 1984 commercial banks were authorized to operate on the parallel exchange market. On the basis of information obtained on these commercial-bank operations, the Central Bank began to draw up a new series for external trade in goods and non-factor services. This series is, of course, not compatible with the previous one.

Table 23

PARAGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986°
Balance on current account	-278	-377	-378	-253	-325*	-231*	-280
Trade balance	-275	-422	-445	-245	-289	-178*	-259
Exports of goods and services	565	555	617	464	772*	1 088*	1 080
Goods FOB	400	399	396	326	361	324 _t	290
Real services ¹	165	156	220	138	411*	764*	790
Transport and insurance	4	5	2	2	2	8	9
Travel	91	80	59	49	%	105	130
Imports of goods and services	841	976	1 062	709	1 061*	1 266*	1 339
Goods FOB	675	772	711	551	649 _{..}	516	580
Real services ¹	165	204	350	157	412*	750*	759
Transport and insurance	104	118	106	75	98	72	77
Travel	35	38	42	44	44	47	48
Factor services	-5	42	65	-9	-38	-55	-23
Profits	-54	-38	-13	-39	-49	-49	-20
Interest received	77	102	122	63	70	79	80
Interest paid	-76	-82	-83	-66	-78	-90	-90
Other	48	60	39	33	19	5	7
Unrequited private transfer payments	3	2	2	1	2	2	2
Balance on capital account	428	420	316	200	311	103	117
Unrequited official transfer payments	2	3	4	5	7	6	7
Long-term capital	192	169	265	289	219	121	113
Direct investment (net)	32	32	37	5	5	1	-
Portfolio investment (net)	-	6	-8	3	-	8	-
Other long-term capital	160	131	236	281	214	112	113
Official sector	85	39	60	139	127	109	83
Loans received	98	60	83	162	150	137	125
Amortization payments	-12	-20	-22	-23	-23	-28	-42
Commercial banks	1	11	11	7	32	15	
Loans received	7	17	16	10	40	20	
Amortization payments	-6	-6	-6	-3	-9	-5	
Other sectors	74	81	165	135	55	-11	30
Loans received	135	141	217	168	109	59	93
Amortization payments	-60	-61	-52	-33	-53	-71	-63
Short-term capital (net)	255	262	73	-2	67	-62	17
Official sector	3	12	10	23	97	-56	55
Commercial banks	-14	-13	1	15	-5	14	
Other sectors	266	263	62	-40	-26	-20	-38
Errors and omissions (net)	-20	-13	-26	-92	18	37	-20
Global balance ¹	150	44	-62	-53	-14	-128	-163
Total variation in reserves (- sign indicates an increase)	-153	-44	121	49	-32	90	165
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	-2	-3	-9	-6	-3		
IMF reserve position	-8	-10	-1	-3	2		
Foreign exchange assets	-143	-30	133	60	-36		
Other assets	-	-	-2	-3	4	ï	50
Use made of IMF credit	-	-	-	-	-		

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

¹Preliminary figures, subject to revision. As from May 1984 commercial banks were authorized to operate on the parallel exchange market. On the basis on information obtained on these commercial-bank operations, the Central Bank began to draw up a new series for external trade in goods and non-factor services. These operation have been classified under "other services" in the absence of precise information thereon. This series is, of course, not compatible with the previous one. ¹Includes other non-factor services. ²Includes net loans granted and other assets and liabilities. ³Equal to the total variation in reserves (of opposite sign) plus counterpart items.

Table 24

**PARAGUAY: DIRECT EFFECTS OF THE ITAIPU AND YACYRETA
BINATIONAL ENTERPRISES ON THE BALANCE OF PAYMENTS"**

(Millions of dollars)

	1979	1980	1981	1982	1983	1984	1985	1986*
Current account								
Total	-210	-278	-377	-378	-253	-325 ^c	-231 ^c	-280
Binational enterprises	148	178	150	158	144	85	44	34
Itaipú	116	121	139	126	127	61	37	20
Yacyretá	32	57	73	24	17	24	7	15
Remainder	-358	-456	-527	-536	-397	-410	-275	-314
Capital account								
Total	372	428	420	316	200	311	103	117
Binational enterprises	149	217	237	184	160	111	70	56
Itaipú	116	146	159	159	143	87	55	40
Yacyretá	33	71	78	25	17	25	15	16
Remainder	223	211	183	132	40	200	33	51
Global balance								
Total	162	150	44	-62	-53	-14	-128	-163
Binational enterprises	297	395	449	338	305	196	114	90
Itaipú	231	267	298	289	270	147	92	60
Yacyretá	65	129	151	48	34	49	22	30
Remainder	-135	-245	-405	-400	-358	-210	-242	-253
International reserves								
Total	613	767	811	689	675	671	539	422
Binational enterprises	822	1 217	1 666	2 003	2 308	2 504	2 618	2 708
Itaipú	720	986	1 284	1 573	1 843	2 039	2 153	2 243
Yacyretá	102	231	382	430	464	513	535	565
Remainder	-209	-450	-855	-1 314	-1 633	-1 833	-2 079	-2 286

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

"Does not include imports of goods and services by the binational enterprises which are imputable to the balance of payments, with the exception of profits from investments by the Itaipú binational enterprise in Paraguay. Similarly, it does not include the capital flows which finance those imports (which are also imputable to the balance of payments). Therefore, the accounting system used for this table is the same as that used for table 23, on the balance of payments, the original source for which is the Central Bank of Paraguay. ^bPreliminary figures. ^cAs from May 1984 a new series for external trade in goods and non-factor services began to be drawn up. See note ,, table 23. Shows the cumulative impact on the overall balance of payments.

Table 25

PARAGUAY: AMOUNT OF THE EXTERNAL DEBT

(Millions of dollars)

	1970	1980	1981	1982	1983	1984	1985	1986 ^e
External debt contracted		1 323	1 641	1 939	2 272	2 339	2 508	2 433 ^e
Public sector		1 152	1 490	1 766	2 101	2 187	2 363	2 403
Private sector		170	151	173	171	151	145	30 ^e
Gross external debt disbursed	152	861	949	1 204	1 469	1 654	1 773	1 841
Public sector		691	798	1 031	1 299	1 503	1 628	1 811
Non-financial		574	671	868	1 168	1 291	1 396	1 584
Central government		277	317	369	502	621	749	884
State enterprises		297	353	499	614	670	647	700
Financial		117	127	162	182	212	231	227
Private sector		170	151	173	171	151	145	30
Net foreign assets	-	764	818	690	644	309	191	135
Public sector	10	749	770	650	429 ^e	292 [']	188 [']	111 [']
Private sector	-10	24	48	40	12	17	3	24
Net external debt	152	88	131	514	1 029	1 345	1 582	1 706
Public sector		-58	28	341	870	1 211	1 440	1 700
Private sector		146	103	133	159	134	142	6 ^e
Gross external debt service	14	154	169	163	125	163	194	200
Amortization payments	7	78	87	80	59	85	104	110
Interest	8	76	82	83	66	78	90	90
Net external debt service*	14	83	78	53	86	106	124	120

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

^e Preliminary figures. Medium- and long-term public and State-guaranteed private debt; end-year balance. ['] The amount of the State-guaranteed private external debt was revised in 1986; consequently the figures for that year may not, strictly speaking, be comparable with those of previous years. Net external assets of the Central Bank and of the National Development Bank. ['] Adjusted by delinquent payments. External assets less short-term external liabilities of private commercial banks. ['] Interest and amortization payments made, less interest received.

Table 26

PARAGUAY: INDEXES AND RATIOS OF THE EXTERNAL DEBT

	1970	1980	1981	1982	1983	1984	1985	1986"
Indexes (1980 = 100)								
Disbursed gross external debt ⁴								
At current prices	17.7	100.0	110.2	139.8	170.6	192.1	205.9	213.8
Deflated by export prices	55.1	100.0	100.8	137.4	177.9	181.6	230.1	229.4
Deflated by import prices	62.8	100.0	107.4	132.9	171.0	213.4	205.9	218.4
Disbursed net external debt ^c								
At current prices	172.7	100.0	148.9	584.1	1 169-3	1 528.4	1 797.7	1 938.6
Deflated by export prices	539.5	100.0	119.9	504.9	1073-0	1271.3	1767.6	1830.5
Deflated by import prices	613.0	100.0	127.7	488.6	1 031.1	1 698.2	1 797.7	1 980.2
As a percentage of the gross domestic product								
Disbursed gross external debt ⁴								
At weighted average official exchange rate	25.6	19.4	16.9	22.2	26.2	37.7	56.1	50.3
At parallel exchange rate*	25.6	20.7	20.5	33.5	56.0	58.9	75.7	69.8
Disbursed net external debt								
At weighted average official exchange rate	25.6	2.0	2.3	9.5	18.4	30.7	50.1	46.6
At parallel exchange rate ^e	25.6	2.1	2.8	14.3	39.2	47.9	67.5	64.7
As a percentage of exports								
Gross external debt service	15.9	27.2	30.5	26.4	26.9	21.1	17.8	18.5
Amortization	7.3	13.8	15.7	13.0	12.7	11.0	9.6	10.2
Interest	8.6	13.5	14.8	13.5	14.2	10.1	8.3	8.3
Net external debt service*	15.4	14.7	14.1	8.6	18.5	13.7	11.4	11.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.
 "Preliminary figures. "Medium- and long-term public and State-guaranteed private debt; balance at end of each year. "Gross disbursed external debt, less holdings of external assets (see table 25). Calculated by the Central Bank. "See table 17. Goods and non-factor services. "Interest and amortization payments made, less interest received.

Table 27

PARAGUAY: DOMESTIC PRICES

	1978	1979	1980	1981	1982	1983	1984	1985	1986
variation between annual averages									
Consumer price index ^a	10.6	28.3	22.4	14.0	6.8	13.5	20.3	25.2	31.7
Food	12.9	29.6	18.9	10.4	3.5	17.1	28.9	27.6	43.5
Housing	6.4	22.3	22.7	20.2	8.4	3.6	7.0	17.4	13.8
Clothing	11.7	23.1	21.2	11.6	6.0	20.8	26.7	32.8	32.8
Miscellaneous	7.6	31.1	32.1	13.4	9.4	17.2	20.0	26.3	13.8
Wholesale price index	12.8	26.3	7.8	12.2	3.5	32.9	28.3	23.4	45.1
Agricultural	21.5	38.4	2.7	13.7	3.5	39.7	18.6	12.8	64.0
Index of implicit prices of the gross domestic product ^b	10.0	19.8	16.8	16.1	5.2	14.4	27.0	25.2	31.6
Variation from December to December									
Consumer price index ^a	16.8	35.7	8.9	8.1	8.9	14.1	29.8	23.1	24.1
Food	22.7	38.4	-2.8	6.9	5.4	19.4	42.5	22.3	34.9
Housing	14.7	20.1	21.1	12.3	6.4	2.7	15.9	13.0	11.7
Clothing	12.0	30.4	14.8	5.0	15.5	20.9	32.2	34.9	21.7
Miscellaneous	5.9	43.2	30.7	4.4	14.0	17.0	25.4	28.5	19.4
Wholesale price index	23.7	33.0	-1.9	19.6	-6.8	32.9	43.8	16.3	28.1
Agricultural	44.4	43.0	-10.6	30.9	-15.7	39.7	39.1	9.5	28.8

Source: Central Bank of Paraguay.

^aBase year, 1980. ^bBase year: 1972.^cAt market prices. Base year: 1982.

Table 28

**PARAGUAY: SHORT-TERM TRENDS IN SELECTED MONETARY
AGGREGATES, PRICES AND NET INTERNATIONAL
RESERVES**

(Growth rates)

	Net domestic credit ^a		Monetary base		Money		Quasi-money ^c		Consumer prices		Net international reserves	
	Twelve-monthly	Monthly	Twelve-monthly	Monthly	Twelve-monthly	Monthly	Twelve-monthly	Monthly	Twelve-monthly	Monthly	Twelve-monthly	Monthly
1982												
December	42.5	-9.1	-3.2	3.9	-3.9	4.2	9.9	1.0	8.9	0.9	-5.5	-3.7
1983												
December	108.7	4.1	27.7	0.8	26.4	10.8	13.0	-3.9	14.1	-0.3	-5.5	0.7
1984												
January	123.1	2.9	31.6	-1.9	25.2	-6.2	14.5	2.5	13.2	1.6	-8.9	-5.0
February	113.7	4.9	27.2	-0.3	25.6	4.6	15.3	0.6	13.8	1.3	-13.0	9.6
March	106.1	10.3	35.6	15.5	39.6	21.0	15.2	2.2	15.7	2.2	-10.6	4.8
April	91.9	-0.1	28.1	5.9	39.9	3.7	13.2	2.4	17.0	0.8	-8.1	4.6
May	92.4	1.5	39.8	2.3	50.2	5.3	11.1	-0.5	17.3	0.8	-7.6	1.2
June	88.2	1.7	37.7	2.6	49.1	-1.7	14.2	-	19.1	4.0	-7.5	-3.6
July	71.7	-3.4	26.9	-5.2	48.9	-2.9	7.0	-5.7	18.7	1.8	-10.9	-7.8
August	58.7	0.7	29.3	0.6	44.4	-0.8	11.2	2.5	20.6	4.1	-10.7	-2.9
September	45.3	5.5	22.1	-2.6	38.2	-3.9	7.0	-0.2	22.0	2.7	-15.6	-8.1
October	39.9	4.3	27.7	1.5	31.2	-0.4	7.3	2.4	25.2	3.6	-14.4	3.6
November	36.4	-0.5	23.4	-	31.4	1.1	4.1	1.7	28.4	2.9	-18.0	-2.1
December	40.8	7.4	25.3	11.4	29.6	9.2	9.8	1.3	29.8	0.7	-15.8	3.5
1985												
January	32.9	-2.9	14.1	-10.7	21.8	-11.9	7.4	0.3	27.4	-0.3	-24.1	-14.4
February	37.1	8.3	11.6	-2.5	17.4	0.8	3.0	3.5	26.4	0.5	-29.5	-10.0
March	42.9	15.1	12.9	16.9	10.2	13.6	12.0	22.6	25.3	1.3	-24.1	11.0
April	47.0	2.8	25.0	17.2	14.3	13.9	20.1	9.9	24.6	0.2	-15.7	16.3
May	39.9	-3.4	27.5	4.3	18.7	3.2	25.0	3.6	25.3	1.4	-15.6	1.3
June	27.1	-7.6	25.4	-2.3	19.0	-1.5	28.9	3.1	22.1	1.1	-12.4	-
July	9.3	-11.3	27.3	-5.6	21.6	-0.8	29.4	-5.4	20.5	0.6	-7.9	-3.0
August	19.3	3.5	28.3	1.4	34.6	9.8	13.6	-10.0	27.6	10.2	-11.4	-5.4
September	7.6	-4.9	26.1	-4.3	23.4	-8.3	18.8	4.3	28.9	3.8	-6.3	2.7
October	3.3	0.1	21.3	-2.3	27.4	-1.2	13.8	-1.9	27.6	2.6	-9.5	-
November	17.4	13.1	25.7	3.7	29.1	3.6	13.8	1.6	24.0	-0.1	-16.4	-9.5
December	15.0	5.3	17.1	3.8	28.0	7.2	12.8	0.5	23.1	-	-12.5	6.1
1986												
January	14.5	-3.3	28.3	5.0	36.4	-6.1	15.9	3.0	30.3	5.6	6.7	6.5
February	8.9	3.0	35.5	2.9	36.9	1.1	22.2	1.7	37.5	6.0	6.5	2.3
March	6.5	12.6	20.7	4.1	29.3	7.4	7.9	-1.6	39.9	3.1	-13.7	-9.6
April	17.9	13.7	12.5	9.3	19.8	5.6	1.3	3.2	40.6	0.7	-28.1	-3.5
May	25.2	2.6	12.9	4.7	23.7	6.3	0.3	2.6	39.7	0.7	-37.3	4.6
June	32.6	-2.2	12.5	-2.6	26.0	0.6	-4.1	-1.5	39.6	1.1	-28.4	-3.5
July	50.7	0.3	17.9	-1.1	29.0	1.9	-0.7	-1.9	38.6	-0.7	-36.2	-13.5
August	50.2	3.2	16.2	-0.1	15.0	-2.2	12.4	1.9	26.8	1.5	-28.3	5.2
September	62.6	3.0	13.0	-0.8	23.5	-1.4	11.9	3.9	24.3	1.8	-31.5	-7.0
October	70.5	5.0	21.7	-1.2	18.9	-5.0	19.4	4.7	24.0	2.3	-31.9	-0.6
November	60.2	6.3	23.1	4.9	18.6	3.4	20.8	2.8	23.2	-0.7	-28.4	-4.8
December	60.2	5.3	38.4	19.8	26.5	14.2	27.3	5.9	24.1	0.8	-17.1	22.9

Source: Central Bank of Paraguay.

^aOf the Central Bank.

^cThe composition of the monetary base differs slightly from that shown in table 34. Includes foreign-currency deposits. Includes delinquent payments. Growth rates were calculated on the basis of dollar values.

Table 29

PARAGUAY: WAGES

	Index (1970 = 100)					Growth rates				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Nominal										
Wages of manual workers in Asunción"										
General	354.7	374.0	433.9	531.8	671.9	3.8	5.4	16.0	22.6	26.3
Manufacturing	348.3	364.6	435.9	527.7	678.7	2.0	4.7	19.6	21.0	28.6
Construction	381.5	383.2	472.1	616.0	819.7	0.5	0.4	23.2	30.5	33.1
Electricity, gas and water	333.8	375.9	420.2	572.4	694.8	7.4	12.6	11.8	36.2	21.4
Transport, storage and communications	377.6	401.1	421.3	504.7	609.3	10.5	6.2	5.0	19.8	20.7
Commerce	380.7	404.4	492.6	607.4	806.9	1.7	6.2	21.8	23.3	32.8
Other services	361.1	387.6	509.5	686.4	919.4	0.1	7.3	31.5	34.7	33.9
Average agricultural daily wages										
With meals	547.2	675.3	676.2	731.6	948.6	4.6	23.4	0.1	8.2	29.7
Without meals	521.7	597.1	581.5	618.7	827.2	7.1	14.5	-2.6	6.4	33.7
Minimum legal wages										
Asunción and Puerto Stroessner										
Other cities	387.4	406.8	488.2	648.7	948.4	4.6	5.0	20.0	32.9	46.2
Agriculture	385.6	404.9	487.8	646.6	945.3	4.6	5.0	20.5	32.6	46.2
	387.6	407.0	487.5	646.3	944.9	4.6	5.0	19.8	32.6	46.2
Real*										
Wages of manual workers in Asunción										
General	85.1	79.1	76.3	74.7	71.6	-2.7	-7.1	-3.5	-2.1	-4.1
Manufacturing	83.6	77.1	76.6	74.1	72.3	-4.3	-7.8	-0.6	-3.3	-2.4
Construction	91.5	81.0	83.0	86.5	87.4	-6.0	-11.5	2.5	4.2	1.1
Electricity, gas and water	80.1	79.5	73.9	80.4	74.0	0.6	-0.7	-7.0	8.8	-7.8
Transport, storage and communications	90.6	84.8	74.1	70.9	64.9	3.0	-6.4	-12.6	-4.3	-8.4
Commerce	91.3	85.5	86.6	85.3	86.0	30.1	-6.7	13	-1.6	0.8
Other services	86.6	82.0	89.6	96.4	98.0	-6.3	-5.3	9.3	7.6	1.7
Average agricultural daily wages										
With meals	131.3	142.8	118.9	102.7	101.1	-1.9	8.8	-16.7	-13.6	-1.5
Without meals	125.2	126.3	102.2	86.9	88.2	0.3	0.9	-19.1	-15.0	1.5
Minimum legal wages										
Asunción and Puerto Stroessner										
Other cities	92.9	86.0	85.8	91.1	101.1	-2.0	-7.5	-0.2	6.2	11.0
Agriculture	92.5	85.6	85.8	90.8	100.8	-2.1	-7.5	0.2	5.8	11.0
	93.0	86.0	85.7	90.7	100.7	-2.0	-7.5	-0.3	5.8	11.0

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay. Department of Economic Studies; Ministry of Agriculture, Department of Agricultural Marketing and Economics; and Ministry of Justice and Labour, Department of Human Resources.

"Average of months of June and December.

The nominal values were deflated by the consumer price index.

Table 30

PARAGUAY: SUMMARY OF PUBLIC-SECTOR FINANCIAL OPERATIONS

	Billions of guaraníes					Growth rates				
	1983	1984	1985 "	1986"		1983	1984	1985	1986"	
				Bud- geted	Actu- al				Bud- geted	Actu- al
Central government										
Current income	65.6	85.2	110.2	118.4	143.3	-3.8	29.9	29.3	7.4	30.0
Current expenditure	75.1	78.3	97.6	100.7	118.2	15.4	4.3	24.6	3.2	21.1
Transfers to the public sector	4.9	4.5	4.9	6.5	7.5	14.0	-8.2	8.9	32.7	53.1
Saving	-9.5	6.9	12.7	17.7	25.1			84.1	39.4	97.0
Capital income	0.1	0.3	0.6	-	-		200.0	100.0	-	.
Capital expenditure	24.4	17.7	34.7	30.0	14.0	11.4	-27.5	96.0	-13.5	-59.7
Transfers to the public sector	5.1	7.3	1.3	-	0.1	-22.7	43.1	-82.2		-92.3
Net loans	2.1	-	-	-	1.8					
Global balance	-35.0	-10.5	-21.4	-12.3	6.6	180.0	-70.0	103.8	-42.5	
Net domestic financing	19.1	-8.6	10.7	1.0	-8.5					
Net external financing	16.8	19.0	10.7	11.3	1.9					
Social Security										
Current income	14.7	13.2	15.7	16.2		24.6	-10.2	18.9	3.2	
Transfers from the public sector	0.1	-	-	-		-			-	
Current expenditure	9.3	11.2	12.9	14.7		16.3	20.4	15.2	14.0	
Saving	5.4	2.0	2.8	1.5		45.9	-63.0	40.0	-46.4	
Capital income	0.3	0.6	-	-		-	100.0			
Capital expenditure	2.3	1.4	1.0	1.3		4.5	-39.1	-28.6	30.0	
Net loans	0.7	0.2	-	-		40.0	-71.4	-	-	
Global balance	2.7	0.9	1.8	0.2		107.7	-66.7	100.0	-88.9	
Net domestic financing	-	-0.9	-1.8	-0.2						
Net external financing	2.7									
Other decentralized bodies										
Current income	4.3	4.7	8.3	13.0		13.2	9.3	76.6	56.6	
Transfers from the public sector	3.3	3.2	3.8	4.9		13.8	-3.0	18.8	28.9	
Current expenditure	4.2	4.5	8.2	7.8		27.3	7.1	82.2	-4.9	
Saving	-	0.2	0.1	3.6				-50.0	3500.0	
Capital income	0.7	0.1	1.9	0.3		600.0	-85.7	1800.0	-84.2	
Transfers from the public sector	0.1	0.1	-	0.2		-	-	-	-	
Capital expenditure	0.2	0.1	3.7	5.1		-33.3	-50.0	3600.0	37.8	
Net loans	0.5	0.3	-	-			-40.0	-		
Global balance	0.1	-	-2.4	1.3		-80.0				
Net domestic financing	-0.2	-	2.3	0.9						
Net external financing	0.1	0.1	0.1	0.4						
Municipalities										
Current income	4.7	5.2	6.2	7.3		17.5	10.6	19.2	17.7	
Transfers from the public sector	0.3	0.3	0.3	0.3		50.0		-	-	
Current expenditure	3.2	3.3	6.2	4.3		18.5	3.1	87.9	-30.6	
Saving	1.6	1.9	2.0	2.9		23.1	18.8	5.3	45.0	
Capital income	0.5	0.5	1.0	1.2		25.0		100.0	20.0	
Capital expenditure	2.1	2.7	3.7	4.1		-	28.6	37.0	10.8	
Net loans	-1.0	-0.2	-	-		-66.7	100.0			
Global balance	0.1	-	-0.7	-						
Net domestic financing	-0.1	-	0.7	-						
Net external financing				-0.1						

Table 30 (concluded)

	Billions of guaraníes					Growth rates				
	1983	1984	1985	1986"		1983	1984	1985	1986"	
				Bud- geted	Actu- al				Bud- geted	Actu- al
State Enterprises ⁰										
Current income	79.2	104.7	170.0	163.8		5.2	32.2	62.4	-3.6	
Transfers from the public sector	1.0	0.8	0.9	1.0		25.0	-20.0	12.5	11.1	
Current expenditure	67.0	93.0	141.3	129.7		3.6	55.0	51.9	-8.2	
Saving	12.2	11.7	28.6	34.1		15.1	-4.1	144.4	19.2	
Capital income	6.9	9.8	13.2	2.5		-11.5	42.0	34.7	-81.1	
Transfers from the public sector	4.9	7.2	1.3	1.8		-24.6	46.9	-81.9	38.5	
Capital expenditure	30.8	58.3	49.0	31.7		-12.0	89.3	-16.0	-35.3	
Net loans	1.2	-	-	-0.8						
Global balance	-23.2	-36.9	-7.1	4.1		-36.1	59.1	-80.8		
Net domestic financing	15.0	9.5	4.8	-2.1						
Net external financing	8.2	27.4	2.4	-1.9						
Consolidated non-financial public sector										
Current income	163.6	208.6	305.1	311.4		3.4	27.5	46.3	2.1	
Current expenditure	153.9	185.8	259.0	252.5		10.3	20.7	39.4	-2.5	
Saving	10.4	22.8	46.1	58.9		-49.0	119.2	102.2	27.8	
Capital income	3.5	3.9	16.0	2.0		75.0	11.4	310.3	-87.5	
Capital expenditure	69.8	72.8	90.8	70.3		-0.4	4.3	24.7	-22.6	
Net loans	3.3	0.4	-	-0.8						
Global balance	-59.2	-46.6	-28.7	-10.2	-11.5	240.2	-21.3	-38.4	-64.5	
As a percentage of the global balance										
Net domestic financing	27.3	17.9	15.4	-0.9	10.8	-46.1	-38.4	-53.7	8.8	
Central Bank	21.5	9.1	18.5	2.1	10.8	-36.3	-19.5	-64.5	-20.6	
Other	5.8	8.8	-3.1	-1.2	-	-9.8	-18.9	10.8	11.8	
Net external financing	31.8	28.7	13.2	10.1	0.7	-53.7	-61.4	-45.6	-99.0	
Disbursements	36.7	36.9	23.7	25.7	19.1	-62.0	-62.0	-82.6	-252.0	
Amortization	-4.9	-8.2	-10.5	-15.6	-18.4	8.3	8.3	36.5	152.9	
Memo										
Exchange subsidies ⁰	2.7	14.3	25.9		47.4					
Adjusted global balance	61.9	60.9	54.6		58.9					
Adjusted net domestic financing'	30.0	32.2	41.3		58.2					

Source: Paraguay, Ministry of Finance, Technical Secretariat and Budget Office, Central Bank of Paraguay and International Monetary Fund.

"Preliminary figures. As from 1982, includes operations of PETROPAR, the new state enterprise responsible for importing, refining and distributing petroleum products. See table 33. Global balance plus exchange subsidies. 'Net domestic financing plus exchange subsidies.

Table 31
PARAGUAY: CENTRAL GOVERNMENT FINANCIAL PERFORMANCE

	Billion > of guaraníes					Growth rates				
	1983	1984	1985	1986"		1983	1984	1985	1986"	
				Budget	Actual				Budget	Actual
Current income	65.6	85.2	110.2	118.4	143.3	-3.8	29.9	29.3	7.4	30.0
Tax revenue	53.1	71.8	94.4	101.6	121.3	-12.8	35.2	31.5	7.6	28.5
Direct taxes	18.8	21.0	22.6	22.6	29.2	-8.3	11.7	7.6	-	29.2
On personal income	-	-	-	-	-					
On corporate earnings	10.7	11.0	15.8	15.6	20.7	-18.9	2.8	43.6	-1.3	31.0
On assets	8.1	10.0	6.8	7.0	8.5	11.0	23.5	-32.0	2.9	25.0
Indirect taxes	34.3	50.8	71.8	79.0	92.1	-15.9	48.1	41.3	10.0	28.3
On external trade	9.8	12.3	14.0	15.5	22.5	-21.6	25.5	13.8	10.7	60.7
Imports	7.4	8.9	11.0	14.8	21.6	-16.6	20.3	23.6	34.5	96.4
Exports	0.3	0.7	-	0.7	0.9	-25.6	133.3	-	-	-
On exchange transactions	2.1	2.7	3.0			-34.4	28.6	11.1		
On domestic commerce	15.1	25.9	34.6	63.5	69.6	-17.5	71.5	33.6	83.5	101.2
On payrolls	0.8	0.8	1.0			-11.1	-	25.0		
Other	8.6	11.8	16.2			1.1	32.6	37.3		
Non-tax income	12.5	13.5	15.9	16.8	22.0	71.2	8.0	17.8	5.7	38.4
Current expenditure	74.4	78.3	97.6	100.7	118.2	14.3	5.2	24.6	3.2	21.1
Consumption	43.5	44.8	60.3	67.7	65.9	12.4	3.0	34.6	12.3	9.3
Wages and salaries	32.9	33.5	40.8	48.2	47.1	16.3	1.8	21.8	18.4	15.4
Goods and non-personal services	10.6	11.3	14.4	19.5	18.8	1.9	6.6	27.4	35.4	30.6
Interest payments	2.7	4.9	6.7	8.3	9.7	8.0	81.5	36.7	23.9	44.8
Transfers	22.6	22.4	25.9	24.7	28.7	17.8	-0.9	15.6	-4.6	10.8
To the private sector	17.4	17.8	20.8	18.2	21.3	14.7	2.3	16.9	-12.5	2.4
To the public sector	5.1	4.6	4.9	6.5	7.5	14.0	-9.8	6.5	32.7	53.1
Other	5.6	6.2	7.7	-	14.0	33.3	-7.1	24.2		81.8
Saving	-8.8	6.9	12.7	17.7	22.3			84.1	39.4	75.6
Capital income	0.1	0.3	0.6	-	-					-
Capital expenditure	28.0	17.7	34.7	30.0	14.0	27.9	-36.8	96.0	-13.5	-59.7
Capital formation	17.8	10.2	29.7	27.8	10.8	22.3	-42.7	191.0	-6.4	-63.6
Purchase of assets	-	-	-	-	-	-	-	-	-	-
Transfers	10.1	7.5	1.3	2.0	0.1	36.5	-25.7	-82.7	53.8	-92.3
To the public sector	10.1	7.5	1.3	2.0	0.1	46.4	-25.7	-82.7	53.8	-92.3
Other	1.1	-	-	0.2	3.1	120.0				-
Total expenditure	80.7	96.1	132.2	130.7	132.2	4.0	19.1	37.6	-1.1	-
Net loans	2.1	-	-	-	1.8					-
Global balance	-35.8	-10.5	-21.4	-12.3	6.6	186.4	-70.7	103.8	-42.5	
	As a percentage; of the global balance									
Financing (net)	35.8	10.5	21.4	12.3	-6.6	-100.0	-100.0	-100.0	-100.0	-100.0
Domestic (net)	19.0	-8.6	10.7	1.0	-8.5	-53.1	81.9	-50.0	-8.1	-128.8
Banks	17.3	4.4	7.7	2.5	2.1	-48.3	-41.9	-36.0	-20.3	31.8
Central Bank	17.1	7.3	7.7	2.5	2.1	-47.8	-69.5	-36.0	-20.3	31.8
Rest of banking system	0.2	-2.9	-	-	-	-0.6	-27.6	-	-	-
Other"	-2.3	9.8	17.3	-1.5	-1.2	6.4	-93.3	80.8	12.2	-18.2
Variation in liquid assets	4.0	-22.8	-14.3	-	-9.4	-11.1	217.1	66.8	-	-142.4
External (net)	16.8	19.0	10.7	11.3	1.9	-46.9	-181.0	-50.0	-91.9	28.8
Disbursements	19.7	23.3	16.1	19.1	12.5	-55.0	-221.9	-75.2	-155.3	189.4
Amortization	-2.9	-4.3	-5.4	-7.8	-10.6	8.1	41.0	25.2	63.4	-160.6

Source: Paraguay, Ministry of Finance, Technical Secretariat and Budget Office and the International Monetary Fund.
 "Preliminary figures. Includes supplier credits, issue and amortization of bonds and amortization of commitments pending from previous fiscal years.

Table 32

PARAGUAY: SUMMARY OF PUBLIC-SECTOR FINANCIAL PERFORMANCE*(Percentage of gross domestic product)*

	1981	1982	1983	1984	1985	1986	
						Budget	Actual
Central Government							
Current income	8.4	9.3	8.0	8.0	7.9	6.5	7.8
Current expenditure	7.6	8.8	9.2	7.3	7.0	5.5	6.4
Transfers to the public sector	0.6	0.6	0.6	0.4	0.4	0.4	0.4
Saving	0.7	0.4	-1.2	0.6	0.9	1.0	1.4
Capital income	-	-	-	-	-	-	-
Capital expenditure	2.4	3.0	3.0	1.6	2.5	1.6	0.8
Transfers to the public sector	0.2	0.9	0.6	0.7	0.1	-	-
Net loans	0.9	-0.9	0.3	-	-	-	0.1
Global balance	-2.6	-1.7	-4.3	-1.0	-1.5	-0.7	0.4
Net domestic financing	1.9	0.8	2.3	-0.8	0.8	0.1	-0.5
Net external financing	0.7	0.9	2.1	1.8	0.8	0.6	0.1
Social Security							
Current income	1.5	1.6	1.8	1.2	1.1	0.9	
Transfers from the central government	-	-	-	-	-	-	
Current expenditure	0.9	1.1	1.1	1.0	0.9	0.8	
Saving	0.6	0.5	0.7	0.2	0.2	0.1	
Capital income	-	-	-	-	-	-	
Capital expenditure	0.3	0.3	0.3	0.1	0.1	0.1	
Net loans	-	-	0.1	-	-	-	
Global balance	0.3	0.2	0.3	-	0.1	-	
Net domestic financing	-	-	-	-	-	-	
Net external financing	0.3	0.2	0.3	-	-	-	
Other decentralized bodies							
Current income	0.5	0.5	0.5	0.4	0.6	0.7	
Transfers from the central government	0.4	0.4	0.4	0.3	0.3	0.3	
Current expenditure	0.4	0.4	0.5	0.4	0.6	0.4	
Saving	0.1	-	-	-	-	0.2	
Capital income	-	-	0.1	-	0.1	-	
Transfers from the central government	-	-	-	-	-	-	
Capital expenditure	0.1	-	-	-	0.3	0.3	
Net loans	-	-	-	-	-	-	
Global balance	-	-	-	-	-	0.1	
Net domestic financing	-	-	-	-	-	-	
Net external financing	-	-	-	-	-	-	
Municipalities							
Current income	0.5	0.5	0.6	0.5	0.4	0.4	
Transfers from the central government	-	-	-	-	-	-	
Current expenditure	0.3	0.4	0.4	0.3	0.4	0.2	
Saving	0.1	0.2	0.2	0.2	0.1	0.2	
Capital income	-	-	-	-	0.1	0.1	
Capital expenditure	0.3	0.3	0.3	0.3	0.3	0.2	
Net loans	-	-	-0.1	-	-	-	
Global balance	-	-	-	-	-	-	
Net domestic financing	-	-	-	-	-	-	
Net external financing	-	-	-	-	-	-	

Table 32 (concluded)

	1981	1982	1983	1984	1985	1986	
						Budget	Actual
State Enterprises							
Current income	5.1	10.2	9.7	9.8	12.2	8.9	
Transfers from the central government	0.1	0.1	0.1	0.1	0.1	0.1	
Current expenditure	3.8	8.8	8.2	8.7	10.1	7.1	
Saving	1.3	1.4	1.5	1.1	2.1	1.9	
Capital income	0.2	1.1	0.8	0.9	0.9	0.1	
Transfers from the central government	0.2	0.9	0.6	0.7	0.1	0.1	
Capital expenditure	1.8	4.7	3.8	5.4	3.5	1.7	
Net loans	-	-	0.1	-	-	-	
Global balance	-0.3	-2.3	-1.3	-3.4	-0.5	0.2	
Net domestic financing	-0.7	-0.2	-0.5	0.9	0.3	-0.1	
Net external financing	0.9	2.4	1.7	2.6	0.2	-0.1	
Consolidated non-financial public sector							
Current income	15.4	21.5	20.0	19.5	21.9	17.0	
Current expenditure	12.4	18.9	18.8	17.4	18.6	13.8	
Saving	2.9	2.6	1.2	2.1	3.3	3.2	
Capital income	-	0.3	0.4	0.4	1.1	0.1	
Capital expenditure	4.6	7.4	6.7	6.8	6.5	3.8	
Net loans	1.0	-0.9	0.3	-	-	-	
Global balance	-2.6	-2.4	-7.2	-4.4	-2.1	-0.6	-0.6
Net domestic financing	0.9	0.9	-3.3	1.7	1.1	0.6	0.6
Central Bank	1.8	0.4	2.6	0.9	1.3	0.1	0.6
Other	-0.9	-1.3	0.7	0.8	-	-0.1	
Net external financing	1.6	3.3	3.8	2.7	0.9	0.6	
Disbursements	2.3	3.9	4.4	3.4	1.7	1.4	1.0
Amortization	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-1.0
Memo							
Exchange subsidies ¹	-	0.3	0.3	1.3	1.9	2.6	
Adjusted global balance ¹	-2.6	-2.6	-7.6	-5.7	-3.9	-3.2	
Net adjusted domestic financing	0.9	-0.7	3.7	3.0	3.0	3.2	

Source: IMF and Central Bank of Paraguay.

"Current market prices. As from 1982, includes the operations of PETROPAR, the new State enterprise responsible for importing, refining and distributing petroleum products. Includes only those exchange subsidies specified in the Central Bank's monetary programme which reflect the difference between the exchange rate paid by the Central Bank on purchases of foreign currency and the rate at which it sells it to the public sector for servicing its external debt. Includes the exchange subsidies mentioned in note c

Table 33

PARAGUAY: PUBLIC-SECTOR SUBSIDIES"

	Millions of guaraníes			Growth rates			As a percentage of GDP		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
Exchange subsidy									
1. For servicing the external public debt	5 978	19 671	34 591	119.4	229.1	75.9	0.6	1.4	1.9
2. For imports by government institution'	8 339	6 186	12 761	102.6	-25.8	123.2	0.8	0.4	0.8
3. Total (1+2)	14 317	25 857	47 352	109.3	80.6	83.1	1.3	1.9	2.6
Credit subsidy									
4. In respect of the rate of interest of the minimum portfolio	2 176	3 458	5 217	29.4	58.9	50.9	0.2	0.2	0.3
5. In respect of the rate of inflation'	4 160	7 284	12 483	147.5	75.0	83.7			
Total subsidy									
(3+4)	16 493	29 315	52 569	278.0	77.7	79.3	1.5	2.1	2.9
(3 + 5)	18 477	33 141	59 835	323.6	79.4	80.5	1.7	2.4	3.3

Source: On the basis of data supplied by the Central Bank of Paraguay.

'Provisional figures subject to revision.

Equal to the difference between the average exchange rate paid by the Central Bank on purchases of foreign currency and the exchange rate at which it sells it to the public sector for servicing of its external debt.

Equal to the difference between the average exchange rate paid by the Central Bank on purchases of foreign currency and the average exchange rate at which it sells it to the public sector for its imports.

Equal to the difference between the interest rate paid by the non-financial public sector on net Central Bank credit and that paid by the non-financial private sector on credit having a term of less than 240 days under the Minimum Portfolio System.

'Equal to the difference between the interest rate paid by the non-financial public sector on net Central Bank credit and the rate of inflation.

Table 34

**PARAGUAY:: RATES CHARGED FOR SELECTED BASIC SERVICES
PROVIDED BY PUBLIC ENTERPRISES**

	Index (1980 = 100)						Growth rates					
	1981	1982	1983	1984	1985	1986	1981	1982	1983	1984	1985	1986
Nominal												
Electricity"	100.0	100.0	100.0	106.4	130.2	131.0	-	-	-	6.4	22.3	0.6
Water'	100.0	116.1	116.1	223.8	308.6	308.6	-	16.1	-	92.8	37.9	-
Telephone ⁰	100.0	100.0	100.0	104.1	120.0	130.0				4.1	15.3	8.3
Real"												
Electricity"	87.7	82.2	72.4	64.1	62.6	47.8	-12.3	-6.3	-11.9	-11.5	2.3	-23.6
Water'	87.7	95.4	84.1	134.7	148.4	112.6	-12.3	8.8	-11.8	60.2	10.2	-24.1
Telephone ⁰	87.7	82.2	72.4	62.7	57.7	47.4	-12.3	-6.3	-11.9	-13.4	-8.0	-23.5
In dollars at average official exchange rate												
Electricity"	100.0	92.7	86.3	54.9	37.2	32.9	-	-7.3	-6.1	-36.4	-32.2	-11.6
Water'	100.0	107.6	100.2	115.5	88.2	77.6	-	7.6	-6.9	15.3	-23.4	-12.0
Telephone ⁰	100.0	92.7	86.3	53.7	34.3	32.7	-	-7.3	-6.1	-37.8	-36.1	-4.7
In dollars; at market exchange rate												
Electricity"	88.3	65.8	43.3	37.7	29.5	25.4	-11.7	-25.5	-34.2	-22.9	-21.8	-13.9
Water'	88.3	30.8	50.2	79.3	70.0	59.9	-11.7	-65.9	63.0	58.0	-11.7	-14.4
Telephone ⁰	88.3	65.8	43.3	36.9	27.2	25.3	-11.7	-25.5	-34.2	-14.8	-26.3	-7.0

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay

"National Electricity Administration (ANDE).

'Sanitary Works Corporation (CORPOSANA).

⁰National

Telecommunications Administration (ANTELCO)

Nominal index deflated by the index of consumer prices.

Table 35

PARAGUAY: PUBLIC DEBT

	1976	1980	1981	1982	1983	1984	1985	1986
Millions of current guaraníes								
Gross debt								
At average official exchange rate	75.3	97.8	111.7	152.2	203.5	387.8	772.9	977.5
At market exchange rate	80.3	104.0	133.2	223.3	419.1	593.7	1 023.7	1 328.8
Domestic	5.3	10.7	11.1	12.0	13.8	21.0	55.0	70.2
External								
At average official exchange rate	70.1	87.1	100.5	140.2	189.7	366.7	717.9	907.3
At market exchange rate	75.1	93.2	122.1	211.4	405.3	572.6	968.7	1 258.6
Asset holdings								
At average official exchange rate	21.5	118.2	108.5	96.0	70.2	85.5	99.4	76.8
At market exchange rate	22.9	124.9	129.2	140.8	142.0	125.5	128.4	98.4
Domestic	2.4	23.8	11.4	7.6	8.1	14.3	16.5	21.2
External								
At average official exchange rate	19.1	94.4	97.0	88.4	62.6	71.2	82.9	55.6
At market exchange rate	20.4	101.1	117.8	133.3	133.8	111.3	111.9	77.1
Net debt								
At average official exchange rate	53.8	-20.4	3.2	56.2	132.7	302.3	673.5	900.7
At market exchange rate	57.4	-21.0	4.0	82.5	277.1	468.2	895.3	1 230.5
Domestic	2.8	-13.1	-0.3	4.4	5.7	6.8	38.5	49.0
External								
At average official exchange rate	51.0	-7.3	3.5	51.8	127.0	295.5	635.0	851.7
At market exchange rate	52.2	-7.9	4.3	78.1	271.4	461.4	856.8	1 181.5
Indexes of real values 1980 = 100"								
Gross debt								
At average official exchange rate	71.0	100.0	99.5	132.1	163.3	226.9	366.9	352.4
At market exchange rate	70.6	100.0	110.6	179.4	309.0	322.7	452.2	445.2
Domestic	93.1	100.0	93.1	91.7	93.4	118.2	246.8	239.2
External								
At average official exchange rate	146.2	100.0	100.2	136.5	171.0	238.8	380.1	364.9
At market exchange rate	146.6	100.0	112.4	188.4	331.2	343.8	473.4	466.5
As a percentage of gross domestic product								
Gross debt								
At average official exchange rate	35.2	17.4	15.8	20.6	24.9	36.2	55.5	53.3
At market exchange rate	37.5	18.6	18.8	30.3	51.2	55.5	73.4	72.5
Net debt								
At average official exchange rate	25.1	-3.6	0.5	7.6	15.5	27.6	48.3	49.1
At market exchange rate	26.8	-3.7	0.6	11.1	33.2	43.7	64.2	67.1

Source: ECLAC, on the basis of data supplied by the Central Bank of Paraguay.

"The nominal figures were deflated by the index of consumer prices. At market prices.

Table 36

**PARAGUAY: PUBLIC SECTOR EMPLOYMENT
AND IMPLICIT WAGES**

	1970	1975	1980	1981	1982	1983	1984	1985	1986
Employment³									
Non-financial public sector	53.9	58.3	79.2	84.4	89.6	81.5	82.5	83.4	86.1
General government	48.2	56.5	70.5	74.4	75.6	78.5	80.2	81.2	83.8
Central government	32.2	41.4	57.9	60.5	60.4	63.1	63.8	64.3	66.9
Decentralized bodies	14.5	13.3	11.1	11.8	12.5	12.5	13.5	14.2	14.2
Municipalities	15	1.8	15	2.1	2.7	3.0	2.9	2.8	2.6
Public enterprises	5.7	7.9	8.7	10.0	14.0	15.4	15.5	15.9	17.3
Financial public sector	1.6	1.8	2.0	2.2	2.4	3.0	2.3	2.2	2.4
Public sector	55.5	66.2	81.2	86.7	92.0	96.9	98.0	99.4	103.5
Implicit nominal wages^{4*}									
Non-financial public sector			100.0	130.2	150.9	152.4	203.4	248.5	279.6'
General government			100.0	108.0	132.9	146.4	150.6	179.1	204.5'
Central government			100.0	134.9	170.2	186.9	195.4	230.5	261.8'
Decentralized bodies			100.0	122.3	141.8	160.9	154.7	186.2	218.2'
Municipalities			100.0	95.9	88.8	91.3	91.1	121.4	135.7'
Public enterprises			100.0	121.7	99.9	96.4	125.6	150.6	167.5'
Implicitⁱ real wages^{ad}									
Non-financial public sector			100.0	114.2	124.0	110.4	122.5	119.5	102.0'
General government			100.0	94.7	109.2	106.1	90.7	86.1	74.6'
Central government			100.0	118.3	139.9	135.3	117.6	110.8	95.5'
Decentralized bodies			100.0	107.3	116.5	116.5	93.1	89.5	79.6'
Municipalities			100.0	84.1	73.0	66.1	54.8	58.4	49.5'
Public enterprises			100.0	106.8	82.1	69.8	75.6	72.4	61.1'

Source: ECLAC, on the basis of data supplied by the Technical Planning Secretariat.

ⁱDoes not include the Ministry of Defence. ^{ad}Implicit nominal wages were calculated on the basis of the wage bill and of employment in the public sector. ⁱBudgetary figures. ^{ad}Nominal wages were deflated by the consumer price index.

Table 37

PARAGUAY: EXECUTION OF THE MONETARY PROGRAMME

	End-of-year balance, in billions of guaraníes				Growth rates			
	1983	1984	1985	1986	1983	1984	1985	1986
Monetary base	106.9	130.4	148.9	202.8	31.1	22.0	14.2	38.4
Sources								
Net external assets	77.2	83.1	71.2	118.1	-6.0	7.6	-14.3	65.9
International reserves"	68.5	72.2	60.7	105.0	-8.4	5.4	-11.4	73.0
Assets	75.9	76.0	59.6	48.1	-4.4	0.1	-21.5	-19.3
Liabilities	7.4	19.2	11.9	6.7	60.3	159.5	-38.0	-43.7
Terms-of-trade effect	-	15.3	12.9	63.7	-	-	-15.7	393.8
Net IMF position"	8.7	8.6	8.3	5.2	18.4	-1.1	-3.5	-37.3
Reserves	4.4	4.3	4.1	2.1	12.0	-2.3	-4.6	-48.8
SDR	4.3	4.3	4.3	3.1	25.8	-	-	-27.9
Terms-of-trade effect ^c	-	-	10.6	13.1	-	-	-	23.6
Net domestic assets	22.9	50.6	77.7	84.7	^d	121.0	53.4	9.0
Exchange adjustment'	4.7	19.0	44.9	92./	135.0	304.5	136.3	107.9
Net domestic credit	52.3	74.3	83.7	138.4	116.9	42.2	15.3	86.0
Non-financial public sector	28.1	37.2	54.1	64.9	326.7	32.2	45.4	20.0
Central government	15.9	20.4	24.3	26.9	^d	28.7	18.7	11.0
Credit	21.4	29.5	33.4	40.4	507.2	37.9	13.2	21.1
Deposits	-5.5	-9.0	-9.1	-13.5	-12.2	64.6	0.8	48.1
Autonomous institutions and State enterprises*	12.3	16.8	29.8	37.9	31.6	40.8	78.0	27.2
Banking sector	24.1	37.1	31.7	73.6	37.9	53.9	-14.7	132.4
National Development Bank	10.9	12.9	11.5	22.2	8.7	18.3	-11.1	93.5
Private commercial banks	13.2	24.2	20.2	51.3	77.4	83.4	-16.6	154.5
Other net domestic assets	-34.1	-42.7	-52.9	-145.9	27.7	25.2	23.9	175.8
Uses								
Currency in circulation	41.8	53.7	69.6	92.1	15.8	28.3	29.5	32.3
Currency outside banks	38.5	48.6	62.6	84.5	16.0	26.3	28.8	34.9
Bank reserves	65.0	76.6	79.7	110.7	43.2	17.9	4.0	38.9
Liquidity								
Money (M ₁)	76.1	98.6	126.3	159.7	26.4	29.6	28.0	26.5
Quasi-money	113.9	125.0	141.0	179.6	13.0	9.8	12.8	27.3
National currency'	101.6	112.7	132.5	164.9	20.7	10.9	17.6	24.4
Foreign currency	12.2	12.3	8.5	14.7	-26.1	0.5	-30.8	73.0
Money (M ₂)	189.9	223.6	267.3	339.2	18.0	17.7	19.5	26.9

Source: On the basis of figures provided by the Central Bank of Paraguay.

"Valued at the exchange rate of 126 guaraníes to the dollar (see notes *and c below). "Until June 1984 the Central Bank applied an exchange rate of 126 guaraníes to the dollar to its foreign assets and liabilities apart from its net IMF position; from July 1984 to November 1986, it applied a rate of 160 guaraníes to the dollar, and since December 1986, a rate of 320 guaraníes to the dollar. The difference between the rate of 126 guaraníes to the dollar and the new rates reflects the effect of the variation in the exchange rate on the value of the external assets and liabilities concerned.

'Until July 1985 the Central Bank applied an exchange rate of 126 guaraníes to the dollar to its net IMF position; from August 1985 to November 1986, it applied a rate of 160 guaraníes to the dollar and from December 1986, a rate of 320 guaraníes to the dollar. Changed from a negative to a positive value.

*Estimates. * Includes the Livestock Fund. 'Represents the difference between the exchange rate paid by the Central Bank on purchases of foreign currency and the rate at which it sells it to the public sector. Excluding cash in banks. ' Definition laid down by the Central Bank of Paraguay.

Table 38

PARAGUAY: MONETARY COEFFICIENTS*(At the end of each period)*

	1981	1982	1983	1984	1985	1986
Cash outside banks/ demand deposits	0.99	1.23	1.02	0.97	0.98	1.12
Cash outside banks/ Global deposits	0.25	0.21	0.25	0.28	0.31	0.39
Bank reserves/ demand deposits	1.73	1.79	1.82	1.63	1.36	1.57
Bank reserves/ global deposits	0.44	0.39	0.45	0.47	0.42	0.55
Monetary multipliers						
M ₁ /Monetary base	0.73	0.74	0.72	0.76	0.85	0.79
M ₂ /Monetary base	1.80	1.97	1.78	1.88	1.79	1.67
Velocity of circulation						
GDP/M ₁ ,	11.31	12.24	10.76	10.85	11.04	11.48
GDP/M ₂	4.59	4.57	4.22	4.78	5.21	5.41

Source: Based on figures provided by the Central Bank of Paraguay.

Table 39

PARAGUAY: INTEREST RATES

	Nominal rates"										Real rates									
	1984		1985				1986				1984		1985		1986					
	December	June	december		June	December	December	June	December	December	June	December	June	December						
On loans																				
Central Bank																				
Rediscount																				
Minimum portfolio	8	8	8	8	8	8	8	8	-16.8	-11.4	-12.3	-22.6	-13.0							
Special development fund	5	13	5	5	8	13	8	13	-19.1	-12.9	-13.9	-14.7	-22.6	-19.1	-13.0	-8.9				
To the public sector																				
Central government	5	5	5	5	5	5	5	5	-19.1	-13.9	-14.7	-24.8	-15.4							
National Development Banks'	6	6	6	6	8	8	8	8	-18.3	-13.0	-13.9	-22.6	-13.0							
Other public bodies	8	8	8	8	8	8	8	8	-16.8	11.4	-12.3	-22.6	-13.0							
National Development Bank																				
Agriculture	15.6	18	15.6	18	15.6	18	15.6	18	-10.9	-9.1	-5.2	-3.2	-6.1	-4.1	-17.2	-6.8				
Commerce	20.2	24	20.2	24	20.2	24	24	24	-7.4	-4.5	-1.4	1.7	-2.4	0.7	-11.2	-0.1				
Commercial banks																				
Minimum portfolio	13.5	14.5	13.5	14.5	17	17	17	17	-12.6	-11.8	-6.9	-6.1	-7.8	-16.2	-5.7					
Special development fund	14.5	19.5	14.5	19.5	14.5	19.5	14.5	14.5	-11.8	-7.9	-6.1	-2.0	-7.0	-2.9	-18.0	-7.7				
Commercial portfolio	24	24	24	24	24	24	24	24	-4.5	0.7	0.7	-11.2	-0.1							
Saving and loans associations	12	18	12	18	12	18	14	18	A	18	-9.1	-8.1	-3.2	-9.0	-4.1	-18.3	-15.5	-8.1	-4.9	
Financial	33	33	33	33	33	33	33	33	2.5	9.1	8.0	-4.7	7.2							
On deposits																				
Commercial banks																				
Saving (demand deposits)	6	11	6	11	6	11	11	11	-18.3	-14.5	-13.0	-8.9	-13.9	-9.8	-20.5	-10.6				
Fixed-term deposits	13	15	13	15	13	15	13	15	13	15	-12.9	-11.4	-7.3	-5.7	-8.2	-6.6	-19.1	-17.6	-8.9	-7.3
Savings and loans associations																				
Demand deposits	11	11	11	11	11	11	11	11	-11.4	-a9	-9.8	-20.5	-10.6							
Fixed-term deposits	13	15	11	15	11	15	13	15	13	15	-12.9	-11.4	-8.9	-5.9	-9.8	-6.6	-19.1	-17.6	-8.9	-7.3
Financial	13	25	13	25	13	25	13	30	13	30	-12.9	-3.7	-7.3	2.5	-8.2	1.5	-19.1	-6.9	-8.9	4.8

Source: Central Bank of Paraguay and the International Monetary Fund.

"Includes "commissions" and "premiums", as applicable. Does not include any other charge or payment. As from thesecondhalf of 1983, theCentral Bank has fixed all the interest rates, commissions and premiums of the financial system. At the prevailing inflation rate (in twelve months). 'Wheat programme.

Table 40

PARAGUAY: INDICATORS OF COMMERCIAL BANK PORTFOLIOS"

	End-of-year balances, in billions of guaraníes					Growth rates				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Total portfolio	120.3	130.0	155.5	170.1	228.4	7.9	8.1	19.6	9.4	34.3
Portfolio of overdue debts	18.0	26.2	26.4	25.5	25.1	63.6	45.6	0.8	-3.4	-1.6
Capital and reserves	36.1	38.7	36.4	38.1	43.3	28.9	7.2	-5.9	4.7	13.6
Contingency funds	3.2	4.4	5.7	5.7	6.3	28.0	37.5	29.6	-	10.5
	Percentages									
Overdue debts/total portfolio	15.0	20.1	16.9	15.0	11.0					
Overdue debts/capital and reserves	50.0	67.6	72.4	66.9	57.9					
Capital and reserves/total portfolio	30.0	29.8	23.4	22.4	19.0					
Contingency funds /overdue debts	17.6	16.8	21.4	22.3	24.9					

Source: Superintendent of Banks.

"Includes the National Development Bank.

Includes the additional insurance required by the Superintendency of Banks.

Table 41

**PARAGUAY: CREDIT PROGRAMME; SECTORAL ALLOCATION
OF PRIVATE-SECTOR CREDIT**

	End-of-year balances, in billions of guaraníes				Growth rates			
	1983	1984	1985	1986	1983	1984	1985	1986
Commercial banks								
Total	92 541	109 237	117 533	160 670	2.4	18.0	7.6	36.7
Agricultural	10 073	13 316	18 786	58 512	28.0	32.2	41.1	211.5
Crop farming	4 677	6 412	11 968	53 475	35.7	37.1	86.7	346.8
Stock raising	5 396	6 904	6 818	5 037	22.1	27.9	-1.2	-26.1
Industry	29 311	34 228	34 823	31871	17.4	16.8	1.7	-8.5
Manufacturing	28 202	34 184	34 765	31 794	18.7	21.2	1.7	-8.5
Construction	1 109	44	58	77	-7.3	-96.0	31.8	32.8
Commerce (domestic)	33 471	41 980	43 913	50 611	-14.9	25.4	4.6	15.3
Export	15 082	15 205	15 093	14 223	22.9	0.8	-0.7	-5.8
Others	4 604	4 509	4 917	5 453	-22.5	-2.1	9.0	10.9
National Development Bank								
Total	33 484	41 737	46 359	64 106	9.9	24.6	11.1	38.3
Agricultural	24 069	32 382	35 661	50 692	15.4	34.5	10.1	42.1
Crop farming	22 619	31031	34 347	49 014	16.6	37.2	10.7	42.7
Stock raising	1 450	1 351	1 314	1 678	-1.5	-6.8	-2.7	27.7
Industry	7 129	6 873	7 962	9 508	2.4	-3.6	15.8	19.4
Manufacturing	7 129	6 873	7 962	9 508	2.4	-3.6	15.8	19.4
Construction	-	-	-	-	-	-	-	-
Commerce (domestic)	1 773	1 758	2 094	3 268	-18.0	-0.8	19.1	56.1
Export	171	323	330	353	21.3	88.9	2.2	7.0
Others	342	401	312	284			-22.2	-9.0
Total								
Total"	139 265	163 849	178 729	240 708	4.4	17.6	9.1	34.7
Agricultural"	47 376	58 567	69 284	125 060	14.7	41.9	18.4	80.5
Crop farming"	27 426	37 567	46 315	102 489	19.4	37.0	23.4	121.3
Stock raising"	19 950	21000	22 969	22 571	9.0	5.3	9.4	-1.7
Industry	36 440	41 101	42 785	41456	14.1	12.8	4.1	-3.1
Manufacturing	35 331	41 057	42 727	41 379	15.8	19.7	4.1	-3.2
Construction	1 123	58	58	77	-7.3	-94.8	-	32.7
Commerce (domestic)	35 266	43 758	46 007	53 879	-15.0	24.5	5.0	17.1
Export	15 253	15 528	15 423	14 576	22.8	1.8	-0.6	-5.5
Others	4 930	4 895	5 229	5 737	-21.4	-0.7	6.8	9.7

Source: On the basis of data provided by the Central Bank of Paraguay.

"Includes the Livestock Fund.

PERU

1. Recent economic trends: Introduction and summary

During 1986 Peru made substantial progress towards the principal objectives laid out in the July 1985 Emergency Economic Programme. Nevertheless, this progress was achieved at a certain cost. The heterodox economic policy implemented by the government did indeed reduce some imbalances—the excess of idle installed capacity, high unemployment, inflation, depressed real wages, the large-scale dollarization of the economy, and the heavy burden represented by the service on the external debt—but this was done at the expense of exacerbating the imbalances in other spheres of the economy.

Economic activity made a brisk recovery, inasmuch as the gross domestic product increased by 8.1%, the highest figure since 1974 (see figure 1). All sectors contributed to this expansion except mining. The special attention given to agriculture in the form of the widespread use of support prices and special credits led to an improvement in the terms of trade between rural and urban areas and to an historically high growth rate (4.5%) in this sector. The strong growth of the economy and the special programmes for absorbing labour which were sponsored by the government contributed to a decrease in non-agricultural unemployment from almost 12% in 1985 to a little more than 8% in 1986 for the country as a whole and from 10% to 5.4% in Metropolitan Lima.

Along with the economic recovery, the inflation rate was reduced to half (78%) its former level, falling to less than three digits for the first time in four years (see table 1). In mid-1985, the government had diagnosed the inflation problem as being a cost-push spiral that was fostered by the oligopolistic structure of the industrial market, inasmuch as this made it possible for business enterprises to pass on cost increases to prices. Accordingly, during 1986 the government's stabilization policy stressed the control of costs and inflationary expectations. Since the existence of a large amount of idle capacity was one of the factors putting pressure on costs, the authorities felt that the economic recovery would itself help to reduce inflation. The other main component of the stabilization policy was the freezing—and even the lowering—of key prices on the basis of administrative decisions. The most notable exception to this policy were wages, which were allowed to increase by 20% in real terms in order to stimulate domestic demand and growth.

Although administrative controls were successful in holding down the upward trend in prices, they did have a number of side-effects. The maintenance of controls over a wide range of goods caused some supply shortages towards the end of the year and prompted some producers to market a portion of their output in the informal sector, where prices could not be effectively controlled. In addition, administrative measures brought down domestic interest rates—which were considered to be one of the principal cost-push factors, and to be of greater importance in this respect than as a spur to saving—to even more markedly negative levels than those existing when the economic programme began to be applied.

The exchange rate was maintained throughout the year at the level established in August 1985. The setting of this rate was one of the main factors that helped to control inflation, given the relative openness of the Peruvian economy. The freezing of the exchange rate and the establishment of legal limits on withdrawals of national deposits expressed in dollars increased, the appeal of securities denominated in the local currency and contributed to a striking change in liquid holdings. Thus, by the end of 1986 only 12% of the sum of money plus quasi-money was in foreign currency, compared to 50% two years earlier.

The policy of maintaining the inti-dollar parity constant caused the effective exchange rate to diminish by more than 20% in real terms, and its year-end level was thus one of the lowest of the decade. To soften the effects of this phenomenon, a higher exchange rate, which had originally been used only for financial transactions, was applied to an increasing percentage of exports and imports of goods and services.

Figure 1
PERU: MAIN ECONOMIC INDICATORS

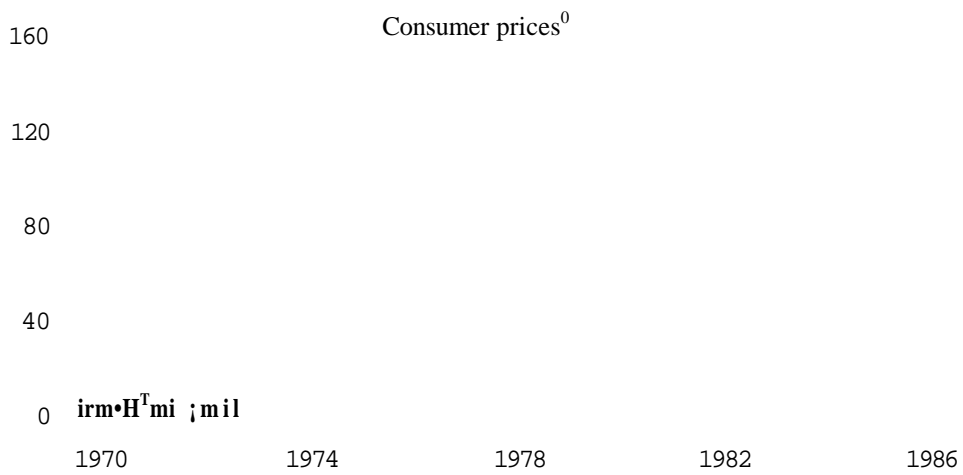
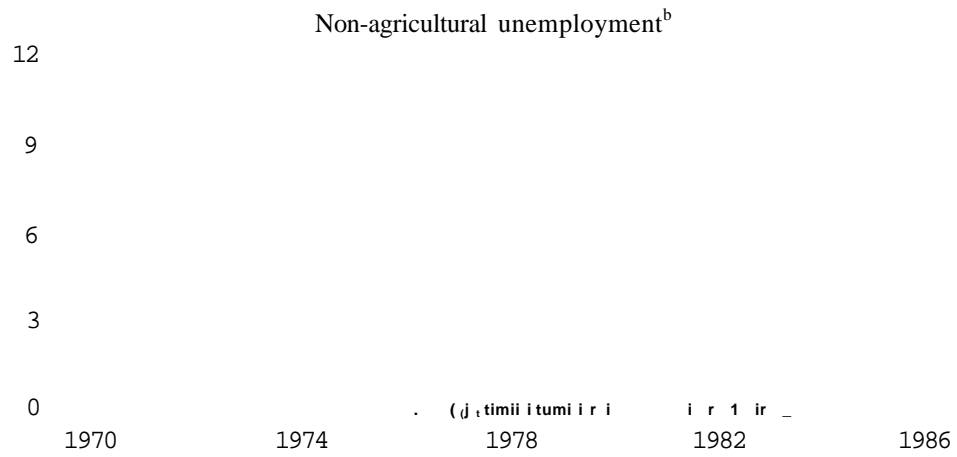
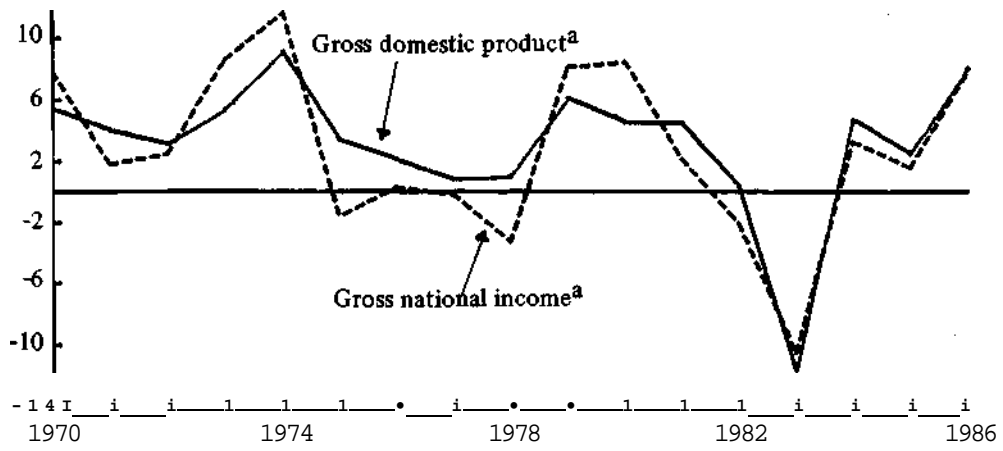
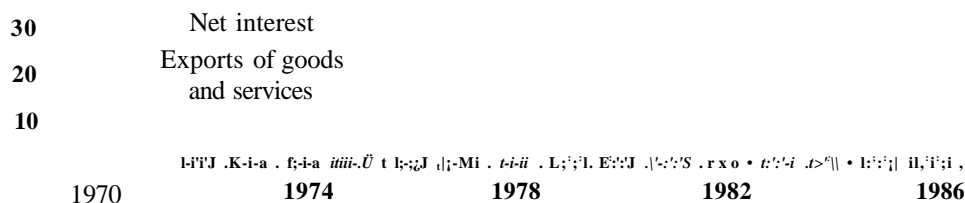
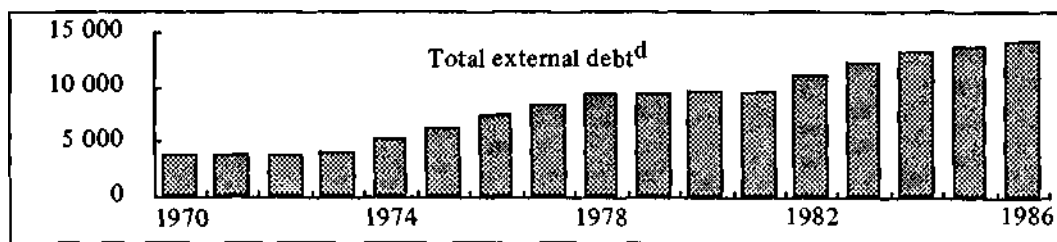
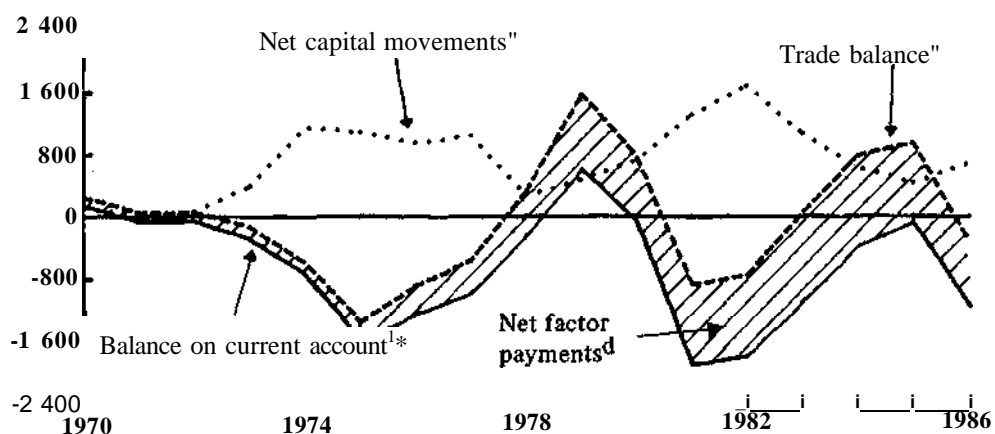


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^baverage annual rate. ^cDecember-December percentage variation.
^dMillions of dollars. Percentages.

The country's external accounts deteriorated markedly as a consequence of the unfavourable trend in the international economy and of the repercussions of the emergency economic programme. The value of merchandise exports, which had already decreased in 1985, was reduced by a further 15%. Two-thirds of this decrease was due to a drop in the international prices for Peru's export products, especially petroleum. Nevertheless, the volume of exports also declined (-4%) as a result, to some extent, of an unattractive exchange rate which caused mining companies to experience financial difficulties and which prompted the diversion of non-traditional exports to the domestic market. The drop in export earnings aggravated the protracted crisis in the external sector, whose persistence was reflected in the fact that the volume of exports in per capita terms was 30% less in 1986 than it had been in 1970. On the other hand, the considerable expansion of domestic demand (17%) and the fall in the real exchange rate led to a 45% increase in the volume of merchandise imports, whose value, however, rose by somewhat less (35%) due to the drop in their unit price. Because of this and of the increase in the deficit on the services account, the trade balance went from an average surplus of almost US\$900 million per year in the period 1984-1985 to a deficit of somewhat more than US\$300 million in 1986.

The negative trade balance caused the deficit on current account, which had been only US\$70 million in 1985, to rise to more than US\$1 billion. This heightened, in turn, the vulnerability of the economic programme, since the increased size of the deficit on current account meant that it could no longer be financed solely by virtue of the official limitations imposed in July 1985 on the servicing of the debt. Hence, even though use was made of the existing flows of external capital—whose scarcity has been further aggravated by the national policy of unilaterally restricting service payments on the debt—and despite the accumulating of arrears, the available financing was still insufficient, and it was therefore necessary to draw upon international reserves. Indeed, net international reserves were drawn down by one-third, with the result that by the end of the year they had fallen to US\$950 million, an amount equivalent to three months of imports. The decrease is less marked, however, if it is measured in terms of gross international assets, which went down by only 14% to US\$2.1 billion, which was equivalent to seven months of imports. This figure may be a more suitable measurement of the coverage of imports, since, in order to offset the effects of its negative net loans, the country began to accumulate considerable arrears with the International Monetary Fund (IMF). The failure to meet the service on these commitments, which are traditionally debited from gross reserves in order to arrive at the figure for net reserves, produced a corresponding increase in the available amount of foreign exchange. Nevertheless, the delay in making these payments created certain difficulties, inasmuch as in August the International Monetary Fund declared Peru ineligible for new loans. The continuation of the policy adopted in July 1985 of not participating in the Fund's standby credit programmes mitigated the practical effects of this declaration.

The public sector's performance also suffered setbacks, to such a point that the global deficit doubled to 6 % of the product (see table 1). The lower international prices that were paid for minerals and hydrocarbons produced by State enterprises partly accounted for this deterioration. The sector's financial position also, however, reflected the effects of fiscal policies intended to control inflation, as well as to reactivate the economy, primarily by relying on private enterprise. For example, the prices of many goods and services produced and marketed by public enterprises were frozen or reduced. Central government accounts were also affected by rate and tax reductions and an increase in subsidies. Restrictions on spending helped to curb the increase in the public deficit, but had a disproportionately large effect on public investment, and may therefore be detrimental to economic growth in the medium term unless the private sector substantially increases its capital formation. The public sector deficit was financed internally in large part, principally through issues of notes and coins and delays in servicing the external debt.

2. Trends in economic activity

a) *Overall supply and demand*

The total supply of goods and services increased by 12%, but, because of the drastic drop seen in supply in 1983 and its virtual stagnation during the following two years, it barely regained its 1982 level.

The sharp increases in the gross domestic product (8%) and in the volume of imports of goods and services contributed to the expansion of supply. The volume of imports climbed by 41%, after having fallen steeply during the preceding three years (see table 2).

The growth of the product was exclusively due to the increase in domestic spending (17%), since the volume of exports went down by 6%. This was a reversal of the situation which had existed during the preceding two years, when external demand had been the factor which had given a boost although a very modest one, to economic activity.

Consumption increased strikingly (14%) and per capita consumption thus grew for the second consecutive year, after having declined in the three-year period 1982-1984. The expansion of consumption was due primarily to greater private spending, whose growth rate almost trebled that of the public sector. The strong upturn in domestic capital formation (28%), after four years of steady decreases, was, for its part, due exclusively to greater private investment, since public sector investment continued its downward trend begun in 1983. Even so, total investment was over 30% less than at the beginning of the decade.

b) *The main sectors*

Activity expanded in all sectors of the economy except mining. Growth was especially pronounced in construction, manufacturing and commerce as a result of the impact of greater domestic spending and the utilization of the considerable idle capacity existing in these sectors (see table 3).

i) *Agriculture.* In spite of problems caused by poor weather conditions in the first half of the year, the sector grew at a satisfactory rate (4.5%), thanks to a firm support policy and a marked increase in the purchasing power of the population.

The authorities' economic policy gave priority to agriculture with a view to expanding the domestic food supply and raising peasants' incomes. The crux of the agricultural policy was the setting of guaranteed prices for a range of products in order to encourage their production, thereby achieving a clear turnaround in the terms of trade between rural and urban areas which favoured the former (see table 4). At the same time, credit was channelled to the sector at preferential interest rates, and the Agrarian Bank increased its lending to the private sector by 53% in real terms. Lastly, tariffs on agricultural imports were reduced.

As a result, production of the main crops noticeably increased, especially of soya, sorghum, and hard maize. The exceptions were rice and sugar cane, which suffered the effects of a drought in the north of the country. In the case of potatoes, the growth of production was hindered because less of this crop had been sown in 1985 due to adverse weather conditions (see table 5).

In the livestock subsector, vigorous growth in the output of poultry and eggs (14% and 22%) was once again recorded. Factors contributing to this included the short period of time required for investments in poultry-raising activities to mature, the increase in the real income of the population, and the decrease in the relative price of poultry meat on the domestic market. In contrast, beef and mutton production continued to suffer the effects of the 1983 drought, as a result of which stocks were substantially reduced.

The fishing subsector continued to expand notably (27%), with its output more than doubling that of 1983 (see table 6). This was due to the existence of fewer labour strikes and to the normalization of sea temperature, which permitted the anchoveta catch to reach its highest level in recent years. However, due to the termination of contracts with the Soviet Union for fishing in Peruvian waters, the production of frozen fish dropped sharply.

ii) *Mining.* Following a cumulative increase of 10% during the preceding two years, the aggregate value of the mining sector fell by 4% in 1986. The production of copper—which represents 50% of the total value of the metal subsector—went down as a consequence of labour conflicts, financial problems resulting from the low quotations for copper on international markets, and an unfavourable exchange rate. Similar financial difficulties led to a reduction in activity in most of the other components of the metals subsector as well (see table 7). The fall of 6% in hydrocarbon production, for its part, was a reflection of the progressive depletion of reserves in the various fields. The administrative problems experienced by a major company that had been nationalized the previous year were also a factor.

iii) *Manufacturing.* Manufacturing production soared by 17% (the highest figure recorded since the 1970s), thus showing a full recovery from its drastic fall of 1983 (see table 8).

Almost all branches of manufacturing grew briskly, and the expansion was exceptionally strong in the production of machinery, non-metallic minerals and fish meal. Some branches, such as the food, beverages, textiles, industrial chemicals, petroleum refining and plastics industries, used almost all of their installed capacity. Others—for example, footwear—were restricted by input shortages. The production of non-ferrous metals—the only branch of manufacturing whose level of activity decreased—was hurt by problems in the mining sector.

iv) *Construction.* After suffering severe setbacks between 1983 and 1985, in 1986 construction became the most dynamic sector of the economy, growing by 24%. Nevertheless, in absolute terms, the sector's product was barely higher than it had been in 1980 (see table 9). The notable dynamism of this activity was essentially due to greater private spending, since the number of private construction permits for Metropolitan Lima climbed by 134%, while those corresponding to the public sector rose by only 44%.

c) *Employment*

Employment increased appreciably, and non-agricultural unemployment therefore fell to 8% nationwide to 5% in Metropolitan Lima, the lowest level in the 1980s (see table 10).

The growth of employment in Metropolitan Lima was led by manufacturing. Employment in this sector—which was boosted by the hiring of manpower in the textile, chemical and machinery industries—jumped by 10% between the last quarter of 1985 and the same period of 1986. Employment in commerce also grew considerably (6%). Even so, at the end of 1986 employment in both manufacturing and commerce was still lower than it had been at the beginning of the decade. Also, as in 1985, almost 43% of the work force was underemployed.

The improvement in the employment situation was mainly caused by the vigorous expansion of the economy and the introduction of multiple shifts in manufacturing. In addition, the Emergency Employment Programme, which was launched in July, permitted entrepreneurs to contract temporary personnel, for terms of up to two years. During 1986, 21 000 contracts were signed in Lima under this provision. Employment was also boosted by the Temporary Income Support Programme (PAIT) a special public employment plan introduced during the second half of the previous year. By the end of 1986, 155 000 persons (83 000 in Lima and 72 000 in the rest of the country) had signed up with PAIT, the overwhelming majority of them being women (80%).

Despite the increase in wages, labour conflicts were more frequent in 1986. After having decreased by 11% the year before, the number of man/hours lost due to such conflicts went up by almost 40% in 1986. The most seriously affected sectors were mining and manufacturing (see table 11).

3. The external sector

a) *External trade*

i) *Merchandise exports.* After having dropped by 6% in 1985, the value of exports fell by a further 15% as a result of decreases in both their volume and their unit value. Export earnings were therefore 36% lower than in 1980 (see tables 12 and 13).

The only exports which did not decrease were fish meal, coffee and chemicals (see table 14). External sales of petroleum—which in recent years had represented one-fifth of the total value of exports—declined particularly sharply (-63%), signifying a loss of over US\$400 million.

External as well as domestic factors contributed to this downward trend. Low quotations for primary products on the international market were the most important external factor in this connection. In particular, the prices of most mining products—which represent 40% of total export value—continued to follow the downward trend of previous years. The price of copper, Peru's most important metal export, was 40% less than in 1980. Petroleum quotations also plunged (-55%). On the other hand, the price of fish meal partially recovered, and the international price for coffee rose steeply (see table 15).

The volume of exports was 4% less than in 1985, partly as a result of constraints as regards the supply available for export. As indicated earlier, the production of large-scale mining enterprises was limited by labour stoppages and financial problems, while the supply of petroleum for export diminished as a result of the depletion of reserves. External sales of cotton and sugar were limited by adverse weather conditions and their substitution by other crops whose domestic prices were more attractive. Finally, non-traditional exports went down because of a reduction in the exchange rate and a sharp rise in the domestic demand for some products. Other negative factors included the growing protectionism in industrialized countries and the drop in sales of merchandise to socialist countries under agreements providing for the payment of the external debt in kind.

ii) *Merchandise imports.* In marked contrast to the trend in exports, imports showed a strong expansion (35%) after four years of steady decline. This upturn was due to a significant increase in the volume of such purchases (45%), since their unit value fell by 7%. Nevertheless, their volume was only 4% more than in 1980 (see table 13).

The growth of imports was basically due to the trend in foreign purchasing by the private sector. The substantial increase (56%) in private-sector imports was primarily a reflection of the considerable reactivation of private spending, which was complemented by the effect of the deterioration of the real exchange rate. However, the tendency of importers to over-invoice—in order to evade government controls on the movement of foreign exchange—was also a factor, as was the fact that many businesses tended to augment their inventories of imported goods.

Public-sector imports rose less steeply (15%). The increase was mainly due to the larger food purchases that were made in order to cover shortages of various products on the domestic market, which were in turn, the result of poor weather conditions early in the year, as well as of the recovery of effective mass consumer demand. On the other hand, public-sector imports of capital goods fell for the fourth consecutive year due to cutbacks in the public investment programme. Defence-related imports also declined (see table 16).

iii) *The terms of trade for goods and the purchasing power of exports.* As in the preceding two years, the unit values of both exports and imports went down in 1986. However, the rate of decline of the former was considerably greater and thus gave rise to a further deterioration in the terms of trade for goods (-6%). The corresponding index was therefore almost one-fifth lower than in 1980. Because of this and of the decrease in export volumes the purchasing power of exports dropped sharply to its lowest level thus far in the 1980s (see table 13).

iv) *Exchange policy.* The policy of maintaining a fixed exchange rate, which was established in August 1985 as part of the anti-inflationary programme, was continued in 1986. Thus, the basic exchange rate—that of the so-called Unified Exchange Market (MUC)—fell substantially in real terms as a result of the considerable difference between domestic and external inflation. In fact, in the last quarter of 1986 the effective real exchange rate was more than one-third lower than in the third quarter of 1985—the highest of the decade—and 26% lower than in 1980 (see table 17).

In response to this deterioration, and with a view to improving the situation of the external sector without endangering the stabilization programme, the government decided to broaden the scheme that had been adopted in the second half of 1985. In practice, this meant establishing a system of multiple exchange rates. Under this plan, it became possible to liquidate a portion of the earnings from exports—the percentage varied according to the type of transaction—at a higher exchange rate than that prevailing in the MUC. In the beginning, this higher rate was applied only to financial transactions.

Towards the end of July exporters received a fixed percentage of the value of their exports in the form of what were called "Freely Negotiable Certificates", which could be sold on the foreign exchange market. These securities were later replaced by Foreign Currency Certificates, which were convertible at the exchange rate prevailing on the government-regulated Controlled Financial Market (MFI). Access to the financial market exchange rate, which was determined as a percentage of export earnings was differentiated according to product category. The different access levels were increased five times during the year, bringing the overall scale up from a range of 0%-30% in January to one of 35%-120% by December.

This system for converting export earnings into the local currency produced a relatively complex system of multiple exchange rates (see table 18). Preferential access to foreign-currency certificates was given for non-traditional exports and the earnings from such exports were therefore liquidated at a higher nominal exchange rate. The access percentage was readjusted in December 1986 from 50% to 120% for "priority" exports, and to 110% for "non-priority" exports. Hence by the end of the year, the average exchange rate for non-traditional products was almost the same as the conversion rate on the Controlled Financial Market (MFI).

On the other hand, traditional exports received a much less favourable exchange rate. The lowest rate for exports in this category corresponded to external sales of hydrocarbons; it was not until the last quarter of the year that authorization was given for the conversion of 10% of such earnings at the financial-market exchange rate, and consequently, during almost the whole of the year petroleum exports were subject to the MUC exchange rate. Small- and medium-scale mining benefited from an effective exchange rate somewhat higher than that granted to the rest of traditional exports.

In their turn, the bulk of imports were progressively transferred from the MUC to the MFI. Thus, by the end of the year less than 30% of all external purchases —mostly imports of food and essential medicines or their inputs— were subject to the basic fixed exchange rate.

Lastly, national and foreign tourist expenditures were converted on the free exchange market at an even higher rate than that of the MFI.

The selective and partial application of the MFI to exports and imports increased the effective exchange rate for most external transactions. In all, the maximum increase registered by the conversion rate between the last quarter of 1985 and the same period of 1986 was 19% for exports (high priority, non-traditional) and 26% for imports (products transferred from the MUC to the MFI). Therefore, the multiple conversion rate system only mitigated the loss of international competitiveness caused by the maintenance of the exchange rate in the MUC.

b) *Current account balance and capital movements*

Because of the marked decrease in exports and, above all, the strong increase in imports, the merchandise trade balance underwent a sharp turnaround as the large surplus of more than US\$1 billion recorded in 1984 and 1985 was replaced by a small deficit in 1986. At the same time, the trade deficit in real services doubled, passing the US\$300 million mark. This was largely due to the large volume of imports and to the negative balance shown by the travel account for the first time in 10 years. Hence, the trade account showed a deficit of US\$320 million, which was a marked deterioration in relation to the average annual surplus of US\$870 million of the preceding two-year period.

In contrast, net factor payments diminished by 19%, basically as a result of the decrease in international interest rates. Nevertheless, the drop in remittances only partially offset the marked deterioration in the trade balance. Thus, the current account went from a small deficit (US\$73 million) in 1985 to one of over US\$1.1 billion in 1986.

Only 60% of the deficit on current account was financed by net capital receipts, most of which, moreover, were derived from arrears in the servicing of the external debt.¹ Thus total deficit in the balance of payments thus amounted to US\$450 million. Consequently, net international reserves fell by 33% between the fourth quarter of 1985 and the same period of 1986. At the end of 1986, net foreign exchange holdings were equivalent to 26% of the country's imports of goods and services, compared to 52% one year earlier (see table 19);

c) *The external debt*

In 1986 the government expanded upon its policy of unilaterally limiting the servicing of the external debt, which, by the end of the year, had reached almost US\$ 14.5 billion (see table 20). In late July the authorities decided to extend for 12 more months the restriction introduced in mid-1985 whereby the servicing of the medium- and long-term public debt contracted prior to July 1985 was limited to 10% of the value of exports. Also, with a view to holding down the deficit in the balance of payments and protecting the supply of foreign exchange, the servicing of the medium- and long-term private debt was suspended for a period of two years, as were remittances of profits and dividends on direct foreign investment, as well as royalties and other such payments. No limits were placed, however, on the servicing of the short-term debt or the payment of debts in kind.

Service payments on the total debt were about US\$730 million, of which around US\$230 million corresponded to amortization payments, US\$265 million to interest payments and nearly US\$240 million to the payment of arrears (see table 21). These remittances were equivalent to 22% of the value of exports, as compared to 28% in 1985 and 32% in 1984. Excluding payments made on the debt in kind, the public sector paid out almost US\$260 million in interest and amortization, which was equivalent to 8% of exports. If the payment of arrears is taken into account, then total public-sector payments bordered on US\$500 million, which was equivalent to 15% of the value of external sales. This last coefficient was slightly less than that recorded for the preceding two-year period and was much less than those corresponding to the three-year period 1980-1984 (see table 21).

¹ These arrears account for most of the official sector's large net short-term capital inflows during the period 1984-1986 which are shown in table 12.

The actual amount paid out to service the external debt in 1986 was only one-third of what had been programmed. The arrears corresponded almost entirely to the public sector and amounted to US\$1.9 billion, which was 11% more than in 1984 and 1985. Accumulated arrears since 1984—part of which originated during the previous government—thus reached almost US\$5 billion, of which more than US\$1.5 billion corresponded to interest.

Because of the tradition of solidarity among the country's creditors, these arrears in debt payments resulted in a general reduction in Peru's access to fresh credit. Private banks, whose loans represent 30% of the medium- and long-term public debt were the creditors most severely affected by the policy of restricting payments. No medium-term loan agreements with private banks were reached by the public sector for the third consecutive year. Medium-term loans from other creditors steadily diminished, representing only one-fifth of the credit contracted in 1983. In contrast, short-term credit arrangements increased by almost 20%, following several years of declines (see table 22).

The arrears in the servicing of the debt also caused problems with the International Monetary Fund. Indeed, the IMF demanded payment of US\$190 million in arrears before 15 August. Nevertheless, the Peruvian authorities decided to pay only US\$35 million. The Fund responded by declaring Peru ineligible for new loans. By the end of 1986, the accumulated arrears with the International Monetary Fund had reached about US\$250 million.

Finally, external debt payments in kind decreased to US\$110 million, a reduction of 30% from 1985. This decline was partly due to the termination of payment agreements with the socialist countries.

4. Prices and wages

a) *Prices*

The rate of inflation noticeably diminished in 1986. The average annual variation in the consumer price index in Metropolitan Lima was 78%, half the rate of the year before. The December-to-December variation (63%) was also considerably lower. Wholesale price rises slowed down even more: the average increase was 60% (compared with 174% the year before), while the December-to-December variation decreased from 166% to 37% (see table 23).

However, in the last quarter of 1986 a reversal was seen in the declining trend exhibited by the inflation rate since October 1985. Indeed, starting in October 1986 an upturn was observed, although only a moderate one, in the 12-month variation in the consumer price index (see figure 2).

The slowdown of the inflationary process was due to the stabilization programme which was launched in July 1985 and contained throughout 1986. From the very beginning, an effort was made to curb expectations by means of a fixed exchange rate, price controls on a wide range of products, and a programmed reduction of domestic interest rates. These measures were supplemented in February 1986 with a reduction of the sales tax and of the prices of fuel, electrical power and inputs for agricultural products. The anti-inflationary programme was also bolstered by a drop of 7% in the average price of imported goods.

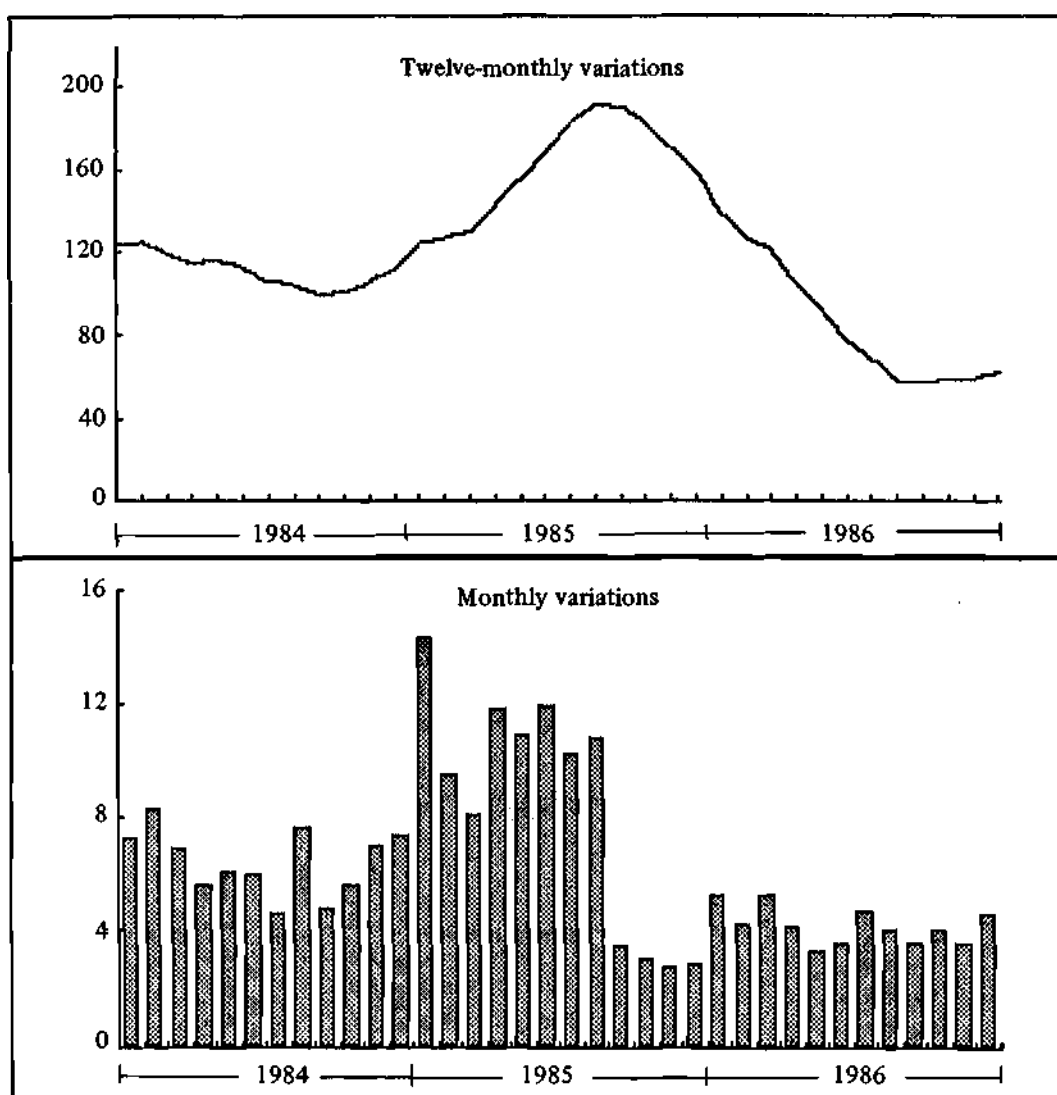
In spite of this complex package of measures, prices continued to rise at a considerable rate as a result of various factors. Firstly, the maintenance of an adaptive monetary policy and the improvement in the real incomes of the population prompted a strong increase in domestic demand, especially for essential goods and services. The resulting pressure was reflected the most clearly by the prices of uncontrolled agricultural goods and by those of services, which are generally difficult to regulate.

Secondly, the transfer of selected imported goods from the MUC to the MFI contributed to an increase in the cost of inputs. The authorities tried to offset this by reducing the prices of some of the goods and services provided by State enterprises. However, they were obliged to adjust the prices of some products in order to avoid supply shortages. In addition, the price control system suffered from some administrative difficulties which resulted in "unauthorized" increases in the prices of some goods and services. Lastly, growing expectations of a devaluation throughout the year also put upward pressure on prices.

b) *Wages*

After several years of steady declines, a notable and widespread increase in real wages was observed. The government's wage policy was decidedly expansionary, and was directed towards the dual goals of reactivating the economy and improving income distribution. Hence, the periodic wage readjustments which were decreed for public-sector and non-unionized private-sector workers more than compensated for the effects of inflation. These official wage increases, together with the strong reactivation of domestic demand, influenced private-sector collective labour negotiations, which also resulted in considerable increases in remunerations.

Figure 2
PERU: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official data.

Thus, real wages and salaries in the non-unionized private sector increased substantially (by 21 % and 27%, respectively), after three consecutive years of decreases (see table 24). Real remunerations in the public sector grew for the first time in the last six years, although more moderately (7%). In all, average real salaries were only 7% higher than in 1979, while real wages and remunerations of public employees were 14% and 38% lower than they were in that year.

5. Monetary and fiscal policy

a) *Monetary policy*

The nominal growth rate of monetary aggregates diminished noticeably. However, the monetary base grew by 4% in real terms, while money and quasi-money in the national currency increased even more sharply (29% and 27%, respectively). In contrast, quasi-money in foreign currency continued to contract, in line with a trend which began in mid-1985 (see table 25).

In the first six months of the year the money supply maintained the high growth rate it had exhibited since the year before; the external sector's exchange surplus and the conversion of local deposits denominated in foreign currency to deposits in national currency contributed to this trend. The conversion of deposits, which was a result of the "de-dollarization" policy, was encouraged by the maintenance of a fixed exchange rate and of nominal interest rates of around 30%, which made deposits expressed in intis relatively more profitable. The "dollarization" coefficient thus went down to only 12%, after having been almost 50% in 1984.

During the second half of the year the external sector showed a deficit, and thus became a contractionary factor. At the same time, the impact of the "de-dollarization" process began to ebb. The growth rate of the money supply therefore slowed down noticeably during the second part of the year. Nevertheless, the monetary base and money continued to grow, thanks to the government support provided to the Agrarian Bank and to the expansionary impact of the financing of the fiscal deficit in the last quarter.

The authorities that took office in July 1985 felt that the high nominal interest rates on loans that were prevalent at the time were a major inflationary factor. Therefore, in order to reduce the strong pressure that the high cost of credit was exerting on business costs and to dampen inflationary expectations, the nominal interest rate on loans was lowered from 213% to 45% between July and October 1985. In February 1986, another reduction was decreed, and this variable was thereafter frozen at a level of 40% until the end of the year. Thus, interest rates continued to be one of the main tools used by the anti-inflationary programme (see table 26).

Interest rates on deposits followed a similar trend. The rate for short-term deposits (up to 180 days) was reduced from 27% to 25.5% in February 1986 and was then frozen for the rest of the year. On the other hand, in order to encourage long-term saving, rates for less liquid deposits were raised. The nominal yield of deposits for 720 days or more therefore rose from 28% to 31% in February, and to 34.5% in May. Nonetheless, rates on both deposits and loans continued to be highly negative in real terms.

b) *Fiscal policy*

Fiscal policy was decisively used to reactivate the economy. Nevertheless, the measures adopted caused a more marked decrease in income than in spending, and the public deficit therefore doubled in relation to the product, reaching 6% (see table 27).

The increase in the revenue of the central government was substantially less than the rise in prices. The reduction of the taxes on hydrocarbons and, especially, the General Sales Tax (which was cut by half in February 1986) caused a drop in real terms in the revenues from taxes on production and consumption. Tax receipts from foreign trade also diminished in real terms due to lower tariffs and the impact of the fixed exchange rate, which eroded the tax base. The effect of these policies was only partially offset by a marked increase in income tax revenues. As a result, the tax burden declined from 17% to 15%, one of the lowest coefficients of recent years.

Current spending decreased slightly in real terms, although the trends in its components varied considerably. Due to the expansionary nature of the policies on wages, employment and production subsidies, real expenditures on remunerations and transfers went up noticeably. A similar trend was seen in real expenditures for goods and services. In contrast, real outlays in the form of interest payments plummeted as a result of the decrease in national and international interest rates. In fact, as a consequence of the policy of reducing the cost of domestic credit, interest payments on the domestic public debt fell by 10% in absolute terms (see table 28).

The considerable increase in real capital expenditure (24%) was principally due to the marked expansion in transfers to decentralized State bodies. Gross capital formation by the central government, for its part, remained low and was equivalent to only 2.8% of the gross domestic product. On the other hand, the share of social spending on education, health, and housing climbed significantly.

Under these circumstances, the central government's deficit grew from 2.6% to 4% of the gross domestic product; this was still lower, in any case, than the 5% level recorded in 1984.

About one-third of the central government deficit was financed by means of arrears in interest payments on the external debt. The rest of the financing was obtained through lending operations with the Central Bank and the Banco de la Nación.

State enterprises also operated at a large deficit. The low international quotations for minerals and petroleum, the fixed exchange rate and controls on public rates and charges led to a considerable drop in the real income of this sector. This was only partly offset by a programme designed to limit spending, which had a disproportionately heavy impact on the capital account. Indeed, gross capital formation was equivalent to just 2% of the gross domestic product, compared with 4% in 1985 and an average of almost 6% between 1982 and 1984.

Arrears in external debt payments were also the chief source of financing for the deficit of State enterprises. Thus, 28% of the total public deficit was covered by arrears in the servicing of external liabilities.

Table 1

PERU: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986 ^a
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	104.4	104.7	92.4	96.8	94.1	107.1
Gross national income	100.0	102.1	94.9	89.4	92.2	93.7	103.1
Population (millions of inhabitants)	17.3	17.8	18.2	18.7	19.2	19.7	20.2
Per capita gross domestic product	100.0	107.7	99.4	85.4	87.2	87.1	91.6
Growth rates							
B. Short-run economic indicators							
Gross domestic product	4.5	4.4	0.4	-11.7	4.8	2.5	8.1
Per capita gross domestic product	1.8	1.7	-2.2	-14.0	2.1	-0.1	5.3
Gross national income	8.5	2.1	-2.1	-10.5	3.3	1.6	10.2
Rate of unemployment ^c	10.9	10.4	10.6	9.2	10.9	11.8	8.2
Consumer prices							
December-December	60.8	72.7	72.9	125.1	111.5	158.3	62.9
Variation between annual averages	59.2	75.4	64.5	111.1	110.2	163.4	77.9
Salaries	10.3	1.5	9.2	-14.4	-8.5	-7.9	21.4
Wages	12.4	-1.8	2.2	-16.7	-15.5	-15.0	26.7
Money	71.3	47.0	37.5	89.9	127.8	229.6	109.4
Public-sector income	87.5	53.0	72.8	97.5	100.9	201.6	45.5
Public-sector expenditure	99.1	65.0	74.5	104.4	89.8	175.1	57.3
Public-sector deficit/gross domestic product	4.7	8.4	9.3	12.1	7.2	3.0	6.3
Current value of exports of goods and services	13.8	-13.6	14	-8.6	24	-4.1	-9.7
Current value of imports of goods and services	54.8	25.8	-1.4	-23.5	-17.8	-10.7	33.9
Terms of trade (goods and services)	8.3	-8.4	-9.6	13.1	-5.5	-7.8	1.1
billions of dollars							
C. External sector							
Trade balance (goods and services)	763	-869	-743	39	787	953	-320
Net payment of profits and interest	835	1 020	1 034	1 132	1 166	1 023	831
Balance on current account	-72	-1 889	-1 776	-1 091	-379	-70	-1 151
Balance on capital account	725	1 319	1 688	1 058	629	427	699
Variation in international reserves	607	-500	-57	10	317	446	-355
Total external debt	9 595	9 606	11 465	12 445	13 338	13 721	14 468

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Percentages.

^cNon-agricultural sector.

Consolidated accounts of the non-financial

public sector.

Table 2

PERU: TOTAL SUPPLY AND DEMAND

	Indexes (1980= 100)			Percentage breakdown			Growth rates			
	1984	1985	1986"	1975	1980	1986"	1983	1984	1985	1986"
Total supply	94.0	94.9	106.2	127.5	118.8	117.9	-13.7	1.6	0.9	12.0
Gross domestic product at market prices	96.7	99.1	107.0	100.0	100.0	100.0	-11.8	4.7	2.5	8.0
Imports of goods and services	79.8	72.3	102.0	27.5	18.8	17.9	-22.5	-14.8	-9.4	41.0
Total demand	94.0	94.9	106.2	127.5	118.8	117.9	-13.7	1.6	0.9	12.0
Domestic demand	93.8	93.6	109.0	111.6	96.3	98.1	-12.7	-0.6	-0.2	16.5
Gross domestic investment	62.6	53.1	67.9	38.4	29.5	18.7	-37.9	-9.9	-15.2	27.7
Gross fixed investment	75.8	68.8	83.1	39.2	25.2	19.6	-29.0	-6.2	-9.2	20.9
Construction	90.9	81.0	100.6	18.3	13.6	12.7	-21.0	-	-10.9	24.2
Machinery	58.2	54.6	62.8	20.9	11.7	6.9	-38.5	-15.6	-6.2	15.1
Changes in stocks	-14.5	-38.7	-21.7	-0.8	4.3	-0.9				
Total consumption	107.6	111.5	127.3	73.2	66.8	79.4	-1.0	2.1	3.7	14.1
General government	97.1	97.7	103.4	11.2	12.0	11.6	-8.8	-4.6	0.6	5.9
Private	109.9	114.6	132.5	62.0	54.8	67.8	0.8	3.4	4.3	15.6
Exports of goods and services	95.0	100.2	94.2	16.0	22.5	19.8	-18.2	12.4	5.4	-6.0

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 3

PERU: GROSS DOMESTIC PRODUCT, BY ECONOMIC
ACTIVITY, AT MARKET PRICES

	Indexes (1980 = 100)			Percentage breakdown			Growth rates			
	1984	1985	1986"	1975	1980	1986"	1983	1984	1985	1986"
Gross domestic product	96.7	99.1	107.0	100.0	100.0	100.0	-11.8	4.7	2.5	8.0
Goods	94.2	97.6	105.1	49.2	51.3	50.4	-14.1	6.2	3.6	7.7
Agriculture	112.0	115.5	120.7	11.9	10.2	11.5	-10.8	11.8	3.2	4.5
Mining	92.7	97.2	93.3	8.6	15.2	13.2	-9.8	4.8	4.8	-4.0
Manufacturing	87.4	93.4	107.2	21.6	20.2	20.2	-16.9	5.5	6.8	14.9
Construction	90.6	81.3	101.1	7.1	5.7	5.4	-20.8	0.8	-10.2	24.3
Basic services	98.1	99.4	106.9	7.1	7.5	7.5	8.2	0.5	1.4	7.5
Electricity, gas and water	97.9	102.1	111.3	0.6	0.9	0.9	-16.1	0.5	4.2	9.0
Transport, storage and communications	98.1	99.1	106.3	6.4	6.6	6.6	-7.1	0.5	1.0	7.3
Other services	101.5	106.1	114.3	42.2	40.5	43.2	-6.5	3.1	4.5	7.8
Commerce, restaurants and hotels	92.5	94.4	104.8	19.9	17.8	17.4	-14.4	2.5	2.1	11.0
Financial establishments, insurance, real estate and business services	101.2	114.3	119.8	9.8	9.9	11.1	-4.9	-	12.9	4.8
Ownership of dwellings	106.7	109.5	111.9	2.1	2.0	2.1	1.1	14	2.6	2.2
Community, social and personal services	114.3	115.9	123.3	12.4	12.8	14.8	3.4	6.2	1.4	6.4
Government services	118.9	118.9	126.7	7.3	7.7	9.1	6.7	7.6	-	6.6

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Including livestock, forestry and fishing.

Table 4

PERU: RURAL-URBAN TERMS OF TRADE

(Indexes: 1979 = 100)

	1980	1981	1982	1983	1984	1985	1986
1. Prices of agricultural products	165	256	368	811	1 595	3 548	8 508
2. Prices of manufactured products	145	239	381	814	1 823	5 270	7 448
3. Terms of trade (1/2)	114	108	96	100	87	67	114

Source: Ministry of Agriculture and the National Statistical Institute.

Table 5

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1983	1984	1985	1986°	Growth rates			
					1983	1984	1985	1986°
Indexes of agricultural production (1979 = 100)								
Total	94.8	104.5	107.0	111.3	-9.6	10.2	2.4	4.0
Crop farming	82.1	101.6	102.8	105.8	-16.6	23.8	1.2	2.9
Stock raising	119.1	111.6	116.5	124.5	15	-6.3	4.4	6.9
Thousands of ton ¹ :								
Production of the main crops								
Raw cotton	105	203	291	304	-59.0	92.8	43.4	4.5
Rice	798	1 156	919	745	2.8	44.9	-20.5	-18.9
Coffee	91	91	91	97	1.1	0.1	-	6.6
Sugar cane	6 381	6 988	7 329	6 273	-2.0	9.5	4.9	-14.4
Beans	35	45	46	54	-18.6	28.4	2.2	17.4
Soft maize	173	205	212	232	-25.8	18.5	3.5	9.4
Hard maize	412	571	486	633	3.5	38.7	-14.9	30.2
Potatoes	1 200	1463	1 590	1 687	-33.3	21.9	8.7	6.1
Sorghum	12	44	23	38	-68.4	272.6	-50.0	65.2
Soya	2	2	2	4	-75.0	-19.0	23.5	100.0
Wheat	76	84	92	121	-24.8	10.2	10.4	31.5
Production of the main livestock products								
Poultry meat	206	182	201	230	0.5	-12.0	10.7	14.4
Mutton	21	19	17	17	5.0	-10.4	-9.0	-
Pork	58	55	54	59	-1.7	-5.4	-1.8	9.3
Beef	111	103	101	90	22.0	-6.9	-2.3	-10.9
Eggs	68	65	78	95	4.6	-4.3	19.7	21.8
Fresh milk	752	780	809	819	-6.7	3.7	3.6	1.2

Source: Ministry of Agriculture.
 °Preliminary figures.

Table 6

PERU: INDICATORS OF FISHERY PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Index of fishery production (1977 = 100)	75.0	109.7	125.3	159.5	-29.7	46.3	14.2	27.3
Thousands of tons								
Deep-sea fishing	1453	3 288	4 111	5 238	-57.9	126.3	25.0	27.4
For direct human consumption	354	547	513	523	-39.5	54.5	-6.2	19
Fresh fish	138	186	182	226	-11.0	34.9	-2.2	24.2
For freezing	79	181	177	61	61.2	129.1	-2.2	-65.5
For canning	115	148	126	204	-67.3	28.8	-14.9	61.9
For drying and salting	22	32	28	32	-24.1	45.5	-12.5	14.3
For fishmeal and oil	1099	2 741	3 598	4 715	-61.7	149.4	31.3	31.0
Anchoveta	118	23	844	3 504	-93.2	-80.5	3 569.6	315.2
Other species	981	2 718	2 754	1 211	-14.0	177.0	1.3	-56.0
Inland fishing	24	30	27	29	100.0	25.0	-10.0	7.4
Fresh fish*	13	15	13	14	116.7	15.4	-13.3	7.7
For drying and salting	11	15	14	15	83.3	36.4	-6.7	7.1

Source: Ministry of Fisheries.

"Preliminary figures. ⁶Including river shi imp.

Table 7

PERU: INDICATORS OF MINING PRODUCTION

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986"
Index of mining production (1979 = 100)								
Total	92.9	98.4	102.9	98.9	-7.6	5.9	4.6	-3.9
Mining of metals	99.9	102.3	111.4	109.5	-0.3	2.4	8.9	-1.7
Hydrocarbons	86.9	95.0	95.7	90.2	-13.7	9.3	0.7	-5.7
Thousands of tons								
Main metal-mining products								
Copper	336	375	401	397	-8.9	11.7	6.9	-1.0
Iron ore	2 762	3 916	4 807	4 908	-51.3	41.8	22.8	2.1
Silver	1 738	1 758	1 904	1 912	4.7	1.2	8.3	0.4
Lead	213	205	210	193	0.5	-3.4	2.2	-8.1
Zinc	577	558	594	551	3.8	-3.1	6.5	-7.2
Millions of barrels								
Hydrocarbons								
Petroleum	63	67	69	65	-12.1	7.6	2.1	-5.8
By production zones:								
Coast	11	12	14	13	-33.2	20.3	7.9	-7.1
Continental shelf	9	10	10	10	-11.7	10.0	2.6	-
Eastern region	43	45	45	42	-4.8	4.0	0.4	-6.7

Source: Ministry of Energy and Mines.

"Preliminary figures. Kilograms.

Table 8

PERU: INDEXES OF MANUFACTURING PRODUCTION"

(1979 = 100)

	1983	1984	1985	1986"	Growth rates			
					1983	1984	1985	1986'
Total manufacturing production	84.7	89.4	95.8	112.1	-17.9	5.5	7.2	17.0
Fishmeal	31.8	71.4	104.1	136.3	-67.1	124.5	45.8	30.9
Food, beverages and tobacco	95.3	97.7	102.1	124.7	-8.6	2.5	4.5	22.1
Food	87.9	96.6	97.7	105.4	-13.3	9.9	1.1	7.9
Beverages	110.6	101.1	115.5	170.0	2.6	-8.6	14.2	47.2
Tobacco	101.9	102.5	90.3	107.8	-12.9	0.6	-11.9	19.4
Textiles and clothing	89.0	95.6	107.0	115.6	-16.7	7.4	11.9	8.0
Textiles	90.1	98.4	110.6	119.2	-16.6	9.2	12.4	7.8
Leather and footwear	59.4	58.3	59.5	65.6	-27.5	-1.9	2.1	10.3
Paper, printing and publishing	93.5	93.2	83.6	101.6	-9.0	-0.3	-10.3	21.5
Paper and paper products	70.8	70.0	65.3	79.3	-9.3	-1.1	-6.7	21.4
Chemicals	91.7	93.9	98.8	119.6	-15.5	2.4	5.2	21.1
Industrial chemicals	82.2	101.5	103.7	123.5	-23.4	23.5	2.2	19.1
Other chemicals	93.6	75.5	84.9	112.0	-9.4	-19.3	12.5	31.9
Petroleum refining	104.9	116.0	116.3	117.4	-6.5	10.6	0.3	0.9
Rubber products	92.3	99.8	99.8	114.5	-10.0	8.1	-	14.7
Plastic products	89.9	93.1	100.7	137.7	-27.5	3.6	8.2	36.7
Non-metallic mineral products	88.8	79.5	76.4	98.7	-18.5	-10.5	-3.9	29.2
Glass and glass products	85.2	89.0	76.6	95.5	-31.7	4.5	-13.9	24.7
Non-metallic mineral items	90.2	77.9	75.7	103.2	-11.9	-13.6	-2.8	36.3
Basic metal products	78.3	87.6	92.8	88.2	-12.0	11.9	5.9	-5.0
Iron and steel	56.2	66.2	69.9	86.8	-16.9	17.8	5.6	24.2
Non-ferrous metals	84.1	93.1	98.7	88.6	-11.1	10.7	6.0	-10.2
Machinery and metal products	70.0	70.3	77.1	108.9	-39.2	0.4	9.7	41.2
Plain metal products	68.1	70.6	72.0	103.4	-31.5	3.7	2.0	43.6
Non-electrical machinery	66.3	50.9	52.2	73.0	-37.4	-23.2	2.6	39.8
Electrical machinery	81.5	85.1	93.7	127.5	-30.0	4.4	10.1	36.1
Transport equipment	53.7	56.6	73.9	111.1	-62.7	6.0	30.6	50.3

Source: Ministry of Industry, Commerce, Tourism and Integration.

"Index of physical production volume; annual averages. Preliminary figures

Table 9

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1982	1983	1984	1985	1986"
Gross domestic product of construction (index: 1980 = 100)	113.4	89.8	90.6	81.3	101.1
Sales of construction materials					
Index of volume (first quarter 1977 = 100)	106.9	79.9	81.6	84.1	127.3
Sales of some construction materials					
Cement	2 448	1959	1935	1 754	2 213
Steel rods for building	148	116	126	113	168
Index of construction material prices (1982 = 100)	100.0	209.3	439.9	1 183.3	1 639.1

Source: National statistical Institute.

"Preliminary figures. Thousands of metric tons.

Table 10

PERU: EMPLOYMENT AND UNEMPLOYMENT"

(Percentages)

	1981	1982	1983	1984	1985*	1986 ^c
		Non-agricultural activities				
Unemployment	10.4	10.6	9.2	10.9	11.8	8.2
		Metropolitan Lima				
Unemployment	6.8	6.6	9.0	8.9	10.1	5.4
Underemployment	26.8	28.0	33.3	36.8	42.5	42.7
By income	21.4	24.0	29.5	33.9		38.7
By time	5.4	4.0	3.8	2.9		4.0
Adequately employed	66.4	65.4	57.7	54.3	47.4	51.9

Source: Ministry of Labour and Social Security.

"Excluding domestic workers. Estimate. Preliminary figures.

Table 11

PERU: TRENDS IN LABOUR DISPUTES"

	1984		1985		1986 ^b		Growth rates ^c	
	Work- ers af- fected	Man/ hours lost	Work- ers af- fected	Man/ hours lost	Work- ers af- fected	Man/ hours lost	1985	1986
	Total	709	13 816	235	12 228	249	16 867	-11.5	37.9
By economic activity:								
Agriculture and fishing	2	101	14	2 443	10	362	2 318.8	-85.2
Mining	101	4 469	30	2 482	68	5 583	-44.5	124.9
Manufacturing	33	1 795	43	2 769	75	7 196	54.3	159.9
Construction	13	681	7	200	6	351	-70.6	75.5
Transport, storage and communications	37	1 173	36	1 589	13	662	35.5	-58.3
Commerce and banks	55	1 088	46	1 130	41	1 267	3.9	12.1
Other	468	4 509	59	1 615	36	1447	-64.2	-10.4
By cause:								
Remunerations	108	6 036	99	5 075	119	9 127	-15.9	79.8
Reinstatement of employees	10	550	13	941	15	619	71.1	-34.2
Economic and financial policy of the enterprise	8	195	15	2 097	3	102	975.4	-95.1
Non-fulfilment of collective agreements	56	1 981	24	1 533	52	5 513	-22.6	259.6
Sympathy strikes	8	175	42	968	9	204	453.4	-78.9
Rise in the cost of living	393	3 143	6	138	-	-	-96.6	-
Regional or local reasons	105	959	4	237	2	30	-75.3	-87.3
Other	21	777	32	923	49	1 272	18.8	37.8

Source: Ministry of Labour and Social Security.

"All values are expressed in thousands.

Preliminary figures.

"Of man/hours lost.

Table 12

PERU: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance on current account	-72	-1 889	-1776	-1091	379	-70	-1 151
Trade balance	763	-869	-743	39	787	953	-320
Exports of goods and services	4 650	4 019	4 077	3 728	3 818	3 660	3 305
Goods FOB	3 899	3 250	3 294	3 017	3 147	2 965	2 509
Real services	751	770	783	711	671	692	796
Transport and insurance	284	286	293	262	206	193	251
Travel	292	263	252	209	208	231	300
Imports of goods and services	3 887	4 889	4 820	3 689	3 031	2 707	3 625
Goods FOB	3 062	3 803	3 721	2 723	2 131	1 869	2 525
Real services	825	1 087	1 097	966	891	839	1 100
Transport and insurance	433	559	525	447	378	315	341
Travel	107	175	205	191	182	183	322
Factor services	-835	-1 020	-1034	-1 132	-1 166	-1 023	-831
Profits	-292	-252	-118	-137	-54	-54	-43
Interest received	201	204	109	115	156	132	93
Interest paid	-743	-970	-1025	-1 110	-1 268	-1099	-881
Unrequited private transfer payments	-	-	-	-	-	-	-
Balance on capital account	725	1319	1688	1058	628	427	699
Unrequited official transfer payments	134	162	168	220	158	127	96
Long-term capital	273	438	1 143	1 237	-118	-710	-961
Direct investment (net)	27	125	48	38	-89	-55	22
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	246	313	1 095	1 199	-29	-655	-983
Official sector'	182	179	937	1 284	84	-531	-978
Loans received	1 581	1 621	2 043	2 577	1 525	859	475
Amortization payments	-1 391	-1 439	-1 106	-1 292	-1 441	-1 328	-1 453
Commercial banks'	-	-	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors'	64	134	158	-85	-114	-124	-5
Loans received	181	294	378	131	100	44	-
Amortization payments	-117	-160	-221	-217	-213	-168	-
Short-term capital (net)	501	50	546	-624	1022	928	1 557
Official sector	90	7	-263	61	1 207	1 137	1 564
Commercial banks	13	32	-	-22	40	30	-
Other sectors	398	10	809	-664	-225	-239	-7
Errors and omissions (net)	-186	672	-164	226	-431	78	7
Global balance	653	-571	-88	-34	249	357	-452
Total variation in reserves (- sign indicates an increase)	-607	500	57	-10	-317	-446	355
Monetary gold	-173	-118	-	-	-	-276	-16
Special Drawing Rights	94	1	-22	32	-22	-	-
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	-553	769	-119	-48	-246	-219	397
Other assets	43	-65	-65	-43	-27	76	-
Use made of IMF credit	-17	-87	262	48	-22	-27	-26

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official figures.

'Preliminary figures subject to revision. Includes other non-factor services. Includes net loans granted and other assets and liabilities. Is equal to the total variation in reserves (of opposite sign) plus counterpart items.

Table 13

PERU: MAIN INDICATORS OF FOREIGN TRADE IN GOODS

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports							
Value	11.6	-16.6	13	-8.4	4.3	-5.8	-15.4
Volume	-10.7	-9.4	17.3	-20.8	16.2	3.0	-4.4
Unit value	25.2	-8.0	-13.6	15.6	-10.2	-8.5	-11.5
Imports							
Value	56.9	24.2	-2.1	-26.8	-21.4	12.7	35.1
Volume	35.7	19.9	2.5	-24.3	-14.8	-9.5	45.0
Unit value	15.7	3.6	-4.5	-3.4	-7.7	-3.6	-6.8
Terms of trade	8.8	-11.5	-10.0	19.2	-4.0	-5.4	-6.3
Indexes (1980 = 100)							
Purchasing power of exports	100.0	80.1	84.6	79.8	89.1	86.8	77.8
Volume of exports	100.0	90.6	106.3	84.2	97.8	100.7	96.3
Volume of imports	100.0	119.9	122.8	93.0	79.2	71.7	104.0
Terms of trade (FOB/CIF)	100.0	88.5	79.6	94.8	91.1	86.2	80.8

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 14

PERU: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1983	1984	1985	1986"	1980	1986°	1984	1985	1986"
Total	3 014	3 147	2 978	2 509	100.0	100.0	4.4	-5.4	-15.7
Traditional products	2 459	2 421	2 264	1 861	78.7	74.2	-1.5	-6.5	-17.8
Fishmeal	80	137	118	204	4.9	8.1	71.3	-13.9	72.9
Crop-farming products	195	198	225	333	5.8	13.3	15	13.6	48.0
Cotton	44	23	51	39	1.8	1.6	-47.7	121.7	-23.5
Sugar	35	49	23	22	0.3	0.9	40.0	-53.1	-4.3
Coffee	116	126	151	272	3.6	10.8	8.6	19.8	80.1
Mining products	1 509	1 301	1 162	1 015	44.9	40.5	-13.8	-10.7	-12.7
Copper	442	442	476	437	19.3	17.5	-	7.7	-8.2
Iron	75	58	76	58	2.4	2.3	-22.7	31.0	-23.7
Refined silver	391	227	140	110	8.0	4.4	-41.9	-38.3	-21.4
Lead	294	234	202	164	9.8	6.5	-20.4	-13.7	-18.9
Zinc	307	340	268	246	5.4	9.8	10.7	-21.2	-8.2
Petroleum and petroleum products	544	618	645	236	20.3	9.4	13.6	4.4	-63.4
Other'	131	167	114	73	2.7	2.9	27.4	-31.7	-36.0
Non-traditional products	555	726	714	648	21.3	25.8	30.8	-1.7	-9.2
Agricultural	56	74	93	73	1.8	2.9	32.1	25.7	-21.5
Textiles	186	258	244	232	5.9	9.2	38.7	-5.4	-4.9
Fishery products	80	167	124	112	3.1	4.5	108.8	-25.7	-9.7
Metal products and machinery	43	47	30	25	1.4	1.0	9.3	-36.2	-16.7
Chemicals	45	44	46	56	2.2	2.2	-2.2	4.5	21.7
Iron and steel products	55	59	86	79	2.1	3.2	7.3	45.8	-8.1
Non-metallic minerals	17	17	16	13	1.5	0.5	-	-5.9	-18.7
Other"	73	60	75	58	3.5	2.3	-17.8	25.0	-22.7

Source: Central Reserve Bank of Peru.

"Preliminary figures.

'includes silver content.

'Includes mainly gold and minor metals.

Includes

leading gold and silver jewellery items, wood and paper, hides and skins, and handicraft items.

Table 15

PERU: VALUE, VOLUME AND PRICES OF MAIN EXPORT PRODUCTS"

	1980	1981	1982	1983	1984	1985	1986*
Fish meal							
Value	195	141	202	80	137	118	204
Volume	417	315	616	205	401	508	716
Price ⁰	469.4	448.0	328.5	386.7	342.4	232.6	285.5
Cotton							
Value	72	63	85	44	23	51	39
Volume	702	685	1 287	670	246	624	473
Price ¹	102.8	92.8	66.1	66.4	92.5	82.6	82.0
Sugar							
Value	13	-	20	35	49	23	22
Volume	53	-	59	89	116	64	55
Price ¹	11.4	-	15.2	17.9	19.4	16.8	18.5
Coffee							
Value	140	107	114	116	126	151	272
Volume	44	46	43	55	52	60	74
Price ¹	146.9	107.4	119.4	96.8	112.7	115.9	169.0
Copper							
Value	750	529	460	442	442	476	437
Volume	350	324	335	292	337	363	341
Price ⁷	97.4	74.1	62.3	68.8	59.5	59.3	58.0
Iron ore							
Value	95	93	108	75	58	76	58
Volume*	5.8	5.3	5.7	4.3	4.2	5.2	4.2
Price*	16.5	17.7	19.1	17.5	13.9	14.6	13.8
Refined silver							
Value	315	312	205	391	227	140	110
Volume ¹	16.0	28.0	26.0	32.7	26.8	22.3	19.5
Price ⁷	19.7	11.1	7.9	11.9	8.5	6.3	5.6
Lead							
Value	384	218	215	294	234	202	164
Volume	152	146	177	191	181	174	130
Price ⁷	114.4	68.0	55.2	69.6	58.7	52.7	57.4
Zinc							
Value	211	267	268	307	340	268	246
Volume	468	477	491	522	511	459	491
Price ⁷	20.4	25.4	24.8	26.7	30.2	26.4	22.7
Petroleum and petroleum products							
Value	792	690	719	544	618	645	236
Volume*	22.4	19.9	22.8	20.5	23.5	27.1	22.0
Price ¹	352	34.6	31.6	26.6	26.3	23.9	10.7

Source: Central Reserve Bank of Peru.

⁰ Values in millions of dollars; volumes in thousands of tons, unless otherwise indicated; prices as indicated. Preliminary figures. 'Dollars per ton. Thousands of quintals. 'Dollars per quintal. U.S. cents per pound. 'Millions of long tons. Dollars per long ton. 'Millions of troy ounces. ^Dollars per troy ounce. ^Millions of barrels. Dollars per barrel.

Table 16

PERU. IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1983	1984	1985	1986°	1980	1986°	1984	1985	1986°
Total	2 722	2 140	1 806	2 525	100.0	100.0	-21.4	-15.6	39.8
Public sector	1 342	858	703	805	43.8	31.9	-36.1	-18.1	14.5
Private sector	1 380	1 282	1 103	1 720	56.2	68.1	-7.1	-14.0	55.9
Consumer goods	335	240	112	351	12.5	13.9	-28.4	-53.3	213.4
Public sector	82	23	11	116	4.0	4.6	-72.0	-52.2	954.5
Private sector	253	217	101	235	8.5	9.3	-14.2	-53.5	132.7
Intermediate goods	1 025	949	841	1 279	37.9	50.6	-7.4	-11.4	52.1
Public sector	441	325	296	372	13.6	14.7	-26.3	-8.9	25.7
Private sector	584	624	545	907	24.3	35.9	6.8	-12.7	66.4
Capital goods	900	771	558	691	35.2	27.4	-14.3	-27.6	23.8
Public sector	457	400	169	158	13.8	6.3	-12.5	-57.7	-6.5
Private sector	443	371	389	533	21.4	21.1	-16.3	4.9	37.0
Miscellaneous items and adjustment	462	180	295	204	14.4	8.1	-61.0	63.9	-30.8
Public sector	302	110	227	159	12.4	6.3	69.6	106.4	-30.0
Private sector	100	70	68	45	2.0	1.8	-30.0	-2.9	-33.8
Imports of the main food items¹	431	295	204	386	13.3	15.3	-31.6	-30.8	89.2
Wheat	151	143	104	114	4.6	4.5	-5.3	-27.3	9.6
Maize and sorghum	61	18	32	33	2.1	1.3	-70.5	77.8	3.1
Dairy products	39	29	22	50	1.4	2.0	-25.6	-24.1	127.3
Soya	55	39	33	40	0.7	1.6	-29.1	-15.4	21.2
Meat	22	21	13	72	0.4	2.8	-4.5	-38.1	453.8
Other ²	103	45	-	77	4.0	3.1	-56.3		

Source: Central Reserve Bank of Peru.

¹Preliminary figures. ²Defence equipment non-monetary gold and other imports. Includes under consumer or intermediate goods, as applicable. Rice and sugar.

Table 17

PERU: EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (intis per dollar)	Effective real exchange rate indexes"			
		Exports		Imports	
		A	B	A	B
1970-1979	0.08	84.8	79.2	84.7	79.1
1980	0.29	100.0	100.0	100.0	100.0
1981	0.42	85.5	85.8	83.8	84.1
1982	0.70	89.2	85.5	87.1	83.5
1983	1.63	92.9	94.0	89.9	90.9
1984	3.47	88.4	94.3	86.0	91.7
1985	10.97	102.7	113.2	99.3	109.6
1986	13.95		88.4		85.8
1984					
I	2.45	85.5	90.3	82.8	87.5
II	3.02	88.3	93.1	86.0	90.6
III	3.71	87.2	94.6	85.1	92.3
IV	4.68	92.7	98.9	90.2	96.2
1985					
I	7.00	100.2	108.7	97.6	105.8
II	9.70	102.6	112.5	99.3	108.8
III	13.26	104.0	117.2	100.4	113.2
IV	13.91	103.8	114.4	100.0	110.7
1986					
I	13.91		103.4 •		100.4
II	13.91		92.2		89.1
III	13.91		83.6		81.0
IV	13.91		74.4		72.5

Source: ECLAC, Economic Development Division, on the basis of data from the International Monetary Fund, *International Financial Statistics*.

Note: A: The domestic product sub-index of the wholesale price index was used.

B: The consumer price index was used.

"Corresponds to the average of the indexes of the real exchange rate for the inti *vis-a-vis* the currencies of Peru's main trading partners, weighted according to the relative size of exports or imports, as the case may be, to or from these countries. Between 1970 and 1980 these weightings correspond to the average for these same years; from 1980 onwards, they correspond to the average for the 1982-1985 period. In these calculations, wholesale price indexes were used whenever possible. For the methodology and sources used, see the statistical appendix to the *Economic Survey of Latin America, 1981*.

Table 18

PERU: EXCHANGE RATE, BY TYPE OF TRANSACTION

(Intis per dollar; quarterly)

	1981				1986			
	I	II	III	IV	I	II	III	IV
Average exchange rate for exports				14.19°	14.29	14.33	14.62	15.02
Hydrocarbons	6.98	9.68	13.23	13.91	13.91	13.91	13.91	14.01
Traditional exports	6.98	9.68	13.23	14.08	14.08	14.08	14.26	14.78
Small- and medium-scale mining	6.98	9.68	13.23	14.08	14.19	14.25	15.01	15.36
Low priority non-traditional exports	7.02	9.75	13.59	14.59	14.83	14.94	15.42	16.82
High priority non-traditional exports	7.02	9.75	13.59	14.59	14.83	14.94	15.42	17.40
Average exchange rate for imports				13.98°	14.10	14.15	14.49	15.52
Memorandum:								
Unified exchange market (MUC)	6.98	9.68	13.23	13.91	13.91	13.91	13.91	13.91
Financial market (MF1)	7.34	10.29	15.89	17.45	17.44	17.44	17.48	17.49

Source: Central Reserve Bank.
°December.

Table 19

PERU: INTERNATIONAL RESERVES*(Millions of dollars at end of period)*

Year and quarter	International assets				International liabilities	Net international reserves	Net international reserve as a percentage of imports of goods and services
	Gold ^a	SDR ^b	Assets in foreign currency ^c	Total			
1980	432	44	2 077	2 553	1 277	1 276	32.8
1981	432	40	1 351	1 823	1 051	772	15.8
1982	432	61	1 536	2 029	1 133	896	18.6
1983	432	27	1 616	2 075	1 219	856	23.2
1984	432	46	1 810	2 288	1 185	1 103	36.4
1985							
I	332	46	1 702	2 080	1 103	977	
II	332	46	1 570	1 948	975	973	
III	332	49	1 683	2 064	1 021	1 043	
IV	451	51	1 978	2 480	1 054	1 421	52.5
1986							
I	575	52	2 043	2 670	1 184	1 486	
II	577	54	1 800	2 431	1 193	1 238	
III	499	56	1 798	2 353	1 115	1 238	
IV ^e	469	56	1 607	2 132	1 180	952	26.3

Source: Central reserve Bank of Peru.

^aGold held by banks, either in vault or in custody abroad, and the country's contribution in gold to the International Monetary Fund (IMF). ^bSpecial Drawing Rights. ^cDemand and time deposits in foreign currency, in banks and with agents abroad, and other international assets, such as bonds in the World Bank, contribution to the Andean Reserve Fund and deposits in local banks. On average, the latter represented 5% of the amounts recorded in this column during 1982 and 1983. ^dMainly liabilities with the International Monetary Fund, short-term liabilities with foreign banks, and balances with ALADI. ^ePreliminary figures.

Table 20

PERU: EXTERNAL DEBT*(Millions of dollars at end of period)*

	1980	1981	1982	1983	1984	1985	1986 ^o
Total external debt	9 595	9 606	11 465	12 445	13 338	13 721	14 468
Medium long-term	8 126	8 090	9 197	10 925	11 976	12 629	13 173
Public sector ^c	6 043	6 127	6 825	8 256	9 648	10 462	11 048
Central Reserve Bank	710	455	707	1 089	862	825	788
Private sector	1 373	1 508	1 665	1 580	1 466	1 342	1 337
Short-term	1 469	1 516	2 268	1 520	1 362	1 092	1 295
Public and private enterprises	902	920	1 842	1 134	978	760	869
Banking system	567	596	426	386	384	332	426
Central Reserve Bank	25	24	39	23	66	63	148
Banco de la Nación	450	457	178	255	212	143	143
Other banks	92	115	209	108	106	126	135
Medium long-term public external det, by financial source							
Total	6 043	6 127	6 825	8 256	9 648	10 462	11 048
Public agencies and governments	1 849	1 346	1 195	1 321	1 508	1 793	1 938
International agencies	610	1 524	1 986	2 406	2 972	3 110	3 262
Socialist countries	985	784	949	1 106	1 305	1 426	1 529
Suppliers	1 063	930	925	1 076	1 070	1 026	986
International Banks	1 536	1 543	1 770	2 347	2 793	3 107	3 333

Source: Central Reserve Bank of Peru.

^aPreliminary figures. Up to 1982, includes adjustments for variations in the exchange rates of foreign currencies.^cCentral government and public enterprises. Commercial and financial credits with or without the guarantee of the banking system.

Table 21

PERU: EXTERNAL DEBT SERVICING^a

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986 ^b
Total debt service^c	1 709	2 358	2 107	1 336	2 889	2 708	2 594
Paid ^d	1 709	2 358	2 107	1 336	1 204	1 031	728
Not paid	-	-	-	-	1 685	1 677	1 866
Amortization	947	1474	1 166	525	1655	1 497	1 559
Paid	947	1474	1 166	525	521	441	227
Not paid	-	-	-	-	1 134	1 056	1 332
Interest	762	884	941	811	1 161	984	799
Paid ^e	762	884	941	811	610	363	265
Non paid	-	-	-	-	551	621	534
Regularization operations	-	-	-	-	73	227	236
Public sector	1 323	1 839	1496	750	2 348	2 294	2 295
Paid ^f	1 323	1 839	1 496	750	663	617	495
Not paid	-	-	-	-	1 685	1 677	1 800
Amortization	831	1 314	945	308	1441	1 329	1453
Paid	831	1 314	945	308	307	273	154
Not paid	-	-	-	-	1 134	1 056	1 299
Interest	492	525	551	442	834	738	606
Paid	492	525	551	442	283	117	105
Not paid	-	-	-	-	551	621	501
Regularization operations	-	-	-	-	73	227	236
Coefficients							
TDS/X	36.7	58.7	51.7	35.8	75.7	74.0	78.5
TDSP/X	20.4	36.7	28.6	14.1	31.5	28.2	22.0
PDS/X	28.5	45.8	36.7	20.1	61.5	62.7	69.4
PDSP/X	28.5	45.8	36.7	20.1	17.4	16.9	15.0
I/X	16.4	22.0	23.1	21.8	30.4	26.9	24.2
IP/X	16.4	22.0	23.1	21.8	16.0	9.9	8.0

Source: Central Reserve Bank of Peru.

^aIncludes debt payments in kind, which totaled US\$160 million in 1985 and US\$111 million in 1986. ^bPreliminary figures. ^cInterest and amortization on the total medium- and long-term debt plus interest on the total short-term debt. Also includes the regularization of overdue payments. ^dIncludes regularizations. ^eIncludes interest on the short-term debt. ^fSymbols: TD = total debt; X = exports of goods and services; TDS = total debt services; TDSP = total debt service paid; PDS = public debt service; PDSP = public debt service paid; I = gross interest on the total debt; IP = gross interest paid on the total debt.

Table 22

PERU: CREDIT AGREEMENTS BY FINANCIAL SOURCE"

(Millions of dollars)

	1983	1984	1985	1986
Total	1925	785	515	289
Governments	276	255	189	146
International banking system	606	-	-	-
International agencies	463	232	214	79
Socialist countries	16	1	10	32
Suppliers	564	297	102	32

Source: Central Reserve Bank.
 "Medium and long-term.

Table 23

PERU:: DOMESTIC PRICES"

(Percentages)

	1979	1980	1981	1982	1983	1984	1985	1986*
Variation December to December								
Consumer price index	66.7	60.8	72.7	72.9	125.1	111.5	158.3	62.9
Food*	75.1	38.1	68.2	72.1	135.8	102.0	153.7	60.2
Wholesale price index	60.9	53.0	66.1	64.2	136.5	115.6	166.4	37.3
Imported products	49.0	41.7	48.2	63.5	83.6	140.6	157.9	21.8
Agricultural commodities		56.7	42.3	47.7	300.3	105.7	182.9	26.2
Manufactures		41.1	48.5	64.2	75.7	143.5	156.1	21.4
Domestic products	66.4	57.7	72.7	64.5	153.2	109.9	168.6	41.2
Agricultural commodities	79.7	89.4	58.4	54.0	135.1	104.1	158.2	86.8
Manufactures	60.4	41.5	82.2	70.8	163.6	112.7	172.9	21.2
Variation between annual averages								
Consumer price index	67.7	59.2	75.4	64.5	111.1	110.2	163.4	77.9
Food*	74.2	58.8	76.4	52.9	125.7	106.3	149.7	85.1
Wholesale price index	70.4	53.1	68.1	56.3	113.1	120.1	173.9	60.3
Imported products	73.9	45.4	47.5	54.2	82.5	114.4	175.8	50.9
Agricultural commodities	73.2	69.4	47.4	31.0	212.6	133.4	187.6	68.9
Manufactures	72.0	44.6	47.6	55.2	77.8	113.2	175.0	49.6
Domestic products	69.6	56.3	76.1	57.0	122.9	121.6	173.5	62.7
Agricultural commodities	75.7	78.7	78.4	48.3	109.3	108.6	130.3	128.1
Manufactures	66.7	45.3	74.6	62.2	130.7	128.5	193.2	38.7

Source: National Statistical Institute (INE).

"Metropolitan Lima.

Preliminary figures.

* Includes food, beverages and tobacco.

Table 25

PERU: MONETARY INDICATORS

	End-of-year balances (millions of intis)			Real growth rates			
	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Monetary base	3 504	22 093	37 314	96.9	92.6	530.5	68.9
Money (M₁)	4 537	14 953	31311	89.9	127.8	229.6	109.4
Quasi-money	14624	27 281	37 952	91.9	139.8	86.5	39.1
In foreign currency	9 392	12 805	7 968	120.8	187.7	36.3	-37.8
In national currency	5 232	14 476	29 984	66.8	84.7	176.7	107.1
Money plus quasi-money (M₂)	19161	42 234	69 263	91.4	136.8	120.4	64.0
Total domestic credit (net)	16638	30 133	62 156	100.0	101.6	81.1	106.3
To the public sector	5 170	4 169	11 788	132.3	63.5	-19.4	182.8
To the private sector	16072	32 746	55 217	93.8	121.8	103.7	68.6
Other accounts	-4 604	-6 782	-4 849				
Coefficients							
Coefficient of dollarization ^c	0.49	0.30	0.12				
Monetary multipliers:							
M ¹ /Monetary base	1.30	0.68	0.84				
M ₂ /Monetary base	5.47	1.91	1.86				
Circulation velocity: GDP/M ₁	12.94	10.65	9.45				

Source: Central Reserves Bank of Peru.

^aPreliminary figures. Or "primary issue", in accordance with the terminology employed in Peru. ^bEquivalent to the share of M₂ represented by quasi-money in foreign currency.

Table 26

PERU: SELECTED COMMERCIAL BANK INTEREST RATES

	1982	1983	1984	1985	1986			
					I	II	III	IV
Interest rate on loans								
Nominal	47.5	51.7	60.3					
Effective ¹	69.6	78.4	97.3	114.5	42.5	40.0	40.0	40.0
Nominal interest rates on deposits								
Deposits for 90-180 days	54.9	56.7	60.3	56.8	26.3	25.5	25.5	25.5
Deposits for 720 days or more				57.9	29.5	31.5	34.5	34.5

Source: Central Reserve Bank of Peru.

¹Up to 360 days. ²No data are available from August 1985 onwards. ³Includes the effect of capitalization.

Table 28

PERU: CENTRAL GOVERNMENT OPERATIONS

	Mil)ions of intis			Growth rates			Percentage of C/DF	
	1984	1985	1986"	1984	1985	1986"	1985	1986"
A. Total income	9 646	28 235	45 331	158.5	192.7	60.5	17.7	15.3
1. Current income	9 554	27 963	45 191	156.0	192.7	61.6	17.5	15.3
a) Tax revenue	7 957	24 762	40 800	136.7	211.2	64.8	15.5	13.8
Income tax	1 422	3 459	9 853	119.1	143.2	184.9	2.2	3.3
Property tax	281	666	2 064	108.1	137.0	209.9	0.4	0.7
Tax on external trade	1 860	6 168	9 410	48.0	231.6	52.6	3.9	3.2
Taxes on production and consumption (Fuels)	4 518	15 479	21 236	203.6	242.6	37.2	9.6	7.2
Other tax revenue	(1 780)	(8 088)	(10 808)		354.4	33.6	(5.1)	(3.6)
Credit documents	536	1 106	1 185	354.2	106.3	7.1	0.7	0.4
b) Non-tax revenue ^c	-660	-2 116	-2 948	130.8	220.6	39.3	-1.3	-1.1
2. Capital income	1 597	3 201	4 391	383.9	100.4	37.2	2.0	1.5
B. Total expenditure	92	-	140				0.2	
1. Current expenditure	12 563	32 307	58 033	106.5	157.2	79.6	20.4	19.6
Remunerations	10 203	27 255	46 927	101.4	167.1	72.2	17.1	15.9
Goods and services	2 928	7 412	14 750	190.1	153.1	99.0	4.6	5.0
Transfers	579	1 741	3 409	278.4	200.7	95.8	1.1	1.2
Interest	1 683	3 460	9 353	198.9	105.6	170.3	2.2	3.2
Domestic debt	2 957	8 140	8 723	109.6	175.3	7.2	5.1	2.9
External debt	724	2 255	2 018	47.2	211.5	-10.5	1.4	0.7
Defence	2 233	5 885	6 705	143.0	163.5	13.9	3.7	2.2
2. Capital expenditure	2 056	6 502	10 692	6.6	216.2	64.4	4.1	3.6
Gross capital formation	2 360	5 052	11 106	131.8	114.1	119.8	3.2	3.7
Transfers	2 075	4 579	8 487	246.4	120.7	85.3	2.9	2.8
Other	279	443	2 525	-31.4	58.8	470.0	0.3	0.9
Other	6	30	94	-50.0	400.0	213.3		
Savings on current account (A1 - B1)								
	-649	708	-1 736	-51.3			0.4	-0.6
Economic deficit (A-B)								
	-2 917	-4 072	-12 702	24.1	39.6	211.9	-2.6	-4.3

Source: Central Reserve Bank of Peru.

"Preliminary figures. Mainly tax reimbursements for non-traditional exports, tax capitalization and tax payment promissory notes. Mainly property income, fines and deductions from pensions.

DOMINICAN REPUBLIC

1. Recent economic trends: Introduction and summary

In 1986 the economy of the Dominican Republic showed a slight improvement. The gross domestic product increased by nearly 2%, thus regaining its 1983 level, while fiscal and balance-of-payments maladjustments were reduced and inflation fell sharply. However, the per capita product, which in the preceding biennium had dropped by 6%, declined again (-1 %), falling to a level lower than that of 1979, the year before the crisis broke out (see table 1 and figure 1).

This recovery was based on the dynamism of construction, which was stimulated primarily by a slight upturn in manufacturing and an increase in public investment. The latter, however, had only a partial influence on private investment, which declined again, although at a much lower rate than in the preceding year. The decrease in capital accumulation by the private sector reflected the trends often seen in times of crisis, when resources are diverted from productive areas to the financial sector. However, in 1986 the effects of the presidential campaign were also a factor.

The favourable performance of the external sector was reflected in the terms of trade as the prices of the main export products increased while oil prices dropped. In addition, whereas the value of exports of goods and services grew, that of external purchases remained virtually stable. This prompted a decline in the current account deficit, whose size in relation to the product fell to just 14%, after having been over 50% at the beginning of the decade.

In spite of price increases, the value of merchandise exports contracted somewhat, as a consequence of a decrease in the volume of sales of sugar and minerals. In contrast, the value of services grew substantially, boosted by earnings from tourism and, to a lesser extent, by those of the inbond subcontracting industry.

Imports of goods declined by 2%, although their volume expanded by 5%. The decrease in the oil bill permitted a 17% increase in the purchase of other goods.

A certain lag was to be detected in the capital account balance. The recorded inflow of short- and long-term capital, which has been declining since 1983, was minimal (US\$94 million). In their turn, grants and donations, which had accounted for 40% of net capital inflows the year before, dropped drastically. Only direct investment, which has been recovering since 1983, increased.

A further drop in the external debt, together with the expansion of foreign sales, resulted in a decline in the debt/export ratio. However, interest payments increased, and the debt service represented over 50% of the value of exports of goods and services, thus constituting one of the major obstacles to the implementation of an economic reactivation policy. The country's shortage of foreign exchange and the change in the position maintained in respect of external indebtedness by the new government led to a suspension of debt servicing in the last quarter of the year.

Inflation, which had been very high during the past biennium, dropped from nearly 40% to less than 10%, basically as a consequence of a fall in the prices of petroleum products and of the stability exhibited by the exchange rate during almost the whole of the year. In the last quarter there was simultaneously an upturn in inflation and an expansion of monetary variables, which was brought about with a view to reactivating the economy.

Although nominal wages remained stagnant in 1986, average real wages followed a favourable trend.¹ This upturn signified, however, no more than a slight improvement, given the drop seen in the real income of wage-earners in former years.

¹The minimum wage was raised to 250 pesos in May 1985, and the 1985 average therefore amounted to only 212.50 pesos.

Figure 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

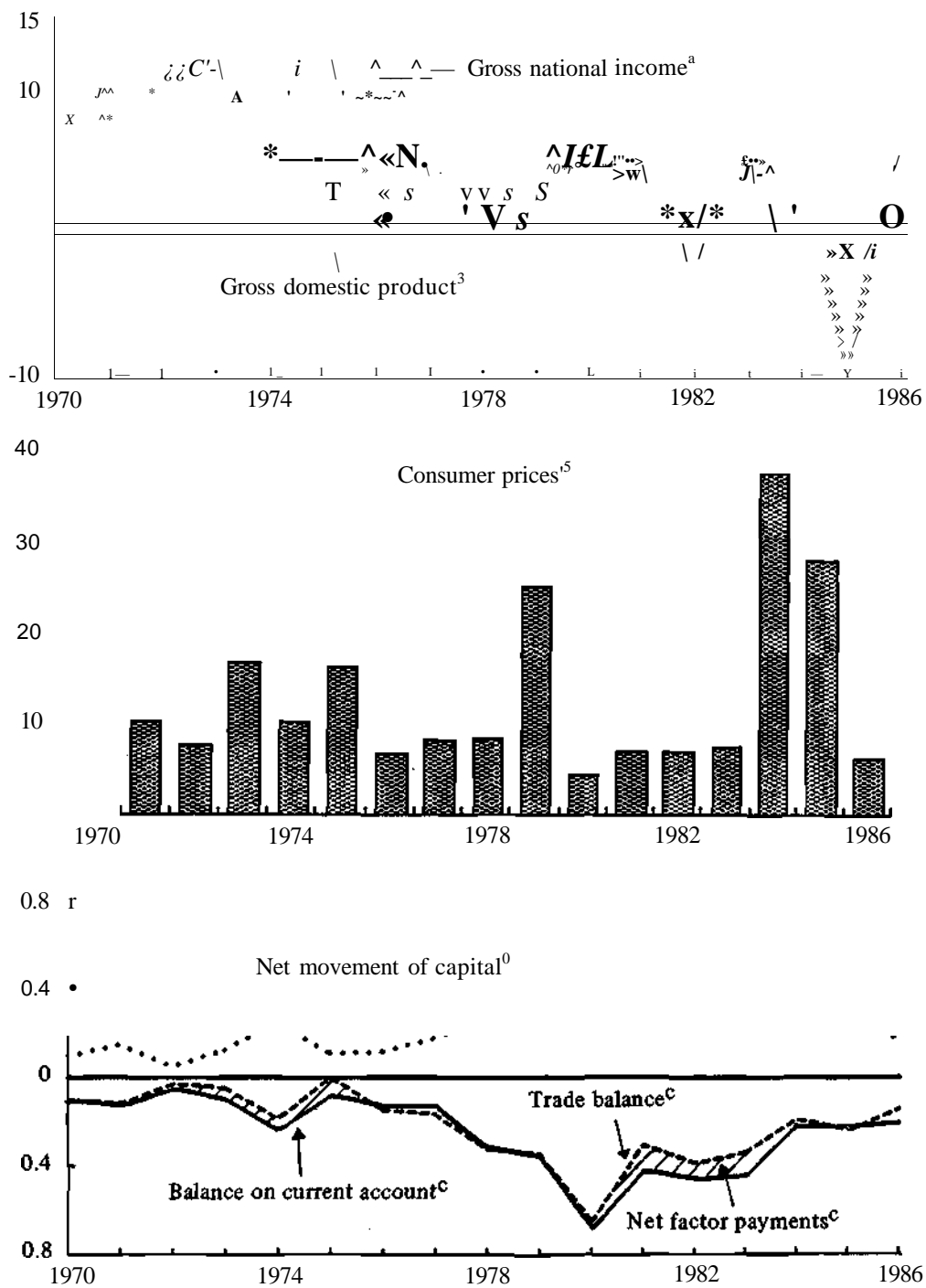
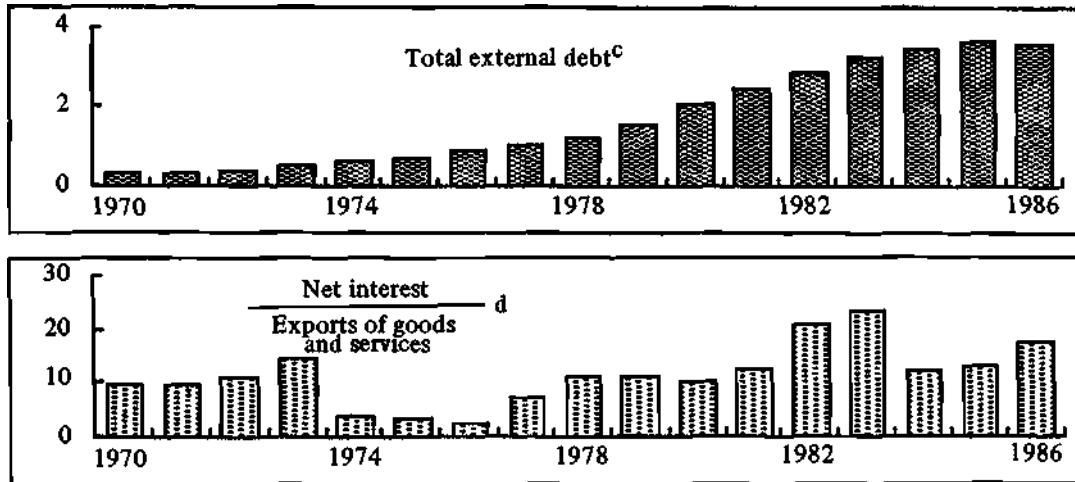


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

[^]December - December percentage variation.

^cBillions of dollars.

[¿]Percentages.

The sharp rise in central government income, which was far greater than the increase in expenditure, resulted in a significant drop in the fiscal deficit and in a decline of the fiscal deficit/product ratio to less than 1 %, one of the lowest coefficients in the region. In addition, the higher priority assigned to capital expenditure was evidenced in an increase of almost 80% in public investment.

In the monetary and financial area some maladjustments were to be observed. The elimination midway through the year of a number of measures aimed at curbing the increase in liquidity, which had been spurred by the establishment of a single exchange rate in 1985, and the need for the State to reactivate the economy by means of monetary issues and by relying on external resources resulted in rapid expansion of the money supply. Thus, liquidity exceeded the demand for credit given the moderate rate of economic activity, and resources were therefore directed towards financial investment and an increase in bank reserves.

Economic policy in 1986 was marked by a change in government. In the first part of the year the outgoing administration continued to apply a restrictive policy until the country's agreement with the International Monetary Fund (IMF) expired in April. Subsequently, some measures which had influenced the money supply were annulled and the ban on the entry of certain imports was lifted, leading to a substantial increase in external purchases of consumer goods.

The new authorities, who took office in August, assigned a high priority to economic recovery. Steps were taken to increase the flow of credit to agriculture and to the sugar industry, and public investment was increased, but the growth in current expenditure was reduced in order to avoid an expansion of the fiscal deficit. In order to bolster some of these measures, the authorities resorted to monetary issues, commercial bank credit and external financing. It was also decided that external debt servicing would be adjusted according to resource availability, but without sacrificing economic development.

Finally, an examination of the redefinition and reduction of the State's role in society was undertaken. It should be stressed that the new government, as its predecessor did, continued to promote economic development in tourism, agro-industry and the inbond subcontracting industry, activities for which it received financial support from abroad.

In spite of the slight upturn in activity, economic development continued to run up against formidable obstacles. The deteriorating trend in the external sector posed severe limitations. Seventy-five per cent of external sales of goods was based on four agricultural products and two minerals, for which the general outlook was highly unfavourable. Although efforts have been made to

boost non-traditional exports, they have not grown fast enough to offset the drop in traditional exports. The trend in exports contrasted with the country's growing need for imports to fuel the economy's performance and with its requirements for foreign exchange in order to cover its debt service.

Furthermore, although the adjustment policy applied in earlier years managed to ease the country's fiscal and external imbalances and to realign the exchange market, it also involved a deterioration of real wages (nearly 20% below the 1979 level), a fact that has had a detrimental effect on the well-being of broad sectors of the population.

2. Trends in **economic** activity

a) *Total supply and demand*

Total supply recovered from its fall of the preceding year, thanks mainly to the increase in imports of goods and services (4%) and a partial recovery in the product (see table 2).

Domestic demand regained only half of the ground it had lost in 1985, while exports declined by 6% after having expanded sharply during the preceding year. This fall primarily resulted from a steep reduction in volume—chiefly owing to the decline in the quantum of sugar and mineral sales—and was associated with an increase in services, which has, for a number of years now, been based on the expansion of tourism.

Although public investment showed a sharp rise, this was mitigated by a deterioration in private capital formation (-5%) and gross fixed investment therefore rose by only 5%. The whole of this increase was due to a boom in construction, which expanded by 13%. The continued upward trend in public investment brought it back up to the absolute levels and significance in respect of the product recorded in 1980.

The economic reactivation and the increase in real wages helped to raise private consumption by 3%. Nevertheless, in per capita terms, private consumption remained at its very low 1985 level, following two successive declines.

b) *The main sectors*

The slight economic upturn was basically the result of the recovery made by construction (16%) and manufacturing (4%), whose effects spread to the rest of the economy. Nonetheless, the production of goods barely rose by just 1%, since agriculture, the most influential sector in the product, declined by 2% (see table 3).

i) *Agriculture*. In 1986 this sector's product contracted by 2%, after a decline of nearly 4% the preceding year. Crop-farming output dropped at a rate similar to that of the preceding year (4%), Stock-raising diminished slightly and only fishing and forestry, the least influential subsectors, managed to show an increase (see table 4).

Although the sector's performance was affected by short-term factors, its basic problems are of a medium-term character. Some of the chief ones are the deterioration in the international prices of some of the country's main export products; the lowering of its sugar quota in the United States market; the reduction in real credit flows, particularly during the implementation of the adjustment programme; low support prices for the major domestic consumer goods; the taxes and specific exchange rates applying to traditional exports; and the insufficient level of public investment, which has affected the agricultural infrastructure and channels of communication.

The above obstacles were compounded in 1986 by a drastic drop in Haitian manpower supply—which delayed the beginning of the 1985/1986 sugar cane harvest and led to higher costs—as well as by poor weather conditions, which chiefly affected the bean, tobacco and sugar cane crops.

As regards production for the external market, the main decreases were seen in tobacco (-16%) and sugar cane (-9%). The harvest volumes of these items have been diminishing since 1983 and, therefore, their joint share in the total fell from 36% in 1980-1982 to 25% in 1986. Thus, the overall share represented by production for export declined from 50% to 43%.

This latter drop was basically associated with the deterioration of the world commodity market. Another factor, however, was domestic policy, since both exchange measures and the duties levied on traditional products had the effect of lowering exporters' earnings and producer prices. At the same time, due to the rise in the quotation for the dollar on the open market the cost of inputs and capital goods went up—in spite of the implementation of some short-range measures designed to mitigate this problem. As a result, profit margins were either eliminated or considerably reduced, thereby discouraging production and capital accumulation.

The difficult financial situation of the State Sugar Council (CEA)—a public enterprise accounting for approximately two-thirds of production—grew worse since, besides maintaining subsidies for domestic sugar consumption, it passed on only part of its earning losses to producers.

Early in the year the surcharge on exports was lowered and a few months later it was abolished, but this was not reflected in the 1986 fiscal year. The decline in sugar production was due to the CEA's financial problems, a shortage of manpower to work in the harvest, and the drought.

In view of the poor outlook on the external sugar market, the CEA carried forward its production diversification programme. This public enterprise has been entering into partnerships with domestic and foreign private firms with the aim of growing other crops in place of sugar cane.² In addition, in order to resolve its financial problems, the company was making arrangements to sell 1 800 hectares of land to the Central Bank, which would use them for tourism projects and for the establishment of industrial customs-free areas.

Tobacco production in 1986 was less than one-half the amount recorded in 1982. Over the past four years the crop first suffered the effects of a plant disease called blue mould (after whose eradication producer prices fell substantially), and, then, the consequences of the droughts which have occurred during a number of years, including 1986.

Notwithstanding the plantation renewal programme that was carried out in 1983, two-thirds of the area under cultivation is still covered with native cocoa plants growing under poor shading and fertilization conditions which are conducive to plant diseases and pests and which negatively affect yields. Furthermore, a drop in the crop's international price over the past two years has discouraged its production. Nevertheless, the output of this crop increased by 3% in 1986.

High prices were paid for coffee on the international market until midway through the year. Nonetheless, coffee production climbed by only a moderate amount (4%), due to the coffee-growing cycle's influence on the figures, inasmuch as a small (1985/1986) harvest was combined with a large one (1986/1987).

Production for the domestic market declined for the second year running as a consequence of the drop in rice production, which accounts for one-fourth of total output. In 1976-1982, rice production increased at an average rate of nearly 13%, thanks to the introduction of a new variety of seed and an adequate credit flow, which made it possible to become self-reliant in this crop. However, in 1983 production stagnated and in the 1985-1986 biennium it contracted by 16%. This downtrend stemmed from a continuation of credit constraints and soaring costs, the latter being a result of the devaluation of the peso.

The dwindling flow of credit has affected production for domestic consumption. The latter relies almost entirely on small-scale producers, who have limited access to financing from private banks, which, moreover, assign to agriculture only approximately 8% of the loans they grant. The funds of the Agricultural Bank, the main government source of financing for the sector, diminished by 43% in real terms between 1983 and 1985, leading to a severe contraction of lending to small farmers. In the case of rice, 70% of whose supply is provided by small and medium-sized producers, an additional credit source are millers, who finance about 40% of the sowing and who sell the processed grain to the Price Stabilization Institute (INESPRE).¹ The financial problems suffered by

² In 1986, the CEA signed a contract with the largest domestic orange producer for the planting of approximately 2 000 ha of orange trees. The Council will manage 35% of the stock in the new company.

¹ According to INESPRE regulations, each private mill is the sole legal buyer in its vicinity. Millers grant credit with the object of ensuring an adequate supply, and these loans are in great demand among farmers because of the speed with which they are processed and obtained.

INESPRE made it necessary for this body to delay its payments to millers, who, in turn, reduced the credit they supplied to small and medium-sized producers.⁴

In 1986 the credit resources of the Agricultural Bank increased by 33% in real terms, and a payment agreement was arranged between the government and millers. However, this occurred during the last four months of the year, and thus it had an effect only on the December sowing. The Ministry of Agriculture also implemented a programme aimed at substantially increasing the area under cultivation.

Except for maize and bean production which also showed negative growth rates, the remaining commodities for domestic consumption maintained their upward trend of recent years. As the relative importance of some crops such as pigeon peas, sweet potatoes, yucca, tomatoes and pumpkins has been showing a steady increase, these products are being oriented towards the United States market to cover the demand of Latin Americans residing on the Gulf of Mexico coast. Furthermore, relatively high support prices were being paid for peanuts, since they provide a substitute for imports of other oilseeds.

Livestock production stagnated, following a 3% decline in 1985. The increase in cattle, pig and poultry slaughtering failed to offset the fall in milk production, which stemmed from a deterioration in real prices and an inadequate credit flow.

In order to relieve shortfalls in agricultural supply for domestic consumption, the new government adopted a number of measures as from September. Firstly, the flow of credit was increased substantially, with more resources being provided to the Agricultural Bank. Secondly, the Agricultural Co-ordinating Commission was created, which will be responsible for an emergency plan aimed at increasing the sector's production. Finally, the system of rice subsidies was modified; although, on the one hand, there was a 4% decrease in the prices received by producers, on the other hand fertilizers, fuels and other agricultural inputs representing 45 % of total costs began to be made available to producers at subsidized prices. The Agricultural Bank also took the place of INESPRES in the grain market and was to be responsible for distributing inputs to farmers.

ii) *Mining*. In keeping with the fluctuating and downward trend which has characterized mining activity since the late 1970s, production declined by 11% (see table 5).

Ferronickel, the only product capable of giving a boost to the sector, contracted by 13% due to a drop in the international price and to a labour strike in the second quarter.

The depletion of the reserves of the country's gold and silver mine was reflected in a steady decline in the output of these metals (13% and 14%, respectively). Early in the year, however, work was completed on a feasibility study concerning the possibility of obtaining the US\$440 million in financing needed for a project which had been submitted to the IDB for extending the useful life of the mine, through the processing of gold and silver residues by means of oxidation.

iii) *Manufacturing*. After a cumulative decrease of 7% in the preceding biennium, manufacturing showed a 4% upturn. Except for the production of sugar and its derivatives, which declined for the fourth year in a row (-9%), manufactures expanded at an average rate of 5%, spurred by the recovery of domestic demand, an appreciable increase in credit an adequate supply of inputs and an increase in exportable production, as in the case of processed coffee (see table 6).

The unfavourable situation and outlook of the external sugar market compelled producers to reduce their supply by closing down sugar mills or shortening the harvest. Thus, after four years of declining output, production in 1986 was 30% lower than in 1982.

In the category of food, beverages and tobacco, the only items which decreased were those which lacked an adequate supply of raw materials. Such was the case of rice processing and milk pasteurization.

⁴ INESPRES has been experiencing financial problems for some time, and these difficulties grew worse with the application of the adjustment programme. Thanks to a relative balance between purchase and sales prices, INESPRES had succeeded in showing a surplus up to 1979. Since then, however, it has begun to show a growing deficit, since, with the contraction in real wages, it has become necessary to subsidize and increasingly high percentage of the price in order to safeguard the consumption level of the population. This imbalance has been manifested in an inadequate readjustment of producer prices and a lack of financial resources.

Paint production increased by 20% and that of reinforcement rods by nearly 40% in response to an upsurge in construction. In contrast, cement production dropped by 8% due to decreases in two of the three factories —one of them State-owned— which manufacture this input. The severe financial problems which have affected this State enterprise for a number of years have led to a systematic deterioration of its facilities. The drop in domestic supply at a time of growing demand made it necessary to import this item.

Agroindustry and the inbond subcontracting industry continued to perform well. The former benefited from fiscal incentives and special financing, which to a large extent came from external credits. In 1986, authorization was given for the establishment of 38 new enterprises involving a planned investment of 175 million pesos. This activity generated slightly over 3 500 new jobs.

As regards the inbond subcontracting industry, 20 new enterprises were set up, providing jobs for more than 6 000 workers. The total employment generated by this activity amounted to about 42 000 jobs, i.e., approximately 4% of the employed population.

The profile of the inbond subcontracting industry has changed in recent years. The average size of these enterprises, as measured by the staff they employ, jumped from 200 workers per plant in 1983 to more than 300 in the last fiscal year. In addition, the origin of investors has been growing more diversified, as shown by the following breakdown of the total employment generated by the 20 new enterprises in 1986: 37% corresponded to United States firms, 35% to Panamanian companies, 25% to Dominican investors and almost 3% to South-East Asian countries. The domestic firms involved were private enterprises which provided foreign investors with industrial bays and manpower. This allows foreign firms to experiment with this location on the basis of very limited investments and risks.⁵

If the installation of twin plants with the help of the Puerto Rican government continues, the future of this activity seems bright. An attempt is being made to make use of the funds derived from the retention of the profits of subsidiaries of United States enterprises located in that country which are exempt from United States income tax provided they keep their funds in the island for a number of years as a source of low-cost financing. Proposals have been made for the annual investment of about US\$100 million from this source in twin plants, as one means of putting the Caribbean Basin Initiative into action. Due to the country's proximity to Puerto Rico and the large wage differential between the two,⁶ locating the labour-intensive stage of the work in the Dominican republic, while carrying out the capital-intensive stage in Puerto Rico, is a very attractive proposition.

In order to protect this young industry and to promote its development, since the 1960s a series of tax incentives have been provided to investors, depending upon the nature of the activities they would benefit. These incentives basically consisted of a total or partial exemption from import duties on capital goods and raw materials and the cancellation or reduction of income taxes. In view of the need to obtain more resources for priority projects and the fact that this industry has received sufficient protection, the new government decided that, taken as a whole, the incentives granted to individuals or corporations investing or reinvesting part or all of their income could no longer exceed 50% of their net assessable income annually; previously, this figure could be as high as 100%.

iv) *Construction.* Construction activity expanded very rapidly, offsetting its fall of the preceding year. This was due to the stimulus provided by the public sector as a result of the change of government. A determined effort was made to finish work in progress and, once the new administration had taken office, emphasis was placed on the construction of public works. This reactivation did not, however, include residential building, which, when measured on the basis of the permits granted, showed a 28% drop (see table 7).

Although the supply of most construction materials responded well to the increased demand, the fact that the availability of such a basic input as cement was inadequate and had to be imported raised building costs by 27%.

⁵ Using this system, in 1986 Westinghouse established one of the largest plants in the country.

⁶ In the Dominican Republic the man/hour cost, including all benefits, is US\$0.62, whereas in Puerto Rico it amounts to US\$3.35.

3. The external sector

a) *General features*

In 1986 the deficit on current account declined by 10% to US\$200 million—the smallest thus far in the 1980s—and thus represented just 14% of exports of goods and services, whereas in 1982 this figure was 40%.

As the level of imports of goods and services was very similar to that of 1985, this reduction in the external imbalance was the result of a strong expansion in exports, and more specifically, in services (18%). The favourable performance of the latter was lessened by an increase in disbursements for factor services, as interest payments increased and unrequited private transfer payments held steady, after having grown steadily in recent years.

Although current transactions showed a smaller deficit than in 1985, the inflow of capital was the lowest since 1974. Grants and donations, which had supplemented external financing the year before, fell sharply.

The value of exports of goods declined by 2%, adding to the drop recorded the preceding year. The 1986 decrease resulted from a steep decrease in volume (-11%), since their unit value went up by 10%. The value of external purchases also declined by 2%, in spite of a 5% expansion in volume, due to the 6% reduction in their unit value, which was chiefly a consequence of the drop in oil prices (see table 8).

The rise in export prices and the drop in import prices were reflected in a 17% improvement in the terms of trade, thereby lessening the erosion suffered since 1982. This improvement in the terms of trade was greater than the drop in export volume, and the purchasing power of exports therefore went up by 4%.

Furthermore, following the realignment of the exchange market the year before, the exchange rate tended to remain stable at three Dominican pesos per dollar.

During the first seven months of 1986, probably as a consequence of the slower pace of economic activity typical of an election period, the exchange rate tended to decline, reaching 2.70 pesos per dollar, which was 30 centavos less than that prevailing in December 1985. As from August the exchange rate began to climb, reaching 3.05 pesos per dollar in the last two months of the year, which was 13% higher than the price recorded in July. This change in trend was linked to a reactivation of the economy and to a significant increase in the amount of money in circulation, as well as to the speculative pressures inherent in a change of government.

The average dollar quotation dropped by 7%, although it registered a December-to-December increase of 2%. Domestic prices rose faster than external prices, so the undervaluation of the peso was reduced from 20% to 10% (see table 9).

b) *Merchandise*

i) *Exports.* The value of exports of goods declined by 2%, after a 15% fall in 1985 (see table 10). The category of traditional products showed a decrease once again (-6%), although it was much less than that of the preceding fiscal year (-42%), since this time only sugar, tobacco and minerals declined. Sales of non-traditional products, most of which were agroindustrial items, increased for the third year in a row, thus bringing their relative share up to nearly one-fourth of the total.

The value of sugar exports declined again (-15%), although less steeply than in 1985. This resulted from a further contraction in the exported volume (-20%), which was not fully offset by a rise in the unit value (23%). The drop in the exports of this commodity in the past two years has been so sharp that its 1986 level amounted to practically one-half of that recorded in 1984 (see table 11).

The outlook for the sugar market became increasingly bleaker. Although international market prices increased, they remained below production costs, as has been the case since early in the decade. Sugar supply exceeds demand, and the only way to reverse the declining trend in prices would therefore be for large exporters—among them the Dominican Republic—to reduce their production and to diversify both their production and their sales.

The country had managed to cope with the prolonged deterioration of the world sugar market by directing nearly 80% of its exports to the United States market, where prices are far above the

international level. However, with a view to protecting its producers, whose costs are higher, in 1982 the United States placed quotas on sugar imports from supplier countries. As sweetener consumption in the United States has been declining, its external sugar purchases have dropped and, along with them, the quotas for supplier countries. The quota for the Dominican Republic fell from a little over 490 000 tons in 1982/1983 to 302 000 in 1985/1986.

Even though the country still has the highest quota among exporters to the United States market, the cutback has been especially damaging, since sugar continues to be its main export commodity, representing one-fifth of the total value of its foreign sales.

The value of foreign sales of coffee rose considerably (30%), thanks to a substantial price increase, while the exported volume was similar to that of 1985. Although production grew, part of the output was held in storage as producers waited for higher prices and hoped for a cancellation of the tax increase on this commodity which had been decreed in the first quarter of the year.

The expansion in the exported volume of cocoa and tobacco far exceeded the decline in their prices, thus leading to an increase in the value of sales. In the case of cocoa, the price drop was accounted for by the saturation of the international market. As regards black tobacco, which is the type exported by the Dominican Republic, the sharp contraction in demand was due a change in consumer taste, which now exhibits a preference for blonde tobacco.

External mineral sales continued to follow the downward trend of previous years. Ferronickel exports dropped by 36% due to the combined effect of a more or less similar reduction in their unit value and* their exported volume. The decline in gold and silver production, resulting from a progressive depletion of deposits, prevented producers from responding adequately to the rise in prices on the international market.

Non-traditional exports went up again (12%), although at a slower rate than during the preceding two years. Two factors have favoured this development: the country's proximity to the United States East Coast market, which has a large hispanic population that generates an increasing demand for Caribbean products; and tariff incentives deriving from the Generalized System of Preference (GSP) and the Caribbean Basin Initiative (CBI).

Since 1976, when the GSP first provided duty-free access to the United States market for a range of products, the exports made under this system began to grow rapidly (23% annually, on average, between 1979 and 1983). In 1984, when the CBI got underway, the external sales included in this system of exemptions, except for sugar,⁷ expanded at an average rate of 34%, whereas those included under the GSP grew more slowly and, in fact, decreased in 1986. In 1986, 45% of the total exports made on the basis of tariff incentives corresponded to the CBI.

External sales (excluding sugar) made under the GSP and the CBI in 1986 amounted to US\$235 million, which represents half of those bound for the United States. Approximately 50% of these exports were natural animal and vegetable products or semi-manufactures, while, among the remainder, articles made from leather and skins and jewelry figured prominently. Owing to the rapid growth of these items, the share of total external sales corresponding to exports to the United States rose from 60% in the 1981-1983 triennium to 70% in the 1984-1986 period (see table 12).

With a view to market diversification, late in the year arrangements were made with the Soviet Union for the sale of 300 000 tons of sugar at a slightly higher price than that prevailing on the world market. The Caribbean Community (CARICOM) was also approached with the aim of exploring the possibility of the country becoming a permanent member of the organization, in which it currently holds only an observer status. Finally, trade links with Puerto Rico were being strengthened, and as a result this country's share in the Dominican Republic's total exports increased from 5% in the first five years of the decade to more than 10% in 1986.

Early in the year the 36% exchange surcharge on traditional exports and the 5% surcharge on non-traditional exports, which have been in force since April 1985, were reduced by one-half. It is hoped that the total elimination of these duties, approved half way through the year, and government pressure will induce exporters to fulfil their obligation to change their foreign exchange earnings from external sales in the Central Bank.

⁷Sugar exports are included in this item so that they may enter duty-free to the United States.

ii) *Imports*. After the slight upturn seen the year before and a very swift expansion during the first half of 1986 which accounted for almost two-thirds of total imports, external purchases declined by 2%. However, if the oil bill (which dropped by nearly 40% due to a fall in oil prices), is deducted, then imports grew by 17% (see table 13).

The figures up to mid-year indicate that imports of consumer goods nearly trebled, possibly because of a substantial increase in purchases of consumer durables, since basic food items maintained a similar level to that recorded in the same period of the preceding year. Purchases of raw materials and intermediate goods grew by 7%, but since the oil bill dropped, the increase in the remaining inputs must have been far greater. Finally, imports of capital goods contracted by 17%, due to the delay in capital accumulation characteristic of an election period and a change in government (see table 13).

According to indirect indicators, the dynamics and structure of imports changed in the last four months of the year. The more rapid pace of investment contributed to an increase in purchases of capital goods, while limitations on motor vehicle imports reduced those of durable consumer goods.⁸

c) *Real services and factor payments*

In keeping with the trend observed since the beginning of the decade, earnings from travel services increased once again (12%). This raised their share in exports of goods and services—which amounted to 14% in 1980—to 36%.

Thanks to the support received from both the public and private sectors and to the availability of domestic and external financing, the supply of services has been expanding. Hotel capacity, which at the end of the 1970s was a little over 5 000 rooms, has increased to such a point that it was more than double that figure in 1986. Consequently, the Dominican Republic together with Puerto Rico, ranked third in hotel capacity among the Caribbean islands, exceeded only by the Bahamas and Jamaica.

Furthermore, in an attempt to promote longer-stay tourism—seaside holidays—the regional distribution of hotel capacity has been modified. Whereas 52% of hotel rooms were located in the capital—which, although it is a port, has no beaches—and only 32% were located in beach areas in 1979. In 1986 these proportions had shifted to 19% and 60%, respectively. This relocation permitted the average stay to rise from eight nights per guest in 1979 to 13 in 1986.

Tourist demand has responded favourably. The number of foreign visitors travelling to the country by air (these primarily being the tourists who use the hotel infrastructure)⁹ climbed from about 100 000 in 1972 to 300 000 in 1980 and to a little over 550 000 in 1986. As for the origin of demand, although United States tourists predominate, they dropped from 64% of the total in 1982 to 43% in 1985; this has been offset by a greater inflow of Canadian and Puerto Rican tourists, whose relative proportions increased in the same period from 4% and 3% to 18% and 15%, respectively.

Travel service disbursements—since the decline they showed at the beginning of the 1980s due to a rise in the exchange rate—have remained at around US\$90 million.

The expansion of the inbond subcontracting industry was reflected in the net foreign exchange earnings derived from this activity—included under the "other services" entry—which increased by 50% to US\$140 million; this figure represents about 10% of external sales of goods and services.

Net factor payments rose by 33%, basically due to the increase in interest payments (US\$64 million). The significance of this item in respect of exports of goods and services grew from 15% to 19% (see table 14).

⁸ Beginning on 7 July, unlimited imports of motor vehicles and heavy machinery were allowed for five days. In October, the entry of these goods was again authorized until the end of the year; however, a ceiling of 6 000 units, for a total FOB value of US\$30 million, was set.

⁹ Incoming tourists are divided into the following categories: a) foreigners arriving by air; b) foreigners arriving by sea, mainly on cruise ships, who seldom use lodgings and therefore spend very little (approximately US\$20 per stay); c) Dominicans residing abroad who travel to the country on vacation and do not usually use the hotel infrastructure, but who spend a great deal (approximately one-third of earnings from travel services).

Unrequited private transfer payments, which mainly consist of remittances sent by Dominicans residing abroad, stagnated. As a large percentage of Dominicans who migrate to the United States do so illegally, this result appears to be associated with the expectations created by the Simpson-Rodino Act, which is aimed at restricting immigration to the United States. Due to the rapid growth of this item in recent years, in 1985 such transfers were equivalent to 18 % of exports of goods and services.

d) *The deficit on current account and its financing*

Although the current account deficit declined and the ratio between it and exports of goods and services showed a clear improvement, net capital inflows dropped by 24%, in line with the trend observed during the last three years. This decrease was the result of a drop of nearly 40% in short- and long-term capital inflows, since direct investment grew at a similar rate. Unrequited official transfer payments, which in 1985 made a significant contribution to the financing of the deficit, also fell sharply. In spite of this drop in external resources, reserves grew by US\$30 million; this phenomenon was attributable to capital re-entry, which should probably be included under the errors and omissions entry (see table 14).

e) *External indebtedness*

In 1986 the total external debt declined slightly for the first time since the mid-1960s, to almost US\$3.65 billion. Medium- and long-term indebtedness grew by 7%, whereas short-term indebtedness decreased by 16% (see table 15).

The debt breakdown by type of creditor exhibited an unfavourable trend for the country, since two-thirds of the loans came from bilateral sources and commercial banks, and only 30% was secured on soft terms from multilateral agencies.

Differing trends were to be seen in the indicators of indebtedness. The debt/exports ratio remained at a high level, as it has since 1982, although it did show some improvement in that it fell to 259%, which was 20 points lower than in 1985. On the other hand, the net interest/exports ratio climbed from 14% to 18% because of the increase in interest payments (23%).

Debt servicing amounted to US\$765 million —one-fourth of this amount corresponded to interest payments—, a sum which was equivalent to 54% of external sales of goods and services. Arrears as of 31 December came to almost US\$230 million in payments on principal and to US\$88 million in interest; if these payments had been made, then debt servicing would have amounted to US\$1 083 billion, i.e., 77% of exports.

During the first eight months of the year the authorities' policy on external indebtedness consisted of meeting only those commitments undertaken in the renegotiation of the debt. The new authorities adopted a different position. On several occasions they declared that the country lacked the capacity to make the scheduled amortization and interest payments and that the debt would therefore be serviced only in so far as it did not affect the country's economic development.

In view of the achievements attained by other countries in recent negotiations, steps were initiated to arrange for another rescheduling of the external debt which would include improvements in terms of repayment periods, grace periods and interest rates, as well as for its partial conversion into investment. It has also been proposed that this renegotiation should only include a "supervisory" agreement with the International Monetary Fund (IMF) which would not compel the country to adopt the severe adjustment programme that this agency has proposed in similar cases.

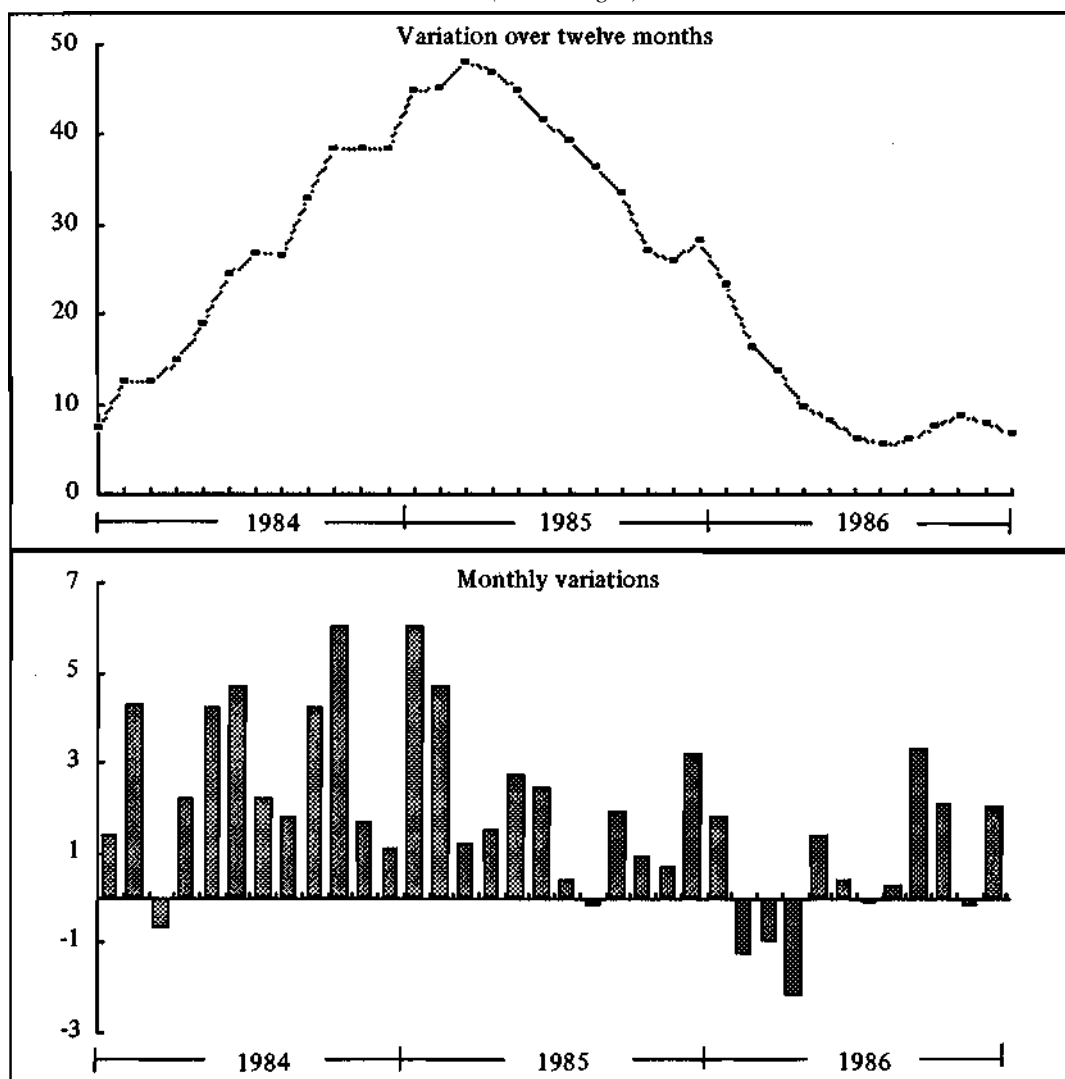
4. Prices and wages

After the steep increase in prices seen in 1985, inflation began to slacken in the final months of that year, and in early 1986 it came to a complete standstill; indeed, in the February-April quarter, prices actually declined by 4%. In May they showed a slight upturn of less than 1%, and then remained at that level until August. However, in the last four months of the year prices once again exhibited an upward trend, with a cumulative increase of 7%. On average, consumer prices rose by only 10%, as against 38% the year before (see table 16 and figure 2).

The drop in prices in the early months of the year and their subsequent stability until September were linked to a decrease in the domestic prices of petroleum products¹⁰ and to a decline in the exchange rate. Their later increase was partly due to the reinitiation of the devaluation process and to the price increase applied to agricultural products in order to promote production.

The index for the category of food, beverages and tobacco—which is given a weighting of 52 % of the total— increased at the higher-than-average rate of 15 %. Factors contributing to the rise in the prices of the basic shopping basket included the increase seen in farm products and the speculation that was sparked by occasional temporary shortages.

Figure 2
DOMINICAN REPUBLIC: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official figures.

¹⁰The reductions observed in the prices of petroleum products were 24% for gasoline, 38% for gas-oil, 17% for kerosene and 10% for liquified gas.

The prices of clothing and footwear, which have a large imported component, rose faster than the average due to the rise in the dollar. In contrast, the item "other", which includes transport, climbed by only 2%.

Price increases were concentrated in food items, which represent a larger relative proportion of expenditure among the low-income strata of the population. The upturn in prices was therefore felt more keenly by poor families, as may be seen by the fact that the increase was 11% for families in the 50-200 peso income bracket, whereas it was 9% for the 200 peso and over bracket.

The minimum wage, which in July 1985 had been raised to 250 pesos per month, remained unchanged throughout 1986. Nevertheless, since average wages rose when calculated on a 12-month basis and inflation dropped considerably, the real average wage improved by 7%. Nonetheless, it was still 14 percentage points lower than this wage was in 1980 (see table 17).

The deterioration of the economy in recent years has deepened the unemployment problem. According to a survey carried out in September 1986, the open unemployment rate reached 30% in rural areas and 27% in urban areas, which was three percentage points higher than the rate recorded in November 1984.

5. Fiscal and monetary policy

a) *Fiscal policy*

The fact that the growth rate in expenditure was lower than that of income led to a 45% drop in the 1986 fiscal deficit, which thus dropped to one-half (0.7%) of its former, already low level in respect of the product (see table 18).

Tax revenue increased by 32%, a much higher rate than the growth of the product as measured at current values (12%). This growth was based on an expansion of indirect taxes (42%), and, to a lesser extent, of taxes on foreign trade (27%).

The rise in indirect taxes was due to a nearly 70% tax increase for petroleum products, which could be applied thanks to a drop in their international prices. The collection of taxes on the remaining items under this heading (cigarettes, alcoholic beverages and the value added tax) rose by 29%. On the other hand, the share of indirect taxes represented by the value added tax was only 12%, despite the expansion of its coverage.

The increase in international coffee prices was reflected in a substantial rise in revenues from export taxes. In contrast, import duties only increased by 16%, since during the first eight months of the year a large number of exemptions were granted. Nevertheless, given their relative weight in foreign trade taxation (around 85%), their contribution in absolute terms was higher. The cancellation of a 36% exchange surcharge on traditional exports and of one of 5% on non-traditional exports did not affect this item, since this tax was collected and administered by the Central Bank.

The increased receipts from direct taxation (24%) stemmed from a rise of the same size in income tax collection; this was attributable to an expansion of the tax base, which in turn was a consequence of the inflation recorded in the preceding year. Thus, in 1986 tax receipts went up by 25%, whereas the domestic product at current prices grew by 12%, resulting in an ex-post elasticity of 2.1%. A provision under which the tax base for individuals would include all income from the various businesses in which they might be involved also contributed to the rise in the amount collected.

In order to limit the income tax exemptions granted to encourage investment, it was decided in December that, taken as a whole, the incentives granted to individuals as corporations could not exceed 50% of their total taxable income, which was one-half the ceiling effective up to that time. The effects of this measure were expected to be felt in 1987.

Non-tax revenues expanded by 19%. Payments by the Rosario Dominicana mining company—which account for over 50% of the total—increased by 35%, notwithstanding a 2% decline in the value of exports.

Current expenditure rose at a much lower rate than income (16%), and current savings therefore more than doubled. Expenditure on remunerations increased by 14%; this was due exclusively to wage adjustments, since the number of employees declined by 1% and supplies

contracted by 7%. Current transfers were the most dynamic item, since they expanded by almost 40%; this was a consequence of the central government's allocation of resources to the State Sugar Council (CEA) and to the Dominican Electricity Corporation (CDE), public enterprises which have been suffering from acute financial imbalances.

Capital expenditure expanded by 42%. Real investment again soared (79%), after having jumped by 68% the preceding year. Capital transfers grew by 45%, a much lower rate than that of the preceding fiscal year (107%). This entry, basically included United States grants and donations, which are channelled to private enterprise through the Central Bank, and the government funds provided to the CDE in order to finance its deficit of capital.

The fiscal imbalance was largely covered, as in the past two years, with external resources, 70% of which were grants or donations.

Although in 1986 the taxation coefficient showed a slight upturn, rising to 12.5%, which was four percentage points above the 1982 historical minimum, it is still among the lowest in Latin America. The large number of exemptions and the use of specific rates have made the system inelastic and have eroded the tax base. Furthermore, as three-fourths of the receipts come from indirect taxes, the system is highly regressive.

b) *Monetary policy*

Two different trends were to be seen in monetary and financial policy during the year. In the first half of the year they generally followed the restrictive line of the preceding year, but in the second half they were clearly expansionary.

In order to control the means of payment, a 100% marginal reserve requirement was established in January for deposits, attracted by commercial banks, but this provision was abolished in June. In addition, the exchange surcharge of 36% on traditional exports and of 5% on non-traditional exports that had been instituted in 1985, were reduced by one-half in January and were cancelled entirely in mid-year. Both the cancellation of the marginal reserve requirement and the elimination of the exchange surcharge led to an increase in liquidity.

In August, when the new government took office, funds were needed both to settle the debt owed to rice millers so that credit would be made available to rice producers to start up the sugar cane harvest, as well as to revive the economy by means of a public works programme. These disbursements were covered by grants and donations and by external borrowing, credit from commercial banks and monetary issues. The supply of credit for financial and non-financial public bodies increased by 14%; and as that allocated to the central government declined by 2%, public-sector financing grew by only 6%.

In contrast to the situation in the preceding fiscal year, in September a policy was initiated which was aimed at reducing interest rates on loans and deposits. The Investment Fund for Economic Development (FIDE), which operates as a "second tierbank", lowered the rates it applied to financing for agroindustry and the inbond subcontracting industry from 20% to 17%. Likewise, the Central Bank reduced the fee it charged for rediscounts and loans by two percentage points, to 16%.

The yields of the main instruments used by the Central Bank to attract resources also declined by two percentage points. Thus, the yield of financial certificates fell to 16% and that of stabilization bonds, to 14%. Because the supply of funds, exceeded the economy's needs, this measure had an influence on the rest of the financial sector, whose interest rates also diminished.

The economic recession affecting the country in recent years reduced investment opportunities in productive activities. This has given rise to a shift in investment from production sectors to the financial sphere, thereby encouraging the development of both formal and informal financial bodies and favouring speculation. In order to reverse this trend, the monetary authorities raised the amount of capital required for the operation of banks, mortgage societies and development banks. In addition, likewise, the granting of permits for opening new financial institutions was temporarily frozen.

Late in the year, with a view to curbing excess liquidity the Central Bank authorized the issuance of 100 million pesos in stock certificates, and "stabilization certificates" for an amount equivalent to 5% of the money in circulation.

During 1986 the money supply expanded by 43%, whereas the product at current values grew by about 12%. This was basically due to the increased earnings received by exporters as a result of the

reduction of taxes on external sales of traditional products; the conversion into national currency of foreign loans and donations; and the use by the government of funds deposited in the Central Bank (273 million pesos). Although credit increased by 24%, its growth rate was lower than that of the money supply. This led to a surplus of liquidity, which was reflected in an 86% growth in time deposits and an almost threefold increase in commercial bank reserves. The rapid growth of the amount of money in circulation, given the moderate pace of economic activity and the decline in inflation, led to a drop of nearly three percentage points in the velocity of circulation (see table 19).

Approximately 85% of the increase in the credit flow generated in 1986 went to the private sector, and its share in the total therefore rose from 48% in 1984 to 59%. The distribution of loans granted by commercial banks indicates a dissemination of financing to all sectors, although a larger percentage of the increase went to manufacturing and commerce. A large share of these resources was also used to finance the public sector (see table 20).

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	^S6-
Indexes (1980 = 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	104.0	105.3	110.6	110.9	108.3	110.3
Gross national income	100.0	105.2	102.6	108.5	112.4	101.6	106.5
Population (millions of inhabitants)	5.70	5.84	5.98	6.12	6.27	6.42	6.57
Per capita gross domestic product	100.0	101.5	100.4	102.9	100.9	96.2	95.8
Growth rates							
B. Short-term economic indicators							
Gross domestic product	5.7	4.0	1.3	5.0	0.3	-2.3	1.9
Per capita gross domestic product	3.2	1.5	-1.1	2.6	-2.0	-4.5	-0.4
Gross national income	6.8	5.2	-2.4	5.8	3.7	-9.6	4.9
Consumer prices							
December-to-December	4.5	7.3	7.2	7.7	38.1	28.4	6.5
Variation between annual averages	16.8	7.5	7.6	7.0	24.4	37.5	9.7
Real minimum wages	-4.8	-7.0	-7.1	-6.5	1.8	-2.4	7.2
Money	-3.1	14.0	10.7	6.7	48.5	16.8	42.8
Current income of government	29.0	4.5	-18.0	21.6	27.0	41.6	31.1
Total expenditure of government	7.6	1.4	-7.4	15.5	9.2	48.0	22.1
Fiscal deficit/total expenditure of government	17.5	15.0	24.7	20.7	7.8	11.8	5.3
Fiscal deficit/gross domestic product	2.8	2.2	3.1	2.8	0.9	1.5	0.7
Current value of exports of goods and services	12.0	19.0	-24.5	8.8	10.3	-3.5	6.5
Current value of imports of goods and services	29.3	-5.1	-15.6	2.8	-1.3	0.2	-0.6
Terms of trade (goods and services)	5.9	10.8	-20.9	8.4	13.3	-31.8	18.6
Millions of dollars							
C. External sector							
Trade balance (goods and services)	-647	-306	-393	-336	-187	-238	-142
Net payments of profits and interest	211	277	255	297	241	226	300
Balance on current account	-676	-399	-458	-438	-223	-222	-200
Balance on capital account	709	438	312	301	320	264	171
Variation in net international reserves	44	54	-160	-147	84	10	-30
Total disbursed external debt	2 173	2 549	2 966	3 313	3 536	3 690	3 646

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Percentages.

Table 2

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total supply	105.1	102.9	105.2	128.9	122.9	6.6	0.1	-2.1	2.3
Gross domestic product at market prices	110.9	108.3	110.3	100.0	100.0	5.0	0.3	-2.3	1.9
Imports of goods and services	84.9	84.0	87.5	28.9	22.9	14.4	-0.8	-1.0	4.1
Total demand	105.1	102.9	105.2	128.9	122.9	6.6	0.1	-2.1	2.3
Domestic demand	105.1	95.3	99.5	109.8	99.0	5.8	0.5	-9.4	4.5
Gross domestic investment	85.4	80.5	87.9	24.9	19.8	2.4	0.9	-5.7	9.1
Gross fixed investment	84.9	83.0	86.8	23.6	18.6	5.3	-0.7	-2.2	4.5
Construction	105.2	94.3	106.2	14.6	14.1	9.6	2.5	-10.4	12.6
Machinery	51.9	64.7	55.1	9.0	4.5	-5.3	-10.0	24.5	-14.7
Public	50.4	70.2	102.3	5.2	4.8	17.2	-40.8	39.2	45.8
Private	94.7	86.7	82.4	18.4	13.8	2.4	10.6	-8.5	-5.0
Changes in stocks	95.0	32.8	109.3	12	12				
Total consumption	110.9	99.6	102.9	84.9	79.2	6.6	0.4	-10.2	3.4
General government	130.3	134.1	139.8	7.6	9.6	2.7	-4.6	2.9	4.3
Private	109.0	96.2	99.3	77.3	69.6	7.1	1.0	-11.8	3.3
Exports of goods and services	104.9	146.6	137.9	19.2	24.0	11.7	-2.1	3.9	-5.9

Source: ECLAC, on the basis of official figures.

"Preliminary figures. The figures for exports and imports of goods and services were taken from IMF balance-of-payments data expressed in dollars at current prices, converted to constant 1980 values by means of unit value indexes calculated by ECLAC for this purpose.

Table 3

**DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY
KIND OF ECONOMY ACTIVITY, AT MARKET PRICES**

	Indexes (1980 == 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Gross domestic product	110.9	108.3	110.3	100.0	100.0	5.0	0.3	-2.3	1.9
Goods	110.4	103.8	105.0	48.0	45.7	7.7	0.1	-6.0	1.2
Agriculture	113.8	108.3	106.1	20.2	19.4	3.1	-	-4.8	-2.1
Mining	108.4	108.3	96.2	5.3	4.6	33.0	8.3	-0.1	-11.3
Manufacturing	104.6	99.3	103.2	15.3	14.3	1.0	-2.4	-5.0	3.9
Construction	114.9	97.2	112.3	7.2	7.4	23.8	0.1	-15.4	15.5
Basic services	111.8	109.5	112.7	5.9	6.0	1.3	.	-2.1	3.0
Electricity, gas and water	115.5	121.2	126.8	0.5	0.5	3.9	12.5	4.9	4.6
Transport, storage and communications	111.5	108.5	111.6	5.5	5.5	1.1	-1.0	-2.7	2.8
Other services	111.4	113.0	115.6	46.1	48.3	2.9	0.6	1.4	2.4
Commerce, restaurants and hotels	108.6	103.5	104.4	15.8	15.0	0.5	-1.6	-4.7	0.9
Financial establishments, insurance, real estate and business services	109.0	119.2	126.2	12.0	13.7	2.9	2.2	9.3	5.9
Ownership of dwellings	106.1	107.1	108.3	8.4	8.2	2.4	2.0	1.0	1.1
Community, social and personal services	115.3	117.0	118.4	18.3	19.6	5.0	1.4	1.5	1.2
Government services	117.8	119.2	118.6	8.3	8.9	2.8	3.0	1.2	-0.5

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Includes the livestock, forestry and fisheries sectors.

Table 4

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Index of agricultural production (1970 = 100)	140.2	159.7	159.7	154.1	150.8	3.0	-	-3.5	-2.1
Crop farming	127.6	142.0	141.3	135.3	128.9	2.1	-0.5	-4.2	-4.7
For export	122.1	132.2	123.8	111.7	106.0	-0.4	-6.4	-9.8	-5.1
For domestic consumption	137.5	159.1	165.1	162.7	155.2	6.4	3.8	-1.5	-4.6
Stock-raising	163.1	193.1	194.0	188.1	187.3	4.8	0.5	-3.0	-0.4
Fishing and forestry	200.1	227.7	236.7	243.9	251.8	0.5	4.0	3.0	3.2
Production of main crops									
For export									
Sugar cane	9 056	11 520	10 271	8 419	7 695	-2.4	-10.8	-18.0	-8.6
Tobacco	52	34	28	31	26	-	-17.6	10.7	-16.1
Coffee	120	136	144	132	137	7.1	5.9	-8.3	3.8
Cocoa	28	33	35	35	36	-5.7	6.1	-	2.9
For domestic consumption									
Rice	398	501	507	498	436	12.1	12	-1.8	-12.4
Maize	46	55	84	91	82	12.2	52.7	8.3	-9.9
Beans	49	61	67	48	49	3.4	9.8	-28.4	2.1
Lentils	18	24	26	26	27	-	8.3	-	3.8
Peanuts	46	34	35	43	47	9.7	2.9	22.9	9.3
Sweet potatoes	68	61	68	71	76	3.4	11.5	4.4	7.0
Yucca	116	112	124	135	143	2.8	10.7	8.9	5.9
Tomatoes	153	165	162	165	170	2.5	-1.8	1.9	3.0
Bananas ⁰	868	1 101	1 124	1 180	1 091	-9.2	2.1	5.0	-7.5
Indicators of stock-raising production									
Slaughtering									
Beef	49	63	66	74	76	6.3	4.8	12.1	2.7
Pork	23	2	7	7	8	46.5	250.0	-	14.3
Poultry	58	83	84	81	83	6.4	12	-3.6	2.5
Milk production	431	463	418	368	327	2.4	-9.7	-12.0	-11.1

Source: ECLAC, on the basis of figures supplied by the Central Bank of the Dominican Republic.

"Preliminary figures. Thousands of tons. Millions of units. Millions of litres.

Table 5

DOMINICAN REPUBLIC: INDICATORS OF MINING PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Index of mining production (1970 = 100)	548.1	549.9	594.0	593.5	526.9	-30.8	8.0	-0.1	-11.2
Production of the main minerals									
Ferronickel	43	52	64	67	58	263.7	23.1	4.7	-13.4
Gold ^T	370	354	338	329	285	-8.4	-4.5	-2.7	-13.4
Silver ^c	1 623	1 329	1 207	1 581	1 356	-39.5	-9.2	31.0	-14.2

Source: ECLAC, on the basis of figures supplied by the Central Bank of the Dominican Republic.
Preliminary figures. Thousands of tons. Thousands of troy ounces.

Table 6

DOMINICAN REPUBLIC: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Index of manufacturing production (1970 = 100)	205.1	224.7	217.9	209.7	217.6	1.3	-3.0	-3.8	3.8
Foodstuffs, beverages and tobacco									
Foodstuffs	180.5	199.0	194.4	189.8	195.8	-1.1	-2.3	-2.3	3.2
Sugar and sugar products	188.7	184.7	176.6	169.8	170.7	-2.3	-4.4	-3.8	0.5
Other foodstuffs	113.0	123.3	115.6	93.9	85.9	-5.9	-6.2	-18.8	-8.5
Beverages	243.4	229.1	220.7	224.8	232.2	-0.8	-3.7	1.9	3.3
Tobacco	158.1	285.5	306.2	304.5	333.6	2.6	7.2	-0.5	9.6
Other manufacturing industries	147.6	168.6	148.7	158.5	168.0	-0.2	-11.8	6.6	6.0
Production of some major manufactures									
Raw sugar	281.2	304.2	290.9	271.5	285.1	6.5	-4.4	-6.7	5.0
Refined sugar	911	1 097	1 022	832	774	-6.6	-6.8	-18.6	-7.0
Hulled coffee	102	112	108	88	67	-5.4	-3.6	-18.5	-23.9
Wheat flour'	51	68	72	66	69	7.9	5.9	-8.3	4.5
Rum"	3 346	3 875	3 737	4664	5 178	-3.0	-3.6	24.8	11.0
Beer"	18	22	26	24	28	0.3	18.2	-7.7	16.7
Cigarettes'	78	100	95	103	109	16.3	-5.0	8.4	5.8
Cement	222	209	184	196	208	-5.4	-11.8	6.6	6.0
Consumption of electricity by industry [^]	1 015	1 104	1 143	997	922	16.4	3.5	-12.8	-7.5

Source: ECLAC, on the basis of data supply by the Central Bank of the Dominican Republic.

"Preliminary figures. Millions of tons. ^c Thousands of quintals. Millions of litres. [^] Millions of 20-unit packages. Millions of kWh.

Table 7

DOMINICAN REPUBLIC: CONSTRUCTION INDICATORS

	1980	1983	1984	1985	1986"	Growth rates				
						1983	1984	1985	1986"	
Area constructed										
(thousands of m ²)	1 179	1 176	1004	840	989	21.4	-14.6	-16.3	17.7	
Housing	879	778	692	622	450	11.0	-11.1	-10.1	-27.7	
Production of some building materials										
Structural steel ⁰	51	76	79	73	101	38.7	3.9	-7.6	38.4	
Cement ¹⁷	1 015	1 104	1 143	997	922	16.4	3.5	-12.8	-7.5	
Paint"	2 993	2 526	2 180	2 616	3 140	8.0	-13.7	20.0	20.0	

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

"Preliminary figures. Building permits granted. Thousands of tons. Thousands of gallons.

Table 8

DOMINICAN REPUBLIC: MAIN FOREIGN TRADE INDICATORS (GOODS)

	1980	1981	1982	1983	1984	1985	1986"
	Growth rate!;						
Exports							
Value	10.7	23.5	-35.4	2.3	10.6	-15.0	-2.2
Volume	-11.2	0.8	-7.6	10.0	2.2	0.7	-11.1
Unit value	24.7	22.5	-30.0	-7.0	8.2	-15.5	10.0
Imports							
Value	33.6	-4.5	-13.4	1.7	-1.7	2.3	-1.6
Volume	14.5	-10.6	-11.9	16.6	0.8	0.2	4.5
Unit value	16.7	6.8	-1.7	-12.8	-2.5	2.1	-5.8
Terms of trade	7.7	14.4	-29.2	5.1	9.8	-14.8	16.8
	Indexes (1980 = 100)						
Purchasing power of exports	100.0	115.3	75.4	87.1	97.8	83.8	87.1
Volume of exports	100.0	100.8	93.1	102.4	104.7	105.4	93.7
Volume of imports	100.0	89.4	78.8	91.9	92.7	92.9	97.1
Terms of trade	100.0	114.4	80.9	85.1	93.4	79.6	92.9

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

"Preliminary figures.

Table 9

DOMINICAN REPUBLIC: EXCHANGE RATES

	Exchange rate ^a	Exchange rate index	Price index		Ratio (3/4)	Parity exchange rate (1.15x5)	Index of under- or over-valuation of the exchange rate (6/1)
			Domestic	External			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970	1.15	100.0	100.0	100.0	100.0	1.15	100.0
1971	1.14	99.1	104.3	104.3	100.0	1.15	100.9
1972	1.12	97.4	112.5	107.7	104.5	1.20	107.3
1973	1.13	98.3	129.5	114.4	113.2	1.30	115.2
1974	1.14	99.1	146.5	127.0	115.4	1.33	116.4
1975	1.18	102.6	167.7	138.6	121.0	1.39	117.9
1976	1.20	104.3	180.9	146.6	123.4	1.42	118.3
1977	1.22	106.1	204.1	156.2	130.7	1.50	123.2
1978	1.25	108.7	218.6	168.1	130.0	1.50	119.6
1979	1.23	107.0	238.6	187.0	127.6	1.47	119.3
1980	1.26	109.6	278.6	212.3	131.2	1.51	119.8
1981	1.28	111.3	299.6	234.4	127.8	1.47	114.8
1982	1.46	127.0	322.5	248.6	129.7	1.49	102.2
1983	1.60	139.1	344.8	256.7	134.3	1.54	96.5
1984	2.83	246.1	428.9	267.7	160.2	1.84	65.1
1985	3.12	271.3	589.8	277.1	212.8	2.45	78.5
1986	2.91	253.0	647.3	282.6	229.0	2.63	90.5

Source: ECLAC, on the basis of data provided by the Central Bank of the Dominican Republic and the International Monetary Fund.

^aPesos per dollar. ^bBase 1970 = 100.

Table 10

DOMINICAN REPUBLIC: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Total	868	739	722	100.0	100.0	2.3	10.6	-14.9	-2.2
Main traditional exports	735	581	546	85.7	75.6	-0.7	3.2	-41.7	-6.0
Raw sugar	272	158	134	30.2	18.5	3.6	-11.7	-16.9	-15.5
Furfural	20	17	21	2.2	2.9	-40.6	21.9	-31.8	29.1
Molasses	14	10	11	1.6	1.5	-15.8	24.6	-9.4	13.5
Coffee	95	86	113	5.4	15.6	4.9	26.2	-17.1	30.9
Cocoa	70	58	59	5.3	8.2	1.8	11.1	-27.3	14
Tobacco	24	18	19	3.6	2.6	244.8	30.0	11.2	5.6
Ferronickel	109	121	78	10.5	10.8	0.5	-19.9	-13.8	-35.6
Gold and silver	132	114	112	27.0	15.5	6.0	5.2	-21.1	-1.6
Main non-traditional exports	133	158	176	14.2	24.4	-16.6	54.7	18.8	11.6
Chemical fertilizers	6	6	7	2.0	1.0	-83.3	337.1	-0.3	18.0
Beef	1	13	19	0.3	2.6	-26.1	-79.7	1 366.7	41.7
Coconut emulsion	7	5	5	0.6	0.7	-19.8	4.6	-32.4	2.2
Tinned pigeon peas	7	6	7	0.5	1.0	53.5	10.6	-23.3	28.6
Fresh okra	4	6	3	0.1	0.4	-10.8	24.2	53.7	-47.6
Taro	5	6	11	0.3	1.5	-9.3	33.3	11.5	82.8
Leather handbags	5	3	2	0.6	0.3	-8.3	-1.8	-39.2	-48.4
Other	98	113	122	9.8	16.9	-12.1	86.0	16.6	8.6

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

°Preliminary figures.

Table 11

DOMINICAN REPUBLIC: EXPORT VOLUME OF MAIN PRODUCTS

	Tons					Growth rates			
	1982	1983	1984	1985	1986°	1983	1984	1985	1986°
Raw sugar	833 290	917 719	828 443	655 220	449 212	10.1	-9.7	-20.9	-31.4
Furfural	30 935	35 789	32 843	28 145	34 619	15.7	-8.2	-14.3	23.0
Molasses	310 624	220 214	189 722	150 537	164 548	-29.1	-13.8	-20.7	9.3
Coffee (green)	34 012	29 709	34 590	30 226	30 411	-12.7	16.4	-12.6	0.6
Cocoa	38 730	34 441	32 280	31 294	35 867	-11.1	-6.3	-3.1	14.5
Tobacco	12 058	13 492	16 195	13 874	15 504	11.9	20.0	-14.3	11.7
Ferronickel	14 161	53 825	62 361	67 893	53 903	280.1	15.9	8.9	-20.6
Gold and silver	2 583 988	1 682 162	1 545 746	1 909 296	1 641 698	-34.9	-8.1	23.5	-14.0

Source: ECLAC, on the basis of figures supplied by the Central Bank of the Dominican Republic.

°Preliminary figures. Troy ounces.

Table 12

**DOMINICAN REPUBLIC: EXPORTS TO THE UNITED STATES
MADE UNDER TARIFF INCENTIVES SYSTEMS"**

	1979	1980	1981	1982	1983	1984	1985	1986
Thousands of dollars								
Total	70 307	82 311	114 273	127 781	147 251	182 515	257 379	326 912
Articles 806 and 807*	28 047	31 289	41 154	42 856	49 409	61 728	70 208	91 591
Generalized System of Preferences	42 260	51 022	73 119	84 925	97 842	98 781	131 031	128 935
Caribbean Basin Initiative^	-	-	-	-	-	22 006	56 140	106 386
Growth rates								
Total		17.1	38.8	11.8	15.2	23.9	41.0	27.0
Articles 806 and 807		11.6	31.5	4.1	15.3	24.9	13.7	30.5
Generalized System of Preferences		20.7	43.3	16.1	15.2	1.0	32.6	-1.6
Caribbean Basin Initiative							155.1	89.5
Structure								
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Articles 806 and 807	39.9	38.0	36.0	33.5	33.6	33.8	27.3	28.0
Generalized System of Preferences	60.1	62.0	64.0	66.5	66.4	54.1	50.9	39.4
Caribbean Basin Initiative	-	-	-	-	-	12.1	21.8	32.5

Source: ECLAC, on the basis of figures provided by the Glastaff Institute.

"Includes both goods and the value added by the in bond subcontracting industry, which figures in the balance-of-payments under the "services" entry. Articles 806 and 807 of the United States tariff schedule refer to products sent abroad for assembly which are subsequently returned to the United States. The figures which appear in this table represent the difference between the value of the returned assembled product and that of the component materials originally exported. "The Caribbean Basin Initiative has been in operation since 1984. It offers the Caribbean and Central American countries the opportunity to place their products, tax free, on the United States market. Sugar exports are included in this initiative so that they may enter the United States duty free. However, since they are traditional exports, they were not taken into account in this table.

Table 13

DOMINICAN REPUBLIC: IMPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown		Growth rates			
	1984	1985	1986"	January-June		1980	1986"	1983	1984	1985	1986""
				1985"	1986"						
Total	1257	1 286	1266	626	792	100.0	100.0	1.8	-1.7	2.3	26.5
Consumer goods	217	254		96	262	22.6		8.2	-19.2	17.1	172.8
Durables	88	105				8.0		6.2	-9.4	19.3	
Foodstuffs	62	76				8.2		10.9	-27.5	22.6	
Other	67	73				5.0		8.0	-21.9	9.0	
Raw materials and intermediate goods	899	822		375	402	61.3		3.5	4.8	-8.6	7.2
Petroleum and fuels	505	427	265			30.0	20.9	2.0	9.5	-15.4	
Other	394	395				31.2		5.3	-0.8	0.3	
Capital goods	141	210	...	105	87	16.1	...	-14.7	-7.5	48.9	-17.1
Unclassified				50	41						-17.3

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

"Preliminary figures. January-June variation with respect to the same period of the preceding year.

Table 14

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986 ^a
Balance on current account	-676	-399	-458	-438	-223	-222	-200
Trade balance	-647	-306	-393	-336	-187	-238	-142
Exports of goods and services	1 271	1 513	1 142	1 242	1 370	1 322	1408
Goods FOB	962	1 188	768	785	868	730	722
Real services	309	325	374	457	501	584	686
Transport and insurance	26	31	21	27	29	35	34
Travel	173	206	266	320	371	451	506
Imports of goods and services	1 919	1 818	1 535	1 578	1 557	1560	1 550
Goods FOB	1 520	1 452	1 257	1 279	1 257	1286	1 266
Real services	399	367	277	299	300	274	284
Transport and insurance	175	154	138	150	127	121	120
Travel	166	128	87	88	89	83	90
Factor services	-211	-277	-255	-297	-241	-226	-300
Profits	-65	-	-	-	-	-45	-50
Interest received	42	12	4	7	6	22	17
Interest paid	-188	-288	-259	-304	-247	-203	-267
Unrequited private transfer payments	183	183	190	195	205	242	242
Balance on capital account	709	438	312	301	320	264	171
Unrequited official transfer payments	5	10	15	20	60	114	29
Long-term capital	349	236	283	558	294	186	142
Direct investment (net)	93	80	-1	48	68	36	50
Portfolio investment (net)	-	-	-	-	-	-	-
Other long-term capital	256	156	285	510	226	150	92
Official sector ^c	266	239	302	576	237	162	
Loans received	303	304	416	698	305	203	
Amortization payments	-37	-64	-113	-122	-68	-41	
Commercial banks'	1	-8	-	9	-2	-	
Loans received	5	3	1	11	-	-	
Amortization payments	-3	-11	-1	-2	-2	-	
Other sectors'	-11	-75	-18	-75	-9	-12	
Loans received	159	30	41	16	20	7	
Amortization payments	-170	-105	-58	-92	-30	-19	
Short-term capital (net)	356	223	44	-289	-63	-82	
Official sector	88	22	162	-165	-114	-101	
Commercial banks	90	201	-46	-235	-22	-85	
Other sectors	178	-	-73	110	73	104	
Errors and omissions (net)	-	-31	-30	13	30	46	
Global balance ^b	34	38	-146	-136	97	42	-29
Total variation in reserves (- sign indicates an increase)	-44	-54	160	147	-84	-10	30
Monetary gold	-5	-5	16	13	22	-	-1
Special Drawing Rights	9	-2	1	-	-	-	
IMF reserve position	-	-	-	-8	8	-	
Foreign exchange assets	27	-21	95	-34	-91	-	
Other assets	-	-	-	-	2	-	
Use made of IMF credit	-76	-25	48	176	-25	-	

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, June 1987; 1986: ECLAC, on the basis of official data.

Preliminary figures subject to revision. Includes other non-factor services. Includes net loans granted and other assets and liabilities. Equals the total variation in reserves (of opposite sign) plus counterpart items.

Table 15

DOMINICAN REPUBLIC: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1981	1982	1983	1984	1985	1986"
Millions of dollars							
Total external debt	2 173	2 549	2 966	3 313	3 536	3 690	3 646
Balances							
Long and medium term						2 800	2 985
Short-term						890	661
Interest*	177	212	249	304	178	203	267
Percentages							
Total external debt/exports of goods and services	171.0	168.5	259.7	266.7	258.3	279.1	258.9
Net interest payments /exports of goods and services	10.6	13.2	21.5	23.9	12.6	13.7	17.8

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

" Preliminary figures. Total public and guaranteed private external debt. *Corresponds to the "interest paid" entry on the balance-of-payments current account. Corresponds to the net item of the balance-of-payments.

Table 16

DOMINICAN REPUBLIC: DOMESTIC PRICES

	1980	1981	1982	1983	1984	1985	1986
Variation December to December							
Consumer price index	4.5	7.3	7.2	7.7	38.1	28.4	6.5
Food, beverages and tobacco	-4.3	3.1	9.5	4.0	38.0	36.2	9.4
Housing	15.0	18.6	4.7	12.3	25.0	17.2	7.0
Wearing apparel and footwear	16.1	5.9	11.6	20.6	68.9	38.1	4.8
Other	15.4	5.1	2.9	7.2	46.1	18.4	-1.6
Variation between annual averages							
Consumer price index	16.8	7.5	7.6	7.0	24.4	37.5	9.7
Food, beverages and tobacco	15.4	0.4	7.9	6.5	22.0	39.3	15.4
Housing	10.2	22.1	9.4	8.2	21.5	21.1	9.2
Wearing apparel and footwear	20.4	8.2	9.6	14.4	46.8	57.3	15.5
Other	31.8	10.0	3.9	4.1	27.5	36.7	1.8

Source: ECLAC, on the basis of data supplied by the Central Bank of the Dominican Republic.

Table 17

DOMINICAN REPUBLIC: THE MINIMUM WAGE

	1980	1981	1982	1983	1984	1985	1986
	Pesos						
Minimum monthly wage	125.0	125.0	125.0	125.0	158.3"	212.5*	250.0
	Indexes (1980 = 100)						
Nominal	100.0	100.0	100.0	100.0	126.6	170.0	200.0
Real	100.0	93.0	86.4	80.8	82.2	80.2	86.0
	Growth rates						
Nominal	.	.	.	.	26.6	34.2	17.6
Real	-4.8	-7.0	-7.1	-6.5	1.8	-2.4	7.2
Source: ECLAC, on the basis of official figures.							
"Raised to 175 pesos as from May		Raised to 250 pesos as from July.					

Table 18

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates				
	1983	1984	1985	1986 ^o	1982	1983	1984	1985	1986 ^o
1. Current income	905	1 149	1 627	2 133	-18.0	21.6	27.0	41.6	31.1
Tax revenue	782	1 049	1 527	2 013	-10.1	18.3	34.1	45.5	31.8
Direct	224	274	365	454	-1.9	8.7	22.3	33.1	24.4
Indirect	296	414	586	834	6.3	17.0	39.9	41.5	42.3
On foreign trade	243	336	545	691	-32.0	31.4	38.3	62.2	26.8
Other taxes	19	25	31	34	6.2	11.8	31.6	24.0	9.7
Non-tax revenue	123	100	100	120	-51.4	47.6	-18.9	0.6	19.1
2. Current expenditure	878	1 002	1 400	1 622	2.1	10.9	14.1	39.7	15.9
Wages and salaries	444	498	613	696	6.4	3.3	12.2	23.1	13.5
Current transfers	188	224	415	578	1.9	16.8	19.4	84.8	39.4
Other expenditures	246	280	372	348	-6.1	22.4	13.8	32.9	-6.5
3. Current saving (1-2)	27	147	227	511	...		444.4	54.4	125.1
4. Capital expenditure	264	244	445	630	-32.5	34.0	-7.3	82.0	41.7
Real investment	117	78	131	234	-19.0	18.4	-33.0	67.6	79.0
Capital transfers	118	116	240	348	-48.1	42.2	-1.7	106.9	45.0
Other capital expenditure	29	50	74	48	45.5	87.5	73.4	46.7	-35.3
5. Total expenditure (2 + 4)	1 142	1 246	1 845	2 252	-7.4	15.5	9.2	48.0	22.1
6. Fiscal deficit (1-5)	-237	-97	-218	-119			-58.9	123.5	-45.4
7. Financing of deficit									
Net domestic financing	170	37	13	16			-78.2	-64.9	23.1
Credit received	170	37	13	16			-78.2	-64.9	23.1
Less amortization payments	-	-	-	-					
Sale of bonds	-	-	-	-					
Net external financing	39	98	227	346			151.3	131.6	52.4
Credit received*	97	131	269	366			35.1	105.3	36.1
Less amortization payments	58	33	42	20			-43.1	27.3	-52.4
Other sources	28	-38	-22	-243					
Ratios (percentages)									
Current saving/capital expenditure	10.2	60.2	51.1	81.1					
Fiscal deficit/total expenditure	20.7	7.8	11.8	5.3					
Tax revenue/GDP	9.1	9.8	10.6	12.5					
Total expenditure/GDP	13.3	11.6	12.8	14.0					
Fiscal deficit/GDP	2.8	0.9	1.5	0.7					
Domestic financing/deficit	71.9	38.0	6.0	13.5					
External financing/deficit	16.5	100.7	104.4	291.4					

Source: ECLAC, on the basis of data supplied by the Ministry of Finance and the Central Bank of the Dominican Republic.
^oPreliminary figures. *Including grants and donations in 1985 and 1986 in the amounts of 31 million and 205 million pesos, respectively.

Table 19

DOMINICAN REPUBLIC: MONETARY INDICATORS

	End-year balances				Growth rates			
	(in local currency)				1983	1984	1985	1986"
	1983	1984	1985	1986"				
Monetary base	850	1 097	1 085	2 112	16.3	29.1	-1.1	94.7
Money (M₁)	781	1 160	1 355	1 935	6.7	48.5	16.8	42.8
Currency outside banks	415	593	678	938	15.9	42.9	14.3	38.3
Current account deposits	366	567	677	997	-2.1	54.9	19.4	47.3
Quasi-money	895	1 010	1 235	2 297	11.3	12.8	22.3	86.0
Money plus quasi-money (M ₂)	1 676	2 170	2 590	4 232	9.2	29.5	19.4	63.4
Domestic credit	3 234	3 502	3 844	4 770	16.6	8.3	9.8	24.1
Public sector	1 871	1 998	1 992	1 946	23.7	6.8	-0.3	6.1
Private sector	1 363	1 504	1 852	2 824	8.1	10.3	23.1	43.4
Ratios								
Monetary multipliers								
M ₁ /monetary base	0.90	1.02	1.10	1.00				
M ₂ /monetary base	2.05	2.09	2.12	2.02				
Velocity of circulation								
GDP/M ₁	12.35	11.82	12.74	10.03				

Source: ECLAC, on the basis of figures provided by the Central Bank of the Dominican Republic and the International Monetary Fund.

"Preliminary figures. Annual averages were used in calculating the ratios.

Table 20

DOMINICAN REPUBLIC: LOANS GRANTED BY COMMERCIAL BANKS

	End-year balances					Percentage breakdown					
	(millions of pesos)					1980	1986"	1983	1984	1985	1986"
	1982	1983	1984	1985	1986"						
Total	1 542	1 746	1 907	2 230	3 277	100.0	100.0	13.2	9.2	16.9	47.0
Agriculture	98	138	160	197	279	7.3	8.5	40.4	15.7	23.4	41.8
Sugar industry	54	29	41	47	141	2.4	4.3	-46.3	41.4	14.6	200.0
Manufacturing	355	427	472	589	830	30.7	25.3	20.3	10.5	24.8	40.9
Construction	62	68	79	84	158	5.9	4.8	9.7	16.2	6.3	88.1
Commerce	209	217	217	249	425	14.1	13.0	3.8	-	14.7	70.7
Public sector	497	570	596	684	833	19.2	25.4	14.7	4.6	14.8	21.8
Imports	75	70	73	72	84	6.7	2.6	-6.7	4.3	-1.4	16.7
Exports	68	100	132	145	232	4.2	7.1	47.1	32.0	9.8	60.0
Other	124	127	137	163	295	9.5	9.0	2.7	8.1	18.7	80.8

Source: ECLAC, on the basis of data provided by the Central Bank of the Dominican Republic.

"Preliminary figures.

URUGUAY

1. Recent economic trends

a) *Introduction and summary*

The reactivation of production which had begun during the second half of 1985 was consolidated in 1986. The gross domestic product grew by 6.6 % ; international reserves increased considerably; the public-sector deficit declined to less than 5 % of the product; and once again wages increased and unemployment fell. The most significant negative feature was the persistence of a high annual inflation rate of approximately 70% (see table 1 and figure 1).

The main factors contributing to the favourable performance of the economy derived from the external sector. The slump in oil prices brought in its wake a marked decline in the value of fuel imports, which in 1985 had represented 30% of total external purchases of goods. The reduction of international interest rates also helped to bring about an improvement in the balance on current account. At the same time, the devaluation of the dollar against the other strong currencies stimulated exports to the European Economic Community, especially to the Federal Republic of Germany, while the introduction of the Plan Cruzado led to a strong demand from Brazil for Uruguayan imports. These changes boosted beef sales in particular because, together with the sharp increase in the amount sold, there was a sizeable increase in the prices of an item representing 15% of merchandise exports. Lastly, introduction of the Plan Austral in Argentina helped to augment the number of tourists from that country in the summer of 1985/1986.

Furthermore, because of the greater income generated by the expansion of domestic activity, the lower level of transfers abroad and the improvement in the terms of trade, domestic demand expanded, thus reinforcing the growth of economic activity. Consequently, gross domestic income rose by 9% , after four years of consecutive decreases which had brought it down by 18%. In turn, the wage-earning sector benefited both from the increase of almost 6% in average real remunerations and from the slide of over two percentage points in the average unemployment rate. This rate had fallen to 9% by the end of the year, the lowest figure recorded since 1981.

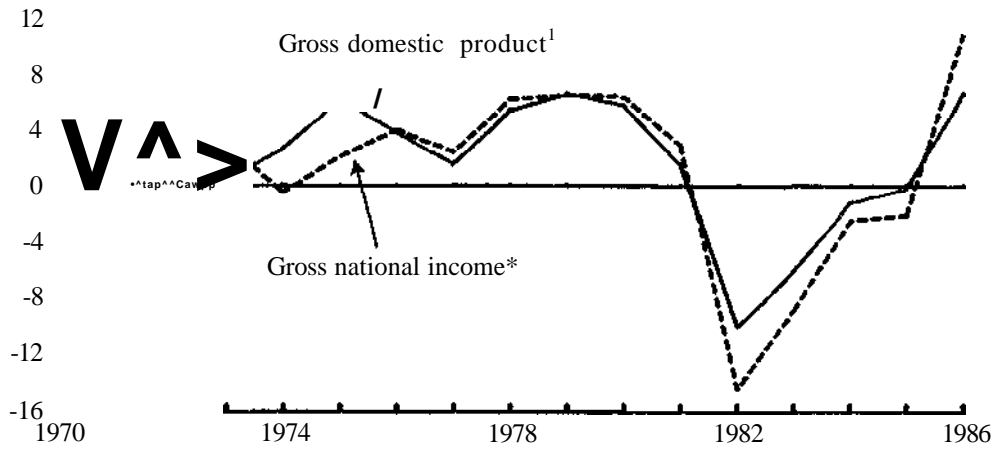
The fiscal adjustment was again a striking feature of the economy. The positive trend in the real income of the central government and the maintenance of the real level of its expenditure paved the way for a further reduction of the fiscal deficit, which was thus equivalent to 7% of its expenditure.

The balance of payments showed particularly favourable results. Trade in goods closed the year with a surplus of almost US\$300 million, and consequently there was also a positive balance on current account for the first time since 1973. With capital inflows amounting to nearly US\$190 million, the reserves of the monetary authority increased by US\$250 million.

The gross external debt increased by 6% to US\$5.2 billion by the end of the year. However, the profits derived from the increase in world gold prices and the expansion of the banking system's international reserves resulted in a marked reduction in net indebtedness which declined by 11 % ; the net external debt at the end of 1986 was thus equivalent to only 1.7 times the country's exports of goods and services.

The increase in the consumer price index declined from 83% in 1985 to 71% in 1986. The variation between annual averages was, in contrast, somewhat more in 1986 (76%) than in the preceding year (72%). Even though the inflation rate did tend to slacken during the course of the year, the progress made in this respect was very limited. This was partly due to the fact that the sharp rise in international reserves caused the actual expansion in the money supply (77%) to be substantially greater than planned (51%).

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Urban unemployment²

0 1970 1974 1978 1982 1986

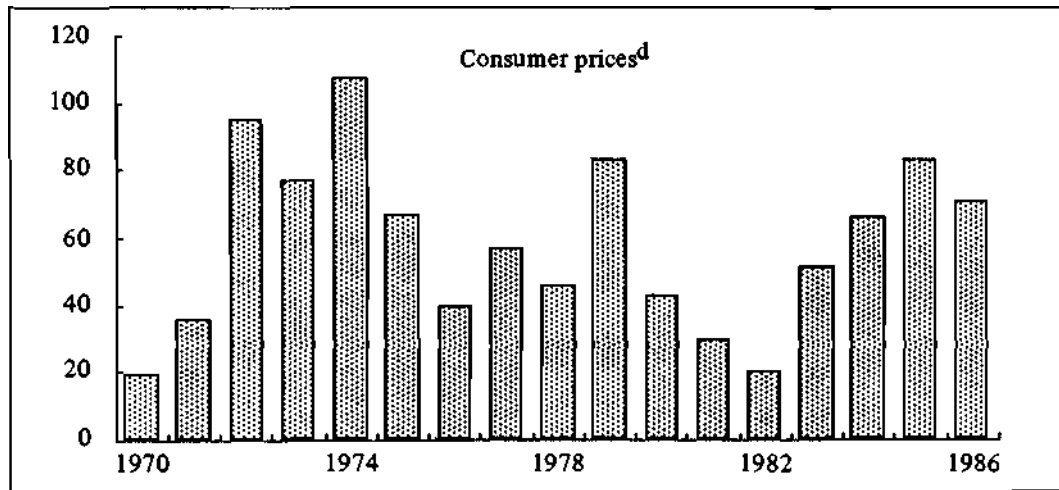
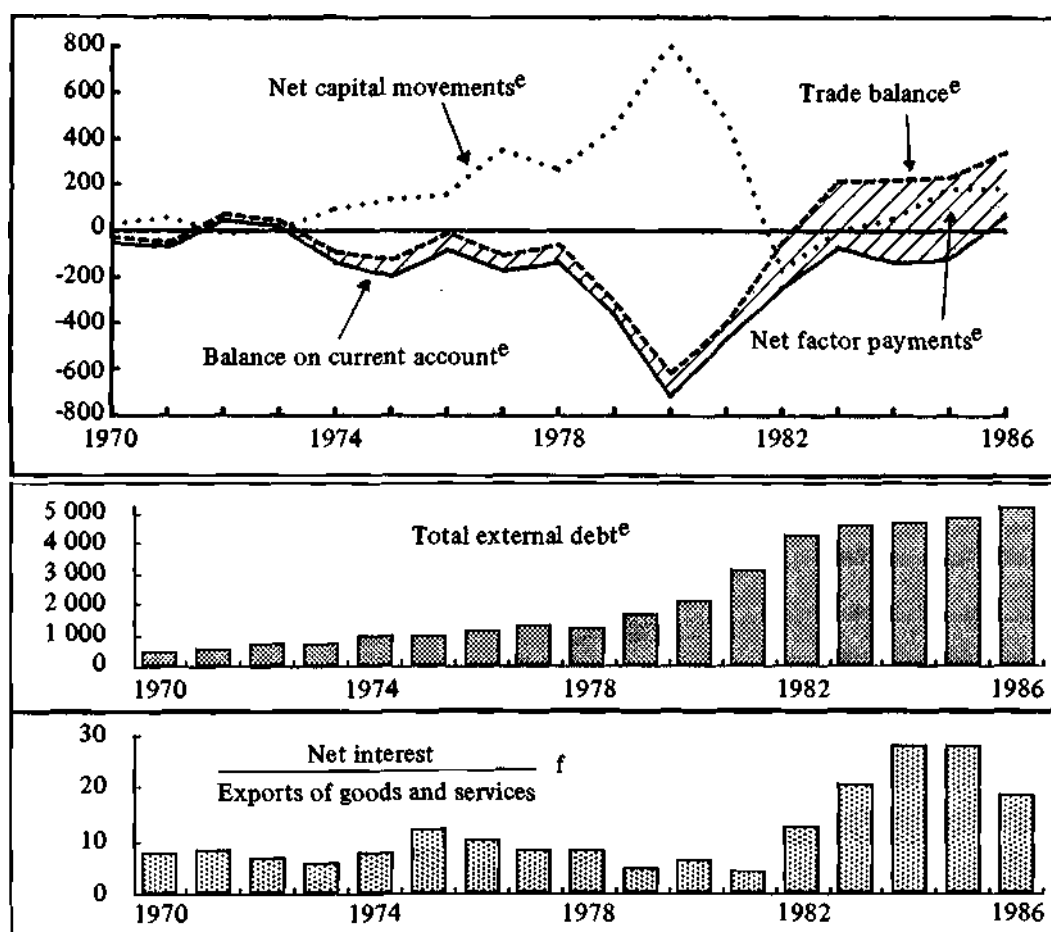


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate.

^bAverage annual rate in Montevideo.

^cAugust 1974 to February 1975.

^dDecember - December percentage variation.

^eMillions of dollars.

^fPercentages.

b) *The economic and financial programme for 1986*

In mid-1985 the Uruguayan authorities had formulated an economic and financial programme for the period from July 1985 to December 1986. Support for this programme was received from the International Monetary Fund in the form of a stand-by credit arrangement and from the country's foreign creditor banks, which agreed to refinance the external debt on a multi-annual basis. The arrangement with the Fund and with the creditor banks included two partially overlapping "programme-years". The first covered the period from July 1985 to June 1986, while the second covered the 1986 calendar year. In this way, the targets to be met in 1986 were set ahead of time within the overall framework of the global adjustment programme. Nevertheless, the improvement in the international situation, the domestic response and the growing confidence of economic agents led to the introduction of a number of changes, especially in the monetary area.

i) *Objectives*: Generally speaking, the plan included the quantitative targets which had been established in mid-1985 for the main variables that could be controlled. Thus, it retained the target of reducing inflation to a rate of 50% per year and that of obtaining an increase in the gross domestic product from 2% to 4%. In order to achieve these goals it was, in turn, deemed necessary: a) to reduce the public-sector deficit to less than 5% of the gross domestic product, which would involve an imbalance of 13 billion new pesos in the non-financial public sector, assistance to the Banco

Hipotecario del Uruguay (Uruguayan Mortgage Bank) (BHU) and a para-fiscal deficit for the Central Bank of Uruguay (BCU) of around 27.5 billion new pesos. This deficit was financed with US\$126.5 million in external resources and 19 billion new pesos from domestic sources; b) to raise the net international reserves of the BCU by US\$50 million; c) to restrict the growth of the public sector's net external indebtedness to a maximum of US\$186 million; and d) to restrict the increase in the domestic credit of the BCU to a maximum of 11 billion new pesos, which would entail increases of 52% in the monetary base and of 51% in the means of payment and in M_2 (means of payment plus time deposits in national currency within the banking system).

However, the behaviour of some variables during the second half of 1985 and especially in the first quarter of 1986 meant that some adjustments had to be made in the original programme. Specifically, the favourable external environment, the increase in the confidence of economic agents and the responsiveness of domestic supply and demand prompted an increase in the Central Bank's international reserves during the first half of 1986 which was much higher than had been forecast. Consequently, while an increase of US\$50 million had been projected, the actual expansion during this period was US\$120 million. The monetization of this increase in reserves within a climate of greater confidence and, therefore, one in which the demand for money was maintained, implied the creation of a much greater amount of money than forecast. As this could prove to be incompatible with the government's anti-inflation targets, the monetary authorities adjusted the programme in an attempt to sterilize a portion of the money created as a result of the increase in reserves through the compulsory purchase by the banking system of what were referred to as Monetary Regulation Notes, which functioned rather like an interest-bearing cash reserve. Since the interest rates paid on these notes were kept at levels competitive with those offered on time deposits in the banking system, there was a considerable volume of voluntary purchases of these public securities in the private non-financial and banking sectors.

The authorities also set a number of targets with respect to exchange rates and wages. In these two cases the policies were aimed at, as a minimum, maintaining the real exchange rate and the purchasing power of wages.

Another policy applied during most of the year concerned the reduction of interest rates in national currency. In this connection, the measures taken by the Banco de la República (BROU) to reduce the nominal rates on loans and deposits produced satisfactory results up to mid-way through the third quarter of the year, during which time the inflation rate also showed a downward trend. However, the perception by economic agents of a change in this trend had the effect of halting (and event partly reversing) this reduction of interest rates at a level where an equilibrium was maintained with the rates of inflation and devaluation.

ii) *The impact of external changes.* The external environment for the Uruguayan economy in 1986 exhibited a series of favourable circumstances at both the world and regional levels.

First of all, the successive reductions of the LIBOR rate—which was that applying to most of the external debt contracted at a floating rate— together with the completion of the negotiations with the creditor banks—during which a new payments schedule and a narrower spread were agreed upon— markedly reduced external interest payments. At the same time, the also considerable slump in oil prices resulted in a sharp decrease in the oil bill. Lastly, the changed parity of the dollar in respect of the European currencies contributed to an increase in European purchases of products whose prices on the world market are usually set in dollars.

Simultaneously, regional demand exhibited a sudden dynamism which was linked to the stabilization plans of Argentina and Brazil. The Plan Austral, which was instituted by the Government of Argentina in mid-1985, had a favourable effect on the expectations of economic agents in that country and improved Uruguay's terms of trade during the 1985/1986 tourist season. There was thus a marked increase in the number of Argentine tourists visiting Uruguay, and this created substantial additional demand in the domestic market and helped to generate a sizeable increase in national income.

For its part, the stabilization plan implemented in Brazil as from March 1986 led to a considerable expansion of the Brazilian demand for Uruguayan exports, principally of food and especially of meat. This rapidly spurred growth in the livestock sector, which was in the process of building up its stocks of cattle and which had excess stocks of sheep. Thus, exports to Brazil doubled, making that country Uruguay's major foreign buyer, with a share of over 25% of its total exports.

During the first half of the year, the external boom, the increase in confidence domestically and the existence of an interest rate in national currency which was higher than the sum of the increase of the exchange rate *vis-a-vis* the dollar plus the international interest rate were all conducive to a major capital inflow. It is likely that an appreciable part of this inflow corresponded to the funds that were returning to the country in order to finance an increase in the floating capital of companies for which the outlook was promising in terms of both external and internal demand. The return of capital was further encouraged by the decline in international interest rates and by the domestic credit squeeze which was in part caused by excessive corporate borrowing from the banking system.

Given this situation, the authorities had to decide whether the external changes that had occurred were of a temporary or permanent character. If they were regarded as permanent, then the logical conclusion was that, within the framework of the floating exchange rate system in force at the time, the Uruguayan currency would appreciate in value. However, if such a conclusion were subsequently proven to be wrong, the necessary adjustment might bring about a repetition of the cyclical phenomenon of the periods 1979-1981 and 1982-1984, during which there was, respectively, a huge boom and then a marked slump in economic activity.

If, on the other hand, the authorities decided that the boom was temporary, then measures should be adopted to keep the growth rate of domestic credit below that of the rate of issue which would be produced as a consequence of the increase in reserves in the event that some ways were found to avoid a revaluation of the peso. In this scenario, the growth of economic activity would be less than if the external boom were regarded as permanent, but it would not, subsequently, have such a negative effects if the boom later turned out to be temporary.

On various occasions the monetary authorities expressed the opinion that the external boom was temporary in nature, and they opted for the establishment of a hybrid exchange rate system. At the same time, they tried to reduce primary expansion deriving from the purchase of international reserves by the Central Bank through the sale of compulsory Monetary Regulation Notes within the banking system.

iii) *Investment and its financing.* The financial programme achieved most of its objectives and, thus, by the end of 1986 the main macroeconomic variables were closer to equilibrium than they had been at the beginning of the year. For example, the variation in domestic prices, the exchange rate and the interest rate were all compatible with one another; the product, real wages and employment were on an upward trend; and the fiscal deficit had been reduced appreciably within a context of fiscal and monetary restraint combined with an external equilibrium. Nevertheless, two circumstances continued to restrict the growth process: the trend in investment and the level of internal and external indebtedness.

The response of business enterprises to the increased external and internal demand which began to be seen in the second half of 1985 was largely based on a fuller use of installed capacity, which until then had been considerably underutilized. The behaviour of business enterprises was less satisfactory in respect of new investments, and public investment also failed to react with great dynamism. In fact, gross fixed capital formation remained too low to meet the objective of sustained growth. Indeed, although investment grew by 6%, it represented less than 8% of the gross domestic product. The investment coefficient was thus similar to that of the year before, and net investment was again negative (see table 2). However, the upturn seen during the year in both construction and the importation of machinery and equipment would seem to indicate that towards the end of 1986 net investment had attained positive levels.

The main factors determining the behaviour of entrepreneurs had to do with their uncertainty as to the future trend of demand and with a number of financial constraints, which greatly influenced their decisions. One of the principal ones was the very limited progress that was made towards resolving the difficult problem of domestic overindebtedness. Although considerable efforts were made in the institutional sphere, in practice the general moratorium remained unchanged for most of those concerned. The efforts made during 1986 were directed particularly towards applying the legal mechanisms adopted in late 1985 with a view to solving this problem. Thus, the Financial Analysis Commission—which examines the viability of debtors submitting applications under the provisions of the General Debt Refinancing Act—made notable progress in the classification of debtors, which is an important step in the process leading up to the application of the refinancing mechanism. Initial steps were also taken for launching the National Development Corporation, a long-term lending

agency that would also be able to reactivate enterprises considered to be economically viable but which are experiencing major financial problems.

Nonetheless, the mutual problem of creditors and debtors remained. For the creditors, this meant confronting liquidity constraints, while for the debtors, it meant facing some degree of uncertainty as to the ownership of the enterprises that they managed. In this context, the decision to undertake investments to expand production capacity confronted entrepreneurs with the twofold problem of credit constraints and doubt as to their future ownership of the companies in question.

The constraint posed by heavy external indebtedness was also a prime factor in preventing external savings from being used to finance new investments. In fact, while the transfer of net reserves abroad declined, it was still considerable.

The capital inflow recorded during 1986 exhibited some novel characteristics. The balance-of-payments data show an amount of US\$175 million under the item "errors and omissions", which can be equated with unrecorded private capital inflows. This sizeable inflow of capital from abroad could be accounted for by the repatriation of capital by residents of the country in the light of the new conditions existing in both the domestic market (greater confidence, increased demand, adequate remuneration) and the external market (a striking drop in the interest rates paid by international banks). This capital was apparently channelled in two main ways: it would seem that some was paid into deposits in the financial system while some probably helped to finance increases in both floating and fixed capital.¹

Another factor which limited the private sector's response in the area of gross capital formation was the uncertainty prevailing as to the future development of external markets.

As has already been mentioned, one of the chief factors which contributed to the growth of exports in 1986 was Brazilian demand. It should be recalled, furthermore, that Uruguay had signed two economic complementarity agreements with Argentina and Brazil² whose reactivation was expected to contribute to a marked expansion of the demand for Uruguayan products. However, the stabilization programmes in both countries raised doubts among entrepreneurs as to the future development of regional demand. Although progress was made in respect to CAUCE during the second half of the year, Brazilian demand appeared to have a large cyclical component and towards the end of the year difficulties were encountered in finalizing pre-arranged exports due to the formidable non-tariff barriers (non-shipment of import waybills) raised by the Brazilian authorities. Within this context, some manufacturers decided to make investments in order to increase their exports to Brazil, while others waited to see how events would unfold in connection with the Plan Cruzado. This latter attitude was reinforced by the situation in the world financial market and particularly by the sharp fluctuations in exchange rates and the increase of protectionism in the industrialized countries.

Lastly, public investment expanded very little due to the government's policy of curbing its expenditure as part of its economic and financial programme.

2. Trends in economic activity

a) *Total supply and demand*

Total supply grew by 9% during 1986 as a result of significant increases in both the gross domestic product (6.6%) and the volume of imports (28%) (see table 2). Nevertheless, the supply of goods and services barely exceeded that of 1978 and was 14% lower than the high point achieved in 1981.

The marked expansion of external purchases reversed the steady downward trend displayed by the import coefficient since 1981; nonetheless, this coefficient was still much lower than it had been in the years prior to the crisis. By contrast, the also considerable increase in exports (12%) raised the

¹ The return of capital is an extremely important phenomenon, in that some sources of information estimate that Uruguayan funds abroad amount to over US\$ 15 billion. If the flow were to be sustained, it would constitute a major source of financing for private investment and thereby ease one of the main constraints holding the country back from generating an ongoing process of growth.

² These are the Uruguayan-Argentine Economic Co-operation Agreement (CAUCE) and the Trade Expansion Protocol (PEC) agreed upon by Uruguay and Brazil.

export coefficient to the highest level (22%) recorded in recent history. As a consequence of these changes—which signalled the resumption of the process of opening up the economy to the exterior—in 1986 the ratio of exports plus imports to the gross domestic product was the highest it had been in the last 10 years save for 1980 (see table 3).

The trade surplus for goods and services was equivalent to 7.4% of the gross domestic product, which also reflected the considerable export effort that was made. Available goods and services thus grew less than the product, even though domestic demand increased by more than 8%, following five years of successive decreases during which it had contracted by 27%.

A change was also seen in 1986 in the trend of gross domestic investment, which climbed by 6% after having fallen sharply and steadily since 1981. Some major changes also occurred in the financing of what was still a very low level of gross domestic investment. First of all, transfers abroad declined, both as a consequence of the terms of trade and in respect of net factor payments; despite this, the sum of the two represented an outflow of resources equivalent to around 6% of the gross domestic product. The country's favourable external current account, on the other hand, signified a negative external savings of somewhat more than 1% of the product. Consequently, in order for the investment coefficient to reach the extremely modest level of 8%, gross domestic savings equivalent to 15% of the product were required (see table 4).

Lastly, total consumption increased by 8.5%. Personal consumption rose by almost 9% as a result of the increase in income deriving from favourable domestic developments (increase in real wages, profits and employment) and external factors (improvement in the terms of trade and the balance of factor services). At the same time, and notwithstanding the fiscal adjustment, government consumption increased by almost 8% since, thanks to the reduction of the international interest rate, some of the resources previously earmarked for servicing the external debt could be transferred to the domestic market.

b) *Growth of the main sectors*

The gross domestic product maintained an upward trend in almost all sectors throughout the year. Minor reductions were recorded only in fishing (-2%)—although output was still more than double that obtained in 1978—and in construction (-1.5%)—despite the rising trend in this activity beginning in the second quarter of the year. The greatest increases were recorded in manufacturing (12%), commerce (10%) and transport, storage and communications (10%) (see table 5).

i) *The agricultural sector.* Agricultural output grew by somewhat more than 3%. Despite this, it was still 5% lower than in 1981, when it reached its peak level of the last 10 years. Both the crop-farming and stock-raising contributed to this growth: agriculture expanded by 2.6% and livestock production climbed by 3.8% (see table 6).

There were very considerable increases in the production of soya (47%) and sugar beets (37%) due to the considerable extension of the area sown with both crops and to the fact that soya yields were higher than expected. The harvests of wheat (6%), maize (3%) and sunflowers (8.4%) were also better than in 1985. By contrast, the harvests of flax (-9%), malt barley (-3%) and rice (-4%) declined, mainly because of reductions in the area under cultivation.³

As in the preceding year, good weather conditions during the winter of 1986 favoured a continued development of pasturelands and therefore led to a good performance by the stock-raising sector. Cattle production recorded a further increase of almost 3%, and output was thus higher than in 1985. This increase coincided with an upward phase in the cattle cycle and with an increase in the average weight of the animals, which was due to the availability of pasturage. Strong external demand led to a significant increase in the number of animals slaughtered and in the price paid for the animals for fattening and slaughtering. Consequently, the average price per kilo of live animal virtually doubled between the end of 1985 and December 1986, going from US\$0.37 to US\$0.70 per kilo on the hoof, thereby reaching a level which had not been obtained since 1982.

Due to the favourable weather conditions of recent years, together with the strong external demand for meat and wool, inventories of cattle and sheep were the highest ever recorded in the

³These variations correspond to those used in the calculation of the gross domestic product, which is done according to calendar years. Table 7, on the other hand, shows the variations between crop years.

country, standing at 33 million head, of which 9.3 million were cattle and 23.9 million were sheep (see table 7). This was also indicative of a better utilization of the country's forage capacity. In point of fact, stock-raising performance is determined by four major factors: genetics, health, management and feeding. The progress made in respect of stocks and output in recent years has primarily been due to the advances made in relation to the first three of these variables. Feeding, however, is still based on intensive grazing of natural pastures, and weather conditions therefore play a decisive role in this regard.

With respect to sheep product exports, there was progress in the production of both mutton and wool. Although wool production is the main activity in Uruguay, the trends in the supply and demand for beef cattle and the high level of sheep stocks, together with the considerable level of Brazilian demand, stimulated the slaughtering of sheep for domestic consumption and for export. Exports thus amounted to 16 400 tons —the highest figure in the last 10 years— and domestic consumption reached 48 000 tons —which represented an increase of 13% over the preceding year and of more than 30% over the average for the period 1979-1984. At the same time, the output from the 1986/1987 wool clip, which was carried out in September-October 1986, was 6% more than that of the previous clipping and was close to the record high.

Milk production was once again boosted by the mild weather conditions that prevailed and by mounting external demand, increasing by 4%. Domestic demand, however, remained relatively stagnant.

Poultry breeding was the only item of livestock production which declined (-8%), owing to a significant reduction in egg collection. However, the fact should be borne in mind that this was a decline from the historically very high level registered the year before.

Finally, a notable occurrence within the sector was the decrease in the prices of agricultural inputs in terms of sectoral prices, in that this resulted in a higher value added per output unit value.

ii) *Fishing*. Fishery output fell by 2% in 1986 because of a number of problems relating to the catch which were encountered during the first half of the year; the catch suffered from the negative impacts of the withdrawal of schools of fish to more remote locations and of labour conflicts. Nonetheless, towards the end of the period the level of activity in this sector was substantially higher than the average for the preceding year.

iii) *Manufacturing*. The manufacturing sector grew by 12% in 1986, but even so its level of activity was still lower than that reached in 1977. The expansion, which derived from widespread growth in the different branches of industry, was concentrated in the six months from April to September, when industrial output expanded by 20%.

The production of food, beverages and tobacco grew by 4.5% owing to the large number of cattle slaughtered, the processing of the greater volume of agricultural production and the increase in domestic demand that stemmed from the growth of income. Brazilian demand, for its part, stimulated meat, rice and beer production and the manufacture of malts in particular.

Textiles and clothing production went up by almost 15%. The buoyant external demand for these goods was matched by an abundant supply thanks to the substantial provisions of wool obtained during the year. The manufacture of leather clothing and footwear also increased considerably (see table 8).

The manufacture of paper and paper products rose by 12% in response to the increase in both domestic demand (especially by business enterprises) and the demand from Argentina within the framework of the CAUCE agreement.

Chemical products also saw a major increase. The improved performance of stock-raising activity encouraged the manufacturing of fertilizers and pesticides, which climbed by 28%. The production of paints, varnishes and lacquers continued its upward trend; the substantial increase in exports —which more than doubled those of the preceding year— and the increase in domestic demand —which stemmed from the reactivation of the automobile and leather industries— contributed to the 32% expansion of this activity.

The rise in both domestic and external demand also had a positive impact on the motor vehicle type industry (32%) and on the manufacture of plastic articles (17%). The former reflected the dual effect of a reduction in both tyre imports and contraband, in conjunction with an increase in exports to Brazil.

The manufacture of non-metallic mineral products rose by 32%. The fastest-growing activities in this branch —one in which a strong domestic demand was combined with growing exports— were the production of pottery, earthenware and chinaware (55%) and glassware (31%).

The metals and machinery and equipment industries also showed significant growth. The main items contributing to this expansion were the manufacture of motor vehicles (32%) and domestic appliances (58%), as well as the construction of radio, television and communications equipment and appliances (44%).

There was also a significant growth in ship building and ship repair (28%) —which was influenced by the construction of a ferry that was to be used between Colonia and Buenos Aires— and the manufacture of motorcycles and bicycles (70%).

One of the few sectors in which activity declined was petroleum refining. Its 10% decline was attributable to the shutdown of a processing plant for maintenance and to a labour union conflict which was so severe that it became necessary to purchase petroleum products abroad. As this item carries considerable weight in total industrial output, the extent of its decline, when compared with the growth of the manufacturing sector, serves to highlight the marked dynamism of the other industrial subsectors.

iv) *Construction.* After a continued and steep decline which by 1985 had brought this activity down to less than half of the level recorded at the beginning of the decade, in 1986 a reversal of the trend in construction was observed. In fact, between the first and the last quarters of the year, this sector saw an increase of 9%. Even so, the average for the year was 1 % lower than in 1985. This result was due to a 5% increase in public construction and a 9% decline in private construction. However, towards the end of the year private construction also began to grow, and this was manifested in a decline in unemployment in the sector —which dropped from 20% during the first quarter of the year to 7% in the final quarter— and in the fact that there was some difficulty in meeting the demand for specialized personnel. This revival of private construction was in large part occasioned by a change in economic agents' portfolios, which was in turn prompted by the decline of interest rates in both foreign and national currencies and by the upward trend in real estate values, which in dollar terms made a substantial recovery during the year from the very low levels recorded since the 1982 crisis.

v) *Services.* Services were in step with the recovery observed in the goods-producing sectors. The output of electricity, gas and water expanded by 7%, and both commerce and transport grew by 10%. Financial, personal and government services increased by a lesser amount (3%).

c) *Employment and unemployment*

The unemployment rate —which in 1985 had already dipped slightly— had, by the end of the year, fallen to its lowest level since late 1981. For its part, the employment rate in Montevideo climbed from 51.5% as of the end of 1985 to 54.1% in December 1986, which was the highest figure registered ever since statistical records have been kept. Even though the manufacturing industry grew by 12%, the unemployment rate in that sector remained virtually unchanged during most of the year. The greatest decline in unemployment occurred in construction, especially during the final quarter (see table 9).

The trend in the average number of hours worked, broken down by type of activity, was quite different. Between the first and last quarters of the year, this coefficient rose in the manufacturing industry (from 41.2 hours per week to 44.8 hours) whereas it fell in construction (from 43.4 hours to 41.8 hours per week). Overall, the number of hours worked per week climbed from 39.6 to 43.2; this indicated that, generally speaking, the entrepreneurial response to the increase in demand was oriented towards expanding employment and lengthening work schedules.

3. The external sector

a) *Main features*

As previously noted, the favourable situation in the external sector was the most significant force behind the development of the economy in 1986. The reduction of both the international interest rate and the spread applied to payments on the debt owed to the foreign banking system resulted in savings of around US\$80 million in remittances of interest abroad. Regional demand

constituted another important stimulus. The steep rise in private consumption in Brazil led to a major expansion of Uruguayan exports, thereby prompting increases both in prices and in the quantities involved. The Plan Austral had a similar effect during the early months of the year thanks to the sizeable increase in the number of Argentine tourists.

Furthermore, despite the fact that the exchange rate for the dollar increased substantially less than domestic prices and wages, the effective real exchange rate deteriorated only slightly because of the sharp devaluation of the dollar against the yen and the European currencies which occurred at the same time (see table 10).

Due to the change in the external environment, together with the increase in the confidence of economic agents and the imbalances between the interest rates paid on national and foreign currency during the first half of the year, the showing of the country's balance of payments was very encouraging.

Indeed international reserves rose by US\$250 million as a result of a surplus on current account of US\$66 million —the first since 1973— and a positive capital account balance (including the item "errors and omissions") of almost US\$190 million (see table 11).

Even so, the country again made a net transfer of resources abroad. As has been the case since 1982, the net capital inflow was not enough to cover net factor payments, with the result that there was a negative net transfer of just over US\$90 million. Consequently, during the period 1982-1986, the country paid out more than US\$1.2 billion, which was equivalent to approximately one-fifth of its gross domestic product and one-fourth of the gross external debt as of the end of 1986 (see table 12).

b) *External trade*

i) *Exports.* In 1986 exports of goods and services increased by 20% in current dollars, while merchandise exports grew by more than 27%. This expansion was almost entirely due to the increase in volume (see table 13).

An increase in external sales was recorded both for traditional exports (37%) and for non-traditional exports (22%). The share of the latter therefore fell in 1986 to 63% of the total, although it was still higher than the average for the 10-year period of 1976-1985 (see table 14).

Among the main items, a marked increase was seen in beef exports (49%), two-thirds of which was sold in the form of frozen meat. Sales of mutton trebled, thanks to Brazilian demand. Exports of hides, skins and leather products, whose value increased by 30%, were also very significant. Textiles and manufactures rose by 21%, with the sales of tops being particularly notable. Fishery exports also made a good showing, increasing by 24%. By contrast, external sales of cereals (rice) and other crops fell by 5%. Exports of chemical products (particularly paints and varnishes) grew by 35% during the year and came to represent 5% of the total. Another item which experienced strong growth was the food, beverages and tobacco industries, which soared by 58%.

Exports of services also exhibited dynamism. Tourism grew by 10% in current dollars owing to the large influx of Argentine summer vacationers (480 000 during the 1985/1986 season).

ii) *Imports.* External purchases of goods also increased substantially. 17% in value and 36% in volume.

The drop in the price of oil greatly eased the country's foreign exchange situation, inasmuch as the oil bill decreased by US\$83 million. In contrast, the other imports grew at a rapid pace due to the greater dynamism of the economy and the renewal of stocks, which had been greatly reduced during the preceding years. Raw materials and intermediate goods other than petroleum increased by 36%, while consumer goods grew by 55% and capital goods by 76% (see table 15). Nevertheless, the total value of merchandise imports was equivalent to one-half of that recorded in 1980, when the oil bill was more than three times as high as in 1986.

Expenditures outside the country by Uruguayan tourists increased by 7% owing to the fact that they had a greater amount of disposable income.

iii) *The terms of trade.* As a direct consequence of the sharp drop in the price of hydrocarbons, the terms of trade improved substantially, regaining all of the ground lost since the end of the preceding decade. The unit value of imports fell by 14%, while that of exports increased by 1.5% (see table 12). Dissimilar trends were to be observed among the latter: whereas beef obtained better prices as a result of the increase in Brazilian demand, the international prices of wool and rice declined.

c) *The external debt*

The net external debt was reduced by US\$137 million, which was a decline of 11% compared with the balance at the end of 1985. This reduction was due to the considerable growth of international reserves, since the gross debt climbed by almost US\$300 million (see table 16). Indeed, the gross international reserves of the financial system—with gold being valued at market prices—increased by US\$600 million, of which US\$509 million corresponded to the public banking system.

Public-sector indebtedness increased by nearly US\$280 million (7.8%), whereas that of the private sector remained virtually unchanged. Thus, at the close of the year the total external debt was equivalent to three and one-half times the value of exports, while the service on this debt was equivalent to one-third of this. The latter proportion represented a notable reduction from the figure of 47% recorded the previous year. This drop was mainly attributable to an almost two-point decline in the international interest rate. The reduction of the interest rate spread which was agreed upon when the debt was refinanced resulted in only small decreases during the year, but its impact will be more significant in the years to come.

One striking fact was the high level of sales of public securities during the year. There was a strong demand for new issues of treasury bonds and treasury bills despite the policy of lengthening the terms and reducing the interest rates of successive bond issues and of the narrowing of the spread in the interest rate paid on treasury bills which, at the end of 1986, were being sold briskly at rates equivalent to the LIBOR plus 0.5% annually. US\$92 million in non-resident funds were obtained through the sale of these types of securities and the external debt corresponding to this item was thus slightly more than US\$700 million at the end of the year.

The public sector's foreign currency debt to residents increased by US\$175 million. The main financial instruments used in this connection were deposits in the official banking system and the sale of public debt denominated in dollars to economic agents.

As a result, as of 31 December 1986 the public-sector debt in foreign currency stood at US\$5.21 billion, which was an increase of 9.5% over the year-end balance for 1985 (see table 16).

4. Prices and wages

a) *Prices*

Although the variation in the consumer price index between December 1985 and December 1986 was less than that recorded in the preceding 12 months (71% and 83%, respectively), it was higher than the target set in the financial programme announced at the beginning of the year. Moreover, the variation between annual averages was higher in 1986 than in 1985 (see table 18). The trend of the inflation rate changed markedly during the year. The 12-month variation in consumer prices followed a downward trend during the first five months of 1986, reversed that trend as they rose between May and October, and then began to slow down late in the year (see figure 2).

Food prices increased the most (92%), whereas housing services climbed much less (43%). In the first case, the main reason was the rise in beef prices⁴ and, to a lesser extent, the price increases in a number of farm products. These changes were also reflected in the wholesale price index for domestic products. Thus, the prices of livestock products skyrocketed by 130%, those of farm products climbed by 79%, but the prices of manufactured goods rose by only 56%. However, since in 1985 these prices had followed diametrically opposite trends, the variation recorded during the 1984-1986 biennium for the prices of agricultural goods and manufactures was very similar. Housing services, on the other hand, rose much more slowly as a result of the provisions adopted in 1986 under an emergency law which regulated the procedure for adjusting rents in line with the devaluation of the currency.

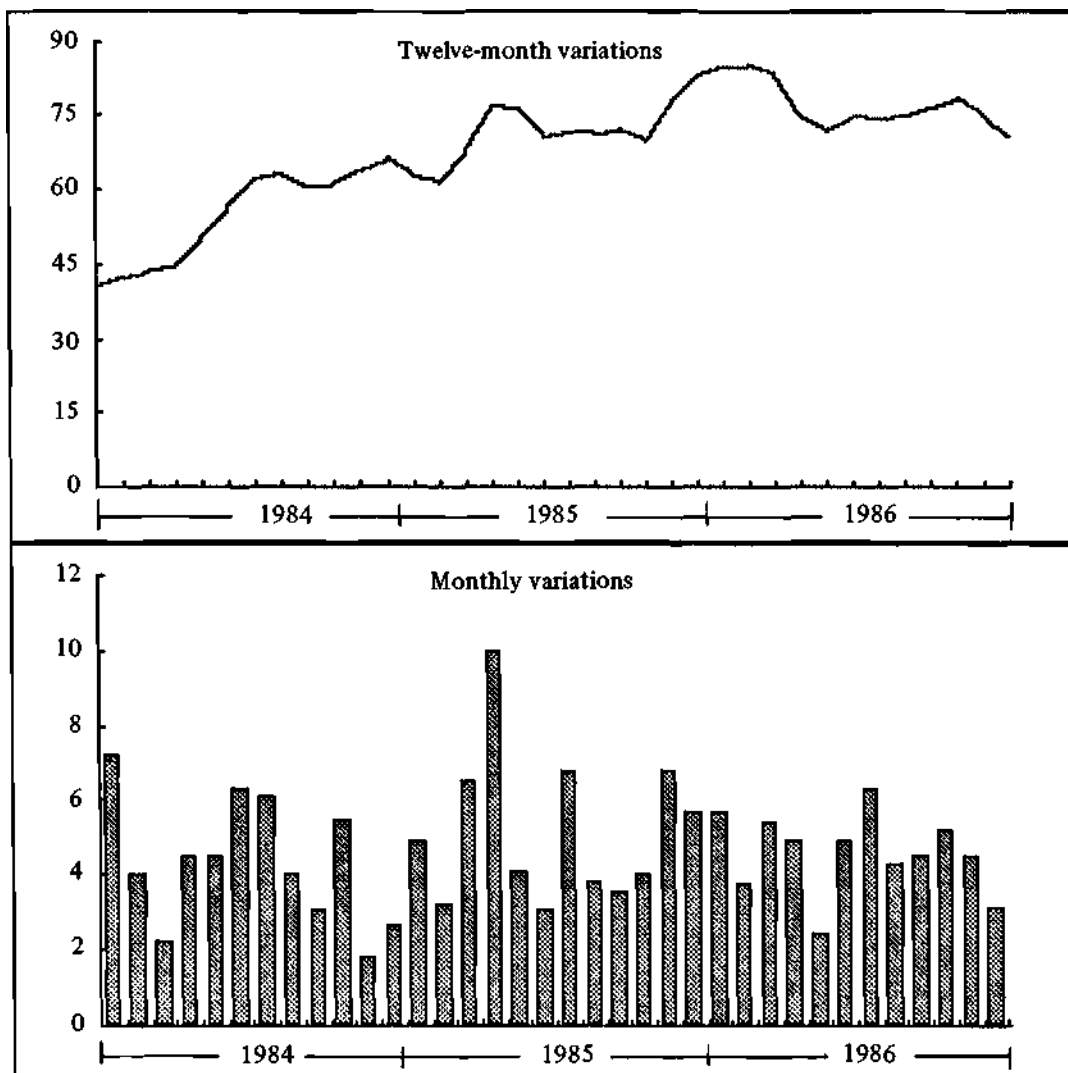
⁴ The buoyant Brazilian demand for meat recorded from the beginning of the year onward, plus the limited nature of the supply of meat—due to the fact that production was then in the upward phase of its cycle—caused the price of beef on the hoof to rise steadily until reaching levels that were considered profitable for producers, thus halting the downward trend of earlier years.

b) Wages

After increasing by 14% in 1985, real wages rose by almost 6% in 1986. The purchasing power of remunerations was thus 21 % higher than that of 1984. However, because of its steep fall during the 1983-1984 period, its level was still 15% lower than that of 1978 (see table 19).

The wage policy was different in some respects from the one applied the year before. As regards private-sector wages, the system of four-monthly agreements between entrepreneurs and wage earners continued to be used within an overall framework, defined by the government, which set the maximum percentage that could be passed on to prices. During 1985, this ceiling was based on the past level of inflation. Wage readjustments in the public sector were carried out directly by the government and were set at percentages close to the maximum that could be transferred to private-sector prices. The way in which such readjustments were determined changed substantially in

Figure 2
URUGUAY: CONSUMER PRICE INDEX
(Percentages)



Source: ECLAC, on the basis of official figures.

1986, in that two different categories within the private sector were created. In one of them, medium-term agreements —of up to two years— provided for automatic adjustments based on past inflation, to which, in some cases, adjustments for lags in real wages or for increases in productivity were added. This type of agreement was used generally in sectors linked to export activities which accounted for around 40% of private wage earners. In the rest of the private sector, the procedure for four-monthly adjustments was retained, but the maximum amount that could be transferred corresponded to the average of past inflation and the inflation rate projected by the economic authorities. Nevertheless, in practice, adjustments higher than those suggested by the government were included in the agreements reached. Finally, for the public sector, wage adjustments were primarily based on the inflation rate projected for the subsequent four-month period.

This policy led to different wage trends in the various activities and, at the same time, to the indexation of a sizeable portion of private-sector wages. Consequently, there was a considerable difference between the variations in the nominal wage in the public sector (73% from December 1985 to December 1986) and the private sector (82% for the same period). In fact, the wage guidelines set by the government were systematically exceeded by the variation in the average private-sector nominal wage index. The four-monthly variation of this index for its part, was very similar to the inflation rate of the preceding four-month period and, except for the adjustment made in June, was higher than the variation in the price index for the subsequent four-month period (see table 20).

Consequently, the real remunerations of wage earners in both the private and public sectors rose during the year. Between the beginning and end of 1986, real wages in the private sector rose by 6.4% and in the public sector they increased by somewhat more than 1%. As measured in dollars, wages grew by 23% during this time, inasmuch as wages in the local currency climbed by 78% and the dollar quotation by 45%.

5. Monetary and fiscal policy

a) *Monetary policy*

The good performance of the external sector decisively influenced monetary policy. As the large increase in reserves contributed to the growth of the monetary base, and since the economic authorities felt that much of the external improvement was of a short-term, cyclical nature, the Central Bank made it mandatory for the commercial banks to purchase Monetary Regulation Notes, which then served as a form of interest-bearing cash reserve; the amount of such notes to be purchased was linked to the value of the bank's local-currency deposits. At the end of the year, the ratio of notes to deposits was 12.5%, although most of this amount (7.5%) could be resold by the banks to their customers.

Owing to the mandatory purchase of such notes in the banking system —in addition to voluntary purchases, since the Central Bank paid a very competitive interest rate during the year— the net credit of the Central Bank was considerably reduced. In fact, by the end of the year the sale of Monetary Regulation Notes was equivalent to 50% of the issues existing at the beginning of 1986. Thus, the increase in the monetary base was due entirely to the acquisition of international reserves: the US\$256 million increase in the Central Bank's reserves, which at the average exchange rate for the year was equivalent to around 39 billion Uruguayan pesos, corresponded quite closely to the increase of 37 billion Uruguayan pesos in the monetary base.

However, the mechanisms for offsetting the impact of the issues stemming from the increase in reserves were inadequate to keep the creation of money within the limits specified in the programme. Indeed, since the level of the exchange rate was a function of a given international parity based on past inflation, the amount of money was determined by demand. As a result of this, there were increases of 106% in issues, 84% in the amount of money outside banks, 77% in M_1 and 61% in M_2 (see table 21).

However, the introduction during the year of substitutes very similar to money was a factor which should be borne in mind. In point of fact, the Monetary Regulation Notes voluntarily held by the public constituted an instrument very similar to a time deposit. In addition, there were the Certificates of Deposit in national currency, which were readjusted in accordance with variations in the consumer price index, that were offered by the Banco Hipotecario de Uruguay (Uruguayan

Mortgage Bank). These certificates, which had 12- and 18-month terms, were transferable on the stock exchange and had characteristics that were also very similar to time deposits. These certificates proved to be a very attractive instrument in mid-year when nominal interest rates fell and inflation went up, since this meant that the real interest rates paid on bank deposits were negative, whereas the 12- and 18-month Certificates of Deposit offered real returns of 10% and 13%, respectively.

As the annual variation in M_2 (61%) was less than that of prices (71%), the amount of real money declined in real terms and its velocity of circulation increased. Nevertheless, if the concept of M_2 is broadened to include the voluntary-purchased Notes and the Certificates of Deposit, then the real demand for money remained virtually constant between December 1985 and December 1986.⁵

At the same time, the international reserves of the commercial banking system increased appreciably (US\$ 154 million). Consequently, the gain in international reserves in the banking system as a whole was US\$411 million, an amount equivalent to almost 40% of the country's exports of goods.

The ratio between the credit granted by the banking system to the private sector and the product again fell, although it was still relatively high in historical terms. This ratio dropped from 39% in 1985 to 34% in 1986, which was a level similar to that of 1981, i.e., before the domestic payments crisis. For its part, the share of total credit represented by credit in the local currency remained at the level of around 28% that had been recorded during the past five years (see table 22).

The decline in international interest rates, in conjunction with the trend of inflation and of the exchange rate in the country, led to a reduction of interest rates in both local and foreign currency. The preferential interest rate on loans in foreign currency within the banking system fell from around 13% at the end of 1985 to less than 10% at the end of 1986, and by year's end the rates on deposits paid by the financial system were between 5% and 5.5% annually. In turn, the rates in local currency paid by the banking system declined by somewhat more than 10 percentage points, going from around 74% at the end of 1985 to 60% in December 1986. The rates on loans fell somewhat less: whereas the private banks reduced the preferential rate from 80% to 73%, the BROU (Bank of the Eastern Republic of Uruguay) lowered it from 79% to 69% (see table 23).

The actions of the official banking system had a major impact on nominal market interest rates. During the greater part of the year, the BROU pursued a policy of reducing interest rates, and the private banks followed its lead until public expectations as to a decline of inflation changed during the course of the second quarter. The BROU continued its policy of lowering interest rates almost until the end of the year, whereas the Central Bank reversed this trend with the rate it paid on Monetary Regulation Notes, raising it from 60% to 63% annually in November and to 67% in December.

The real interest rate fluctuated during the year. In the private banking system, rates on both loans and deposits rose during the first quarter because the nominal rates fell less rapidly than inflation. However, the subsequent increase in inflation brought down real rates during the greater part of the second and third quarters until the nominal rate again rose, causing the rates on loans to become positive once again in real terms and the rates on deposits to become less negative.

b) *Fiscal policy*

The strict adjustment of fiscal accounts was continued in 1986. The overall deficit of the public sector was less than 5% of the gross domestic product, after having represented almost 7% of the GDP the year before and 10.5% at the start of the 1985/1986 programme. The extent of the adjustment was also reflected in the fact that the central government's deficit fell, even in nominal terms. In fact, this deficit was reduced to the equivalent of 1.2% of the gross domestic product (compared with 2.9% in 1985), the lowest figure recorded since the 1982 crisis. This contraction of the deficit resulted from the combination of the increase in tax burden (which rose from 14.9% to 15.9%) and the reduction of almost one percentage point in the ratio of central government expenditure to the product (see table 24).

Current income climbed by almost 11% in constant terms during 1986 and this increase was all the more significant given that a 12% increase had been observed the preceding year. Consequently, fiscal income increased by almost 25% in constant values during this two-year period (see table 25).

⁵ M_2 , according to this broader concept which includes money substitutes, grew by 69% during the year, while the consumer price index increased by 71%.

The taxes which increased the most were those on foreign trade. This was due in part to the effect of the marked expansion of merchandise imports. However, a significant proportion of the increase in taxes was attributable to the change made in the tax on crude petroleum and petroleum products owing to the substantial decline in its international market prices. In effect, the legislation governing the tax on fuel sales placed a ceiling of 100% on the value before taxes. As in the case of gasoline the tax had amounted to 80% at the beginning of the year, the sharp drop in the purchase price of hydrocarbons entailed a major reduction in this source of income despite the raising of the tax.⁶

Moreover, as has already been said, the authorities felt that the changes in the external environment were of a temporary nature. On the basis of this view, they decided to distribute the external savings deriving from the drop in the oil bill between consumers and the fiscal sector, which in turn required that they increase taxes above the legal maximum. In order to do this, the authorities had to raise the surcharge (the tax on imports), which in the case of petroleum was at the minimum level (10%), to 50%. The tax collected on fuels was therefore the sum of the domestic tax plus the import surcharge. Because of this, the change in the tax structure did not have a great impact.

In turn, as part of the governments export promotion policy, towards the end of the year the authorities decided to make a 5% across-the-board reduction in tariffs and to lower the maximum tariff rate from 60% to 50%. In addition, purchases of machinery and equipment for the export sector were exempted from taxes.

Domestic taxes —both indirect and direct— also increased more than did price levels. The VAT and income taxes rose by around 4.5%, while the tax on wealth grew by 11% in constant terms. The increase in receipts from the latter tax was due to the fact that the taxes were collected earlier than they had been the year before, and this led to a better economic performance in real terms.

The increase in real domestic taxation was also attributable to the use of more effective tax collection mechanisms thanks to a number of modifications in administrative procedures and the raising of sanctions, which helped to reduce tax evasion. The refinancing of taxes owed which was carried out during the year was also a factor. Lastly, the Budget Act created a tax on short-term bank assets —which began to be collected during the third quarter— and changed the procedures for the payment of agricultural rent.

On the other hand, the central administration's total expenditure remained at the same level as that of the preceding year in real terms (see table 25). Current expenditure was marginally reduced as a result of some substantial decreases in: i) financial assistance for social security (10% in real terms); ii) interest payments on the public debt (also 10%), as a result of the combined effect of lower interest rates and a slower rise in the dollar than that in price levels; and iii) transfers to other public agencies (17%). These reductions were offset by a real increase of 6% in the payment of remunerations to public workers and by a considerable expansion (29%) in the purchase of goods and services.

These modifications changed the composition of fiscal expenditure. The proportion of total expenditure represented by wages rose from 30% in 1985 to 32% in 1986 and non-personal expenditures rose from 12% to 16%, while the proportions of the remaining items of current expenditure decreased. Investment, for its part, was 4% higher than in 1985 at constant values. Even so, it represented only 9% of total expenditure (see table 26).

In the financing of the central administration's deficit, priority was once again given to borrowing in the form of bonds and securities in foreign currency, as had been the case since 1984. The sale of debt securities denominated in dollars brought in 80% more in funds than the fiscal imbalance, and there was thus a contraction of credit both from the monetary authority (BROU-BCU) —in an amount very close to the total deficit— and from other external loans (see table 25).

The rates and charges of public enterprises increased between 55% and 65% during the year, except for the prices charged for petroleum products, which varied by around 16% for the reasons already outlined. The prices of public services therefore rose somewhat more slowly than the general level of prices. However, the increase in sales resulting from the expansion of economic activity and lower costs (in the case of petroleum) meant that, on the whole, these enterprises broke even or showed a slight surplus.

⁶ For example, if an 80% tax was being levied on fuels on the basis of a previous oil price of US\$28 per barrel and this price then fell to one-half that level, then even if the tax were raised to the legal maximum of 100%, this would still result in receipts equivalent to only 63% of the amount previously collected. In real terms, then taxation would have decreased by 37%.

Table 1

URUGUAY: MAIN ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985	1986"
A. Basic economic indicators								
Gross domestic product at market prices (index: 1980 = 100)	94.6	100.0	101.5	91.3	85.8	84.7	84.5	90.1
Gross national income	94.0	100.0	101.5	88.6	80.2	78.3	76.7	85.1
Population (millions of inhabitants)	2.89	2.91	2.93	2.95	2.97	2.99	3.01	3.03
Per capita gross domestic product (index: 1980 = 100)	95.1	100.0	100.8	90.1	84.0	82.4	81.6	86.4
Growth rates								
B. Short-run economic indicators								
Gross domestic product	6.2	5.8	1.5	-10.0	-6.0	-1.2	-0.2	6.6
Per capita gross domestic product	5.6	5.2	0.8	-10.6	-6.7	-1.9	-0.9	5.9
Gross national income	6.1	6.3	1.5	-12.7	-9.4	-2.4	-2.0	11.0
Rate of unemployment'	8.4	7.4	6.7	11.9	15.5	14.3	13.0	10.7
Consumer prices								
December-December	83.1	82.8	29.4	20.5	51.5	66.1	83.0	70.7
Variation between annual averages	66.8	63.5	34.0	19.0	49.2	55.3	72.2	76.4
Real wages and salaries								
Money	87.1	50.0	10.3	19.8	11.3	56.2	101.5	77.2
Current government income								
Total government expenditure	93.7	77.5	42.2	-8.0	50.8	35.0	92.9	95.2
Fiscal deficit/total government expenditure	74.7	79.3	43.7	113.9	19.9	50.3	64.8	76.3
	1.5 ^e	0.5 ^e	0.5	36.4	20.1	28.3	16.0	7.0
Current value of exports of goods and services								
	30.8	27.8	10.5	-22.7	-0.2	-0.8	-3.0	19.9
Current value of imports of goods and services								
	55.0	42.6	-2.1	-24.4	-24.7	-10.7	-4.6	13.6
Terms of trade (goods and services)	-4.5	5.5	-1.7	-8.7	-13.3	2.0	-10.6	21.1
Millions of dollars								
C. External sector								
Trade balance (goods and services)	-309	-618	-397	-48	217	222	233	344
Net payment of profits and interest	58	100	74	197	288	362	352	278
Balance on current account	-363	-716	-468	-245	-71	-139	-119	66
Balance on capital account	448	811	494	-172	-	54	183	187
Variation in international reserves (net/								
External debt	4	112	51	-497	-71	-105	43	245
	1 682	2 138	3 112	4 238	4 572	4 671	4 900	5 193

Source: ECLAC, on the basis of official figures.

"Preliminary figures.
rate in Montevideo.Gross national product plus terms-of-trade effect (goods and services).
Percentages.

'Surplus.

/(+) indicates an increase.

' Average annual

Table 2
URUGUAY: TOTAL SUPPLY AND DEMAND

	Indexes (1980 = 100)			Percentage breakdown			Growth rates		
	1984	1985	1986 ^o	1980	1986 ^o	1983	1984	1985	1986 ^o
Total supply	78.9	78.0	85.0	121.3	114.4	-8.1	-1.9	-1.1	9.0
Gross domestic product at market prices	84.7	84.5	90.1	100.0	100.0	-6.1	-1.2	-0.2	6.6
Imports of goods and services	51.8	47.6	61.1	21.3	14.4	-20.8	-6.8	-8.1	28.3
Total demand	78.9	78.0	85.0	121.3	114.4	-8.1	-1.9	-1.1	9.0
Domestic demand	74.3	72.6	78.6	106.1	92.6	-12.4	-2.6	-2.3	8.3
Gross domestic investment	48.2	37.1	39.4	17.3	7.6	-36.6	1.9	-22.9	6.1
Gross fixed investment	48.1	36.7	39.7	16.7	7.4	-32.8	13.3	-23.7	8.2
Construction	56.3	40.2	40.1	11.4	5.1	-33.3	-8.7	-28.7	-0.1
Machinery and equipment	30.3	29.1	38.8	5.3	2.3	-31.2	28.0	-3.8	33.1
Variation in stocks	49.4	49.0	31.1	0.6	0.2				
Total consumption	79.5	79.6	86.3	88.8	85.1	-8.5	-3.1	0.1	8.5
General government	102.4	105.5	113.6	12.5	15.7	-2.9	0.6	3.0	7.6
Private	75.7	75.3	81.9	76.3	69.4	-9.6	-3.9	-0.5	8.7
Exports of goods and services	110.8	115.8	129.6	15.2	21.8	20.6	1.4	4.5	11.9

Source: ECLAC, on the basis of figures provided by the Central Bank of Uruguay.

^oPreliminary figures. The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1980 values using price indexes calculated by ECLAC for the purpose and expressed in indexes.

Table 3
URUGUAY: COEFFICIENT OF OPENNESS OF THE ECONOMY

(As a percentages of GDP)

Year	Exports	Imports	(X+M)	(X-M)
1977	15.3	16.4	31.7	-1.1
1978	15.1	16.0	31.1	-0.9
1979	15.4	18.4	33.8	-3.0
1980	15.2	21.3	36.5	-6.1
1981	15.8	19.4	35.2	-3.6
1982	15.0	16.4	31.4	-1.4
1983	19.3	13.8	33.1	5.5
1984	19.8	13.0	32.8	6.8
1985	20.8	12.0	32.8	8.8
1986	21.8	14.4	36.2	7.4

Source: ECLAC, on the basis of figures supplied by the Central Bank of Uruguay.

Table 4

URUGUAY: FINANCING OF GROSS DOMESTIC INVESTMENT

	1978	1979	1980	1981	1982	1983	1984	1985	1986"
Percentage of gross domestic investment									
Gross domestic investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross national saving	76.1	69.0	59.9	66.0	57.8	76.1	82.6	73.2	116.5
Gross domestic saving	85.5	72.0	67.7	69.6	72.2	132.8	161.1	185.7	189.6
Net external factor									
payments	-9.4	-4.6	-6.0	-4.9	-16.1	-40.3	-51.0	-66.2	-57.1
Terms-of-trade effect	-	1.6	-1.8	1.3	1.7	-16.4	-27.5	-46.3	-16.0
External saving	23.9	31.0	40.1	34.0	42.2	23.9	17.4	26.9	-16.5
Percentage of gross domestic product									
Gross domestic investment	16.0	18.7	18.5	16.6	15.0	10.1	10.4	8.1	8.0
Gross national saving	12.2	12.9	11.1	11.0	8.7	7.7	8.6	5.9	9.3
Gross domestic saving	13.7	13.5	12.6	11.6	10.8	13.4	16.8	14.9	15.2
Net external factor									
payments	-1.5	-0.9	-1.1	-0.8	-2.4	-4.1	-5.3	-5.3	-4.6
Terms-of-trade effect	-	0.3	-0.4	0.2	0.3	-1.6	-2.9	-3.7	-1.3
External saving	5.8	5.8	7.4	5.6	6.3	2.4	1.8	2.2	-1.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures.

Table 5

**URUGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF
ECONOMIC ACTIVITY, AT 1980 MARKET PRICES**

	Indexes (1980 = 100)			Percentage breakdown		Growth rates			
	1984	1985	1986°	1980	1986°	1983	1984	1985	1986°
Gross domestic product	84.7	84.5	90.1	100.0	100.0	-6.1	-1.2	-0.2	6.6
Goods	77.4	75.5	81.7	45.7	41.4	-8.2	-1.7	-2.5	8.3
Agriculture	93.0	97.3	100.4	10.6	11.8	2.1	-6.8	4.5	3.2
Mining	58.0	47.1		14		-14.5	-12.5	-18.9	
Manufacturing	75.8	74.6	83.6	28.7	26.6	-7.0	2.8	-1.6	12.1
Construction	59.1	42.4	41.8	5.0	2.3	-33.6	-11.0	-28.1	-1.5
Basic services	88.6	88.6	96.7	7.2	7.8	-3.2	-0.4	.	9.2
Electricity, gas and water	108.1	111.3	119.4	14	19	2.1	-0.7	2.9	7.3
Transport, storage and communications	83.8	83.0	91.2	5.8	5.9	-4.7	-0.3	-0.9	9.8
Other services	91.1	92.6	97.2	47.1	50.8	-4.6	-1.0	1.7	4.9
Commerce, restaurants and hotels	71.0	71.4	78.5	20.2	17.6	-9.3	-3.9	0.5	10.0
Financial institutions, insurance, real estate and business services	107.9	110.6		11.7		-0.5	-2.3	2.5	
Ownership of dwellings	103.4	104.2	105.1	6.9	8.0	-0.2	1.0	0.8	0.8
Community, social and personal services	104.9	107.1		15.2		-3.1	3.0	2.1	
Government services	109.5	112.8		9.2		1.6	0.6	3.0	

Source: ECLAC, on the basis of official figures.

Note: These series were calculated on the basis of official figures, which were then re-weighted according to the structure of current 1980 prices. Therefore, the results do not necessarily coincide with those published by the countries or with their calculations based on constant prices.

"Preliminary figures. Includes livestock, forestry and fishing.

Table 6

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Indexes (1978 == 100)					Growth rates			
	1982	1983	1984	1985	1986"	1983	1984	1985	1986"
Index of agricultural production	110.3	109.0	105.6	110.4	114.2	-1.2	-3.1	4.5	3.4
Crop-farming	114.7	103.9	109.4	104.0	106.7	-9.4	5.3	-4.8	2.6
Stock-raising	107.7	105.6	103.5	114.0	118.4	-1.9	-2.0	10.1	3.9
Production of the main crops									
Wheat	387.8	363.0	418.7	348.8	246.1	-6.4	15.3	-16.7	-29.4
Rice	418.9	323.0	339.8	420.7	394.2	-22.9	5.2	23.8	-6.3
Linseed	11.0	4.6	7.4	8.2	6.8	-58.2	60.9	10.8	-17.1
Sunflower	46.2	18.8	25.9	30.9	72.2	-59.3	37.8	19.3	133.7
Maize	97.3	103.7	111.8	108.0		6.6	7.8	-3.4	
Sugar beets	366.8	393.8	271.2	177.3	282.7	7.4	-31.1	-34.6	59.4
Indicators of livestock production									
Beef cattle production	790.1	710.6	654.8	669.0	703.7	-10.1	-7.9	2.2	5.2
Wool production'	82.6	81.7	71.0	87.2	92.5	-1.1	-13.1	22.8	6.1
Milk production'	818.0	840.0	836.0	894.0	930.0	2.7	-0.5	6.9	4.0
Slaughtering									
Beef cattle	790.1	861.4	602.2	657.8	697.0	9.0	-30.1	9.2	6.0
Pigs	26.6	25.8	24.1	23.1		-3.0	-6.6	-4.1	
Sheep	131.1	151.9	126.9			15.9	-16.5		
Other products									
Poultry'	26.8	20.4	21.4	21.9		-23.9	4.9	2.3	
Egg/	370.8	463.2	419.7	481.3		24.9	-9.4	14.7	

Source: ECLAC, on the basis of figures provided by the Central Bank of Uruguay.

"Preliminary figures. Agricultural year. 'Thousands of tons. Thousands of tons on the hoof. 'Millions of litres. Millions of units.

Table 7

URUGUAY: LIVESTOCK INVENTORIES

(Millions)

	1970	1975	1980	1981	1982	1983	1984	1985	1986
Cattle	8.6	11.5	11.2	11.4	11.2	9.7	9.1	9.4	9.3
Sheep	19.8	15.1	20.0	20.4	20.3	20.4	20.6	21.2	23.9
Total	28.4	26.6	31.2	31.8	31.5	31.2	29.7	30.6	33.2

Source: ECLAC, on the basis of figures from CIDE, agricultural censuses, DIPYPA and DICOSE.

Table 8

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1982 = 100)			Growth rates	
	1984	1985	1986	1985	1986
Index of manufacturing production	95.8	94.3	105.7	-1.6	12.1
Food	81.9	89.0	91.2	8.7	2.5
Other food industries	89.2	86.4	88.5	-3.1	2.4
Beverages	77.1	79.6	90.4	3.2	13.6
Tobacco	85.5	81.7	82.1	-4.4	0.5
Textiles	135.3	132.8	155.0	-1.8	16.7
Clothing	126.8	117.1	131.8	-7.6	12.6
Leather	101.9	85.2	91.7	-16.4	7.6
Footwear	122.0	89.5	107.0	-26.6	19.6
Paper	128.4	117.5	145.7	-8.5	24.0
Printing and publishing	98.6	99.5	102.6	0.9	3.1
Industrial chemicals	86.4	103.1	142.2	19.3	37.9
Other chemicals	96.4	92.2	110.2	-4.4	19.5
Petroleum refining	83.3	78.2	70.6	-6.1	-9.7
Rubber	129.7	124.2	155.7	-4.2	25.4
Plastic	96.5	106.1	123.8	9.9	16.7
Pottery, earthenware and china	170.8	113.0	175.7	-33.8	55.5
Glass	68.6	108.1	141.9	57.6	31.3
Other non-metallic mineral products	61.5	49.8	57.3	-19.0	15.1
Basic ferrous metals	103.5	94.9	100.0	-8.3	5.4
Basic non-ferrous metals	132.5	128.9	134.8	-2.7	4.6
Metal products	88.7	91.4	112.7	3.0	23.3
Electrical machinery, appliances and supplies	85.9	85.5	107.3	-0.5	25.5
Transport equipment	87.0	94.0	126.5	8.0	34.6
Scientific, professional and other equipment	127.0	75.4	103.4	-40.6	37.1
Other manufacturing industries	122.0	107.4	133.6	-12.0	24.4

Source: Central Bank of Uruguay.

Table 9
URUGUAY: UNEMPLOYMENT

Sliding quarter centered on	Unemployment rate				Employ- ment rate	Hours worked"			
	Total	Branch of activity				Total	Branch of activity		
		Manufac- turing	struc- tion	Corn- merce			Manufac- turing	Con- struc- tion	Com- merce
1984									
February	14.6	13.8	17.6	12.8	48.9				
May	14.1	14.3	16.7	11.4	49.6				
August	14.7	13.1	25.6	11.2	49.9				
November	12.7	12.0	10.1	9.9	51.0				
1985									
February	13.7	13.5	15.4	10.2	49.7				
May	13.2	12.3	16.4	13.4	51.4				
August	13.6	12.6	21.7	11.5	50.7				
November	12.0	10.9	16.6	9.1	51.5				
1986									
February	12.0	10.8	20.5	11.0	51.4	39.6	41.2	43.4	47.8
May	10.7	11.2	19.3	10.3	51.6	42.1	43.0	42.1	47.0
August	10.9	10.6	12.5	9.1	52.5	42.0	43.4	41.2	47.9
November	9.2	9.4	7.3	8.6	53.3	43.2	44.8	41.8	50.2

Source: Department of Statistics and Censuses, Uruguay.
"Average huurs worked per week.

Table 10

URUGUAY: EXCHANGE RATES

Annual and quarterly averages	Nominal exchange rates (pesos per dollar)	Exports	Indexes of effective real exchange rate"	
			(D)*	(2) ^f
1970-1979	2.75	120.4	103.3	121.7
1980	9.10	100.0	100.0	100.0
1981	10.82	96.5	95.5	95.8
1982	13.91	106.8	101.6	103.6
1983	34.54	146.2	131.9	136.8
1984	56.12	136.1	121.6	127.1
1985	101.42	135.8	118.4	125.2
1986	151.97	133.1		120.3
1984				
I	47.82	145.4	130.0	135.8
II	53.27	141.8	126.8	132.6
III	56.66	127.7	114.0	119.3
IV	66.73	129.3	115.4	120.8
1985				
I	84.65	140.5	124.2	130.7
II	94.17	129.5	112.6	118.8
III	106.34	133.5	115.7	122.4
IV	120.53	139.7	121.1	128.8
1986				
I	131.69	139.1		126.2
II	145.05	137.4		124.3
III	158.27	130.6		118.1
IV	172.85	125.4		112.4

Source: ECLAC, Economic Development Division, on the basis of information from the International Monetary Fund, *International financial statistics*.

"Corresponds to the average of the indexes of the effective real exchange rate for the peso with respect to the currencies of Uruguay's main trading partners, weighted by the relative significance of exports or imports to or from those countries, as appropriate. From 1975 to 1979, these weightings correspond to the average for those years and from 1980 onward, to the average for the period 1980-1983. Wholesale price indexes were the indexes used in these calculation whenever possible. For information on the methodology and sources used, see the technical appendix to the *Economic Survey of Latin America, 1981*. Includes the major petroleum-exporting countries. ^f Excludes the major petroleum-exporting countries.

Table 11
URUGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance on current account	-716	•468	-245	-71	-139	-119	66
Trade balance	-618	-397	-48	217	222	233	344
Exports of goods and services	1 526	1 701	1 537	1 411	1 289	1 251	1 500
Goods FOB	1 059	1 230	1 256	1 156	925	854	1 088
Real services	468	471	281	255	365	397	412
Transport and insurance	89	92	81	71	69	68	71
Travel	298	283	106	90	210	235	258
Imports of goods and services	2 144	2 098	1 585	1 194	1 067	1 018	1 156
Goods FOB	1 668	1 592	1 038	740	731	675	791
Real services	476	506	547	455	335	342	365
Transport and insurance	161	174	116	85	80	77	99
Travel	203	203	304	259	154	162	174
Factor services	-100	-74	-197	-288	-362	-352	-278
Profits	-	-	-	-	-	-	-
Interest received	68	146	147	63	87	76	93
Interest paid	-168	-220	-344	-350	-449	-428	-371
Unrequited private transfer payments	2	3	-	-	-	-	-
Balance on capital account	811	494	-172	-	54	183	187
Unrequited official transfer payments	7	7	10	11	10	11	25
Long-term capital	404	345	515	643	30	59	137
Direct investment (net)	289	49	-14	6	3	-8	-5
Portfolio investment (net)	-7	3	-7	-16	7	96	86
Other long-term capital	122	294	536	653	20	-29	55
Official sector ¹⁷	108	110	423	329	46	-23	44
Loans received	181	140	456	531	90	21	74
Amortization payments	-66	-27	-29	-198	-43	-44	-30
Commercial banks ¹	5	-3	-5	37	-1	-5	-1
Loans received	7	-	1	43	-	-	-
Amortization payments	-2	-2	-2	-9	-1	-1	-1
Other sectors ²	9	187	118	287	-25	-1	12
Loans received	26	201	182	346	62	30	39
Amortization payments	-17	-14	-64	-58	-87	-31	-27
Short-term capital (net)	311	303	567	-359	158	-136	-150
Official sector	-23	-5	83	41	47	125	5
Commercial banks	307	87	240	-67	67	-148	-69
Other sector	26	221	244	-333	43	-113	-87
Net errors and omissions	90	-161	-1 264	-295	-144	250	175
Global balance	95	26	-417	-70	-85	64	253
Total variation in reserves (- sign indicates an increase)	-112	-51	497	71	105	-43	-245
Monetary gold	-22	4	85	52	-8	-6	-1
Special Drawing Rights	1	-10	41	-2	-1	-10	3
IMF reserve position	-13	1	33	-10	10	-	-
Foreign exchange assets	-50	-37	240	-122	106	-30	-310
Other assets	-29	-9	3	12	12	-124	18
Use made of IMF credit	-	-	96	142	-15	128	45

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*; April 1987; 1986: ECLAC, on the basis of official data.

¹Preliminary figures subject to revision.

²Includes other non-factor services.

³Includes net loans granted and other

assets and liabilities.

⁴Equals the total variation in reserves (of opposite sign), plus counterpart entries.

Table 12

URUGUAY: NET EXTERNAL FINANCING*(Millions of dollars)*

	1980	1981	1982	1983	1984	1985	1986
Net capital movement	811	494	-172		54	183	187
Net factor payments	100	74	197	288	362	352	278
Net external transfers of funds	711	420	-369	-288	-308	-169	-91

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 13

URUGUAY: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
Growth rates							
Exports of goods							
Value	34.3	14.8	-15.9	2.2	-11.6	-7.7	27.4
Volume	18.5	13.3	-7.3	14.4	-13.6	-0.6	25.5
Unit value	13.4	14	-9.3	-10.7	2.3	-7.1	15
Imports of goods							
Value	43.0	-4.6	-34.8	-28.8	-1.0	-7.8	17.1
Volume	21.8	-9.2	-31.5	-20.9	3.9	-10.1	36.5
Unit value	17.5	5.1	-4.8	-10.0	-4.7	2.6	-14.2
Terms of trade (goods)	-2.9	-3.8	-5.0	-1.1	6.6	-9.4	17.0
Indexes (1980 = 100)							
Terms of trade (goods)	100.0	96.2	91.4	90.3	96.3	87.3	102.1
Purchasing power of exports	100.0	109.0	95.9	108.5	100.0	90.1	132.3
Quantum of exports	100.0	113.0	105.0	120.1	103.9	103.3	129.6
Quantum of imports	100.0	90.8	62.2	49.2	51.1	46.0	62.7

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.
"Preliminary figures.

Table 14

URUGUAY: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986	1980	1986	1983	1984	1985	1986
Total	1045.1	924.6	853.6	1087.8	100.0	100.0	2.2	-11.5	-7.7	27.4
Traditional	469.8	338.8	293.3	402.7	39.3	37.0	7.9	-27.9	-13.4	37.3
Non-tradicional	575.3	585.8	560.3	685.1	60.7	63.0	-2.1	1.8	-4.4	22.3
Principal sections										
Live animals and animal products	365.0	228.7	202.3	295.2	24.9	27.1	25.7	-37.3	-11.5	45.9
Beef	222.8	135.9	110.5	164.7	14.7	15.1	30.8	-39.0	-18.7	49.0
Mutton	15.1	7.1	6.8	22.5	1.4	2.1	-28.1	-53.0	-4.2	230.9
Other	127.0	85.7	85.0	108.0	8.9	9.9	28.4	-32.5	-0.8	27.1
Plant products	139.3	129.1	141.4	134.0	10.2	12.3	-8.7	-7.3	9.5	-5.2
Rice	76.6	57.8	81.0	78.2	6.1	7.2	-17.1	-24.5	40.1	-3.5
Other	62.7	71.3	60.4	55.8	4.1	5.1	4.3	13.7	-15.3	-7.6
Fats and oils	8.7	6.9	5.1	8.5	1.8	0.8	58.2	-20.7	-26.1	66.7
Food products, beverages and tobacco	30.2	27.6	23.2	36.5	3.1	3.4	65.9	-8.6	-15.9	57.3
Mineral products	1.7	4.1	1.0	5.4	1.2	0.5	-58.5	141.2	-75.6	440.0
Plastics and rubber manufactures	12.2	10.3	13.5	20.2	2.0	1.9	-35.4	-15.6	31.1	49.6
Hides, skins and leather products	139.2	146.5	114.0	148.5	13.6	13.7	-0.2	5.2	-22.2	30.3
Skins and leather	75.4	91.6	61.3	74.7	3.8	6.9	3.6	21.5	-33.1	21.9
Processed hides	39.3	30.5	27.2	36.1	4.9	3.3	3.1	-22.4	-10.8	32.7
Furs and fur products	24.5	24.4	25.5	37.8	4.9	3.5	-14.6	-0.4	4.5	48.2
Textiles and textile manufactures	266.6	281.7	261.6	316.3	29.0	29.1	-8.9	5.7	-7.1	20.9
Unwashed wool	74.2	57.8	52.5	57.6	9.7	5.3	-34.3	-22.1	-9.2	9.7
Washed wool	27.4	16.6	17.0	29.4	2.2	2.7	82.7	-39.4	2.4	72.9
Tops	66.9	90.1	94.4	114.5	8.2	10.5	-13.3	34.7	4.8	21.3
Other	98.0	117.2	97.7	114.8	8.9	10.6	12.0	19.6	-16.6	17.5
Footwear and other	9.2	10.1	7.6	9.1	1.9	0.8	-8.0	9.8	-24.8	19.7
Other	73.0	79.6	84.0	114.1	12.4	10.5	-20.0	9.0	5.5	35.8

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 15

URUGUAY: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986	1980	1986	1983	1984	1985	1986
Total	788	776	715	839	100.0	100.0	-29.2	-1.5	-7.8	17.3
Consumer goods	46	51	51	79	10.8	9.4	-54.7	9.5	0.8	54.7
Raw materials and intermediate goods	638	655	609	662	74.3	79.0	-25.2	2.7	-7.1	8.8
Petroleum and fuels	273	271	224	140	27.5	16.7	-34.9	-1.0	-17.4	-37.2
Other	425	385	385	522	46.8	62.3	-2.0	-9.5	0.2	35.5
Capital goods	103	70	55	97	14.9	11.6	-33.3	-32.2	-21.1	76.4

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 16

URUGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
	Millions of dollars									
Total external debt	1 320	1 240	1 682	2 138	3 112	4 238	4 572	4 671	4 900	5 193
Public debt	1 028	910	1 012	1 165	1 447	2 688	3 180	3 163	3 551	3 829
Financial sector	336	165	177	186	267	1 088	1 565	1 497	1 629	1 716
Non-financial sector	692	745	835	996	1 197	1 617	1 632	1 683	1 922	2 113
Private debt not guaranteed by the government	292	330	670	974	1 665	1 550	1 392	1 508	1 349	1 365
Debt service	168	343	165	270	279	512	536	545	598	497
Amortization payments	93	248	58	105	59	168	186	96	170	126
Interest payments	75	95	106	165	220	344	350	449	428	371
	Percentages									
Debt service/exports of goods and services	21	38	14	18	16	33	38	43	47	33
Public-sector external debt/exports of goods and services	127	100	85	77	86	176	227	241	284	255
Total external debt/exports of goods and services	163	136	141	141	184	277	325	364	392	346

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 17

URUGUAY: PUBLIC-SECTOR COMMITMENTS IN FOREIGN CURRENCY*(Millions of dollars)*

	1979	1980	1981	1982	1983	1984	1985	1986
1. Gross external debt of the public sector	1 012	1 165	1447	2 688	3 180	3 163	3 551	3 829
2. Foreign currency commitments to the resident private sector	143	200	417	561	759	1 036	1 206	1 381
Central Bank	28	37	92	167	423	514	567	605
Banco de la República (BROU)	99	143	245	208	199	263	400	466
Banco Hipotecario	-	-	56	139	66	99	132	135
Non-financial public sector	16	20	24	48	71	160	107	174
3. Total public sector commitments in foreign currency (1) + (2)	1 155	1 365	1 864	3 249	3 939	4 199	4 757	5 210

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

Table 18

URUGUAY: DOMESTIC PRICES

(Percentages)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Variation between annual averages										
Consumer price index	58.2	44.5	66.8	63.5	34.0	19.0	49.2	55.3	72.2	76.4"
Food	64.0	44.5	70.9	57.9	25.6	11.7	54.1	68.8	63.0	92.5
Clothing	46.8	39.6	72.5	52.3	23.3	9.8	50.7	65.2	100.2	73.1
Housing	59.3	54.7	58.9	77.8	57.9	30.9	34.3	31.2	61.5	55.6
Miscellaneous	52.4	37.6	64.5	65.6	35.9	21.3	59.4	56.5	87.8	
Wholesale price index (domestic)	50.3	48.6	80.4	41.8	23.4	12.9	73.5	77.4	76.6	67.2
Agricultural products	52.1	78.0	102.6	18.7	9.8	7.6	89.2	90.2	53.9	83.7
Crop-farming products	35.5	81.5	58.8	49.9	14.0	12.4	84.9	65.4	60.2	85.5
Livestock products	65.9	75.7	133.5	3.8	6.9	4.1	92.5	109.1	50.1	82.6
Manufactured goods	49.8	40.2	72.4	51.6	28.0	14.4	69.3	71.6	84.1	62.6
December to December variation										
Consumer price index	57.2	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0	70.7"
Food	59.5	48.4	86.0	33.5	25.2	13.3	59.7	77.5	72.2	91.9
Clothing	46.6	39.5	95.2	27.7	18.8	8.0	64.7	89.6	92.0	76.0
Housing	66.5	45.6	78.8	63.7	42.9	28.8	30.9	38.9	77.1	42.6
Miscellaneous	50.1	44.9	76.9	47.9	26.3	27.9	59.8	68.1	102.8	
Wholesale price index (domestic)	44.8	59.6	77.1	28.6	14.9	33.5	73.8	84.0	74.2	66.9
Agricultural products	55.8	92.0	63.4	16.7	5.2	17.9	118.6	90.3	41.1	108.5
Crop-farming products	51.0	86.2	39.3	68.3	14.2	-5.5	111.1	70.5	71.9	79.5
Livestock products	59.1	95.6	78.0	-7.9	-2.7	41.9	123.8	103.0	24.4	130.1
Manufactured goods	41.7	49.3	82.7	32.9	18.1	37.9	62.9	82.0	85.5	56.1

Source: Central Bank of Uruguay and Department of Statistics and Censuses.

"Corresponds to the new price index (base: December 1985), involving a different breakdown.

Table 19

URUGUAY: REAL WAGES"

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Indexes (1980 = 100)										
Real wages	113.3	109.2	100.4	100.0	107.5	107.2	85.0	77.4	88.3	93.4
Public sector	104.7	101.6	94.4	100.0	107.1	107.0	83.9	73.1	83.4	86.5
Private sector	122.3	117.3	106.7	100.0	107.9	107.1	86.0	81.7	93.9	100.8
Growth rates										
Real wages	-11.9	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.0	14.1	5.8
Public sector	-10.9	-3.0	-7.1	5.9	7.1	0.1	-21.6	-12.9	14.1	3.7
Private sector	-12.8	-4.1	-9.0	-6.3	7.9	-0.7	-19.7	-5.0	14.9	7.3

Source: Department of Statistics and Censuses, Uruguay.

"Calculated on the basis of the minimum increases decreed by the government up to October 1980 and of the wages actually paid thereafter.

Table 20

URUGUAY: ADJUSTMENT OF PRIVATE-SECTOR WAGES, 1986

Month of adjustment	Official guideline	Variation in wages in subsequent four-month period	Inflation in the four-month period	
			Preceding	Subsequent
February	18	22	24	17
June	15	17	17	22
October	17	23	22	18

Source: ECLAC, un the basis of official figures and press releases.

Table 21

URUGUAY: MAIN MONETARY VARIABLES

End of	Money outside banks (1)	Current account deposits (2)	Money M ₁ (3)=(1)+(2)	Time deposits l/n (4)	Subtotal M ₂ (5)=(3)+(4)	Deposits f/c (6)	Total M, (7)=(5)+(6)
Billions of new pesos							
1980	5.1	3.6	8.7	14.9	23.6	12.5	36.1
1981	6.1	3.5	9.6	18.5	28.1	24.4	52.5
1982	7.9	3.6	11.5	20.4	31.9	59.4	91.3
1983	8.4	4.4	12.8	24.4	37.2	66.6	103.8
1984	12.1	7.9	20.0	33.7	53.6	106.0	159.6
1985	23.4	16.9	40.3	62.3	102.6	205.4	307.9
1986	43.0	28.4	71.4	93.5	164.9	373.9	538.8
Growth rates							
1980	59.4	38.5	50.0	91.0	73.5	56.3	67.1
1981	19.6	-2.8	10.3	24.2	19.1	95.2	45.4
1982	29.5	2.9	19.8	10.3	13.5	143.4	73.9
1983	6.3	22.2	11.3	19.6	16.6	12.1	13.7
1984	44.0	79.5	56.3	38.1	44.1	59.2	53.8
1985	93.4	113.9	101.5	84.9	91.4	93.8	92.9
1986	83.8	68.0	77.2	50.1	60.7	82.0	75.0

Source: ECLAC, un the basis of data provided by the Central Bank of Uruguay.

Table 22

URUGUAY: MAIN MONETARY RATIOS

Year	Percentage of gross domestic product ^a						Percentage of M ₁		Percentage of credit	
	Money outside the banks	Money M ₁	Term deposits in 1/c ^b	M ₁	Deposits f/c ^b	Credit	Term deposits in 1c/ ^b	Deposits in f/c ^b	In 1/c ^b	In f/c ^b
1978	4.7	7.9	7.6	15.5	11.8	22.1	27.8	43.2	54.7	45.3
1979	4.3	7.7	9.7	17.4	11.0	23.7	34.1	38.7	56.2	43.8
1980	4.5	7.9	12.3	20.2	11.1	28.2	39.3	35.5	55.7	44.3
1981	4.6	7.5	13.6	21.1	15.1	32.5	37.7	41.6	53.5	46.5
1982	5.4	8.2	15.1	23.3	32.6	54.9	27.1	58.3	27.6	72.4
1983	4.4	6.5	12.0	18.5	33.8	54.7	23.0	64.6	28.3	71.7
1984	4.1	6.8	11.4	18.2	35.9	44.8	21.0	66.4	27.7	72.3
1985	4.6	7.9	12.1	20.0	40.0	39.4	20.2	66.7	25.5	74.5
1986	4.6	7.6	9.9	17.5	39.6	33.8	17.4	69.4	28.5	71.5

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay.

^aBased on annual averages calculated using the subtotals of year-end data.^bLocal currency.^cForeign currency.

Table 23

URUGUAY: INTEREST RATES

(In local currency)

	1985				1986			
	I	II	III	IV	I	II	III	IV
Private banks								
Deposit rates								
Nominal	89.2	86.2	77.0	74.4	69.0	59.2	55.8	59.2
Real	-2.3	7.4	-6.3	-1.6	5.1	-11.1	-5.8	-1.7
Lending rates								
Nominal				80.0	76.0	82.0	75.8	73.4
Real				1.5	9.5	1.2	6.3	7.0
BROU ^a								
Deposit rates								
Nominal				74.0	72.0	63.0	58.0	60.0
Real				-1.9	7.0	-9.3	-4.5	-1.2
Lending rates								
Nominal				78.5	76.0	72.0	69.0	69.0
Real				0.7	9.5	-4.3	2.2	4.3
BCU* Monetary regulation notes								
Nominal				73.0	73.0	66.0	60.0	67.0
Real				-2.2	7.6	-7.3	-3.3	3.1
Variation in prices ^c	93.7	73.4	89.0	77.2	60.8	79.8	65.4	62.0 ^b

Source: ECLAC, on the basis of data from the Central Bank of Uruguay and the Department of Statistics and Censuses.

^aBanco de la República Oriental del Uruguay.^bCentral Bank of Uruguay.^cAnnualized variation in the consumer price index in the following quarter.

Estimates.

Table 24**URUGUAY: CENTRAL GOVERNMENT INCOME, EXPENDITURE AND DEFICIT**

Year	Billions of new pesos			As a percentage of GDP			Deficit as a percentage of expenditure
	Income	Expenditure	Balance	Income	Expenditure	Balance	
1977	2.9	3.2	-0.2	14.8	16.0	-1.2	7.6
1978	4.4	4.8	-0.4	14.1	15.4	-1.3	8.4
1979	8.4	8.3	0.1	14.5	14.4	0.1	.
1980	15.0	14.9	0.1	16.1	16.1	-	-
1981	21.3	21.4	-0.1	17.4	17.5	-0.1	0.5
1982	19.6	30.8	-11.2	15.2	23.9	-8.7	36.4
1983	29.5	36.9	-7.4	15.6	19.6	-4.0	20.1
1984	39.8	55.5	-15.7	13.5	18.8	-5.3	28.3
1985	76.8	91.4	-14.6	14.9	17.8	-2.9	16.0
1986	149.9	161.2	-11.3	15.9	17.1	-1.2	7.0

Source: Central Bank of Uruguay and Office of the Accountant-General.

Table 25

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of new pesos				Growth rates		
	1984	1985	1986	1983	1984	1985	1986
Current income	39.8	76.8	149.9	50.8	35.0	92.9	95.2
Domestic taxes	28.2	58.4	110.2	35.0	54.8	107.2	88.7
On production and transactions	27.3	54.2	98.7	31.3	62.7	98.8	82.2
Value added	15.9	30.2	55.7	21.9	64.0	89.5	84.4
Fuels	5.9	12.1	19.6	80.7	63.7	105.2	61.4
Tobacco	2.7	4.9	7.8	33.2	30.6	83.3	58.6
Other indirect taxes	2.7	6.9	15.6	9.9	98.3	153.5	125.5
On income	2.9	4.8	8.8	55.2	-6.5	61.9	84.5
On wealth	1.9	4.4	8.6	60.4	-6.7	125.8	95.9
Other	0.2	0.5	4.1	-15.7	49.6	218.3	658.9
Less: documents received	-4.0	-5.4	-10.0	22.8	35.7	35.5	82.0
Taxes on external trade	5.9	10.2	24.3	71.6	29.1	72.8	137.3
On imports	4.3	8.3		3.3	84.0	92.5	
On exports	1.1	1.0		-	-45.4	-10.1	
Customs and other duties	0.5	0.9		-29.4	88.0	78.4	
Other income	5.7	8.2	15.4	97.0	-14.9	43.3	88.5
Current expenditure	50.6	83.6	146.8	20.6	52.5	65.4	75.5
Remunerations	31.4	53.8	93.2	13.7	28.1	71.3	73.2
Social security contributions and financial assistance							
Purchase of goods and services	6.9	11.2	25.4	16.6	68.9	61.1	127.5
Interest on public debt	5.3	10.5	16.8	176.0	136.4	98.9	59.4
Other	6.9	7.8	11.3	43.6	201.9	12.7	45.7
Current saving	-10.3	-6.8	3.1				
Investment	4.9	7.8	14.4	14.7	31.4	59.0	84.2
Total expenditure	55.5	91.4	161.2	19.9	50.3	64.8	76.3
Total deficit (-) or surplus (+)	-15.7	-14.6	-11.3				
Financing	15.7	14.6	11.3				
Net Central Bank/BROU credit	7.5	1.4	-11.3				
Net sale of securities	9.4	16.1	20.6				
Other	-0.3	-0.8	4.1				
External loans	-0.9	-2.1	-2.1				

Source: ECLAC, on the basis of data provided by the Central Bank of Uruguay and the Ministry of Economy and Finance.

Table 26

URUGUAY: STRUCTURE OF CENTRAL GOVERNMENT EXPENDITURE*(Percentages)*

	1979	1980	1981	1982	1983	1984	1985	1986
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Remunerations"	53.0	63.5	63.9	30.7	30.0	26.4	29.9	31.8
Contributions and transfers to the social security system				39.4	36.5	30.2	29.0	26.2
Transfers to public bodies	12.7	5.3	4.1	4.8	5.8	12.2	8.5	6.2
Non-personal expenditure	16.8	16.6	17.6	11.5	11.1	12.5	12.2	15.8
Interest	4.3	2.2	1.9	2.6	6.1	9.5	11.5	10.4
Capital expenditure	12.5	12.1	12.0	10.6	10.1	8.9	8.5	8.9
Other	0.7	0.3	0.5	0.4	0.4	0.3	0.4	0.8

Source: Up to 1981, Office of the Accountant-General. As from 1982, combined figures prepared by the National Treasury and the Office of the Accountant-General.

"Up to 1981, remunerations include contributions and transfers to the Social Security System. Includes: advances, subsidies, grants and National Housing Fund.

VENEZUELA

1. Recent economic trends: Introduction and summary

The most important event in the economy of Venezuela in 1986 was the sharp decline in the international price of petroleum, which is by far its main export product. When oil prices fell by more than 50% during the first half of the year, the country's foreign exchange income shrank considerably, triggering off a dramatic turnaround in the current account of the balance of payments and causing a decline of over US\$3.8 billion in the international reserves (see table 1 and figure 1). The limited amount of foreign exchange available also made it difficult to meet the rescheduling agreement of the external debt signed in February, and as a result negotiations with the creditor banks were resumed in mid-year. Finally, during 1986 pressures on the exchange rate increased markedly. Consequently, the price of the dollar on the free market rose by almost 60% to a level more than three times that of the official exchange rate. Under these circumstances, the authorities increased the official exchange rate by almost 100% in mid-December and at the same time tightened controls on exchange operations.

Nevertheless, the sudden decline in the country's external position did not immediately affect domestic activities. In fact, the gross domestic product grew by more than 3% in 1986, with the result that the per capita product increased for the first time in the last eight years. Because of the enormous decline in the terms of trade, however, the national income dropped by almost 12%.

The recovery in economic activity reflected on the one hand the expansion of the import substitution process and on the other, the effects of a clearly expansionary fiscal policy. As a matter of fact, public investment increased considerably in 1986, so that the fiscal exercise showed a moderate deficit after two consecutive years of large surpluses. The monetary and wages policy similarly furthered the expansion of domestic demand (see table 2) through the granting of credit facilities and selective salary readjustments. The inflationary pressures created by the greater domestic demand were partially offset, however, by the stability of the official exchange rate and the extension of the price control system, with the result that inflation increased only moderately—from 9% in 1985 to 13% in 1986.

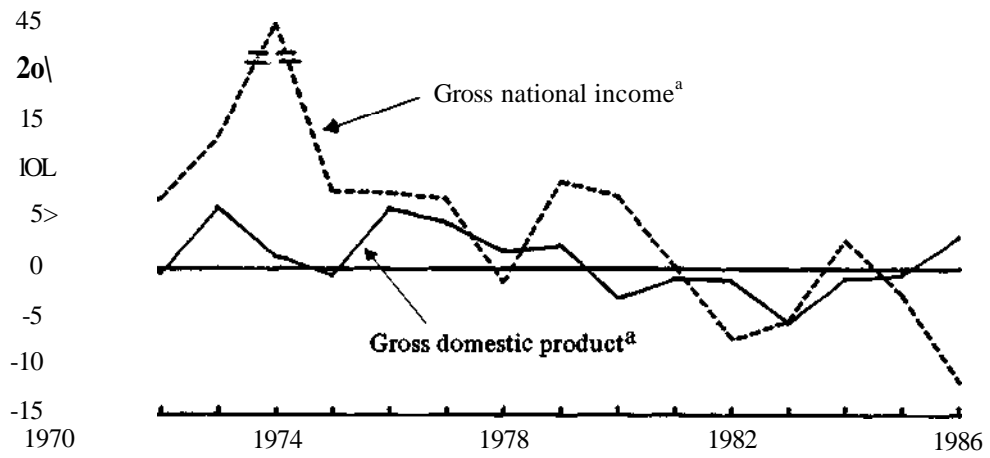
Furthermore, the recovery was quite widespread (see table 3). The public investment policy particularly assisted construction, which had been in a deep recession since 1979. Agriculture, mining and manufacturing also showed considerable dynamism and succeeded in expanding their share of the national market at the expense of imported goods. Owing to this higher level of domestic activity, unemployment fell sharply although it still remained above the figure recorded three years previously.

2. Trends in economic activity

In 1986, the gross domestic product grew by 33%, the highest rate recorded since 1977. This performance was in contrast to the difficulties encountered by the petroleum sector due to the deterioration in international oil prices. Non-petroleum activities, and especially goods-producing activities, however, expanded notably thanks to the extension of the import substitution process and the impact of a clearly expansionary fiscal policy.

After four years of gradual decline, the international price of petroleum began to fall sharply late in 1985, and in the following six months it registered a drop of over 50%. Consequently, although there was a slight recovery towards the end of the year, the average price of Venezuelan hydrocarbon exports was the lowest since 1978 (see figure 2). This dramatic fall was partly offset by the active marketing policy pursued by *Petróleos de Venezuela*, which enabled the volume of external sales to be increased by almost 15%. The devaluation of the petroleum exchange rate early in the year also made

Figure 1
 VENEZUELA: MAIN ECONOMIC INDICATORS



15

Urban unemployment⁵

10

1970 1974 1978 1982 1986

25

Consumer prices⁰

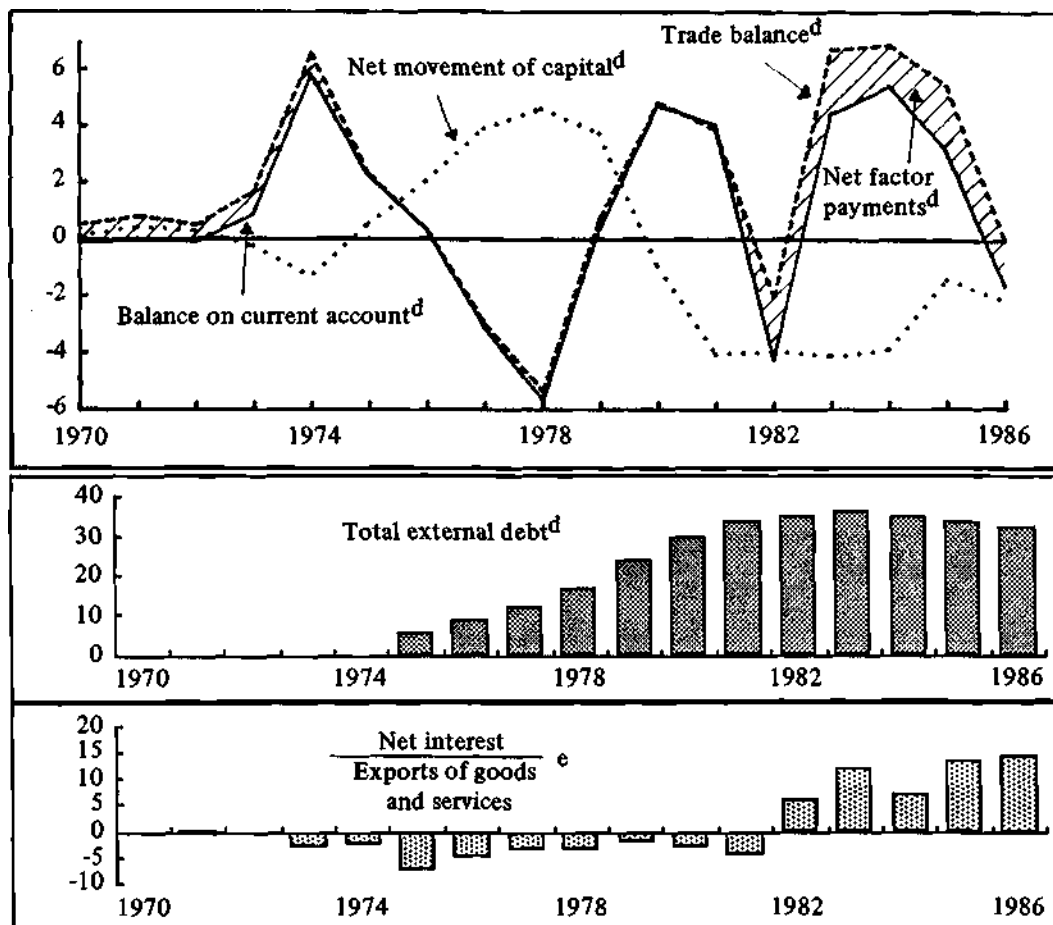
20

15

10

1970 1974 1978 1982 1986

Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. [^]Nationwide ^{urrian} average annual rate. Percentage variation
 December to December. [^]Billions of dollars. Percentages.

possible an increase in income in terms of national currency.¹ Despite this, however, both the total income and the net profits of *Petróleos de Venezuela* shrank by more than one-fifth in comparison with the year before (see table 4).

In order to achieve greater stability in future sales, in 1986 the petroleum industry stepped up its internationalization programmes, which came to account for almost one-third of crude petroleum exports.² It also considerably increased its investment expenditure, with special emphasis on the projects for the production and distribution of natural gas for the domestic market.

The non-petroleum product, for its part, showed vigorous growth. Particularly outstanding were the marked increases recorded in construction (12%) and agriculture (7%).

¹ As announced the previous year, on 1 January 1986 the exchange rate in effect for the petroleum industry and for iron ore exports was raised from 6 to 7.5 bolívares per dollar, bringing it level with the official trade exchange rate.

² These programmes provide for the acquisition by *Petróleos de Venezuela* of share capital in refinery and distribution installations located in the consumer countries, thus guaranteeing a sizeable part of its external sales. In 1986 *Petróleos de Venezuela* bought share capital in two foreign companies (*Citgo* of the United States and *Nynas* of Sweden), increased its participation in the capital of the German company *Veba Oel*, and also negotiated the purchase of share capital in another United States company.

For the second consecutive year, the agricultural sector showed great dynamism. As in 1986, this sector enjoyed a favourable price, subsidies and official credit policy. The production of cereals (especially sorghum and maize) and sugar cane increased considerably, so that the need to import these products was substantially reduced. Moreover, the favourable exchange rate situation encouraged the production and export of tropical fruits and fishery products (see table 5).

Satisfactory results were also registered in the mining sector, thanks to the fact that iron ore and coal production experienced a recovery and gold production continued its rapid increase (see table 6).

The moderate growth observed in industrial activity (3 %) derived both from the private sector and from the public enterprises. Among the latter, petrochemical production (especially of fertilizers and related products) was outstanding, while there was also continued vigorous expansion in the production of steel and to a lesser extent of aluminium (see table 7). Both sectors benefitted from the greater demand for inputs on the local market, due to the recovery in the construction sector. On the other hand, although a larger volume of these products was sold on the external market, their prices slumped (-20% for iron ore and -35% for aluminium).

Construction, which expanded by more than 12%, was the most dynamic activity in the entire economy. As it had suffered a steady and considerable decline over the previous eight years, however, its product was still almost 50% lower than at the beginning of the decade. Its current recovery was due essentially to the expansion of public investment programmes, since private construction continued to contract (see table 8).

In contrast, the production of services grew much more moderately. The increase in agricultural and manufacturing output had a positive impact on commerce and on the provision of public utility services, which grew by 5% and 7%, respectively. The other service activities, however, almost stagnated and there was even a slight drop in the provision of community, social and personal services (see tables 3 and 9).

As a result of the reactivation of the economy, employment levels improved substantially in 1986. Thus, employment in the construction sector rose by almost 20% and that in industry by 11%. Notwithstanding this, unemployment in the construction sector—although appreciably less than in previous years—still affected almost a quarter of the labour force. At the national level, the open unemployment rate also fell perceptibly (from 13% to 11%), but even so it remained at a much higher level than that recorded before the onset of the recession (see table 10).

3. The external sector

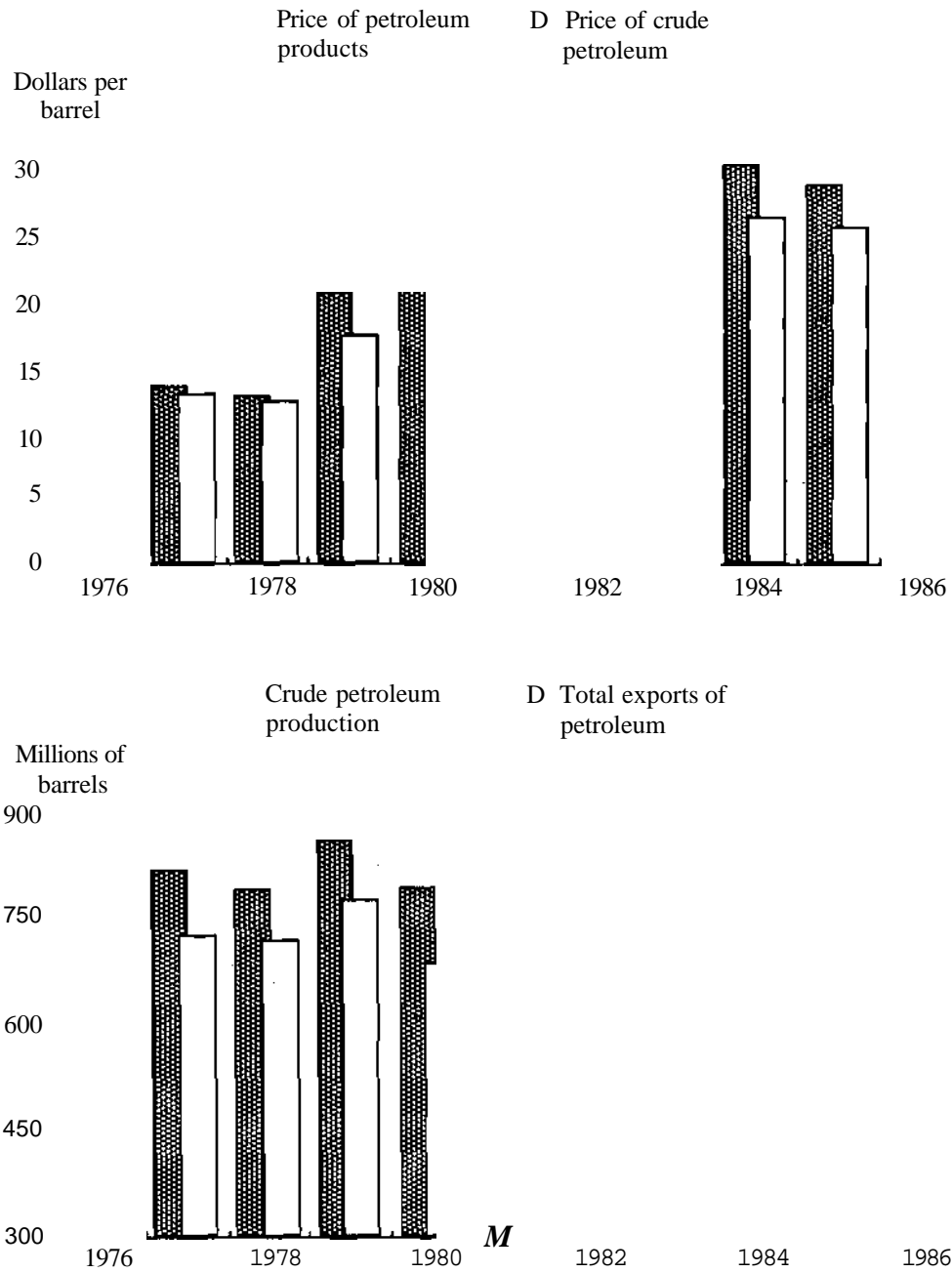
The external sector's performance in 1986 was negatively affected by the very severe drop in the international price of petroleum from the beginning of the year. Because of this, the terms of trade deteriorated by almost 47% and income from hydrocarbon sales contracted by 43%, sinking to the lowest level in the last 11 years. Exports of steel and aluminium also faced an unfavourable international climate, and the increase in the quantities exported failed to offset the decline in the international price of these products. As a result, despite the increase in external sales of iron ore and of coffee and other agricultural products, the total export income was 40% lower than the previous year (see tables 11 and 12).

Imports, for their part, grew moderately (4%) as a result of two opposing movements. On the one hand, external sales of consumer goods, and especially of foodstuffs, fell sharply (-18% and -51%, respectively), as a result of import substitution in agriculture and manufacturing industry. Imports of capital goods, on the other hand, increased significantly (32%) and came to represent almost half the total external purchases. The bulk of this increase can be attributed to early purchases by the private sector in view of the growing expectations of devaluation, which also contributed to the marked increase (18%) in imports of consumer durables (see tables 13 and 14).

As a result of these changes, the trade balance on merchandise slumped considerably, reaching only US\$1 billion, which was less than one-seventh of the figure recorded the previous year (see figure 3). In contrast, due to the decline in the international interest rates, the deficit on the services account decreased by almost one-third, although it still exceeded US\$2.5 billion. As a result, after three consecutive years of surpluses, current transactions recorded a negative balance of US\$1.6 billion (see table 15). The capital account, for its part, showed a deficit of almost US\$2.2 billion. The

Figure 2

VENEZUELA: INDICATORS OF THE PETROLEUM SECTOR



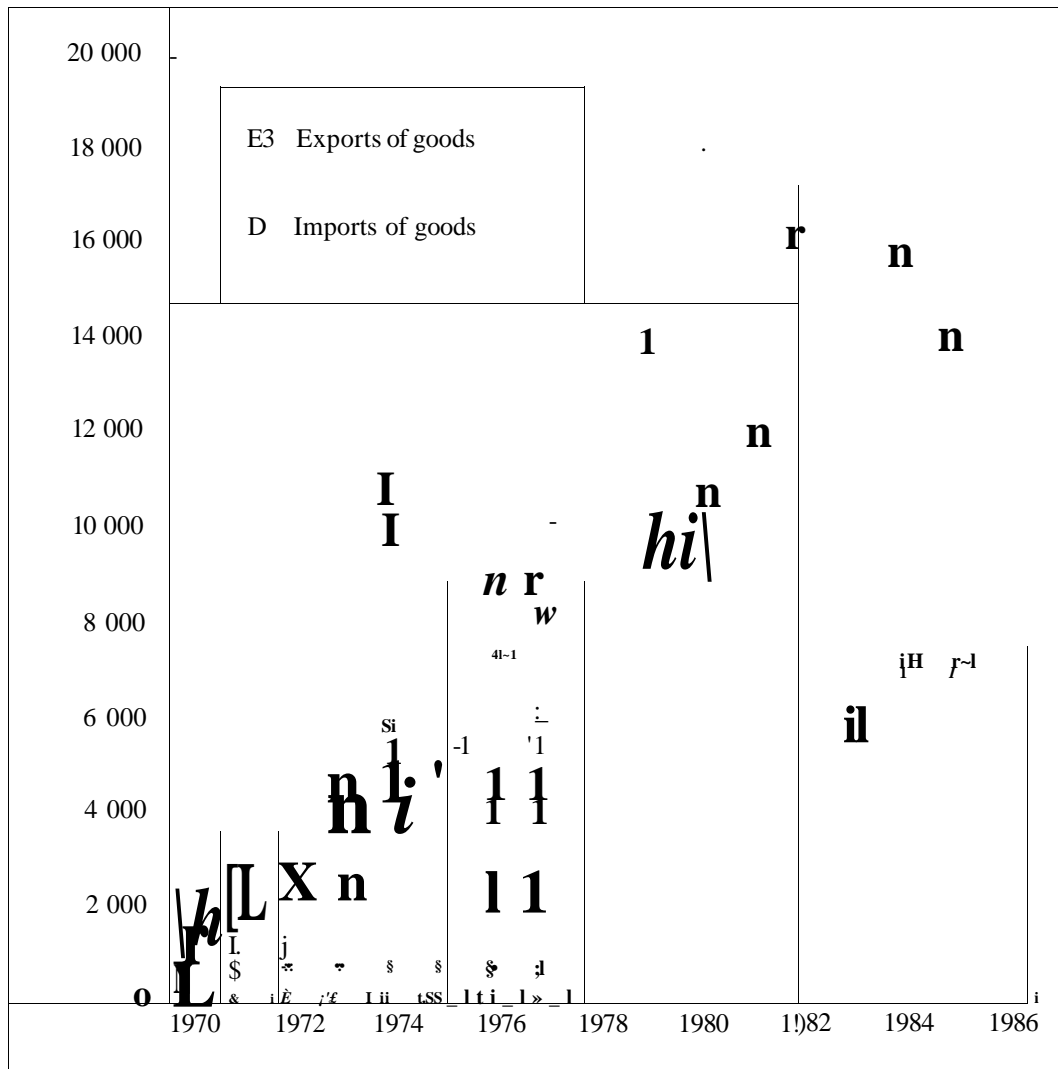
Source: ECLAC, based on figures provided by the Central Bank of Venezuela and by Petróleos de Venezuela, S.A.

combined impact of these two deficits led to a decline of a little over US\$3.8 billion in the country's international reserves, which thus fell to their lowest level in the last five years (see tables 16 and 17). The negative balance on the capital account reflected the restrictive external financing situation. In fact, the total external debt went down for the third consecutive year, due to the punctual amortization of the public debt owed to national and international public financial bodies and to the speeding-up of payments of principal on the private debt (see table 18).

At the beginning of 1986, an agreement was signed with the international banks for refinancing the public debt. Under this agreement, the amortization payments were restructured with a term of 12 1/2 years and an interest rate of 1 1/8% above LIBOR. An initial payment of US\$750 million was stipulated, to be made during the second half of 1986.

However, the subsequent slump in petroleum income prevented the country from complying fully with the payments schedule thus laid down, and as a result negotiations with the creditor banks

Figure 3
VENEZUELA: EXTERNAL TRADE INDICATORS
(Millions of dollars)



Source: ECLAC, on the basis of official data.

were resumed in the second half of the year.³ These negotiations culminated in February 1987, in the signing of a new agreement extending the term for amortization payments to 14 1/2 years and reducing the spread over LIBOR to 7/8%. Even so, the external debt servicing was still equivalent to more than half of the export income: an unprecedentedly high level for Venezuela.

Independently of the negotiations with the creditor banks, a new payment scheme for the private external debt was established under a new exchange agreement between the Central Bank and national debtors. The maximum length of time during which foreign exchange will be supplied for amortization payments was increased from 5 to 8 years, and at the same time debtors were given the possibility of obtaining a guaranteed stable exchange rate (75 bolívaes per dollar) during this period, subject to the payment of a coverage premium in bolívaes.

The striking drop in foreign exchange income had an unfavourable effect on the quotation of the bolivar on the free market. The exchange rate on this market soared by almost 60% between December 1985 and December 1986, and as there was no change in the official exchange rate, the gap between the two rates grew to over 200%. In these circumstances, it was decided in mid-December to raise the official exchange rate by almost 100%, and controls over the exchange rate operations were tightened. Thanks to these measures, and especially to the increase in the exchange rate applicable to the petroleum sector and to the devaluation of the dollar *vis-a-vis* other hard currencies, the real effective exchange rate rose by 8%. Even so, however, it still remained lower than in the previous decade (see tables 19 and 20).

4. Prices and wages

Consumer prices rose by 13% between December 1985 and December 1986: a somewhat faster rise than that recorded the previous year. The growth rate of wholesale prices over 12 months also went up, from 13% to 19% (see table 21).

In both cases, this speeding-up was due basically to the greater flexibility introduced into the price control system. Thus, in order to promote domestic production in sectors such as agriculture and manufacturing, producer prices were readjusted several times during the year. Consequently, the prices of domestic products rose more steadily than those of imported goods, even though a growing number of goods which had previously been imported through the official market were transferred to the free exchange market. The ever-increasing devaluation of the bolivar on the free exchange market did, however, have an inflationary impact by encouraging the legal or clandestine exportation of part of the agricultural production to neighbouring countries, triggering off an increase in the prices of several food products. As a result, throughout the year the prices of foodstuffs showed increases well above the average (see figure 4).

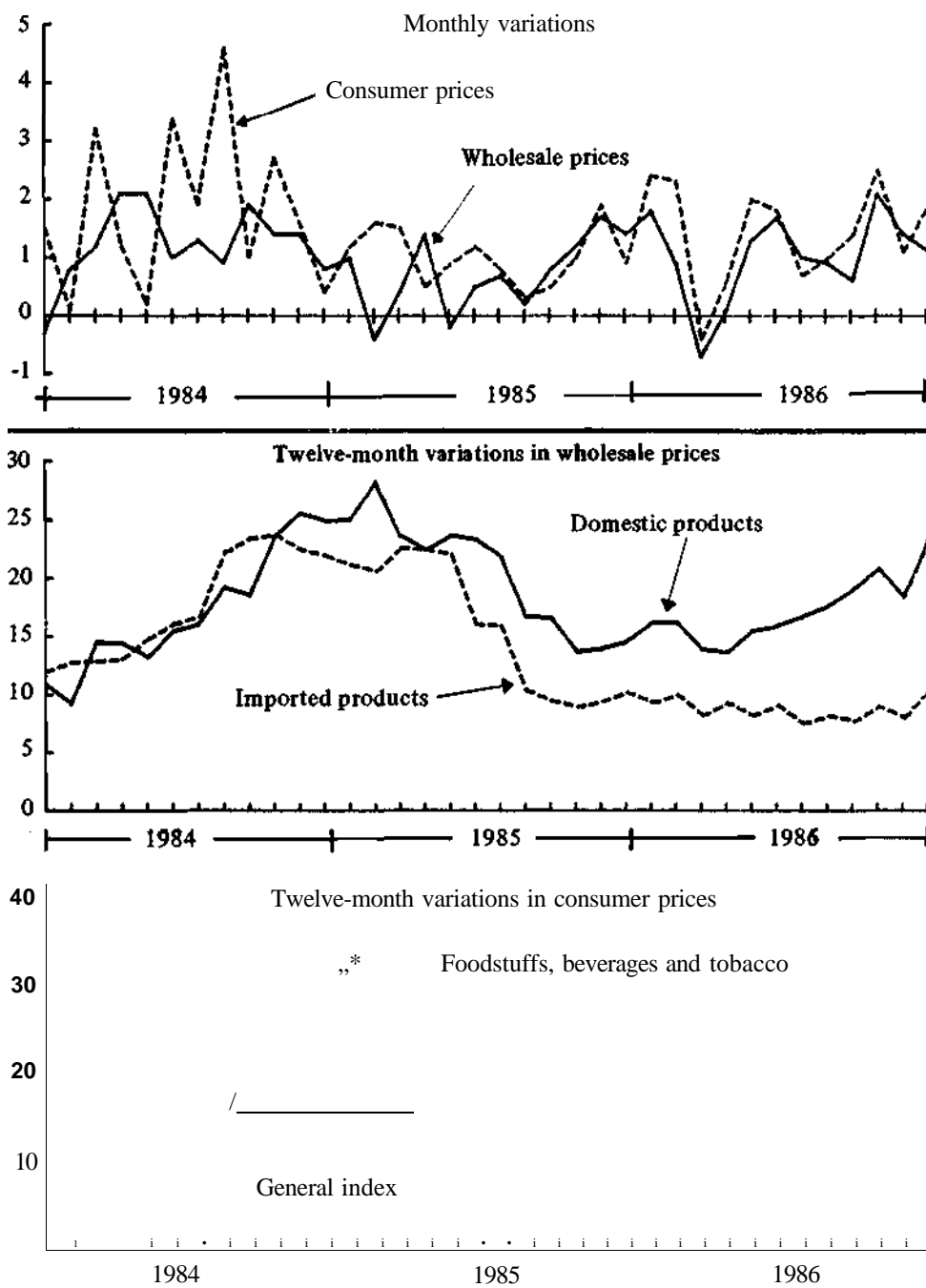
With the aim of offsetting the negative effects of these increases on the lower income groups, the prices of 30 basic consumer items were frozen as from July. A more expansionary wage policy was also adopted, which included several partial increases in wages and special bonuses with the express aim of helping those workers receiving the lowest wages. Thus, at the beginning of the year the salaries of lower-rank public officials and of workers who were not subject to collective bargaining were increased, as were agricultural wages. On the other hand, the minimum wage was not readjusted until the end of the year. However, in June a special bonus was instituted for workers receiving less than 3 000 bolívaes a month, and a number of social programmes to assist the lower-income groups were started. As a result of these changes, average real wages increased slightly in 1986. Nevertheless, in all the cases for which statistical information is available they continued to be much lower than those recorded five years previously (see table 22).

³Of the US\$750 million in amortization payments envisaged in the February 1986 agreement with the international banks, only US\$670 million were disbursed. The remaining amortization payments on the external public debt included in table 18 correspond to the non-refinanced debt (bonds, bilateral and multilateral debt).

Figure 4

VENEZUELA: EVOLUTION OF DOMESTIC PRICES

(Percentages)



Source: ECLAC, on the basis of official figures.

5. Fiscal and monetary policies

Both fiscal and monetary policies became clearly expansionary in 1986. This was in keeping with the aim of sustaining the process of domestic reactivation which had begun to be observed at the end of the previous year. Thus, central government investment more than doubled, and was concentrated on special programmes designed to boost domestic demand and employment, primarily in the construction sector. Current expenditure, on the other hand, went down slightly. As a result of these changes total government expenditure rose by 4% (see table 23).

Fiscal income, for its part, fell by 6%. The expeditious tax collection policy which was pursued succeeded in halting much of the contractive effect of the drop in international petroleum prices on government income. On the one hand, the devaluation of the petroleum exchange rate and the increase in the domestic price of gasoline partly offset the direct effect of this drop on petroleum income, which nevertheless still contracted by 30%. On the other hand, revenue from sources other than petroleum increased as a result of the rise in several indirect taxes and the continuation of the tax inspection programme started in 1985. Thanks to this, it was possible to streamline the fiscal tax collection system and significantly reduce tax evasion and delays in payment. Because of these changes, petroleum income came to represent less than half of total fiscal income: the lowest proportion recorded in more than half a century (see table 24).

The fiscal year thus closed with a relatively moderate deficit of 2 billion bolívares, a figure equivalent to only 0.5% of the gross domestic product, but nevertheless in sharp contrast with the big surpluses recorded in the previous two years. This negative balance was financed almost entirely through the use of the reserves accumulated by the Treasury during the 1984-1985 biennium.

As in the case of the central government, the public enterprises also substantially increased their investment expenditure (12%). The result was that the public sector operations, which in the previous two years had generated considerable surpluses, closed the year in 1985 with a deficit equivalent to 3% of the product (see table 25).

The expansionary effect on the monetary base of this turnaround in the public sector accounts more than compensated for the contractive effect of the decline in the international reserves. As a result, the monetary base grew by 10%, and this increase was also due in part to a clearly expansionary credit policy which was reflected in the 36% increase in rediscounting operations and in Central Bank prepayments. Given this situation, domestic credit virtually doubled —basically as a result of the increase in loans by the commercial banks— and the money supply grew by 23%: the highest growth rate in the last three years (see table 26). At the same time, the maximum and minimum interest rates set by the issuing institution remained unchanged, so that towards the end of the year they became negative in real terms (see table 27).

Table 1

VENEZUELA: MAIN ECONOMIC INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
Indexes (1980= 100)							
A. Basic economic indicators							
Gross domestic product at market prices	100.0	99.0	97.8	92.3	91.4	90.9	93.9
Gross national income	100.0	97.1	87.4	80.4	80.4	76.1	65.2
Population (millions of inhabitants)	15.02	15.49	15.94	16.39	16.85	17.32	17.79
Per capita gross domestic product	100.0	96.1	92.2	84.7	81.5	78.9	79.4
Growth rates							
B. Short-run economic indicators							
Gross domestic product	-3.1	-1.0	-1.3	-5.6	-1.0	-0.6	3.3
Per capita gross domestic product	-6.1	-3.9	-4.1	-8.2	-3.7	-3.2	0.6
Gross national income	7.3	0.1	-7.3	-5.3	2.9	-2.8	-11.8
Urban unemployment rate ^c	6.6	6.8	7.8	10.5	14.3	14.3	11.3
Consumer prices							
December - December	19.6	11.0	7.8	7.0	15.6	9.1	12.7
Variation between annual averages	21.6	16.0	9.7	6.3	12.2	11.4	11.6
Real wages and salaries'	-6.6	-5.7	-4.7	-1.6	-5.0	-9.9	2.7
Money	13.7	7.1	-8.4	30.6	7.6	12.5	22.8
Current government income	25.4	47.8	-15.6	-8.2	38.1	8.7	-5.9
Total government expenditure	43.0	31.9	-6.3	-11.4	14.6	11.0	3.9
Fiscal deficit/total government expenditure	0.8	6./	11.3	8.1	10./	%M	1.8
Fiscal deficit/gross domestic product	0.2	1.S/	3.4	2.2	2.8 ^r	2.y	0.5
Current value of exports of goods and services	34.5	4.8	-18.2	-10.8	9.6	-11.2	-38.7
Current value of imports of goods and services	8.7	11.5	12.0	-52.8	13.3	1.7	4.2
Terms of trade	34.0	2.7	-8.1	6.9	11.2	-2.7	-46.6
ions of dollars							
External sector							
Trade balance (goods and services)	4 839	3 835	-2 077	6 745	6 910	5 397	-74
Net payments of profits and interest	-328	-574	1 530	2 107	1 354	2 182	1 465
Balance on current account	4 749	4 026	4 222	4 451	5 447	3 112	-1 628
Balance on capital account	-985	-4 047	-3 944	-4 116	-3 858	-1 402	-2 172
Variation in net international reserves	4 184	1 100	-7 637	283	1 818	1 747	-3 831
External debt	23 673	29 608	35 061	35 997	34 760	33 846	32 341

Source: ECLAC, on the basis of official data.

"Preliminary figures. Percentages. 'Average for two half-years. 1986, second half. In the Caracas Metropolitan Area. 'Average urban income, deflated by the variation in consumer prices in the Caracas Metropolitan Area. Average for two half-years. 1986, second half. Fiscal surplus.

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Indexes (1980=100)			Percentage breakdown		Growth rates			
	1984	1985	1986	1980	1986'	1983	1984	1985	1986°
Total supply	87.4	86.9	89.6	125.5	119.7	-15.5	1.3	-0.6	3.1
Gross domestic product at market prices	91.4	90.9	93.9	100.0	100.0	-5.6	-1.0	-0.6	3.3
Imports of goods and services	71.9	71.2	72.5	25.5	19.7	-47.4	15.0	-1.0	1.8
Total demand	87.4	86.9	89.6	125.5	119.7	-15.5	1.3	-0.6	3.1
Domestic demand	87.0	88.8		91.8		-19.5	0.2	2.1	
Gross domestic investment	62.7	61.7		24.7		-57.7	36.1	-1.6	
Gross fixed investment	59.3	63.6		25.2		-26.3	-18.9	7.3	
Construction	50.1	46.5		15.0		-17.7	-31.1	-7.3	
Machinery	72.7	88.8		10.2		-36.2	-1.0	22.0	
Public	65.6	75.9		2.7		-19.5	-41.5	15.8	
Private	58.5	62.1		22.6		-27.5	-14.5	6.1	
Changes in stocks	-99.2	151.3		-0.5					
Total consumption	95.9	98.8		67.1		-5.3	-5.8	3.0	
General Government	102.6	103.6		13.8		-2.7	0.9	1.0	
Private	94.2	97.6		53.3		-6.0	-7.5	3.6	
Exports of goods and services	88.6	81.5		33.7		-1.6	4.4	-8.0	

Source: ECLAC, based on data provided by the Central Bank of Venezuela.

'Preliminary figures.

Table 3

VENEZUELA: GROSS DOMESTIC PRODUCT, BY KIND
OF ECONOMIC ACTIVITY

	Index at constant prices" (1980 = 100)				Percentage breakdown		Growth rates			
	1983	1984	1985	1986*	1980	1986*	1983	1984	1985	1986*
Gross domestic product	92.3	91.4	90.9	93.9	100.0	100.0	-5.6	-1.0	-0.6	3.3
Goods	89.2	88.5	87.9	92.1	52.0	51.1	-4.7	-0.8	-0.7	4.8
Agriculture'	102.1	102.9	108.7	116.1	5.7	7.0	0.4	0.8	5.7	6.8
Petroleum and natural gas extraction	83.5	84.0	78.8	82.4	23.9	21.1	-5.2	0.6	-6.3	4.6
Mining	68.6	79.3	88.4	93.1	0.5	0.7	-6.6	15.6	11.5	5.3
Manufacturing	99.8	104.3	106.6	109.9	16.2	19.0	-1.7	4.6	2.2	3.1
Construction	77.7	51.0	48.9	54.9	5.7	3.3	-13.3	-34.4	-4.1	12.3
Basic services	96.6	94.0	98.2	100.8	10.9	11.7	-11.6	-2.6	4.4	2.7
Electricity, gas and water	135.1	135.1	138.6	148.4	1.0	1.6	4.0	-	2.6	7.0
Transport, storage and communications	92.6	89.8	94.0	96.0	9.9	10.1	-13.6	-3.0	4.7	2.1
Other services	100.3	102.1	101.4	103.3	39.7	43.7	-0.9	1.8	-0.6	1.9
Commerce, restaurants and hotels	101.5	96.2	93.4	98.4	8.2	8.6	1.7	-5.3	-2.9	5.3
Financial institutions, insurance, real estate and business services	104.2	111.6	113.1	116.0	14.9	18.4	-0.3	7.2	1.3	2.6
Ownership of dwellings	107.0	108.1	109.8	113.1	9.3	11.3	0.2	1.0	1.6	3.0
Community, social and personal services	96.2	96.4	94.9	94.4	16.6	16.7	-2.7	0.2	-1.5	-0.6
Government services	99.1	98.7	96.8	95.0	11.8	12.0	-1.8	-0.4	-1.9	-1.8
Adjustments:										
Less: bank service charges	102.7	118.0	125.4	129.9	5.2	7.1	-0.1	14.9	6.2	3.6
Plus: imports duties	33.9	25.4	25.6	26.1	2.5	-0.7	-62.3	-25.1	0.9	1.8

Source: ECLAC, on the basis of figures supplied by the Central Bank of Venezuela.

"Index at constant 1980 market prices.

Preliminary figures.

"Including the livestock, forestry and fishery

sectors. Including petroleum refining.

Table 4

VENEZUELA: MAIN INDICATORS OF THE PETROLEUM INDUSTRY

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Crude petroleum									
Production	793.4	657.3	659.9	613.6	653.3	-5.1	0.4	-7.0	6.5
Exports	472.6	356.5	365.6	301.7	346.0	-7.8	2.6	-17.5	14.7
Refined petroleum'									
Production	326.8	327.8	329.5	344.0	323.4	-2.9	0.5	4.4	-6.0
Exports	213.5	190.9	189.1	199.4	212.4	6.0	-0.9	5.5	6.5
Domestic consumption	140.7	145.9	135.9	135.1	140.5	-2.4	-6.8	-0.6	4.1
Use of installed capacity'									
Extraction	87.1	70.6	70.2	65.2	68.7				
Refined capacity	62.7	63.4	67.7	71.6	71.0				
Reserves									
Proven	19.7	25.8	28.0	54.5*	55.5*	5.3	8.3		2.0
Theoretical life	24.8	39.6	42.4	88.7	85.6	11.5	7.1		-3.5
Gas'									
Gross production	35.5	31.8	32.6	33.0	36.3	-4.5	2.5	1.3	9.9
Domestic consumption	14.4	15.3	16.7	16.8	18.1	0.7	9.2	0.6	7.7
Average price"	26.44	25.31	26.70	25.89	12.88	-7.9	5.5	-3.1	-50.3
Crude	25.63	23.72	25.36	24.67	11.52	-11.4	6.9	-2.7	-53.3
Petroleum products	28.21	28.35	29.34	27.75	14.92	-2.3	3.5	-5.4	-46.3
Sales income	80.8	63.5	94.2	88.8	69.3	-9.7	48.2	-5.7	-22.0
External	75.3	59.5	85.2	78.3	57.3	-10.9	43.3	-8.1	-26.8
Domestic	2.5	4.1	9.0	10.6	12.0	11.8	120.3	17.7	13.7
Profits of petroleum enterprise	14.8	7.6	14.8	10.6	8.0	-30.4	95.6	-28.5	-24.1
Gross fixed investment	9.8	12.3	10.9	11.0	13.7	-22.0	-11.2	0.5	24.9

Source: ECLAC, on the basis of figures provided by the Ministry of Energy and Mines and by Petróleos de Venezuela, S.A. "Preliminary figures. 'including condensate. 'Millions of barrels. "Corresponds to domestic and industrial consumption, including that of the petroleum industry. 'Percentage. Billions of barrels. 'Revised figures. *In years. Calculated by dividing total reserves by crude oil production in the corresponding year. 'Billions of cubic metres. 'Dollars per barrel. 'Billions of bolívares. After deduction of tax.

Table 5

VENEZUELA: INDICATORS OF AGRICULTURAL PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986°
Index of agricultural production	100.0	101.6	102.9	105.8	111.4	-0.3	1.3	2.8	5.3
Crop farming	100.0	93.8	94.2	103.6	110.5	-3.0	0.5	10.0	6.7
Stock raising	100.0	110.1	111.7	114.5	117.8	2.8	1.5	2.5	2.9
Forestry	100.0	97.4	87.2	64.1	65.2	-2.6	-10.5	-26.4	1.7
Fisheries	100.0	92.2	104.7	109.3	126.1	-1.7	13.4	4.4	15.4
Production of the main crops'									
For export									
Cocoa	15	14	11	11	12	5.3	-24.2	3.4	9.3
Coffee	58	59	61	64	66	1.4	3.4	5.8	2.9
For domestic consumption									
Cereals	1 547	1 302	1 428	1 822	2 250	-12.5	9.7	27.6	23.5
Pulses	39	36	30	44	46	0.7	-17.5	49.1	4.5
Fibres and oilseeds	280	267	258	299	325	9.7	-3.5	15.9	8.7
Root crops and tubers	602	655	668	610	618	5.4	2.0	-8.8	1.4
Fruit	2 034	2 141	2 168	2 221	2 252	1.9	1.3	2.4	1.4
Vegetables	365	344	331	313	334	-4.0	-3.9	-5.2	6.2
Other	5 041	4 872	4 816	5 744	7 392	-10.3	-1.2	19.3	28.7
Indicators of stock-raising production									
Slaughtering									
Cattle'	1 663	1 726	1 677	1 719	1 759	0.5	-2.8	2.5	2.3
Pigs'	1 776	1 909	2 212	2 252	2 392	2.4	15.9	1.8	6.2
Sheep	125	108	122	127	129	16.0	13.3	4.0	1.7
Poultry-^	159	183	209	204	214	-12.5	13.9	-2.1	4.5
Other products									
Milk"	1 311	1 464	1 452	1 532	1 580	2.7	-0.9	5.5	3.1
Eggs, for consumption	2 034	2 253	2 146	2 245	2 139	-7.5	-4.7	4.6	-4.7
Volume of fishery products'	177	231	264	285	314	7.9	14.6	8.0	10.2

Source: ECLAC, on the basis of statistics supplied by the Ministry of Agriculture and the Central Bank of Venezuela.

"Preliminary figures. Index at constant prices (1980 = 100). "Thousands of tons. Thousands of head. Includes changes in number of livestock Millions of head. "Millions of litres. Millions of units.

Table 6

VENEZUELA: INDICATORS OF MINING ACTIVITY

	1980	1983	1984	1985	1986 ¹	Growth rates			
						1983	1984	1985	1986 ¹
Indexes of mining production¹ (1980 = 100)	100.0	68.6	79.3	88.4	93.1	-16.6	15.6	11.5	5.3
Production of some important minerals									
Iron ore ^c									
Production	16.0	9.4	13.1	14.8	17.4	-19.1	39.4	13.0	17.9
Exports	11.7	6.3	7.9	9.0	10.0	-5.3	26.2	14.1	11.0
Coal	39	39	51	41	56	-15.7	298	-19.6	35.9
Gold ^d	430	1 084	1 741	2 214	2 576	20.2	60.6	27.2	16.3
Diamonds	666	279	273	215	211	-35.9	-2.2	-21.2	-2.1

Source: ECLAC, on the basis of statistics provided by the Ministry of Energy and Mines and the Central Bank of Venezuela.
¹Preliminary figures. Value of the sector's production at 1968 prices. As different sources were used, these figures do not correspond exactly to those given in table 3. ^aMillions of tons. ^bThousands of tons. ^cKilogrammes. ^dThousands of metric carats.

Table 7

VENEZUELA: INDICATORS OF MANUFACTURING PRODUCTION

	1980	1983	1984	1985	1986"	Growth rates			
						1983	1984	1985	1986"
Index of manufacturing production	100.0	95.2	99.4	103.3		-6.4	4.4	3.9	
Foodstuffs, beverages and tobacco	100.0	106.1	108.2	108.8	113.2	2.3	2.0	0.6	4.0
Textiles, clothing and leather goods	100.0	95.6	110.7	109.7	120.1	0.6	15.8	-0.9	9.5
Wood and furniture	100.0	72.9	69.9	70.7	82.1	-7.8	-4.1	1.1	16.1
Paper, printing and publishing	100.0	116.3	134.1	132.4	144.0	2.6	15.3	-1.3	8.8
Chemicals	100.0	82.7	94.1	104.0	110.4	-4.3	13.8	10.5	6.2
Non-metallic mineral products	100.0	91.8	101.4	110.3	134.6	-13.8	10.5	8.8	22.0
Basic metal industries	100.0	78.2	68.1	64.5	75.7	-37.1	-12.9	-5.3	17.4
Metal products, machinery and equipment	100.0	82.6	85.9	89.3	108.5	-15.8	4.0	4.0	21.5
Other manufacturing industries	100.0	81.8	79.8	76.4	66.1	-24.7	-2.4	-4.3	-13.5
Output of some industrial products'									-
Public enterprises:									
Steel	1 784	2 146	2 511	2 723	3 031	7.8	17.0	8.4	11.3
Aluminium	156	332	377	407	424	21.6	13.6	8.0	4.2
Ammonia	439	462	572	490	655	-13.8	23.8	-14.2	33.5
Sulphuric acid	114	139	158	156	179	23.1	13.4	-1.1	14.5
Urea	276	390	460	315	542	4.8	18.1	-31.6	72.1
Fertilizers	441	576	759	650	868	-8.6	31.8	-14.4	33.5
Private sector:									
Sugar	323	348	389	457	542	-4.4	11.8	17.5	18.6
Cement	4 842	4 430	4 783	5 121	5 875	-18.4	8.0	7.1	14.7
Vehicle tyres	3 483	3 385	2 985	4 492	4 989	-5.7	-11.8	50.5	11.1
Passenger vehicles	155	112	110	116	133	-27.7	-1.8	5.5	14.7
Employment'	752	727	743	790	878	-5.4	2.2	6.3	11.1

Source: ECLAC, on the basis of statistics supplied by the Central Bank of Venezuela and various industrial enterprises.

Preliminary figures. Excluding public enterprises. Indicates the value of output deflated by the corresponding consumer price index. Index 1980 = 100. 'Thousands of tons. Thousands of units. 'Thousands of persons.

Table 8

VENEZUELA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1983	1984	1985	1986 ^a	Growth rates			
						1983	1984	1985	1986 ^a
Index of sectoral production (1980 = 100)	100.0	77.7	51.0	48.9	54.9	-13.3	-34.4	-4.1	12.3
Housing construction									
Total area									
Private sector	4 662	2 359	2 167	1 896	1 627	-49.3	-8.2	-12.5	-14.2
Number of dwellings ^b									
Total	77.1	63.1	43.8	46.1	106.8	-34.1	-30.6	5.2	131.7
Public sector*	40.0	30.1	19.3	24.5	91.7	-38.0	-36.0	27.5	273.6
Private sector	37.1	33.0	24.6	21.6	15.2	-30.1	-25.7	-12.3	-16.1
Indicators of activity									
Domestic sales of steel ^c	449	285	327	217	387	-36.9	14.7	-33.6	78.3
Domestic sales of cement ^d	5 065	4 163	3 633	3 589	4 439	-26.6	-12.7	-1.2	23.7
Domestic sales of hardware and building materials	100.0	84.6	76.9	55.2	68.3	6.4	-9.1	-28.2	23.7
Loans granted ^e	12 148	14 563	14 894	13 865	15 865	-13.1	2.3	-6.9	14.4
Employment	434	389	343	350	420	-16.4	-11.7	2.0	19.8

Source: ECLAC, on the basis of information provided by the Ministry of Energy and Mines and the Central Bank of Venezuela.
^aPreliminary figures. ^bHousing construction permits granted. Thousands of square metres. ^cThousands of units.
^dIn addition to dwellings, includes popular building plots for gradual urban development. ^eThousands of tons.
 In the Caracas Metropolitan Area. Index in real terms, 1980 = 100. 1986, January-September average. ^fLoans to builders and purchasers. Millions of bolívares. ^gThousands of persons.

Table 9

VENEZUELA: INDICATORS OF SERVICE ACTIVITIES

	1980	1983	1984	1985	1986 ^a	Growth rates			
						1983	1984	1985	1986 ^a
Electrical energy									
Installed capacity	7.7	9.8	11.6	14.7	18.1	1.7	18.3	26.3	23.3
Generation ^b	32.4	38.3	39.6	43.0	44.1	9.3	3.4	8.4	2.7
Total consumption ^c	27.7	31.3	33.2	35.9	37.1	7.2	6.0	8.0	3.3
Transport									
Freight moved ^d									
By air	113	42	50	53	60	-59.0	19.3	5.9	13.6
By sea	7 900	6 143	7 414	7 912	6 985	-27.8	20.7	6.7	-11.7
Commerce									
Index of commercial sales ^e	100.0	98.2	93.0	94.6	104.9	-1.5	-5.3	1.7	16.0
Employment									
Total services sector	2 704	2 992	2 983	3 069	3 199	2.6	-0.3	2.9	4.2
Commerce*	1 062	1 165	1 177	1 260	1 346	0.8	1.0	7.1	6.9
Public administration		322	339	329	349	1.7	5.3	-3.1	6.2
Personal services	308 ^f	333	393	440	449	4.3	18.3	12.0	1.8

Source: ECLAC, on the basis of information provided by the Central Office for Statistics and Information and the statistical annex of the message of the President to Congress, 1987.
^aPreliminary figures. ^bMillions of kWh. ^cBillions of kWh. ^dThousands of tons. ^eIn the Caracas Metropolitan Area. Index in real terms, 1980 = 100. 1986, January-October average. ^fThousands of persons. ^gIncluding financial activities. ^hSecond half of each year. ⁱFirst half.

Table 10

VENEZUELA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1982	1983	1984	1985	1986°	Percentage breakdown		Growth rates		
						1980	1986°	1984	1985	1986°
Work force (thousands of persons)	5 305	5 486	5 673	5 873	6 064			3.4	3.5	3.3
Net participation rate (percentage)	54.4	54.2	55.8	56.0	56.1					
	Thousands of persons									
Employment	4 927	4 934	4 938	5 106	5 396	100.0	100.0	0.1	3.4	5.7
Primary sector	774	820	865	895	898	16.2	16.6	5.4	3.5	0.4
Agricultural activities	704	748	791	826	837	14.7	15.5	5.7	4.5	1.3
Hydrocarbons, mines and quarries	70	72	74	69	62	1.5	1.1	2.2	-7.0	-10.6
Secondary sector	1 292	1 184	1 153	1 204	1 354	26.7	25.1	-2.6	4.4	12.4
Manufacturing	769	727	743	790	878	16.2	16.3	2.2	6.3	11.1
Construction	465	389	343	350	420	9.3	7.8	-11.7	2.0	19.8
Electricity, gas, water and sanitary services	59	68	66	63	56	1.2	1.0	-2.6	-4.4	-11.5
Tertiary sector	2 856	2 924	2 917	3 006	3 143	57.0	58.2	-0.2	3.0	4.6
Commerce'	1 157	1 165	1 177	1 260	1 346	22.9	24.9	1.0	7.1	6.9
Transport, storage and communications	373	370	346	338	339	7.4	6.3	-6.6	-2.2	0.1
Other services	1 327	1 388	1 394	1 408	1 458	26.7	27.0	0.4	1.0	3.6
	Percentages									
Open unemployment										
Nationwide total	7.1	10.0	12.9	13.1	11.0					
Previously employed	6.0	8.5	11.0	11.5	9.7					
Seeking work for the first time	1.1	1.5	1.9	1.6	1.3					
Rural areas	4.8	5.7	7.6	8.0	5.9"					
Urban areas	7.8	10.5	14.3	14.3	11.0*					
Caracas Metropolitan Area	7.0	10.5	11.0 ^e	13.2 ^e						
Unemployment by economic sector										
Manufacturing	6.0	8.6	11.0	11.5	9.7					
Construction	7.7	11.8	13.1	13.2	10.9					
Commerce'	13.3	21.4	29.4	30.2	23.3					
Other services	5.2	7.9	10.4	10.7	9.1					
	3.9	5.5	7.7	8.8	7.0					

Source: ECLAC, on the basis of data from household surveys conducted by the Central Statistics and Información Office (OCEI).

"Preliminary figures. Work force as a percentage of the population aged 15 years and over. 'Includes financial institutions. Second half. First half.

Table 11

VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1980	1981	1982	1983	1984	1985	1986"
	Growth rates						
Exports of goods							
Value	34.5	4.8	-18.2	-10.8	9.6	-11.2	-38.7
Volume	-11.1	-1.3	-13.6	-1.5	5.4	-8.2	18.6
Unit value	51.3	6.2	-5.3	-9.4	4.0	-3.3	-48.4
Imports of goods							
Value	8.7	11.5	12.0	-52.8	13.3	1.7	4.2
Volume	-4.2	8.3	8.9	-43.3	22.2	3.2	5.3
Unit value	13.5	2.9	2.9	-16.8	-7.3	-1.5	-1.0
Terms of trade (goods)	34.0	2.7	-8.1	6.9	11.2	-2.7	-46.6
	Indexes (1980 = 100)						
Purchasing power of exports of goods	100.0	101.3	80.4	84.7	99.3	88.7	56.2
Volume of exports	100.0	98.7	85.2	84.0	88.5	81.2	96.4
Volume of imports	100.0	108.3	117.9	66.9	81.8	84.4	91.1
Terms of trade (goods)	100.0	102.7	94.4	100.9	112.2	109.2	58.3

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Volume of exports of goods or of goods and services, as appropriate, adjusted by the corresponding terms-of-trade index.

Table 12

VENEZUELA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986"	1980	1986"	1983	1984	1985	1986"
Total	14 638	16 084	14 438	8 686	100.0	100.0	-11.5	9.9	-10.2	-39.8
Main traditional exports	14 063	15 029	13 108	7 426	95.9	85.3	-10.8	6.9	-12.8	-43.3
Petroleum	13 966	14 9 U	12 956	7 218	94.9	82.9	-10.8	6.8	-13.1	-44.3
Iron ore	80	81	108	119	0.8	1.4	-3.6	1.3	33.3	10.2
Main non-traditional exports	575	1055	1 330	1 279	4.1	14.7	-25.4	83.5	26.1	-3.6
Public sector	575	589	776	731	2.7		-25.4	2.4	31.7	
Aluminum	237	370	511	439	2.1	5.1	1.3	56.1	38.1	-13.9
Steel	118	134	192	171	0.6	2.0	-61.6	13.6	43.3	-10.9
Others	220	85	73	122	-		-4.3	-61.4	-14.1	
Private sector		466	554	548	1.4				18.9	

Source: ECLAC, on the basis of official figures.

"Preliminary figures. Also includes coffee and cocoa.

Table 13

VENEZUELA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown		Growth rates			
	1983	1984	1985	1986 ^a	1980	1986 ^a	1983	1984	1985	1986 ^b
Total	5 786	7 007	7 304	5 694	100.0	100.0	-50.3	21.1	4.2	7.7
Consumer goods	1 290	1 468	1 508	886	23.8	15.6	-53.3	13.8	2.7	-17.8
Foodstuffs and beverages	560	654	534	185	8.2	3.2	-40.7	16.8	-18.3	-51.8
Other consumer goods	730	814	974	701	15.6	12.4	-59.8	11.5	19.7	1.0
Durables	286	277	419	334	7.8	5.9	-65.1	-3.1	51.3	18.0
Non-durables	444	537	555	367	7.8	6.5	-55.5	20.9	3.4	-10.7
Raw material and intermediate goods	2 368	3 119	2 896	2 049	34.5	36.0	-40.9	31.7	-7.1	-3.1
Raw materials	1 970	2 771	2 535	1 785	28.4	31.4	-27.9	40.7	-8.5	-3.6
For industry	1 808	2 541	2 298	1 555	26.3	27.3	-28.9	40.5	-9.6	-7.8
For agriculture	162	230	237	230	2.7	4.0	-14.3	27.1	3.0	38.6
Fuels and lubricants	152	181	198	116	1.6	2.0	126.9	19.1	9.4	10.5
Building materials	246	167	163	148	4.5	2.6	-79.6	-32.1	-2.4	-6.3
Capital goods	2 128	2 420	2 900	2 758	41.4	48.4	-56.4	13.7	19.8	31.6
Machinery and tools	1 259	1 474	1 927	1 766	26.7	31.0	-60.1	17.1	30.7	32.0
Transport equipment	869	946	973	992	14.6	17.4	-49.7	8.9	2.9	30.9

Source: ECLAC, on the basis of data provided by the Central Statistics and Information Office (OCEI).

^aJanuary-September. ^bJanuary-September in comparison to the same period of the preceding year.

Table 14

**VENEZUELA: ORIGIN OF IMPORTS AND
DESTINATION OF EXPORTS (GOODS)**

	Millions of dollars (FOB value)			Percentage breakdown		Growth rates		
	1984	1985	1986"	1980	1986"	1984	1985	1986"
Imports								
Total	7 005	7 303	7 601	100.0	100.0	21.1	4.3	4.1
OECD	5 529	5 849	6 446	85.5	84.8	20.9	5.8	10.2
United States	3 338	3 440	3 474	47.8	45.7	26.1	3.1	1.0
EEC	1405	1 502	2 052	19.8	27.0	23.1	6.9	36.6
Japan	337	416	494	8.0	6.5	2.7	23.4	18.8
Latin America	1 114	983	882	11.1	11.6	28.2	-11.8	-10.3
Brazil	366	309	357	2.1	4.7	6.1	-15.6	15.5
Colombia	113	111	68	1.6	0.9	22.8	-1.8	-38.7
Central America	59	166	129	2.7	1.7	-50.8	181.4	-22.9
Netherlands Antilles	112	122	84	0.7	1.1	1.8	8.9	-31.1
Others	362	471	266	2.4	3.5	6.2	30.1	-43.5
Exports								
Total	16 084	14 438	8 708	100.0	100.0	9.9	-10.2	-39.7
OECD	9 741	9 247	6 305	53.3	72.4	17.3	-5.1	-31.8
United States	6 134	5 245	4 537	24.6	52.1	40.3	-14.5	-13.5
EEC	1 942	2 500		12.4		-29.5	28.7	
Japan	390	468	296	3.6	3.4	17.5	20.0	-36.8
Latin America	5 844	3 385	»	41.1	••	4.4	-42.1	•»
Brazil	514	251		3.5		-4.5	-51.2	
Colombia	322	222		1.4		-8.1	-31.1	
Central America	1 782	1 776	940	2.5	10.8	29.5	-0.3	-47.1
Netherlands Antilles	2 858	801	888	23.9	10.2	-9.3	-72.0	10.9
Others	499	1 806	...	5.6		-32.5	261.9	

Source: ECLAC, on the basis of statistics provided by the Central Statistics and Information Office, the Central Bank of Venezuela and the International Monetary Fund.

"Preliminary figures.

Table 15

VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1986"
Balance on current accounts	4 749	4 026	-4 222	4 451	5 447	3 112	-1628
Trade balance	4 839	3 835	-2 077	6 745	6 910	5 397	-74
Exports of goods and services	19 968	20 938	17 557	15 825	16 806	15 004	9 486
Goods FOB	19 050	19 963	16 332	14 570	15 967	14 178	8 686
Real services	918	975	1225	1 254	838	825	800
Transport and insurance	513	595	664	673	438	282	200
Travel	243	187	309	310	358	416	450
Imports of goods and services	15 129	17 104	19 634	9 080	9 896	9 607	9 560
Goods FOB	10 877	12 123	13 584	6 409	7 262	7 388	7 700
Real services	4 252	4 980	6 050	2 671	2 634	2 219	1 860
Transport and insurance	1 449	1 567	1 524	930	1 154	1 066	1 010
Travel	1999	2 372	2 925	1 073	1063	597	550
Factor services	328	574	-1 530	-2 107	-1 354	-2 182	-1 465
Profits	-321	-350	-401	-188	155	-157	-83
Interest received	2 263	3 581	2 565	1 500	2 173	1 890	1 727
Interest paid	-1 613	-2 657	-3 694	-3 425	-3 370	-3 922	-3 109
Others	-	-	-	6	-2	8	-
Unrequited private transfers	-418	-383	-615	-187	-108	-102	-89
Balance on capital account	-985	-4 047	-3 944	-4 116	-3 858	-1402	-2 172
Unrequited official transfers	-21	-26	-24	-24	-29	-26	-
Long-term capital	2 060	810	3 155	239	-1022	-692	-2 210
Direct investment (net)	55	184	253	86	42	106	39
Portfolio investment (net)	1 311	83	1 582	201	-128	-	-
Other long-term capital	695	544	1 320	-47	-936	-798	-2 249
Official sector ^c	-290	-262	1 317	332	-927	-805	-1 247
Loans received	787	781	2 741	1 259	398	-	133
Amortization payments	-855	-891	-1492	-827	-1 322	-784	-1 380
Commercial banks ^c	220	555	-	-	-	-	-
Loans received	-	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-	-
Other sectors ^c	765	250	3	-379	-9	7	-1 002
Loans received	1942	1 615	1284	505	28	53	-
Amortization payments	-1 007	-1 090	-1068	-702	-269	-	-
Short-term capital (net)	-1 896	-2 692	-4 914	-4 338	-3 886	-756	35
Official sector	103	33	-57	-17	24	23	393
Commercial banks	-27	35	916	-827	-408	80	-
Other sectors	-1 972	-2 760	-5 773	-3 493	-3 501	-860	-358
Errors and omissions (net)	-1 128	-2 139	-2 161	7	1 077	63	3
Global balance	3 764	-21	-8 165	336	1 589	1 710	-3 800
Total variation in reserves (- sign indicates an increase)	-4 184	-1 100	7 635	-283	-1 818	-1 747	3 831
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	9	-101	5	87	-22	-121	-113
IMF reserve position	-87	-14	-113	-166	106	-6	16
Foreign exchange assets	795	-1446	1695	-960	-1 392	-1 199	3 911
Other assets	-4 900	461	6 048	756	-509	-421	17
Use made of IMF credit	-	-	-	-	-	-	-

Source: 1980-1985: International Monetary Fund, *Balance of Payments Yearbook*, April 1987; 1986: ECLAC, on the basis of official data.

"Preliminary figures. Includes other non-factor services. Includes net loans granted and other assets and liabilities. Equals the total variation in reserves (of opposite sign) plus counterpart items.

Table 16

VENEZUELA: TOTAL INTERNATIONAL RESERVES*(Millions of dollars)*

	Central bank ^a				Venezuelan Investment Fund	Commercial banks	Total
	Total	Foreign exchange	Gold	Others			
At the end of:							
1976	8 570	6 874	472	1 224	641	74	9 285
1977	8 145	6 506	475	1 164	916	68	9 129
1978	6 438	5 007	481	950	873	288	7 599
1979	7 740	6 398	484	858	729	350	8 819
1980	7 025	5 529	484	1 012	1 483	377	8 885
1981	8 619	6 957	484	1 178	2 452	338	11 409
1982	10 039	5 226	3 439	1 374	1 521	64	11 624
1983	11 149	6 307	3 439	1 403	689	343	12 181
1984	12 469	7 605	3 439	1 425	1 252	751	14 472
1985	13 750	8 822	3 439	1 489	1 728	671	16 149
1986*	9 858	4 894	3 439	1 525	1 817		

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aIncludes part of the reserves of the Venezuelan Investment Fund which are administered by the Central Bank.
Preliminary figures.

Table 17

VENEZUELA: CENTRAL BANK FOREIGN EXCHANGE RECEIPTS AND OUTLAYS*(Millions of dollars)*

	Receipts			Outlays				Balance	Central Bank reserve position	
	Petro- leum	Others ^b	Total	Imports	External debt		Others ^c			Total
					Public	Private				
1980	12 641	6 625	19 266	10 877	2 125	1 007	6 062	20 071	-845	5 599
1981	18 961	6 148	25 109	12 123	2 284	1 463	9 414	25 584	1 525	7 035
1982	18 984	6 895	25 879	13 584	2 923	1 839	9 075	27 421	-1 542	5 226 ^d
1983	13 335	3 425	16 760	8 019	4 770	625	2 045	15 459	1 301	6 307
1984	14 212	3 069	17 281	7 664	5 218	382	2 707	15 971	1 310	7 605
1985	13 314	2 270	15 584	6 725	4 258	809	2 559	14 351	1 233	8 822
1986 ^e	8 023	2 529	10 552	6 893	3 952	1 131	2 540	14 516	-3 964	4 894
1986 ^f										
I	2 595	552	3 147	1 845	801	197	636	3 479	-332	
II	1 796	638	2 434	1 364	1 003	456	470	3 293	-859	
III	1 968	657	2 625	1 767	801	237	1 079	3 884	-1 259	
IV	1 664	682	2 346	1 627	1 347	242	644	3 860	-1 514	4 894

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela.

^bIncludes receipts from the Venezuelan Investment Fund. ^cImports of goods and services. Includes foreign currency expenditure by Petróleos de Venezuela and agreements. Excludes imports at the free market exchange rate. ^dIncludes Central Bank sales of foreign exchange on the free market. ^ePosition at the end of the period, including adjustments for changes in exchange rates for Special Drawing Rights and reserve currencies with respect to the US dollar. ^fIncludes the effect of the centralization of the foreign-exchange assets of the petroleum industry. ^gPreliminary figures.

Table 18

VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1980	1982	1983	1984	1985	1986"
Millions of dollars						
Total external debt	29 608	35 061	35 997	34 700	33 846	32 341
External public debt	17 692	29 140	29 337	27 336	26 543	25 460
Medium and long-term	9 672	12 279	13 731	17 247	25 738	24 393
Short-term	8 020	16 861	15 606	10 089	805	1067
Private external debt	11 916	5 921	6 660	7 364	7 303	6 881
Total external debt servicing	3 475	6 253	4 955	4 961	4 999	5 083
Principal	1 862	2 559	1 530	1 591	1 077	1 974
Interest ¹⁷	1 613	3 694	3 425	3 370	3 922	3 109
External public debt servicing	2 126	5 002	3 894	4 201	4 246	3 996
Principal	1 171	2 032	945	1433	1 009	1 380
Interest	955	2 970	2 949	2 768	3 237	2 616
Percentages						
Ratios:						
Total external debt/exports of goods and services	148.3	199.7	227.5	206.5	225.6	340.9
Debt servicing/exports of goods and services	13.9	35.6	31.3	29.5	33.3	53.6
Net interest payments / exports of goods and services	-3.3	6.4	12.2	7.1	13.5	14.6

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela and international financial agencies.

" Preliminary figures. According to the Law on Public Credit. This includes the direct debt (i.e., the debt deriving from loan contracts entered into by the State, as well as that deriving from bonds sold on behalf of the State) and the indirect debt (i.e., the debt deriving from loan contracts, with or without State guarantee, entered into by autonomous public institutions and State enterprises, as well as from the sale of securities issued by these bodies). ¹⁷Estimates based on the relevant balance-of-payments entries. A minus sign indicates that the net balance between interest received and interest paid is positive.

Table 19

VENEZUELA: EVOLUTION OF THE EXCHANGE RATE

Annual and quarterly averages	Nominal exchange rates			Indexes of the real effective exchange rate	
	Average ^a	Commercial	Free	Exports	Imports
1970-1979	4.29	4.29	4.29	114.8	109.5
1980	4.29	4.29	4.29	100.0	100.0
1981	4.29	4.29	4.29	91.2	91.3
1982	4.29	4.29	4.29	84.8	84.2
1983	5.05	5.72	10.59	92.5	91.6
1984	6.46	7.38	13.51	101.4	100.8
1985	7.05	7.50	13.97	92.0	91.4
1986 ^c	8.65	7.82	20.26	99.0	98.7
1984					
I	5.46	7.00	13.65	94.3	93.6
II	7.00	7.50	15.30	115.4	114.7
III	6.67	7.50	12.57	101.9	101.2
IV	6.71	7.50	12.52	94.8	94.2
1985					
I	6.93	7.50	13.28	92.7	92.0
II	6.99	7.50	13.36	91.2	90.6
III	7.11	7.50	14.39	91.8	91.2
IV	7.17	7.50	14.85	91.6	91.3
1986 ^c					
I	8.00	7.50	18.42	96.9	96.7
II	8.50	7.50	18.98	99.4	99.1
III	8.83	7.50	20.00	100.1	100.0
IV	9.20	8.78	23.65	99.0	98.5

Source: ECLAC, on the basis of information provided by the International Monetary Fund.

^aAs from 1983, the average exchange rate corresponds to the exchange rate weighted on the basis of the foreign exchange movements recorded by the Central Bank of Venezuela. Correspond to the average of the indexes relating to the real exchange rate for the bolivar with respect to the currencies of Venezuela's main trading partners, weighted according to relative magnitude of exports to or imports from these countries, as appropriate. From 1970 to 1980 the weightings correspond to the average for the period 1975-1979; from 1981 they correspond to the average for the period 1982-1985. These calculations have been conducted primarily on the basis of wholesale price indexes, and in the case of Venezuela the subindex for domestic products within this index was adopted. For information on the methodology and sources used, see the Technical Appendix to the *Economic Survey of Latin America*, 1981. ^cPreliminary figures.

Table 20

VENEZUELA: CENTRAL BANK FOREIGN EXCHANGE MOVEMENTS
ACCORDING THE EXCHANGE RATE

	Total	Exchange rate <i>vis-a-vis</i> the dollar				Free
		.30	6.00	7.50	14.50	
Millions of dollars						
1984						
Income	17 281	2 423	13 276	962		620
Expenditure	15 971	4 981	2 403	7 101		1486
1985						
Income	15 584	36	13 526	1 292		729
Expenditure	14 351	1 574	1 354	9 997		1426
1986°						
Income	10 552	24	153	9 448	110	816
Expenditure	14 516	1 049	15	11 724		1 728
Percentage breakdown						
1983	100.0	89.0	4.5			6.5
1984	100.0	22.2	47.1	24.2		6.5
1985	100.0	5.4	49.7	37.7		7.2
1986°	100.0	4.3	0.7	84.5	0.4	10.1

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.
°Preliminary figures. For the total of foreign exchange operations.

Table 21

VENEZUELA: DOMESTIC PRICE TRENDS

	1980	1981	1982	1983	1984	1985	1986"
Variation-to-O*December variation							
Consumer price index	19.6	11.0	7.8	7.0	15.6	9.1	12.7
Food	22.2	12.9	6.9	10.6	31.1	19.1	17.9
Wholesale price index	10.8	17.4	6.2	10.7	23.8	12.9	18.8
By origin:							
Imported products	9.4	14.2	5.6	10.8	21.9	10.2	10.4
Domestic products	11.6	19.4	6.6	10.9	24.9	14.6	23.4
By sector:							
Agricultural products	17.2	13.9	3.2	20.0	20.2	24.7	32.0
Manufactures	16.2	10.1	6.2	8.9	24.0	9.8	13.0
Building materials	17.5	6.1	12.6	10.5	35.7	9.5	10.9
Variation between annual averages							
Consumer price index	21.6	16.0	9.7	6.3	12.2	11.4	11.6
Food	33.1	18.5	9.7	7.8	17.2	22.4	19.2
Wholesale price index	20.1	13.8	8.0	7.0	17.5	18.2	15.7
By origin:							
Imported products	15.6	11.9	7.3	6.0	17.8	15.3	9.2
Domestic products	22.9	15.0	8.6	7.5	17.3	19.9	19.4
By sector:							
Agricultural products	27.4	19.8	5.3	14.2	16.3	21.6	33.0
Manufactures	17.4	11.9	8.4	5.4	17.7	16.8	10.0
Building materials	11.9	10.9	12.8	4.1	29.4	19.3	9.3

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.
 "Preliminary figures. Consumer price index for the Caracas Metropolitan Area.

Table 22

VENEZUELA: INCOME TRENDS

	1982	1983	1984	1985	1986 ^a	Growth rates				
						1982	1983	1984	1985	1986
In bolívares at current prices										
Minimum wage										
Urban	900	900	900	1 375	1 500				52.8	
Agricultural	750	750	825	1 200	1 200	-	-	10.0	45.5	-
Average income per employed person ^c										
Urban	2 576	2 702	2 889	2 901	3 324 ^b	3.3	4.9	6.9	0.4	14.6
Rural	1 498	1 476	1 508 ^b	1 512	1 695 ^b	4.2	-1.5	2.4	0.9	12.8
Average wages										
Construction	2 398	2 624	2 144	2 267		12.7	9.4	-18.3	5.7	
Public administration	4 110	4 120	4 237	4 646	5 389	9.5	0.2	2.8	9.7	16.0
In bolívares at: 1980 price/										
Minimum wage										
Urban	684	639	556	723	675	-9.2	-6.6	-13.0	30.0	-6.6
Agricultural	570	533	510	631	540	-9.2	-6.6	-4.3	23.7	-14.4
Average income per employed person ^c										
Urban	2 062	2 029	1 927	1 737	1 784 ^b	-4.7	-1.6	-5.0	-9.9	2.7
Rural	1 199	1 108	1 060 ^b	905	910 ^b	-3.8	-7.6	-6.2	-12.6	2.7
Average wages										
Construction	1 920	1 970	1 430	1 217		4.0	2.6	-27.4	-14.9	
Public administration	3 291	3 093	2 827	2 782	2 893	1.1	-6.0	-8.6	-1.6	4.0

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela, the Ministry of Labour and the Central Office of Statistics and Information (OCEI).

^aPreliminary figures. Monthly wages, annual averages. Monthly income, annual averages. Second half of year. ^bFirst half of year. ^cDeflated in the case of the minimum wage, by the consumer price index for the Caracas Metropolitan Area corresponding to the quartile of households with the lowest income, and for other incomes, by the general consumer price index for the Caracas Metropolitan Area.

Table 23

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of bolívares				Growth rates			
	1983	1984	1985	1986°	1983	1984	1985	1986°
1. Current income	71.8	99.2	107.8	101.5	-8.2	38.1	8.7	-5.9
Petroleum income	40.5	60.6	62.1	42.9	-17.6	49.4	2.5	-30.9
Income tax	34.1	51.5	53.3	32.5	-20.0	51.0	3.6	-39.1
Royalties	6.5	9.1	8.8	10.4	-2.4	40.6	-3.4	19.0
Other tax revenue	26.0	32.2	34.3	46.6	36.7	24.2	6.5	35.6
Direct	8.7	10.3	12.8	15.1	-8.3	18.3	23.6	18.7
Indirect	17.3	21.9	21.6	31.4	81.8	27.1	-1.5	45.5
Customs	2.5	2.8	4.0	5.0	-52.0	11.4	43.1	25.1
Exchange profits	10.1	14.3	11.1	16.7		42.0	77.5	50.1
Others	4.6	4.8	6.5	9.7	9.3	3.4	34.9	50.5
Other non-tax income	5.3	6.4	11.4	12.0	-47.3	20.7	78.5	5.3
2. Current expenditure	55.7	69.9	74.7	72.2	-7.5	25.6	6.8	-3.3
Remunerations	19.3	20.3	22.3	24.2	0.8	5.2	9.9	8.6
Financial subsidies	12	1.6	1.1	0.8	-31.1	28.8	-29.4	-31.5
Interest payments	6.3	10.3	10.8	12.7	4.4	63.9	5.4	17.1
On external debt	3.9	7.1	7.3	7.1	-22.4	81.4	3.8	-3.8
On domestic debt	2.4	3.2	3.5	5.6	140.6	35.2	8.9	61.0
Current transfers	23.0	31.2	35.4	29.5	3.4	35.6	13.3	-16.5
Other current expenditure	5.8	6.5	5.0	5.0	-46.8	12.0	-22.6	-1.5
3. Current savings (1-2)	16.1	29.3	33.1	29.2	-10.7	81.3	13.2	-11.7
4. Capital expenditure	22.5	19.7	24.8	31.1	-19.7	-12.6	26.0	25.6
Real investment	6.7	4.2	3.9	9.5	-0.9	-36.9	-7.3	141.7
Other capital expenditure	15.8	15.4	20.8	21.6	-25.7	-2.2	35.1	3.7
5. Total expenditure (2 + 4)	78.2	89.6	99.5	103.3	-11.4	14.6	11.0	3.9
6. Fiscal surplus (1-3)	-6.4	9.6	8.3	-1.9				
Financing of deficit (or use of surplus)	6.4	-9.6	-8.3	1.9				
Domestic	6.7	-5.6	-4.0	9.5				
Central Bank	7.0	-	-	-				
Sale of securities	4.3	11.0	20.3	14.3				
Amortization	-2.3	-10.3	-13.8	-5.5				
Variation in reserves (- sign indicates an increase)	-0.4	-3.1	-7.5	1.7				
Others'	-1.8	-3.2	3.1	-1.1				
External financing	-0.4	-4.0	-4.4	-7.6				
Disbursements	6.8	2.2	0.7	-				
Amortization	7.2	-6.2	-5.1	-7.6				

Source: ECLAC, on the basis of data supplied by the Central Bank of Venezuela.

"Preliminary figures. * Includes technology tax. 'Includes agricultural debt, administrative debt and variation in the Amortization Fund.

Table 24

VENEZUELA: COEFFICIENTS RELATING TO FISCAL MANAGEMENT

	1970	1975	1980	1982	1983	1984	1985	1986 ^a
Petroleum income/current income	60.1	77.4	72.3	62.9	56.5	61.1	57.6	42.3
Customs revenue/indirect tax revenue	41.9	35.3	53.2	55.2	14.6	12.8	18.6	16.0
Interest/current expenditure	2.3	1.6	10.4	10.0	11.3	14.7	14.5	17.6
Current savings/capital expenditure	79.0	104.2	97.7	64.5	71.7	148.8	133.7	94.0
Fiscal deficit (or surplus)/total expenditure	6.1	2.2*	0.8	11.3	8.1	10.7*	8.4*	1.8
Petroleum income/GDP	11.0	26.8	17.8	16.9	14.0	17.6	16.9	10.8
Total expenditure/GDP	19.4	33.9	24.9	30.3	26.9	26.0	27.0	25.9
Fiscal deficit (or surplus)/GDP	1.2	0.7*	0.2	3.4	2.2	2.8*	2.3*	0.5

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aPreliminary figures. Fiscal surplus.

Table 25

VENEZUELA: CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR INCOME AND EXPENDITURE^a

	Billions of bolívares				Growth rates			
	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Total income	106.2	148.2	145.5	132.7	-13.9	39.6	-1.8	-8.8
Current income	98.3	141.5	140.5	127.0	-14.7	43.9	-0.7	-9.6
Capital income	7.9	6.7	5.0	5.7	-2.4	-14.8	-25.4	14.0
Total expenditure	114.2	126.5	128.9	144.8	-5.7	10.7	1.9	12.3
Current expenditure	67.4	81.7	82.3	76.0	-1.5	21.3	0.7	-7.7
On consumption	42.5	44.4	31.8	33.0	-1.4	4.3	-28.4	3.8
Transfers	13.1	19.0	33.7	24.4	-9.1	45.6	77.4	-27.6
Interest	11.8	18.4	16.8	18.6	2.8	55.1	-8.7	10.7
Capital expenditure	46.8	44.7	46.6	68.8	-14.5	-4.4	4.3	47.6
Capital formation	46.7	44.6	33.8	54.0	-14.4	-4.5	-24.2	59.8
Transfers	0.1	0.1	12.4	13.3	-52.8	-	-	7.3
Surplus	-8.0	21.7	16.6	-12.1				
Financing of deficit (or use of surplus)	8.0	-21.7	-16.6	12.1				
Internal	8.1	-19.2	-6.9					
External	-0.1	-2.6	-9.7					
Surplus/GDP ^c	-2.8	6.3	4.5	-3.0				

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela and the Central Office of the Budget (OCEPRE).

^aIncludes the central government, the Venezuelan Investment Fund, the Foreign Exchange Clearing Fund, Petróleos de Venezuela and 55 other non-financial public enterprises. Preliminary figures. ^bPercentage.

Table 26

VENEZUELA: MONETARY INDICATORS

	Year-end balances (billions of bolívares)				Growth rates			
	1983	1984	1985	1986 ^a	1983	1984	1985	1986 ^a
Monetary base	39.3	37.9	46.4	51.0	38.7	-3.6	22.4	10.1
Money (M ₁)	64.0	68.9	77.4	95.2	30.6	7.6	12.5	22.8
Quasi-money	99.0	108.5	115.4	129.8	23.5	9.6	6.4	12.5
Money plus quasi-money (M ₂)	163.0	177.3	192.8	224.9	26.2	8.8	8.7	16.6
Domestic credit	136.7	129.0	108.9	191.2	20.3	-5.6	-15.6	75.7
To central government	-24.2	-51.1	-19.3	-46.1				
to private sector	157.9	177.9	127.0	237.5	19.0	12.6	-28.6	87.0
Inter-bank adjustment	3.0	2.2	1.2	-0.2				
	Coefficients							
Monetary multipliers								
M ₁ /Monetary base	1.64	1.77	1.66	1.73				
M ₂ /Monetary base	4.36	4.82	4.38	4.31				
Velocity of circulation								
GDP/M ₁	5.36	5.63	5.35	4.82				

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aPreliminary figures. Annual averages.

Table 27

VENEZUELA: DOMESTIC INTEREST RATES^a

	1982	1983	1984	1985	1986 ^b	1986 ^c				
						I	II	III	IV	
	Nominal									
Short-term bank rates:										
Deposits	15.1	14.0	12.6	10.5	8.9	9.0	9.0	9.0	9.0	
Loans ^d	16.3	16.3	14.9	13.7	12.7	12.7	12.7	12.6	12.7	
Mortgage rates										
Deposits	15.1	14.1	13.2	11.4	10.0	10.0	10.0	10.0	10.0	
Loans ^e	17.6	17.0	14.6	14.2	13.4	13.3	13.4	13.3	13.5	
	Real ^f									
Short-term bank rates:										
Deposits ^g	6.8	6.5	-2.6	1.3	-3.4	0.7	-3.6	-1.1	-9.3	
Loans ^h	7.9	8.7	-0.6	4.2	-	4.1	-0.3	2.3	-6.2	
Mortgage rates:										
Deposits	6.8	6.7	-2.1	2.1	-2.4	1.7	-2.7	-0.1	-8.4	
Loans ⁱ	9.1	9.3	-0.9	4.7	0.6	4.7	0.4	2.9	-5.5	

Source: ECLAC, on the basis of information provided by the Central Bank of Venezuela.

^aAverage annual rates. ^bPreliminary figures. ^cAnnual rates, quarterly averages. ^dPreliminary figures. ^eOn term deposits with commercial banks. ^fOn commercial bank loans and discounts. ^gOn saving certificates in denominations from 5 000 bolívares and terms from 30 to 180 days in a mortgage bank. ^hLoans for housing purchases. ⁱDeflated by the variation in the consumer price index for the Caracas Metropolitan Area.



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